



**INTERNAL AUDIT BUREAU
OF NSW**

**ANNUAL REPORT
2003-2004**



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**Internal Audit Bureau of NSW
Level 3, 507 Kent Street, SYDNEY**

LETTER TO THE MINISTER

The Hon Michael Egan MLC
Treasurer
Parliament House
SYDNEY NSW 2000

Dear Treasurer

We are pleased to submit, for tabling in Parliament, under the Internal Audit Bureau Act 1992, the Annual Report for the year ended 30 June 2004.

The IAB increased sales over the previous year by 8.5 %, reporting a profit of \$303,000 (compared with a profit of \$309,000 in the previous year).

This financial year has seen significant change at the IAB driven by an increased competitive environment. Costs and overheads were rationalised to ensure our services were delivered in the most cost effective manner. The risk based methodology was enshrined in all our activities from strategic planning through to individual reviews. A complete skills audit was undertaken of all our personnel and some recruitment was necessary to widen the mix of specialist expertise. The new executive team, established during the previous financial year, has been successful in enhancing IAB performance and results.

In the current public sector climate of tight budgetary control, it is encouraging to see public sector organisations investing in their internal audit functions to ensure their accountability and internal control mechanisms are functioning as they should.

We look forward to strong performance in the forthcoming year.

I NEALE
CHAIRMAN

A ZAWADZKI
MANAGING DIRECTOR

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CHARTER

The Internal Audit Bureau of NSW, was established as a government trading enterprise under the provisions of the Internal Audit Bureau Act 1992. The principal functions of the Internal Audit Bureau are the provision of audit, management review and consultancy services to public authorities.

RESPONSIBILITY

Under the provisions of the Internal Audit Bureau Act 1992, the IAB has a Board of Management responsible for:

- overall policy and long-term strategic plans of the IAB; and
- overseeing the effective, efficient and economical management of the IAB.

The Managing Director is the Chief Executive of the IAB and is responsible for:

- the management of the affairs of the IAB in accordance with the policies determined by the Board.

The IAB is subject to the control and direction of a Minister who is currently the Treasurer.

MISSION

To provide a quality service that will assist our clients to reach their goals and meet their challenges.

CORPORATE GOALS

- to promote and provide internal audit and management consultancy services of a high standard;
- 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 audit services;
- to 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;
- to operate as a financially self supporting government trading enterprise; and
- to foster financial accountability, responsibility and improved performance in the public sector by promoting the role and function of internal audit.

MANAGING DIRECTOR'S REPORT

It is with pleasure that I am able to present the Annual Report of the Internal Audit Bureau of NSW for 2004.

The IAB operates in a very fluid and competitive market where our direct competitors consist mainly of accounting firms and a host of private consultants.

The IAB specialises in public sector audit and consultancy work and has developed a niche market in this area. With constant pressure on client budgets and a saturation of consultants in the market place, growth in revenue and client base has been extremely difficult. Notwithstanding these constraints, the IAB managed to increase revenue over the previous year. The IAB has also been able to increase its market share over the last twelve months.

The competitive nature of our business has required us to seek exemptions from Treasury from certain sections of the Annual Reports Act and Regulations. These exemptions are detailed in this report. Primarily, the publication of operational data such as staff numbers, client budgets, chargeable hours etc would impact on our ability to remain competitive. Our competitors would be in a position to calculate our costs quite readily if the details were published.

To maintain accountability, the public and Parliament can be assured that these issues are tightly controlled by the Board and we are subject to both an internal audit (by our own staff) and an external audit by the NSW Auditor-General.

I would like to thank my staff and contractors for their tireless efforts in providing our clients with quality and value added services and the valuable contributions of the Board members in helping to shape the future direction of the IAB.



HIGHLIGHTS OF THE YEAR

- the new executive team engaged late last year have been active in improving the standard of services offered;
- the client base expanded with a number of additional clients using our services;
- auditing services were more directly focussed on clients' case business activities, utilising a broader Risk Management approach; and
- there was a further expansion of the services offered by the Bureau.



HISTORY OF THE INTERNAL AUDIT BUREAU OF NSW

When the NSW Public Finance and Audit Act was introduced in 1983, it included a provision which placed an obligation on public sector Chief Executives to have an internal audit function. However, it was recognised that smaller organisations would not be able to sustain an internal audit section of an appropriate size or calibre to provide a fully professional service.

To meet this need the NSW Treasury created the Internal Audit Bureau of NSW by administrative action in 1985. The IAB's role was to provide an internal audit function to public sector organisations. It also supplemented the resources of existing internal audit units by providing specialist skills such as computer audits and assisted other internal audit units with work overload problems.

Since that time, the success of the Internal Audit Bureau has resulted in considerable growth. The IAB is now a Government Trading Enterprise supplying a comprehensive range of audit and management review services to public sector agencies within the competitive market place. The IAB is not permitted to operate in the private sector nor are public sector organisations compelled to use the IAB. It is in open competition with private sector internal auditors, but has the advantage of specialist knowledge of the public sector and is highly regarded for the quality of its service.



ADMINISTRATION AND REPORTING

The IAB is a NSW statutory body representing the Crown and reports to its own Board of Management who in turn are responsible to the Hon Michael Egan MLC, Treasurer. The Board ensures that the IAB is staffed by trained and widely experienced professionals with ability and skill.

For contractual reporting with clients, the Managing Director of the IAB reports directly to the Managing Director of each client organisation. Strict client confidentiality is always maintained, reports and working papers remaining the property of the client organisation.



SCOPE AND LIMITATIONS

The IAB's operations are limited to providing services to: NSW government departments; statutory authorities; local municipal and shire councils; and Commonwealth departments and authorities based in NSW or ACT.

The Public Finance and Audit Act 1983 and the Treasury's "Statement of Best Practice for Internal Control and Internal Audit" set out the parameters for the conduct of internal audit operations within the State Government.

Activities and the scope of each review performed by the IAB, within each client, are controlled by the client Managing Director or Audit Committee. The IAB is however reluctant to take on clients who do not adopt the principles for best practice in internal control and internal audit.



INTERNAL AUDIT BUREAU'S SERVICES

Last financial year a new executive team was engaged, these positions were filled with professionals having managerial experience to “partner” with our clients. The auditing service was then able to take on a broader Risk Management approach leading to a much higher percentage of our work being directly focussed on client’s core activities. Also responsibilities were reallocated resulting in the new Directors managing a much wider range of services.

RISK AND CONSULTING GROUP

The IAB's services are set out in the following extract from the brochure given to prospective clients.

GENERAL CONSULTING SERVICES INCLUDE:

- Asset management strategy;
- Business and strategic planning (at the work unit, branch, divisional or whole of agency level);
- Change management;
- Corporate and enterprise governance;
- Financial management strategy;
- Management reviews;
- Policy development and implementation;
- Probity reviews;
- Procurement strategy and implementation;
- Quality assurance/business process improvement;
- Risk management;
- Service level agreements;
- Privacy management;
- Taxation (GST, FBT, PAYG and Payroll Tax) and superannuation; and
- Property management services.

AUDIT PLAN DEVELOPMENT USING A RISK PRIORITISATION MODEL

The IAB has developed a methodology that is focussed on your organisation’s risks and controls.

The first step in applying our model in your organisation is to establish an inventory of the “Audit Universe”. The Audit Universe should contain the organisation’s main business functions, systems and activities broken down into reasonably sized “Auditable Units”.

The aim of our risk model is to ensure that those “Auditable Units” that are most important to your organisation’s success receive a higher priority in terms of their inclusion in audit plans and work schedules. This association allows us to focus our resources on those areas that are most likely to add value to your organisation.

ESTABLISH OR ASSIST AN EXISTING INTERNAL AUDIT FUNCTION

The IAB provides an extensive and flexible range of solutions to organisations seeking to strengthen their internal control, risk monitoring and strategic risk management capabilities. These solutions include:

- the full design and implementation of your internal audit function;
- outsourcing the entire function; and
- providing specialist advice and support, designed to enhance the focus and value of an existing internal audit or risk management function.

Performance review of internal audit

A Peer Review of your internal audit will ensure that your organisation receives the benefits that a modern, professional internal audit can provide.

IAB's skilled team of experts will perform a comprehensive assessment of your internal audit function using a methodology based on the Institute of Internal Auditors Quality Assurance Review process.

The three primary objectives of our methodology are to:

1. Assess the efficiency and effectiveness of the internal audit function in light of (a) its charter, (b) expectations of the audit committee, executive management, and the Manager of Internal Audit, and (c) its current needs, exposures to performing at less than an effective level, and the future direction and goals of the organisation.
2. Identify opportunities and offer ideas and counsel to the Manager of Internal Audit and staff for improving their performance and that of the function. By implementing selected "successful practices," the function will add value to management and the audit committee, and promote its image and credibility within the organisation.
3. Provide an opinion as to whether the internal audit function conforms with the *Standards for the Professional Practice of Internal Auditing (Standards)* and *NSW Treasury's Statement of Best Practice Internal Control and Internal Audit*.

FINANCIAL SYSTEMS AUDIT

Internal Audit has a fundamental role to assist senior management with the establishment and maintenance of an effective internal control framework that protects the organisation's financial systems and its most valuable assets.

IAB's comprehensive audit methodology can be adapted to your particular needs. We can start with a compliance review and extend it to cover management and performance issues.

OPERATIONAL SYSTEMS REVIEW

Today more than ever, organisations are under increasing pressure to deliver services more efficiently, effectively and economically. Successful organisations are known to monitor their key operational areas very closely to ensure there are no surprises.

We have a number of methodologies available to assess the performance of your organisation's operational areas. These include risk based reviews, program evaluation, and a number of more specific methodologies utilised by our Information Technology Group. The type of methodology used will depend on the complexity of each area to be examined and the agreed scoping or terms of reference.

RISK BASED AUDIT

In today's competitive world, senior managers are continually being asked to determine which risks to take, which to avoid, which to manage, and which to accept. Crucial to these decisions is the allocation of scarce resources among a variety of options with different risks and potential rewards.

IAB's Risk Based Methodology is a vital management tool for addressing the risks associated with on-going business operations, systems, technology and major change initiatives.

A valuable outcome of our methodology is a risk management plan: that gives management an in-depth analysis and documentation of major risks; preventative internal control measures; recommendations for improvement to managerial and operational processes; and a process for maintaining the plan into the future.

GOVERNMENT SPECIFIC AUDIT

There are many activities and functions in the public sector that are not undertaken in the private sector, or are managed and administered very differently. Where they are managed differently, it is normally because of the unique policies and rules within the public sector. Key areas include:

- grants and subsidies;
- licences, permits, royalties, taxes, levies and other regulation based fees;
- regulation based inspections;
- contracts and tenders;
- major capital works;
- engagement of consultants;
- senior executive service;
- usage of government vehicles;
- records management; and
- sponsorship.

Since 1985, the IAB has developed a formidable expertise in auditing these areas. We have specific audit programs that are designed to give senior management comfort and our programs are continually revised to include any policy and rule changes that may require examination for compliance.

REGULATORY COMPLIANCE REVIEW

Government organisations operate in an environment with a complex array of acts of parliament, regulations, government policies, tax laws, and directives and guidelines from central agencies.

Organisations must ensure they have consistent compliance policies and procedures to prevent litigation, adverse publicity and criticism from major stakeholders.

The IAB has developed a program to measure and monitor the extent to which your organisation adheres to existing laws, regulations, government policies, directives and, where appropriate, guidelines.

CORRUPTION PREVENTION POLICY

For a number of years, both the Audit Office and the Independent Commission Against Corruption (ICAC) have encouraged organisations to develop their own *“Corruption Prevention Policy”*. A clear objective of such a policy is to provide all staff with a proper understanding of their obligations and duties to prevent, deter and avoid corrupt practices. This Policy should also cover maladministration and serious and substantial waste of public money.

The *“Corruption Prevention Policy”* developed by the IAB is based on exhaustive research covering the ICAC, Ombudsman’s Office, Audit Office, and the Protected Disclosures Act.

CORRUPTION RISK ASSESSMENT

It is good management practice to regularly examine and assess your organisation’s corruption risk exposures. Normally this requires that major corruption risks be identified within each functional area, that their impact be assessed, and the adequacy of the control environment determined.

Valuable outcomes that flow from the assessment include the listing and making of recommendations on those activities which have poor controls and are vulnerable to major forms of corruption. Recommendations may include additions or modifications to an organisation’s operational practices, procedures, systems or controls, so that the risk of corruption occurring is reduced to a level acceptable to management.

The IAB can provide your organisation with valuable outcomes flowing from their assessment. This includes the making of recommendations on activities which have poor controls and are vulnerable to major forms of corruption.

CORRUPTION INVESTIGATION

In many cases an allegation will require a preliminary fact finding stage before the matter can proceed to a formal investigation or disciplinary inquiry. The IAB regularly assists management by searching for and examining facts and evidence that determine the seriousness of an allegation before recommending further action.

Our specialist disciplinary team completes investigations of serious allegations.

DOCUMENTATION OF POLICIES AND PROCEDURES

Manuals

The IAB has expert staff who can provide two different types of manuals, depending on your requirements.

The first style is predominantly a detailed manual prepared for each (or selected) accounting and administrative function within an organisation. It gives detailed step by step descriptions of each activity performed and builds up to a comprehensive “how to” guide.

The second style of manual could be classed as an overview manual. This type of manual provides an overview of each of the major functions within an organisation. It utilises flow charts and narrative to give the broad document flow of each activity.

Accounting manuals often become obsolete shortly after they are printed. The IAB can supply a service of regular updates to ensure your manual remains up to date.

Policies

The public sector is driven by a multitude of laws, policies and guidelines that affect the ways in which organisations behave and operate. IAB can assist your organisation to adapt general government policies to your environment or to develop specific policies or guidelines that staff will find meaningful and useful.

Assistance with developing delegations of authority and accounting policies is also offered.

INFORMATION TECHNOLOGY SERVICES GROUP

The Information Technology Services Group is able to provide strategic technical and project management services, including:

- IT risk assessment;
- Application controls;
- Remote access security;

- Windows NT server;
- Network administration and security;
- Information technology management;
- Systems penetration testing;
- Business continuity planning;
- File back-up and recovery;
- Logical access security VAX/VMS;
- Personal computer software licensing;
- Physical information technology environment;
- Program change control;
- Systems development methodology;
- Acceptance testing;
- Data conversion;
- Implementation planning; and
- Implementation process.



EXECUTIVE PROFILE

INTERNAL AUDIT BUREAU OF NSW BOARD

IAN NEALE, FCPA

Mr Neale was appointed to the position of Chairman 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 the Environment Protection Authority) and the Protective Office.



JAMES PRIDDICE, MEd, FCA

Mr Priddice is a Chartered Accountant. He was previously a partner and National Director of Accounting and Auditing Standards of a national firm of Chartered Accountants. He is a past Chairman of the NSW State Council of The Institute of Chartered Accountants in Australia and member of various state and national committees of the professional accounting bodies.

Mr Priddice was re-appointed in December 2003 as Deputy Chairman of the Board for a period of two years.



DEBORAH PAGE, BEd, FCA, MAICD

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 KPMG partner. She is currently the Chair of the New South Wales Cancer Council and is a Director of Investa Properties Limited and Macquarie Generation.



ALF ZAWADZKI, MA, FCPA, IPFA, IIA

Mr Zawadzki is the Managing Director of the Internal Audit Bureau.

Alf has over thirty years internal auditing experience, covering both government and private enterprise mainly in Australia but also in the United Kingdom and New Guinea. He has held permanent audit positions in many sectors – State Government, Federal Government, Local Government, Industry and the Chartered Accounting profession.

In numerous roles Alf has provided professional leadership, guidance and direction to a wide range of staff and external contractors. He has hands-on practical experience completing and supervising diverse projects/reviews across approximately 40 companies and 70 State Government agencies.

Alf has extensive financial and operational auditing experience but has tended to specialise in high-level management consultancy assignments in his career. The primary objective of this work has been to find practical solutions to management problems.



SENIOR OFFICERS

PHIL O'TOOLE

Phil currently holds the position of Director Risk Management and Consulting. He is responsible for managing the delivery of risk management and a broad range of consulting services to our clients.

Prior to joining the IAB in this capacity, Phil contracted to the IAB 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

Stephen currently holds the position of Director Risk Management and Consulting. He is responsible for managing the delivery of risk management and a broad range of consulting services to our clients.

Immediately prior to joining the IAB, 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.



STEPHEN VIDOVIC, B.Bus, CPA

Stephen has been involved in auditing for over twenty five years, eighteen with the Internal Audit Bureau, and holds the position of Director Risk Management and Consulting. He is responsible for managing the delivery of risk management and a broad range of consulting services to our clients.

Before joining the IAB, Stephen spent eight years with the NSW Auditor-General's Office where auditing experience was gained at large organisations such as the Housing Commission, NSW Tourism Commission and Government Supply. Stephen has extensive financial and systems audit experience.



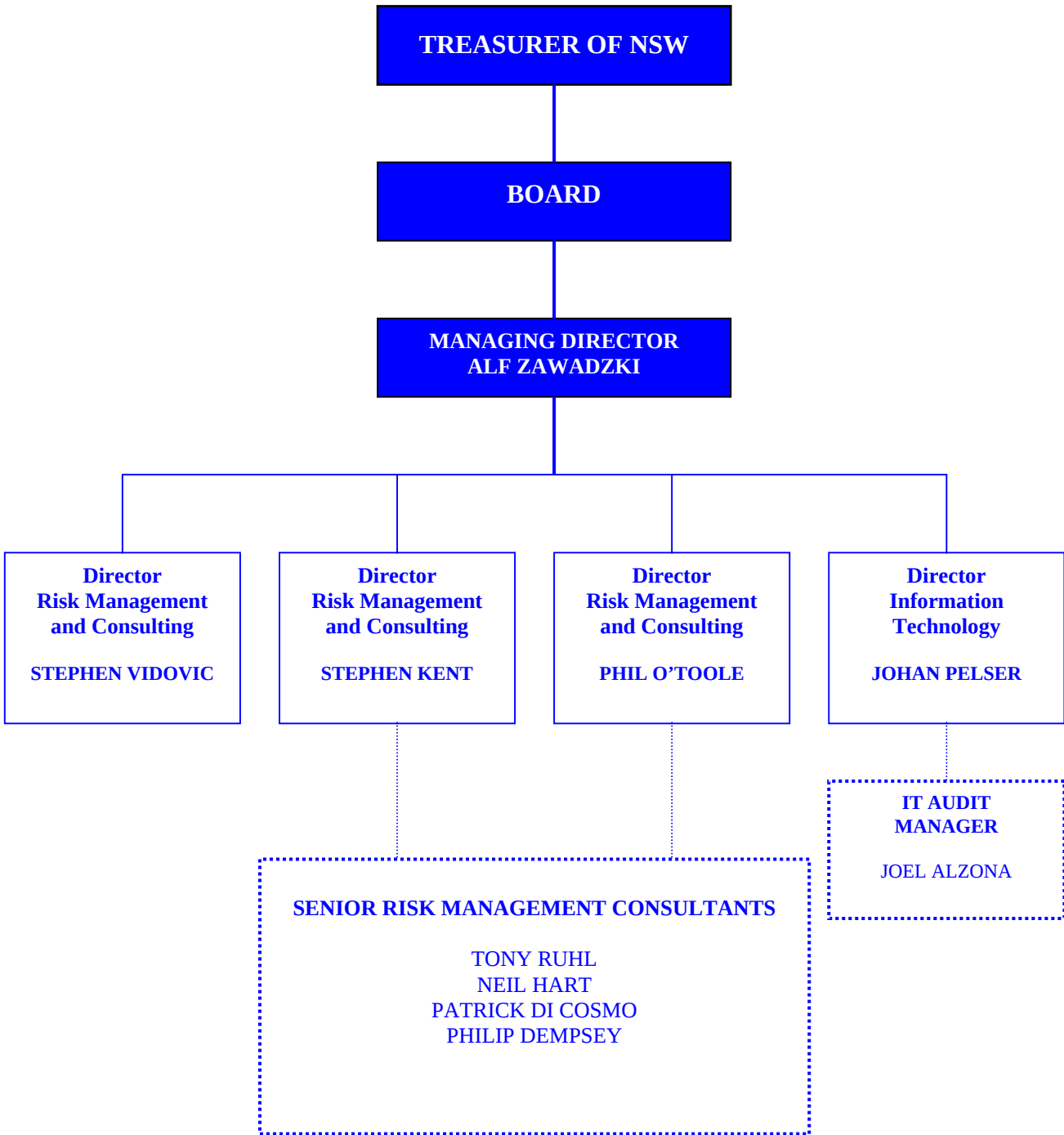
JOHAN PELSER, M.Comm

Johan holds the position of IT Director. 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 information technology, 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 Departments). His expertise and experience in Risk and Security Management spans a range of strategic and technical areas.

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 information technology related assignments.



IAB ORGANISATION CHART



REVIEW OF OPERATIONS

REPORTING UNDER GOAL 1 - SERVICE PROVISION

To promote and provide internal audit and management consultancy services of a high standard.

SERVICE DEVELOPMENT

The IAB 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.

The broad range of services now offered was detailed in an earlier section of this report.

QUALITY CONTROL

Quality control over the audit 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

This year's marketing focus has been on ratifying existing contracts with our customers as well as establishing links with other organisations. During the year a number of new clients requested internal audit services from the IAB. Almost all of last year's customers have agreed to continue using the IAB which 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 audit 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.

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

The IAB is administratively lean with almost all of the IAB staff directly involved in the conduct of review work.

The payroll and personnel service functions are handled in house with payroll processing provided by a bureau service provider. The IAB engages a contractor to provide payroll and accounting support to our administration officer. The staff and contractor are 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 departmental, public service and EEO policies and procedures; and
- ensuring the IAB's compliance with the legislative requirements of the Occupational Health and Safety and Workers' Compensation Acts.

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

PROFESSIONAL DEVELOPMENT

The IAB 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

The IAB has a commitment to providing a safe working environment. This process is difficult with the staff constantly travelling to different venues as well as visiting country clients from time to time.

REMUNERATION AND FLEXIBLE WORK ARRANGEMENTS

Under the Internal Audit Bureau Act, the Board has the authority to set remuneration and conditions of employment for staff of the IAB. Whilst maintaining core public sector salary rates and conditions, the Board has recognised that to attract and retain quality staff, we have to compete with the private sector in terms of remuneration levels and conditions of employment.

At the same time, all staff have to meet the standards set by the private sector if they expect to receive similar remuneration. Both these goals have been achieved with this policy as it is aimed at rewarding staff for excellence in the areas of individual and team performance, productivity, and profitability. The policy also incorporates flexible work conditions to enhance staff morale by utilising flexible work hours combined with working from home opportunities.

EQUAL EMPLOYMENT OPPORTUNITY

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

The IAB currently has no Aboriginal employees nor any employees with a physical disability.

Twenty four percent (24%) of staff are women (15% in 2002/2003). There are no women in senior management positions (nil in 2002/2003).

Forty percent (40%) of staff come from a non English speaking background (46% in 2002/2003) and they represent sixty percent (60%) of senior management positions (60% in 2002/2003).



REPORTING UNDER GOAL 4 - COMMERCIAL OPERATION

Operate as a financially self supporting government trading enterprise.

FINANCIAL RESULTS

The IAB's objective is to provide its service on a full cost recovery basis. Although we have no direct profit motive we endeavour to return a small surplus to fund capital improvements such as computer hardware and software as well as develop new products and improve the ones we already provide.

The IAB is in a healthy financial position with only normal trade debts and accrual items. All liabilities are fully funded.



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 of their performance and to suggest ways to improve accountability and internal control.

INDUSTRY REPRESENTATION

The IAB actively supports and promotes the internal audit profession through our long-term association with the Institute of Internal Auditors (IIA) and various government groups.



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SCHEDULE 1**NUMBER OF CES/SES POSITIONS**

LEVEL	TOTAL CES/SES 2003/04	TOTAL CES/SES 2002/03
8		
7		
6		
5		
4		
3	1	1
2		
1		
CEO UNDER S11A		
TOTAL	1	1

No Executive positions were filled by women this year, as was the case in the previous year.

STATEMENT BY THE CHAIRMAN OF THE BOARD ON THE PERFORMANCE OF THE MANAGING DIRECTOR OF THE INTERNAL AUDIT BUREAU OF NSW.

During the 2003-04 financial year Mr Zawadzki provided effective leadership to the new executive team established toward the end of the previous financial year.

The executive team has worked together to improve the standard of services offered by the IAB. The key focus has been to raise the level of satisfaction of client agencies through enhanced value added services delivered by people possessing the necessary professional skill levels.

As outlined elsewhere in this Report, the IAB increased its client base over the year and further expanded the services offered to its clients. In financial terms, this resulted in an 8.5 percent increase in sales and a respectable reported profit of \$303,000 after absorbing additional cost associated with the IAB's restructure.

The pleasing results achieved in 2003-04 are due in large part to the outstanding performance of the Managing Director.

SCHEDULE 2**LEGISLATIVE CHANGES**

There were no legislative changes or significant judicial decisions directly affecting the Internal Audit Bureau this year.

SCHEDULE 3**ATTENDANCE AT MEETINGS****BOARD**

The Internal Audit Bureau Act 1992, established a Board of Management, consisting of four members: one Treasury representative as Chairman; two independent representatives (one of whom is Deputy Chairman); and the Chief Executive of the IAB.

There were 10 meetings in the 2003/2004 year.

Attendance at Board Meetings was as follows:

I Neale	Chairman	Treasury Representative	10 Meetings
J Priddice	Deputy Chairman	Independent	9 Meetings
D Page	Member	Independent	10 Meetings
A Zawadzki	Member	Managing Director	10 Meetings

SCHEDULE 4**FREEDOM OF INFORMATION****STATISTICAL REPORT**

The Freedom of Information Act 1989 provides the public with enforceable rights to:

- gain access to documents held by Government agencies;
- request amendments to records of a personal nature that are inaccurate or misleading; and
- appeal against a decision to grant access to information or amend personal records.

There was no inquiry made under the Act during the year.

It is the policy of the IAB to provide material and/or information to all present and former clients without formal application.

SCHEDULE 5

STATEMENT OF AFFAIRS

STRUCTURE AND FUNCTIONS

The structure of the IAB is outlined in this report in the organisation chart while the functions of the Agency are reported under Charter.

EFFECTS OF FUNCTIONS ON MEMBERS OF THE PUBLIC

The IAB's Board of Management determines policy for the Agency. The Managing Director implements the Board's policy and runs the IAB as a government trading enterprise. The IAB provides an internal audit and consultancy service to public sector agencies.

ARRANGEMENTS FOR PUBLIC PARTICIPATION

The IAB does not supply a service directly to the public.

DOCUMENTS

The IAB holds the following policy document which is available for public viewing:

- Internal Audit Bureau Act 1992.

Documents relating to internal administration including Board minutes, recruitment, personnel files, organisation and accommodation, staff and establishment, financial and expenditure matters and internal management audit, are also held by the agency.

Members of the public may contact the Freedom of Information Officer to ascertain which of these documents may be available under Freedom of Information Legislation. In these cases application and processing fees may apply.

FREEDOM OF INFORMATION PROCEDURES AND CONTACT POINT

Formal requests made under the Freedom of Information Act for access to documents held by the IAB should be accompanied by an application fee and directed to the FOI Coordinator.

A 50 percent reduction in fees and charges is available in the following circumstances:

- where the applicant holds a Pensioner Health Benefit Card or Health Care Card, or is a child (ie below 18 years of age);
- where the applicant, as a non-profit organisation, demonstrates financial hardship; and
- where the applicant seeks information which does not concern his or her personal affairs and which the applicant demonstrates is in the public interest to be made available.

The telephone number for all Freedom of Information inquiries is (02) 9261 1090.

Arrangements can also be made to view available documents at the following address between the hours of 10 am and 4 pm Monday to Friday (excluding public holidays) by contacting:

The FOI Co-ordinator
Internal Audit Bureau of NSW
Level 3 507 Kent Street
SYDNEY NSW 2000

PUBLICATIONS

The following publications are available (free of charge) and can be obtained by contacting the FOI Co-ordinator:

- Annual Report; and
- Information Brochure *“IAB Services”*.

SCHEDULE 6

FINANCE

AGEING OF CREDITORS

The IAB's policy is to pay all accounts within the terms of trade or one month whichever is the lesser. No interest was paid on overdue accounts and the Managing Director received no complaints related to non-payment of accounts.

PAYMENT PERFORMANCE INDICATORS

(i) Accounts Outstanding Per Quarter \$

	Total	Current	<30 Days	30-60 Days	60-90 Days	> 90 Days
September 2003	442,810	442,810	-	-	-	-
December 2003	303,883	303,883	-	-	-	-
March 2004	438,135	438,135	-	-	-	-
June 2004	413,883	413,883	-	-	-	-

(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 2003 Quarter	100%	1,674,617	1,674,617
December 2003 Quarter	100%	1,247,414	1,247,414
March 2004 Quarter	100%	1,522,797	1,522,797
June 2004 Quarter	100%	1,561,440	1,561,440

INVESTMENT MANAGEMENT PERFORMANCE

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

Performance against the Benchmark set by TCorp was:

	Return	T Corp Benchmark
Cash Facility	5.25%	5.25%
Bond Market Facility	3.31%	3.31%

SCHEDULE 7**CODE OF CONDUCT**

There were no changes to the IAB's Code of Conduct during the year.

SCHEDULE 8

GUARANTEE OF SERVICE**Role of the Internal Audit Bureau of NSW**

Our mission is to provide a quality service that will assist our clients to reach their goals and meet their challenges.

The Internal Audit Bureau's Customers

The Bureau's scope of operation extends to providing services to state, local and federal government agencies.

How the Internal Audit Bureau Works With Its Customers

The Internal Audit Bureau is a government trading enterprise and as such competes in the open market place for work. Each client enters into a contract with the Bureau in which the terms and conditions of the work to be performed are documented and agreed. The contracts range from single projects to comprehensive five year internal audit plans. The scope and level of service are set out in the contract.

The Internal Audit Bureau's Commitment to Customers

The staff of the Internal Audit Bureau are committed to performing their duties with:

- honesty;
- integrity;
- professionalism;
- fairness;
- conscientiousness; and
- timeliness.

The Internal Audit Bureau's Standards of Service

- the Internal Audit Bureau is pleased to receive requests for assistance and advice from all agencies and councils and our professional staff are always available to answer enquiries;
- the nature, scope, approach and specific details relating to each project will be communicated to our clients prior to commencement of each project;
- all reports and audit opinions will be based on work undertaken in accordance with the Public Finance and Audit Act, other relevant legislation, the Institute of Internal Auditors Standards and Treasury's Best Practice Statements for Internal Control and Internal Audit;

- all draft audit reports will be issued within 10 working days of the completion of field work;
- all final reports will be issued within 10 working days of management's final response to the draft report or within the agreed management deadline;
- all general correspondence to clients will be on a timely basis. All correspondence will be answered as soon as possible and within four weeks;
- results of audit will be discussed with the organisation continually throughout the audit process and all matters to be raised in the report will be discussed prior to issuing the draft report;
- a contact name will be provided in all reports and correspondence and in response to telephone inquiries;
- confidential and sensitive information will be managed with due consideration and in compliance with the requirements of the relevant privacy Acts;
- all reports and working papers of the Internal Audit Bureau shall be confidential to the organisation except as they are required by the External Auditor for the purposes of the statutory audit of the accounts;
- the Internal Audit Bureau will ensure that its staff are trained and developed to provide professional and competent service; and
- should a customer be dissatisfied with the quality of any of our work, the Internal Audit Bureau will undertake to rectify the problem at no additional cost to the customer.

Suggestions and Complaints

The Internal Audit Bureau welcomes suggestions for improving services and the opportunity to address complaints. Any person wishing to make suggestions or lodge complaints should contact any of the senior officers listed in this Guarantee of Service.

How to Contact the Internal Audit Bureau

Please address correspondence to:

The Managing Director
Internal Audit Bureau of NSW
PO Box Q295
QVB Post Shop SYDNEY NSW 1230
Level 3 507 Kent Street
SYDNEY NSW 2000

Telephone: 02 9261 1090

Facsimile: 02 9267 9325

The Internal Audit Bureau is open Monday to Friday (except public holidays) from 9.00 am to 5.00 pm.

Senior Management of the Internal Audit Bureau

All officers can be contacted on 02 9261 1090.

SCHEDULE 9

LIST OF EXEMPTIONS GRANTED

Approval has been given by the Treasurer for the Internal Audit Bureau to dispense with the disclosure of:

- Annual Reports (Statutory Bodies) Act, 1984 S7(1)(a)(iii) - Publication of Financial Statements - exemption from reporting budget information in terms of Section 7(2) because reporting that information would disadvantage the IAB in tender situations;
- Annual Reports (Statutory Bodies) Regulation, 2000 - c15, Schedule 1 - Human Resources - exemption from reporting statistical information on staff numbers, gradings, levels and salary rates because reporting that information would disadvantage the IAB in tender situations; and
- Annual Reports (Statutory Bodies) Regulation, 2000 - c15, Schedule 1 - Equal Employment Opportunity. Exemption from reporting statistical information in the Treasurer's format because reporting that information would disadvantage the IAB in tender situations.

SCHEDULE 10

MISCELLANEOUS REPORTING

CONSUMER RESPONSE

There were no consumer complaints during the year.

CONSULTANTS

No consultants were engaged during the year.

OVERSEAS VISITS

There were no overseas visits during the year.

PROMOTIONAL MATERIAL

During the year the IAB distributed to clients and potential clients a brochure entitled *"Introduction to the IAB"*.

FUNDS GRANTED TO NON-GOVERNMENT COMMUNITY ORGANISATIONS

No funds were granted to Non-Government Community Organisations.

LAND DISPOSAL AND MAJOR WORKS

No land or properties were disposed of and no major works were in progress during the year.

RISK MANAGEMENT AND INSURANCE ACTIVITIES

A key element in the effective management of our resources is regular scanning of the operating environment and the identification of major risks. Each risk is assessed and ranked according to its likelihood of occurrence and the significance of the impact. Risk management techniques are reviewed and appropriate strategies adopted to control each area of risk.

A proactive approach to risk management remains critical to protecting our assets and operations and continued to have a high priority during the year.

The IAB is insured for all risks with the Treasury Managed Fund.

CONTRACTING AND MARKET TESTING

No market testing of functions was required nor carried out during the year. Where appropriate, the IAB will market test key activities to ensure efficient and cost effective service provision.

Contractors are used by the IAB for both internal audit and management consultancy services.

SOCIAL PROGRAMS

The IAB did not undertake any social programs during the year.

ANNUAL REPORT INFORMATION

PRINT RUN	100 copies
DISTRIBUTION	Parliament IAB clients and prospective clients on request Employees and prospective employees on request
COST	Average cost approximately \$6 plus GST per copy
TOTAL COST	\$601 plus GST

SCHEDULE 11

ETHNIC AFFAIRS STATEMENT

The IAB staff have read and understood the ethnic affairs issues relating to the Ethnic Affairs Commission Amendment Act 1996 and associated legislation. The IAB will continue to keep staff aware of current developments in this area. The IAB does not offer services to the public all our business dealings are with government agencies.

The IAB has a continuous commitment to ensuring all selection and recruitment is based on merit. This includes reviewing overseas qualifications to ensure their appropriateness.

SCHEDULE 12

PRIVACY MANAGEMENT STATEMENT

The IAB has prepared and implemented a Privacy Management Plan in compliance with s.33 of the NSW Privacy and Personal Information Protection Act 1998.

All other relevant requirements of the Act have been complied with.

SCHEDULE 13

NSW GOVERNMENT ACTION PLAN FOR WOMEN

A Women's Liaison Officer and a Women's Spokesperson have been appointed to ensure the Action Plan for women is fully implemented.

SCHEDULE 14

WASTE REDUCTION AND PURCHASING POLICY (WRAPP)

The Bureau's Waste Management Plan incorporates the principles of the NSW Government's WRAPP and progress on the implementation of the Plan is as follows:

(a) Reducing the generation of waste (waste avoidance and minimisation)

This is encouraged by:

- using email to distribute information instead of hard copy;
- editing draft electronic documents on computer screen rather than printing hard copies to edit; and
- generating forms electronically instead of maintaining paper stocks.

(b) Resource recovery (waste reuse and recycling)

Recycling initiatives for paper and toner cartridges ensure that waste is separated internally and collected by recognised recycling companies.

(c) The use of recycled material (purchase of recycled-content material)

This is achieved through purchasing office material and equipment under Government contract.



FINANCIAL STATEMENTS

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GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT
INTERNAL AUDIT BUREAU OF NEW SOUTH WALES

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Internal Audit Bureau of New South Wales:

- (a) presents fairly the Internal Audit Bureau of New South Wales's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

The Board's Role

The financial report is the responsibility of the members of the Board of the Internal Audit Bureau of New South Wales. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Board in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Board members had not fulfilled their reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Internal Audit Bureau of New South Wales,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The 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.



S R Stanton CPA
Assistant Director of Audit

SYDNEY
15 October 2004

**INTERNAL AUDIT BUREAU OF NEW SOUTH WALES
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 30 JUNE 2004**

Certificate Under Section 41B of the Public Finance and Audit Act, 1983 and Section 14(1) of the Public Finance and Audit Regulation, 2000.

The accompanying financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act, 1983 and the Public Finance and Audit Regulation, 2000.

In our opinion, the statements exhibit a true and fair view of the financial position and transactions of the Internal Audit Bureau of New South Wales. Further, we are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial statements misleading or inaccurate.



**I NEALE
CHAIRMAN
INTERNAL AUDIT BUREAU
OF NEW SOUTH WALES
15 October 2004**



**ALF ZAWADZKI
MANAGING DIRECTOR
INTERNAL AUDIT BUREAU
OF NEW SOUTH WALES
15 October 2004**

COMMENCEMENT OF AUDITED FINANCIAL STATEMENTS

INTERNAL AUDIT BUREAU OF NEW SOUTH WALES STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2004

	NOTE	2004 \$000	2003 \$000
CURRENT ASSETS			
Cash	12(i)	495	894
Receivables	3	1,043	886
Other Financial Assets	7, 12(i)	978	1,529
Other	8	293	14
		<u>2,809</u>	<u>3,323</u>
NON-CURRENT ASSETS			
Plant and Equipment	4	<u>332</u>	<u>389</u>
TOTAL ASSETS		<u>3,141</u>	<u>3,712</u>
CURRENT LIABILITIES			
Payables		375	644
Provisions	6(i)	198	236
		<u>573</u>	<u>880</u>
NON-CURRENT LIABILITIES			
Provisions	6(i)	<u>558</u>	<u>765</u>
TOTAL LIABILITIES		<u>1,131</u>	<u>1,645</u>
NET ASSETS		<u>2,010</u>	<u>2,067</u>
EQUITY			
Retained Profits	9	<u>2,010</u>	<u>2,067</u>
TOTAL EQUITY		<u>2,010</u>	<u>2,067</u>

**INTERNAL AUDIT BUREAU OF NEW SOUTH WALES
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004**

	NOTE	2004 \$000	2003 \$000
REVENUE FROM ORDINARY ACTIVITIES			
Fees for Services Rendered	1(ii)	5,902	5,438
Other		76	113
Profit on Disposal of Plant & Equipment	4	4	20
		<u>5,982</u>	<u>5,571</u>
EXPENDITURE ON ORDINARY ACTIVITIES			
Auditing and Management Consulting Services	1(iv)	5,299	4,761
Employee Benefits & Superannuation	1(iii), 2, 6	377	501
		<u>5,676</u>	<u>5,262</u>
Profit From Ordinary Activities Before Related Income Tax Equivalent Expense		306	309
Income Tax Equivalent Expense	1(vi)	3	-
Profit From Ordinary Activities	2	<u>303</u>	<u>309</u>
Total changes in equity other than those resulting from transactions with owners as owners		<u>303</u>	<u>309</u>

**INTERNAL AUDIT BUREAU OF NEW SOUTH WALES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2004**

	NOTE	2004 \$000	2003 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Clients		6,363	5,887
Payments to Suppliers and Employees		(6,748)	(5,358)
Interest Received		76	113
Net GST Payments		<u>(208)</u>	<u>(208)</u>
Net Cash Provided/(Used) by Operating Activities	12(ii)	<u>(517)</u>	<u>434</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for Plant & Equipment		(226)	(364)
Sale Proceeds from Plant & Equipment		<u>153</u>	<u>194</u>
Net Cash Used in Investing Activities		<u>(73)</u>	<u>(170)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends Paid		<u>(360)</u>	<u>(185)</u>
Net Increase/(Decrease) in Cash Held		(950)	79
Cash at the Beginning of Reporting Period		<u>2,423</u>	<u>2,344</u>
Cash at the End of Reporting Period	12(i)	<u>1,473</u>	<u>2,423</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

The Internal Audit Bureau 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.

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements represent a general purpose financial report which has been prepared to comply in all material respects with applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group (UIG) Consensus Views, the requirements of the Public Finance and Audit Act, 1983 and the Public Finance and Audit Regulation, 2000.

The statements have been prepared in accordance with the historical cost convention using accrual accounting principles and do not take into account changing money values.

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

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

Summary of Accounting Policies**(i) Non-Current Assets**

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

(ii) Revenue Recognition

Fees are charged for all auditing and management consulting services provided to clients. Fees in respect of all services performed during the year are treated as revenue.

(iii) Employee Benefits

Superannuation: The Bureau's contributions for 2003/2004 in respect of employees' superannuation were fully met by payments to the SAS Trustee Corporation and creditors. Total payments made to complying superannuation funds were \$231,919 (\$277,980 in 2002/2003).

Long Service Leave is measured on a present value basis. The present value method is based on the remuneration rates expected to be paid when the liability is settled for all employees with five or more years of service.

The amounts expected to be paid to employees for their pro-rata entitlement to Annual Leave are accrued annually at current pay rates. 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 entitlements accrued in the future.

(iv) Segment Reporting

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

(v) Financial Instruments

Financial instruments give rise to positions that are a financial asset of either the Bureau or its counterparty and a financial liability (or equity instrument) of the other party. For the Bureau these include cash, other financial assets, receivables and payables.

In accordance with AAS 33 "Presentation and Disclosure of Financial Instruments" information is disclosed in Note 14, in respect of the interest rate risk of financial instruments.

Cash

Cash comprises cash on hand and bank balances. Interest is earned on daily bank balances at a commercial rate.

Receivables

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Debtors which are known to be uncollectable are written off. A provision for doubtful debts is raised when some doubt as to collection exists. The credit risk is the carrying amount (net of any provision for doubtful debts). No interest is earned on trade debtors. The carrying amount approximates net fair value. Sales are made on 14 day terms.

HourGlass Facilities

The Bureau has investments in TCorp's HourGlass facilities. The Bureau's investment is represented by a number of units of a managed investment pool, with each particular pool having different investment horizons and being composed of a mix of asset classes appropriate to that investment horizon. TCorp appoints and monitors fund managers and establishes and monitors the application of appropriate investment guidelines.

Investments are generally able to be redeemed with seven days notice (dependent upon the facility). The value of the investments held can decrease as well as increase depending upon market conditions. The value that best represents the maximum credit risk exposure is the net fair value. The value of the above investments represents the Bureau's share of the value of the underlying assets of the facility and those assets are stated at net fair value.

Accounts Payable

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled no later than the end of the month following the month in which an invoice or a statement is received.

(vi) 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 the Profit from Ordinary Activities adjusted for movements in unfunded superannuation balances. In accordance with this policy the Bureau does not practice tax effect accounting.

(vii) 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 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.

2. INDIVIDUALLY SIGNIFICANT ITEMS

	2004 \$000	2003 \$000
Increase/(Decrease) in expenditure for actuarial adjustment of superannuation liabilities (Note 6(ii)).	(293)	225
Redundancies paid or provided for	466	-
	<u>173</u>	<u>225</u>

The profit from ordinary activities for 2003/2004 prior to this adjustment was \$476,000 (\$534,000 in 2002/2003).

3. RECEIVABLES

(i) Statement of Financial Position Amounts:

	2004 \$000	2003 \$000
Fee accounts (see ii)	994	861
Work in progress	49	25
Total on Statement of Financial Position	<u>1,043</u>	<u>886</u>

(ii) Fee accounts remaining unpaid were aged as follows:

Date of Invoice	2004 \$000	%	2003 \$000	%
June	762	77	412	48
May	178	18	351	41
Earlier than May	54	5	98	11
	<u>994</u>	<u>100</u>	<u>861</u>	<u>100</u>

No provision for doubtful debts (nil in 2002/2003) was required as at 30 June 2004.

4. NON-CURRENT ASSETS

	Plant and Equipment	
	2004 \$000	2003 \$000
At Fair Value	526	536
Less Accumulated Depreciation	<u>194</u>	<u>147</u>
Carrying amount at end of year	<u>332</u>	<u>389</u>

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:

	Plant and Equipment	
	2004 \$000	2003 \$000
Net book value at start of year	389	296
Additions	193	346
Disposals	(149)	(175)
Depreciation expense	(101)	(78)
Net book value at end of year	<u>332</u>	<u>389</u>

Non-current assets are depreciated on a straight line basis over their estimated useful lives. The depreciation rates for Plant and Equipment range from 18% to 33%. The amount provided for depreciation for the year 2003/2004 was \$100,964 (\$77,563 in 2002/2003).

The Board of the Internal Audit Bureau considers the market value of its assets to be equivalent to their net book value.

Net Profit (Loss) on Disposal of Plant & Equipment

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

	2004 \$000	2003 \$000
Proceeds from Disposal	153	195
Written Down Book Value	<u>149</u>	<u>175</u>
Profit (Loss) on Sale	<u>4</u>	<u>20</u>

5. AUDITOR'S REMUNERATION

The amount due and payable for the audit of the financial report for 2003/2004 is \$11,500 (\$9,000 in 2002/2003).

6. EMPLOYEE BENEFITS AND OTHER PROVISIONS

(i) Statement of Financial Position Amounts:

	2004 \$000	2003 \$000
Current Liability		
Employee Benefits	198	236
Non Current Liability		
Employee Benefits	448	615
Superannuation	(ii) below	150
	<u>110</u>	<u>150</u>
	<u>558</u>	<u>765</u>

(ii) Superannuation

Any unfunded superannuation liability is recognised as a liability in the Statement of Financial Position. Amounts representing prepaid superannuation contributions are recognised as an asset.

The administrators of the scheme have provided a 2004 assessment of SSS, SASS and SANCS Gross Superannuation Liabilities based upon the full requirements of AAS25 "Financial Reporting by Superannuation Plans". This requires that a "market determined risk adjusted discount rate" be applied as the valuation interest rate in the calculation of the value of accrued benefits.

The economic assumptions used are as follows:

	2004/2005 %	2006/2007 %	Thereafter % pa
Rate of interest return	7.0	7.0	7.0
Rate of salary increase	4.0	4.0	4.0
Rate of increase in CPI	2.5	2.5	2.5

Payments are made to the SAS Trustee Corporation (STC) to reduce the superannuation liability. These payments are held in Investment Reserve Accounts.

The unfunded liability or prepaid contributions disclosed in the Statement of Financial Position is composed of:

	SASS(i) \$000	SANCS(ii) \$000	SSS (iii) \$000	2003/2004 \$000	2002/2003 \$000
Gross Liability Assessed by Actuaries as at 30 June 2004	223	161	1,863	2,247	2,130
Less: Investment Reserve Account Balance	184	89	2,117	2,390	1,980
Unfunded Liability/(Prepaid Contributions)	39	72	(254)	(143)	150
(i) SASS	State Authorities Superannuation Scheme.				
(ii) SANCS	State Authorities Non-Contributory Superannuation Scheme.				
(iii) SSS	State Superannuation Scheme.				

The prepaid contribution, \$253,697 (Nil 2002/2003) is shown as a current asset. The unfunded liability, \$110,746 (\$149,692 in 2002/2003) is shown as a non current liability.

Deferred Employer's Superannuation Liability.

Following the completion of the Actuary's annual review, the SAS Trustee Corporation (STC) has re-assessed the gross past service superannuation liability of the Bureau and the value of the Bureau's Reserve Account as at 30 June 2004.

This resulted in a net decrease in the Bureau's liability of \$292,643 (see note 2). In 2002/2003, the net increase in the Bureau's liability was \$225,170.

7. OTHER FINANCIAL ASSETS

Treasury Corporation HourGlass Investments:

	2004 \$000	2003 \$000
Cash Facility	712	1,071
Bond Facility	266	458
	<u>978</u>	<u>1,529</u>

Total interest income received was \$72,105 (\$112,640 in 2002/2003).

8. OTHER CURRENT ASSETS

Prepayments:	2004 \$000	2003 \$000
Superannuation (Note 6(ii))	254	-
Other	39	14
	<u>293</u>	<u>14</u>

9. CHANGES IN EQUITY

Retained Profits:	2004 \$000	2003 \$000
Balance at beginning of year	2,067	1,758
Profit from Ordinary Activities	303	309
Total available for appropriation	<u>2,370</u>	<u>2,067</u>
Dividends paid	<u>(360)</u>	<u>-</u>
Balance at year end	<u>2,010</u>	<u>2,067</u>

10. BOARD MEMBERS' REMUNERATION

Remuneration received or due and receivable by Board Members in 2003/2004 totalled \$19,080 (\$19,080 in 2002/2003).

11. CONSULTANCIES

No consultants were engaged during 2003/2004 (\$26,400 in 2002/2003).

12. NOTE TO THE STATEMENT OF CASH FLOWS**(i) Cash and Equivalents**

For the purpose of the Statement of Cash Flows, cash includes cash on hand, cash held in bank deposits and deposits with NSW Treasury Corporation that can be readily liquidated. Comparative figures have been restated to reflect the treatment of NSW Treasury Corporation Bond Facility deposits as a cash equivalent.

Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2004 \$000	2003 \$000
Cash on Hand	-	-
Cash at Bank	495	894
Treasury Corporation HourGlass (Note 7)	978	1,529
	<u>1,473</u>	<u>2,423</u>

(ii) Reconciliation of Net Cash Provided by Operating Activities to Profit from Ordinary Activities.

	2004 \$000	2003 \$000
Profit/(Loss) from Ordinary Activities	303	309
Depreciation	101	78
(Increase)/Decrease in Receivables	(157)	(119)
(Increase)/Decrease in Prepayments	(279)	162
Increase/(Decrease) in Payables	(236)	(165)
Increase/(Decrease) in Employee Entitlements and other Provisions	(245)	189
(Profit)/Loss on Sale of Plant & Equipment	(4)	(20)
Net Cash Provided by Operating Activities	<u>(517)</u>	<u>434</u>

13. CONTINGENT LIABILITIES

As at 30 June 2004 the Bureau had no contingent liabilities (nil in 2002/2003).

14. 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 2004	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 Position Statement
	%	\$000	\$000	\$000	\$000
Financial Assets					
Cash	3.82	495			495
Investments	4.72	978			978
Receivables				1,043	1,043
Total Financial Assets		1,473		1,043	2,516
Financial Liabilities					
Accounts Payable				375	375
Total Financial Liabilities				375	375

30 June 2003	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 Position Statement
	%	\$000	\$000	\$000	\$000
Financial Assets					
Cash	3.46	894			894
Investments	5.65	1,529			1,529
Receivables				886	886
Total Financial Assets		2,423		886	3,309
Financial Liabilities					
Accounts Payable				644	644
Total Financial Liabilities				644	644

15. COMMITMENTS FOR EXPENDITURE

Operating Lease Commitments

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

	2004 \$000	2003 \$000
Not later than one year	84	84
Later than one year and not later than five years	-	84
Total (including GST)	<u>84</u>	<u>168</u>

16. AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

Transition to AIFRS

The Internal Audit Bureau will apply AIFRS from the reporting period beginning 1 July 2005.

The Bureau is managing the transition to the new standards by allocating internal resources and engaging consultants to analyse the pending standards and Urgent Issues Abstracts to identify key areas regarding policies, procedures, systems, and financial impacts affected by the transition.

As a result of this exercise, the Bureau has taken the following steps to manage the transition to the new standards:

- the Bureau's Executive Committee is overseeing the transition. The Finance Manager is responsible for the project and reports regularly to the Committee on progress against the plan;
- the following phases that need to be undertaken have been identified:
 - an analysis of current activities and existing assets and liabilities disclosed in the Financial Statements;
 - detailed comparison of existing Standards and AIFRS;
 - recognition/de-recognition, reclassification and remeasurement evaluation exercise for all current activities and existing assets and liabilities disclosed in the Financial Statements as at 1 July 2004;
 - parallel recording of relevant transactions under AIFRS; and
 - preparation and incorporation of comparative figures and opening balances as at 1 July 2005.
- to date, only the preliminary analysis of activities and assets and liabilities has been completed.

NSW Treasury is assisting agencies to manage the transition by developing policies, including mandates of options; presenting training seminars to all agencies; providing a website with up-to-date information to keep agencies informed of any new developments; and establishing an IAS Agency Reference Panel to facilitate a collaborative approach to manage the change.

Key Differences in Accounting Policies

The Bureau has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because AIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised the Bureau of options it is likely to mandate, and will confirm these during 2004-05. This disclosure reflects these likely mandates.

The Bureau's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

- *AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors* requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balance of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise;
- *AASB 117 Leases* requires operating lease contingent rentals to be recognised as an expense on a straight-line basis over the lease term rather than expensing in the financial year incurred;
- *AASB 119 Employee Benefits* requires the defined benefit obligation to be discounted using the government bond rate as at each reporting date rather than the long-term expected rate of return on plan assets. The amount and the future volatility of the unfunded superannuation liability and the volatility of the employee benefit expense will increase, as the Crown does not assume the unfunded superannuation liability;
- *AASB 136 Impairment of Assets* requires an entity to assess at each reporting date whether there is any indication that an asset (or cash generating unit) is impaired and if such indication exists, the entity must estimate the recoverable amount. However, the effect of this Standard should be minimal because all the substantive principles in AASB 136 are already incorporated in Treasury's policy *Valuation of Physical Non-Current Assets at Fair Value*.

END OF AUDITED FINANCIAL STATEMENTS

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ABBREVIATIONS

ARSBA	-	Annual Reports (Statutory Bodies) Act 1984
ARSBR	-	Annual Reports (Statutory Bodies) Regulation 2000
TC	-	Treasury Circular