

# IAB Services

A NSW Government Trading Enterprise

## 2006-07 ANNUAL REPORT



*The Public Sector Improvement Specialists*



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Published by

**IAB SERVICES**

Level 3, 507 Kent Street

Sydney NSW 2000

**p** 02 9261 9100

**e** [intaud@iab.nsw.gov.au](mailto:intaud@iab.nsw.gov.au)

[www.iab.nsw.gov.au](http://www.iab.nsw.gov.au)

October 2007



**RISK MANAGEMENT & CONSULTING SERVICES**  
Level 3, 507 Kent Street Sydney 2000, NSW  
PO Box Q295 QVB Post Shop Sydney NSW 1230  
Telephone: (02) 9261 9100 Facsimile: (02) 9261 9111  
Email: [intaud@iab.nsw.gov.au](mailto:intaud@iab.nsw.gov.au)

The Hon. Michael Costa, MLC  
Treasurer  
Minister for Infrastructure and  
Minister for the Hunter  
Level 31, Governor Macquarie Tower  
1 Farrer Place  
SYDNEY NSW 2000

31 October 2007

Dear Minister

We have pleasure in submitting to you the 2006-07 Annual Report for the Internal Audit Bureau of NSW (trading as IAB Services), for presentation to the New South Wales Parliament. The Report has been prepared in accordance with the *Annual Reports (Statutory bodies) Act 1984*, the *Annual Reports (Statutory Bodies) Regulation 2005*, the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2005*.

Yours sincerely

A handwritten signature in black ink, appearing to read "Ian Neale".

Ian Neale  
Chairman

A handwritten signature in black ink, appearing to read "Stephen J. Horne".

Stephen J Horne  
Managing Director



**The information contained in this publication is based on the latest details available at the time of printing. A total of 125 copies were printed of this report at a cost of \$1,918 plus GST. Copies are available for download from [www.iab.nsw.gov.au](http://www.iab.nsw.gov.au) or by contacting us on 02 9261 9100.**

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## our

### VISION

Our Vision is to be recognised as an integral element of the continuous improvement process in the public sector.

## our

### MISSION

We facilitate the implementation of effective public sector reform and improvement by providing quality solutions that assist State, Local and Federal public sector bodies to:

- ♦ Manage their risks and their increasing compliance obligations more effectively and efficiently.
- ♦ Measure, monitor and manage their performance.
- ♦ Improve their financial and operational performance.
- ♦ Achieve their goals.

## our

### VALUES

- ♦ **Client Focused** – we are reliable, flexible and responsive in the way we deliver our products and services.
- ♦ **Integrity** – we behave honestly and ethically in all of our dealings.
- ♦ **Respect** – we talk straight and consider the views of others.
- ♦ **Teamwork** – we work together to develop innovative solutions and practical reforms.
- ♦ **Independence** – we provide objective and professional advice.
- ♦ **Value for Money** – we think creatively and add value by exceeding expectations and delivering customised solutions.

# IAB SERVICES

## who we are

The Internal Audit Bureau of NSW (trading as IAB Services) is a NSW Government Trading Enterprise, established under the *Internal Audit Bureau Act 1992*. We provide a wide range of assurance and improvement services to public sector bodies operating within New South Wales and the ACT.

## what we do

We are focused on providing the range and calibre of services that public sector bodies require to improve their performance, manage their risks and meet the range of obligations and reform requirements that confront them.

Our services generally fall into one of three categories – Internal Audit; Investigations; and Consultancies. IAB Services is the main provider of co-sourced or outsourced internal audit and management consulting services to the NSW Public Sector, servicing over 80 agencies. We also provide services to Local Councils and Commonwealth Government bodies operating in NSW or the ACT. At any one time IAB Services has around 30 to 40 projects underway, completing around 700 projects annually.

In addition to internal audit, review and management consulting, we are positioned to assist agencies with probity reviews; managing information technology; complex accounting and taxation issues; grievance mediation; HR issue; and conducting investigations (including forensic examinations), and more.

The list continues to grow, and our website provides updates of the range of services that we provide.

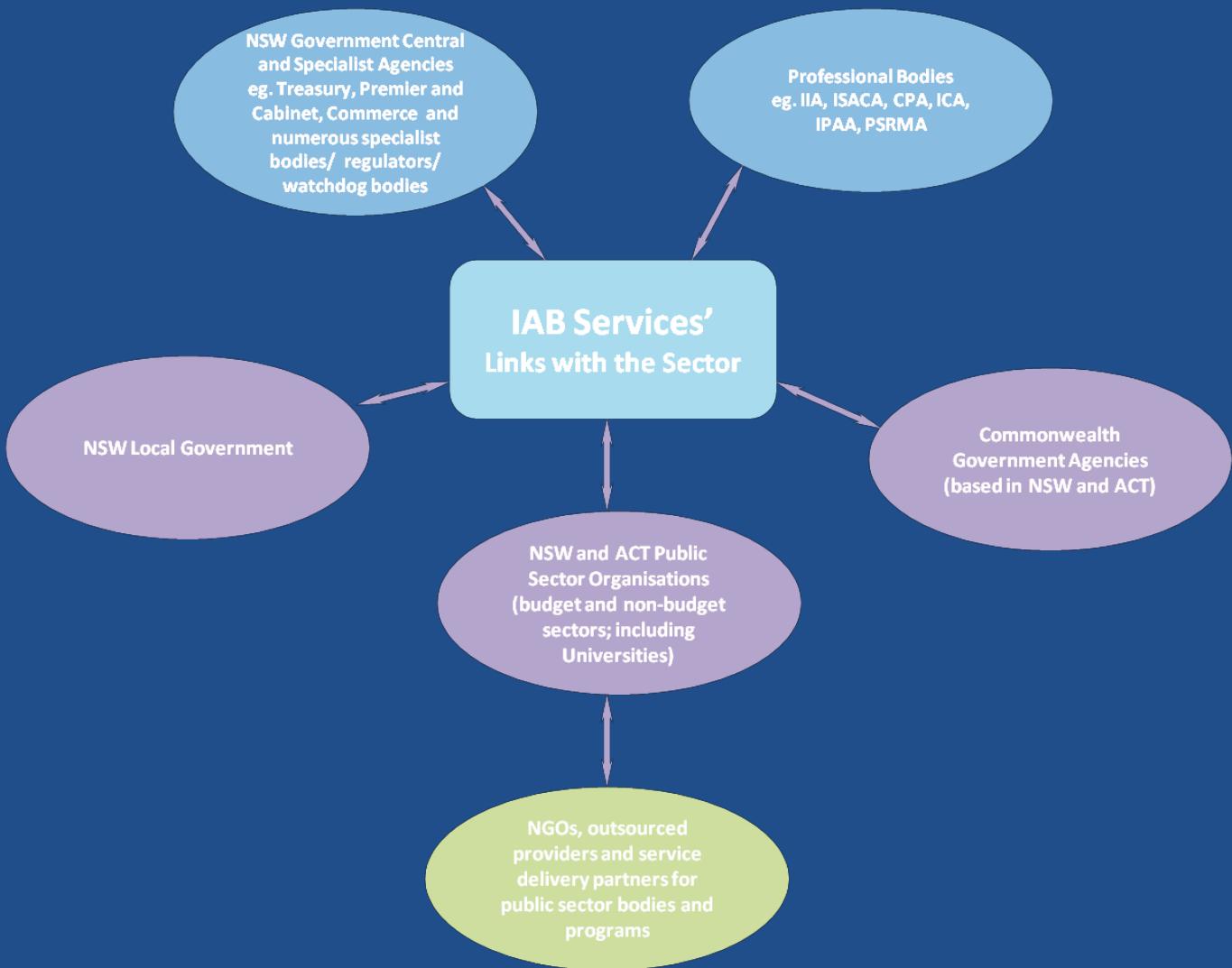
## our

## value proposition

We distinguish our organisation from other external service providers by offering the following value propositions:

- ◆ Our services will be provided by people with extensive knowledge and experience (in most cases over 15 years for each consultant in their chosen area of specialisation).
- ◆ Our solutions will be practical and aligned to the public sector environment.
- ◆ Our services will be priced to offer the public sector a “value for money” alternative.

# GENERATING PUBLIC SECTOR IMPROVEMENT



## Our key clients

Our client base covers:

- ◆ NSW State Government Public Sector Agencies.
- ◆ NSW Local Government Public Sector Agencies.
- ◆ Commonwealth Government Public Sector Agencies operating in ACT or NSW.

In supporting these bodies, we may also be engaged to audit or assist third party providers (eg. partners, outsourcers, NGOs). Our mandate does not allow us to compete for business in the private sector. However, private sector firms are able to compete with us.

# HIGHLIGHTS OF PAST YEAR

## financial summary to 30 June 2007

|   | 2003<br>\$'000<br>(1) | 2004<br>\$'000<br>(1) | 2005<br>\$'000<br>(2) | 2006<br>\$'000<br>(2) | 2007<br>\$'000<br>(2) |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Revenue</b>                                | 5,571                 | 6,275                 | 7,257                 | 8,860                 | 7,866                 |
| <b>Expenses</b>                               | 5,262                 | 5,969                 | 6,851                 | 8,097                 | 7,457                 |
| <b>Profit</b>                                 | 309                   | 306                   | 406                   | 763                   | 409                   |
| <b>Income Tax Expense<br/>Equivalent</b>      | -                     | 3                     | 214                   | 19                    | 95                    |
| <b>Profit after Income Tax<br/>Equivalent</b> | 309                   | 303                   | 192                   | 744                   | 314                   |
| <b>Dividend Paid</b>                          | -                     | 360                   | -                     | -                     | 30                    |

Note (1): Figures prepared under AGAAP

Note (2): Figures prepared under AEIIFRS

## operational

Stephen Horne was appointed as the Managing Director and commenced duty on 24 July 2006.

We extended our client base in the Commonwealth sector (eg we are now part of the Australian Customs Service "Consultancy and Business Services Panel") and Local Government sector (eg we are providing audit and investigation services to a range of local councils).

We extended our range of services to reflect changing needs within the public sector.

We attracted a number of new highly experienced specialists to join our team of experts.

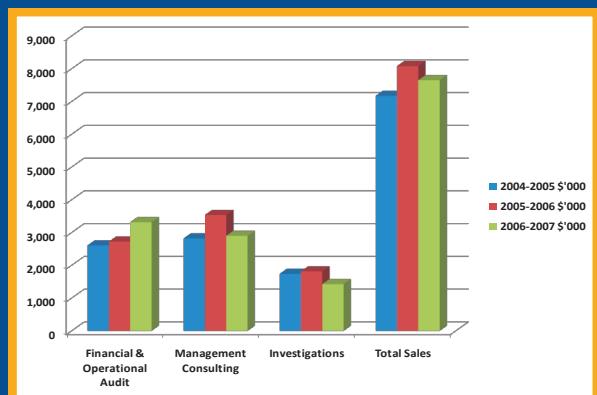
We modified our website to provide regularly updated information on issues for the public sector and developments in our business, and commenced a makeover of our website to comply with new Government branding and presentation requirements.

We completed the process of modifying our operating model that had extended over several years.

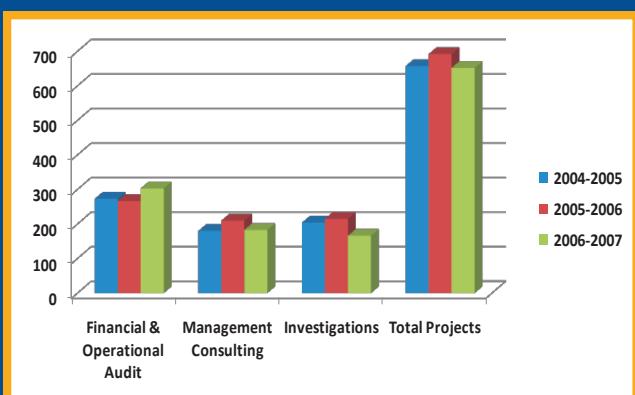
We undertook an extensive administrative restructure which reviewed our support staff requirements and positions us for future growth.

## three year sales & project history

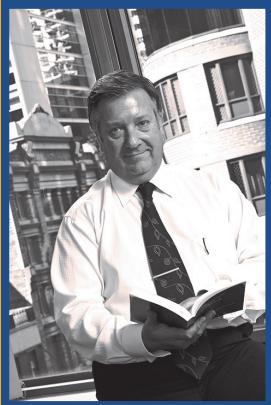
Sales History (\$'000s)



Project History (numbers of projects)



# message from the managing director



I took up duty as the Managing Director for IAB Services on 24 July 2006. In my previous role of Assistant Auditor-General at the Audit Office of New South Wales, I was responsible for the performance audit function. The focus of that role was on assessing the performance of public sector programs and comparing management arrangements to global best practice. This complemented my previous experience in efficiency reviews, program evaluation and internal audit. All of these experiences combined to foster a strong focus for me on playing an active role in public sector improvement. The opportunity to lead IAB Services provides a new and exciting channel for me to pursue this goal.

IAB Services is a well established operation with a 21 year track record of working with public sector bodies to assist them to improve their performance and manage their risks and obligations. The public sector is a very complex environment, and one of continuous change underscored by vigorous periods of intense reform. The challenges facing public sector bodies are immense. The value has been proven of having a specialist Government body in IAB Services, established for the sole purpose of assisting other Government bodies with such challenges. We do not compete in the private sector, although private sector providers can compete with us. We focus exclusively on assisting public sector bodies, and to that purpose we have positioned ourselves with an operating model and a value proposition that allows us to provide extensive experience and expertise to public sector bodies at an economical rate. We know the needs of the public sector because we are part of it, and we can harness an extensive collection of public sector knowledge and experience.

During my first eleven months I have spent time meeting with many public sector Chief Executives and senior staff to develop a close understanding of their current issues and needs. We have then worked on refining our operating model to be able to position, and continuously re-position, ourselves to be capable of meeting the ever changing needs of public sector bodies. This is why we proudly call ourselves "the public sector improvement specialists."

Since starting in this role, I have been astonished at the range of services that we have the capability to provide. Most people that I speak to are not aware of the breadth of our services. One of my key roles is to raise that level of awareness.

IAB Services is a very busy operation. We support a large number of clients, and undertake a very substantial number of assignments. The team of staff and experts that I have the pleasure of leading is exceptionally energetic and responsive. The year showed another solid performance, and I was especially pleased to see that if a client had a concern about an assignment, they were forthcoming in bringing it to our attention and we were responsive in addressing their issues. No operation of this size can operate without hiccups, but it is the hallmark of quality and accountability when you listen, respond and resolve any issues that may arise.

During the year we also commenced a range of organisational improvement projects, and I have been very satisfied with the rate of progress.

Twenty one years on, we continue to work diligently to build and re-invent our organisation to live up to our claim of being "the public sector improvement specialists".

**Stephen J Horne**

# PERFORMANCE AGAINST OUR OBJECTIVES

## REPORTING UNDER GOAL 1 – SERVICE PROVISION

Provide the range of services required to meet changing client needs

### SERVICE DEVELOPMENT

IAB Services continues to invest heavily in re-engineering the way we provide our core services to clients. Changes have been made in our planning and audit methodology to reflect best practice. The main changes revolve around streamlining the internal audit methodology to ensure it meets best practice by focusing the audit on key risks within each system or function under review. Whilst this is not a major shift in our basic methodology, our documentation and reporting of the risks and controls has been changed to better reflect the connection between management's objectives, risk and control.

### QUALITY CONTROL

Quality control over the audit and consultancy process is a vital aspect of our service. We maintain a very high standard in the quality of our reports and our quality control processes ensure the work is thoroughly reviewed prior to issue. Peer reviews are periodically conducted by external specialists.

### MARKETING

A successful marketing focus has been implemented during the current year. Increased sales to existing customers and establishing links with other organisations has ensued. Almost all of last year's customers have continued using IAB Services for a range of services. This reflects positively on the standard of service we have provided.

### RESEARCH

Research during the year has focused on higher level management consultancy and the development of these services.

## REPORTING UNDER GOAL 2 – OPERATIONAL EXCELLENCE

To adopt and implement all necessary measures (including systems of planning, management and quality control) as will best ensure the efficient and economic operation and use of resources in the provision of high quality services.

### SERVICE DELIVERY

Service delivery is the most important area of our operation in terms of our financial viability. Most client plans were completed, with client requests for delaying projects the prime reason for not completing all plans by year-end.



# **PERFORMANCE AGAINST OUR OBJECTIVES (cont)**

## ***REPORTING UNDER GOAL 2 – OPERATIONAL EXCELLENCE (cont)***

### **SERVICE DELIVERY (cont)**

To give client management an opportunity to comment on the effectiveness of the audit process and to provide feedback to the audit supervisors, surveys of client management are conducted. At the completion of a selection of audits, the audit supervisor contacts the client line manager responsible for the area under review. Indications are that our auditors are operating in a professional manner and that the results of the audits are providing management with practical and useful recommendations.

## ***REPORTING UNDER GOAL 3 – STAFF DEVELOPMENT***

**Ensure that the workforce is appropriately recruited, trained, developed and organised to optimise productivity in a safe working environment which also offers and enhances career opportunities.**

### **STAFF RESOURCES**

After an extensive administrative review, our staff resource structure now consists of an executive team of the Managing Director, three Directors who co-ordinate and manage our consultants, and an Executive Officer to manage the administrative team. The administrative team consists of two finance officers and two administration officers. The payroll and personnel service functions are handled in house with payroll processing provided by an outsourced service provider. IAB Services also engages a contractor to provide high level accounting support to our Finance staff. Collectively, the administrative team is responsible for:

- ◆ Providing advice to the Managing Director on personnel, recruitment, industrial and EEO matters.
- ◆ Effectively managing the recruitment and selection process in accordance with department, public service and EEO policies and procedures.
- ◆ Ensuring the IAB Services' compliance with the legislative requirements of the Occupational Health and Safety and Workers' Compensation Acts.

There were no staff disciplinary matters at IAB Services during the year.

### **EQUAL EMPLOYMENT OPPORTUNITY**

In line with the IAB Services' integrated approach to organisational planning, Equal Employment Opportunity strategies are incorporated into our corporate planning process. In addition, Equal Employment Opportunity responsibility is included in the statements of duty of all senior officers.

IAB Services currently has neither Aboriginal employees nor any employees with a physical disability. Approximately 45 per cent of staff are women (an increase from 30 per cent in 2005/2006), with one female in an executive position. Approximately thirty per cent of staff come from a non-English speaking background, similar to 2005/2006.

# PERFORMANCE AGAINST OUR OBJECTIVES (cont)

## REPORTING UNDER GOAL 3 – STAFF DEVELOPMENT (cont)

### PROFESSIONAL DEVELOPMENT

IAB Services provides a combination of external and internal courses for staff in the fields of management, audit techniques and computer related courses.

### OCCUPATIONAL HEALTH AND SAFETY

IAB Services has a commitment to providing a safe working environment. Our business model features a corporate suite with a small number of corporate staff, and a large number of contracted specialists undertaking client assignments. Contractors undertake work duties on behalf of IAB Services at client premises, and may also work at home and at our corporate premises. As part of a new Corporate Plan, we are reviewing our workforce management policies and processes, including examining OH&S to consider if our current arrangements are effective.

## REPORTING UNDER GOAL 4 – COMMERCIAL OPERATION

Operate as a financially self-supporting government trading enterprise.

### BUSINESS MODEL

In operating our business we:

- Price our services to offer public sector bodies with an economical alternative.
- Provide our business with a professional, client focused image without being seen as excessive.
- Provide capital for sufficient, but modest, levels of ongoing research and development and capital replacement.
- Motivate the business and its staff to provide high levels of value to clients and to continue to grow.
- Cover all costs and re-investment needs, and also provide the NSW Government, our owner, with a modest annual dividend.



IAB Services is in an appropriate financial position with only normal trade debts and accrual items. All liabilities are fully funded.

# PERFORMANCE AGAINST OUR OBJECTIVES (cont)

## REPORTING UNDER GOAL 5 – PROFESSIONAL ADVICE

To foster financial accountability, responsibility and improved performance in the public sector by promoting the role and function of internal audit.

### ADVICE TO CLIENTS

Our principal role is to advise clients on their performance and to suggest ways to improve accountability and internal control.

### INDUSTRY REPRESENTATION

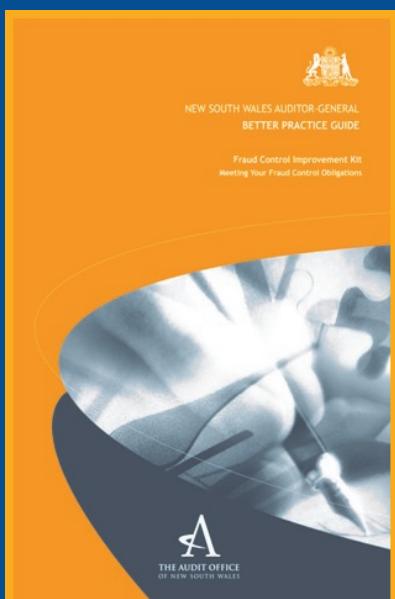
IAB Services actively supports and promotes the internal audit profession through our long-term association with the Institute of Internal Auditors (IIA), the Information Systems Audit and Control Association (ISACA), the Corruption Prevention Network and various government groups.

## HOT TOPIC

### IMPLEMENTING THE FRAUD CONTROL IMPROVEMENT KIT

Fraud control expectations, and obligations, have grown considerably in recent years. Fraud control is now an explicit element under Australian Standards for Corporate Governance. For organisations subject to external audit, Australian Auditing Standard 210 requires external auditors to obtain a formal representation from management each year about fraud control.

To address growing expectations and requirements for fraud control, the NSW Audit Office has developed the Fraud Control Improvement Kit. The Kit provides:

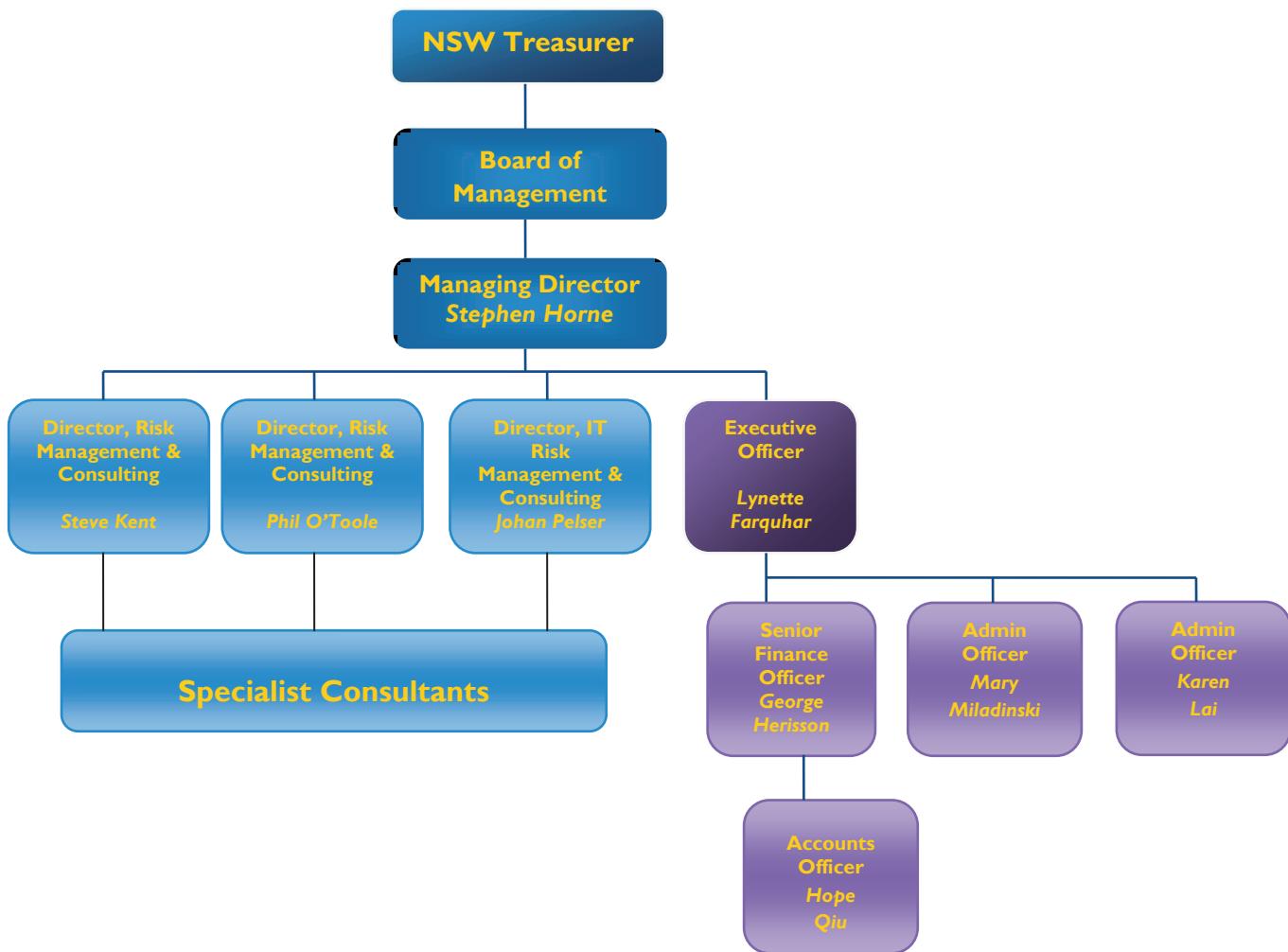


- ♦ Audit Committees with a simple and effective way to review and monitor fraud control.
- ♦ Agency management with a structured way to meet their fraud obligations.
- ♦ Assistance to chief executives when making representations about fraud control.

Audit Committees and executive management need to ensure that the fraud control improvement kit is implemented properly and that it becomes a routine ongoing part of their risk management and assurance framework. IAB Services is uniquely positioned to assist organisations to implement this important reform properly. The creator of the Fraud Control Improvement Kit, Stephen Horne, is now the Managing Director of IAB Services.

# GOVERNANCE FRAMEWORK

## GOVERNANCE STRUCTURE



## BOARD OF MANAGEMENT

As prescribed by the *Internal Audit Bureau Act 1992*, IAB Services is governed by a Board of Management being:

- ◆ The chief executive;
- ◆ The Secretary of the NSW Treasury or some other officer of the Treasury appointed by the Secretary of the Treasury (who is to be appointed as the Chairperson of the Board); and
- ◆ Two other members appointed by the Governor on the recommendation of the Minister.

Appointed members hold office for a period of up to 5 years, but are eligible for reappointment. Appointed members are renumerated for their attendance at Board meetings in accordance with Government policy directives. The Managing Director is responsible to the Board for management and control of the affairs of IAB Services.

## ROLE OF BOARD

The IAB Services Board is responsible for determining the policies and long term strategic plans of the organisation and for monitoring its effective, efficient and economical management. The Board also fulfils the role of an Audit/Finance Committee in terms of its governance responsibilities in relation to financial reporting, internal control, risk management, compliance with laws/regulations and the internal/external audit functions.



## BOARD GOVERNANCE

The Board has a Board Charter (as detailed within the *Internal Audit Bureau Act 1992*). This Charter sets out the role, responsibilities and powers of the Board and establishes policies and procedures with respect to the conduct of meetings and other matters relevant to the effective management of Board affairs. The Board is responsible for critical corporate governance issues, such as:

- ◆ Establishing and maintaining an ethical culture within IAB Services;
- ◆ Delegations of Authority;
- ◆ Setting the strategic direction for IAB Services;
- ◆ Ensuring compliance with statutory requirements;
- ◆ Managing risk;
- ◆ Monitoring organisational performance;
- ◆ Reviewing financial performance and investments;
- ◆ Ensuring the adequacy of the internal control environment;
- ◆ Oversight of the internal and external audit process;
- ◆ Annual reporting requirements.

The Board is reviewing its Code of Conduct & Ethics that outlines fundamental values, principles and standards of behaviour expected of members. The Code is designed to ensure that the Board's activities are conducted with efficiency, impartiality, fairness and integrity. The Code reinforces the obligation of members (as detailed within the *Internal Audit Bureau Act*) to disclose and properly manage any conflict of interest (including pecuniary interests) that may arise as a consequence of their work on the Board.

## BOARD MEETINGS

A total of 11 meetings were held during the year. The table to the right details members' attendance.

| Board Member   | Number of Board Meetings Attended |
|----------------|-----------------------------------|
| Ian Neale      | 11 / 11                           |
| Deborah Page   | 11 / 11                           |
| Timothy Holden | 11 / 11                           |
| Stephen Horne  | 10 / 10                           |

## BOARD MEMBERS



### IAN NEALE, FCPA — Chairperson

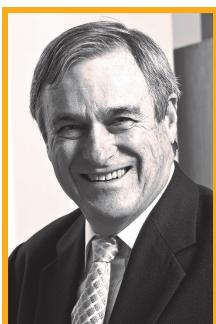
Mr Neale was appointed to the Board and the position of Chairperson in January 1995. He also holds the position of Executive Director in the NSW Treasury's Office of Financial Management. Mr Neale has a wide range of experience in budgeting, accounting and financial management. He has held various positions in the Treasury, Department of Public Works (now Department of Commerce), State Pollution Control Commission (now part of the Department of Environment and Climate Change) and the Protective Office.



### DEBORAH PAGE, AM, FCA, MAICD, BEc — Deputy Chairperson

Mrs Page is a Chartered Accountant and has held senior executive positions with the Commonwealth Bank, Allen, Allen & Hemsley, IBM and the Lend Lease Group, and is a former partner of a "big four" accounting firm. She is currently Chairman of Ascalon Capital Managers Limited and a Director of Investa Funds Management Limited, Macquarie Generation, Commonwealth Insurance Limited and The Colonial Mutual Life Assurance Society Limited.

Ms Page was appointed to the Board in October 2001 for five years and was appointed for a further three years in October 2006 and to the role of Deputy Chairperson in January 2006.



### TIMOTHY R K HOLDEN, FCA, FIMC, CMC

Mr Holden was appointed to the Board in January 2006. He is also a Non-executive Director of the Pain Management Research Institute, The Smith Family, the Uniting Church (NSW) Trust Association Ltd and the Australian subsidiaries of four multi-national companies; former Partner (Sydney Office) of Ernst & Young (1973-2002); former Executive Partner (Sydney Office) Ernst & Young (1998-2002); former CEO of EY Law (1999 -2001). He has a background in strategic management, performance measurement and improvement, corporate governance and change management planning.



### STEPHEN J HORNE, FIIA, B.Bus, Post Grad Cert Mgt Comm

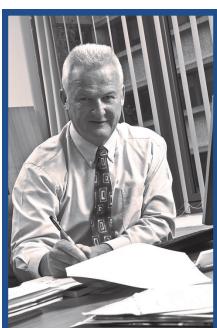
In July 2006 Stephen was appointed as the chief executive of IAB Services. Stephen has twenty-nine years' experience in the NSW public sector, encompassing several functional departments, central agencies, the Audit Office and a government trading enterprise. Stephen developed a career in internal audit, moving on to specialist management and strategy reviews and then to performance audit, where he became recognised globally as an expert in methodology and a sought after trainer and presenter. Stephen has contributed widely to public sector improvement, with a particularly strong focus in the fields of corporate governance, risk management, fraud control strategies, corruption prevention, e-government and performance reporting. Stephen is a judge for several Annual Reports Awards competitions and a high profile figure in the Australian internal audit and corruption prevention communities.

## EXECUTIVE MANAGEMENT TEAM

The Executive Management Team comprises the Managing Director, three Directors and an Executive Officer. The executive team is supported by a small administrative unit and a large and exceptional mix of quality senior contracted professionals, all of whom possess extensive experience gained in both the public and private sectors.

This business model allows IAB Services to draw from a pool of talented professionals with diverse skills, competencies and expertise who have a deep understanding of the public sector environment. This model combines the advantages of an established enterprise with the flexibility and responsiveness afforded by access to a team of highly experienced business consultants. This permits us to deliver outstanding results for our clients.

### SENIOR OFFICERS



#### **Phil O'Toole, Director Risk Management & Consulting**

Phil holds the position of Director, Risk Management and Consulting. He is responsible for managing the delivery of risk management and other consulting and audit services to our clients. Prior to joining IAB Services in this capacity, Phil contracted to IAB Services on a consultancy basis, undertaking a variety of complex reviews, compliance audits and risk management assessments for government agencies, statutory bodies and universities. Phil has previously held a variety of senior executive positions in the legal and financial management areas of the NSW Public Sector. He specialised in organisational and cultural change, restructuring financial management and quality control systems and increasing revenue for Government Trading Enterprises.



#### **Stephen Kent, B.Ec, ACA, Director Risk Management & Consulting**

Stephen holds the position of Director, Risk Management and Consulting. He is responsible for managing the delivery of risk management and other consulting and audit services to our clients. Immediately prior to joining IAB Services, Stephen held the position of Director of Risk Consulting in one of the "big four" accounting firms with clients in both the private and public sectors. This covered external/internal audit and specialist consulting assignments. He has considerable experience in the private sector having held senior executive positions up to General Manager level, particularly in the Financial Services Industry.



#### **Johan Pelser, M.Comm, Director IT Risk Management & Consulting**

Johan holds the position of Director, Information Technology Risk Management and Consulting. Johan has over 20 years experience in IT and Risk Management in Australia and South Africa. He has considerable experience in the financial services sector. His experience extends to working in various areas relating to IT, specifically in systems software support (Systems Programmer); information security (Manager of the Information Security Department); and risk management roles (Head of IT Group Operational Risk Control and CAATs Department). Johan also has experience in working for one of the "big four" accounting firms with clients in both the private and public sectors. His assignments covered external and internal audit, risk management, information security, project governance and other IT related assignments.

## HOT TOPIC

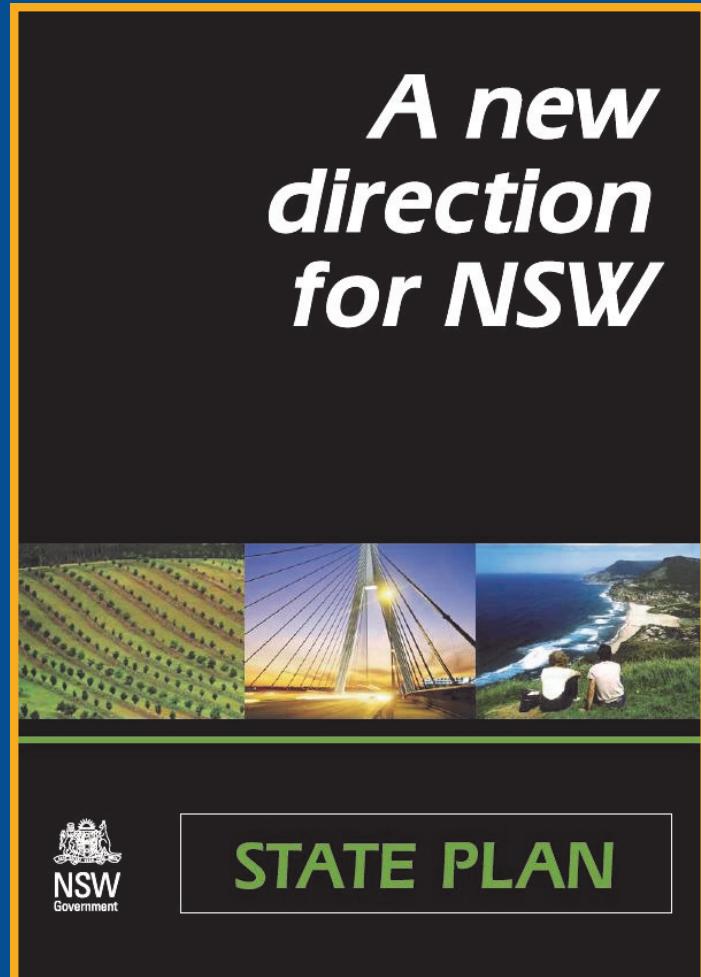
### **NSW GOVERNMENT STATE PLAN—**

#### **HOW DOES IT AFFECT MY AGENCY?**

The State Plan presents challenges for agencies in a variety of ways, not the least of which is in developing and implementing systems to manage and monitor performance against the State Plan objectives and measures.

IAB Services is able to assist agencies in any facet of the work that confronts them to implement the management framework required to meet your State Plan obligations.

(Ref: [www.nsw.gov.au/stateplan](http://www.nsw.gov.au/stateplan))



## HOT TOPIC

### **NSW GOVERNMENT WEBSITE STYLE DIRECTIVE—**

#### **IS OUR WEBSITE COMPLIANT?**

The NSW Government is committed to providing individuals, businesses and other agencies with easy-to-find information about the NSW Government and the services it offers. This directive aims to create consistent and user-friendly NSW Government websites. IAB Services can help agencies develop and implement eye-catching and expandable websites that comply with the new Website Style Directive. We are committed to developing your website to suit agencies' specific requirements and can improve agencies' websites ease of navigation, design and functionality without compromising compliance. For a sample of our work, please visit [www.iab.nsw.gov.au](http://www.iab.nsw.gov.au).

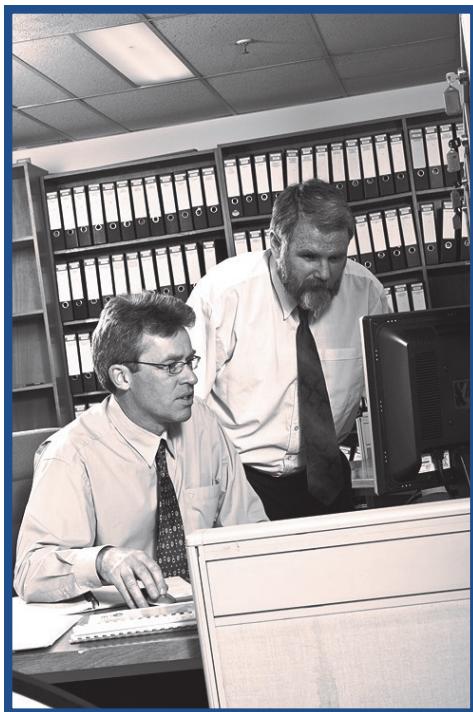
# 2006-07 AUDITED FINANCIAL STATEMENTS

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# INTRODUCTION TO THE 2006-07 AUDITED FINANCIAL STATEMENTS

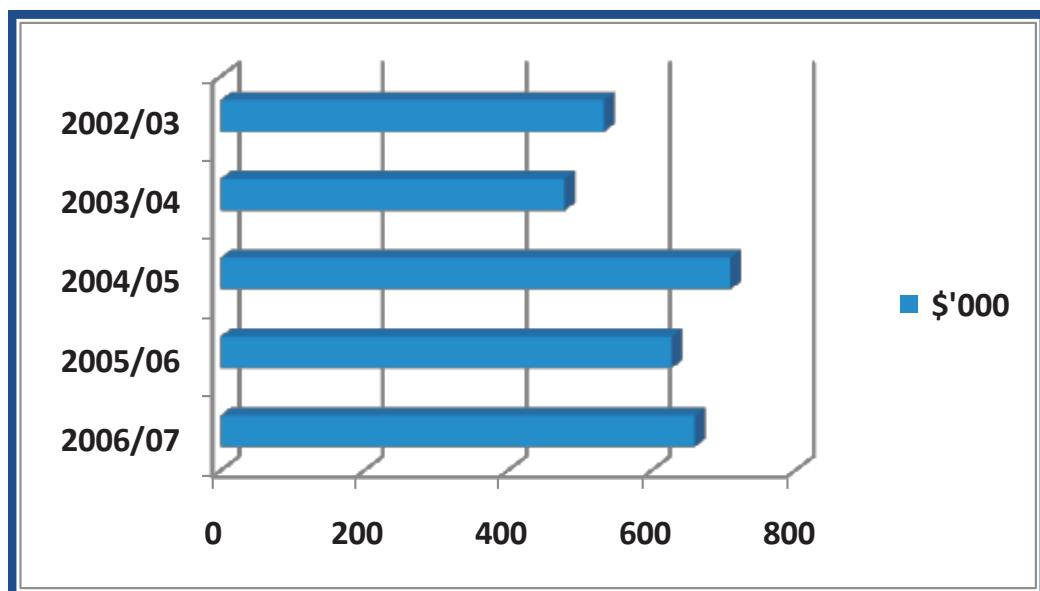


In 2005-06, amendments were made to the *Public Sector Employment and Management Act 2002*, which entailed IAB Services splitting into two separate reporting entities – the **Internal Audit Bureau of NSW** (a statutory corporation) and the **Internal Audit Bureau Division**. The **Internal Audit Bureau Division** provides personnel services to the **Internal Audit Bureau of NSW**. In accordance with the requirements of Australian Equivalents to International Financial Reporting Standards, we have prepared a financial report for the **Internal Audit Bureau of NSW** statutory corporation (shown in the “Parent Entity” columns in the **Internal Audit Bureau of NSW** Financial Statements), for the **Internal Audit Bureau of NSW** Economic Entity (shown in the “Economic Entity” columns in the **Internal Audit Bureau of NSW** Financial Statements) and for the **Internal Audit Bureau Division**.

Consequently, in the following financial report you will find:

- ♦ The Financial Statements of the **Internal Audit Bureau of NSW** Economic Entity and Parent Entity on pages 17 to 56.
- ♦ The Financial Statements of the **Internal Audit Bureau Division** on pages 57 to 81.

## Five Year Operating Result



# INTERNAL AUDIT BUREAU OF NSW AUDITED FINANCIAL STATEMENTS

## Certificate under Section 41C of the Public Finance and Audit Act 1983 and Clause 11 of the Public Finance and Audit Regulation 2005.

For the year ended 30 June 2007

Under Section 41C of the *Public Finance and Audit Act 1983*, we state that, in our opinion, the accompanying financial statements exhibit a true and fair view of the financial position of the Internal Audit Bureau of NSW at 30 June 2007 and the transactions for the year then ended.

We further state:

- a) That the financial report complies with applicable Australian Accounting Standards (which include Australian Equivalents to International Financial Reporting Standards (AEIFRS)), the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, and the Treasurer's Directions.
- b) That we are not aware of any circumstances which would make any details in the financial report misleading or inaccurate.



I NEALE  
CHAIRMAN  
INTERNAL AUDIT BUREAU  
17 October 2007



S J HORNE  
MANAGING DIRECTOR  
INTERNAL AUDIT BUREAU  
17 October 2007

# Independent Auditor's Report— Internal Audit Bureau of NSW



GPO BOX 12  
Sydney NSW 2001

## INDEPENDENT AUDITOR'S REPORT

Internal Audit Bureau of New South Wales and its controlled entity

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Internal Audit Bureau of New South Wales, (the Bureau), and its controlled entity (the consolidated entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated entity comprises the Bureau and the entities it controlled at the year's end or from time to time during the financial year.

### *Auditor's Opinion*

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Bureau and the consolidated entity as of 30 June 2007, and of their financial performance and their cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

### *Board's Responsibility for the Financial Report*

The members of the Board are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

My opinion does not provide assurance:

- about the future viability of the Bureau or Consolidated entity,
- that they have carried out their activities effectively, efficiently and economically, or
- about the effectiveness of their internal controls.

### *Independence*

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

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

Peter Barnes  
Acting Director, Financial Audit Services

18 October 2007  
SYDNEY

# Commencement of Audited Financial Statements

## INTERNAL AUDIT BUREAU OF NEW SOUTH WALES BALANCE SHEET AS AT 30 JUNE 2007

|                                | Notes | Parent Entity  |                | Economic Entity |                |
|--------------------------------|-------|----------------|----------------|-----------------|----------------|
|                                |       | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| <b>CURRENT ASSETS</b>          |       |                |                |                 |                |
| Cash and Equivalents           | 10(i) | 1,793          | 2,160          | 1,793           | 2,160          |
| Receivables                    | 3     | 2,602          | 1,489          | 2,425           | 1,409          |
| Other                          | 7     | -              | -              | 177             | 80             |
|                                |       | <b>4,395</b>   | <b>3,649</b>   | <b>4,395</b>    | <b>3,649</b>   |
| <b>NON-CURRENT ASSETS</b>      |       |                |                |                 |                |
| Plant and Equipment            | 4(i)  | 48             | 87             | 48              | 87             |
| Intangibles                    | 4(ii) | 6              | 12             | 6               | 12             |
|                                |       | <b>54</b>      | <b>99</b>      | <b>54</b>       | <b>99</b>      |
| <b>TOTAL ASSETS</b>            |       | <b>4,449</b>   | <b>3,748</b>   | <b>4,449</b>    | <b>3,748</b>   |
| <b>CURRENT LIABILITIES</b>     |       |                |                |                 |                |
| Payables                       | 5     | 1,191          | 964            | 1,227           | 1,011          |
| Provisions                     | 6     | 507            | 317            | 448             | 251            |
|                                |       | <b>1,698</b>   | <b>1,281</b>   | <b>1,675</b>    | <b>1,262</b>   |
| <b>NON-CURRENT LIABILITIES</b> |       |                |                |                 |                |
| Provisions                     | 6     | -              | -              | 23              | 19             |
| <b>TOTAL LIABILITIES</b>       |       | <b>1,698</b>   | <b>1,281</b>   | <b>1,698</b>    | <b>1,281</b>   |
| <b>NET ASSETS</b>              |       | <b>2,751</b>   | <b>2,467</b>   | <b>2,751</b>    | <b>2,467</b>   |
| <b>EQUITY</b>                  |       |                |                |                 |                |
| Retained Profits               | 8     | 2,751          | 2,467          | 2,751           | 2,467          |
| <b>TOTAL EQUITY</b>            |       | <b>2,751</b>   | <b>2,467</b>   | <b>2,751</b>    | <b>2,467</b>   |

**INTERNAL AUDIT BUREAU OF NEW SOUTH WALES – INCOME STATEMENT  
YEAR ENDED 30 JUNE 2007**

|                               | Notes | Parent Entity  |                | Economic Entity |                |
|-------------------------------|-------|----------------|----------------|-----------------|----------------|
|                               |       | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| <b>REVENUE</b>                |       |                |                |                 |                |
| Fees for Services Rendered    | 1(e)  | 7,652          | 8,082          | 7,652           | 8,082          |
| Other                         | 2     | 122            | 574            | 214             | 778            |
|                               |       | <b>7,774</b>   | <b>8,656</b>   | <b>7,866</b>    | <b>8,860</b>   |
| <b>EXPENSES</b>               |       |                |                |                 |                |
| Auditing and Management       |       |                |                |                 |                |
| Consulting Services           | 2     | 7,361          | 7,884          | 7,453           | 8,088          |
| Gain/(Loss) on Disposal of    |       |                |                |                 |                |
| Plant and Equipment           | 4     | (4)            | (9)            | (4)             | (9)            |
| Profit Before Income Tax      |       | 409            | 763            | 409             | 763            |
| Equivalent Expense            |       |                |                |                 |                |
| Income Tax Equivalent Expense | 1(p)  | 95             | 19             | 95              | 19             |
|                               |       | <b>314</b>     | <b>744</b>     | <b>314</b>      | <b>744</b>     |
| <b>PROFIT FOR THE YEAR</b>    |       |                |                |                 |                |

**INTERNAL AUDIT BUREAU OF NEW SOUTH WALES – STATEMENT OF RECOGNISED  
INCOME AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2007**

|                               | Notes | Parent Entity  |                | Economic Entity |                |
|-------------------------------|-------|----------------|----------------|-----------------|----------------|
|                               |       | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| <b>EQUITY OPENING BALANCE</b> |       |                |                |                 |                |
| Retained Profits              |       | 2,467          | 1,723          | 2,467           | 1,723          |
| Profit for the Year           |       | 314            | 744            | 314             | 744            |
| Dividend Paid                 |       | (30)           | -              | (30)            | -              |
| <b>EQUITY CLOSING BALANCE</b> |       |                |                |                 |                |
| <b>RETAINED PROFITS</b>       |       | <b>2,751</b>   | <b>2,467</b>   | <b>2,751</b>    | <b>2,467</b>   |

**INTERNAL AUDIT BUREAU OF NEW SOUTH WALES – CASH FLOW STATEMENT AS AT  
30 JUNE 2007**

| Notes   | Parent Entity          |                | Economic Entity |                |
|---|------------------------|----------------|-----------------|----------------|
|   | 2007<br>\$'000         | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| <b>CASH FLOWS FROM<br/>OPERATING ACTIVITIES</b>     |                        |                |                 |                |
| Receipts from Clients                               | 7,482                  | 9,417          | 7,482           | 9,417          |
| Payments to Suppliers & Employees                   | (7,659)                | (8,425)        | (7,659)         | (8,425)        |
| Interest Received                                   | 111                    | 68             | 111             | 68             |
| Income Tax Equivalent Payments                      | (55)                   | (149)          | (55)            | (149)          |
| Net GST Payments                                    | (224)                  | (260)          | (224)           | (260)          |
| Net Cash Provided/(Used) by<br>Operating Activities | 10(ii)<br>(345)        | 651            | (345)           | 651            |
| <b>CASH FLOWS FROM<br/>INVESTING ACTIVITIES</b>     |                        |                |                 |                |
| Payment for Plant & Equipment                       | 4(i)<br>(88)           | (59)           | (88)            | (59)           |
| Proceeds from Plant & Equipment                     | 4(i)<br>96             | 126            | 96              | 126            |
| Purchase of Investment                              | -                      | (8)            | -               | (8)            |
| Proceeds from Sale of Investment                    | -                      | 292            | -               | 292            |
| Net Cash Provided/(Used) by Investing<br>Activities | 8                      | 351            | 8               | 351            |
| <b>CASH FLOWS FROM<br/>FINANCING ACTIVITIES</b>     |                        |                |                 |                |
| Dividends Paid                                      | (30)                   | -              | (30)            | -              |
| Net Increase/(Decrease) in Cash Held                | (367)                  | 1,002          | (367)           | 1,002          |
| Cash at the Beginning of Reporting Period           | 2,160                  | 1,158          | 2,160           | 1,158          |
| <b>Cash at the End of Reporting Period</b>          | <b>10(i)<br/>1,793</b> | <b>2,160</b>   | <b>1,793</b>    | <b>2,160</b>   |

# Notes

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

### 1. SUMMARY OF ACCOUNTING POLICIES

#### (a) Reporting Entity

The Internal Audit Bureau of New South Wales (the parent entity) is designated a statutory body by virtue of Section 4 (2) of the Internal Audit Bureau Act, 1992 and assumes the financial compliance requirements of that Statute and relevant Regulations.

The Internal Audit Bureau Division is a special purpose service entity established on 17 March 2006 pursuant to Part 2 of Schedule 1 to the Public Sector Employment and Management Act 2002. The Division is a not-for-profit entity with the sole purpose of providing personnel services to the Bureau.

In accordance with AASB 127 Consolidated and Separate Financial Statements, this financial report presents the results of the parent entity and the consolidated results of both the parent entity and the special purpose entity as the economic entity.

This consolidated financial report for the year ended 30 June 2007 has been authorised for issue by the Board on 17 October 2007.

#### (b) Basis of Preparation

The financial statements represent a general purpose financial report which has been prepared to comply in all material respects with applicable Australian Accounting Standards (which include Australian Equivalents to International Financial Reporting Standards (AEIFRS)), other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Interpretation, the requirements of the Public Finance and Audit Act, 1983 and the Public Finance and Audit Regulation, 2005.

Plant and equipment and financial assets 'at fair value through profit or loss' are measured at fair value. Other financial report items are prepared in accordance with the historical cost convention.

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

All amounts are rounded to the nearest \$1,000 and are expressed in Australian currency.

#### (c) Statement of Compliance

The economic and parent entity financial statements and notes comply with Australian Accounting Standards, which include AEIFRS.

**(d) Segment Reporting**

The Bureau operated in NSW providing audit and management consulting services to public sector organisations.

**(e) Income Recognition**

Income is measured at the fair value of the consideration received or receivable. Revenue (from auditing and management consulting services provided to clients) is recognised when the service is fully provided or by reference to the stage of completion (based on labour hours incurred to date).

**(f) Employee Benefits**

***Salaries and Wages, Annual Leave, Sick Leave and On-Costs***

The Internal Audit Bureau Division (a special purpose entity) provided all of the parent entity's personnel services from 17 March 2006. All employment related assets and liabilities are held by the special purpose entity.

Liabilities for salaries and wages (including non-monetary benefits) and annual leave that fall due wholly within 12 months of the reporting date are recognised and measured in respect of the employees' services up to the reporting date at undiscounted amounts based on the amounts expected to be paid when the liabilities are settled.

Long-term annual leave (ie that is not expected to be taken within twelve months) is measured at present value using a discount rate equal to the market yield on government bonds.

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

The outstanding amounts of payroll tax and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

***Long Service Leave and Superannuation***

Provisions are made for liabilities of uncertain amount or uncertain timing of settlement.

Employee benefit provisions represent expected amounts payable in the future in respect of unused entitlements accumulated as at the reporting date. Liabilities associated with, but that are not, employee benefits (such as payroll tax) are recognised separately.

Superannuation and leave liabilities are recognised as expenses and provisions when the obligations arise, which is usually through the rendering of service by employees.

Superannuation and long service leave provisions are actuarially assessed prior to each reporting date and are measured at the present value of the estimated future payments.

The amount recognised for superannuation and long service leave provisions is the net total of the present value of the defined benefit obligation at the reporting date, minus the fair value at that date of any plan assets out of which the obligations are to be settled directly.

The amount recognised in the income statement for superannuation and long service leave is the net total of the current service cost, interest cost, the expected return on any plan assets, and actuarial gains and losses. Actuarial gains and losses are recognised as income or expense in the year they occur.

The actuarial assessment of superannuation and long service leave provisions uses the Projected Unit Credit Method and reflects estimated future salary increases and the benefits set out in the terms of the plan. The liabilities are discounted using the market yield rate on government bonds of similar maturity to those obligations. Actuarial assumptions are unbiased and mutually compatible and financial assumptions are based on market expectations for the period over which the obligations are to be settled.

**(g) Insurance**

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

**(h) Accounting for the Goods and Services Tax (GST)**

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

- ♦ The amount of GST incurred by the Bureau that is not recoverable from the Australian Taxation Office (ATO) is recognised as part of the cost of acquisition of an asset or as part of an item of expense, or
- ♦ Receivables and payables are stated with the amount of GST included.

Cash flows are recognised on a gross basis in the Cash Flow Statement. The GST receivable or payable to the ATO relating to cash flows from investing and financing activities is classified as operating cash flows.

**(i) Capitalisation Threshold**

Plant and equipment and intangible assets with a value of less than \$8,000 are expensed in the year of purchase.

**(j) Plant and Equipment**

Items of plant and equipment, as non-specialised assets with short useful lives, are measured at depreciated historical cost, as an estimate of fair value.

**(k) Intangible Assets**

Intangible assets are only recognised if it is probable that future economic benefits will arise and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost and are subsequently measured at fair value only if there is an active market. As there is no active market, the assets are carried at cost less any accumulated amortisation.

**(l) Depreciation and Amortisation**

Depreciation and amortisation is provided on a straight-line basis for all non-current assets over their useful estimated lives.

The rates used are:

- ◆ Plant and Equipment 10% to 33%.
- ◆ Intangible Assets 20%.

**(m) Receivables**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables (accounted for in the Income Statement). Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

**(n) Investments**

All investment related assets were held within TCorp Hour-Glass Investment facilities. These holdings are designated “at fair value through profit or loss” and measured at fair value. Gains or losses on these assets are recognised in the Operating Statement.

**(o) Payables**

These amounts represent liabilities for goods and services provided to the Bureau and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value.

Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

**(p) Income Tax Expenses**

The Bureau pays tax equivalents in accordance with NSW Treasury Policy Paper (TPP 03-4) "Tax Equivalent Regime for Government Businesses". Tax payable is determined by applying the company income tax rate to Profit adjusted for movements in unfunded superannuation balances. In accordance with this policy the Bureau does not practice tax effect accounting.

**(q) New Australian Accounting Standards Issued but not Effective**

In accordance with NSW Treasury Mandates, the following new Accounting Standards have not been applied and are not yet effective:

|              |  |
|--------------|--|
| AASB 7       | Financial Instruments: Disclosures   |
| AASB 8       | Operating Segments   |
| AASB 101     | Presentation of Financial Statements   |
| AASB 123     | Borrowing Costs  |
| AASB 1049    | Financial Reporting of General Government Sectors by Governments   |
| AASB 2005-10 | Amendments to Australian Accounting Standards<br>[AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023, AASB 1038]  |
| AASB 2007-1  | Amendments to Australian Accounting Standards [AASB 2]   |
| AASB 2007-2  | Amendments to Australian Accounting Standards<br>[AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131, AASB 139]  |
| AASB 2007-3  | Amendments to Australian Accounting Standards<br>[AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023, AASB 1038]  |
| AASB 2007-4  | Amendments to Australian Accounting Standards<br>[AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023, 1038] |
| AASB 2007-5  | Amendments to Australian Accounting Standards [AASB 102]   |
| AASB 2007-6  | Amendments to Australian Accounting Standards<br>[AASB 1, AASB 101, AASB 107, AASB 111, AASB 116, AASB 138]  |

It is not anticipated that there will be any material impact for the Internal Audit Bureau during the period of initial application of these Standards.

## 2. REVENUE AND EXPENSES

### Profit includes:

|  | Parent Entity  |                | Economic Entity |                |
|--|----------------|----------------|-----------------|----------------|
|  | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| <b>Other Revenue</b>   |                |                |                 |                |
| Interest Income  | 111            | 68             | 111             | 68             |
| Non-cash adjustment for actuarial assessment of superannuation liabilities | -              | 497            | 92              | 701            |
| Other  | 11             | 9              | 11              | 9              |
|  | <b>122</b>     | <b>574</b>     | <b>214</b>      | <b>778</b>     |

|                             | Parent Entity  |                | Economic Entity |                |
|-----------------------------|----------------|----------------|-----------------|----------------|
|                             | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| <b>Expenses</b>             |                |                |                 |                |
| Employee Related            | -              | 1,727          | 2,033           | 2,096          |
| Independent Contractors     | 4,891          | 5,007          | 4,891           | 5,007          |
| Audit Fees                  | 17             | 17             | 21              | 17             |
| Depreciation & Amortisation | 33             | 65             | 33              | 65             |
| Personnel Services          | 1,947          | 197            | -               | -              |
| Other                       | 473            | 871            | 475             | 903            |
|                             | <b>7,361</b>   | <b>7,884</b>   | <b>7,453</b>    | <b>8,088</b>   |

### Individually Significant Items:

|  | Parent Entity  |                | Economic Entity |                |
|--|----------------|----------------|-----------------|----------------|
|  | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| Non-cash adjustment for actuarial assessment of superannuation liabilities | -              | (497)          | (92)            | (701)          |
| Redundancies paid or provided for  | -              | 566            | 343             | 566            |
|  | <b>-</b>       | <b>69</b>      | <b>251</b>      | <b>(135)</b>   |

### 3. RECEIVABLES

|   | Parent Entity  |                | Economic Entity |                |
|---|----------------|----------------|-----------------|----------------|
|   | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| Fee Accounts                              | 2,308          | 1,400          | 2,308           | 1,400          |
| Impairment Loss                           | -              | (5)            | -               | (5)            |
| Work in Progress                          | 77             | 9              | 77              | 9              |
| Prepayments                               | 40             | 5              | 40              | 5              |
| Owing from Special Purpose Service Entity | 177            | 80             | -               | -              |
|   | <b>2,602</b>   | <b>1,489</b>   | <b>2,425</b>    | <b>1,409</b>   |

Fee accounts remaining unpaid were aged as follows:

| Date of Invoice  | 2007         |            | 2006         |            |
|------------------|--------------|------------|--------------|------------|
|                  | \$'000       | %          | \$'000       | %          |
| June             | 2,027        | 88         | 1,224        | 87         |
| May              | 134          | 6          | 45           | 3          |
| Earlier than May | 147          | 6          | 131          | 10         |
|                  | <b>2,308</b> | <b>100</b> | <b>1,400</b> | <b>100</b> |

### 4. NON-CURRENT ASSETS

#### (i) Plant and Equipment

|                                       | Parent Entity  |                | Economic Entity |                |
|---------------------------------------|----------------|----------------|-----------------|----------------|
|                                       | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| At Gross Value                        | 238            | 331            | 238             | 331            |
| Less Accumulated Depreciation         | 190            | 244            | 190             | 244            |
| <b>Carrying Amount at End of Year</b> | <b>48</b>      | <b>87</b>      | <b>48</b>       | <b>87</b>      |

### Reconciliations

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

|                                      | Parent Entity  | Economic Entity |                |
|--------------------------------------|----------------|-----------------|----------------|
|                                      | 2007<br>\$'000 | 2006<br>\$'000  | 2007<br>\$'000 |
|                                      | 2006<br>\$'000 |                 | 2006<br>\$'000 |
| Net Book Value at Start of Year      | 87             | 221             | 87             |
| Additions                            | 88             | 59              | 88             |
| Disposals                            | (100)          | (135)           | (100)          |
| Depreciation Expense                 | (27)           | (58)            | (27)           |
| <b>Net Book Value at End of Year</b> | <b>48</b>      | <b>87</b>       | <b>48</b>      |
|                                      |                |                 | <b>87</b>      |

Plant and Equipment assets are depreciated on a straight line basis over their estimated useful lives. The depreciation rates for Plant and Equipment range from 10% to 33%. The amount provided for depreciation for the year 2006-07 was \$26,318 (\$58,405 in 2005-06).

The Board of the Internal Audit Bureau considers the fair value of its Plant and Equipment assets to be equivalent to their net book value.

### Profit (Loss) on Disposal of Plant & Equipment

During the year the Bureau disposed of various assets. Details were:

|                              | Parent Entity  | Economic Entity |                |
|------------------------------|----------------|-----------------|----------------|
|                              | 2007<br>\$'000 | 2006<br>\$'000  | 2007<br>\$'000 |
|                              | 2006<br>\$'000 |                 | 2006<br>\$'000 |
| Proceeds from Disposal       | 96             | 126             | 96             |
| Less Written Down Book Value | 100            | 135             | 100            |
| <b>Profit (Loss) on Sale</b> | <b>(4)</b>     | <b>(9)</b>      | <b>(4)</b>     |
|                              |                |                 | <b>(9)</b>     |

### (ii) Intangibles – Application Software

|                                       | Parent Entity  | Economic Entity |                |
|---------------------------------------|----------------|-----------------|----------------|
|                                       | 2007<br>\$'000 | 2006<br>\$'000  | 2007<br>\$'000 |
|                                       | 2006<br>\$'000 |                 | 2006<br>\$'000 |
| At Fair Value                         | 31             | 31              | 31             |
| Less Accumulated Amortisation         | 25             | 19              | 25             |
| <b>Carrying Amount at End of Year</b> | <b>6</b>       | <b>12</b>       | <b>6</b>       |
|                                       |                |                 | <b>12</b>      |

## Reconciliations

Reconciliations of the carrying amounts of intangibles at the beginning and end of the current and previous financial year are set out below:

|                                      | Parent Entity  |                | Economic Entity |                |
|--------------------------------------|----------------|----------------|-----------------|----------------|
|                                      | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| Net Book Value at Start of Year      | 12             | 19             | 12              | 19             |
| Additions                            | -              | -              | -               | -              |
| Disposals                            | -              | -              | -               | -              |
| Amortisation Expense                 | (6)            | (7)            | (6)             | (7)            |
| <b>Net Book Value at End of Year</b> | <b>6</b>       | <b>12</b>      | <b>6</b>        | <b>12</b>      |

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The amortisation rate for Intangibles is 20%. The amount provided for amortisation for the year 2006-07 was \$6,212 (\$6,212 in 2005-06).

## 5. PAYABLES

|                                 | Parent Entity  |                | Economic Entity |                |
|---------------------------------|----------------|----------------|-----------------|----------------|
|                                 | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| <b>Creditors &amp; Accruals</b> | <b>1,191</b>   | <b>964</b>     | <b>1,227</b>    | <b>1,011</b>   |

## 6. PROVISIONS

|   | Parent Entity  |                | Economic Entity |                |
|---|----------------|----------------|-----------------|----------------|
|   | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| <b>Current Liability</b>                          |                |                |                 |                |
| Employee Benefits                                 | -              | -              | 448             | 251            |
| Owing to Special Purpose Service Entity           | 507            | 317            | -               | -              |
| <b>Non Current Liability</b>                      |                |                |                 |                |
| Superannuation (Note 15)                          | -              | -              | 23              | 19             |
| <b>Aggregate Provisions for Employee Benefits</b> | <b>507</b>     | <b>317</b>     | <b>471</b>      | <b>270</b>     |

## 7. OTHER CURRENT ASSETS

|                                 | Parent Entity  |                | Economic Entity |                |
|---------------------------------|----------------|----------------|-----------------|----------------|
|                                 | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| <b>Superannuation (Note 15)</b> | <b>-</b>       | <b>-</b>       | <b>177</b>      | <b>80</b>      |

## 8. CHANGES IN EQUITY

|                                   | Parent Entity  |                | Economic Entity |                |
|-----------------------------------|----------------|----------------|-----------------|----------------|
|                                   | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| <b>Retained Profits</b>           |                |                |                 |                |
| Balance at Beginning of Year      | 2,467          | 1,723          | 2,467           | 1,723          |
| Profit                            | 314            | 744            | 314             | 744            |
| Total Available for Appropriation | 2,781          | 2,467          | 2,781           | 2,467          |
| Dividends Provided for or Paid    | (30)           | -              | (30)            | -              |
| <b>Balance at Year End</b>        | <b>2,751</b>   | <b>2,467</b>   | <b>2,751</b>    | <b>2,467</b>   |

## 9. RELATED PARTY ACTIVITY

### Board Members

Total compensation received or due and receivable by the Board Members of the Bureau during the reporting period is as follows:

|   | 2007<br>\$'000 | 2006<br>\$'000 |
|---|----------------|----------------|
| Ian Neale, FCPA                                       | -              | -              |
| Deborah Page, AM, FCA, MAICD, BEc                     | 11             | 12             |
| Timothy R K Holden, FCA, FIMC, CMC                    | 11             | 6              |
| James A Priddice, MEc, FCA (retired 31 December 2005) | -              | 6              |
|   | <b>22</b>      | <b>24</b>      |

## Key Management Personnel

Total compensation received or due and receivable by the Key Management Personnel of the Bureau as a consolidated economic entity is as follows:

|                              | 2007<br>\$'000 | 2006<br>\$'000 |
|------------------------------|----------------|----------------|
| Short-Term Employee Benefits | 1,135          | 855            |
| Long-Term Benefits           | 266            | 225            |
| Termination Benefits         | -              | 258            |
|                              | <b>1,401</b>   | <b>1,338</b>   |

## Internal Audit Bureau Division

The Internal Audit Bureau Division is a special purpose service entity established on 17 March 2006 pursuant to Part 2 of Schedule 1 to the Public Sector Employment and Management Act 2002. The sole purpose of the Division is to provide personnel services to the Bureau. Total services provided by the Division and paid by the Bureau are as follows:

|                    | 2007<br>\$'000 | 2006<br>\$'000 |
|--------------------|----------------|----------------|
| Personnel Services | 1,947          | 197            |
|                    | <b>1,947</b>   | <b>197</b>     |

## 10. NOTE TO THE CASH FLOW STATEMENT

### (i) Cash and Equivalents

For the purpose of the Cash Flow Statement, cash includes cash on hand, cash held in bank deposits and deposits with NSW Treasury Corporation that can be readily liquidated.

Cash at the end of the reporting period as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

|   | Parent Entity  |                | Economic Entity |                |
|---|----------------|----------------|-----------------|----------------|
|   | 2007<br>\$'000 | 2006<br>\$'000 | 2007<br>\$'000  | 2006<br>\$'000 |
| Cash at Bank                                    | 651            | 499            | 651             | 499            |
| Treasury Corporation HourGlass<br>Cash Facility | 1,142          | 1,661          | 1,142           | 1,661          |
|   | <b>1,793</b>   | <b>2,160</b>   | <b>1,793</b>    | <b>2,160</b>   |

**(ii) Reconciliation of Net Cash Provided by Operating Activities to Profit**

|   | <b>Parent Entity</b>         |                              | <b>Economic Entity</b>       |                              |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
|   | <b>2007</b><br><b>\$'000</b> | <b>2006</b><br><b>\$'000</b> | <b>2007</b><br><b>\$'000</b> | <b>2006</b><br><b>\$'000</b> |
| Profit/(Loss)                               | 314                          | 744                          | 314                          | 744                          |
| Depreciation & Amortisation                 | 33                           | 65                           | 33                           | 65                           |
| (Increase)/Decrease in Receivables          | (1,113)                      | 418                          | (1,016)                      | 498                          |
| (Increase)/Decrease in Other Current Assets | -                            | -                            | (96)                         | (80)                         |
| Increase/(Decrease) in Payables             | 227                          | 353                          | 216                          | 400                          |
| Increase/(Decrease) in Provisions           | 190                          | (938)                        | 200                          | (985)                        |
| (Profit)/Loss on Sale of Plant & Equipment  | 4                            | 9                            | 4                            | 9                            |
|   | <b>(345)</b>                 | <b>651</b>                   | <b>(345)</b>                 | <b>651</b>                   |

**11. CONSULTANTS**

The following consultants were engaged during 2006-07:

| <b>Consultant</b>          | <b>Service</b> | <b>\$'000</b> |
|----------------------------|----------------|---------------|
| Corwood Consulting Pty Ltd | HR Services    | 4             |
| Common Sense HR Pty Ltd    | HR Services    | 3             |

The following consultants were engaged during 2005-06:

| <b>Consultant</b>              | <b>Service</b> | <b>\$'000</b> |
|--------------------------------|----------------|---------------|
| Watermark Search International | HR Services    | 68            |
| Mercer HR Consulting           | HR Services    | 8             |

**12. CONTINGENT LIABILITIES**

As at 30 June 2007 the Bureau had no contingent liabilities (nil in 2005-2006).

## 13. FINANCIAL INSTRUMENTS

### Interest Rate Risk

Interest rate risk is the risk that the value of the instruments will fluctuate due to changes in market interest rates. The Bureau's exposure to interest rate risk and the effective interest rates of financial assets and liabilities at the reporting date are as follows:

| 30 June 2007                       | Weighted Average Effective Interest Rate % | Floating Interest Rate | Fixed Interest Rate Maturity 1 Year or Less \$000 | Non Interest Bearing \$000 | Total Carrying Amount as per the Balance Sheet \$000 |
|------------------------------------|--|------------------------|---|----------------------------|--|
| <b>FINANCIAL ASSETS</b>            |  |                        |   |                            |  |
| Cash & Equivalents                 | 5.92                                       | 1,793                  |   |                            | 1,793  |
| Financial Assets at Fair Value     |  |                        |   |                            |  |
| Receivables                        |  |                        |   | 2,425                      | 2,425  |
| <b>Total Financial Assets</b>      |  | <b>1,793</b>           |   | <b>2,425</b>               | <b>4,218</b>   |
| <b>FINANCIAL LIABILITIES</b>       |  |                        |   |                            |  |
| Payables                           |  |                        |   | 1,229                      | 1,229  |
| <b>Total Financial Liabilities</b> |  |                        |   | <b>1,229</b>               | <b>1,229</b>   |

| 30 June 2006                       | Weighted Average Effective Interest Rate % | Floating Interest Rate | Fixed Interest Rate Maturity 1 Year or Less \$000 | Non Interest Bearing \$000 | Total Carrying Amount as per the Balance Sheet \$000 |
|------------------------------------|--|------------------------|---|----------------------------|--|
| <b>FINANCIAL ASSETS</b>            |  |                        |   |                            |  |
| Cash & Equivalents                 | 5.33                                       | 2,160                  |   |                            | 2,160  |
| Financial Assets at Fair Value     |  |                        |   |                            |  |
| Receivables                        |  |                        |   | 1,409                      | 1,409  |
| <b>Total Financial Assets</b>      |  | <b>2,160</b>           |   | <b>1,409</b>               | <b>3,569</b>   |
| <b>FINANCIAL LIABILITIES</b>       |  |                        |   |                            |  |
| Payables                           |  |                        |   | 1,011                      | 1,011  |
| <b>Total Financial Liabilities</b> |  |                        |   | <b>1,011</b>               | <b>1,011</b>   |

## 14. COMMITMENTS FOR EXPENDITURE

### Operating Lease Commitments

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

|   | Parent Entity  | Economic Entity |                |
|---|----------------|-----------------|----------------|
|   | 2007<br>\$'000 | 2006<br>\$'000  | 2007<br>\$'000 |
| Not Later than One Year                         | 133            | 113             | 133            |
| Later than One Year & Not Later than Five Years | 261            | 373             | 261            |
| <b>Total (including GST)</b>                    | <b>394</b>     | <b>486</b>      | <b>394</b>     |
|   |                |                 | <b>486</b>     |

## 15. SUPERANNUATION

The Internal Audit Bureau Division (a special purpose service entity) assumed responsibility for all Bureau net assets and liabilities arising from superannuation defined benefit schemes from 17 March 2006. Net assets and liabilities are disclosed in the consolidated results of the economic entity. All paragraph references are to AASB 119.

### (i) Disclosure Items 30 June 2006 (Parent Entity)

#### *Accounting Policy for Recognising Actuarial Gains/Losses – Paragraph 120(a)*

Actuarial gains and losses are recognised in profit or loss in the year they occur.

#### *General Description of the Type of Plan – Paragraph 120(b)*

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- ◆ State Authorities Superannuation Scheme (SASS)
- ◆ State Superannuation Scheme (SSS)
- ◆ State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members.

***Reconciliation of the Present Value of the Defined Benefit Obligation – Paragraph 120A(c)***

|  | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June<br>2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|--|--|--|---|---|
| Present Value of Partly<br>Funded Defined Benefit<br>Obligations at Beginning<br>of the Year | 411,010  | 209,827  | 3,421,120                                       | 4,041,957   |
| Current Service Cost   | 8,038  | 9,019  | 32,591  | 49,648  |
| Interest Cost  | 16,765   | 7,604  | 135,207   | 159,576   |
| Contributions by Fund<br>Participants  | 3,841  | 0  | 16,604  | 20,445  |
| Actuarial (gains)/losses   | (85,194)   | (3,496)  | (422,092)                                       | (510,782)   |
| Benefits Paid  | (235,098)  | (96,732)   | 83,252  | (248,578)   |
| Past Service Cost  | 0  | 0  | 0   | 0   |
| Curtailments   | 0  | 0  | 0   | 0   |
| Settlements  | 0  | 0  | 0   | 0   |
| Business Combinations  | 0  | 0  | 0   | 0   |
| Exchange Rate Changes  | 0  | 0  | 0   | 0   |
| Transfer Out on 17 March<br>2006   | (119,362)  | (126,222)  | (3,266,682)                                     | (3,512,267)                                       |
| <b>Present Value of Partly<br/>Funded Defined Benefits<br/>Obligations at End of Year</b>    | <b>0</b>   | <b>0</b>   | <b>0</b>  | <b>0</b>  |

***Reconciliation of the Fair Value of Fund Assets – Paragraph 120A(e)***

|   | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|---|--|---|---|---|
| Fair Value of Fund Assets<br>at Beginning of the Year   | 351,878  | 110,221   | 2,939,581                                       | 3,401,680   |
| Expected Return on Fund<br>Assets                       | 18,379   | 6,090   | 159,198   | 183,667   |
| Actuarial Gains/(Losses)                                | (96,941)   | 3,175   | 72,890  | (20,877)  |
| Employer Contributions                                  | 46,721   | 101,425   | (114,855)                                       | 33,290  |
| Contributions by Fund<br>Participants                   | 3,841  | 0   | 16,604  | 20,445  |
| Benefits Paid   | (235,098)  | (96,732)  | 83,252  | (248,577)   |
| Settlements   | 0  | 0   | 0   | 0   |
| Business Combinations                                   | 0  | 0   | 0   | 0   |
| Exchange Rate Changes                                   | 0  | 0   | 0   | 0   |
| Transfer Out on 17 March<br>2006                        | (88,780)   | (124,179)   | (3,156,670)                                     | (3,369,628)                                       |
| <b>Fair Value of Fund Assets<br/>at End of the Year</b> | <b>0</b>   | <b>0</b>  | <b>0</b>  | <b>0</b>  |

***Reconciliation of the Assets and Liabilities recognised in the Balance Sheet – Paragraph 120A(d) and (f)***

|   | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|---|--|---|---|---|
| Present Value of Partly<br>Funded Defined Benefit<br>Obligations at End of Year | 0  | 0   | 0   | 0   |
| Fair Value of Fund Assets<br>at End of Year                                     | 0  | 0   | 0   | 0   |
| <b>Subtotal</b>   | <b>0</b>   | <b>0</b>  | <b>0</b>  | <b>0</b>  |
| Unrecognised Past Service<br>Cost   | 0  | 0   | 0   | 0   |
| Unrecognised Gain/(Loss)  | 0  | 0   | 0   | 0   |
| Adjustment for Limitation<br>on Net Asset                                       | 0  | 0   | 0   | 0   |
| <b>Net Liability/(Asset)<br/>recognised in Balance<br/>Sheet at End of Year</b> | <b>0</b>   | <b>0</b>  | <b>0</b>  | <b>0</b>  |

**Expense recognised in Income Statement – Paragraph 46 & 120A(g)**

| Components Recognised in Income Statement          | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|--|--|---|---|---|
| Current Service Cost                               | 8,038  | 9,019   | 32,591  | 49,648  |
| Interest Cost                                      | 16,765   | 7,604   | 135,207   | 159,576   |
| Expected Return on Fund Assets (net of expenses)   | (18,379)   | (6,090)   | (159,198)                                       | (183,667)   |
| Actuarial Losses/(Gains) recognised in year        | 11,747   | (6,671)   | (494,981)                                       | (489,905)   |
| Past Service Cost                                  | 0  | 0   | 0   | 0   |
| Movement in Adjustment for Limitation on Net Asset | 0  | 0   | 0   | 0   |
| Curtailment or Settlement (Gain)/Loss              | 0  | 0   | 0   | 0   |
| Expense/(Income) Recognised                        | 18,171   | 3,862   | (486,381)                                       | (464,348)   |

**Amounts recognised in the Statement of Recognised Income and Expense – Paragraph 120A(h)**

|                                   | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|-----------------------------------|--|---|---|---|
| Actuarial (Gains)/Losses          | 0  | 0   | 0   | 0   |
| Adjustment for Limit on Net Asset | 0  | 0   | 0   | 0   |

**Cumulative amount recognised in the Statement of Recognised Income and Expense – Paragraph 120A(i)**

|   | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|---|--|---|---|---|
| Cumulative Amount of Actuarial (Gains)/Losses     | 0  | 0   | 0   | 0   |
| Cumulative Adjustment for Limitation on Net Asset | 0  | 0   | 0   | 0   |

### ***Fund Assets – Paragraph 120A(j)***

The percentage invested in each asset class at the balance sheet date:

| Detail                               | 30 June 2006 |
|--------------------------------------|--------------|
| Australian Equities                  | 37.4 %       |
| Overseas Equities                    | 27.9 %       |
| Australian Fixed Interest Securities | 9.9 %        |
| Overseas Fixed Interest Securities   | 6.8 %        |
| Property                             | 8.6 %        |
| Cash                                 | 5.0 %        |
| Other                                | 4.4 %        |

### ***Fair Value of Fund Assets – Paragraph 120A(k)***

All Fund Assets are invested by STC at arm's length through independent fund managers.

### ***Expected Rate of Return on Assets – Paragraph 120A(l)***

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

### ***Actual Return on Fund Assets – Paragraph 120A(m)***

|                              | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|------------------------------|--|---|---|---|
| Actual Return on Fund Assets | 23,527   | 9,265   | 333,439   | 366,231   |

### ***Valuation Method and Principal Actuarial Assumptions at the Balance Sheet Date – Paragraph 120A(n)***

#### *a) Valuation Method*

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) *Economic Assumptions*

| Detail   | 30 June 2006                               |
|--|--|
| Salary Increase Rate<br>(excluding promotional increases)                | 4.0 % to June 2008;<br>3.5 % pa thereafter |
| Rate of CPI Increase   | 2.5 % pa                                   |
| Expected Rate of Return on Assets<br>backing current Pension Liabilities | 7.6 %                                      |
| Expected Rate of Return on Assets<br>backing other Liabilities           | 7.6 %                                      |
| Discount Rate  | 5.9 %                                      |

*Historical Information – Paragraph 120A(p)*

|  | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|--|--|---|---|---|
| Present Value of Defined<br>Benefit Obligation | 0  | 0   | 0   | 0   |
| Fair Value of Fund Assets                      | 0  | 0   | 0   | 0   |
| <b>(Surplus)/Deficit in Fund</b>               | <b>0</b>   | <b>0</b>  | <b>0</b>  | <b>0</b>  |
| Experience Adjustments –<br>Fund Liabilities   | (85,194)   | (3,496)   | (422,092)                                       | (510,782)   |
| Experience Adjustments –<br>Fund Assets        | 96,941   | (3,175)   | (72,890)  | 20,877  |

*Expected Contributions – Paragraph 120A(q)*

|                                    | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|------------------------------------|--|---|---|---|
| Expected Employer<br>Contributions | 7,298  | 9,400   | 26,566  | 43,264  |

*Funding Arrangements for Employer Contributions – AUS 121.1*

a) *Surplus/Deficit*

The following is a summary of the 30 June 2006 financial position of the Fund calculated in accordance with AAS 25 “*Financial Reporting by Superannuation Plans*”:

|                                    | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|------------------------------------|--|---|---|---|
| Accrued Benefits                   | 0  | 0   | 0   | 0   |
| Net Market Value of<br>Fund Assets | 0  | 0   | 0   | 0   |
| <b>Net (Surplus)/Deficit</b>       | <b>0</b>   | <b>0</b>  | <b>0</b>  | <b>0</b>  |

*b) Contribution Recommendations*

Recommend contribution rates for the entity are:

| SASS<br>Multiple of Member<br>Contributions | SANCS<br>% Member Salary | SSS<br>Multiple of Member<br>Contributions |
|---|--------------------------|--|
| 0.00  | 0.00                     | 0.00                                       |

*c) Funding Method*

The method used to determine the employer contribution recommendations at the last actuarial review was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

*d) Economic Assumptions*

The economic assumptions adopted for the last actuarial review of the Fund were:

| Weighted-Average Assumptions  | % pa     |
|---|----------|
| Expected Rate of Return on Fund Assets back-<br>ing current Pension Liabilities | 7.7 % pa |
| Expected Rate of Return on Fund Assets back-<br>ing other Liabilities           | 7.0 % pa |
| Expected Salary Increase Rate   | 4.0 % pa |
| Expected Rate of CPI Increase   | 2.5 % pa |

### ***Nature of Asset/Liability – AUS 121.2***

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of fund assets and the defined benefit obligation.

#### **(ii) Disclosure Items 30 June 2006 (Consolidated Economic Entity)**

##### ***Accounting Policy for Recognising Actuarial Gains/Losses – Paragraph 120A(a)***

Actuarial gains and losses are recognised in profit or loss in the year in which they occur.

##### ***Fund Information – Paragraph 120A(b)***

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- ◆ State Authorities Superannuation Scheme (SASS)
- ◆ State Superannuation Scheme (SSS)
- ◆ State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members.

***Reconciliation of the Present Value of the Defined Benefit Obligation – Paragraph 120A(c)***

|  | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|--|--|---|---|---|
| Present Value of Partly<br>Funded Defined Benefit<br>Obligations at Beginning<br>of the Year | 411,010  | 209,827   | 3,421,120                                       | 4,041,957   |
| Current Service Cost   | 11,328   | 12,710  | 45,930  | 69,968  |
| Interest Cost  | 23,626   | 10,716  | 190,543   | 224,885   |
| Contributions by Fund<br>Participants  | 5,413  | 0   | 23,399  | 28,812  |
| Actuarial (Gains)/Losses   | (120,062)  | (4,927)   | (594,840)                                       | (719,828)   |
| Benefits Paid  | (331,315)  | (136,321)   | 117,324   | (350,312)   |
| Past Service Cost  | 0  | 0   | 0   | 0   |
| Curtailments   | 0  | 0   | 0   | 0   |
| Settlements  | 0  | 0   | 0   | 0   |
| Business Combinations  | 0  | 0   | 0   | 0   |
| Exchange Rate Changes  | 0  | 0   | 0   | 0   |
| Transfer on 17 March<br>2006   | 0  | 0   | 0   | 0   |
| <b>Present Value of Partly<br/>Funded Defined Benefits<br/>Obligations at End of Year</b>    | <b>0</b>   | <b>92,005</b>                                     | <b>3,203,477</b>                                | <b>3,295,482</b>                                  |

**Reconciliation of the Fair Value of Fund Assets – Paragraph 120A(e)**

|   | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|---|--|---|---|---|
| Fair Value of Fund Assets at Beginning of the Year  | 351,878  | 110,221   | 2,939,581                                       | 3,401,680   |
| Expected Return on Fund Assets                      |  | 8,583   | 224,353   | 258,837   |
| Actuarial Gains/(Losses)                            | (136,616)  | 4,474   | 102,721   | (29,421)  |
| Employer Contributions                              | 65,842   | 142,935   | (161,862)                                       | 46,915  |
| Contributions by Fund Participants                  | 5,413  | 0   | 23,399  | 28,812  |
| Benefits Paid                                       | (331,315)  | (136,321)   | 117,324   | (350,312)   |
| Settlements   | 0  | 0   | 0   | 0   |
| Business Combinations                               | 0  | 0   | 0   | 0   |
| Exchange Rate Changes                               | 0  | 0   | 0   | 0   |
| Transfer on 17 March 2006                           | 0  | 0   | 0   | 0   |
| <b>Fair Value of Fund Assets at End of the Year</b> | <b>(18,897)</b>                                  | <b>129,892</b>                                    | <b>3,245,516</b>                                | <b>3,356,511</b>                                  |

**Reconciliation of the Assets and Liabilities recognised in the Balance Sheet – Paragraph 120A(d) and (f)**

|   | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|---|--|---|---|---|
| Present Value of Partly Funded Defined Benefit Obligations at End of Year | 0  | 92,005  | 3,203,477                                       | 3,295,482   |
| Fair Value of Fund Assets at End of Year                                  | 18,898   | (129,891)   | (3,245,517)                                     | (3,356,510)                                       |
| <b>Subtotal</b>   | <b>18,898</b>                                    | <b>(37,886)</b>                                   | <b>(42,040)</b>                                 | <b>(61,028)</b>                                   |
| Unrecognised Past Service Cost  | 0  | 0   | 0   | 0   |
| Unrecognised Gain/(Loss)  | 0  | 0   | 0   | 0   |
| Adjustment for Limitation on Net Asset                                    | 0  | 0   | 0   | 0   |
| <b>Net Liability/(Asset) recognised in Balance Sheet at End of Year</b>   | <b>18,898</b>                                    | <b>(37,886)</b>                                   | <b>(42,040)</b>                                 | <b>(61,028)</b>                                   |

***Expense recognised in Income Statement – Paragraph 46 & 120A(g)***

| Components Recognised in Income Statement          | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|--|--|---|---|---|
| Current Service Cost                               | 11,328   | 12,710  | 45,930  | 69,968  |
| Interest Cost                                      | 23,626   | 10,716  | 190,543   | 224,885   |
| Expected Return on Fund Assets (net of expenses)   | (25,901)   | (8,583)   | (224,353)                                       | (258,837)   |
| Actuarial Losses/(Gains) recognised in year        | 16,555   | (9,401)   | (697,561)                                       | (690,407)   |
| Past Service Cost                                  | 0  | 0   | 0   | 0   |
| Movement in Adjustment for Limitation on Net Asset | 0  | 0   | 0   | 0   |
| Curtailment or Settlement (Gain)/Loss              | 0  | 0   | 0   | 0   |
| <b>Expense/(Income) Recognised</b>                 | <b>25,608</b>                                    | <b>5,442</b>                                      | <b>(685,441)</b>                                | <b>(654,391)</b>                                  |

***Amounts recognised in the Statement of Recognised Income and Expense – Paragraph 120A(h)***

|                                   | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|-----------------------------------|--|---|---|---|
| Actuarial (Gains)/Losses          | 0  | 0   | 0   | 0   |
| Adjustment for Limit on Net Asset | 0  | 0   | 0   | 0   |

***Cumulative amount recognised in the Statement of Recognised Income and Expense – Paragraph 120A(i)***

|   | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|---|--|---|---|---|
| Cumulative Amount of Actuarial (Gains)/Losses     | 0  | 0   | 0   | 0   |
| Cumulative Adjustment for Limitation on Net Asset | 0  | 0   | 0   | 0   |

### ***Fund Assets – Paragraph 120A(j)***

The percentage invested in each asset class at the balance sheet date:

| Detail                               | 30 June 2006 |
|--------------------------------------|--------------|
| Australian Equities                  | 37.4 %       |
| Overseas Equities                    | 27.9 %       |
| Australian Fixed Interest Securities | 9.9 %        |
| Overseas Fixed Interest Securities   | 6.8 %        |
| Property                             | 8.6 %        |
| Cash                                 | 5.0 %        |
| Other                                | 4.4 %        |

### ***Fair Value of Fund Assets – Paragraph 120A(k)***

All Fund Assets are invested by STC at arm's length through independent fund managers.

### ***Expected Rate of Return on Assets – Paragraph 120A(l)***

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

### ***Actual Return on Fund Assets – Paragraph 120A(m)***

|                              | SASS<br>Financial Year<br>to 30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|------------------------------|--|---|---|---|
| Actual Return on Fund Assets | 33,156   | 13,056  | 469,905   | 516,117   |

### ***Valuation Method and Principal Actuarial Assumptions at the Balance Sheet Date – Paragraph 120A(n)***

#### *a) Valuation Method*

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) *Economic Assumptions*

| Detail  | 30 June 2006                               |
|---|--|
| Salary Increase Rate ( <i>excluding promotional increases</i> )       | 4.0 % to June 2008;<br>3.5 % pa thereafter |
| Rate of CPI Increase  | 2.5 % pa                                   |
| Expected Rate of Return on Assets backing current Pension Liabilities | 7.6 %                                      |
| Expected Rate of Return on Assets backing other Liabilities           | 7.6 %                                      |
| Discount Rate   | 5.9 %                                      |

*Historical Information – Paragraph 120A(p)*

|   | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|---|--|---|---|---|
| Present Value of Defined Benefit Obligation | 0  | 92,005  | 3,203,477                                       | 3,295,482   |
| Fair Value of Fund Assets                   | 18,898   | (129,891)   | (3,245,517)                                     | (3,356,510)                                       |
| <b>(Surplus)/Deficit in Fund</b>            | <b>18,898</b>                                    | <b>(37,886)</b>                                   | <b>(42,040)</b>                                 | <b>(61,028)</b>                                   |
| Experience Adjustments – Fund Liabilities   | (120,062)  | (4,927)   | (594,840)                                       | (719,828)   |
| Experience Adjustments – Fund Assets        | 136,616  | (4,474)   | (102,721)                                       | 29,421  |

*Expected Contributions – Paragraph 120A(q)*

|                                 | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|---------------------------------|--|---|---|---|
| Expected Employer Contributions | 10,285   | 13,248  | 37,438  | 60,971  |

*Funding Arrangements for Employer Contributions – AUS 121.1*

a) *Surplus/Deficit*

The following is a summary of the 30 June 2006 financial position of the Fund calculated in accordance with AAS 25 “*Financial Reporting by Superannuation Plans*”:

|                                    | SASS<br>Financial Year to<br>30 June 2006<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2006<br>A\$ | SSS<br>Financial Year<br>to 30 June 2006<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2006<br>A\$ |
|------------------------------------|--|---|---|---|
| Accrued Benefits                   | 0  | 86,744  | 2,722,317                                       | 2,809,061   |
| Net Market Value of<br>Fund Assets | 18,898   | (129,891)   | (3,245,517)                                     | (3,356,510)                                       |
| <b>Net (Surplus)/Deficit</b>       | <b>18,898</b>                                    | <b>(43,147)</b>                                   | <b>(523,200)</b>                                | <b>(547,449)</b>                                  |

*b) Contribution Recommendations*

Recommend contribution rates for the entity are:

| SASS<br>Multiple of Member<br>Contributions | SANCS<br>% Member Salary | SSS<br>Multiple of Member<br>Contributions |
|---|--------------------------|--|
| 1.90  | 2.50                     | 1.60                                       |

*c) Funding Method*

The method used to determine the employer contribution recommendations at the last actuarial review was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

*d) Economic Assumptions*

The economic assumptions adopted for the last actuarial review of the Fund were:

| Weighted-Average Assumptions  | % pa     |
|---|----------|
| Expected Rate of Return on Fund Assets back-ing current Pension Liabilities | 7.7 % pa |
| Expected Rate of Return on Fund Assets back-ing other Liabilities           | 7.0 % pa |
| Expected Salary Increase Rate   | 4.0 % pa |
| Expected Rate of CPI Increase   | 2.5 % pa |

### ***Nature of Asset/Liability – AUS 121.2***

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of fund assets and the defined benefit obligation.

### **iii) Disclosure Items 30 June 2007 (Consolidated Economic Entity)**

#### ***Accounting Policy for Recognising Actuarial Gains/Losses – Paragraph 120A(a)***

Actuarial gains and losses are recognised in profit or loss in the year in which they occur.

#### ***Fund Information – Paragraph 120A(b)***

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- ◆ State Authorities Superannuation Scheme (SASS)
- ◆ State Superannuation Scheme (SSS)
- ◆ State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members.

***Reconciliation of the Present Value of the Defined Benefit Obligation – Paragraph 120A(c)***

|  | <b>SASS</b><br>Financial Year to<br>30 June 2007<br>A\$ | <b>SANCS</b><br>Financial Year<br>to 30 June 2007<br>A\$ | <b>SSS</b><br>Financial Year<br>to 30 June 2007<br>A\$ | <b>TOTAL</b><br>Financial Year<br>to 30 June 2007<br>A\$ |
|--|---|--|--|--|
| Present Value of Partly<br>Funded Defined Benefit<br>Obligations at Beginning<br>of the Year | 0   | 92,005   | 3,203,477  | 3,295,482  |
| Current Service Cost   | 0   | 5,434  | 26,999   | 32,433   |
| Interest Cost  | 0   | 5,359  | 188,974  | 194,333  |
| Contributions by Fund<br>Participants  | 0   | 0  | 20,353   | 20,353   |
| Actuarial (Gains)/Losses   | 1,501   | 2,056  | (436,825)  | (433,268)  |
| Benefits Paid  | (1,501)   | (40,980)   | 135,576  | 93,095   |
| Past Service Cost  | 0   | 0  | 0  | 0  |
| Curtailments   | 0   | 0  | 0  | 0  |
| Settlements  | 0   | 0  | 0  | 0  |
| Business Combinations  | 0   | 0  | 0  | 0  |
| Exchange Rate Changes  | 0   | 0  | 0  | 0  |
| <b>Present Value of Partly<br/>Funded Defined Benefits<br/>Obligations at End of Year</b>    | <b>0</b>  | <b>63,874</b>  | <b>3,138,554</b>                                       | <b>3,202,428</b>   |

***Reconciliation of the Fair Value of Fund Assets – Paragraph 120A(e)***

|   | SASS<br>Financial Year to<br>30 June 2007<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2007<br>A\$ | SSS<br>Financial Year<br>to 30 June 2007<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2007<br>A\$ |
|---|--|---|---|---|
| Fair Value of Fund Assets at Beginning of the Year  | (18,898)   | 129,891   | 3,245,517                                       | 3,356,510   |
| Expected Return on Fund Assets                      | (1,436)  | 10,006  | 247,825   | 256,395   |
| Actuarial Gains/(Losses)                            | (1,507)  | 4,817   | (17,988)  | (14,678)  |
| Employer Contributions                              | 0  | 3,104   | 15,527  | 18,631  |
| Contributions by Fund Participants                  | 0  | 0   | 20,353  | 20,353  |
| Benefits Paid                                       | (1,501)  | (40,980)  | 135,576   | 93,095  |
| Settlements   | 0  | 0   | 0   | 0   |
| Business Combinations                               | 0  | 0   | 0   | 0   |
| Exchange Rate Changes                               | 0  | 0   | 0   | 0   |
| <b>Fair Value of Fund Assets at End of the Year</b> | <b>(23,342)</b>                                  | <b>106,838</b>                                    | <b>3,646,810</b>                                | <b>3,730,306</b>                                  |

***Reconciliation of the Assets and Liabilities recognised in the Balance Sheet – Paragraph 120A(d) and (f)***

|   | SASS<br>Financial Year to<br>30 June 2007<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2007<br>A\$ | SSS<br>Financial Year<br>to 30 June 2007<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2007<br>A\$ |
|---|--|---|---|---|
| Present Value of Partly Funded Defined Benefit Obligations at End of Year | 0  | 63,874  | 3,138,554                                       | 3,202,428   |
| Fair Value of Fund Assets at End of Year                                  | 23,343   | (106,839)   | (3,646,810)                                     | (3,730,306)                                       |
| <b>Subtotal</b>   | <b>23,343</b>                                    | <b>(42,965)</b>                                   | <b>(508,256)</b>                                | <b>(527,878)</b>                                  |
| Unrecognised Past Service Cost  | 0  | 0   | 0   | 0   |
| Unrecognised Gain/(Loss)  | 0  | 0   | 0   | 0   |
| Adjustment for Limitation on Net Asset                                    | 0  | 29,212  | 345,562   | 374,774   |
| <b>Net Liability/(Asset) recognised in Balance Sheet at End of Year</b>   | <b>23,343</b>                                    | <b>(13,753)</b>                                   | <b>(162,694)</b>                                | <b>(153,104)</b>                                  |

**Expense recognised in Income Statement – Paragraph 46 & 120A(g)**

| Components Recognised in Income Statement          | SASS<br>Financial Year to<br>30 June 2007<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2007<br>A\$ | SSS<br>Financial Year<br>to 30 June 2007<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2007<br>A\$ |
|--|--|---|---|---|
| Current Service Cost                               | 0  | 5,434   | 26,999  | 32,433  |
| Interest Cost                                      | 0  | 5,359   | 188,974   | 194,333   |
| Expected Return on Fund Assets (net of expenses)   | 1,436  | (10,006)  | (247,825)                                       | (256,395)   |
| Actuarial Losses/(Gains) recognised in year        | 3,009  | (2,761)   | (418,838)                                       | (418,590)   |
| Past Service Cost                                  | 0  | 0   | 0   | 0   |
| Movement in Adjustment for Limitation on Net Asset | 0  | 29,212  | 345,562   | 374,774   |
| Curtailment or Settlement (Gain)/Loss              | 0  | 0   | 0   | 0   |
| <b>Expense/(Income) Recognised</b>                 | <b>4,445</b>                                     | <b>27,238</b>                                     | <b>(105,128)</b>                                | <b>(73,445)</b>                                   |

**Amounts recognised in the Statement of Recognised Income and Expense – Paragraph 120A(h)**

|                                   | SASS<br>Financial Year to<br>30 June 2007<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2007<br>A\$ | SSS<br>Financial Year<br>to 30 June 2007<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2007<br>A\$ |
|-----------------------------------|--|---|---|---|
| Actuarial (Gains)/Losses          | 0  | 0   | 0   | 0   |
| Adjustment for Limit on Net Asset | 0  | 0   | 0   | 0   |

**Cumulative amount recognised in the Statement of Recognised Income and Expense – Paragraph 120A(i)**

|   | SASS<br>Financial Year to<br>30 June 2007<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2007<br>A\$ | SSS<br>Financial Year<br>to 30 June 2007<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2007<br>A\$ |
|---|--|---|---|---|
| Cumulative Amount of Actuarial (Gains)/Losses     | 0  | 0   | 0   | 0   |
| Cumulative Adjustment for Limitation on Net Asset | 0  | 0   | 0   | 0   |

### ***Fund Assets – Paragraph 120A(j)***

The percentage invested in each asset class at the balance sheet date:

| Detail                               | 30 June 2007 |
|--------------------------------------|--------------|
| Australian Equities                  | 33.6 %       |
| Overseas Equities                    | 26.5 %       |
| Australian Fixed Interest Securities | 6.8 %        |
| Overseas Fixed Interest Securities   | 6.4 %        |
| Property                             | 10.1 %       |
| Cash                                 | 9.8 %        |
| Other                                | 6.8 %        |

### ***Fair Value of Fund Assets – Paragraph 120A(k)***

All Fund Assets are invested by STC at arm's length through independent fund managers.

### ***Expected Rate of Return on Assets – Paragraph 120A(l)***

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

### ***Actual Return on Fund Assets – Paragraph 120A(m)***

|                              | SASS<br>Financial Year to<br>30 June 2007<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2007<br>A\$ | SSS<br>Financial Year<br>to 30 June 2007<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2007<br>A\$ |
|------------------------------|--|---|---|---|
| Actual Return on Fund Assets | (2,944)  | 14,823  | 479,779   | 491,658   |

### ***Valuation Method and Principal Actuarial Assumptions at the Balance Sheet Date – Paragraph 120A(n)***

#### *a) Valuation Method*

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) *Economic Assumptions*

| Detail  | 30 June 2007                               |
|---|--|
| Salary Increase Rate ( <i>excluding promotional increases</i> )       | 4.0 % to June 2008;<br>3.5 % pa thereafter |
| Rate of CPI Increase  | 2.5 % pa                                   |
| Expected Rate of Return on Assets backing current Pension Liabilities | 7.6 %                                      |
| Expected Rate of Return on Assets backing other Liabilities           | 7.6 %                                      |
| Discount Rate   | 6.4 %                                      |

*Historical Information – Paragraph 120A(p)*

|   | SASS<br>Financial Year to<br>30 June 2007<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2007<br>A\$ | SSS<br>Financial Year<br>to 30 June 2007<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2007<br>A\$ |
|---|--|---|---|---|
| Present Value of Defined Benefit Obligation | 0  | 63,874  | 3,138,554                                       | 3,202,428   |
| Fair Value of Fund Assets                   | 23,343   | (106,839)   | (3,646,810)                                     | (3,730,306)                                       |
| <b>(Surplus)/Deficit in Fund</b>            | <b>23,343</b>                                    | <b>(42,965)</b>                                   | <b>(508,256)</b>                                | <b>(527,878)</b>                                  |
| Experience Adjustments – Fund Liabilities   | 1,501  | 2,056   | (436,825)                                       | (433,268)   |
| Experience Adjustments – Fund Assets        | 1,507  | (4,817)   | 17,988  | 14,678  |

*Expected Contributions – Paragraph 120A(q)*

|                                 | SASS<br>Financial Year to<br>30 June 2007<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2007<br>A\$ | SSS<br>Financial Year<br>to 30 June 2007<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2007<br>A\$ |
|---------------------------------|--|---|---|---|
| Expected Employer Contributions | 0  | 6,033   | 32,565  | 38,598  |

*Funding Arrangements for Employer Contributions – AUS 121.1*

a) *Surplus/Deficit*

The following is a summary of the 30 June 2007 financial position of the Fund calculated in accordance with AAS 25 “*Financial Reporting by Superannuation Plans*”:

|                                    | SASS<br>Financial Year to<br>30 June 2007<br>A\$ | SANCS<br>Financial Year<br>to 30 June 2007<br>A\$ | SSS<br>Financial Year<br>to 30 June 2007<br>A\$ | TOTAL<br>Financial Year<br>to 30 June 2007<br>A\$ |
|------------------------------------|--|---|---|---|
| Accrued Benefits                   | 0  | 63,399  | 2,921,188                                       | 2,984,587   |
| Net Market Value of<br>Fund Assets | 23,343   | (106,839)   | (3,646,810)                                     | (3,730,306)                                       |
| <b>Net (Surplus)/Deficit</b>       | <b>23,343</b>                                    | <b>(43,440)</b>                                   | <b>(725,622)</b>                                | <b>(745,719)</b>                                  |

*b) Contribution Recommendations*

Recommend contribution rates for the entity are:

| SASS<br>Multiple of Member<br>Contributions | SANCS<br>% Member Salary | SSS<br>Multiple of Member<br>Contributions |
|---|--------------------------|--|
| 1.90  | 2.50                     | 1.60                                       |

*c) Funding Method*

The method used to determine the employer contribution recommendations at the last actuarial review was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

*d) Economic Assumptions*

The economic assumptions adopted for the last actuarial review of the Fund were:

| Weighted-Average Assumptions  | % pa     |
|---|----------|
| Expected Rate of Return on Fund Assets<br>backing current Pension Liabilities | 7.7 % pa |
| Expected Rate of Return on Fund Assets<br>backing other Liabilities           | 7.0 % pa |
| Expected Salary Increase Rate   | 4.0 % pa |
| Expected Rate of CPI Increase   | 2.5 % pa |

***Nature of Asset/Liability – AUS 121.2***

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of fund assets and the defined benefit obligation.

**END OF AUDITED FINANCIAL STATEMENTS OF INTERNAL AUDIT BUREAU OF NSW**

# INTERNAL AUDIT BUREAU DIVISION AUDITED FINANCIAL STATEMENTS

## Certificate under Section 41C of the Public Finance and Audit Act 1983 and Clause 11 of the Public Finance and Audit Regulation 2005.

For the year ended 30 June 2007

Under Section 41C of the *Public Finance and Audit Act 1983*, we state that, in our opinion, the accompanying financial statements exhibit a true and fair view of the financial position of the Internal Audit Bureau Division at 30 June 2007 and the transactions for the year then ended.

We further state:

- a) That the financial report complies with applicable Australian Accounting Standards (which include Australian Equivalents to International Financial Reporting Standards (AEIFRS)), the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005*, and the Treasurer's Directions.
- b) That we are not aware of any circumstances which would make any details in the financial report misleading or inaccurate.



I NEALE  
CHAIRMAN  
INTERNAL AUDIT BUREAU  
17 October 2007



S J HORNE  
MANAGING DIRECTOR  
INTERNAL AUDIT BUREAU  
17 October 2007

# Independent Auditor's Report— Internal Audit Bureau Division



GPO BOX 12  
Sydney NSW 2001

## INDEPENDENT AUDITOR'S REPORT

Internal Audit Bureau Division

To Members of the New South Wales Parliament

I have audited the accompanying financial report of the Internal Audit Bureau Division (the Division), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Auditor's Opinion*

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of the Internal Audit Bureau Division as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005.

### *Board's Responsibility for the Financial Report*

The members of the Board are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

My opinion does not provide assurance:

- about the future viability of the Division,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

### *Independence*

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

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

Peter Barnes  
Acting Director, Financial Audit Services

18 October 2007  
SYDNEY

# Commencement of Audited Financial Statement

INTERNAL AUDIT BUREAU DIVISION  
BALANCE SHEET  
AS AT 30 JUNE 2007

|                                | NOTES | 2007<br>'000 | 2006<br>'000 |
|--------------------------------|-------|--------------|--------------|
| <b>CURRENT ASSETS</b>          |       |              |              |
| Receivables                    | 3     | 507          | 317          |
| Other                          | 7     | 177          | 80           |
|                                |       | <b>684</b>   | <b>397</b>   |
| <b>TOTAL ASSETS</b>            |       | <b>684</b>   | <b>397</b>   |
| <b>CURRENT LIABILITIES</b>     |       |              |              |
| Payables                       | 4     | 214          | 127          |
| Provisions                     | 5     | 447          | 251          |
|                                |       | <b>661</b>   | <b>378</b>   |
| <b>NON-CURRENT LIABILITIES</b> |       |              |              |
| Provisions                     | 5     | 23           | 19           |
| <b>TOTAL LIABILITIES</b>       |       | <b>684</b>   | <b>397</b>   |
| <b>NET ASSETS</b>              |       | -            | -            |
| <b>EQUITY</b>                  |       |              |              |
| Retained Profits               |       | -            | -            |
| <b>TOTAL EQUITY</b>            |       | <b>-</b>     | <b>-</b>     |

**INTERNAL AUDIT BUREAU DIVISION - INCOME STATEMENT**  
**YEAR ENDED 30 JUNE 2007**

|                    | NOTES | 2007<br>'000 | 2006<br>'000 |
|--------------------|-------|--------------|--------------|
| <b>REVENUE</b>     |       |              |              |
| Personnel Services | 1(d)  | 1,948        | 197          |
| Other              | 2     | 92           | 204          |
|                    |       | <b>2,040</b> | <b>401</b>   |
|                    |       | <hr/>        | <hr/>        |
| <b>EXPENDITURE</b> |       |              |              |
| Employee Related   |       | 2,036        | 401          |
| Other              | 2     | 4            | -            |
|                    |       | <b>2,040</b> | <b>401</b>   |
|                    |       | <hr/>        | <hr/>        |
| <b>PROFIT</b>      |       |              |              |
|                    |       | <hr/>        | <hr/>        |

**INTERNAL AUDIT BUREAU DIVISION - STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2007**

|   | NOTES | 2007<br>'000 | 2006<br>'000 |
|---|-------|--------------|--------------|
| <b>EQUITY OPENING BALANCE</b>           |       |              |              |
| Retained Profits                        |       | -            | -            |
| <b>INCOME AND EXPENSES FOR THE YEAR</b> |       |              |              |
| Profit for the Year                     |       | -            | -            |
| <b>EQUITY CLOSING BALANCE</b>           |       |              |              |
| <b>RETAINED PROFITS</b>                 |       | <hr/>        | <hr/>        |

**INTERNAL AUDIT BUREAU DIVISION - CASH FLOW STATEMENT  
AS AT 30 JUNE 2007**

|  | NOTES | 2007<br>'000 | 2006<br>'000 |
|--|-------|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>      |       |              |              |
| Net Cash Provided/(Used) by Operating Activities | 8     | -            | -            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>      |       |              |              |
| Net Cash Provided/(Used) by Investing Activities |       | -            | -            |
| Net Increase/(Decrease) in Cash Held             |       | -            | -            |
| Cash at the Beginning of Report Period           |       | -            | -            |
| <b>CASH AT THE END OF REPORTING PERIOD</b>       |       |              |              |
|  |       | -            | -            |

## Notes

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 30 JUNE 2007**

**1. SUMMARY OF ACCOUNTING POLICIES**

**(a) Reporting Entity**

The Internal Audit Bureau Division is a special purpose service entity established on 17 March 2006 pursuant to Part 2 of Schedule 1 to the Public Sector Employment and Management Act 2002. The Division is a not-for-profit entity with the sole purpose of providing personnel services to the Internal Audit Bureau of NSW and it has no cash generating units.

The Internal Audit Bureau Division commenced operations on 17 March 2006 when it assumed responsibility for the employees and employee-related assets and liabilities of the Internal Audit Bureau of NSW. The assumed assets and liabilities were recognised on 17 March 2006 together with an offsetting receivable/payable representing the related funding due from the former employer.

The 2006 comparative financial report covers the period 17 March 2006 to 30 June 2007 and has been authorised for issue by the Internal Audit Bureau Board on 17 October 2007.

**(b) Basis of Preparation**

The financial statements represent a general purpose financial report which has been prepared to comply in all material respects with applicable Australian Accounting Standards (which include Australian Equivalents to International Financial Reporting Standards (AEIFRS)), other authoritative pronouncements of the Australian Accounting Standards Board (AASB), the requirements of the Public Finance and Audit Act, 1983 and the Public Finance and Audit Regulation, 2005.

Financial report items are prepared in accordance with the historical cost convention, however certain provisions are measured at fair value (refer Note 5).

The accrual basis of accounting has been adopted in the preparation of the financial report except for cash flow information.

Management's judgements, key assumptions and estimates are disclosed in the relevant notes to the financial report.

All amounts are rounded to the nearest \$1,000 and are expressed in Australian currency.

**(c) Statement of Compliance**

The entity financial statements and notes comply with Australian Accounting Standards, which include AEIFRS.

**(d) Income Recognition**

Income is measured at the fair value of the consideration received or receivable. Revenue (from personnel services provided to the Bureau) is recognised when the service is provided, and only to the extent that the associated recoverable expenses are recognised.

**(e) Employee Benefits**

***Salaries and Wages, Annual Leave, Sick Leave and On-Costs***

Liabilities for salaries and wages (including non-monetary benefits) and annual leave that fall due wholly within 12 months of the reporting date are recognised and measured in respect of the employees' services up to the reporting date at undiscounted amounts based on the amounts expected to be paid when the liabilities are settled.

Long-term annual leave (ie that is not expected to be taken within twelve months) is measured at present value using a discount rate equal to the market yield on government bonds.

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

The outstanding amounts of payroll tax and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

### ***Long Service Leave and Superannuation***

Provisions are made for liabilities of uncertain amount or uncertain timing of settlement.

Employee benefit provisions represent expected amounts payable in the future in respect of unused entitlements accumulated as at the reporting date. Liabilities associated with, but that are not, employee benefits (such as payroll tax) are recognised separately.

Superannuation and leave liabilities are recognised as expenses and provisions when the obligations arise, which is usually through the rendering of service by employees.

Superannuation and long service leave provisions are actuarially assessed prior to each reporting date and are measured at the present value of the estimated future payments.

The amount recognised for superannuation and long service leave provisions is the net total of the present value of the defined benefit obligation at the reporting date, minus the fair value at that date of any plan assets out of which the obligations are to be settled directly.

The amount recognised in the income statement for superannuation and long service leave is the net total of the current service cost, interest cost, the expected return on any plan assets, and actuarial gains and losses. Actuarial gains and losses are recognised as income or expense in the year they occur.

The actuarial assessment of superannuation and long service leave provisions uses the Projected Unit Credit Method and reflects estimated future salary increases and the benefits set out in the terms of the plan. The liabilities are discounted using the market yield rate on government bonds of similar maturity to those obligations. Actuarial assumptions are unbiased and mutually compatible and financial assumptions are based on market expectations for the period over which the obligations are to be settled.

**(f) Insurance**

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

**(g) Receivables**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables (accounted for in the Income Statement). Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

**(h) Payables**

These amounts represent liabilities for goods and services provided to the Division and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value.

Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

**(i) New Australian Accounting Standards Issued but not Effective**

In accordance with NSW Treasury Mandates, the following new Accounting Standards have not been applied and are not yet effective:

|              |  |
|--------------|--|
| AASB 7       | Financial Instruments: Disclosures   |
| AASB 8       | Operating Segments   |
| AASB 101     | Presentation of Financial Statements   |
| AASB 123     | Borrowing Costs  |
| AASB 1049    | Financial Reporting of General Government Sectors by Governments   |
| AASB 2005-10 | Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023, AASB 1038] |
| AASB 2007-1  | Amendments to Australian Accounting Standards [AASB 2]   |
| AASB 2007-2  | Amendments to Australian Accounting Standards [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131, AASB 139]                     |

|             |  |
|-------------|--|
| AASB 2007-3 | Amendments to Australian Accounting Standards<br>[AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023, AASB 1038]  |
| AASB 2007-4 | Amendments to Australian Accounting Standards<br>[AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023, 1038] |
| AASB 2007-5 | Amendments to Australian Accounting Standards [AASB 102]   |
| AASB 2007-6 | Amendments to Australian Accounting Standards<br>[AASB 1, AASB 101, AASB 107, AASB 111, AASB 116, AASB 138]  |

It is not anticipated that there will be any material impact for the Internal Audit Bureau Division during the period of initial application of these Standards.

## 2. REVENUE AND EXPENSES

### Operating profit includes:

| Other Revenue  | NOTES | 2007<br>'000 | 2006<br>'000 |
|--|-------|--------------|--------------|
| Non-cash adjustment for actuarial assessment of superannuation liabilities | 6     | 92           | 204          |
| Other Expenditure  |       | 2007<br>'000 | 2006<br>'000 |
| Audit Fee  |       | 4            | -            |

## 3. RECEIVABLES

| Personnel Services Provided | 2007<br>'000 | 2006<br>'000 |
|-----------------------------|--------------|--------------|
|                             | 507          | 317          |

## 4. PAYABLES

| Employee Related            | 2007<br>'000 | 2006<br>'000 |
|-----------------------------|--------------|--------------|
| Personnel Services Provided | 37           | 47           |
|                             | 177          | 80           |
|                             | 214          | 127          |

## 5. PROVISIONS

### Balance Sheet Amounts

|   | NOTES | 2007<br>'000 | 2006<br>'000 |
|---|-------|--------------|--------------|
| <b>Current Liability</b>                          |       |              |              |
| Employee Benefits                                 |       | 447          | 251          |
| <b>Non Current Liability</b>                      |       |              |              |
| Superannuation                                    | 6     | 23           | 19           |
| <b>Aggregate Provisions for Employee Benefits</b> |       | <b>470</b>   | <b>270</b>   |

Unconditional employee benefit provisions are shown as a Current Liability. The nature of these liabilities, based on expected dates of settlement, is as follows:

|   | NOTES | 2007<br>'000 | 2006<br>'000 |
|---|-------|--------------|--------------|
| <b>Employee Benefits</b>                          |       |              |              |
| Short Term (within 1 year)                        |       | 95           | 90           |
| Long Term (more than 1 year)                      |       | 352          | 161          |
| <b>Aggregate Provisions for Employee Benefits</b> |       | <b>447</b>   | <b>251</b>   |

## 6. SUPERANNUATION

All paragraph references are to AASB 119.

### (i) Disclosure Items 30 June 2006

#### *Accounting Policy – Paragraph 120A(a)*

Actuarial gains and losses are recognised in profit or loss in the year they occur.

#### *Fund Information – Paragraph 120A(b)*

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- ◆ State Authorities Superannuation Scheme (SASS)
- ◆ State Superannuation Scheme (SSS)
- ◆ State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members.

***Reconciliation of the Present Value of the Defined Benefit Obligation – Paragraph 120A(c)***

|   | SASS<br>Financial<br>Year to<br>30-Jun-2006<br>A\$ | SANCS<br>Financial<br>Year to<br>30-Jun-2006<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ |
|---|--|---|---|---|
| Present Value of Partly Funded<br>Defined Benefit Obligations at<br>Beginning of the Year | 0  | 0   | 0   | 0   |
| Current Service Cost  | 3,290  | 3,691   | 13,339  | 20,319  |
| Interest Cost   | 6,861  | 3,112   | 55,336  | 65,309  |
| Contributions by Fund Participants  | 1,572  | 0   | 6,795   | 8,367   |
| Actuarial (Gains)/Losses  | (34,867)   | (1,431)   | (172,748)   | (209,046)   |
| Benefits Paid   | (96,218)   | (39,589)  | 34,072  | (101,734)   |
| Past Service Cost   | 0  | 0   | 0   | 0   |
| Curtailments  | 0  | 0   | 0   | 0   |
| Settlements   | 0  | 0   | 0   | 0   |
| Business Combinations   | 0  | 0   | 0   | 0   |
| Exchange Rate Changes   | 0  | 0   | 0   | 0   |
| Transfer in on 17 March 2006  | 119,362  | 126,222   | 3,266,683   | 3,512,267   |
| <b>Present Value of Partly Funded<br/>Defined Benefits Obligations at End<br/>of Year</b> | <b>0</b>   | <b>92,005</b>                                       | <b>3,203,477</b>                                  | <b>3,295,482</b>                                    |

***Reconciliation of the Fair Value of Fund Assets – Paragraph 120A(e)***

|   | SASS<br>Financial<br>Year to<br>30-Jun-2006<br>A\$ | SANCS<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ |
|---|--|---|---|---|
| Fair Value of Fund Assets at Beginning of the Year  | 0  | 0   | 0   | 0   |
| Expected Return on Fund Assets                      | 7,522  | 2,493   | 65,154  | 75,169  |
| Actuarial Gains/(Losses)                            | (39,675)   | 1,299   | 29,831  | (8,545)   |
| Employer Contributions                              | 19,121   | 41,510  | (47,006)  | 13,625  |
| Contributions by Fund Participants                  | 1,572  | 0   | 6,795   | 8,367   |
| Benefits Paid                                       | (96,218)   | (39,589)  | 34,072  | (101,735)   |
| Settlements   | 0  | 0   | 0   | 0   |
| Business Combinations                               | 0  | 0   | 0   | 0   |
| Exchange Rate Changes                               | 0  | 0   | 0   | 0   |
| Transfer in on 17 March 2006                        | 88,780   | 124,179   | 3,156,670   | 3,369,629   |
| <b>Fair Value of Fund Assets at End of the Year</b> | <b>(18,898)</b>                                    | <b>129,892</b>                                      | <b>3,245,516</b>                                  | <b>3,356,510</b>                                    |

***Reconciliation of the Assets and Liabilities recognised in the Balance Sheet – Paragraph 120A(d) and (f)***

|   | SASS<br>Financial<br>Year to<br>30-Jun-2006<br>A\$ | SANCS<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ |
|---|--|---|---|---|
| Present Value of Partly Funded Defined Benefit Obligations at End of Year | 0  | 92,005  | 3,203,477   | 3,295,482   |
| Fair Value of Fund Assets at End of Year                                  | 18,898   | (129,891)   | (3,245,517)                                       | (3,356,510)   |
| <b>Subtotal</b>   | <b>18,898</b>                                      | <b>(37,886)</b>                                     | <b>(42,040)</b>                                   | <b>(61,028)</b>                                     |
| Unrecognised Past Service Cost  | 0  | 0   | 0   | 0   |
| Unrecognised Gain/(Loss)  | 0  | 0   | 0   | 0   |
| Adjustment for Limitation on Net Asset                                    | 0  | 0   | 0   | 0   |
| <b>Net Liability/(Asset) recognised in Balance Sheet at End of Year</b>   | <b>18,898</b>                                      | <b>(37,886)</b>                                     | <b>(42,040)</b>                                   | <b>(61,028)</b>                                     |

***Expense recognised in Income Statement – Paragraph 46 & 120A(g)***

| Components Recognised in Income Statement          | SASS<br>Financial Year to<br>30-Jun-2006<br>A\$ | SANCS<br>Financial Year to<br>30-Jun-2006<br>A\$ | SSS<br>Financial Year to<br>30-Jun-2006<br>A\$ | TOTAL<br>Financial Year to<br>30-Jun-2006<br>A\$ |
|--|---|--|--|--|
| Current Service Cost                               | 3,290   | 3,691  | 13,339   | 20,320   |
| Interest Cost                                      | 6,861   | 3,112  | 55,336   | 65,309   |
| Expected Return on Fund Assets (net of expenses)   | (7,522)   | (2,493)  | (65,154)                                       | (75,169)   |
| Actuarial Losses/(Gains) recognised in year        | 4,808   | (2,730)  | (202,579)                                      | (200,501)  |
| Past Service Cost                                  | 0   | 0  | 0  | 0  |
| Movement in Adjustment for Limitation on Net Asset | 0   | 0  | 0  | 0  |
| Curtailment or Settlement (Gain)/Loss              | 0   | 0  | 0  | 0  |
| <b>Expense/(Income) Recognised</b>                 | <b>7,437</b>                                    | <b>1,580</b>                                     | <b>(199,058)</b>                               | <b>(190,041)</b>                                 |

***Amounts recognised in the Statement of Recognised Income and Expense – Paragraph 120A(h)***

|                                   | SASS<br>Financial Year to<br>30-Jun-2006<br>A\$ | SANCS<br>Financial Year to<br>30-Jun-2006<br>A\$ | SSS<br>Financial Year to<br>30-Jun-2006<br>A\$ | TOTAL<br>Financial Year to<br>30-Jun-2006<br>A\$ |
|-----------------------------------|---|--|--|--|
| Actuarial (Gains)/Losses          | 0   | 0  | 0  | 0  |
| Adjustment for Limit on Net Asset | 0   | 0  | 0  | 0  |

***Cumulative amount recognised in the Statement of Recognised Income and Expense – Paragraph 120A(i)***

|   | SASS<br>Financial Year to<br>30-Jun-2006<br>A\$ | SANCS<br>Financial Year to<br>30-Jun-2006<br>A\$ | SSS<br>Financial Year to<br>30-Jun-2006<br>A\$ | TOTAL<br>Financial Year to<br>30-Jun-2006<br>A\$ |
|---|---|--|--|--|
| Cumulative Amount of Actuarial (Gains)/Losses     | 0   | 0  | 0  | 0  |
| Cumulative Adjustment for Limitation on Net Asset | 0   | 0  | 0  | 0  |

### ***Fund Assets – Paragraph 120A(j)***

The percentage invested in each asset class at the balance sheet date:

| Detail                               | 30 June 2006 |
|--------------------------------------|--------------|
| Australian Equities                  | 37.4 %       |
| Overseas Equities                    | 27.9 %       |
| Australian Fixed Interest Securities | 9.9 %        |
| Overseas Fixed Interest Securities   | 6.8 %        |
| Property                             | 8.6 %        |
| Cash                                 | 5.0 %        |
| Other                                | 4.4 %        |

### ***Fair Value of Fund Assets – Paragraph 120A(k)***

All Fund Assets are invested by STC at arm's length through independent fund managers.

### ***Expected Rate of Return on Assets – Paragraph 120A(l)***

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

### ***Actual Return on Fund Assets – Paragraph 120A(m)***

|                              | SASS<br>Financial<br>Year to<br>30-Jun-2006<br>A\$ | SANCS<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ |
|------------------------------|--|---|---|---|
| Actual Return on Fund Assets | 9,629  | 3,792   | 136,465   | 149,886   |

### ***Valuation Method and Principal Actuarial Assumptions at the Balance Sheet Date – Paragraph 120A(n)***

#### ***a) Valuation Method***

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) *Economic Assumptions*

| Detail  | 30 June 2006                               |
|---|--|
| Salary Increase Rate ( <i>excluding promotional increases</i> )       | 4.0 % to June 2008;<br>3.5 % pa thereafter |
| Rate of CPI Increase  | 2.5 % pa                                   |
| Expected Rate of Return on Assets backing current Pension Liabilities | 7.6 %                                      |
| Expected Rate of Return on Assets backing other Liabilities           | 7.6 %                                      |
| Discount Rate   | 5.9 %                                      |

***Historical Information – Paragraph 120A(p)***

|   | SASS<br>Financial<br>Year to<br>30-Jun-2006<br>A\$ | SANCS<br>Financial<br>Year to<br>30-Jun-2006<br>A\$ | SSS<br>Financial<br>Year to<br>30-Jun-2006<br>A\$ | TOTAL<br>Financial<br>Year to<br>30-Jun-2006<br>A\$ |
|---|--|---|---|---|
| Present Value of Defined Benefit Obligation | 0  | 92,005  | 3,203,477   | 3,295,482   |
| Fair Value of Fund Assets                   | 18,898   | (129,891)   | (3,245,517)                                       | (3,356,510)   |
| <b>(Surplus)/Deficit in Fund</b>            | <b>18,898</b>                                      | <b>(37,886)</b>                                     | <b>(42,040)</b>                                   | <b>(61,028)</b>                                     |
| Experience Adjustments – Fund Liabilities   | (34,867)   | (1,431)   | (172,748)   | (209,046)   |
| Experience Adjustments – Fund Assets        | 39,675   | (1,299)   | (29,831)  | 8,544   |

***Expected Contributions – Paragraph 120A(q)***

|                                 | SASS<br>Financial<br>Year to<br>30-Jun-2006<br>A\$ | SANCS<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ |
|---------------------------------|--|---|---|---|
| Expected Employer Contributions | 2,987  | 3,847   | 10,873  | 17,707  |

***Funding Arrangements for Employer Contributions – AUS 121.1***

a) *Surplus/Deficit*

The following is a summary of the 30 June 2006 financial position of the Fund calculated in accordance with AAS 25 “*Financial Reporting by Superannuation Plans*”:

|                                 | SASS<br>Financial<br>Year to<br>30-Jun-2006<br>A\$ | SANCS<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2006<br>A\$ |
|---------------------------------|--|---|---|---|
| Accrued Benefits                | 0  | 86,744  | 2,722,317   | 2,809,061   |
| Net Market Value of Fund Assets | 18,898   | (129,891)   | (3,245,517)                                       | (3,356,510)   |
| <b>Net (Surplus)/Deficit</b>    | <b>18,898</b>                                      | <b>(43,147)</b>                                     | <b>(523,200)</b>                                  | <b>(547,449)</b>                                    |

*b) Contribution Recommendations*

Recommend contribution rates for the entity are:

| SASS<br>Multiple of Member<br>Contributions | SANCS<br>% Member Salary | SSS<br>Multiple of Member<br>Contributions |
|---|--------------------------|--|
| 1.90  | 2.50                     | 1.60                                       |

*c) Funding Method*

The method used to determine the employer contribution recommendations at the last actuarial review was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

*d) Economic Assumptions*

The economic assumptions adopted for the last actuarial review of the Fund were:

| Weighted-Average Assumptions  | % pa     |
|---|----------|
| Expected Rate of Return on Fund Assets<br>backing current Pension Liabilities | 7.7 % pa |
| Expected Rate of Return on Fund Assets<br>backing other Liabilities           | 7.0 % pa |
| Expected Salary Increase Rate   | 4.0 % pa |
| Expected Rate of CPI Increase   | 2.5 % pa |

### ***Nature of Asset/Liability – AUS 121.2***

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of fund assets and the defined benefit obligation.

#### **(ii) Disclosure Items 30 June 2007**

##### ***Accounting Policy – Paragraph 120A(a)***

Actuarial gains and losses are recognised in profit or loss in the year in which they occur.

##### ***Fund Information – Paragraph 120A(b)***

The Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- ◆ State Authorities Superannuation Scheme (SASS)
- ◆ State Superannuation Scheme (SSS)
- ◆ State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Schemes are closed to new members.

***Reconciliation of the Present Value of the Defined Benefit Obligation – Paragraph 120A(c)***

|   | SASS<br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | SANCS<br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ |
|---|--|---|---|---|
| Present Value of Partly Funded<br>Defined Benefit Obligations at<br>Beginning of the Year | 0  | 92,005  | 3,203,477   | 3,295,482   |
| Current Service Cost  | 0  | 5,434   | 26,999  | 32,433  |
| Interest Cost   | 0  | 5,359   | 188,974   | 194,333   |
| Contributions by Fund<br>Participants   | 0  | 0   | 20,353  | 20,353  |
| Actuarial (Gains)/Losses  | 1,501  | 2,056   | (436,825)   | (433,268)   |
| Benefits Paid   | (1,501)  | (40,980)  | 135,576   | 93,095  |
| Past Service Cost   | 0  | 0   | 0   | 0   |
| Curtailments  | 0  | 0   | 0   | 0   |
| Settlements   | 0  | 0   | 0   | 0   |
| Business Combinations   | 0  | 0   | 0   | 0   |
| Exchange Rate Changes   | 0  | 0   | 0   | 0   |
| <b>Present Value of Partly Funded<br/>Defined Benefits Obligations at<br/>End of Year</b> | <b>0</b>   | <b>63,874</b>                                       | <b>3,138,554</b>                                  | <b>3,202,428</b>                                    |

***Reconciliation of the Fair Value of Fund Assets – Paragraph 120A(e)***

|   | SASS<br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | SANCS<br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ |
|---|--|---|---|---|
| Fair Value of Fund Assets at Beginning of the Year  | (18,898)   | 129,891   | 3,245,517   | 3,356,510   |
| Expected Return on Fund Assets                      | (1,436)  | 10,006  | 247,825   | 256,395   |
| Actuarial Gains/(Losses)                            | (1,507)  | 4,817   | (17,988)  | (14,678)  |
| Employer Contributions                              | 0  | 3,104   | 15,527  | 18,631  |
| Contributions by Fund Participants                  | 0  | 0   | 20,353  | 20,353  |
| Benefits Paid                                       | (1,501)  | (40,980)  | 135,576   | 93,095  |
| Settlements   | 0  | 0   | 0   | 0   |
| Business Combinations                               | 0  | 0   | 0   | 0   |
| Exchange Rate Changes                               | 0  | 0   | 0   | 0   |
| <b>Fair Value of Fund Assets at End of the Year</b> | <b>(23,343)</b>                                    | <b>106,839</b>                                      | <b>3,646,810</b>                                  | <b>3,730,306</b>                                    |

***Reconciliation of the Assets and Liabilities recognised in the Balance Sheet – Paragraph 120A(d) and (f)***

|   | SASS<br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | SANCS<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ |
|---|--|---|---|---|
| Present Value of Partly Funded Defined Benefit Obligations at End of Year | 0  | 63,874  | 3,138,554   | 3,202,428   |
| Fair Value of Fund Assets at End of Year                                  | 23,343   | (106,839)   | (3,646,810)                                       | (3,730,306)   |
| <b>Subtotal</b>   | <b>23,343</b>                                      | <b>(42,965)</b>                                     | <b>(508,256)</b>                                  | <b>(527,878)</b>                                    |
| Unrecognised Past Service Cost  | 0  | 0   | 0   | 0   |
| Unrecognised Gain/(Loss)  | 0  | 0   | 0   | 0   |
| Adjustment for Limitation on Net Asset                                    | 0  | 29,212  | 345,562   | 374,774   |
| <b>Net Liability/(Asset) recognised in Balance Sheet at End of Year</b>   | <b>23,343</b>                                      | <b>(13,753)</b>                                     | <b>(162,694)</b>                                  | <b>(153,104)</b>                                    |

***Expense recognised in Income Statement – Paragraph 46 & 120A(g)***

| Components Recognised in Income Statement          | SASS<br>Financial Year to<br>30-Jun-2007<br>A\$ | SANCS<br>Financial Year to<br>30-Jun-2007<br>A\$ | SSS<br>Financial Year to<br>30-Jun-2007<br>A\$ | TOTAL<br>Financial Year to<br>30-Jun-2007<br>A\$ |
|--|---|--|--|--|
| Current Service Cost                               | 0   | 5,434  | 26,999   | 32,433   |
| Interest Cost                                      | 0   | 5,359  | 188,974  | 194,333  |
| Expected Return on Fund Assets (net of expenses)   | 1,436   | (10,006)   | (247,825)                                      | (256,395)  |
| Actuarial Losses/(Gains) recognised in year        | 3,009   | (2,761)  | (418,838)                                      | (418,590)  |
| Past Service Cost                                  | 0   | 0  | 0  | 0  |
| Movement in Adjustment for limitation on Net Asset | 0   | 29,212   | 345,562  | 374,774  |
| Curtailment or Settlement (Gain)/Loss              | 0   | 0  | 0  | 0  |
| <b>Expense/(Income) Recognised</b>                 | <b>4,445</b>                                    | <b>27,238</b>                                    | <b>(105,128)</b>                               | <b>(73,445)</b>                                  |

***Amounts recognised in the Statement of Recognised Income and Expense – Paragraph 120A(h)***

|                                   | SASS<br>Financial Year to<br>30-Jun-2007<br>A\$ | SANCS<br>Financial Year to<br>30-Jun-2007<br>A\$ | SSS<br>Financial Year to<br>30-Jun-2007<br>A\$ | TOTAL<br>Financial Year to<br>30-Jun-2007<br>A\$ |
|-----------------------------------|---|--|--|--|
| Actuarial (Gains)/Losses          | 0   | 0  | 0  | 0  |
| Adjustment for Limit on Net Asset | 0   | 0  | 0  | 0  |

***Cumulative amount recognised in the Statement of Recognised Income and Expense – Paragraph 120A(i)***

|  | SASS<br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | SANCS<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ |
|--|--|---|---|---|
| Cumulative Amount of<br>Actuarial (Gains)/Losses     | 0  | 0   | 0   | 0   |
| Cumulative Adjustment for<br>Limitation on Net Asset | 0  | 0   | 0   | 0   |

***Fund Assets – Paragraph 120A(j)***

The percentage invested in each asset class at the balance sheet date:

| Detail                               | 30 June 2007 |
|--------------------------------------|--------------|
| Australian Equities                  | 33.6 %       |
| Overseas Equities                    | 26.5 %       |
| Australian Fixed Interest Securities | 6.8 %        |
| Overseas Fixed Interest Securities   | 6.4 %        |
| Property                             | 10.1 %       |
| Cash                                 | 9.8 %        |
| Other                                | 6.8 %        |

***Fair Value of Fund Assets – Paragraph 120A(k)***

All Fund Assets are invested by STC at arm's length through independent fund managers.

***Expected Rate of Return on Assets – Paragraph 120A(l)***

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

***Actual Return on Fund Assets – Paragraph 120A(m)***

|                              | SASS<br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | SANCS<br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ |
|------------------------------|--|---|---|---|
| Actual Return on Fund Assets | (2,944)  | 14,823  | 479,779   | 491,658   |

**Valuation Method and Principal Actuarial Assumptions at the Balance Sheet Date – Paragraph 120A(n)**

a) *Valuation Method*

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

b) *Economic Assumptions*

| Detail   | 30 June 2007                               |
|--|--|
| Salary Increase Rate<br>(excluding promotional increases)                | 4.0 % to June 2008;<br>3.5 % pa thereafter |
| Rate of CPI Increase   | 2.5 % pa                                   |
| Expected Rate of Return on Assets<br>backing current Pension Liabilities | 7.6 %                                      |
| Expected Rate of Return on Assets<br>backing other Liabilities           | 7.6 %                                      |
| Discount Rate  | 6.4 %                                      |

*Historical Information – Paragraph 120A(p)*

|  | SASS<br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | SANCS<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ |
|--|--|---|---|---|
| Present Value of Defined Benefit<br>Obligation | 0  | 63,874  | 3,138,554   | 3,202,428   |
| Fair Value of Fund Assets                      | 23,343   | (106,839)   | (3,646,810)                                       | (3,730,306)   |
| (Surplus)/Deficit in Fund                      | 23,343   | (42,965)  | (508,256)   | (527,878)   |
| Experience Adjustments – Fund<br>Liabilities   | 1,501  | 2,056   | (436,825)   | (433,268)   |
| Experience Adjustments – Fund<br>Assets        | 1,507  | (4,817)   | 17,988  | 14,678  |

*Expected Contributions – Paragraph 120A(q)*

|                                    | SASS<br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | SANCS<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ | SSS<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ | TOTAL<br>Financial Year<br>to<br>30-Jun-2007<br>A\$ |
|------------------------------------|--|---|---|---|
| Expected Employer<br>Contributions | 0  | 6,033   | 32,565  | 38,598  |

## ***Funding Arrangements for Employer Contributions – AUS 121.1***

### ***a) Surplus/Deficit***

The following is a summary of the 30 June 2007 financial position of the Fund calculated in accordance with AAS 25 “*Financial Reporting by Superannuation Plans*”:

|                                 | <b>SASS</b><br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | <b>SANCS</b><br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | <b>SSS</b><br>Financial<br>Year to<br>30-Jun-2007<br>A\$ | <b>TOTAL</b><br>Financial<br>Year to<br>30-Jun-2007<br>A\$ |
|---------------------------------|---|--|--|--|
| Accrued Benefits                | 0   | 63,399   | 2,921,188  | 2,984,587  |
| Net Market Value of Fund Assets | 23,343  | (106,839)  | (3,646,810)  | (3,730,306)  |
| <b>Net (Surplus)/Deficit</b>    | <b>23,343</b>   | <b>(43,440)</b>  | <b>(725,622)</b>   | <b>(745,719)</b>   |

### ***b) Contribution Recommendations***

Recommend contribution rates for the entity are:

| <b>SASS</b><br>Multiple of Member<br>Contributions | <b>SANCS</b><br>% Member Salary | <b>SSS</b><br>Multiple of Member<br>Contributions |
|--|---------------------------------|---|
| 1.90   | 2.50                            | 1.60  |

### ***c) Funding Method***

The method used to determine the employer contribution recommendations at the last actuarial review was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

### ***d) Economic Assumptions***

The economic assumptions adopted for the last actuarial review of the Fund were:

| <b>Weighted-Average Assumptions</b>  | <b>% pa</b> |
|--|-------------|
| Expected Rate of Return on Fund Assets backing current Pension Liabilities | 7.7 % pa    |
| Expected Rate of Return on Fund Assets backing other Liabilities           | 7.0 % pa    |
| Expected Salary Increase Rate  | 4.0 % pa    |
| Expected Rate of CPI Increase  | 2.5 % pa    |

### ***Nature of Asset/Liability – AUS 121.2***

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of fund assets and the defined benefit obligation.

## **7. OTHER CURRENT ASSETS**

|                | <b>NOTE</b> | <b>2007<br/>'000</b> | <b>2006<br/>'000</b> |
|----------------|-------------|----------------------|----------------------|
| Superannuation | 6           | 177                  | 80                   |

## **8. NOTE TO THE CASH FLOW STATEMENT**

### **Reconciliation of Net Cash Provided by Operating Activities to Profit**

|   | <b>2007<br/>'000</b> | <b>2006<br/>'000</b> |
|---|----------------------|----------------------|
| Profit/(Loss)                               | -                    | -                    |
| (Increase)/Decrease in Receivables          | (190)                | (317)                |
| (Increase)/Decrease in Other Current Assets | (97)                 | (80)                 |
| Increase/(Decrease) in Payables             | 87                   | 127                  |
| Increase/(Decrease) in Provisions           | 200                  | 270                  |
| Net Cash Provided by Operating Activities   | -                    | -                    |

## **9. CONTINGENT LIABILITIES**

As at 30 June 2007 the Division had no contingent liabilities. (Nil in 2005-06).

## 10. FINANCIAL INSTRUMENTS

### Interest Rate Risk

Interest rate risk is the risk that the value of the instruments will fluctuate due to changes in market interest rates. The Division's exposure to interest rate risk and the effective interest rates of financial assets and liabilities at the reporting date are as follows:

| 30 June 2007                       | Weighted Average Effective Interest Rate | Floating Interest Rate | Fixed Interest Rate Maturity 1 Year or Less | Non Interest Bearing | Total Carrying Amount as per the Balance Sheet \$000 |
|------------------------------------|--|------------------------|---|----------------------|--|
| <b>FINANCIAL ASSETS</b>            |  |                        |   |                      |  |
| Receivables                        |  |                        |   | 507                  | 507  |
| <b>Total Financial Assets</b>      |  |                        |   | <b>507</b>           | <b>507</b>   |
| <b>FINANCIAL LIABILITIES</b>       |  |                        |   |                      |  |
| Accounts Payable                   |  |                        |   | 214                  | 214  |
| <b>Total Financial Liabilities</b> |  |                        |   | <b>214</b>           | <b>214</b>   |

| 30 June 2006                       | Weighted Average Effective Interest Rate | Floating Interest Rate | Fixed Interest Rate Maturity 1 Year or Less | Non Interest Bearing | Total Carrying Amount as per the Balance Sheet \$000 |
|------------------------------------|--|------------------------|---|----------------------|--|
| <b>FINANCIAL ASSETS</b>            |  |                        |   |                      |  |
| Receivables                        |  |                        |   | 317                  | 317  |
| <b>Total Financial Assets</b>      |  |                        |   | <b>317</b>           | <b>317</b>   |
| <b>FINANCIAL LIABILITIES</b>       |  |                        |   |                      |  |
| Accounts Payable                   |  |                        |   | 127                  | 127  |
| <b>Total Financial Liabilities</b> |  |                        |   | <b>127</b>           | <b>127</b>   |

## 11. COMMITMENTS FOR EXPENDITURE

As at 30 June 2007 the Division had no expenditure commitments. (Nil in 2005-06).

**END OF AUDITED FINANCIAL STATEMENTS INTERNAL AUDIT BUREAU DIVISION**

# APPENDICES—STATUTORY REPORTING OBLIGATIONS

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## EXEMPTIONS FROM REPORTING PROVISIONS

IAB Services received approval from the NSW Treasurer in 1993 to dispense with the disclosure of:

- ◆ Budget information in terms of Section 7(2) Annual Reports (Statutory Bodies) Act, 1984 as to report such information would disadvantage IAB Services when tendering services.
- ◆ Statistical information on staff numbers, grading levels and salary rates in terms of Clause 15 (schedule 1) of the *Annual Reports (Statutory Bodies) Regulation 2005* as to report such information would disadvantage IAB Services when tendering services.
- ◆ Equal Employment Opportunity statistical information, in the Treasurer's format, in terms of Clause 15 (Schedule 1) of the *Annual Reports (Statutory Bodies) Regulation 2005*.

## GOVERNANCE AND MANAGEMENT

### LEGAL CHANGES

There were no changes to our legislation during 2006-07. There were no judicial decisions for the period ending 30 June 2007 impacting on IAB Services.

### PRIVACY MANAGEMENT

In accordance with the *Privacy and Personal Information Protection Act 1998*, IAB Services has prepared a Privacy Management Plan and continued to operate in accordance with this plan during 2006-07. During 2006-07, one request was received. As this related to an investigation, advice was sought from the Crown Solicitors' Office. The application was subsequently refused.

### FREEDOM OF INFORMATION

IAB Services is subject to the requirements of the *Freedom of Information Act 1989*. During the year 2006-07 we received one FOI application (as opposed to none in 2005-06). Information was requested on an investigation into potential misconduct. Because the matter affected an investigation, legal advice was sought from the Crown Solicitors' Office before making a determination. This advice was not received in time to meet the target timeframes, however the application was determined immediately following receipt of the Crown Solicitors' advice, and we were able to partially release relevant material. Determining the application required a substantial commitment of resources.

### RISK MANAGEMENT AND INSURANCE ACTIVITIES

**Risk Management** – IAB Services continually monitors key business risk exposures based on the Australian/New Zealand Risk Management Standard – AS/NZ 4360. We addressed our risks through actions such as:

- ◆ Executive Team meeting regularly with clients, staff and contractors.
- ◆ Monitoring of key business risk mitigation strategies by the IAB Board and MD.
- ◆ Maintaining effective physical security over our information and data.
- ◆ Promulgation of important administrative and operational policies.

We also apply a risk management approach, using the Australian/New Zealand Risk Management Standard – AS/NZ 4360, when developing Client Internal Audit plans and when performing internal audit assignments.

**Insurance** - IAB Services is a member of the NSW Treasury Managed Fund (TMF). The TMF provides insurance cover for workers compensation, motor vehicles, public liability, property and miscellaneous items.

# Appendices

## FINANCIAL MANAGEMENT

### INVESTMENT PERFORMANCE

Funds surplus to the immediate needs of IAB Services are deposited with the NSW Treasury Corporation (T Corp) in either the Cash Facility or the Bond Market Facility.

Performance against the Benchmark set by TCorp was:

|               | Return | T Corp Benchmark |
|---------------|--------|------------------|
| Cash Facility | 6.41%  | 6.41%            |



### PAYMENT OF ACCOUNTS

Payment Performance Indicators

(i) Accounts Outstanding Per Quarter \$

|                | Total \$  | Current \$ | <30 Days | 30-60 Days | 60-90 Days | > 90 Days |
|----------------|-----------|------------|----------|------------|------------|-----------|
| September 2006 | 1,178,202 | 1,178,202  | -        | -          | -          | -         |
| December 2006  | 482,410   | 482,410    | -        | -          | -          | -         |
| March 2007     | 584,353   | 584,353    | -        | -          | -          | -         |
| June 2007      | 786,044   | 786,044    | -        | -          | -          | -         |

(ii) Payments Made on Time

|                        | Percentage of Accounts Paid On Time | Total Dollar Amount of Accounts Paid On Time | Total Dollar Amount Of Accounts Paid |
|------------------------|-------------------------------------|--|--------------------------------------|
| September 2006 Quarter | 100%                                | 2,192,167                                    | 2,192,167                            |
| December 2006 Quarter  | 100%                                | 1,182,469                                    | 1,182,469                            |
| March 2007 Quarter     | 100%                                | 1,685,024                                    | 1,685,024                            |
| June 2007 Quarter      | 100%                                | 2,809,963                                    | 2,809,963                            |

### CREDIT CARD CERTIFICATION

IAB Services' policy for the use of credit cards reflects the requirements of Government policy as outlined in relevant NSW Treasury and Audit Office of NSW "Best Practice" guidelines. In accordance with Treasurer's Direction 205.01, it is certified that credit card usage by officers of IAB Services, and the monitoring of such usage, has been in line with the Government requirements.

# Appendices

## HUMAN RESOURCES

### PERFORMANCE OF THE CEO; STATEMENT BY THE CHAIR OF THE BOARD OF MANAGEMENT

The Internal Audit Bureau of NSW is headed by a chief executive listed under Part 2 of Schedule 2 of the *Public Sector Employment and Management Act 2002*. Mr Stephen Horne has occupied the position of Managing Director since 24 July 2006. Prior to his appointment, IAB Services had undergone a period of instability following the resignation of the previous Managing Director. A priority was for Stephen to focus on positioning IAB Services to be able to provide the highest quality professional services to its clients. Stephen comprehensively reviewed support systems and initiated changes to more effectively support the professional services provided by IAB Services. A key action was the recent appointment of an experienced Executive Officer. To enhance professional services, Stephen expanded the panel of experienced contractors available to service clients. He initiated regular liaison with contractors to keep them informed about requirements. Stephen was also actively involved in raising the profile of IAB Services within the Public Sector. Under his leadership, IAB Services has been able to produce a satisfactory financial result for the year, while introducing changes which will strengthen its service capabilities.

### EXECUTIVE OFFICERS

|              | 2005-06  | 2006-07  |
|--------------|----------|----------|
| CEO          | 1        | 1        |
| <b>TOTAL</b> | <b>1</b> | <b>1</b> |

There were three Director positions within IAB Services in 2006-07. The occupants of these positions are appointed on a 'contract' basis and are not subject to the *Public Sector Employment and Management Act 2000*. These positions are therefore not regarded as Executive Officers for the purposes of reporting under Clause 14 of the *Annual Reports (Statutory Bodies) Regulation 2005*.

### EQUAL EMPLOYMENT OPPORTUNITY

IAB Services was granted approval by the NSW Treasurer in 1993 to be exempt from reporting Equal Employment Opportunity statistical information as required under Clause 15 of the *Annual Reports (Statutory Bodies) Regulation 2005*. We are, however, committed to the principles of EEO and have adopted policies and strategies to ensure that our work place is free of discrimination and staff have equal access to training, job opportunities, higher duties and flexible work practices.

### ETHNIC AFFAIRS PRIORITIES STATEMENT

IAB Services recognises the cultural and linguistic diversity of the NSW community and we are committed to ensuring that our services, where appropriate, are provided in a culturally sensitive and competent manner (for example - when conducting an investigation that may involve interviewing persons from a non-English speaking background). It should be noted, however, that our activities are centred on providing professional services to government agencies. We have no direct involvement with members of the public. As a consequence, the need to develop a specific EAPS covering the manner in which we deliver our services is not warranted.

# Appendices

## NSW GOVERNMENT ACTION PLAN FOR WOMEN

The NSW Government Action Plan for Women outlines the Government's commitments, priorities and initiatives for women. The Action Plan focuses on initiatives specially designed to meet women's needs and ways in which Government agencies take account of women in delivering their core services. IAB Services' activities are centred on providing professional services to government agencies. We have no direct involvement with members of the public. As a consequence the need to develop specific service delivery strategies aimed at women is not warranted. Female staff members are encouraged to undertake career development activities and we continue to disseminate information about the Spokeswomen's Program to these staff.

## OCCUPATIONAL HEALTH AND SAFETY

IAB Services aims to achieve the best possible standard of occupational health and safety for our staff and visitors to our workplace. During the year 2006-07 there were no reported work-related injuries or illness involving staff members or safety incidents involving visitors to our office. In addition, IAB Services was not involved in any prosecutions under the *Occupational Health and Safety Act 2000*.

## OPERATIONS

### USE OF CONSULTANTS

The following consultants were engaged during 2006-07:

Common Sense HR Pty Ltd—HR Services (\$3,000)

Corwood Consulting Pty Ltd—HR Services (\$4,000)

### GRANTS

IAB Services did not provide 'grant' funding to any non-government community organisation during the period 2006-07.

### RESEARCH AND DEVELOPMENT

IAB Services does not undertake Research and Development (R&D) work the nature of which is subject to disclosure requirements under the Annual Reports legislation.

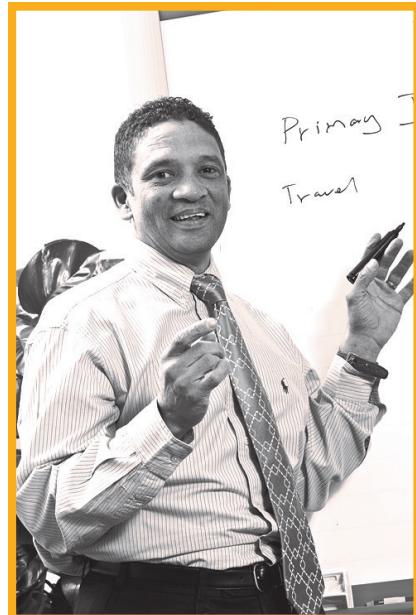
### ELECTRONIC SERVICE DELIVERY

IAB Services' activities are centred on providing professional services to government agencies. We have no direct involvement with members of the public and only deliver services to client agencies. As a consequence, the need to develop a specific *Electronic Service Delivery Strategy* aimed at the services provided to the public, as required under Premier's guidelines, is not relevant to our situation.

### PROMOTIONAL ACTIVITIES/OVERSEAS TRAVEL

**Overseas Travel** - IAB Services staff undertook no overseas visits during the period 2006-07.

**Professional Activities** - We are involved with various professional bodies in a variety of ways, including participating as office bearers. The following is a list of some of these organisations:



# Appendices

- ◆ CPA Australia.
- ◆ Institute of Chartered Accountants Australia (ICA-Aust).
- ◆ Institute of Internal Auditors Australia (IIA-Aust).
- ◆ Public Sector Risk Management Association (PSRMA).
- ◆ Corruption Prevention Network (CPN).
- ◆ Information Systems Audit and Control Association (ISACA).

**Publications** – IAB publications that are generally available include: Guarantee of Service; Annual Report; IAB Services Newsletter; and various promotional brochures.

## WASTE REDUCTION ARRANGEMENTS

In 2006-07, IAB Services continued to observe and practice the principles contained within the Government's Waste Reduction and Purchasing Policy by implementing an action plan promoting the minimisation and recycling of generated waste and the use/ purchase of recycled materials, when and where appropriate:

- ◆ **Reducing waste generation** – IAB Services reduces its generation of waste paper by using electronic communication methods, including email and making available, where appropriate, client reports in electronic format. The generation of waste paper is reduced by double sided printing and copying, which is actively encouraged.
- ◆ **Increasing resource recovery** – IAB Services returns all used toner cartridges (printers and copiers) for recycling and paper waste is collected within strategically placed bins for collection and recycling by a contracted service provider. We also purchase recycled content product when feasible and cost effective.

## ENERGY MANAGEMENT

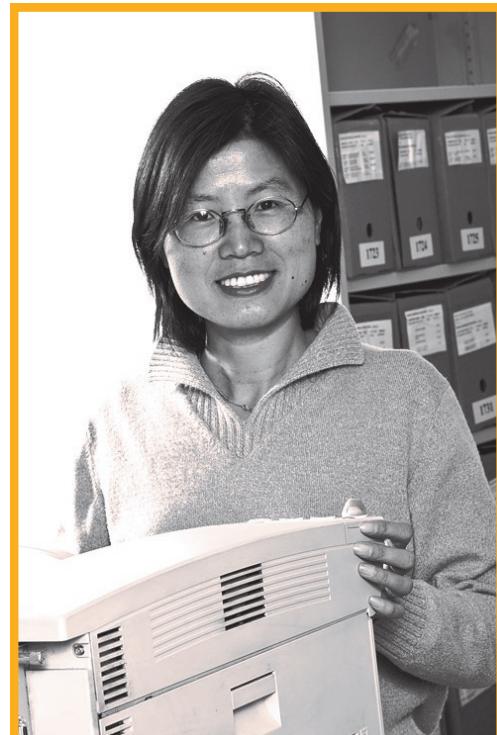
IAB Services is committed to achieving savings in energy usage and applies, where possible, sustainable energy management principles in line with the Government's Energy Management Policy for Reducing Greenhouse Emissions. This includes the purchase of energy efficient office equipment (including computers, computer screens, printers, copiers etc) and educating staff about ways of reducing energy usage.

IAB Services occupies a small suite of leased office space. We work closely with our landlord to enable more efficient management of energy and water use.

During 2006-07, IAB Services operated a pool of two, 4 cylinder vehicles.

## LAND DISPOSAL

IAB Services does not own property.



# Appendices

## GUARANTEE OF SERVICE AND CLIENT/CONSUMER RESPONSE

### OUR SERVICES COMMITMENT

IAB Services has developed a Guarantee of Service that establishes our commitment to providing the highest standard and quality of professional services.

We are committed to the following standards of service delivery:

- ◆ IAB Services will provide advice and assistance to agencies if requested. Our professional staff are always available to answer client enquiries.
- ◆ The nature, scope, approach and specific details relating to each project undertaken by IAB Services will be communicated to the clients prior to commencement of each project.
- ◆ Matters reported and opinions given by IAB Services will be fully supported based on work undertaken in accordance with relevant Better Practice guides, applicable legislation and professional standards.
- ◆ Draft reports will be issued within 10 working days of the completion of field work.
- ◆ Final reports will be issued within 10 working days of management's final response to the draft report or within the agreed management deadline.
- ◆ Responses to general correspondence will be actioned as soon as possible and within four weeks.
- ◆ The results of audits/reviews undertaken will be discussed with the client throughout the course of the project and all matters to be raised in the report will be discussed prior to issuing the draft report.
- ◆ We will provide a contact name in all reports and correspondence and in response to telephone inquiries.
- ◆ Confidential and sensitive information will be securely managed in accordance with relevant privacy legislation.
- ◆ Ownership of reports and working papers prepared by IAB Services vests with the client agency. Such documentation will be kept confidential except as they are required by the External Auditor for the purposes of the statutory audit of the client's financial statements.
- ◆ IAB Services will ensure that its staff are trained and developed to provide a professional and competent service.
- ◆ Should a customer be dissatisfied with the quality of any of our work, IAB Services will undertake to rectify the problem at no additional cost to the customer.

### COMPLIMENTS AND COMPLAINTS

IAB Services is committed to improving its operations and the manner in which services are delivered to our client agencies. We therefore welcome suggestions for improving the manner in which we deliver services and encourage our clients to lodge a complaint where our services have fallen short of expectations. Any person wishing to make a suggestion, compliment or complaint should contact the IAB Services' Director responsible for their agency or alternatively they can contact the IAB Services Managing Director.

*Contact details are shown below:*

**Contact Details:** Phone [02] 9261 9100 Fax: [02] 9261 9111

**Email:** [intaud@iab.nsw.gov.au](mailto:intaud@iab.nsw.gov.au)

**Postal:** The Managing Director

PO Box Q295, QVB Post Shop, NSW, 1230

# GLOSSARY

|                 |  |
|-----------------|--|
| <b>AAS</b>      | <b>Australian Accounting Standards</b>                                       |
| <b>AASB</b>     | <b>Australian Accounting Standards Board</b>                                 |
| <b>ACA</b>      | <b>Associate of the Institute of Chartered Accountants</b>                   |
| <b>ACT</b>      | <b>Australian Capital Territory</b>  |
| <b>AEIFRS</b>   | <b>Australian Equivalents to International Financial Reporting Standards</b> |
| <b>AGAAP</b>    | <b>Australian Generally Accepted Accounting Principles</b>                   |
| <b>AM</b>       | <b>Member of the Order of Australia</b>                                      |
| <b>ATO</b>      | <b>Australian Taxation Office</b>  |
| <b>CAATs</b>    | <b>Computer-Assisted Audit Techniques</b>                                    |
| <b>CEO</b>      | <b>Chief Executive Officer</b>   |
| <b>CPA</b>      | <b>Certified Practicing Accountant</b>                                       |
| <b>CPI</b>      | <b>Consumer Price Index</b>  |
| <b>CPN</b>      | <b>Corruption Prevention Network</b>   |
| <b>EAPS</b>     | <b>Ethnic Affairs Priorities Statement</b>                                   |
| <b>EEO</b>      | <b>Equal Employment Opportunity</b>  |
| <b>EFTPOS</b>   | <b>Electronic Funds Transfer at Point of Sale</b>                            |
| <b>FCA</b>      | <b>Fellow of the Institute of Chartered Accountants</b>                      |
| <b>FCPA</b>     | <b>Fellow of CPA Australia</b>   |
| <b>IIA</b>      | <b>Fellow of the Institute of Internal Auditors</b>                          |
| <b>FIMC</b>     | <b>Fellow of the Institute of Management Consultants</b>                     |
| <b>FOI</b>      | <b>Freedom of Information</b>  |
| <b>GST</b>      | <b>Goods and Services Tax</b>  |
| <b>GTE</b>      | <b>Government Trading Enterprise</b>   |
| <b>IAB</b>      | <b>Internal Audit Bureau</b>   |
| <b>ICA-AUST</b> | <b>Institute of Chartered Accountants—Australia</b>                          |
| <b>IIA-AUST</b> | <b>Institute of Internal Auditors—Australia</b>                              |
| <b>IPAA</b>     | <b>Institute of Public Administration Australia</b>                          |
| <b>ISACA</b>    | <b>Information Systems Audit and Control Association</b>                     |
| <b>MAICD</b>    | <b>Member of the Australian Institute of Company Directors</b>               |
| <b>NGO</b>      | <b>Non-Government Organisation</b>   |
| <b>NSW</b>      | <b>New South Wales</b>   |
| <b>OH&amp;S</b> | <b>Occupational Health and Safety</b>  |
| <b>PSRMA</b>    | <b>Public Sector Risk Management Association</b>                             |
| <b>PUC</b>      | <b>Protected Unit Credit</b>   |
| <b>QVB</b>      | <b>Queen Victoria Building</b>   |
| <b>R&amp;D</b>  | <b>Research and Development</b>  |
| <b>SANCS</b>    | <b>State Authorities Non-Contributory Superannuation Scheme</b>              |
| <b>SASS</b>     | <b>State Authorities Superannuation Scheme</b>                               |
| <b>SSS</b>      | <b>State Superannuation Scheme</b>   |
| <b>TCORP</b>    | <b>Treasury Corporation</b>  |
| <b>TMF</b>      | <b>Treasury Managed Fund</b>   |
| <b>TPP</b>      | <b>Treasury Policy Paper</b>   |





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# *The Public Sector Improvement Specialists*

## **IAB Services**

**Level 3, 507 Kent Street, Sydney NSW 2000  
PO Box Q295, QVB Post Shop, NSW 1230**

**Telephone**  
**Facsimile**  
**Email**  
**Web**  
**Business Hours**

**(02) 9261 9100**  
**(02) 9261 9111**  
**[intaud@iab.nsw.gov.au](mailto:intaud@iab.nsw.gov.au)**  
**[www.iab.nsw.gov.au](http://www.iab.nsw.gov.au)**  
**9.00am—5.00pm**