

The CSS Board

Annual report 2003–04



COMMONWEALTH
SUPERANNUATION SCHEME
AFS LICENCE NO. 238080

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ISSN 1442 6692
ISBN 0-9752483-0-8

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The CSS Board

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| SPIN: | CMS0100AU |

Note: All statistics are derived solely from records available to the CSS Board and the Commissioner for Superannuation as they stood at the time these statistics were compiled. Where statistics for earlier financial years are quoted, these may vary from those previously published due to the application of retrospective adjustments that are now reflected in this report. For similar reasons statistical information in this report may also vary from that presented by other agencies.

Letter of transmittal

Senator the Hon. Nick Minchin
Minister for Finance and Administration
Parliament House
Canberra ACT 2600

Dear Minister

In accordance with section 161 of the *Superannuation Act 1976* (the CSS Act), the CSS Board is pleased to present to you the annual report on its operations during 2003-04. The Report details the Board's activities in respect of the administration of the Commonwealth Superannuation Scheme and includes audited financial statements in respect of the management of the CSS Fund during the year ended 30 June 2004.

Subsection 162(2) of the CSS Act requires you to cause a copy of the report to be laid before each House of Parliament within 15 sitting days after you receive it.

Yours sincerely

A handwritten signature in blue ink that reads "S. Doyle". The signature is written in a cursive style with a large, looped 'S' and 'D'.

Susan Doyle

Chairman

CSS Board

28 September 2004

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Chairman's report

The 2003–2004 financial year was characterised by strong investment markets after the relatively weak conditions experienced in the immediately preceding two financial years. The CSS posted an excellent 13.9% return on its investments over the 2003–2004 financial year which was above our benchmark and above the median returns of superannuation funds.

The Board continues to review its investment strategy in order to identify any new opportunities which may exist. The strategy in accordance with the Board's statutory obligation is designed to maximise returns over the long term, subject to an acceptable level of risk.

In August 2004, the Board announced changes to the way that fund earnings are distributed to members. The Board will no longer declare annual crediting rates but will distribute earnings by way of an exit rate when members claim their benefit. This change has been made to facilitate the introduction of a cash investment option in December 2004 and as part of a transition to the introduction of a fuller range of member investment choice at some time in the future.

The Fund's custodian was subjected to an attempted fraud in December 2003. I am pleased to be able to report that no fund money was lost, that the attempt was detected quickly, and that through investigations that the Board commissioned the Board is satisfied that no similar attempts have been made in the past. The Board is focussed on working with our custodian so that procedures are designed and implemented to ensure maximum possible protection.

In October 2003, the CSS (in conjunction with the PSS and our investment governance advisor, BT Financial Group), was awarded a United Nations Royal Award for Responsible Investment in recognition of its investment governance program. This was only one of three awards made internationally.

On behalf of the Board, I would like to thank Richard Balderstone, who retired from the Board on 16 June 2004. Richard had been a member of the CSS Board for six years and he made a substantial contribution to the deliberations of the Board over that time.

The Board's responsibilities cover a wide range of activities and I thank our major partners, ComSuper, JPMorgan, JANA Investment Advisors, Wilshire Australia, all of our fund managers and other service providers for their work throughout the year.

I also acknowledge the work of the Board's Executive team, who have performed very well during a year when there were substantial challenges.

A handwritten signature in blue ink that reads "S. Doyle". The signature is written in a cursive style and is enclosed in a light blue rectangular border.

Susan Doyle
Chairman
CSS Board

Executive summary

Investment results

Major events and developments

Administration service provision

Financial Management and Accountability Act

Superannuation Industry (Supervision) Act

1993 compliance

Future directions

Investment results

After three years in which financial markets were buffeted by the bursting of the technology bubble, terrorism, war, a global economic stall, and the exposure of questionable corporate governance practices, financial markets settled down in 2003–04 and delivered the best returns since 1999–2000. As a result I am pleased to say that the Fund earned 13.9% on its investments in 2003–04.

World share markets rose by about 20% in local currency terms this financial year. For \$A-based investors, the recovery in world equity markets was partly offset by the negative impact on returns of the rise in the value of the \$A, particularly in the first half of the year. However, the CSS Fund has mostly been protected against this currency impact by being largely hedged against the rise in the \$A.

Australian share markets have largely mirrored international markets and rose by 22% over the year.

Bond returns have been modest over this period as stronger economic growth and some anticipation of rising interest rates particularly in the US, weighed on markets. The Fund's exposure to high yield debt, which performed well in the year, mitigated somewhat the impact of flat bond markets on the Fund as did the decision taken late in 2003 to move 10% of the Fund from bonds to cash.

The Fund's property investments and its small investment in market-neutral hedge funds have delivered positive returns for the year.

The Fund's longer term investment performance remains very sound and is at or near top quartile over most periods when compared with surveys of performance of other superannuation funds.

The CSS remains in a strong financial position with around \$5.6 billion funds under management and over 47 000 members.

Strategic investment review

The Board conducted an interim review of its investment strategy in 2003–04. Major reviews generally are conducted once every three years (the last being in 2001–02). In intervening years an interim review is undertaken.

The interim review this year endorsed the appropriateness of the Board's investment objectives and broad strategy for the Fund while foreshadowing some changes at the margin.

The investment objectives of the Fund comprise a return objective and a volatility (risk) objective. Over the long term, the CSS Board expects to achieve an average real return of 4.5% per annum after tax and fees, which derives from a nominal return of 7% per annum. In developing an investment strategy to achieve that objective, and recognising that the average person might have a working life of around 30 years, the Board has adopted a volatility objective that on average, nominal fund returns are expected to be positive 24 years out of 30.

Furthermore, for prudential reasons, not more than 25% of the Fund's investments are to be invested in illiquid assets, with a minimum cash allocation of 2%.

Major events and developments

New Board members

Ms Susan Doyle was appointed Chairman of the CSS Board by the Minister in July 2003. Ms Doyle has extensive professional and executive experience in investment and fund management. She is also Chairman of the PSS Board. She worked for Commonwealth Funds Management for 20 years and was, more recently, Manager Equities and Fixed Interest Suncorp Insurance and Finance and Chief General Manager NRMA Asset Management Pty Ltd. She is currently a Director of SA Water Corporation and Chairman of its Audit Committee.

Mr Des Moore was appointed to the CSS and PSS Boards in September 2003. Mr Moore has had considerable experience and training in analysing economic issues. After graduating in law from Melbourne University, and in economics from the London School of Economics, he worked for 28 years in the Commonwealth Treasury, including five years as one of three Deputy Secretaries. He is currently Director of the Institute for Private Enterprise in Melbourne, and before that was Senior Fellow, Economic Policy at the Institute of Public Affairs. Mr Moore is also a Council Member of the Australian Strategic Policy Institute.

Regulatory environment

The Board applied for its Australian Financial Services Licence under the Corporations Act in late 2003 and commenced operating under its terms on 20 January 2004. The Board is licensed to provide general advice on the Scheme and its benefits/features to members. The majority of its face-to-face dealing with members is undertaken by the Board's administrator, ComSuper. The licensing process and implementation have been a valuable opportunity to review and revise process and procedures, including compliance, disclosure documents and reporting.

The CSS Board must be licensed by APRA by 1 July 2006 and the CSS must be registered with APRA also from 1 July 2006.

Work is already underway (by the Board's compliance team) to identify the requirements and commence the preparation of the appropriate documentation. We expect to lodge our APRA licence application in the second half of 2005.

Costs

The Board's operating costs have increased in the past year. Additional staff have been required to meet demands placed on the Board, particularly in relation to compliance, where the regulatory requirements are increasing dramatically. This trend will not change in the foreseeable future.

Attempted fraud on custodian

JPMorgan, the custodian of the CSS fund, was subjected to an attempted fraud late in 2003. The attempted fraud was detected quickly. The CSS Board does not foresee any impact on the return to members, nor a single dollar of members' benefits being lost.

The attempted fraud is still the subject of a criminal investigation by the AFP. Investigations and inquiries overseas are also continuing. The Board's focus now is on supporting the AFP in its investigations, and ensuring all security systems involving the investment of the CSS Fund are reviewed and strengthened where necessary. This includes a review of transactions involving the CSS Fund and internal procedures to instruct the custodian.

At the time it occurred, this matter was disclosed fully to our governing and regulatory bodies including the Minister for Finance and Administration, the Auditor-General, the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission.

Family Law

New Family Law rules came into force from December 2002 whereby superannuation can be split between spouses upon a marriage breakdown. The CSS legislation required specific changes and factors to calculate defined benefits for members and 'non-member spouses' at the various stages of accumulation, preservation or pension payments.

Our administrator, ComSuper, carries out all Family Law administration. There has been a significant increase in the workload to perform these functions, including providing information to the two parties prior to the split, calculating the benefit payments and establishing separate accounts for the member and non-member spouse after the split.

Investment governance

The CSS Board takes the view that, if environmental, corporate and social policies are judged to be having, or are likely to have adverse effects on investment performance, it should use its proxy voting rights to protect the interest of members. To this end, the Board employs BT Financial Group who is responsible for managing the Board's Governance Advisory Service which: actively researches and monitors potential environmental, social and corporate governance risks in the Fund's Australian companies which represent around \$3.4 billion (in combination with the Public Sector Superannuation Scheme); makes recommendations to the Board on constructive means of diminishing or eliminating such risks; and, on behalf of the Board, actively engages with companies and industry groups to improve governance practices.

During the year, the Board called on Australian companies to improve:

- governance and reporting of executive remuneration arrangements; and
- governance and reporting of energy use, including greenhouse gas emissions.

The Board welcomed a third new partner to the Governance Advisory Service: VicSuper joined Catholic Super Fund and Northern Territory Government Super.

In October 2003, the CSS and its governance partner BT Financial Group were jointly awarded the United Nations Royal Award for Responsible Investment—an inaugural citation developed by The United Nations Environment Programme Finance Initiative.

Following the positive results achieved so far the Board will continue to engage with companies and increase market and public awareness of governance issues to raise standards and create sustainable investment value for members. Issues currently being researched include:

- further work on executive remuneration;
- energy use in a number of industry sectors; and
- workplace health and safety in the construction sector.

Custodian arrangements

The Board completed a review of its custodian arrangements in 2003–04 and decided to retain Chase Manhattan Bank (trading as JPMorgan) as the Fund's master custodian. Its custodial function in relation to investment management includes settlement of trades, physical custody and safekeeping of securities, collection of dividends, and account preparation.

Committee initiatives

The Audit and Risk Management Committee continues to work with the Board's internal and external auditors to advise the Board on accountability, audit and overall tax policy, risk management and related matters.

During 2003–04 the Board decided to abolish all other Board Committees. Functions previously dealt with by these committees are now being dealt with by the full Board.

Administration service provision

The Board works closely with its administrator, Commonwealth Superannuation Administration (ComSuper) to improve customer services overall.

ComSuper also participates in an international benchmarking service which allows the Board to compare its services to those of peers both in Australia and overseas. The Board strongly supports ComSuper's participation in this benchmarking service.

Financial Management and Accountability Act

Since 1 July 2002, the CSS Board has been subject to the Financial Management and Accountability Act. This has enabled the Board to establish its own banking arrangements, separate from those of the Fund. Financial Statements for the Board are included in this Report.

Superannuation Industry (Supervision) Act 1993 compliance

The CSS is a complying fund under *Superannuation Industry (Supervision) Act 1993* (SIS) legislation and so continues to be eligible to have tax payable on net income of the Fund assessed at the concessional rate of 15%.

Future directions

In August 2004, the Board made a change to the way earnings are allocated to facilitate the introduction of a cash investment option for members in December 2004. This is the first step in a transition phase to introducing a suitable range of investment choices for members, and to ensure the CSS is in line with industry standards.

Over the next 12 months, a key focus for the Board will be compliance with the new regulatory environment to ensure the best possible outcome for our members.

Our efforts will also be directed to continuing to provide competitive investment returns while staying within the risk and volatility constraints that the Board sees as appropriate. We will also continue our proactive risk management programs such as the Governance Advisory Service, proxy voting and the ongoing review of Fund investments and the administration of the CSS.

We will also continue to work closely with members and other key stakeholders to ensure we meet their information and education needs.

A handwritten signature in blue ink, appearing to read "S.P. Gibbs".

Steve Gibbs
Chief Executive Officer
CSS Board

The CSS Board

CSS Board membership
Mission and operating principles
Board and Board Committee meetings

The CSS Board is a body corporate, by virtue of Section 27B of the *Superannuation Act 1976* (the CSS Act). The Board administers the Commonwealth Superannuation Scheme (CSS) in accordance with the provisions of the CSS Act and is responsible for the management and investment of the CSS Fund.

The Board has delegated the bulk of its general administration powers and responsibilities to Commonwealth Superannuation Administration (ComSuper).

CSS Board membership

The Board consists of seven members appointed by the Minister for Finance and Administration under Section 27F of the CSS Act. Membership comprises all five of the members of the PSS Board and two additional members. Of the two additional members one is required to be a person with experience in, and knowledge of, the administration of one or more bodies or authorities established for a public purpose by or under a law or laws of the Australian Government, while the other is nominated by the ACTU.

The Chairman and the ACTU nominees are appointed for periods not exceeding three years (but are eligible for reappointment) and the other members hold office for such period as the Minister determines. Members holding office at 30 June 2003 or who have been subsequently appointed are:



Ms Susan Doyle—appointed Chairman on 28 July 03 to 27 July 06

On 28 July 2003, Ms Susan Doyle was appointed Chairman of the CSS Board until 27 July 2006. Ms Doyle has many years experience in the area of superannuation and investments. She worked for Commonwealth Funds Management for 20 years and was, more recently, Manager Equities and Fixed Interest Suncorp Insurance and Finance and Chief General Manager NRMA Asset Management Pty Ltd. She is currently a Director of SA Water Corporation and Chairman of its Audit Committee. She is also Chairman of the PSS Board.



Mr Peter Reynolds—appointed Chairperson on 28 July 99 to 27 July 03 (retired)

Mr Reynolds was Chairperson of both the CSS and PSS Boards during the year and also Chairperson of the Boards' Investment Committee (which ceased to exist in March 2004). He was replaced by Ms Susan Doyle on 28 July 2003. Mr Reynolds is a Director of State Super Financial Services Ltd and Chairman of the Local Government Financial Services Pty Ltd. He was Chairman of the NSW State Authorities Superannuation Board and has wide experience in business and financial management through various positions in the public and private sectors.



Ms Winsome Hall—appointed 1 July 96, reappointed to 30 June 05

Ms Hall is a member of both the CSS and PSS Boards, and is also Chairperson of the Board's Audit and Risk Management Committee. Ms Hall is a Director of Colonial First State Private Equity Limited, a listed venture capital investment company. Ms Hall has had extensive experience in superannuation policy as a Senior Advisor in the Department of the Prime Minister and Cabinet. She is also a member of the CPSU. The Minister has appointed Mr David Irons of the Communications Workers Union, Melbourne, to act in this position during a time of vacancy in the office of Ms Hall.



Mr David Connolly AM—appointed 19 September 02 to 18 September 05

Mr Connolly is a member of the CSS and PSS Boards and a member of the Board's Audit and Risk Management Committee. Mr Connolly is a Director of Superannuation Strategy with Rice Walker Actuaries and serves as a part-time member of the Refugee Review Tribunal. He was a career diplomat for a number of years and held the post of Australia's High Commissioner to South Africa. Elected to the Australian Parliament (1974–1996), he served as Chair of the Public Accounts Committee and held various shadow portfolios, including superannuation and retirement incomes. The Minister has appointed Ms Sandra Wilson, Branch Manager, Superannuation Policy Branch, Department of Finance and Administration to act in this position during a time of vacancy in the office of Mr Connolly.



Ms Joy Palmer—appointed 1 July 96, reappointed to 30 June 05

Ms Palmer is a member of the CSS Board, and Chairperson of the CSS and PSS Board's Governance Committee (which ceased to exist in March 2004). Ms Palmer is the Deputy Chair of Statewide Superannuation Trust, Deputy Chair of Statewide Financial Management, a Director of the AGEST Superannuation Fund, and a member of the (SA) Public Transport Standards Committee. The Minister has appointed Mr Paul Smith, Bureau of Meteorology, Melbourne to act in this position during a time of vacancy in the office of Ms Palmer.



Ms Cathy Manolios—appointed 25 July 00 to 24 July 03 (retired)

Ms Manolios was a member of both the CSS and PSS Boards, and was Chairperson of the Administration Committee during 2002–03. (This Committee ceased to exist in February 2004.) Ms Manolios is General Counsel with Zurich Financial Services Australia Limited. She has extensive experience in the life insurance and superannuation industry. The Minister appointed Ms Sandra Wilson, Branch Manager, Superannuation Branch, Department of Finance and Administration to act in this position during a time of vacancy in the office of Ms Manolios.



Mr Des Moore—appointed 9 September 03 to 8 September 06.

Mr Moore is a member of both the CSS and PSS Boards. Mr Moore has had considerable experience and training in analysing economic issues. Mr Moore worked for 28 years in the Commonwealth Treasury, including five years as one of three Deputy Secretaries. During his time in the Treasury, Mr Moore headed most of the main policy areas before he left in 1987. He is currently Director of the Institute for Private Enterprise in Melbourne, and before that was Senior Fellow, Economic Policy at the Institute of Public Affairs. Mr Moore is also a Council Member of the Australian Strategic Policy Institute. The Minister has appointed Ms Sandra Wilson, Branch Manager, Superannuation Policy Branch, Department of Finance and Administration to act in this position during a time of vacancy in the office of Mr Moore.



Ms Sally O'Loughlin—appointed 1 July 01, reappointed to 30 June 05.

Ms O'Loughlin is a member of both the CSS and PSS Boards.

Ms O'Loughlin worked in the Australian Public Service in various agencies between 1971 and 1983. In 1983 she was elected Assistant Secretary, then Secretary of the WA Branch of the CPSU, and from 1991 until 2000 was Assistant National Secretary based in the Union's head office in Sydney, where she was spokesperson on public service superannuation. She was also an employer nominated Trustee of the CPSU Superannuation Fund. She is a Director of NRM Pty Ltd and a Director of the AGEST Superannuation Fund. The Minister has appointed Mr John Flitcroft (a member of the CPSU and a Board member from 1990 to 2001) to act in this position during a time of vacancy in the office of Ms O'Loughlin.



Mr Richard Balderstone—appointed 17 June 98 to 16 June 04 (retired)

Mr Balderstone was a member of the CSS Board and Chairperson of the CSS and PSS Boards' Communications Committee (which ceased to exist in March 2004). Mr Balderstone has had over 20 years' experience in stockbroking, investment banking and funds management. After 10 years with ABN AMRO (and BZW), in July 2000 Richard moved to Jardine Fleming Capital Partners where he was a Founding Director. He is also a Director of the Australian Railtrack Corporation. The Minister appointed Ms Karen Doran, Manager, Superannuation and Governance Division, Department of Finance and Administration to act in this position during the vacancy in the office of Mr Balderstone. (No permanent appointment has as yet been made in respect of this vacancy.)

Mission and operating principles

Charter 2003–04

The Board's charter is to:

- administer the *Superannuation Act 1976* (other than section 154 which relates to the reconsideration of decisions made when the Commissioner for Superannuation was responsible for the administration of the CSS); and
- manage and invest the CSS Fund so as to maximise the real return earned on investments, subject to a tolerable level of short-term volatility.

Operating principles

In the operation of the CSS, the aims of the trustees are to:

- identify and capture the best investment opportunities for increasing the real value of the Fund's assets, keeping in mind the need to protect their future integrity;
- ensure that all administrative transactions are carried out in accordance with relevant legislation;
- provide members with appropriate services so that their interaction with the CSS will be as satisfactory as the best of their experiences as a client elsewhere;
- continuously seek ways to improve the efficiency and effectiveness of the Board's activities and those of its delegates;
- ensure the assets of the Fund and the interests of its beneficiaries are properly safeguarded at all times;
- keep all relevant parties informed of the condition, conduct, benefits and services of the CSS, according to the interests of each party; and
- maintain proper records and accounts in respect of operational and financial activities.

Performance indicators

Indicators of performance, other than those relating to investment, are set down in the Service Level Agreement between the Board and ComSuper. Details of performance against the indicators can be found in the SLA tables on the following pages:

- page 36 The investment performance of the Fund relative to appropriate benchmarks
- page 44 Collection, recording and maintenance of member information
- page 45 Collection, banking, recording and maintenance of contribution remittances
- page 47 Employer support
- page 56 Member Contact Centre
- page 62 Benefit payments
- page 63 Invalidity claims
- page 65 Pension variations
- page 66 Pension increase advice
- page 66 Accounts records and funding of benefit payments
- page 70 Internal review
- page 71 External review
- page 73 Complaints and enquiries

In addition, the Board annually reviews the effectiveness of all aspects of its administrator's performance in a thorough evaluation.

Board Executive

The Executive Unit is responsible for providing advice to the Board, for implementing Board decisions and for the ongoing management of the Board's functions and responsibilities. Specifically, the Executive Unit is responsible for:

- developing and implementing corporate strategies and plans;
- managing the relationships between the Board and service providers;
- managing the Board's financial affairs in relation to the administration of the CSS;
- ensuring the Board's responsibilities to maintain appropriate records are met;
- playing an active role in the management of relationships with external investment advisers and providing input into the analysis behind recommended courses of action;
- coordinating advice from external advisers and overseeing the recommendations which go to the Board;

- ensuring compliance with SIS and Scheme rules and legislation;
- communicating with members and, in particular preparing and producing annual reports to members and Parliament, and member statements; and
- providing comprehensive administrative and executive support services to the Board.

Board and Board Committee meetings

The Board has constituted an Audit and Risk Management Committee and may from time to time constitute other Board committees.

The Audit and Risk Management Committee comprises Ms Winsome Hall, Chairperson; Ms Joy Palmer, Member; Mr David Connolly, Member; and Mr Richard Balderstone, Member (until his retirement on 16 June 2004).

In March 2004 the Board resolved that the Administration Committee, Governance Committee, Investment Committee and Communications Committee would cease to exist. This decision was made on the basis that the Board, meeting monthly, would manage directly the major issues previously considered by these committees.

There is also a Reconsideration Advisory Committee comprising an independent member and two senior ComSuper officers.

In September 2003 the Board resolved that the Committee comprise:

- either Ms Ann Forward or Mr Bill Gray as the independent Member; and
- any two of four nominated ComSuper representatives.

Table 1: Board and Board Committee meeting attendance 2003–04

| | Board | Invest | Admin | A&RM | Comms | Governance |
|---------------------|-------|--------|-------|------|-------|------------|
| Susan Doyle | 12/12 | 1/1 | 1/1 | 1/2 | 2/2 | 1/1 |
| David Connolly | 11/12 | 1/1 | 1/1 | 5/5 | NA | NA |
| Des Moore | 10/11 | 0/1 | NA | NA | NA | NA |
| Joy Palmer | 12/12 | 1/1 | 1/1 | 4/5 | NA | 1/2 |
| Winsome Hall | 12/12 | 1/1 | NA | 5/5 | 3/3 | 2/2 |
| Sally O'Loughlin | 11/12 | 1/1 | 1/1 | NA | 3/3 | NA |
| Richard Balderstone | 12/12 | 1/1 | NA | 5/5 | 3/3 | 2/2 |
| Peter Reynolds | 0/0 | NA | NA | NA | NA | NA |
| Cathy Manolios | 0/0 | NA | NA | NA | NA | NA |
| John Flitcroft | 1/1 | NA | NA | NA | NA | NA |
| Sandra Wilson | 2/2 | NA | NA | NA | NA | NA |

NA: Not applicable as this Board member is not a member of the Committee.

John Flitcroft and Sandra Wilson attended meetings in their capacity as acting members.

Overview

Description of the Scheme
Actuarial review

Overview

Description of the Scheme

The Commonwealth Superannuation Scheme (CSS) is a split-benefit superannuation scheme, with benefits generally being made up of two components:

1. **A member-financed component**
 - This benefit is based on the contributions paid by the member into the Fund plus accumulated interest. Interest is credited at rates determined by the Board, in line with earnings of the Fund; and
2. **An employer-financed component, which includes two parts**
 - The first part, which in most circumstances is paid as a non-commutable indexed pension out of Consolidated Revenue, is a defined amount. The amount payable depends on the reason for exit and has regard to several factors including final salary, age and length of contributory membership. It does not depend on the earning rate of the Fund.
 - The second part of the employer component is the superannuation productivity benefit, which comprises employer contributions and accumulated interest.

SIS compliance

The CSS is a complying fund under the *Superannuation Industry (Supervision) Act 1993* (SIS) and so continues to be eligible to have tax payable on net income of the Fund assessed at the concessional rate of 15%.

Actuarial review

The most recent actuarial review of the CSS scheme was completed by Mercers Human Resource Consulting Pty Ltd during 2002–03. The CSS results were included in the PSS and CSS Long Term Cost Report tabled in Parliament on 25 June 2003 (a copy of the actuarial review is available at www.finance.gov.au/super/pss_and_css_scheme_costs.html).

The results of the 2002 review and the previous two reviews are summarised over the page.

Table 2: Results of actuarial reviews

| CSS actuarial review as at: | 30 June 2002 | 30 June 1999 | 30 June 1996 |
|--------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Net assets | \$5.3b | \$5.6b | \$4.9b |
| Unfunded liability | \$49.3b | \$40.3b | \$37.4b |
| Notional Commonwealth employer contribution rate (including 3% productivity contribution) as a percentage of superannuation salaries | 28.3% | 21.9% | 21.9% |

The notional employer contribution rates are the employer contribution rates necessary to ensure that employer financed benefits payable from the CSS would remain fully funded in three years time, if they were fully funded at the time of actuarial review.

The Australian Government's outlay on the CSS in any year is equal to the total benefit paid to existing members in that year less the accumulated balance of member and productivity contributions of those members plus actual productivity superannuation contributions made by the Australian Government to the CSS Fund.

The 2002 review provided the following actuarial projection of the Australian Government's estimated costs for the CSS over the five years to 30 June 2007 (adjusted to 2002 dollars using a discount rate of 6%).

Table 3: Actuarial projections

| Year ending 30 June | Estimated Australian Government CSS costs \$m |
|----------------------------|------------------------------------------------------|
| 2005 | 2 356 |
| 2006 | 2 293 |
| 2007 | 2 121 |

Further projections of estimated costs are included in the Long Term Cost Report.

Administrative arrangements

Fund administrator
Human resources
Financial resources

Fund administrator

The Board has delegated the bulk of its general administrative powers and functions to the Commissioner for Superannuation and to his staff.

The Board's administrator's major areas of activity encompass the calculation and payment of benefits (including invalidity benefits), the maintenance of records of contributors and pensioners, the receipt of and accounting for contributions from employing agencies in respect of their employees, the reconsideration and review of decisions on entitlements and the provision of information to the membership.

Human resources

During 2003–04, the number of staff employed jointly by the CSS and PSS Boards increased from 18 to 21 as the Boards expanded their finance, compliance and communications teams.

Staff employed directly by the Boards are engaged on fixed term contracts.

Statistics on Board staff by gender and employment category are provided in Appendix K.

Professional development

Ongoing staff training and development is an important component of the Board's human resource management as well as a specific requirement for the Board in maintaining its Australian Financial Services (AFS) licence. During 2003–04, all Board staff had access to a range of continuing professional development activities including attendance at major industry conferences such as CMSF, ASFA and IFS Equities.

Occupational health and safety

Under the *Occupational Health and Safety (Commonwealth Employment) Act 1991* and the *Safety, Rehabilitation and Compensation Act 1988*, the CSS Board has a general duty of care which must be met by taking all reasonably practicable steps to protect the health and safety of its employees and third parties at work. Staff employed by the CSS Board are covered by Workers' Compensation which is managed by Comcare.

During the year:

- there were no dangerous occurrences under section 68 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*;
- there were no workplace inspections carried out by Comcare; and
- there were no remedial Provisional Improvement Notices issued.

Financial resources

Board administration costs

The CSS Board is responsible for the administration of the CSS and the management and investment of the CSS Fund. Costs of the CSS Board which are related to its responsibilities for the management of the CSS Fund and the investment of its monies are a charge against the Fund. Fees paid to the Chairman of the CSS Board and a proportion of those paid to Board members are also a charge against the Fund.

All other costs incurred by the CSS Board are met from revenues generated through user charging arrangements with employer agencies and the Department of Finance and Administration. Under current administrative arrangements, ComSuper has been commissioned to, on behalf of the Board, recover the Board's administration costs from employer agencies, together with their costs of administering the CSS. ComSuper then transfers to the Board the Board's share of those monies.

Funding arrangements

The CSS legislation only allows the Board to hold monies belonging to the CSS Fund. The legislation does not provide any capacity for the Board to hold monies in respect of its administration of the CSS.

In the absence of changes to the CSS legislation that would enable the Board to hold monies other than monies belonging to the CSS Fund, the Board obtained approval from the Minister for Finance and Administration to have the CSS Board prescribed as an agency under the *Financial Management and Accountability Act 1997* (FMA Act). Regulations to prescribe the CSS Board as an FMA agency were made in June 2002 and took effect from 1 July 2002.

As a result of obtaining 'FMA agency' status, the CSS Board is required to prepare two sets of financial statements—first, in respect of both the monies held in the CSS Fund (the Scheme financial statements) and secondly, the Board's administration monies (the Board financial statements).

Purchasing

In 2003–04, the CSS Board complied with the purchasing principles and policies outlined in the Board's Chief Executive Instructions. These instructions are consistent with the key principles set out in the Commonwealth Procurement Guidelines: value for money; open and effective competition, promoting national competition and developing industry; supporting other Commonwealth policies; ethics and fair dealing; and accountability and reporting.

Assets management

The Board's assets, not including the investments and other assets of the CSS Fund, were recorded and managed in accordance with the Board's Chief Executive Instructions.

Ecologically sustainable developments and environmental performance

In conducting its operations, the CSS Board makes every effort to minimise the environmental impact of its activities by ensuring that:

- all waste paper and cardboard are recycled;
- lighting and energy use are minimised;
- the Board's offices, where practicable, use recycled paper and other products in its activities.

Fraud control

The Board issued a revised Fraud Control and Fraud Risk Assessment Plan in September 2003. This plan, prepared in accordance with the Commonwealth Fraud Control Guidelines, forms an important part of the Board's governance of the CSS.

During the year, the Board had appropriate fraud prevention, detection, investigation and reporting procedures and processes in place and annual fraud data has been collected and reported in accordance with the Commonwealth Fraud Control Guidelines.

Governance

Board governance statement

Principal duties

Governance matters outside the Board's control

General governance principles

Board's own conduct

Financial controls

Appointment, supervision and evaluation of
service providers

Risk management

CSS investment governance

Board governance statement

The Board's Governance Statement is provided below:

'The CSS Board (hereafter referred to as 'the Board') is constituted under the Superannuation Act 1976 (the CSS Act) and the attendant regulations to the Act. Accountable to the members of the Scheme under the CSS Act, under the Superannuation Industry (Supervision Act) 1993 (the SIS Act), the Corporations Act and general law. The principal responsibility of the Board is to manage and invest the Fund to maximise the benefits to members.

Principal duties

The Board's principal duties are to:

- manage and invest the monies to meet the purposes of the Scheme;
- cause the payment of monies in and out of the Scheme to occur as prescribed;
- safeguard the assets of the Scheme and the interests of the beneficiaries;
- inform all relevant parties of the Scheme's condition and conduct; and
- cause proper records and accounts to be maintained about the operation and financial activities of the Scheme.

In undertaking these duties, the Board has wide discretions. This factor, together with the reliance the members have on the Board for the value and delivery of their retirement benefits, makes it essential that the Board, its officers, employees and delegates act at all times in a manner that is in keeping with the fiduciary duties owed to the members.

The following statement sets out the principles that the Board, its officers, employees and delegates are intended to uphold as they each carry out their duties. In some instances specific conduct is stipulated, reflecting the particular importance of the action for the Board's proper governance.

The Board does not intend this statement to be read as a set of rules, where each word is scrutinised for its legal meaning. It intends to convey in plain words the obligations placed on, and the behaviour expected of, both trustees as individuals and those other persons covered by this Statement.

The Board will review this statement annually, and update or expand it as appropriate to ensure it remains effective and current.

Governance matters outside the Board's control

The Board does not control its own composition or its own remuneration. The power to appoint Board members is vested in the Minister for Finance and Administration under the CSS Act, subject to consultations specified in the CSS Act.

The Remuneration Tribunal sets the remuneration of Board members, including their remuneration for committee representation and expense reimbursement.

General governance principles

The Board's own behaviours reflect its overriding general governance principles, and, where appropriate, mirror the behaviour that the Board expects from companies in which the Board invests.

The Board's duties shall be carried out in good faith, prudently, and in accord with the relevant legislation so that the best interests of the members are served.

The Board will at all times act ethically and impartially. No person covered by this Statement may place their own interests above that of the members in respect of the fiduciary duties owed to the members.

The Board's responsibilities for the Fund and the Scheme are supported by business planning, business risk assessment, management reporting and arrangements for audit, internal control and compliance, all conducted on a regular basis. The Board's appointments and delegations are in writing and the Board regularly reviews its own activities and the activities of the persons through whom it works, to ensure that a clear and proper set of accountabilities remains in effect.

The Board will undertake an annual review of its performance.

Board's own conduct

Continuing qualifications and disclosure of interests

Board members will lodge annually a Disclosure of Interests Statement and a Declaration of Related Party Transactions.

Board members will advise no later than the start of the next Board or committee meeting:

- if any event has changed their continuing compliance with the trustee qualification requirements set out in the *Superannuation Industry (Supervision) Act 1993*; or
- if any agenda item requires a disclosure of interest; or
- if any change in their business relationships has occurred that might have a connection with the Board's duties or activities.

Where a Board member has a conflict of interest in respect of any matter, that member will not engage in discussion on the matter unless the Board agrees otherwise. A Board member with a conflict of interest will not participate in any decision on that matter.

Confidentiality

Board members will keep confidential all information or material provided or made available to them, dealing with or related to their functions as Board members, except where such information or material is publicly available or is required by law to be disclosed.

Board members will continue to be bound by this obligation of confidentiality after they cease to be Board members.

In this context, 'Board members' include persons appointed to the Board, staff employed by the Board, service providers to the Board and any person to whom Board papers, documents or information is made available.

Communications, contracts or arrangements between the Board and service providers will generally be entered into on a 'commercial-in-confidence' basis.

Legal professional privilege

The general policy of the Board is that legal advice provided to the Board for the performance of its functions and duties will not be made available or disclosed.

Securities dealing

The Board is mindful of its obligations under the law to not misuse non-public information of which it becomes aware in the course of carrying out its duties. Board members will maintain appropriate records of their dealings in securities and will provide a copy of these records to the Board Secretary if requested by the Board.

This requirement applies to the Board's staff and any other persons connected with the Board who have access to the investment information of the Board.

Gifts and entertainment

Board members should decline or disclose instances of repeated or significant entertainment or gifts from any service provider. Board member contact with current and potential service providers is recognised as useful to enhance the knowledge and understanding of the Board. It is recognised that service providers to the Board provide modest entertainment and small gifts from time to time. Board members will maintain a record of instances of any entertainment or gift provided by any service provider, which may be made available if requested by the Board.

Insurance

The Board will maintain insurance in respect of its own actions and in respect of past Board members in order to protect the interests of Scheme members.

Board committees

The Board has constituted an Audit and Risk Management Committee and may from time to time constitute other Board committees to increase its own efficiency and to provide a means of more detailed consideration of matters important to the running of the Scheme. The governance structures and processes of Board committees include formal risk management and reporting arrangements that reinforce the commitment of the Board to scrutinise its own processes to ensure transparency in identification of conflicts and separation of functions.

Each committee will review its performance annually and the Chair of each Committee will report to the Board following each review.

Meetings and agenda

The Board meets as required to discharge its duties, and reviews regularly the nature and extent of the reports and papers submitted to it. Staff and advisors provide briefings to the Board, and major service providers make presentations to the Board from time to time.

The Board's agenda is settled by the Chairman in consultation with the CEO. Any Board member has the opportunity and right to have items placed on the agenda for consideration.

Professional development

Board members and staff engage in continuing professional development activities relevant to the operation of the Board as a whole and their individual Board member or staff duties. The Board provides organisational and financial support for such professional development activities.

Professional development activities may include local and international conferences, seminars and workshops, training courses and study tours on specific matters relevant to the Board's functions.

Board members and staff who undertake professional development activities are expected, where appropriate, to provide reports to the Board and to distribute relevant papers to other Board members and staff.

The Board also encourages its members to be active in relevant professional bodies such as the Australian Institute of Superannuation Trustees and the Australian Institute of Company Directors and will meet the costs of such memberships.

Financial controls

Financial budgeting

The Board prepares an annual financial budget in respect of the whole of its and the Scheme's activities each year. Financial results are reported regularly to the Board against this budget.

Appointment of auditor

The Board is required by legislation to use the Auditor-General as its auditor. The Auditor-General's Office, in turn, contracts an external, independent party to conduct the audit.

The Board provides a written brief to the auditor in respect of the annual audits and ensures that all advice from the Auditor is given due consideration, which is documented through committee or Board minutes. The process meets the requirements of all relevant legislation.

Financial management framework

From 1 July 2002, in respect of its administration activities, the Board is accountable to Parliament and must comply with the provisions of the *Financial Management and Accountability Act 1997* (FMA Act). Accordingly, the FMA Act requires the Board to prepare annual audited financial statements in respect of its administration activities.

The Chairman of the Board has issued policies, known as Chief Executive Instructions, regarding the Board's financial management. These instructions, which are mandatory for the Board and its staff, are also supported by financial delegations and detailed accounting procedures.

Appointment, supervision and evaluation of service providers

Adequacy of resources

The Board regularly considers the resources required for the effective and proper running of the Scheme and acts to ensure that its available resources align with those requirements. Outsourcing arrangements are designed to ensure that external service providers operate in accordance with all relevant legislation and the Board's governance standards and that the critical powers and functions of the Board remain under the Board's control.

Written appointments

All appointments, delegations and arrangements with service providers are recorded in writing and with adequate and proper description of the terms of the appointment. Where required by law or appropriate to the circumstances, such appointments take the form of formal contracts. Selection processes are required for all outsourced services that are not legislatively mandated and involve, as appropriate, public or select tenders, reviews of providers and direct appointment.

The Board encourages its staff, delegates and service providers to advise the Board of any lack of clarity in the terms of their delegated authority or accountability, or of any impediment in their ability to carry out their duties to the standards expected by the Board.

Periodic reporting and reviews

The Board ensures that it receives adequate, reliable and relevant reports on the activities of all those appointed by it. Contracts and agreements with the Board include requirements to disclose all relevant information to the Board and to report regularly on performance, including on breaches of, or non-compliance, with any standard. The Board is concerned to use resources of appropriate quality and capacity to its needs, at a reasonable cost. For this reason, all appointments are periodically reviewed, and where the Board concludes that it is appropriate, such reviews will include market testing.

Working relationships between the Board, the internal investment team and external advisors

In carrying out its duty to manage and invest the monies to meet the purposes of the Scheme, the Board has both an internal investment team and a number of external advisors at its disposal. The internal investment team is the Board's primary investment advisor. The investment team is assisted in this task by several external advisors who provide advice for the Board's consideration on strategic asset allocation and investment policy, risk monitoring, investment research and performance reporting and investment manager selection and monitoring across all asset classes including alternative investments.

Under this arrangement, the internal investment team plays an active role in managing the Scheme's investments. It coordinates advice from external advisors according to an annual work plan—presented to the Board—that includes all the investment related work that is envisaged for the year ahead, and undertakes independent analysis of recommendations brought to the Board by those advisors.

Where the external advisors and the internal investment team have differing views on any investment issue, these differences will be made transparent to the Board in any papers and/or discussion. There will always be a recommended course of action from the internal investment team. This process ensures that the Board makes informed investment decisions.

Risk management

Business risk

The Board regularly reviews its business risks and its protection against the risks identified. Consideration of these reviews is documented through committee or Board minutes.

Compliance program

The Board has a systematic compliance program carried out under the direction of the Audit and Risk Management Committee, with a report provided to the Board annually. Breaches of compliance are reported to the Board as these occur but following consideration by the Audit Committee or, if appropriate, another committee.

It is the Board's policy to encourage any person connected with the Board, who may know or suspect a breach of compliance, to report this to the Chief Executive Officer, the Chair of the Audit Committee or the Chair of the Board.

Fraud control

The Board has in place detailed fraud control plans that set out the Board's policies and strategies for the control, prevention and detection of fraud as well as control over the mismanagement or abuse of resources. The Board is required to ensure, and then certify in its annual reports to the Minister: that fraud risk assessments and fraud control plans have been prepared in accordance with the Commonwealth Fraud Control Guidelines; that appropriate fraud prevention, detection, investigation and reporting procedures and processes are in place; and that annual fraud data has been collected and reported that complies with the Commonwealth Fraud Control guidelines.'

Internal audit and internal controls

The Board has completed a detailed analysis of compliance and risks. The Board has engaged an Audit Advisor as an additional control mechanism to advise on financial, systems and related matters.)

CSS investment governance

Table 4: 2003–04 investment governance milestones

| Oct 2003 | May 2004 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| CSS calls on Australian companies to ensure that executive remuneration packages align with shareholder interests | VicSuper joins Governance Advisory Service |
| The PSS and CSS Boards and the BT Financial Group are jointly awarded a Royal Award for Responsible Investment by the United Nations Environment Program Finance Initiatives (UNEP-FI) Unit | |

The Board's approach to investment governance

The CSS Board's investment governance focuses on managing risk and is driven by the Board's primary investment objective to maximise long-term real returns whilst minimising short-term risks in order to safeguard the long-term interests of members.

The Board believes it has a responsibility to ensure the Fund is not exposed to undue risk because of poor governance behaviour and as such it actively pursues the principles of good governance in its own operations, service providers and the companies in which it invests.

Investment governance is considered to be the next frontier in risk management. It recognises that poor environmental, corporate and social practices can lead to a decline in investment values as much as financial risks can.

CSS investment governance is undertaken through a number of programs including:

Governance Advisory Service

The objective of the CSS Governance Advisory Service is: to protect and enhance shareholder value for members through identification of environmental, social and corporate governance risks of present and future investments; and to actively communicate those risks to relevant stakeholders.

In December 2001, the CSS Board appointed Westpac Investment Management (now called BT Financial Group ('BT')) to actively research governance risk in the Fund's Australian equities investments and make recommendations to the Board on constructive means of diminishing or eliminating such risks. BT actively researches and monitors potential environmental, social and corporate governance risks in our Australian company investments which represent around \$3.4 billion, in combination with the Public Sector Superannuation Scheme (PSS). This initiative is a first for Australia and has raised the bar for standards across the corporate sector.

Proxy voting

The Board values good governance in its own operations, service providers and the companies in which it invests.

In keeping with this principle, the CSS Board decided to exercise its right to cast proxy votes in the companies in which it invests. This more active role for the Board underscores its commitment to ensure long-term shareholder value for members and sends a clear signal to company management groups that the Board, as a shareholder, will vote on every resolution in the best interests of its members.

The CSS is one of the first Australian super funds to take this proactive step which commenced in Australia in November 2002, and was extended in March 2003 with the appointment of an international proxy voting service.

Fund investment

Investment management
Events during the year
Fund performance
Performance by asset class
Crediting rate, exit rate and reserving policy

Investment management

Investment structure

The Board has adopted a modular approach to funds management, dividing the portfolio up into asset classes and appointing professional fund managers to invest those assets. In most cases the funds allocated to an asset class have been split further and divided between a number of specialist managers.

Investment arrangements

The internal Investment Team is responsible for providing investment advice to the Board, implementing Board investment decisions, and monitoring, reviewing and reporting on investment performance to the Board.

The Board also uses JANA Investment Advisers Pty Ltd as its principal external investment advisor and retains a senior investment person from Towers Perrin Australia Pty Ltd to provide investment advice. Wilshire Australia Pty Ltd continues to provide advice on Australian private equity.

Custodian services

The Fund's master custodian is JPMorgan. Its custodial function in relation to investment management includes settlement of trades, physical custody and safekeeping of securities, collection of dividends, and account preparation. JPMorgan receives all monies available for investment from ComSuper, and allocates them on the instruction of the Investment Team, to investment managers in accordance with the mandates set down by the Board. JPMorgan also holds (but does not own) the assets which comprise the Fund; collects and disburses dividends; maintains consolidated accounts and tax records for the Fund; and reports to the Board on individual fund manager and aggregated investment returns.

Investment managers

All investment managers are paid a fee which is generally based on the value of assets under their control. The fee reflects the investment costs applicable to each particular sector, and the investment style (i.e. index tracking or active) employed by each manager.

Table 5: The Board's investment managers at 30 June 2004

| Sector Type | Investment Manager |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Australian Shares | |
| Index | Colonial First State Investments Limited |
| Active | Balanced Equity Management Pty Ltd Barclays Global Investors Australia Limited Concord Capital Limited GMO Australia Limited Investors Mutual Limited JB Were Asset Management Limited 452 Capital Pty Limited |
| Alternative | Various* |
| International Shares | |
| Index | Vanguard Investments Australia Ltd |
| Active | AXA Rosenberg Investment Management Asia Pacific Limited BIAM Australia Pty Ltd Marathon Asset Management Australia Limited Marvin & Palmer Associates, Inc Rexiter Capital Management Limited Wellington International Management Company Pte Limited |
| Alternative | Various * |
| Currency Overlay | State Street Global Advisors Limited |
| Australian Bonds | |
| Index | Colonial First State Investments Limited Other* |
| International Bonds | |
| Active | BlackRock Financial Management, Inc Bridgewater Associates, Inc Delaware International Advisors Ltd Other* |
| Market Neutral Funds | |
| Active | Financial Risk Management Limited Harris Alternatives LLC Mesirow Advanced Strategies Inc |
| Currency Overlay | State Street Global Advisors Limited |
| Property | |
| Active | Colonial First State Property Limited |
| Cash | |
| Index | Colonial First State Investments Limited |
| Active | Colonial First State investments Limited. Macquarie Investment Management Limited Other* |

* Managers with less than 1% each of the Funds assets are not listed.

Investment objectives

With the accumulation part of members' total benefits tied to the investment performance of the Fund, achieving a good return over the long term is clearly of vital importance. This is explicitly recognised in the objective that the Board has set for the Fund, which is: to maximise the long-term real return of the Fund within acceptable risk parameters.

Members' interests are best served by seeking to maximise real returns over the long term. However, managing shorter term volatility (that is, reducing the variation in annual crediting rates) is also important, particularly for members exiting from the CSS.

The investment objectives of the Fund specify the target, or acceptable, levels of portfolio risk and return. The Board expects to achieve an average real return of 4.5% per annum after tax and fees, which derives from a nominal return of 7.0% per annum over the longer term.

Strategic review

During the year, the Board conducted an interim review of its investment strategy. Major reviews generally are conducted once every three years (the last being in 2001–02). In intervening years an interim review is undertaken.

The interim review this year endorsed the appropriateness of the Board's investment objectives for the Fund, but some fine-tuning was made to the investment strategy to meet those objectives.

In developing an investment strategy to achieve the real return objective of 4.5% per annum on average, and recognising that the average person might have a working life of around 30 years, the Board has adopted the following constraint in order to manage the level of any short-term market volatility:

- On average, nominal fund returns are expected to be positive 24 years out of 30.

This criterion defines the 'tolerable' level of volatility specified in the Fund's objective.

Furthermore, for prudential reasons, not more than 25% of the Fund's investments are to be invested in illiquid assets, with a minimum cash allocation of 2%.

Strategic asset allocation

As a result of the interim review, one change was made to the strategic asset allocation adopted at the end of June 2002 and two further 'in principle' changes were flagged. The change made was to move to a fully exchange rate hedged benchmark for international equities. Previously the Fund had a 40% hedged/60% unhedged benchmark.

In addition, two further 'in principle' changes were made. These were as follows:

- First, it was decided to increase the Fund's allocation to market neutral investment strategies from its previous 5% weight to 10%. This move was, however, subject to the identification of appropriate managers and will be funded from the Fund's bond allocation.

- Secondly, it was decided to invest 5% of the Fund in long/short equity funds. These are equity funds that as well as buying stocks that are expected to rise in value, also sell equities that they do not own and whose prices are expected to fall. This move was subject to the identification of appropriate managers and will be funded from the Fund's equity allocation.

The following table sets out the strategic asset allocation, which has applied since July 2002 and which will apply going forward until the two 'in principle' changes mentioned above are implemented, together with the strategic asset allocation that will apply after they are implemented.

Table 6: Strategic asset allocation

| Asset class | Interim SAA | 'In principle' SAA |
|----------------------|-------------|--------------------|
| Australian Shares | 30% | 30% |
| International Shares | 25% | 20% |
| Long/short Shares | 0% | 5% |
| Australian Bonds* | 13% | 11% |
| International Bonds* | 15% | 12% |
| Market Neutral Funds | 5% | 10% |
| Property | 10% | 10% |
| Cash | 2% | 2% |

* Includes Government and corporate bonds

Events during the year

Apart from the interim strategic review and the changed investment arrangements described above, a number of other changes were made during the year.

Alternative Assets

While the Board made no new commitments to new alternative assets during 2003–04, some of the funds previously committed to Australian private equity, Australian infrastructure, overseas private equity and overseas property were drawn down during the year and some investments were realised and the proceeds returned to the Fund. The net result of these flows was that the Fund's investments in these assets was broadly unchanged through the year, finishing at (\$321m) at year-end.

Market Neutral Funds

During the year the Board further raised its investments (to approximately 5% of the Fund) in market neutral (or hedge) funds. The existing two hedge fund of funds vehicles were provided with more funds and a third hedge fund of funds manager was appointed. The Board continued to focus on investments at the more market neutral, lower risk end, rather than the higher risk end. As noted earlier the Board has decided to further increase its allocation to market neutral strategies to 10% of the Fund once suitable managers are identified.

The Board also decided to no longer classify market neutral funds as 'alternative' investments but instead to treat them as a separate stand alone asset class.

International Bonds

The Board completed a review of international bonds in 2003–04 and decided to appoint three new active investment managers (see table 5). Previously, apart from a small exposure to international high yield debt, the Fund's exposure in this asset class was managed passively.

Midway through the year the Board decided to temporarily move 5% of the Fund's total assets out of international bonds and into cash because of concerns with the valuation of the market. The Board also decided to move to a benchmark that excluded Japanese bonds during the year. This reflected particular concerns with the low yields on offer in Japan.

The Fund's high yield debt exposure was eliminated late in 2003–04.

Australian Bonds

Midway through the year the Board decided to temporarily move 5% of the Fund's total assets out of Australian bonds and into cash because of concerns with the valuation of the market.

Cash

When the Fund's cash holdings were increased by 10% of the Fund's total assets as a result of the move out of bonds described above the Board decided to place 5% of the Fund's assets with two active cash managers (see table 5). Previously the Fund's cash had been invested passively.

Fund performance

The past financial year was the best for the Fund in four years and the Fund was able to post a net return of 13.9%. This return was driven by strong equity returns and by solid returns from property and hedge funds. Bond returns were subdued but the impact of this on the Fund was mitigated somewhat by some exposure to high yield debt, which performed well, and by a decision taken during the year to move 10% of the Fund out of bonds into cash. Furthermore the decision taken in the last financial year to effectively fully hedge the Fund's developed market international equity and bond exposure protected the Fund from the negative impact of the rise in the \$A on foreign asset returns.

The Fund's longer term investment performance remains solid. Over the last five years the Fund has returned an earning rate of 5.4% p.a., compared with the average inflation rate of 3.4% p.a. over this period.

Over 10 years the Fund has returned an earning rate of 7.6% p.a. compared with average inflation of 2.7% p.a.

Performance by asset class

Fund performance figures in the following paragraphs on asset classes are quoted before tax but after fees.

Australian Shares

The Australian share market was very strong throughout most of the year, increasing by 22%. This increase reflected the economy's sound performance which more than offset any dampening effect from some further rises in Australian short term interest rates. The strong performance from international equity markets also underpinned the domestic market.

The Fund's Australian equity investments did better than the market generally to return 23.8%. This better than market performance reflected some value added by the Fund's active Australian equity managers and better performance from the Fund's private equity investments.

International Shares

The 2003–04 financial year was a very good one for international equity markets, which were buoyant throughout most of the year, pausing only temporarily in March and April when some uncertainties arose associated with the prospects of some rise in US short term interest rates. In hedged Australian dollar terms international equities rose by 24%.

For \$A based investors, the recovery in world equity markets was partly offset by the negative impact on returns of the rise in the value of the \$A. The currency movement cost \$A investors about 5% for the year. The CSS was protected against this currency impact by being largely hedged against the rise in the \$A.

Australian Bonds

A pick-up in Australian economic growth together with some rises in short-term interest rates weighed on the Australian Bond market in 2003–04. The Fund's investments returned 2.6%, just above the market return of 2.3%. The Board decided to move 5% of the Fund from Australian bonds into cash during the year.

International Bonds

A recovery in the international economy combined with some movement of capital back into international equities and, later in the year more immediate prospects of a rise in short-term US interest rates, saw international bond markets post only modest returns this year. The Fund's investments did better than markets generally, helped by the Fund's exposure to high yield bonds, which outperformed over the year. The Fund's investments returned 5.2% compared to the market's return of 3.3%. The Board also decided to protect Fund returns by moving 5% out of international bonds into cash and by eliminating very low yielding Japanese bonds from the Fund's benchmark.

Market Neutral Funds

The Fund increased its exposure to 5% of its assets to this asset class in the December quarter of 2003. For the year as a whole these investments returned a healthy 10.9%.

Property

The Australian property market, as measured by the Mercer Australian Unlisted Property Index, returned a solid 12.3% in 2003–04. The Fund's property investments did not do as well as this, returning 10.6%.

Table 7: CSS Fund investments 2003–04

| INVESTMENTS | Holdings at 30 June 03 | Holdings at 30 June 04 | Proportion of Scheme |
|-------------------------------|---------------------------|---------------------------|-------------------------|
| Sector | \$m | \$m | % |
| Australian Shares | 1 486.2 | 1 744.8 | 30.7 |
| International Shares | 1 181.5 | 1427.3 | 25.3 |
| Australian Bonds* | 636.9 | 598.1 | 10.5 |
| International Bonds* | 736.0 | 400.6 | 7.1 |
| Market Neutral Funds | 90.9 | 292.6 | 5.2 |
| Property | 827.3 | 492.1 | 8.7 |
| Cash | 249.8 | 708.2 | 12.5 |
| Total Fund Investments | 5 208.6 | 5 663.7 | 100.0% |

Table 8: CSS Fund performance 2003–04

| INVESTMENT PERFORMANCE | One-year performance | | Three-year performance | | Five-year performance | |
|---------------------------|-------------------------|-------------|---------------------------|------------|--------------------------|------------|
| | Portfolio | B'mark* | Portfolio | B'mark* | Portfolio | B'mark* |
| | % | % | % | % | % | % |
| Australian Shares | 23.8 | 22.1 | 7.0 | 4.3 | 9.9 | 7.4 |
| International Shares | 22.6 | 20.2 | -0.3 | -5.6 | 1.7 | -2.3 |
| Australian Bonds* | 2.6 | 2.3 | 6.0 | 6.1 | 6.3 | 6.4 |
| International Bonds* | 5.2 | 3.3 | 5.4 | 4.0 | N/A | N/A |
| Market Neutral Funds | 10.9 | 8.6 | N/A | N/A | N/A | N/A |
| Property | 10.6 | 12.3 | 9.9 | 11.1 | 10.3 | 10.9 |
| Cash | 5.6 | 5.3 | 4.6 | 5.0 | 5.0 | 5.3 |
| Total Fund | 13.9 | 14.1 | 3.8 | 1.3 | 5.5 | 3.5 |

Notes:

* Includes Government and Corporate bonds

1. Individual asset classes are post fees and pre tax

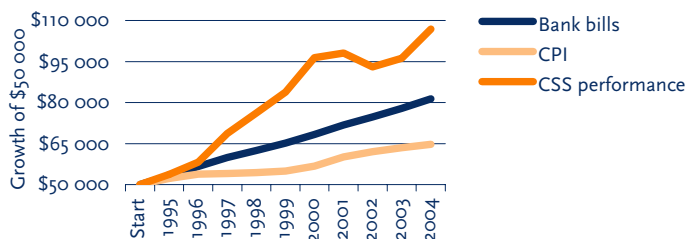
2. Total Fund is after tax and fees

3. All benchmark figures are before tax and fees

4. The benchmarks used for the asset classes were:

- Australian shares—S&P/ASX300 Accumulation Index excluding listed Property Trusts
- International shares—Morgan Stanley Capital International All Countries index (ex Australia) with net dividends reinvested, in Australian dollars (40% hedged)
- Australian Bonds—Warburg Composite Bond Index
- International Bonds—Lehman Global Aggregate Index fully hedged into Australian Dollars
- Property—Mercer Australian Unlisted Property Index
- Market Neutral (Hedge) Funds—Bank Bill Index + 3.2% per annum
- Cash—Warburg Bank Bill Index
- Total fund—composite of above weighted according to the Strategic Asset Allocation

Chart 1: Fund performance comparison over 10 years



Investment information

Information on investments can be found throughout this report. Further information can be obtained from:

Website: www.css.gov.au
Post: Executive Unit,
CSS Board,
GPO Box 1907,
Canberra City ACT 2601
Telephone: (02) 6263 6999
Fax: (02) 6263 6900
Email: secretary.cssps@csb.gov.au

Crediting rate, exit rate and reserving policy

In October 2003, the CSS Board amended its exit rate policy to allow for the declaration of at least a weekly exit rate to better reflect the current investment performance of the Fund than the previous monthly declarations. Exit rate history for the 2003–04 year can be found at www.css.gov.au

In August 2004, the Board made a change to the way earnings are allocated to facilitate the introduction of a cash investment option for members in December 2004, and provide a foundation for a fuller range of investment choices in the future.

The subsequent amendments to the exit rate and crediting rate policies, with effect from 13 August 2004, are as follows:

‘As part of a transition towards the introduction of Member Investment Choice within the CSS, the Board resolves:

1. Not to declare a crediting rate for all CSS members for 2003–04 and to declare its intention that crediting rates not be declared for future financial years.
2. To amend the exit rate policy for all CSS members as follows:
 - i. ‘The exit rate shall be the net investment earnings of the Fund from 1 July 2003, where net investment earnings are determined as

earnings after tax, fees and after replenishment of the negative reserve that existed at 30 June 2003.

- ii. This exit rate will fluctuate. Members are guaranteed never to exit the Fund with less than their account balance as at 30 June 2003 plus contributions since that date.
 - iii. Exit rates will be determined on a Tuesday, based on the estimated net investment earnings of the Fund as at the end of the previous Friday. They will be published on the next business day to apply to benefit payments from that day.
 - iv. A determined weekly rate will be varied where market movements have an estimated 0.5% or greater effect on the Fund's investment performance.'
3. That from 1 December 2004 (or other date as the Board may determine - referred to as the 'transfer date') members may choose to transfer their funded accumulated balance to a cash investment option which will guarantee that the transferred balance will never be reduced so long as they remain in the cash option.
 4. That all members who do not choose to transfer to the cash investment option would remain invested under the investment strategy as determined by the CSS Board. Future exit rates for members in this investment strategy will reflect the net investment return of this strategy from 1 July 2003. Members' balances will not be reduced below that as at 30 June 2003 plus contributions since that date.
 5. That the option for members to transfer to cash would be available on the transfer date and thereafter at such times and subject to such conditions as determined by the Board. If at any time the Fund has a negative reserve the option for members to transfer to a cash investment option would be suspended until the negative reserve was replenished. Members can transfer back from cash to the default strategy but restrictions on the frequency of switching will apply, and interest earned since 1 July 2003 again becomes at risk.
 6. To retain the right to change the timing of the exit rate determinations and/or the methodology used to calculate the rate as appropriate to the circumstances of the Fund at any particular time.

The Board further resolves to advise the Minister of these decisions and seek support from the Government for amendments to the relevant legislation to remove any impediments to the introduction of member investment choice into the CSS.'

Reserving mechanism

Up until 2003–04, the CSS Board's investment policy included a reserving mechanism, which gave effect to the legislative requirement that members never exit the Fund with less than what they have contributed, even when the investment performance has been below zero. Reserves were limited to no more than 5% of the Fund's assets and were used to smooth annual returns. If the value of reserves was not sufficient to offset completely any negative investment returns then, because the Boards cannot determine a negative interest rate for members, a negative reserve was created. This negative reserve was replenished out of future earnings.

With the changes to the Fund's crediting and exit rate policies, effective 13 August 2004, the Board has decided to limit the use of the reserving mechanism to those situations, should they occur, where members credited balances exceed the assets of the Fund. In such a situation, a negative reserve would again be created and would need to be replenished from future earnings.

Because the Fund is no longer determining annual crediting rates but is instead allocating members their share of the Fund's assets when they exit, the Fund may have a notional balance which represents unallocated earnings. This balance is invested in exactly the same way it would be if it were allocated to members, and members earn a return on this balance in exactly the same way they would if it were allocated to them.

Table 9: Reserve balance

| | Value |
|-----------------------------------------|--------------|
| Reserve opening balance at 30 June 2003 | (\$156.7m) |
| Unallocated earnings at 30 June 2004 | \$531.2m |

Account maintenance

Collection, recording and maintenance of member information

Collection, banking, recording and maintenance of contributions remittances

Surcharge

Family Law

The maintenance of CSS contributor accounts is a major function provided by the Board's administrator. Through the mechanism of service level agreements (SLAs) the Board set the standards of performance for ComSuper in its delivery of services to members for these areas of activity, and the Trustees also monitor the administrator's performance through regular reports on all main activities.

Collection, recording and maintenance of member information

Member information for most employers is reported electronically through interfaces with employer payroll systems or through direct electronic form submission for a number of smaller employers.

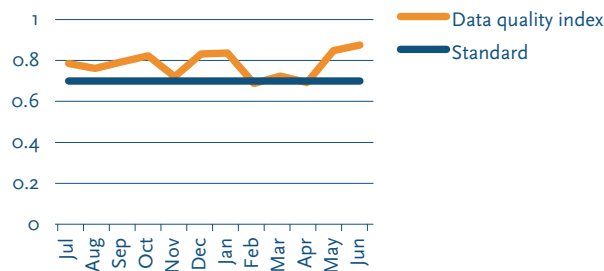
The Board requires its administrator to maintain records of scheme contributors, preserved benefit members and pensioners to facilitate, among other things, accurate and timely communications, accurate and timely payment of benefits, various reporting requirements, and reconciliation against Fund accounts.

In relation to this activity the following standards were applied:

SLA table 1: Collection, recording and maintenance of member information

| Standard | Outcomes |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| Auditors to provide a comprehensive report on the adequacy and suitability of the systems used to maintain contributor records, preserved benefit member records and pensioner records. | Standard met |
| Accuracy and timeliness as assessed by a data quality index (DQI) score of 0.7 or greater. | Standard met 10/12 months (see chart 2) |

Chart 2: Data quality index (DQI) 2003–04



Note: The data quality index is derived from measures of the number of entries reported that do not produce an error and the number of member transactions received and processed within the standard of ten days of the relevant payday.

The DQI index was not met on two occasions during the year. This was due to delays in data transmission because some employers encountered some teething problems with the newly installed file assurity (data encryption software). The situation has now stabilised.

Collection, banking, recording and maintenance of contributions remittances

The basic rate of member contribution to the CSS is 5% of salary for superannuation purposes, although members can elect to contribute at a higher rate. The employer benefit is, for the most part, unfunded except for the employer productivity superannuation contributions, which are paid into the Fund by the member's employer.

Total contributions to the Fund during 2003–04 were \$192 million, of which member contributions comprised \$144 million. Employer funded contributions amounted to \$48 million. The net appropriation for benefits for the year was \$2 402 million (\$2 876 million in gross benefits paid from Consolidated Revenue less \$474 million transferred from the Fund to Consolidated Revenue for the Fund's share of benefit costs).

Member and employer productivity contributions for CSS members are remitted fortnightly and paid by direct credit to the Board's bank account.

SLA table 2: Collection, banking, recording and maintenance of contribution remittances

| Standard | Outcomes |
|-------------------------------------------------------------------------------------------------------------------------------|--------------|
| Contribution remittances to be deposited into the Boards' bank accounts on the date of receipt. | Standard met |
| Daily reconciliations will be undertaken to ensure that all moneys received are banked. | Standard met |
| Posting of member contributions to ComSAS database to be completed within 10 days of receipt. | Standard met |
| Monitor timeliness of contribution receipts from major employers to ensure contribution remittances are received by due date. | Standard met |
| Unallocated money accounts: Entries—all accounts not to exceed 2,000; Balance—not to exceed \$2 million. | Standard met |

Table 10: Contributors and contributions for past five years

| year | Contributors at end of year | Member contributions \$m | Employer funded contributions \$m | Net contributions outflow \$m |
|---------|-----------------------------|--------------------------|-----------------------------------|-------------------------------|
| 1999-00 | 48 552 | 164 | 53 | (244) |
| 2000-01 | 43 551 | 162 | 53 | (278) |
| 2001-02 | 40 015 | 153 | 49 | (331) |
| 2002-03 | 37 316 | 149 | 49 | (293) |
| 2002-04 | 34 684 | 144 | 48 | (282) |

At 30 June 2004 the CSS had 34 684 contributing members. Table 12 shows the number of contributors by gender.

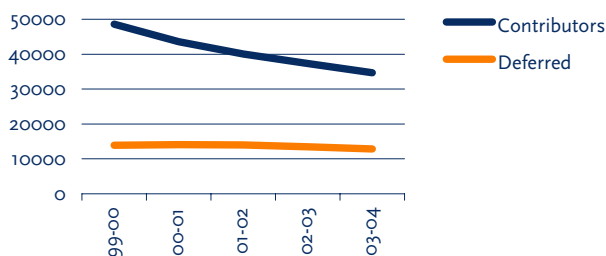
Table 11: Contributor membership 2000-04

| Year ending | Male | Female | Total |
|--------------|--------|--------|--------|
| 30 June 2000 | 33 524 | 15 028 | 48 552 |
| 30 June 2001 | 29 858 | 13 693 | 43 551 |
| 30 June 2002 | 27 287 | 12 728 | 40 015 |
| 30 June 2003 | 25 396 | 11 920 | 37 316 |
| 30 June 2004 | 23 536 | 11 148 | 34 684 |

Table 12: Deferred benefit membership 2000-04

| Year ending | Total |
|--------------|--------|
| 30 June 2000 | 13 879 |
| 30 June 2001 | 14 079 |
| 30 June 2002 | 13 956 |
| 30 June 2003 | 13 429 |
| 30 June 2004 | 12 826 |

Chart 3: Contributor and deferred membership five-year trend



Employer support

The Board requires its administrator to undertake a range of initiatives, including system improvements, training of personnel staff and information dissemination, to improve employers' understanding of the Schemes and their various responsibilities. The Board requires employers to submit accurate data to ComSuper on behalf of their employees. The effectiveness of these measures is gauged through surveys of employers and through ongoing monitoring of error volumes by ComSuper systems.

SLA table 3: Employer support

| Standard | Outcomes |
|-----------------------------------------------------------------------------------------|--------------|
| Annual employer surveys and internal surveys of accuracy of data submitted to ComSuper. | Standard met |

Surcharge

The *Surcharge Contributions Tax (Assessment and Collection) Act 1997*, more commonly referred to as 'the surcharge', requires superannuation providers to report surchargeable contributions for all CSS members to the Australian Taxation Office (ATO) on an annual basis. The intention of the legislation is to apply a tax on employer-financed contributions. It is specifically targeted at high-income earners and imposes a surcharge of up to 15% on a member's surchargeable contributions, provided the member's adjusted taxable income is greater than the surcharge threshold.

The CSS is classed as an unfunded defined benefit scheme for the purposes of the legislation. In order to have a basis on which to calculate surchargeable contributions, the services of the Australian Government Actuary were employed to develop Notional Surchargeable Contributions Factors.

On receipt of surchargeable contributions information, the ATO matches the data with taxable income. If the taxpayer's adjusted taxable income exceeds the threshold, the ATO determines the amount of surcharge debt applicable to the member and reports this to ComSuper and the member.

During the year 789 members used the BPay facility to pay their debts directly. This facility has proven popular with members.

Chart 4: Surcharge receiving

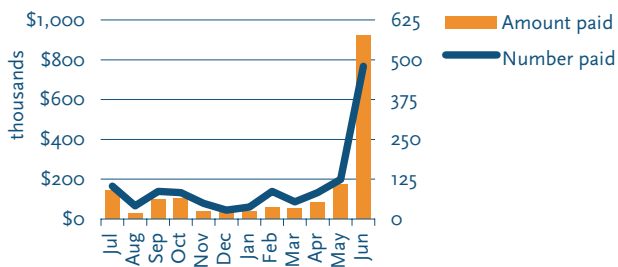


Chart 5: Surcharge cases processed

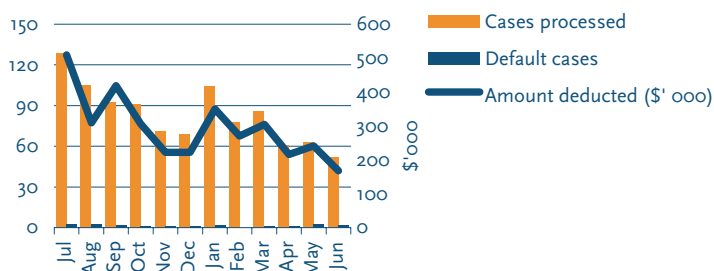


Table 13: Summary of surcharge activity undertaken by the Board during 2003–04

| | Number | \$ |
|-------------------------------------------------------------------------------------------|--------|-------------|
| Applied surcharge debts reported by the ATO to members' accounts | 8 521 | *10 274 362 |
| Received surcharge debt payments from members | 950 | 1 794 170 |
| Recovered debts from member benefits | 742 | 2 356 927 |
| Applied interest to members' surcharge debts that remained outstanding as at 30 June 2004 | | 2 853 093 |

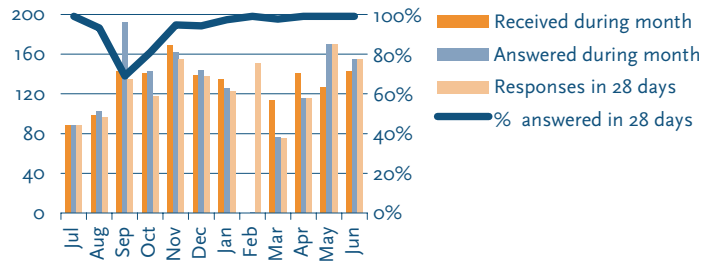
* In respect of 7 259 members.

Family Law

During the year, there were amendments to the CSS Scheme legislation which enable the creation of accounts for non-member spouses in Family Law splitting situations.

The new amendments have brought a steady increase in the number of members making use of the super-splitting arrangements and a subsequent increase in workload for the Legal Family Law section.

Chart 6: Family Law requests processed



Member communications

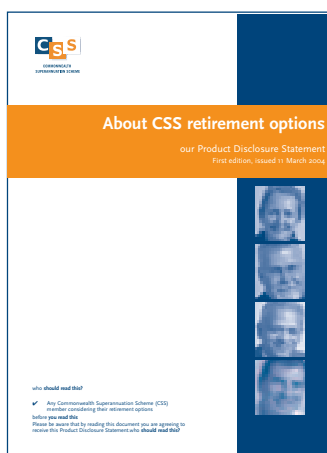
Overview
Annual Report Pack
Regulatory requirements
Performance indicators
Contact Centre
Internet services

Overview

Communications efforts during the 2003–04 year were focused on managing the introduction of new or changed legislation.

To ensure information for members was compliant with the Board's new Australian Financial Services Licence conditions (introduced in March 2004) and the revised *Spam Act 2004* (introduced in April 2004), a complete audit of existing information sources for members was undertaken and new communications vehicles, such as a Retirement Options Product Disclosure Statement and Financial Services Guides, were created. Communications with employers were also undertaken (December 2003) to ensure they understood the new requirements on information they provide to members on behalf of the Board.

Illustration 1: Product Disclosure Statement



The Board also prepared information to assist members to understand and make informed decisions about:

- changes to the Family Law Act;
- the Australian Government Super Co-contribution;
- the *Superannuation Legislation (Commonwealth Employment Repeal and Amendment) Act 2003*.

The Board continued to develop its information and education resources for members and other stakeholders in accordance with its 2002–04 Communications Plan, delivering the following initiatives:

- regular briefings for those stakeholders who are also seen, by members, as sources of information;

- a mini report online pilot, in response to member feedback asking for more frequent information and greater use of electronic methods of communications. The pilot encouraged members to assess how much income they might need in retirement, and allowed the Board to test the use of a predominately online communication method, supported by postcards and workplace posters.

Illustration 2: Mini report postcard



Over the next year, Board communications activities will be focused on:

- the development of the member seminar program; and
- further development of the CSS website to ensure it continues to meet members' information needs.

Annual Report Pack

The Board's principal means of communicating with members is through its Annual Report Pack, sent to all contributing and deferred benefit members.

The 2002–03 Annual Report Pack received a positive response from members and was recognised with a silver award at the Conference of Major Superannuation Funds in 2004.

The 2003–04 Annual Member Statement Pack will be issued to members in October 2004.

SIS legislation requires the Board to distribute annual member statements by 31 December each year.

Regulatory requirements

As a regulated superannuation fund under the *Superannuation Industry (Supervision) Act 1993* (SIS) the CSS must comply with all the information disclosure standards set out in the SIS Act and Regulations. One of the major requirements is to maintain ongoing communication with members, giving assurance that the superannuation industry operates in a fair, honest and open manner.

Member communications are also compliant with the *Spam Act 2004*, the *Privacy Act 1988* and Parliamentary and Australian Government publishing standards.

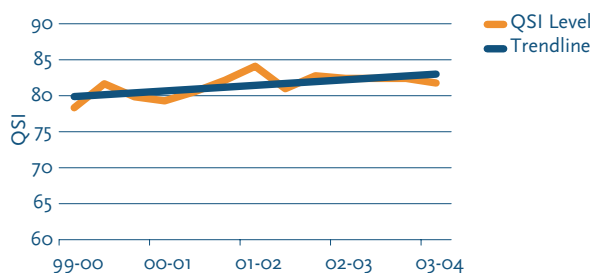
The Board also obtained its Australian Financial Services Licence. The new licencing regime introduces a number of changes that affect superannuation funds with respect to communications and advice to members.

Performance indicators

Overall satisfaction with ComSuper's services declined marginally in Semester 14 but remains around the levels recorded over the last three survey cycles. The current survey results are consistent with high levels of satisfaction among a large majority of ComSuper's clients in relation to:

- timeliness and quality of service;
- skills and knowledge of ComSuper staff; and
- relevance and readability of information products.

Chart 7: Quality Service Index (QSI) scores



As well as the regular client satisfaction surveys conducted by ComSuper, specific purpose surveys are also arranged for key communications activities such as annual member statements and the website.

The results of all these surveys and the comparative assessments obtained from key industry forums such as ASFA and CMSF conferences again indicate the high quality of communications material provided to CSS members.

Enquiries about any of the communications mentioned above or the Board's website can be addressed to:

Communications Manager
CSS Board
GPO Box 1907
Canberra City ACT 2601
Telephone: (02) 6263 6999
Fax: (02) 6263 6900

Contact Centre

Telephone call numbers have remained relatively stagnant over the period for both contributors and pensioners. However, with the introduction of the Financial Services Reform legislation (FSR) it has meant that the duration of the call and the call wrap up requirements have increased significantly. This, along with turnover of staff and training requirements (FSR), has made the achievement of the service standards an extremely difficult task. There is, however, significant focus currently being placed on this area to ensure we can consistently meet the required levels.

There has been a slight increase in volume of written correspondence and emails over the period for both contributors and pensioners. This increase, along with the channelling of resources towards the phones, has seen the standards not being met.

The Family Law enquiries have been steady over the period, however with the introduction of the scheme specific legislation, the resources that were devoted to handling the queries have been seconded to help out on the Family Law Project. The Contact Centre has undertaken a significant cross skilling of staff in this area, but due to the complexities it takes numerous months for staff to become competent.

In relation to the seminars the same program has now been running for a number of years. We have seen a significant number of members attend these seminars and have received numerous compliments on the information provided. Over the period there was a real increase in the number of requests for one-on-one counselling sessions both locally and interstate. This has tied up significant resources of the Contact Centre in order to provide this service.

The Contact Centre has been working for a number of months on a review of the area and the services it provides. Phase 1 dealt with task identification and volume as well as resourcing of the centre. This has seen an increase in staff by around 14 people who will begin to come on line in July/August. The second phase of the review looks at structure and the service offering and this phase is currently underway. This review will allow the Contact Centre to provide extra services as well as meet the service and quality measures currently in place.

SLA table 4: Member Contact Centre

| Standard | Outcomes |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> Written enquiries: <ul style="list-style-type: none"> 85% in 10 days 100% in 20 days Email enquiries: <ul style="list-style-type: none"> 95% in 1 day 100% in 5 days Member statements and i-Estimator delivered as per project plan Telephone average speed of answer: <ul style="list-style-type: none"> average of 30 seconds or less over a month Website changes: <ul style="list-style-type: none"> Critical updates—1 day Routine updates—100% in 5 days Family law enquiries: <ul style="list-style-type: none"> respond to 100% of enquiries within 28 days Seminars—provided as required or requested Personal counselling in Canberra: <ul style="list-style-type: none"> Urgent—immediately Others—within 5 days Benefit estimates and an application form within one day of advice being received of a member's death Favourable client survey and/or benchmarking results Quality (that is: fitness for purpose) of generated correspondence is assessed via six-monthly audits | <p>Standard met 5/12 months Standard met 2/12 months</p> <p>Standard met 2/12 months Standard met 8/12 months Standard met</p> <p>Standard met 3/12 months</p> <p>Standard met Standard met</p> <p>Standard met 7/12 months Standard met</p> <p>Standard met Standard met Standard met</p> <p>Standard met Standard met</p> |

Chart 8: Contributor written estimates

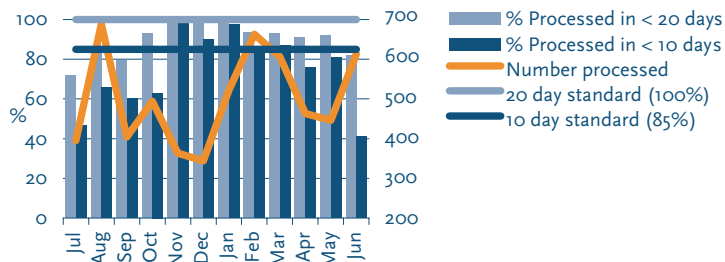


Chart 9: Contributor emails processed within 24 hours

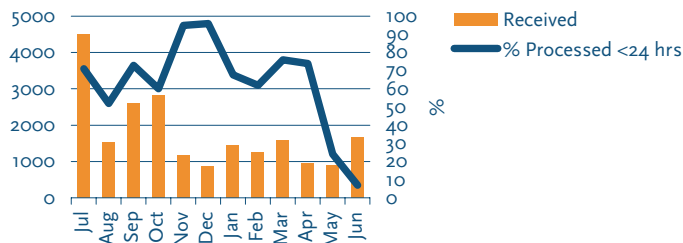


Chart 10: Contributor—comparison of monthly call volumes

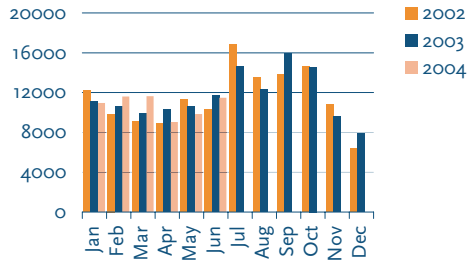


Chart 11: Contributor telephone calls

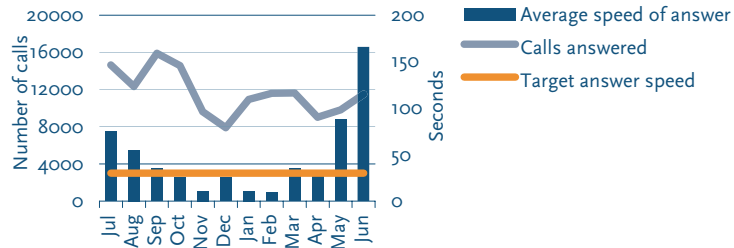


Chart 12: Pensioner correspondence

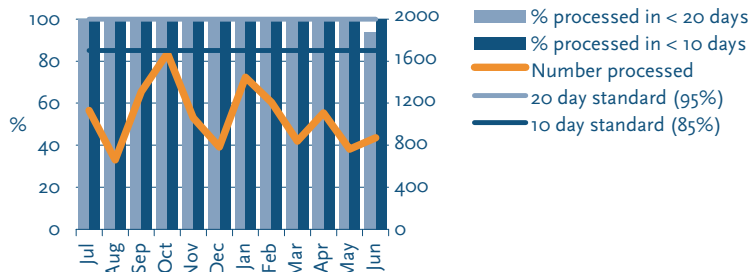


Chart 13: Pensioner emails processed within 24 hours

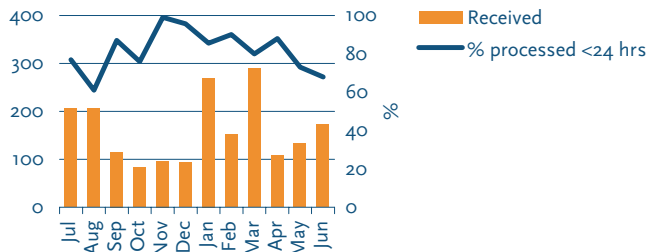


Chart 14: Pensioner—comparison monthly calls volumes

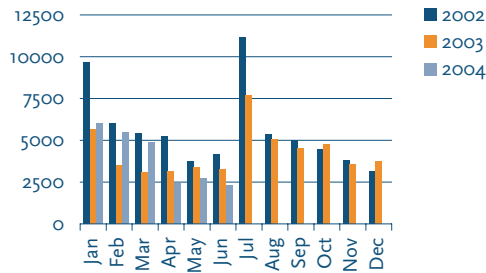


Chart 15: Pensioner telephone enquiries—average speed of answer

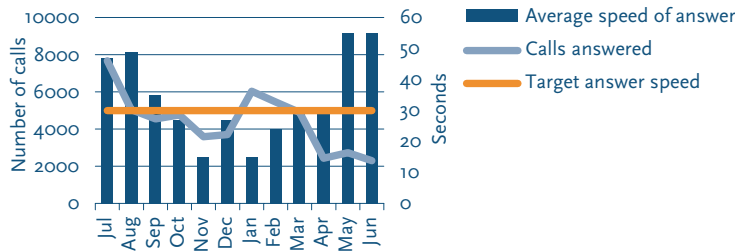
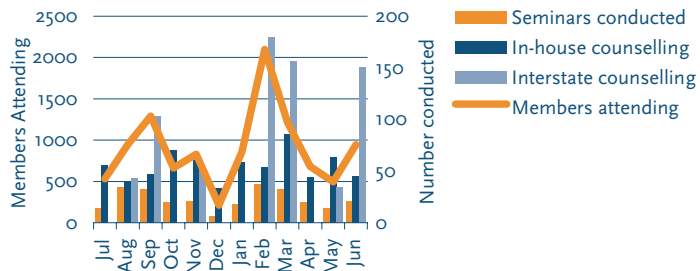


Chart 16: Information seminars and personal counselling



Internet services

The CSS website (www.css.gov.au) is a primary communications channel between the Board and members, particularly in relation to investment matters.

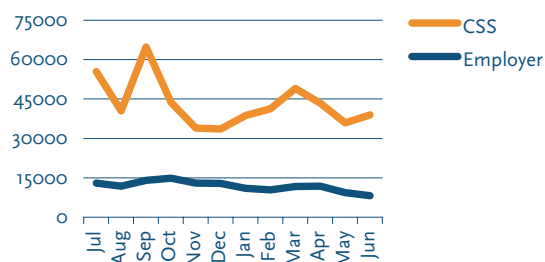
Use of the website is seasonal in nature, peaking at times when end of year financial information becomes available.

Website users were surveyed during the year as part of the Board's cyclical research. Key findings of this research were:

- 94% of members said that the website was easy to find;
- 88% of members found the website useful;
- 66% said that the website had increased their knowledge of the CSS.

The Board remains committed to further enhancing its web presence and the development of online services.

Chart 17: Website usage, number of page requests



Secure website access

Member Services Online provides members with a range of secure services including the calculation of benefits and the ability to view their annual statement online. During the year 26 997 statements were accessed and 49 103 benefit estimates produced online. Another 7 745 other transactions took place.

Benefit payments

Processing of invalidity claims

Pensions

Accounts, records and funding of benefit payments

The number of benefit applications processed in 2003–04 continued to reduce compared with numbers processed in previous financial years. ComSuper processed 5 026 benefit applications during the year (compared with 5 445 in 2002–03 and 6 738 in 2001–02), representing an average of around 418 applications per month throughout the year.

The vast majority of the 1 169 resignation cases processed during the year were members who resigned just prior to age 55, preserved their benefit and then claimed deferred age retirement benefits after reaching age 55.

The Board requires all applications for benefits from members, preserved benefit members and pensioners to be processed in a timely manner and in accordance with relevant legislation.

Table 14: Contributor exits by type 2003–04

| Type | Number |
|-----------------------------------------------|--------|
| Age retirement | 751 |
| Retrenchment (involuntary and sale of assets) | 830 |
| Invalidity | 111 |
| Death | 40 |
| Resignation | 1 169 |
| Total | 2 901 |

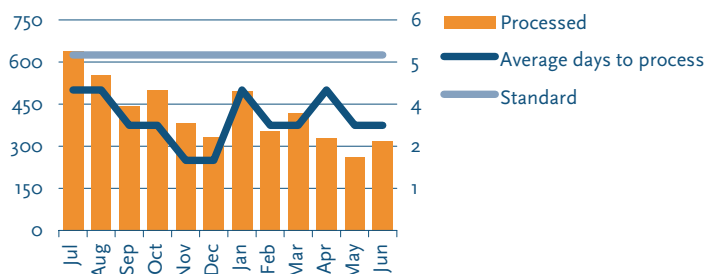
Table 15: Deferred benefits claimed by type 2003–04

| Type | Number |
|--------------------------------------------------------|--------|
| Age (including delayed updated pensions and postponed) | 2 096 |
| Invalidity | 17 |
| Death | 12 |
| Total | 2 125 |

SLA table 5: Benefit payments

| Standard | Outcomes |
|--------------------------------------------------------------------------------|--------------|
| Benefit application processing: | |
| • Where all data is available, average processing time of 5 days over a month. | Standard met |
| • Report to be provided every 6 months for cases which take more than 20 days. | Standard met |
| • Accuracy as assessed by six-monthly audit. | Standard met |
| • 100% in 10 days | Standard met |

Chart 18: Benefit processing against standards



Possible breach of SIS Legislation

The Board was advised by ComSuper in May 2004 that certain benefit payments may have been in breach of the early release provisions of SIS. The Board has taken legal advice on the matter, and has informed the regulatory authorities. At the time of writing, work is continuing on this matter.

Processing of invalidity claims

Members who are totally and permanently incapacitated to the extent that they are unlikely to work again in a position for which they are reasonably qualified by education, training or experience (or could become so after retraining), may be retired on invalidity grounds and become entitled to payment of invalidity benefits.

The invalidity retirement process is designed to ensure a thorough assessment of a person's condition and to fully consider prospects of rehabilitation and/or retraining before the Board issues an invalidity retirement certificate.

During the year the Board, or a delegate, approved invalidity retirement for 99% of applications considered.

Performance standards, as described below, are set for the processing of claims for invalidity benefits.

SLA table 6: Invalidation claims

| Standard | Outcomes |
|---------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|
| Very urgent invalidity claims: <ul style="list-style-type: none"> • 100% in 3 days | Standard met |
| Normal invalidity claims: <ul style="list-style-type: none"> • 70% in 3 months • 100% in 9 months | Standard met Standard met |
| Preserved benefit invalidity claims: <ul style="list-style-type: none"> • 80% in 6 months • 100% in 12 months | Standard met 9/12 months Standard met |

Pre-assessment payments

The legislation provides for pre-assessment payments to be made, to ensure that a person who is (or is likely to become) totally and permanently incapacitated is not left without income while his or her case is assessed.

Applications for the issue of an invalidity retirement certificate are normally made to ComSuper through the applicant's employer. Eligibility for pre-assessment payments will be routinely determined by ComSuper after consideration of medical evidence which must include a medical report completed by a Health Services Australia Occupation Physician (or other Board approved medical practitioner) who has examined the person and considers that the person is, or is likely to become, totally and permanently incapacitated.

During 2003–04, pre-assessment payments were approved in respect of 87 applicants. No applicants were refused pre-assessment payments on the ground that there was little likelihood that they would be unable to work again.

Assessment panel

The decision-making process requires the Board to engage an assessment panel, experienced in assessing invalidity claims for superannuation purposes, to help the Board determine whether a person is totally and permanently incapacitated. During 2003–04, assessment panel services were provided by Independent Claims Management Pty Ltd (ICM). Of the 126 cases considered by ICM, 122 were recommended for invalidity retirement. Three cases were withdrawn prior to panel recommendation and one member passed away during the application process.

Board decisions

When all the necessary information is available, ComSuper is in a position to place the matter before the Board (or in certain circumstances to approve the invalidity retirement under delegation from the Board). At this time the Board is required to decide whether to approve the retirement and, if so, to issue a certificate having regard to:

- the advice of the panel; and
- the 'practicality' of the person being able to find a job for which he or she is qualified or could become qualified after retraining.

During 2003–04, 122 invalidity retirement certificates were approved. Of those, 14 cases were fast-tracked by the invalidity assessment panel and responded to in less than three days.

Pensions

Fact of Death File

As part of ComSuper's ongoing fraud control measures we are provided with data which enables us to identify pensioners who have died but where pensions have not been ceased.

The data ComSuper receives is known as the Fact of Death File. It is a subset of the death registrations of each state and territory in Australia.

The data is provided to ComSuper solely for the purpose of matching and ceasing pensions currently being paid in respect of deceased pensioners. A report is produced each month from this data, which summarises the matches found between the Fact of Death File and current pensioners.

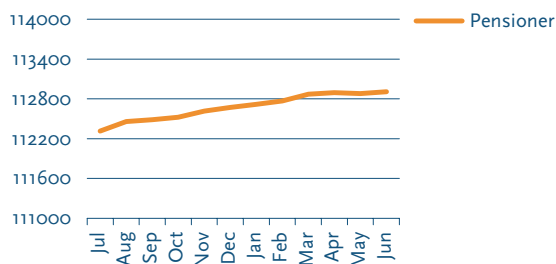
Pension variations

SLA table 7: Pension variations

| Standard | Outcomes |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| All reversionary pensions are commenced on the next available payday following receipt of application subject to eligibility criteria being clearly met and there being no counterclaims. | Standard met |
| Changes to pension payment arrangements are made within the first available fortnightly pay cycle following receipt of a request. | Standard met |

Pensions in force

Chart 19: Growth in CSS pensioner population 2003–04



Pension increase advice

SLA table 8: Pension increase advice

| Standard | Outcomes |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| The January CPI increase is to be processed for payment on the first payday in January. A pension adjustment notice is provided prior to the payday. | Standard met |
| The July increase is processed for payment on the first payday in July. A pension adjustment notice and a payment summary are provided prior to the payday. | Standard met |

Accounts, records and funding of benefit payments

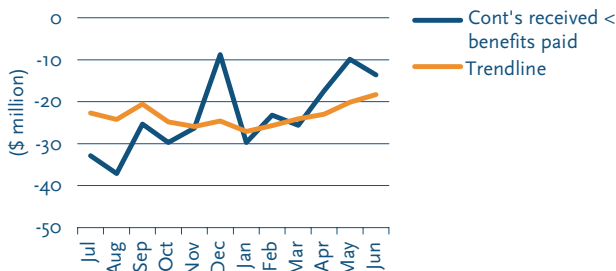
The Board requires its administrator to:

- liaise with the Board's investment custodian and investment staff of the Executive Unit to ensure that funds are available to meet benefits and other payments from the Funds as they fall due; and
- maintain proper accounts and records in respect of benefits paid.

SLA table 9: Accounts records and funding of benefit payments

| Standard | Outcomes |
|-----------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Auditors to provide a report on how successful ComSuper was in maintaining the Board's bank accounts and keeping proper accounts and records. | Standard met |

Chart 20: Contributions received less benefits paid 2003–04



Dispute resolution

Avenues of review
Internal review
External review
Complaints and enquiries

Avenues of review

Decisions of the Board and its delegates are subject to internal reconsideration and external review.

Internal review

A person affected by a decision of the Board or a delegate may apply in writing to have it reconsidered by the Board. A fee applies if the Board itself made the primary decision. If a person is still unhappy with the decision, further reconsideration may be sought but the application must be supported by evidence not previously known to the Board and a fee of \$150 is also applicable. If the appeal is successful or withdrawn, the fee is refunded.

Requests are investigated by ComSuper and then referred to the Reconsideration Advisory Committee (RAC) after examination. The RAC comprises two senior ComSuper officers and two independent members appointed by the Board who alternate monthly. The RAC makes a recommendation that is considered by the Board along with all the relevant evidence in deciding whether to affirm or vary the decision, substitute another decision or set aside the decision. The Board can also choose to reconsider a decision on its own motion. Each applicant receives a written statement of reasons for the Board's decision on reconsideration.

Requests for reconsideration are treated as complaints for the purposes of section 101 of the *Superannuation Industry (Supervision) Act 1993* (SIS) and should a person be unhappy with the Board's decision, the matter can be referred to the Superannuation Complaints Tribunal.

The Board requires its administrator to investigate requests for reconsideration of decisions in a thorough, objective and effective manner in accordance with any guidelines issued by the Board.

SLA table 10: Internal review

| Standard | Outcomes |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| The Reconsideration Advisory Committee will process reconsideration requests: <ul style="list-style-type: none">• 60% in 8 months• 100% in 12 months• average—less than 7 months ComSuper will process all negligence claims both objectively and expeditiously—as assessed six monthly by audit. | 100% in 8 months 100% in 12 months Processing time is 3.4 months Standard met |

Applications received

In 2003–04 24 applications for reconsideration were received, compared with 20 last year. Late elections, cancellation of elections and requests to vary elections (8) dominated the case types.

Of the remaining cases received, four concerned benefits payable to spouses or children, two concerned provisions for reducing invalidity benefits on medical grounds, two concerned the commencement of payment of deferred benefits, with the balance concerning various other entitlement provisions.

In view of the low numbers of requests the Board was satisfied with the high standard of decisions taken by delegates. Only in two cases was the original decision varied in favour of the applicant; in one as a result of additional information and in the other as a result of a deficiency in the process, which has since been rectified.

Cases finalised

Twenty two cases were finalised during the year, compared to 25 for the previous year. This reflected the number of cases carried forward to this year and the number of new requests received.

Table 16: Reconsideration applications received and outcomes 2002–04

| | 2002–03 | | 2003–04 | |
|---------------------|---------------------|------------------|---------------------|------------------|
| | Delegate's decision | Board's decision | Delegate's decision | Board's decision |
| Brought forward | 11 | 0 | 5 | 1 |
| Received | 19 | 1 | 23 | 1 |
| Withdrawn or lapsed | 12 | 0 | 7 | 0 |
| Decisions affirmed | 11 | 0 | 11 | 2 |
| Decisions set aside | 2 | 0 | 2 | 0 |
| Resolved | 25 | 0 | 20 | 2 |
| Carried forward* | 5 | 1 | 8 | 0 |

*The cases carried forward were under investigation by ComSuper or with the RAC

External review

The Board requires its administrator to do all things within its control to facilitate the expeditious processing of matters that go to the Superannuation Complaints Tribunal, the Federal Court and other jurisdictions such as the Human Rights and Equal Opportunity Commission.

The Board is also kept informed of the outcome of external appeals and of their implications.

SLA table 11: External review

| Standard | Outcomes |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| External review cases to be processed both objectively and expeditiously—as assessed by six-monthly audit. | Standard met |
| Executive Unit to be informed immediately and a full report with a discussion of implications arising from decisions provided to the next appropriate meeting of the Administration Committee. As assessed via six-monthly audit. | Standard met |

Complaints lodged with the SCT

During the year, 12 complaints were lodged with the SCT against the CSS Board and nine were carried over from the previous year. Nine cases were completed during the year. Three decisions of the Board were affirmed and three decisions were set aside. Three complaints were withdrawn by the complainants. Twelve SCT complaints remain outstanding as at 30 June 2004.

Federal Court

Determinations of the Superannuation Complaints Tribunal (the SCT) are reviewable by the Federal Court in its appellate jurisdiction under section 46 of the *Superannuation (Resolution of Complaints) Act 1993* (the SRC Act). Appeals must be instituted within 28 days of notification of the SCT determination on the grounds of an error of law.

Decisions taken in the administration of the CSS are subject to review by the Federal Court in its original jurisdiction under the *Administrative Decisions (Judicial Review) Act 1977* (the AD(JR) Act). Recourse to the Federal Court in its original jurisdiction may be based on any of the legal grounds set out in sections 5, 6 and 7 of the AD(JR) Act, including:

- errors of law;
- improper exercise of power;
- denial of the rules of natural justice;
- failure to observe procedures; or
- unreasonable delay in making a decision.

The ambit of decisions which may be reviewed under the AD(JR) Act includes decisions made by the Board and its delegates. During the year there were three CSS appeals reviewed by the Federal Court under the SRC Act and no CSS matters commenced under the AD(JR) Act.

Claims against the Board

During the year, seven claims for compensation were considered by the Board or its delegate arising from a dispute about the claimants' benefit entitlements. Liability was accepted for two matters which were settled by way of lump sum payments to the claimants of \$50 000 and \$11 000 each.

Complaints and enquiries

The Board has established formal procedures for dealing with member complaints received in accordance with Section 101 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act). The following service standards apply:

SLA table 12: Complaints and enquiries

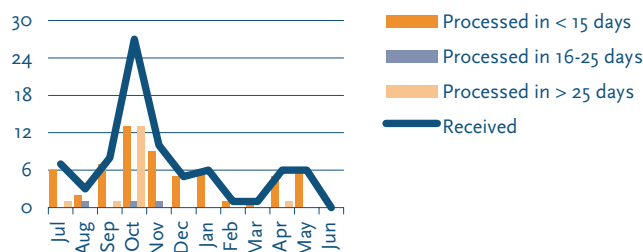
| Standard | Outcomes |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Processing time for: SIS Complaints: <ul style="list-style-type: none"> 90% within 15 days 100% within 25 days | A substantive response was made to 74% of SIS registered complaints (excluding requests for internal review) within 15 working days 79% within 25 working days |
| Parliamentarian/ ombudsman representations: <ul style="list-style-type: none"> 90% within 15 days 100% within 25 days | |
| Freedom of Information requests: <ul style="list-style-type: none"> 100% within 7 days | Standard met |

Complaints and representations

During 2003–04, 73 complaints, eight parliamentary representations and one ombudsman enquiry were received. This compared with 62 complaints and 15 representations made last year. Two complaints were on-hand as at 30 June 2004. Fifteen complaints were received from re-engaged Telstra employees wanting to rejoin the CSS following a change in their employment status. The remaining complaints and representations did not have a particular theme and covered issues such as queries about the annual information statement, acceptance as a member, queries about benefit estimates and interest rates. All complaints were able to be resolved within the SIS legislative time frame of 90 days.

ComSuper advised the Board of the shortfall in meeting the service level standards for 15 complaints. Of these complaints 12 are related to the Telstra employees (referred to above), two related to legal claims and one related to a lost rollover cheque sent to the member in 1991. The delays in responding to these complaints were due to seeking further information or legal advice. One parliamentary representation was unable to be finalised within 25 days due to the complexity of the matter.

Chart 21: Number of complaints and ministerials received and processed



Scheme Financial Statements

Independent Audit report from ANAO
Scheme financial statements
AAS25—Actuarial valuation



Commonwealth Superannuation Scheme

Independent Report by Approved Auditor to the Minister for Finance and Administration

(A) Financial Statements

Scope

I have audited the financial statements of the Commonwealth Superannuation Scheme for the year ended 30 June 2004 as set out on pages 2 to 21 attached. The superannuation entity's trustee is responsible for the financial statements. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

My audit has been conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate Australian Auditing and Assurance Standards, to provide reasonable assurance whether the financial statements are free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with my understanding of the superannuation entity's net assets and changes in net assets.

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

Audit Opinion

In my opinion:

- (i) The financial statements are in the form agreed by the Minister for Finance and Administration in accordance with sub-section 161(1A) of the *Superannuation Act 1976*; and
- (ii) The financial statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the net assets of Commonwealth Superannuation Scheme as at 30 June 2004 and the changes in net assets for the year ended 30 June 2004.

(B) Compliance

Scope

I have conducted tests in accordance with Australian National Audit Office Auditing Standards, which incorporate Australian Auditing and Assurance Standards, as necessary to provide reasonable assurance whether the trustee of the Commonwealth Superannuation Scheme has, in all material respects:

- (a) complied with the relevant requirements of the following provisions (to the extent applicable) of the *Superannuation Industry (Supervision) Act 1993* and Regulations:

Sections 19(2), 19(3), 36, 65, 66, 67, 69 to 85, 86 to 93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, 111, 112, 113, 117, 118, 121, 121A, 122, 124, 125, 152, 153, 154;

Regulations 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and
- (b) complied with the Reporting Standards made under section 13 of the *Financial Sector (Collection of Data) Act 2001* that are subject to audit (to the extent applicable); and

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 Centenary House 19 National Circuit
 BARTON ACT
 Phone (02) 6201 7300 Fax (02) 6201 7377

- (c) complied with the relevant requirements of the following provisions (to the extent applicable) of the *Corporations Act 2001* and Regulations:
 - Sections 1012A, 1012B, 1012F, 1012G(3), 1012H(2), 1012I, 1013D, 1013K(1), 1013K(2), 1016A(2), 1016A(3), 1017B(1), 1017B(5), 1017C(2), 1017C(3), 1017C(5), 1017C(8), 1017D(1), 1017D(3), 1017D(3A), 1017DA(3), 1017E(2), 1017E(3), 1017E(4), 1020E(8) and 1020I(9); and
 - Regulation 7.9.32(3); and
- (d) adhered to the Guidelines for preparing risk management statements ("Guidelines") issued by APRA in Circular ILD.7 on Derivatives (to the extent applicable) for the year ended 30 June 2004; and
- (e) complied with the requirement to prepare and lodge the respective returns comprising the APRA Annual Return.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations, the *Financial Sector (Collection of Data) Act 2001* and *Corporations Act 2001* and Regulations.

My procedures with respect to the Guidelines consisted of confirming whether any Risk Management Statement was to be prepared by the superannuation entity's trustee under the Guidelines contained in APRA Circular ILD.7 at any time during the year of income. These procedures indicated that only a Part A Risk Management Statement should be prepared by the superannuation entity's trustee. This has been prepared and is broadly consistent with the requirements of the Guidelines.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the *Superannuation Industry (Supervision) Act 1993* and Regulations or Guidelines, the *Financial Sector (Collection of Data) Act 2001* or the *Corporations Act 2001* and Regulations apart from those specified. The superannuation entity's trustee is responsible for complying with the *Superannuation Industry (Supervision) Act 1993* and Regulations, the *Financial Sector (Collection of Data) Act 2001* and the *Corporations Act 2001* and Regulations and appropriately applying the Guidelines.

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

Qualification

Regulation 6.17 of the *Superannuation Industry (Supervision) Regulations* allows a member's benefit in a scheme to be paid out only when certain conditions of release are met. The Board has identified likely instances of non-compliance with the regulation during the year regarding payments of either deferred benefits or age pensions to members who have not satisfied the conditions of release. Further work is being undertaken by the Trustee to confirm the extent of these suspected breaches. In these circumstances, I am not able to determine whether the regulation has been complied with during the year.

Qualified Audit Opinion

In my opinion, except for the effects, if any, of the limitation on my audit procedures as referred to in the qualification paragraph, the Trustee of the Commonwealth Superannuation Scheme has complied, in all material respects, with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations, the Reporting Standards made under section 13 of the *Financial Sector (Collection of Data) Act 2001* and the *Corporations Act 2001* and Regulations and applied the Guidelines specified above for the year ended 30 June 2004.

AUSTRALIAN NATIONAL AUDIT OFFICE



Ian P. Goodwin
Executive Director

Delegate of the Auditor-General

Canberra
7 September 2004

Commonwealth Superannuation Scheme

Statement by the Trustee of the Commonwealth Superannuation Scheme ('The Scheme')

The Trustee hereby states that in its opinion:

- (a) the attached financial statements of the Commonwealth Superannuation Scheme show a true and fair view of the matters required by Australian Accounting Standard, AAS 25, Financial Reporting by Superannuation Plans and Schedule 1 of the *Commonwealth Authorities and Companies (Financial statements for reporting periods ending on or after 30 June 2004)* Orders to the extent that the latter is not inconsistent with the former;
- (b) the attached financial statements of the Commonwealth Superannuation Scheme show a true and fair view of the net assets of the Scheme as at 30 June 2004 and the changes in net assets of the Scheme for the year ended 30 June 2004;
- (c) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;
- (d) the financial statements are in a form agreed by the Minister for Finance and Administration and the CSS Board in accordance with sub-section 161(1A) of the *Superannuation Act 1976* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;
- (e) the financial statements have been prepared based on properly maintained financial records; and
- (f) the operations of the Fund were conducted in accordance with the *Superannuation Act 1976* and the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations, other than possible contraventions of Regulation 6.17, and the relevant requirements of the *Corporations Act 2001* and Regulations (to the extent applicable).

Signed at Canberra this 7th day of September 2004 in accordance with a resolution of members of the CSS Board as Trustee of the Scheme.



S. Doyle
Chairman



W. Hall
Member

CSS Board

COMMONWEALTH SUPERANNUATION SCHEME

Statement of Changes in Net Assets
For the Year Ended 30 June 2004

| | Note | 2004 \$'000 | 2003 \$'000 |
|------------------------------------------------------------------------------------|--------|--------------------|--------------------|
| Net assets available to pay benefits at the beginning of the financial year | | 5 188 592 | 5 336 740 |
| Add: | | | |
| Revenue from ordinary activities | | | |
| Net investment revenue | | | |
| Interest | | 61 077 | 75 533 |
| Dividends | | 291 996 | 148 220 |
| Other investment income | | 3 523 | 1 201 |
| Changes in net market value of investments | 4 | 426 671 | (44 434) |
| Less: Direct investment expenses | 5c | (12 097) | (11 363) |
| | | <u>771 170</u> | <u>169 157</u> |
| Contribution revenue | | | |
| Member contributions | 5a | 143 958 | 148 418 |
| Employer contributions | 5a | 48 438 | 49 038 |
| Penalty Interest | | 7 | - |
| Appropriation from Consolidated Revenue Fund | 5b | 2 402 340 | 2 302 725 |
| | | <u>2 594 743</u> | <u>2 500 181</u> |
| Total revenue from ordinary activities | | <u>3 365 913</u> | <u>2 669 338</u> |
| Less: | | | |
| Expenses from ordinary activities | | | |
| General administration expenses | 1k, 5c | (2 841) | (2 417) |
| Benefits paid | | | |
| Benefits paid | 5b | (2 878 404) | (2 793 493) |
| Transfers to the Public Sector Superannuation Scheme | 7 | (1) | (1 138) |
| Total expenses from ordinary activities | | <u>(2 881 246)</u> | <u>(2 797 048)</u> |
| Total revenue less expenses and benefits paid before income tax | | <u>484 667</u> | <u>(127 710)</u> |
| Income tax expense | 6 | (73 762) | (20 438) |
| Total revenue less expenses and benefits paid after income tax | | <u>410 905</u> | <u>(148 148)</u> |
| Net assets available to pay benefits at the end of the financial year | | <u>5 599 497</u> | <u>5 188 592</u> |

The attached notes form part of these financial statements.

COMMONWEALTH SUPERANNUATION SCHEME

Statement of Net Assets
As at 30 June 2004

| | Note | 2004 \$'000 | 2003 \$'000 |
|---------------------------------------------|------|------------------|------------------|
| Investments | 1c | | |
| Cash and short term deposits | | 118 707 | 97 410 |
| Australian money market | | 554 814 | 160 999 |
| Australian fixed interest | | 604 855 | 646 173 |
| International fixed interest | | 279 275 | 674 921 |
| Australian equity investments | | 1 866 046 | 1 334 694 |
| International equity investments | | 1 698 994 | 1 254 095 |
| Unlisted property trusts | | 578 170 | 765 892 |
| Pooled superannuation trusts | | 7 171 | 147 143 |
| Currency contracts | | (65 140) | 90 769 |
| Other investments | | 10 943 | 2 805 |
| Total investments | | 5 653 835 | 5 174 901 |
| Other assets | | | |
| Cash at bank | | 24 355 | 23 476 |
| Consolidated Revenue Fund Special Account | | - | 48 |
| Interest receivable | | 14 216 | 21 171 |
| Dividends receivable | | 27 656 | 10 616 |
| Trade settlements receivable | | 27 200 | 16 801 |
| GST recoverable | | 82 | 60 |
| Sundry debtors | | 3 162 | - |
| Deferred tax assets | | 9 067 | 5 396 |
| Total other assets | | 105 738 | 77 568 |
| Total assets | | 5 759 573 | 5 252 469 |
| Less: Liabilities | | | |
| Benefits payable | 5b | 22 240 | 17 591 |
| Trade settlements payable | | 58 633 | 15 920 |
| Sundry creditors | 8 | 5 723 | 7 274 |
| Amounts due to other superannuation schemes | 7 | 1 133 | 1 668 |
| Current tax liabilities | | 22 687 | 12 316 |
| Deferred tax liabilities | | 49 660 | 9 108 |
| Total liabilities | | 160 076 | 63 877 |
| Net assets available to pay benefits | 12 | 5 599 497 | 5 188 592 |

The attached notes form part of these financial statements.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) *Basis of Preparation*

These financial statements have been prepared in accordance with the Defined Benefit Plan provisions of AAS 25 'Financial Reporting by Superannuation Plans', other applicable Australian Accounting Standards (AAS) and Urgent Issues Group Consensus Views.

A Defined Benefit Plan refers to a superannuation plan where the amounts to be paid to members on retirement are determined at least in part by a formula based on their years of membership and salary levels.

The Commonwealth Superannuation Scheme has adopted the provisions of paragraph 22(a) of AAS 25 whereby the financial statements include a Statement of Net Assets, a Statement of Changes in Net Assets and Notes thereto.

The form of these financial statements has been agreed by the Minister for Finance and Administration and the CSS Board in accordance with sub-section 161(1A) of the *Superannuation Act 1976*.

Unless otherwise stated, these accounting policies were also adopted in the corresponding preceding reporting period.

(b) *Revenue*

Investment revenue and contributions are brought to account on an accruals basis. Dividends on quoted shares are deemed to accrue on the date the dividend is declared. Changes in the net market value of assets are recognised in the statement of changes in net assets in the period in which they occur. Transfers from other funds are brought to account when received.

(c) *Valuation of Investments*

Assets of the Scheme are recorded at net market value as at the reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur. Net market values of investments include an amount for selling costs which would be expected to be incurred if the investments were sold.

The basis of market valuations are summarised below:

- (i) Short-term Money Market - these securities are valued at the market closing price on 30 June and include accrued interest.
- (ii) Fixed Interest - these securities are valued at their market value on 30 June. Interest is accrued over the period and is recorded as part of other assets.
- (iii) Futures Contracts - open futures contracts are revalued to closing price quoted at close of business on 30 June.
- (iv) Equities - the security prices used for equities are the last sale price of a security on the relevant exchange at close of business on 30 June.
- (v) Exchange Traded Options - options are valued as the premium payable or receivable to close out the contracts at the last buy price quoted at close of business on 30 June.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)

(c) *Valuation of Investments (Cont.)*

- (vi) Unlisted investments- investments are valued annually in accordance with valuation guidelines agreed by the Board. Guidelines for valuations are set out in the Board's Valuation of Investments policy and the relevant Trust Deed for the investment. Valuations may be completed by an independent qualified valuer, the Investment Manager or the Board. In determining the valuation reference is made to guidelines set by relevant associations (such as Australian Venture Capital Association Ltd).
- (vii) Units in Unlisted Property Trusts and Pooled Superannuation Trusts - units are valued at their most recent redemption price as determined by the manager of the relevant trust, consistent with the methods listed above that are relevant to the underlying assets held by the unit trusts.

(d) *Foreign Currency Translation*

Foreign currency positions are converted to Australian currency using the currency exchange rate in effect at the point of recognition of each transaction. Foreign currency amounts receivable and amounts payable are converted to Australian currency using the exchange rate as at balance date. Resulting exchange differences are brought to account in determining the change in market value of investments for the year and hence the net assets available to pay benefits at the end of the financial year.

(e) *Use of Derivatives*

The Scheme's investment managers may use a number of derivative securities such as futures, options and forward exchange contracts to facilitate increases or decreases in the Scheme's exposure to different investment markets. Derivative securities are not to be used for gearing the portfolio or for placing the Scheme in a position where it is short an asset class.

Investment mandates granted to investment managers, which permit the use of derivatives, are to reflect the foregoing policy for the Scheme as a whole. Individual mandates may allow some gearing and the capacity to short markets but this must not involve the total fund being geared or being short an asset class. Where the Board's investment managers use derivative securities, the Board's internal investment team and /or investment advisors will monitor that such use is consistent with the Board's policy, and advise the Board of any breaches.

(f) *Income Tax*

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Changes in Net Assets is matched with total revenue less expenses and benefits paid before income tax, after allowing for permanent differences. The deferred tax asset relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on net cumulative timing differences is set aside to deferred income tax or deferred tax assets accounts at rates which are expected to apply when those timing differences occur.

(g) *Contributions Receivable*

Member and employer (productivity) contributions are due and payable on each fortnightly contribution day. The contributions do not accrue on a daily basis. Therefore, member and employer (productivity) contributions in respect of the fortnightly contribution days that fell within the reporting period have been included in the financial statements.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)

(h) *Benefits Payable*

Benefits payable represents benefits which have been notified in respect of members who ceased employment with the employer sponsor prior to year end who are entitled to receive a benefit but had not been paid by that date.

(i) *Liability for Accrued Benefits*

The liability for accrued benefits is not included in the statement of net assets, but the liability at the latest measurement date is reported at note 14. Where accrued benefits are measured during the reporting period, the benefits which have accrued since the latest measurement date are also reported by way of note.

The liability for accrued benefits is actuarially measured on at least a triennial basis, and represents the value of the Scheme's present obligation to pay benefits to members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future payments which arise from membership of the Scheme up to the date of measurement.

The present value reported in the notes is determined by reference to expected future salary levels and by application of a current, market-determined, risk-adjusted discount rate and appropriate actuarial assumptions.

(j) *Superannuation Contributions Surcharge*

The surcharge is accounted for as and when the amount becomes payable to the Australian Taxation Office.

(k) *Expenses of the CSS Board*

In accordance with a determination issued by the Minister for Finance and Administration pursuant to section 34 of the *Superannuation Act 1990*, those costs of the CSS Board which are related to its responsibilities for the management of the CSS Fund and the investment of its moneys are a charge against the Fund. Fees paid to the Chairman of the CSS Board are also a charge against the Scheme. Fees for other CSS Board members are charged 50% to the Fund and 50% against the CSS Board.

All other costs incurred by the Board are met from revenues generated through user charging arrangements with employer agencies and the Department of Finance and Administration. These revenues and the associated expenditure of the CSS Board have been brought to account in the financial statements of the CSS Board.

(l) *Goods and Services Tax (GST)*

Where applicable GST incurred by the Scheme that is not recoverable from the Australian Taxation Office, has been recognised as part of the expense to which it applies. Receivables and payables are stated with any applicable GST included in their carrying amounts.

The amount of any GST recoverable from, or payable to, the Australian Taxation Office is included as an asset or liability in the Statement of Net Assets.

(m) *Sundry Debtors and Creditors*

Sundry debtors are recognised at the amounts receivable, which approximate net fair value. Sundry creditors represent liabilities for goods and services provided to the scheme prior to the end of the financial year and which are unpaid. The amounts are unsecured. Sundry debtors and creditors are subject to normal trade credit terms.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

2. IMPACT OF ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, the fund must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the Fund's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The Fund has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the Fund's performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the Fund's financial reports in the future. The potential impacts on the Fund's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as the actual impacts will depend on the particular circumstances prevailing on adoption in the financial year commencing on 1 July 2005.

The key potential implications of the conversion of IFRS on the Fund are as follows:

Income tax will be calculated based on the 'balance sheet' approach, which may result in the carrying value of deferred tax assets and liabilities being different to those determined under current Australian Accounting Standards.

Changes in accounting policies will be recognised by restating comparatives rather than making current adjustments with note disclosure of prior year effects.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

3. NATURE OF SCHEME AND PRINCIPAL ACTIVITIES

(a) The Scheme is a defined benefit scheme which provides benefits to its members under the *Superannuation Act 1976* (as subsequently amended).

(b) Member and Employee Numbers

| | 2004 # | 2003 # |
|------------------------------------------------------------|----------------|----------------|
| Number of members | | |
| - Contributors | 34 684 | 37 316 |
| - Deferred beneficiaries/preservers | 12 826 | 13 429 |
| - Pensioners | 112 964 | 116 232 |
| | <u>160 474</u> | <u>166 977</u> |
| Number of employees directly employed to manage the scheme | <u>19</u> | <u>18</u> |

4. CHANGES IN NET MARKET VALUES

| | 2004 \$'000 | 2003 \$'000 |
|----------------------------------------------|----------------|----------------|
| Changes in net market values of investments: | | |

(a) *Investments held at 30 June:*

| | | |
|----------------------------------|----------------|------------------|
| Australian money market | 2 417 | 131 |
| Australian fixed interest | (15 029) | 13 454 |
| International fixed interest | 6 485 | (60 401) |
| Australian equity investments | 129 666 | (38 425) |
| International equity investments | 163 483 | (73 506) |
| Unlisted property trusts | - | 25 538 |
| Pooled superannuation trusts | 921 | 9 905 |
| Currency contracts | (101 756) | 7 590 |
| Other investments | (524) | (2 181) |
| | <u>185 663</u> | <u>(117 895)</u> |

(b) *Investments realised during the year:*

| | | |
|----------------------------------|----------------|---------------|
| Australian money market | 27 456 | 3 302 |
| Australian fixed interest | (5 177) | (1 814) |
| International fixed interest | (23 001) | (13 176) |
| Australian equity investments | 20 499 | (128 458) |
| International equity investments | 26 498 | (158 065) |
| Unlisted property trusts | - | (3 617) |
| Pooled superannuation trusts | - | (20 536) |
| Currency contracts | 168 989 | 271 766 |
| Other investments | 25 744 | 124 059 |
| | <u>241 008</u> | <u>73 461</u> |

(c) *Total changes in net market values of investments*

| | | |
|--|----------------|-----------------|
| | <u>426 671</u> | <u>(44 434)</u> |
|--|----------------|-----------------|

The net gain on foreign currency contracts for the year was \$ 67.2m (2003: net gain \$279.4m). This amount is the net of the realised and unrealised gains and losses on foreign currency contracts identified above. This does not include gains and losses on foreign currency transactions that may have occurred in the Pooled Superannuation Trust investments.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

5. FUNDING ARRANGEMENTS

(a) Contributions

Members contribute to the Scheme at optional rates ranging from a minimum of 5 per cent to a maximum of 10 per cent of salary paid to the member. Employers who do not operate their own productivity schemes contribute employer (productivity) contributions to the Scheme on a sliding scale averaging 3 per cent of salaries paid to the members.

(b) Benefits

Where a benefit that becomes payable under the Scheme can be fully met from moneys held in the Fund, the benefit is paid to the beneficiary from the Fund. Where a benefit that becomes payable under the Scheme which cannot be fully met from moneys held in the Fund, all moneys held in the Fund in respect of the member are paid into the Consolidated Revenue Fund (CRF) and the Commonwealth then assumes responsibility for the payment of the benefit.

Benefits payable by the CRF as at 30 June totalled \$0 m (2003: \$0 m). The Commonwealth is the corresponding debtor for this amount in accordance with the funding arrangements described above.

The following provides a breakdown of benefits paid by both the Fund and the CRF:

| | 2004 \$'000 | 2003 \$'000 |
|--------------------------------------|-------------------------|-------------------------|
| Gross Appropriation from CRF | 2 875 640 | 2 792 211 |
| less: Transfers from Fund to CRF | <u>(473 300)</u> | <u>(489 486)</u> |
| Net Appropriation | <u>2 402 340</u> | <u>2 302 725</u> |
| CSS Fund | | |
| Lump-sum Benefits | <u>2 764</u> | 1 282 |
| Consolidated Revenue Fund | | |
| Lump-sum Benefits | 437 160 | 468 264 |
| Pensions | 2 437 190 | 2 322 495 |
| Other | <u>1 290</u> | <u>1 452</u> |
| Total benefits paid | <u>2 875 640</u> | <u>2 792 211</u> |
| | <u>2 878 404</u> | <u>2 793 493</u> |

(c) Costs of Administration

The *Superannuation Act 1976* requires the Commissioner for Superannuation (through ComSuper) to provide administrative support to the CSS Board to enable the Board to perform its functions under the Act. Under the provisions of the Act, the CSS Scheme meets the expenses of the Board in respect to the Board's responsibilities for the management and investment of the Scheme. All other scheme expenses of the Board and the Commissioner for Superannuation/ComSuper are met from administrative fees paid to ComSuper by employing agencies. Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the CSS Board and the Commissioner for Superannuation.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

5. FUNDING ARRANGEMENTS (Cont.)

The breakdown of administrative expenses of the CSS Fund (met by the Fund), the CSS Board (met by the Board) and the Commissioner of Superannuation are as follows:

| | 2004 \$'000 | 2003 \$'000 |
|------------------------------------|----------------|----------------|
| Commonwealth Superannuation Scheme | 2 841 | 2 417 |
| CSS Board | 971 | 987 |
| ComSuper Administration | 10 775 | 10 629 |
| Total | <u>14 587</u> | <u>14 033</u> |

Direct investment expenses include charges levied by the Investment Advisors, Investment Managers and Custodian to invest and manage the assets of the CSS Scheme. The Direct investment expenses are as follows:

| | 2004 \$'000 | 2003 \$'000 |
|---------------------|----------------|----------------|
| Investment Advisors | 356 | 667 |
| Investment Managers | 10 183 | 8 756 |
| Custodian | 1 495 | 1 522 |
| Other | 62 | 411 |
| | <u>12 096</u> | <u>11 356</u> |
| GST Expense | 1 | 7 |
| Total | <u>12 097</u> | <u>11 363</u> |

6. INCOME TAX

The taxation liability at 30 June has been calculated on the basis that the CSS Scheme is a complying superannuation fund within the meaning of the *Superannuation Industry (Supervision) Act 1993* and that tax will be payable at a concessional rate of 15% on net investment earnings, employer contributions and capital gains with deductions allowable for administration expenses incurred by the Scheme.

The aggregate amount of income tax attributable to the period is not equal to 15 per cent of the Net Investment Revenue and Net Contributions Revenue Before Tax as shown in the Statement of Changes in Net Assets. The difference is reconciled as follows:

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

6. INCOME TAX (Cont)

| | 2004 \$'000 | 2003 \$'000 |
|-----------------------------------------------------------------|----------------------|----------------------|
| Total revenue less expenses and benefits paid before income tax | <u>484 666</u> | (127 710) |
| Prima facie income tax expense calculated at 15% | 72 700 | (19 157) |
| Add/(Less) Permanent Differences | | |
| Employee contributions | (21 583) | (22 264) |
| Benefits paid | 71 409 | 73 615 |
| Income from Pooled Superannuation Trusts | (2 621) | 2 981 |
| Imputation credits from franked dividends received | 4 998 | 3 201 |
| Indexation/CGT discount on realised capital gains | (17 066) | (9 993) |
| Reversal of CGT Discount on unrealised losses carried forward | - | 12 740 |
| Other | - | 1 160 |
| | <u>107 837</u> | 42 283 |
| Less: Imputation and foreign tax credits | (33 323) | (21 340) |
| Less: Under/over provision in prior years | <u>(752)</u> | <u>(505)</u> |
| Income Tax Expense | <u><u>73 762</u></u> | <u><u>20 438</u></u> |

Income tax expense comprises:

| | | |
|-------------------------------------------------------------|----------------------|----------------------|
| Income tax payable current year outstanding at 30 June 2004 | 22 687 | 12 180 |
| Amount paid during 2003-04 | 20 251 | 16 180 |
| Movement in deferred income tax provisions | 31 576 | (7 417) |
| Under/over provision in prior year | <u>(752)</u> | <u>(505)</u> |
| | <u><u>73 762</u></u> | <u><u>20 438</u></u> |

7. TRANSFERS FROM THE SCHEME TO THE PUBLIC SECTOR SUPERANNUATION SCHEME

Certain former contributors to the Scheme who again become members of the Scheme are entitled to elect to transfer to the Public Sector Superannuation Scheme. During the period 1 July 2003 to 30 June 2004 there were no elections made.

As at 30 June 2004 the Ministerial determination to effect the transfers of 2002-03 had not been completed and \$ 1 133 000 has remained as a current liability of the Scheme.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

8. SUNDRY CREDITORS

| | 2004 \$'000 | 2003 \$'000 |
|-----------------------------|----------------|----------------|
| Investment expenses payable | 3 905 | 4 463 |
| Accrued expenses | 488 | 351 |
| Other | 1 330 | 2 460 |
| | <u>5 723</u> | <u>7 274</u> |

9. AUDITOR'S REMUNERATION

| | 2004 \$ | 2003 \$ |
|----------------------------------------------------------------------------------------------------|---------------|---------------|
| Amounts received or due and receivable by the Australian National Audit Office as auditors of CSS: | <u>56 000</u> | <u>52 000</u> |

Deloitte Touche Tohmatsu have been contracted by the Australian National Audit Office to provide audit services on the ANAO's behalf. Fees from those services are included above.

No other services were provided by the Auditor-General during the reporting period.

10. SUPERANNUATION CONTRIBUTIONS SURCHARGE

The Superannuation Contributions Surcharge applies to the surchargeable superannuation contributions of members, whose adjusted taxable income exceeds the surcharge threshold. Surcharge liabilities are calculated by the Australian Taxation Office (ATO) and recorded against Scheme member accounts. The surcharge liability may be paid by the member in full or in part during the period of scheme membership. Any surcharge liability remaining at the end of a financial year incurs interest. The scheme rules provide for any outstanding surcharge liability to be recovered from the benefit payable to the member.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

10. SUPERANNUATION CONTRIBUTIONS SURCHARGE (Cont.)

A summary of transactions recorded during 2003/2004 follows:

| | 2004 \$'000 | 2003 \$'000 |
|-------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Total Surcharge Liability Outstanding at start of year | 42 996 | 27 476 |
| Adjustment to prior year balance | 26 | 6 695 |
| Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year | 10 160 | 10 980 |
| | 53 182 | 45 151 |
| Less: Amount paid by members and CRF | (4 222) | (4 207) |
| | 48 960 | 40 944 |
| Plus: Interest on outstanding surcharge liability at 30 June 2004 | 2 877 | 2 052 |
| Total Surcharge liability outstanding at end of year | 51 837 | 42 996 |

The adjustments made to prior year balances reflect the incorrect reporting of assessment amounts in prior years.

The surcharge liability in respect of surchargeable superannuation contributions for the period 1 July 2003 to 30 June 2004 has not been disclosed because the assessments have not, as yet, been issued by the ATO and there is no reliable basis on which an assessment of the likely surcharge liability can be made.

No liability is recognised in the financial statements for the estimated value of the surcharge liability because the liability will be either met by the members during their period of membership or will be recovered from member benefits which are funded to a significant extent from Consolidated Revenue Fund.

11. FINANCIAL INSTRUMENT DISCLOSURES

The investments of the Scheme (other than cash held for meeting daily administrative and benefit exposures), are managed on behalf of the Board by specialist sector fund managers who are required to invest the assets allocated for management in accordance with the terms of a written investment mandate. The Board has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with the Board's investment strategy.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

J P Morgan acts as master custodian on behalf of the Trustee and as such provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting of investment transactions.

The Board employs the following investment advisors:

- (a) JANA Investment Advisors to provide investment advice for strategic asset allocation and investment policy. JANA also provide:
- advice on manager selection;
 - monitoring with respect to Australian and International Equities, Fixed Interest, Australian Property and non-Australian Alternative Investments; and
 - risk management, investment research and performance reporting at a total fund level.
- (b) Towers Perrin to provide investment advice;
- (c) Wilshire Australia to advise the Board on new Australian private equity investments and monitor the Board's existing Australian private equity commitments.

(a) Use of Derivative Financial Instruments

The Scheme's investment managers may use a number of derivative securities such as futures, options and forward exchange contracts to facilitate increases or decreases in the Scheme's exposure to different investment markets. Derivative securities are not to be used for gearing the portfolio or for placing the Scheme in a position where it is short an asset class.

Investment mandates granted to investment managers, which permit the use of derivatives, are to reflect the foregoing policy for the Scheme as a whole. Individual mandates may allow some gearing and the capacity to short markets but this must not involve the total Scheme being geared or being short an asset class. Where the Board's investment managers use derivative securities, the Board's internal investment team and /or investment advisors will monitor that such use is consistent with the Board's policy, and advise the Board of any breaches.

At 30 June, the notional principal amounts and the net fair value of derivatives held by the Fund were as follows:

| | Notional Principal Amounts | | Net Market Value | |
|-----------------------------------------|----------------------------|----------------|------------------|----------------|
| | 2004 \$'000 | 2003 \$'000 | 2004 \$'000 | 2003 \$'000 |
| Australian Fixed Interest Futures | (12 406) | - | (37) | - |
| International Fixed Interest Futures | (1 342) | - | 21 | - |
| Australian Share Price Index Futures | 17 681 | 15 392 | 91 | (222) |
| Australian Exchange Traded Options | 10 215 | (3 115) | 10 174 | (1 101) |
| International Share Price Index Futures | 967 | 1 156 | 3 | (12) |
| Currency Contracts | 1 847 945 | 1 962 275 | (65 140) | 90 769 |
| Total | 1 863 060 | 1 975 708 | (54 888) | 89 434 |

(b) Credit Risk

The net market value of financial assets, with the exception of derivative positions, included in the statement of net assets represent the Scheme's exposure to credit risk in relation to those assets. For derivative positions, the credit risk is equal to the net market value of positive (asset) derivative positions which amount to \$26.1 m (2003: \$21.4 m). The Scheme does not have significant exposures to any individual counterparty or industry.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

(c) Interest Rate Risk

The Scheme invests in financial investments for the primary purpose of obtaining a return on investments on behalf of its members. As such, the Scheme's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in market interest rates. The Scheme's exposure to interest rate movements on investments at 30 June was as follows:

| 30 June 2004 | Fixed Interest Rate | | | | Non Interest Bearing \$'000 | Total \$'000 |
|----------------------------------|-------------------------------------|--------------------------|-----------------------|------------------------|--------------------------------------|------------------|
| | Floating Interest Rate \$'000 | 1 Year or Less \$'000 | 1 - 5 Years \$'000 | Over 5 Years \$'000 | | |
| Assets | | | | | | |
| Cash and short term deposits | 114 354 | | | | 4 353 | 118 707 |
| Australian money market | 554 814 | | | | | 554 814 |
| Australian fixed interest | | 50 729 | 301 921 | 199 537 | 52 668 | 604 855 |
| International fixed interest | | | 104 931 | 167 347 | 6 997 | 279 275 |
| Australian equity investments | | | | | 1 866 046 | 1 866 046 |
| International equity investments | | | | | 1 698 994 | 1 698 994 |
| Unlisted property trusts | | | | | 578 170 | 578 170 |
| Pooled superannuation trusts | | | | | 7 171 | 7 171 |
| Currency contracts | | | | | (65 140) | (65 140) |
| Other investments | 6 997 | | | | 3 946 | 10 943 |
| Other assets | 24 355 | | | | 72 316 | 96 671 |
| Deferred tax assets | | | | | 9 067 | 9 067 |
| Liabilities | | | | | | |
| Benefits payable | | | | | (22 240) | (22 240) |
| Trade settlements payable | | | | | (58 633) | (58 633) |
| Sundry creditors | | | | | (5 723) | (5 723) |
| Amounts due to other schemes | | | | | (1 133) | (1 133) |
| Current tax liabilities | | | | | (22 687) | (22 687) |
| Deferred tax liabilities | | | | | (49 660) | (49 660) |
| Total | 700 520 | 50 729 | 406 852 | 366 884 | 4 074 512 | 5 599 497 |
| Weighted average interest rate | 5.43% | 5.50% | 5.32% | 5.54% | | |

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

(c) Interest Rate Risk

| 30 June 2003 | Floating Interest Rate \$'000 | Fixed Interest Rate | | | Non Interest Bearing \$'000 | Total \$'000 |
|----------------------------------|-------------------------------------|--------------------------|---------------------|------------------------|--------------------------------------|------------------|
| | | 1 Year or Less \$'000 | 1-5 Years \$'000 | Over 5 Years \$'000 | | |
| Assets | | | | | | |
| Cash and short term deposits | 92 602 | | | | 4 808 | 97 410 |
| Australian money market | 160 999 | | | | | 160 999 |
| Australian fixed interest | | 57 556 | 302 602 | 238 076 | 47 939 | 646 173 |
| International fixed interest | | 12 521 | 275 130 | 387 270 | | 674 921 |
| Australian equity investments | | | | | 1 334 694 | 1 334 694 |
| International equity investments | | | | | 1 254 095 | 1 254 095 |
| Unlisted property trusts | | | | | 765 892 | 765 892 |
| Pooled superannuation trusts | | | | | 147 143 | 147 143 |
| Currency contracts | | | | | 90 769 | 90 769 |
| Other investments | 3 379 | | | | (574) | 2 805 |
| Other assets | 23 476 | | | | 48 696 | 72 172 |
| Deferred tax assets | | | | | 5 396 | 5 396 |
| Liabilities | | | | | | |
| Benefits payable | | | | | (17 591) | (17 591) |
| Trade settlements payable | | | | | (15 920) | (15 920) |
| Sundry creditors | | | | | (7 274) | (7 274) |
| Amounts due to other schemes | | | | | (1 668) | (1 668) |
| Current tax liabilities | | | | | (12 316) | (12 316) |
| Deferred tax liabilities | | | | | (9 108) | (9 108) |
| Total | 280 456 | 70 077 | 577 732 | 625 346 | 3 634 981 | 5 188 592 |
| Weighted average interest rate | 4.37% | 4.12% | 3.64% | 4.64% | | |

(d) Currency Risk

The Scheme's exposure at 30 June to foreign exchange rate movements on its international investments was as follows:

| 30 June 2004 | USD A\$'000 | JPY A\$'000 | GBP A\$'000 | EURO A\$'000 | Other A\$'000 | Total A\$'000 |
|-------------------------------------------------------------|----------------|----------------|----------------|-----------------|------------------|------------------|
| Gross investment amounts denominated in foreign currency | 946 936 | 124 886 | 151 359 | 246 162 | 193 814 | 1 663 157 |
| Amount effectively hedged | (1 222 384) | (111 954) | (153 836) | (291 727) | (133 185) | (1 913 086) |
| Net Exposure | (275 448) | 12 932 | (2 477) | (45 565) | 60 629 | (249 929) |

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

(d) Currency Risk

| 30 June 2003 | USD A\$'000 | JPY A\$'000 | GBP A\$'000 | EURO A\$'000 | Other A\$'000 | Total A\$'000 |
|-------------------------------------------------------------|-----------------|----------------|----------------|-----------------|------------------|------------------|
| Gross investment amounts denominated in foreign currency | 1 005 245 | 217 908 | 126 243 | 362 307 | 141 827 | 1 853 530 |
| Amount effectively hedged | (1 020 955) | (222 140) | (131 535) | (393 014) | (103 862) | (1 871 506) |
| Net Exposure | <u>(15 710)</u> | <u>(4 232)</u> | <u>(5 292)</u> | <u>(30 707)</u> | <u>37 965</u> | <u>(17 976)</u> |

(e) Net Fair Values of Financial Assets and Liabilities

The Fund's financial assets, liabilities and derivative instruments are included in the Statement of Net Assets at amounts that approximate net fair value.

12. UNALLOCATED INCOME/RESERVE

As part of the proposed introduction of member investment choice into the CSS, the CSS Board has decided in August 2004 to change its policy for crediting and exit rates. Members will receive all net earnings from 1 July 2003 on exit. For all CSS members with a funded accumulation component, a cash option will be offered in December 2004. No crediting rate will be declared for 2003-04.

| | 2004 \$'000 | 2003 \$'000 |
|------------------------------------------------|----------------|------------------|
| Opening Balance of Reserve | (156 696) | (301 053) |
| Add: Adjustments for estimates | (13 906) | (9 302) |
| Add: Earnings of Fund for the year | 701 831 | 153 659 |
| Less: Earnings allocation to members' accounts | - | - |
| Closing Balance of Reserve | <u>531 229</u> | <u>(156 696)</u> |

The closing balance is a positive reserve and is estimated to represent 10.4% (2003: -3.0%) of the adjusted net assets (net assets plus funded benefits payable) of the Fund as at the 30 June 2004.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

13. VESTED BENEFITS

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any other factor other than resignation from the Scheme) and include benefits which members were entitled to receive had they terminated their plan membership as at the reporting date.

Mercer Human Resource Consulting have advised that the amount of vested benefits at 30 June \$ 56.25 billion (2003: \$56.49 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June and elected the option which maximises their benefit entitlement.

The vested benefits amount is made up of:

| | 2004 \$million | 2003 \$million |
|--------------------|-------------------|-------------------|
| Funded Component | 5 091 | 5 363 |
| Unfunded Component | 51 155 | 51 124 |
| | <u>56 246</u> | <u>56 487</u> |

The net assets of the Scheme compared to the vested benefits are:

| | 2004 \$million | 2003 \$million |
|-----------------------------------------|-------------------|-------------------|
| Funded Component | 5 091 | 5 363 |
| Net Assets plus Funded Benefits Payable | 5 622 | 5 206 |
| Surplus/(Deficiency) | <u>531</u> | <u>(157)</u> |

14. LIABILITY FOR ACCRUED BENEFITS

The amount of accrued benefits is the present value of expected future payments which arise from membership of the Scheme up to the measurement date. The accrued benefits are comprised of a funded component, which will be met from the Scheme, (ie. accumulated member contributions and, where applicable, productivity contributions, plus interest) and an unfunded component to be financed by the Commonwealth from the CRF at the time the superannuation benefits became payable.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

14. LIABILITY FOR ACCRUED BENEFITS (Cont.)

The amount of accrued benefits in respect of the Scheme is calculated on a triennial basis. The most recent valuation of the accrued benefits was undertaken by Mercer Human Resources Consulting Pty Ltd (Mercer) as a part of a comprehensive review as at 30 June 2002 (an extract of Mercer's report is attached). The next valuation of accrued benefits is as at 30 June 2005 and is expected to be completed by June 2006.

| | 2002 \$billion | 1999 \$billion |
|--------------------------------------|-------------------|-------------------|
| Accrued Benefits as at 30 June were: | | |
| Funded component | 5.7 | 5.6 |
| Unfunded component | 49.3 | 40.2 |
| | <u>55.0</u> | <u>45.8</u> |

The net assets compared to the liability for accrued benefits as at 30 June are:

| | 2002 \$billion | 1999 \$billion |
|------------------------------|-------------------|-------------------|
| Funded Component | 5.66 | 5.56 |
| Adjusted Net Assets | 5.36 | 5.59 |
| Surplus/(Deficiency) Reserve | <u>(0.3)</u> | <u>0.03</u> |

15. SEGMENT REPORTING

The Scheme operates in the superannuation fund investment industry in Australia, however as part of its investment activities, it also maintains significant overseas investments as detailed in note 11(d).

16. RELATED PARTIES

(a) *Members of the CSS Board*

The CSS Board, had the following members during the financial year:

S Doyle (Chairman)
P. Reynolds
W Hall
J Palmer
S O'Loughlin
R Balderstone
C Manolios
D Connolly
D Moore
P Smith (alternate for J Palmer)
J Flitcroft (alternate for S O'Loughlin)
D Irons (alternate for W Hall)
S Wilson (alternate for R Balderstone, D Moore, C Manolios and D Connolly)

Ms K Doran was appointed to act in the position for a period of three months with effect from 5 July 2004 replacing Mr R Balderstone whose term expired 16 June 2004.

The terms of Mr P Reynolds and Ms C Manolios have expired (27 July 2003 and 24 July 2003 respectively). Ms S Doyle has been appointed as Mr Reynolds replacement effective 28 July 2003. Mr D Moore has been appointed as Ms Manolios' replacement effective 9 September 2003.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

16. RELATED PARTIES (Cont.)

(b) Trustee Remuneration

Some members of the CSS Board may, as a result of their current employment, be members of the Scheme and as such would be required to have made contributions to the scheme during the financial year on the same terms and conditions applicable to all scheme members.

The number of trustees is within the following bands:

| | 2004 | 2003 |
|----------------------|------|------|
| \$60,001 to \$70,000 | 1 | 1 |
| \$40,001 to \$50,000 | 1 | 0 |
| \$30,001 to \$40,000 | 1 | 1 |
| \$20,001 to \$30,000 | 4 | 5 |
| \$0 to \$10,000 | 5 | 4 |

The aggregate amount of remuneration paid to trustees during the financial year was \$268,832 (2003: \$253,507). The CSS share of those remuneration expenses was \$158,870 (2003: \$150,014).

(c) Executive Remuneration

The number of executive officers whose remuneration is greater than \$100,000 is within the following bands:

| | 2004 | 2003 |
|------------------------|------|------|
| \$340,001 to \$350,000 | 1 | 0 |
| \$300,001 to \$310,000 | 1 | 0 |
| \$280,001 to \$290,000 | 0 | 1 |
| \$260,001 to \$270,000 | 1 | 0 |
| \$250,001 to \$260,000 | 0 | 1 |
| \$230,001 to \$240,000 | 0 | 1 |
| \$200,001 to \$210,000 | 1 | 0 |
| \$180,001 to \$190,000 | 0 | 1 |
| \$160,001 to \$170,000 | 1 | 0 |
| \$140,001 to \$150,000 | 0 | 1 |
| \$120,001 to \$130,000 | 1 | 0 |
| \$110,001 to \$120,000 | 1 | 0 |
| \$100,001 to \$110,000 | 2 | 1 |

The aggregate amount of total remuneration of the executives shown above is \$1,725,054 (2003: \$1,208,238).

(d) Associated Entities

The CSS and PSS Boards formed a common controlled company, CSS/PSS Pty Ltd for the purpose of taking over trusteeship of the CFM Australian Equities Fund from Commonwealth Funds Management as of 1 February 1999. The Boards appoints directors, who are current nominated members of the CSS and PSS Boards, to manage the company.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

17. CONTINGENT LIABILITIES

(a) *Investments*

At 30 June the Fund had outstanding investment capital commitments of \$228.1m (2003: \$362.4m). These commitments are expected to be settled as follows:

| | 2004 \$'000 | 2003 \$'000 |
|----------------------------------------------|----------------|----------------|
| Within 12 months | 102 984 | 111 817 |
| Greater than 12 months but less than 5 years | 125 193 | 198 667 |
| Greater than 5 years | - | 51 902 |
| | 228 177 | 362 386 |

(b) *Benefit Entitlements*

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Scheme which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable.

At 30 June the Fund had contingent liabilities of \$0.337m (2003: nil).

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Information Required for Purposes of Australian Accounting Standard AAS25 Relating to the Actuarial Valuation of the Commonwealth Sector Superannuation Scheme as at 30 June 2002

Purpose of Report

The Commonwealth Sector Superannuation Scheme is a plan that provides benefits defined in terms of salary near retirement. It therefore requires periodic actuarial investigation in order to comply with the provisions of the Trust Deed and the requirements of the Superannuation Industry (Supervision) Regulations.

This extract summarises the actuarial valuation of the Plan as at 30 June 2002 carried out by Mercer Human Resource Consulting under the advice of Martin Stevenson, FIAA, FIA and Tony Snoyman, FIAA, FIA. It has been prepared for the purposes of inclusion with the Plan Accounts and is in a form that complies with the Australian Accounting Standard AAS 25.

Accrued and Vested Benefits

AAS 25 requires the disclosure of Accrued and Vested benefits at the reporting date.

For the purpose of AAS 25 the following amounts have been determined:

| Reporting Date | Accrued Benefits \$b | Vested Benefits \$b |
|----------------|-------------------------|------------------------|
| 30 June 2002 | 55.0 | 56.6 |

Accrued Benefits have been determined as the present value of expected future benefit payments which arise from membership of the CSS up to the reporting date.

Vested Benefits are benefits which the CSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the scheme.

The method and assumptions used to determine Accrued and Vested Benefits are summarized in Attachment 1 to this statement.

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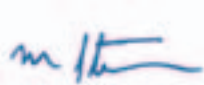
Human Resource Consulting

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Accrued Benefits have been calculated in a manner consistent with Guidance Note 454 and Professional Standard 402 issued by the Institute of Actuaries of Australia.

Review of Actuarial Report

AAS 25 also requires the notes to the scheme accounts to include a summary of the most recent actuarial report of the CSS. Attachment 2 to this Statement provides a summary of the report dated February 2003 on the Long Term Cost of the Public Sector Superannuation Scheme (PSS) and the CSS carried out as at 30 June 2002. The summary has been prepared in accordance with Professional Standard 401 issued by the Institute of Actuaries of Australia and contains the information required under AAS 25.



Martin A Stevenson

Fellow of the Institute of Actuaries
of Australia

Principal, Mercer Human Resource
Consulting Pty Limited



Tony Snoyman

Fellow of the Institute of Actuaries
of Australia

Principal, Mercer Human Resource
Consulting Pty Limited

February 2003

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Attachment 1 to AAS 25 Statement

Method of Determining Accrued and Vested Benefits

Accrued Benefits were determined as the present value of expected future benefit payments that arise from membership of the CSS up to the date of calculation. The expected future benefits were determined allowing for future salary growth to the date of exit. Benefits were apportioned between past and future membership by reducing the projected benefit by the ratio of membership to the calculation date to membership at the date of exit.

The past membership component of the member-financed lump sum benefits and of productivity superannuation benefits is taken to be the accumulated amount of contributions and interest at the calculation date.

Vested Benefits are determined as the value of benefits which the CSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the CSS.

Assumptions Used to Determine Accrued Benefits

With the exception of the financial assumptions, the other assumptions used to determine Accrued Benefits are the same as those used for the most recent actuarial investigation into the long term cost of the PSS and the CSS as at 30 June 2002.

The financial assumptions adopted for AAS 25 purposes are essentially the same as the assumptions adopted for the long term cost report. Therefore, the Accrued Benefit calculated for AAS 25 purposes is the same as that calculated for the purposes of the long term report.

The financial assumptions used to determine the Accrued Benefits along with those used for the recent actuarial investigation are shown in the table below:

| Item | AAS 25 | Long Term Cost Report |
|--------------------------|----------------|------------------------------|
| CPI Increases | 2.5% per annum | 2.5% per annum |
| Investment Return | 6.0% per annum | 6.0% per annum |
| General Salary Increases | 4.0% per annum | 4.0% per annum |

The discount rate for AAS 25 purposes has been taken as the long term bond rate as at 30 June 2002 of 5.1% per annum, adjusted to take into account investment expenses and anticipated future reinvestment rates. Allowance has not been made for investment tax as the employer financed portion of the benefit is paid as an untaxed benefit and funding of such benefit is not subject to tax.

A summary of the other assumptions used is contained in Appendix B of the long term cost report of the PSS and the CSS dated February 2002.

Summary of the Long Term Cost Report

The latest actuarial investigation into the long term cost of the CSS and PSS was conducted at 30 June 2002 and the results presented in the report dated February 2002.

This attachment provides a summary of that report.

Membership Data

Data relating to the membership of the PSS and the CSS was provided by ComSuper, on behalf of the PSS and CSS Boards, the schemes' administrator, for the purposes of this investigation.

The table below summarises the total membership of the CSS as at 30 June 2002.

| CSS MEMBERSHIP as at 30 JUNE 2002 | | | |
|------------------------------------------|-----------|----------|-----------|
| | Male | Females | Total |
| Number of Contributors | 27,263 | 12,723 | 39,986 |
| Salaries - Total | \$1,766 m | \$706 m | \$2,472 m |
| - Average | \$64,754 | \$55,505 | \$61,811 |
| Number of Deferred Beneficiaries | 10,289 | 3,680 | 13,969 |
| Number of Age Pensioners | 46,152 | 14,308 | 60,460 |
| Number of Invalidation Pensioners | 17,704 | 5,206 | 22,910 |
| Number of Reversionary Pensioners | 1,165 | 26,765 | 27,930 |

Assumptions

The key financial assumptions adopted for this review are shown in the table below. The assumptions adopted for the previous review (which was carried out as at 30 June 1999) are shown for comparison purposes.

| Item | Assumption | 1999 Investigation |
|--------------------------|--------------------------|--------------------------|
| CPI Increases | 2.5% per annum | 3.5% per annum |
| Investment Returns | 6.0% per annum (nominal) | 7.0% per annum (nominal) |
| | 3.5% per annum (real) | 3.5% per annum (real) |
| General Salary Increases | 4.0% per annum (nominal) | 5.0% per annum (nominal) |
| | 1.5% per annum (real) | 1.5% per annum (real) |
| GDP Increases | 2.1%* per annum (real) | 2.5% per annum (real) |

* The GDP increase rate is the average of the annual rates over the period from 2002 to 2042.

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The differences between the key financial assumptions at 2002 are the same as the corresponding differences in 1999. Therefore, the change in assumption relating to CPI increases will not lead to a material change in the results of the investigation.

Value of Assets

The PSS and CSS are partly funded to the extent that real assets are held in respect of member contributions and productivity superannuation contributions. The realisable value of the CSS assets as at 30 June 2002 was \$5,337 million.

Accrued Benefits

The value of accrued benefits as at 30 June 2002 was \$55.0 billion.

Vested Benefits

Vested Benefits of the CSS were not calculated as a part of the Long Term Cost Report as at 30 June 2002 but were calculated separately.

The estimated value of the Vested Benefits of the CSS as at 30 June 2002 is \$56.6 billion.

Financial Condition

The CSS is a partially funded scheme. Therefore, as would be expected in such a scheme, the value of Accrued Benefits and Vested Benefits is significantly more than the realisable value of scheme assets at the same date.

However, the CSS operates under an underlying guarantee from the Commonwealth Government. Further, the investigation shows that the projected combined Commonwealth costs in respect of the PSS and CSS reduce as a percentage of projected Gross Domestic Product over the next 40 years.



Martin A Stevenson
Fellow of the Institute of Actuaries
of Australia

Principal, Mercer Human Resource
Consulting Pty Limited



Tony Snoyman
Fellow of the Institute of Actuaries
of Australia

Principal, Mercer Human Resource
Consulting Pty Limited

February 2003

Board financial statements

Independent Audit report from ANAO
Financial Statements



INDEPENDENT AUDIT REPORT

To the Minister for Finance and Administration

Scope

The financial report comprises:

- Statement by the Chief Executive Officer and Finance Manager;
- Statement of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments; and
- Notes to and forming part of the financial report.

for CSS Board for the year ended 30 June 2004.

The Agency's Chief Executive and Finance Manager are responsible for the preparation and true and fair presentation of the financial statements in accordance with the Finance Minister's Orders. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

I have conducted an independent audit of the financial report in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to 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 of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of the procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Agency's financial position, and of its performance as represented by the statements of financial performance and cash flows.

GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit
BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Chief Executive.

Independence

In conducting the audit, I followed applicable independence requirements of the ANAO, which incorporate Australian professional ethical pronouncements.

Audit Opinion

In my opinion the financial statements:

- (i) have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (ii) give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of CSS Board as at 30 June 2004, and its financial performance and cash flows for the year then ended.

Australian National Audit Office



Ian P. Goodwin
Executive Director

Delegate of the Auditor-General

Canberra
7 September 2003

CSS Board

Statement by the Chief Executive and Finance Manager

In our opinion, the attached financial statements for the year ended 30 June 2004 give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*.



Susan Doyle
Chairperson
CSS Board



Barbara Wilson
Finance Manager
CSS Board

7 September 2004

CSS Board

Statement of Financial Performance
for the year ended 30 June 2004

| | Notes | 2004 \$ | 2003 \$ |
|----------------------------------------------------------------------------------------------------------------------|-------|------------------|------------------|
| REVENUE | | | |
| Revenues from ordinary activities | | | |
| Revenues from government | 4A | 4 500 | 2 000 |
| Sales of goods and services | 4B | 3 755 376 | 3 366 394 |
| Interest | 4C | - | 6 521 |
| Total revenues from ordinary activities | | 3 759 876 | 3 374 915 |
| EXPENSE | | | |
| Expenses from ordinary activities | | | |
| Employees | 5A | 1 380 596 | 1 011 642 |
| Suppliers | 5B | 2 173 143 | 1 989 393 |
| Depreciation and amortisation | 5C | 138 955 | 153 322 |
| Write-down of assets | 5D | 18 368 | - |
| Total expenses from ordinary activities | | 3 711 062 | 3 154 357 |
| Operating surplus/(deficit) from ordinary activities | | 48 814 | 220 558 |
| Net surplus/(deficit) | | 48 814 | 220 558 |
| Total changes in equity other than those resulting from transactions with the Australian Government as owners | | 48 814 | 220 558 |

The above *statement* should be read in conjunction with the accompanying notes.

CSS Board

Statement of Financial Position as at 30 June 2004

| | Notes | 2004 \$ | 2003 \$ |
|--------------------------------------------|-------|------------------|------------------|
| ASSETS | | | |
| Financial assets | | | |
| Cash | 6A | 471 200 | 343 577 |
| Receivables | 6B | 1 477 180 | 1 083 630 |
| Total financial assets | | <u>1 948 380</u> | <u>1 427 207</u> |
| Non-financial assets | | | |
| Prepayments | | 60 059 | 25 981 |
| Plant and equipment | 7A | 109 466 | 164 298 |
| Intangibles | 7B | 7 647 | 22 550 |
| Leasehold improvements | 7C | 168 100 | 197 614 |
| Total non-financial assets | | <u>345 272</u> | <u>410 443</u> |
| TOTAL ASSETS | | <u>2 293 652</u> | <u>1 837 650</u> |
| LIABILITIES | | | |
| Provisions | | | |
| Employees | 8A | 254 636 | 160 636 |
| Total provisions | | <u>254 636</u> | <u>160 636</u> |
| Payables | | | |
| Suppliers | 8B | 1 093 607 | 872 227 |
| Other | 8C | 309 674 | 224 300 |
| Total payables | | <u>1 403 281</u> | <u>1 096 527</u> |
| TOTAL LIABILITIES | | <u>1 657 917</u> | <u>1 257 163</u> |
| NET ASSETS | | <u>635 735</u> | <u>580 487</u> |
| EQUITY | | | |
| Parent equity interest | | | |
| Contributed equity | 9A | 359 929 | 359 929 |
| Retained surpluses or accumulated deficits | 9A | 220 558 | - |
| Asset revaluation reserve | 9A | 6 435 | - |
| Current year results | 9A | 48 814 | 220 558 |
| Total parent equity interest | | <u>635 736</u> | <u>580 487</u> |
| TOTAL EQUITY | | <u>635 736</u> | <u>580 487</u> |
| Current assets | | 2 008 439 | 1 453 188 |
| Non-current assets | | 285 213 | 384 462 |
| Current liabilities | | 1 578 465 | 1 220 499 |
| Non-current liabilities | | 79 452 | 36 664 |

The above *statement* should be read in conjunction with the accompanying notes.

CSS Board

Statement of Cash Flows
for the year ended 30 June 2004

| | Notes | 2004 \$ | 2003 \$ |
|------------------------------------------------|-------|------------------|------------------|
| OPERATING ACTIVITIES | | | |
| Cash received | | | |
| Goods and services | | 4 015 938 | 2 989 356 |
| Interest | | | 6 521 |
| Total cash received | | <u>4 015 938</u> | <u>2 995 877</u> |
| Cash used | | | |
| Employees | | 1 266 123 | 854 229 |
| Suppliers | | 2 332 049 | 1 524 611 |
| Net GST paid to ATO | | 238 504 | 100 943 |
| Total cash used | | <u>3 836 676</u> | <u>2 479 783</u> |
| Net cash from operating activities | 10 | <u>179 262</u> | <u>516 094</u> |
| INVESTING ACTIVITIES | | | |
| Cash used | | | |
| Purchase of plant and equipment | | 32 724 | 43 822 |
| Purchase of computer software | | - | 15 932 |
| Leasehold improvements | | 18 914 | 112 763 |
| Total cash used | | <u>51 638</u> | <u>172 517</u> |
| Net cash used by investing activities | | <u>(51 638)</u> | <u>(172 517)</u> |
| Net increase in cash held | | 127 624 | 343 577 |
| Cash at the beginning of the reporting period | | 343 577 | - |
| Cash at the end of the reporting period | | <u>471 201</u> | <u>343 577</u> |

The above *statement* should be read in conjunction with the accompanying notes.

CSS Board
 Schedule of Commitments
 as at 30 June 2004

| | Notes | 2004 \$ | 2003 \$ |
|------------------------------------|-------|-----------------------|-----------------------|
| BY TYPE | | | |
| Other commitments | | | |
| Operating leases | | 459 728 | 489 267 |
| Total other commitments | | <u>459 728</u> | <u>489 267</u> |
| Commitments receivable | | <u>(41 793)</u> | <u>(44 479)</u> |
| Net commitments | | <u><u>417 934</u></u> | <u><u>444 788</u></u> |
| BY MATURITY | | | |
| Operating lease commitments | | | |
| One year or less | | 139 808 | 89 745 |
| From one to five years | | 278 126 | 355 043 |
| Over five years | | - | - |
| Net commitments by maturity | | <u><u>417 934</u></u> | <u><u>444 788</u></u> |

Operating leases include leases for accommodation and motor vehicles.

The above *schedule* should be read in conjunction with the accompanying notes.

CSS Board

Notes to and forming part of the financial statements for the year ended 30 June 2004

CONTENTS

NOTE

| | |
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| 3 | Events Occurring after Reporting Date |
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| 5 | Expenses from Ordinary Activities |
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| 16 | Financial Instruments |
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CSS Board

Notes to and forming part of the financial statements for the year ended 30 June 2004

Note 1 Summary of Significant Accounting Policies

1.1 Objectives of CSS Board

The CSS Board is established under section 27B of the *Superannuation Act 1976* the 'CSS Act'. The CSS Board administers the Commonwealth Superannuation Scheme 'CSS' in accordance with the provisions of the CSS Act and is responsible for the management and investment of the CSS Fund. /in its capacity as a prescribed agency under the *Financial Management and Accountability Act 1997*, the CSS Board conducts its activities through the CSS Special Account. The objective of the CSS Board is to provide superannuation services that meet the expectations of Government, employers, members and beneficiaries and which comply with the superannuation regulatory environment.

The CSS Board's sole source of income is from external sources and therefore there are no appropriations included.

During the financial year ended 30 June 2004, the CSS Board's activities were funded through:

- an agreed share of the scheme administration charges collected by ComSuper from employers participating in the CSS scheme; and
- charges to the CSS Fund to recover the cost of administering and managing the CSS Fund.

1.2 Basis of accounting

The CSS Act requires the CSS Board to prepare annual audited financial statements in respect of the CSS Fund and Scheme. These are separate financial statements presented in a form agreed between the Minister for Finance and Administration and the CSS Board.

These financial statements, which represent the CSS Board's scheme administration activities, are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose report.

The statements have been prepared in accordance with:

- the Finance Minister's Orders (being the Financial Management and Accountability (Financial Statements for reporting periods ending on or after 30 June 2004) Orders);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and,
- Consensus View of the Urgent Issues Group.

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets, which as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets and liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are however not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies.

Revenues and expenses are recognised in the Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

CSS Board

Notes to and forming part of the financial statements for the year ended 30 June 2004

Note 1 Summary of Significant Accounting Policies (cont.)

1.3 Revenue

Revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or other agreements to provide services to Commonwealth bodies. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the disposal of non-current assets is recognised when control of the assets has passed to the buyer.

Resources Received Free of Charge

Services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised at their fair value when the asset qualifies for recognition, unless received from another government agency as a consequence of a restructuring of administrative arrangements (refer to Note 1.5)

1.4 Transactions With the Government as Owner

Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Commonwealth agency or authority under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

1.5 Employee Entitlements

(a) Benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including any non-monetary benefits), annual leave and sick leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of their reporting date are also to be measured at their nominal amount.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefits liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

CSS Board

Notes to and forming part of the financial statements
for the year ended 30 June 2004**Note 1 Summary of Significant Accounting Policies (cont.)**

(b) Leave

The liability for employee benefits includes provisions for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the CSS Board is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including employer superannuation rates.

The non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows made in respect of all employees at 30 June 2004.

(c) Separation and Redundancy

Separation and redundancy costs are recognised when the CSS Board has formally identified positions as excess to requirements and no suitable alternative position within the CSS Board is available.

(d) Superannuation

The trustees and employees of the CSS Board are eligible to participate to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme. The liability for their superannuation benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government as and when it falls due.

The CSS Board makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Board's trustees and employees.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

1.6 Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Where a non-current lease is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the inception of the lease and a liability recognised for the same amount. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a basis, which is representative of the pattern of benefits derived from the leased asset.

1.7 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution.

CSS Board

Notes to and forming part of the financial statements for the year ended 30 June 2004

Note 1 Summary of Significant Accounting Policies (cont.)

1.8 *Financial Instruments*

Accounting policies for financial instruments are stated at Note 16.

1.9 *Acquisition of Assets*

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor entity's accounts immediately prior to the restructuring.

1.10 *Property (Land, Buildings and Infrastructure, Plant and Equipment)*

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than \$2 000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Revaluations

Basis

Plant and equipment for the year ended 30 June 2004 is carried at fair value. The fair value of plant and equipment has been determined on the basis of a valuation conducted by the Australian Valuation Office as at 30 June 2004.

Plant and equipment for the year ended 30 June 2004 is carried at fair value. The fair value of plant and equipment has been determined on the basis of a valuation conducted by the Australian Valuation Office as at 30 June 2004.

Assets which are surplus to requirements are measured at depreciated replacement cost. At 30 June 2004 and 30 June 2003, the CSS Board did not have assets surplus to its requirements.

Frequency

The Finance Minister's Orders require that all plant and equipment assets be measured at up-to-date fair values for the financial year ending 30 June 2005 and subsequent years.

Conduct

All valuations are conducted by an independent qualified valuer.

Depreciation/amortisation Policy

Depreciable plant and equipment assets are written-off to their estimated residual values over their useful lives to the CSS Board, using, in all cases, the straight-line method of depreciation. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

CSS Board

Notes to and forming part of the financial statements
for the year ended 30 June 2004

Note 1 Summary of Significant Accounting Policies (cont.)

Depreciation/amortisation rates (useful lives) and methods are reviewed each balance date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Depreciation and amortisation rates applying to each class of depreciable assets are based on the following useful lives:

| Asset Type | No of years |
|------------------------|-------------|
| Computer hardware | 3 |
| Office Equipment | 5 |
| Furniture and fittings | 7-15 |

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 5C.

1.11 Intangibles

The CSS Board's intangibles comprise purchased software. These assets are carried at cost.

The carrying amount of each non-current intangible asset is reviewed to determine whether the asset has been impaired. The carrying amount of impaired assets must be written down to the higher of its net market selling price or depreciated replacement cost.

Software is amortised on a straight-line basis over its anticipated useful lives.

The useful life of the CSS Board's purchased software is 3 years.

1.12 Taxation

The CSS Board, in respect of its administration monies, is exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST).

Revenues, expenses and assets are recognised net of GST:

- except where the amount of GST incurred is not recoverable from the Australian Taxation Office; and,
- except for receivables and payables.

1.13 Insurance

The CSS Board has insured for trustee indemnity risks through insurance policies with American Home Assurance Company; public liability, fire/perils, accidental damage, business interruption and burglary risks through insurance policies with QBEMM Insurance; and business travel and group personal risks through insurance policies held with Accident & Health Underwriting (security with Allianz Australia). Workers compensation risks are insured through ComCare.

1.14 Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at the balance date. Associated currency gains and losses are not material.

CSS Board

Notes to and forming part of the financial statements for the year ended 30 June 2004

Note 2 Adoption of AASB Equivalents to International Financial Reporting Standards from 2005–2006

The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply for financial years beginning on or after 1 January 2005. The new standards are the AASB Equivalents to International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board. The new standards cannot be adopted early. The standards being replaced are to be withdrawn and will cease to apply to financial years beginning on or after 1 January 2005, but continue to apply in the meantime.

The purpose of issuing AASB Equivalents to IFRSs is to enable Australian entities reporting under the *Corporations Act 2001* to be able to more readily access overseas capital markets by preparing their financial reports according to accounting standards more widely used overseas.

It is expected that the Finance Minister will continue to require compliance with the Accounting Standards issued by the AASB, including the AASB Equivalents to IFRSs, in his Orders for the preparation of Agency financial statements for financial years ending 30 June 2006 and subsequent years.

The AASB Equivalents contain certain additional provisions which will apply to not-for-profit entities, including Australian Government agencies. Some of these provisions are in conflict with the IFRSs and therefore the CSS Board will only be able to assert compliance with the AASB Equivalents to the IFRSs.

Existing AASB standards that have no IFRS equivalent will continue to apply, including in particular, *AAS 29, Financial Reporting by Government Departments*.

Accounting Standard AASB 1047 Disclosing the Impact of Adopting Australian Equivalents to IFRSs requires that the financial statements for the year ending 30 June 2004 disclose:

- An explanation of how the transition to the AASB Equivalents is being managed, and
- A narrative explanation of the key differences in accounting policies arising from the transition.

The purpose of this Note is to make these disclosures.

Management of the transition to AASB Equivalents to IFRSs

The CSS Board has taken the following steps for the preparation towards the implementation of AASB Equivalents:

- The CSS Board's Audit and Risk Management Committee is tasked with oversight of the transition to and implementation of the AASB Equivalents to IFRSs. The Finance Manager is formally responsible to the Audit Committee on progress towards implementation of the AASB Equivalents to IFRSs.
- The following key steps are to be undertaken and deadlines set for their achievement:
 - Identification of all major accounting policy differences between current AASB standards and the AASB Equivalents to IFRSs.
 - Identification of systems changes necessary to be able to report under the AASB Equivalents, including those necessary to enable capture of data under both sets of rules for the financial year ending 30 June 2005, and the testing and implementation of those changes.
 - Preparation of a transitional balance sheet as at 1 July 2004, under AASB Equivalents, within six months of 30 June 2004.

CSS Board

Notes to and forming part of the financial statements
for the year ended 30 June 2004**Note 2 Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006 (Cont'd)**

- Preparation of a AASB Equivalent balance sheet at the same time as for the year ending 30 June 2005 statements are prepared.
- Meeting reporting deadlines set by the Department of Finance for 2005-06 balance sheet under AASB Equivalent Standards.
- The plan also addresses the risks to successful achievement of the above objectives and includes strategies to keep implementation on track to meet deadlines.

Major changes in accounting policy

Changes in accounting policies under AASB Equivalents are required to be applied retrospectively, i.e. as if the new policy had always applied. These requirements mean that a balance sheet prepared under the AASB Equivalents must be made as at 1 July 2004, except as permitted in particular circumstances by *AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This will enable the financial statements for the year ending 30 June 2006 to report comparatives under the AASB Equivalents also.

Changes to major accounting policies are discussed in the following paragraphs.

Property, plant and equipment

It is expected that the Finance Minister's Orders (FMOs) will require plant and equipment assets to be measured at up-to-date fair value at the financial year ending 30 June 2005. As the values at which assets are carried as at 30 June 2004 are fair value at 30 June 2004, these values will stand in the transitional balance sheet as at 1 July 2004.

Impairment of Non-current assets

The CSS Board's policy on impairment of non-current assets is at note 1.11.

Under the new AASB Equivalent Standard, non-current assets will be subject to assessment for impairment and, if there are indications of impairment, measurement of any impairment. (Impairment measurement must also be done, irrespective of any indications of impairment, for intangible assets not yet available for use). The impairment test is that the carrying amount of an asset must not exceed the greater of (a) its fair value less costs to sell and (b) its value in use. 'Value in use' is the net present value of net cash inflows of the CSS Board.

Employee benefits

The provision for long service leave is currently measured at the present value of estimated future cash outflows using market yields as at the reporting date applicable to national government bonds.

Under the new AASB Equivalent standard, the national government bonds will be used unless there is a deep market in high quality corporate bonds, in which case the market yield on such bonds must be used.

CSS Board

Notes to and forming part of the financial statements for the year ended 30 June 2004

Note 3: Events Occurring after Reporting Date

The CSS Board is not aware of any events after balance date that would give rise to any adjustments as to the values of assets and/or liabilities included in the statement of financial position as at the reporting date or to the revenues and expenses included in the statement of financial performance for the current reporting period.

Note 4: Operating Revenues

| | 2004 | 2003 |
|----------------------------------------------------|--------------|--------------|
| | \$ | \$ |
| <i>Note 4A: Revenues from Government</i> | | |
| Resources received free of charge - audit services | 4 500 | 2 000 |
| Total revenues from government | 4 500 | 2 000 |

Note 4B: Sales of Goods and Services

| | | |
|--------------------------------------------------------|------------------|------------------|
| CSS Board's share of agency fees collected by ComSuper | 971 340 | 987 147 |
| Administration fees from the CSS Fund | 2 770 576 | 2 379 247 |
| Other | 13 460 | - |
| Total sales of goods and services | 3 755 376 | 3 366 394 |

Note 4C: Interest Revenue

| | | |
|----------------------|---|-------|
| Interest on deposits | - | 6 521 |
|----------------------|---|-------|

Note 5: Expenses from Ordinary Activities

Note 5A: Employees

| | | |
|----------------------------------------|------------------|------------------|
| Wages and salary | 1 177 868 | 869 048 |
| Superannuation | 131 791 | 97 768 |
| Leave and other entitlements | 54 910 | 31 721 |
| Other | 9 284 | 10 740 |
| Total employee benefit expenses | 1 373 853 | 1 009 277 |
| Workers compensation premiums | 6 744 | 2 365 |
| Total employee expenses | 1 380 597 | 1 011 642 |

Note 5B: Suppliers

| | | |
|-------------------------------------------|------------------|------------------|
| Goods and services from related entities | 455 775 | 463 525 |
| Goods and services from external entities | 1 588 604 | 1 405 085 |
| Operating lease rentals - accommodation. | 128 764 | 120 783 |
| Total supplier expenses | 2 173 143 | 1 989 393 |

CSS Board

Notes to and forming part of the financial statements
for the year ended 30 June 2004

Note 5: Expenses from Ordinary Activities (cont.)

| | 2004 \$ | 2003 \$ |
|-----------------------------------------------|----------------|----------------|
| <i>Note 5C: Depreciation and amortisation</i> | | |
| Depreciation - plant and equipment | 69 188 | 65 505 |
| Amortisation of software | 14 903 | 17 529 |
| Amortisation of leasehold improvements | 54 864 | 70 288 |
| Total depreciation and amortisation | 138 955 | 153 322 |

The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable assets are as follows:

| | | |
|------------------------|----------------|----------------|
| Plant and equipment | 69 188 | 65 505 |
| Computer software | 14 903 | 17 529 |
| Leasehold improvements | 54 864 | 70 288 |
| | 138 955 | 153 322 |

No depreciation or amortisation was allocated to the carrying amount of other assets.

Note 5D: Write-down of Assets

| | | |
|---------------------------------------------|---------------|----------|
| Plant and equipment - revaluation decrement | 18 368 | - |
| Total write-down of assets | 18 368 | - |

Note 6: Financial Assets

Note 6A: Cash

| | | |
|---------------------------|---------|---------|
| Cash on hand and at bank: | | |
| CSS Special Account | 471 200 | 343 577 |

Note 6B: Receivables

| | | |
|----------------------------------------------------|------------------|------------------|
| Goods and services | 1 228 806 | 914 099 |
| GST receivable from the Australian Taxation Office | 131 787 | 111 710 |
| Accrued income | 116 587 | 57 820 |
| Total receivables | 1 477 180 | 1 083 630 |

All receivables are current assets.

Receivables (gross) are aged as follows:

| | | |
|--------------------------|------------------|------------------|
| Not Overdue | 1 462 855 | 1 083 630 |
| Overdue by: | | |
| Less than 30 days | 11 000 | - |
| 30 to 60 days | 958 | - |
| 60 to 90 days | - | - |
| Over 90 days | 2 367 | - |
| Total receivables | 1 477 180 | 1 083 630 |

CSS Board

Notes to and forming part of the financial statements for the year ended 30 June 2004

Note 7: Non Financial Assets

| | 2004 \$ | 2003 \$ |
|-------------------------------------|----------------|----------------|
| <i>Note 7A: Plant and equipment</i> | | |
| At cost | - | 277 046 |
| At 2004 valuation (fair value) | 109 466 | - |
| Accumulated depreciation | - | (112 748) |
| Total plant and equipment | 109 466 | 164 298 |

Note 7B: Intangibles - computer software

| | | |
|----------------------------------------------|--------------|---------------|
| At cost | 48 301 | 48 301 |
| Accumulated amortisation | (40 654) | (25 751) |
| Total intangibles - computer software | 7 647 | 22 550 |

Note 7C: Leasehold Improvements

| | | |
|-------------------------------------|----------------|----------------|
| At cost | - | 252 531 |
| At 2004 valuation (fair value) | 168 100 | - |
| Accumulated amortisation | - | (54 917) |
| Total leasehold improvements | 168 100 | 197 614 |

All revaluations are independent and are conducted in accordance with the revaluation policy stated at Note 1. The most recent valuation was conducted as at 30 June 2004 by an independent valuer, the Australian Valuation Office.

Movement in Asset Revaluation Reserve:
Increment for leasehold improvements

6 435 -

Decrement for Plant and Equipment expensed (note 5D):

(18 368) -

Note 7D: Analysis of property, plant, equipment and intangibles

Table A: Reconciliation of the opening and closing balances of property, plant, equipment and intangibles

| Item | Plant & Equipment | Intangibles | Leasehold Improvements | Total |
|------------------------------------------|-------------------|-------------|------------------------|-----------|
| As at 1 July 2003: | | | | |
| Gross book value | 277 046 | 48 301 | 252 531 | 577 878 |
| Accumulated depreciation/amortisation | (112 748) | (25 751) | (54 917) | (193 416) |
| Net book value | 164 298 | 22 550 | 197 614 | 384 462 |
| Assets purchased | 32 724 | - | 18 914 | 51 638 |
| Depreciation/amortisation expense | (69 188) | (14 903) | (54 864) | (138 955) |
| Net valuation increment/decrement | (18 368) | - | 6 435 | (11 933) |
| Disposals | - | - | - | - |
| As at 30 June 2004 | | | | |
| Gross book value | 109 466 | 48 301 | 168 100 | 325 867 |
| Accumulated depreciation/amortisation | o | (40 654) | o | (40 654) |
| Net book value as at 30 June 2004 | 109 466 | 7 647 | 168 100 | 285 213 |

CSS Board

Notes to and forming part of the financial statements
for the year ended 30 June 2004

Note 8: Provisions and Payables

| | 2004 \$ | 2003 \$ |
|-------------------------------------------------|----------------|----------------|
| <i>Note 8A: Employee provisions</i> | | |
| Salaries and wages | 101 392 | 63 369 |
| Leave | 141 778 | 86 868 |
| Superannuation | 12 441 | 7 801 |
| Other | (975) | 2 598 |
| Aggregate employee entitlement liability | 254 636 | 160 636 |

| | | |
|----------------------------------|---------|---------|
| Current | 192 945 | 123 972 |
| Non-current (long service leave) | 61 692 | 36 664 |

Note 8B: Trade suppliers - current liability

| | | |
|--------------------------------------------------|------------------|----------------|
| Trade creditors - accrued expenses | 737 466 | 557 129 |
| Trade creditors - unpaid invoices | 356 141 | 315 098 |
| Total trade suppliers - current liability | 1 093 607 | 872 227 |

Trade suppliers are classified as:

| | | |
|-------------------------|------------------|----------------|
| Current Liabilities | 1 093 607 | 872 227 |
| Non-current Liabilities | - | - |
| | 1 093 607 | 872 227 |

Note 8C: Other Payables

| | | |
|----------------------------------------|----------------|----------------|
| Lease incentive - non interest bearing | 23 681 | - |
| GST payable to ATO | 213 360 | 172 140 |
| PAYG withholding payable to ATO | 72 633 | 52 160 |
| | 309 674 | 224 300 |

CSS Board

Notes to and forming part of the financial statements
for the year ended 30 June 2004

Note 9: Equity

Note 9A: Analysis of Equity

| Item | Accumulated Results | | Asset Revaluation Reserve | | Contributed Equity | | Total | |
|---------------------------------------------------------------|---------------------|----------------|---------------------------|----------|--------------------|----------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Opening balance as at 1 July | 220,558 | - | - | - | 359,929 | - | 580,487 | - |
| Net Surplus/deficit | 48,814 | 220,558 | - | - | - | - | 48,814 | 220,558 |
| Net revaluation increment | - | - | 6,435 | - | - | - | 6,435 | - |
| Transactions with owner: | | | | | | | | |
| Contributions by owner: | | | | | | | | |
| Restructuring | - | - | - | - | - | 359,929 | - | 359,929 |
| Closing balance as at 30 June | 269,372 | 220,558 | 6,435 | - | 359,929 | 359,929 | 635,736 | 580,487 |
| Less: outside equity interests | - | - | - | - | - | - | - | - |
| Total equity attributable to the Australian Government | 269,372 | 220,558 | 6,435 | - | 359,929 | 359,929 | 635,736 | 580,487 |

CSS Board

Notes to and forming part of the financial statements
for the year ended 30 June 2004

Note 9B: Restructuring

The CSS Board became a prescribed authority under the *FMA Act* on 1 July 2002. Prior to 1 July 2002, the details of the CSS Board's entire financial activities were included in ComSuper's financial statements.

On 1 July 2002, ComSuper transferred net assets and liabilities to the CSS Board for no consideration. The net book value of those assets and liabilities were:

| | 2004 \$ | 2003 \$ |
|------------------------------|------------|----------------|
| Total assets recognised | - | 365 267 |
| Total liabilities recognised | - | (5 339) |
| Net assets assumed | - | 359 929 |

Note 10: Cash Flow Reconciliation

Reconciliation of cash per Statement of Financial Position to Statement of Cash Flows

| | | |
|---------------------------------------------------------------------------------------|---------|---------|
| Cash at end of year per Statement of Cash Flows | 471 201 | 343 577 |
| Statement of Financial Position items comprising above cash: 'Financial asset - Cash' | 471 200 | 343 577 |

Reconciliation of net surplus to net cash from operating activities:

| | | |
|-----------------------------------------------------|----------------|----------------|
| Net surplus (deficit) | 48 814 | 220 558 |
| Depreciation/amortisation | 138 955 | 153 322 |
| Write down of non-current assets | 18 368 | - |
| (Increase)/decrease in net receivables | (393 550) | (1 052 719) |
| (Increase)/decrease in prepayments | (34 079) | (25 981) |
| Increase/(decrease) in employee provisions | 114 473 | 140 687 |
| Increase/(decrease) in supplier payables | 221 380 | 853 329 |
| Increase/(decrease) in other provisions | 64 900 | 226 898 |
| Net cash from/(used by) operating activities | 179 262 | 516 094 |

Note 11: Contingent Liabilities and Assets

The CSS Board had no contingent liabilities or assets as at 30 June 2004.

CSS Board

Notes to and forming part of the financial statements
for the year ended 30 June 2004

Note 12: Executive Remuneration

Staff are employed jointly by the CSS Board and PSS Board. The number of executives who received or who were due to receive total remuneration of \$100 000 or more from the CSS & PSS Boards:

| | 2004 | 2003 |
|------------------------|------|------|
| \$100 000 to \$109 999 | 2 | 1 |
| \$110 000 to \$119 999 | 1 | - |
| \$120 000 to \$129 999 | 1 | - |
| \$140 000 to \$149 999 | - | 1 |
| \$160 000 to \$169 999 | 1 | - |
| \$180 000 to \$189 999 | - | 1 |
| \$200 000 to \$209 999 | 1 | - |
| \$230 000 to \$239 999 | - | 1 |
| \$250 000 to \$259 999 | - | 1 |
| \$260 000 to \$269 999 | 1 | - |
| \$280 000 to \$289 999 | - | 1 |
| \$300 000 to \$309 999 | 1 | - |
| \$340 000 to \$349 999 | 1 | - |

The aggregate amount of total remuneration of executives shown above . 1 725 054 1 208 238

There were no separation and redundancy/termination benefit payments during the year to executives shown above.

| 2004 | 2003 |
|------|------|
| \$ | \$ |

Note 13: Remuneration of Auditors

Financial statement audit services are provided free of charge to the CSS Board.

The fair value of the services provided was:

| | |
|-------|-------|
| 4 500 | 2 000 |
|-------|-------|

Amounts received or due and receivable by the Australian National Audit Office as auditors of the CSS Fund.

| | |
|--------|--------|
| 58 000 | 52 000 |
|--------|--------|

Note 14: Average Staffing Levels

The average staffing levels for the CSS Board and PSS Board during the year were:

| | |
|-------|-------|
| 18.68 | 14.18 |
|-------|-------|

Note 15: Act of Grace Payments, Waivers and Defective Administration Scheme

No 'Act of Grace' payments were made during the reporting period, and there are no amounts owing as at year end.

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997*.

No payments were made under the 'Defective Administration Scheme' during the reporting period.

CSS Board

Notes to and forming part of the financial statements
for the year ended 30 June 2004

Note 16: Financial Instruments

Note 16A: Terms, Conditions and Accounting Policies

| Financial Instrument | Notes | Accounting Policies and Methods (including recognition criteria and measurement basis) | Nature of Underlying Instrument (including significant terms & conditions affecting amount, timing and certainty of cash flows) |
|------------------------------------|-------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| FINANCIAL ASSETS | | Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured. | |
| Cash | 4A | Cash is recognised at its nominal amount. | The CSS Board does not earn interest on its operational bank account. |
| Receivables for goods and services | 4B | These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely. | Credit terms are net 3 days. |
| FINANCIAL LIABILITIES | | Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured. | |
| Trade creditors | 6B | Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods and services have been received (and irrespective of having been invoiced) | Normal trading terms of settlement are within 30 days. |

CSS Board

Notes to and forming part of the financial statements
for the year ended 30 June 2004

Note 16: Financial Instruments

Note 16C: Net Fair Values of Financial Assets and Liabilities

| | | 2004 | | 2003 | |
|--------------------------------------|--------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | | \$ | \$ | \$ | \$ |
| | | Total Carrying Amount | Aggregate Net Fair Value | Total Carrying Amount | Aggregate Net Fair Value |
| Departmental Financial Assets | | | | | |
| | Notes | | | | |
| Cash | 4A | 471 200 | 471 200 | 343 577 | 343 577 |
| Receivables for goods and services | 4B | 1 477 180 | 1 477 180 | 1 083 630 | 1 083 630 |
| Total financial assets | | <u>1 948 380</u> | <u>1 948 380</u> | <u>1 427 207</u> | <u>1 427 207</u> |
| Financial Assets | | | | | |
| Trade suppliers | 6B | 1 093 607 | 1 093 607 | 872 227 | 872 227 |
| Total Financial Liabilities | | <u>1 093 607</u> | <u>1 093 607</u> | <u>872 227</u> | <u>872 227</u> |

The net fair values of cash and non-interest-bearing monetary financial assets approximate their carrying amounts.

The net fair values for trade suppliers and lease incentives are approximated by their carrying amounts.

Note 16D: Credit Risk Exposures

The CSS Board's maximum exposure to credit risk as at the reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as disclosed in the Statement of Financial Position.

The CSS Board has no significant exposures to any concentrations of credit risk.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

CSS Board—Financial statements

CSS Board

Notes to and forming part of the financial statements
for the year ended 30 June 2004

Note 16: Financial Instruments

Note 16B:

Interest Rate Risk

| Financial Instrument | Notes | Floating Interest Rate | | Fixed Interest Rate Maturing In | | | | | | Non Interest Bearing | | | Total | | | Weighted Average Effective Interest Rate | | |
|------------------------------------|-------|------------------------|---------|---------------------------------|--------------|-----------|------|------|------|----------------------|-----------|-----------|-----------|-----------|-----------|------------------------------------------|------|------|
| | | 2004 | 2003 | 1 Year or Less | 1 to 5 Years | > 5 Years | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | |
| Financial Assets | | | | | | | | | | | | | | | | | | |
| Cash | 6A | - | 343 577 | - | - | - | - | - | - | - | - | 471 200 | - | - | 471 200 | 343 577 | n/a | 1.9% |
| Receivables for goods and services | 6B | - | - | - | - | - | - | - | - | - | 1 477 180 | 1 083 630 | 1 477 180 | 1 083 630 | 1 477 180 | 1 083 630 | n/a | n/a |
| Total | | - | 343 577 | - | - | - | - | - | - | - | 1 948 380 | 1 083 630 | 1 948 380 | 1 427 207 | 2 293 652 | 1 837 650 | | |
| Total Assets | | | | | | | | | | | | | | | | | | |
| Financial Liabilities | | | | | | | | | | | | | | | | | | |
| Trade creditors | 8B | - | - | - | - | - | - | - | - | - | 1 093 607 | 872 227 | 1 093 607 | 872 227 | 1 093 607 | 872 227 | n/a | n/a |
| Total | | - | - | - | - | - | - | - | - | - | 1 093 607 | 872 227 | 1 093 607 | 872 227 | 1 657 917 | 1 257 163 | | |
| Total Liabilities | | | | | | | | | | | | | | | | | | |

CSS Board

Notes to and forming part of the financial statements for the year ended 30 June 2004

Note 17: Special Accounts

| | 2004 \$ | 2003 \$ |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| CSS Special Account (Departmental) | | |
| <i>Legal Authority: Financial Management and Accountability Act 1997, s20</i> | | |
| <i>Purpose: For expenditure relating to:</i> | | |
| <i>- the administration of the CSS Scheme by the CSS Board;</i> | | |
| <i>- the performance of any other function conferred on the CSS Board under legislation; or</i> | | |
| <i>- the management and investment of the CSS Fund by the CSS Board, where a corresponding amount has been or is to be credited to the Account from the CSS Fund in respect of such expenditure.</i> | | |
| Balance carried forward from previous year | 343 577 | - |
| Costs recovered from non-government sector | | |
| Services - Rendering of services to external entities | 2 690 286 | 2 002 209 |
| Other receipts: | | |
| Services - Rendering of services to related entities | 971 340 | 1 028 960 |
| Interest Revenue - Interest on deposits | - | 6 521 |
| GST refunds received | 354 312 | 253 093 |
| Amount available for expenditure | 4 359 515 | 3 290 783 |
| Expenditure | (3 888 314) | (2 947 206) |
| Balance carried to next year | 471 201 | 343 577 |
| Represented by | | |
| Cash | 471 200 | 343 577 |
| Total | 471 200 | 343 577 |

CSS Board

Notes to and forming part of the financial statements for the year ended 30 June 2004

Note 18A: Net Cost of Outcome Delivery

| | Outcome 1 | | Total |
|-----------------------------------------------------------------------------------|------------------|------------------|------------------|
| | 2004 \$ | 2003 \$ | |
| Departmental Expenses | 3 711 062 | 3 154 357 | 3 154 357 |
| Costs recovered from provision of goods and services to the non-government sector | | | |
| Departmental | 2 784 036 | 2 379 247 | 2 784 036 |
| Total costs recovered | 2 784 036 | 2 379 247 | 2 379 247 |
| Other external revenues | | | |
| Departmental | 0 | 6 521 | 0 |
| Interest on cash deposits | 971 340 | 987 147 | 971 340 |
| Goods and services revenue from related entities | 4 500 | 2 000 | 4 500 |
| Other | | | 2 000 |
| Total other external revenues | 975 840 | 995 668 | 995 668 |
| Net cost/(contribution) of outcome | (48 814) | (220 558) | (220 558) |

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget outcome.

Note 18B: Major Classes of Departmental Revenues and Expenses by Outputs

| | Output Group 1.1 | | Outcome 1 Total |
|------------------------------------|------------------|------------------|------------------|
| | 2004 \$ | 2003 \$ | |
| Departmental expenses | | | |
| Employees | 1 380 597 | 1 011 642 | 1 011 642 |
| Suppliers | 2 173 143 | 1 989 393 | 1 989 393 |
| Depreciation and amortisation | 138 955 | 153 322 | 153 322 |
| Other expenses | 18 368 | - | - |
| Total departmental expenses | 3 711 062 | 3 154 357 | 3 154 357 |
| Funded by: | | | |
| Revenues from Government | 4500 | 2 000 | 2 000 |
| Sale of goods and services | 3 755 376 | 3 666 394 | 3 666 394 |
| Other non-taxation revenues | - | 6 521 | 6 521 |
| Total departmental revenues | 3,759,876 | 3,674,915 | 3,674,915 |

Outcome 1 is described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual Budget outcome.

CSS Board

Notes to and forming part of the financial statements for the year ended 30 June 2004

Note 19: Additional Information

The CSS Board is established under section 27B of the *Superannuation Act 1976*. The Board is responsible for the administration of the Commonwealth Superannuation Scheme and the management and investment of the CSS Fund. The Board has offices in Canberra and Sydney.

Registered Office and Principal Place of Business:

10th Floor
12 Moore Street
CANBERRA ACT 2601
Tel: (02) 6263 6999

Appendices

- A: CSS in brief
- B: Organisation chart—Executive unit
- C: Functional chart
- D: Changes to legislation
- E: Departments and approved authorities
- F: Eligible superannuation schemes
- G: Freedom of Information
- H: Publications
- I: Contact officer
- J: Compliance
- K: Staffing statistics
- L: Consultancies
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- N: Glossary

Appendix A: CSS in brief

Investment

Table A1: Asset allocation

| Sector Type at 30 June 2004 | Investment Manager | \$m | % |
|--------------------------------------------------|----------------------------------------------------------|----------------|---------------|
| AUSTRALIAN SHARES | | 1,744.8 | 30.7% |
| Index | Colonial First State Investments Limited | 177.7 | 3.1% |
| Active | Balanced Equity Management Pty Ltd | 391.5 | 6.9% |
| | Barclays Global Investors Australia Limited | 115.4 | 2.0% |
| | Concord Capital Limited | 201.2 | 3.6% |
| | GMO Australia Limited | 221.9 | 3.9% |
| | Investors Mutual Limited | 76.3 | 1.3% |
| | JB Were Asset Management Limited | 204.3 | 3.6% |
| | 452 Capital Pty Limited | 157.7 | 2.8% |
| Alternative | Various* | 198.8 | 3.5% |
| INTERNATIONAL SHARES | | 1,427.3 | 25.3% |
| Index | Vanguard Investments Australia Ltd | 135.8 | 2.4% |
| Active | AXA Rosenberg Investment Management Asia Pacific Limited | 225.8 | 4.0% |
| | BIAM Australia Pty Ltd | 231.8 | 4.1% |
| | Marathon Asset Management (Australia) Limited | 199.9 | 3.5% |
| | Marvin & Palmer Associates, Inc | 178.7 | 3.2% |
| | Rexiter Capital Management Limited | 69.5 | 1.2% |
| | Wellington International Management Company Pte Limited | 263.6 | 4.7% |
| | Alternative | Various* | 122.2 |
| Currency Overlay | State Street Global Advisors Limited | n/a | n/a |
| AUSTRALIAN BONDS | | 598.1 | 10.5% |
| Index | Colonial First State Investments Limited | 567.3 | 10.0% |
| | Other* | 30.8 | 0.5% |
| INTERNATIONAL BONDS | | 400.6 | 7.1% |
| Active | BlackRock Financial Management, Inc | 150.9 | 2.7% |
| | Bridgewater Associates, Inc | 154.7 | 2.7% |
| | Delaware International Advisors Ltd | 78.0 | 1.4% |
| | Other* | 17.0 | 0.3% |
| MARKET NEUTRAL | | 292.6 | 5.2% |
| Active | Financial Risk Management Ltd | 95.5 | 1.7% |
| | Harris Alternative LLC | 112.8 | 2.0% |
| | Mesirow Advanced Strategies Inc | 84.3 | 1.5% |
| Currency Overlay | State Street Global Advisors Limited | n/a | n/a |
| PROPERTY | | 492.1 | 8.7% |
| Active | Colonial First State Property Limited | 492.1 | 8.7% |
| CASH | | 708.2 | 12.5% |
| Index | Colonial First State Investments Limited | 489.8 | 8.6% |
| Active | Macquarie Investment Management Limited | 129.1 | 2.3% |
| | Colonial First State Investments Limited | 129.1 | 2.3% |
| | Other* | -39.8† | -0.7%† |
| TOTAL INVESTMENTS (post fees and pre tax) | | 5 663.7 | 100.0% |

* Managers with less than 1% each of the Fund's assets are not listed.

† This represents the unrealised profit/loss from the Fund's currency hedges.

Table A2: Fund Investments

| Sector | Holdings at | Proportion | Holdings at | Proportion |
|-------------------------------|----------------|---------------|----------------|---------------|
| | 30 June 03 | of Scheme | 30 June 04 | of Scheme |
| | \$m | % | | |
| Australian Shares | 1 486.2 | 28.6% | 1 744.8 | 30.7% |
| International Shares | 1 181.5 | 22.7% | 1 427.3 | 25.3% |
| Australian Bonds | 636.9 | 12.2% | 598.1 | 10.5% |
| International Bonds | 736.0 | 14.1% | 400.6 | 7.1% |
| Market Neutral | 90.9 | 1.7% | 292.6 | 5.2% |
| Property | 827.3 | 15.9% | 492.1 | 8.7% |
| Cash | 249.8 | 4.8% | 708.2 | 12.5% |
| Total Fund Investments | 5 208.6 | 100.0% | 5 663.7 | 100.0% |

Table A3: Fund Performance

| Sector | One-year performance | | Three-year performance | | Five-year performance | |
|----------------------|----------------------|-------------|------------------------|------------|-----------------------|------------|
| | Portfolio | B'mark* | Portfolio | B'mark* | Portfolio | B'mark* |
| | % | % | % | % | % | % |
| Australian Shares | 23.8 | 22.1 | 7.0 | 4.3 | 9.9 | 7.4 |
| International Shares | 22.6 | 20.2 | -0.3 | -5.6 | 1.7 | -2.3 |
| Australian Bonds | 2.6 | 2.3 | 6.0 | 6.1 | 6.3 | 6.4 |
| International Bonds | 5.2 | 3.3 | 5.4 | 4.0 | N/A | N/A |
| Market Neutral | 10.9 | 8.6 | N/A | N/A | N/A | N/A |
| Property | 10.6 | 12.3 | 9.9 | 11.1 | 10.3 | 10.9 |
| Cash | 5.6 | 5.3 | 4.6 | 5.0 | 5.0 | 5.3 |
| Total Fund | 13.9 | 14.1 | 3.8 | 1.3 | 5.5 | 3.5 |

* See notes at page 42

Fund Investments

Chart A1: Fund size at 30 June for past five years

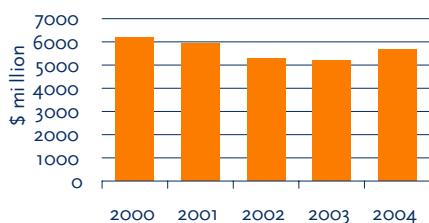


Table A4: Fund size at 30 June for past five years

| FINANCIAL YEAR | Value \$m | Change % |
|----------------|--------------|-------------|
| 1999–00 | 6 188.0 | 10.1 |
| 2000–01 | 5 946.7 | -3.9 |
| 2001–02 | 5 299.2 | -10.9 |
| 2002–03 | 5 208.6 | -1.7 |
| 2003–04 | 5 663.7 | 8.7 |

Scheme membership

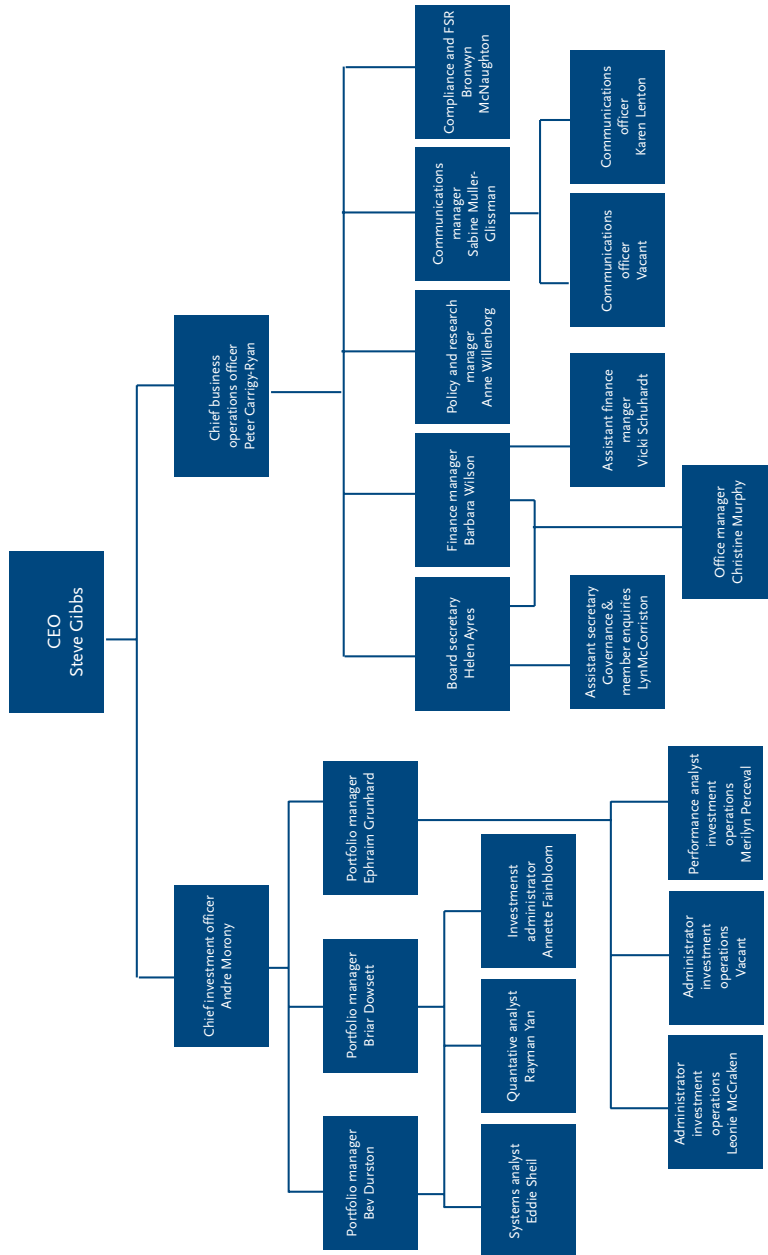
Table A5: Scheme membership

| Contributors at 30 June | 2003 | 2004 | Increase / (Decrease) |
|-----------------------------------------------|----------|----------|--------------------------|
| Male | 25 396 | 23 536 | (1 860) |
| Female | 11 920 | 11 148 | (772) |
| Total | 37 316 | 34 684 | (2 632) |
| Total member contributions | \$149m | \$144m | (\$5m) |
| Contributor exits at 30 June | 2003 | 2004 | |
| Age retirement | 686 | 751 | 65 |
| Retrenchment (involuntary and sale of assets) | 966 | 830 | (136) |
| Invalidity | 95 | 111 | 16 |
| Death | 37 | 40 | 3 |
| Resignation | 1 242 | 1169 | (73) |
| Total | 3 026 | 2 901 | (125) |
| Deferred benefit members at 30 June | 2003 | 2004 | |
| Total | 13 429 | 12 826 | 603 |
| Deferred benefit claims at 30 June | 2003 | 2004 | |
| Age (Including DUP and Postponed) | 2 378 | 2 096 | (282) |
| Invalidity | 23 | 17 | (6) |
| Death | 18 | 12 | (6) |
| Total | 2 419 | 2 125 | (294) |
| Pensions in force at 30 June | 2003 | | |
| Age retirement | 48 972 | 48 782 | (190) |
| Involuntary retirement | 14 756 | 14 724 | (32) |
| Invalidity retirement | 23 064 | 21 139 | (1 925) |
| Spouse and orphans | 29 440 | 28 319 | (1 121) |
| Total | 116 232 | 112 964 | (3 268) |
| Pensions paid | \$2 322m | \$2 437m | (\$115m) |
| Average yearly pension | \$19 982 | \$21 863 | \$1 881 |

Appendix B: Organisation chart—Executive unit

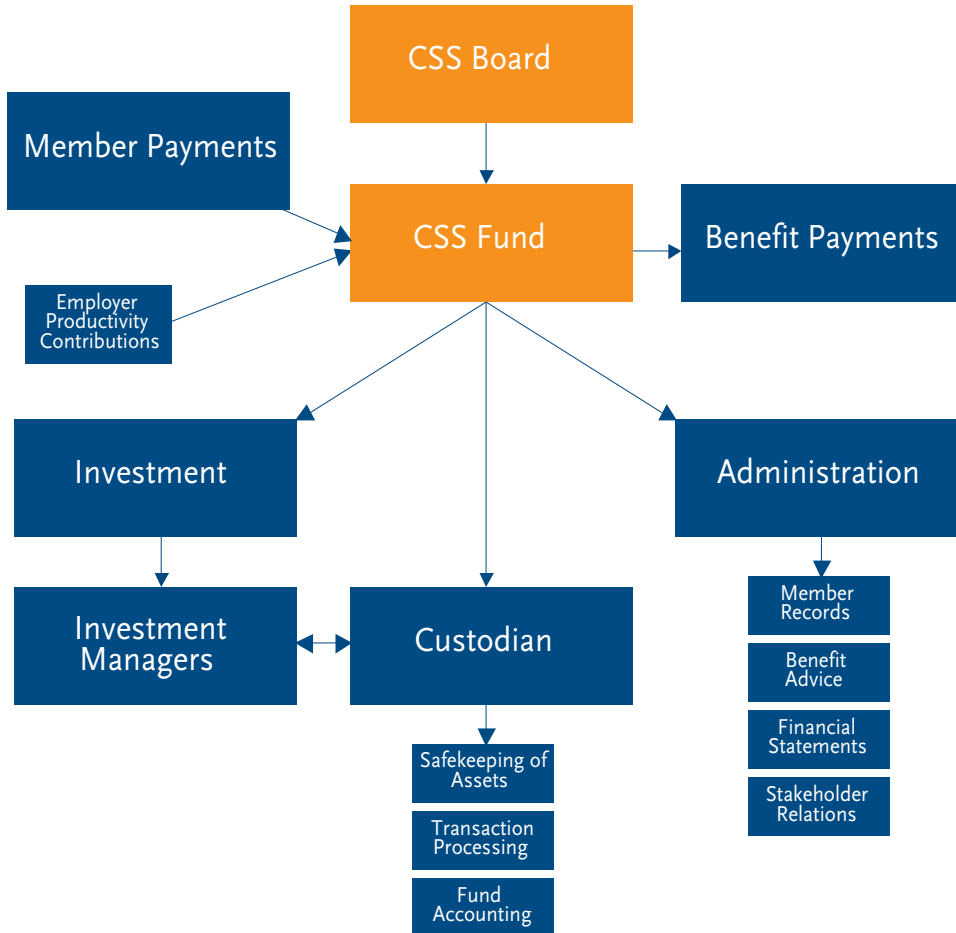
Illustration 3: Organisation chart

PSS/CSS Executive unit organisation chart 2003–2004



Appendix C: Functional chart

Illustration 4: functional chart



Appendix D: Changes to legislation

Family Law amendments

The *Superannuation Legislation Amendment (Family Law and Other Matters) Act 2004* came into force on 18 May 2004. These amendments allowed for the creation of a separate interest in favour of a non-member spouse where the member's superannuation is split pursuant to the *Family Law Act 1975*.

The Family Law (Superannuation) (Methods and Factors for Valuing Particular Superannuation Interests) Approval 2003 (Volume 1) as prepared on 18 May 2004, sets out methods and factors for interests of members in the PSS and CSS.

The Superannuation (Family Law—Superannuation Act 1976) Orders 2004, commencing on 18 May 2004 provides detailed information for implementation of the Family Law amendments under the *Superannuation Legislation Amendment (Family Law and Other Matters) Act 2004*.

The Family Law (Superannuation) (Provision of information—Commonwealth Superannuation Scheme) Determination 2004 provides rules as to when the Trustee of the CSS must provide information.

Other legislative amendments

The *Superannuation Legislation (Commonwealth Employment) Repeal and Amendment Act (No.1) 2003*, makes a number of changes affecting CSS members and their benefits, in particular providing members with a number of new options relating to reversionary benefits and further contributions to their superannuation.

The *Financial Services Reform Act 2001* provides for a new licensing and disclosure regime for financial service providers. The new law is aimed at improving the quality of service and advice provided to consumers of financial products. The CSS obtained its Australian Financial Services License on 20 January 2004.

The *Superannuation Government Co-Contribution For Low Income Earners (Consequential Amendments) Act 2003* commenced on 12 November 2003. This legislation enables the Government to contribute to the superannuation of low-income earners.

Appendix E: Departments and approved authorities

At 30 June 2004 the following departments and approved authorities were employers of people who were eligible to contribute to the CSS:

Departments

Agriculture, Fisheries and Forestry
Attorney-General's
Information Technology and the Arts
Defence
Education, Science and Training
Employment and Workplace Relations
Environment and Heritage
Family and Community Services
Department of Finance and Administration
Foreign Affairs and Trade
Health and Ageing
House of Representatives
Immigration and Multicultural and Indigenous Affairs
Industry, Tourism and Resources
Joint House
Parliamentary Library
Parliamentary Reporting Staff
Prime Minister and Cabinet
Senate
Transport and Regional Services
Treasury
Veterans' Affairs

Approved authorities

Aboriginal and Torres Strait Islander Commercial Development Corporation
Aboriginal Areas Protection Authority
Aboriginal Hostels
ACTEW Corporation Ltd
Adelaide Symphony Orchestra Pty Ltd
Airservices Australia
Albury Wodonga Development Corporation
Anglo–Australian Telescope Board
Australia Council
Australian Broadcasting Corporation
Australian Capital Territory
Australian Dairy Corporation
Australian Film Commission
Australian Film, Television and Radio School
Australian Fisheries Management Authority
Australia Foundation for Culture and the Humanities Ltd
Australian Institute of Aboriginal and Torres Strait Islander Studies
Australian Institute of Criminology
Australian Institute of Family Studies
Australian Institute of Marine Science
Australian International Hotel School
Australian Marine Science and Technology Limited
Australian Maritime College
Australian Maritime Safety Authority
Australian National Training Authority
Australian National University
Australian Nuclear Science and Technology Organisation
Australian Pork Corporation
Australian Sports Commission
Australian Sports Drug Agency
Australian Tourist Commission
Australian Trade Commission
Australian Wine and Brandy Corporation
Calvary Hospital ACT Incorporated
Canberra Theatre Trust
Centralian College
Civil Aviation Safety Authority
Conservation Commission of the Northern Territory
Commonwealth Scientific and Industrial Research Organisation
Cotton Research and Development Corporation
Dairy Research and Development Corporation
Export Finance and Insurance Corporation

Film Australia
Fisheries Research and Development Corporation
Forest and Wood Products Research and Development Corporation
Grains Research and Development Corporation
Health Insurance Commission
Health Services Australia Ltd
High Court of Australia
Horticultural Research and Development Corporation
Indigenous Land Corporation
Katherine Rural College
Land and Water Resources Research and Development Corporation
Law Courts Limited
Aid Commission (ACT)
Melbourne Symphony Orchestra
Menzies School of Health Research
Murray Darling Basin Commission
Museums and Art Galleries Board established by the Museums and Art Galleries Ordinance 1965 (Northern Territory)
National Gallery of Australia
National Registration Authority of Agriculture and Veterinary Chemicals
National Standards Commission
Northern Territory of Australia
Northern Territory Tourist Commission
Northern Territory University
Nuclear Safety Bureau
Pig Research and Development Corporation
Power and Water Authority
Private Health Insurance Administration Council
Private Health Insurance Complaints Commissioner
Queensland Orchestras Pty Ltd
Rural Industries Research and Development Corporation
Snowy Mountains Hydro-Electric Authority
Special Broadcasting Service
Sugar Research and Development Corporation
Sydney Symphony Orchestra Holdings Pty Limited
Symphony Australia Holdings Pty Ltd
Tasmania Symphony Orchestra Holdings Pty Ltd
Totalcare Industries Limited
Trade Development Zone Authority
University College, the College established by the University of New South Wales within the Australian Defence Force Academy
University of Canberra
West Australian Symphony Orchestra Holdings Pty Ltd

Appendix F: Eligible superannuation schemes

A Transfer Value may be paid to a superannuation scheme which has been declared by the Minister for Finance and Administration to be an eligible superannuation scheme for the purposes of the Commonwealth Superannuation Scheme.

The following schemes have been declared eligible.

- Superannuation schemes established under the following acts:

Defence Force Retirement and Death Benefits Act 1973;
Parliamentary Contributory Superannuation Act 1948, and
Superannuation (State Public Sector) Act 1990 (QLD)

- The superannuation schemes known as:

AIDC Executive Superannuation Plan;
AIDC Staff Superannuation Plan;
Army and Air Force Canteen Service Superannuation Scheme;
Australian Wool Corporation Provident Fund;
AUSSAT Superannuation Fund;
AV Super (formerly known as the CAA Staff Superannuation Fund);
Gladstone Area Water Board Staff Superannuation Scheme;
Gladstone Port Authority Staff Superannuation Scheme;
Gold Coast Waterways Staff Superannuation Scheme;
Government Officer's Superannuation Scheme (Gosuper) (Queensland);
Livestock and Meat Authority of Queensland Superannuation Scheme;
Northern Territory Government and Public Authorities Superannuation Scheme;
Queensland Ambulance Transport Brigade Staff Superannuation Scheme;
Queensland Electricity Supply Industry Superannuation Scheme;
Queensland Industry Development Corporation Superannuation Scheme;
Queensland Local Government Employees Superannuation Scheme;
Queensland Parliamentary Contributory Superannuation Scheme;
Queensland Police Superannuation Scheme;
Queensland State Service Superannuation Scheme;
UniSuper Investment Choice Plan;
Townsville Port Authority Staff Superannuation Scheme;
University of Newcastle Staff Superannuation Scheme.

Appendix G: Freedom of Information

Freedom of Information

Matters associated with the administration of the *Freedom of Information Act 1982* are dealt with by ComSuper's Corporate Reporting and Parliamentary Liaison Unit.

CSS members made 52 requests for access to documents during 2003–04. Of these requests 45 were granted in full, with partial release granted in five cases, and two requests were refused. The requests took an average of 1.8 days to process.

Enquiries relating to the documentary disclosure of information about the personal affairs of clients of the agency under the provisions of the *Freedom of Information Act 1982* should be directed to:

Corporate Reporting and Parliamentary Liaison Unit
ComSuper
PO Box 22
Belconnen ACT 2616
Tel: (02) 6272 9080
Fax: (02) 6272 9802
TTY: (02) 6272 9827
Email: foi@comsuper.gov.au
Website: www.comsuper.gov.au

Freedom of Information Act statement

This statement is provided in accordance with section 8 of the *Freedom of Information Act 1982* (the FOI Act).

Functions of ComSuper

The general functions of ComSuper are described in the main body of this report and in the *Commissioner for Superannuation Annual Report 2003–04*.

Decision-making powers

With effect 1 July 1994 the *Superannuation Legislation Act 1994* transferred the Commissioner for Superannuation's decision making powers to the CSS Board. The Commissioner does, however, retain powers for all decisions taken prior to 1 July 1994.

Sections 17 and 17A of the *Superannuation Act 1976* contain the decision-making powers. Section 25 of the 1976 Act contains the authority for the Commissioner to delegate powers.

The decision-making powers of the CSS Board are set out in sections 27C and 27D of the *Superannuation Act 1976*. The authority for the CSS Board to delegate its powers and functions is set out in section 27Q of that Act.

The CSS Board retains full responsibilities in relation to fund investment and invalidity assessment.

FOI internal procedures

All requests for documents held by ComSuper are referred to ComSuper's Corporate Reporting and Parliamentary Liaison Unit. Compliance with the application fee provisions of the FOI Act are verified and the request is registered and acknowledged. The documents are then obtained and the request is considered by the Unit.

Decisions to grant access, levy charges, or refuse access are made by an APS Level 5 in the Corporate Reporting and Parliamentary Liaison Unit.

Requests for internal review of FOI decisions are also referred to the Unit. They are then forwarded to ComSuper's Reconsideration section where they are investigated by Executive Level 1 officers prior to submission to the CSS Board or its delegate for decision under section 54 of the FOI Act.

Facilities for access

Facilities for viewing documents are provided only at the ComSuper office in Canberra, as ComSuper has no regional offices. Publications may be inspected at ComSuper's FOI Unit, and copies (for which there may be a charge) can be obtained by writing to ComSuper.

Information about facilities for access by people with disabilities can be obtained by contacting:

Corporate Reporting and Parliamentary Liaison Unit, ComSuper
PO Box 22
Belconnen ACT 2616
Tel: (02) 6272 9080
Fax: (02) 6272 9802
TTY:(02) 6272 9827
email: foi@comsuper.gov.au
Website: www.comsuper.gov.au

Consultative arrangements

Informal and ad hoc arrangements exist whereby the national, state and territory branches of the Superannuated Commonwealth Officers' Association, and those unions whose members are covered by the CSS, may make representations relating to the general administration of the Schemes. Representations are also received which relate to the determination of individual contributors' benefit entitlements.

Requests for consultation and/or representations relating to policy aspects of the Schemes and their underlying legislation are referred to the Superannuation Branch of the Department of Finance and Administration which has responsibility for advising the Minister for Finance and Administration on such matters.

Categories of documents

The CSS Board maintains no categories of documents that are open to public access as part of a public register or otherwise, in accordance with an enactment other than the FOI Act, where that access is subject to a fee or other charge. Books and leaflets that describe various aspects of the superannuation schemes, and annual reports, are made available to the public free of charge upon request. They are also available free of charge from the CSS website.

Appendix H: Publications

The Board publishes the following publications as well as a series of fact sheets for the benefit of members.

The CSS Book is a general information book that is intended as a reference book for members and personnel officers.

Publications

CSS Retirement Options Product Disclosure Statement
The CSS Book (amended 23 June 2004)
CSS Benefit Tables
Service Charter of our Administrator ComSuper
Taxation of Lump Sum and Pension Benefits
Taxation Concessions—Deductible Amounts & Superannuation Pension Rebates
Mini report 2004—Take a walk into the future
Annual Member statement pack 2002–03

Fact sheets

Changing from Permanent Full-time to Permanent Part-time
Co-contribution for Members Earning Less than \$40,000 p.a.
Death Benefits
Invalidity Benefits
Family Law and Your Super
Leave Without Pay
The MAC Report on Organisational Renewal
Pensions for an Eligible Spouse
Post Retirement Marriages
Postponement of Benefits
Preservation of Benefits
Reasonable Benefit Limits (RBLs)
Retrenchment Benefits
Revised CSS Exit Rate Policy
Salary Reductions and Your Super
Supplementary Contributions
Superannuation Contributions Surcharge
Transfers In
Transfer of Performance Based Pay

These publications are available online at www.css.gov.au or can be obtained from Information Officers on 13 23 66; from National Mailing and Marketing on telephone (02) 6269 1000 or facsimile (02) 6260 2770.

Appendix I: Contact officer

Information is available to Members of Parliament, Senators and members of the public on request.

In the interests of timeliness and conciseness, this report has been designed to provide fundamental information. Requests for more detailed information should be directed to:

The CSS Board

Street address: Suite 2, Level 10
12 Moore Street
Canberra City ACT 2600

Postal address: GPO Box 1907
Canberra City ACT 2601

Telephone: (02) 6263 6999

Facsimile: (02) 6263 6900

Website: www.css.gov.au

Email: secretary.csspss@csb.gov.au

Appendix J: Compliance

While this report is not a Departmental annual report, the Board has endeavoured to comply with the 'Requirements for Annual Reports', where applicable. Details of ComSuper's operations are provided in the Commissioner for Superannuation Annual Report 2003–04.

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| Ecologically sustainable development and environmental performance | 16 |

Appendix K: Staffing statistics

Staffing profile

Table K1: Staff numbers at 30 June 2004

| Employment Category | Male | Female | Total |
|--------------------------------------------------|------|--------|-------|
| Staff employed jointly by the CSS and PSS Boards | 7 | 14 | 21 |

Non-salary benefits

The CSS Board offers all staff a variety of non-salary benefits that are individually negotiated. Examples of benefits that may be packaged include leased motor vehicles, laptop computers, professional membership fees and additional superannuation.

Benefits that may be included in a salary package are those that attract either no Fringe Benefits Tax (FBT) or a concessional rate of FBT.

Performance pay

During 2003–04, the CSS Board paid a total of \$49 350 in performance bonuses to eight staff. The average performance bonus paid was therefore \$6 169.

Appendix L: Consultancies

The CSS Board engages consultants where a specialist skill or expertise is required or where internal resources are unavailable. Consultants are typically engaged to:

- investigate or diagnose a defined issue;
- carry out defined reviews or evaluations; or
- provide independent advice, information or solutions to assist the CSS Board in its decision making.

These consultancies have been distinguished from other service provider contracts by the nature of the work performed, which typically involves the application of expert professional skills and the exercising of expert judgement.

Investment and management of the CSS Fund

The investments of the Fund (other than cash held for meeting daily administrative and benefit expenses) are managed on behalf of the Board by specialist sector fund managers who are required to invest the assets allocated for management, in accordance with the terms of a written investment mandate.

During 2003–04, the Board also employed three investment advisors: Towers Perrin, JANA Investment Advisors and Wilshire Australia, together with Chase Manhattan Bank (trading as JPMorgan) as their master custodian. The total amount paid to investment managers, advisors and the custodian during the year was \$12 034 000

Board administration consultancies

Policy

The Board's policy on selection and engagement of consultants is based on the core principles set out in the Commonwealth Procurement Guidelines (CPGs):

- value for money;
- open and effective competition;
- ethics and fair dealing;
- accountability and reporting;
- national competitiveness and industry development; and
- support for other Australian Government policies.

The following table provides details of consultancies jointly engaged by the PSS Board and CSS Board during 2003–04 with a contract value, GST inclusive, of \$10 000 or more.

Selection Method Categories

The selection methods used for consultancies are categorized as follows:

Open tender: public tenders are sought from the marketplace using national and major metropolitan newspaper advertising.

Select tender: tenders are invited from a short list of competent suppliers.

Justification Categories:

Technical: need for access to the latest technology.

Skill: need for specialized skills.

Ind: need for an independent view.

Board administration consultancies

During 2003–04 the CSS and PSS Boards jointly engaged the following consultancies.

Table L1: Board administration consultancies

| Consultant Name | Description | Value \$ | Selection Method | Principal Justification |
|----------------------------------------|-------------------------------------------------------------------------------------|------------------|------------------|-------------------------|
| Allens Arthur Robinson | Legal advice on various Fund investments | 25 468 | Select Tender | Skill |
| Adcorp Green | Communications development and advice | 322 353 | Select Tender | Skill |
| Blake Dawson Waldron | Legal advice on investments and scheme administration | 39 014 | Select Tender | Skill |
| Bronwyn McNaughton | Assist the Boards in meeting ASIC, APRA and other compliance requirements | 42,254 | Select Tender | Skill |
| Cath King & Associates | Taxation advice and taxation compliance services in respect of the Boards and Funds | 104 753 | Select Tender | Skill |
| Cost Effective Measurement | Benchmarking services in respect of the Funds | 22 000 | Select Tender | Skill |
| Corporate Governance International | Proxy voting services | 49 500 | Select Tender | Skill |
| Ernst & Young, Sydney | Internal audit advice | 69 975 | Select Tender | Skill |
| Ernst & Young Canberra | Development and preparation of Boards Fraud Control Plans | 14 701 | Select Tender | Skill |
| Ferrier Hodgson | Review of CSS Fund investment transactions | 270 506 | Select Tender | Ind |
| Grant Samuel Corporate Finance | Advice regarding certain Fund investments | 15 400 | Select Tender | Skill |
| Mallesons | Legal advice on various Fund investments and scheme administration matters | 92 922 | Select Tender | Skill |
| Morris Walker | Communications development and advice. Preparation of annual publications | 469 700 | Select Tender | Skill |
| Peter Carrigy-Ryan | Advice on compliance and other ad hoc matters | 89 499 | Select Tender | Skill |
| PricewaterhouseCoopers | Taxation advisory and tax agent services to the Boards and Funds | 296 904 | Select Tender | Skill |
| Rice Walker Actuaries | Actuarial advice in respect of the CSS Fund | 17 050 | Select Tender | Skill |
| Total PSS and CSS Consultancies | | 1 941 999 | | |

Appendix M: Commonwealth Disability Strategy

Within the framework of the Commonwealth Disability Strategy, the CSS Board performs the role of 'provider' with performance measured against the following indicators:

- providers have established mechanisms for quality improvement and assurance;
- providers have an established service charter that specifies the roles of the provider and consumer and service standards which address accessibility for people with disabilities; and
- a complaints/grievance mechanism, including access to external mechanisms, is in place to address issues and concerns raised about performance.

In conjunction with its administrator, ComSuper, the CSS Board met all the requirements of the Commonwealth Disability Strategy in its role as provider.

Quality improvement and assurance mechanisms were in place during the year in the form of a client satisfaction survey conducted both by the Board, through independent research firm Orima Research, and by ComSuper which conducts an annual cyclical research program also through independent research firm Orima Research.

The CSS Board provides a website which was developed by contract to comply with Government Online guidelines and the World Wide Consortium (WC3) Web Content Accessibility Guidelines. For example, it is an HTML-based website which allows access to readers for the visually impaired.

Through ComSuper, CSS members have access to:

- a TTY phone line;
- a service charter specifying the roles and responsibilities of both ComSuper and its clients; and
- a complaints system to address issues and concerns raised by members.

Both the CSS Board Executive Unit offices and ComSuper's offices provide wheel chair access and facilities.

Appendix N: Glossary

| | |
|----------|---------------------------------------------------------|
| AASB | Australian Accounting Standards Board |
| ABN | Australian Business Number |
| ACTU | Australian Council of Trade Unions |
| AD(JR) | Act Administrative Decisions (Judicial Review) Act 1977 |
| AGEST | Australian Government Employees Superannuation Trust |
| ANAO | Australian National Audit Office |
| APRA | Australian Prudential Regulation Authority |
| ASFA | Association of Superannuation Funds of Australia |
| ASFL | Australian Superannuation Fund Licence |
| ASX | Australian Stock Exchange |
| ATO | Australian Taxation Office |
| CEO | Chief Executive Officer |
| CMSF | Conference of Major Superannuation Funds |
| ComSuper | Commonwealth Superannuation Administration |
| CPI | Consumer Price index |
| CPSU | Community and Public Section Union |
| CSS | Commonwealth Superannuation Scheme |
| CSS Act | Superannuation Act 1976 |
| DQI | Data Quality Index |
| Finance | Department of Finance |
| FMA Act | Financial Management and Accountability Act 1997 |
| FOI | Freedom of Information |
| FSR | Financial Services Reform |
| GMO | Grantham, Mayo, Van Otterloo & Co. LLC |
| GST | Goods and Services Tax |
| ICM | Independent Claims Management Pty Ltd |
| IFS | Industry Funds Services |
| ISBN | International Standard Book Numbering |
| ISSN | International Standard Serial Number |
| NRMA | National Roads and Motorists' Association Limited |
| NRMC | Natural Resource Management Consultants |
| PSS | Public Sector Superannuation (scheme) |
| PSS Act | Superannuation Act 1990 |
| QSI | Quality Service Index |
| RAC | Reconsideration Advisory Committee |
| S&P | Standard and Poors |
| SIS Act | Superannuation Industry (Supervision) Act 1993 |
| SCT | Superannuation Complaints Tribunal |
| SLA | Service Level Agreement |
| SPIN | Superannuation Product Identification Number |
| SRC Act | Superannuation (Resolution of Complaints) Act 1993 |
| TTY | Text Telephone (tele-typewriter) |
| UNEP | United Nations Environment Programme |

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