

Settlement Agents Supervisory Board



Annual Report 2002 - 2003



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AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

SETTLEMENT AGENTS SUPERVISORY BOARD PERFORMANCE INDICATORS FOR THE YEAR ENDED JUNE 30, 2003

Audit Opinion

In my opinion, the key effectiveness and efficiency performance indicators of the Settlement Agents Supervisory Board are relevant and appropriate to help users assess the Board's performance and fairly represent the indicated performance for the year ended June 30, 2003.

Scope

The Board's Role

The Board is responsible for developing and maintaining proper records and systems for preparing performance indicators.

The performance indicators consist of key indicators of effectiveness and efficiency.

Summary of my Role

As required by the Financial Administration and Audit Act 1985, I have independently audited the performance indicators to express an opinion on them. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the performance indicators is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the performance indicators.

D D R PEARSON
AUDITOR GENERAL
November 4, 2003

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AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

SETTLEMENT AGENTS SUPERVISORY BOARD FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

Audit Opinion

In my opinion,

- (i) the controls exercised by the Settlement Agents Supervisory Board provide reasonable assurance that the receipt, expenditure and investment of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) the financial statements are based on proper accounts and present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, the financial position of the Board at June 30, 2003 and its financial performance and cash flows for the year ended on that date.

Scope

The Board's Role

The Board is responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing the financial statements, and complying with the Financial Administration and Audit Act 1985 (the Act) and other relevant written law.

The financial statements consist of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and the Notes to the Financial Statements.

Summary of my Role

As required by the Act, I have independently audited the accounts and financial statements to express an opinion on the controls and financial statements. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the financial statements is error free. The term "reasonable assurance" recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements.

D D R PEARSON
AUDITOR GENERAL
November 4, 2003

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Statement of Compliance

HON JOHN KOBELKE MLA
MINISTER FOR CONSUMER AND EMPLOYMENT PROTECTION

In accordance with section 66 of the *Financial Administration and Audit Act 1985*, we hereby submit for your information and presentation to Parliament the Annual Report of the Settlement Agents Supervisory Board for the year ending 30 June 2003.

The Report has been prepared in accordance with the provisions of the *Financial Administration and Audit Act 1985*.



David Taylor
Chair



Ms Eva Skira
Member

29 August 2003

Report from the Chair

It is with pleasure that I bring you the annual report of the Settlement Agents Supervisory Board (SASB) for the 2002-2003 year. This is the first full year that I have had the opportunity and privilege to hold the position of Chairman of SASB.

The 2002-2003 year has been one of steady improvement in our regulation of the settlement industry. Consumers can continue to feel confident that the industry is well regulated and that problems are dealt with quickly and efficiently. Consumers can also feel confident that should a problem develop with a licensed agent, their funds are safely backed by a fidelity guarantee fund and an industry wide professional indemnity and fidelity insurance master policy.

It is with the success of SASB's regulation of the settlement industry in mind that I raise SASB's concern at the outcome of the Review of Consumer Protection Boards and Committees. Implementation of the recommendations of that review will change SASB's role to that of essentially an advisory committee. If the proposals proceed, several of SASB's key functions will become the responsibility of the Department of Consumer and Employment Protection, which has a much wider range of responsibilities than SASB. The changes will also result in SASB losing its financial independence. I remain of the firm opinion that the interests of consumers in Western Australia are best served by a strong and independent board focussed entirely on settlement matters.

SASB is supportive of Government proposals to create a State Administrative Tribunal (SAT) to assume the disciplinary functions of various government boards and committees. I believe this is a good result for SASB members who, at present, must sit on often lengthy and legally complex inquiries, while also earning a living outside of SASB. The implementation of SAT will allow members to focus on other important areas, such as licensing and education. SASB is particularly keen to expand its education role so that consumers are better informed as to their rights and responsibilities, as well as to improve the mechanisms in place to ensure agents' skills and knowledge are constantly updated.

SASB's commitment to an enhanced educative role has been demonstrated in its ongoing support of the free Homebuyers Seminars and industry seminars. These seminars have been held throughout Western Australia and have provided valuable information to large numbers of homebuyers and settlement agents in attendance.

SASB also conducted a trial during 2002-2003 of an after-hours telephone advice service for homebuyers in conjunction with the Real Estate and Business Agents Supervisory Board. The service operated after normal business hours and on weekends from June 2002 to December 2002. The after hours aspect of the service was discontinued when it became apparent that consumer demand was insufficient to warrant the continuation of the service. I would like to thank SASB and Real Estate Branch staff for the tremendous effort they made to ensure the trial had every opportunity to succeed and for the high quality service provided.

Settlement agents work in one of the few occupations where the maximum level of remuneration is fixed by way of a prescribed scale. SASB acknowledges the concern raised by industry regarding the level of fees that settlement agents may charge. The

scale as it applies to business settlements appears to be particularly low and acts as a significant disincentive to agents operating in that segment of the industry.

To address industry concerns regarding the current maximum fee levels, SASB has commissioned Stamfords Advisors and Consultants to conduct an independent activity based costing of what it costs to conduct a typical settlement and to provide alternatives on how settlement agents' remuneration should be calculated. SASB is looking forward to the consultant's report and, following further consultation with industry, will make recommendations to the Minister for Consumer and Employment Protection as soon as is practicable.

In 2002-2003, SASB has increased its focus on ensuring that all agents comply with the trust accounting requirements of the *Settlement Agents Act 1981*. For example, greater focus has been placed on following up on settlement agents who submit late or qualified audits. In 2003-2004 we intend to continue this focus. We also intend to release a guide to trust accounting for settlement agents that will assist new and established settlement agents in meeting their obligations to the law and according to best practice.

It has been pleasing to note that the number of complaints against settlement agents has remained comparatively steady in 2002-2003, despite significantly increased activity in the market. SASB's proactive compliance program continues to do excellent work in working with settlement agents to sort out problems before they become serious and in increasing the visibility of the SASB in the industry. I believe the presence of SASB as a strong independent regulator has had much to do with this.

I would like to thank the Australian Institute of Conveyancers and the Independent Settlement Agents Association for their assistance and support over the year. SASB's increased focus on education issues in the coming year will require additional consultation with those bodies and I am confident our good relationship with them will facilitate outcomes beneficial to both consumers and industry.

I would like to take this opportunity to thank Mr Val Pervan, whose term as member expired in September 2002. Val has been a valuable member of SASB since 1993 and I would like to acknowledge his contribution and service, and wish him well for the future.

Finally, I would also like to thank my fellow members of SASB, SASB staff, and the staff of the Real Estate Branch of the Department of Consumer and Employment Protection for their hard work and support in helping SASB to achieve its goals for 2002-2003.

David Taylor
Chairman

SECTION 1

About SASB

Summary of 2002-2003

Review of the scale of fees

The maximum fee that a settlement agent can receive for conducting a settlement is fixed by way of a prescribed scale. The scale of fees was last increased in 1992, although it was updated in May 2000 to incorporate the cost of GST.

SASB appointed Stamfords Advisors and Consultants during 2002-2003 to conduct an independent activity based costing of activities undertaken by settlement agents, as part of a wider review of the scale. Stamfords have also been contracted to review the manner in which remuneration is calculated. The review is well advanced and recommendations are expected in early 2003-2004.

Investigations

The total number of complaints against settlement agents lodged with SASB in 2002-2003 (87) was similar to the previous period (89). This is pleasing given the high level of activity in the real estate market during the year.

During 2002-2003, 29 investigations into qualified audit reports were commenced compared to 21 from the previous period. In addition, 15 trust account investigations were commenced in 2002-2003 compared to 35 from the previous period.

Inquiries

SASB conducted 15 disciplinary inquiries in 2002-2003 compared to eight in the previous period. These inquiries were held over 43 hearing sessions.

Homebuyers Seminars

The Homebuyers Seminars that first commenced in March 2002 continue to be a great success. These seminars are a joint initiative of SASB with the Real Estate and Business Agents Supervisory Board. This year a total of three seminars were conducted in the metropolitan area. These seminars provide consumers with valuable information on buying a home including the settlement process. There has been an excellent response to the seminars and it is anticipated that they will continue to be held on a regular basis in the metropolitan area.

Trust accounting seminars

SASB conducted three seminars for settlement agents on the theory and practice of reconciling trust accounts. The seminars were presented by Mr Tony Bevan, a Chartered Accountant with Horwath Perth. The seminars were well attended and feedback received from settlement agents has been very positive.

Training for compliance officers

SASB continues to support the training of compliance investigators. In 2002-2003, 18 investigators within the Real Estate Branch successfully completed the Certificate IV in Government Statutory Investigations and Enforcement. This is an accredited training course tailored to the needs of investigators in the real estate and settlement industries. This training forms part of SASB's commitment to ensuring that its investigators meet national standards of investigations procedure and practice.

Review of Boards and Committees and the State Administrative Tribunal

A consultation draft of the report on the Review of Consumer Protection Boards and Committees was considered by SASB in December 2002. Following concerns raised by SASB and other boards, some changes were made to the proposed model of boards. This is further discussed under the “Regulatory Reviews” section of this report. SASB remains concerned that the proposed changes will reduce SASB’s role and its financial independence.

SASB has continued in 2002-2003 to support proposals to transfer its disciplinary functions to a State Administrative Tribunal in early 2004.

Real Estate and Settlement Hotline

An extended hours telephone information service known as the Real Estate and Settlement Hotline was piloted for a six-month period during 2002-2003, in partnership with the Real Estate and Business Agents Supervisory Board. After the pilot period expired, a decision was made to discontinue the service outside of business hours due to insufficient demand by consumers. The Real Estate and Settlement Call Centre (1300 30 40 64) continues to provide a telephone advice service on settlement and real estate issues during business hours.

New SASB member

Ms Eva Skira was appointed as the commercial practice member of SASB during 2002-2003 and commenced on 30 September 2002. Ms Skira's appointment followed on from the decision by Professor Valentine Pervan to retire from his position after serving with SASB for nine years.

Focus on trust account interest verification

A trust account verification program was established in 2002-2003. This program involves analysis of a sample of trust account statements, obtained from banks on a regular basis, to verify that the bank is calculating the interest payable to SASB in the correct manner.

Independence of auditor policy

During the year, SASB completed a review of its policy on auditor independence. The policy clarifies the types of relationships and business dealings between auditors and agents that must be disclosed to SASB. The policy also takes into account recent changes brought about by equality of status legislation to recognise gay and de facto relationships as equal before the law.

Introduction of an assessment process to expedite complaints investigations

An assessment process has been introduced in order to establish early in an investigation the main issues of a complaint and the alleged breaches that have occurred. The aim of the assessment process is to quickly gather sufficient information to enable a recommendation to be made about how the complaint should be dealt with, thereby improving the timeliness in which complaints are finalised.

Proactive compliance visits

SASB conducted 91 proactive compliance visits to settlement agencies in 2002-2003. This is 31 more visits than in the previous period. SASB's increased presence in the industry through such visits is an important tool in educating agents and correcting problems before they become serious.

Outlook for 2003-2004

Sustainability of the settlement industry

As the industry regulator, a major priority for SASB is the overall sustainability of the settlement industry. SASB will give high priority in 2003-2004 to reviewing the fee structure for the industry. To this end, SASB has commissioned Stamfords Advisors and Consultants to conduct an independent activity based costing of what it costs to conduct a typical residential settlement and a business settlement, and to review issues concerning the scale generally. Following receipt of the final report of the consultant and further consultation with industry, SASB will make a recommendation to the Minister as to an appropriate scale of fees.

Educational qualifications for grant of a licence

SASB recognises that the educational qualifications for the grant of a licence need to be updated to bring them in line with current competency standards. SASB will negotiate with TAFE to introduce a competency-based model of training based on industry standards.

Compulsory professional development

SASB will consult with industry to examine the viability of introducing continuing professional development (CPD) for settlement agents. CPD is a means to ensure agents' skills and knowledge are constantly updated so that consumers can feel confident they are dealing with competent and skilled persons. SASB envisages that any proposed CPD requirements would be linked to the renewal of settlement agents' licences.

Transition of responsibilities to the State Administrative Tribunal and the Department of Consumer and Employment Protection

If the recommendations of the Review of Consumer Protection Boards and Committees are implemented, a key priority for SASB in 2003-2004 will be to develop a transition strategy to the new structure. This strategy will also take into account any changes relating to the proposed introduction of a State Administrative Tribunal.

The proposed changes, if implemented, will result in an increased advisory focus for SASB. SASB must also negotiate a 'Resource Agreement' with the Minister for Consumer and Employment Protection to determine its funding allocation, whereas previously, SASB operated independently of such constraints. The key objective of SASB during this period is to ensure that industry standards are maintained and no detrimental effects on consumers result.

Continuance of 'no tolerance' policy in respect of trust accounting requirements

SASB will continue its 'no tolerance' policy in respect of late audits or qualified audits. Any late or qualified audits submitted to SASB will be promptly investigated and appropriate action taken against the agents concerned. SASB will also implement its new auditor independence policy to ensure auditors have no personal or business relationships that may endanger their objectivity when auditing an agent's accounts.

Completion of a trust accounting guide for settlement agents

After initial consultation with industry, SASB aims during 2003-2004 to produce a comprehensive guide to trust accounting for settlement agents. The guide will provide practical advice to settlement agents on how to set up and maintain trust accounts in accordance with the law and best practice. The guide will provide a handy reference for new, as well as established settlement agents, as to their trust accounting obligations.

Our Organisation

Who we are

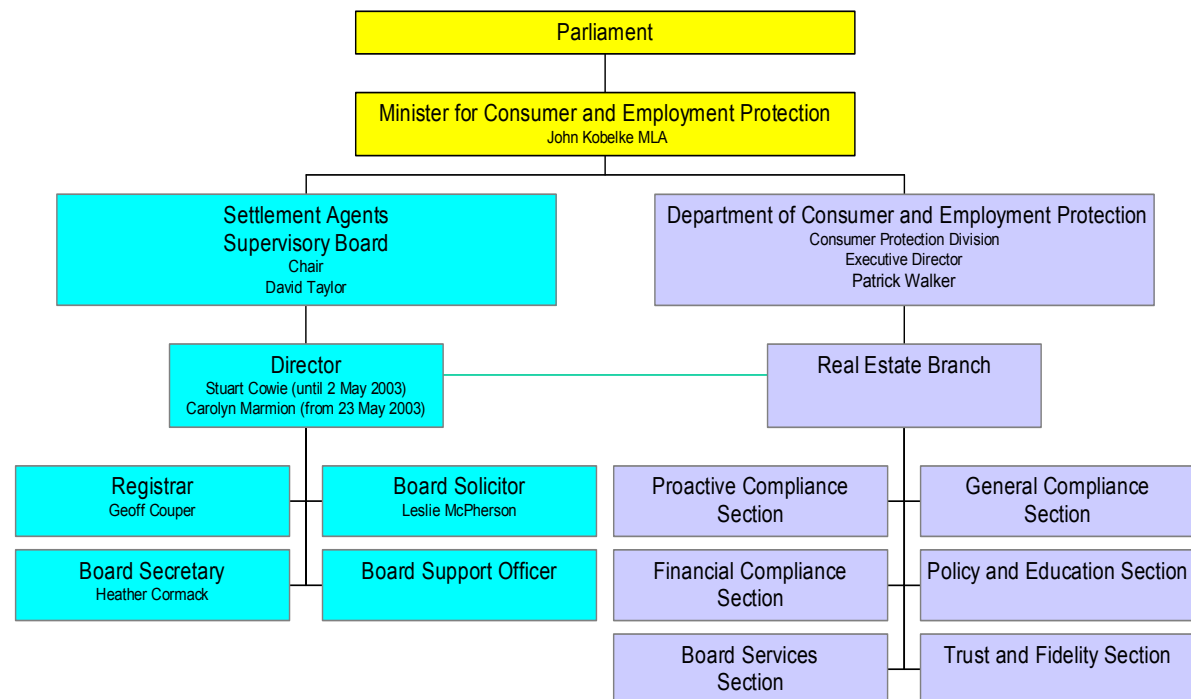
The Settlement Agents Supervisory Board (SASB) is an independent statutory authority responsible for regulating people who conduct settlement transactions.

SASB is established by section 5 of the *Settlement Agents Act 1981* (the Act), which states:

“For the purposes of this Act there shall be a board to be known as the Settlement Agents Supervisory Board.”

SASB administers the Act, the Regulations and the Settlement Agents Code of Conduct (the Code of Conduct).

Structure



Our Goal

That the people of Western Australia have confidence in the settlement industry.

To achieve the above goal, SASB has a single output:

*“to achieve the **efficient** and **effective** regulation of the settlement industry through the discharge of its statutory functions.”*

SASB provides four broad categories of services in pursuit of its goal:

Output 1: Licensing

Involves the quality control of people seeking to enter the settlement industry for the first time and of those already licensed in that industry.

Output 2: Compliance

Ensures that licensed settlement agents comply with the relevant legislation and financial reporting requirements.

Output 3: Education and Awareness

Aims to encourage awareness of settlement 'best practice' through activities such as proactive visits, seminars and publications.

Output 4: Fidelity Guarantee Fund

Centres on the assessment of compensation claims from consumers who have suffered financial loss when dealing with licensed settlement agents or their staff.

Our Business

Accountable to the Minister for Consumer and Employment Protection, SASB has the following functions under the Act:

- administer the licensing scheme for settlement agents;
- conduct and promote education and advisory services;
- act as a disciplinary tribunal and conduct inquiries into allegations against settlement agents;
- administer the Fidelity Guarantee Fund, which can compensate people for financial loss due to the criminal or fraudulent behaviour of an agent;
- recommend amendments to the Act and Regulations; and
- advise the Minister on the administration of the Act.

Ministerial Advice

SASB administers settlement industry regulatory legislation and policy in Western Australia. DOCEP is primarily responsible for the development of new legislation for the regulation of the settlement industry. However, due to its position as regulator and through the legal, conveyancing and financial expertise of its members, SASB provides key input into any recommendations for legislative change that are presented to Government.

One of SASB's functions is to advise the Minister for Consumer and Employment Protection on issues relating to the administration of the *Settlement Agents Act 1981*, and to make recommendations about amendments to the regulations made under the Act. The Minister reviews these recommendations and decides whether to proceed. During the 2002-2003 year, SASB made no recommendations to the Minister in relation to the administration of the Act.

SASB Members

| | |
|---------------|--|
| Chair | <p>Mr David Taylor Mr Taylor specialises in commercial law, providing advice and litigation assistance in most areas of property, contract and business law. He operates his own law firm.</p> |
| Member | <p>Ms Eva Skira Ms Skira has acquired wide experience in the commercial, government and not-for-profit sectors over many years. Eva has served on a number of boards and executive committees and continues to do so. She is a Fellow of both the Australian Institute of Company Directors and the Securities Institute of Australia.</p> |
| Deputy | <p>Mr Nicholas Hosking</p> |
| Member | <p>Ms Mirina Muir Ms Muir is a University of NSW law graduate. She has extensive experience not only as a lawyer but also as a past member of the Board of the Queen's Trust. Mirina is currently working for the law firm Blake Dawson Waldron.</p> |
| Deputy | <p>Mr Steven Phillips</p> |
| Member | <p>Ms Valerie Haskins Ms Haskins commenced work in the settlement profession in 1977 with Agency Settlements, an agency owned by Justin Seward Pty Ltd (now known as Knight Frank). Valerie managed Agency Settlements for approximately three years before moving to Strand Settlements. In November 1986, Valerie established her own settlement agency, Haskins Settlements.</p> |
| Deputy | <p>Ms Barbara Brice</p> |
| Member | <p>Ms Jenny McGregor (resigned 13 January 2003) Upon obtaining her settlement agent's licence, Jenny worked at Baillieu Knight Frank, Perth, as manager of their settlement agency. Jenny owns and manages McGregor Settlements.</p> |
| Deputy | <p>Mr Peter Maro</p> |

Remuneration of Board Members

| | |
|--|-----------------------------------|
| Chair | \$399 (fullday), \$263 (half day) |
| Member /Deputy Member (when acting as Chair) | \$399 (fullday), \$263 (half day) |
| Member/Deputy Members | \$266/day and \$176/half day |

Appointments and Induction

SASB is comprised of five members appointed by the Governor under section 6 of the Act. The criteria for membership is as follows:

- Chair must be a person who is not a licensed agent;
- Member (1) must be a person who is not a licensed agent but who is a legal practitioner;
- Member (2) must be a person who is not a licensed agent but is experienced in commercial practice; and
- Members (3&4) must be licensed agents who are elected by licensed agents to the positions.

Deputy members are also appointed by the Governor and must have the same prescribed qualifications of that member.

Members may hold office for up to four years and are eligible for re-election (if elective members) and reappointment. The Minister for Consumer and Employment Protection (the Minister) appoints a returning officer each election of an elective member.

Number of Meetings and Inquiries/Hearings

In 2002-2003, SASB conducted:

- 12 Meetings
- 15 Inquiries

Board members



Standing (L-R): Mr David Taylor (Chairperson) and Ms Mirina Muir (Member)
Seated: Ms Eva Skira (Member) and Ms Valerie Haskins (Elective Member)

Our People

SASB employs six staff directly. The Director, Board Solicitor, Board Administration Officer and Board Support Officer are employed in a joint funding arrangement with the Real Estate and Business Agents Supervisory Board.

| Title | Name | Public Service Level |
|------------------------------|--|----------------------|
| Director | Stuart Cowie (until 28 April 2003) Carolyn Marmion (23 May 2002 until 30 June 2003) | 8 |
| Board Solicitor | Leslie McPherson | 8 |
| Registrar | Geoff Couper | 7 |
| Board Secretary | Heather Cormack | 3 |
| Board Administration Officer | Emma Stevens | 3 |
| Board Support Officer | Michelle Holmes | 1 |

Staff Photo



Standing (L-R): Carolyn Marmion (Director), Leslie McPherson (Board Solicitor) and Geoff Couper (Registrar)

Seated: Michelle Holmes (Board Support Officer) and Heather Cormack (Board Secretary)

Functions of SASB staff

Director

The Director manages SASB's financial and human resources and assists it with its long and short-term planning and strategic issues. Such planning aims to provide focus and maximise the effectiveness of SASB. The major strategic planning tool utilised by SASB is its Corporate Plan.

The Director acts as SASB's representative in negotiating and monitoring the Service Delivery Agreement with the Department of Consumer and Employment Protection (DOCEP) for the delivery of services. The Director also liaises with SASB and the Minister regarding operational matters.

Board Solicitor

The Board Solicitor co-ordinates and manages the provision of legal services for SASB (liaising with legal counsel as required) and provides legal advice on a range of matters.

Registrar

The Registrar undertakes various statutory roles set out by the Act. A primary function of the Registrar is the management of the complaints process, which includes the issuing of directions for the investigation of complaints by SASB investigators, and the making of decisions on outcomes of investigations. The Registrar has a role in the administration of licensing under delegated powers. The Registrar also co-ordinates education programs and liaises with industry and the Minister on behalf of SASB.

Corporate Governance

Ethical Standards

SASB has developed a *Code of Conduct for Members* based on the State Government's *Corporate Governance Guidelines for Western Australian Public Sector Board Members*.

An essential requirement of the performance of SASB member duties is objectivity. Members are appointed on the basis of their individual expertise and experience as outlined under 'Appointments and Induction' discussed earlier in this report. SASB members are required to perform their duties in a manner that does not represent or protect the interests of any particular organisation with which they are associated.

Accountability is also essential. It is noted that the *Financial Administration and Audit Act 1985* places a responsibility on members to ensure efficient and effective operations, to maintain confidentiality and ensure compliance with statutory and legal requirements.

SASB members must also comply with other relevant legislation such as the *Freedom of Information Act 1992*, the *Public Sector Management Act 1994* and the *Statutory Corporations (Liability of Directors) Act 1996*. The *Code of Conduct for Members* notes that SASB will prepare and retain minutes of meetings and ensure proper procedures are observed for the documenting of decisions.

Secrecy and confidentiality legislative requirements are outlined in the *Code of Conduct for Members*. Members and officers are required to maintain confidentiality and must not divulge information that is confidential or sensitive, or make public statements about board matters unless authorised to do so.

All new members or officers of SASB are provided with a copy of the *Code of Conduct for Members* upon their commencement with SASB. By adhering to the values in this code, members and officers of SASB will be complying with *Western Australian Public Sector Code of Ethics*.

Service Delivery Agreement

SASB contracts DOCEP to perform many of its functions under a Service Delivery Agreement, including:

- Investigations
- Licensing
- Policy
- Fidelity Guarantee Fund
- Corporate

The Service Delivery Agreement describes the required services, in output terms consistent with Treasury and Auditor General standards, and defined performance measures to be reported by DOCEP to SASB in terms of cost, timeliness, quality and quantity.

SASB's monthly review of performance measures of services provided by DOCEP has found that, on the whole, the services provided have met the performance measures.

Legislation and Statutory Reporting Compliance

In performing its functions, SASB complies with the *Settlement Agents Act 1981*, as well as several other written laws, including: the *State Records Act 2000*, the *Public Sector Management Act 1994*, the *State Supply Commission Act 1991* and the *Occupational Health and Safety Act 1984*. A list of laws governing the operation of SASB also include:

- Disabilities Services Act 1993
- Equal Opportunity Act 1984
- Financial Administration and Audit Act 1985
- Freedom of Information Act 1992

Freedom of Information Requests

Information Statement

The *Freedom of Information Act 1992* gives members of the public the general right of access to some SASB documents. SASB endeavours to make its operations as transparent and accessible as possible.

The freedom of information matters relate only to requests on those matters where SASB has a direct involvement. Requests in relation to investigations carried out by DOCEP on behalf of SASB, but not referred to SASB for action, are reported in DOCEP's annual report.

During 2002-2003, no Freedom of Information requests were received, as compared to four in 2001-2002.

All Freedom of Information Requests are made in writing and addressed to:

Freedom of Information Co-ordinator
Locked Bag 14
Cloisters Square
Perth WA 6850

Further information can be obtained by contacting the Freedom of Information Co-ordinator on 9282 0777.

Expenditure incurred within Section 175ZE of the *Electoral Act 1907*

The *Electoral Act 1907* requires government agencies to report on expenditure incurred in relation to the payment of advertising agencies, market research organisations, polling organisations, direct mail organisations and media advertising organisations.

In 2002-2003, SASB spent \$16,916.22 on advertising to promote the Real Estate and Settlement Hotline. Northside Distributors were also paid \$765.40 in 2002-2003 to direct mail four quarterly newsletters and several letters to all licensed settlement agents.

Public Sector Standards in Human Resource Management

In the management of its staff, SASB complies with the *Public Sector Standards in Human Resource Management* and the *Western Australian Public Sector Code of Ethics*.

During 2002-2003, SASB received no applications for breaches of standards. In addition, SASB:

- received no workers' compensation claims;
- did not re-deploy any of its staff;
- has not terminated any positions; and
- did not experience any industrial disputes.

Regulatory Reviews

Review of Consumer Protection Boards and Committees and the Proposed Establishment of a State Administrative Tribunal

A review of the structure and functions of the boards and committees in the Consumer and Employment Protection portfolio commenced in 2001-2002. This review was undertaken in response to various government initiatives, including the Machinery of Government reform program and the proposal to establish a State Administrative Tribunal (SAT).

In December 2002, a report was released that proposed a model for boards and committees under the Consumer Protection portfolio. Under the recommended model, SASB would be responsible for:

- the licensing of settlement agents;
- making decisions about licensing and qualification requirements for settlement agents;
- endorsing the referral of disciplinary matters to the SAT;
- providing advice to the Minister about compliance and education policies and programs and other industry issues; and
- making determinations regarding payments from the Fidelity Guarantee Fund.

SASB is concerned that the proposed model will transform its role from an independent regulatory board toward that of an advisory committee. Some of SASB's key functions, such as compliance, will move to DOCEP, which has a much wider range of responsibilities. Furthermore, the proposed division of responsibilities between SASB and DOCEP does not produce a clear delineation of roles and will lead to some confusion during the transition phase.

At present, SASB is self-funded from the interest earned on settlement agents' trust accounts. Under the proposed model, SASB will be required to negotiate a 'Resource Agreement' with the Minister to fund its activities. SASB is concerned that this loss of financial independence and the transfer of some of its functions to DOCEP will inevitably result in a diminution of focus on settlement regulation.

SASB is therefore not convinced the proposed changes will bring any improvement to the way in which the settlement industry is regulated. SASB believes the current structure, where it operates as an independent statutory board, has served the public well, and for this reason, should be retained.

SECTION 2

Report on Outputs

Output 1 Licensing

Strategic Objectives

SASB aims to deliver effectively and consistently on the following licensing objectives:

- administer the scheme of licensing established under the Act;
- assess the fitness of persons entering the industry and of those applying to renew their triennial certificates;
- ensure that settlement agents are aware of their duties and obligations; and
- undertake system audit checks on the computer databases to ensure the accuracy of the information that is recorded.

Performance

The following figures illustrate the number of licensing applications processed during the year, as well as the level of timeliness achieved:

- 35 new settlement agent licences processed.
- 194 settlement triennial certificates renewed.
- 100% of applicants advised of the outcome of their settlement agent licence application within 8 days of the application being approved by SASB.
- 98% of licence renewal applications processed within 8 days of the required information being lodged.

Overview

All settlement agents require a licence as well as a current triennial certificate in order to practice. The licence issued by SASB is continuous while the triennial certificate must be renewed every three years.

SASB reviews licence applications to ensure that suitably qualified and experienced people enter the industry as settlement agents. Uniform minimum standards of competency are set that aim to create high standards of practice and behaviour in the industry.

In situations where the Registrar, a member of the public, or an industry member raises an objection to the granting or renewal of a triennial certificate, then a formal hearing may be convened. In 2002-2003, SASB held no Formal Hearings to consider settlement agent licence applications.

Fees – Settlement Agent

The fee for a new licence application includes a once only contribution to the Fidelity Guarantee Fund of \$483. The fee for renewal of a triennial certificate is \$447 for individuals, partnerships and corporate bodies.

Holding Fee

Settlement agents who wish to continue to hold a licence but who do not want to carry on business as an agent may do so by paying a holding fee. At the end of the financial year, 134 settlement agents had put their licence on hold. The holding fee is \$150 for three years. If an agent decides to renew their triennial certificate and re-enter the industry before the three year holding period has expired, they can receive a partial refund for each year of the holding fee period that has not expired.

Mutual Recognition

Under the *Mutual Recognition (WA) Act 2001*, SASB issues licences to agents who are already licensed in other Australian States and Territories. During the year, no mutual recognition applications for a settlement agent's licence were received by SASB.

Output 2 Compliance

Strategic Objectives

SASB aims to deliver effectively and consistently on the following compliance objectives:

- the settlement industry provides ethical and professional services;
- settlement agents comply with the requirements of the Act and the Code of Conduct;
- action is taken against settlement agents who fail to comply with the requirements of the Act and the Code of Conduct;
- alleged breaches are investigated;
- inquiries into complaints, where warranted, are held; and
- audit reports are received on time and all qualified reports are investigated.

Performance

The following figures indicate the number of complaints received in 2002-2003 and the time period taken to deal with them.

General Investigations

- 87 new complaints were investigated.
- 84% of applications were acknowledged within 8 days.
- 82% of investigations commenced within 14 days.

Qualified audit reports.

- 33 investigations into qualified audit reports were completed.
- 80% of investigations into qualified audit reports were commenced within 14 days of lodgement.

Trust account investigations

- 15 trust account investigations were commenced in 2002-2003.
- 93% of trust account investigations were commenced within 14 days.

Overview

The Act and Code of Conduct provides a protective scheme that both prohibits and prescribes certain behaviour by settlement agents. Compliance by settlement agents with those behavioural standards ensures the delivery of ethical and professional services.

SASB contracts staff through the Service Delivery Agreement with DOCEP to review and investigate complaints about settlement agents. Complaints are referred to SASB for inquiry where there is sufficient evidence of a breach. The Registrar of SASB is responsible for signing off on all recommendations with respect to investigations, either to refer them to SASB or to suggest another action.

General compliance

In 2002-2003, the following key initiatives have been implemented to improve the complaint assessment process and investigation procedures:

- An initial assessment procedure has been introduced for the handling of complaints to ensure a consistent and timely response.
- The Settlement Complaint Form has been revised to make it easier for consumers to use and to highlight the key issues of the complaint.
- The Real Estate Branch Compliance Manual has undergone a major revision to reflect recent changes in procedures.
- Complainants and agents are now provided with a comprehensive letter that explains the investigations procedure and findings relating to the complaint.

Settlement Compliance Statistics

| | 1998-1999 | 1999-2000 | 2000-2001 | 2001-2002 | 2002-2003 |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Number of general complaints | 76 | 115 | 58 | 89 | 87 |

As can be seen from the table above, the number of general complaints against settlement agents is similar to the number received in the previous year. This is pleasing given the increased activity in the market during the year.

Case Study

General Compliance

Settlement agents are required to be in 'substantial attendance' at their registered place of business to provide adequate supervision of their staff. Substantial attendance and adequate supervision of staff by a settlement agent minimises the risk of error and criminal behaviour in the undertaking of settlement transactions. If the licence holder is a partnership or body corporate, then a person in *bona fide* control must be nominated to perform the supervisory role and be in substantial attendance at the agency's registered office.

In one case, a real estate settlement agent was listed as being the licensee and person in *bona fide* control of a settlement agency, which was a body corporate and holder of its own licence. The licensee's wife, who did not hold a settlement agent licence, was the company secretary of the settlement agency and a shareholder of the company. As a result of a marital breakdown, the licensee's wife denied her husband access to the agency's registered office.

The licensee's wife later employed another licensee to become the person in *bona fide* control of the settlement agency. However, this second licensee ceased employment with the agency after two months. At no time during this two-month period was the SASB Registrar advised in writing of a change in the person in *bona fide*, as required under the *Settlement Agents Act 1981*. Further, there was no evidence that the second licensee was appointed as the person in *bona fide* control, nor that the second licensee performed this role during that persons' term of employment.

Some eight months later, the first licensee advised SASB that he had ceased to be the person in *bona fide* control of the settlement agency. Consequently, it was alleged that during the 11 months that the licensee was denied access to the agency's premises he was not in substantial attendance at the agency's registered office, constituting a breach of Rule 13(b)(ii) of the Settlement Agents Code of Conduct. Further, it was alleged that the settlement agency failed to notify SASB in writing of any change in the person in *bona fide* control within 14 days of a change occurring, constituting a breach of section 36(2)(c) of the *Settlement Agents Act 1981*.

As part of the formal inquiry, SASB considered all the relevant facts, including the guilty plea on both counts by the licensee and the extenuating circumstances of the licensee's distressing marital breakdown. Nevertheless, SASB attaches significant importance to the supervisory role of licensees because of the serious wider implications for the whole industry. Consequently, SASB imposed on the licensee a fine of \$1,000 plus costs of \$1,000, and the suspension of his triennial certificate for a period of 12 months. In addition, the company trading as the settlement agency was fined \$7,500 plus costs of \$750.

Financial compliance

A central protection for consumers is the requirement that agents establish trust accounts for clients' funds. The Act and Regulations require the strict maintenance of a formal set of trust account records that show at any time the state of an agent's trust account.

SASB monitors agents' trust accounts by investigating complaints about trust account breaches. Inspections by compliance staff arising from general complaints can also lead to the identification of trust account problems. Financial institutions are required to notify SASB when trust accounts become overdrawn.

In addition, SASB conducts an annual review of audit reports on settlement trust accounts. The audit program involves the review and investigation of audit reports received from agents' statutorily appointed auditors to identify trust account problems. Audit reports are due on 30 September each year. All qualified audit reports are investigated as a matter of priority.

Trust Interest Verification Process

The Act requires that all financial institutions holding SASB trust accounts pay interest on those accounts to SASB at a prescribed rate.

In 2002-2003, a trust account interest verification process was established by SASB to ensure that financial institutions are calculating the interest payable to SASB in the correct manner. This process involves the analysis of trust account statements of a sample of settlement trust accounts obtained from financial institutions. The correct interest amount payable is calculated and a comparison made with the amount of interest actually paid to SASB.

Case Study

Financial Compliance

SASB took action against a settlement agent who was found to have withdrawn monies from a trust account for reasons other than for the purpose of completing a settlement between parties to a real estate transaction. This practice contravened section 49(4) of the *Settlement Agents Act 1981*.

The settlement agent withdrew stamp duty monies totalling in excess of a million dollars from a trust account and deposited the funds into a general cash management account. This led to the settlement agent's trust account going into a debit balance. The monies were later transferred backed to the trust account and then paid to the State Revenue Department.

The settlement agent claimed that a lack of knowledge of the Act led to the breach of section 49(4). SASB did not accept this as a defence as a settlement agent is required to know what the Act prescribes and, if they are not sure, they are expected to seek advice. At the time of the offence, the settlement agent had been licensed for nine years.

SASB considered that the settlement agent's conduct put the public at significant risk. SASB found it unacceptable for the agent to draw money out of the trust account and depositing the funds into a general account for ease of office administration.

Given the circumstances of the nature of the offence against the Act, SASB imposed on the settlement agent the maximum monetary penalty of \$10,000 and \$600 in costs.

Output 3 Education and Awareness

Strategic Objectives

SASB aims to deliver effectively and consistently on the following education and awareness objectives:

- conduct visits to settlement agencies and provide education seminars to assist agents to comply with the Act;
- provide a counter and telephone information service to consumers and industry;
- conduct Homebuyers Seminars to empower consumers;
- support and fund education programs for consumers and for the professional development of agents; and
- develop educational material, including brochures and guides, for distribution to the public and industry.

Performance

- Completion of 91 proactive compliance audits of settlement agencies across Western Australia.
- Delivery of 8 education seminars for agents on various topics covering different requirements of the Act and the Code of Conduct.
- Completion of 3 Homebuyers Seminars in the metropolitan area for the general public in collaboration with the Real Estate and Business Agents Supervisory Board.

Overview

Consumers and industry are provided with information and education on a range of settlement matters. This information is provided through a variety of formats, including:

- proactive compliance visits to settlement agencies;
- free Homebuyer Seminars tailored for potential homebuyers;
- industry education seminars;
- a telephone and counter information service during business hours;
- quarterly publication of the Settlement Agents News;
- consumer fact sheets and other publications; and
- maintenance and update of the SASB website.

The aim of these initiatives is to ensure that settlement information is accessible to consumers and industry members and that, when required, they can clarify information or seek advice on dealing with problems. These educational approaches are complemented by a continuing emphasis on ensuring general and trust accounting compliance through the investigation process.

Proactive Compliance

Agency visits

SASB continued to strengthen its successful proactive compliance program in 2002-2003 in order to further reduce the likelihood of complaints about the industry and to improve the effectiveness of industry regulation.

Proactive compliance visits are carried out in accordance with a checklist that ensures visits are standardised. The checklist is designed to check areas such as whether:

- employees are licensed and registered with SASB;
- trust account receipts conform to the Act;
- the agency has up to date copies of legislative requirements; and
- the agent in bona fide control is proficient in performing a bank reconciliation.

Case Study

Proactive Compliance

A recent visit to a settlement agency by a SASB proactive compliance officer revealed that the settlement agent was providing free title searches to a local real estate agency. In return, the real estate agent was referring 75% of his clients to the settlement agency.

This practice is in breach of the *Settlement Agents Act 1981* and the settlement agent was told to cease offering this free service and to issue accounts for title searches provided to real estate agents in future. The settlement agent was also required to issue accounts for all title searches provided free of charge in the previous six month period.

The proactive compliance officer advised the settlement agent that there would be a follow-up visit to ensure that payment for these accounts had been received.

This case study is one of many examples where SASB's proactive compliance visits serve to educate settlement agents on their responsibilities under the law and to correct problems before they become serious or lead to consumer complaints.

Industry seminars

Proactive compliance staff conducted eight seminars for industry on a range of settlement agency practice topics (eg. trust accounting requirements, conflicts of interest, etc). Staff received positive responses from settlement agents and also noted ways of improving future visits.

Homebuyer seminars

The Homebuyer Seminars that commenced in March 2002 continued into 2002-2003. These seminars provide consumers with valuable information on buying a home and the settlement process. Support for the seminars from homebuyers has been strong with approximately 200 people attending the metropolitan seminars. It is anticipated that in 2003-2004 the seminars will be held at regular intervals in the metropolitan area.

Information Services

Real Estate and Settlement Hotline

A trial of an extended hours telephone information service was conducted for a six month period in 2002-2003. This service was undertaken in partnership with the Real Estate and Business Agents Supervisory Board and provided information on real estate and settlement matters both during business hours and after hours. The Hotline was available from 8:30am to 8:00pm Monday to Friday, 9:00am to 5:00pm Saturday and 12:00noon to 4:00pm Sundays. The Hotline was introduced to enable buyers and sellers to obtain advice at times when property is most likely to be sold.

At the completion of the pilot period, a decision was made to discontinue the service outside of business hours due to insufficient use by consumers. The Real Estate and Settlement Call Centre (1300 30 40 64) continues to provide a telephone advice service on real estate and settlement issues during business hours.

In 2002-2003, there were 4192 telephone inquiries on settlement matters, a 22% increase on 2001-2002.

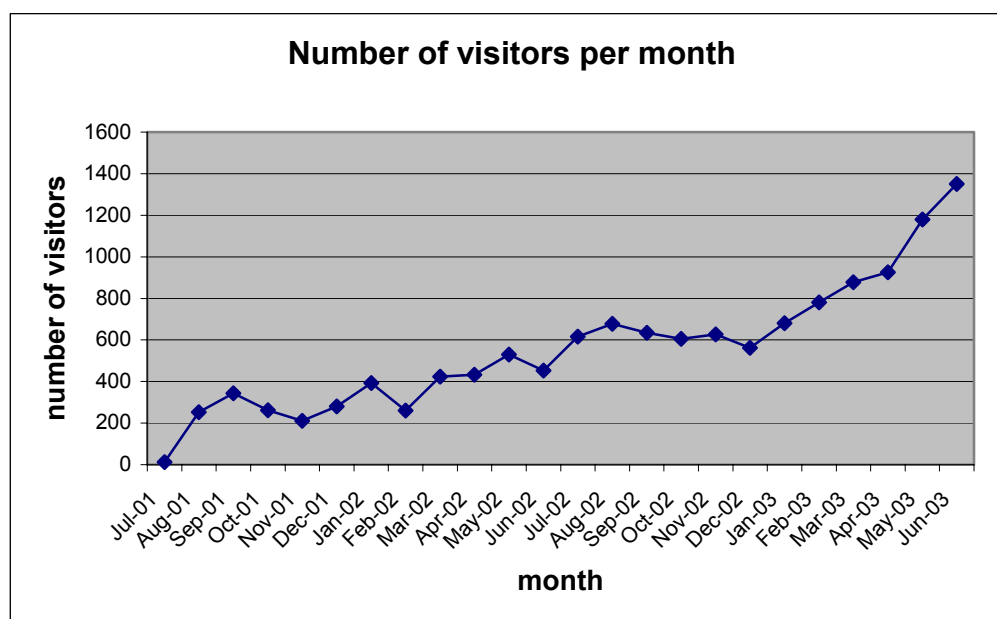
Counter service

A counter service is available to provide advice on real estate and settlement matters during business hours. In 2002-2003, there were 82 counter inquiries on real estate and settlement matters, a 6% increase on 2001-2002.

Website

The SASB website www.sasb.wa.gov.au was expanded and updated in 2002-2003. It includes a range of information for both consumers and industry members. All consumer fact sheets are available in PDF format on the website along with SASB annual reports, the SASB Corporate Plan and issues of the *Settlement Agents News*. In 2002-2003, a decision was made by SASB to publish inquiry decisions on the website. Information on upcoming inquiries and Consumer Seminars is also accessible.

The number of people accessing the SASB website has increased significantly in the past six months as indicated by the graph below. The number of visitors per month to the website has increased from 12 in July 2001 to 1,350 in June 2003.



Industry Publications

Settlement Agents News

The *Settlement Agents News* is a quarterly newsletter produced by SASB to provide information to settlement industry members and stakeholders. Approximately 700 copies of each issue are mailed out. The *Settlement Agents News* includes information on industry practice issues, case studies from SASB inquiries and legislative amendments.

Licensing Kit

SASB produces a *Licensing Kit* that provides information for new licence holders. It includes information on setting up a trust account, auditing guidelines and SASB's requirements for notification of such things as a change of address. Additional information is provided for agents obtaining a licence under mutual recognition outlining the specific differences in Western Australian real estate legislation.

Consumer Publications

SASB funds the production of two fact sheets to provide important information to both consumers and industry members on issues relevant to real estate property settlement transactions. The fact sheets are:

- Choosing a Settlement Agent
- Property Settlement

Education Advisory Committee

The SASB Education Advisory Committee was established to advise SASB on education initiatives and priorities. The Committee is comprised of the following members:

- Ms Valerie Haskins (SASB Member);
- Mr Geoff Couper (SASB Registrar);
- Mr John Jasiak (TAFE representative);
- Ms Koo Lloyd-Kane (Australian Institute of Conveyancers representative);
and
- Ms Janet Griffiths (Independent Settlement Agents Association representative).

In 2002-2003, the Education Advisory Committee met on two occasions and provided advice to SASB concerning the review of qualification requirements for settlement agents.

Output 4 Fidelity Guarantee Fund

Strategic Objectives

The Fidelity Guarantee Fund provides compensation for people who have lost funds through the criminal or fraudulent actions of settlement agents or their employees in the course of a settlement transaction. The criteria for application to the Fund are:

- the applicant has suffered financial loss or loss of property;
- the loss was due to the defalcation (which includes criminal or fraudulent conduct) of a licensed settlement agent or his/her employee;
- the licensed settlement agent held a current licence granted under the Act; and
- the loss occurred in relation to a settlement transaction.

Performance

- 100% of claim applications had a preliminary report prepared within 8 weeks.
- 100% of Fidelity Guarantee Fund claims were acknowledged within 8 days.

Overview

The money for the Fidelity Guarantee Fund is derived from interest earned on trust accounts, as well as a payment of \$150 from settlement agents when they are first licensed or when they renew their licence. The fund is administered by the Department of Treasury and Finance.

Fidelity Guarantee Fund claims lodged

| Financial Year | 2000-2001 | 2001-2002 | 2002-2003 |
|------------------|-----------|-----------|-----------|
| Number of Claims | 5 | 1 | 1 |

A total of six claims remain unresolved at the end of the 2002-2003 financial year.

SECTION 3

Performance Indicators



AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

SETTLEMENT AGENTS SUPERVISORY BOARD PERFORMANCE INDICATORS FOR THE YEAR ENDED JUNE 30, 2003

Audit Opinion

In my opinion, the key effectiveness and efficiency performance indicators of the Settlement Agents Supervisory Board are relevant and appropriate to help users assess the Board's performance and fairly represent the indicated performance for the year ended June 30, 2003.

Scope

The Board's Role

The Board is responsible for developing and maintaining proper records and systems for preparing performance indicators.

The performance indicators consist of key indicators of effectiveness and efficiency.

Summary of my Role

As required by the Financial Administration and Audit Act 1985, I have independently audited the performance indicators to express an opinion on them. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the performance indicators is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the performance indicators.

D D R PEARSON
AUDITOR GENERAL
November 4, 2003

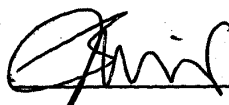
PERFORMANCE INDICATORS 2002/03

CERTIFICATION

We hereby certify that the performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the Settlement Agents Supervisory Board's performance, and fairly represent the performance of the Settlement Agents Supervisory Board for the financial year ended 30 June 2003.



David Taylor
Chair



Mirina Muir
Member

Dated 28 October 2003

STATUTORY ROLE OF THE BOARD

The Board acts in the public interest as the supervisory authority for settlement agents in Western Australia. The statutory function required of the Board is to regulate the behaviour of settlement agents in terms of the manner in which they conduct themselves when entering into or assisting in settlement transactions.

OUTCOME

At the highest level, the outcome of the Board is:

The people of Western Australia (both industry and the public) have confidence in the settlement industry.

EFFECTIVENESS INDICATOR

The extent to which settlement agents comply with the requirements of the Settlement Agents Act 1981 in relation to the management of their trust accounts.

This effectiveness indicator has been chosen because the management of trust accounts by agents is a key indicator of their performance in general and is accepted as providing a reliable indication of the extent to which settlement agents comply with the requirements of the *Settlement Agents Act 1981*. The effectiveness indicator was also chosen because there is an independent audit of agents' performance in this area.

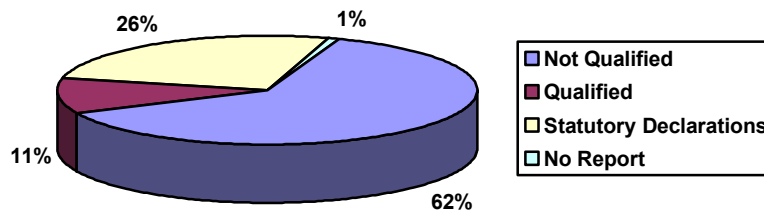
Measure

The proportion of settlement agents that submit an unqualified audit or a statutory declaration.

$$\frac{(\text{No. agents who submitted audit report - not qualified}) + (\text{No. agents who submitted statutory declaration})}{\text{Total no. of agents}}$$

Data

| | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 |
|--|---------------|--------------|--------------|---------------|---------------|
| Audit Reports - Not Qualified | 234 | 247 | 208 | 229 | 231 |
| Audit Reports - Qualified | 29 | 37 | 34 | 45 | 39 |
| Statutory Declarations | 116 | 98 | 112 | 114 | 96 |
| No Report | | | 5 | 2 | 3 |
| Total agents | 379 | 382 | 359 | 390 | 369 |
| % of agents submitting unqualified audit or statutory declaration | 92.83% | 90.3% | 89.1% | 87.95% | 88.62% |



Notes to the Indicator

Agents are required by the Act to conduct financial transactions on behalf of their principals (clients) through a trust account. Those trusts accounts must be audited annually for the year ending 30 June and submitted to the Board by 30 September of that year. Consequently this indicator is reporting on agents performance in the 2002/03 financial year.

If a licensed agent (individual) conducts no transactions (a licensed agent may work for a company and it is the company's trust accounts which are then audited), then the agent must submit a statutory declaration confirming this.

The effectiveness of compliance activities of the Board, in positively influencing the behaviour of industry participants, is measured by the level of agents' compliance with the requirements of the Board and the Act.

It is important, in order to influence the behaviour of the industry, that the Board attempts to ensure that industry practices, about which industry customers complain, are properly examined to identify illegal or unprofessional practices.

The Board is concerned about the number of agents who either receive a qualified audit or who fail to submit an audit report. As a result the Board has implemented a 'no tolerance' policy with regard to agents who fail to comply with trust account auditing provisions, which has resulted in agents receiving sanctions including fines, suspensions or cancellations of their licences.

The Board notes that the proportion of settlement agents submitting an unqualified audit or a statutory declaration has increased marginally this year to 88.62%.

KEY OUTPUT

The key 'output' or service provided by the Board is **regulation** of the settlement industry through the discharge of the Board's statutory functions.

The Board undertakes a range of activities to ensure both agents and the public are aware of their rights and responsibilities, licences settlement agents, takes action to ensure compliance with the Act, hears complaints and administers the Fidelity Guarantee Fund.

Efficiency Indicator

The average cost per licensed agent, of regulating the settlement industry.

The Board provides a range of services/outputs aimed to ensure that settlement agents comply with the requirements of the Act. This indicator measures the efficiency with which the Board achieves this.

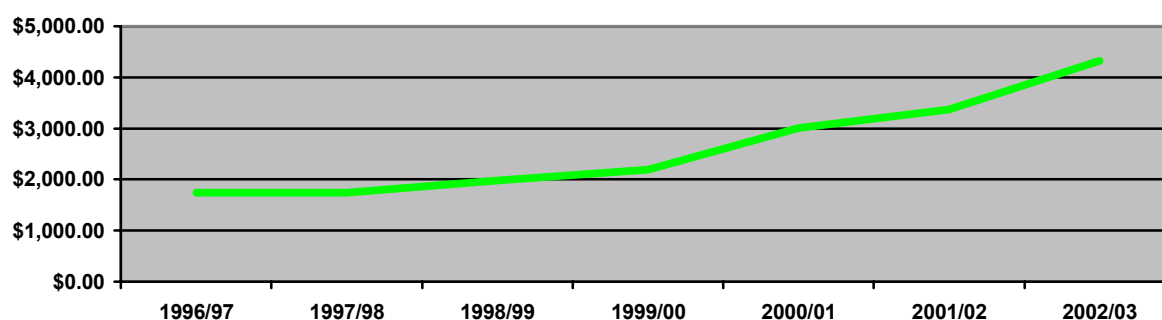
Measure

Total cost of regulating the industry divided by the number of active licensed agents in Western Australia.

Data

| | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 |
|------------------------|-----------|-----------|-------------|-------------|-------------|
| Annual Cost* | \$756 530 | \$836 208 | \$1 078 368 | \$1 313 865 | \$1 593 368 |
| Active Licensed Agents | 398 | 382 | 359 | 390 | 369 |
| | \$1900.83 | \$2189.03 | \$3003.81 | \$3368.88 | \$4318.07 |

The average cost per licensed agent, of regulating the settlement industry



* Note: The annual cost of regulating the settlement industry has been calculated using the total annual expenditure of the Board less Fidelity Guarantee Fund payments made in that financial year. Fidelity Guarantee Fund payments have been excluded as these payments relate to the reimbursement of losses that were incurred by the defalcation of a licensed settlement agent in previous financial years and therefore do not reflect on the true annual cost of regulating the settlement industry.

Notes to the indicator

The efficiency indicator is based on the cost of delivering the output per each active licensed settlement agent. In the 2002/03 financial year a total of \$1 593 368 was expended on regulating an industry with 369 active licensed agents.

The average cost per agent of regulating the settlement industry, like the average cost per capita, has increased steadily since July 1999. This increase can be attributed to the continued introduction of initiatives aimed at improving services and meeting the increasing demands and expectations of both consumers and the industry.

SECTION 4

Financial Statements



AUDITOR GENERAL

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

SETTLEMENT AGENTS SUPERVISORY BOARD FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

Audit Opinion

In my opinion,

- (i) the controls exercised by the Settlement Agents Supervisory Board provide reasonable assurance that the receipt, expenditure and investment of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) the financial statements are based on proper accounts and present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, the financial position of the Board at June 30, 2003 and its financial performance and cash flows for the year ended on that date.

Scope

The Board's Role

The Board is responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing the financial statements, and complying with the Financial Administration and Audit Act 1985 (the Act) and other relevant written law.

The financial statements consist of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and the Notes to the Financial Statements.

Summary of my Role

As required by the Act, I have independently audited the accounts and financial statements to express an opinion on the controls and financial statements. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the financial statements is error free. The term "reasonable assurance" recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements.

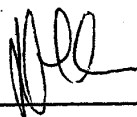
D D R PEARSON
AUDITOR GENERAL
November 4, 2003

Certification of Financial Statements

CERTIFICATION

The accompanying financial statements of the Settlement Agents Supervisory Board have been prepared in compliance with the provisions of the *Financial Administration and Audit Act 1985* from proper accounts and records and to present fairly the financial transactions for the year ending 30 June 2003 and the financial position as at 30 June 2003.

At the date of signing we are not aware of any circumstances which would render any particulars included in the financial statements misleading or inaccurate.



David Taylor
Chair



Eva Skira
Member



Carolyn Allanson
Principal Accounting Officer

Dated 29 AUGUST 2003

SETTLEMENT AGENTS SUPERVISORY BOARD

Statement of Financial Performance for the year ended 30 June 2003

| REVENUE | Note | 2002/03 \$ | 2001/02 \$ |
|---|------|------------------|------------------|
| Revenue from Ordinary Activities | | | |
| <i>Revenue from operating activities</i> | | | |
| Agents trust account interest income | | 2,805,370 | 2,110,046 |
| Licence income | 3 | 69,500 | 71,126 |
| Contributions to the Fidelity Guarantee Fund | | 24,750 | 26,100 |
| Fines and costs | | 27,000 | 8,050 |
| Other revenues from ordinary activities | 4 | 129 | 127 |
| <i>Revenue from non operating activities</i> | | | |
| Bank and investment interest | 2 | 677,015 | 555,871 |
| Total Revenues from Ordinary Activities | | 3,603,764 | 2,771,320 |
| EXPENSES | | | |
| Expenses from Ordinary Activities | | | |
| Employee expenses | 5 | 222,142 | 227,889 |
| Communications costs | | 11,842 | 957 |
| Legal fees | | 159,359 | 45,954 |
| Board fees | | 29,600 | 15,828 |
| Services and contracts | 6 | 59,238 | 92,062 |
| Consumables and maintenance | 7 | 4,502 | 4,117 |
| Depreciation | 8 | 35,234 | 33,968 |
| Service Delivery Agreement | 9 | 1,066,439 | 870,310 |
| Total Expenses from Ordinary Activities Before Grants | | 1,588,356 | 1,291,085 |
| Grants | | | |
| Education Grants | 10 | 5,012 | 22,780 |
| Total Expenses from Ordinary Activities | | 1,593,368 | 1,313,865 |
| NET PROFIT | | 2,010,396 | 1,457,455 |

The Statement of Financial Performance should be read in conjunction with the accompanying notes.

SETTLEMENT AGENTS SUPERVISORY BOARD
Statement of Financial Position as at 30 June 2003

| Current Assets | Note | 2002/03 | 2001/02 |
|---|-------------|-------------------|-------------------|
| | | \$ | \$ |
| Cash assets | 13 | 5,075,799 | 3,879,274 |
| Restricted cash assets | 13 | 9,659,910 | 8,931,028 |
| Accrued agents trust account interest income | | 334,250 | 245,593 |
| Accrued investment interest | | 58,747 | 47,554 |
| Receivables | 14 | 16,081 | 3,709 |
| Total Current Assets | | 15,144,787 | 13,107,158 |
| Non-Current Assets | | | |
| Computers and Equipment | 19 | 12,236 | 14,014 |
| REMIS Software | 19 | 69,761 | 94,129 |
| Total Non-Current Assets | | 81,997 | 108,143 |
| Total Assets | | 15,226,784 | 13,215,301 |
| Current Liabilities | | | |
| Payables | 15 | 205,949 | 194,702 |
| Provisions for fidelity guarantee claims | 11 | 14,882 | 14,882 |
| Other liabilities (Revenue received in advance) | 3 | 49,894 | 57,264 |
| Provisions | 20 | 23,698 | 30,468 |
| Total Current Liabilities | | 294,423 | 297,316 |
| Non Current Liabilities | | | |
| Other liabilities (Revenue received in advance) | 3 | 36,855 | 38,414 |
| Provisions | 20 | 25,710 | 20,171 |
| Total Non Current Liabilities | | 62,565 | 58,585 |
| Total Liabilities | | 356,988 | 355,901 |
| NET ASSETS | | 14,869,796 | 12,859,400 |
| Equity | | | |
| Retained profits | 22 | 14,869,796 | 12,859,400 |
| TOTAL EQUITY | | 14,869,796 | 12,859,400 |

The Statement of Financial Position should be read in conjunction with the accompanying notes.

SETTLEMENT AGENTS SUPERVISORY BOARD**Statement of Cash Flows for the year ended 30 June 2003**

| CASH FLOWS FROM OPERATING ACTIVITIES | Note | 2002/03 | 2001/02 |
|--|-------------|-------------------|-------------------|
| | | \$ | \$ |
| Receipts | | | |
| Interest received | | 3,382,535 | 2,550,823 |
| Receipt from clients | | 49,634 | 67,259 |
| Contributions paid into the Fidelity Guarantee Fund | | 24,750 | 26,100 |
| GST receipts from ATO | | 25,694 | 13,031 |
| Payments | | | |
| Payments to suppliers of goods and services | | (1,515,945) | (1,130,428) |
| Payments for education programs | | (5,012) | (22,780) |
| GST payments on purchases | | (27,161) | (13,326) |
| Net Cash Provided by/(used in) Operating Activities | 18 | 1,934,495 | 1,490,679 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payments for non current assets | | (9,088) | 0 |
| Net Cash Provided by/(used in) Investing Activities | | (9,088) | 0 |
| Net Increase in Cash Held | | 1,925,407 | 1,490,679 |
| Cash assets at the beginning of the financial year | | 12,810,302 | 11,319,623 |
| Cash assets at the end of the financial year | 13 | 14,735,709 | 12,810,302 |

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

1. Significant Accounting Policies

The following accounting policies have been adopted in the preparation of the financial statements. Unless otherwise stated, these policies are consistent with those adopted in the preceding year.

(a) General statement

The financial statements constitute a general purpose financial report which has been prepared in accordance with Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board, and Urgent Issues Group (UIG) Consensus Views as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary the application, disclosure, format and wording. The Financial Administration and Audit Act and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board, and UIG Consensus Views. The modifications are intended to fulfil the requirements of general application to the public sector, together with the need for greater disclosure and also to satisfy accountability requirements.

If any such modification has a material or significant financial effect upon the reported results, details of that modification and where practicable, the resulting financial effect is disclosed in individual notes to these financial statements.

The statements have been prepared on the accrual basis of accounting using the historical cost convention, except for certain assets and liabilities, which as noted, are measured at fair value.

(b) Revenue Recognition

Revenue from the sale of goods and disposal of other assets and the rendering of services, is recognised when control of the goods or other assets or delivery of the services has passed to the customer.

(c) Acquisition of assets

The cost method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

(d) Depreciation of non-current assets

All non-current assets having a limited useful life are systematically depreciated over their estimated useful lives in a manner, which reflects the consumption of their future economic benefits.

Depreciation is calculated on the straight line basis, using rates, which are reviewed annually. Expected useful lives for each class of depreciable asset are:

| | |
|--------------------------------|---------|
| Computers & Equipment | 3 years |
| REMIS Software | 5 years |
| All assets are stated at cost. | |

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

(e) Cash

For the purpose of the Statement of Cash Flows, cash included cash assets and restricted cash assets. These include short term deposits that are readily convertible to cash on hand and are subject to insignificant risk of changes in value.

(e) Software

Significant costs associated with the acquisition or development of computer software are capitalised and amortised on a straight line basis over the periods of the expected benefit. In the case of REMIS five years. Costs in relation to the Boards web site are charged to expenses in the period in which they are incurred.

(f) Employee benefits

Annual leave

This benefit is recognised at the reporting date in respect to employees' services up to that date and is measured at the nominal amounts expected to be paid when the liabilities are settled.

Long service leave

Leave benefits are calculated at current remuneration rates. A liability for long service leave is recognised after an officer has completed four years of service. Leave benefits for staff services procured from the Dept of Consumer & Employment Protection by the Board under a service delivery agreement are carried in the Department's accounts.

This method of measurement of the liability is consistent with the requirements of Australian Accounting Standard AASB 1028, "Employee Benefits".

Superannuation

Staff may contribute to the Pension Scheme, a defined benefits pension scheme now closed to new members, or to the Gold State Superannuation Scheme, a defined benefit lump sum scheme now also closed to new members. All staff who do not contribute to either of these schemes become non-contributory members of the West State Superannuation Scheme, an accumulation fund complying with the Commonwealth Government's Superannuation Guarantee (Administration) Act 1992. all of these schemes are administered by the Government Employees Superannuation Board(GESB).

The liabilities for superannuation charges under the Gold State Superannuation Scheme and West State Superannuation Scheme are extinguished by payment of employer contributions to the GESB.

The note disclosure required by paragraph 6.10 of AASB 1028 (being the employer's share of the difference between employees' accrued superannuation benefits and the attributable net market value of plan assets) has not been provided. State scheme deficiencies are recognised by the State in its whole of government reporting. The GESB's records are not structured to provide the information for the Board. Accordingly, deriving the information for the Board is impractical under current arrangements, and thus any benefits thereof would be exceeded by the cost of obtaining the information.

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

Employee benefit on-costs

Employee benefit on costs are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities and expenses.

Accrued Salaries

Accrued salaries represent the amount due to staff but unpaid at the end of the financial year, as the end of the last pay period for that financial year does not coincide with the end of the financial year. These are included as part of the payables (note 16). The Board considers the carrying amount approximates net fair value.

(g) Revenue

Proceeds from triennial licensing fees are allocated over 36 months from the month of receipt. The portion of licensing fees which are related to the current year are recognised as income. The remainder of the proceeds is recognised as Revenue received in advance.

Contributions from agents to the Fidelity Guarantee Fund are recognised as revenue in the year of receipt. These are levied by the Board if it is of the opinion funds are not sufficient to cover pecuniary loss of property by reason of any defalcation by a licensee.

Proceeds from other sources are recognised as revenue when received. Other revenue is fully described in the Statement of Financial Performance.

Interest revenues are recognised as they are accrued.

(h) Receivables

Receivables are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition.

(i) Investments

Investments are brought to account at the lower of cost and recoverable amount. Interest revenues are recognised as they are accrued.

(j) Accounts payable and accrued expenses

Payables, including accruals not yet billed, are recognised when the Board becomes obliged to make future payments as the result of a purchase of assets or services. Payables are generally settled within 30 days.

(k) Net fair value of financial assets and liabilities

The carrying amount of financial assets and financial liabilities recorded in the financial statements are not materially different from their net fair values, determined in accordance with the accounting policies disclosed in these notes.

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

(I) Comparative figures

Comparative figures are, where appropriate, reclassified so as to be comparable with the figures in the current financial year.

2. Bank and investment interest

The interest income of the Board is comprised of:

| | 2002/03 | 2001/02 |
|------------------------------|----------------|----------------|
| | \$ | \$ |
| Interest from Treasury | 663,295 | 548,530 |
| Interest on call accounts | 13,720 | 7,341 |
| Total interest income | 677,015 | 555,871 |

3. Licence income

Proceeds from triennial licensing fees are allocated over 36 months from the month of receipt. Proceeds relating to the current financial year are recognised as revenue. The balance of the proceeds is credited into the Revenue received in advance account. The analysis of the proceeds is as follows:

| | 2002/03 | 2001/02 |
|---|----------------|----------------|
| | \$ | \$ |
| Revenue received in advance account (current) | 57,264 | 61,190 |
| Revenue received in advance account (non current) | 38,414 | 49,676 |
| Cash received during the year | 62,359 | 59,116 |
| Total receipts received in advance | 158,037 | 169,982 |
| Refunds | 1,788 | 3,178 |
| Income recognised during the year | 69,500 | 71,126 |
| | 71,288 | 74,304 |
| Revenue received in advance | 86,749 | 95,678 |
| Held in | | |
| Revenue received in advance account (current) | 49,894 | 57,264 |
| Revenue received in advance account (non current) | 36,855 | 38,414 |
| Total | 86,749 | 95,678 |

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

4. Other revenues from ordinary activities

Other income consists of:

| | 2002/03 | 2001/02 |
|--------------|------------|------------|
| | \$ | \$ |
| Other income | 129 | 117 |
| Search Fees | 0 | 10 |
| Total | 129 | 127 |

5. Employee expenses

The Board procures services from the Dept of Consumer & Employment Protection under a service delivery agreement. The current arrangements which started in the 1999/2000 financial year is for an all inclusive fixed fee. The salary figure below represents only the salary of employees directly employed by the Board.

| | 2002/03 | 2001/02 |
|---------------------------------|----------------|----------------|
| | \$ | \$ |
| Salary | 185,925 | 173,032 |
| Change in annual leave | 2,988 | 1,989 |
| Change in long service leave | (4,220) | 10,894 |
| Superannuation | 12,426 | 7,544 |
| Total staff salary costs | 197,119 | 193,459 |
| Staff related expenses | 25,023 | 34,430 |
| Total staff costs | 222,142 | 227,889 |

Staff related expenses include training, workers compensation, vehicle, FBT and parking.

6. Services and contracts

Services contracts consists of:

| | 2002/03 | 2001/02 |
|----------------------------------|---------------|---------------|
| | \$ | \$ |
| Audit fees | 10,000 | 8,500 |
| Bank charges | 701 | 490 |
| Consultants and contractors fees | 0 | 4,702 |
| Board members insurance | 7,955 | 6,700 |
| Professional services | 5,997 | 6,250 |
| Advertising | 22,030 | 5,694 |
| Printing | 10,112 | 7,565 |
| Miscellaneous | 1,747 | 800 |
| Website subscription | 541 | 946 |
| REMIS maintenance | 155 | 50,415 |
| Total | 59,238 | 92,062 |

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

7. Consumables and maintenance

| | 2002/03 | 2001/02 |
|------------------------------------|--------------|--------------|
| | \$ | \$ |
| Stationery | 397 | 2,513 |
| Sundry consumables | 2,313 | 1,604 |
| Sundry assets costing under \$1000 | 890 | 0 |
| Repair and maintenance | 902 | 0 |
| Total | 4,502 | 4,117 |

8. Depreciation

Depreciation charges for the year consist of:

| | 2002/03 | 2001/02 |
|-------------------------|---------------|---------------|
| | \$ | \$ |
| Computers and equipment | 10,866 | 9,597 |
| REMIS Software | 24,368 | 24,371 |
| Total | 35,234 | 33,968 |

9. Service Delivery Agreement

The Board procures services from the Department of Consumer and Employment Protection under a service delivery agreement.

The current agreement is for a fixed fee which is reviewed annually.

10. Educational grants

The Board made educational grants amounting to **\$5,012** during the year (\$22,780 for 2001/02).

Grants were made to the following for the provision of training courses:

| | 2002/03 | 2001/02 |
|--------------------------------------|--------------|---------------|
| | \$ | \$ |
| Australian Institute of Conveyancers | 5,012 | 0 |
| Miscellaneous | 0 | 22,780 |
| Total | 5,012 | 22,780 |

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

11. Provisions for fidelity guarantee claims.

The position of the provision for fidelity guarantee account at the financial year end date is as follows:

| | 2002/03 | 2001/02 |
|--------------------------------|---------------|---------------|
| | \$ | \$ |
| Opening balance | 14,882 | 15,057 |
| Payment from provision account | 0 | 175 |
| Closing balance | 14,882 | 14,882 |

The closing balance of the provision for fidelity claims is a residual balance of provisions left over from previous years. It is not an admission of liability. Consequently, no new provisions were transferred into the provision account as this account should be allowed to run down. As at 30 June 2003 the Principal Financial Compliance Officer has not deemed any outstanding claims can be reliably assessed. Outstanding claims against the Fidelity Guarantee Fund are disclosed as contingent liabilities.

12. Contingent liabilities

In addition to the liabilities incorporated in the financial statements the Board is aware of 3 claims (7 as at 30/6/2002) against the Fidelity Guarantee Fund totalling \$1.7m (\$2.4m as at 30/6/02) for which no liability has been admitted by the Board.

13. Cash assets

Cash resources held in the Fidelity Guarantee Fund are deemed to be restricted as the application of these resources are governed by the provisions of the Settlement Agents Act 1981.

As at balance sheet date the cash balances in the various bank accounts administered by the Board are as follows:

| | 2002/03 | 2001/02 |
|--------------------------------------|----------------|---------------|
| | \$ | \$ |
| Education and General Purpose Fund | 267,759 | 38,774 |
| Fidelity Guarantee Fund (Restricted) | 69,910 | 41,028 |
| Board Interest Account | 68,040 | 500 |
| Total cash at bank | 405,709 | 80,302 |

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

Note 13 continued

| | 2002/03 \$ | 2001/02 \$ |
|--|-------------------|-------------------|
| Cash held at Treasury | | |
| Education and General Purpose Fund | 4,740,000 | 3,840,000 |
| Fidelity Guarantee Fund (Restricted) | 9,590,000 | 8,890,000 |
| Total cash held in term deposit | 14,330,000 | 12,730,000 |
| Total Cash | 14,735,709 | 12,810,302 |

| | | |
|------------------------|-------------------|-------------------|
| Cash Assets | 5,075,799 | 3,879,274 |
| Restricted Cash Assets | 9,659,910 | 8,931,028 |
| Total Cash | 14,735,709 | 12,810,302 |

14. Receivables

Accounts receivable represents monies due from:

| | 2002/03 \$ | 2001/02 \$ |
|---------------------|---------------|---------------|
| Accounts Receivable | 10,906 | 0 |
| GST Recoverable | 5,175 | 3,709 |
| Total | 16,081 | 3,709 |

15. Payables

| | 2002/03 \$ | 2001/02 \$ |
|--|----------------|----------------|
| Service delivery agreement with the Dept of Consumer & Employment Protection | 88,869 | 72,526 |
| Audit fees | 10,000 | 8,500 |
| Reimbursement to Dept of Consumer & Employment Protection | 16,094 | 16,817 |
| Salaries | 4,804 | 3,618 |
| Miscellaneous creditors | 6,677 | 43,637 |
| Overpaid trust account interest | 79,505 | 49,604 |
| Total | 205,949 | 194,702 |

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

16. Remuneration and Retirement Benefits of Board Members and Senior Officers

Remuneration of Board Members

The number of members of the Board whose total of fees, salaries, superannuation and other benefits received or due and receivable for the financial year, falls within the following bands:

| | 2002/03 | 2001/02 |
|-------------------------|---------|---------|
| \$0 - \$10,000 | 9 | 8 |
| Total remuneration (\$) | 32,068 | 17,094 |

Remuneration of Senior Officers

The number of senior officers whose total of fees, salaries, superannuation and other benefits received or due and receivable for the financial year, falls within the following bands:

| | 2002/03 | 2001/02 |
|-------------------------|---------|---------|
| \$0 - \$10,000 | 1 | 0 |
| \$20,001 - \$30,000 | 1 | 0 |
| \$30,001 - \$40,000 | 0 | 1 |
| Total remuneration (\$) | 29,020 | 30,078 |

The Board procures services from the Dept of Consumer & Employment Protection. The number of senior officers providing these services are included in the annual report of the Department.

17. Remuneration of Auditor

The amount payable to the Office of the Auditor General of Western Australia for auditing the accounts for the financial year is \$10,000 (\$8,500 for 2001/02).

Apart from the audit the Board did not procure other services from the Office of the Auditor General of Western Australia.

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

18. Reconciliation of profit from ordinary activities to net cash flows provided/(used in) operating activities

| | 2002/03 | 2001/02 |
|--|------------------|------------------|
| | \$ | \$ |
| Net Profit as per Statement of Finance Performance | 2,010,396 | 1,457,455 |
| Movement in | | |
| Non-cash items | | |
| Depreciation | 35,234 | 33,968 |
| (Increase)/decrease in assets | | |
| Accrued interest | (99,850) | (115,094) |
| Accrued receivables | (12,372) | 16,174 |
| Increase/(decrease) in liabilities | | |
| Payables | 11,247 | 100,656 |
| Fidelity claims | 0 | (175) |
| Employee entitlements | (1,232) | 12,883 |
| Revenue received in advance, current liabilities | (7,370) | (3,926) |
| Revenue received in advance, non current liabilities | (1,559) | (11,262) |
| Net cash provided by/(used in) operating activities | 1,934,495 | 1,490,679 |

19. Property Plant & Equipment

| | 2002/03 | 2001/02 |
|--|----------------------|-----------------------|
| | \$ | \$ |
| Computers and Equipment at Cost | 43,194 | 34,105 |
| Accumulated Depreciation | (30,958) | (20,091) |
| | <u>12,236</u> | <u>14,014</u> |
| REMIS Software at Cost | 121,838 | 121,838 |
| Accumulated Depreciation | (52,077) | (27,709) |
| | <u>69,761</u> | <u>94,129</u> |
| Total Property, Plant & Equipment | <u>81,997</u> | <u>108,143</u> |

Reconciliations

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

| | 2002/03 |
|---------------------------------------|---------------|
| | \$ |
| Computers and Equipment | |
| Carrying amount at start of year | 14,014 |
| Additions | 9,088 |
| Disposals | 0 |
| Accumulated depreciation on disposals | 0 |
| Depreciation expense | (10,866) |
| Carrying amount at end of year | <u>12,236</u> |

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

Note 19 continued

REMIS Software

| | |
|---------------------------------------|---------------|
| Carrying amount at start of year | 94,129 |
| Additions | 0 |
| Disposals | 0 |
| Accumulated depreciation on disposals | 0 |
| Depreciation expense | (24,368) |
| Carrying amount at end of year | <u>69,761</u> |

Total Property, Plant & Equipment

81,997

20. Provisions

| | 2002/03 \$ | 2001/02 \$ |
|--------------------------------|---------------|---------------|
| Current Liabilities | | |
| Annual Leave | 8,690 | 5,701 |
| Long Service Leave | <u>15,008</u> | <u>24,767</u> |
| | 23,698 | 30,468 |
| Non Current Liabilities | | |
| Long Service Leave | 25,710 | 20,171 |

The settlement of annual and long service leave liabilities gives rise to the payment of employment on costs including superannuation and workers compensation premiums. The liability for such on costs is included here. The associated expense is included under employee expenses at note 6.

The Board considers the carrying amount of employee benefits approximates the net fair value.

21. Activity/Output Information

The 'output' or service provided by the Board is '**Regulation**' or '**regulatory services**'.

As there is only one output for the Board there is no separate reporting under outputs as required by Treasury Instruction 904 or reporting under industry segments for the purpose of AASB1005.

22. Retained Profits

| | 2002/03 \$ | 2001/02 \$ |
|------------------------|-------------------|-------------------|
| Opening balance | 12,859,400 | 11,401,945 |
| Unappropriated surplus | 2,010,396 | 1,457,455 |
| Total Equity | <u>14,869,796</u> | <u>12,859,400</u> |

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

23. Financial Instruments

(a) Interest Rate Risk Exposure

The Board exposure to interest rate risk and effective interest rates on financial instruments are:

| | Weighted average effective rate | | Floating interest | | Fixed interest 1 year or less | | Non interest bearing | | Total as per the Statement of Financial Position | |
|------------------------------|---------------------------------|---------|-------------------|---------|-------------------------------|---------|----------------------|---------|--|---------|
| | 2002/03 | 2001/02 | 2002/03 | 2001/02 | 2002/03 | 2001/02 | 2002/03 | 2001/02 | 2002/03 | 2001/02 |
| Financial Assets | | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash assets | 4.75% | 4.53% | 406 | 80 | 14,330 | 12,730 | | | 14,736 | 12,810 |
| Accrued interest | 0.00% | 0.00% | | | | | 393 | 293 | 393 | 293 |
| Receivables | 0.00% | 0.00% | | | | | 16 | 4 | 16 | 4 |
| Total financial assets | | | 406 | 80 | 14,330 | 12,730 | 409 | 297 | 15,145 | 13,107 |
| Financial Liabilities | | | | | | | | | | |
| Payables | 0.00% | 0.00% | | | | | 206 | 195 | 206 | 195 |
| Provisions | 0.00% | 0.00% | | | | | 49 | 51 | 49 | 51 |
| Revenue received in advance | 0.00% | 0.00% | | | | | 87 | 96 | 87 | 96 |
| Total financial liabilities | | | 0 | 0 | 0 | 0 | 342 | 342 | 342 | 342 |
| Net financial assets | | | | | | | | | | |
| | | | 406 | 80 | 14,330 | 12,730 | 67 | (45) | 14,803 | 12,765 |

(b) Credit Risk Exposure

All financial assets are unsecured. Financial assets comprise of money held in Commonwealth Bank cash accounts, investments placed with Treasury and monies owed to the Board by the Dept. of Consumer & Employment Protection.

(c) Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements are not materially different from their net fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

24. Explanatory Statement

a) Significant variations between actual revenues and expenditures for the financial year and those for the immediately preceding financial year

Details and reasons for significant variations between actual results with the corresponding items of the preceding year are detailed below.

Significant variations are considered to be those greater than 10% and \$50,000.

| | 2002/2003 Actual \$ | 2001/2002 Actual \$ | Variation 02/03 to 01/02 \$ |
|--|---------------------------|---------------------------|-----------------------------------|
| Revenues | | | |
| Agents trust account interest income | 2,805,370 | 2,110,046 | 695,324 |
| Bank and investment interest | 677,015 | 555,871 | 121,144 |
| Expenses from Ordinary Activities | | | |
| Legal fees | 159,359 | 45,954 | 113,405 |
| Service Delivery Agreement | 1,066,439 | 870,310 | 196,129 |

Agents trust account interest income

A much higher level of activity and higher prices in the industry than the preceding year resulted in a higher level of trust account interest being received compared with the previous year.

Bank and investment interest

Higher levels of trust account interest revenue has resulted in higher levels of deposits with Treasury and the banks. This resulted in higher levels of income for this item.

Legal fees

Legal costs were higher than the previous year to due to a significant increase in the number of inquiries and a full hearing associated with a fidelity fund claim.

Service Delivery Agreement

The increase cost of the agreement between the Board and the Dept of Consumer and Employment Protection was due to increased staff being employed by the Dept in providing services for the Board.

SETTLEMENT AGENTS SUPERVISORY BOARD

Notes to the Financial Statements for the year ended 30 June 2003

Note 24 continued

b) Significant variations between estimates and actual results for the financial year

Details and reasons for significant variations between these estimates and actual results are detailed below. Significant variations are considered to be those greater than 10% and \$50,000.

| | 2002/2003 Actual \$ | 2002/2003 Budget \$ | Variation 02/03 to budget \$ |
|--|---------------------------|---------------------------|------------------------------------|
| Revenues | | | |
| Agents trust account interest income | 2,805,370 | 2,317,300 | 488,070 |
| Expenses from Ordinary Activities | | | |
| Legal fees | 159,359 | 84,000 | 75,359 |
| Service Delivery Agreement | 1,066,439 | 930,000 | 136,439 |
| Fidelity Guarantee Payments | 0 | 100,000 | -100,000 |
| Education Grants | 5,012 | 75,000 | -69,988 |

Agents trust account interest income

A much higher level of activity and higher prices in the industry than was anticipated resulted in higher level of trust account interest being received compared with the estimated amount.

Legal fees

Legal costs were higher than estimated due to a higher than expected number of inquiries being conducted by the Board.

Service Delivery Agreement

The effects of increased staff numbers in providing services by the Dept of Consumer and Employment Protection to the Board was not anticipated at the time of the budget preparation.

Fidelity Guarantee Payments

Although an estimate was made and included in the budget the Board does not admit liability until determinations are finalised. For 2002/2003 no claims against the Fidelity Fund were paid out.

Education Grants

Training grants were below budget as course providers failed to run courses as predicted and undertake projects which funding was set aside for.