

Financial report

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GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

LEGAL AID COMMISSION OF NEW SOUTH WALES

To Members of the New South Wales Parliament

Audit Opinion

In my opinion the financial report of the Legal Aid Commission of New South Wales:

- (a) presents fairly the Commission's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 45E of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

The Chief Executive Officer's Role

The financial report is the responsibility of the Chief Executive Officer of the Legal Aid Commission of New South Wales. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows, the program statement – expenses and revenues, the summary of compliance with financial directives and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Chief Executive Officer in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Chief Executive Officer had not fulfilled his reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Legal Aid Commission of New South Wales,
- that the Commission has carried out its activities effectively, efficiently and economically,
- about the effectiveness of its internal controls, or
- on the assumptions used in formulating the budget figures disclosed in the financial report.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

Handwritten signature of David A. Jones in black ink.

D.A. Jones FCPA
Director of Audit
SYDNEY

7 October 2004

START OF AUDITED FINANCIAL STATEMENTS**Statement by Members of the Board**

Pursuant of Section 41C (1B) of the *Public Finance and Audit Act 1983*, and in accordance with a resolution of the Legal Aid Commission of NSW, we declare on behalf of the Commission that in our opinion:

1. The statements have been prepared in accordance with the provision of the *Public Finance and Audit Act 1983*, the Financial Reporting Code of Budget Dependent General Government Sector Agencies, the applicable clauses of the *Public Finance and Audit Regulation 2000*, and Treasurer's Directions.
2. The accompanying financial statements exhibit a true and fair view of the financial position of the Legal Aid Commission of NSW as at 30 June 2004 and transactions for the year then ended.
3. There are no circumstances that render any particulars included in the financial statements to be misleading or inaccurate.
4. It should be noted that the Commission is required to bring to account as revenue all funds received from the Commonwealth during the year. When these funds are not fully spent, the balance is held for use in subsequent years. In 2003-04 the Commission utilised \$4.239m of these funds to support its Commonwealth aid programs.



Phillip Taylor

Chairman

William Grant

Chief Executive Officer

29 September 2004

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004

	Note	Actual 2004 \$'000	Budget 2004 \$'000	Actual 2003 \$'000
Expenses				
Operating Expenses				
Employee related	2(a)	49,919	46,782	50,516
Other operating expenses	2(b)	11,921	10,796	10,553
Maintenance		1,226	1,300	1,141
Depreciation and amortisation	2(c)	2,238	2,454	2,232
Grants and subsidies	2(d)	13,272	13,500	12,717
Other expenses	2(e)	64,883	66,972	52,704
Total Expenses		143,459	141,804	129,863
Less:				
Retained Revenue				
Sale of goods and services	3(a)	44,539	43,396	38,393
Investment income	3(b)	2,195	1,733	1,998
Grants and contributions	3(c)	24,458	23,702	21,668
Other revenue	3(d)	148	154	222
Total Retained Revenue		71,340	68,985	62,281
Loss on disposal of non-current assets	4	(63)	-	(99)
Net Cost of Services	20	72,182	72,819	67,681
Government Contributions				
Recurrent appropriation	5(a)	71,499	67,499	62,536
Capital appropriation	5(b)	796	2,179	2,147
Total Government Contributions		72,295	69,678	64,683
SURPLUS/(DEFICIT) FOR THE YEAR FROM ORDINARY ACTIVITIES		113	(3,141)	(2,998)
Extraordinary Items		-	-	-
SURPLUS/(DEFICIT) FOR THE YEAR		113	(3,141)	(2,998)
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY		-	-	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	16	113	(3,141)	(2,998)

The accompanying notes form part of these statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2004

	Note	Actual 2004 \$'000	Budget 2004 \$'000	Actual 2003 \$'000
ASSETS				
Current Assets				
Cash	10	26,738	18,949	24,554
Receivables	11	3,037	3,628	3,168
Other	13	1,206	749	749
Total Current Assets		30,981	23,326	28,471
Non-Current Assets				
Receivables	11	2,555	2,700	2,700
Plant and equipment	12	8,100	10,530	9,293
Other	13	215	-	-
Total Non-Current Assets		10,870	13,230	11,993
Total Assets		41,851	36,556	40,464
LIABILITIES				
Current Liabilities				
Payables	14	15,410	13,128	14,469
Provisions	15	3,658	3,854	3,280
Total Current Liabilities		19,068	16,982	17,749
Non-Current Liabilities				
Payables	14	-	-	7
Provisions	15	10,634	10,712	10,705
Other	14	33	-	-
Total Non-Current Liabilities		10,667	10,712	10,712
Total Liabilities		29,735	27,694	28,461
Net Assets		12,116	8,862	12,003
EQUITY				
Accumulated Funds	16	12,116	8,862	12,003
Total Equity		12,116	8,862	12,003

The accompanying notes form part of these statements.

STATEMENT OF CASH FLOWS FOR YEAR ENDED 30 JUNE 2004

	Note	Actual 2004 \$'000	Budget 2004 \$'000	Actual 2003 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments				
Employee related		(50,936)	(46,208)	(43,318)
Grants and subsidies		(13,272)	(13,500)	(12,717)
Other		(85,563)	(88,410)	(74,015)
Total Payments		(149,771)	(148,118)	(130,050)
Receipts				
Sale of goods and services		44,557	42,759	41,550
Interest received		2,148	1,733	1,997
Other		34,063	32,034	30,087
Total Receipts		80,768	76,526	73,634
Cash Flows from Government				
Recurrent appropriation		71,499	67,499	62,536
Capital appropriation		796	2,179	2,147
Net Cash Flows from Government		72,295	69,678	64,683
NET CASH FLOWS FROM OPERATING ACTIVITIES	20	3,292	(1,914)	8,267
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of plant and equipment		410	-	32
Purchase of plant and equipment		(1,518)	(3,691)	(3,996)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(1,108)	(3,691)	(3,964)
NET INCREASE IN CASH		2,184	(5,605)	4,303
Opening cash and cash equivalents		24,554	20,251	20,251
CLOSING CASH AND CASH EQUIVALENTS	10	26,738	14,646	24,554

The accompanying notes form part of these statements.

PROGRAM STATEMENT

Expenses and Revenues for the year ended 30 June 2004

AGENCY EXPENSES AND REVENUES	Program 1* Family Law		Program 2* Criminal Law		Program 3* Civil Law		Program 4* Community Legal Services		Not Attributable		Total	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Expenses												
Operating expenses												
Employee related	15,154	14,899	27,720	28,400	6,709	6,852	336	365			49,919	50,516
Other operating expenses	3,834	3,564	6,166	5,418	1,801	1,469	120	102			11,921	10,553
Maintenance	385	360	657	619	173	156	11	6			1,226	1,141
Depreciation and amortisation	750	740	1,154	1,143	330	332	4	17			2,238	2,232
Grants and subsidies							13,272	12,717			13,272	12,717
Other Expenses	24,944	18,751	36,765	30,793	3,174	3,160					64,883	52,704
Total Expenses	45,067	38,314	72,462	66,373	12,187	11,969	13,743	13,207			143,459	129,863
Retained Revenue												
Sale of goods and services	(35,043)	(32,766)	(4,038)	(3,644)	(5,458)	(1,983)					(44,539)	(38,393)
Investment income	(1,405)	(1,208)	(489)	(481)	(301)	(309)					(2,195)	(1,998)
Grants and contributions	(833)	(1,088)	(13,572)	(11,844)	(3,770)	(3,046)	(6,283)	(5,637)	(53)	(53)	(24,458)	(21,668)
Other revenue	(33)	(19)	(30)	(14)	(6)	(25)	(2)	(1)	(77)	(163)	(148)	(222)
Total Retained Revenue	(37,314)	(35,081)	(18,129)	(15,983)	(9,535)	(5,363)	(6,285)	(5,638)	(77)	(216)	(71,340)	(62,281)
(Gain)/Loss on disposal of non-current assets	28	27	24	13		10			11	49	63	99
NET COST OF SERVICES	7,781	3,260	54,357	50,403	2,652	6,616	7,458	7,569	(66)	(167)	72,182	67,681
Government Contributions **												
NET EXPENDITURE/(REVENUE)	7,781	3,260	54,357	50,403	2,652	6,616	7,458	7,569	(72,295)	(64,683)	(113)	2,998
Extraordinary items												
NET EXPENDITURE/(REVENUE) FOR THE YEAR	7,781	3,260	54,357	50,403	2,652	6,616	7,458	7,569	(72,361)	(64,850)	(113)	2,998

* The name and purpose of each program is summarised in Note 9

** Appropriations are made on an agency basis and not to individual programs. Consequently, government contributions must be included in the 'Not Attributable' column

SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES
FOR THE YEAR ENDED 30 JUNE 2004

	2004				2003			
	Recurrent Appropriation \$'000	Expenditure/ Net Claim on Consolidated Fund \$'000	Capital Appropriation \$'000	Expenditure/ Net Claim on Consolidated Fund \$'000	Recurrent Appropriation \$'000	Expenditure/ Net Claim on Consolidated Fund \$'000	Capital Appropriation \$'000	Expenditure/ Net Claim on Consolidated Fund \$'000
ORIGINAL BUDGET APPROPRIATION/ EXPENDITURE								
Appropriation Act	67,499	67,499	2,179	796	61,230	61,230	1,762	1,762
Additional appropriations								
S21A PF&AA - special appropriation								
S24 PF&AA - Transfers of functions between departments								
S26 PF&AA - Commonwealth specific purpose payments								
	67,499	67,499	2,179	796	61,230	61,230	1,762	1,762
OTHER APPROPRIATIONS/ EXPENDITURE								
Treasurer's Advance	1,230	1,230			556	556	385	385
Section 22 — expenditure for certain works and services	2,770	2,770			750	750		
Transfers from another agency (section 25 of the Appropriation Act)	4,000	4,000	-	-	1,306	1,306	385	385
	71,499	71,499	2,179	796	62,536	62,536	2,147	2,147
Total Appropriations/Expenditure/ Net Claim on Consolidated Fund (includes transfer payments)								
Amount drawn down against Appropriation								
Liability to Consolidated Fund								

Note: The Summary of Compliance is based on the assumption that Consolidated Fund moneys are spent first (except where otherwise identified or prescribed).

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Legal Aid Commission of NSW (the Commission), as a reporting entity, comprises all the operating activities under the control of the Commission. Transactions relating to the Legal Aid Commission Trust Account and the General Trust Fund are not included in the Statement of Financial Performance, Statement of Financial Position or Statement of Cash Flows of the Commission, as the Commission does not control or use these funds for the achievement of its objectives.

The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

(b) Basis of Accounting

The Commission's financial statements are a general purpose financial report which has been prepared on an accruals basis and in accordance with:

- applicable Australian Accounting Standards;
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB);
- Urgent Issues Group (UIG) Consensus Views;
- the requirements of the *Public Finance and Audit Act and Regulations*; and
- the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer under section 9(2)(n) of the *Act*.

Where there are inconsistencies between the above requirements, the legislative provisions have prevailed.

In the absence of a specific Accounting Standard, other authoritative pronouncement of the AASB or UIG Consensus View, the hierarchy of other pronouncements as outlined in AAS 6 "Accounting Policies" is considered.

The financial statements are prepared in accordance with the historical cost convention. All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(c) Administered Activities

The Commission does not administer or control any activities on behalf of the Crown Entity.

(d) Revenue Recognition

Revenue is recognised when the Commission has control of the good or right to receive, it is probable that the economic benefits will flow to the Commission and the amount of revenue can be measured reliably. Additional comments regarding the accounting policies for the recognition of revenue are discussed below.

(i) Parliamentary Appropriations and Contributions from other Bodies

Parliamentary appropriations and contributions from other bodies (including grants and donations) are generally recognised as revenues when the

agency obtains control over the assets comprising the appropriations and contributions. Control over appropriations and contributions are normally obtained upon the receipt of cash.

An exception to the above is when appropriations are unspent at year-end. In this case, the authority to spend money lapses and generally the unspent amount must be repaid to the Consolidated Fund in the following financial year. As a result, unspent appropriations are now accounted for as liabilities rather than revenue. The Commission had no liability to the Consolidated Fund as at 30 June 2004.

(ii) Sale of Goods and Services

Revenue from the sale of goods and services comprises contributions by legally aided clients toward the cost of the service provided by the Commission and funding provided by the Commonwealth for the provision of legal assistance to clients under Commonwealth law.

Contributions by legally aided clients and the Commonwealth funding are recognised as revenue when the Commission obtains control of the assets that result from them.

(iii) Investment income

Interest revenue from investments with TCorp and deposits with the Commonwealth Bank of Australia is recognised as it accrues.

(e) Employee Benefits and other provisions

(i) Salaries and Wages, Annual Leave, Sick Leave, Accrued Flex Leave and On-costs.

Liabilities for salaries and wages (including non-monetary benefits), annual leave and accrued flex leave are recognised and measured in respect of employees' services up to the reporting date at nominal amounts based on the amounts expected to be paid when the liabilities are settled.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the entitlements accrued in the future.

The outstanding amounts of payroll tax and workers' compensation insurance premiums which are consequential to employment, are recognised as liabilities and expenses where the employee entitlements to which they relate have been recognised. Refer to Note 15.

(ii) Long Service Leave and Superannuation

AASB 1028 requires that employee benefit liabilities such as long service leave, that are expected to be settled more than 12 months after the reporting date, must be measured as the present value of the estimated future cash outflows to be made by the employer in respect of services provided by employees up to the reporting date. This calculation must take into account future increases in

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

remuneration rates as they will increase the amount that the employer is required to pay to settle the liability.

AASB 1028 also states that on-costs ie. costs that are consequential to the employment of employees, but which are not employee benefits, are recognised as liabilities and expenses when the employee benefits to which they relate are recognised and are accordingly measured as the present value of the estimated cash outflows.

Provision has been made to meet the liability for long service leave entitlements of all employees with a minimum of five years appropriate service and are based on the remuneration rates at year-end measured as the present value of future cash outflows as specified in the Treasurer's Directions.

The Commission's superannuation position is calculated based on economic assumptions determined by the independent actuary, William Mercer Ltd, as advised by the SAS Trustee Corporation. Any variation between the Commission's gross superannuation liability and employer reserve account balance is recognised in the Statement of Financial Position as an unfunded liability or prepaid contribution. Refer to Notes 2(a), 6(i), 13 & 19.

(iii) Other Provisions

Other provisions exist when the entity has a present legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events. These provisions are recognised when it is probable that a future sacrifice of economic benefits will be required and the amount can be measured reliably. Any provisions for restructuring are recognised either when a detailed formal plan has been developed or will be developed within prescribed time limits and where the entity has raised a valid expectation in those affected by the restructuring that it will carry out the restructuring.

(f) Insurance

The Commission's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self insurance for Government agencies. The expense (premium) is determined by the Fund Manager based on past experience.

(g) Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- the amount of GST incurred by the Commission as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense.
- receivables and payables are stated with the amount of GST included.

(h) Acquisition of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Commission. Cost is determined as the fair value of the assets given as consideration plus the costs incidental to the acquisition. Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. Items of plant and equipment having a purchase cost of more than \$1,000 are capitalised and depreciated over their estimated useful life. Assets of \$1,000 or less that are at risk of theft, are monitored, kept on a register, and treated as an expense in the month of purchase.

(i) Revaluation of Physical Non-Current Assets

Due to the nature of assets held by the Commission, the written down value of the non-current assets is considered to be representative of the market value of these assets. Most of the Commission's assets are either minor office fitouts, which are being depreciated over the term of the lease or information technology projects. As a result of this, no external revaluation of these assets has been conducted over the 5 year period.

The recoverable amount test has not been applied, as the Commission is a not-for-profit entity whose service potential is not related to the ability to generate cash flows.

(j) Depreciation of Non-Current Physical Assets

Depreciation is provided for on a straight line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the Commission. Leasehold improvements are amortised over the unexpired period of the lease or estimated useful life whichever is the lesser. Contractor's fees relating to the Computer Replacement Project and the E-Lodgement project are capitalised and depreciated at the rate of 20% per annum. The depreciation rate of 7% for motor vehicles is based on historical realisation values. Refer to Notes 1(i), 2(c), & 12.

	%
Computer Equipment	20
Contractors Fees relating to Computer Replacement & E-Lodgement Projects	20
Office Equipment	15
Furniture and Fittings	12.5
Motor Vehicles	7

Or the term of lease

(k) Maintenance and Repairs

The costs of maintenance are charged as expenses are incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated.

(l) Trust Funds

The Commission receives monies in a trustee capacity for trusts as set out in Note 21. As the Commission performs a custodial role in respect of these monies, and because the

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

monies cannot be used for the achievement of the Commission's own objectives, they are not brought to account in the financial statements.

(m) Estimated Commitment for Legal Expenditure

An estimate of the net cost of work in progress by external legal practitioners for referred casework undertaken but not invoiced as at balance date has been included as a provision in the financial statements. Refer to Notes 2(e) & 14. The estimated net cost of referred work that is yet to be performed on current grants of aid is disclosed by way of a note. Refer to Note 17(b). An assessment of the future commitment of incomplete in-house cases has not been undertaken as the present costing systems do not allocate costs to individual cases.

(n) Receivables

Receivables are recognised and carried at the original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(o) Leases

Operating lease payments are charged to the Statement of Financial Performance in the periods in which they are incurred. The Commission does not have any finance leases. Refer to Note 17(c).

(p) Budgeted amounts

The budgeted amounts are drawn from the budgets as formulated at the beginning of the financial year and with any adjustments for the effects of additional appropriations, s 21A, s 24 and/or s 26 of the *Public Finance and Audit Act 1983*.

The budgeted amounts in the Statement of Financial Performance and the Statement of Cash Flows are generally based on the amounts disclosed in the NSW Budget Papers (as adjusted above). However, in the Statement of Financial Position, the amounts vary from the Budget Papers, as the opening balances of the budgeted amounts are based on carried forward actual amounts ie per the audited financial statements (rather than carried forward estimates). Refer to Note 19.

(q) International Financial Reporting Standards (AIFRS)

The Commission will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005.

The Commission is managing the transition to the new standards by allocating internal resources to analyse the pending standards and Urgent Issues Group Abstracts to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

As a result of this exercise, the Commission has taken the following steps to manage the transition to the new standards:

- the Commission's AIFRS Implementation Committee is overseeing the transition. The Director Corporate

Finance is responsible for the project and reports regularly to the Committee on progress against the plan.

- the following phases that need to be undertaken have been identified. Target completion dates have also been identified:
 - Analyse AIFRS to identify impact on agency **30 Sep 2004**
 - Identify impact of NSW Treasury mandated accounting treatment **31 Oct 2004**
 - Prepare draft 2004-05 Opening Balance Sheet under AIFRS **15 Dec 2004**
 - Prepare final 2004-05 Opening Balance Sheet under AIFRS **31 Mar 2005**
 - Develop note disclosure for 2004-05 annual financial statements in accordance with AASB 1047 **31 Aug 2005**
 - Prepare 2004-05 comparative data under AIFRS for 2005-06 annual financial statements **30 Jun 2005**
 - Prepare 2005-06 annual financial statements under AIFRS **Mid Jul 2006**
- To date, officers of the Commission have attended briefings provided by NSW Treasury, and have commenced identification of the impact of adoption of AIFRS on the Commission. Briefings have been provided to the Commission's Chief Executive Officer and the Audit and Finance Committee of the Board of Directors.

NSW Treasury is assisting the Commission to manage the transition by developing policies, including mandates of options; presenting training seminars, providing a website with up-to-date information to keep the Commission informed of any new developments; and establishing an IAS Agency Reference Panel to facilitate a collaborative approach to the change.

The Commission has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because AIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised the Commission of options it is likely to mandate, and will confirm these during 2004–05. This disclosure reflects these likely mandates.

The Commission's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005–06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

- AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.

- AASB 116 *Property, Plant and Equipment* requires the cost and fair value of property, plant and equipment to be increased to include restoration costs, where restoration provisions are recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. Major inspection costs must be capitalised and this will require the fair value and depreciation of the related asset to be reallocated.
- AASB 117 *Leases* requires operating lease contingent rentals to be recognised as an expense on a straight-line basis over the lease term rather than expensing in the financial year incurred.
- AASB 119 *Employee Benefits* requires the defined benefit obligation to be discounted using the government bond rate as at each reporting date rather than the long-term expected rate of return on plan assets. This will increase the amount and future volatility of the unfunded superannuation liability and the volatility of the employee benefit expense.
- The Commission will either continue to apply the current requirements in AASB 1004 *Contributions* where grants are normally recognised on receipt, or alternatively apply the proposals on grants included in ED 125 *Financial Reporting by Local Governments*. If the ED 125 approach is applied, revenue and/or expense recognition will be delayed until the agency supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied.
- AASB 136 *Impairment of Assets* requires an entity to assess at each reporting date whether there is any indication that an asset is impaired and if such indication exists, the entity must estimate the recoverable amount. However, the effect of this Standard should be minimal because all the substantive principles in AASB 136 are already incorporated in Treasury's policy *Valuation of Physical Non-Current Assets at Fair Value*.

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

	2004 \$'000	2003 \$'000
2. EXPENSES		
(a) Employee related expenses comprise the following specific items:		
Salaries and wages (including recreation leave)	42,347	37,715
Superannuation	2,839	8,126
Long Service Leave	1,316	1,932
Workers' compensation insurance	326	364
Payroll tax	3,091	2,379
Total	49,919	50,516

Salaries and wages include payment of salaries and allowances, leave loading, leave on termination, recreation leave, medical examination costs and redundancy payments.

Salaries and wages expenditure capitalised in 2003–04 was \$0.229m (\$0.086m in 2002–03).

The Commission's Prepaid Superannuation Contributions Reserve (PSCR) for 2003–04 increased by \$1.073m (decreased by \$4.127m in 2002–03) as a result of the actuarial review of the State Authorities Superannuation Board Pooled Fund as at 30 June 2004. The superannuation expense item includes a reduction of the \$1.073m (increase of \$4.127m in 2002–03). The increase of the PSCR is shown as an Individually Significant Item. Refer to Notes 1(e)(ii), 6(i), 13, 15 and 19.

(b) Other operating expenses

Operating lease rental - minimum lease payments	4,091	3,735
Telephone	647	589
Library resources	624	479
Consultants	155	175
Stationery, stores and provisions	468	456
Computer running costs	1,025	613
Printing	207	179
Records management	420	377
Travel compensation	554	496
Interpreters' fees (non-case)	274	212
Postage	299	361
Cleaning	192	146
Practicing certificates	193	139
Electricity and gas	192	148
Insurance	109	99
Auditor's remuneration - audit or review of financial reports	92	88
Internal audit and audit of Trust Account	46	32
Courier and freight	45	56
Bad and doubtful debts - Provision adjustment	35	235
Operating lease payments	1,166	913
Other	1,087	1,025
Total	11,921	10,553

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

	2004 \$'000	2003 \$'000
(c) Depreciation and amortisation expenses		
Fit-out costs - Office accommodation	930	1,125
Equipment	169	32
Motor Vehicles	26	47
Computer equipment	540	436
Computer Replacement Project	560	566
Low value assets	13	26
Total	2,238	2,232

Refer to Notes 1(i), 1(j) & 12.

(d) Grants and Subsidies		
Domestic Violence Court Assistance Program	3,166	3,132
Community Legal Centres	10,106	9,585
Total	13,272	12,717

Grants to Community Legal Centres are funded by way of specific Commonwealth and discretionary State funds.

(e) Other expenses		
Solicitor services provided by private practitioners	38,992	31,754
Barrister services provided by private practitioners	18,715	14,839
Disbursements	7,176	6,111
Total	64,883	52,704

Includes a provision for the estimated net cost of work in progress by external legal practitioners who have provided services but not submitted an invoice to the Commission at balance date.

3. REVENUES

(a) Sale of goods and services

Family Law	1,043	907
Criminal Law	635	455
Civil Law	1,287	(1,925)
Commonwealth funding ¹	41,574	38,956
Total	44,539	38,393

¹Base funding of \$41.574m (\$38.956m in 2002-03) was received from the Commonwealth Government under the Provision of Legal Assistance Agreement. This is a four-year agreement between the Commission and the Commonwealth that commenced on 1 July 2000. In the final year of the agreement, expenditure exceeded income by \$4.239m (expenditure exceeded income by \$1.959m in 2002-03).

(b) Investment Income

Interest on outstanding accounts	117	130
Interest on deposits at call	2,078	1,868
Total	2,195	1,998

Refer to Notes 1(d)(iii) & 22(c)

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

	2004	2003
	\$'000	\$'000
(c) Grants and contributions		
Law Society Public Purpose Fund ¹	18,918	15,965
Commonwealth Government Community Legal Centre base grants ²	5,052	4,798
Other grants and contributions ³	488	905
Total	24,458	21,668

¹This fund provided a grant of \$17.780m (\$15.218m in 2002–03) to provide legal aid services in State matters.

Other specific grants from this fund include:

Environmental Defenders Office	562	260
Public Interest Advocacy Centre	476	414
Expansion of Court assistance to children	100	73
Total	1,138	747

²\$5.052m in Community Legal Centre (CLC) base grants (\$4.798m in 2002–03) received from the Commonwealth Government were distributed to various CLCs. The amount of the grant to individual CLCs is determined by the Commonwealth.

³Other Grants and contributions include:

• Part of the Commonwealth Government Community Legal Centre base grants used to meet administrative costs	92	94
• Commonwealth Government special purposes funds for refugee matters under separate contract	82	93
• Commonwealth Indigenous People's Primary Dispute Resolution Scheme	-	313
• State Department of Juvenile Justice for the Juvenile Justice Visiting Legal Service	166	147
• State Attorney General's Department Youth Drug Court	60	60
• State Attorney General's Department - to establish and run video conferencing facilities within the Commission	88	120
• State Attorney General's Department - to develop and deliver training to legal practitioners and judicial officers in the MERIT program	-	25
• State Premiers Department—funding for the Commission's Electronic Self Service project	-	53
Total	488	905

(d) Other revenue

Miscellaneous	148	222
Total	148	222

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

	2004 \$'000	2003 \$'000
4. GAIN/(LOSS) ON DISPOSAL OF NON-CURRENT ASSETS		
Proceeds from disposal of plant and equipment	410	32
Less Written down value of assets disposed	473	131
Net gain/(loss) on disposal of plant and equipment	(63)	(99)

5. APPROPRIATIONS

(a) Recurrent Appropriations

Funds were received through the Consolidated Fund (per summary of compliance) to meet operational requirements as follows:

Total recurrent drawdowns from Treasury (per Summary of Compliance) ¹	71,499	62,536
Total	71,499	62,536

Comprising:

Recurrent appropriations (per Statement of Financial Performance)	71,499	62,536
	71,499	62,536

¹The Consolidated Fund Appropriation includes State Government's special purpose recurrent funding and other specific schemes.

(b) Capital Appropriations

Total capital drawdowns from Treasury (per Summary of Compliance)	796	2,147
Total	796	2,147

Comprising:

Capital appropriations (per Statement of Financial Performance)	796	2,147
	796	2,147

6 INDIVIDUALLY SIGNIFICANT ITEMS

(i) The increase in the Prepaid Superannuation Contributions Reserve from a shortfall of \$0.858m in 2002-03 to a surplus of \$0.215m as at 30 June 2004 was taken up as a reduction in superannuation expense for the year. Refer to Notes 1(e)(ii), 2(a), 13, 15 & 19.	(1,073)	4,127
(ii) The change of accounting policy for Revenue Recognition ¹	-	3,366
Total	(1,073)	7,493

¹In 2002-03 the Commission changed its accounting policy with respect to the recognition of revenue from contributions by legally aided clients. Previously, the Commission utilised a statistical model to estimate the value of contributions made by legally aided clients. In the light of the changing nature of cases undertaken by the Commission, industry practice and the uncertainty of judgements made in Court cases, the Commission recognises revenue associated with client contributions at the conclusion of a case only when a judgement has been made by a Court with respect to the costs in a particular matter. Refer to Note 1(d)ii, 3(a) & 11.

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

7. ACCEPTANCE BY THE CROWN ENTITY OF EMPLOYEE ENTITLEMENTS AND OTHER LIABILITIES

There are no liabilities and/or expenses that have been assumed by the Crown Entity or other government agencies.

8. TRANSFER PAYMENTS

The Commission did not have any transfer payments in 2003–04.

9. PROGRAMS/ACTIVITIES OF THE COMMISSION

Program 1

Legal Aid and Other Legal Services for Eligible Persons in Disputes Arising from Family Relationships

Objective:

To provide legal services for eligible persons under Commonwealth Family law and relevant State legislation. To promote the role of alternative dispute resolution in family law matters.

Program 2

Legal Aid and Other Legal Services for Eligible Persons in Criminal Law Matters

Objective:

To provide legal services for eligible persons in relation to criminal charges, including domestic violence.

Program 3

Legal Aid and Other Legal Services for Eligible Persons in Civil Law Matters

Objective:

To provide legal services for eligible persons in civil law matters that fall within Commission guidelines.

Program 4

Funding for Community Legal Centres and Other Community Legal Services

Objective:

To provide community based legal services in generalist and specialised legal areas. To provide court assistance and other support to female victims of domestic violence. To undertake community legal education and provide advice to the socially and economically disadvantaged.

10. CURRENT ASSETS - CASH

	2004 \$'000	2003 \$'000
Cash at bank and on hand	3,537	1,553
Deposits at call and short term	23,201	23,001
Total Cash	26,738	24,554

Refer to Notes 22(a) & 22(c).

For the purposes of the Statement of Cash Flows, cash includes cash on hand, cash at bank and deposits on call and short term.

Cash assets recognised in the Statement of Financial Position are reconciled to the cash at the end of the financial year as shown in the Statement of Cash Flows as follows:

Cash (per Statement of Financial Position)	26,738	24,554
Closing Cash and Cash Equivalents (per Statement of Cash Flows)	26,738	24,554

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

	2004 \$'000	2003 \$'000
11. CURRENT/NON-CURRENT ASSETS - RECEIVABLES		
Current		
Client contributions/recoveries receivable	1,193	1,400
Less: Provision for doubtful debts	283	339
	910	1,061
Other debtors	108	269
GST recoverable from Australian Taxation Office	2,019	1,838
Total Current	3,037	3,168
Non-Current		
Client contributions/recoveries receivable	4,000	4,228
Less: Provision for doubtful debts	1,445	1,528
Total Non-Current	2,555	2,700

Client contributions/recoveries receivable (both current and non-current) in the amount of \$3.315m (\$3.683m in 2002-03) are secured by way of caveat.

12. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

Plant and Equipment

At Cost	20,635	20,423
Less: Accumulated Depreciation at Cost	12,535	11,130
Total Plant and Equipment At Net Book Value	8,100	9,293

Refer Notes 1(i), 1(j) & 2(c).

Reconciliations

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year are set out below.

Plant and Equipment

Carrying amount at start of year	9,293	7,660
Additions	1,518	3,996
Disposals	(1,560)	(1,131)
Depreciation expense	(2,238)	(2,232)
Write back on disposal	1,087	1,000
Carrying amount at end of year	8,100	9,293

The Commission continues to derive service potential and economic benefits from the following fully depreciated assets:

Number of Items	Description		
18	Computer Replacement Project	1,276	1,433
14	Fit Out—Office Accommodation	4,030	673
4	Other Computer & Related	65	18
38	Office Equipment	133	138
921	Low Value Assets	256	229
995	Total	5,760	2,491

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

	2004 \$'000	2003 \$'000
13. CURRENT/NON-CURRENT ASSETS – OTHER		
Current		
Prepayments - Other	1,206	749
Total Current	1,206	749
Non-Current		
Prepaid Superannuation Contributions Reserve ¹	215	-
Total Non-Current	215	-

¹Represents the balance of the Prepaid Superannuation Contributions Reserve (Liability of \$0.858m in 2002–03) held by the SAS Trustee Corporation (STC). The Prepaid Superannuation Contributions Reserve includes interest earned by the reserve. Refer to Notes 1(e)(ii), 2(a), 6(i), 15 & 19.

14. CURRENT/NON CURRENT LIABILITIES - PAYABLES

Current		
Accrued salaries, wages and on-costs	225	1,334
Legal	2,806	2,692
Administrative	1,777	1,551
Prepaid grants received	284	159
Provision for estimated legal expenses ¹	10,318	8,733
Total Current	15,410	14,469
Non-Current		
Provision for estimated legal expenses ¹	-	7
Other ²	33	-
Total Non-Current	33	7

¹Being provision for the estimated net cost of work in progress by external legal practitioners who have not submitted claims to the Commission at balance date. The allocation between current and non-current is system-generated and based on the experience of payment of accounts within 1 year and over 1 year of the work done by external legal practitioners. Refer to Notes 1(m) & 2(e).

²Represents the written down value of a \$40,000 lease incentive received for renewing the lease for Newcastle office accommodation in January 2004. The lease incentive will be written off against rental expense over 3 years.

15. CURRENT/NON CURRENT LIABILITIES – PROVISIONS

Current		
Employee benefits and related on-costs		
Provision for recreation leave	2,703	2,483
Provision for long service leave	410	401
Provision for related on-costs	545	396
Total Current	3,658	3,280

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

	2004 \$'000	2003 \$'000
Non-Current		
Employee benefits and related on-costs		
Provision for recreation leave	1,354	1,199
Provision for long service leave	8,359	7,448
Provision for related on-costs	921	1,200
	10,634	9,847
Other Provisions		
Superannuation liability funding deficiency ¹	-	858
	-	858
Total Non-Current	10,634	10,705
Aggregate employee benefits and related on-costs		
Provisions - current	3,658	3,280
Provisions - non-current	10,634	9,847
Accrued salaries, wages and on-costs (Note 14)	225	1,334
	14,517	14,461

¹Represents the balance of the Prepaid Superannuation Contributions Reserve held by the SAS Trustee Corporation (STC) in 2002-03 (Surplus \$0.215m in 2003-04). The Prepaid Superannuation Contributions Reserve includes interest earned by the reserve. Refer to Notes 1(e)(ii), 2(a), 6(i), 13 & 19. The position of the superannuation funds at 30 June 2004 is as follows:

	SASS Employer's Reserve \$'000	SANCS Reserve \$'000	SSS Employer's Reserve \$'000	Total \$'000
Accrued Liability	8,539	3,420	22,785	34,744
Less: Estimated Reserve Account				
Closing Balance as at 30/06/04	6,991	3,305	24,663	34,959
Prepaid Contributions as at 30/06/04	(1,548)	(115)	1,878	215

The calculation of SSS, SASS and SANCS liabilities is based on the requirements of AAS25. The SAS Trustee Corporation advised the financial assumptions applied by the Actuary, William Mercer Ltd, for the calculations are:

	2004/05 %	2005/06 and thereafter %
Rate of investment return	7.0	7.0
Rate of Salary increase	4.0	4.0
Rate of increase in CPI	2.5	2.5

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

	2004 \$'000	2003 \$'000
16. CHANGES IN EQUITY		
Accumulated Funds		
Balance at the beginning of the financial year	12,003	15,001
(Deficit)/Surplus for the year	113	(2,998)
Balance at the end of the financial year	12,116	12,003

17. COMMITMENTS FOR EXPENDITURE

(a) Capital Commitments

Aggregate capital expenditure contracted for at balance date and not provided for in the financial statements:

Not later than one year - including GST	-	49
Total	-	49

(b) Other Expenditure Commitments

Aggregate other expenditure contracted for at balance date and not provided for in the financial statements:

Not later than one year

Outstanding purchase orders ¹	85	66
Estimated future commitment of external legal services ^{1,2}	34,074	38,184

Later than one year and not later than 5 years

Estimated future commitment of external legal services ^{1,2}	6,684	7,513
Total	40,843	45,763

¹Inclusive of GST.

²Represents the estimated future commitment for external legal services provided for both inhouse and assigned grants of aid. The future internal cost of cases conducted by the Commission's inhouse practice has been excluded because the amount of the liability cannot be reliably measured.

(c) Operating Lease Commitments

Future non-cancellable operating lease rentals not provided for and payable:

Not later than one year	6,099	5,444
Later than one year and not later than 5 years	18,087	7,788
Later than 5 years	5,302	74
Total (including GST)	29,488	13,306

Refer to Note 1(o).

The above operating lease commitments relate to the rental of office accommodation and supply of computer hardware.

Notes and forming part of the Financial Report for the Year Ended 30 June 2004

18. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Commission has no contingent liabilities or assets in 2003–04.

19. BUDGET REVIEW

STATEMENT OF FINANCIAL PERFORMANCE

Net Cost of Services

Net Cost of Services was under budget by \$0.637m and was due primarily to:

- an increase in the value of the prepaid Superannuation Contribution Reserve held by the SAS Trustee Corporation resulting in a downward non-cash adjustment of \$1.073m in the superannuation liability, and corresponding reduction in Employee Related expenses. Refer notes 1(e)(ii), 2(a), 6(i), 13 & 15.
- over budget expenditure on Employee related expenses partially offset by under budget expenditure on Other expenses, reflecting a different allocation of work between in-house practitioners and external legal practitioners than had been anticipated in the budget; and
- higher than anticipated contributions by legally aided persons towards the cost of their representation.

Recurrent Appropriation

Compared to budget, the positive variation of \$4.000m or 5.9% reflects increased funding from the State Government during 2003–04 to address increased expenditure on State Family and State Criminal Law matters.

Capital Appropriation

The Capital Appropriation was under budget by \$1.383m or 63.5%, which is predominantly due to unexpected delays in the project to replace the Commission's core operating system (LA Office). This project is being undertaken as part of a national consortium consisting of all Legal Aid Commissions (excluding Queensland) and New Zealand.

STATEMENT OF FINANCIAL POSITION

Assets and Liabilities

Current Assets

Cash—\$7.789m or 41% over budget

The variation is due mainly to an over-estimation of payments to private legal practitioners undertaking work on behalf of the Commission in the 2003–04 budget. Refer to comments on 'Payments' in the Cash Flow Statement below.

Receivables—\$0.591m or 16% under budget

The reduction in receivables reflects lower than anticipated debts owing from clients. This is predominantly due to the higher than anticipated collections of debts during the year, meaning less debt than anticipated remains to be collected in the future.

Non-Current Assets

Plant and equipment—\$2.430m or 23% under budget

The decrease in capital assets is predominantly due to unexpected delays in the project to replace the Commission's core operating system (LA Office). This project is being undertaken as part of a national consortium consisting of all Legal Aid Commissions (excluding Queensland) and New Zealand.

Other—\$0.215m or 100% over budget

The increase reflects an increase in the Prepaid Superannuation Contributions Reserve of \$1.073m from a liability of \$0.858m as at 30 June 2003 to a surplus of \$0.215m as at 30 June 2004.

Current Liabilities

Payables—\$2.282m or 17% over budget

The variation is predominantly due to:

- an increase in the estimate of work assigned to private legal practitioners but not invoiced at balance date; and
- an increase in the value of claims received from creditors but not paid.

Non-Current Liabilities

Other—\$0.033m or 100% over budget

The variation is due to the receipt of a lease incentive for office accommodation in 2003–04 that will be written off against rental expenses over 3 years. Refer note 14.

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

STATEMENT OF CASH FLOWS

Cash Flows from Operating Activities

Payments

Employee Related—\$4.728m or 10% over budget

The variation is due mainly to:

- cash payments being made for 27 pay periods against a budget for 26; and
- a different allocation of work between in-house practitioners and external legal practitioners than had been anticipated in the budget, which resulted in higher payments to employees and lower payments to private practitioners.

Other—\$2.848m or 3% under budget

The variation predominantly reflects a different allocation of work between in-house practitioners and external legal practitioners than had been anticipated in the budget, which resulted in higher payments to employees and lower payments to private practitioners.

Receipts

Interest Received—\$0.415m or 24% over budget

This variation is due to higher than expected cash balances held during the year.

Other— \$2.029m or 6% over budget

The variation is mainly due to additional funds being received from the Public Purpose Fund and Commonwealth Government than had been anticipated in the budget.

Cash Flows from Government

Recurrent Appropriation—\$4.000 million or 6% over budget

Reflects increased funding from the State Government during 2003–04 to address increased expenditure on State Family and State Criminal Law matters.

Capital Appropriation—\$1.383m or 63% under budget

The lower than budget capital appropriation is predominantly due to unexpected delays in the project to replace the Commission's core operating system (LA Office). This project is being undertaken as part of a national consortium consisting of all Legal Aid Commissions (excluding Queensland) and New Zealand.

Cash Flows from Investing Activities

Proceeds from sale of plant and equipment—\$0.410m or 100% over budget

Reflects the sale of motor vehicles and computer equipment not provided for in the budget.

Purchase of plant and equipment—\$2.173m or 59% under budget

Less than was anticipated was expended on plant and equipment predominantly due to unexpected delays in the project to replace the Commission's core operating system (LA Office). This project is being undertaken as part of a national consortium consisting of all Legal Aid Commissions (excluding Queensland) and New Zealand.

20. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET COST OF SERVICES

Reconciliation of cash flows from operating activities to the net cost of services as reported in the Statement of Financial Performance:

	2004	2003
	\$'000	\$'000
Net cash used on operating activities	(3,292)	(8,267)
Cash flows from Government/Appropriations	72,295	64,683
Depreciation	2,238	2,232
(Increase)/decrease in provision for doubtful debts	139	(53)
Increase in provisions	307	3,707
Decrease in prepayments and other assets	(535)	6,553
(Decrease)/increase in creditors	967	(1,273)
Net loss/(gain) on disposal of plant and and equipment	63	99
Net cost of services	72,182	67,681

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

	2004 \$'000	2003 \$'000
21. TRUST FUNDS		
The Commission administers, but does not control the funds in the following trusts:		
Legal Aid Commission General Trust Fund ¹		
Cash balance at the beginning of the financial year	444	391
Add: Receipts	-	132
Less: Expenditure	249	79
Cash balance at the end of the reporting period	195	444
Legal Aid Commission Trust Account ²		
Cash balance at the beginning of the financial year	227	559
Add: Receipts	2,326	803
Less: Expenditure	2,109	1,135
Cash balance at the end of the reporting period	444	227

As the Commission performs only a custodial role in respect of trust monies, and because the monies cannot be used for the achievement of its objectives, the definition criteria for assets is not met and trust funds are not brought to account in the financial statements, but are included here for information purposes. Refer to Note 1(l).

¹Legal Aid Commission General Trust Fund

Pursuant to Section 63(3) of the *Legal Aid Commission Act 1979*, a separate account is maintained for verdict and settlement moneys held on behalf of legally aided persons represented by private practitioners, substantially in the civil law program. The Commission may recover some costs upon finalisation of these matters.

²Legal Aid Commission Trust Account

Pursuant to Section 64A of the *Legal Aid Commission Act 1979*, a Legal Aid Commission Trust Account is maintained for verdict and settlement moneys held on behalf of legally aided persons represented by Commission in-house practitioners. The Commission may recover some costs upon finalisation of these matters.

22. FINANCIAL INSTRUMENTS

(a) Cash

Cash comprises cash on hand and Commission funds that are held in advance accounts, the general operating bank account and deposits on call with TCorp. Interest is earned on the daily balances of the bank accounts and deposits on call with TCorp. Refer to Notes 10 & 22(c).

(b) Receivables

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised when some doubt as to collection exists. The credit risk is the carrying amount (net of any provision for doubtful debts). Interest is earned on overdue trade debtors' accounts under section 71A of the *Legal Aid Commission Act 1979* as amended. The carrying amount approximates net fair value.

(c) Authority Deposits

The Commission has placed funds on deposit with TCorp, which has been rated "AAA" by Standard and Poors. These deposits are similar to money market or bank deposits and can be placed "at call" or for a fixed term. The interest rate payable by TCorp is negotiated initially and is fixed for the term of the deposit.

Notes to and forming part of the Financial Report for the Year Ended 30 June 2004

	2004 Carrying Amount \$'000	2004 Net Fair Value \$'000	2003 Carrying Amount \$'000	2003 Net Fair Value \$'000
At call	8,201	8,201	8,001	8,001
Less than one year	15,000	15,000	15,000	15,000
one to five years	-	-	-	-
greater than five years	-	-	-	-
Total	23,201	23,201	23,001	23,001

The deposits at balance date were earning an average interest rate of 5.34% (2002–03 4.76%), while over the year the average interest rate was 5.14% (2002–03 4.79%) on a weighted average deposit of \$37.771m (2002–03 \$36.933m) during the year.

(d) Bank Overdraft

The Commission does not have a bank overdraft facility.

(e) Trade Creditors and Accruals

The liabilities are recognised for amounts due to be paid in the future for goods and services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made within 14 days from the date of the receipt of the invoice. The Commission did not incur any penalty interest for late payment of claims.

23. AFTER BALANCE DATE EVENTS

No events have occurred subsequent to balance date, which will materially affect the financial statements

END OF AUDITED FINANCIAL REPORT

Other information

1. PAYMENT PERFORMANCE

(a) Payments to Creditors

The Commission processed 92.93% of invoices received within 30 days during 2003/04 compared to 89.58% in 2002/03.

Period	2004		2003	
	Invoices	%	Invoices	%
Within 30 days	74,276	92.93	65,669	89.58
Over 30 days	5,651	7.07	7,640	10.42
Total	79,927	100.00	73,309	100.00

Creditors aged analysis at the end of each quarter is as follows:

Quarter	Current (ie within due date)	Less than 30 days overdue	Between 30 and 60 days overdue	Between 60 and 90 days overdue	More than 90 days overdue
	\$'000	\$'000	\$'000	\$'000	\$'000
September	2,371	86	46	22	431
December	1,467	432	25	63	284
March	2,694	73	31	24	420
June	2,202	109	59	36	400

Accounts paid within 30 days by quarter is as follows:

Quarter	Target	Actual	Total Amt Paid	
	%	%	\$'000	\$'000
September	100	89.63	20,294	22,643
December	100	92.11	23,906	25,953
March	100	92.21	18,467	20,027
June	100	90.90	22,210	24,434

(b) Ageing of Unpaid Creditors (Private Practitioners)

Legal creditors at 30 June 2004 and 2003 were aged as follows:

0 – 60 days		61 – 90 days		91 – 120 days		Over 120 days		Total	
2003/04	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04	2002/03
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2,337	2,066	34	56	36	9	399	561	2,806	2,692
83.3%	76.8%	1.2%	2.1%	1.3%	0.3%	14.2%	20.8%	100%	100%

The above table indicates 83.3% (2002/03 76.8%) of invoices on hand are aged within 60 days of invoice date.

Due to the complexity of some matters, payment of private practitioner accounts may be deferred for a number of reasons, including:

1. The account is not sufficiently detailed and further information has to be obtained from the private practitioner.
2. There is a dispute over whether the work billed for was actually authorised under the terms of the grant of aid.
3. The account has been prepared using an inappropriate scale of fees and has to be amended by the Commission.
4. The private practitioner has rendered an account before a court judgement has been handed down, and assessment of the account has been deferred until judgment, in order to ensure the application of the appropriate scale of fees.
5. The private practitioner has not responded to an inquiry initiated by the Commission as a result of the proceedings, which may finalise in a Section 46 cost recovery.
6. Party/party costs in favour of the legally assisted person have yet to be recovered.

In these circumstances, a large proportion of the “overdue” accounts are not in fact overdue, but deferred. This is especially so in the civil law practice.

Other information

2. ANNUAL REPORTING LEGISLATION REQUIREMENTS

The following information, not disclosed elsewhere in these accounts and reports, is required to be disclosed under annual reporting legislation.

The *Legal Aid Commission Act 1979* prescribes the method by which the Commission is to administer its finances. The Act provides for the establishment of a Legal Aid Fund for legal and administrative payments, and the maintenance of a separate account for monies received for and on behalf of legally assisted persons represented by private practitioners and those represented by Commission solicitors.

Funding

A 4-year agreement, commenced on 1/7/00, between the Commission and the Commonwealth to provide legal aid services in Commonwealth matters ended on 30/6/04.

The agreement provided annual funding as follows:

Year	\$'000
2000/01	33,719
2001/02	36,337
2002/03	38,956
2003/04	41,574
Total	150,586

Refer to Note 3(a) in the Financial Report.

A new 4-year agreement is under negotiation.

The State Government provides annual funding for State based matters from the Consolidated Fund and for capital projects including the progressive upgrade of the Commissions information systems. An annual contribution is also received from the Public Purpose Fund for State based matters. Refer to Note 3(c). Certain clients utilising legal aid contribute to the cost of their representation. Refer Note 3(a).

Audit Remuneration

Audit fees comprise

	2004 \$'000	2003 \$'000
Deloitte Touche Tohmatsu	44	39
Audit Office of NSW	92	79
Thomas Davis	2	2
Total (Refer to Note 2(b))	138	120

Consultants

Engagements equal to or more than \$30,000

Consultant	Cost \$	Purpose
Alpha West Pty Ltd	67,032	IT Strategic Plan/Procedure Project
Professor Chris Cunneen	38,000	Evaluation of the ATSIFAM pilot program
Total	105,032	

Engagements equal to or less than \$30,000

Total Number: 6	49,536
Total Cost (Refer to Note 2(b))	154,568

Charitable and Deductible Gift Recipient Institution

The Commission is a Charitable Institution and a Deductible Gift Recipient institution under The New Tax System. Gifts to the Commission of monies or property with a value of \$2, or more, may be claimed by the donor as a tax deduction.

Other information

Unclaimed Monies

Pursuant to Section 14 of the *Public Finance and Audit Act 1983*, all unclaimed monies are forwarded to the Treasury for credit to the Consolidated Fund and are available for refund from that account. No unclaimed amounts have been held in the accounts of the Legal Aid Commission.

Risk Management

The Commission maintains insurance policies for motor vehicles, workers compensation, miscellaneous, property and public liability with the NSW Treasury Managed Fund.

The 2003/04 premiums for workers compensation insurance increased by 6.2% to \$330,070 (2002/03 \$310,920), whilst the premium for motor vehicles increased by 15.2% to \$30,540 (2002/03 \$26,500). The premiums were based on a mixture of claims experience benchmarks, for similar organisations and a premium incentive system.

Worker's Compensation

The cost incurred to 30 June 2004 of new claims reported in 2003/04 was \$34,138 compared to \$116,931 in 2002/03, a decrease of \$82,793. The number of accepted claims decreased from 20 in 2002/03 to 18 in 2003/04. There were 2 provisionally accepted stress related claims (these were later declined after investigation) in 2003/04, amounting to \$15,696 or 46 per cent of the cost of all worker's compensation claims incurred in that year. In comparison, 3 stress related claims (one was declined after investigation) were processed in 2002/03 with an amount of \$45,446 or 39 per cent of the cost of all claims incurred in the year. There were 9 Fall/Slip and Body Stress claims amounting to \$9,987 in 2003/04 compared to 12 claims in 2002/03 with a value of \$50,954. The number of full-time equivalent (FTE) staff (on average) for this financial year was 664, an increase of 30 from 634 in 2002/03. This equates to an average claim cost of \$51.41 per staff member compared to \$184.43 per staff member in 2002/03.

Motor Vehicle Claims

The number of claims was 12 in 2003/04 (12 in 2002/03) which incurred a cost of \$41,212 (\$20,723 in 2002/03). The number of vehicles in the Commission fleet decreased by 2 to 43 in 2003/04 (an increase of 1 to 45 in 2002/03), giving an average claim cost per vehicle of \$958 (\$461 in 2002/03).

Investment Performance

The Commission is authorised under section 65 of *The Legal Aid Commission Act 1979* to invest funds that are not immediately required. The avenues of investment are restricted to any securities approved by the Treasurer on the recommendation of the Minister. During 2003/04 the Commission invested its available funds in the Treasury Corporation's 11am call account. The average yield for this account was 5.03% (2002/03 : 4.70%). Since November 2000, the Commission invested available funds in 30 day Fixed Term deposits with the Treasury Corporation. The average yield from this deposit was 5.15% (2002/03 : 4.83%). The Commission provides for its daily expenditure needs via an on call account which is domiciled with the Commonwealth Bank of Australia. The average yield obtained from this account was 4.56% (2002/03 : 4.25%). Income of \$2.195m was derived from the investment of Commission funds during 2003/04 compared to \$1.998m in 2002/03. The variation is due to higher average cash balances held during the year.

2004/05 Budget Estimates

	\$'000
Total Income	147,136
Total Expenditure	146,234
Operating (Deficit)/Surplus	902