Finances

Our financial information

Motor Accident Insurance Commission

Financial statements 2017-18

These financial statements cover the Motor Accident Insurance Commission (MAIC).

MAIC is an independent statutory body established under the *Motor Accident Insurance Act 1994*.

The head office and principal place of business of MAIC is:

Level 26, 1 William Street
GPO Box 2203
Brisbane, Queensland 4000

A description of the nature of MAIC's operations and its principal activities is included in the notes to the financial statements.
For information in relation to MAIC's financial report call 1300 302 568, email maic@maic.qld.gov.au or visit MAIC's website www.maic.qld.gov.au.

Nominal Defendant

Financial statements 2017-18

These financial statements cover the Nominal Defendant.

The Nominal Defendant is an independent statutory body established under the *Motor Accident Insurance Act 1994*.

The head office and principal place of business is:

Level 26, 1 William Street
GPO Box 2203
Brisbane, Queensland 4000

A description of the nature of the Nominal Defendant's operations and its principal activities is included in the notes to the financial statements.

For information in relation to the Nominal Defendant's financial report please call 07 3035 6321, email nd@maic.qld.gov.au or visit the Nominal Defendant's website www.maic.qld.gov.au.

Motor Accident Insurance Commission financial summary 2017-18

The operating surplus of MAIC for the year ended 30 June 2018 is $6.57 million. The major drivers for the $4.37 million decrease in operating surplus were the reduction in returns on financial assets and increase in grants expense.

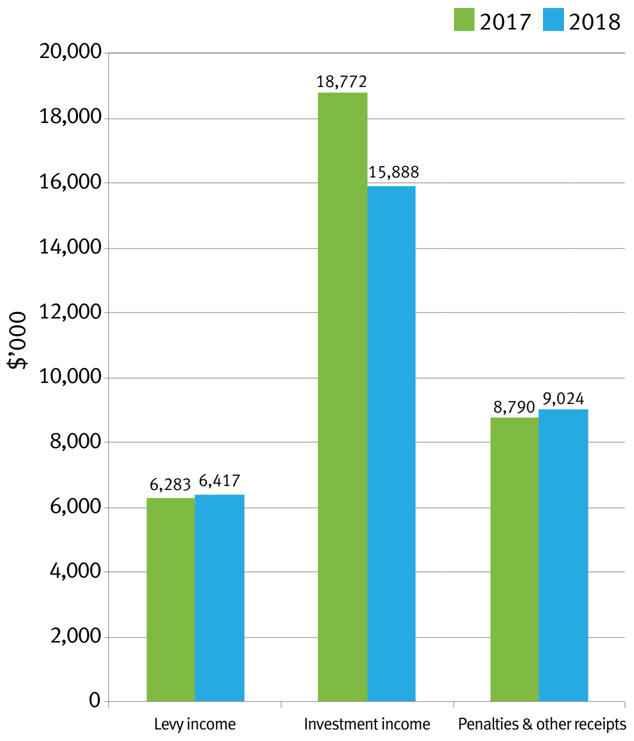
The lower return on investments held with QIC of $15.89 million versus prior year's $18.77 million was due to the uncertainty in the global equity markets during the year.

The Statutory Insurance Scheme Levy per vehicle remained unchanged from 1 July 2017 at $1.50 per annum. Penalty fines and other receipts rose by $0.23 million to $9.02 million due to increase in other revenue of $0.35 million which relates to return of surplus grant funds.

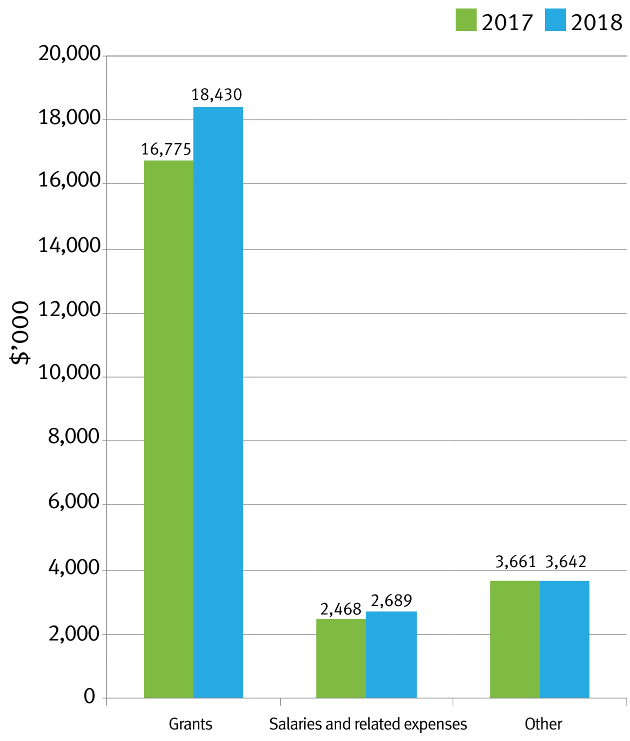
MAIC's total expenses for the year was $24.76 million (prior year $22.90 million). MAIC's largest expense item relates to the continued funding of research programs to seek to reduce the incidence and mitigate the effects of road trauma. The increase in grants expense of $1.66 million was due to additional funding for road trauma mitigation research. Details of the grant funding are provided in Appendix 5.

MAIC's other operating expenditure reduced slightly by $0.02 million to $3.64 million.

Income



Expenses



Motor Accident Insurance Commission financial statements 2017-18

Statement of comprehensive income

for the year ended 30 June 2018

	Note	2018 Actual $'000	2018 Original Budget $'000	* Budget Variance $'000	2017 Actual $'000
Income					
Levy	3	6,417	6,312	105	6,283
Penalties	4	7,785	7,000	785	7,707
User charges		542	-	542	733
Other revenue		697	-	697	350
Total revenue		**15,441**	**13,312**	**2,129**	**15,073**
Net fair value gains on other financial assets		15,888	10,562	5,326	18,772
Total income		**31,329**	**23,874**	**7,455**	**33,845**
Expenses					
Grants	5	18,430	17,000	1,430	16,775
Employee expenses	6	2,689	2,758	(69)	2,468
Supplies and services	7	3,595	4,066	(471)	3,611
Other expenses	8	47	50	(3)	50
Total expenses		**24,761**	**23,874**	**887**	**22,904**
Total other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive income		**6,568**	**-**	**6,568**	**10,941**

** An explanation of major variances is included in Note 15.*

Statement of financial position

as at 30 June 2018

	Note	2018 Actual $'000	2018 Original Budget $'000	* Budget Variance $'000	2017 Actual $'000
Current assets					
Cash and cash equivalents		2,372	2,568	(196)	3,342
Receivables	9	1,029	399	630	773
Other financial assets	11&12	163	28,208	(28,045)	160
Total current assets		**3,564**	**31,175**	**(27,611)**	**4,275**
Non-current assets					
Other financial assets	11&12	181,379	143,455	37,924	174,082
Total non-current assets		**181,379**	**143,455**	**37,924**	**174,082**
Total assets		**184,943**	**174,630**	**10,313**	**178,357**
Current liabilities					
Payables	10	486	320	166	554
Accrued employee benefits		129	108	21	100
Total current liabilities		**615**	**428**	**187**	**654**
Non-current liabilities					
Payables		99	-	99	42
Total non-current liabilities		**99**	**-**	**99**	**42**
Total liabilities		**714**	**428**	**286**	**696**
Net assets		**184,229**	**174,202**	**10,027**	**177,661**
Equity					
Contributed equity		57,818	57,818	-	57,818
Accumulated surplus		126,411	116,384	10,027	119,843
Total equity		**184,229**	**174,202**	**10,027**	**177,661**

** An explanation of major variances is included in Note 15.*

The accompanying notes form part of these statements.

Statement of changes in equity

for the year ended 30 June 2018

	Accumulated surplus	Contributed equity	Total equity
	$'000	$'000	$'000
Balance as at 1 July 2016	108,902	57,818	166,720
Operating result	10,941	-	10,941
Balance as at 30 June 2017	**119,843**	**57,818**	**177,661**
Balance as at 1 July 2017	119,843	57,818	177,661
Operating result	6,568	-	6,568
Balance as at 30 June 2018	**126,411**	**57,818**	**184,229**

The accompanying notes form part of these statements.

Statement of cash flows

for the year ended 30 June 2018

	Note	2018 Actual $'000	2018 Original Budget $'000	Budget Variance $'000	2017 Actual $'000
Cash flows from operating activities					
Inflows:					
Levy		6,407	6,312	95	6,242
Penalties		7,800	7,000	800	7,582
User charges		542	2	540	741
GST input tax credits from ATO		1,593	-	1,593	1,612
GST collected from customers		123	-	123	99
Other revenue		694	-	694	360
Outflows:					
Grants		(18,341)	(17,000)	(1,341)	(16,749)
Employee expenses		(2,686)	(2,756)	70	(2,463)
Supplies and services		(3,078)	(3,524)	446	(2,821)
GST remitted to ATO		(128)	-	(128)	(81)
GST paid to suppliers		(1,841)	-	(1,841)	(1,694)
Other expenses		(55)	(50)	(5)	(54)
Net cash (used in) / provided by operating activities	CF-1	**(8,970)**	**(10,016)**	**1,046**	**(7,226)**
Cash flows from investing activities					
Inflow:					
Proceeds from sale of other financial assets		12,500	10,016	2,484	13,500
Outflow:					
Payments for other financial assets		(4,500)	-	(4,500)	(5,500)
Net cash provided by / (used in) investing activities		**8,000**	**10,016**	**(2,016)**	**8,000**
Net increase / (decrease) in cash		**(970)**	-	**(970)**	**774**
Cash and cash equivalents at beginning of financial year		3,342	2,568	774	2,568
Cash and cash equivalents at end of financial year		**2,372**	**2,568**	**(196)**	**3,342**

** An explanation of major variances is included in Note 15.*

The accompanying notes form part of these statements.

Cash represents cash at bank and cheques receipted but not banked at 30 June.

Note to the statement of cash flows

for the year ended 30 June 2018

CF-1 Reconciliation of operating result to net cash provided by operating activities

	2018	2017
	$'000	$'000
Operating result	6,568	10,941
Non-cash items included in operating result:		
Net fair value gains on other financial assets	(15,300)	(18,223)
Change in assets and liabilities:		
(Increase)/decrease in prepayments	-	28
(Increase)/decrease in receivables	(256)	(251)
Increase/(decrease) in current payables	(68)	241
Increase/(decrease) in non-current payables	57	42
Increase/(decrease) in accrued employee benefits	29	(4)
Net cash (used in) operating activities	**(8,970)**	**(7,226)**

Non-cash movements in net fair value gain on other financial assets are disclosed in the above reconciliation net of management fees. Cash flows are included in the Statement of Cash Flows on a net basis with the GST components of the cash flows shown as separate line items. The GST components of cash flows arising from investing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

1. BASIS OF FINANCIAL STATEMENT PREPARATION

(a) General information

The Motor Accident Insurance Commission (MAIC) is an independent statutory body reporting to the Treasurer and established under the *Motor Accident Insurance Act 1994* (the Act) which commenced operations on 1 September 1994.

The head office and principal place of business of MAIC is Level 26, 1 William St, Brisbane, QLD 4000.

(b) Compliance with prescribed requirements

MAIC is a not-for-profit entity and these general purpose financial statements are prepared on an accrual basis, except for the statement of cash flows, in accordance with:

- section 43(1) of the *Financial and Performance Management Standard 2009*
- applicable Australian Accounting Standards and Interpretations
- Queensland Treasury's Minimum Reporting Requirements for reporting periods beginning on or after 1 July 2017.

The financial statements have been prepared on a historical cost basis, except for other financial assets which are shown at fair value.

(c) Currency and rounding

Amounts included in the financial statements are in Australian dollars and have been rounded to the nearest $1,000 or, where that amount is $500 or less, to zero, unless disclosure of the full amount is specifically required.

(d) Comparatives

Comparative information reflects the audited 2016-17 financial statements except where restatement was necessary to be consistent with disclosures in the current reporting period. There have been no material restatements made to the comparative amounts.

(e) Current / non-current classification

Assets and liabilities are classified as either 'current' or 'non-current' in the Statement of Financial Position and associated notes.

Assets are classified as 'current' where their carrying amount is expected to be realised within 12 months after the reporting date. Liabilities are classified as 'current' when they are expected to be settled within 12 months after the reporting date. All other assets and liabilities are classified as 'non-current'.

Other financial assets comprising of investments managed by QIC Limited (QIC) are classified as 'current' or 'non-current' based on the relative liquidity of the investments. Investments are classified as 'current' where they are readily convertible to cash on hand at MAIC's election. Investments that are long-term and not readily convertible to cash within a short period are classified as 'non-current'.

(f) Judgements and assumptions

The preparation of financial statements necessarily requires the determination and use of certain critical accounting estimates, assumptions, and management judgements that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Such estimates, judgements and underlying assumptions are reviewed on an ongoing basis.

The area involving a higher degree of judgement is in the fair value measurement of other financial assets (refer to **Note 11**).

Notes to and forming part of the financial statements

for the year ended 30 June 2018

1. BASIS OF FINANCIAL STATEMENT PREPARATION - continued

(g) Authorisation of financial statements for issue

The financial statements are authorised for issue by the Insurance Commissioner and the Director, Finance and Procurement at the date of signing the Management Certificate.

2. OBJECTIVES OF MAIC

MAIC is responsible for regulating and ongoing management of the Queensland Compulsory Third Party (CTP) scheme and the Nominal Defendant Fund. It provides a framework for premium setting and ensures compliance with the provisions of the Act. It also conducts research in motor accident prevention and rehabilitation.

3. LEVY INCOME

Levy income consists of Statutory Insurance Scheme (SIS) levy received to fund the estimated operating costs of administering the Act and also provides funding for research into accident prevention and injury mitigation.

Levies are recognised at the time they are legally payable by the Department of Transport and Main Roads (DTMR) to MAIC under section 27 of the Act. This occurs at the time the levies are paid by motorists to DTMR.

The SIS levy rate is fixed each year by regulation in accordance with section 14A(1) of the Act.

4. PENALTIES

Penalties are recognised at the time they are legally payable by DTMR and Queensland Treasury (State Penalties Enforcement Registry) to MAIC for penalties issued under s.20 of the Act. This occurs at the time of receipt of monies from uninsured motorists.

5. GRANTS

	2018 $'000	2017 $'000
Road trauma mitigation research	8,066	4,150
Rehabilitation initiatives research	7,179	7,985
Strategic accident prevention research	3,184	4,532
Other	1	108
Total	**18,430**	**16,775**

The payment of the above grants is dependent on the grantee organisation satisfying conditions as set out in the grant agreement. The expense is recognised when the terms and conditions of the grants have been satisfied.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

6. EMPLOYEE EXPENSES

	2018 $'000	2017 $'000
Employee benefits and employee related expenses		
Salaries and wages	2,064	1,923
Employer superannuation contributions	276	271
Leave levies	268	233
Employee related expenses	58	32
Other employee benefits	23	9
Total	**2,689**	**2,468**

The number of employees as at 30 June, including both full-time employees and part-time employees, measured on a full-time equivalent basis (reflecting Minimum Obligatory Human Resource Information) is 24 (2017: 21).

Wages, salaries and sick leave

Wages and salaries are recognised as an expense when services are performed.
Wages and salaries due but unpaid at reporting date are recognised at the current remuneration rates as these liabilities are expected to be wholly settled within 12 months of reporting date and as such are undiscounted. Sick leave is non-vesting and an expense is recognised when the leave is taken.

Annual and long service leave

No provision is recognised for liabilities in relation to annual and long service leave as the liability is held on a whole-of-government basis and reported in those financial statements pursuant to AASB 1049 *Whole of Government and General Government Sector Financial Reporting.*

Under the Queensland Government's Long Service Leave Scheme, a levy is made on MAIC to cover the cost of employees' long service leave. The levies are expensed in the period in which they are payable.

Superannuation

Employer superannuation contributions are paid to QSuper, the superannuation scheme for Queensland Government employees, at rates determined by the Treasurer on the advice of the State Actuary. Contributions are expensed in the period in which they are paid or payable.

The QSuper scheme has defined benefit and defined contribution categories. The liability for defined benefits is held on a whole-of-government basis and reported in those financial statements pursuant to AASB1049 *Whole of Government and General Government Sector Financial Reporting.*

Key management personnel and remuneration disclosures are detailed in **Note 16**.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

7. SUPPLIES AND SERVICES

	2018 $'000	2017 $'000
Consultants and contractors	1,182	1,717
QIC management fee	550	517
Rent	485	388
Corporate services fee	455	275
Queensland Treasury Actuarial fees	390	349
IT related expenses	269	206
Supplies and consumables	88	60
Others	176	99
Total	**3,595**	**3,611**

An expense is recognised when it is incurred, usually as goods or services are received or consumed.

8. OTHER EXPENSES

	2018 $'000	2017 $'000
Queensland Audit Office - external audit fees	21	20
Insurance premiums - QGIF	26	26
Other	-	4
Total	**47**	**50**

Total audit fees quoted by the Queensland Audit Office relating to the 2017-18 financial statements are $21,100 (2017: $20,550).

9. RECEIVABLES

	2018 $'000	2017 $'000
GST receivable	378	130
Accrued penalties	352	367
Accrued SIS levy	170	159
Receivables from NIIAQ*	41	59
Accrued interest income	31	29
Leave reimbursements	56	29
Other receivables	1	-
Total	**1,029**	**773**

*The National Injury Insurance Agency, Queensland

Receivables are recognised at the amounts due at the time of or service delivery or when they are legally payable to MAIC. Penalties are recognised at the time of receipt of monies from uninsured motorists (refer to **Note 4**). Settlement of these amounts is generally required within 30 days from invoice date.

The collectability of receivables is assessed periodically with provision being made for impairment where an event occurs that would cast doubt on the collectability of the receivable.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

10. PAYABLES

	2018 $'000	2017 $'000
Accrued expenses	342	358
Trade creditors	126	176
GST payable	14	18
FBT payable	4	2
Total	**486**	**554**

11. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an investment in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price).

Financial assets carried at fair value are categorised within the following fair value hierarchy:

Level 1	unadjusted quoted prices in active markets for identical assets or liabilities the entity can access;
Level 2	inputs (other than quoted prices included within level 1) that are observable, either directly or indirectly; and
Level 3	unobservable inputs.

MAIC recognises other financial assets invested with QIC at fair value through profit and loss. The fair value is measured at market value based on closing unit prices of QIC unlisted unit trusts. Fair value gains and losses are recognised in the Statement of Comprehensive Income.

While the units in the trust have redemption prices and are able to be traded, the market would not be considered active for level 1, therefore, they are considered to be level 2. A market comparison valuation approach is used, with the units carried at redemption value as reasonably determined by the fund manager. Classification of instruments into fair value hierarchy levels is reviewed annually.

The fair value of receivables and payables is assumed to be approximately the value of the original transaction.

The carrying amount for cash assets represents the fair value.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

12. FINANCIAL RISK DISCLOSURES

(a) Categorisation of financial instruments

MAIC has the following categories of financial assets and financial liabilities:

Category	Note	2018 $'000	2017 $'000
Financial assets			
Cash and cash equivalents (FVTPL)		2,372	3,342
Receivables (amortised cost)	9	1,029	773
Other financial assets (FVTPL)		181,542	174,242
Total		**184,943**	**178,357**
Financial liabilities			
Current Payables (amortised cost)	10	486	554
Non-Current Payables (amortised cost)		99	42
Total		**585**	**596**

A financial asset is classified at fair value through profit or loss (FVTPL) if it is classified as held for trading or if so designated on acquisition. Financial assets at FVTPL are valued at fair value at balance date.

MAIC's other financial assets at FVTPL consists of investments with QIC. These assets are classified as held for trading. A financial asset is classified in this category where it is acquired for selling or repurchasing in the near term, or if on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

(b) Financial risk management

MAIC's activities expose it to a variety of financial risks – credit risk, liquidity risk and market risk.

Risk exposure is measured using a variety of methods:

Risk Exposure	Measurement Method
Credit risk	Earnings at risk
Liquidity risk	Maturity analysis
Market risk	Sensitivity analysis

Notes to and forming part of the financial statements

for the year ended 30 June 2018

12. FINANCIAL RISK DISCLOSURES - continued

(i) Credit risk

Credit risk exposure refers to the situation where MAIC may incur financial loss as a result of another party to a financial instrument failing to discharge their obligation. Credit risk arises from financial assets (cash and cash equivalents, investments held with QIC and outstanding receivables).

The carrying amount of financial assets disclosed in **Note 12(a)** represents MAIC's maximum exposure to credit risk at balance date.

MAIC seeks to reduce the exposure to credit risk in the following manner:

- invest in secure assets through QIC with regular reviews of the investment strategy through frequent communication and meetings with QIC regarding MAIC's future cash requirements and to agree the investment mandate;
- all funds owed are monitored on a timely basis and bad debts are written off as they are incurred; and
- assess credit risk exposure, including any concentrations of risk, on an ongoing basis.

Cash and cash equivalents are held with banking and financial institutions through the whole of Government banking arrangement managed by Queensland Treasury.

Receivables disclosed in **Note 9** are neither past due nor impaired, with Government entities making up the key debtor group. Receivables have been categorised as neither past due nor impaired based on an assessment of the credit quality of the debtor, having regard to historical experience, the size, nature and the credit ratings (where available) of the debtor. If MAIC determines that an amount owing by a debtor or group of debtors becomes uncollectible, that amount is recognised as a bad debt expense and written-off against receivables.

(ii) Liquidity risk

Liquidity risk refers to the situation where MAIC may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

MAIC is exposed to liquidity risk in respect of its current and non-current payables. The current and non-current classification represents the expected maturity of the payables. MAIC manages its exposure to liquidity risk by ensuring that MAIC has sufficient funds available to meet its liabilities. This is achieved by monitoring the QIC investment funds and maintaining minimum cash balances within its bank account to meet both short-term and long-term cash flow requirements.

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of currency risk, interest rate risk and other price risk.

The significant market risks to MAIC relate to its investments managed by QIC. The investment portfolio includes investments in cash, fixed interest funds, property, infrastructure, private equity, international and Australian equities, and alternative funds. The market risk of the investment portfolio comprises the risk that the unit price of the funds will change during the next reporting period (effectively price risk).

Interest rate risk also exists in relation to MAIC's cash held in interest bearing bank accounts.

Market risk is managed through regular reviews of the investment strategies with QIC and assessment of three year return forecasts.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

12. FINANCIAL RISK DISCLOSURES - continued

(c) Market risk sensitivity analysis

A sensitivity analysis has been performed assessing the impact to the profit and loss if the unit price of MAIC's investment funds change. The analysis is based on a range of reasonably possible changes to key risk variables applicable to the QIC investment funds as identified by QIC, including the RBA official cash rate, Bank of England official cash rate, ASX 200, MSCI World ex Australia Equities Index and real estate capitalisation rate.

MAIC's sensitivity to these possible changes are shown in the table below.

	2018				2017			
	Movement in variable		Impact on Profit / Equity		Movement in variable		Impact on Profit / Equity	
Investment	Low %	High %	Decrease $'000	Increase $'000	Low %	High %	Decrease $'000	Increase $'000
QIC Growth Fund	-13	12	(23,579)	21,765	-12	11	(20,890)	19,149

The unit price risk of QIC Cash Fund and the interest rate risk associated with the MAIC's cash and cash equivalents are immaterial.

13. GRANT COMMITMENTS

Commitments for grant expenditure contracted at reporting date (inclusive of non-recoverable GST input tax credits) but not recognised in the financial statements are payable as follows:

	2018 $'000	2017 $'000
Not later than one year	27,197	16,064
Later than one year and not later than five years	25,212	26,449
Total	**52,409**	**42,513**

Approval has been given to grantees in accordance with formal agreements, provided certain criteria are met.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

14. FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE

At the date of authorisation of the financial report, the expected impacts of new or amended Australian Accounting Standards issued but with future effective dates are set out below:

AASB 9 *Financial Instruments and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*
These standards will first apply to MAIC from its financial statements for 2018-19 with a 1 July 2018 transition date. These standards will change the requirements for the classification, measurement, impairment and disclosures associated with MAIC's financial assets. AASB 9 will introduce different criteria for whether financial assets can be measured at amortised cost or fair value.

MAIC has reviewed the treatment of its financial assets and liabilities against the new AASB 9 classification and measurement requirements. Based on current assessments, the following summarises the estimated impact of AASB 9:

- There will be no change to either the classification or valuation of cash and cash equivalent items.
- Assuming no significant changes to the nature of MAIC's receivables, the receivables will continue to be classified and measured at amortised cost. On adoption of AASB 9, MAIC will be required to assess and measure the lifetime expected credit losses of its receivables.
- Other financial assets invested with QIC (**Note 12)** will continue to be measured at fair value through profit and loss.
- All financial liabilities will continue to be measured at amortised cost.

Aside from a number of one-off disclosures in the 2018-19 financial statements to explain the impact of adopting AASB 9, a number of new or changed disclosure requirements will apply from that time.

AASB 16 *Leases*
This standard will first apply to MAIC from its financial statements for 2019-20. When applied, the standard supersedes AASB 117 *Leases*, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases – Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Unlike AASB 117 Leases, AASB 16 introduces a single lease accounting model for lessees. Lessees will be required to recognise a right-of-use asset (representing rights to use the underlying leased asset) and a liability (representing the obligation to make lease payments) for all leases with a term of more than 12 months, unless the underlying assets are of low value. In effect, the majority of operating leases (as defined by the current AASB 117) will be reported on the statement of financial position under AASB 16. The impact on the reported assets and liabilities would be largely in proportion to the scale of MAIC's leasing activities.

MAIC currently does not hold any property lease agreements or occupancy agreements for office accommodation. In relation to the building occupied by MAIC, the property leases are held by the Department of Housing and Public Works (DHPW) with occupancy agreements in place between DHPW and Queensland Treasury, but not with MAIC.

Based on current arrangements, it is not anticipated that the introduction of the standard will result in any significant changes to MAIC's financial statements. Any quantitative impact will be determined with reference to any whole of government direction provided.

AASB 1058 Income of Not-for-Profit Entities and AASB 15 Revenue from Contracts with Customers

These standards will become effective for the financial reporting period 2019-2020. The standards apply to certain types of revenue from customers and grants, and may change the timing of when such revenue is recognised. Based on present arrangements, MAIC does not enter into contracts for the sale of goods and services, or grants. However, if such contracts are entered into in the future, MAIC will need to follow the relevant accounting treatment specified in the new standards.

All other Australian accounting standards and interpretations with future effective dates are either not applicable to MAIC's activities, or have no material impact on MAIC.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

15. BUDGETARY REPORTING DISCLOSURES

A budget versus actual comparison and explanation of major variances has not been included for the Statement of Changes in Equity, as major variances relating to that statement have been addressed in explanations of major variances for other statements.

In accordance with AASB 1055 *Budgetary Reporting*, the budget information presented to parliament has been restated for disclosure purposes to align with the presentation and classification bases adopted for the corresponding actual information in the financial statements, to facilitate a comparison of actual outcomes against the budget.

Explanations of major variances

Statement of Comprehensive Income

Penalties	The increase in penalties and miscellaneous receipts primarily relates to higher than anticipated penalties collected during the year.
User charges	The variance in user charges relates to the provision of corporate support services to NIIAQ which was not budgeted.
Other revenue	The increase in other revenue relates to return of surplus grant funds.
Net fair value gains on other financial assets	The increase in net fair value gains on other financial assets is primarily due to higher than expected earnings on QIC investments as a result of improvements in the global equity markets.
Grants	The variance in grants payments is due to higher than anticipated investment in research activities.
Supplies and services	The decrease in supplies and services is primarily due to lower than anticipated costs associated with MAIC implementing the recommendations of the CTP scheme review.

Statement of Financial Position

Cash and cash equivalents	The cash balance is lower than projected as detailed in the Statement of Cash Flows.
Receivables	The variance is due to receipt of receivables recorded as at 30 June 2018 which were not anticipated in the 2017-18 budget.
Other financial assets (current and non-current)	The variance in other financial assets reflects an increase in the projected operating result available for investment and a reclassification from current to non-current other financial assets.
Accumulated surplus	The increase in accumulated surplus reflects higher than anticipated operating result in 2017-18.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

15. BUDGETARY REPORTING DISCLOSURES - continued

Statement of Cash Flows

Penalties	The increase in penalties and miscellaneous receipts primarily relates to higher than anticipated penalties collected during the year.
User charges	The variance in user charges relates to the provision of corporate support services to NIIAQ which was not budgeted.
GST input tax credits from ATO	The variance is due to the amount of input tax credits paid by the Australian Taxation Office (ATO) for supplier invoices processed which was not budgeted.
Other revenue	The increase in other revenue relates to return of surplus grant funds.
Grants	The variance in grants payments is due to higher than anticipated investment in research activities.
Supplies and services	The decrease in supplies and services is primarily due to lower than anticipated costs associated with MAIC implementing the recommendations of the CTP scheme review.
GST paid to suppliers	The variance is due to the amount of GST paid for supplier invoices processed which was not budgeted.
Proceeds from and Payments for other financial assets	The variances in cash flows from investing activities reflect QIC cash investments and drawdowns performed during the year to meet MAIC's cash flow requirements.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

16. KEY MANAGEMENT PERSONNEL AND REMUNERATION

Details of key management personnel

The following details for key management personnel (KMP) include those positions that had authority and responsibility for planning, directing and controlling the activities of MAIC during 2017-18. Further information on these positions can be found in the body of the Annual Report under the section relating to Executive Management.

Position	Responsibilities
Insurance Commissioner	Leads the efficient, effective and economic administration of MAIC.
General Manager MAIC (from 8 January 2018)	Leads and manages the strategies, policies and performance with respect to the regulation of the CTP scheme and Nominal Defendant claims unit.
Director Finance and Procurement	Responsible for the efficient, effective and economic financial administration and procurement of MAIC.
Director Business Solutions	Responsible for the efficient and effective information systems and reporting.
Director Strategic Planning & Business Performance	Responsible for efficient and effective strategic planning and business reporting systems, robust policy advice and communication systems.
Director CTP Scheme Claims (to 7 January 2018)	Responsible for the Nominal Defendant claims management operation and licensed insurer claims management monitoring.

Remuneration policies

Remuneration policy for MAIC's KMP is set by the Queensland Public Service Commission as provided for under the *Public Service Act 2008*. The remuneration and other terms of employment (including motor vehicle entitlements) for the KMP are specified in employment contracts.

Remuneration expenses for KMP comprise the following components:

- Short term employee expenses which include:
  - Salaries, allowances and leave entitlements earned and expensed for the entire year, or for that part of the year during which the employee occupied the specified position.
  - Non-monetary benefits - consisting of provision of vehicle together with fringe benefits tax applicable to the benefit.
- Long term employee expenses include amounts expensed in respect of long service leave entitlements earned.
- Post-employment expenses include amounts expensed in respect of employer superannuation obligations.
- Termination benefits are not provided for within individual contracts of employment. Contracts of employment provide only for notice periods or payment in lieu of notice on termination, regardless of the reason for termination.

KMP remuneration expense

The following disclosures represent total remuneration in connection with the management of MAIC, the Nominal Defendant, the Queensland Government Insurance Fund and the National Injury Insurance Agency, Queensland. The remuneration has been allocated in the Statement of Comprehensive Income in accordance with services provided between the entities.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

16. KEY MANAGEMENT PERSONNEL AND REMUNERATION - continued

1 July 2017 to 30 June 2018

Position	Short term employee expenses		Long term employee expenses $'000	Post employment expenses $'000	Termination benefits $'000	Total expenses $'000
	Monetary expenses $'000	Non-monetary expenses $'000				
Insurance Commissioner	237	-	5	26	-	268
General Manager MAIC (from 8 January 2018)	97	-	2	9	-	108
Director Finance and Procurement	141	-	3	18	-	162
Director Business Solutions	116	-	2	14	-	132
Director Strategic Planning & Business Performance	119	-	3	15	-	137
Director CTP Scheme Claims (to 7 January 2018)	72	-	2	9	-	83

1 July 2016 to 30 June 2017

Position	Short term employee expenses		Long term employee expenses $'000	Post employment expenses $'000	Termination benefits $'000	Total expenses $'000
	Monetary expenses $'000	Non-monetary expenses $'000				
Insurance Commissioner	230	-	4	25	-	259
Director Finance and Procurement	147	-	3	17	-	167
Director Business Solutions	109	-	2	14	-	125
Director Strategic Planning & Business Performance	109	-	2	14	-	125
Director CTP Scheme Claims	133	-	3	16	-	152

Notes to and forming part of the financial statements

for the year ended 30 June 2018

17. RELATED PARTY TRANSACTIONS

Transactions with people/entities related to KMP

During the financial year there were no transactions with people or entities related to KMPs of MAIC.

Transactions with other Queensland Government-controlled entities

MAIC received user charges revenue for the provision of corporate support services to assist with the operation of The National Injury Insurance Agency, Queensland as disclosed in the Statement of Comprehensive Income.

MAIC provided grant funding to Queensland Police Service (QPS) and Department of Transport and Main Roads (DTMR) to support targeted research and service delivery initiatives as a means of reducing the number of crashes on Queensland roads and the associated number of claims to the Queensland CTP scheme (**Note 5**).

MAIC provided grant funding to Hospital and Health Services Metro South for funding of the Transitional Rehabilitation Service (TRS) which will provide community based rehabilitation for people with a traumatic brain injury including NIIAQ participants (**Note 5**).

MAIC received corporate support and actuarial services from Queensland Treasury, and incurred management fees from QIC for the management of the QIC unlisted unit trusts. MAIC also transacted with the Department of Housing and Public Works for office accommodation costs. These supplies and services are disclosed in **Note 7**.

18. AGENCY TRANSACTIONS

MAIC receives Hospital and Emergency Services Levy amounts from the DTMR on gross insurance premiums on behalf of Queensland Health (QH), the Public Safety Business Agency (PSBA), the Queensland Fire and Emergency Services (QFES) and National Injury Insurance Agency Queensland (NIIAQ). Details of amounts collected and administered during the year and the amount held on behalf of these agencies at 30 June are as follows:

Type of Levy	Levies collected from DTMR		Contributions paid to QH, PSBA, QFES & NIIAQ		Outstanding levies for remittance to QH, PSBA, QFES & NIIAQ	
	2018	2017	2018	2017	2018	2017
	$'000	$'000	$'000	$'000	$'000	$'000
Levies collected but not remitted in the previous year	7,322	7,166	-	-	-	-
Hospital levy	72,050	76,164	(74,004)	(76,016)	5,002	6,956
Emergency Services levy - PSBA	2,790	2,880	(2,865)	(2,651)	193	268
Emergency Services levy - QFES	1,002	1,128	(1,030)	(1,349)	70	98
NIIAQ levy	-	49,882	-	(49,882)	-	-
Total	**83,164**	**137,220**	**(77,899)**	**(129,898)**	**5,265**	**7,322**

Notes to and forming part of the financial statements

for the year ended 30 June 2018

18. AGENCY TRANSACTIONS - continued

Levies collected on behalf of QH, PSBA, QFES and NIIAQ during the current year have not been included as revenue in the Statement of Comprehensive Income as these amounts are not controlled. Similarly, remittances made to these agencies have not been included as expenses.

19. TAXATION

MAIC is a statutory body as defined under the *Income Tax Assessment Act 1936* and is exempt from Commonwealth taxation with the exception of Fringe Benefits Tax (FBT) and Goods and Services Tax (GST). FBT and GST are the only taxes accounted for by MAIC. GST credits receivable from, and GST payable to the ATO, are recognised in the Statement of Financial Position (refer to **Note 9**).

20. FIRST YEAR APPLICATION OF NEW ACCOUNTING STANDARDS OR CHANGE IN ACCOUNTING POLICY

MAIC did not voluntarily change any of its accounting policies or early adopt Australian Accounting Standards during 2017-18. There were no Australian Accounting Standards that became effective for the first time in 2017-18 that materially impacted on this financial report.

Management certificate

These general purpose financial statements have been prepared pursuant to section 62(1) of the *Financial Accountability Act 2009* (the Act), section 43 of the *Financial and Performance Management Standard 2009* and other prescribed requirements. In accordance with section 62(1)(b) of the Act we certify that in our opinion:

a) the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and

b) the statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the Motor Accident Insurance Commission (MAIC) for the financial year ended 30 June 2018 and of the financial position of MAIC at the end of that year; and

c) these assertions are based on an appropriate system of internal controls and risk management processes being effective, in all material respects, with respect to financial reporting throughout the reporting period.

L LEE
B.Com, CA
Director Finance and Procurement
30 August 2018

N SINGLETON
B.Bus (Insurance), MBA
Insurance Commissioner
30 August 2018

Independent auditor's report

To the Insurance Commissioner

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Motor Accident Insurance Commission.

In my opinion, the financial report:

a) gives a true and fair view of the entity's financial position as at 30 June 2018, and its financial performance and cash flows for the year then ended

b) complies with the *Financial Accountability Act 2009*, the *Financial and Performance Management Standard 2009* and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the management certificate.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the 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 entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*.

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

Responsibilities of the Insurance Commissioner for the financial report

The Insurance Commissioner is responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2009 and Australian Accounting Standards, and for such internal control as the Insurance Commissioner determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The Insurance Commissioner is also responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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 the 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 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 the 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 expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the entity.
- Conclude on the appropriateness of the entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- 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.

I communicate with the Insurance Commissioner regarding, 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 my audit.

Report on other legal and regulatory requirements

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2018:

a) I received all the information and explanations I required.

b) In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects

31 August 2018

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

Nominal Defendant Financial Information 2017-18

Nominal Defendant financial summary 2017-18

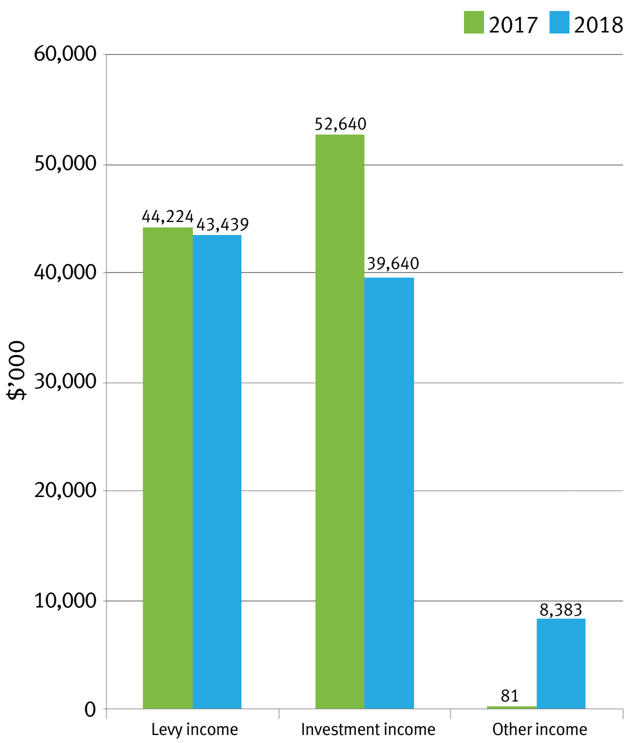
The operating surplus of the Nominal Defendant for the year ended 30 June 2018 was $74.77 million compared to the prior year's operating surplus of $77.19 million.

The decrease in operating surplus was mainly attributable to lower investment returns which was partially offset by an increase in reinsurance and other recoveries. The reduction in returns on investments held with QIC ($39.64 million compared to prior year's $52.64 million) reflects the performance of the equity markets and a change in the Nominal Defendant's investment strategy during the year. The $8.28 million increase in reinsurance and other recoveries is based on the actuarial assessment at 30 June 2018.

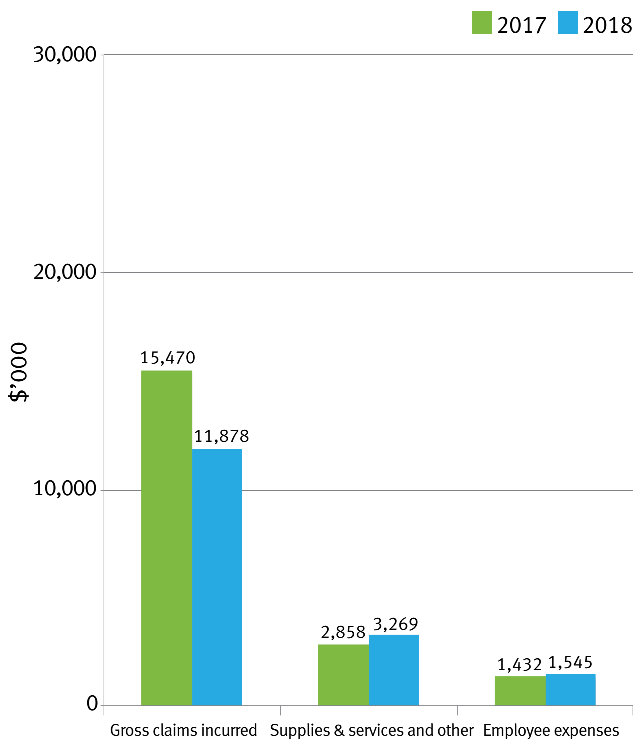
In relation to the normal business of the Nominal Defendant, claim payments were $24.33 million (prior year $17.58 million) and claim recoveries were $0.20 million (prior year $0.21 million). The gross outstanding claims liabilities were actuarially assessed at 30 June 2018 and decreased by $11.62 million to $122.39 million.

From 1 July 2017, the Nominal Defendant levy decreased by $1.00 to $10.00 per Class 1 vehicle and generated levy income of $43.44 million (prior year $44.22 million).

Income



Expenses



Nominal Defendant financial statements 2017-18

Statement of comprehensive income

for the year ended 30 June 2018

	Note	2018 Actual $'000	2018 Original Budget $'000	* Budget Variance $'000	2017 Actual $'000
Income					
Levy	3	43,439	41,642	1,797	44,224
Reinsurance and other recoveries	4	8,278	-	8,278	(6)
Other revenue		105	-	105	87
Total revenue		**51,822**	**41,642**	**10,180**	**44,305**
Net fair value gains on other financial assets		39,640	23,068	16,572	52,640
Total income		**91,462**	**64,710**	**26,752**	**96,945**
Expenses					
Gross claims incurred	4	11,878	50,941	(39,063)	15,470
Employee expenses	5	1,545	1,615	(70)	1,432
Supplies and services	6	2,698	2,376	322	2,300
Depreciation and amortisation		519	519	-	519
Other expenses	7	52	42	10	39
Total expenses		**16,692**	**55,493**	**(38,801)**	**19,760**
Total other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive income		**74,770**	**9,217**	**65,553**	**77,185**

** An explanation of major variances is included in Note 15.*

Statement of financial position

as at 30 June 2018

	Note	2018 Actual $'000	2018 Original Budget $'000	* Budget Variance $'000	2017 Actual $'000
Current assets					
Cash and cash equivalents		3,646	3,358	288	3,522
Receivables	8	1,180	364	816	1,171
Other financial assets	12 & 13	167,917	88,178	79,739	35,205
Claim recoveries	10	857	672	185	671
Total current assets		**173,600**	**92,572**	**81,028**	**40,569**
Non-current assets					
Other financial assets	12 & 13	315,161	351,284	(36,123)	394,696
Claim recoveries	10	10,268	2,693	7,575	2,425
Intangible assets	9	1,471	1,471	-	1,990
Total non-current assets		**326,900**	**355,448**	**(28,548)**	**399,111**
Total assets		**500,500**	**448,020**	**52,480**	**439,680**
Current liabilities					
Payables		212	441	(229)	162
Accrued employee benefits		67	62	5	66
Outstanding claims liability	10	38,368	39,266	(898)	30,109
Unearned levies	3	17,461	21,827	(4,366)	18,885
Total current liabilities		**56,108**	**61,596**	**(5,488)**	**49,222**
Non-current liabilities					
Payables		55	-	55	24
Outstanding claims liability	10	88,082	147,715	(59,633)	108,949
Total non-current liabilities		**88,137**	**147,715**	**(59,578)**	**108,973**
Total liabilities		**144,245**	**209,311**	**(65,066)**	**158,195**
Net assets		**356,255**	**238,709**	**117,546**	**281,485**
Equity					
Accumulated surplus	11	356,255	238,709	117,546	281,485
Total equity		**356,255**	**238,709**	**117,546**	**281,485**

** An explanation of major variances is included in Note 15.*

The accompanying notes form part of these statements.

Statement of changes in equity

for the year ended 30 June 2018

	Accumulated surplus	Contributed equity	Total equity
	$'000	$'000	$'000
Balance as at 1 July 2016	804,179	121	804,300
Operating result	77,185	-	77,185
Transfer out to other Queensland Government entity **(Note 11)**	(599,879)	(121)	(600,000)
Balance as at 30 June 2017	**281,485**	-	**281,485**
Balance as at 1 July 2017	281,485	-	281,485
Operating result	74,770	-	74,770
Balance as at 30 June 2018	**356,255**	-	**356,255**

The accompanying notes form part of these statements.

Statement of cash flows

for the year ended 30 June 2018

		2018 Actual $'000	2018 Original Budget $'000	* Budget Variance $'000	2017 Actual $'000
Cash flows from operating activities					
Inflows:					
Levy		42,038	41,642	396	44,930
Claim recoveries		249	-	249	1,816
Other revenue		96	-	96	92
GST collected from customers		440	-	440	412
Outflows:					
Gross claims incurred		(24,486)	(28,892)	4,406	(17,837)
Outwards reinsurance premium expense		-	-	-	(121)
Employee expenses		(1,544)	(1,614)	70	(1,426)
Supplies and services		(1,156)	(1,101)	(55)	(758)
GST paid to suppliers		(463)	-	(463)	(407)
Other expenses		(50)	(42)	(8)	(37)
Net cash provided by operating activities	CF-1	**15,124**	**9,993**	**5,131**	**26,664**
Cash flows from investing activities					
Inflow:					
Proceeds from sale of other financial assets		4,000	-	4,000	-
Outflow:					
Payments for other financial assets		(19,000)	(9,993)	(9,007)	(26,500)
Net cash used in investing activities		**(15,000)**	**(9,993)**	**(5,007)**	**(26,500)**
Net increase in cash and cash equivalents		**124**	**-**	**124**	**164**
Cash and cash equivalents at beginning of financial year		3,522	3,358	164	3,358
Cash and cash equivalents at end of financial year		**3,646**	**3,358**	**288**	**3,522**

** An explanation of major variances is included in Note 15.*

The accompanying notes form part of these statements.

Cash represents cash at bank and cheques receipted but not banked at 30 June.

Note to the statement of cash flows

for the year ended 30 June 2018

CF-1 Reconciliation of operating result to net cash from operating activities

	Note	2018 $'000	2017 $'000
Operating result		74,770	77,185
Non-cash items included in operating result:			
Net fair value gain on other financial assets		(38,177)	(51,069)
Depreciation and amortisation		519	519
Change in assets and liabilities:			
(Increase)/decrease in prepayments		-	9
(Increase)/decrease in receivables and claim recoveries	8,10	(8,038)	1,586
Increase/(decrease) in payables		50	(180)
Increase/(decrease) in unearned levies		(1,424)	951
Increase/(decrease) in outstanding claims liability	10	(12,608)	(2,367)
Increase/(decrease) in accrued employee benefits		1	6
Increase/(decrease) in non-current payables		31	24
Net cash provided by operating activities		**15,124**	**26,664**

Non-cash movements in net fair value gain on other financial assets are disclosed in the above reconciliation net of management fees. Cash flows are included in the Statement of Cash Flows on a net basis with the GST components of the cash flows shown as separate line items. The GST components of cash flows arising from investing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

1. BASIS OF FINANCIAL STATEMENT PREPARATION

(a) General information

The Nominal Defendant is an independent statutory body reporting to the Treasurer established under the *Motor Accident Insurance Act 1994* (the Act).

The head office and principal place of business of the Nominal Defendant is Level 26, 1 William St, Brisbane, QLD 4000.

(b) Compliance with prescribed requirements

The Nominal Defendant is a not-for-profit entity and these general purpose financial statements are prepared on an accrual basis, except for the statement of cash flows, in accordance with:

- section 43(1) of the *Financial and Performance Management Standard 2009*
- applicable Australian Accounting Standards and Interpretations
- Queensland Treasury's Minimum Reporting Requirements for reporting periods beginning on or after 1 July 2017.

The financial statements have been prepared on a historical cost basis, except for other financial assets which are shown at fair value.

(c) Currency and rounding

Amounts included in the financial statements are in Australian dollars and have been rounded to the nearest $1,000 or, where that amount is $500 or less, to zero, unless disclosure of the full amount is specifically required.

(d) Comparatives

Comparative information reflects the audited 2016-17 financial statements except where restatement was necessary to be consistent with disclosures in the current reporting period**.** There have been no material restatements made to the comparative amounts.

(e) Current / Non-current classification

Assets and liabilities are classified as either 'current' or 'non-current' in the Statement of Financial Position and associated notes.

Assets are classified as 'current' where their carrying amount is expected to be realised within 12 months after the reporting date. Liabilities are classified as 'current' when they are expected to be settled within 12 months after the reporting date. All other assets and liabilities are classified as 'non-current'.

Other financial assets comprising of investments managed by QIC Limited (QIC) are classified as 'current' or 'non-current' based on the relative liquidity of the investments. Investments are classified as 'current' where they are readily convertible to cash on hand at Nominal Defendant's election. Investments that are long-term and not readily convertible to cash within a short period are classified as 'non-current'.

(f) Judgements and assumptions

The preparation of financial statements necessarily requires the determination and use of certain critical accounting estimates, assumptions, and management judgements that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Such estimates, judgements and underlying assumptions are reviewed on an ongoing basis.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

1. BASIS OF FINANCIAL STATEMENT PREPARATION - continued

The Nominal Defendant places high reliance on actuarial estimates provided by Queensland Government State Actuary's Office (the Actuary), in calculating the recoveries on outstanding claims and the outstanding claims liability as at 30 June (**Notes 4** and **10**). Actuarial certificates issued by the Actuary for the Nominal Defendant and FAI can be found in the Appendices.

Areas requiring a higher degree of judgement and assumptions that have a significant effect are outlined in the following statement notes:

- Levy income (**Note 3**),
- Fair value measurement of other financial assets (**Note 12**), and
- Intangibles (**Note 9**).

(g) Authorisation of financial Statements for issue

The financial statements are authorised for issue by the Insurance Commissioner and the Director, Finance and Procurement at the date of signing the Management Certificate.

2. OBJECTIVES OF THE NOMINAL DEFENDANT

The Nominal Defendant acts as a Queensland Compulsory Third Party (CTP) insurer for claims arising from unidentified and uninsured vehicles and to provide continuity of protection if a licensed insurer becomes insolvent.

3. LEVY INCOME

Levy income consists of the Nominal Defendant levy received to fund the estimated costs of the Nominal Defendant scheme for the financial year and shortfalls from previous years pursuant to the Act.

Levies are recognised at the time they are legally payable by the Department of Transport and Main Roads (DTMR) in accordance with sections 27 and 29 of the Act based on a levy on gross premiums collected for CTP motor vehicle insurance policies.

The Nominal Defendant levy as set out in Part 2 of the Act is treated as "premium" in accordance with the provisions of AASB 1023.

Levy is recognised in the Statement of Comprehensive Income when it has been earned on the basis of the passage of time, commencing from the week in which motorists remit their CTP premiums to the DTMR and having regard to the term of the CTP premium. Levies received but not earned as at 30 June are recorded as unearned levies in the Statement of Financial Position and then systematically recognised as revenue in the Statement of Comprehensive Income when earned over time.

The Nominal Defendant levy rate is fixed each year by regulation in accordance with section 14A(1) of the Act.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

4. NET CLAIMS INCURRED

	2018 $'000	2017 $'000
Gross claims incurred	11,878	15,470
Reinsurance and other recoveries	(8,278)	6
Total net claims incurred	**3,600**	**15,476**

(a) Claims development

Attributable to Nominal Defendant

	2018 Current Year $'000	2018 Prior Years $'000	2018 Total $'000	2017 Current Year $'000	2017 Prior Years $'000	2017 Total $'000
Gross claims incurred and related expenses						
Undiscounted	37,344	(26,115)	11,229	44,047	(23,015)	21,032
Discount	(2,483)	3,963	1,480	(2,951)	1,046	(1,905)
Provisions made (Note 10)	34,861	(22,152)	12,709	41,096	(21,969)	19,127
Reinsurance and other recoveries						
Undiscounted	831	8,443	9,274	885	(686)	199
Discount	(56)	(973)	(1,029)	(58)	20	(38)
	775	7,470	8,245	827	(666)	161
Net claims incurred	**34,086**	**(29,622)**	**4,464**	**40,269**	**(21,303)**	**18,966**

Attributable to FAI

	2018 Current Year $'000	2018 Prior Years $'000	2018 Total $'000	2017 Current Year $'000	2017 Prior Years $'000	2017 Total $'000
Gross claims incurred and related expenses						
Undiscounted	-	(937)	(937)	-	(3,742)	(3,742)
Discount	-	106	106	-	85	85
Provisions made (Note 10)	-	(831)	(831)	-	(3,657)	(3,657)
Reinsurance and other recoveries						
Undiscounted	-	31	31	-	(176)	(176)
Discount	-	2	2	-	9	9
	-	33	33	-	(167)	(167)
Net claims incurred	**-**	**(864)**	**(864)**	**-**	**(3,490)**	**(3,490)**

	2018 Current Year $'000	2018 Prior Years $'000	2018 Total $'000	2017 Current Year $'000	2017 Prior Years $'000	2017 Total $'000
Total gross claims incurred	**34,861**	**(22,983)**	**11,878**	**41,096**	**(25,626)**	**15,470**
Total recoveries	**775**	**7,503**	**8,278**	**827**	**(833)**	**(6)**
Total net claims incurred	**34,086**	**(30,486)**	**3,600**	**40,269**	**(24,793)**	**15,476**

Current year claims relate to risks borne in the current reporting year. Prior years claims relate to a reassessment of the risks borne in all previous reporting year.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

4. NET CLAIMS INCURRED – continued

(b) Claims reconciliation

	Nominal Defendant		FAI		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Gross claims incurred and related expenses						
Claims and associated settlement costs	24,328	17,577	158	260	24,486	17,837
Movement in outstanding claims liability	(11,619)	1,550	(989)	(3,917)	(12,608)	(2,367)
Total gross claims incurred	**12,709**	**19,127**	**(831)**	**(3,657)**	**11,878**	**15,470**
Reinsurance and other recoveries						
Reinsurance and other recoveries	197	208	52	55	249	263
Movement in other recoveries receivable	8,048	(47)	(19)	(222)	8,029	(269)
Total recoveries	**8,245**	**161**	**33**	**(167)**	**8,278**	**(6)**
Net claims incurred	**4,464**	**18,966**	**(864)**	**(3,490)**	**3,600**	**15,476**

Gross claims

Gross claims comprise amounts required to be paid on behalf of those insured, and movement in amounts set aside for future claims and claims settlement costs. Claims settlement costs include costs that can be associated directly with individual claims, such as legal and professional fees.

Claims expenses are recognised in the Statement of Comprehensive Income as the costs are incurred, which is usually the point in time when the event giving rise to the claim occurs.

Reinsurance and other recoveries

Reinsurance and other recoveries on outstanding claims have been actuarially calculated as at the 30 June by the Actuary. It is recognised as revenue and a receivable in the Statement of Comprehensive Income and Statement of Financial Position for claims incurred but not yet paid and incurred but not yet reported claims, respectively.

Amounts recoverable are assessed in a manner similar to the assessment of outstanding claims liability (**Note 10**). Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the outstanding claims liability.

FAI General Insurance Company Limited (FAI)

Under the *Motor Accident Insurance Act 1994*, the Nominal Defendant is required to meet any outstanding CTP claims in the event of the insolvency of a licensed CTP insurer. Currently the Nominal Defendant has a liability to meet the outstanding claims of FAI following the insolvency of the HIH Group of companies in March 2001.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

5. EMPLOYEE EXPENSES

	2018 $'000	2017 $'000
Employee benefits and employee related expenses		
Salaries and wages	1,219	1,138
Employer superannuation contributions	163	147
Leave levies	160	139
Employee related expenses	3	6
Other employee benefits	-	2
Total	**1,545**	**1,432**

The number of employees as at 30 June, including both full-time employees and part-time employees, measured on a full-time equivalent basis (reflecting Minimum Obligatory Human Resource Information) is 14 (2017: 14).

Wages, salaries and sick leave

Salaries and wages expense is recognised in the Statement of Comprehensive Income when the services are rendered. Wages and salaries due but unpaid at reporting date are recognised at the current remuneration rates as these liabilities are expected to be wholly settled within 12 months of reporting date and as such are undiscounted.

Sick leave is non-vesting and an expense is recognised when the leave it is taken.

Annual and long service leave

Under the Queensland Government's Long Service Leave Scheme, a levy is made on the Nominal Defendant to cover the cost of employees' long service leave. The levies are expensed in the period in which they are payable.

Superannuation

Employer superannuation contributions are paid to QSuper, the superannuation scheme for Queensland Government employees, at rates determined by the Treasurer on the advice of the State Actuary. Contributions are expensed in the period in which they are paid or payable.

The QSuper scheme has defined benefit and defined contribution categories. The liability for defined benefits is held on a whole-of-government basis and reported in those financial statements pursuant to AASB1049 *Whole of Government and General Government Sector Financial Reporting.*

Key management personnel and remuneration disclosures are detailed in **Note 16**.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

6. SUPPLIES AND SERVICES

	2018 $'000	2017 $'000
QIC management fee	1,367	1,387
Consultants and contractors	541	205
Corporate services fee	245	230
Rent	243	223
IT related expense	169	142
Queensland Treasury Actuarial fees	100	92
Supplies and consumables	33	21
Total	**2,698**	**2,300**

An expense is recognised when it is incurred, usually as goods or services are received or consumed.

7. OTHER EXPENSES

	2018 $'000	2017 $'000
Queensland Audit Office - external audit fees	51	38
Insurance premiums - QGIF	1	1
Total	**52**	**39**

Total audit fees quoted by the Queensland Audit Office relating to the 2017-18 financial statements are $50,500 (2017: $37,525).

8. RECEIVABLES

	2018 $'000	2017 $'000
Accrued ND levy	1,084	1,107
GST receivable	55	32
Leave reimbursements	23	23
Accrued interest income	18	9
Total	**1,180**	**1,171**

Receivables are recognised at the amounts due at the time of service delivery or when they are legally payable to the Nominal Defendant. Settlement of these amounts is generally required within 30 days. The collectability of receivables is assessed periodically.

It is not the policy of the Nominal Defendant to recognise the debt or potential income accruing as the result of judgements granted in favour of it for legal costs and claims against uninsured owners and/or drivers. The resultant receipts are immaterial when compared to the Nominal Defendant's other sources of income and are recognised in the financial statements in the period in which they are received. The outstanding recoveries are reviewed on an ongoing basis by the Nominal Defendant.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

9. INTANGIBLES

	2018	2017
	$'000	$'000
Internally genarated software: At cost		
Gross	3,634	3,634
Less: Accumulated amortisation	(2,163)	(1,644)
Carrying amount at 30 June	**1,471**	**1,990**
Represented by movements in carrying amount:		
Carrying amount at 1 July	1,990	2,509
Amortisation	(519)	(519)
Carrying amount at 30 June	**1,471**	**1,990**

Intangible assets with a cost or other value greater than $100,000 are recognised and carried at cost less accumulated amortisation and accumulated impairment losses in the financial statements. Items with a lesser value are expensed. Each intangible asset is amortised over its estimated useful life to the Nominal Defendant. A review of asset useful life and assessment for impairment indicators is performed annually.

Expenditure on research activities relating to internally-generated intangible assets is recognised as an expense in the period in which it is incurred.

Costs associated with the development of computer software have been capitalised and are amortised on a straight-line basis over 7 years, commencing from the date the assets are available for use.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

10. NET OUTSTANDING CLAIMS

	Nominal Defendant		FAI		Total	
	2018	2017	2018	2017	2018	2017
	$'000	$'000	$'000	$'000	$'000	$'000
Gross outstanding claims	120,657	131,926	4,359	5,455	125,016	137,381
Claims settlement costs	9,753	11,584	-	-	9,753	11,584
	130,410	143,510	4,359	5,455	134,769	148,965
Discount to present value	(8,019)	(9,500)	(300)	(407)	(8,319)	(9,907)
Gross outstanding claims liability	**122,391**	**134,010**	**4,059**	**5,048**	**126,450**	**139,058**
Represented by						
Current	37,600	29,170	768	939	38,368	30,109
Non-current	84,791	104,840	3,291	4,109	88,082	108,949
Gross outstanding claims liability	**122,391**	**134,010**	**4,059**	**5,048**	**126,450**	**139,058**
Reinsurance and other recoveries	12,295	3,218	77	98	12,372	3,316
Discount to present value	(1,242)	(213)	(5)	(7)	(1,247)	(220)
Reinsurance and other recoveries	**11,053**	**3,005**	**72**	**91**	**11,125**	**3,096**
Represented by						
Current	843	654	14	17	857	671
Non-current	10,210	2,351	58	74	10,268	2,425
Reinsurance and other recoveries	**11,053**	**3,005**	**72**	**91**	**11,125**	**3,096**
Net outstanding claims	**111,338**	**131,005**	**3,987**	**4,957**	**115,325**	**135,962**
Central estimate	111,338	119,095	3,437	4,273	114,775	123,368
Risk margin	-	11,910	550	684	550	12,594
Net outstanding claims	**111,338**	**131,005**	**3,987**	**4,957**	**115,325**	**135,962**

(a) Reconciliation of movement in the discounted net outstanding claims

	Nominal Defendant		FAI		Total	
	2018	2017	2018	2017	2018	2017
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July	131,005	129,408	4,957	8,652	135,962	138,060
Prior periods					-	-
Claim payments	(23,851)	(16,751)	(106)	(205)	(23,957)	(16,956)
Claims handling expenses	(3,404)	(2,723)	-	(3)	(3,404)	(2,726)
Discount unwind	1,932	1,975	107	137	2,039	2,112
Risk margin release	(2,600)	(1,776)	(17)	(34)	(2,617)	(1,810)
Effect of changes in assumptions and experience	(25,550)	(18,779)	(954)	(3,590)	(26,504)	(22,369)
Current period					-	-
Provision for current period	33,806	39,651	-	-	33,806	39,651
Net outstanding claims	**111,338**	**131,005**	**3,987**	**4,957**	**115,325**	**135,962**
Reinsurance and other recoveries	(11,053)	(3,005)	(72)	(91)	(11,125)	(3,096)
Gross outstanding claims	**122,391**	**134,010**	**4,059**	**5,048**	**126,450**	**139,058**

The liability for outstanding claims has been actuarially calculated as at 30 June by the Actuary.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

10. NET OUTSTANDING CLAIMS – continued

Claims incurred expense and a liability for outstanding claims are recognised for claims incurred but not yet paid, incurred but not yet reported claims and anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claims files and estimating unnotified claims and settlement costs using statistics based on past experiences and trends. The liability for outstanding claims is measured as the present value of the expected future payments. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal and superimposed inflation.

(b) Actuarial assumptions

The following assumptions have been made in determining the net outstanding claims liability.

	Nominal Defendant		FAI	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Inflation rate	3.68%	4.35%	3.70%	4.30%
Discount rate	2.25%	2.20%	2.25%	2.20%
Claims handling expenses	9.00%	9.00%	0.00%	0.00%
Risk margin	0.00%	10.00%	16.00%	16.00%
Weighted average expected term to settlement	2.8 years	3.2 years	3.2 years	3.6 years

A risk margin of 16% of the net central estimate has been applied to FAI and is intended to provide an approximately 75% probability of sufficiency for the outstanding claims liability. The risk borne has not materially changed from the previous year.

The Nominal Defendant risk margin has been removed in 2017-18 to provide for greater consistency with other Government provisions and recognises AASB 137 does not require a risk margin.

(c) Impact of changes in key variables on net outstanding claims

The following table illustrates how a change in some key valuation assumptions in section (b) above affects the net outstanding claims and shows an analysis of the profit/(loss) and equity changes in these assumptions. Note that the table is illustrative only, and is not intended to cover the range of potential variations.

Attributable to the Nominal Defendant

		Financial impact			
Net outstanding claims	**Movement in variable**	**Profit/(loss) 2018 $'000**	**Equity 2018 $'000**	**Profit/(loss) 2017 $'000**	**Equity 2017 $'000**
Net outstanding claims					
Inflation rate	+1%	(3,175)	(3,175)	(4,086)	(4,086)
	-1%	3,026	3,026	3,907	3,907
Discount rate	+1%	2,639	2,639	3,795	3,795
	-1%	(2,829)	(2,829)	(4,051)	(4,051)
Claims handling expenses	+1%	(1,021)	(1,021)	(1,202)	(1,202)
	-1%	1,021	1,021	1,202	1,202
Risk margin	+1%	-	-	(1,191)	(1,191)
	-1%	-	-	1,191	1,191
Weighted average term to	+0.5 years	(904)	(904)	(1,391)	(1,391)
settlement	-0.5 years	897	897	1,377	1,377

Notes to and forming part of the financial statements

for the year ended 30 June 2018

10. NET OUTSTANDING CLAIMS – continued

Attributable to FAI						
		Financial impact				
Net outstanding claims	**Movement in variable**	**Profit/(loss) 2018 $'000**	**Equity 2018 $'000**	**Profit/(loss) 2017 $'000**	**Equity 2017 $'000**	
Net outstanding claims						
Inflation rate	+1%	(129)	(129)	(176)	(176)	
	-1%	125	125	169	169	
Discount rate	+1%	121	121	165	165	
	-1%	(127)	(127)	(175)	(175)	
Claims handling expenses	+1%	(40)	(40)	(50)	(50)	
	-1%	40	40	50	50	
Risk margin	+1%	(34)	(34)	(43)	(43)	
	-1%	34	34	43	43	
Weighted average term to	+0.5 years	(30)	(30)	(53)	(53)	
settlement	-0.5 years	30	30	53	53	

(d) Nature and extent of risks arising from claims liabilities

The Nominal Defendant ensures that it is fully funded to enable it to meet its obligations under the Act. This is facilitated by an actuarially derived levy which is incorporated in the CTP premium charged by the respective CTP policy insurers. The levy is derived by taking into consideration such factors as claim frequency, average claim size, wages, inflation, applicable discount rates, operating expenses and cost of reinsurance. The levy amount is supplemented by investment income derived from investing the levy and other income from reinsurance and non-reinsurance recoveries.

The Nominal Defendant did not enter into a contract for reinsurance cover for the 2017-18 financial year. This was based on considerations of the cost of reinsurance and the Nominal Defendant's exposure to large loss claims.

11. CONTRIBUTED EQUITY

Non-reciprocal transfers of assets and liabilities between wholly-owned Queensland State Public Sector entities as a result of machinery-of-government changes are adjusted to Contributed Equity in accordance with *Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities*. Appropriations for equity adjustments are similarly designated.

Effective 22 August 2016, the Nominal Defendant transferred $600 million to the National Injury Insurance Scheme Fund, Queensland (NIISQ Fund) as approved by the Treasurer under section 95 of the *National Injury Insurance Scheme (Queensland) Act 2016* (the Act). The Act commenced on 1 July 2016 and established the National Injury Insurance Scheme, Queensland (NIISQ), The National Injury Insurance Agency, Queensland (NIIAQ) and the NIISQ Fund.

The decrease in net assets as a result of the transfer has been accounted for as a transaction with owners as owners and decreased the contributed equity and accumulated surplus by $0.121M and $599.879M respectively at 30 June 2017 as disclosed in the Statement of Changes in Equity.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

12. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an investment in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price).

Financial assets carried at fair value are categorised within the following fair value hierarchy:

Level 1	unadjusted quoted prices in active markets for identical assets or liabilities the entity can access;
Level 2	inputs (other than quoted prices included within level 1) that are observable, either directly or indirectly; and
Level 3	unobservable input.

The Nominal Defendant recognises other financial assets invested with QIC at fair value through profit or loss. The fair value is measured at market value based on closing unit prices of QIC unlisted unit trusts. Fair value gains and losses are recognised in the Statement of Comprehensive income.

While the units in the trust have redemption prices and are able to be traded, the market would not be considered active for level 1, therefore, they are considered to be level 2. A market comparison valuation approach is used, with the units carried at redemption value as reasonably determined by the fund manager. Classification of instruments into fair value hierarchy levels is reviewed annually.

The fair value of receivables and payables is assumed to approximate the value of the original transaction.

The carrying amount for cash assets represents the fair value.

13. FINANCIAL RISK DISCLOSURES

(a) Categorisation of financial instruments

The Nominal Defendant has the following categories of financial assets and financial liabilities:

Category	Note	2018 $'000	2017 $'000
Financial assets			
Cash and cash equivalents (FVTPL)		3,646	3,522
Receivables (amortised cost)	8	1,180	1,171
Other financial assets (FVTPL)		483,078	429,901
Total		**487,904**	**434,594**
Financial liabilities			
Current Payables (amortised cost)		212	162
Non-Current Payables (amortised cost)		55	24
Total		**267**	**186**

A financial asset is classified at fair value through profit or loss (FVTPL) if it is classified as held for trading or if so designated on acquisition. Financial assets at FVTPL are valued at fair value at balance date.

Nominal Defendant's other financial assets at FVTPL consists of investments with QIC. These assets are classified as held for trading. A financial asset is classified in this category where it is acquired for selling or repurchasing in the near term, or if on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

13. FINANCIAL RISK DISCLOSURES - continued

(b) Financial risk management

The Nominal Defendant's activities expose it to a variety of financial risks – credit risk, liquidity risk and market risk.

Risk exposure is measured using a variety of methods:

Risk Exposure	Measurement Method
Credit risk	Earnings at risk
Liquidity risk	Maturity analysis
Market risk	Sensitivity analysis

(i) Credit risk

Credit risk exposure refers to the situation where the Nominal Defendant may incur financial loss as a result of another party to a financial instrument failing to discharge their obligation. Credit risk arises from financial assets (cash and cash equivalents, investments held with QIC and outstanding receivables).

The carrying amount of financial assets disclosed in **Note 13(a)** represents the Nominal Defendant's maximum exposure to credit risk at balance date.

The Nominal Defendant seeks to reduce the exposure to credit risk in the following manner:

- invest in secure assets through QIC with regular reviews of the investment strategy through frequent communication and meetings with QIC regarding Nominal Defendant's future cash requirements and to agree the investment mandate;
- all funds owed are monitored on a timely basis and bad debts are written off as they are incurred; and
- assess credit risk exposure, including any concentrations of risk, on an ongoing basis.

Cash and cash equivalents are held with banking and financial institutions through the whole of Government banking arrangement managed by Queensland Treasury.

Receivables disclosed in **Note 8** are neither past due nor impaired, with Government entities making up the key debtor group. Receivables have been categorised as neither past due nor impaired based on an assessment of the credit quality of the debtor, having regard to historical experience, the size, nature and the credit ratings (where available) of the debtor. If the Nominal Defendant determines that an amount owing by a debtor or group of debtors becomes uncollectible, that amount is recognised as a bad debt expense and written-off against receivables.

(ii) Liquidity risk

Liquidity risk refers to the situation where the Nominal Defendant may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Nominal Defendant is exposed to liquidity risk in respect of its current and non-current payables. The current and non-current classification represents the expected maturity of the payables. The Nominal Defendant manages its exposure to liquidity risk by ensuring that the Nominal Defendant has sufficient funds available to meet its liabilities. This is achieved by monitoring the QIC investment funds and maintaining minimum cash balances within its bank account to meet both short-term and long-term cash flow requirements.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

13. FINANCIAL RISK DISCLOSURES - continued

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of currency risk, interest rate risk and other price risk.

The significant market risks to the Nominal Defendant relate to its investments managed by QIC. The investment portfolio includes investments in cash, fixed interest funds, property, infrastructure, private equity, international and Australian equities, and alternative funds. The market risk of the investment portfolio comprises the risk that the unit price of the funds will change during the next reporting period (effectively price risk).

Interest rate risk also exists in relation to Nominal Defendant's cash held in interest bearing bank accounts.

Market risk is managed through regular reviews of the investment strategies with QIC and assessment of three-year return forecasts.

(c) Market risk sensitivity analysis

A sensitivity analysis has been performed assessing the impact to the profit and loss if the unit price of the Nominal Defendant's investment funds change. The analysis is based on a range of reasonably possible changes to key risk variables applicable to the QIC investment funds as identified by QIC, including the RBA official cash rate, Bank of England official cash rate, ASX 200, MSCI World ex Australia Equities Index and real estate capitalisation rate.

The Nominal Defendant's sensitivity to these possible changes are shown in the table below.

	2018				2017			
	Movement in variable		Impact on Profit / Equity		Movement in variable		Impact on Profit / Equity	
Investments	Low %	High %	Decrease $'000	Increase $'000	Low %	High %	Decrease $'000	Increase $'000
QIC Cash fund	-0.23	0.23	(107)	107	-0.25	0.25	(88)	88
QIC Australian Fixed Interest Fund	-0.29	0.29	(352)	352	-	-	-	-
QIC Growth fund	-13	12	(40,971)	37,819	-12	11	(47,364)	43,417
Total			**(41,430)**	**38,278**			**(47,452)**	**43,505**

The interest rate risk associated with the Nominal Defendant's cash and cash equivalents is immaterial.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

14. FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE

At the date of authorisation of the financial report, the expected impacts of new or amended Australian Accounting Standards issued but with future effective dates are set out below:

AASB 9 *Financial Instruments and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*

These standards will first apply to the Nominal Defendant from its financial statements for 2018-19 with a 1 July 2018 transition date. These standards will change the requirements for the classification, measurement, impairment and disclosures associated with the Nominal Defendant's financial assets. AASB 9 will introduce different criteria for whether financial assets can be measured at amortised cost or fair value.

The Nominal Defendant has reviewed the treatment of its financial assets and liabilities against the new AASB 9 classification and measurement requirements. Based on current assessments, the following summarises the estimated impact of AASB 9:

- There will be no change to either the classification or valuation of cash and cash equivalent items.
- Assuming no significant changes to the nature of the Nominal Defendant's receivables, the receivables will continue to be classified and measured at amortised cost. On adoption of AASB 9, the Nominal Defendant will be required to assess and measure the lifetime expected credit losses of its receivables.
- Other financial assets invested with QIC (**Note 13)** will continue to be measured at fair value through profit and loss.
- All financial liabilities will continue to be measured at amortised cost.

Aside from a number of one-off disclosures in the 2018-19 financial statements to explain the impact of adopting AASB 9, a number of new or changed disclosure requirements will apply from that time.

AASB 16 *Leases*

This standard will first apply to the Nominal Defendant from its financial statements for 2019-20. When applied, the standard supersedes AASB 117 *Leases*, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases – Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Unlike AASB 117 Leases, AASB 16 introduces a single lease accounting model for lessees. Lessees will be required to recognise a right-of-use asset (representing rights to use the underlying leased asset) and a liability (representing the obligation to make lease payments) for all leases with a term of more than 12 months, unless the underlying assets are of low value. In effect, the majority of operating leases (as defined by the current AASB 117) will be reported on the statement of financial position under AASB 16. The impact on the reported assets and liabilities would be largely in proportion to the scale of the Nominal Defendant's leasing activities.

The Nominal Defendant currently does not hold any property lease agreements or occupancy agreements for office accommodation. In relation to the building occupied by the Nominal Defendant, the property leases are held by the Department of Housing and Public Works (DHPW) with occupancy agreements in place between DHPW and Queensland Treasury, but not with the Nominal Defendant.

Based on current arrangements, it is not anticipated that the introduction of the standard will result in any significant changes to the Nominal Defendant's financial statements. Any quantitative impact will be determined with reference to any whole of government direction provided.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

14. FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE - continued

AASB 1058 *Income of Not-for-Profit Entities and* AASB 15 *Revenue from Contracts with Customers*

These standards will become effective for the financial reporting period 2019-2020. The standards apply to certain types of revenue from customers and grants, and may change the timing of when such revenue is recognised. Based on present arrangements, the Nominal Defendant does not enter into contracts for the sale of goods and services, or grants. However, if such contracts are entered into in the future, the Nominal Defendant will need to follow the relevant accounting treatment specified in the new standards.

All other Australian accounting standards and interpretations with future effective dates are either not applicable to the Nominal Defendant's activities, or have no material impact on the Nominal Defendant.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

15. BUDGETARY REPORTING DISCLOSURES

A budget versus actual comparison and explanation of major variances has not been included for the Statement of Changes in Equity, as major variances relating to that statement have been addressed in explanations of major variances for other statements.

In accordance with AASB 1055 *Budgetary Reporting*, the budget information presented to parliament has been restated for disclosure purposes to align with the presentation and classification bases adopted for the corresponding actual information in the financial statements, to facilitate a comparison of actual outcomes against the budget.

Explanations of major variances

Statement of Comprehensive Income

Reinsurance and other recoveries	The increase in reinsurance and other recoveries reflects the movement in claim recoveries on outstanding claims as at 30 June.
Net fair value gains on other financial assets	The increase in net fair value gains on other financial assets is primarily due to higher than expected earnings on QIC investments as a result of improvements in the global equity markets.
Gross claims incurred	The variance in gross claims incurred is a result of $34.6M lower than anticipated movement in outstanding claims liability and $4.4M lower than anticipated claims costs. The outstanding claims liability is based on actuarial assessment.
Supplies and services	The increase in supplies and services is primarily due to higher than anticipated expenditure on contractors.

Statement of Financial Position

Cash and cash equivalents	The cash balance is higher than projected as detailed in the Statement of Cash Flows.
Receivables	The variance is due to receipt of receivables recorded as at 30 June 2018 which were not anticipated in the 2017-18 budget.
Other financial assets (current and non-current)	The variance in other financial assets reflects an increase in the projected operating result available for investment and a reclassification from current to non-current other financial assets.
Claim Recoveries (current and non-current)	The variance in claim recoveries on outstanding claims reflects actuarial assessment as at 30 June 2018.
Unearned levies	The variance in unearned levies reflects the change in recognition of unearned levies which was not included in the original budget.
Outstanding claims liability	The movement in the current and non-current outstanding claims liability reflects actuarial assessment as at 30 June 2018.
Accumulated surplus	The increase in accumulated surplus reflects higher than anticipated operating result in 2017-18.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

15. BUDGETARY REPORTING DISCLOSURES - continued

Statement of Cash Flows

Gross claims incurred	The variance in gross claims incurred is a result of lower than expected claim payments as the 2017-18 budget was based on 30 June 2016 projection.
Investing activities	The variances in cash flows from investing activities reflect QIC cash investments and drawdowns performed during the year to meet ND's cash flow requirements.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

16. KEY MANAGEMENT PERSONNEL AND REMUNERATION

Details of key management personnel

The following details for key management personnel (KMP) include those positions that had authority and responsibility for planning, directing and controlling the activities of the Nominal Defendant during 2017-18. Further information on these positions can be found in the body of the Annual Report under the section relating to Executive Management.

Position	Responsibilities
Insurance Commissioner	Leads the efficient, effective and economic administration of the Nominal Defendant.
General Manager MAIC (from 8 January 2018)	Leads and manages the strategies, policies and performance with respect to the regulation of the CTP scheme and Nominal Defendant claims unit.
Director Finance and Procurement	Responsible for the efficient, effective and economic financial administration and procurement of the Nominal Defendant.
Director Business Solutions	Responsible for the efficient and effective information systems and reporting.
Director Strategic Planning & Business Performance	Responsible for efficient and effective strategic planning and business reporting systems, robust policy advice and communication systems.
Director CTP Scheme Claims (to 7 January 2018)	Responsible for the Nominal Defendant claims management operation and licensed insurer claims management monitoring.

Remuneration policies

Remuneration policy for the Nominal Defendant's KMP is set by the Queensland Public Service Commission as provided for under the *Public Service Act 2008*. The remuneration and other terms of employment (including motor vehicle entitlements) for the KMP are specified in employment contracts.

Remuneration packages for KMP comprise the following components:

- Short term employee benefits which include:
  - Salaries, allowances and leave entitlements paid and provided for the entire year, or for that part of the year during which the employee occupied the specified position.
  - Non-monetary benefits - consisting of provision of vehicle together with fringe benefits tax applicable to the benefit.
- Long term employee expenses include amounts expensed in respect of long service leave entitlements earned.
- Post-employment expenses include amounts expensed in respect of employer superannuation obligations.
- Termination benefits are not provided for within individual contracts of employment. Contracts of employment provide only for notice periods or payment in lieu of notice on termination, regardless of the reason for termination.

Notes to and forming part of the financial statements

for the year ended 30 June 2018

16. KEY MANAGEMENT PERSONNEL AND REMUNERATION – continued

KMP remuneration expense

The following disclosures represent total remuneration in connection with the management of the Nominal Defendant, the MAIC, the Queensland Government Insurance Fund and the NIIAQ. The remuneration has been allocated in the Statement of Comprehensive Income in accordance with services provided between the entities.

1 July 2017 to 30 June 2018

Position	Short term employee expenses		Long term employee expenses $'000	Post employment expenses $'000	Termination benefits $'000	Total expenses $'000
	Monetary expenses $'000	Non-monetary expenses $'000				
Insurance Commissioner	237	-	5	26	-	268
General Manager MAIC (from 8 January 2018)	97	-	2	9	-	108
Director Finance and Procurement	141	-	3	18	-	162
Director Business Solutions	116	-	2	14	-	132
Director Strategic Planning & Business Performance	119	-	3	15	-	137
Director CTP Scheme Claims (to 7 January 2018)	72	-	2	9	-	83

1 July 2016 to 30 June 2017

Position	Short term employee expenses		Long term employee expenses $'000	Post employment expenses $'000	Termination benefits $'000	Total expenses $'000
	Monetary expenses $'000	Non-monetary expenses $'000				
Insurance Commissioner	230	-	4	25	-	259
Director Finance and Procurement	147	-	3	17	-	167
Director Business Solutions	109	-	2	14	-	125
Director Strategic Planning & Business Performance	109	-	2	14	-	125
Director CTP Scheme Claims	133	-	3	16	-	152

Notes to and forming part of the financial statements

for the year ended 30 June 2018

17. RELATED PARTY TRANSACTIONS

Transactions with people/entities related to KMP

During the financial year there were no transactions with people or entities related to KMPs of ND.

Transactions with other Queensland Government-controlled entities

The Nominal Defendant received corporate support and actuarial services from Queensland Treasury, and incurred management fees from QIC for the management of the QIC unlisted unit trusts. The Nominal Defendant also transacted with the Department of Housing and Public Works for office accommodation costs. These supplies and services are disclosed in **Note 6**.

18. TAXATION

The Nominal Defendant is a statutory body as defined under the *Income Tax Assessment Act 1936* and is exempt from Commonwealth taxation with the exception of Fringe Benefits Tax (FBT) and Goods and Services Tax (GST). FBT and GST are the only taxes accounted for by the Nominal Defendant. GST credits receivable from, and GST payable to the ATO, are recognised in the Statement of Financial Position (refer to **Note 8**).

19. FIRST YEAR APPLICATION OF NEW ACCOUNTING STANDARDS OR CHANGE IN ACCOUNTING POLICY

The Nominal Defendant did not voluntarily change any of its accounting policies or early adopt Australian Accounting Standards during 2017-18. There were no Australian Accounting Standards that became effective for the first time in 2017-18 that materially impacted on this financial report.

Management certificate

These general purpose financial statements have been prepared pursuant to s.62(1) of the *Financial Accountability Act 2009* (the Act), section 43 of the *Financial and Performance Management Standard 2009* and other prescribed requirements. In accordance with s.62(1)(b) of the Act we certify that in our opinion:

a) the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and

b) the financial statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the Nominal Defendant for the financial year ended 30 June 2018 and of the financial position of the Nominal Defendant at the end of that year; and

c) these assertions are based on an appropriate system of internal controls and risk management processes being effective, in all material respects, with respect to financial reporting throughout the reporting period.

L LEE
B.Com, CA
Director Finance and Procurement
30 August 2018

N SINGLETON
B.Bus (Insurance), MBA
Insurance Commissioner
30 August 2018

Independent auditor’s report

To the Insurance Commissioner

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of Nominal Defendant.

In my opinion, the financial report:

a) gives a true and fair view of the entity's financial position as at 30 June 2018, and its financial performance and cash flows for the year then ended

b) complies with the *Financial Accountability Act 2009*, the *Financial and Performance Management Standard 2009* and Australian Accounting Standards.

The financial report comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the management certificate.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the 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 entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*.

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

Responsibilities of the Insurance Commissioner for the financial report

The Insurance Commissioner is responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2009 and Australian Accounting Standards, and for such internal control as the Insurance Commissioner determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The Insurance Commissioner is also responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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 the 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 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 the 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 expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the entity.
- Conclude on the appropriateness of the entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- 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.

I communicate with the Insurance Commissioner regarding, 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 my audit.

Report on other legal and regulatory requirements

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2018:

a) I received all the information and explanations I required.

b) In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects

31 August 2018

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane