



The Institute of
Internal Auditors
Australia

The voice of the profession

ANNUAL REPORT

2006



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President's Report



As boards and senior management continue to focus on good governance and putting in place effective risk management practices, the profile of the profession has been heightened considerably and the value of the role has increased dramatically. Our members are in demand and your Institute is the "one voice" of the profession.

To assist our members meet the challenges inherent in the heightened profile and value of our role, the Board agreed to a number of important changes that would deliver more efficient and effective services to members, enable us to successfully compete with other professional bodies and entrench our role as a key contributor to Australia's corporate governance agenda.

The Board also recognised that to achieve these goals, the Institute had to achieve more with less and recommended that a new operational structure be implemented to allow this to happen.

As a result, the changes over the past 12 months have refined roles, responsibilities and working relationships and I would like to thank all members, volunteers and staff for their support and patience as we worked through this process.

Key changes also involved members' education and training program and events. These functions are now directed by Board policy and coordinated and delivered by the National Office. National Office is responsible for the financial accountability of these programs and the Chapter Councils are responsible for minimum attendance levels.

On reflection, 2006 was an outstanding year for the internal audit profession and this is reflected in the level of activity conducted by your Institute.

So where to in 2007

With many of the structural and organisational changes for 2006 in place, the next phase of IIA-Australia's growth and development for 2007 will require a more assertive approach to:

Advocacy:

Recognition of IIA Standards and certification in legislation or regulation.

Membership:

To grow membership to 5,000 plus by 2010.

Certification:

To have 50% plus members certified by 2010.

Education & Training:

Recognition as the centre for excellence in internal audit professional development, inclusive of risk management, control & governance.

Effective Organisation:

Implementation of a business plan to ensure appropriate resources are provided in all areas of activity in alignment with KPIs.

As with all professional associations, the 'volunteer' remains the key driver in guiding, growing and strengthening the profession, but with growth, the role of the professional staff team also takes on a more significant role in working with the Board and volunteers.

This change is reflected globally where many thousands of volunteers work side by side with the professional staff across the globe serving our ever expanding global organisation. Your contribution is vital to this growth and strengthening of the IIA.

I would like to express to all our members my appreciation of your ongoing support and that of the Board in helping to create a financially strong, dynamic and influential IIA-Australia in 2007.

Additionally, I also thank the IIA-Australia CEO and the National Office team for their work and contribution to the Institute and the profession.

With the continued growth of the Institute and the growing status of the profession, it truly is an exciting time to be in the internal audit profession.

David Lawler CIA

President and Chairman of the Board



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The Institute of Internal Auditors Australia
Progress through sharing

MEMBERSHIP | EDUCATION & EVENTS | ADVOCACY | INFORMATION RESOURCES

WELCOME

Welcome to the new IIA-Australia website
Developed for IIA-Australia members and the internal audit community, this updated website contains more information, easier navigation and a fresh new look. Members can now access the members-only area (using their IIA-Australia member number) to obtain current Practice Advisories, survey presentations and papers, job opportunities and more. Just as internal auditors add significant value to organisations, we believe this website adds value to IIA-Australia members, and represents the profession in a modern, practical and exciting way. Enjoy the website!
Christopher McRostie - CEO IIA-Australia

SOPAC CONFERENCE 2007 MELBOURNE

EVENTS AUSTRALIA
SOPAC 2007
Details of the Internal Audit Conference of the year - SOPAC 2007 - are now available. Please click here. The Sponsorship and Exhibition Prospectus is also available for more information and a copy of the prospectus click here.

EDUCATION & TRAINING
Training and Professional Development Program
Look out for the 2007 Training and Professional Development brochure. It was mailed to IIA-Australia members in early February. A copy of the brochure and registration form is available here.

Message from David Richards CIA CPA, New Programs for 2007 include:



Chief Executive's Review



2006 was a landmark year for the profession with both the public and private sectors recognising the value of the internal audit function. As a consequence, your Institute invested significantly to provide members with the education, training and services they need to meet these new challenges and expectations.

We made enormous gains in key strategic areas including education and training, advocacy, certification and membership as well as in maximising the efficiencies of the management team.

Importantly, the Institute moved into its new Australian headquarters in Sydney's CBD in April 2006. The new premises and facilities reflect the increased standing of the profession within the business community and provides staff and volunteers with a professional and efficient work environment to ensure members and the profession are well served.

As you may be aware, education and training has always been the centerpiece of our activities. In 2006, the Institute ran an unprecedented 163 events attracting over 5,000 attendees. In addition our relatively new offering of External Quality Assessments (EQA) was also a standout performer in 2006.

But we saved the best for last, when the Institute's new website, with a members only section and the ability to join or to pay membership renewals on-line, was launched in December 2006. The site will continue to be updated throughout 2007.

However, our greatest achievement was setting a new membership record for IIA-Australia in 2006 with membership topping 2,850

I would like to express my appreciation to the National Office team for their support, encouragement and sheer determination as this played a large part in making 2006 an outstanding year for IIA-Australia.

2007 and beyond

2007 is shaping up to be a busy year as we will undertake more education and training, certify more members, increase membership and further our efforts to have IIA standards and certification enshrined in legislation. Our scheduled activities include:

- Enhancing our training programs
- The SOPAC® 2007 Melbourne and six regional conferences
- Enhancing the Public Sector Annual Report Awards in Queensland
- Actively marketing the 'corporate' membership packages
- Establishing an 'Audit Committee' interest group and developing the CAE network through more events and better marketing
- Expanding the "IIA Young Members' Group"
- Improving communication to members with an 'e -newsletter'
- Substantially upgrading our IT systems
- More widely promoting the 'Principal Partner' and 'Partner' program
- Expanding the EQA program; and most importantly
- Growing membership to over 3,400.

As you can see this is an exciting and critical time for the Institute as we continue to leverage opportunities that will entrench the Institute as the voice of the internal audit profession and provide future direction for the profession in Australia.

I am confident that the National office team will continue to ensure that all services are provided expertly and professionally as the Institute continues to grow its membership and expand its level of services.

What a great time to be an internal auditor! Please join us by becoming involved with the IIA, '*the voice of the profession*' in Australia and around the world.

Christopher McRostie
Chief Executive Officer

Reaching out and developing the profession

BEING part of a global organisation is a tremendous benefit for members and one which is truly valued.

It enables IIA-Australia members to engage and participate in a range of global and regional committees and activities that have a direct impact on the internal audit profession and substantially influence how organisations manage their internal audit and risk management functions both in Australia and around the world.

And high on the list of benefits also, is access to the IIA professional practices framework and the global certification program. In addition IIA-Australia is also a member of the prestigious Asian Confederation of Institutes of Internal Auditors (ACIIA), both at the global and regional level.

In 2006 IIA-Australia participated in a broad range of global committees including the International Board, International Relations, Government Relations, Professional Issues, Quality, Ethics, Standards, Seminars, Advanced Technology, International Conference, Membership, Academic Relations, Board of Research and Chief Staff Officers.

At the regional level, IIA-Australia is a member of the ACIIA executive and the Chief Staff Officers' (CSOs) group. And whilst the CSOs group is in its early stage of development, we are already starting to see a more concerted regional approach, including cooperation in sharing of presenters.

Throughout 2006 IIA-Australia welcomed a diverse and stimulating range of visitors including



delegations from China, internal auditors from Indonesia (for training), the Head of Audit Royal Monetary Authority of Bhutan and three senior representatives from IIA Global; IIA Global CEO, Mr Dave Richards; Head of IIA Certification, Ms Susan Liono and Ms Veronica Johnson, Head of Academic Relations.

In Australia, we continue to further enhance our relationships with similarly minded organisations and alliance partners such as CPA Australia, Institute of Chartered Accountants Australia (ICAA), National Institute of Accountants (NIA) and the Australian Institute of Company Directors (AICD).

In addition, senior members made presentations to under-graduate and post-graduate students about the importance of internal audit to corporate governance in a determined bid to expand the coverage of internal audit.

Defining better practice

ONE of the great benefits of being a member of the IIA is accessibility to the most recent and up to date technical and professional guidance. This has been evident throughout 2006 by the significant level of attendance at IIA training and seminars but most particularly at 'members meetings' which provided updates on trends and directions in the internal audit profession.

As in past years, members were advised on new and relevant materials available from IIA Global including relevant revisions to international standards and the regular *Global Technology Audit Guide series (GTAG)*.

In 2006, IIA-Australia released two new publications the first titled 'Professional Practice Guide for Internal Audit' and a joint publication titled 'Delivering Assurance based on AS/NZS 4360: 2004 Risk Management'.

For members and audit committees, the IIA-Australia reproduced an IIA Global publication titled '*Audit Committee Briefing. Internal Audit Standards: Why They Matter*'. This publication has been distributed to Chief Audit Executives (CAEs) and numerous audit committee members.

For the third successive year, IIA-Australia in collaboration with Ernst & Young, produced the Annual Trends in Australian and New Zealand Internal Auditing benchmarking survey. The survey provides members and the profession with an excellent snapshot of direction and changes within the internal audit profession.

Members continued to receive bi-monthly the IIA Global Journal (*Internal Auditor*), which provides members with the latest in technical, trends, and updates from across world.

In addition, members also received on a monthly basis the journal, *Risk Management*. This publication is both topical and timely in the range of issues canvassed.



Bob McDonald Award

The Bob McDonald Award is named in honour of the first Australian to hold the position of International Chairman of IIA Inc and of his outstanding contribution to the profession of internal audit. The Award is made to an individual in recognition of outstanding service to the internal audit profession in Australia, the Institute of Internal Auditors-Australia, or to the theory of internal audit or to the practice of internal audit.

In 2006 Mr Glen Laslett CIA CCSA was the recipient of the Bob McDonald Award.

Training and development

Education and Training - Building Skills, Expanding Knowledge.

IIA-Australia is committed to providing a range of comprehensive professional development activities, standards for the practice of internal auditing and certification. We aim to distribute knowledge and information concerning internal auditing to our members and the public. Seminars, workshops, certification, and education courses generate better individual and business standards. IIA-Australia offers great opportunities for members to invest in their career development, meet with industry peers, expand their skill base and gain extra qualifications.

What has been achieved?

- New National CPE training brochure
- Consolidation and centralisation of all CPE and Member Meetings function
- Continued improvements in online marketing and in November the new 'e-newsletter' email was launched
- National Office assumed total responsibility for all Chapter budgets
- Most successful SOPAC® ever, with a record 590 attendees and a strong financial result backed by a high quality program and a high level of sponsorship and exhibition. Feedback from delegates, sponsors and exhibitors was very positive
- CPA/IIA joint 'Audit and Risk Management' conference in Sydney and Melbourne
- AICD/IIA Canberra joint forum with a focus on 'Public Sector Governance and Performance'
- IIA-Australia ran 67 CPE courses, 58 members meetings, 8 Conferences, 5 CAE forums and 1 Hot Topic



- Nine inhouse training courses were run in 2006 more than in the previous two years combined
- Upgrade of Chapter Conferences with CPE staff working with the Chapter Committee on the program, sponsorship and venue
- Record attendance at South Australia's Chapter Conference in October 2006.

The result of this new and integrated approach to the IIA's training and event management in 2006 resulted in IIA-Australia running 154 Events with a total attendance of 4,766.

When Certification is included, the total goes to 163 events with 5,194 registrations.

Overall IIA-Australia provided members with a total of 236 days of training and conferences in 2006.

Certification – the hallmark of excellence in internal auditing

WITHOUT taking risks there would be no such thing as business. But because risk must be monitored and managed if an organisation is to prosper, certification is a tangible demonstration for an individual's commitment to excellence and professionalism. The only globally recognised qualification for internal auditing, the Certified Internal Auditor (CIA®) is the elite qualification that is increasingly seen as a mark of quality by employers.

In addition, our popular self study program offers students flexibility over where, when and how much they want to study in order to accommodate their work and home commitments.

Presentations of certificates to graduates took place during the year, usually held in conjunction with members' meetings.

Computer Based Testing – the new frontier

In a determined bid to provide students with the best possible testing experience, the IIA will introduce computer based testing (CBT) in February 2008 to ensure exams and results are delivered more effectively and efficiently for students undertaking the CIA® program and specialty exams.

Working with Pearson VUE, a global leader in electronic services for certification, the IIA has developed ground breaking computer based training to enable exam candidates the ability to test in a professional, controlled environment at more than 400 test centers worldwide.

And given that many IIA affiliates are finding it increasingly difficult to secure cost-efficient exam sites that provide a good testing environment and can accommodate the growing number of candidates, this is an enormous step forward for the profession.

Certification snapshot

In 2006 CIA® candidates put in a stellar performance achieving an overall pass rate of 65% in stark contrast to the global pass rate of 40%. Numbers also increased with 428 CIA® candidates sitting 531 modules. In addition, some CAEs took advantage of the CIA®-on-demand option which allowed them to sit the CIA® at a time to suit them, rather than being tied to the set dates in May and November.



IIA-Australia wins the prestigious Lawrence B Sawyer Award

IIA-Australia won the 2005 Lawrence B. Sawyer Award for outstanding achievement in CIA® development clearly demonstrating IIA-Australia's outstanding commitment to the Certified Internal Auditor program.

Lawrence B. Sawyer, CIA, epitomises the principles and standards of the CIA®. By winning this prestigious award named in honour of "the father of modern internal auditing", IIA-Australia has achieved an elite status of internal auditing professionalism.

The award was presented in Houston at a "Recognition Awards Breakfast" on Tuesday, 20 June 2006.

CIA Information sessions

Information sessions were conducted in all capital cities (except Darwin) before the May and November exams. Facilitators gave a background to CIA® and other certifications, and talked about exam content and administrative matters. Panels of recent CIAs and candidates who had partially completed their exams, gave insights into why they undertook the CIA® or other exams, study techniques, how they believed it would enhance their career, impact on careers and the like.

Consulting Services

IIA-AUSTRALIA offers professional consulting services in internal auditing to Chief Audit Executives, Audit Committees and Chief Executive Officers.

The requests from private and public sector organisations for IIA-Australia to provide consulting services, have increased substantially in the past 12 months. This is an area of strong growth for IIA-Australia.

Services offered by IIA-Australia are:

- External Quality Assessments of Internal Audit activities.
- Other Consulting Services related to the management of Internal Audit activities.

However, IIA-Australia does not provide services to conduct Internal Audit engagements as this is the province of our members.

One point which distinguishes IIA-Australia from other providers of consulting services in internal auditing is the clear independence IIA-Australia is able to provide. IIA-Australia does not provide other types of Internal Audit services and thus can be seen to have no conflict of interest in terms of a review of an Internal Audit activity.

External Quality Assessments

As the IIA internationally receives requests to provide independent External Quality Assessments of Internal Audit activities, it has developed a methodology to ensure consistency in the reviews. The methodology has been refined over a number of years, with the phased approach allowing:

- Assessment of the efficiency and effectiveness of an Internal Audit activity
- Identification of opportunities for improvement
- Review audit planning and risk assessment leading to the internal audit schedule
- Evaluation of the Internal Audit organisational structure and resources
- Determination of the perceptions of Internal Audit in the organisation
- Examination of internal auditing techniques and methodology
- Identification of ways to enhance Internal Audit policies and practices

Provision of an opinion as to whether the Internal Audit activity conforms to The International Standards for the Professional Practice of Internal Auditing issued by the IIA.

The approach usually involves a number of interviews (for example, interviews with the Chief Executive Officer, members of the Audit Committee, Executive Management in major areas audited and Internal Audit management and staff), surveys of Internal Audit customers and staff, review of policies, manuals and working papers and observation of the organisation of the Internal Audit activity.

Other Consulting Services

Apart from External Quality Assessments, IIA-Australia may be requested to review and provide advice on such things as:

- Informing an organisation on its upcoming tender process for Internal Audit services
- Audit Committee structures and roles
- Options for Internal Audit to better engage and partner with management
- Approaches to Internal Audit planning
- Approaches to Internal Audit reporting and follow-up, including development of key performance indicators
- Advice on recruitment of Chief Audit Executives and Internal Auditors

Our Consultants

IIA-Australia has a number of consultants who are experienced senior internal auditors with expertise in a varied range of organisations and industries able to interact confidently with audit committees, senior management and internal audit staff.

IIA-Australia can match skills and experience with a particular organisation or industry. For example, it can provide specialists with significant experience in the:

- Private sector – banking, distribution, energy and utilities, manufacturing, mining and retail
- Public sector – Government at all levels (Commonwealth, State, Local), education, health and university.

Growing membership

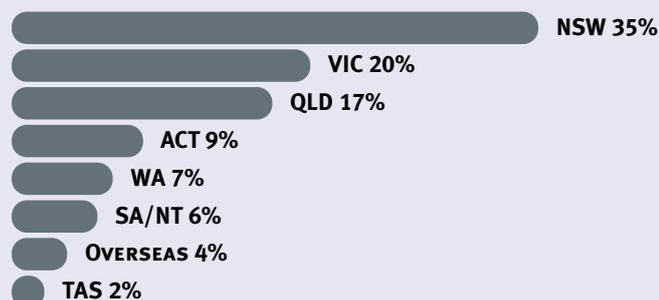
ATTRACTING new members continues to be a priority for the Institute. It achieved outstanding growth in 2006, increasing total number of members in IIA-Australia to 2852 up 15% from 2473 the previous year. This put the IIA-Australia in striking distance of its milestone of 3,000 members nationally.

While there was a steady stream of new members throughout the year, a special offer in Augus/September doubled the number of members the Institute had budgeted for in those months and paved the way for on-going interest throughout the remainder of the year. Similarly, a surge in non-members participating in education and professional development programs, enabled us to invest in additional people to develop and deliver more quality programs.

Corporate membership remains strong and we are committed to broadening our suite of offerings to enhance our support for in-house internal audit teams. In the past, organisations tended to use membership as an education, information and networking vehicle for staff. Now however, membership is increasingly seen as a longer term strategic tool to attract and retain staff. In fact, at 31 December 2006, 20% of members received the 10% corporate membership discount and 27% received the 20% discount.

As with most professional associations, reducing member attrition is critical. All lapsed members are contacted in an attempt to remind them to renew. And while a telephone campaign early in 2006 successfully encouraged the majority of members to renew, most of those who declined were either retiring from employment or moving out of the internal audit profession.

IIA-Australia Membership 2006



Tasmania, New South Wales and Western Australia led the way with each reporting a membership growth rate of over 17%.

Globally, membership now exceeds 130,000.

Who are our members: Snapshot 2006

A snapshot of our members at December 2006 revealed:

- the main industries our members work in are government and service industries (equal numbers) followed by the finance/insurance/real estate industries.
- 30% of members are female.
- the three main areas which our members audit are accounting, corporate governance and fraud.
- the largest group of members are those aged 30-39 years (27% of all members) followed by those aged 40-49 years (23%).
- the three qualities essential to the role of the internal auditor are providing best practice/adding value, reasoning and problem solving, and providing reports on audit matters.

Attracting and Working with Chief Audit Executives

ATTRACTING Chief Audit Executives (CAEs) continues to be an important focus for the Institute as it seeks to raise its influence with the most senior practitioners in the profession by providing a safe haven for these members to have high level, frank and open discussions and engage in peer group networking.

In addition to face to face activities in 2006, including Chapter based CAE/Audit Executive Network meetings, an exclusive 'invitation only' program for CAEs at the annual SOPAC® was particularly well received in 2006.

Not only is attracting CAEs critical to establishing the standing and influence of the internal audit profession, CAEs play a pivotal role in formulating our response to draft legislation and developing submissions to government and other key stakeholders.

In recognition of the valuable role they play, the Institute offers these elite members of our profession a specialist service, CAE exclusive information and networking opportunities including bulletins, directories and benchmarking information.



Chapter Activities in 2006

IIA-Australia has seven Chapters, each working in close consultation with the National Office team on a range of matters. Each year Chapters put together various activities or pursue initiatives that are Chapter specific but may ultimately have a national impact. Outlined are some of the highlights of Chapter activities in 2006.

Members Meetings

Member meetings are a specific 'member only benefit' and were held in all Chapters in 2006. These sessions provide members with the opportunity to network and to hear from a range of presenters on topical issues of importance to the internal audit profession.

In 2006, the IIA-Australia Chapters ran 58 members meetings attracting approximately 2,500 attendees.

The Western Australian and Queensland Chapters hold the 2006 record for attendance at a members meeting with the Western Australia Chapter attracting 133 members to a breakfast and the Queensland Chapter attracting 120 members to a luncheon presentation by Mr Dave Richards, IIA Global CEO.

Some of the highlights of 2006 included:

- How Internal Audit Can Enhance Organisational Performance
- Secret Life of Documents
- Recent case studies of Employee Fraud and Corruption
- Auditing Anti-Money Laundering
- Auditing an OH&S and Workers Compensation Management System
- Members Networking Lunch – Wine Making

NSW continued with its initiative of providing members' meetings outside Sydney CBD. Meetings were held in Parramatta, Penrith, Wollongong, Newcastle and Wyong. Locally based members provided the impetus and were supported by the Chapter Council members' meeting sub-committee and National Office staff.



Chapter Conferences

Canberra Chapter Conference. This was the second year that the Chapter has run this event and it continues to attract a broad spectrum of local members. The conference theme was 'Compliance; Back to the Future'.

South Australia Chapter Conference. The Chapter extended the event to a full day in 2006 and this proved a popular initiative with the conference attracting a record attendance. The conference theme was 'internal audit: practically speaking'.

Western Australia Conference. This long standing annual event is the largest internal audit conference of its type in Perth. The focus in 2006 was on 'best practice' with a range of high profile local and interstate speakers.

Young IIA

The Victoria Chapter launched the Young IIA in 2006. This group targets internal audit professionals 35 years and under and focussed on issues relevant to the Group.

The Group held technical sessions on career planning and presentation skills and closed the year with an end of year function.

With the demand for qualified internal audit professionals increasing at a rapid rate, membership in the 'young member' category is growing rapidly.

IIA Australia – NSW Chapter Golf Day

The NSW Chapter held its second members and guests golf day in late 2006. The day has become a highlight on the Chapter's 'social' activities calendar.

University Prizes

IIA-Australia supported Student Prizes at the following universities:

- Central Queensland University
- University of Southern Queensland
- Murdoch University
- The University of Western Australia
- Edith Cowan University

Deakin University 'Think Tank'

IIA-Australia Victoria Chapter under its initiative program co-sponsored this inaugural event in 2006.

'Think Tank' was a challenge organised by Professor Philomena Leung, Head of School of Accounting, Economics and Finance and supported by the Deakin Accounting and Finance Students' Society.

The competition was an exciting opportunity for students at Deakin University to work as a team and challenged their business savvy and creativity.

Teams were required to develop a practical and creative solution to a real life case study or hypothetical business scenario involving internal audit procedures, risk management and strategic management. The teams were judged on the overall merit of their solution, as well as their effectiveness in marketing their solution.

The case study the students were asked to present on was adapted from the current AWB enquiry.

University Presentations

Various Chapters provided speakers to present at universities throughout 2006 on the internal audit profession and current issues.

Careers Days

The NSW Chapter took part in the Graduate career fair conducted by the ICAA. Promotional material was provided to members who exhibited at University careers fairs in various centres.



Queensland Public Sector Annual Report Awards (QPSARA®)

Fifty-seven entries were received for the 2005 QPSARA® awards. The award ceremony was held in April 2006.

The three main prize winners were:

Overall Winner

- Port of Brisbane Corporation

Institute Award for Internal Audit

- Main Roads Department

President's Special Recognition Award

- Gold Coast City Council

Other Chapter Activities

IIA-Australia Chapters supported other association conferences by providing information tables at:

Association of Certified Fraud Examiners Pacific Rim Conference, Melbourne

Corruption Prevention Network, Sydney.



YOUR DIRECTORS PRESENT THEIR REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

Directors' Report

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

Your Directors present their report for the financial year ended 31 December 2006.

The names of the Directors in office at any time during or since the end of the year are:

DIRECTORS IN OFFICE

David Lawler CIA MIIA(Aust)
Gary Anderson CIA MIIA(Aust)
Maree Patane MIIA(Aust)
Paul Apps MIIA(Aust)
Peter Austen CIA MIIA(Aust)
Andrew Dix MIIA(Aust)
Jim Gouskos MIIA(Aust)
Jean Jansen MIIA(Aust)
Kathryn McLay CIA MIIA(Aust)
Jocelyn Newton FIIA(Aust)
Mark Toogood CIA CGAP FIIA(Aust)
Cathryn Ingram MIIA(Aust)
Norris Robertson MIIA(Aust)

RETIRED DIRECTORS

Vincent Burns CIA CGAP FIIA(Aust) (resigned 10 May 2006)
William Middleton CIA FIIA(Aust) (resigned 10 May 2006)
Michael Parkinson CIA MIIA(Aust) (resigned 10 May 2006)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

The strategic focus of the Institute is to enhance and support the professional careers of its members.

During 2006 an important decision was made and approved by the Board to reinvest in the future strategic development of the Institute requiring further investment in additional staff. Consequently the overall surplus for 2006 of \$1,792 was much lower than that achieved in 2005 of \$174,546.

The company is prohibited from paying a dividend and none was paid.

During the year fees were paid to Mr V Burns, Mr M Parkinson and Mr W Middleton for presenting training courses and to Mr D Lawler for conducting External Quality Assessments. These details are at Note 10 of the Annual Report. Except for these, no Director has received or becomes entitled to receive during or since the end of the financial year a benefit because of a contract made by the company with a Director, a firm of which a Director is a member, or an entity in which a Director has a substantial financial interest.

During the financial year, the company has maintained insurance coverage for "Directors' and Officers' Liability".

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 26.

Board Information

Attendance at Directors' Meetings

In 2006 attendance by Directors (including when represented by alternates) at meetings they were entitled to attend, was as follows:

	BOARD		AUDIT COMMITTEE	
	MEETINGS ELIGIBLE TO ATTEND 2006	MEETINGS ATTENDED 2006	MEETINGS ELIGIBLE TO ATTEND 2006	MEETINGS ATTENDED 2006
Vincent Burns*	2	2		
Gary Anderson	6	4		
David Lawler	6	5	1	1
Paul Apps	6	5		
Peter Austen	6	6		
Andrew Dix	6	5	3	3
Jim Gouskos	6	4	3	2
Jean Jansen	6	5		
Kathryn McLay	6	4		
William Middleton*	2	2		
Jocelyn Newton	6	6		
Michael Parkinson*	2	2		
Maree Patane	4	4	2	2
Cathryn Ingram	4	4		
Mark Toogood	6	6		
Norris Robertson	4	4		
Robert Forbes			2	1
Jenny Parker			3	1
Christopher McRostie#	6	6	3	3
Catherine Moore#	6	6	3	3

* Retired 2006

The CEO & CFO attend board and audit committee meetings by invitation.

DIRECTORS' REPORT

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

Vincent Burns CIA CGAP FIIA(Aust), Senior Auditor, Department of Defence

Gary Anderson CIA MIIA(Aust) CA CISA, Managing Director, Protiviti

David Lawler CIA MIIA(Aust) FCPA CISA, Consultant

Paul Apps MIIA(Aust) CPA MACS, Head of Audit, Reserve Bank of Australia

Peter Austen CIA MIIA(Aust), Specialist Internal Audit Consultant Hydro Tasmania

Andrew Dix MIIA(Aust) CA, Executive Director, Risk Management & Assurance, Telstra Corporation Limited

Jim Gouskos MIIA(Aust) CPA, Partner, Moore Stephens PM

Jean Jansen MIIA(Aust), Chief Auditor, Deakin University

Kathryn McLay CIA MIIA(Aust), Head of Group Audit, Woolworths Limited

Jocelyn Newton FIIA(Aust), Manager Audit Services, Queensland Corrective Services

William Middleton CIA FIIA(Aust) FCPA JP, Director of Audit, NSW Dept of Education & Training

Michael Parkinson CIA MIIA(Aust) CISA, Director Information Risk Management, KPMG, Canberra

Maree Patane MIIA(Aust) CPA, Chief Auditor, Tattersall's Limited

Cathryn Ingram MIIA(Aust) CA, Partner in Charge, Internal Audit Services, KPMG

Mark Toogood CIA CGAP CPA FIIA(Aust), Manager Performance Audit & Quality Assurance, Landgate

Norris Robertson MIIA(Aust) CISA, Director Audit Services, ActewAGL, TransACT, Ecowise Environmental

The Board

The Board is responsible for the stewardship and future well being of the IIA-Australia. The Board exercises leadership, enterprise, integrity and judgment in directing the IIA-Australia to ensure its continuing ability to serve its members as the pre-eminent body of internal audit professionals. The Board pursues and applies the highest standard of corporate governance. The Board will always act in the best interests of the IIA-Australia and in a transparent, accountable and responsible manner.

In discharging their Board responsibilities each Director has a duty to act in the best interests of the IIA-Australia as a whole, irrespective of personal, professional, commercial or other interests, loyalties or affiliations.

Under the Constitution of the company there is one Director from each Chapter. Directors are elected by members at the AGM of the company from nominations submitted by Chapters. Directors-at-large are appointed by the Board.

Appointments are for a period normally of two years, with entitlement to re-appointment. Directors' appointments are staggered so that not all Directors' terms expire at the same time.

There are up to thirteen Non-Executive Directors. The Chief Executive Officer of the company (the CEO) performs the functions of the Company Secretary. The Board elects its office holders of President and Vice President based on the recommendation of the Nomination Committee.

Directors do not receive remuneration for acting in the capacity of Director nor do they receive retirement benefits. Directors are entitled to reimbursement of expenses incurred in carrying out their duties, in particular travel and accommodation.

Work Undertaken by the Board

Meetings and Committees

The Board has four scheduled face-to-face meetings and two teleconferences each year. Other meetings occur by teleconference as and when required.

The Board has established a number of committees to assist in undertaking various aspects of its and the Institute's business. Each of these committees is chaired by a Board member and membership is drawn from Board members and appropriately qualified members and supporters of the Institute.

Executive Committee

The Board Executive Committee is a leadership and administrative body, whose role is to assist and advise the Board of Directors in fulfilling its responsibilities to members of IIA-Australia. The Board Executive Committee is not a policy making body, but assists the Board by implementing Board policy. One of its primary functions being to oversee the implementation of Board/IIA policy between full board meetings.

The Executive Committee met on four occasions.

	MEETINGS ELIGIBLE TO ATTEND 2006	MEETINGS ATTENDED 2006
Vince Burns	2	2
David Lawler	4	4
Gary Anderson	4	4
Maree Patane	3	3
Christopher McRostie	4	4

DIRECTORS' REPORT

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

Audit Committee

The Audit Committee assists the National Board with its responsibilities for corporate governance by assuring the appropriate mechanisms exist to monitor probity, governance, efficiency and effectiveness of the Institute's systems, controls and operations. For meeting details, please refer to chart on page 14.

Remuneration Committee

The role of the Board Remuneration Committee is to assist and advise the Board of Directors in fulfilling its responsibilities to members of IIA-Australia on matters relating to the consideration, bonuses, incentives and remuneration issues of the Chief Executive Officer and IIA-Australia staff. The Board Remuneration Committee is not a policy making body, but assists the Board by implementing Board policy.

The Remuneration Committee met on three occasions

	MEETINGS ELIGIBLE TO ATTEND 2006	MEETINGS ATTENDED 2006
Gary Anderson	3	3
Michael Parkinson	3	3
Mark Toogood	3	3

Nominations Committee

The role of the Board Nomination Committee is to assist and advise the Board of Directors in fulfilling its responsibilities to members of IIA-Australia on matters relating to the composition, structure and operation of the Board. The Board Nomination Committee is not a policy making body, but assists the Board by implementing Board policy and recommending nominations which require Board approval.

The committee met on two occasions in 2006.

	MEETINGS ELIGIBLE TO ATTEND 2006	MEETINGS ATTENDED 2006
Vince Burns	1	1
Jocelyn Newton	2	2
David Lawler	1	1
Michael Parkinson#	2	2
Robert Forbes#	2	2
Robert McDonald OAM#	2	2

Co-opted Members

Strategic Planning Committees

The Board has established five key strategic committees to drive the direction of the Institute in its current strategic planning phase.

These Committees are:

- Certification
- Advocacy
- Education & Training
- Membership
- Effective Organisation

Communication with Members

The Institute issued regular email alerts to members. Members also received The Internal Auditor, bi-monthly and monthly, the Risk Management Magazine.

Ethical Standards

The Institute has a comprehensive code of ethics to which Directors, as members of the Institute, subscribe. The Board has also formally adopted the Statement of Ethics of the Australian Institute of Company Directors for Board operations. As noted above, all Board members formally declare potential conflicts of interest or the absence of such conflicts at least annually.

Signed in accordance with a resolution of the Board of Directors.



David Lawler CIA MIIA(Aust)

Director, President

16 April 2007

Income Statement

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

	2006 \$	2005 \$
Subscriptions Revenue	609,998	511,058
SOPAC [®]	760,276	584,776
National and Chapters' CPE	932,465	777,637
Certified Internal Auditor	177,157	296,156
External Quality Assessments	235,187	122,320
Other Revenues from ordinary activities	71,394	74,695
Interest	79,128	57,854
Total Revenue from ordinary activities	2,865,605	2,424,496
Occupancy Expenses	(138,253)	(92,755)
Depreciation	(18,436)	(10,305)
Marketing Expenses	(14,930)	(16,417)
Administrative Expenses	(990,910)	(712,109)
Auditors Remuneration	(5,924)	(4,210)
SOPAC [®]	(497,549)	(394,235)
National and Chapters' CPE	(634,774)	(505,406)
Certified Internal Auditor	(102,364)	(173,600)
External Quality Assessments	(180,673)	(99,046)
Other Expenses from ordinary activities	(280,000)	(241,867)
Total Expenses from ordinary activities	(2,863,813)	(2,249,950)
Profit from ordinary activities before Income Tax	1,792	174,546
Income Tax Expense	-	-
Net Profit from ordinary activities after		
Income Tax Expense	1,792	174,546

The accompanying notes form an integral part of the financial statements.

Balance Sheet

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

	NOTES	2006 \$	2005 \$
CURRENT ASSETS			
Cash and cash equivalents	3	1,218,921	1,326,636
Trade and Other Receivables	4	264,165	94,129
Inventories		27,665	17,583
Prepayments and other		97,270	99,872
TOTAL CURRENT ASSETS		1,608,021	1,538,220
NON CURRENT ASSETS			
Plant and equipment	5	75,046	24,319
TOTAL NON CURRENT ASSETS		75,046	24,319
TOTAL ASSETS		1,683,067	1,562,539
CURRENT LIABILITIES			
Trade and Other Payables	6	256,846	206,054
Employee Entitlement Provisions	1(h), 7	86,195	74,430
Deferred income	1(i)	487,936	435,231
Research Foundation contributions	1(k)	24,937	21,463
TOTAL CURRENT LIABILITIES		855,914	737,178
TOTAL LIABILITIES		855,914	737,178
NET ASSETS		827,153	825,361
MEMBERS FUNDS (EQUITY)		827,153	825,361

The accompanying notes form an integral part of the financial statements.

Statement of Changes of Equity

	2006 \$	2005 \$
Equity: Balance at start of year	825,361	650,815
Surplus for the year	1,792	174,546
Balance at Reporting Date	827,153	825,361

Cashflow Statement

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

	NOTES	2006 \$ INFLOWS (OUTFLOWS)	2005 \$ INFLOWS (OUTFLOWS)
CASHFLOW FROM OPERATING ACTIVITIES			
Receipts from customers		2,662,499	2,379,598
Payments to suppliers and employees		(2,732,251)	(2,149,980)
Interest received		79,129	57,854
Other receipts		2,210	48,448
Net cash provided by operating activities	9	11,587	335,920
CASHFLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment		(69,162)	(20,130)
Net Acquisition of Term Deposit		(53,614)	-
Net Cash used in investing activities		(122,776)	(20,130)
CASHFLOWS FROM FINANCING ACTIVITIES			
Research Foundation Contributions		3,474	4,685
Net Cash provided by financing activities		3,474	4,685
NET INCREASE/(DECREASE) IN CASH HELD			
Cash at the beginning of the financial year		1,326,636	1,006,161
CASH AT THE END OF THE FINANCIAL YEAR	3	1,218,921	1,326,636

The accompany notes form an integral part of these financial statements.

Notes to the Financial Statement

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

Corporate Information

The financial report of the company for the year ended 31 December 2006 was authorised for issue in accordance with the resolution of the directors stated on 16 April 2007.

Note 1:

Statement of Significant Accounting Policies

General

- a) The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards.
- b) The financial statements have been prepared on the basis of historical costs and do not take account of changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.
- c) The accounting policies have been consistently applied with all expenses and income accounted for on an accruals basis in the period(s) to which they relate.

Inventories

- d) Inventories, which represent publications, are measured at the lower of cost and current replacement cost. Costs are assigned on a specific identification basis. The carrying amount of inventories held for distribution is recognised as an expense in the period in which the inventory is distributed.

Plant and equipment

- e) Plant and equipment are brought to account at cost. The carrying amounts of plant and equipment are reviewed annually to ensure they are not in excess of the recoverable amount of these assets. Furniture is depreciated over four years, fittings over ten years, computer and software over four years and electrical equipment over three years. Assets with an acquisition cost of less than \$500 are expensed in the year of acquisition.
- f) Leasehold improvements are depreciated over the lesser of the unexpired term of the lease or the estimated useful life of the improvements.
- g) Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Commitments for future years are disclosed by way of note. The Institute has no finance leases.

Employee entitlements

- h) Employee entitlements have been provided for at balance date at an amount that is not less than the net present value of all entitlements including on costs.

Deferred income

- i) Subscriptions and professional development fees relating to the 2007 year but received prior to 31 December 2006 are carried forward in the Balance Sheet as deferred income.
- j) SOPAC[®] 2007. Revenue received prior to 31 December 2006 relating to SOPAC[®] 2007 is carried forward in the Balance Sheet as deferred income. Expenses incurred prior to 31 December 2006 for SOPAC[®] 2007 have been carried forward as prepaid expenditure.
- k) Research Foundation Contributions. \$10 from each new member application fee is allocated to the Research Foundation. Receipts for the Research Foundation are shown as a current liability in the Balance Sheet. There is an obligation to make payments out of this fund to be used to support research into areas of professional interest to members and may be expended over a number of years.

Income tax liability

- l) The Institute is exempt from the payment of income tax under Section 50-5 of the Income Tax Assessment Act 1997.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

Revenue

m) Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. All revenue is stated net of the amount of goods and services tax (GST).

Note 2:**Legal and Economic Entity**

- a) The Institute of Internal Auditors-Australia (The Institute) is a company limited by guarantee; accordingly it has no share capital. It is licensed under the Corporations Act 2001 to omit the word 'Limited' from its name. It is an individual economic entity, without subsidiaries.
- b) The Institute has an agreement with the Institute of Internal Auditors Inc (IIA Inc), incorporated in the USA, for the provision of stipulated goods and services in return for the payment of affiliation fees. Members of this Institute are also members of IIA Inc.
- c) The Institute's registered office (which is its only place of business) is at Level 7, 133 Castlereagh Street, Sydney, NSW. Its operations and principal activities are set out elsewhere in this Annual Report. The average number of employees during the year was nine. Three new staff members were recruited during 2006 that increased the number of employees from eight at the beginning of the year to eleven at the end of the year.

Note 3:**Cash and Cash Equivalents**

	2006 \$	2005 \$
Institute Cash at bank and cash equivalents (a)	1,193,984	1,305,173
Research Foundation bank account (b)	24,937	21,463
	<u>1,218,921</u>	<u>1,326,636</u>

- (a) The Institute's Cash is reported under IFRS to include cash equivalents being cash held on deposit with a maturity of less than three months
- (b) This bank account holds contributions received from members (shown in the Balance Sheet as a current liability) until a suitable research project is decided upon.

Note 4:**Trade and Other Receivables**

	2006 \$	2005 \$
Term Deposits	83,614	30,000
Trade Receivables	172,996	51,255
Other Receivables	7,555	12,874
	<u>264,165</u>	<u>94,129</u>

Receivables include Term Deposits with a maturity of more than three months held by the bank as security for the bank's rental guarantee, as required by the lessor. A new bank guarantee was established in April 2006 over the new rental premises of the Institute at 133 Castlereagh Street Sydney.

Trade Receivables increased from 2005 due to invoices issued late in November and December 2006 for External Quality Assessments conducted (total of \$111,111). No provision for doubtful debts has been made as all current debts are expected to be paid within credit terms.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

**Note 5:
Plant & Equipment**

	PLANT & EQUIPMENT		FURNITURE & FITTINGS		LIBRARY		LEASEHOLD IMPROVEMENTS		SOFTWARE		TOTAL PLANT & EQUIPMENT	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Cost	102,321	76,786	49,578	33,535	9,345	9,345	9,039	9,039	50,760	23,175	221,043	151,880
Accum'ted Deprec'n	(69,883)	(58,947)	(33,244)	(27,055)	(9,345)	(9,345)	(9,039)	(9,039)	(24,486)	(23,175)	(145,997)	(127,561)
Total Plant & Equip at written down value	32,438	17,839	16,334	6,480	-	-	-	-	26,274	-	75,046	24,319
Balance at beginning of the year	17,839	6,238	6,480	7,860	-	-	-	-	-	397	24,319	14,495
Additions	25,535	17,804	16,043	2,325	-	-	-	-	27,585	-	69,163	20,129
Disposals	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation Expense	(10,936)	(6,203)	(6,189)	(3,705)	-	-	-	-	(1,311)	(397)	(18,436)	(10,305)
Carrying Amount at the end of year	32,438	17,839	16,334	6,480	-	-	-	-	26,274	-	75,046	24,319

Plant and equipment and software balances increased during the year with the upgrade of the Institutes computer network. Furniture and fittings balance increased with the move to new office premises in May 2006 and the need for some additional purchases.

**Note 6:
Trade & Other Payables**

	2006 \$	2005 \$
Trade Creditors	21,770	12,165
Other Creditors	151,827	138,627
Accrued Expenses	83,249	55,262
	<u>256,846</u>	<u>206,054</u>

Accrued expenses at December 2006 were mostly for invoices not yet received from presenters of courses and consultants for services completed late in the year

**Note 7:
Employee Entitlement Provisions**

	2006 \$	2005 \$
Balance at the beginning of year	74,430	51,490
Additions to provision	11,765	22,940
Balance at the end of year	<u>86,195</u>	<u>74,430</u>

Employee entitlements are reported in the accounts at an amount that is not less than the net present value of all entitlements including on costs.

**Note 8:
Leasing Commitments**

Leasing commitments relate in total to lease of premises and office equipment.

	2006 \$	2005 \$
Not longer than one year	120,174	111,460
Longer than one year but not longer than five years	498,624	616,347
Longer than five years	646,670	644,464
	<u>1,265,468</u>	<u>1,372,271</u>

New rental premises have been contracted for 10 years until June 2015.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

Note 9:**Cash Flows Reconciliation**

A. Reconciliation of net cash flow provided by operating activities to operating surplus (deficit):

	2006 \$	2005 \$
Operating surplus	1,792	174,546
Non cash flows in operating surplus :		
Depreciation	18,436	10,305
Provision for employee entitlements	11,765	22,940
Changes in assets and liabilities:		
Receivables	(116,423)	238,240
Inventories	(10,083)	(12,595)
Prepayments	2,603	(30,724)
Trade Creditors	9,605	1,188
Accrued Liabilities	93,892	(67,979)
	(20,406)	128,130
Cash flow from operations	11,587	335,921

B. Reconciliation of cash

For the purpose of the Cash Flow Statement, cash includes cash at bank and cash equivalents being cash held on deposit with a maturity of less than three months. Cash at the end of the financial year as shown in the Cash Flow Statement equals the item "Cash Assets" in the Balance Sheet.

Note 10:**Related Party Transactions**

Key management personnel consist of all Directors and the Chief Executive Officer. Except as indicated in this note no Directors received any form of remuneration.

The names of all Directors who have held office during the financial year are outlined in the table of "Board Member Information" elsewhere in this Annual Report.

Compensation Practices

The employment conditions of the Chief Executive Officer are formalised in a contract of employment. The remuneration committee approves the compensation for each key management person.

Key Management Personnel

	SHORT TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG TERM BENEFITS	TOTAL
	CASH SALARY & FEES	NON MONETARY BENEFITS	OTHER	SUPERANNUATION	LONG SERVICE LEAVE	
2006	76,580	23,238	16,360	50,000	19,333	185,511
2005	63,709	23,027	20,765	50,000	16,333	173,834

Short Term Employee Benefits – Other are made up of (a) Income paid to a Director for fees for conducting External Quality Assessments (in 2006 \$10,000, in 2005 \$12,000).

(b) Income paid to Directors for fees for presenting Institute courses based on the same terms as other presenters (in 2006 \$6,360, in 2005 \$8,765).

NOTES TO THE FINANCIAL STATEMENT

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

**Note 11:
Financial Instruments**

(a) Interest Rate Risk

The Institute’s exposure to interest rate risk, which is the risk that a financial instrument’s value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets, is as follows:

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE		FLOATING INTEREST RATE		FIXED INTEREST MATURING WITHIN 1 YEAR	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Financial Assets						
Cash at Bank	1.90	0.15	70,922	105,793		
Deposits at Call	4.71	4.67	618,294	724,270		
Research Foundation	0.10	0.10	24,937	16,141		
Term Deposits	5.46	4.58			504,768	480,432
Total Financial Assets			714,153	846,204	504,768	480,432

(b) Credit Risk

The maximum exposure to credit risk at balance date is the carrying amount of those assets, net of any provisions for doubtful debts (which is nil), as disclosed in the Balance Sheet and notes to the financial statements.

The Institute does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Institute.

(c) Net Fair Values

The net fair values for assets and liabilities are their carrying value. The net fair values and carrying amounts of financial assets are disclosed in the Balance Sheet and the notes to the financial statements.

**Note 12:
Segment Reporting**

The company operates wholly within one segment as a professional association within Australia.

Directors' Declaration

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

The Directors of the company declare that:

1. The financial statements and notes are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position of the company as at 31 December 2006 and of the performance for the year ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The declaration is made in accordance with a resolution of the Board of Directors.



David Lawler CIA MIIA(Aust)

Director, President

16 April 2007

Independent Audit Report To The Members Of The Institute Of Internal Auditors-Australia

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

Scope

The Financial Report And Directors' Responsibility

We have audited the financial report of The Institute of Internal Auditors – Australia, being Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, notes accompanying the financial statements and the Director's Declaration for the financial year ended 31 December 2006.

The company's directors are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and errors for the accounting policies and accounting estimates inherent in the financial report

Audit Approach

We have conducted an independent audit of this financial report so as to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability for persuasive rather than conclusive evidence. Therefore an audit cannot guarantee that all material misstatements have been detected.

Our procedures included the evaluation of accounting policies and significant accounting estimates and examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report presents fairly, in accordance with *Corporations Act 2001*, Australian Accounting Standards and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the company's financial position, the results of its operations and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Independence

In conducting our audit, we followed the independence requirements of the Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit Opinion

In our opinion, the financial report of The Institute of Internal Auditors - Australia is in accordance with:

- a. the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's financial position as at 31 December, 2006 and its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Act Regulations*; and
- b. other mandatory professional reporting requirements in Australia.

Watkins Coffey Martin
Chartered Accountants

Richard Watkins FCA
Partner

Dated this 16 day of April 2007
65 Hill Street Roseville NSW 2069

Delcaration Of Independence To The Directors Of The Institute Of Internal Auditors-Australia

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557



WATKINS COFFEY MARTIN
CHARTERED ACCOUNTANTS

19 March 2007

The Board of Directors
Institute of Internal Auditors - Australia
Level 7, 133 Castlereagh Street,
SYDNEY NSW 2000

Dear Board Members

**THE INSTITUTE OF INTERNAL AUDITORS - AUSTRALIA
AUDIT FOR THE YEAR ENDED 31 DECEMBER 2006**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of The Institute of Internal Auditors – Australia.

As audit partner for the audit of the financial statements of The Institute of Internal Auditors – Australia for the year ended 31 December, 2006, I declare to the best of my knowledge and belief, there have been no contraventions of;

- (i) the auditor independence requirements of the corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully
WATKINS COFFEY MARTIN

R V Watkins
Partner

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Roseville NSW 2069

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Tumut NSW 2720

ABN 96 062 875 976

Telephone 02 6947 6003

*Liability is limited by the Accountants Scheme,
approved under the Professional Standards Act 1994 (NSW)*



Detailed Statement of Income and Expenditure

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

	2006 \$	2005 \$
OPERATING INCOME & EXPENDITURE		
Membership		
Subscription Renewals	476,695	411,205
New members subscriptions and fees	133,302	99,853
Affiliation fees to IIA Inc	(30,988)	(28,574)
Database and other costs	(4,328)	(4,305)
	<u>574,681</u>	<u>478,179</u>
Members' Services		
US 'Internal Auditor'	(91,575)	(85,011)
Chapter Meetings and Newsletters	(216)	(349)
Annual Report and AGMs	(1,973)	(15,374)
Members Handbooks and Standards	(9,238)	(10,859)
Other Members' Services (Net)	(12,536)	16,740
	<u>(115,538)</u>	<u>(94,853)</u>
Continuing Professional Education		
SOPAC® (Net)	262,727	190,541
National and Chapters' CPE (Net)	297,691	272,231
Certified Internal Auditor (Net)	74,793	122,556
	<u>635,211</u>	<u>585,328</u>
Other Activities		
Sponsorship	(8,200)	0
PR & Marketing	(14,930)	(16,417)
External Quality Assessments and Publication Sales (Net)	57,926	33,805
International and Regional	(60,811)	(49,971)
	<u>(26,015)</u>	<u>(32,583)</u>
NET OPERATING INCOME	<u>1,068,339</u>	<u>936,071</u>
NET ADMINISTRATIVE EXPENSES & NON-OPERATING INCOME		
Board, Councils and Communications	(170,009)	(157,903)
Salaries and Employee costs	(631,795)	(476,703)
Recruitment and Contractor costs	(124,654)	(78,086)
Office rent	(117,694)	(85,825)
Depreciation	(18,436)	(10,305)
Other Occupancy expenses	(20,559)	(6,930)
Room Hire Income	136	300
Auditors' Remuneration	(5,924)	(4,210)
Banking, Legal and Accounting costs	(44,639)	(38,367)
Insurance Premiums	(13,496)	(12,935)
Interest Earned	79,129	57,854
NZ Administration charge 2005	0	46,580
Sundry Income and Expense (Net)	1,394	5,005
	<u>(1,066,547)</u>	<u>(761,525)</u>
TOTAL ADMINISTRATIVE EXPENSES & NON-OPERATING INCOME	<u>(1,066,547)</u>	<u>(761,525)</u>
SURPLUS	<u>1,792</u>	<u>174,546</u>

Chapters CPE Results, Net Other Expenses & Chapter Surplus

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

ACTIVITY	QLD \$	NSW \$	CNB \$	VIC \$	TAS \$	SA \$	WA \$
CPE Income	124,852	250,612	102,834	144,471	6,691	31,252	72,900
CPE Expenditure	(83,531)	(153,573)	(55,419)	(92,622)	(6,759)	(23,308)	(51,816)
CPE Net	41,321	97,039	47,415	51,849	(68)	7,944	21,084
Others Net	(2)	114	(3,801)	(2,770)	(579)	(2,141)	(2,647)
Surplus	41,319	97,153	43,614	49,079	(647)	5,803	18,437

Note: The National Office also runs national seminars in various Chapters and generates revenue, which is in addition to the above (Revenue \$198,853).

Five Year Comparative Profit & Loss Account

Year Ended 31 December 2006

The Institute of Internal Auditors-Australia

ABN 80 001 797 557

	2006 \$	2005 \$	2004 \$	2003 \$	2002 \$
Operating Income and Expenditure					
Membership Subscriptions	574,681	478,179	447,437	396,354	368,580
Members' Services	(115,538)	(94,853)	(87,360)	(123,516)	(114,133)
Continuing Professional Education 560,418	462,772	632,220	363,176	265,519	
Certified Internal Auditor	74,793	122,556	45,023	27,338	62,604
Sponsorship	(8,200)	0	5,727	0	1,803
Other Programs	(17,815)	(32,583)	(22,683)	2,649	1,795
	1,068,339	936,071	1,020,364	666,001	586,168
Administrative Expenses & Non-operating Income					
Board and Communications	(170,009)	(157,903)	(143,362)	(113,784)	(83,815)
Personnel Expenses	(756,449)	(554,789)	(463,452)	(409,388)	(386,413)
Occupancy Expenses	(156,689)	(103,060)	22,795	(90,197)	(92,854)
Corporate & Finance expenses (64,079)	(6,452)	(39,663)	19,024	12,814	
Non-operating Income	80,679	60,679	51,760	21,219	26,594
	(1,066,547)	(761,525)	(629,760)	(573,126)	(523,674)
Surplus	1,792	174,546	390,604	92,875	62,494

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WITHOUT the support and commitment of volunteers, IIA-Australia could not have achieved the significant milestones it did in 2006. We are proud to honour the following volunteers.

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