



Our ref: A20/012

5 November 2020

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Mr Dini Soulio
Commissioner for Consumer Affairs
Consumer and Business Services
GPO Box 1719
ADELAIDE SA 5001

Dear Mr Soulio

Audit of Agents Indemnity Fund for the year to 30 June 2020

We have completed the audit of your accounts for the year ended 30 June 2020. Two key outcomes from the audit are the:

- 1** Independent Auditor's Report on your agency's financial report
- 2** audit management letters.

1 Independent Auditor's Report

We are returning the financial statements for the Agents Indemnity Fund, with the Independent Auditor's Report. This report is unmodified. The *Public Finance and Audit Act 1987* allows me to publish documents on the Auditor-General's Department website. The enclosed Independent Auditor's Report and accompanying financial statements will be published on that website on Tuesday, 17 November 2020.

2 Audit management letters

As the audit did not identify any significant matters requiring management attention, we will not issue any audit management letters.

What the audit covered

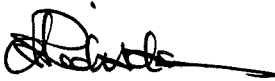
Our audits meet statutory audit responsibilities under the *Public Finance and Audit Act 1987* and the Australian Auditing Standards.

Our audit covered the principal areas of the agency's financial operations and included test reviews of systems, processes, internal controls and financial transactions. Some notable areas were:

- interest and investment revenues
- grants expenses
- compliance and administration expenses
- cash and investments.

I would like to thank the staff and management of your agency for their assistance during this year's audit.

Yours sincerely

A handwritten signature in black ink, appearing to read "Andrew Richardson", with a long horizontal flourish extending to the right.

Andrew Richardson
Auditor-General

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To the Commissioner for Consumer Affairs Consumer and Business Services, Attorney-General's Department

Opinion

I have audited the financial report of the Agents Indemnity Fund for the financial year ended 30 June 2020.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Agents Indemnity Fund as at 30 June 2020, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2020
- a Statement of Financial Position as at 30 June 2020
- a Statement of Changes in Equity for the year ended 30 June 2020
- a Statement of Cash Flows for the year ended 30 June 2020
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Commissioner for Consumer Affairs, the Executive Director Finance, People and Performance and the General Manager, Corporate Services.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of the Agents Indemnity Fund. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* have been met.

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

Responsibilities of the Commissioner for Consumer Affairs for the financial report

The Commissioner for Consumer Affairs is responsible for the preparation of the financial report that gives a true and fair view in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and the Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial report

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987*, section 41(2) of the *Land Agents Act 1994* and section 43(2) of the *Conveyancers Act 1994*, I have audited the financial report of the Agents Indemnity Fund for the financial year ended 30 June 2020.

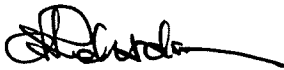
My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit 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 Agent Indemnity Fund's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Commissioner for Consumer Affairs
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Commissioner for Consumer Affairs about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.



Andrew Richardson

Auditor-General

05 November 2020

Agents Indemnity Fund

Financial Statements

For the year ended 30 June 2020

Agents Indemnity Fund
Certification of the Financial Statements
for the year ended 30 June 2020

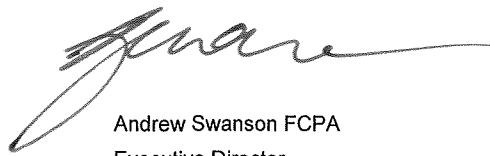
We certify that the attached draft general purpose financial statements for the Agents Indemnity Fund:

- comply with relevant Treasurer's Instructions issued under Section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of the Agents Indemnity Fund; and
- present a true and fair view of the financial position of the Agents Indemnity Fund as at 30 June 2020 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by the Agents Indemnity Fund for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period.



Dini Soulio
Commissioner
Consumer and Business Services
2 November 2020



Andrew Swanson FCPA
Executive Director
Finance, People & Performance
Attorney-General's Department
2 November 2020



Eleni Labadas
General Manager, Business Services
Consumer and Business Services
2 November 2020

Agents Indemnity Fund
Statement of Comprehensive Income
for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Income			
Interest and investment revenue	2.1	4 699	9 212
Gain on revaluation of investments	2.2	-	214
Other income	2.3	399	388
Total income		5 098	9 814
Expenses			
Loss on revaluation of investments	2.2	2 558	-
Compliance and administration	4.1	439	587
Grants and subsidies	4.4	415	611
Claims expenses	4.3	114	353
Professional expenses	4.2	106	102
Other expenses	4.5	27	20
Total expenses		3 659	1 673
Net result		1 439	8 141
Total comprehensive result		1 439	8 141

The accompanying notes form part of these financial statements. The net result and total comprehensive result are attributable to the SA Government as owner.

Agents Indemnity Fund
Statement of Financial Position
as at 30 June 2020

	Note	2020 \$'000	2019 \$'000
Current assets			
Cash and cash equivalents	5.1	10 332	8 473
Receivables	5.2	1 209	2 522
Investments	5.3	51 814	49 340
Total current assets		63 355	60 335
Non-current assets			
Investments	5.3	90 563	92 231
Total non-current assets		90 563	92 231
Total assets		153 918	152 566
Current liabilities			
Payables	6.1	87	174
Total current liabilities		87	174
Total liabilities		87	174
Net assets		153 831	152 392
Equity			
Retained earnings		153 831	152 392
Total equity		153 831	152 392

The accompanying notes form part of these financial statements. The total equity is attributable to the SA Government as owner.

Agents Indemnity Fund
Statement of Changes in Equity
for the year ended 30 June 2020

	Investments market value reserve	Retained earnings	Total equity
	\$'000	\$'000	\$'000
Balance at 1 July 2018	4 150	140 101	144 251
Changes in accounting policy on adoption of AASB 9	(4 150)	4 150	-
Restated balance at 1 July 2018	-	144 251	144 251
Net result for 2018-19	-	8 141	8 141
Total comprehensive result for 2018-19	-	8 141	8 141
Balance at 30 June 2019	-	152 392	152 392
Net result for 2019-20	-	1 439	1 439
Total comprehensive result for 2019-20	-	1 439	1 439
Balance at 30 June 2020	-	153 831	153 831

The accompanying notes form part of these financial statements. All changes in equity are attributable to the SA Government as owner.

Agents Indemnity Fund
Statement of Cash Flows
for the year ended 30 June 2020

		2020	2019
		(Outflows)	(Outflows)
		Inflows	Inflows
	Note	\$'000	\$'000
Cash flows from operating activities			
Cash inflows			
Interest receipts		3 045	5 115
Other receipts		2	6
Cash generated from operations		<u>3 047</u>	<u>5 121</u>
Cash outflows			
Compliance and administration		(371)	(587)
Grants and subsidies		(568)	(597)
Claims		(114)	(350)
Professional costs		(106)	(95)
Other payments		(29)	(18)
Cash used in operations		<u>(1 188)</u>	<u>(1 647)</u>
Net cash provided by / (used in) operating activities	7.1	<u>1 859</u>	<u>3 474</u>
Net increase / (decrease) in cash and cash equivalents		<u>1 859</u>	<u>3 474</u>
Cash and cash equivalents at the beginning of the period		8 473	4 999
Cash and cash equivalents at the end of the period	5.1	<u>10 332</u>	<u>8 473</u>

The accompanying notes form part of these financial statements.

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

NOTES TO THE FINANCIAL STATEMENTS

1.	About the Agents Indemnity Fund	8
1.1.	Basis of preparation.....	8
1.2.	Objectives and programs.....	8
1.3.	Significant transactions with government related entities.....	9
1.4.	Impact of COVID-19 pandemic on the Fund	9
2.	Income	10
2.1.	Interest and Investment revenue	10
2.2.	Gain/(loss) on revaluation of investments	10
2.3.	Other income	10
3.	Board, committees and employees	11
3.1.	Key management personnel.....	11
4.	Expenses	12
4.1.	Compliance and administration	12
4.2.	Professional expenses.....	12
4.3.	Claims	12
4.4.	Grants and subsidies	12
4.5.	Other expenses	13
5.	Financial assets	14
5.1.	Cash and cash equivalents.....	14
5.2.	Receivables	14
5.3.	Investments	15
6.	Liabilities	16
6.1.	Payables	16
7.	Other disclosures	17
7.1.	Cash flow reconciliation	17
8.	Changes in accounting policy	18
8.1.	AASB 16 Leases.....	18
8.2.	AASB 15 Revenue from Contracts with Customers	18
8.3.	AASB 1058 Income of Not-for-Profit Entities.....	18
8.4.	Presentation of Financial Statements.....	18
9.	Outlook	19
9.1.	Unrecognised contractual commitments	19
9.2.	Contingent assets and liabilities	19
9.3.	Impact of standards and statements not yet effective	19
9.4.	COVID-19 pandemic outlook for the Fund	19
9.5.	Events after reporting period	19
10.	Measurement and risk	20
10.1.	Fair value	20
10.2.	Financial instruments.....	20

Agents Indemnity Fund

Notes to and forming part of the financial statements

for the year ended 30 June 2020

1. About the Agents Indemnity Fund

The Agents Indemnity Fund (the Fund) is established under section 29(1) of the *Land Agents Act 1994* and section 31(1) of the *Conveyancers Act 1994*, and is a not-for-profit entity. The financial statements are required by section 41(2) of the *Land Agents Act 1994* and section 43(2) of the *Conveyancers Act 1994*, and include income, expenses, assets and liabilities which the Commissioner for Consumer Affairs (the Commissioner) administers on behalf of the SA Government.

The Fund does not control any other entity and has no interest in unconsolidated structured entities.

1.1. Basis of preparation

The financial statements are general purpose financial statements prepared in compliance with:

- section 23 of the *Public Finance and Audit Act 1987*;
- Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the *Public Finance and Audit Act 1987*; and
- relevant Australian Accounting Standards.

For the 2019-20 financial statements the Fund adopted *AASB 15 – Revenue from Contracts with Customers* and *AASB 1058 – Income of Not-for-Profit Entities*. Further information is provided in note 8.

The financial statements are prepared based on a 12 month reporting period and presented in Australian currency. The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured.

The Commissioner is liable for goods and services tax (GST). GST collections and payments are carried out by the Attorney-General's Department (AGD) on behalf of the Fund. GST in relation to the Fund is reported in the AGD Controlled Financial Statements.

Income, expenses, assets, receivables and liabilities are recognised net of the amount of GST.

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

Where asset and liability line items combine amounts expected to be realised within 12 months and more than 12 months, the Fund has separately disclosed the amounts expected to be recovered or settled after more than 12 months.

1.2. Objectives and programs

The Fund is regulated by the *Land Agents Act 1994* (the Act) and the *Conveyancers Act 1994* and is administered by the Commissioner for Consumer Affairs. It exists to provide compensation for persons who have suffered financial loss as a result of fiduciary default of a land agent or conveyancer and who have no reasonable prospect of recovering the full amount of that loss other than from the Fund.

The Fund's main sources of income are from interest paid to the Fund from Land Agents and Conveyancers trust accounts and interest and distributions derived from the investment of Fund assets in accordance with section 29(2) of the *Land Agents Act 1994*.

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

1.3. Significant transactions with government related entities

There were no significant transactions with government related entities in 2019-20.

1.4. Impact of COVID-19 pandemic on the Fund

The COVID-19 pandemic has impacted on the operations of the Fund and the impacts are included under the relevant disclosure notes. The key impacts in 2019-20 were:

- A reduction in investment income and a loss on revaluation of investments compared to the 2018-19 financial year due to the performance of financial markets.
- A \$196 000 reduction in Grant payments to providers due to planned industry education sessions being cancelled.

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

2. Income

2.1. Interest and Investment revenue

	2020	2019
	\$'000	\$'000
Interest from Agents & Conveyancers Trust Accounts	2 468	4 915
Distributions from investments held with Public Trustee	1 664	3 257
Interest on investments held with Public Trustee	520	952
Interest from the Department of Treasury and Finance	47	88
Total interest and investment revenue	4 699	9 212

2.2. Gain/(loss) on revaluation of investments

	2020	2019
	\$'000	\$'000
Net gain/(loss) on revaluation of investments	(2 558)	214
Total Net gain/(loss) on revaluation of investments	(2 558)	214

2.3. Other income

	2020	2019
	\$'000	\$'000
Management fee recovery	397	382
Sundry recoveries	2	6
Total other income	399	388

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

3. Board, committees and employees

3.1. Key management personnel

Key management personnel of the Fund include the Minister and the Commissioner for Consumer Affairs. The compensation received by the Commissioner is included in the controlled financial statements of AGD at note 3.1.

The Minister's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively, and are payable from the Consolidated Account (via Department of Treasury and Finance) under section 6 of the *Parliamentary Remuneration Act 1990*.

Transactions with key management personnel and other related parties

There were no transactions with key management personnel and other related parties in 2019 and 2020.

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

4. Expenses

4.1. Compliance and administration

	2020	2019
	\$'000	\$'000
Compliance and administration expenses	439	587
Total compliance and administration expenses	439	587

Compliance and administration expenses of the Fund include payments made to the AGD under section 31(2)(e) of the *Conveyancers Act 1994* and section 29(4)(e) of the *Land Agents Act 1994* as reimbursement for administering the Fund. All payments made from the Fund must meet the requirements in section 31 of the *Conveyancers Act 1994* and section 29 of the *Land Agents Act 1994*. Administration expenses include salaries and wages paid/payable to Consumer Business Services for time spent on administering the Fund.

4.2. Professional expenses

	2020	2019
	\$'000	\$'000
Legal and other professional costs	106	102
Total professional expenses	106	102

Professional costs of the Fund represent expenses associated with audits of land agent and conveyancers trust accounts.

4.3. Claims

	2020	2019
	\$'000	\$'000
Claim expenses	114	353
Total claim expenses	114	353

Claim expenses of the Fund represent compensation payments authorised to be made to persons who have suffered financial loss as a result of fiduciary default of a land agent or conveyancer and who have no reasonable prospect of recovering the full amount of that loss other than from the Fund per section 32 of the *Conveyancers Act 1994* and section 30 of the *Land Agents Act 1994*.

4.4. Grants and subsidies

	2020	2019
	\$'000	\$'000
Grants	415	611
Total grants and subsidies	415	611

For grants payable, the grant will be recognised as a liability and expense when the entity has a present obligation to pay the grant and expense recognition criteria are met.

Grants can be either for general assistance or a particular purpose and will usually be subject to terms and conditions set out in a contract, correspondence, or by legislation governing the contribution.

Under section 31(2)(f)(i) of the *Conveyancers Act 1994* and section 29(4)(f)(i) of the *Land Agents Act 1994* the Commissioner for Consumer Affairs may make payments from the Fund for prescribed education programs.

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

4.5. Other expenses

	2020	2019
	\$'000	\$'000
Other *	27	20
Total other expenses	27	20

* Audit fees paid/payable to the Auditor-General relates to work performed under the *Public Finance and Audit Act 1987*. These were \$11 000 (2019: \$11 000). No other services were provided by the Auditor-General's Department.

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

5. Financial assets

5.1. Cash and cash equivalents

	2020	2019
	\$'000	\$'000
Deposits with the Treasurer	10 332	8 473
Total cash and cash equivalents	10 332	8 473

Cash is measured at nominal value.

5.2. Receivables

	2020	2019
	\$'000	\$'000
Current		
Accrued interest and distributions	1 097	1 888
Accrued interest from Trust Accounts	112	634
Total current receivables	1 209	2 522
Total receivables	1 209	2 522

Receivables related to accrued interest on investments and distributions held with the Department of Treasury and Finance, Public Trustee and trust accounts. They are held with the objective of collecting the contractual cash flows and measured at amortised cost.

It is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. There is no concentration of credit risk. Refer to note 10.2 for further information on risk management.

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

5.3. Investments

	2020	2019
	\$'000	\$'000
Current		
Funds invested with the Public Trustee	51 814	49 340
Total current investments	<u>51 814</u>	<u>49 340</u>
Non-current		
Funds invested with the Public Trustee	90 563	92 231
Total non-current investments	<u>90 563</u>	<u>92 231</u>
Total Investments	<u><u>142 377</u></u>	<u><u>141 571</u></u>

Investments represent funds deposited with the Public Trustee. These investments have been classified as investments held at fair value through profit and loss as they are held with the intention to dispose of the asset if required to ensure sufficient cash flow to meet claims on the Fund.

Investments are made by way of notional unit holdings in a selection of common funds managed by the Public Trustee. The proportion of unit holdings is dependent upon the investment strategy adopted.

As at 30 June 2020 the Fund held investments in common funds in the following proportions:

Cash	36.87%
Balanced	33.46%
Capital Stable	29.68%

Investments are measured at fair value in accordance with unit prices at balance date as advised by the Public Trustee.

Investments are classified as either current or non-current. The current investments are the Cash Investments Strategy and the non-current investments are the Balanced and Capital Stable Investments Strategy.

Revaluation increments and decrements are recognised at fair value through profit and loss. The fair value of assets traded in active markets are based on quoted market prices for identical assets at balance date.

For further information on risk management refer to note 10.2.

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

6. Liabilities

6.1. Payables

	2020	2019
	\$'000	\$'000
Current		
Accrued expenses	87	174
Total current payables	<u>87</u>	<u>174</u>
Total payables	<u><u>87</u></u>	<u><u>174</u></u>

Interest rate and credit risk

Payables and accruals are raised for all amounts owing but unpaid. Sundry payables are normally settled within 30 days from the date the invoice is first received. All payables are non-interest bearing. The carrying amount of payables represents fair value due to their short-term nature.

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

7. Other disclosures

7.1. Cash flow reconciliation

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO is classified as part of operating cash flows.

	2020 \$'000	2019 \$'000
Reconciliation of cash and cash equivalents at the end of the reporting period		
Cash and cash equivalents disclosed in the Statement of Financial Position	10 332	8 473
Balance as per the Statement of Cash Flows	10 332	8 473
Reconciliation of net cash provided by / (used in) operating activities to net result		
Net cash provided by/(used in) operating activities	1 859	3 474
Add / (less) non-cash items		
Interest from Public Trustee investments	520	952
Distributions from Public Trustee investments	1 664	3 257
Management fee recovery	397	382
Gain/(loss) on revaluation of investments	(2 558)	214
Movement in assets and liabilities		
Increase/(decrease) in other receivables	(530)	(109)
(Increase)/decrease in payables	87	(29)
Net result	1 439	8 141

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

8. Changes in accounting policy

8.1. AASB 16 Leases

The Fund has no lease contracts and therefore is not required to adopt AASB 16 from 1 July 2019.

8.2. AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* establishes a revenue recognition model for revenue arising from contracts with customers. It requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. AASB 15 supersedes AASB 111 *Construction contracts*, AASB 118 *Revenue* and related Interpretations and applies to all revenue arising from contracts with customers.

Impact on retained earnings

There is no impact of AASB 15 *Revenue from Contracts with Customers* on the Fund.

Significant accounting policies relating to the application of AASB 15 are disclosed under relevant notes.

8.3. AASB 1058 Income of Not-for-Profit Entities

AASB 1058 *Income of Not-for-Profit Entities* establishes new income recognition requirements for not-for-profit entities. Its requirements apply where the consideration to acquire an asset, including cash, is significantly less than fair value principally to the entity to further its objectives. AASB 1058 also contains requirements for the receipt of volunteer services. AASB 1058 supersedes income recognition requirements in AASB 1004 *Contributions*, AASB 118 *Revenue* and AASB 111 *Construction Contracts*. However, elements of AASB 1004 remain in place, primarily in relation to restructures of administrative arrangements and other contributions and distributions by owners.

Accounting policies on transition

There is no impact of AASB 1058 *Income of Not-for-Profit Entities* on the Fund.

8.4. Presentation of Financial Statements

Treasurer's Instructions (Accounting Policy Statements) issued on 1 June 2020 removed the previous requirement for financial statements to be prepared using the net cost of services format. The net cost of services is the total cost of services less any revenue retained by public authorities involved in the provision of services but does not include items classified as revenues from and payments to the South Australian Government.

Presentation of the Statement of Comprehensive Income on an 'income and expense' basis allows information to be presented in such a way that eliminates potential confusion as to the source of funding for the Fund. As well as changes to the format of the Statement of Comprehensive Income, there are presentational changes to remove the net cost of services format from the Statement of Cash Flows. These statements now show income before expenses, and cash receipts before cash payments. Related disclosures also reflect this changed format.

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

9. Outlook

9.1. Unrecognised contractual commitments

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources and are disclosed at their nominal value.

The Fund has no commitments contracted for at the reporting date not recognised as liabilities.

9.2. Contingent assets and liabilities

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

The Fund has an estimated contingent obligation to pay \$1 698 000 (2019: \$558 000) relating to anticipated future claims against the Fund.

The Fund is not aware of any contingent assets at the reporting date.

9.3. Impact of standards and statements not yet effective

The Fund has assessed the impact of new and changed Australian Accounting Standards Board Standards and Interpretations not yet effective and has determined there will be no financial impact arising from them.

9.4. COVID-19 pandemic outlook for the Fund

The COVID-19 pandemic will continue to impact the operations of the Fund in 2020-21. The key expected impacts are:

- The Fund relies on investment income to offset operational expenses. While market risk is present in every financial year, it is possible that COVID-19 will continue to negatively impact the investment income and asset values of the Fund.

9.5. Events after reporting period

There are no known events after balance date that affects these financial statements.

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

10. Measurement and risk

10.1. Fair value

AASB 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

Fair value hierarchy

The Fund classifies fair value measurement using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements, based on the data and assumptions used in the most recent revaluation.

- Level 1: traded in active markets and is based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date.
- Level 2: not traded in an active market and are derived from inputs (inputs other than quoted prices included within level 1) that are observable for the asset, either directly or indirectly.
- Level 3: not traded in an active market and are derived from unobservable inputs.

Investments are held at level 2. There were no reclassifications during the year.

Measurement

Refer to Note 5.3.

10.2. Financial instruments

Financial risk management

Fund risk management policies are in accordance with the *Risk Management Policy Statement* issued by the Premier and Treasurer and the principles established in the Australian Standard *Risk Management Principles and Guidelines*.

The Fund's exposure to financial risk (liquidity risk, credit risk and market risk) is low due to the nature of the financial instruments held.

Market and credit risk

All cash balances and cash common funds held with the Public Trustee are available at call. Investments held with the Public Trustee are classified as 'fair value through profit and loss' financial assets. Net gains or losses resulting from movements in the fair value of investments are recognised through the profit and loss.

Investments represent funds held by the Public Trustee. The Public Trustee has invested in collective investment vehicles for the purpose of gaining exposure to Australian and international equities. The managers of such vehicles have invested in a variety of financial instruments which expose the Fund to investment risks, including market, credit, interest and currency risk. At reporting date funds totalling \$142.4 million were invested with the Public Trustee. Pooled investment funds are not rated for credit risk. The Public Trustee considers the credit risk of individual fund managers prior to investing funds and reviews these assessments quarterly.

Other than pooled investments, the Fund has no significant concentration of credit risk.

The Fund is exposed to price risk. Price risk represents the risk that the fair value of investments held with the Public Trustee will fluctuate due to changes in the market price for the underlying asset.

Cash is also subject to interest rate risk.

There have been no changes in risk exposure since the last reporting period.

Impairment of financial assets

The Fund considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and therefore the expected credit loss is nil.

The expected credit loss of government debtors is considered to be nil based on the external credit ratings and nature of the counterparties.

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

10.2. Financial instruments (continued)

Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset and financial liability are disclosed in the respective financial asset/ financial liability note.

Classification of financial instruments

Category of financial asset and financial liability	Note	Carrying amount / fair value \$'000	2020 Contractual maturities	
			Less than 1 year \$'000	1-5 years \$'000
Financial assets				
Cash and cash equivalents				
Cash and cash equivalents	5.1	10 332	10 332	-
Fair value through profit and loss				
Investments	5.3	142 377	51 814	90 563
Financial assets at amortised cost				
Receivables	5.2	1 209	1 209	-
Total financial assets		153 918	63 355	90 563

Financial liabilities				
Financial liabilities at amortised cost				
Payables	6.1	76	76	-
Total financial liabilities		76	76	-

Category of financial asset and financial liability	Note	Carrying amount / fair value \$'000	2019 Contractual maturities	
			Less than 1 year \$'000	1-5 years \$'000
Financial assets				
Cash and cash equivalents				
Cash and cash equivalents	5.1	8 473	8 473	-
Fair value through profit and loss				
Investments	5.3	141 571	49 340	92 231
Financial assets at amortised cost				
Receivables	5.2	2 517	2 517	-
Total financial assets		152 561	60 330	92 231

Financial liabilities				
Financial liabilities at amortised cost				
Payables	6.1	163	163	-
Total financial liabilities		163	163	-

Agents Indemnity Fund
Notes to and forming part of the financial statements
for the year ended 30 June 2020

10.2. Financial Instruments (continued)

Receivables and payables

The receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables (e.g. Commonwealth, State and Local Government taxes, fees and charges; Auditor-General's Department audit fees). In government, certain rights to receive or pay cash may not be contractual and therefore, in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levies, tax and equivalents, they would be excluded from the disclosure. The standard defines contract as enforceable by law. All amounts recorded are carried at cost.