



annualreport

The **CSS** Board

05 | **06**



Commonwealth Superannuation Scheme



COMMONWEALTH
SUPERANNUATION SCHEME

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), Australian Reward Investment Alliance (ARIA), formerly the CSS Board is pleased to present to you the Annual Report on its operations during 2005/06. 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 during the year ended 30 June 2006.

Subsection 162(2) of the CSS Act require 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 black ink, appearing to read 'S. Doyle', written in a cursive style.

Susan Doyle
Chairman
Australian Reward Investment Alliance (ARIA)
13 November 2006

Chairman's report





I am delighted to present the annual report on the performance of the funds and management and administration of the CSS for the last financial year. The Funds investment target is an average real return after tax and fees of no less than 4.5% per annum, which derives from a nominal return of 7% per annum over the long term. In 2005/06 the Fund achieved a return of 13.3%. Over the long-term we have consistently exceeded our target with returns which average 13.7% per annum over three years, 7.4% per annum over five years and 9.2% per annum over ten years.

The significant activity of the Board in the last financial year was the establishment of a single trustee called Australian Reward Investment Alliance (ARIA), which in effect is a merger of the two boards that were previously responsible for the CSS and PSS superannuation schemes. In addition to modernising and strengthening our governance procedures with ARIA, we have established a more rational and effective investment structure for all of the schemes that will benefit all members now and well into the future. I would like to thank the staff and stakeholders who worked so hard to achieve this outcome.

During the year the CSS Board was granted a licence by the Australian Prudential Regulation Authority. A significant amount of work was necessary to satisfy the regulator's requirements for the granting of a licence and significant resources will be required to meet licence conditions.

The changes announced in the 2006 May Budget will, if implemented in the form proposed, have a significant long term impact on the superannuation and retirement industry. The proposals represent a dramatic simplification of the rules applying to superannuation, particularly in relation to taxation, and ARIA will be continuing its discussion with the government to seek the best outcome for all of our members as a result of those changes.

I would like to thank the Minister and his department for their continued assistance throughout the year. I would also like to thank our partners; ComSuper, JPMorgan, JANA Investment Advisors, all of our fund managers and other service providers for their work throughout the year.

Susan Doyle
Chairman
Australian Reward Investment Alliance (ARIA)

Executive summary

- > Investment performance
- > Regulatory environment
- > New governance structure to better serve members' interests
- > May Budget announcement
- > Systems issues
- > Exit rate policy
- > Future directions



Investment performance

The CSS Default Fund achieved a return of 13.3% per annum in 2005/06, continuing the double digit performance of recent years. This investment performance again was in excess of our long-term target of 7% per annum. Performance of the CSS Default Fund for three, five and 10 year periods is: 13.7%, 7.4% and 9.2% per annum respectively.

The CSS Cash Investment Option performance is in line with its benchmark, achieving a return of 4.9% per annum for 2005/06.

Regulatory environment

During the year the CSS Board obtained a licence from the Australian Prudential Regulation Authority, and undertook a significant review of its policies and procedures to ensure compliance with the regulatory requirements. The scheme is now subject to a dual ASIC/APRA regulatory regime and it has and will continue to require significant resources to meet the enhanced demands.

In 2005/06 there were errors in the published exit rates such that members who exited the scheme were underpaid benefit entitlements. The variation in earnings as compared to the published exit rates was between 0.5% and, towards the end of the financial year, up to around 5.5%. Remedial action and a review of processes has been underway for sometime and we are involved in a process with our two regulators to finalise this matter.

New governance structure to better serve members' interests



On 1 July 2006, the CSS Board merged with the PSS Board to create Australian Reward Investment Alliance (ARIA) – a simplified, sustainable and more effective governance structure which will greatly enhance our ability to serve the interests of members and stakeholders.

The superannuation environment in Australia has undergone a huge change over the past few years, with financial services reform, increased regulation and choice of fund. Our existing structure, in combination with that of the Public Sector Superannuation Scheme (PSS) Board, created unnecessary duplications which meant that superannuation arrangements for Australian Government employees would not have been sustainable or cost effective in the long-term.

It was obvious that, to continue to meet members' needs into the future, the CSS Board and the PSS Board had to adapt.

The new structure will enable the CSS to introduce a range of improvements. We will be able to:

- achieve new cost efficiencies through the elimination of outdated complexities and duplications in administration, investment, liability management, risk management and regulatory compliance, which will have a positive effect on investment returns over time
- ensure sustainability for the future with the use of a single investment trust which will provide greater economies of scale in managing the closed CSS Fund and help us to maintain competitive cost structures



- maintain a strong governance structure in line with the Australian Government's new best-practice corporate governance principles, to uphold our high levels of accountability and transparency
- improve communication and education services with the delivery of seminars and individual consultations to members at their place of work.

The single Trustee structure is another step in the process of modernising the CSS with best practice corporate governance principles and more equitable distribution of earnings between departing and remaining members.

May Budget announcements

Significant proposed changes were announced in the May 2006 Budget that will have an impact on both taxed and untaxed superannuation schemes. We will continue our discussions with Government on the impact of these proposals on the CSS.

Systems issues

We have been involved in discussions with our administrator and with Government in relation to the replacement of our administrator's computer system that now creates regulatory and compliance risks because of its nature and age. We expect decisions to be made on this matter prior to the end of the calendar year.

Exit rate policy

The current policy of not allocating earnings until members exit the scheme continued in 2005/06. Legislation has been passed by Parliament to enable the Board to allocate more equitably Fund earnings between members who leave the scheme and those that stay. This legislative change will more accurately reflect the actual investment earnings of the Fund. The Board intends crediting unallocated earnings to member accounts as soon as systems issues allow it to do so.

We will advise members of the details during the course of the year.

Future directions

Over the next twelve months, our efforts will continue to focus on providing competitive returns, whilst staying within the risk and volatility constraints that ARIA sees appropriate. We will continue our proactive risk management programs such as the Governance Advisory Service and our proxy voting responsibilities.

We will continue to work closely with the Department of Finance and Administration, members and other key stakeholders to ensure we are able to provide members with cost efficient superannuation arrangements.

Steve Gibbs
Chief Executive Officer
Australian Reward Investment Alliance (ARIA)

1 | The CSS Board

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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.

From 1 July 2006, the CSS and PSS Boards merged to create Australian Reward Investment Alliance (ARIA). ARIA was established under the *Superannuation Legislation Amendment (Trustee Board and Other Measures) Bill 2006*.

Board membership

The CSS Board consisted 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—First appointed 28 July 2003
Current term expires 27 July 2009**

On 28 July 2003, Ms Susan Doyle was appointed Chairman of the CSS Board. 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 Guardian of the Future Fund and a Director of SA Water Corporation and Chairman of its Audit Committee.



**Mr David Connolly AM—First appointed 19 September 2002
Current term expires 18 September 2008**

Mr Connolly is also Chair of the Audit and Risk Management Committee. Mr Connolly is a Chairman of Rice Warner Actuaries and serves as a part-time member of the Administrative 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.



**Mr Peter Feltham—First appointed 1 July 2005
Current term expires 30 June 2009**

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 Federal Public Service.



**Ms Winsome Hall—First appointed 1 July 1996
Current term expires 30 September 2008**

Ms Hall is also a member of the Audit and Risk Management Committee. Ms Hall is a Director of Colonial First State Private Capital Limited, a listed venture capital infrastructure 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.



**Mr Des Moore—First appointed 9 September 2003
Current term expires 30 September 2007**

Mr Moore is also a member the 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.



**Ms Joy Palmer—First appointed 1 July 1996
Current term expires 30 September 2007**

Ms Palmer is also a member of the Audit and Risk Management Committee. Ms Palmer's extensive experience in the superannuation industry includes current appointments as Chair of Statewide Superannuation Trust and Chair of Statewide Financial Management Services; she is a member of the Steering Committee of the Conference of Major Super Funds, and holds the professional accreditation of Fellow of ASFA (FASFA). Ms Palmer has previously held directorships with AGEST Superannuation, CPSUSF Super Fund and the ASFA Board. She is currently also a director of Austraining International.



**Mr Graham Rogers—First appointed 20 December 2004
Current term expires 19 December 2007**

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 Group's thrust into Asia. He also served two terms as Deputy Chairman of PHIAC (the Australian Health Insurance Regulator). He is currently Deputy Chair of Australian Wealth Management.

Board objectives

Table 1: Major business objectives for the 2005/06 financial year

Objective	Outcome
Maintain competitive long-term investment performance	Average real return for the past ten years of 6.7%
Integrate existing CSS and PSS Boards into a single entity	ARIA commenced on 1 July 2006

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; Ms Joy Palmer, Member; and Mr Des Moore, Member.

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.

Table 2: Board and Board Committee meeting attendance 2005/06

	Board Meetings		Audit & Risk Management Committee	
	Attended	Eligible to attend	Attended	Eligible to attend
Susan Doyle	10	10	n/a	n/a
David Connolly	9	10	6	6
Des Moore	9	10	6	6
Peter Feltham	10	10	n/a	n/a
Graham Rogers	9	10	n/a	n/a
Winsome Hall	8	10	6	6
Joy Palmer	9	10	2	2



Board Resources

Human resources

During 2005/06, the number of staff employed jointly by the CSS and PSS Boards increased from 24 to 34 as the Boards expanded their investment, compliance, communications and finance teams. Staff employed directly by the Boards are engaged on fixed-term contracts.

Staffing profile

Table 3: Staff numbers at 30 June 2006

Employment category	Male	Female	Total
Full-time staff employed jointly by the PSS and CSS Boards	14	15	29
Part-time staff employed jointly by the PSS and CSS Boards	0	5	5

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 2005/06, the CSS Board (in conjunction with the PSS Board) paid a total of \$250 156 in performance bonuses to 15 staff. The average performance bonus paid was therefore \$16 677.

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 2005/06, all Board staff participated in a range of continuing professional development activities, including specialised courses in investment, risk management, finance and operations.

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.

Financial resources

Board administration costs

The CSS Board is responsible for the administration of the CSS and the management and investment of the CSS Scheme. 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 2005/06, 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.

Contracts with investment managers are not covered by the Commonwealth Procurement Guidelines.

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.

Corporate governance

The CSS Board is constituted under the *Superannuation Act 1976* and the regulations under that Act. It is accountable to members of the Scheme under the SIS legislation and corporations legislation and is independent of the government of the day and any other constituency. Its principal responsibility is to act in good faith, with prudence and in the members' best interest in respect of the administration and investment of the Scheme.



Board members are required by SIS legislation to meet a 'Fit and Proper' requirement. This means that they must satisfy both propriety and competency requirements on appointment and thereafter.

In addition to these requirements on individual trustees, the Board has developed a governance statement to assist in carrying out its duties, including the wide range of discretions it is required to exercise.

Pursuant to its general governance principles, the Board:

- will carry out its duties in good faith, prudently and in accord with the relevant legislation so that the best interests of the members are served; and
- will at all times act ethically and impartially.

The Governance Statement is set out in full on the Board's website (see <http://www.css.gov.au/css/governance/statement.htm>).

In conjunction with the governance principles, the Board's responsibilities for the Fund are supported by comprehensive business risk management strategies and compliance programs.

Licences

The Board gained its APRA (Australian Prudential Regulation Authority) licence on 23 March 2006. It holds this licence in addition to its AFS (Australian Financial Services) licence, administered by ASIC (the Australian Securities and Investments Commission). Significant risk management and compliance resources are necessary to meet the requirements of these licences.

Risk management

As an APRA licensee, the Board has a comprehensive risk management program in place. This covers a range of business and governance risks and outlines risk minimisation strategies for all identified risks. It is kept under constant review by the Board's Audit and Risk Management Committee. It is reviewed annually

in conjunction with the Board's business plan, and updated or amended as required to meet any emerging risk or changed risk treatment.

Compliance

The Board's compliance program assists meet AFS licence requirements and underpins the Board's risk management strategy. Staff and service providers are required to provide positive certification that they have complied, or details of any non-compliance, with legislative requirements, contractual provisions, regulatory policy and relevant service standards, in addition to licensing requirements. This is done regularly – either monthly or quarterly. The Audit and Risk Management Committee oversees compliance reporting and remediation where breaches have occurred. Consistent with the Board's breach policy, breach reports are required within a timeframe that enables the Board to make timely breach reports to a regulator, if required.

Fraud control

As an FMA agency (ie an agency covered by the *Financial Management and Accountability Act 1997*) the Board has a current fraud control plan and fraud risk assessment that have been prepared in accordance with the Commonwealth Fraud Control Guidelines. Generally the Board is assessed as having a stable risk environment with effective controls in place.

Internal audit

Each year the Audit and Risk Management Committee agrees a plan of internal audit, in consultation with Board staff and the Auditor-General, the Board's external auditor. It takes into account previously identified risks, the results and recommendations of previous internal and external audits, legislative and regulatory change and any anticipated scheme changes. The annual internal audit plan is additional to ad hoc audits that can be required by the Audit and Risk Management Committee to address changed business priorities or risk profile.

2 | Overview

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- > Description of the Scheme
- > SIS compliance
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- > Functional chart



Overview

Table 4: Overview of the CSS

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 2006	\$6.3 billion+
Members as at 30 June 2006	44 000+
Employer agencies as at 30 June 2006	223

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.
 - 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 Mercer Human Resource Consulting Pty Ltd during 2005/06. The CSS results were included in the 2005 PSS and CSS Long Term Cost Report tabled in Parliament on 14 June 2006 (a copy of the actuarial review is available at http://www.finance.gov.au/super/docs/PSS__CSS_LTCR_2005.pdf).

The results of the 2005 review and the previous two reviews are summarised below.

Table 5: Results of actuarial reviews

	30 June 2005	30 June 2002	30 June 1999
Net assets	\$6.0b	\$5.3b	\$5.6b
Unfunded liability	\$50.6b	\$49.3b	\$40.3b
Notional Commonwealth employer contribution rate (including 3% productivity contribution) as a percentage of salaries	28.2%	28.3%	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 2005 review provided the following actuarial projection of the Australian Government's estimated costs for the CSS over the three years to 30 June 2008 (adjusted to 2005 dollars using a discount rate of 6%).

Table 6: Actuarial projections

Year ending 30 June	Estimated Australian Government CSS Costs \$m
2006	2 601
2007	2 512
2008	2 455

Further projections of estimated costs are included in the 2005 PSS and CSS Long Term Cost Report.

Functional chart

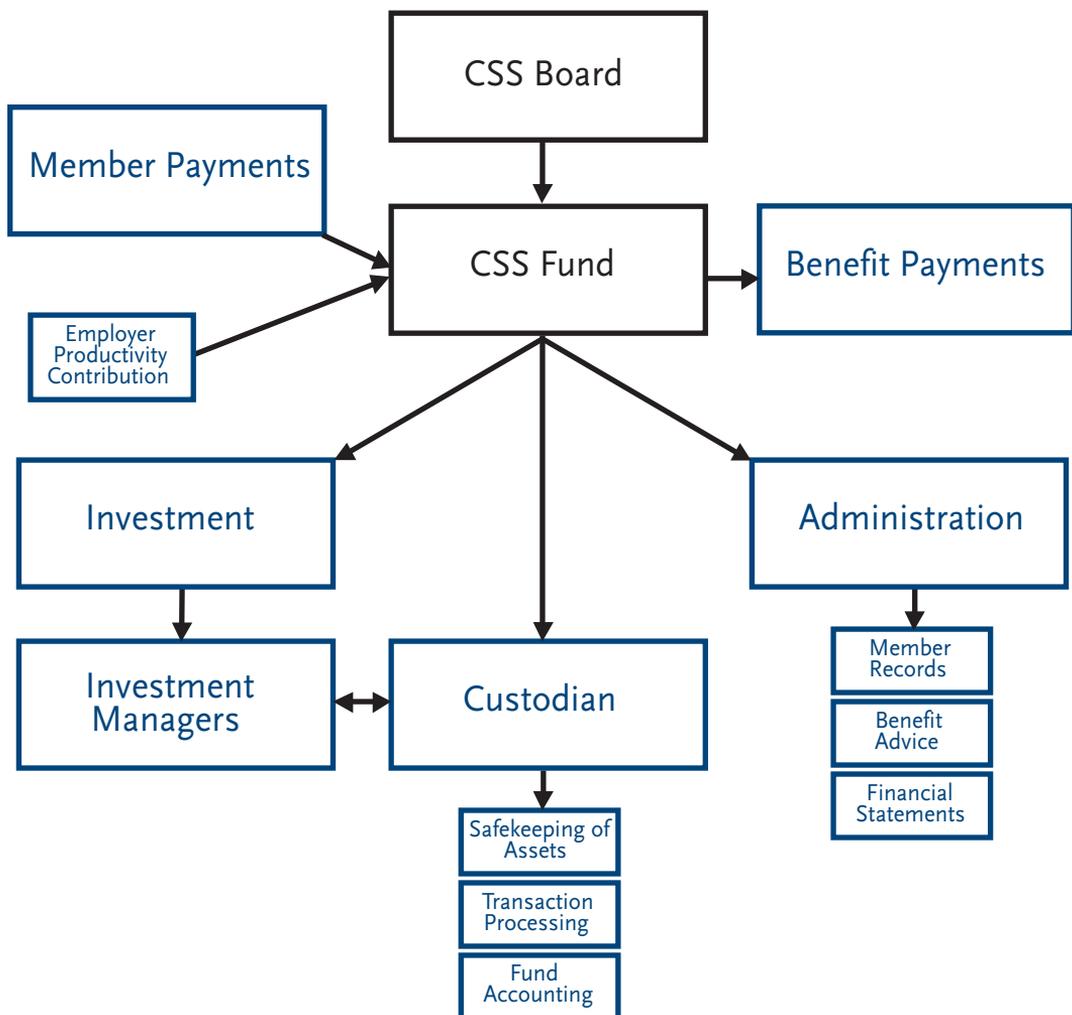


Illustration 1: Functional chart

3 | Investments

- > 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 Fund 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 appendix B) 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 and Pinnacle for property advice.

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; and
- 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 (i.e. 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 at 30 June 2006

INVESTMENT MANAGER
452 Capital Pty Limited
AMP Capital Investors Limited
AMP Life Limited
AXA Rosenberg Investment Management Ltd
Balanced Equity Management Pty Ltd
Barclays Global Investors Australia Limited
BlackRock Financial Management
Brandywine Asset Management LLC
Bridgewater Associates, Inc
Colonial First State Investments Limited
Concord Capital Limited
Eureka Funds Management Company
Fiducary Trust Company International
GMO Australia Limited
Harris Alternatives LLC
Lend Lease Real Estate Investments Limited
Loomis Sayles & Company LLC
Macquarie Investment Management Limited
Marathon Asset Management Limited
Marvin & Palmer Associates Inc
Mesirow Advanced Strategies Inc
MIR Investment Management Limited
Mondrian Investment Partners Limited
Orbis Investment Management Limited
Perpetual Investments
Platinum Asset Management
Rexiter Capital Management Limited
State Street Global Advisors Limited
Suncorp Investment Management
Templeton Capital Advisors Ltd
Vanguard Investments Australia Limited
Wallara Asset Management
Wellington International Management Company Pte Limited

Note: The above table only shows Managers who manage more than 1% of the Fund's assets



Table 8: Cash Investment Option investment managers at 30 June 2006

INVESTMENT MANAGER
Colonial First State Investments Limited

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 no less than 4.5% after tax and fees over the longer term. In the current inflation environment, this equates to a nominal return of 7% per annum.

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'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 11am 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 asset allocation

As a result of the strategic review, one change was made to the Fund's strategic asset allocation. The change involved increasing the Fund's SAA weight to international equities from 20% to 22% and reducing the allocation to bonds from 18% to 16%. It was also decided that the extra 2% in international equities would be invested in emerging market equities.

The following table sets out the actual asset allocation for the Default Fund as at 30 June 2006:

Table 9: Default Fund—Asset allocation

Asset class	Asset allocation %	
	2005	2006
Australian shares	28.4	32.2
International shares	24.3	22.5
Bonds	8.2	13.3
Market neutral strategies	9.0	10.1
Long/short equity funds	5.2	5.4
Property	10.9	13.7
Cash	14.0	2.8
Total Fund	100	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

Four new Australian equity managers were appointed during the year—MIR, Perpetual, Suncorp and AMP. By doing this, we increased the number of different sources of returns, or styles, within the asset class. This aims to help improve long term returns without increasing the volatility of returns over shorter time periods. At the same time, the mandate with one existing manager was terminated.

In international equities, one new manager, Platinum, was appointed to increase our allocation to Asian equities. A mandate with an existing manager was terminated. As noted on the previous page, the Fund's strategic asset allocation to international equities was increased during the year.

Alternative investments

The Fund's exposure to alternative investments continued to grow during the year. Commitments were made to six new Australian private equity funds, five new opportunistic international property funds and two new international private equity 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 a valuation of \$275.1 million at the start of the year (reflecting commitments of \$746 million) to a valuation of \$311.3 million (commitment of \$865 million) at 30 June 2006.

Market-neutral funds

One new market-neutral manager, Loomis Sayles, was appointed during the year and one existing manager was terminated. During the year we completed the full allocation of 10% to the asset class.

Bonds

The Fund remained underweight bonds throughout the year because of a belief that bond yields would rise in line with increases in short term interest rates and thereby diminish the return from holding fixed interest securities. The benchmark for international bonds continues to exclude Japanese bonds, reflecting that Japanese bond yields have the potential to rise significantly in an environment where economic growth returns to more normal levels.

The Fund appointed one new international bond manager, Brandywine, during the year. At the same time, the benchmark for an existing international bond manager, Bridgewater, was changed from international bonds to Australian bonds, although the manager can, and does, still invest in international bonds. The Fund's only specialist Australian bond manager was terminated during the year.

As noted above, the decision to increase the Fund's strategic asset allocation to international equities during the year was funded by reducing the exposure to bonds.

Property

Two specialist Australian property managers, Eureka and Arcadian, were appointed during the year. Eureka will manage the assets contained within a unit trust that CSS previously held units in. Arcadian, who manages exclusively on behalf of CSS and PSS, will manage a number of new properties.

Cash

The Fund's cash manager was replaced at the end of the year. The new manager, Macquarie, will manage both the Default Fund's cash and the Cash Investment option.



Fund performance

Default Fund

The Fund posted a net return of 13.3%, the third consecutive year of double digit returns.

Despite increased volatility in the latter part of the year, all asset classes with the exception of bonds contributed to this strong result. Australian equities advanced by 21.1%, buoyed by robust domestic economic growth and a significant rise in commodity prices. International equities rose by 19.4% in local currency terms, supported largely by a pick-up in economic growth in Europe and Japan.

The Fund's long/short equity strategies delivered a strong return of 11.7%, while property achieved a return of 14.5%. By way of contrast, the Fund's bond portfolio recorded a return of just 2.0%, weighed down by a rise in bond yields, which helps to constrain the overall return from bonds.

The Fund's longer-term investment performance remains ahead of target. Over the past three years the Fund returned an earning rate of 13.7% per annum, compared with an average inflation rate of 3.0% per annum over this period, while over 10 years the Fund returned an earning rate of 9.2% per annum compared with average inflation of 2.3% per annum.

Cash Investment Option

The Cash Investment Option posted a net return of 4.9%, which is in line with its benchmark once account is taken of the impact of tax on returns.

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 again performed strongly throughout the year. Despite heightened volatility towards the end of the year, the market still advanced by 24.7%. This increase reflected continued strong corporate profitability and a large increase in commodity prices, which buoyed the return from basic material and energy stocks.

The Fund's Australian equity investments underperformed the market to return 21.1%. This reflected underperformance from the Fund's private equity investments.

International shares

International equity markets also performed well throughout the year, although heightened volatility was also a feature during the June quarter. In hedged Australian dollar terms international equities rose by 18.1%.

For unhedged \$A-based investors, the rise in world equity markets was somewhat enhanced by the positive impact on returns of a modest decline in the value of the \$A. The currency movement benefited unhedged \$A-investors by around 2.5% over the year. The international assets exposure of the CSS remained largely fully hedged.

Australian bonds

Continued strong rates of domestic economic growth, together with a rise in domestic short term interest rates and rising global bond yields, resulted in a disappointing year for the Australian bond market. Although the market achieved a modest positive return of 3.4%, this outcome was below the 5.8% return from cash. Reflecting a view that cash would prove a better investment than Australian bonds in 2005/06, the Fund's strategic asset allocation to Australian bonds was kept in cash throughout the year, meaning the fund had no exposure to Australian bonds in 2005/06

International bonds

Continued strong rates of economic growth within the US, signs of emerging strength in Europe and Japan, and increased inflationary fears led

to increases in the bond yields of all developed markets. This resulted in a return of just 1.2% from international bonds. The Fund's investments did better than markets generally, returning 2.0%.

Market-neutral funds

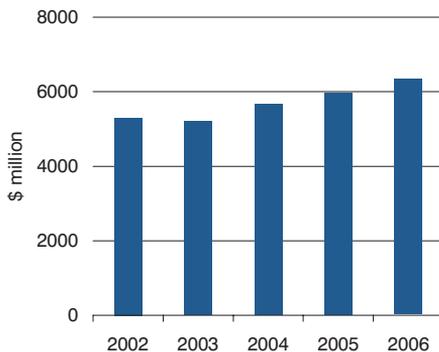
The Fund achieved its desired exposure of 10% of its assets to this asset class during the year. For the year as a whole these investments returned a relatively modest 6.1%.

Long/short equity funds

The Fund has invested in this asset class since October 2004. Over the course of the year, the

Fund investments

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



Fund return was 11.7%. This compares with a benchmark return of 13.8%.

Property

The Australian property market, as measured by the Mercer Australian Unlisted Property Index, performed strongly during the year, returning 17.2%. The Fund's property investments returned 14.5%.

Cash

The return from cash was buoyed by a rise in short term interest rates during the year. For the year as a whole, cash returned 5.8%.

Chart 2: Fund performance comparison over 10 years

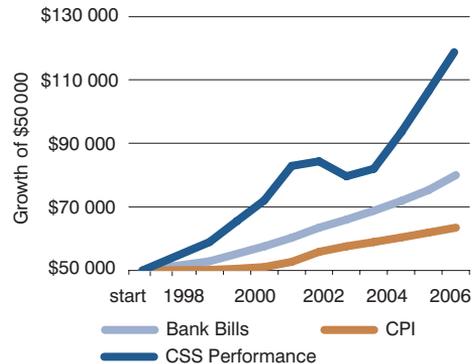


Table 10: Default Fund investments 2005/06

Investments	Holdings at 30 June 05	Holdings at 30 June 06	Proportion
Sector	\$m	\$m	%
Australian shares	1 691.3	2 034.6	32.2
International shares	1 449.7	1 422.4	22.5
Bonds	486.4	839.0	13.3
Market neutral funds	537.0	637.0	10.1
Long/short equities	312.5	341.7	5.4
Property	646.3	867.5	14.0
Cash	833.8	169.8	2.5
Total Fund Investments	5 811.1	6 147.0	100.0

Note: Sectors are post-fees and pre-tax. Total fund is post tax and fees.



Table 11: Default Fund performance 2005/06

	One-year performance	Three-year performance	Five-year performance
	Portfolio %	Portfolio %	Portfolio %
Australian shares	21.1	23.0	13.0
International shares	19.4	18.5	6.1
Bonds	2.0	6.6	6.2
Market neutral funds	6.1	9.3	n/a
Long/short equities	11.7	n/a	n/a
Property	14.5	13.3	11.8
Cash	4.6	5.1	4.7
Total Fund Investments	13.3	13.6	7.5

Table 12: Cash Investment Option Fund investments 2005/06

	Holdings at 30 June 2005 \$m	Holdings at 30 June 2006 \$m	One year performance	Three year performance	Five year performance
			Portfolio %	Portfolio %	Portfolio %
Total Fund	133.0	118.1	4.9	n/a	n/a

Investment information

Further information on investment performance can be obtained from:

Web: www.css.gov.au
Post: Australian Reward Investment Alliance (ARIA)
GPO Box 1907
Canberra City ACT 2601
Phone: (02) 6263 6999
Fax: (02) 6263 6900
Email: secretary@aria.gov.au

Crediting and exit rate policy

No changes were made to the Fund's crediting and exit rate policy during 2005/06. That policy was introduced in August 2004, when the Board made a change to the way earnings are allocated.

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 2003/04 and to declare its intention that crediting rates not be declared for future financial years.
2. To amend the exit rate policy for all CSS members as follows:
 - i. 'The exit rate shall be the net investment earnings of the Fund from 1 July 2003, where net investment earnings are determined as earnings after tax, fees and after replenishment of the negative reserve that existed at 30 June 2003.
 - ii. This exit rate will fluctuate. Members are guaranteed never to exit the Fund with less than their account balance as at 30 June 2003 plus contributions since that date.
 - iii. Exit rates will be determined on a Tuesday, based on the estimated net investment earnings of the Fund as at the end of the previous Friday. They will be published on the next business day to apply to benefit payments from that day.
 - iv. A determined weekly rate will be varied where market movements have an estimated 0.5% or greater effect on the Fund's investment performance.'

Allocating earnings

With the changes to the Fund's crediting and exit rate policies, effective 13 August 2004, the Board limits the use of any 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 2006 was approximately \$1809 million.

Legislation has been passed by Parliament to 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. This legislative change will mean that member returns will more accurately reflect the actual investment earnings of the Fund. The Board intends crediting unallocated earnings to member accounts as soon as systems issues allow it to do so.

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 \$4.5 billion, in combination with the Public Sector Superannuation Scheme (PSS).

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.

Table 13: Investment governance milestones 2005/06

Date	Milestone
Whole year	67 companies were engaged by the Governance Advisory Service on behalf of the CSS on issues including business ethics, director share trading, conflict of interest, environmental risk and executive remuneration. 70% of this engagement occurred in face-to-face meetings (including a small number by teleconference).
Whole year	CSS mandated the Governance Advisory Service to undertake new research into risks relating to: <ul style="list-style-type: none"> • Governance in internally managed and externally managed entities • Customer information protection • Critical infrastructure protection (short) • Environmental risk (containers and packaging; paper and forest products/construction materials sectors).
November 2005	CSS called on Australian company directors to have and make publicly available a policy on share trading that includes: <ul style="list-style-type: none"> • Disclosure on how any breaches of a share trading policy are enforced • Disclosure to investors on the reasons behind major sales by directors and executives; and • Notification to the market of changes in director interests in accordance with the law.

4 | Scheme matters

- > Membership data
- > Scheme administrator
- > Stakeholder communications

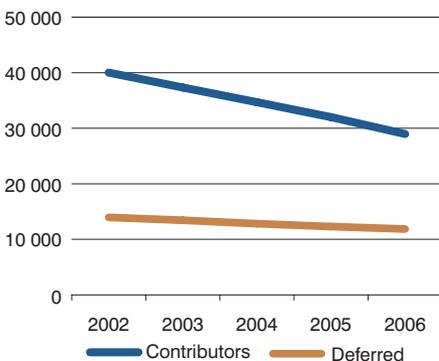


Membership data

Table 14: Membership and contributions for past five years

Year ending 30 June		2002	2003	2004	2005	2006
Contributors	male	27 287	25 396	23 536	21 697	19 551
	female	12 728	11 920	11 148	10 314	9 420
	total	40 015	37 316	34 684	32 011	28 971
	member contributions	\$153m	\$149m	\$144m	\$147m	\$137m
	employer funded contributions	\$49m	\$49m	\$48m	\$48m	\$45m
Deferred benefit members	male	10 351	9 739	9 242	8 794	8 420
	female	3 605	3 690	3 584	3 503	3 428
	total	13 956	13 429	12 826	12 297	11 848
Pensions in force		111 578	116 232	112 319	113 693	114 288
Total members		165 549	166 977	159 829	158 001	155 107

Chart 3: Contributor and deferred membership five-year trend



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.

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

Surcharge

The *Surcharge Contributions Tax (Assessment and Collection) Act 1997* applies to a tax on employer financed contributions. It specifically targeted high-income earners where it imposed a surcharge of up to 15% on a member's surchargeable contributions, provided the member's adjusted taxable income was greater than the surcharge threshold.

The *Superannuation Laws Amendment (Abolition of Surcharge) Act 2005* was passed. However amendments to the surcharge laws had effectively abolished surcharge from 1 July 2005. Nevertheless, the amendments did not remove the responsibility for reporting information to the Australian Taxation Office. Despite the amendments, the CSS Board is required to maintain surcharge debt accounts for members whose surchargeable contributions attracted the surcharge up to and including the financial year ended 30 June 2005.

The CSS Board is required to impose interest on any amount in a member's surcharge debt account at 30 June in any year. Interest is based on the ten year Treasury bond rate.

A member may choose to acquit the surcharge debt immediately, pay it off in instalments, or have it deducted from his or her benefit on exit.

Table 15: CSS surcharge activity during 2005/06

	Number	\$
Applied surcharge debts reported by the ATO to members' accounts	7 969	\$12 638 402
Received surcharge debt payments from members	2 345	\$7 400 716
Recovered debts from member benefits	889	\$4 912 980
Applied interest to surcharge debts outstanding as at 30 June 2005	12 273	\$3 975 912

Family Law

CSS legislation enables the creation of accounts for non-member spouses in Family Law splitting situations. During the year 84 cases were received, which were processed, and non-member spouse records were created.

Benefit payments

Table 16: Contributor exits and preserved benefits claimed by type 2005/06

	Contributor exits		Preserved claims		Total
	04/05	05/06	04/05	05/06	05/06
Age	820	879	1 962	2 216	3 095
Invalidity	95	88	21	12	100
Death	59	35	54	4	39
Resignation	1 252	1 370	-	-	1 370
Retrenchment	647	951	-	-	951
Total	2 873	3 323	2 037	2 232	5 555

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 2005/06, 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 17: Invalidity claims 2005/06

Invalidity claims	
received	87
approved	83
withdrawn	2
Pre-assessment claims	
received	52
approved	52
Cases considered by the Assessment panel	
received	87
approved	85
withdrawn	2
Invalidity retirement certificates issued	83
Invalidity retirement certificates fast tracked	13

Pensions

At the end of June 2006 there were 106 606 CSS pensioners.

The CSS keeps them updated with bi-annual mail out consisting of pension increase information, Pension Update and a calendar.

The pensions were increased by 1.6% in December 2005 and 1.4% in June 2006.

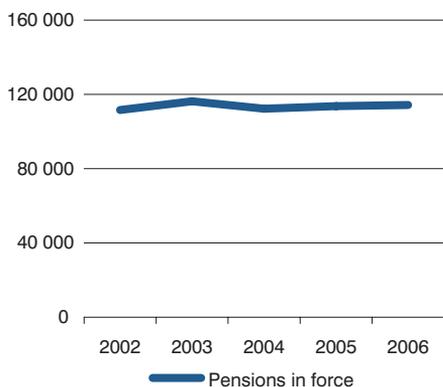
The Pension Update provides information that is important to the CSS for record maintenance and articles that directly relate to superannuation. A Focus group is run to assist in the contents of the Pension Update and it has been very informative.



Table 18: Pensioner summary

Pensions at 30 June	2005	2006	Difference
Age retirement	50 169	51 620	1 451
Involuntary retirement	14 760	14 797	37
Invalidity retirement	20 165	19 343	(822)
Spouse and orphans	28 563	28 528	(35)
Total	113 657	114 288	631
Pensions paid	\$2 514m	\$2 424m	\$90m
Average yearly pension	\$21 977	\$22 975	\$998

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

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 2005/06, 16 applications for reconsideration were received, compared with 30 last year.

Of the requests for reconsideration received, four involved benefits payable to spouses or children, two involved the issue of a benefit classification certificate and two involved late elections. The remaining requests concerned various other scheme provisions.

Cases finalised

Nineteen cases were finalised during the year, compared to 27 for the previous year. In only two cases was the original decision varied in favour of the applicant, one on the basis of additional evidence and one as the result of a different interpretation of information provided.

Table 19: Reconsideration applications received and outcomes 2004 to 2006

	2004/05		2005/06	
	Decision of the:			
	Delegate	Board	Delegate	Board
Brought forward	8	0	10	1
Received	28	2	14	2
Withdrawn or lapsed	12	0	6	1
Decisions affirmed	9	1	9	1
Decisions set aside	5	0	2	0
Resolved	26	1	17	2
Carried forward	10	1	7	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

Table 20: Complaints lodged with the SCT

Carried over	Received	Completed	Outstanding
16	16	Withdrawn: 7*	14
		Affirmed: 8	
		Set aside: 3	
		Total: 18	
*3 matters withdrawn by the complainant 4 by the Tribunal			

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 two 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 12 claims for compensation concerning claimants' benefit entitlements with a further 21 cases still outstanding as at 1 July 2005. The Board and its delegates considered 20 claims during the year with liability accepted in 11 matters. Total compensation payments amounted to \$466 916. Thirteen cases remain outstanding as at 30 June 2006.

Complaints and representations

Exit rate policy, investment choice and taxation rates were the most frequent theme of complaints and representations during the year. Other issues that were the subject of complaints and enquiries included postponed age retirements, debt recovery and the release of information statements. All complaints were able to be resolved within the SIS legislative timeframe of 90 days.

Table 21: Complaints and representations received 2005/06

	2004/05	2005/06
Complaints	119	141
Parliamentary representations	13	16
Total	132	157

Stakeholder Communications

Overview

Communications efforts during the 2005/06 year were focussed 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:

- changes to the Superannuation Surcharge legislation
- changes to the Government's Transition to Retirement measures
- changes to the Board's interest rate policy, which allows fairer distribution of earnings to all members.

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

- the 'At Work for You' workshop (pilot), which aims to deliver a complete service offering to both members and employers with workshops being held at the members' place of work.
- a new information service for SES level employees and third parties (financial planners, advisers and unions)
- improvements to online information
- new phone and contact details dedicated to CSS members
- regular briefings for stakeholders who are seen by members as sources of information.

Over the next year, communications activities will be focussed on:

- rolling out the 'At Work for You' workshops
- the development of additional online transactions for members
- redevelopment of the CSS website.

Member enquires

Throughout 2005/06, work volumes increased in certain contact channels and decreased in others. The most significant increase was reflected in the number of written items processed which increased by more than 50%. These increases are a result of ongoing media coverage for superannuation. However, the contact centre has comfortably met its service standards for the majority of 2005/06.

New phone numbers were established, which separated the Commonwealth and the Military streams. The new numbers were implemented in October 2005 and are aimed at gaining more accurate information regarding calls received from the PSS/CSS schemes. The written work performed by a separate team has continued to be successful. 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 constant, as did the overall number of services provided. During March and June, resources were also provided for the seminar pilot, which focussed on educating PSS and CSS members at their workplace. This pilot will continue into the new financial year.

The provision of a dedicated service for members at SES level was one initiative which was successfully piloted throughout 2005. With the recognition of the additional complexity inherent in the enquiries of many SES members, this service was staffed with the most experienced staff in the contact centre. The SES line has become a permanent service we provide members. There has been a steady increase in the use of this service. Further, the SES line has been expanded to include a third party referral number, which is dedicated to financial planners and union representatives. It has been successfully implemented with a steady increase in member contact volume. There has been consistent reported satisfaction with this newly provided service.

The review of the structure of the contact centre referred to in last year's report is ongoing with the final implementation due to be completed by December 2006.

The implementation of quality assurance within the contact centre occurred in August 2005. This mainly reviewed email and written correspondence. In May 2006, the quality assurance process also commenced the review of phone enquiries.

In regards to family law enquiries, the undertaking of form 6's was transferred to the administrative area in February 2006.

It should be particularly noted that throughout the review period, our customer satisfaction survey conducted in November 2005 revealed the second highest ever member satisfaction recorded over the past eight years.

Table 22: Enquiry volumes

Enquiry type	Number
Phone calls	42 845
Written enquiries	5 938
Email enquiries	11 443
Family law enquiries	419
Seminars presented	117
Personal counselling interviews	586

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 2005 Annual Member Statement Packs were distributed in November 2005.



Due to the requirement for manual calculations, some statements were not able to be distributed until early 2006.

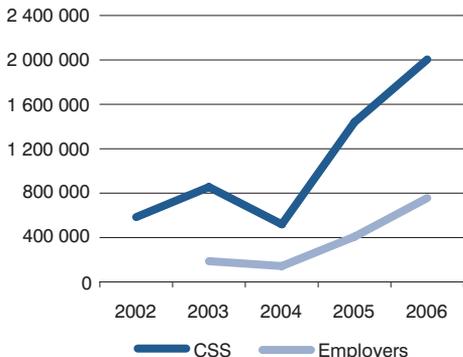
The 2005/06 Annual Member Statement Pack will be issued to members from September 2006 onwards, and all efforts are being made to meet the 31 December deadline.

Online Services

The CSS website (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 to over 2 million for the year.

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 five 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 members accessed their member statements on 49 006 occasions and 79 393 benefit estimates were produced using the i-Estimator.

Performance Indicators

The scheme administrator's, Commonwealth Superannuation Administration (ComSuper), seventeenth semester (S17) client satisfaction survey was conducted between October 2005 and November 2005. The overall Quality Service Index (QSI), a measure of member's satisfaction with services, fell from 86.2% to 84.3%.

Despite the 1.9 percentage point fall from the previous semester, it still stands as the second highest index score recorded to date. The decline in satisfaction was due to the decreases in PSS/CSS member's satisfaction with the benefit payment and written estimates services, along with a smaller decrease in satisfaction with the Phone information service. The decline can be partially counterbalanced by a substantial increase with satisfaction with PSS/CSS seminars. Further, the trend in PSS/CSS members' overall satisfaction with ComSuper services since the commencement of the survey process still remains positive.

Over 93% of members indicated they were satisfied with the Phone information service. This was consistent with results from S16. Overall satisfaction did not fluctuate significantly by the member's scheme or age. Also similar to S16, nearly all members rated the ComSuper Customer Service Representatives very positively across a number of measures. Some key comments were that the information officer they dealt with was polite and courteous; clearly spoken; understanding; and that they resolved their enquiry efficiently.

Over 85% of members were satisfied with the way in which ComSuper processed their CSS benefit payment. Around 85% of members indicated satisfaction with the CSS written estimate service. There was a significant increase in the proportion of members who made the request by email from S16. Results illustrate that email is now the preferred method to request written estimates, followed by Phone.

The most significant increase since S16 is the overall satisfaction with CSS seminars. The QSI increased 3.2 percentage points to 84.0%. This is at its highest level since 1997/98, consistent with a gradual upward trend in satisfaction since 2000. Over 94% of members indicated their satisfaction overall with the seminar they attended. After attending the seminar, 78.8% of members reported having a 'good' understanding of superannuation issues. This signifies an improvement of 49.1 percentage points on their understanding prior to attending the seminar. This is aligned with the improvements in understanding recorded in recent cycles.

Ratings for the ease of understanding the information increased slightly in S17, still continuing the upward trend since T9. Satisfaction with the usefulness of the information (94.9%) and relevance of the subject matter to members' needs (93%) remained fairly stable. In addition, ratings for the performance of the seminar presenters remained very high.

Despite the slight decrease in satisfaction with CSS one-on-one information sessions, 96.8% of the members still indicated their contentment. Members were extremely satisfied with the availability of one-on-one information sessions; the ease of organising information sessions and the timelines in which members were attended to at sessions.

In relation to services accessed through Member Services Online (MSO), results were consistent with S16, which showed that the CSS members were much more likely to access the i-Estimator through MSO than their PSS counterparts. However, usage of MSO to access member statements increased for both schemes in S17, showing an increase of 8.9 percentage points for CSS members. Satisfaction with the i-Estimator increased by 2.3 percentage points for CSS members. Ratings for the usefulness of the i-Estimator were almost unchanged for both schemes in S17, and were consistent with ratings given in S16. Overall satisfaction with the scheme website continued to be high for CSS members, remaining almost identical in S17.

Employer communications

With the introduction of the PSSap and the implementation of the new Employer Services Online (ESO) web based tool from 1 July 2005, the communications with employers in the first half of the year was predominantly around these two topics.

As mentioned in last year's report ESO is a new web based tool which provides employers with a more effective and timely way to submit superannuation data to the administrator. It also allows business rules to be applied so that the quality of the data is improved. The tool also has other functionality to assist employers with the production of reports and an eligibility determiner, which assists employers to commence new employees in the correct fund, particularly where the employee has an existing interest in the PSS or CSS.

Employer Relations also continued its ongoing training program for the 223 employers, particularly for those employers with new personnel/HR staff and those who experienced specific issues with the complex Scheme Rules.

During the latter months of the financial year a new seminar program called 'At Work for You' was piloted with a few of our employing agencies. The concept of the program is to provide three different services to meet the needs of employees and employer at their place of work.

The services provided include:

- Seminar/workshops to members
- One-on-one consultations with members who are within 12 months of ceasing membership; and
- Employer seminars/training to HR/personnel staff on administration issues.

During the first few months of 2006/07 the 'At Work for You' program will continue its pilot phase and the seminars and workshops will be further refined to better meet member needs. In the remaining months of 2006/07 the program will then be rolled out to the majority of employers and then a yearly program will be developed.



During 2005/06 the following communication services were delivered to employers:

Table 23: Employer communications

Type of Service	Number Delivered
Employer training workshops (scheme rules based)	22
Employer site visits (technical)	68
Inbound calls received through employer help desk	6 832
Outbound calls to employers (follow up)	4 624

The inbound calls to the employer help desk increased dramatically during 2005/06 and exceeded the number of calls received in 2004/05 by approximately 4600. The calls received covered a wide range of topics for the PSS, CSS and PSSap and in regard to ESO issues.

Also during 2005/06 nine issues of Employer News were sent to employers. These news bulletins also covered a wide variety of topics, including Transition to Retirement, new rates (i.e. AWOTE, EPSC, MBL's etc) and data reporting requirements.

With the implementation of the PSSap and ESO it was decided not to conduct the annual employer survey because of the additional workloads being placed on employers. However, the survey is scheduled to be undertaken in August/September 2006 and the results will be included in the 2006/07 report.

Regulatory requirements

As regulated superannuation funds under the *Superannuation Industry (Supervision) Act 1993* (SIS), the CSS must comply with all the information disclosure standards set out in the SIS and corporations law. 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 in this report or the CSS website can be addressed to:

Senior Communications Officer

Australian Reward Investment Alliance (ARIA)

GPO Box 1907

Canberra City ACT 2601

Phone: (02) 6263 6999

Fax: (02) 6263 6900

Scheme financial statements

- > Scheme financial statements
 - Audit report from the ANAO
 - Financial statement
 - AAS25 Actuarial statement





COMMONWEALTH SUPERANNUATION SCHEME

INDEPENDENT REPORT BY APPROVED AUDITOR TO THE MINISTER FOR FINANCE AND ADMINISTRATION AND MEMBERS OF THE SCHEME

(A) *Financial Statements*

Scope

I have audited the financial statements of Commonwealth Superannuation Scheme and the consolidated entity (comprising Commonwealth Superannuation Scheme and its controlled entities) for the year ended 30 June 2006 as set out on pages 2 to 21 attached. The superannuation entity's trustee is responsible for the financial statements. I have conducted an independent audit of the financial statements in order to express an opinion on them to the members of Commonwealth Superannuation Scheme.

My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the 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 as 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 and of the consolidated entity as at 30 June 2006 and the changes in net assets for the year ended 30 June 2006.

(B) ComplianceScope

I have conducted tests in accordance with 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* (the SIS Act) 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
- (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, 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 1020E(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 (to the extent applicable)

for the year ended 30 June 2006; and

- (e) complied with the requirement to prepare and lodge the respective returns comprising the APRA Annual Return.

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

My procedures with respect to SIS Regulation 6.17 included testing whether amounts identified by the trustee as preserved and restricted non-preserved have been cashed or transferred only in accordance with the requirements of Part 6 of the SIS Regulations. These procedures did not include testing of the calculation of the preserved and restricted non-preserved amounts beyond a broad assessment of the apparent reasonableness of the calculations.

My procedures with respect to the guidelines included 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 Derivatives Risk 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

Section 1017D(3) of the Corporations Act requires that exit statements be issued to members within 6 months of their exit. The licensee breached this requirement by not issuing approximately 2180 exit statements during the financial year ended 30 June 2006. The full impact of this matter is still to be determined by the trustee.

Qualified Audit Opinion

In my opinion, except for the matter referred to in the qualification paragraph, the trustee of 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 2006.

Australian National Audit Office



Carla Jago
Executive Director

Delegate of the Auditor-General

Canberra

30 October 2006

Commonwealth Superannuation Scheme (ABN 19 415 776 361)

Statement by the Trustee of the Commonwealth Superannuation Scheme ("Scheme")

The Trustee hereby states that in its opinion:

- (a) the attached financial statements of the Scheme and of the Group (comprising the Scheme and its controlled entities) show a true and fair view of the matters required by Australian Accounting Standards, including AAS 25 "Financial Reporting by Superannuation Plans", and Schedule 1 of the *Commonwealth Authorities and Companies Orders (Financial statements for reporting periods ending on or after 1 July 2005)* to the extent that the latter is not inconsistent with AAS 25;
- (b) the attached financial statements of the Scheme and of the Group show a true and fair view of the net assets of the Scheme and of the Group as at 30 June 2006 and the changes in net assets of the Scheme and of the Group for the year ended 30 June 2006;
- (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 Scheme 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 of the Scheme and of the Group have been prepared based on properly maintained financial records; and
- (f) except for a breach of s1017D(3) of the *Corporations Act 2001* in that approximately 2,180 exit statements were not issued to members within six months of their exit from the CSS Fund, the operations of the CSS Fund were conducted in accordance with the *Superannuation Act 1976* and the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations, and the relevant requirements of the *Corporations Act 2001* and Regulations (to the extent applicable).

Signed at Sydney this 30th day of October 2006 in accordance with a resolution of trustees of Australian Reward Investment Alliance (ABN 48 882 817 243) as Trustee of the Scheme.



S. Doyle
Chairman



D. Connolly
Trustee

COMMONWEALTH SUPERANNUATION SCHEME

Statement of Changes in Net Assets
For the Year Ended 30 June 2006

	Note	Group 2006 \$'000	Group 2005 \$'000	CSS 2006 \$'000	CSS 2005 \$'000
Net assets available to pay benefits at the beginning of the financial year		6 014 647	5 599 497	6 014 647	5 599 497
Add:					
Revenue from ordinary activities					
Net investment revenue					
Interest		29 818	56 742	29 133	56 350
Dividends and distributions		385 993	248 310	391 978	248 310
Other investment income		1 647	1 538	1 647	1 538
Property rental income		32 847	-	-	-
Changes in net market value of investments	4c	452 407	526 294	441 089	526 513
Less: Direct investment expenses	5c	(27 115)	(14 080)	(18 311)	(14 080)
		875 597	818 804	845 536	818 631
Contribution revenue					
Member contributions	5a	136 982	146 630	136 982	146 630
Employer contributions	5a	45 425	48 489	45 425	48 489
Co-Contributions	5a	3 201	720	3 201	720
Appropriation from Consolidated Revenue Fund	5b	2 586 137	2 484 883	2 586 137	2 484 883
		2 771 745	2 680 722	2 771 745	2 680 722
Total revenue from ordinary activities		3 647 342	3 499 526	3 617 281	3 499 353
Less:					
Expenses from ordinary activities					
General administration expenses	5c	(4 125)	(3 362)	(3 772)	(3 320)
Benefits paid					
Benefits paid	5b	(3 220 280)	(3 003 711)	(3 220 280)	(3 003 711)
Transfers to the Public Sector Superannuation Scheme	7	(1 455)	-	(1 455)	-
Total expenses from ordinary activities		(3 225 860)	(3 007 073)	(3 225 507)	(3 007 031)
Total revenue less expenses and benefits paid before income tax		421 482	492 453	391 774	492 322
Income tax expense	6a	(55 607)	(77 224)	(55 242)	(77 172)
Total revenue less expenses and benefits paid after income tax		365 875	415 229	336 532	415 150
Distributions paid and payable to minority interest		(10 548)	-	-	-
Increase in net assets attributable to minority interest		(18 795)	(79)	-	-
Net assets available to pay benefits at the end of the financial year		6 351 179	6 014 647	6 351 179	6 014 647

The attached notes form part of these financial statements.

COMMONWEALTH SUPERANNUATION SCHEME

Statement of Net Assets
As at 30 June 2006

	Note	Group 2006 \$'000	Group 2005 \$'000	CSS 2006 \$'000	CSS 2005 \$'000
Investments					
Cash and short term deposits	3	112 432	120 859	96 473	111 369
Money market investments	3	222 572	785 891	222 572	785 891
Fixed interest investments	3	535 022	430 696	535 022	430 696
Equity investments	3	4 717 014	4 044 310	4 717 455	4 051 310
Property investments	3	1 185 556	672 287	865 442	672 287
Derivatives contracts	3	(1 324)	20 297	(1 324)	20 297
Total investments		6 771 272	6 074 340	6 435 640	6 071 850
Other assets					
Cash at bank		57 254	50 477	57 254	50 477
Interest receivable		8 465	5 978	8 465	5 902
Dividends receivable		23 787	24 432	23 787	24 432
Trade settlements receivable		41 886	38 008	41 886	38 008
Amount to be appropriated from Consolidated Revenue Fund		1 316	-	1 316	-
GST recoverable		(633)	145	146	145
Sundry debtors		1 095	3 839	547	3 839
Prepayments		192	-	-	-
Deferred income		1 166	-	-	-
Deferred tax assets	6c	33	24	33	24
Total other assets		134 561	122 903	133 434	122 827
Total assets		6 905 833	6 197 243	6 569 074	6 194 677
Less: Liabilities					
Benefits payable		24 273	18 647	24 273	18 647
Trade settlements payable		87 189	58 201	87 189	58 201
Sundry creditors	8	13 995	6 284	6 166	6 255
Amounts due to other superannuation schemes		-	1 133	-	1 133
Distribution payable		5 683	-	-	-
Current tax liabilities	6b	18 905	25 590	17 479	25 573
Deferred tax liabilities	6c	81 674	70 227	82 788	70 221
Total liabilities		231 719	180 082	217 895	180 030
Net assets		6 674 114	6 017 161	6 351 179	6 014 647
Net assets attributable to minority interest		(322 935)	(2 514)	-	-
Net assets available to pay benefits		6 351 179	6 014 647	6 351 179	6 014 647

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 2006

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Statement of Compliance

The financial report of the Commonwealth Superannuation Scheme ("Scheme") and of the Group (comprising the Scheme and its controlled entities) is a general purpose financial report which has been prepared in accordance with Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial statements for reporting periods ending on or after 1 July 2005), Accounting Standards, Urgent Issues Group Interpretations and the Superannuation Industry (Supervision) Act 1993. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS") to the extent that they are not inconsistent with AAS 25 "Financial Reporting by Superannuation Plans".

The financial report was authorised for issue by Australian Reward Investment Alliance ("ARIA") (ABN 48 882 817 243) on 30 October 2006.

Australian Accounting Standards require ARIA to disclose Australian Accounting Standards that have not been applied, for standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards. These amendments are denoted by year and then number, for example 2005-1 indicates amendment number 1 in 2005.

The following table illustrates standards and amendments that will become effective for the Plan in the future. The nature of the impending change in the table has been abbreviated out of necessity, and users should consult the full version on the AASB's website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on ARIA's initial assessment at this date, but may change. ARIA intends to adopt all of the standards upon their application date.

Title	Standard affected	Application date	Nature of impending change	Impact expected on financial report
2005-1	AASB 139	01-Jan-06	Amends hedging requirements for foreign currency risk of a highly probable intra-group transaction.	No expected impact
2005-4	AASB 139, AASB 132, AASB 1, AASB 1023 and AASB 1038	01-Jan-06	Amends AASB 139, AASB 1023 and AASB 1038 to restrict the option to fair value through profit or loss and makes consequential amendments to AASB 1 and AASB 132.	No expected impact
2005-5	AASB 1 and AASB 139	01-Jan-06	Amends AASB 1 to allow an entity to determine whether an arrangement is, or contains, a lease. Amends AASB 139 to scope out a contractual right to receive reimbursement (in accordance with AASB 137) in the form of cash.	No expected impact
2005-6	AASB 3	01-Jan-06	Amends the scope to exclude business combinations involving entities or businesses under common control.	No expected impact
2005-9	AASB 4, AASB 1023, AASB 139 and AASB 132	01-Jan-06	Amended standards in regards to financial guarantee contracts.	No expected impact
2005-10	AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038	01-Jan-07	Amended requirements subsequent to the issuing of AASB 7.	No expected impact
2006-1	AASB 121	31-Dec-06	Changes in requirements for net investments in foreign subsidiaries depending on denominated currency.	No expected impact
	AASB7 Financial Instruments: Disclosures	01-Jan-07	Revise the disclosure requirements for financial instruments from AASB132 requirements.	No expected impact, changes disclosure requirements

(b) Basis of Preparation

These financial statements have been prepared in accordance with the defined benefit plan provisions of AAS 25.

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.

To the extent that they do not conflict with AAS 25, these financial statements incorporate the disclosure requirements of other Accounting Standards and Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2005).

The financial statements of the Scheme include the funded component of the Scheme (i.e. the net assets arising from contributions and investment earnings) which is held in the CSS Fund, together with details of the unfunded liability of the Commonwealth Government to meet anticipated future benefits.

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.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006 and the comparative information presented in these financial statements for the year ended 30 June 2005. The Scheme changed its accounting policies on 1 July 2004 to comply with AIFRS to the extent that they are not inconsistent with AAS 25.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the Scheme (the parent entity) and its controlled entities as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of controlled entities appears in note 17 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a controlled entity are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to the Statement of Changes in Net Assets in the period of acquisition.

The interest of minority unitholders is stated at the minority's proportion of the fair value of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each controlled entity from the date on which the Scheme obtains control and until such time as the Scheme ceases to control such entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. It is presumed to exist where the parent owns directly, or indirectly through interposed subsidiaries, more than half of the voting power of an entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the Group are eliminated in full.

(d) Revenue

Investment revenue

Interest revenue is recognised using the effective interest method and, if not received at balance date, is reflected in the Statement of Financial Position as a receivable.

Revenue from dividends and distributions is recognised on the date that the dividends and distributions are declared and, if not received by the balance date, is reflected in the Statement of Net Assets as a receivable.

Property rental income is recognised on a receivable basis. Rent received in advance is recorded in the Statement of Net Assets as a liability.

Changes in the net market value of investments are recognised as income and are determined as the difference between the net market value at year end or consideration received (if sold during the year) and the net market value as at the prior year end or cost (if the investment was acquired during the period).

Direct investment expenses in respect of investment managers, the asset custodian and the buying and selling of securities are recognised on an accruals basis.

Contribution Revenue

Employer and member contributions, transfers from other funds and superannuation co-contributions from the Commonwealth Government are recognised on a cash basis as this is the only point at which measurement is reliable.

(e) General Administration Expenses

General administration expenses include those costs of the CSS Board which relate to its responsibilities for the management of the CSS Fund and the investment of its moneys. See notes 2 and 5(c) for further information on the CSS Fund and administration costs respectively.

(f) Cash

Cash under the heading of Investments includes deposits held at call with a bank or financial institution and highly-liquid investments with short periods to maturity which are readily convertible to cash and are subject to insignificant risk of changes in value.

Cash under the heading of Other Assets includes cash at bank used to transact member and employer contributions, transfers from other funds and benefit payments.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Valuation of Investments

Investments are included in the Statement of Net Assets at net market value as at balance 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 value of investments includes an amount for selling costs which would be expected to be incurred if the investments were sold.

Net market values have been determined as follows:

- (i) Money market investments - are valued at the market closing price on 30 June and include accrued interest.
- (ii) Fixed interest 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) Forward currency and futures contracts - are revalued to closing price quoted on 30 June.
- (iv) Equity securities - are valued at the last sale price on the relevant exchange at close of business on 30 June.
- (v) Exchange traded options - are valued as the premium payable or receivable to close out the contracts at the last buy price at close of business on 30 June.
- (vi) Unlisted trusts - are valued at their most recent redemption price as determined by the manager of the relevant trust. Unlisted trusts controlled by the Trustee are valued at least annually in accordance with valuation guidelines agreed by the Trustee. Valuations may be completed by an independent valuer, the investment manager or the Trustee. In determining the valuation, reference is made to guidelines set by relevant associations (such as Australian Venture Capital Association Ltd).
- (vii) Investment properties - which comprise land and buildings for the purpose of letting to produce rental income, are initially measured at cost. Cost includes capital expenditure subsequent to acquisition. Investment properties are not depreciated. Subsequent revaluations to fair value are taken through the Statement of Changes in Net Assets as changes in net market value of investments.

(h) Foreign Currency Translation

Foreign currency positions are converted to Australian dollars 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 dollars 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.

(i) Use of Derivatives

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

Mandates granted to individual investment managers 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. The CSS Board's internal investment team and/or investment advisors monitor the use of derivatives and ensure that such use is consistent with the CSS Board's policy.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by balance date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable incomes nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by balance date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Scheme expects, at the balance date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Scheme intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or benefit in the Statement of Changes in Net Assets.

(k) Benefits Payable

The Scheme recognises a benefit to be payable to a member where a valid withdrawal notice is received from the employer sponsor, and is approved by the Scheme administrator (ComSuper).

Benefits payable represent amounts approved for payment by ComSuper, but which had not been paid by balance date.

(l) Scheme Liability for Accrued Benefits

The liability for accrued benefits is 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 date of measurement. The present value 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.

The liability for accrued benefits is not included in the Statement of Net Assets, but is reported at note 14.

The liability for accrued benefits is actuarially measured on at least a triennial basis. Where the liability for accrued benefits is measured during the reporting period, the benefits which have accrued since the last measurement date are also reported by way of note.

(m) Superannuation Contributions Surcharge

Superannuation contributions surcharge is accounted for when an amount becomes payable to the Australian Taxation Office.

The Superannuation Contributions Tax (Assessment and Collection) Act has been amended so as to abolish the surcharge from the 2005 - 06 financial year onwards.

(n) Goods and Services Tax (GST)

Where applicable, GST 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 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.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Sundry Debtors and Creditors

Sundry debtors are recognised at the amounts receivable, which approximate fair value. Sundry creditors represent liabilities for goods and services provided to the Scheme during the financial year and which are unpaid at balance date. All amounts are unsecured. Sundry debtors and creditors are subject to normal trade credit terms.

(p) Impact of adoption of AIFRS

The Scheme has applied AIFRS from 1 July 2005. The effects of adopting AIFRS on the financial report are insignificant and are mainly of a disclosure nature.

Reconciliation of total equity as presented under previous AGAAP to that under AIFRS:

	Group 2005 \$'000	Group 2004 \$'000	Scheme 2005 \$'000	Scheme 2004 \$'000
Ending equity under previous AGAAP	6 014 647	5 599 497	6 014 647	5 599 497
Change in valuation of investments	-	-	-	-
Reclassification of unitholders' funds to liability	-	-	-	-
Ending equity under AIFRS	<u>6 014 647</u>	<u>5 599 497</u>	<u>6 014 647</u>	<u>5 599 497</u>

Reconciliation of 2005 profit after tax under AGAAP to AIFRS:

	Group 2005 \$'000	Scheme 2005 \$'000
Prior year total revenue less expenses and benefits paid after income tax as reported under AGAAP	415 229	415 150
Change in valuation of investments	-	-
Prior year total revenue less expenses and benefits paid after income tax as reported under AIFRS	<u>415 229</u>	<u>415 150</u>

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

2. 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).

Moneys paid to the CSS Board (now ARIA) for the purposes of the Scheme are held in the CSS Fund. The CSS Fund comprises contributions made by members and employers, income rising from investments, and accretions to or profits on realisation of investments held within the CSS Fund. The CSS Board pays member benefits, taxes and costs of and incidental to the management of the CSS Fund and the investment of its money out of the CSS Fund.

Administration of member records, contributions receipts and benefit payments is conducted on behalf of the Trustee by ComSuper.

The principal place of business of the Scheme is Level 10, 12 Moore Street, Canberra ACT 2601.

(b) Member and Employee Numbers	Scheme	Scheme
	2006	2005
	#	#
Number of members		
- Contributors	28 971	32 011
- Deferred beneficiaries/preservers	11 848	12 297
- Pensioners	114 288	113 693
	155 107	158 001
Number of employees directly employed to manage the scheme	25	20

3. INVESTMENTS

	Group	Group	Scheme	Scheme
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Cash and short term deposits				
Cash at bank - Australia	76 479	104 679	60 520	95 189
Cash at bank - international	34 236	10 082	34 236	10 082
Cash deposits with futures brokers	1 717	6 098	1 717	6 098
	112 432	120 859	96 473	111 369
Money market investments				
Australian	194 850	778 020	194 850	778 020
International	27 722	7 871	27 722	7 871
	222 572	785 891	222 572	785 891
Fixed interest investments				
Australian	38 110	162 407	38 110	162 407
International	484 417	241 253	484 417	241 253
Unlisted Australian trusts - fixed interest securities	12 495	27 036	12 495	27 036
	535 022	430 696	535 022	430 696
Equity investments				
Equity securities - Australian	1 585 459	1 299 592	1 585 459	1 299 592
Equity securities - international	1 459 608	1 311 482	1 459 608	1 311 482
Unlisted Australian trusts - equity securities	1 246 119	950 027	1 244 293	950 027
Unlisted Australian controlled trust - equity securities	-	-	104 504	7 000
Unlisted international trusts - equity securities	425 828	483 209	323 591	483 209
	4 717 014	4 044 310	4 717 455	4 051 310
Property investments				
Unlisted Australian trusts - property securities	503 639	672 287	503 639	672 287
Unlisted Australian controlled trust - property securities	-	-	361 803	-
Investment properties - Australian	681 917	-	-	-
	1 185 556	672 287	865 442	672 287
Derivatives contracts				
Forward currency - Australia	2 604 944	2 239 889	2 604 944	2 239 889
Forward currency - international	(2 612 583)	(2 219 005)	(2 612 583)	(2 219 005)
Options - Australian	727	(3 817)	727	(3 817)
Options - international	4 865	2 872	4 865	2 872
Futures - Australian	208	72	208	72
Futures - international	515	286	515	286
	(1 324)	20 297	(1 324)	20 297

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

4. CHANGES IN NET MARKET VALUES

	Group 2006 \$'000	Group 2005 \$'000	Scheme 2006 \$'000	Scheme 2005 \$'000
(a) Investments held at 30 June:				
Money market investments	585	1,428	585	1,428
Fixed interest securities - Australian	(280)	1,172	(280)	1,172
Fixed interest securities - international	2,830	(2,099)	2,830	(2,099)
Unlisted Australian trusts - fixed interest securities	(14,095)	5,692	(14,095)	5,692
Equity securities - Australian	161,403	188,359	163,040	188,359
Equity securities - international	132,560	7,815	132,560	7,815
Unlisted Australian trusts - equity securities	(71,148)	23,435	(72,570)	23,541
Unlisted Australian controlled trust - equity securities	-	-	(1,501)	113
Unlisted international trusts - equity securities	31,880	(1,448)	31,880	(1,448)
Unlisted Australian trusts - property securities	13,416	30,012	13,416	30,012
Unlisted Australian controlled trust - property securities	-	-	28,868	-
Investment properties - Australian	38,900	-	-	-
Forward currency	(28,104)	85,719	(28,104)	85,719
Options	1,484	(755)	1,484	(755)
Futures	723	358	723	358
	270,154	339,688	258,836	339,907
(b) Investments realised during the year:				
Money market investments	26,736	25,782	26,736	25,782
Fixed interest investments	(7,066)	(1,368)	(7,066)	(1,368)
Equity securities and unlisted trusts	155,860	8,013	155,860	8,013
Forward currency	664	144,911	664	144,911
Options	(924)	(13)	(924)	(13)
Futures	6,983	9,281	6,983	9,281
	182,253	186,606	182,253	186,606
(c) Total changes in net market values of investments	452,407	526,294	441,089	526,513

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

5. FUNDING ARRANGEMENTS

(a) Contributions

Member Contributions

Members contribute to the Scheme at optional rates above 5 per cent of salary.

Employer Contributions

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 members.

Transferring superannuation benefits from other funds

Money invested in other superannuation funds can be transferred to the Scheme.

Government Co-Contributions

The Commonwealth Government contributes \$1.50 for every \$1 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of \$1,500 per member for each financial year.

(b) Benefits

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

Benefits payable by the Consolidated Revenue Fund as at 30 June 2006 totalled \$1.3m (2005: \$Nil). The Commonwealth is the corresponding debtor for this amount in accordance with the funding arrangements described above.

Benefits paid by the CSS Fund and the Consolidated Revenue Fund during the year are as follows:

	Scheme 2006 \$'000	Scheme 2005 \$'000
Gross Appropriation from Consolidated Revenue Fund	3 218 744	3 003 315
less: Transfers from Fund to Consolidated Revenue Fund	(632 607)	(518 432)
Net Appropriation	2 586 137	2 484 883
Consolidated Revenue Fund		
Lump-sum Benefits	587 211	482 228
Transfer Values	-	188
Pensions	2 631 533	2 520 088
Other	-	811
	3 218 744	3 003 315
CSS Fund		
Lump-sum Benefits	1 536	396
Total benefits paid	3 220 280	3 003 711

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

5. FUNDING ARRANGEMENTS (Continued)

(c) Costs of Administration

In accordance with Regulations issued pursuant to section 160(1) of the *Superannuation Act 1976*, those costs of the CSS Board (now ARIA) which relate to its responsibilities for the management of the CSS Fund (see note 2) and the investment of its money are a charge against the CSS Fund.

The *Superannuation Act 2005* requires the Commissioner for Superannuation (through ComSuper) to assist the CSS Board in performing its member administration responsibilities in relation to the Scheme. The expenses of the Commissioner for Superannuation are met from a share of the administrative fees paid to ComSuper by employing agencies. The remaining share of administrative fees is paid to the CSS Board to fund costs other than those incurred in managing and investing the assets of the CSS Fund. 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).

Scheme administration costs met by sponsoring employers are as follows:

	Scheme 2006 \$'000	Scheme 2005 \$'000
CSS Board fees	1 411	955
ComSuper fees	11 612	10 000
Total	<u>13 023</u>	<u>10 955</u>

Direct expenses met by the Scheme and its controlled entities (and therefore ultimately by Scheme members) are as follows:

	Group 2006 \$'000	Group 2005 \$'000	Scheme 2006 \$'000	Scheme 2005 \$'000
Investment				
Investment Advisors	345	478	345	478
Investment Managers	17 188	11 776	15 859	11 776
Custodian	1 490	1 427	1 490	1 427
Other	8 092	399	617	399
Total direct investment expenses	<u>27 115</u>	<u>14 080</u>	<u>18 311</u>	<u>14 080</u>
Administration	4 125	3 362	3 772	3 320
	<u>31 240</u>	<u>17 442</u>	<u>22 083</u>	<u>17 400</u>
Less: Minority Interests	(4 319)	(11)	-	-
Total costs met by Scheme members	<u>26 921</u>	<u>17 431</u>	<u>22 083</u>	<u>17 400</u>

The increase in Scheme direct investment expenses in 2005-06 is as a result of changes to investment management arrangements, including the movement from passive to active bond management, direct property mandates and additional custodian fees.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

6. INCOME TAX

	Group 2006 \$'000	Group 2005 \$'000	Scheme 2006 \$'000	Scheme 2005 \$'000
(a) Income tax recognised in the Statement of Changes in Net Assets				
Tax expense comprises:				
Current tax expense	46 407	47 826	44 922	47 782
Adjustments recognised in the current year in relation to the current tax of prior years	(2 238)	(215)	(2 238)	(215)
Adjustments recognised in the current year in relation to the deferred tax of prior years	-	(3 905)	-	(3 905)
Deferred tax expense relating to the origination and reversal of temporary differences	11 438	33 518	12 558	33 510
Total tax expense	55 607	77 224	55 242	77 172
The prima facie income tax expense on the benefits accrued as a result of operations before income tax reconciles to the income tax expense in the Statement of Changes in Net Assets as follows:				
Benefits accrued as a result of operations before income tax	421 482	492 453	391 774	492 322
Income tax expense calculated at 15%	63 223	73 868	58 766	73 848
Add/(Less) Permanent differences - items not assessable or deductible				
Employee contributions	(20 797)	(22 098)	(20 797)	(22 098)
Benefits paid	483 042	450 557	483 042	450 557
Appropriation from CRF	(387 920)	(372 733)	(387 920)	(372 733)
Investment revenue already taxed	(7 918)	1 079	(7 713)	1 047
Non-taxable income	(4 438)	-	-	-
Imputation credits from franked dividends received	7 022	6 241	7 022	6 241
Previously unrecognised imputation credits subsequently recovered	-	2 139	-	-
Indexation/CGT discount on realised capital gains	(23 981)	(13 930)	(23 981)	(13 930)
Consideration received from unitholders for tax liability transferred	(40 730)	(40 734)	-	-
Section 275 transfer of taxable contributions by unitholders	40 730	38 595	-	-
Other	(1 845)	(31)	(2 396)	(31)
Less: Imputation and foreign tax credits	(48 544)	(41 609)	(48 544)	(41 609)
Over provision of income tax in previous year	(2 237)	(4 120)	(2 237)	(4 120)
	55 607	77 224	55 242	77 172
(b) Current tax liabilities				
Current tax payables:				
Provision for current year income tax	18 905	25 590	17 479	25 573
	18 905	25 590	17 479	25 573
(c) Deferred tax balances				
Deferred tax assets comprise:				
Temporary differences	33	24	33	24
	33	24	33	24
Deferred tax liabilities comprise:				
Temporary differences	81 674	70 227	82 788	70 221
	81 674	70 227	82 788	70 221

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

6. INCOME TAX (Continued)

Taxable and deductible temporary differences arise from the following:

2006	Group				
	Opening balance	Charged to income	Acquisition / disposal	Exchange differences	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross deferred tax liabilities:					
Unrealised taxable capital gains	64 929	19 715	-	-	84 644
Other	5 298	(8 268)	-	-	(2 970)
	<u>70 227</u>	<u>11 447</u>	<u>-</u>	<u>-</u>	<u>81 674</u>
Gross deferred tax assets:					
Accounts payable	24	9	-	-	33
	<u>24</u>	<u>9</u>	<u>-</u>	<u>-</u>	<u>33</u>
	<u>70 203</u>	<u>11 438</u>	<u>-</u>	<u>-</u>	<u>81 641</u>
2005	Group				
	Opening balance	Charged to income	Acquisitions/ disposals	Exchange differences	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross deferred tax liabilities:					
Unrealised taxable capital gains	47 772	17 157	-	-	64 929
Other	1 886	3 412	-	-	5 298
	<u>49 658</u>	<u>20 569</u>	<u>-</u>	<u>-</u>	<u>70 227</u>
Gross deferred tax assets:					
Accounts payable	15	9	-	-	24
Other	9 052	(9 052)	-	-	-
	<u>9 067</u>	<u>(9 043)</u>	<u>-</u>	<u>-</u>	<u>24</u>
	<u>40 591</u>	<u>29 612</u>	<u>-</u>	<u>-</u>	<u>70 203</u>
2006	Scheme				
	Opening balance	Charged to income	Acquisition / disposal	Exchange differences	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross deferred tax liabilities:					
Unrealised taxable capital gains	64 929	19 715	-	-	84 644
Other	5 292	(7 148)	-	-	(1 856)
	<u>70 221</u>	<u>12 567</u>	<u>-</u>	<u>-</u>	<u>82 788</u>
Gross deferred tax assets:					
Accounts payable	24	9	-	-	33
	<u>24</u>	<u>9</u>	<u>-</u>	<u>-</u>	<u>33</u>
	<u>70 197</u>	<u>12 558</u>	<u>-</u>	<u>-</u>	<u>82 755</u>
2005	Scheme				
	Opening balance	Charged to income	Acquisitions/ disposals	Exchange differences	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000
Gross deferred tax liabilities:					
Unrealised taxable capital gains	47 772	17 157	-	-	64 929
Other	1 888	3 404	-	-	5 292
	<u>49 660</u>	<u>20 561</u>	<u>-</u>	<u>-</u>	<u>70 221</u>
Gross deferred tax assets:					
Accounts payable	15	9	-	-	24
Other	9 052	(9 052)	-	-	-
	<u>9 067</u>	<u>(9 043)</u>	<u>-</u>	<u>-</u>	<u>24</u>
	<u>40 593</u>	<u>29 604</u>	<u>-</u>	<u>-</u>	<u>70 197</u>

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

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

Certain former contributors to the Commonwealth Superannuation Scheme who again become members of the Commonwealth Scheme are entitled to elect to transfer to the Public Sector Superannuation Scheme. One such election was made during the year ended 30 June 2006.

Transfers during the year ended 30 June 2006 relate to elections made in previous financial years.

8. SUNDRY CREDITORS

	Group 2006 \$'000	Group 2005 \$'000	Scheme 2006 \$'000	Scheme 2005 \$'000
Investment expenses payable	4 728	4 248	4 728	4 248
Accrued expenses	6 010	415	597	415
Other	3 257	1 621	841	1 592
	13 995	6 284	6 166	6 255

9. AUDITOR'S REMUNERATION

	Group 2006 \$	Group 2005 \$	Scheme 2006 \$	Scheme 2005 \$
Amounts received or receivable by the Australian National Audit Office	137 530	72 700	111 771	59 500

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

No other services were provided by the Australian National Audit Office or Deloitte Touche Tohmatsu to the Scheme during the reporting period.

10. SCHEME SUPERANNUATION CONTRIBUTIONS SURCHARGE

The Superannuation Contributions Surcharge applies to the surchargeable superannuation contributions of Scheme members whose adjusted taxable income exceeds the surcharge threshold. Surcharge liabilities are calculated by the Australian Taxation Office 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 the financial year incurs interest. Scheme rules provide for any outstanding surcharge liability to be recovered from a benefit payable to the member.

Transactions recorded during 2005 - 06 were as follows:

	Scheme 2006 \$'000	Scheme 2005 \$'000
Total surcharge liability outstanding at start of year	63 788	51 837
Adjustment to opening balances	32	(103)
Assessments received during the year	12 569	14 991
Interest on outstanding surcharge liabilities at end of year	4 002	3 102
	80 391	69 827
Less: Amounts paid by members and Consolidated Revenue Fund	(7 305)	(6 039)
Total surcharge liability outstanding at end of year	73 086	63 788

Adjustments to opening balances represent amended assessments received from the Australian Taxation Office in respect of surcharge liabilities of prior years.

The surcharge is no longer levied on contributions made after 1 July 2005. However, assessments relating to periods prior to this date continue to be received.

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 the Consolidated Revenue Fund.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

11 FINANCIAL INSTRUMENT DISCLOSURES

(a) Specialist investment managers and advisors

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

J P Morgan acts as master custodian on behalf of the Trustee. It 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;
 - risk management, investment research and performance reporting at a total fund level.
- (b) Macquarie Investment Management Limited to advise the Board on new Australian private equity investments and monitor the Board's existing Australian private equity commitments.
- (c) Eureka Funds Management Limited to invest, manage and administer the assets of the PSS/CSS A Property Trust - see note 17 for further information on this controlled entity.

(b) Use of Derivative Financial Instruments

The Group'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 reflect the foregoing policy for the Group as a whole. Individual mandates may allow some gearing and the capacity to short markets, but this must not involve the Scheme or any controlled entity being geared or being short an asset class. Where the CSS Board's investment managers use derivative securities, the CSS Board's internal investment team and /or investment advisors monitor that such use is consistent with the Board's policy.

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

	Notional Principal Amounts		Scheme and Group Notional Principal Amounts		Net Market Value	
	Purchase Contracts		Sale Contracts		2006 \$'000	2005 \$'000
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000		
Fixed interest futures	64 081	90 987	207 150	69 087	560	22
Share price index futures	4 874	25 346	381	-	163	336
Exchange traded options	34 516	22 981	30 923	26 574	5 592	2 491
Forward currency contracts	2 604 944	2 239 889	2 612 583	(2 219 005)	(7 639)	20 884
Total	2 708 415	2 379 203	2 851 037	(2 123 344)	(1 324)	23 733

(c) Credit Risk

The net market value of financial assets, with the exception of derivative positions, included in the Statement of Net Assets represent the Group'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 \$37.8 million (2005: \$19.8 million). The Group does not have significant exposures to any individual counterparty or industry.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

11. FINANCIAL INSTRUMENT DISCLOSURES (Continued)

(d) Interest Rate Risk

The Group invests in financial investments for the primary purpose of obtaining a return on investments on behalf of its members. As such, the Group's investments are subject to interest rate risks and return on the investments will fluctuate in accordance with movements in market interest rates.

The Group's exposure to interest rate movements on investments at 30 June was as follows:

	Weighted Average Interest Rate (% pa)	Floating Interest Rate \$'000	Fixed Interest Rate			Non Interest Bearing \$'000	Total \$'000
			Up to 1 Year \$'000	1 - 5 Years \$'000	Over 5 Years \$'000		
30 June 2006							
Assets							
Cash and short term deposits	5.36	110 715				1 717	112 432
Money market investments	5.43	222 572					222 572
Fixed interest securities	4.58		16 165	157 824	348 538		522 527
Equity securities						3 045 067	3 045 067
Unlisted trusts						2 188 081	2 188 081
Investment properties						681 917	681 917
Derivatives contracts						(1 324)	(1 324)
Other assets	5.52	57 254				77 307	134 561
Liabilities							
Benefits payable						(24 273)	(24 273)
Trade settlements payable						(87 189)	(87 189)
Sundry creditors						(13 995)	(13 995)
Distribution payable						(5 683)	(5 683)
Current tax liabilities						(18 905)	(18 905)
Deferred tax liabilities						(81 674)	(81 674)
Net assets attributable to minority interests						(322 935)	(322 935)
Total		390 541	16 165	157 824	348 538	5 438 111	6 351 179
30 June 2005							
Assets							
Cash and short term deposits	5.64	114 761				6 098	120 859
Money market investments	5.48	785 891					785 891
Fixed interest securities	4.70		21 170	132 503	199 174	50 813	403 660
Equity securities						2 611 074	2 611 074
Unlisted trusts						2 132 559	2 132 559
Derivative contracts						20 297	20 297
Other assets	5.28	50 477				72 426	122 903
Liabilities							
Benefits payable						(18 647)	(18 647)
Trade settlements payable						(58 201)	(58 201)
Sundry creditors						(6 284)	(6 284)
Amounts due to other superannuation schemes						(1 133)	(1 133)
Current tax liabilities						(25 590)	(25 590)
Deferred tax liabilities						(70 227)	(70 227)
Net assets attributable to minority interests						(2 514)	(2 514)
Total		951 129	21 170	132 503	199 174	4 710 671	6 014 647

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

11. FINANCIAL INSTRUMENT DISCLOSURES (Continued)

(e) Currency Risk

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

	US Dollars A\$'000	Japanese Yen A\$'000	U Kingdom Pounds A\$'000	European Euros A\$'000	Other Currencies A\$'000	Total A\$'000
30 June 2006						
Assets						
Investments excluding forward international currency	1 480 810	131 704	139 696	339 558	236 668	2 328 436
Other assets	10 841	5 352	3 855	7 922	9 390	37 360
Total Assets	1 491 651	137 056	143 551	347 480	246 058	2 365 796
Liabilities						
Other liabilities	35 418	167	1 879	4 199	13 858	55 521
Total Liabilities	35 418	167	1 879	4 199	13 858	55 521
Net assets above denominated in foreign currency	1 456 233	136 889	141 672	343 281	232 200	2 310 275
Amount effectively hedged	(1 815 645)	(77 819)	(130 592)	(485 157)	(103 370)	(2 612 583)
Net exposure	(359 412)	59 070	11 080	(141 876)	128 830	(302 308)
30 June 2005						
Net assets 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)

(f) Net Fair Values of Financial Assets and Liabilities

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

12. SCHEME UNALLOCATED INCOME

As part of the proposed introduction of member investment choice into the Scheme, the CSS Board decided in August 2004 to change its policy for crediting and exit rates. Members will receive a pro-rata share of net earnings from 1 July 2003 on exit. From 1 December 2004, a cash investment option has been available for all CSS members with a funded accumulation component. No crediting rates have been declared since 1 July 2003.

	Scheme 2006 \$'000	Scheme 2005 \$'000
Opening balance of unallocated income	1 203 968	531 229
Add: Investment revenue less expenses and taxes thereon for the year	793 336	745 412
Less: Adjustments for estimates	(9 327)	(3 885)
Less: Earnings paid out in benefit payments	(140 931)	(68 788)
Closing balance of unallocated income	1 847 046	1 203 968

The closing balance of unallocated income is estimated to represent 40.8 per cent (2005: 24.9 per cent) of the members' funded entitlements as at 30 June.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

13. SCHEME 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 Scheme membership as at the reporting date.

Mercer Human Resources Consulting has advised that the amount of vested benefits at 30 June 2006 is \$65.3 billion (2005: \$61.3 billion), based on data supplied by ComSuper. The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 2006 and elected the option which maximised their benefit entitlement.

The vested benefits have been calculated on the basis of current legislative arrangements for indexation of pension payments.

The vested benefits amount is made up of:

	Scheme 2006 \$billion	Scheme 2005 \$billion
Funded component	6.4	6.0
Unfunded component	58.9	55.3
	<u>65.3</u>	<u>61.3</u>

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

	Scheme 2006 \$billion	Scheme 2005 \$billion
Funded accrued benefits	6.4	6.0
Net assets plus funded benefits payable	6.4	6.0
Surplus/(Deficiency)	<u>-</u>	<u>-</u>

14. SCHEME LIABILITY FOR ACCRUED BENEFITS

The amount of accrued benefits is the present value of expected future benefit payments that arise from membership of the Scheme up to the measurement date. The accrued benefits are comprised of a funded component (i.e., accumulated member contributions, and, where applicable, productivity contributions, plus interest) which will be met from the Scheme, and an unfunded component to be financed from the Consolidated Revenue Fund at the time the superannuation benefits become payable.

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 as part of a comprehensive review as at 30 June 2005. A summary of the Mercer report is attached.

Accrued benefits as at 30 June were:

	Scheme 2005 \$billion	Scheme 2002 \$billion
Funded component	6.0	5.7
Unfunded component	50.7	49.3
	<u>56.7</u>	<u>55.0</u>

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

	2005 \$billion	2002 \$billion
Funded accrued benefits	6.0	5.7
Net assets plus funded benefits payable	6.0	5.4
Surplus/(Deficiency)	<u>-</u>	<u>(0.3)</u>

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

15. SEGMENT REPORTING

The Group operates in the superannuation administration and funds management industries in Australia. Approximately 36% (2005: 34%) of Group investments (excluding cash and derivatives contracts) are placed directly overseas.

16. RELATED PARTIES

(a) Trustee

The Trustee of the Scheme throughout the year ended 30 June 2006 was the CSS Board. The CSS Board merged with the PSS Board on 1 July 2006 and the resulting entity was renamed Australian Reward Investment Alliance - see note 19 for further details.

No fees were charged by the CSS Board for acting as Trustee during the reporting period.

(b) Trustees of the CSS Board

The trustees of the CSS Board throughout the year ended 30 June 2006 were:

David Connolly	Karen Doran (Alternate for David Connolly)
Susan Doyle (Chairman)	John Flitcroft (Alternate for Peter Feltham)
Peter Feltham	David Irons (Alternate for Winsome Hall)
Winsome Hall	Peter Smith (Alternate for Joylene Palmer)
Desmond Moore	Sandra Wilson (Alternate for Desmond Moore)
Joylene Palmer	
Graham Rogers	

(c) Key Management Personnel Remuneration

The trustees of the CSS Board throughout the year ended 30 June 2006 are listed under note 16(b) above.

The following executives of the CSS Board also had authority and responsibility for planning, directing and controlling the activities of the Scheme throughout the year ended 30 June 2006:

Helen Ayres	Board Secretary
Peter Carrigy-Ryan	Chief Business Operations Officer
Steve Gibbs	Chief Executive Officer
Leonie McCracken	Head of Investment Operations
Andre Morony	Chief Investment Officer

The aggregate compensation of the key management personnel is set out below:

	Group 2006 \$'000	Group 2005 \$'000	Scheme 2006 \$'000	Scheme 2005 \$'000
Short-term employee benefits	669	701	631	701
Post-employment benefits	75	81	71	81
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	-	-	-	-
	744	782	702	782

Aggregate compensation is a pro-rata apportionment of the overall compensation paid by the CSS Board, based on the net assets of the entities under its trusteeship or control.

The compensation of key management personnel (including trustees) for the years ended 30 June 2006 and 30 June 2005 was charged directly against the assets of the Scheme as part of general administration expenses.

The Group has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally-related entities at any time during the year.

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

16. RELATED PARTIES (continued)

(d) Related party investment

The Scheme held the following investments in related parties at 30 June:

	Net Market Value of Investment	Net Market Value of Investment	Share of Net Income after tax	Share of Net Income after tax
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<u>Controlled Entities</u>				
CFM Australian Equities Fund	104,504	7,000	(1,501)	113
PSS/CSS A Property Trust	361,803	-	28,868	-
	<u>466,307</u>	<u>7,000</u>	<u>27,367</u>	<u>113</u>

All transactions are conducted under normal industry terms and conditions.

17 GROUP ENTITIES

Name of Entity	Country of Domicile	Proportion of ownership at 30 June	
		2006 %	2005 %
<u>Parent Entity</u>			
Commonwealth Superannuation Scheme	Australia		
<u>Subsidiaries</u>			
CFM Australian Equities Fund	Australia	98	74
PSS/CSS A Property Trust (i)	Australia	52	-

(i) Established 23 September 2005

18. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Investments

At 30 June the Scheme and Group had outstanding investment capital commitments of \$244.1 million (2005: \$195.9 million). These commitments are expected to be settled as follows:

	2006 \$'000	2005 \$'000
Within 12 months	56 292	110 333
Greater than 12 months but less than 5 years	128 992	85 635
Greater than 5 years	58 854	-
	<u>244 138</u>	<u>195 968</u>

At 30 June the Scheme and Group had no contingent assets (2005: \$Nil).

(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. In the opinion of the Trustee, these requests do not represent a material liability on the Scheme and Group.

At 30 June the Scheme and Group had contingent liabilities of \$493,000 (2005: \$359,000).

COMMONWEALTH SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2006

19 SUBSEQUENT EVENTS

On 1 July 2006 the PSS Board merged with the CSS Board, and the resulting entity was renamed Australian Reward Investment Alliance, pursuant to the *Superannuation Legislation Amendments (Trustee Board and Other Measures) Act 2006*.

On 1 July 2006 the PSS Investments Trust was renamed ARIA Investments Trust.

On 1 July 2006, all investments held directly by the Scheme were transferred to the ARIA Investments Trust in exchange for units in that trust. The transfer price exceeded the net market value of the securities at 30 June 2006 by the amount of the estimated selling costs included in the latter (as required by AAS 25), thereby creating a realised gain. A CGT rollover was granted in respect of the transfer, pursuant to Schedule 1 of the *Superannuation Legislation Amendment (Trustee Board and Other Measures) Act 2006*.

Information Required for Purposes of Australian Accounting Standard AAS25 Relating to the Actuarial Valuation of the Commonwealth Superannuation Scheme as at 30 June 2005

Purpose of Report

This statement has been prepared for the purposes of AAS25 as at 30 June 2005 for the Commonwealth Superannuation Scheme (CSS) at the request of the CSS Board.

This extract summarises the actuarial valuation of the Scheme as at 30 June 2005 carried out by Mercer Human Resource Consulting under the advice of Martin Stevenson, FIAA, FIA. It has been prepared for the purposes of inclusion with the Scheme 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 \$billion	Vested Benefits \$billion
30 June 2005	56.7	61.3

Accrued Benefits have been determined as the present value of expected future benefit payments that 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.

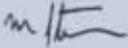
Accrued Benefits have been calculated in a manner consistent with Guidance Note 454 and Professional Standard 402 issued by the Institute of Actuaries of Australia.

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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 on the Long Term Cost of the Public Sector Superannuation Scheme (PSS) and the CSS carried out as at 30 June 2005. The summary has been prepared in accordance with Professional Standard 401 issued by the Institute of Actuaries of Australia and contains the information required under AAS 25.



Martin A Stevenson

Fellow of the Institute of Actuaries
of Australia

Worldwide Partner, Mercer Human Resource
Consulting Pty Limited

April 2006

MERCER

Human Resource Consulting

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 the 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 elect the benefit option which is most costly to the CSS.

Assumptions Used to Determine Accrued Benefits

The 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 2005. Therefore, the Accrued Benefit calculated for AAS 25 purposes is the same as that calculated for the purposes of the Long Term Cost Report.

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

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

A summary of the other assumptions used is contained in Appendix B of the Long Term Cost Report of the PSS and the CSS.

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Attachment 2 to AAS 25 Statement

Summary of the Long Term Cost Report

The latest actuarial investigation into the long term cost of the PSS and CSS was conducted at 30 June 2005.

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 2005.

CSS MEMBERSHIP as at 30 JUNE 2005			
	Male	Females	Total
Number of Contributors	21,696	10,310	32,006
Salaries - Total	\$1,650 m	\$685 m	\$2,335 m
- Average	\$76,069	\$66,486	\$72,982
Number of Deferred Beneficiaries	8,752	3,475	12,227
Number of Age Pensioners	48,787	16,060	64,847
Number of Invalidity Pensioners	15,221	4,960	20,181
Number of Reversionary Pensioners	1,249	27,311	28,560

Assumptions

The key economic 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 2002) are shown for comparison purposes.

Item	Assumption	2002 Investigation
CPI Increases	2.5% per annum	2.5% per annum
Investment Returns	6.0% per annum (nominal)	6.0% per annum (nominal)
	3.5% per annum (real)	3.5% per annum (real)
General Salary Increases	4.0% per annum (nominal)	4.0% per annum (nominal)
	1.5% per annum (real)	1.5% per annum (real)
GDP Increases	2.3%* per annum (real)	2.1% per annum (real)

* The GDP increase rate is the average of the annual rates over the period from 2005 to 2045.

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Human Resource Consulting

Of the key economic assumptions only the GDP increase assumption is different between the 2002 investigation and the 2005 investigation.

The demographic assumptions at 2005 have been revised from those at 2002 to more closely reflect actual experience of the Scheme. These are set out in Appendix B of the Long Term Cost Report.

Of the changes in assumptions, the most significant were:

- revision of mortality rates for all members;
- reduction in the proportion married for members aged less than 70.

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 2005 was \$6.0 billion.

Accrued Benefits

The value of accrued benefits as at 30 June 2005 was \$56.7 billion.

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. An amount of \$6.0 billion has been included in the Accrued Benefit in respect of the member financed benefits and productivity superannuation benefits.

The Accrued Benefit also includes an amount of \$36.8 billion in respect of pensioners and preserved beneficiaries of the CSS.

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Vested Benefits

Vested Benefits of the CSS were not calculated as a part of the Long Term Cost Report as at 30 June 2005 but were calculated separately.

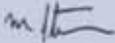
The estimated value of the Vested Benefits of the CSS as at 30 June 2005 is \$61.3 billion.

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.

Financial Condition

The CSS is a partially funded scheme. As a consequence, the value of Accrued Benefits and Vested Benefits is significantly more than the realisable value of Scheme assets at the same date.

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



Martin A Stevenson
Fellow of the Institute of Actuaries
of Australia

Worldwide Partner, Mercer Human Resource
Consulting Pty Limited

April 2006

Board financial statements

- > Scheme financial statements
 - Audit report from the ANAO
 - Financial statement
 - AAS25 Actuarial statement





INDEPENDENT AUDIT REPORT

To the Minister for Finance and Administration

Scope

The financial statements and Chief Executive's responsibility

The financial statements comprise:

- Statement by the Chairman and Chief Executive;
- Income Statement, Balance Sheet and Statement of Cash Flows;
- Statement of Changes in Equity;
- Schedule of Commitments; and
- Notes to and forming part of the Financial Statements

of the CSS Board for the year ended 30 June 2006.

The Board's Chief Executive is 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 the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and Accounting Standards and other mandatory financial reporting requirements in Australia. The Board's Chief Executive is 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*

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Accountability Act 1997 and Accounting Standards in Australia, a view which is consistent with my understanding of the Board's financial position, and performance as represented by the results of its operations 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) gives a true and fair view of the CSS Board's financial position as at 30 June 2006 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 in Australia.

AUSTRALIAN NATIONAL AUDIT OFFICE



Carla Jago

Executive Director

Delegate of the Auditor-General

Canberra

30 October 2006

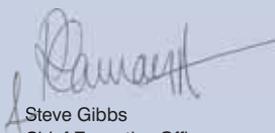
CSS Board

Statement by the Chairman and Chief Executive

In our opinion, the attached financial statements for the year ended 30 June 2006 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
AUSTRALIAN REWARD INVESTMENT ALLIANCE
as successor in law to CSS Board



Steve Gibbs
Chief Executive Officer
AUSTRALIAN REWARD INVESTMENT ALLIANCE
as successor in law to CSS Board

30 October 2006

CSS Board

Income Statement for the financial year ended 30 June 2006

	Notes	2006 \$	2005 \$
INCOME			
Revenue			
Goods and services	4A	5 106 106	4 149 738
Total Revenue		5 106 106	4 149 738
Gains			
Resources received free of charge	4B	25 340	4 500
Reversals of previous asset write-downs	5D	5 840	-
Total Gains		31 180	4 500
Total Income		5 137 286	4 154 238
EXPENSE			
Employees	5A	1 823 480	1 606 192
Suppliers	5B	2 798 143	2 457 942
Depreciation and amortisation	5C	111 594	159 177
Write-down and impairment of assets	5D	-	57 559
Net loss from disposal of assets	4C	845	3 978
Total Expenses		4 734 062	4 284 848
Operating Result		403 224	(130 610)
Net Surplus / (Deficit) Attributable to the Australian Government		403 224	(130 610)

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

CSS Board

Balance Sheet as at 30 June 2006

	Notes	2006 \$	2005 \$
ASSETS			
Financial Assets			
Cash and equivalents	6A	445 429	310 685
Receivables	6B	<u>2 213 032</u>	<u>1 368 067</u>
Total Financial Assets		<u>2 658 461</u>	<u>1 678 752</u>
Non-Financial Assets			
Prepayments		139 901	111 572
Plant and equipment	7A	105 615	123 333
Intangibles	7B	30 617	48 786
Leasehold improvements	7C	<u>172 500</u>	<u>162 750</u>
Total Non-Financial Assets		<u>448 633</u>	<u>446 441</u>
Total Assets		<u>3 107 094</u>	<u>2 125 193</u>
LIABILITIES			
Payables			
Suppliers	8B	1 364 688	941 482
Other	8C	<u>438 720</u>	<u>423 308</u>
Total Payables		<u>1 803 408</u>	<u>1 364 790</u>
Provisions			
Employees	8A	<u>320 983</u>	220 082
Total Provisions		<u>320 983</u>	<u>220 082</u>
Total Liabilities		<u>2 124 391</u>	<u>1 584 872</u>
NET ASSETS		<u>982 703</u>	<u>540 321</u>
EQUITY			
Parent Entity Interest			
Contributed equity		359 929	359 929
Asset revaluation reserve		80 788	41 630
Retained surpluses		<u>541 986</u>	<u>138 762</u>
Total Parent Entity Interest		<u>982 703</u>	<u>540 321</u>
TOTAL EQUITY		<u>982 703</u>	<u>540 321</u>
Current assets		2 798 362	1 790 324
Non-current assets		308 732	334 869
Current liabilities		2 001 482	1 487 273
Non-current liabilities		122 909	97 599

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 2006

	Notes	2006 \$	2005 \$
OPERATING ACTIVITIES			
Cash received			
Goods and services		5 242 174	5 134 136
Total Cash Received		<u>5 242 174</u>	<u>5 134 136</u>
Cash Used			
Employees		1 823 956	1 666 389
Suppliers		2 848 146	3 165 776
Net GST payments		394 024	227 318
Total Cash Used		<u>5 066 126</u>	<u>5 059 483</u>
Net Cash From / (Used by) Operating Activities	9	<u>176 048</u>	<u>74 653</u>
INVESTING ACTIVITIES			
Cash Received			
Proceeds from sale of plant and equipment		93	176
Total Cash Received		<u>93</u>	<u>176</u>
Cash Used			
Purchase of plant and equipment		21 859	138 312
Purchase of computer software		-	60 639
Leasehold improvements		19 538	36 394
Total Cash Used		<u>41 397</u>	<u>235 345</u>
Net Cash Used by Investing Activities		<u>(41 304)</u>	<u>(235 169)</u>
FINANCING ACTIVITIES			
Net Increase / (Decrease) in Cash Held		134 744	(160 516)
Cash at the beginning of the reporting period		310 685	471 201
Cash at the End of the Reporting Period		<u>445 429</u>	<u>310 685</u>

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

CSS Board**STATEMENT OF CHANGES IN EQUITY**
for the year ended 30 June 2006

Item	Accumulated Results		Asset Revaluation Reserve		Contributed Equity		Total	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Opening Balance	138 762	269 372	41 630	6 435	359 929	359 929	540 321	635 736
Income and Expense Income and expenses recognised directly in equity Revaluation Adjustment	-	-	39 158	35 195	-	-	39 158	35 195
Net Operating Result	403 224	(130 610)	-	-	-	-	403 224	(130 610)
Total Income and Expenses recognised directly in Equity	403 224	(130 610)	39 158	35 195	-	-	442 382	(95 415)
Closing Balance	541 986	138 762	80 788	41 630	359 929	359 929	982 703	540 321
<i>Closing Balance attributable to the Australian Government</i>	541 986	138 762	80 788	41 630	359 929	359 929	982 703	540 321

CSS Board

Schedule of Commitments as at 30 June 2006

	Notes	2006 \$	2005 \$
BY TYPE			
Other commitments			
Operating leases		876 007	299 515
Total other commitments		876 007	299 515
Commitments receivable		(79 637)	(27 229)
Net commitments		796 370	272 286
BY MATURITY			
Operating lease commitments			
One year or less		188 324	139 795
From one to five years		608 046	132 491
Net commitments by maturity		796 370	272 286

Operating leases include leases for accommodation

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 2006

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NOTE

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CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 1: Summary of Significant Accounting Policies

1.1 Objectives of CSS Board

The CSS Board was established under section 27B of the *Superannuation Act 1976 (CSS Act)*. Until 30 June 2006 the CSS Board administered the Commonwealth Superannuation Scheme (CSS) in accordance with the provisions of the *CSS Act* and was responsible for the management and investment of the CSS Fund.

The CSS Fund represents the funded component of CSS (i.e. the net assets arising from contributions and investment earnings), but excludes the unfunded liability of the Commonwealth Government to meet the anticipated value of future benefits.

In its capacity as a prescribed agency under the *Financial Management and Accountability Act 1997*, the CSS Board conducted its activities through the CSS Special Account - an account held with Reserve Bank of Australia. The objective of the CSS Board was to provide superannuation services that met the expectations of Government, employers, members and beneficiaries, and which complied with the superannuation regulatory environment.

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

During the financial year ended 30 June 2006, the CSS Board's activities were funded through:

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

On 1 July 2006 the CSS Board merged with the PSS Board, and the resulting entity was renamed Australian Reward Investment Alliance (ARIA), pursuant to the *Superannuation Legislation Amendments (Trustee Board and Other Measures) Act 2006*. See note 3 for further details regarding events occurring after balance date.

ARIA administers CSS and the CSS Fund in exactly the same manner as the CSS Board.

1.2 Basis of accounting

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 Orders) (Financial Statements for reporting periods ending on or after 1 July 2005);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and
- Urgent Issues Group Interpretations.

The Income Statement and Balance Sheet have been prepared on an accruals basis and are in accordance with historical cost convention, except for certain assets which are at valuation. Except where stated, no allowance is made for the effect of changing prices on the financial performance or the financial position.

Assets and liabilities are recognised in the Balance Sheet when it is probable that future economic benefits will flow, and the amounts of the assets and liabilities can be reliably measured. Possible liabilities and assets that arise from past events but whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events outside the control of the Trustee are reported in the note on Contingent Liabilities and Contingent Assets.

Revenues and expenses are recognised in the Income Statement 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 2006

Note 1: Summary of Significant Accounting Policies (continued)

1.3 Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

Australian Accounting Standards require the CSS Board to disclose Australian Accounting Standards that have not been applied, for standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards. These amendments are denoted by year and then number, for example 2005-1 indicates amendment number 1 in 2005.

The table below illustrates standards and amendments that will become effective for the Trustee in the future. The nature of the impending change in the table has been abbreviated out of necessity, and users should consult the full version on the AASB's website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on the Trustee's initial assessment at this date, but may change. The Trustee intends to adopt all of the standards upon their application date.

Title	Standard affected	Application date	Nature of impending change	Impact expected on financial report
2005-1	AASB 139	1 January 2006	Amends hedging requirements for foreign currency risk of a highly probable intra-group transaction.	No expected impact
2005-4	AASB 139, AASB 132, AASB 1, AASB 1023 and AASB 1038	1 January 2006	Amends AASB 139, AASB 1023 and AASB 1038 to restrict the option to fair value through profit or loss and makes consequential amendments to AASB 1 and AASB 132.	No expected impact
2005-5	AASB 1 and AASB 139	1 January 2006	Amends AASB 1 to allow an entity to determine whether an arrangement is, or contains, a lease. Amends AASB 139 to scope out a contractual right to receive reimbursement (in accordance with AASB 137) in the form of cash.	No expected impact
2005-6	AASB 3	1 January 2006	Amends the scope to exclude business combinations involving entities or businesses under common control.	No expected impact
2005-9	AASB 4, AASB 1023, AASB 139 and AASB 132	1 January 2006	Amended standards in regards to financial guarantee contracts.	No expected impact
2005-10	AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038	1 January 2007	Amended requirements subsequent to the issuing of AASB 7.	No expected impact
2006-1	AASB 121	31 December 2006	Changes in requirements for net investments in foreign subsidiaries depending on denominated currency.	No expected impact
	AASB 7 Financial Instruments: Disclosures	1 January 2007	Revise the disclosure requirements for financial instruments from AASB 132 requirements.	No expected impact, changes disclosure requirements

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 1: Summary of Significant Accounting Policies (continued)

1.4 Revenue

Goods and Services

The CSS Board recharges expenses incurred on a joint basis with the PSS Board in respect of the administration and management of the CSS Fund and the PSS Fund. All rebills are to CSS and the PSS Board respectively.

The CSS Board receives a share of the quarterly administration fees charged by ComSuper to participating employers of CSS. Any revenue not received by balance date is reflected in the Balance Sheet as a receivable.

Resources Received Free of Charge

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

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

1.5 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.

1.6 Employee Benefits

(a) Benefits

As required by the Finance Minister's Orders, the Trustee has early adopted AASB 119 Employee Benefits as issued in December 2004. Liabilities for services rendered by employees are recognised at the balance date to the extent that they have not been settled.

Liabilities for short-term employee benefits (as defined in AASB 119) and termination benefits due within 12 months of balance date are measured at their nominal amounts.

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 balance date.

(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 liability for long service leave has been calculated by reference to the shorthand measurement technique prescribed by the Finance Minister's Orders i.e. as the present value of the probability-weighted long service leave liability.

(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.

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 1: Summary of Significant Accounting Policies (continued)

1.6 Employee Benefits (continued)

(d) Superannuation

The directors and employees of the CSS Board are eligible to participate in Commonwealth Superannuation Scheme, Public Sector Superannuation Scheme and Public Sector Superannuation Accumulation Plan on terms identical to all other members. The liability for their unfunded superannuation benefits is recognised in the financial statements of the Commonwealth Government and is settled by the Commonwealth Government as and when the obligations fall due.

The CSS Board makes employer contributions to the Commonwealth 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 directors and employees.

The liability for superannuation recognised as at 30 June 2006 represents outstanding contributions for the final fortnight of the year.

1.7 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 has been received from the lessor of the Johnsons Building in Sydney and is recognised as a liability in the Balance Sheet. This incentive is released on a straight-line basis over the period of the lease as a credit against the rent expense.

1.8 Cash

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

1.9 Financial Instruments

Accounting policies for financial instruments are stated at Note 17.

1.10 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.

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 1: Summary of Significant Accounting Policies (continued)

1.11 Property, Plant and Equipment

Asset Recognition Threshold

Purchases of property (including leasehold improvements), plant and equipment are recognised initially at cost in the Balance Sheet, 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

Property, plant and equipment for the year ended 30 June 2006 is carried at fair value on the basis of a valuation conducted by the Australian Valuation Office as at 30 June 2006.

Assets which are surplus to requirements are measured at depreciated replacement cost. At 30 June 2006 and 30 June 2005, 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 2006 and subsequent years.

Conduct

All valuations are conducted by an independent qualified valuer.

Depreciation/amortisation Policy

Depreciable plant and equipment assets are written-off to their estimated residual values over their useful lives to the CSS Board using the straight-line method of depreciation.

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.

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 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.

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 1: Summary of Significant Accounting Policies (continued)

1.11 Property, Plant and Equipment (continued)

Impairment of Non-current Assets

Non-current assets carried at up-to-date fair value at the balance 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 balance date. The test compared the carrying amounts against the net present value of future net cash inflows.

Non-current assets carried at cost and 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.

Disposal of Non-Current Assets

The proceeds from disposal of non-current assets are recognised when control of the assets has passed to the buyer.

1.12 Intangibles

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

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 life.

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

1.13 Taxation

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

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

- in the Statement of Cash Flows
- where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- for receivables and payables.

1.14 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.

1.15 Foreign Currency

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

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 2: Impact of the transition to AIFRS from previous AGAAP

CSS Board changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards (AIFRS). The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian equivalents to International Financial Reporting Standards' with 1 July 2004 as the date of transition.

An explanation of how the transition from superseded policies to AIFRS has affected the CSS Board's financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables.

Reconciliation of total equity as presented under previous AGAAP to that under AIFRS

	As at 1 July 2004	As at 30 June 2005
Total equity under previous AGAAP	635 736	540 321
Adjustment to retained earnings:	-	-
Total equity translated to AIFRS	635 736	540 321

Reconciliation of profit or loss as presented under previous AGAAP to AIFRS

	12 months ended 30 June 2005
Prior year loss as previously reported	130 610
Adjustments:	-
Prior year loss translated to AIFRS	130 610

The cash flow statement presented under previous AGAAP is equivalent to that prepared under AIFRS.

Note 3: Events Occurring after Balance Date

On 1 July 2006 the CSS Board merged with the PSS Board, and the resulting entity was renamed Australian Reward Investment Alliance (ARIA), pursuant to the *Superannuation Legislation Amendments (Trustee Board and Other Measures) Act 2006*.

All of the assets and liabilities of the CSS Board at 30 June 2006 were transferred to ARIA on 1 July 2006 without conveyance, transfer or assignment at the carrying values included in these financial statements.

By virtue of the above legislation, the CSS Board was abolished from 1 July 2006.

ARIA is not aware of any events after balance date that would give rise to any adjustments to the values of assets and/or liabilities included in the Balance Sheet as at the balance date, or to the revenues and expenses included in the Income Statement for the reporting period then ended.

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 4: Income

	2006	2005
	\$	\$
<i>Note 4A: Goods and Services</i>		
CSS Board's share of agency fees collected by ComSuper	1 410 836	955 224
Administration fees from the CSS Fund	3 667 310	3 191 782
Other	27 960	2 732
Total sales of goods and services	5 106 106	4 149 738

Note 4B: Resources received free of charge from Government

Resources received free of charge - audit services	25 340	4 500
Total resources received free of charge from government	25 340	4 500

Note 4C: Net Loss from Disposal of Assets

Plant and equipment		
Proceeds from disposal	93	176
Net book value of assets disposed	(938)	(4 154)
Net (loss) from disposal of plant and equipment	(845)	(3 978)

Note 5: Expenses from Ordinary Activities

Note 5A: Employees

Wages and salaries	1 525 380	1 368 806
Superannuation	216 012	163 111
Leave and other entitlements	69 453	62 493
Other	12 635	11 782
Total employee expenses	1 823 480	1 606 192

Note 5B: Suppliers

Goods and services from related entities	416 021	431 493
Goods and services from external entities	2 248 092	1 875 308
Operating lease rentals - accommodation	124 559	141 287
Workers compensation premiums	9 471	9 854
Total supplier expenses	2 798 143	2 457 942

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 5: Expenses from Ordinary Activities (continued)

	2006	2005
	\$	\$
<i>Note 5C: Depreciation and amortisation</i>		
Depreciation - plant and equipment	44 479	62 732
Amortisation of software	18 168	19 506
Amortisation of leasehold improvements	48 947	76 939
Total depreciation and amortisation	111 594	159 177

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

Note 5D: Revaluation of Assets

Plant and equipment - revaluation to fair value (increment)/decrement	(5 840)	57 559
Total revaluation of assets	(5 840)	57 559

Note 6: Financial Assets

Note 6A: Cash

Cash on hand and at bank: CSS Special Account	445 429	310 685
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Note 6B: Receivables

Goods and services	1 834 372	1 055 772
GST receivable from the Australian Taxation Office	174 058	166 270
Accrued income	204 602	146 025
Total receivables	2 213 032	1 368 067

All receivables are current assets.

Receivables (gross) are aged as follows:

Not Overdue	2 213 032	1 368 067
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	-
60 to 90 days	-	-
Over 90 days	-	-
Total receivables	2 213 032	1 368 067

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 7: Non Financial Assets

	2006	2005
	\$	\$

Note 7A: Plant and equipment

At valuation (fair value)	105 615	123 333
Total plant and equipment	105 615	123 333

Note 7B: Intangibles - computer software purchased

At cost	108 940	108 940
Accumulated amortisation	(78 323)	(60 154)
Total intangibles - computer software	30 617	48 786

Note 7C: Leasehold Improvements

At valuation (fair value)	172 500	162 750
Total leasehold improvements	172 500	162 750

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 2006 by an independent valuer, the Australian Valuation Office.

Movement in Asset Revaluation Reserve: Increment for leasehold improvements	39 158	35 195
Increment/(Decrement) for Plant and Equipment included in Income Statement	5 840	(57 559)

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	Other Plant & Equipment At Valuation	Intangibles At Cost	Leasehold Improvements At Valuation	Total
	\$	\$	\$	\$
As at 1 July 2005				
Gross book value	123 333	108 940	162 750	395 023
Accumulated depreciation/amortisation	-	(60 154)	-	(60 154)
Net book value	123 333	48 786	162 750	334 869
Assets purchased	21 859	-	19 538	41 397
Depreciation/amortisation expense	(44 479)	(18 169)	(48 946)	(111 594)
Revaluation through operating result	5 840	-	-	5 840
Revaluation through equity	-	-	39 158	39 158
Disposals	(938)	-	-	(938)
As at 30 June 2006				
Gross book value	105 615	108 940	172 500	387 055
Accumulated depreciation/amortisation	-	(78 323)	-	(78 323)
Net book value as at 30 June 2006	105 615	30 617	172 500	308 732

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 8: Provisions and Payables

	2006	2005
	\$	\$
<i>Note 8A: Employee provisions</i>		
Wages and salaries	42 967	11 150
Leave	273 724	204 271
Superannuation	3 810	1 305
Other	482	3 356
Total employee provisions	320 983	220 082

Employee provisions are classified as:

Current liabilities	209 915	140 244
Non-current liabilities	111 068	79 838
	320 983	220 082

Note 8B: Trade suppliers

Trade creditors - accrued expenses	886 084	266 728
Trade creditors - unpaid invoices	478 604	674 754
Total trade suppliers	1 364 688	941 482

Trade suppliers are classified as:

Current liabilities	1 364 688	941 482
Non-current liabilities	-	-
	1 364 688	941 482

Note 8C: Other payables

Lease incentive - non interest bearing	11 841	17 761
Goods and services tax payable to ATO	338 494	285 114
Pay As You Go withholding tax payable to ATO	88 385	120 433
Total other payables	438 720	423 308

Other payables are classified as:

Current liabilities	426 879	405 547
Non-current liabilities	11 841	17 761
	438 720	423 308

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 9: Cash Flow Reconciliation

	2006	2005
	\$	\$
Reconciliation of cash per Balance Sheet to Statement of Cash Flows		
Cash at end of financial year per Statement of Cash Flows	<u>445 429</u>	<u>310 685</u>
Balance Sheet items comprising above cash:		
Financial asset - Cash	<u>445 429</u>	<u>310 685</u>
Reconciliation of net surplus (deficit) to net cash from operating activities:		
Net surplus/(deficit)	403 224	(130 610)
Depreciation/amortisation	111 594	159 177
(Write-up)/write down of non-current assets	(5 840)	57 559
Net loss from sale of assets	845	3 978
(Decrease)/increase in net receivables	(844 965)	109 113
Decrease in prepayments	(28 329)	(51 513)
Increase/(decrease) in employee provisions	100 901	(34 554)
Increase/(decrease) in supplier payables	423 206	(152 124)
Increase/(decrease) in other payables	15 412	113 627
Net cash from/(used by) operating activities	<u>176 048</u>	<u>74 653</u>
- Per statement of Cash Flows	<u>176 048</u>	<u>74 653</u>

Note 10: Contingent Liabilities and Contingent Assets

The CSS Board had no contingent liabilities or contingent assets (quantifiable or unquantifiable) as at 30 June 2006 or 30 June 2005.

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 11: Trustee Remuneration

Certain of the trustees of the CSS Board are also trustees of the PSS Board. A fixed remuneration is paid to each trustee for acting in respect of one or both boards. The number of trustees (and their alternates) who received remuneration during the financial year fell within the following bands:

	2006	2005
\$0 to \$14 999	3	5
\$15 000 to \$29 999	2	4
\$30 000 to \$44 999	3	2
\$45 000 to \$59 999	1	-
\$60 000 to \$74 999	1	1

The aggregate remuneration paid to trustees during the financial year was \$291 842 (2005: \$268 832) of which \$175 524 (2005: \$165 281) was borne by the CSS Board.

Note 12: Executive Remuneration

Staff are employed jointly by the CSS Board and PSS Board. The number of executives during the financial year who received or who were due to receive total remuneration of \$130 000 or more from the CSS & PSS Boards are as follows:

	2006 No.	2005 No.
\$130 000 to \$144 999	1	-
\$160 000 to \$174 999	3	1
\$205 000 to \$219 999	-	1
\$220 000 to \$234 999	-	1
\$235 000 to \$249 999	2	-
\$250 000 to \$264 999	1	-
\$280 000 to \$294 999	1	-
\$295 000 to \$309 999	-	1
\$325 000 to \$339 999	-	1
\$355 000 to \$369 999	1	-
\$385 000 to \$399 999	1	-
\$430 000 to \$444 999	-	1
	2006	2005
	\$	\$
Aggregate amount of remuneration of executives shown above	2 422 361	1 658 078

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

Note 13: Remuneration of Auditors

	2006	2005
	\$	\$
Audit services in respect of the CSS Board financial statements are provided free of charge to the CSS Board. The fair value of the services provided was:	25 340	4 500
Amounts received or due and receivable by the Australian National Audit Office as auditors of entities in respect of which the CSS Board acts as Trustee	91 465	58 656

Deloitte Touche Tohmatsu have been contracted by the Australian National Audit Office to provide audit services on behalf of the Auditor General. Fees for these services are included above. Deloitte Touche Tohmatsu provided no other services to the CSS Board.

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 14: Average Staffing Levels

	2006	2005
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The average staffing levels for the CSS Board and PSS Board during the year were:

	25.4	20.4
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Note 15: Compensation and Debt Relief

No 'Act of Grace' payments were made under subsection 33(1) of the *Financial Management and Accountability Act 1997* during the reporting period, and there are no amounts owing at balance date.

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

No payments were made under the scheme for Commonwealth Compensation for Detriment caused by Defective Administration during the reporting period.

Note 16: Registered Office and Principal Place of Business:

10th Floor
12 Moore Street
CANBERRA ACT 2601

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 17: Financial Instruments

Note 17A: Terms, Conditions and Accounting Policies

Financial Instrument	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of Underlying Instrument (including significant terms & conditions affecting amount, timing and certainty of cash flows)
FINANCIAL ASSETS		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash	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.
FINANCIAL LIABILITIES		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Trade creditors	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 2006

Note 17: Financial Instruments (continued)

Note 17B: Interest Rate Risk

Financial Instrument	Notes	Floating Interest Rate		Fixed Interest Rate Maturing In						Total		Weighted Average Effective Interest Rate			
		2006	2005	1 Year or Less	1 to 5 Years		> 5 Years		2006	2005	2006	2005			
		\$	\$	\$	2006	2005	2006	2005	\$	\$	\$	\$			
Cash	6A	-	-	-	-	-	-	-	-	445 429	310 685	445 429	310 685	n/a	n/a
Receivables for goods and services	6B	-	-	-	-	-	-	-	-	2 213 032	1 368 067	2 213 032	1 368 067	n/a	n/a
Total		-	-	-	-	-	-	-	-	2 658 461	1 678 752	2 658 461	1 678 752		
Total Assets										3 107 094	2 125 193				
Financial Liabilities															
Trade creditors	8B	-	-	-	-	-	-	-	-	1 364 688	941 482	1 364 688	941 482	n/a	n/a
Other	8B	-	-	-	-	-	-	-	-	438 720	423 300	438 720	423 300	n/a	n/a
Total		-	-	-	-	-	-	-	-	1 803 408	1 364 782	1 803 408	1 364 782		
Total Liabilities										2 124 391	1 584 872				

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 17: Financial Instruments (continued)

Note 17C: Fair Values of Financial Assets and Liabilities

		2006	2006	2005	2005
		\$	\$	\$	\$
Departmental Financial Assets	Notes	Total Carrying Amount	Aggregate Fair Value	Total Carrying Amount	Aggregate Fair Value
Cash	6A	445 429	445 429	310 685	310 685
Receivables for goods and services	6B	2 213 032	2 213 032	1 368 067	1 368 067
Total financial assets		2 658 461	2 658 461	1 678 752	1 678 752
Financial Liabilities					
Trade suppliers	8B	1 364 688	1 364 688	941 482	941 482
Other	8B	438 720	438 720	423 308	423 308
Total financial liabilities		1 803 408	1 803 408	1 364 790	1 364 790

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

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

Note 17D: Credit Risk Exposures

The CSS Board's maximum exposure to credit risk at the balance date in relation to each class of recognised financial assets is the carrying amount of those assets as disclosed in the Balance Sheet. These values do not take account of any collateral or other security.

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

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 18: Special Accounts

	2006	2005
	\$	\$
CSS Special Account (Departmental)		
<i>Legal Authority: Financial Management and Accountability Act 1997, s20</i>		
<i>Purpose: For expenditure relating to:</i>		
<ul style="list-style-type: none"> - 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 CSS Special Account from the CSS Fund in respect of such expenditure. 		
Balance carried forward from previous year	310 685	471 201
Costs recovered from non-government sector		
Services - Rendering of services to external entities	3 305 663	3 635 258
Other receipts:		
Services - Rendering of services to related entities	1 410 836	955 224
Sale of assets	93	176
GST refunds received	525 675	543 654
Amount available for expenditure	<u>5 552 952</u>	<u>5 605 513</u>
Expenditure	<u>(5 107 523)</u>	<u>(5 294 828)</u>
Balance carried to next year	<u>445 429</u>	<u>310 685</u>
Represented by		
Cash held by CSS Board	<u>445 429</u>	<u>310 685</u>
Total balance carried to next year	<u>445 429</u>	<u>310 685</u>

Cash held in the CSS Special Account at 30 June 2006 was transferred to the PSS Special Account in July 2006 as part of the transfer of assets of the CSS Board. See note 3 for Events Occurring after Balance Date.

CSS Board

Notes to and forming part of the financial statements for the financial year ended 30 June 2006

Note 19: Reporting of Outcomes

Note 19A: Net Cost of Outcome Delivery

	Outcome 1		Total	
	2006 \$	2005 \$	2006 \$	2005 \$
Departmental Expenses	4 728 222	4 285 024	4 728 222	4 285 024
<i>Costs recovered from provision of goods and services to the non-government sector</i>				
Departmental	3 695 270	3 194 690	3 695 270	3 194 690
Total costs recovered	3 695 270	3 194 690	3 695 270	3 194 690
<i>Other external revenues</i>				
Departmental				
Goods and services revenue from related entities	1 410 836	955 224	1 410 836	955 224
Other	25 340	4 500	25 340	4 500
Total other external revenues	1 436 176	959 724	1 436 176	959 724
Net (contribution)/cost of outcome	(403 224)	130 610	(403 224)	130 610

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 19B: Major Classes of Departmental Revenues and Expenses by Outputs

	Output Group 1.1		Outcome 1 Total	
	2006 \$	2005 \$	2006 \$	2005 \$
Departmental expenses				
Employees	1 823 480	1 606 192	1 823 480	1 606 192
Suppliers	2 798 143	2 457 942	2 798 143	2 457 942
Depreciation and amortisation	111 594	159 177	111 594	159 177
Other expenses	(4 995)	61 713	(4 995)	61 713
Total departmental expenses	4 728 222	4 285 024	4 728 222	4 285 024
Funded by:				
Revenues from Government	25 340	4 500	25 340	4 500
Sale of goods and services	5 106 106	4 149 914	5 106 106	4 149 914
Total departmental revenues	5 131 446	4 154 414	5 131 446	4 154 414

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

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- > Appendix A: Changes to legislation
- > Appendix B: Organisational chart
- > Appendix C: Freedom of Information
- > Appendix D: Publications
- > Appendix E: Contact officer
- > Appendix F: Compliance
- > Appendix G: Consultancies
- > Appendix H: Commonwealth Disability Strategy
- > Appendix I: Glossary



Appendix A: Changes to legislation

Legislative amendments

The following amendments have been made to the 1976 Act:

- Amendments to the 1976 Act to consolidate and enhance the governance arrangements for the CSS; as a consequence of the amendments, from 1 July 2006, a single entity will administer the CSS, the PSS and the PSSap. All the functions of the CSS Board have been transferred to the PSS Board, which has been renamed Australian Reward Investment Alliance (ARIA);
- Amendments to the 1976 Act amending the provisions of CSS in relation to the superannuation salary for certain scheme members and certain other persons who are appointed to Australian Government offices and who are members of the CSS.

Appendix C: 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 35 requests for access to documents during 2005/06. Of these requests, 34 were granted in full and there were no partial releases granted. One request was refused. The requests took an average of three days to process.

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

Corporate Reporting and Parliamentary Liaison Unit

PO Box 22

Belconnen ACT 2616

Phone: (02) 6272 9080

Fax: (02) 6272 9804

TTY: (02) 6272 9827

Email: foi@css.gov.au

Website: 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 2005/06*.

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 Parliamentary FOI and Complaints Unit in Legal and Compliance. 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 APS5 in the Parliamentary FOI and Complaints Unit in Legal and Compliance. Requests for internal review of FOI decisions are also referred to the Unit. They are then forwarded to the scheme administrator's Reconsideration section in Legal and Compliance where they are investigated by Executive Level 1 officers prior to submission to the Commissioner of Superannuation 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

Phone: (02) 6272 9080
Fax: (02) 6272 9804
TTY: (02) 6272 9827
Email: foi@css.gov.au
Website: 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 D: Publications

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

Annual Reports

- Annual report to Parliament

- Annual report to Members

CSS Retirement Options Product Disclosure Statement

- Supplementary PDS dated 8 September 2004

- Supplementary PDS dated 26 July 2005

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

Cash Investment Option

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

Taxation Concessions for Pensions

Transfers In

Transfer of Performance Based Pay

Transition to Retirement

These publications are available online at www.css.gov.au or can be obtained by calling 1300 000 277.

Appendix E: 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:

Australian Reward Investment Alliance (ARIA)

Street address: Level 10
12 Moore Street
Canberra City ACT 2601

Postal address: GPO Box 1907
Canberra City ACT 2601

Phone: (02) 6263 6999
Fax: (02) 6263 6900
Website: www.css.gov.au
Email: secretary@aria.gov.au

Appendix F: 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 2005/06

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Appendix G: 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 2005/06, the Board also employed two investment advisors JANA Investment Advisors 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 \$17 694 000.

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 2005/06 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 2005/06 the CSS and PSS Boards jointly engaged the following consultancies.

Table A1: CSS/PSS consultancies 2005/06

Consultant Name	Description	Value \$	Selection Method	Principal Justification
Adcorp Green	Communications development and advice	14 652	Select tender	Skill
Cato Purnell	Corporate communications advice	107 338	Communications panel ¹	Skill
Ernst & Young	Provision and set up of Super Sentinel compliance monitoring software.	38 500	Select tender	Skill
Galileo Kaleidoscope	Stakeholder research for Board and Board Structure	46 949	Select tender	Skill
Joy London	Structure Review	26 571	Select tender	Skill
KAZ Technology	Maintenance and support of I.T.	19 490	Select tender	Skill
MAD Communications	Communications development and advice	86 966	Communications panel ¹	Skill
Mallesons	Legal advice on various scheme administration matters including the PSSAP insurance and product disclosure statement.	105 079	Select tender ²	Skill
Mercer	Unitisation services	72 797	Select tender	Skill
Morris Walker	Development and implementation of communications plan	223 479	Communications panel ¹	Skill
Orima Research	Communication research	16 395	Select tender	Skill
Pricewaterhouse	Tax compliance and consultancy services	19 522	Select tender	Skill
Professional Financial Services	Risk assessment and analysis	68 510	Select tender	Skill
Publicity Works	Communications development and advice.	45 391	Communications panel ¹	Skill
Total Consultancies 2005/06		891 639		

Notes

1. In February 2006 the CSS and PSS Boards placed a tender on the AUSTender website for communications services via a panel arrangement. Each service provider is appointed to the Panel for a three (3) year term, with an option to extend the initial term of any resulting agreement up to two (2) times for a period of one (1) year each. Throughout the term of the Panel arrangement, each service provider is required to submit a response to briefs, including quotations in response to requests for services. This process is the primary method for awarding work to the Panel members.
2. The total amount paid to Mallesons in 2005/06 is in respect of a range of separate projects (each with a value of less than \$80 000), not one individual contract.

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 H: 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 wheel chair access and facilities.

Appendix I: Glossary

AASB	Australian Accounting Standards Board
AAS25	Australian Accounting Standard 25
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
ARIA	Australian Reward Investment Alliance
ASFA	Association of Superannuation Funds of Australia
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
Board, the	The 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

Appendix I: Glossary (cont')

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
AA	Asset allocation
S16	ComSuper sixteenth semester client satisfaction survey
S17	ComSuper seventeenth semester client satisfaction survey
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
T9	ComSuper ninth trimester client satisfaction survey
TTY	Text Phone (tele-typewriter)
UNEP	United Nations Environment Programme
WC3	World Wide Web Consortium

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