



# Victoria Legal Aid Financial statements – 30 June 2011

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### **This financial report covers Victoria Legal Aid as an individual entity.**

The Victoria Legal Aid is a Statutory Authority of the State of Victoria. The Authority was established under the *Legal Aid Act 1978*. Its principal address is:

Victoria Legal Aid  
350 Queen Street  
Melbourne VIC 3000

Comprehensive Operating Statement  
For the financial year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
<b>CONTINUING OPERATIONS</b>			
<b>Income from transactions</b>			
<b>Government</b>			
Commonwealth grants – Direct	1e,2	4,828	43,643
Commonwealth grants – Indirect	1e,2	42,400	0
State grant	1e,2	69,096	64,054
Public purpose fund	1e,2	25,769	23,500
		<b>142,093</b>	<b>131,197</b>
<b>Operating</b>			
Client contributions	1e,2	4,042	3,763
Costs recovered and appeal cost fund	1e,2	1,043	1,027
Interest on investments	1e,2	1,558	841
Other income		468	627
		7,111	6,258
<b>Total income from transactions</b>		<b>149,204</b>	<b>137,455</b>
<b>Expenses from transactions</b>			
Case related professional payments	1f	(67,103)	(65,337)
Employee benefits	3	(45,546)	(41,147)
Grants and other payments	2b	(11,527)	(10,408)
Depreciation and amortisation	1f, 3	(2,403)	(2,216)
Other expenditure	3	(14,169)	(12,570)
<b>Total expenses from transactions</b>		<b>(140,748)</b>	<b>(131,678)</b>
<b>Net result from transactions (net operating balance)</b>		<b>8,456</b>	<b>5,777</b>
<b>Other economic flows included in net result</b>			
Net gain / (loss) on non-financial assets	1h, 4a	(2,592)	(21)
Net gain / (loss) on financial instruments and statutory receivables/payables:			
Net actuarial gains / (losses) on receivable amounts	1h, 1l, 4b	(2,802)	(473)
Net actuarial gains / (losses) on amounts payable	1h, 4c	(922)	863
Net gain / (loss) arising from other economic flows	1h, 4d	(16)	4
<b>Total other economic flows included in net result</b>		<b>(6,332)</b>	<b>373</b>
<b>Net result from continuing operations</b>		<b>2,124</b>	<b>6,150</b>
<b>Comprehensive Result</b>	2	<b>2,124</b>	<b>6,150</b>

The above Comprehensive Operating Statement should be read in conjunction with the accompanying notes.

Balance Sheet  
As at 30 June 2011

	Notes	2011 \$'000	2010 \$'000
<b>Financial assets</b>			
Cash and cash equivalents	1i, 6, 17	19,913	12,508
Accrued Income	17	189	21
Receivables	1j, 7, 17	20,027	20,357
Prepayments		1,134	1,324
<b>Total financial assets</b>		<u>41,263</u>	<u>34,210</u>
<b>Non Financial assets</b>			
Property, plant and equipment	1l, 8	8,098	9,425
Intangible assets	1l, 9	6,626	7,481
<b>Total non financial assets</b>		<u>14,724</u>	<u>16,906</u>
<b>Total assets</b>		<u>55,987</u>	<u>51,116</u>
<b>Liabilities</b>			
Payables	1n, 10, 17	18,618	16,824
Provisions	1o, 11	10,501	9,548
<b>Total liabilities</b>		<u>29,119</u>	<u>26,372</u>
<b>Net assets</b>		<u>26,868</u>	<u>24,744</u>
<b>Equity</b>			
Contributed capital	1k, 12a	42,194	42,194
Accumulated deficit	12b	(15,326)	(17,450)
<b>Total equity</b>		<u>26,868</u>	<u>24,744</u>
Contingent Liabilities	1v, 20		
Commitments for expenditure	1u, 18		

Statement of changes in equity  
For the financial year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
<b>Equity at start of financial year</b>			
Contributed capital		42,194	42,194
Accumulated deficit		(17,450)	(23,600)
<b>Total equity at start of financial year</b>		<u>24,744</u>	<u>18,594</u>
Comprehensive result for the year		2,124	6,150
<b>Total recognised income and expenses for the year</b>		<u>2,124</u>	<u>6,150</u>
<b>Total equity at end of financial year</b>		<u>26,868</u>	<u>24,744</u>

*The above statements should be read in conjunction with the accompanying notes.*

**Cash flow statement**  
For the financial year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
<b>Cash flows from operating activities</b>			
<i>Receipts from government</i>			
Commonwealth grants – Direct		4,567	43,903
Commonwealth grants – Indirect		42,400	0
State		69,203	64,054
Public purpose fund		25,769	23,500
<i>Receipts from operating activities</i>			
Client contributions		2,751	3,450
Costs recovered and appeal cost fund		1,188	1,091
Interest received		1,398	828
Goods and services tax recovered from the ATO		10,646	10,028
Other		820	644
		158,742	147,498
<i>Payments to suppliers and employees</i>			
Private practitioners		(74,440)	(71,329)
Salaries and related costs		(44,558)	(40,990)
Community Legal Centres		(12,680)	(11,449)
Administration costs		(16,390)	(17,843)
Other		(886)	(520)
		(148,954)	(142,131)
<b>Net cash from / (used in) operating activities</b>	16	9,788	5,367
<b>Cash flows from investing activities</b>			
Payments for non financial assets		(2,946)	(4,268)
Proceeds from sale of non financial assets		133	89
<b>Net cash from / (used in) investing activities</b>		(2,813)	(4,179)
<b>Cash flows from financing activities</b>			
Receipts from State government for monies held in trust		479	470
Payments on behalf of State government for monies held in trust		(49)	0
<b>Net cash from / (used in) financing activities</b>		430	470
<b>Net increase/(decrease) in cash and cash equivalents held</b>		7,405	1,658
Cash and cash equivalents at the beginning of the financial year		12,508	10,850
<b>Cash and cash equivalents at the end of the financial year</b>	1i, 6	19,913	12,508

The above Cash flow statement should be read in conjunction with the accompanying notes.

## Note 1. Summary of significant accounting policies

The following summary explains the significant policies that have been adopted in the preparation of these financial statements.

### (a) Statement of compliance and basis of accounting

The financial report is a general purpose financial report which has been prepared on an accrual basis in accordance with the *Financial Management Act 1994*, applicable Australian Accounting Standards (AASs), which includes the Australian accounting standards issued by the Australian Accounting Standards Board (AASB), AAS 29 Financial Reporting by Government Departments, Interpretations and other mandatory professional requirements.

The financial report also complies with relevant Financial Reporting Directions (FRDs) issued by the Department of Treasury and Finance, and relevant Standing Directions (SD) authorised by the Minister for Finance.

The financial statements were authorised for issue by T Matthews (Chief Finance and Accounting Officer – Victoria Legal Aid) on 17 August 2011.

### (b) Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of AASs management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The functional currency of the Commission is the Australian dollar, which has also been identified as the presentation currency of the Commissions. Amounts in the financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2011 and the comparative information presented for the year ended 30 June 2010.

When necessary, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

### (c) Scope and presentation of financial statements

#### *Comprehensive Operating Statement*

Income and expenses in the comprehensive operating statement are separated into either 'transactions' or 'other economic flows'.

#### *Balance Sheet*

Items of assets and liabilities in the balance sheet are:

- aggregated into financial and non financial assets;
- classified according to GFS terminology, but retain measurement and disclosure rules under existing accounting standards applicable to the Commission; and
- current versus non-current assets and liabilities are disclosed in the notes where relevant.

### (d) Objectives

The objectives of the Commission as detailed in the *Legal Aid Act 1978* are:

- (i) To provide legal aid in the most effective, economic and efficient manner;
- (ii) To manage its resources to make legal aid available at a reasonable cost to the community and on an equitable basis throughout the state;
- (iii) To provide to the community improved access to justice and legal remedies;
- (iv) To pursue innovative means of providing legal aid directed at minimising the need for individual legal services in the community.

## Note 1. Summary of significant accounting policies (continued)

### (e) Revenue recognition

Amounts disclosed as revenue are, where applicable, net of returns, allowances, duties and taxes. Revenue is recognised for each of the Commission's major activities as follows:

(i) *Government grants*

Grants payable by Government are recognised as revenue when the Commission gains control of the underlying assets. Where grants are reciprocal, revenue is recognised as performance occurs under the grant. Non-reciprocal grants are recognised as revenue when the grant is received or receivable. Conditional grants may be reciprocal or non-reciprocal depending on the terms of the grant.

(ii) *Public Purpose Fund*

Monies from the Public Purpose Fund are distributed to the Legal Aid Fund pursuant to section 6.7.9 of the *Legal Profession Act 2004*. The Public Purpose Fund comprises interest and investment earnings on clients' funds held in solicitor's trust accounts. The amount of any distribution from the Public Purpose Fund to the Legal Aid Fund, can vary from year to year depending on its investment performance and any other calls that may be made on the fund, as set out in the *Legal Profession Act 2004*.

(iii) *Client contribution revenue*

Revenue from the provision of legal services to clients is recognised at fair value. Contributions for services are only recognised when the fair value can be reliably determined and where the services would normally be purchased.

(iv) *Sale of goods and disposal of assets*

Revenue from the sale of goods and disposal of other assets is recognised when the Commission has passed to the buyer the significant risks and rewards of ownership of the goods or other assets.

(v) *Interest*

Interest revenue is recognised on a time proportionate basis that takes into consideration the effective yield on the financial asset.

(vi) *Costs recovered and appeal costs fund*

Revenue arising from costs recovered and appeal costs fund is recognised when the Commission gains control of the revenue or the right to receive revenue.

### (f) Expenses from transactions

(i) *Grants payments*

Grants and other payments to third parties are recognised as expenses in the reporting period in which they are paid or payable. They include grants made to Community Legal Centres (Note 2b).

(ii) *Supplies and services*

Supplies and services, including case related professional payments, are recognised as an expense in the reporting period in which they are incurred. Case related legal payments fluctuate depending on demand and types of cases funded. For example during 2011 there were expensive Commonwealth criminal cases that increased expenditure.

(iii) *Depreciation and amortisation*

Depreciation is calculated on a straight line basis to write off the net cost of each item of plant and equipment (excluding cultural assets) over its expected useful life to its estimate residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. Estimates of useful lives, residual values and depreciation method are reviewed on a regular basis.

The following depreciation rates are used for each major class of depreciable assets:

Furniture, fixture and fittings	10%
IT equipment	33%
Leasehold improvements	10%
Motor vehicles	20%
Office machines & equipment	15%
Cultural assets	0%

Intangible assets with finite useful lives are amortised on a systematic (typically straight line) basis over the asset's useful life. Amortisation begins when the asset is available for use. The amortisation period and method for an intangible asset with a finite useful life are reviewed annually at the end of each reporting period, in conjunction with a review for impairment.

## Note 1. Summary of significant accounting policies (continued)

### (g) Maintenance and repairs

Assets of the Commission are required to be refurbished on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated in accordance with note 1(f). Other routine operating maintenance, repair costs and minor renewals are also charged as expenses when incurred.

### (h) Other economic flows included in net result

Other economic flows measure the change in volume of assets or liabilities that do not result from transactions.

#### (i) *Net gain / (loss) on non-financial assets*

Net gain / (loss) on non-financial assets and liabilities includes realised and unrealised gains and losses from revaluations, impairments, disposals of all non financial assets and intangible assets.

Any gain or loss on the sale of non financial assets is recognised at the date that control of the asset is passed to the buyer and is determined after deducting from the proceeds the carrying value of the asset at that time.

Intangible assets with indefinite lives (and intangible assets not yet available for use) are tested annually for impairment and whenever there is an indication that the asset may be impaired. All other assets are assessed annually for indications of impairment, excluding financial assets (Note 1m).

#### (ii) *Net gains / (losses) on financial instruments and statutory receivables/payables*

Net gains / (losses) on financial instruments and statutory receivables/payables includes realised and unrealised gains and losses from revaluations by actuarial assessment of legal payables and receivables.

Bad and doubtful debts are assessed on a regular basis. Those bad debts considered as written off by mutual consent are classified as a transaction expense. The allowance for doubtful receivables and bad debts not written off by mutual consent are adjusted as 'other economic flows'.

#### (iii) *Net gain / (loss) arising from other economic flows*

Other gains / (losses) from other economic flows include the gains or losses from reclassifications of amounts from reserves and/or accumulated surplus to net result, and from the revaluation of the present value of the long service leave liability due to changes in the bond interest rates.

### (i) Cash and cash deposits

Cash and deposits, including cash equivalents, comprise cash on hand, cash in banks and deposits at call, and highly liquid investments with an original maturity of three months or less, that are readily convertible to cash and are subject to an insignificant risk of changes in value.

#### (i) *Monies held in trust*

Monies held in trust are for the purpose of administering specific matters and are held on behalf of the Department of Justice.

### (j) Receivables

#### *Granting of legal assistance*

Pursuant to the *Legal Aid Act 1978*, as amended, the organisation is empowered to make a grant of legal assistance subject to certain conditions. Under section 27 of the Act the Commission may require a client to:

- a) make a contribution towards the cost of providing assistance;
- b) make a contribution in respect of any out-of-pocket expenses incurred in providing assistance;
- c) pay contributions in such a manner and within such a time as the organisation directs;
- d) provide the organisation with security against costs incurred on their behalf.

In accordance with the Commission's means test and asset guidelines a client may or may not be required to make a contribution towards the cost of their legal assistance.

Under section 46 of the Act all costs payable under the terms of any judgment or order, or of any settlement of an action or claim by a client are payable to the organisation.

Client contribution receivables arise as a result of contributions assessed as above and are recorded at their recoverable amount.

## Note 1. Summary of significant accounting policies (continued)

### (j) Receivables (continued)

Actuarial assessment of client debtors and assumptions are reviewed on an ongoing basis for impairment. Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision.

#### (i) *Change in Accounting Estimates*

During the period, the actuarial assessment of Client Debtors was expanded to include additional analysis of unsecured debts. For the year ended 30 June 2011, the impact of this actuarial assessment is a loss on receivable amounts of \$2.3 million in 'other economic flows' in the net result.

### (k) Contribution by owners

Consistent with Interpretation 1038 *Contribution by Owners Made to Wholly-Owned Public Sector Entities* appropriations for additions to net assets have been designated as contributions by owners. Other transfers that are in the nature of contributions or distributions have also been designated as contributions by owners.

### (l) Non-current assets

#### *Non-current physical assets*

Plant and equipment are measured at cost less accumulated depreciation and impairment.

#### *Leasehold improvements*

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Commission. Leasehold improvements are measured at cost less accumulated depreciation and impairment (Note 1m).

Where applicable, leasehold improvements include a component for leasehold make-good at the end of the lease. A corresponding provision for decommissioning expense is created based on present value of the expected make-good expense.

#### *Cultural assets*

Cultural assets such as artworks that the Commission intends to preserve because of their unique cultural and historical attributes are valued at the cost of replacing the asset.

#### *Intangibles assets*

Intangible assets represent identifiable non-monetary assets without physical substance

An internally generated intangible asset arising from development is recognised if, and only if, all of the following are demonstrated:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) an intention to complete the intangible asset and use or sell it;
- (c) the ability to use or sell the intangible asset;
- (d) the intangible asset will generate probable future economic benefits;
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (f) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Where no internally generated asset can be recognised, development expenditure is recognised as an expense in the period incurred.

Intangible assets are measured at cost less accumulated amortisation and impairment, and are amortised on a straight line basis over their useful lives as follows:

Capitalised software and development costs	3 – 10 years
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#### *Receivables client contributions*

Finity Consulting Pty Limited actuaries perform an annual independent assessment of the net present value of receivables. The analysis undertaken reviews the receivable portfolio, recovery history and the current and forecast financial environment to determine a recoupment pattern. This payment pattern was discounted by 5.40% (2010: 5.25%) for secured receivables which is the forecast earnings rate of the organisation's investment portfolio to determine the net present value. The average repayment time for unsecured receivables is significantly less than that for secured, and therefore a lower discount rate of 4.9% was used for 2011.

## Note 1. Summary of significant accounting policies (continued)

### (m) Impairment of assets

All assets are assessed annually for indications of impairment.

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off by a charge to the operating statement except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that class of asset.

The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. It is deemed that, in the event of the loss of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made.

In line with Financial Reporting Directions (FRDs) issued by the Minister for Finance, a full revaluation of the Commission's Cultural Assets (artworks) was carried out by the Valuer-General Victoria as at 30 June 2011. A revaluation decrease of \$89,000 arose from the differences between the asset's carrying value and fair value.

Net revaluation decreases are recognised as an expense (Other economic flows) in the net result.

### (n) Payables

Payables are recognised when the Commission becomes obliged to make future payments resulting from the purchase of goods and services.

#### *Trade creditors*

The amounts are unsecured and are usually paid within 30 days of recognition. No interest is charged within the first 30 days. Payables are measured at face value.

#### *Legal creditors*

Legal creditors represent amounts owing to the organisation's panel members for legal work undertaken on behalf of the organisation. The amount owing to legal creditors for work performed comprises two components:

- (i) amounts certified but not paid; and
- (ii) amounts incurred not yet invoiced at balance date.

An actuarial assessment was undertaken by Finity Consulting Pty Limited to identify amounts owing to legal creditors for work performed prior to the 30 June 2011 but not yet invoiced. The actuarial assessment includes a prudential margin of 10% of outstanding estimates which is reassessed each year.

No interest charge is applicable.

### (o) Employee benefits

#### *(i) Wages and salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employee services up to the reporting date, classified as current liabilities and measured at their nominal values.

Those liabilities that are not expected to be settled within 12 months are recognised in the provision for employee benefits as current liabilities, measured at present value of the amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

#### *(ii) Long service leave*

Liability for long service leave (LSL) is recognised in the provision for employee benefits.

- Current liability – unconditional LSL (representing 7 or more years of continuous service) is disclosed as a current liability even where the Commission does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave or depart within 12 months.

The components of this current LSL liability are measured at:

- Present value – component that the Commission does not expect to settle within 12 months; and
- Nominal value – component that the Commission expects to settle within 12 months.

- Non-current liability – conditional LSL (representing less than 7 years of continuous service) is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service.

This non-current liability is measured at present value. Gain or loss following revaluation of the present value of non-current LSL liability due to changes in bond interest rates is recognised as an other economic flow (refer Note 1h).

## Note 1. Summary of significant accounting policies (continued)

### (o) Employee benefits (continued)

#### (iii) *Employee benefits on-costs*

Employee benefits on-costs (workers compensation, superannuation, annual leave and LSL accrued while on LSL taken in service) are recognised separately from provision for employee benefits.

#### (iv) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date. The Commission recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

#### (v) *Defined contribution superannuation funds*

Contributions to defined contribution superannuation plans are expensed when incurred (See note 13).

#### (vi) *Defined benefit superannuation funds*

The amount charged to the operating statement in respect of defined benefit superannuation represents the contribution made by the Commission to the superannuation fund in respect to the current services of current staff of the Commission. Superannuation contributions are made to the plans based on the relevant rules of each plan.

The Department of Treasury and Finance centrally recognises the defined benefit liability or surplus of most Victorian Government employees in such funds.

### (p) Provisions

Provisions are recognised when the Commission has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recognised from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

### (q) Leased non-current assets

Operating leases are those in which the lessor effectively retains all substantial risks and benefits. Payments made in relation to operating leases are charged to the operating statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

### (r) Goods and services tax

Income, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

Commitments and contingent assets and liabilities are presented on a gross basis.

### (s) Supplies and services

Supplies and services generally represent cost of goods sold and the day-to-day running costs, including maintenance costs, incurred in the normal operations of the Commission. These items are recognised as an expense in the reporting period in which they are incurred. The carrying amount of any inventories held for distribution is expensed when distributed.

### (t) Events after reporting date

Assets, liabilities, income or expenses arise from past transactions or other past events. Where the transactions result from an agreement between the Commission and other parties, the transactions are only recognised when the agreement is irrevocable at or before balance date. Adjustments are made to amounts recognised in the financial statements for events which occur after reporting date and before the date the statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. Note disclosure is made about events between the balance date and the date statements are authorised for issue where the events relate to conditions which arose after the reporting date and which may have a material impact on the results of subsequent years.

Note 1. Summary of significant accounting policies (continued)

(u) Commitments

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources and are disclosed at their nominal value and inclusive of GST payable (See note 18).

(v) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note and, if quantifiable, are measured at nominal value (See note 20).

(w) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(i) *Critical accounting estimates and assumptions*

*Measurement of client receivables*

Client receivables are based on an actuarial assessment which makes reference to annual modelling and historical data on debt recovery.

*Measurement of case related professional creditors*

The recognition of private practitioner costs is intrinsically linked to the recovery of client fees. In this respect the recognition of private practitioner related payables is recognised on a similar basis and, therefore, is reliant on an actuarial assessment. The actuarial assessment makes reference to historical data.

(x) Going concern

The financial report has been prepared on a going concern basis. The nature of our business equates to long term debtors and short term creditors, thus creating fluctuations in working capital (\$1.44 million working capital surplus in 2011 compared to a 2010 \$3.53 million working capital deficit).

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting period. The Department of Treasury and Finance assesses the impact of these new standards and advises departments and other entities of their applicability and early adoption where applicable.

As at 30 June 2011, the following standards and interpretations had been issued but were not mandatory for the financial year ending 30 June 2011. The Commission has not, and does not intend to adopt these standards early.

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning or ending on	Impact on financial statements
AASB 9 Financial instruments	This standard simplifies requirements for the classification and measurement of financial assets resulting from Phase 1 of the IASB's project to replace IAS 39 Financial instruments: recognition and measurement (AASB 139 Financial Instruments: recognition and measurement)	Beginning 1 January 2013	Detail of impact is still being assessed.
AASB 124 Related party disclosures (Dec 2009)	Government related entities have been granted partial exemption with certain disclosure requirements.	Beginning 1 January 2011	Preliminary assessment suggests that impact is insignificant. However, the Department is still assessing the detailed impact.

Note 1. Summary of significant accounting policies (continued)

(y) New accounting standards and interpretations (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning or ending on	Impact on financial statements
AASB 1053 Application of Tiers of Australian Accounting Standards	This establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements.	Beginning 1 July 2013	The Victorian Government is currently considering the impacts of Reduced Disclosure Requirements (RDRs) for certain public sector entities and has not decided if RDRs will be implemented to the Victorian Public Sector.
AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12]	This gives effect to consequential changes arising from the issuance of AASB 9.	Beginning 1 January 2013	Detail of impact is still being assessed.
AASB 2009-12 Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 and 1031 and Interpretations 2, 4, 16, 1039 and 1052]	This standard amends AASB 8 to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for purposes of certain operating segment disclosures. This standard also makes numerous editorial amendments to other AASs.	Beginning 1 January 2011	The amendments only apply to those entities to whom AASB 8 applies, which are for-profit entities except for-profit government departments.
AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a minimum funding requirement [AASB Interpretation 14]	Amendment to Interpretation 14 arising from the issuance of prepayments of a minimum funding requirement.	Beginning 1 January 2011	Expected to have no significant impact.
AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	This Standard makes amendments to many Australian Accounting Standards, including Interpretations, to introduce reduced disclosure requirements to the pronouncements for application by certain types of entities.	Beginning 1 July 2013	Does not affect financial measurement or recognition, so is not expected to have any impact on financial result or position. May reduce some note disclosures in financial statements.
AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]	This Standard makes numerous improvements designed to enhance the clarity of standards	Beginning 1 January 2011	No significant impact on the financial statements.

Note 1. Summary of significant accounting policies (continued)

(y) New accounting standards and interpretations (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning or ending on	Impact on financial statements
AASB 2010-5 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023, & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This amendment contains editorial corrections to a range of Australian Standards and Interpretations, which includes amendments to reflect changes made to the text of IFRSs by the IASB.	Beginning 1 January 2011	No significant impact on the financial statements.
AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	This amendment adds and changes disclosure requirements about the transfer of financial assets. This includes the nature and risk of the financial assets.	Beginning 1 January 2011	This may impact on departments and public sector entities as it creates additional disclosure for transfers of financial assets. Detail of impact is still being assessed.
AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	These amendments are in relation to the introduction of AASB 9.	Beginning 1 January 2013	This amendment may have an impact on departments and public sector bodies as AASB 9 is a new standard and it changes the requirements of numerous standards. Detail of impact is still being assessed.
AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	This amendment provides a practical approach for measuring deferred tax assets and deferred tax liabilities when measuring investment property by using the fair value model in AASB 140 Investment Property.	Beginning 1 July 2011	This amendment provides additional clarification through practical guidance.
AASB 2010-9 Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1]	This amendment provides guidance for entities emerging from severe hyperinflation who are going to resume presenting Australian Accounting Standards financial statements or entities that are going to present Australian Accounting Standards financial statements for the first time. It provides relief for first-time adopters from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.	Beginning 1 July 2011	Amendment unlikely to impact on public sector entities.

## Note 1. Summary of significant accounting policies (continued)

### (y) New accounting standards and interpretations (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning or ending on	Impact on financial statements
AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113]	This amendment affects multiple Australian Accounting Standards and AASB Interpretations for the objective of increased alignment with IFRSs and achieving harmonisation between both Australian and New Zealand Standards. It achieves this by removing guidance and definitions from some Australian Accounting Standards, without changing their requirements.	Beginning 1 July 2011	This amendment will have no significant impact on public sector bodies.
AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & AASB 1054]	The objective of this amendment is to include some additional disclosure from the Trans-Tasman Convergence Project and to reduce disclosure requirements for entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements.	Beginning 1 July 2013	The Victorian Government is currently considering the impacts of Reduced Disclosure Requirements (RDRs) and has not decided if RDRs will be implemented to Victorian Public Sector.
AASB 2011-3 Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049]	This amends AASB 1049 to clarify the definition of the ABS GFS Manual, and to facilitate the adoption of changes to the ABS GFS Manual and related disclosures.	Beginning 1 July 2012	This amendment provides clarification to users on the version of the GFS Manual to be used and what to disclose if the latest GFS Manual is not used. No impact on performance measurements will occur.

## Note 2. Funding

### (a) The organisation

On the 1st July 2010 the Commonwealth and the Victorian State Government entered into a National Partnership Agreement for legal assistance services. The agreement specified arrangements for the delivery of Commonwealth funded services by the State. Funding now flows through the Victorian State Government to Victoria Legal Aid and is now reported as an indirect funding source of \$42.4 million. The previous agreement was between the Commonwealth and Victoria Legal Aid and therefore funds flowed directly to the Commission (2010 \$38.6 million). Victoria Legal Aid continues to be reimbursed for expensive Commonwealth cases directly, 2011 \$4.46 million (2010 \$6.2 million).

### (b) Community Legal Centres

Each year the Commission allocates a portion of its funding and provides certain administration assistance to Community Legal Centres in Victoria. For the year ended 30 June 2011 the Commission allocated \$11.5 million of direct funds (2010: \$10.4m). The organisation has disclosed this transaction in its financial statements as the Board of Victoria Legal Aid has discretionary funding choices over the allocation of State grants.

The organisation does not control the allocation of grants received from the Commonwealth Government and consequently does not include these funds in its financial statements. The total amount received from the Commonwealth for Community Legal Centres to 30 June 2011 was \$6.6m million (2010: \$5.2m).

Grants made by the organisation to Community Legal Centres are reported in the body of the financial statements.

### Note 3. Result for the reporting period

	2011 \$'000	2010 \$'000
<b>(a) Expenses from ordinary activities</b>		
Employee benefits		
Salaries and overtime	34,659	32,167
- excluding Intangible Project costs capitalised	(126)	(919)
Salaries and overtime – not including Intangible Project items	34,533	31,248
Annual leave and long service leave expense	4,838	4,546
- excluding Intangible Project costs capitalised	(23)	(141)
Annual leave and long service leave expense – not including Intangible Project items	4,815	4,405
Superannuation	3,532	3,185
- excluding Intangible Project costs capitalised	(56)	(88)
Superannuation – not including Intangible Project items	3,476	3,097
Staff development	415	493
Workcover	136	115
Temporary employment cover	1,265	974
Other	906	815
Total employee benefits	45,546	41,147
Depreciation of property, plant and equipment		
Furniture, fixture & fittings	67	64
Information technology equipment	337	369
Leasehold improvements	1,305	1,436
Motor vehicles	118	107
Office machines & equipment	167	173
Total depreciation	1,994	2,149
Amortisation of intangible assets		
Software	409	67
Total amortisation	409	67
Total depreciation and amortisation	2,403	2,216
Other expenditure from ordinary activities		
Supplies and services		
Debt recovery costs	41	46
Insurance	188	167
Legal fees	257	181
Library	508	502
Motor vehicle and travelling expenses	86	101
Operating leases	267	315
Postage and telephones	950	1,123
Printing and stationery	929	832
Sundry expenses	560	526
Travel and accommodation	469	368
Contractors	977	628
Consultants	920	382
Total supplies and services	6,152	5,171
Premises – minimum lease payments	3,675	3,547
Premises – other	2,566	2,350
Information management systems	1,623	1,498
Decommissioning expenses	153	4
Total other expenditure from ordinary activities	14,169	12,570

## Note 4. Other economic flows included in net result

	2011 \$'000	2010 \$'000
<b>(a) Net gain / (loss) on non-financial assets:</b>		
Net gain / (loss) on disposal Property, plant and equipment	(2,592)	(21)
<b>(b) Net actuarial gains / (losses) on receivable amounts:</b>		
Net actuarial gains / (losses) on legal debtors net present value	(440)	(380)
Net actuarial gains / (losses) on impairment of legal unsecured debtors	(2,368)	0
Net actuarial gains / (losses) on recognition of outstanding legal debtors	6	(93)
Total Net actuarial gains / (losses) on recoverable amounts	<u>(2,802)</u>	<u>(473)</u>
<b>(c) Net actuarial gains / (losses) on amounts payable:</b>		
Net actuarial gains / (losses) on movement in legal creditors	(922)	863
<b>(d) Net gain / (loss) arising from other economic flows:</b>		
Net gain / (loss) arising from revaluation of long service leave liability due to changes in discount bond rates	(16)	4
Total other economic flows included in net result	<u>(6,332)</u>	<u>373</u>

## Note 5. Remuneration of auditors

Remuneration of auditors comprises:

Audit of financial reports: Victorian Auditor General's Office	51	50
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## Note 6. Cash and cash equivalents

Cash at bank and on hand	819	1,688
Monies held in trust	894	470
Term deposits	18,200	10,350
	<u>19,913</u>	<u>12,508</u>

The above figures are reconciled to cash at the end of the financial year as shown in the Cash flow statement as follows:

Balance as above	19,913	12,508
Balance as per statement of cash flows	<u>19,913</u>	<u>12,508</u>

### Term deposits

The deposits are bearing weighted average interest rates of 4.92% (2010 – 4.58 %).

## Note 7. Receivables

	2011 \$'000	2010 \$'000
<b>(a) Receivables</b>		
Client Contributions		
Secured client contributions receivable	18,444	18,925
Adjustment for impairment of secured client contributions receivable	(7,124)	(6,684)
Secured client contributions receivable at net present value	<u>11,320</u>	<u>12,241</u>
Unsecured client contributions receivable	5,915	3,861
Adjustment for impairment of unsecured client contributions receivable (b)	(2,814)	(500)
Unsecured client contributions receivable at net present value	<u>3,101</u>	<u>3,361</u>
Secured client contributions receivable on unfinalised matters	1,398	1,447
Costs recoverable	59	64
	<u>15,878</u>	<u>17,113</u>
Sundry receivables		
Australian Taxation Office	3,832	3,068
Other	317	176
	<u>4,149</u>	<u>3,244</u>
Total receivables	<u>20,027</u>	<u>20,357</u>
This is represented by:		
Current		
Due within one year	7,028	6,613
Non-current		
Due beyond one year	12,999	13,744
	<u>20,027</u>	<u>20,357</u>
<b>(b) Movement in provision</b>		
Opening Balance	500	500
Movements during the year:		
Re-assessments and bad debts written-off	(101)	(339)
Increase/(decrease) in provision for re-assessments and bad debt write-downs	101	339
Actuarial assessment of unsecured client contributions receivable (Note 1j1)	2,314	0
Closing balance	<u>2,814</u>	<u>500</u>

No interest is charged on receivables.

As at 30 June 2011, a provision for impairment has been made for both secured and unsecured client contributions receivable, determined by actuarial assessment of recoverable amount. In previous years, a provision for doubtful debts had been made for estimated irrecoverable amounts, determined by reference to past default experience..

## Note 8. Property, plant and equipment

	2011 \$'000	2010 \$'000
Information technology at cost	3,199	3,656
Less: Accumulated depreciation	(2,745)	(3,231)
	<u>454</u>	<u>425</u>
Furniture, fixtures and fittings at cost	753	713
Less: Accumulated depreciation	(363)	(296)
	<u>390</u>	<u>417</u>
Leasehold improvements at cost	18,556	18,430
Less: Accumulated depreciation	(12,248)	(10,944)
	<u>6,308</u>	<u>7,486</u>
Motor vehicles at cost	586	529
Less: Accumulated depreciation	(155)	(165)
	<u>431</u>	<u>364</u>
Office machines and equipment at cost	1,555	1,535
Less: Accumulated depreciation	(1,141)	(978)
	<u>414</u>	<u>557</u>
Cultural assets at cost	0	176
Cultural assets at valuation	101	0
	<u>101</u>	<u>176</u>
Total property, plant and equipment	24,750	25,039
Less: Total Accumulated depreciation	(16,652)	(15,614)
Total written down value	<u>8,098</u>	<u>9,425</u>

### Reconciliation

Reconciliations of the carrying amounts of each class of property, plant and equipment, including cultural assets, at the beginning and end of the current and previous financial year are set out below.

	Information technology \$'000	Furniture, fixtures & fittings \$'000	Leasehold improvements \$'000	Motor vehicles \$'000	Office machines & equipment \$'000	Cultural assets \$'000	Total \$'000
<b>2011</b>							
Carrying amount at start of year	425	417	7,486	364	557	176	9,425
Additions	369	40	127	310	25	6	877
Revaluations	0	0	0	0	0	(81)	(81)
Disposals	(3)	0	0	(125)	(1)	0	(129)
Depreciation/amortisation expense	(337)	(67)	(1,305)	(118)	(167)	0	(1,994)
Carrying amount at end of year	<u>454</u>	<u>390</u>	<u>6,308</u>	<u>431</u>	<u>414</u>	<u>101</u>	<u>8,098</u>
<b>2010</b>							
Carrying amount at start of year	572	439	8,848	393	702	176	11,130
Additions	223	42	74	186	29	0	554
Disposals	(1)	0	0	(108)	(1)	0	(110)
Depreciation/amortisation expense	(369)	(64)	(1,436)	(107)	(173)	0	(2,149)
Carrying amount at end of year	<u>425</u>	<u>417</u>	<u>7,486</u>	<u>364</u>	<u>557</u>	<u>176</u>	<u>9,425</u>

Property, plant and equipment is classified as "Public Safety and Environment" by 'purpose' for which the assets are used, according to one of five 'Purpose Groups' based upon Government Purpose Classifications (GPC).

## Note 9. Intangible assets

	2011 \$'000	2010 \$'000
Software at cost	7,093	7,656
Less: Accumulated amortisation	(467)	(175)
	6,626	7,481

### Reconciliation

Reconciliations of the carrying amounts of each class of intangible assets at the beginning and end of the current and previous financial year are set out below.

	Software \$	Total \$
<b>2011</b>		
Carrying amount at beginning of year	7,481	7,481
Additions	1,519	1,519
Disposals (a)	(1,965)	(1,965)
Amortisation	(409)	(409)
Carrying amount at end of year	6,626	6,626
<b>2010</b>		
Carrying amount at beginning of year	4,242	4,242
Additions	3,306	3,306
Amortisation	(67)	(67)
Carrying amount at end of year	7,481	7,481

(a) During the period, an intangible software item under development was assessed as having no further benefit or value to the Commission and was disposed of accordingly.

## Note 10. Payables

	2011 \$'000	2010 \$'000
<b>Current</b>		
<i>Unsecured</i>		
Case related professional creditors	14,669	13,654
Monies held in trust	894	470
Trade creditors	3,055	2,700
	18,618	16,824

The average credit period for creditors is 30 days. No interest is charged.

## Note 11. Provisions

	2011 \$'000	2010 \$'000
<b>(a) Provisions</b>		
<b>Current</b>		
Employee benefits:		
- Unconditional and expected to be settled within 12 months:		
- Annual leave	3,236	2,969
- Long service leave	369	349
- Sick leave	0	0
- Executive officer bonus	109	81
- Unconditional and expected to be settled after 12 months:		
- Long service leave	3,815	3,566
Employee benefit on-costs:		
- Unconditional and expected to be settled within 12 months:		
- Annual leave	297	282
- Long service leave	32	31
- Unconditional and expected to be settled after 12 months:		
- Long service leave	349	361
	<u>8,207</u>	<u>7,639</u>
<b>Non-current</b>		
Employee benefits:		
- Long service leave (conditional)	1,188	918
Employee benefit on costs:		
- Long service leave (conditional)	110	94
Decommissioning	996	897
	<u>2,294</u>	<u>1,909</u>
<b>Aggregate carrying amount of provisions</b>		
Current	8,207	7,639
Non-current	2,294	1,909
	<u>10,501</u>	<u>9,548</u>
<b>(b) Employee Benefits &amp; related on-costs</b>		
<b>Current employee benefits</b>		
Current employee benefits for annual leave, sick leave, executive officer bonus entitlements	3,345	3,050
Current employee benefits for unconditional long service leave entitlements	4,184	3,915
	<u>7,529</u>	<u>6,965</u>
<b>Non-current employee benefits</b>		
Conditional long service leave entitlements	1,188	918
<b>Total employee benefits</b>	<u>8,717</u>	<u>7,883</u>
Current on-costs	678	674
Non-current on-costs	110	94
<b>Total on-costs</b>	<u>788</u>	<u>768</u>
<b>Total employee benefits &amp; on-costs</b>	<u>9,505</u>	<u>8,651</u>
<b>(c) Movement in Provisions</b>		
<b>Decommissioning</b>		
Balance at 1 July 2010	897	893
Additional provisions recognised	0	0
Additions / (reductions) resulting from re-measurement or settlement without cost	69	(34)
Unwind of discount and effect of changes in the discount rate	30	38
<b>Balance at 30 June 2011</b>	<u>996</u>	<u>897</u>

The provision for decommissioning represents the present value of future leasehold make-good expense at the end of the lease. The unexpired term of the leases vary from 1 month to 9 years.

## Note 12. Equity and movements in equity

	2011 \$'000	2010 \$'000
<b>(a) Contributed Capital</b>		
Balance at the beginning of the year	42,194	42,194
Movement during the year	0	0
Balance at the end of the year	<u>42,194</u>	<u>42,194</u>
<b>(b) Accumulated surplus</b>		
Balance at the beginning of the year	(17,450)	(23,600)
Net result for the year	2,124	6,150
Balance at the end of the year	<u>(15,326)</u>	<u>(17,450)</u>

## Note 13. Superannuation Funds

The organisation contributes to a number of different superannuation schemes on behalf of staff including:

### (a) Victorian Government Superannuation

No liability is recognised in the statement of financial position for the Commission's share of the State's unfunded superannuation liability. The State's unfunded superannuation liability is reflected in the financial statements of the Department of Treasury and Finance.

Covers former employees of the State Public Solicitor's Office and any employee who joined the organisation after its commencement date and who elected to contribute to superannuation. The Victorian Government operates three schemes for employees.

	2011 \$'000	2010 \$'000
Paid employer contributions for the year:		
State Superannuation Fund – new scheme	190	206
State Superannuation Fund – revised scheme	21	32
VicSuper Pty Ltd	2,789	2,452
Various other	532	496
	<u>3,532</u>	<u>3,186</u>

The employer contribution rate varies between 9% and 17% depending on the particular scheme to which the employee subscribes. The employer contribution rate is 9% for new employees.

Employees under State Superannuation Fund schemes (both new and revised) are entitled to defined lump sum benefits on retirement, disability or death. These benefits are based on years of service and final average salary.

Funds participating during the period ending 30 June 2011:

Superannuation Fund Schemes	Employee Nos.
State Superannuation Fund – new scheme	32
State Superannuation Fund – revised scheme	2
VicSuper Pty Ltd	597
Various other	135

### (b) Outstanding liabilities

The organisation had no amounts outstanding as at the end of the reporting period, to any superannuation scheme. No liability is recognised for the Commission's share of the State's unfunded superannuation liability. There were no loans made between any of the superannuation funds and the Commission during the financial year.

## Note 14. Ministers and Accountable Officers

In accordance with the Directions of the Minister for Finance under the *Financial Management Act 1994*, the following disclosures are made regarding responsible persons for the reporting period.

### NAMES

The persons who held the above positions in the Commission are as follows:

#### *Responsible Ministers*

Victorian Attorney General	The Hon. Rob J Hulls MLA	1 July 2010 to 1 December 2010
Victorian Attorney General	The Hon. Robert W Clark MLA	2 December 2010 to 30 June 2011
Commonwealth Attorney General	The Hon. Robert McClelland MP	1 July 2010 to 30 June 2011

#### *Responsible Directors*

Chairperson	Mr John Anthony Howie	1 July 2010 to 30 June 2011
Managing Director & Accountable Officer	Mr Bevan Andrew Warner	1 July 2010 to 30 June 2011
Managing Director & Accountable Officer	Mr Tony Arthur Matthews (Acting)	1 July 2010 to 23 July 2010
Managing Director & Accountable Officer	Mr Saul Holt (Acting)	22 December 2010 to 3 January 2011
Director	Ms Mary Anne Noone	1 July 2010 to 30 June 2011
Director	Ms Sue Walpole	1 July 2010 to 30 June 2011
Director	Ms Jennifer Shaw	1 July 2010 to 30 June 2011

### REMUNERATION OF DIRECTORS

Remuneration received or receivable by the Directors in connection with the management of the Commission during the reporting period was in the range:

Income Band	Total Remuneration		Base Remuneration	
	2011 No.	2010 No.	2011 No.	2010 No.
\$0 – \$9,999	0	1	0	1
\$10,000 – \$19,999	2	3	2	3
\$20,000 – \$29,999	1	0	1	0
\$40,000 – \$49,999	1	1	1	1
\$200,000 – \$209,999	0	0	1	0
\$210,000 – \$219,999	0	0	0	1
\$220,000 – \$229,999	1	0	0	0
\$230,000 – \$239,999	0	1	0	0
Total number	5	6	5	6
Total amount \$000's	326	325	301	294

### OTHER TRANSACTIONS

Other related transactions and loans requiring disclosure under the Directions of the Minister for Finance have been considered and there are no matters to report other than the Trust Account as per Note 21.

## Note 15. Remuneration of executives

The numbers of executive officers, other than Ministers and Directors, and their total remuneration during the reporting periods are shown in the first two columns in the table below in their relevant income bands. The base remuneration of executive officers is shown in the third and fourth columns. Base remuneration is exclusive of bonus payments and long-service leave payments. Total remuneration includes long-service leave payments for executive departures.

Income Band	Total Remuneration		Base Remuneration	
	2011 No.	2010 No.	2011 No.	2010 No.
\$ 80,000 – 89,999	0	0	0	1
\$100,000 – 109,999	0	1	0	1
\$120,000 – 129,999	1	1	1	1
\$130,000 – 139,999	1	1	1	0
\$150,000 – 159,999	1	0	1	1
\$170,000 – 179,999	0	1	1	0
\$190,000 – 199,999	1	0	0	0
\$210,000 – 219,999	0	0	0	1
\$220,000 – 229,999	0	1	1	0
\$240,000 – 249,999	1	0	0	0
Total number	5	5	5	5
Total amount \$000's	860	776	827	685

## Note 16. Reconciliation of net results from continuing operations to net cash inflow from operating activities

	2011 \$'000	2010 \$'000
Net result from continuing operations	2,124	6,150
Depreciation and amortisation	2,403	2,216
Net loss on disposal of non-current assets	2,592	21
Movement in adjustment for recoverable amount	2,808	380
Change in operating assets and liabilities		
(Increase) decrease in accrued income	(169)	9
Decrease (increase) in receivables	(2,479)	(126)
Decrease (increase) in prepayments	190	(624)
Increase (decrease) in trade creditors	444	(2,650)
Increase (decrease) in legal creditors	922	(862)
Increase (decrease) in provisions	953	853
Net cash inflow from operating activities	9,788	5,367

## Note 17. Financial instruments

### (a) Financial risk management, objectives and policies

The Commission's activities do not expose it to any significant financial risks other than interest rates held on deposit.

The Commission does not enter into derivative financial instruments to manage its exposure to interest rate risk.

The Commission does not enter into or trade financial instruments, including derivative financial instruments, for speculative or any other purposes. As the Commission does not enter into financial derivatives no formal policy have been formally adopted.

### (b) Recognised financial instruments

The Commission's accounting policies including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date are as follows:

Recognised financial instruments	Balance Sheet		Terms and conditions
	Notes	Accounting policies	
<b>(i) Financial assets</b>			
Cash at bank and on hand	6	Cash at bank and on hand are stated at their principal amount. Interest is recognised in the Operating Statement when earned.	Cash at bank is held at normal commercial interest rates.
Monies held in trust	6	Monies held in trust is not recognised in the Operating Statement, but is offset by related expenditure when incurred.	Monies held in trust is held at normal commercial interest rates.
Accrued income		Accrued income is recognised in the Operating Statement when earned, but yet to be received.	Accrued income is dependant on the agreements in place with the third parties for work carried out.
Client contributions receivable	7	Client contributions are actuarially adjusted to their net present value.	The organisation can request a client to contribute toward the cost of providing assistance. Clients pay contributions in such a manner and within such a time as the organisation directs. The organisation will often take security against costs incurred on their behalf.
Term deposits	6	Term deposits are stated at their principal amount. Interest is recognised in the Operating Statement when earned.	Term deposits are invested as funds permit at normal commercial rates available at the time of investment.
<b>(ii) Financial liabilities</b>			
Case related professional creditors	10	Liabilities are recognised for amounts to be paid in the future for goods and services received; whether or not billed to the organisation.	Liability is normally settled on 30 day terms.
Monies held in trust	10	Monies held in trust is not recognised in the Operating Statement, but is offset by related expenditure when incurred.	Monies held in trust does not incur penalty interest rates.
Trade creditors	10	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the organisation.	Liability is normally settled on 30 day terms.

## Note 17. Financial instruments (continued)

### (c) Interest rate risk exposures

Exposures to interest rate risk are limited to assets and liabilities bearing variable interest rates. The majority of financial assets are term deposits with fixed interest rates and terms. These are held to maturity.

The mature profile of financial assets and liabilities held by the Commission are detailed below.

2011	Notes	Weighted Average interest rate %	Floating interest rate \$'000	Fixed interest maturing in 1 year or less \$'000	Non- interest bearing \$'000	Total \$'000
<b>Financial assets</b>						
Cash at bank and at hand	6	4.70%	819			819
Monies held in trust	6	4.70%	894			894
Accrued income		0%	189			189
Receivables	7	0%			20,027	20,027
Term deposits	6	4.92%		18,200		18,200
			1,902	18,200	20,027	40,129
<b>Financial liabilities</b>						
Legal payables	10	0%			14,669	14,669
Monies held in trust	10	0%			894	894
Sundry payables	10	0%			3,055	3,055
			0	0	18,618	18,618
Net financial assets (liabilities)			1,902	18,200	1,409	21,511
<b>2010</b>						
2010	Notes	Weighted Average interest rate %	Floating interest rate \$'000	Fixed interest maturing in 1 year or less \$'000	Non- interest bearing \$'000	Total \$'000
<b>Financial assets</b>						
Cash at bank and at hand	6	4.45%	1,688			1,688
Monies held in trust	6	4.45%	470			470
Accrued income		0%	21			21
Receivables	7	0%			20,357	20,357
Term deposits	6	4.58%		10,350		10,350
			2,179	10,350	20,357	32,886
<b>Financial liabilities</b>						
Legal payables	10	0%			13,654	13,654
Monies held in trust	10	0%			470	470
Sundry payables	10	0%			2,700	2,700
			0	0	16,824	16,824
Net financial assets (liabilities)			2,179	10,350	3,533	16,062

## Note 17. Financial instruments (continued)

### (d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Commission. The Commission has adopted a policy of obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Commission measures credit risk on a fair value basis.

The Commission has a significant credit risk exposure to its client contributions receivable balance. These receivables are established on the basis of representation provided to clients and their ability to pay for such services following an assessment of their disposable income and net assets held. Services are provided where individuals do not have sufficient funds to afford privately funded legal representation. In this respect, the likelihood and timing of recovery may vary significantly between individual debtors. The services of a qualified actuary are utilised to establish the recoverable amount of these receivables. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of the financial assets recorded in the financial statements, net of any allowances for losses, represents the Commission's maximum exposure to credit risk without taking account of the value of any collateral obtained.

### (e) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, who have built an appropriate liquidity risk management framework for the management of the Commissions short, medium and long term funding and liquidity. This framework takes into consideration that the Commission is prohibited by the *Legal Aid Act 1978* from incurring borrowing costs and, consequent, borrowing funds. The Commission manages its liquidity risk by maintaining adequate cash reserves, and by continuously monitoring forecasts and actual cash flows while matching the maturity profiles of financial assets and liabilities.

### (f) Sensitivity analysis

The table below details the commission's sensitivity to shifts in interest rate. The 2010/2011 financial exposures are based on management's best estimates.

Annual risk by risk type	Minimum		Average		Maximum	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Interest rate	46	26	114	65	182	104

Interest rate analysis is based upon financial assets not exceeding 1 year which are all fixed interest rates. Minimum and maximum exposures are calculated at shifts of 25 basis points and 100 basis points respectively. A net decrease in interest translates into a fall in revenue as investment income is reduced.

## Note 17. Financial instruments (continued)

### (g) Net fair value of financial assets and liabilities

#### (i) On-balance sheet

The Directors consider the net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Commission approximates their carrying amounts.

The fair values and net fair values of financial instrument assets and liabilities are determined as follows:

- Level 1 – the fair value of financial instrument with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices;
- Level 2 – the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

The carrying amounts and net fair values of financial assets and liabilities at reporting date are:

	Carrying amount \$'000	2011 Fair value at end of period using:		Carrying amount \$'000	2010 Fair value at end of period using:	
		Level 1 \$'000	Level 2 \$'000		Level 1 \$'000	Level 2 \$'000
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Cash and deposits	819	819	0	1,688	1,688	0
Monies held in trust	894	894	0	470	470	0
Term deposits	18,200	18,200	0	10,350	10,350	0
Receivables	20,216	5,795	14,421	20,378	4,776	15,602
	<u>40,129</u>	<u>25,708</u>	<u>14,421</u>	<u>32,886</u>	<u>17,284</u>	<u>15,602</u>
<b>Financial liabilities</b>						
Legal payables	14,669	0	14,669	13,654	0	13,654
Monies held in trust	894	894	0	470	470	0
Other payables	3,055	3,055	0	2,700	2,700	0
	<u>18,618</u>	<u>3,949</u>	<u>14,669</u>	<u>16,824</u>	<u>3,170</u>	<u>13,654</u>

#### (ii) Off-balance sheet

The Commission has potential financial liabilities which may arise from certain commitments and contingencies disclosed in note 18 and 20. As explained in those notes, no material losses are anticipated in respect of any of those contingencies and the net fair value disclosed below is the estimate of amounts which would be payable by the Commission as consideration for the assumption of those considerations by another party.

## Note 18. Commitments for expenditure

	2011 \$'000	2010 \$'000
<b>Capital commitments</b>		
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	185	133
	<u>185</u>	<u>133</u>
<b>Intangible assets commitments</b>		
Commitments for the acquisition of intangible assets contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	0	2,331
	<u>0</u>	<u>2,331</u>
<b>Lease commitments</b>		
Commitments in relation to non-cancellable operating leases for office equipment and rental for premises contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	4,948	4,003
Later than one year but not later than 5 years	16,978	12,684
Later than five years	7,844	7,790
	<u>29,770</u>	<u>24,477</u>
<b>Outsourcing commitments</b>		
Commitments under outsourcing contracts for legal services and maintenance at the reporting date but not recognised as liabilities, payable:		
Within one year	18,247	17,013
Later than one year but not later than 5 years	18,933	17,624
	<u>37,180</u>	<u>34,637</u>

All amounts shown for commitments are nominal amounts inclusive of GST.

## Note 19. Ex-gratia payments

The Commission made total ex-gratia payments of \$101,322 during the period to six former employees upon termination of employment (2010: \$29,830 to seven former employees).

## Note 20. Contingent liabilities

The organisation does not have any contingent liabilities or claims of a material nature which have not already been disclosed in these financial statements (2010 Nil).

## Note 21. Trust account

	2011 \$'000	2010 \$'000
<i>Victoria Legal Aid – Nella Buccheri</i>		
<i>Trust account statement of receipts and payments</i>		
<i>For the year ended 30 June 2011</i>		
Receipts		
Balance at beginning of year	268	202
Amounts received on behalf of clients	404	375
	672	577
Less Payments		
Amounts paid on behalf of clients	354	309
Balance at end of year	318	268
This amount is represented by:		
Cash at bank	98	125
Deposits with the Legal Practice Board	220	143
	318	268

Victoria Legal Aid as a corporate entity under the *Legal Practice Act 1996* maintains a trust account in accordance with that Act. The Trust Fund does not form part of the organisation's financial statements. It is included for information purposes only and is audited by a private accounting firm.

### Accountable officer's and chief finance and accounting officer's declaration

The attached financial statements for Victoria Legal Aid have been prepared in accordance with Standing Directions 4.2 of the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2011 and financial position of Victoria Legal Aid at 30 June 2011.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

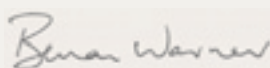
We authorise the attached financial statements for issue on 17 August 2011.



**John Howie**

**Chairperson**

17 August 2011



**Bevan Warner**  
Managing Director

**Accountable Officer**

17 August 2011



**Tony Matthews**  
Director, Business Services

**Chief Finance and Accounting Officer**

17 August 2011

# VAGO

Victorian Auditor-General's Office

## INDEPENDENT AUDITOR'S REPORT To the Board Members, Victoria Legal Aid

### *The Financial Report*

The accompanying financial report for the year ended 30 June 2011 of Victoria Legal Aid which comprises the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and certification of financial report has been audited.

### *The Board Members' Responsibility for the Financial Report*

The Board Members of the Victoria Legal Aid are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Board Members determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Independence*

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

### *Opinion*

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Victoria Legal Aid as at 30 June 2011 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*.

### *Matters Relating to the Electronic Publication of the Audited Financial Report*

This auditor's report relates to the financial report of the Victoria Legal Aid for the year ended 30 June 2011 included both in the Victoria Legal Aid's annual report and on the website. The Board Members of the Victoria Legal Aid are responsible for the integrity of the Victoria Legal Aid's website. I have not been engaged to report on the integrity of the Victoria Legal Aid's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

MELBOURNE  
25 August 2011

  
for D D R Pearson  
Auditor-General

Level 24, 35 Collins Street, Melbourne Vic. 3000

Telephone 61 3 8601 7000 Facsimile 61 3 8601 7010 Email [comments@audit.vic.gov.au](mailto:comments@audit.vic.gov.au) Website [www.audit.vic.gov.au](http://www.audit.vic.gov.au)

*Auditing in the Public Interest*