

# The CSS Board

ANNUAL REPORT 2004–2005

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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 2004–2005. 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 2005.

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".

Susan Doyle  
Chairman  
CSS Board  
30 September 2005



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## **Chairman's report**

I am pleased to report that it has been an excellent year for the Fund's investments. Continued growth throughout the year resulted in a strong 13.9% return. Over ten years, the Default Fund has returned 8.7% per annum, ahead of the longer term target of 7% per annum.

In December 2004, the Board introduced a Cash Investment Option which concluded its first seven months of operation with a return of 2.7%.

Significant regulatory and policy initiatives marked the 2004–2005 year. These included:

- a change to the former crediting rate policy to enable fairer distribution of earnings between remaining and departing members.
- amendments to the *Superannuation Act 1976* and associated legislation, and

The Board is very appreciative of the support provided by the Minister and his Department on these matters.

I would like to thank Sally O'Loughlin who served the Board from July 2001 to March 2005 with her considerable knowledge of public service superannuation. In December 2004, the Board welcomed Graham Rogers as a new member, and in July 2005, Peter Feltham joined us.

Managing a complex scheme and investing one of Australia's largest funds requires expert support and I thank ComSuper, JPMorgan, JANA Investment Advisors, Wilshire Australia, all of our fund managers and other service providers for their continued efforts on behalf of our members and their employers.

Our staff continued to provide dedicated service during a year of significant progress and the Board is very appreciative of the results they achieved.



Susan Doyle  
Chairman  
CSS Board



## **Executive summary**

- > Investments
- > Governance and risk management
- > Administration
- > Regulatory environment
- > New Board member
- > Future directions

## Investments

The CSS Default Fund finished the 2004–2005 year with close to \$6 billion funds under management and over 44,000 members.

The CSS Cash Investment Option, introduced in December 2004, finished the 2004–2005 year with close to \$133 million funds under management and 638 members having chosen this option.

### Default Fund performance remains strong

The Default Fund earned 13.9% on its investments in 2004–2005, in excess of the longer term target of a nominal 7% per annum. Over five years, the Fund has returned 5.2% per annum and over 10 years 8.7% per annum. The Fund's performance continues to compare favourably with most other superannuation funds. Asset consulting firm Intech ranks the CSS return over the last three years in the top five of 64 growth funds it surveys annually.

### Cash Investment Option introduced

The Cash Investment Option was introduced in December 2004. After seven months of operation, it finished the 2004–2005 year with an investment return of 2.7% after fees and tax, in line with the benchmark once the impact of tax is taken into account.

### Strategic review confirmed investment objectives

The Board's annual review of its investment strategy endorsed the appropriateness of its investment objectives and broad strategy for the Fund.

The investment objectives of the Fund comprise a return objective and a volatility (risk) objective. Over the long term, the Board expects to achieve an average real return of no less than 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 Funds' investments are to be invested in illiquid assets, with a minimum cash allocation of 2%.

## Governance and risk management

The Board has a risk management strategy and a monitoring & review program in place to manage both business and investment risks. In addition, each year: the Auditor-General audits the Fund's accounts and records of financial transactions, records of assets and compliance with legislation; and an internal audit of the Board is undertaken by an external party.

The Board's investment governance focuses on managing risk and is driven by its primary investment objective to maximise long-term real returns whilst minimising short-term risks. The Board manages risk through:

- diversification across asset classes, individual assets and investment managers;
- continuous research and analysis;
- systematic compliance program;
- fraud control programs; and
- continuous monitoring of market performance, investment manager performance and relevant legislation.

In 2004–2005, the Board's Audit and Risk Committee implemented an electronic compliance system to assist with monitoring and reporting obligations of the Board's compliance program.

Investment risk is also managed through a global proxy voting program and a UN award-winning Governance Advisory Service (GAS) run by BT Funds Management.

## Administration

In 2004–2005, the Board's administration services, delivered by Commonwealth Superannuation Administration, scored well above average in the international benchmarking study conducted by Cost Effective Management. Client satisfaction, measured each year by Orima Research Pty Ltd, recorded the highest level of satisfaction since surveying began in 1997–1998.

Administration this year has been focused on:

- developing and implementing new business processes and systems for the cash investment option, super splitting arrangements under Family Law, and improved online services for members, pensioners and employers
- improving security, compliance and reporting standards
- ensuring customer services for both members and employers were up to date on the wide range of legislative changes and new initiatives such as the Australian Government Co-contributions, Cash Investment Option, Australian Financial Services Licence requirements, and Family Law splitting arrangements

In March 2005, the Minister for Finance and Administration agreed to an increase in annual administration fees necessary to enable the Board and its administrator to deliver necessary regulatory and policy initiatives in the future.

It was identified that a benefit payment arrangement, previously made available to some members employed by approved authorities was in breach of superannuation law. The arrangement allowed members to claim their deferred benefit although they continued to work for the same employer who contributed to their CSS superannuation. The Board was required by law to stop any future payments of this type. All members, that we were aware of, affected by this were personally contacted at that time.

Following a review of the 2003–2004 financial statements, the Board identified a miscalculation of a number of exit rates in the period between 1 November 2003 and 31 July 2004. Existing processes and procedures have been reviewed, and adjustments to former members' accounts are in the process of being completed at the time of publishing this report.

## Regulatory environment

This year has been marked by significant regulatory and policy initiatives including a number of amendments to the *Superannuation Act 1976* and associated legislation to give effect to the Government's accrual budgeting and reporting framework, as well as a number of specific issues such as Family Law splitting arrangements and Administrative Appeals Tribunal procedural changes.

In June 2005, the Government announced that CSS deferred benefit members will be able to access the transition to retirement arrangements without any amendments to the CSS legislation. In the past, some deferred members were already able to access their benefit whilst working; the new transition to retirement arrangements extend this option to most deferred members continuing employment with the same employer who contributed to their CSS super.

## New Board members

Mr Graham Rogers was appointed a member of the CSS Board in December 2004. Mr Rogers is an independent company director and chairman with over 25 years experience as a business leader in the financial services industry. He is an actuary by profession. Past roles include Chief Executive of Equitable Life and founder and first chief executive of Jacques Martin Group.

Mr Peter Feltham was appointed a member of the CSS Board in July 2005. Mr Feltham is currently a Project Officer with the Community and Public Sector Union (CPSU). He has worked for the CPSU and its predecessor organisations for over 20 years in a range of capacities at the state and national level as both an employee and official. Prior to this, Mr Feltham worked for 10 years in the public service.

## Future directions

The Board will continue to work closely with the Department of Finance and Administration, members, employers and other key stakeholders to ensure the Australian Government is able to provide its employees with affordable superannuation arrangements that deliver consistently good returns.

Legislation and policy initiatives by the Government and regulators will continue to be a focus for the Board in the 2005–2006 year.

The Superannuation Legislation Amendment (Superannuation Safety and Other Measures) Bill 2005 was introduced in June 2005 primarily to implement the Government's Safety of Super reforms. The Bill will amend the *Superannuation Act 1976* to include certain Safety of Superannuation reforms into the governing rules of the CSS.

In August 2004, the Minister for Finance and Administration announced the Government's response to the report by Mr John Uhrig on the review of corporate governance of statutory authorities and office holders. The Board is working closely with the Department of Finance and Administration in reviewing its legislative structure and applying the recommended governance templates through assessment by March 2006 and implementation by March 2007.

The Board will apply for an extended public offer licence for itself and registration for the CSS Fund under the APRA licensing regime. The Board must be licensed by, and registered with, the Australian Prudential and Regulatory Authority (APRA) by 1 July 2006.

The Board will work with its administrator to review and improve the capability and functionality of systems, and develop products and services for members and employers, which will meet their needs going into the future.

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

Steve Gibbs  
Chief Executive Officer



## The CSS Board

- > **CSS Board membership**
- > **Board objectives**
- > **Board staff**
- > **Board and Board committee meetings**

The CSS Board is a body corporate, established by 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.

## 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 2005 or who have been subsequently appointed are:



### **Ms Susan Doyle—appointed Chairman on 28 July 2003 to 27 July 2006**

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 David Connolly AM—appointed 19 September 2002 to 18 September 2005, reappointed to 30 June 2006**

Mr Connolly is a member of the CSS and PSS Boards and Chair 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 Karen Doran, Division Manager, Superannuation and Governance, Department of Finance and Administration to act in this position during a time of vacancy in the office of Mr Connolly.



### **Mr Peter Feltham—appointed 1 July 2005 to 30 June 2006**

Mr Feltham is a member of both CSS and PSS Boards. Mr Feltham is currently a Project Officer with the CPSU, the Community and Public Sector Union. He has worked for the CPSU and its predecessor organisations for over 20 years in a range of capacities at the state and national level as both an employee and official. Prior to this Mr Feltham worked for 10 years in the Australian Public Service. The Minister has appointed Mr John Flitcroft (a Board member from 1990 to 2001) to act in this position during a time of vacancy in the office of Mr Feltham.



### **Ms Winsome Hall—appointed 1 July 1996, reappointed to 30 June 2006**

Ms Hall is a member of both the CSS and PSS Boards and is a member of the Board's Audit and Risk Management Committee. Ms Hall is also a Director of Colonial First State Private Capital Limited, a listed venture capital investment company. She is also a director of Uniseed (UIIT Pty Ltd) as a nominee of the Westscheme superannuation fund. Uniseed was established by the University of Melbourne and the University of Queensland to fund emerging business from university research. In November 2004, Ms Hall was appointed as a consumer representative to the finance industry complaints scheme (FICS) panel. The FICS provides all users of financial services with a free complaints service as an alternative to litigation. Ms Hall has previously developed superannuation policy as a Senior Advisor in the Department of the Prime Minister and Cabinet and was secretary of the ACT Branch of the CPSU from 1989 to 1993. 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 Des Moore—appointed 9 September 2003 to 8 September 2006**

Mr Moore is a member of both the CSS and PSS Boards and a member of the Boards' Audit & Risk Management Committee. Mr Moore has had considerable experience 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 2001, reappointed to 30 June 2005. Resigned 10 March 2005**

Ms O'Loughlin was a member of both the CSS and PSS Boards and the Boards' Audit & Risk Management Committee until her resignation on 10 March 2005.

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 NRMC Pty Ltd and a Director of the AGEST Superannuation Fund. The Minister appointed Mr John Flitcroft (a Board member from 1990 to 2001) to act in this position during the time of vacancy in the office of Ms O'Loughlin.



### **Ms Joy Palmer—appointed 1 July 1996, reappointed to 30 June 2006**

Ms Palmer is a member of the CSS Board and was a member of the Boards Audit & Risk Management Committee until 11 November 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.



### **Mr Graham Rogers—appointed 20 December 2004 to 19 December 2007**

Mr Rogers is a member of the CSS Board. Mr Rogers is an independent company director and chairman with over 25 years experience as a business leader in the financial services industry. He is an actuary by profession. Past roles include Chief Executive of Equitable Life and founder and first chief executive of Jacques Martin Group. Mr Rogers has restructured the QBE group, rebuilt Colonial Investment Management Ltd. following the 1987 crash and initiated the Colonial Groups thrust into Asia. He formerly served two terms as Deputy Chairman of PHIAC (the Australian Health Insurance Regulator). He is currently also Chairman of Select Managed Funds Ltd. The Minister has appointed Ms Karen Doran, Manager, Superannuation and Governance Division, Department of Finance and Administration to act in this position during a time of vacancy in the office of Mr Rogers.

## **Board objectives**

**Table 1: Major business objectives for the 2004–2005 financial year:**

Objective	Outcome
Achieve an average real return over the longer term of no less than 4.5 per cent per annum after tax and fees, which derives from a nominal return of 7.0 per cent per annum	Average real return for the last ten years of 6.2%
Revise crediting and exit interest rate policies including application of restriction on negative rates	Crediting rate policy suspended August 2004, moving towards removal of restriction on negative rates

## **Board staff**

The Board's staff are 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 Board's staff are 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
- advising the Board on investment strategy
- coordinating advice from external advisers and overseeing the recommendations which go to the Board
- ensuring compliance with all relevant legislation and law
- communicating with members and, in particular preparing and producing Annual Member Statement Packs and Parliamentary reports
- 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 Mr David Connolly, Chairman, Ms Winsome Hall, Member; Mr Des Moore, Member. Ms Sally O'Loughlin was also a member of the Committee until her resignation on 10 March 2005.

There is also a Reconsideration Advisory Committee comprising four members (two independent and two representatives from the scheme administrator) with a quorum of three members, one of whom must be an independent member. The Committee currently comprises:

- Ms Anne Forward and Mr Bill Gray AM as the independent members, and
- any two of five nominated scheme administrator representatives.

## Board and Board Committee meeting attendance 2004–2005

**Table 2: Board and Board Committee meeting attendance 2004–2005**

	Board Meetings		Audit & Risk Management Committee Meetings	
	Attended	Eligible to Attend	Attended	Eligible to Attend
Susan Doyle	12	12	0	0
David Connolly	12	12	6	6
Des Moore	11	12	3	3
Graham Rogers	4	5	0	0
Winsome Hall	12	12	6	6
Joy Palmer	11	12	2	3
Sally O'Loughlin	7	8	1	1
John Flitcroft	4	4	0	0
Sandra Wilson	4	4	0	0
Karen Doran	3	3	0	0



## Overview

- > **Overview**
- > **Functional chart**
- > **Description of the Scheme**
- > **SIS compliance**
- > **Actuarial review**

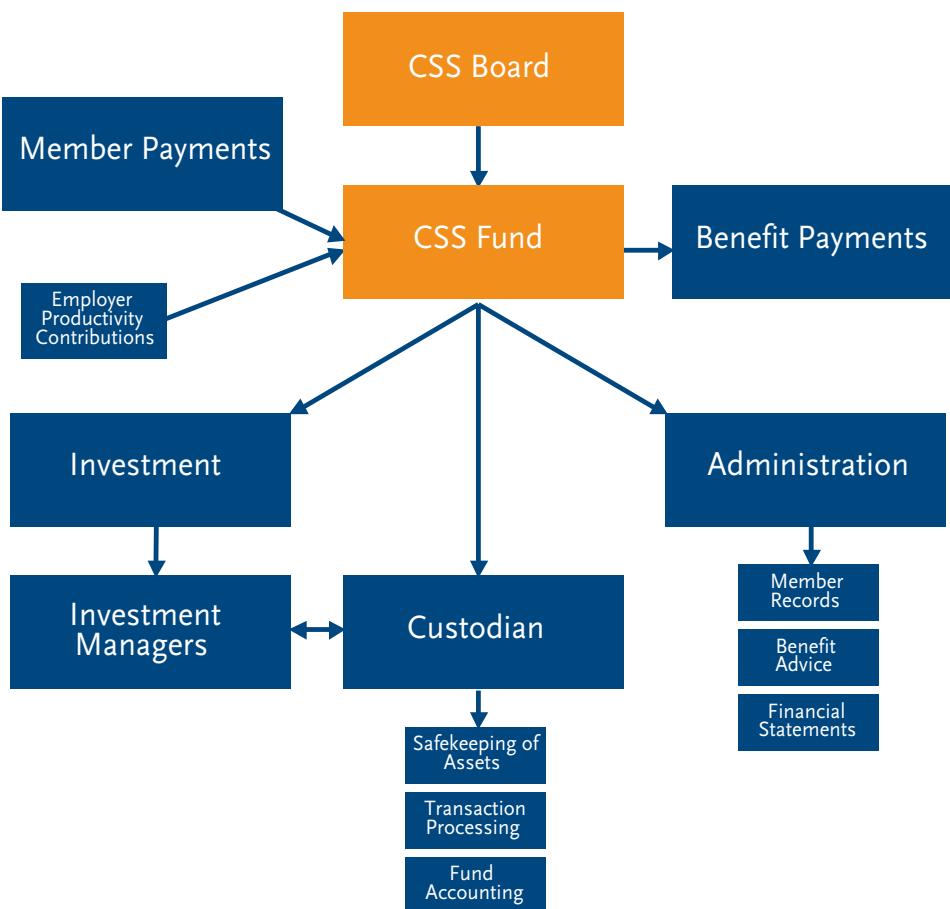
# Overview

Table 3: Overview

Established	The CSS was established on 1 July 1976 by the <i>Superannuation Act 1976</i> and closed to new members on 1 July 1990
Type	Combination of accumulation and defined benefit plans
Funds under management as at 30 June 2005	\$5.9 billion+
Members as at 30 June 2005	44 000+
Employer agencies as at 30 June 2005	247

## Functional chart

Illustration 1: Functional chart



# Description of the Scheme

The 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 earnings. Investment earnings are allocated to members accounts when they cease membership and claim a benefit.

## 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 earnings.

# 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 was completed by Mercers Human Resource Consulting Pty Ltd during 2002–2003. 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](http://www.finance.gov.au/super/pss_and_css_scheme_costs.html)).

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

**Table 4: Results of actuarial reviews**

	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 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 5: Actuarial projections**

Year ending 30 June	Estimated Australian Government CSS Costs \$m
2006	2 293
2007	2 121

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

The next actuarial review of the CSS as at 30 June 2005, will be undertaken during 2005–2006 by Mercers Human Resource Consulting Pty Ltd.

## **Board resources**

- > Human resources
- > Organisation chart
- > Financial resources

# Human resources

During 2004–2005, the number of staff employed jointly by the CSS and PSS Boards increased from 21 to 24 as the Boards expanded their investment, compliance and executive support teams. Staff employed directly by the Boards are engaged on fixed-term contracts.

## Staffing profile

**Table 6: Staff numbers at 30 June 2005**

Employment category	Male	Female	Total
Full-time staff employed jointly by the CSS and PSS Boards	8	13	21
Part-time staff employed jointly by the CSS and PSS Boards	0	3	3

## 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 are 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 2004–2005, the CSS Board (in conjunction with the PSS Board) paid a total of \$306 324 in performance bonuses to 19 staff. The average performance bonus paid was therefore \$16 122.

## 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 2004–2005, all Board staff participated in a range of continuing professional development activities, including attendance at major industry conferences such as the Conference of Major Superannuation Funds, the Association of Superannuation Funds Australia and the Australian Superannuation Investment Conference.

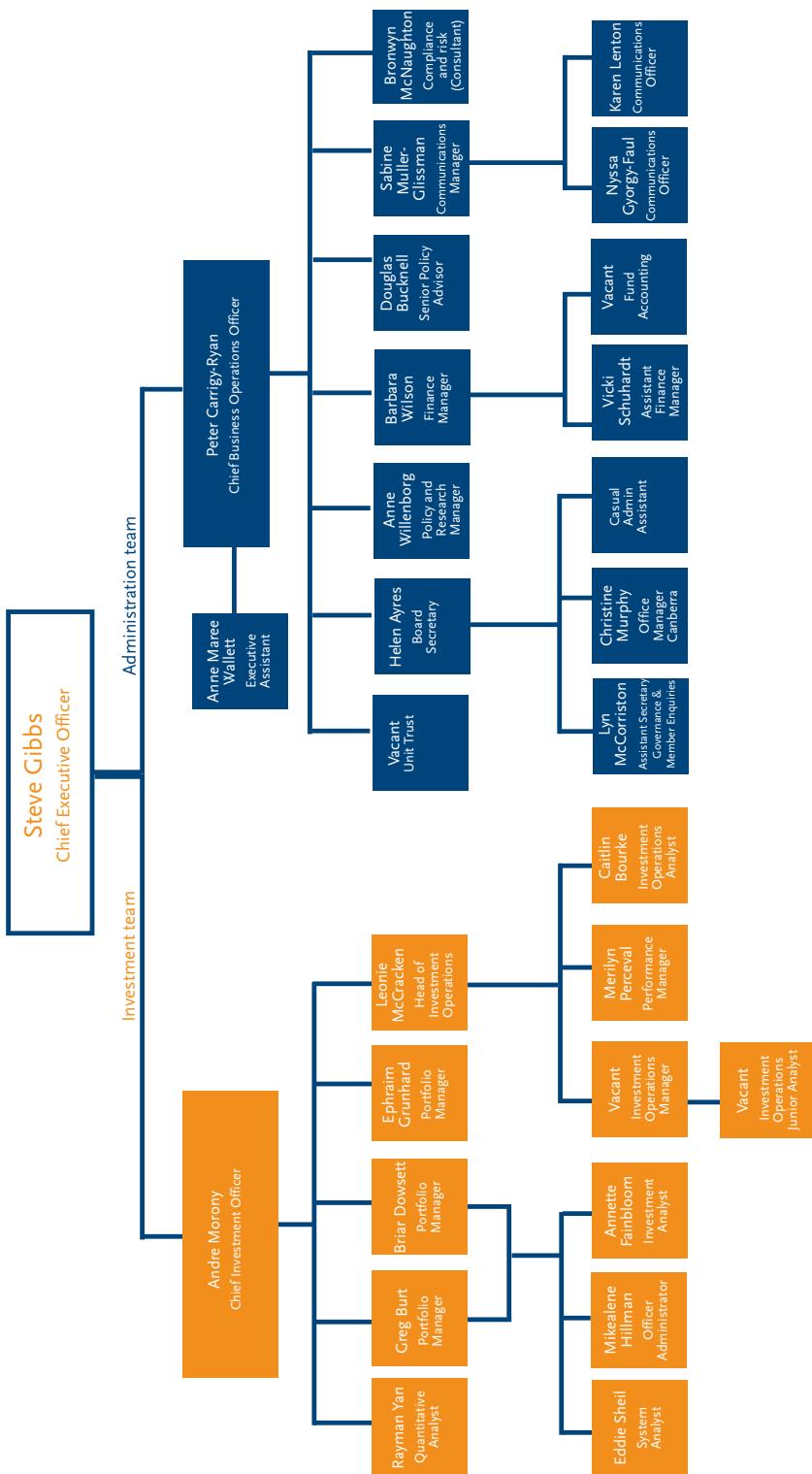
## Occupational health and safety

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 that 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 managed by Comcare.

### During the year there were:

- no dangerous occurrences under section 68 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*
- no workplace inspections carried out by Comcare
- no remedial provisional improvement notices issued.

**Illustration 2:** Organisation chart



# 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 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 and on behalf of the Board, the scheme administrator recovers the Board's administration costs from employer agencies, together with their costs of administering the CSS and then transfers to the Board the Board's share of those monies.

## Funding arrangements

The CSS legislation allows the Board to hold only 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. To enable the CSS Board to hold these monies, the Board became a prescribed agency under the *Financial Management and Accountability Act 1997* (FMA Act) 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 second, the Board's administration monies (the Board financial statements).

## Purchasing

In 2004–2005, the CSS Board complied (in relation to monies the subject of the FMA Act) 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:

- waste paper and cardboard is recycled
- lighting and energy use is minimised
- its offices, where practicable, use recycled paper and other products in their 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 responsibility under the *Financial Management and Accountability Act 1997* (FMA Act).

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

## Fund investment

- > **Investment management**
- > **Events during the year**
- > **Fund performance**
- > **Performance by asset class**
- > **Crediting and exit rate policy**

# Investment management

## Investment structure

The Board has divided the portfolio into asset classes and appointed professional fund managers to invest those assets. In most cases the funds allocated to an asset class are managed by a number of specialist managers.

## Investment arrangements

The investment team (see organisation chart on page 14) provides investment advice to the Board, implements Board investment decisions, and monitors, reviews and reports on investment performance to the Board.

The Board also uses JANA Investment Advisers Pty Ltd as its principal external investment advisor and retains Macquarie Investment Management Ltd to provide advice on Australian private equity.

## Custodian services

The Fund's master custodian is JPMorgan, whose custodial function in relation to investment management includes:

- settling trades
- physical custody and safekeeping of securities
- collecting dividends, preparing accounts and disbursing dividends
- receiving all monies available for investment from the scheme administrator and allocating them on the instruction of the investment team to investment managers in accordance with the mandates set down by the Board
- holding (but not owning) the assets that comprise the Fund
- maintaining consolidated accounts and tax records for the Fund
- reporting to the Board on individual fund manager and aggregated investment returns.

## Investment managers

All investment managers are paid a fee that 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 (that is, index tracking or active) employed by each manager. In addition, some managers are paid a performance incentive, which is generally a share of any excess performance above an agreed benchmark.

**Table 7: Default Fund investment managers and asset allocation at 30 June 2005**

Sector/type at 30 June 2005	INVESTMENT MANAGER	\$M	%
<b>Australian shares</b>		1 691.3	28.4
Active	Balanced Equity Management Pty Ltd Barclays Global Investors Australia Limited Concord Capital Limited GMO Australia Limited Investors Mutual Limited 452 Capital Pty Limited Wallara Asset Management Various*	384.0 133.6 220.6 237.3 85.2 269.1 158.1 203.4	6.4 2.2 3.7 4.0 1.4 4.5 2.8 3.4
Alternative		1 449.7	24.3
<b>International shares</b>			
Index Active	Vanguard Investments Australia Limited AXA Rosenberg Investment Management Ltd Bank of Ireland Asset Management Australia Pty Ltd Marathon Asset Management Limited Marvin & Palmer Associates Inc Rexiter Capital Management Limited Wellington International Management Company Pte Limited Various*	136.5 234.8 258.6 199.3 173.8 84.8 239.7 122.2	2.3 3.9 4.3 3.3 3.0 1.4 4.0 2.1
Alternative Currency Overlay	State Street Global Advisors Limited	n/a	n/a
<b>Australian bonds</b>		137.7	2.3
Index	Colonial First State Investments Limited Other*	121.9 15.8	2.0 0.3
<b>International bonds</b>		348.7	5.9
Active	BlackRock Financial Management Bridgewater Associates, Inc Mondrian Investments Partners Limited	139.4 138.7 70.6	2.3 2.3 1.3
<b>Market neutral</b>		537.0	9.0
Active	Barclays Global Investors Australia Limited Bridgewater Associates, Inc. Financial Risk Management Ltd GMO Australia Limited Harris Alternatives LLC Mesirov Advanced Strategies Inc Orbis Investment Management Limited State Street Global Advisors Limited	62.0 82.7 91.0 47.6 111.4 82.6 59.7 n/a	1.0 1.4 1.5 0.8 1.9 1.4 1.0 n/a
Currency Overlay		312.5	5.2
<b>Long/Short Equities</b>			
Active	Harris Alternatives LLC Mesirov Advanced Strategies Inc Templeton Capital Advisors Ltd	91.4 93.4 127.7	1.5 1.6 2.1
<b>Property</b>		646.3	10.9
Active	Lend Lease Real Estate Investments Limited Colonial First State Investments Limited	62.7 525.3	1.1 8.8
Alternative	AMP Life Limited Various*	50.9 7.4	0.9 0.1
<b>Cash</b>		833.8	14.0
Index Active	Colonial First State Investments Limited Macquarie Investment Management Limited Other*	683.5 136.9 13.4	11.5 2.3 0.2
<b>Total fund (post-fees and pre-tax)</b>		5 957.0	100
Tax and other adjustments		-145.9	
<b>Total fund (post-fees and post-tax)</b>		5 811.1	

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

**Table 8: Cash Investment Option investment managers and asset allocation at 30 June 2005**

Sector/type at 30 June 2005	INVESTMENT MANAGER	\$M	%
<b>Cash</b>		133.5	100.0
Index	Colonial First State Investments Limited	133.5	100.0
<b>Total fund (post-fees and pre-tax)</b>		133.5	100.0
Tax and other adjustments		-0.5	
<b>Total fund (post-fees and post-tax)</b>		133.0	

## 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 is also important, particularly for members exiting from the CSS.

## Default Fund

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% per annum over the longer term.

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%.

## Cash Investment Option

The Cash Investment Option was introduced seven months before the end of the financial year. This fund's key investment objective is to preserve its capital and earn a return (before tax) close to that of the official cash rate (that is, the 11 am cash rate determined by the Reserve Bank of Australia).

## Strategic review

During each year, the Board reviews its investment strategy. This year's review endorsed the appropriateness of the Board's investment objectives for both the Default Fund and the Cash Investment Option, but some fine-tuning was made to the Default Fund investment strategy to meet those objectives.

## Default Fund strategic asset allocation

As a result of the strategic review, one change was made to the strategic asset allocation (SAA) adopted at the end of June 2003. The change made was to increase the Fund's SAA weight to property from 10% to 15% and to reduce the weighting to bonds from 23% to 18%.

The following table sets out the strategic asset allocation for the Default Fund as at 30 June 2005.

**Table 9: Default Fund strategic asset allocation**

Asset class	SAA %
Australian shares	30
International shares	20
Australian bonds	8
International bonds	10
Market neutral funds	10
Long/short equity funds	5
Property	15
Cash	2
Total Fund	100

## Events during the year

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

### Equities

One new Australian equity manager was appointed during the year and one existing mandate was terminated.

### Alternative investments

The Board continued to build the Fund's exposure to alternative investments during the year. Commitments were made to three new Australian private equity funds in 2004–2005, two new opportunistic international property funds and two new international infrastructure funds. Some of the funds previously committed to private equity, infrastructure, and opportunistic 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 rose from \$321 million at the start of the year to finish the year at \$326 million.

### Market-neutral funds

During the year the Board continued to raise its investments (towards its target of 10% of the Fund) in market-neutral (or hedge) funds by appointing four new managers. By the end of the year the Fund was near its 10% target.

### Long/short equity

The Board moved to implement its 2003–2004 decision to invest 5% in long/short equity funds during 2004–2005 when three managers were appointed. Two of these are fund-of-fund managers and the third a stand-alone long/short fund.

## Bonds

The Board remained underweight in international bonds throughout 2004–2005 because of ongoing concerns with the valuation of the market. Furthermore the benchmark for international bonds continues to exclude Japanese bonds, reflecting particular concerns with the low yields on offer in Japan.

The Fund began the year underweight in Australian bonds because of ongoing concerns with the valuation of the market. This underweight was eliminated for a period but restored late in the year. One of the Fund's Australian bond mandates was terminated in 2004–2005.

As noted above, the decision to increase the Fund's SAA weight to property was funded from bonds. As a result the Fund's weighting to international and Australian bonds in the SAA fell during the year.

## Cash

Most of the Default Fund's cash has been invested passively but 5% of the Fund was invested in two enhanced cash funds for most of 2004–2005. Late in the year some concerns about the prospects for credit spreads in the United States led to all funds being redeemed from one of those managers.

## Fund performance

### Default Fund

The Fund posted a net return of 13.9%, as strong as the previous year's result.

All asset classes contributed to this result. Australian equities led the way with a 24.2% return. International equities and bonds were also above what we would expect in the long term. The Fund's market-neutral strategies delivered a solid 11.1% while the new investment in long/short equities returned 9.6% in the eight months over which we were invested. Furthermore the decision we took to 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 past three years the Fund has returned an earning rate of 10.2% per annum, compared with the average inflation rate of 2.5% per annum over this period, while over 10 years the Fund has returned an earning rate of 8.7% per annum compared with average inflation of 2.5% per annum.

### Cash Investment Option

The Cash Investment Option posted a net return of 2.7% in the seven months since it was introduced. This is in line with its benchmark once account is taken of the impact of tax on the cash return.

# Performance by asset class—Default Fund

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 the year, increasing by 26.9%. This increase reflected a solid rise in corporate profitability and was underpinned by a solid performance from international equity markets.

The Fund's Australian equity investments underperformed the market generally to return 24.2%. This reflected some underperformance from the Fund's listed managers and some more subdued (but still strong) performance from the Fund's private equity investments.

## International shares

The 2004–2005 financial year was a solid one for international equity markets, which leveled off in the second half of the year in the face of some rise in US short-term interest rates after a buoyant first half. In hedged Australian dollar terms international equities rose by 13.7%.

For \$A-based investors, the rise 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 13.3% for the year. The CSS was protected against this currency impact by being largely hedged against the rise in the \$A.

## Australian bonds

Some easing in Australian economic growth, together with continued evidence that inflation was under control, saw the Australian bond market settle in 2004–2005 after a weak 2003–2004. The Fund's investments returned 7.4%, just below the market return of 7.8%.

## International bonds

Continued evidence that a re-emergence of inflation was not likely, together with a growing sentiment that the rise in US short rates may be coming to an end drove international bond markets higher in 2004–2005. The Fund's investments did better than markets generally, returning 12.9% compared to the market's return of 11.6%.

## Market-neutral funds

The Fund increased its exposure from 5% to 10% of its assets to this asset class during the year. For the year as a whole these investments returned a healthy 11.1%, just ahead of the benchmark return of 9.0%.

## Long/short equity funds

The Fund first invested in this asset class in October 2004. Over the eight months in which the Fund was invested the return was 9.6%. This compares with a benchmark return of 9.5% and a return from international equities of 13.7% over this period.

## Property

The Australian property market, as measured by the Mercer Australian Unlisted Property Index, returned a solid 13.0% in 2004–2005. The Fund's property investments did a little better, returning 14.9%.

**Table 10: Default Fund investments 2004–2005**

Investments	Holdings at 30 June 2004	Holdings at 30 June 2005	Proportion
Sector	\$m	\$m	%
Australian shares	1 744.8	1 691.3	28.4
International shares	1 427.3	1 449.7	24.3
Australian bonds	598.1	137.7	2.3
International bonds	400.6	348.7	5.9
Market neutral funds	292.6	537.0	9.0
Long/short equities	–	312.5	5.2
Property	492.1	646.3	10.9
Cash	708.2	833.8	14.0
Total Fund Investments	5 663.7	5 957.0	100

**Table 11: Cash Investment Option Fund investments 2004–2005**

Investments	Holdings at 30 June 2004	Holdings at 30 June 2005	Proportion
Sector	\$m	\$m	%
Cash	–	133.5	100
Total Fund Investments	—	133.5	100

**Table 12: Default Fund performance 2004–2005**

	One-year performance		Three-year performance		Five-year performance	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Australian shares	24.2	26.9	15.5	14.7	11.3	9.4
International shares	13.7	13.7	10.4	6.0	0.8	(3.2)
Australian bonds	7.4	7.8	6.5	6.6	6.5	6.7
International bonds	12.9	11.6	12.0	9.0	3.7	4.3
Market neutral funds	11.1	9.0	11.0	8.6	—	—
Long/short equities	—	—	v	—	—	—
Property	14.9	13.0	11.8	12.0	10.8	11.3
Cash	5.0	5.6	4.7	5.3	5.0	5.3
Total Fund Investments	13.9	15.9	10.1	10.0	5.1	3.6

Please note that in comparing fund performance with the benchmark performance you need to take into account the impact of tax on fund returns. Pre-tax the Default Fund returned 15.1% over one year, 11.1% over three years and 5.6% over five years.

**Table 13: Cash Investment Option Fund performance 2004–2005**

	One-year performance		Three-year performance		Five-year performance	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Total Fund Investments	2.7	3.3	—	—	—	—

Please note that in comparing fund performance with the benchmark performance you need to take into account the impact of tax on fund returns. Pre-tax the Cash Investment Option returned 3.3% in its seven months of operation.

#### Notes:

1. The Cash Investment Option commenced in December 2004.
2. The fund first invested in long/short equities in October 2004.
3. The return numbers are after fees and before tax, except for the total fund return number which is after both fees and taxes. Benchmark numbers are pre fees and taxes.
4. The sector benchmark numbers show the market performance of the sector while the Fund numbers show what the Fund's performance was in that sector. Thus, for example, the Benchmark number for Australian equities in the current financial year is the performance of the Australian stock market index while the Fund number is what the Fund's holdings of Australian equities have returned.

## Fund investments

Chart 1: Fund size at 30 June for past five years

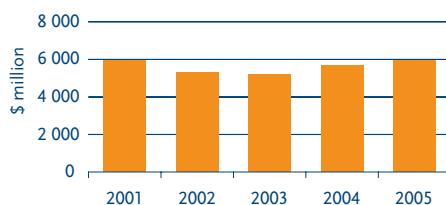
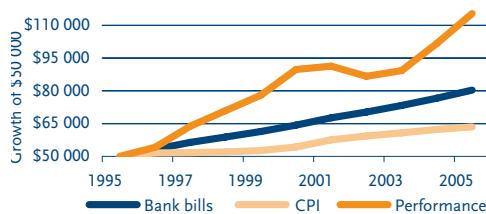


Chart 2: Fund performance comparison over 10 years



## Investment information

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

- Website: [www.css.gov.au](http://www.css.gov.au)  
Post: CSS Board  
GPO Box 1907  
Canberra City ACT 2601  
Telephone: (02) 6263 6999  
Fax: (02) 6263 6900  
Email: [secretary.csspss@csb.gov.au](mailto:secretary.csspss@csb.gov.au)

## Crediting and exit rate policy

In August 2004, the Board made a change to the way earnings are allocated. The change was made to facilitate the introduction in December 2004 of a Cash Investment Option for members, and to assess the possibility of introducing a fuller range of investment choices in the future.

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

1. Not to declare a crediting rate for all CSS members for 2003–2004 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.’

Members were advised of these changes in the 2004 Annual Member Statement Pack and the Guide to the CSS Cash Investment Option issued in 2004.

## Allocating earnings

Previously the CSS Board’s investment policy included a reserving mechanism, which ensured that members never exited the Fund with less than what they had contributed, even when the investment performance was below zero. Reserves were created from earnings up to a limit of around 5% of the Fund’s assets and were used to smooth annual returns. If the value of the reserve in any year was insufficient to offset completely a negative investment performance then, because the Board did not determine a negative interest rate for members, a negative reserve was created and the Board declared a zero crediting rate. This negative reserve was replenished out of future earnings by reducing the amount credited to member’s accounts in the future.

With the changes to the Fund’s crediting and exit rate policies, effective 13 August 2004, the Board limits 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 may again be created and would need to be replenished from future earnings.

Because the Board is no longer determining annual crediting rates but is instead allocating members their share of the Fund’s assets when they exit, the Fund has a notional balance that represents unallocated earnings. This notional 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. The notional balance as at 30 June 2005 was approximately 25%.

Legislation has been introduced into the Parliament that will enable the Board to allocate more equitably Fund earnings between members who leave the scheme during a period of negative earnings and those that stay. The Board will make a decision on the method of allocating income since 1 July 2003 when that legislation has been enacted.

This legislative change means that members returns more accurately reflects the actual investment earnings of the Fund.

**Table 14: Unallocated earnings at 30 June 2005**

\$	Adjusted net assets (net assets plus funded benefits payable)
1 203 968 000	24.9%

## 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:

'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
- 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 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 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 an investment team and a number of external advisors at its disposal. The 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 investment team plays an active role in managing the Scheme's investments. It undertakes independent analysis of investment issues being put before the Board and also coordinates advice from external advisors on those issues.

Where the external advisors and the 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 investment team. This process ensures that the Board makes informed investment decisions.

## **Risk management**

### **Business risk**

The Board has a risk management strategy, and monitoring and review program in place. It regularly reviews its business risks and its strategies to manage those risks.

### **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, following consideration by the Audit Committee or, if appropriate, another committee.

In 2004–2005, the Board implemented a compliance system known as 'Super Sentinel' to assist with its compliance monitoring and reporting obligations.

### **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**

Internal audit is undertaken by an external service provider. Each year, a revised Audit Plan is adopted by the Board. The projects undertaken relate to risk and business activities/compliance priorities.'

## **CSS investment governance**

### **The Board's approach to investment governance**

The CSS Board's investment governance focuses on managing risk. It is driven by the Board's primary investment objective—to maximise long-term real returns while 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. Therefore it pursues the principles of good governance in its own operations, in service providers and in the companies in which it invests.

The Board considers investment governance 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 initiatives, including:

- the Governance Advisory Service
- proxy voting.

### **Governance Advisory Service**

The objective of the CSS Governance Advisory Service is to protect and enhance shareholder value for members by identifying 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, or BT) to research governance risk in the Fund's Australian equities investments and make recommendations to the Board on how to diminish or eliminate such risks.

BT researches and monitors potential environmental, social and corporate governance risks in CSS's Australian company investments, which represent around \$3.5 billion, in combination with the Public Sector Superannuation Scheme (PSS).

**Table 15: Investment governance milestones 2004–2005**

Date	Milestone
Whole year	CSS mandated the Governance Advisory Service to engage companies on business ethics, conflicts of interest, environmental risk and site contamination on its behalf to ensure the management of governance risks.
Whole year	Over 55 companies were engaged by the Governance Advisory Service on behalf of CSS on issues including workplace health and safety, executive remuneration and environmental risk.
March 2005	Emergency Services Superannuation joined the Governance Advisory Service, taking assets under management in Australian Shares of the Funds in the service to \$7 billion.
June 2005	CSS called on companies to ensure good business ethics to ensure the protection of shareholder value.
June 2005	CSS Chief Executive Officer Steve Gibbs was invited to join a steering group advising the UN Global Compact and UN Environment Programme (UNEP) initiative to develop best-practice principles for responsible investment.

## 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 exercises 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. It also 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 began in Australia in November 2002 and was extended in March 2003 with the appointment of an international proxy voting service.



## **Scheme administration**

- > Scheme administrator
- > Performance indicators
- > Account maintenance
- > Benefit payments
- > Processing of invalidity claims
- > Pensions
- > Dispute resolution

## Scheme administrator

Scheme administration is undertaken by Commonwealth Superannuation Administration on the basis of a statutory mandate.

The scheme administrator's major areas of activity encompass:

- calculating and paying benefits (including invalidity benefits)
- maintaining records of contributors and pensioners
- receiving and accounting for contributions from employing agencies in respect of their employees
- reconsidering and reviewing decisions on entitlements
- providing information to members.

## Performance indicators

Indicators of performance are set down in the service level agreement between the Board and the scheme administrator. Details of performance against the indicators can be found at Appendix G.

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

## Account maintenance

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

## Membership data

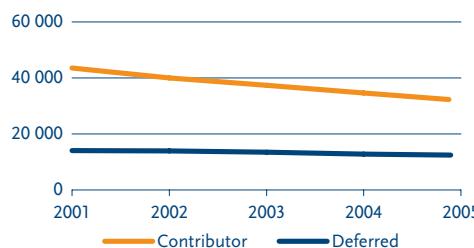
Table 16: Contributors and contributions for past five years

	2001	2002	2003	2004	2005
Number of contributors at end of year	43 551	40 015	37 316	34 684	32 011
Member contributions	\$162m	\$153m	\$149m	\$144m	\$147m
Employer funded contributions	\$53m	\$49m	\$49m	\$48m	\$48m

**Table 17: Membership summary**

Year ending 30 June		2001	2002	2003	2004	2005
Contributors	male	29 858	27 287	25 396	23 536	21 697
	female	13 693	12 728	11 920	11 148	10 314
	total	<b>43 551</b>	<b>40 015</b>	<b>37 316</b>	<b>34 684</b>	<b>32 011</b>
Deferred benefit members	male	10 430	10 351	9 739	9 242	8 794
	female	3 649	3 605	3 690	3 584	3 503
	total	<b>14 079</b>	<b>13 956</b>	<b>13 429</b>	<b>12 826</b>	<b>12 297</b>
Pensions in force		<b>110 906</b>	<b>111 578</b>	<b>116 232</b>	<b>112 319</b>	<b>113 693</b>
Total members		168 536	165 549	166 977	159 829	158 001

**Chart 3: Contributor and deferred membership five-year trend**



## Surcharge

Legislation to abolish the superannuation contributions surcharge was passed in the Senate on 10 August 2005, and will apply from the 2005–2006 financial year onwards. Until then the *Surcharge Contributions Tax (Assessment and Collection) Act 1997* requires the CSS 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 Mercers Human Resource Consulting Pty Ltd 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 the scheme administrator and the member.

**Table 18: Summary of surcharge activity undertaken by the Board during 2004–2005**

	Number	\$
Applied surcharge debts reported by the ATO to members' accounts	9 125	14 783 075
Received surcharge debt payments from members	2 117	5 946 100
Recovered debts from member benefits	7 758	3 684 542
Applied interest to surcharge debts outstanding as at 30 June 2005	12 514	3 080 541

## Family Law

CSS legislation enables the creation of accounts for non-member spouses in Family Law splitting situations. During the year 155 cases were received which were processed and non-member spouse records were created.

## Benefit payments

**Table 19: Contributor exits and preserved benefits claimed by type 2004–2005**

	Contributor exits		Preserved claims		Total
	2004–2005	2003–2004	2004–2005	2003–2004	
Age	820	751	1 962	2 096	2 782
Invalidity	95	111	21	17	116
Death	59	40	54	12	113
Resignation	1 252	1 169	–	–	1 252
Retrenchment	647	830	–	–	647
Total	2 873	2 901	2 037	2 125	4 910

The vast majority of the 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.

# 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.

## 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 the scheme administrator through the applicant's employer. Eligibility for pre-assessment payments will be routinely determined by the scheme administrator 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.

## Assessment panel

The invalidity 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 2004–2005, assessment panel services were provided by Independent Claims Management Pty Ltd (ICM).

## Board decisions

The Board decides whether to approve the invalidity 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.

## Invalidity summary

**Table 20: Invalidity claims 2004–2005**

Invalidity claims received	82
approved	73
Pre-assessment claims received	46
approved	46
Cases considered by the Assessment panel received	82
approved	78
withdrawn	4
Invalidity retirement certificates issued	78
Invalidity retirement certificates fast tracked	7

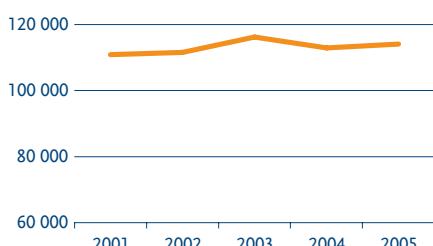
## Pensions

### Pensions in force

**Table 21: Pensioner summary**

Pensions in force at 30 June	2004	2005	Difference
Age retirement	48 782	50 169	1 387
Involuntary retirement	14 724	14 760	36
Invalidity retirement	21 139	20 165	(974)
Spouse and orphans	28 319	28 563	244
Total	112 964	113 657	693
Pensions paid	\$2 437m	\$2 514m	\$77m
Average yearly pension	\$21 863	\$21 977	\$114

**Chart 4: Growth in CSS pensioner population past five years**



## **Fact of Death File**

Fraud control measures enable us to identify pensioners who have died but whose pension payments are continuing.

The data received 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 solely for the purpose of matching and ceasing pensions currently being paid to 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.

Due to the report being checked there has been a reduction in overpayments of pensions.

## **Dispute resolution**

### **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.

The scheme administrator investigates requests and where necessary, obtains additional information before referring to the Reconsideration Advisory Committee (RAC). The RAC comprises two senior scheme administrator officers and two independent members appointed by the Board. The RAC makes a recommendation that the Board considers 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 scheme administrator to investigate requests for reconsideration of decisions in a thorough, objective and effective manner in accordance with any guidelines issued by the Board.

## Applications received

In 2004–2005, 30 applications for reconsideration were received, compared with 24 last year.

Of the cases received, nine were about benefit overpayments, eight were about benefits payable to spouses or children, two were about entitlement to deemed invalidity retirement, three were about late elections to transfer from the CSS to the PSS, three were about the issue of benefit classification certificates to re-entered members. The balance were about various other entitlement provisions.

## Cases finalised

Twenty-seven cases were finalised during the year, compared to 22 for the previous year. In five cases the original decision was varied in favour of the applicant; in three cases as a result of additional information, in one case as a result of different interpretation of information, and in the remaining case as a result of a deficiency in the process, which has since been rectified.

**Table 22: Reconsideration applications received and outcomes 2003–2005**

	2003–2004		2004–2005	
	Delegate's decision	Board's decision	Delegate's decision	Board's decision
Brought forward	5	1	8	0
Received	23	1	28	2
Withdrawn or lapsed	7	0	12	0
Decisions affirmed	11	2	9	1
Decisions set aside	2	0	5	0
Resolved	20	2	26	1
Carried forward	8	0	10	1

## External review

The Board requires its scheme 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.

## Complaints lodged with the SCT

During the year

- 16 complaints were lodged with the SCT against the CSS Board
- twelve were carried over from the previous year
- twelve cases were completed during the year
- six decisions of the Board were affirmed
- one decision was set aside
- four complaints were withdrawn by the complainants
- one case dismissed for lack of jurisdiction
- sixteen SCT complaints remain outstanding as at 30 June 2005.

## Federal Court

Determinations of the SCT are reviewable by the Federal Court in its original 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 under the AD(JR) Act 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, the Board received 17 claims for compensation concerning the claimants' benefit entitlements with a further 12 cases still outstanding as at 1 July 2004. The Board and its delegates considered eight claims during the year with liability accepted in three matters by way of lump sum payments of \$33 000, \$10 000 and \$16 000. Twenty-one cases remain outstanding as at 30 June 2005.

A number of claims made against the Board related to advice provided by the scheme administrator about payment of benefits to CSS deferred benefit members in circumstances where a condition of release under the SIS Act had not been satisfied.

## Complaints and representations

Interest rate policy and the introduction of the Cash Investment Option was the most frequent theme of complaints and representations during the year. Other issues that were the subject of complaints and enquires included the release of benefit estimates. All complaints were able to be resolved within the SIS legislative timeframe of 90 days.

**Table 23: Complaints and representations received 2004–2005**

	2003–2004	2004–2005
Complaints	73	119
Parliamentary representations	8	13
Total	81	132

## **Stakeholder communications**

- > **Overview**
- > **Member communications**
- > **Employer communications**
- > **Regulatory requirements**

# Overview

Communications efforts during the 2004–2005 year continued to focus on significant regulatory, policy and service initiatives for members, employers and other stakeholders.

## Member communications

The Board delivered education and information services to assist members to understand and make informed decisions about:

- change to Exit Rate policy and introduction of Cash Investment Option for preserved benefit members
- changes to Australian Government Super Co-contribution
- Family Law splitting of super
- rights and responsibilities following introduction of the Australian Financial Services License regime
- new security upgrade for preserved benefit claims
- amendments to the *Superannuation Act 1976* and associated legislation
- introduction of transition to retirement measures
- introduction of Choice of Fund

The Board continued to develop its information distribution network in accordance with its Communications Plan, with the introduction of:

- improved seminar material
- increased onsite seminars
- a new information service for SES level employees (pilot)
- improvements to online information
- regular briefings for those stakeholders who are seen by members as sources of information

The online interactive mini report called '*Take a walk into the future*' (reported on in last year's annual report) received a Bronze Award at the 2005 Conference Major Superannuation Funds.

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

- developing the seminar program and online services into a coherent education program
- improving the usability of standard forms and letters

### Illustration 3: Take a walk website

The screenshot shows a dark blue header with the text 'start walking' and a 'CSS' logo. Below the header is a vertical column of five bullet points: 'Walk into the future and see how much income you'll need in retirement', 'Keep pace with how much you could get with the CSS', 'Kick back with a step-by-step guide to your Fund', 'Run through the latest news from your Fund', and 'Stroll through the CSS information services you can use'. A note at the bottom of this column says 'If you would like to print this please use the [pdf version](#)' and 'best viewed at 1024 x 768'. At the bottom of the page are six small icons, each featuring a stylized pair of shoes and a question: 'start walking', 'how much will I need?', 'how much could I get?', 'tell me about the CSS', 'show me what's new', and 'I need more help'.

## Member enquiries

Work volumes in the contact centre increased across all contact channels in 2004–2005. The most significant increase was reflected in the numbers of emails processed, although the numbers of telephone calls and pieces of written correspondence also increased. These increases, combined with the ongoing impact experienced on processing and call handling times as a result of legislative amendments had an ongoing impact on the contact centre's ability to meet service standards, particularly in the period between July and November 2004.

A distinct improvement in contact centre performance was achieved in the second half of the reporting period (January 2005–June 2005). The average speed of answering a telephone call reduced by 20 seconds, and the percentage of emails responded to in five days increased from less than 60% to almost 100%.

These improvements were achieved in part by achieving efficiencies through the aggregation of enquiries from pensioners with those received from current and preserved members, and in part through the formation of a staff group responsible for the completion of written work. Staffing levels in the second part of the review period were approximately 10% lower than for the first six months.

Resources dedicated to the provision of seminars and individual consultations remained static, as did the overall number of services provided. Some process improvements were made however, including nominating a specific person to attend to all requests for individual consultations on-site.

One initiative which was successfully piloted through 2005 was the provision of a dedicated service for members at SES level. This service has been staffed with a core group of the most experienced staff in the contact centre, recognising the additional complexity inherent in the enquiries of many SES members.

The review of the structure of the contact centre referred to in last year's report has been completed and recommendations are currently being actioned. It is anticipated that this process will be completed by the end of 2005.

Of particular note through the review period was the results of the periodic review of member satisfaction with service provision, which revealed member satisfaction with service offerings to be at historically high levels across all contact media.

**Table 24: Enquiry volumes**

Enquiry type	Number of enquiries
Phone calls	147 113
Written enquiries	9 186
Email enquiries	34 464
Family law enquiries	2 927
Seminars presented	266
Personal counselling interviews	1 012

## Annual Member Statement Pack

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

The Pack, like every major CSS information service, is user tested by a randomly selected group of members—called a Member Editorial Panel—prior to finalisation to ensure it is useful and relevant. We thank all the members from around Australia who participated in this year's Panel.

SIS legislation requires the Board to distribute annual member statements by 31 December each year. The bulk of 2004 Annual Member Statement Packs were distributed in October 2004. Due to the requirement for manual calculations, some statements were not able to be distributed until early 2005.

The 2005 Annual Member Statement Pack will be issued to members from October 2005 onwards, and all efforts are being made to meet the 31 December deadline.

## Online services

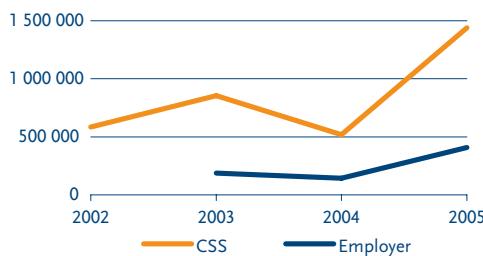
The CSS website ([www.css.gov.au](http://www.css.gov.au)) continues to be a primary communications channel between the Board and members, particularly in relation to investment matters. This is reflected in the increase of page views by almost three times over the previous year.

Independent assessments of website design and usability obtained through international benchmarking surveys show pleasing results. This site was also tested as part of the Board's cyclical research. Key findings of this research were:

- 93% of members reported that the website was easy to find
- 67% reported that the website had improved their knowledge of the Scheme.

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

**Chart 5: CSS and employer website hits over the past four years**



Member access to the website is seasonal in nature, peaking at times when end-of-year financial information becomes available.

## 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 30 023 statements were accessed and 58 527 benefit estimates produced online using the i-Estimator. Another 4 153 other transactions took place.

## Performance indicators

The sixteenth semester (S16) of the scheme administrator's client satisfaction survey was conducted over the period December 2004 to March 2005.

The overall Quality Service Index (QSI), a measure of members' satisfaction with services, improved strongly from 80.2 to a record high of 86.2 in S16.

This result is 2.1 index points above the previous peak level recorded and extends the upward trend in members satisfaction observed since the start of the cyclical survey process in 1997–1998.

The main reason for the increase was a significant rise in member satisfaction with the telephone information services. Increases in ratings for the benefit payment process and written estimates also contributed to the improvement.

Overall satisfaction results among client groups recorded significant increases in S16. This semester superannuants were the most satisfied group, due to the large improvement in their satisfaction with the telephone information service.

The S16 results had a positive impact on the direction of long-term trends in satisfaction for all client groups:

- Commonwealth members' overall satisfaction ratings continued to increase steadily (having done so since 1997–1998); and
- Superannuants' overall satisfaction increased, breaking a trend of decline observed since 2000–2001.

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

## Employer communications

During 2004–2005 communication with employers took the form of formal training sessions, employer site visits, calls to the employer help desk, employer news bulletins and information provided through the employer administration website.

Apart from the business as usual communication with employers there was also a strong focus on employer training in the latter half of the financial year directed towards the new employer services online (ESO) web based product which was implemented in early July 2005. This ESO product is primarily a new tool for employers to submit member data and also make corrections to any invalid data. There were 146 separate training sessions delivered on this matter.

There were 105 employer site visits during the year and they covered a range of issues including scheme specific administration issues to consultation with employers regarding new payroll interface file specifications. Also there were 31 formal training sessions conducted for employers across a number of capital cities during the year which covered training for new personnel staff and refresher training on more complex scheme issues.

During the year 2 194 calls were received in the employer help desk requesting assistance across a broad range of issues.

Also during the year 11 issues of Employer News were sent to employers. These news bulletins also covered a wide variety of topics ranging from revised benefit application forms, new data reporting requirements to invalidity retirement process issues.

As usual the annual employer survey was also conducted by an independent research provider to gain information from employers on a wide range of topics but primarily to gauge the relationship between employers and our scheme administrator and to seek feedback on the information and resource products which are provided to employers.

Some of the key findings are as follows:

- 97% of employers indicated that the work area that dealt with CSS and PSS matters had a good overall working relationship with the scheme administrator.
- 89% were satisfied with the way information is provided to them
- The majority of employers stated the aspects they liked most about dealing with the scheme administrator were the timely provision of assistance, accuracy of responses, along with the competence and demeanour of staff.
- 93% of these respondents indicated they were satisfied with the training they had received from the scheme administrator.
- Ratings of Employer News were positive across the majority of respondent organisations in terms of:
  - reliability and accuracy of the information (96% good);
  - ease of understanding (94% good); and
  - helpfulness of the information in enabling the agencies to do their jobs more effectively (89% good).

## 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.

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



## Scheme financial statements

- > Independent audit report from the ANAO
- > Financial statements
- > AAS25 Actuarial statement



## 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 2005 as set out on pages 2 to 21. 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 the 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 2005 and the changes in net assets for the year ended 30 June 2005.

#### (B) Compliance

##### Scope

I have conducted tests in accordance with the 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, 113, 117, 118, 121, 121A, 122, 124, 125, 152, 154;  
Regulations 2.33(2), 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* (FSCODA) that are subject to audit (to the extent applicable); and

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- (c) complied with the relevant requirements of the following provisions (to the extent applicable) of the *Corporations Act 2001* (the Corporations Act) and Regulations:
 

Sections 1012A, 1012B, 1012C, 1012F, 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 (9); and

Regulation 7.9.32(3); and
- (d) adhered to regulation 13.15A of the *Superannuation Industry (Supervision) Regulations 1994* (the SIS Regulations) and the guidelines for preparing Derivative Risk Statements ("Guidelines") issued by APRA in Circular II.D.7 on Derivatives (to the extent applicable) for the year ended 30 June 2005; and
- (e) complied with the requirement to prepare and lodge the respective forms comprising the APRA Annual Return.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the SIS Act and Regulations, the FSCODA and the Corporations Act and Regulations.

My procedures with respect to the Guidelines consisted of confirming whether any Derivatives Risk Statement was to be prepared by the superannuation entity's trustee under the Guidelines contained in APRA Circular II.D.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 SIS Act and Regulations or guidelines, the FSCODA or the Corporations Act and Regulations apart from those specified. The superannuation entity's trustee is responsible for complying with the SIS Act and Regulations, the FSCODA and the Corporations Act 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 superannuation entity's trustees have identified likely instances of non-compliance with the regulation regarding payments of deferred benefits and age pensions to members who have not satisfied the conditions of release under the Superannuation Industry (Supervision) Regulations. This matter was identified and reported in our prior year audit report to the members of the Scheme. Amendments to the *Superannuation Act 1976* have been introduced into Parliament. If successfully enacted, these amendments will validate any affected payments (pensions and lump sum payments) retrospectively up to 30 June 2005.

#### Qualified Audit Opinion

In my opinion, except for the effects, if any, of the limitation of the matter referred to in the qualification paragraph, the trustee of the Commonwealth Superannuation Scheme has complied, in all material respects, with the requirements of the SIS Act and Regulations, the Reporting Standards made under section 13 of the FSCODA and the Corporations Act and Regulations and applied the Guidelines specified above for the year ended 30 June 2005.

AUSTRALIAN NATIONAL AUDIT OFFICE

  
 Carla Jago  
 Executive Director

Delegate of the Auditor-General

Sydney  
 23 September 2005

## 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 2005)* 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 2005 and the changes in net assets of the Scheme for the year ended 30 June 2005;
- (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 Sydney this 23rd day of September 2005 in accordance with a resolution of members of the CSS Board as Trustee of the Scheme.



S. Doyle  
Chairman



D. Connolly  
Member

CSS Board

COMMONWEALTH SUPERANNUATION SCHEME

**Statement of Changes in Net Assets  
For the Year Ended 30 June 2005**

	Note	2005 \$'000	2004 \$'000
<b>Net assets available to pay benefits at the beginning of the financial year</b>		<b>5 599 497</b>	<b>5 188 592</b>
<b>Add:</b>			
<b>Revenue from ordinary activities</b>			
<b>Net investment revenue</b>			
Interest		56 350	61 077
Dividends		248 310	291 996
Other investment income		1 538	3 523
Changes in net market value of investments	4	526 513	426 671
Less: Direct investment expenses	5c	(14 080)	(12 097)
		<u>818 631</u>	<u>771 170</u>
<b>Contribution revenue</b>			
Member contributions	5a	146 630	143 958
Employer contributions	5a	48 489	48 438
Co-Contributions		720	-
Penalty Interest		-	7
Appropriation from Consolidated Revenue Fund	5b	2 484 883	2 402 340
		<u>2 680 722</u>	<u>2 594 743</u>
<b>Total revenue from ordinary activities</b>		<u>3 499 353</u>	<u>3 365 913</u>
<b>Less:</b>			
<b>Expenses from ordinary activities</b>			
General administration expenses	1k, 5c	(3 320)	(2 841)
<b>Benefits paid</b>			
Benefits paid	5b	(3 003 711)	(2 878 404)
Transfers to the Public Sector Superannuation Scheme	7	-	(1)
<b>Total expenses from ordinary activities</b>		<u>(3 007 031)</u>	<u>(2 881 246)</u>
<b>Total revenue less expenses and benefits paid before income tax</b>		<b>492 322</b>	<b>484 667</b>
<b>Income tax expense</b>	6	<u>(77 172)</u>	<u>(73 762)</u>
<b>Total revenue less expenses and benefits paid after income tax</b>		<b>415 150</b>	<b>410 905</b>
<b>Net assets available to pay benefits at the end of the financial year</b>		<b>6 014 647</b>	<b>5 599 497</b>

The attached notes form part of these financial statements.

## COMMONWEALTH SUPERANNUATION SCHEME

Statement of Net Assets  
As at 30 June 2005

	Note	2005 \$'000	2004 \$'000
<b>Investments</b>	1c		
Cash and short term deposits		111 369	118 707
Australian money market		785 891	554 814
Australian fixed interest		162 407	604 855
International fixed interest		241 253	279 275
Australian equity investments		1 770 457	1 866 046
International equity investments		2 300 391	1 698 994
Unlisted property trusts		672 287	578 170
Pooled superannuation trusts		7 498	7 171
Currency contracts		20 884	(65 140)
Other investments		(14)	10 943
<b>Total investments</b>		<b>6 072 423</b>	<b>5 653 835</b>
<b>Other assets</b>			
Cash at bank		50 477	24 355
Interest receivable		5 902	14 216
Dividends receivable		24 432	27 656
Trade settlements receivable		38 008	27 200
GST recoverable		145	82
Sundry debtors		3 266	3 162
Deferred tax assets		24	9 067
<b>Total other assets</b>		<b>122 254</b>	<b>105 738</b>
<b>Total assets</b>		<b>6 194 677</b>	<b>5 759 573</b>
<b>Less: Liabilities</b>			
Benefits payable	5b	18 647	22 240
Trade settlements payable		58 201	58 633
Sundry creditors	8	6 255	5 723
Amounts due to other superannuation schemes	7	1 133	1 133
Current tax liabilities		25 573	22 687
Deferred tax liabilities		70 221	49 660
<b>Total liabilities</b>		<b>180 030</b>	<b>160 076</b>
<b>Net assets available to pay benefits</b>		<b>6 014 647</b>	<b>5 599 497</b>

*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 2005**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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2005

**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 2005

**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 per cent to the Fund and 50 per cent 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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

### 2. IMPACT OF ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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 any earlier. 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.

For-profit entities complying fully with AASB Equivalents will be able to make an explicit and unreserved statement of compliance with IFRSs as well as with the AASB Equivalents.

Existing AASB standards that have no IFRS equivalent will continue to apply, including in particular *AAS 25 Financial Reporting by Superannuation Plans*. AAS 25 requirements override any conflicting requirements of AEIFRS.

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

- any known or reliably estimable information about the impacts on the financial report had it been prepared using the Australian equivalents to IFRSs; or
- if the impacts in above are not known or reliably estimable, a statement to that effect.

The purpose of this Note is to make these disclosures.

Changes in accounting policies under AEIFRS are applied retrospectively i.e. as if the new policy had always applied except in relation to the exemptions available under *AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This rule means that an AEIFRS compliant balance sheet had to be prepared as at 1 July 2004. This will enable the 2005-06 financial statements to report comparatives under AEIFRS.

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

- Income Tax

*AASB 112 Income Taxes* requires the income tax to be calculated based on the "balance sheet" approach. This approach has the potential to result in the carrying value of deferred tax assets and liabilities being different to those determined under the current Australian Accounting Standards.

It is anticipated that the adoption of AASB 112 will not require material changes to deferred tax balances.

The actual effects of the impacts of AEIFRS may differ due to:

- continuing review of the impacts of AEIFRS on our operations;
- potential amendments to the AEIFRS and AEIFRS Interpretations; and
- emerging interpretation as to the accepted practice in the application of AEIFRS and the AEIFRS Interpretations.

COMMONWEALTH SUPERANNUATION SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2005

**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**

	2005 #	2004 #
Number of members		
- Contributors	32 011	34 684
- Deferred beneficiaries/preservers	12 297	12 826
- Pensioners	<u>113 693</u>	<u>112 964</u>
	<u>158 001</u>	<u>160 474</u>
Number of employees directly employed to manage the scheme	<u>20</u>	<u>19</u>

**4. CHANGES IN NET MARKET VALUES**

	2005 \$'000	2004 \$'000
Changes in net market values of investments:		
(a) <i>Investments held at 30 June:</i>		
Australian money market	1 428	2 417
Australian fixed interest	1 172	(15 029)
International fixed interest	(2 099)	6 485
Australian equity investments	<u>216 072</u>	129 666
International equity investments	7 815	163 483
Unlisted property trusts	30 012	-
Pooled superannuation trusts	185	921
Currency contracts	85 719	(101 756)
Other investments	<u>(397)</u>	<u>(524)</u>
	<u>339 907</u>	<u>185 663</u>
(b) <i>Investments realised during the year:</i>		
Australian money market	25 782	27 456
Australian fixed interest	5 551	(5 177)
International fixed interest	(6 919)	(23 001)
Australian equity investments	45 761	20 499
International equity investments	<u>(37 843)</u>	26 498
Unlisted property trusts	1	-
Pooled superannuation trusts	94	-
Currency contracts	144 911	168 989
Other investments	<u>9 268</u>	<u>25 744</u>
	<u>186 606</u>	<u>241 008</u>
(c) <i>Total changes in net market values of investments</i>	<u>526 513</u>	<u>426 671</u>

The net gain on foreign currency contracts for the year was \$ 230.6m (2004: \$67.2m).

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 2005

## 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.

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

	2005 \$'000	2004 \$'000
Gross Appropriation from CRF	<u>3 003 315</u>	2 875 640
less: Transfers from Fund to CRF	<u>(518 432)</u>	(473 300)
<b>Net Appropriation</b>	<b><u>2 484 883</u></b>	<b><u>2 402 340</u></b>

**CSS Fund**

Lump-sum Benefits	<u>396</u>	2 764
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**Consolidated Revenue Fund**

Lump-sum Benefits	482 228	437 160
Transfer Values	188	-
Pensions	2 520 088	2 437 190
Other	811	1 290
<b>Total benefits paid</b>	<b><u>3 003 315</u></b>	<b><u>2 875 640</u></b>
	<b><u>3 003 711</u></b>	<b><u>2 878 404</u></b>

## (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 (ComSuper).

COMMONWEALTH SUPERANNUATION SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2005

**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 by ComSuper are as follows:

	2005 \$'000	2004 \$'000
Commonwealth Superannuation Scheme	3 320	2 841
CSS Board	955	971
ComSuper Administration	<u>10 000</u>	<u>10 775</u>
Total	<u><u>14 275</u></u>	<u><u>14 587</u></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:

	2005 \$'000	2004 \$'000
Investment Advisors	478	356
Investment Managers	11 776	10 183
Custodian	1 427	1 495
Other	<u>399</u>	<u>62</u>
GST Expense	<u>14 080</u>	<u>12 096</u>
Total	<u><u>14 080</u></u>	<u><u>12 097</u></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 per cent 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 2005**6. INCOME TAX (Cont)**

	2005 \$'000	2004 \$'000
Total revenue less expenses and benefits paid before income tax	<u>492 322</u>	<u>484 666</u>
Prima facie income tax expense calculated at 15%	<u>73 848</u>	<u>72 700</u>
Add/(Less) Permanent Differences		
Employee contributions	(22 098)	(21 583)
Benefits paid	77 824	71 409
Income from Pooled Superannuation Trusts	1 047	(2 621)
Imputation credits from franked dividends received	6 241	4 998
Indexation/CGT discount on realised capital gains	(13 930)	(17 066)
Other	(31)	
	122 901	107 837
Less: Imputation and foreign tax credits	(41 609)	(33 323)
Less: Under/over provision in prior years	(4 120)	(752)
Income Tax Expense	<u>77 172</u>	<u>73 762</u>
Income tax expense comprises:		
Income tax payable current year outstanding at 30 June 2005	25 573	22 687
Amount paid during 2004-05	22 209	20 251
Movement in deferred income tax provisions	33 510	31 576
Under/over provision in prior year	(4 120)	(752)
	<u>77 172</u>	<u>73 762</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 2005 there were no elections made.

As at 30 June 2005 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 2005

**8. SUNDRY CREDITORS**

	2005 \$'000	2004 \$'000
Investment expenses payable	4 248	3 905
Accrued expenses	415	488
Other	<u>1 592</u>	<u>1 330</u>
	<u><u>6 255</u></u>	<u><u>5 723</u></u>

**9. AUDITOR'S REMUNERATION**

	2005 \$	2004 \$
Amounts received or due and receivable by the Australian National Audit Office as auditors of CSS:	<u>59 500</u>	<u>56 000</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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
For the year ended 30 June 2005

**10. SUPERANNUATION CONTRIBUTIONS SURCHARGE (Cont.)**

A summary of transactions recorded during 2004/2005 follows:

	2005 \$'000	2004 \$'000
Total Surcharge Liability Outstanding at start of year	51 837	42 996
Adjustment to prior year balance	(103)	26
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	14 991	10 160
Less: Amount paid by members and CRF	<u>66 725</u> <u>(6 039)</u>	<u>53 182</u> <u>(4 222)</u>
Plus: Interest on outstanding surcharge liability at 30 June 2005	60 686	48 960
Total Surcharge liability outstanding at end of year	<u>3 102</u> <u>63 788</u>	<u>2 877</u> <u>51 837</u>

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 2004 to 30 June 2005 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 2005

**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. On 23 December 2004, the Board appointed Macquarie Investment Management Limited to take over the role of advisor for new and existing Australian private equity investment and 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	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Australian Fixed Interest Futures	(14 964)	(12 406)	22	(37)
International Fixed Interest Futures	36 864	(1 342)	-	21
Australian Share Price Index Futures	22 220	17 681	72	91
Australian Exchange Traded Options	(3 593)	10 215	(3 817)	10 174
International Exchange Traded Options	-	-	2 872	-
International Share Price Index Futures	3 126	967	264	3
Currency Contracts	2 241 919	1 847 945	20 884	(65 140)
Total	2 285 572	1 863 060	20 297	(54 888)

**(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 \$19.8 m (2004: \$26.1 m). The Scheme does not have significant exposures to any individual counterparty or industry.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2005

**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 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:

Wilshire Australia to advise the Board on new Australian private equity investments and monitor the Board's existing Australian private equity commitments. On 23 December 2004, the Board appointed Macquarie Investment Management Limited to take over the role of advisor for new and existing Australian private equity investment and commitments.

	30 June 2005	Floating Interest Rate \$'000	Fixed Interest Rate				Total \$'000
			1 Year or Less \$'000	1 - 5 Years \$'000	Over 5 Years \$'000	Non Interest Bearing \$'000	
<b>Assets</b>							
Cash and short term deposits	105 270					6 099	111 369
Australian money market	785 891						785 891
Australian fixed interest		12 549	63 785	42 382	43 691		162 407
International fixed interest		8 621	68 718	156 792	7 122		241 253
Australian equity investments					1 770 457		1 770 457
International equity investments					2 300 391		2 300 391
Unlisted property trusts					672 287		672 287
Pooled superannuation trusts					7 498		7 498
Currency contracts					20 884		20 884
Other investments	7 512				(7 526)		(14)
Other assets	50 477				71 753		122 230
Deferred tax assets					24		24
<b>Liabilities</b>							
Benefits payable					(18 647)		(18 647)
Trade settlements payable					(58 201)		(58 201)
Sundry creditors					(6 255)		(6 255)
Amounts due to other schemes					(1 133)		(1 133)
Current tax liabilities					(25 573)		(25 573)
Deferred tax liabilities					(70 221)		(70 221)
<b>Total</b>	<b>949 150</b>	<b>21 170</b>	<b>132 503</b>	<b>199 174</b>	<b>4 712 650</b>	<b>6 014 647</b>	
Weighted average interest rate		5.49%	5.17%	4.72%	4.63%		

COMMONWEALTH SUPERANNUATION SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2005

**11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**

**(c) Interest Rate Risk**

	Floating Interest Rate \$'000	1 Year or Less \$'000	1 - 5 Years \$'000	Over 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
<b>30 June 2004</b>						
<b>Assets</b>						
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
<b>Total</b>		700 520	50 729	406 852	366 884	4 074 512
Weighted average interest rate		5.43%	5.50%	5.32%	5.54%	

**(d) Currency Risk**

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

<b>30 June 2005</b>	<b>USD A\$'000</b>	<b>JPY A\$'000</b>	<b>GBP A\$'000</b>	<b>EURO A\$'000</b>	<b>Other A\$'000</b>	<b>Total A\$'000</b>
Gross investment amounts denominated in foreign currency	1 231 962	110 412	144 182	277 274	203 032	1 966 862
Amount effectively hedged	(1 522 630)	(82 774)	(38 756)	(327 748)	(247 088)	(2 218 996)
Net Exposure	(290 668)	27 638	105 426	(50 474)	(44 056)	(252 134)

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2005

**11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)****(d) Currency Risk**

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)

**(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**

As part of the proposed introduction of member investment choice into the CSS, the CSS Board 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. Since 1 December 2004, a cash investment option has been available for all CSS members with a funded accumulation component. No crediting rates will be declared for 2003-04 and 2004-05.

	2005 \$'000	2004 \$'000
Opening Balance of Unallocated Income	531 229	(156 696)
Add/Less: Adjustments for estimates	(3 885)	(1 408)
Add: Earnings of Fund for the year	745 412	701 831
Less: Earnings paid out in Benefit Payments	(68 788)	(12 499)
Less: Earnings Allocation to members' accounts	-	-
Closing Balance of Unallocated Income	<u>1 203 968</u>	<u>531 229</u>

The closing balance is estimated to represent 24.9 per cent (2004: 10.4 per cent) of the adjusted net assets (net assets plus funded benefits payable) of the Fund over the members' entitlements as at 30 June. The 2004 numbers have been changed to provide consistent comparatives, the balance of the unallocated income remains the same.

## COMMONWEALTH SUPERANNUATION SCHEME

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

#### 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 is \$61.29 billion (2004: \$56.25 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:

	2005 \$million	2004 \$million
Funded Component	6 033	5 091
Unfunded Component	<u>55 257</u>	<u>51 155</u>
	<u><b>61 290</b></u>	<u><b>56 246</b></u>

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

	2005 \$million	2004 \$million
Funded Component	6 033	5 091
Net Assets plus Funded Benefits Payable	<u>6 033</u>	<u>5 622</u>
Surplus/(Deficiency)	<u><u>-</u></u>	<u><u>531</u></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 2005

**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	<b>5.70</b>	5.60
Unfunded component	<b>49.30</b>	40.20
	<b>55.00</b>	<b>45.80</b>

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

	2002 \$billion	1999 \$billion
Funded Component	<b>5.66</b>	5.56
Adjusted Net Assets	<b>5.36</b>	5.59
Surplus/(Deficiency) Reserve	<b>(0.30)</b>	<b>0.03</b>

**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)  
 W Hall  
 J Palmer  
 S O'Loughlin  
 D Connolly  
 D Moore  
 G Rogers  
 P Smith (alternate for J Palmer)  
 J Flitcroft (alternate for S O'Loughlin)  
 D Irons (alternate for W Hall)  
 S Wilson (alternate for D Moore and D Connolly)  
 K. Doran (alternate for G Rogers)

Ms S O'Loughlin resigned from the Board with effect from 10 March 2005. Mr J Flitcroft acted in the office vacated by Ms O'Loughlin until the appointment of a new member, Mr P Feltham, on 1 July 2005. Mr Flitcroft's appointment expired on 30 June 2005.

Mr G Rogers was appointed as a member of the CSS Board for three years with effect from 20 December 2004.

## COMMONWEALTH SUPERANNUATION SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2005

**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 who received remuneration is within the following bands:

	2005	2004
\$60 001 to \$70 000	1	1
\$40 001 to \$50 000	0	1
\$30 001 to \$40 000	3	1
\$20 001 to \$30 000	2	4
\$0 to \$20 000	4	5

The aggregate amount of remuneration paid to trustees during the financial year was \$262 513 (2004: \$268 832). The CSS share of those remuneration expenses was \$148 520 (2004: \$158 870).

**(c) Executive Remuneration**

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

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:

	2005	2004
\$100 000 to \$109 999	1	2
\$110 000 to \$119 999	1	1
\$120 000 to \$129 999	1	1
\$160 000 to \$169 999	1	1
\$200 000 to \$209 999	1	1
\$230 000 to \$239 999	1	-
\$260 000 to \$269 999	-	1
\$290 000 to \$299 999	1	-
\$300 000 to \$309 999	-	1
\$320 000 to \$329 999	1	-
\$340 000 to \$349 999	-	1
\$430 000 to \$439 999	1	-

The aggregate amount of total remuneration of the executives shown above is \$2 005 041 (2004: \$1 725 054).

**(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 2005

#### 17. CONTINGENT LIABILITIES

##### (a) *Investments*

At 30 June the Fund had outstanding investment capital commitments of \$195.9m (2004: \$228.1m). These commitments are expected to be settled as follows:

	2005 \$'000	2004 \$'000
Within 12 months	110 333	102 984
Greater than 12 months but less than 5 years	85 635	125 193
Greater than 5 years	-	
	<u>195 968</u>	<u>228 177</u>

##### (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 \$0.359m (2004: \$0.337m).

## **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 Snyman, 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.

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.



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of Australia

Principal, Mercer Human Resource  
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Consulting Pty Limited

February 2003

**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:

<b>Item</b>	<b>AAS 25</b>	<b>Long Term Cost Report</b>
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.

**Attachment 2 to AAS 25 Statement****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.

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

<b>Item</b>	<b>Assumption</b>	<b>1999 Investigation</b>
CPI Increases	2.5% per annum	3.5% per annum
Investment Returns	6.0% per annum (nominal) 3.5% per annum (real)	7.0% per annum (nominal) 3.5% per annum (real)
General Salary Increases	4.0% per annum (nominal) 1.5% per annum (real)	5.0% per annum (nominal) 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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Human Resource Consulting

Page 5

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.



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Principal, Mercer Human Resource  
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February 2003



## Board financial statements

- > Independent audit report from  
the ANAO
- > Financial statements



## INDEPENDENT AUDIT REPORT

To the Minister for Finance and Administration

### Scope

#### *The financial statements and Chief Executive's responsibility*

The financial report comprises:

- Statement by the Chief Executive Officer and Finance Manager;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedule of Commitments; and
- Notes to and forming part of the Financial Statements

of the CSS Board for the year ended 30 June 2005.

The Board's Chief Executive and Finance Manager are responsible for preparing financial statements that give a true and fair presentation of the financial position and performance of the CSS Board, and that comply with accounting standards, other mandatory financial reporting requirements in Australia, and the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*. The Board's Chief Executive and Finance Manager are also responsible 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 statements.

### *Audit approach*

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 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 statements are 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 audit 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 statements present fairly, in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, accounting standards and other

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mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Board's financial position, and of its performance as represented by the statements of financial performance and cash flows.

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 statements; 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 have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

#### Audit Opinion

In my opinion, the financial statements of the CSS Board:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (b) give a true and fair view of the CSS Board's financial position as at 30 June 2005 and of its performance and cash flows for the year then ended, in accordance with:
  - (i) the matters required by the Finance Minister's Orders; and
  - (ii) applicable accounting standards and other mandatory financial reporting requirements in Australia.

Australian National Audit Office

  
Carla Jago  
Executive Director

Delegate of the Auditor-General

Sydney  
23 September 2005

## **CSS Board**

### **Statement by the Chief Executive and Finance Manager**

In our opinion, the attached financial statements for the year ended 30 June 2005 have been prepared based on properly maintained financial records and 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*, as amended.



Susan Doyle  
Chairman  
CSS Board



Barbara Wilson  
Finance Manager  
CSS Board

23 September 2005

## CSS Board

### Statement of Financial Performance for the financial year ended 30 June 2005

	Notes	2005	2004
		\$	\$
<b>REVENUE</b>			
<b>Revenues from ordinary activities</b>			
Revenues from government	4A	4 500	4 500
Sales of goods and services	4B	4 149 738	3 755 376
Revenue from sale of assets	4C	176	-
<i>Total revenues from ordinary activities</i>		<u>4 154 414</u>	<u>3 759 876</u>
<b>EXPENSE</b>			
<b>Expenses from ordinary activities</b>			
Employees	5A	1 616 046	1 380 596
Suppliers	5B	2 448 088	2 173 143
Depreciation and amortisation	5C	159 177	138 955
Write-down of assets	5D	57 559	18 368
Net book value of assets disposed	4C	4 154	-
<i>Total expenses from ordinary activities</i>		<u>4 285 024</u>	<u>3 711 062</u>
<b>Operating (deficit)/surplus from ordinary activities</b>		(130 610)	48 814
<b>Net (deficit)/surplus</b>		<u>(130 610)</u>	<u>48 814</u>
Net credit to asset revaluation reserve		35 195	-
<b>Total revenues, expenses and valuation adjustments attributable to members of the parent entity and recognised directly in equity</b>		<u>35 195</u>	<u>-</u>
<b>Total changes in equity other than those resulting from transactions with the Australian Government as owners</b>		<u>(95 415)</u>	<u>48 814</u>

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

## CSS Board

### Statement of Financial Position as at 30 June 2005

	Notes	2005	2004
		\$	\$
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash	6A	<b>310 685</b>	471 201
Receivables	6B	<b>1 368 067</b>	1 477 180
<b>Total financial assets</b>		<b>1 678 752</b>	<b>1 948 381</b>
<b>Non-financial assets</b>			
Prepayments	7A	<b>111 572</b>	60 059
Plant and equipment	7B	<b>123 333</b>	109 466
Intangibles	7C	<b>48 786</b>	7 647
Leasehold improvements	7D	<b>162 750</b>	168 100
<b>Total non-financial assets</b>		<b>446 441</b>	<b>345 272</b>
<b>TOTAL ASSETS</b>		<b>2 125 193</b>	<b>2 293 653</b>
<b>LIABILITIES</b>			
<b>Provisions</b>			
Employees	8A	<b>220 082</b>	254 636
<b>Total provisions</b>		<b>220 082</b>	<b>254 636</b>
<b>Payables</b>			
Suppliers	8B	<b>941 482</b>	1 093 607
Other	8C	<b>423 308</b>	309 674
<b>Total payables</b>		<b>1 364 790</b>	<b>1 403 281</b>
<b>TOTAL LIABILITIES</b>		<b>1 584 872</b>	<b>1 657 917</b>
<b>NET ASSETS</b>		<b>540 321</b>	<b>635 736</b>
<b>EQUITY</b>			
<b>Parent equity interest</b>			
Contributed equity	9A	<b>359 929</b>	359 929
Retained surpluses or accumulated deficits	9A	<b>269 372</b>	220 558
Asset revaluation reserve	9A	<b>41 630</b>	6 435
Current year results	9A	<b>(130 610)</b>	48 814
<b>Total parent equity interest</b>		<b>540 321</b>	<b>635 736</b>
<b>TOTAL EQUITY</b>		<b>540 321</b>	<b>635 736</b>
<b>Current assets</b>		<b>1 790 324</b>	2 008 439
<b>Non-current assets</b>		<b>334 869</b>	285 213
<b>Current liabilities</b>		<b>1 493 194</b>	1 578 465
<b>Non-current liabilities</b>		<b>91 678</b>	79 452

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

## CSS Board

### Statement of Cash Flows for the financial year ended 30 June 2005

	Notes	2005 \$	2004 \$
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Goods and services		<u>5 134 136</u>	<u>4 015 938</u>
<b>Total cash received</b>		<u>5 134 136</u>	<u>4 015 938</u>
<b>Cash used</b>			
Employees		<u>1 666 389</u>	<u>1 266 123</u>
Suppliers		<u>3 165 776</u>	<u>2 332 049</u>
Net GST paid to ATO		<u>227 318</u>	<u>238 504</u>
<b>Total cash used</b>		<u>5 059 483</u>	<u>3 836 676</u>
<b>Net cash from/(used in) operating activities</b>	10	<u>74 653</u>	<u>179 262</u>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sale of plant and equipment		<u>176</u>	<u>-</u>
<b>Total cash received</b>		<u>176</u>	<u>-</u>
<b>Cash used</b>			
Purchase of plant and equipment		<u>138 312</u>	<u>32 724</u>
Purchase of computer software		<u>60 639</u>	<u>-</u>
Leasehold improvements		<u>36 394</u>	<u>18 914</u>
<b>Total cash used</b>		<u>235 345</u>	<u>51 638</u>
<b>Net cash used by investing activities</b>		<u>(235 169)</u>	<u>(51 638)</u>
<b>Net (decrease)/increase in cash held</b>			
Cash at the beginning of the reporting period		<u>(160 516)</u>	<u>127 624</u>
<b>Cash at the end of the reporting period</b>		<u>471 201</u>	<u>343 577</u>
		<u>310 685</u>	<u>471 201</u>

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

**CSS Board****Schedule of Commitments  
as at 30 June 2005**

	Notes	2005	2004
		\$	\$
<b>BY TYPE</b>			
<b>Other commitments</b>			
Operating leases		<b>299 515</b>	459 728
<b>Total other commitments</b>		<b>299 515</b>	459 728
<b>Commitments receivable</b>		<b>(27 229)</b>	(41 794)
<b>Net commitments</b>		<b>272 286</b>	417 934
<b>BY MATURITY</b>			
<b>Operating lease commitments</b>			
One year or less		<b>139 795</b>	139 808
From one to five years		<b>132 491</b>	278 126
<b>Net commitments by maturity</b>		<b>272 286</b>	417 934

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 financial year ended 30 June 2005

#### CONTENTS

##### NOTE

- 1 Summary of Significant Accounting Policies
- 2 Adoption of AASB Equivalent to International Financial Reporting Standards from 2005-06
- 3 Events Occurring after Reporting Date
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## CSS Board

### Notes to and forming part of the financial statements for the financial year ended 30 June 2005

#### 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* (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 2005, 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 2005) 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 financial year ended 30 June 2005

#### 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 1.4)

##### 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 financial year ended 30 June 2005

#### 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 2005.

##### (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 asset 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.

A lease incentive recognised as a liability in the Statement of Financial Position relates to the lease for the Johnsons Building in Sydney. This liability is reduced by allocating lease payments between rental expenses and reduction of the liability.

#### 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 financial year ended 30 June 2005

#### 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, 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 2005 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 2005.

Assets which are surplus to requirements are measured at depreciated replacement cost. At 30 June 2005 and 30 June 2004, 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.

## CSS Board

### Notes to and forming part of the financial statements for the financial year ended 30 June 2005

#### Note 1: Summary of Significant Accounting Policies (cont.)

##### 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.

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.

##### Impairment of Non-current Assets

Non-current assets carried at up to date fair value at the reporting date are not subject to impairment testing.

Non-current assets carried at cost and held to generate net cash inflows have been tested for their recoverable amount at the reporting date. The test compared the carrying amounts against the net present value of future net cash inflows. No write-down to recoverable amount was required (2004: nil).

The non-current assets carried at cost, which are not held to generate net cash inflows, have been assessed for indications of impairment. Where indications of impairment exist, the asset is written down to the higher of its net selling price and, if the entity would replace the asset's service potential, its depreciated replacement cost.

#### 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).

## CSS Board

### Notes to and forming part of the financial statements for the financial year ended 30 June 2005

#### Note 1: Summary of Significant Accounting Policies (cont.)

##### 1.12 Taxation (cont'd)

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

- the Statement of Cash Flows
- where the amount of GST incurred is not recoverable from the Australian Taxation Office; and,
- 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 injury 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.

#### 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 (AEIFRSs) 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 2005 disclose:

- any known or reliably estimable information about the impact on the financial report had it been prepared using the equivalents to IFRSs; or
- if the impacts in above are not known or reliably estimable, a statement to that effect.

The purpose of this Note is to make these disclosures.

## CSS Board

### Notes to and forming part of the financial statements for the financial year ended 30 June 2005

#### Note 2: Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006 (cont.)

##### *Major changes in accounting policy*

Changes in accounting policies under AEIFRS 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 2005, 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 2004. 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 1.10.

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.

The adjustment required by the new standards (a reduction of approximately \$400 in the provision at 30 June 2004) is immaterial and as such will not be reflected in the opening balance sheet.

The Board's review of the quantitative impacts of AEIFRS represents the best estimate of the changes as at the reporting date. The actual impact of AEIFRS may differ from these estimates due to:

- continuing review of the impact of AEIFRS on the CSS Board's operations;
- potential amendments to the AEIFRS and AEIFRS interpretations; and
- emerging interpretation as to the accepted practice in application of AEIFRS and the AEIFRS interpretations.

## CSS Board

### Notes to and forming part of the financial statements for the financial year ended 30 June 2005

#### 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

	2005 \$	2004 \$
<b><u>Note 4A: Revenues from Government</u></b>		
Resources received free of charge - audit services	<u>4 500</u>	<u>4 500</u>
<b>Total revenues from government</b>	<u><u>4 500</u></u>	<u><u>4 500</u></u>

#### Note 4B: Sales of Goods and Services

CSS Board's share of agency fees collected by ComSuper	955 224	971 340
Administration fees from the CSS Fund	3 191 782	2 770 576
Other	2 732	13 460
<b>Total sales of goods and services</b>	<u>4 149 738</u>	<u>3 755 376</u>

#### Note 4C Net (Loss) from Sale of Assets

Plant and equipment	176	-
Proceeds from disposal	(4 154)	-
Net book value of assets disposed	(3 978)	-
<b>Net (loss) from disposal of plant and equipment</b>	<u><u>-</u></u>	<u><u>-</u></u>

#### Note 5: Expenses from Ordinary Activities

##### Note 5A: Employees

Wages and salary	1 368 806	1 177 868
Superannuation	163 111	131 790
Leave and other entitlements	62 493	54 910
Other	11 782	9 284
<b>Total employee benefit expenses</b>	<u>1 606 192</u>	<u>1 373 852</u>
Workers compensation premiums	9 854	6 744
<b>Total employee expenses</b>	<u><u>1 616 046</u></u>	<u><u>1 380 596</u></u>

##### Note 5B: Suppliers

Goods and services from related entities	431 493	455 775
Goods and services from external entities	1 875 308	1 588 604
Operating lease rentals - accommodation.	141 287	128 764
<b>Total supplier expenses</b>	<u>2 448 088</u>	<u>2 173 143</u>

## CSS Board

### Notes to and forming part of the financial statements for the financial year ended 30 June 2005

#### Note 5: Expenses from Ordinary Activities (cont.)

	2005	2004
	\$	\$
<b><u>Note 5C: Depreciation and amortisation</u></b>		
Depreciation - plant and equipment	62 732	69 188
Amortisation of software	19 506	14 903
Amortisation of leasehold improvements	76 939	54 864
<b>Total depreciation and amortisation</b>	<b>159 177</b>	<b>138 955</b>

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

#### Note 5D: Write-down of Assets

Plant and equipment - revaluation decrement	57 559	18 368
<b>Total write-down of assets</b>	<b>57 559</b>	<b>18 368</b>

#### Note 6: Financial Assets

##### Note 6A: Cash

Cash on hand and at bank:

CSS Special Account	310 685	471 201
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##### Note 6B: Receivables

Goods and services	1 055 772	1 228 806
GST receivable from the Australian Taxation Office	166 270	131 787
Accrued income	146 025	116 587
<b>Total receivables</b>	<b>1 368 067</b>	<b>1 477 180</b>

All receivables are current assets.

Receivables (gross) are aged as follows:

Not Overdue	1 368 067	1 462 855
Overdue by:		
Less than 30 days	-	11 000
30 to 60 days	-	958
60 to 90 days	-	-
Over 90 days	-	2 367
<b>Total receivables</b>	<b>1 368 067</b>	<b>1 477 180</b>

**CSS Board**  
**Notes to and forming part of the financial statements**  
**for the financial year ended 30 June 2005**

**Note 7: Non Financial Assets**

	2005 \$	2004 \$
<b><u>Note 7A: Plant and equipment</u></b>		
At valuation (fair value)	123 333	109 466
Accumulated depreciation	-	-
<b>Total plant and equipment</b>	<b>123 333</b>	<b>109 466</b>

**Note 7B: Intangibles - computer software**

At cost	108 940	48 301
Accumulated amortisation	(60 154)	(40 654)
<b>Total intangibles - computer software</b>	<b>48 786</b>	<b>7 647</b>

**Note 7C: Leasehold Improvements**

At valuation (fair value)	162 750	168 100
Accumulated amortisation	-	-
<b>Total leasehold improvements</b>	<b>162 750</b>	<b>168 100</b>

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 2005 by an independent valuer, the Australian Valuation Office.

Movement in Asset Revaluation Reserve:

Increment for leasehold improvements	35 195	6 435
Decrement for Plant and Equipment expensed (note 5D):	(57 559)	(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 At Valuation	Intangibles At Cost	Leasehold Improvements At Valuation	Total
As at 1 July 2004				
Gross book value	109 466	48 301	168 100	325 867
Accumulated depreciation/amortisation	-	(40 654)	-	(40 654)
Net book value	109 466	7 647	168 100	285 213
Assets purchased	138 312	60 639	36 394	235 345
Depreciation/amortisation expense	(62 732)	(19 506)	(76 939)	(159 177)
Net valuation increment/decrement	(57 559)	-	35 195	(22 364)
Disposals	(4 154)	-	-	(4 154)
<b>As at 30 June 2005</b>				
Gross book value	123 333	108 940	162 750	395 023
Accumulated depreciation/amortisation	-	(60 154)	-	(60 154)
Net book value as at 30 June 2005	123 333	48 786	162 750	334 869

## CSS Board

### Notes to and forming part of the financial statements for the financial year ended 30 June 2005

#### Note 8: Provisions and Payables

	2005	2004
	\$	\$
<i><u>Note 8A: Employee provisions</u></i>		
Salaries and wages	<b>11 150</b>	101 392
Leave	<b>204 271</b>	141 778
Superannuation	<b>1 305</b>	12 441
Other	<b>3 356</b>	(975)
<b>Aggregate employee entitlement liability</b>	<b>220 082</b>	<b>254 636</b>
Current	<b>140 244</b>	192 945
Non-current (long service leave)	<b>79 838</b>	61 691
	<b>220 082</b>	<b>254 636</b>
<i><u>Note 8B: Trade suppliers - current liability</u></i>		
Trade creditors - accrued expenses	<b>266 728</b>	737 466
Trade creditors - unpaid invoices	<b>674 754</b>	356 141
<b>Total trade suppliers - current liability</b>	<b>941 482</b>	<b>1 093 607</b>
Trade suppliers are classified as:		
Current Liabilities	<b>941 482</b>	1 093 607
Non-current Liabilities	<b>-</b>	<b>-</b>
	<b>941 482</b>	<b>1 093 607</b>
<i><u>Note 8C: Other Payables</u></i>		
Lease incentive - non interest bearing	<b>17 761</b>	23 681
GST payable to ATO	<b>285 114</b>	213 360
PAYG withholding payable to ATO	<b>120 433</b>	72 633
	<b>423 308</b>	<b>309 674</b>

**CSS Board****Notes to and forming part of the financial statements  
for the financial year ended 30 June 2005****Note 9: Equity*****Note 9A: Analysis of Equity***

Item	Accumulated Results		Asset Revaluation Reserve	Contributed Equity	Total
	2005	2004			
Opening balance as at 1 July	\$ 269 372	\$ 220 558	\$ 6 435	\$ 359 929	\$ 635 736
Net Surplus/deficit	(130 610)	48 814	-	-	(130 610)
Net revaluation increment	-	-	35 195	6 435	35 195
<b>Transactions with owner:</b>					
Contributions by owner:					
Restructuring	-	-	-	-	-
<b>Closing balance as at 30 June</b>	<b>138 762</b>	<b>269 372</b>	<b>41 630</b>	<b>359 929</b>	<b>635 736</b>
Less: outside equity interests	-	-	-	-	-
<b>Total equity attributable to the Australian Government</b>	<b>138 762</b>	<b>269 372</b>	<b>41 630</b>	<b>359 929</b>	<b>635 736</b>

## CSS Board

### Notes to and forming part of the financial statements for the financial year ended 30 June 2005

#### Note 10: Cash Flow Reconciliation

	2005	2004
	\$	\$
<b>Reconciliation of cash per Statement of Financial Position to Statement of Cash Flows</b>		
Cash at end of year per Statement of Cash Flows	310 685	471 201
Statement of Financial Position items comprising above cash: 'Financial asset - Cash'	<b>310 685</b>	<b>471 201</b>
<b>Reconciliation of net surplus (deficit) to net cash from operating activities:</b>		
Net (deficit)/surplus	(130 610)	48 814
Depreciation/amortisation	159 177	138 955
Write down of non-current assets	57 559	18 368
Net loss from sale of assets	3 979	-
Decrease/(increase) in net receivables	109 113	(393 550)
(Increase) in prepayments	(51 513)	(34 079)
(Decrease)/increase in employee provisions	(34 554)	114 474
(Decrease)/increase in supplier payables	(152 125)	221 380
Increase/(decrease) in other payables	113 627	64 900
<b>Net cash from/(used by) operating activities</b>	<b>74 653</b>	<b>179 262</b>

#### Note 11: Contingent Liabilities and Assets

The CSS Board had no contingent liabilities or assets as at 30 June 2005

## CSS Board

### Notes to and forming part of the financial statements for the financial year ended 30 June 2005

#### Note 12: Executives' 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:

	2005 No.	2004 No.
\$100 000 to \$109 999	1	2
\$110 000 to \$119 999	1	1
\$120 000 to \$129 999	1	1
\$160 000 to \$169 999	1	1
\$200 000 to \$209 999	1	1
\$230 000 to \$239 999	1	-
\$260 000 to \$269 999	-	1
\$290 000 to \$299 999	1	-
\$300 000 to \$309 999	-	1
\$320 000 to \$329 999	1	-
\$340 000 to \$349 999	-	1
\$430 000 to \$439 999	1	-
	2005 \$	2004 \$
The aggregate amount of total remuneration of executives shown above .	<b>2 005 041</b>	<b>1 725 054</b>

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

	2005 \$	2004 \$
--	------------	------------

#### 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	4 500
--	-------	-------

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

58 656      58 000

#### Note 14: Average Staffing Levels

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

20.38      18.68

#### 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 financial year ended 30 June 2005

#### 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)
<b>FINANCIAL ASSETS</b>		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash	6A	Cash is recognised at its nominal amount.	The CSS Board does not earn interest on its operational bank account.
Receivables for goods and services	6B	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.
<b>FINANCIAL LIABILITIES</b>		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	8B	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 financial year ended 30 June 2005**

**Note 16: Financial Instruments (cont.)**

**Note 16B: Interest Rate Risk**

Financial Instrument	Notes	Floating Interest Rate		Fixed Interest Rate Maturing In			Non Interest Bearing	Total	2005	2004	Weighted Average Effective Interest Rate 2004 \$
		2005	2004	2005	2004	2005					
Financial Assets											
Cash	6A	-	0	-	-	-	-	-	310 685	471 200	n/a
Receivables for goods and services	6B	-	-	-	-	-	-	-	1 368 067	1 477 180	n/a
<i>Total</i>		-	0	-	-	-	-	-	1 678 752	1 948 380	n/a
<i>Total Assets</i>									2 125 193	2 293 652	

Financial Liabilities	Notes	Floating Interest Rate		Fixed Interest Rate Maturing In			Non Interest Bearing	Total	2005	2004	Weighted Average Effective Interest Rate 2004 \$
		2005	2004	2005	2004	2005					
Trade creditors	8B	-	-	-	-	-	-	-	941 482	1 093 607	n/a
<i>Total</i>		-	-	-	-	-	-	-	941 482	1 093 607	n/a
<i>Total Liabilities</i>									1 584 872	1 657 917	

## CSS Board

### Notes to and forming part of the financial statements for the financial year ended 30 June 2005

#### Note 16: Financial Instruments (cont.)

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

	<b>Notes</b>	<b>2005</b>		<b>2004</b>	
		\$ Total Carrying Amount	\$ Aggregate Net Fair Value	\$ Total Carrying Amount	\$ Aggregate Net Fair Value
<b>Departmental Financial Assets</b>					
Cash	6A	310 685	310 685	471 200	471 200
Receivables for goods and services	6B	1 368 067	1 368 067	1 477 180	1 477 180
<b>Total financial assets</b>		<b>1 678 752</b>	<b>1 678 752</b>	<b>1 948 380</b>	<b>1 948 380</b>
<b>Financial Assets</b>					
Trade suppliers	8B	941 482	941 482	1 093 607	1 093 607
<b>Total Financial Liabilities</b>		<b>941 482</b>	<b>941 482</b>	<b>1 093 607</b>	<b>1 093 607</b>

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

### Notes to and forming part of the financial statements for the financial year ended 30 June 2005

#### Note 17: Special Accounts

	2005	2004
	\$	\$
<b>CSS Special Account (Departmental)</b>		
<i>Legal Authority: Financial Management and Accountability Act 1997, s20</i>		
<i>Purpose: For expenditure relating to:</i>		
- the administration of the CSS Scheme by the CSS Board;		
- the performance of any other function conferred on the CSS Board under legislation; or		
- 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.		
Balance carried forward from previous year	471 201	343 577
Costs recovered from non-government sector		
Services - Rendering of services to external entities	<u>3 635 258</u>	2 690 286
Other receipts:		
Services - Rendering of services to related entities	955 224	971 340
Sale of assets	176	-
GST refunds received	<u>543 654</u>	354 312
Amount available for expenditure	<u>5 605 513</u>	4 359 515
Expenditure	<u>(5 294 828)</u>	(3 888 314)
<b>Balance carried to next year</b>	<u><u>310 685</u></u>	<u><u>471 201</u></u>
Represented by		
Cash	<u>310 685</u>	471 201
<b>Total</b>	<u><u>310 685</u></u>	<u><u>471 201</u></u>

# Board financial statements

## CSS Board

### Notes to and forming part of the financial statements for the financial year ended 30 June 2005

#### Note 18: Reporting of Outcomes

##### Note 18A: Net Cost of Outcome Delivery

	Outcome 1 2005 \$	2004 \$	Total 2005 \$	2004 \$
<i>Costs recovered from provision of goods and services to the non-government sector</i>				
Departmental Expenses	<b>4 285 024</b>	3 711 062	<b>4 285 024</b>	3 711 062
<i>Total costs recovered</i>				
<i>Other external revenues</i>				
Departmental				
Goods and services revenue from related entities	<b>955 224</b>	971 340	<b>955 224</b>	971 340
Other	<b>4 500</b>	4 500	<b>4 500</b>	4 500
<i>Total other external revenues</i>	<b>959 724</b>	975 840	<b>959 724</b>	975 840
<i>Net cost/(contribution) of outcome</i>	<b>130 786</b>	(48 814)	<b>130 786</b>	(48 814)

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 2005 \$	2004 \$	Outcome 1 Total 2005 \$	2004 \$
<i>Employees</i>	<b>1 616 046</b>	1 380 596	<b>1 616 046</b>	1 380 596
Suppliers	<b>2 448 088</b>	2 173 143	<b>2 448 088</b>	2 173 143
Depreciation and amortisation	<b>159 177</b>	138 955	<b>159 177</b>	138 955
Other expenses	<b>61 713</b>	18 368	<b>61 713</b>	18 368
<i>Total departmental expenses</i>	<b>4 285 024</b>	3 711 062	<b>4 285 024</b>	3 711 062
<i>Funded by:</i>				
Revenues from Government	<b>4 500</b>	4 500	<b>4 500</b>	4 500
Sale of goods and services	<b>4 159 914</b>	3 755 376	<b>4 159 914</b>	3 755 376
<i>Total departmental revenues</i>	<b>4 154 414</b>	3 759 876	<b>4 154 414</b>	3 759 876

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 financial year ended 30 June 2005**

#### **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

- > [Appendix A: Changes to legislation](#)
- > [Appendix B: Freedom of Information](#)
- > [Appendix C: Publications](#)
- > [Appendix D: Contact officer](#)
- > [Appendix E: Compliance](#)
- > [Appendix F: Consultancies](#)
- > [Appendix G: Service level agreements—scheme administrator](#)
- > [Appendix H: Service level agreements—IT](#)
- > [Appendix I: Commonwealth Disability Strategy](#)
- > [Appendix J: Glossary](#)

## **Appendix A: Changes to legislation**

### **Legislative amendments**

The following amendments have been made to the *Superannuation Act 1976*:

- Amendments consequential to the *Superannuation Budget Measures Act 2004* to reduce the maximum surcharge rates progressively to 12.5% for 2004–2005 and 10.0% for 2005–2006 and subsequent years and reduced the cap on reductions to employer financed benefits for surcharge purposes to reflect the reduced maximum surcharge rates. The Australian Government subsequently announced that the surcharge will be abolished with effect from 1 July 2005.
- Amendments consequential to the introduction of new compensation arrangements in the *Military Rehabilitation and Compensation Act 2004* which replaced the existing compensation arrangements under the *Safety, Rehabilitation and Compensation Act 1998*. From 1 July 2004 the new arrangements apply to members and former members of the ADF (who may also be members of the CSS) for service on or after the commencement day of the new rules.

# Appendix B: Freedom of Information

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

CSS members made 48 requests for access to documents during 2004–2005. Of these requests, 45 were granted in full and two partial releases granted. One request was refused. The requests took an average of 3.5 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 should be directed to:

Corporate Reporting and Parliamentary Liaison Unit  
PO Box 22  
Belconnen ACT 2616

Tel: (02) 6272 9080  
Fax: (02) 6272 9804  
TTY: (02) 6272 9827  
Email: [foi@css.gov.au](mailto:foi@css.gov.au)  
Website: [www.css.gov.au](http://www.css.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 the scheme administrator

The general functions of the scheme administrator are described in the main body of this report and in the *Commissioner for Superannuation Annual Report 2004–2005*.

### 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 the scheme administrator are referred to the scheme administrator'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 the scheme administrator'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 scheme administrator office in Canberra, as they have no regional offices. Publications may be inspected at their FOI Unit, and copies (for which there may be a charge) can be obtained by writing to the scheme administrator.

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

Corporate Reporting and Parliamentary Liaison Unit  
PO Box 22  
Belconnen ACT 2616

Tel: (02) 6272 9080  
Fax: (02) 6272 9804  
TTY: (02) 6272 9827  
Email: [foi@css.gov.au](mailto:foi@css.gov.au)  
Website: [www.css.gov.au](http://www.css.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 C: Publications

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

### Annual Reports

What's happening with your fund?—Member Statement Information Book 2003–2004  
The CSS Board Annual Report 2003–2004

### Publications

CSS Retirement Options Product Disclosure Statement plus Supplementary PDS  
The CSS Book  
CSS Benefit Tables  
Family Law and Splitting Super: How it's done and what happens next  
Service Charter of our administrator ComSuper  
Tax and your CSS Benefit  
Take a walk Into the future Mini—Report 2004  
Getting the investment choice ball rolling—Your guide to the CSS Cash Option Book  
What's happening in your life?—a broad guide to super considerations you and your family may encounter at different stages of your life.

### Fact sheets

Changing from Permanent Full-time to Permanent Part-time  
Death Benefits  
Invalidity Benefits  
Family Law and Your Super  
Getting Info Online  
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  
Salary Reductions and Your Super  
Super Co-contribution for Members Earning Less than \$58 000 p.a.  
Supplementary Contributions  
Superannuation Contributions Surcharge  
Transfers In  
Transfer of Performance Based Pay

These publications are available online at [www.css.gov.au](http://www.css.gov.au) or can be obtained by calling 1300 000 277; from National Mailing and Marketing on telephone (02) 6269 1000 or fax (02) 6260 2770.

## **Appendix D: Contact officer**

Information is made 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](http://www.css.gov.au)

Email: [secretary.csspss@csb.gov.au](mailto:secretary.csspss@csb.gov.au)

## Appendix E: Compliance

# Appendix E: 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 the scheme administrators operations are provided in the *Commissioner for Superannuation Annual Report 2004–2005*

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# Appendix F: 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 2004–2005, the Board also employed four investment advisors: Towers Perrin, JANA Investment Advisors, Wilshire Australia and Macquarie Bank, 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 \$13 681 000.

## 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:

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

Table A1 provides details of consultancies jointly engaged by the PSS Board and CSS Board during 2004–2005 with a contract value, GST inclusive, of \$10 000 or more.

This list covers expenditure of relevant public moneys and excludes expenditure related to the management and investment of the PSS and CSS Funds

During 2004–2005 the CSS and PSS Boards jointly engaged the following consultancies.

**Table A1: CSS/PSS consultancies 2004–2005**

Consultant Name	Description	Value \$	Selection Method	Principal Justification
Adcorp Green	Communications development and advice	20 360	Select tender	Skill
Blake Dawson Waldron	Legal advice on scheme administration	43 635	Select tender	Skill
Bronwyn McNaughton	Assistance in meeting ASIC, APRA and other compliance requirements.	28 498	Select tender	Skill
Cath King & Associates	Taxation compliance in respect of the Boards.	24 553	Select tender	Skill
Cato Purnell	Corporate communications advice	76 873	Select tender	Skill
Cost Effectiveness Measurement	Benchmarking services in respect of scheme administration.	11 000	Select tender	Skill
Ernst & Young	Provision and set up of Super Sentinel compliance monitoring software.	63 250	Select tender	Skill
Ernst & Young	Internal audit services	31 359	Select tender	Skill
Galileo Kaleidoscope	Stakeholder research for Board and Board Structure	239 687	Select tender	Skill
KAZ Technology	Supply and installation of computer hardware and software.	385 251	Select tender	Skill
KAZ Technology	Maintenance and support of I.T.	19 212	Select tender	Skill
Mallesons	Legal advice on various scheme administration matters including the PSSAP insurance and product disclosure statement.	299 973	Select tender	Skill
Morris Walker	Development and implementation of communications plan	401 304	Select tender	Skill
Publicity Works	Communications development and advice.	70 896	Select tender	Skill
Rice Walker Actuaries	Actuarial advice in respect of the PSSAP scheme insurance.	188 945	Open tender	Skill
<b>Total Consultancies 2004-05</b>		<b>1 904 796</b>		

### Selection method categories

The selection methods used for consultancies are categorised 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 specialised skills.

**Ind** need for an independent view.

## Appendix G: Service level agreement—scheme administrator

The below table sets out services provided by the scheme administrator, Commonwealth Superannuation Administration (ComSuper) to the CSS Board, the standards that are to be applied to those services. In addition to the items shown in the schedule, ComSuper will report to the Board's any material changes to administration, including system changes and the impact of those changes on services. ComSuper will also undertake an Annual Effectiveness Review jointly with the Board's to review achievement against service standards and the Boards' goals and objectives for administration.

Where a standard is not met, ComSuper will continue to provide exception reports as it currently does, ie monthly, six-monthly or annually as the case may be.

This agreement shall have effect from 1 July 2003 until a new agreement is agreed upon by the CSS Board and ComSuper.

**Table A2: Service level agreement—scheme administrator**

Account maintenance		
<b>Collection, recording and maintenance of member information-</b> ComSuper will 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.		
standard	met	achieved
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 DQI score of 0.7 or greater	✓	Standard met
<b>Collection, banking, recording and maintaining contributions remittances</b> ComSuper will maintain appropriate banking arrangements for the payment of contribution remittances into the Fund; lodge moneys with the Boards' investment custodian for investment by investment managers to the extent that moneys held in the Boards' bank accounts are not required for the purpose of the payment of benefits and other expenses; maintain appropriate accounting systems for the recording of contribution remittances received; and monitor the collection of contribution remittances and pursue any late remittance of contributions with the employer and collect penalty interest where appropriate.		
standard	met	achieved
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
<b>Employer support</b> ComSuper will undertake a range of initiatives including system improvements, training of personnel staff and information dissemination, to improve employers' understanding of the schemes and their responsibilities so that they are reliable sources of superannuation information for their staff and so that data submitted to ComSuper on behalf of their employees is accurate. The effectiveness of these measures will be gauged through surveys of employers and ongoing monitoring of error volumes by ComSuper systems.		
Annual employer surveys and internal surveys of accuracy of data submitted to ComSuper	✓	Standard met

## Member communications

### Member communications

ComSuper will, at the direction of the Boards, undertake a communications program aimed at improving contributing members', preserved benefit members' and pensioners' knowledge and understanding of the schemes so that they are in a position to make informed decisions. This includes the range of communications required by SIS.

Specifically, ComSuper undertakes to provide a range of communications to members on benefit entitlements and the general administration of the schemes in writing, over the phone and by electronic means. ComSuper will continuously seek ways to improve these communications.

ComSuper will also provide a range of seminars broadly in accordance with demand, issue member information statements and make available various scheme publications both in hard copy and electronic format.

ComSuper will deliver the abovementioned member communication services in accordance with the Boards' Financial Services licensing obligations. The specific details will be the subject of agreement between the Boards and ComSuper.

standard	met	achieved
ComSuper will process or respond to:		
Written enquiries *85% in 10 days *100% in 20 days #90% in 20 days	✗ ✗ ✓	Standard met 3 out of 8 months Standard met 4 out of 8 months Standard met
Email enquiries *95% in 1 day *100% in 5 days #95% in 5 days	✗ ✗ ✓	Standard met 0 out of 8 months Standard met 1 out of 8 months Standard met
Member statements and i-Estimator delivered as per project plan	✓	Standard met
Telephone average speed of answer: *average of 30 secs or less over a month #70% of calls to be answered within 120 seconds	✗ ✓	Standard met 0 out of 8 months Standard met
Website changes: -critical updates - 1 day - routine updates 100% in 5 days	✓ ✓	Standard met Standard met
Family law enquiries: respond to 100% of enquiries within 28 days	✗	Standard met 3 out of 12 months
In addition, ComSuper gives the following undertakings:		
Seminars provided as required or requested	✓	Standard met
Personal counselling in Canberra urgent - immediately others within 5 days	✓ ✓	Standard met Standard met
ComSuper will send a benefit estimate and an application form within one day of advice being received of a member's death	✓	Standard met
Favourable client survey and/or benchmarking results	✓	Standard met
Quality (ie fitness for purpose) of generated correspondence will be assessed by six monthly audit	✓ ✓	Standard met Standard met
<p><i>Interim service standards were approved between the Board and ComSuper on the 9th of March 2005 in relation to telephone calls, response to emails and response to written correspondence.</i></p>		
<p>* These service standards were removed 9 March 2005 # New standards from 9 March 2005</p>		

\* These service standards were removed 9 March 2005

# New standards from 9 March 2005

Benefit payments		
<b>Benefit payments</b> ComSuper will process all applications for benefits from contributors, preserved benefit members and pensioners in a timely manner and in accordance with relevant legislation. ComSuper will also process requests for release on hardship or compassionate grounds expeditiously and in accordance with relevant legislative requirements and guidelines issued by the Boards.		
standard	met	achieved
Where all data is available, average processing time of 5 days over a month	✗	Standard met 8 months. For 4 months the average processing time was 6 days
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
Processing requests for release on hardship or compassionate grounds 100% in 10 days	✓	Standard met
<b>Processing of invalidity claims</b> In assessing claims for invalidity retirement or early release of preserved benefits, ComSuper will ensure that due process is followed, claims are processed expeditiously, legislative requirements are met and guidelines issued by the Boards are followed. <b>Note:</b> A breach of the 100% standard will only occur when the excess time is contributed to by factors within the control of ComSuper. ComSuper will, however, continue to report any cases that fall outside the 12 month standard and the reasons why this occurred.		
standard	met	achieved
Very urgent invalidity claims 100% in 3 days	✓	Standard met
Normal invalidity claims 70% in 3 months 100% in 9 months	✓ ✗	Standard met Standard met 8 months
Preserved benefit invalidity claims 80% in 6 months 100% in 12 months	✓ ✓	Standard met Standard met
<b>Pension variations</b> Reversionary benefits. Changes to payment details.		
standard	met	achieved
All reversionary pensions will be 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 will be made within the first available fortnightly pay cycle following receipt of a request	✓	Standard met
<b>Pension increase/advice</b> ComSuper undertakes to process the pension increase each six months, if there is one, and to provide an advice before the first payday in January and July outlining whether an adjustment has taken place and, if so, the quantum increase. ComSuper will also provide every pensioner with a payment summary before the first payday in July each year.		
standard	met	achieved
The January increase will be processed for payment on the first payday in January. A pension adjustment notice will be provided prior to the payday	✓	Standard met
The July increase will be processed for payment on the first payday in July. A pension adjustment notice and a payment summary will be provided prior to the payday	✓	Standard met
<b>Accounts and records and funding of benefit payments</b> ComSuper will liaise with the Boards' 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.		
standard	met	achieved
Auditors to provide a report on how successfully ComSuper maintained the liquidity of the Boards' bank accounts and that proper accounts and records are kept	✓	Standard met

## Appendix G: Service level agreement —scheme administrator

Dispute resolution		
<b>Internal review</b> ComSuper undertakes to investigate requests for reconsideration of decisions of the Boards or their delegates in a thorough, objective and effective manner in accordance with any guidelines issued by the Boards. ComSuper also undertakes to do all things within its control to facilitate the expeditious processing of negligence claims against the Boards and that guidelines issued by the Boards are followed.		
standard	met	achieved
The Reconsideration Committee will process reconsideration requests: 60% in 8 months 100% in 12 months  Average - less than 7 months	✓ ✓ ✓	Standard met Standard met  Standard met  Standard met
<b>External review</b> ComSuper undertakes 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. ComSuper will also inform the Boards of the outcome of external appeals and of their implications.		
standard	met	achieved
ComSuper will process all external review cases 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 the decision to be provided to the next appropriate meeting of the Administration Committee	✓	Standard met
<b>Complaints</b> ComSuper will maintain systems for dealing with SIS registered complaints and representations made by Parliamentarians and the Ombudsman. ComSuper will also maintain systems for dealing with requests under the Freedom of Information Act.		
standard	met	achieved
ComSuper will respond to: SIS complaints and Parliamentarian/Ombudsman representations: 90% within 15 days 100% within 25 days	✗	Standard met 3 months
Freedom of Information requests: 100% within 7 days	✗ ✗	Standard met 8 month Standard met 10 months
Other		
<b>Feedback on issues identified by internal audit</b> ComSuper will provide feedback to the Boards on significant issues identified by internal audit (including fraud events and compliance with best practice fraud control).		
standard	met	achieved
Provide a report to the Boards summarising all significant issues identified by internal audit, with commentary on the corrective action taken	✓	Standard met.
<b>Security</b> Compliance with the Protective Security Manual.		
ComSuper will demonstrate compliance by assessment in the 3 yearly security audit plan	✓	Standard met

## Appendix H: Service level agreement—IT

The table below sets out the services provided by KAZ Technology Services Pty Ltd to the CSS Board and the standards that are applied to those services.

**Table A3: Service level agreement—IT**

Remote administration		
standard	met	
This includes regular remote administration of the site utilising secure and reliable administration tools such as PC Anywhere or Terminal Services, for up to the number of hours per week specified in Item 2(a) of Schedule 1. This support will allow for a KAZ Service Desk consultant to remotely administer the server for regular health checks of the Trustees system and user administration.	Standard met	
Regular site visits		
standard	met	
This includes regular maintenance tasks which may be accommodated within regular visits to the site. The range of tasks are not restricted, but must be able to be accommodated within the number of sites visits and time specified in Item 2(b) of Schedule 1 at the sites specified in Item 2(c) of Schedule 1.  Typically the tasks covered within this scope would include: Regular server maintenance tasks Checking and maintenance of backup User creation and modification Setting and modification of Security Minor workstation modification Addition of minor applications Minor user assistance Login script and user profile maintenance Addition of minor hardware components.	Standard met	
Service desk support calls		
standard	met	
This includes calls for assistance to the KAZ Service Desk where the call can be resolved by the Service Desk up to the agreed number of calls specified at Item 2(c) of Schedule 2. This type of assistance is restricted to phone support or simple remote administration tasks and does not include calls that require escalation.	Standard met	
Callout assistance		
standard	met	
Callout assistance is where immediate assistance is required by the Trustees, but not at time of the regular scheduled visit. In some cases, the scope of assistance may be within those normally associated with regular maintenance, but the assistance must be provided immediately.  The response associated with a particular call is defined by the priority associated with the call. The Trustees will designate the priority at time of making the call. These priorities are defined as:  Priority 1:  Immediate response via KAZ Service Desk, expert assistance within 2 hours of a call being logged for calls made during the KAZ Service Desk's hours of operation. If the problem cannot be solved immediately by the KAZ Service Desk, it is escalated to an appropriate technical consultant, and KAZ guarantees a response within 2 working hours of the call being logged  If the designated consultant does not solve the problem, the problem is further escalated to a senior consultant, principal consultant and/or hardware/software supplier.	Standard met	
Priority 2:  Immediate response via KAZ Service Desk, expert assistance within 4 hours of a call being logged for calls made during the KAZ Service Desk's hours of operation.  If the problem cannot be solved by the KAZ Service Desk, it is escalated to an appropriate technical consultant, and KAZ guarantees a response within 4 hours of the call being logged.  If the designated consultant does not solve the problem, the problem is further escalated to a senior consultant, principal consultant and/or hardware/software supplier.	Standard met	

Callout assistance (cont.)	
standard	met
<p>Priority 3:</p> <p>Immediate response via KAZ Service Desk, expert assistance within 3 working days of a call being logged for calls made during the KAZ Service Desk's hours of operation.</p> <p>If the problem is not solved by the KAZ Service Desk, it is escalated to an appropriate technical consultant, and KAZ guarantees a response within 3 working days of the call being logged.</p> <p>If the designated consultant does not solve the problem, the problem is further escalated to a senior consultant, principal consultant and/or hardware/software supplier.</p>	Standard met
Defined tasks	
standard	met
<p>These are tasks which are of significant scope and cannot be accommodated within the regular maintenance schedule. These tasks will be clearly defined, the duration and cost estimated and the cost agreed between KAZ and the Trustees prior to commencement of the task. The cost for provision of these services will be based on the level of resources required (eg design tasks will be carried out by a senior consultant and charged accordingly) and follow the agreed cost schedule as set out in Item 3 of Schedule 2.</p>	Standard met
After hours support	
standard	met
<p>This is where on-call support is required by the KAZ Service Desk outside of the normal hours of operation. On call support may be provided over the phone, or where required, a consultant will attend the site. The cost for provision of after hours support is set out in Item 4 of Schedule 2.</p>	Standard met

## **Appendix I: 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 scheme administrator 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 the scheme administrator 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 the scheme administrator, CSS members have access to:

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

Both the CSS Board Executive Unit offices and the scheme's administrator offices provide wheelchair access and facilities.

## Appendix J: Glossary

# Appendix J: 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
ADF	Australian defence force
AFSL	Australian Financial Services Licence
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
Board, the	The PSS/CSS Board of Trustees
CAC	Complaints Advisory Committee
CDRom	Compact Disc Read-Only Memory
CEO	Chief Executive Officer
Co-contribution	a contribution made by the government to a person's superannuation account
ComSAS	ComSuper's Superannuation Administration System
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
fax	facsimile
FBT	Fringe benefit tax
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
HTML	Hypertext Markup Language
ICM	Independent Claims Management Pty Ltd
i-Estimator	an online calculator that can be used to project benefits
IFS	Industry Funds Services
illiquid	an asset that cannot be turned easily and quickly into cash
ISBN	International Standard Book Numbering
ISSN	International Standard Serial Number
NRMA	National Roads and Motorists' Association Limited
NRMC	Natural Resource Management Consultants
PDS	Product Disclosure Statement
portfolio	collection of investments of a particular fund or investment manager
PSS	Public Sector Superannuation (scheme)
PSSap	Public Sector Superannuation accumulation plan
PSS Act	Superannuation Act 1990
QSI	Quality Service Index
RAC	Reconsideration Advisory Committee
RBL	Reasonable benefit limit
SAA	strategic asset allocation
S&P	Standard and Poors
sector	a category of financial assets
SES	Senior executive service
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
superannuant	a person receiving a pension from a superannuation fund or RSA
surcharge	Commonwealth Government tax on employer contributions
TTY	Text Telephone (tele-typewriter)
UNEP	United Nations Environment Programme
WC3	World Wide Web Consortium

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