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The PSS Board

05|06

The PSS Board

Annual Report 2005 > 2006

ISSN 1442 1216 ISBN 1-921246-02-2

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	Annual Report:	www.pss.gov.au/pss/forms/annual.html
	Fund ABN:	74 172 177 893
	SPIN:	CMS0101AU
PSSap:	Website:	www.pssap.gov.au
	Annual Report:	www.pssap.gov.au/pss/forms/annual.html
	Fund ABN:	65 127 917 725
	SPIN:	PSS0001AU

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

Cover Design: Caroline Baker - ComSuper 2006
Cover Photography: Nortel Building Canberra City - Caroline Baker 2006, Cover image - "Detail of Gears" Getty images 200x

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Letter of transmittal

Senator the Hon. Nick Minchin

Minister for Finance and Administration

Parliament House

Canberra ACT 2600

Dear Minister

In accordance with section 28 of the *Superannuation Act 1990* (the 1990 Act) and section 26 of the *Superannuation Act 2005* (the 2005 Act), Australian Reward Investment Alliance (ARIA), formerly the PSS Board, is pleased to present to you the Annual Report on its operations during 2005/06.

The report details ARIA's activities in respect of the administration of the Public Sector Superannuation Scheme and the Public Section Superannuation Scheme Accumulation Plan and includes audited financial statements in respect of the management of the PSS Scheme and the PSSap Scheme during the year ended 30 June 2006.

Subsection 28(3) of the 1990 Act and subsection 26(3) of the 2005 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

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 the management and administration of the PSS and PSSap for the last financial year. The PSS 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 PSS achieved a return of 13.1%. 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 9.1% per annum over ten years.

I am also pleased to report a strong first year of growth for the PSSap. The Trustee Choice default fund returned 14.3%, and the pre-mixed options also performed well. The Aggressive option led the way with a return of 16.1%, followed by the Balanced option with a return of 10.2% and the Conservative option finished with 7.7%.

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 PSS and CSS. 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 PSS 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 investment and superannuation industry remains in a state of constant and vigorous change, particularly with the implementation of choice of fund from 1 July 2005. This new regime also applies to the federal public sector from 1 July 2006 when all new employees are able to choose their own fund. ARIA remains extremely well placed to provide competitive products and services for both existing and new members of the schemes for which it is responsible in this new competitive environment.

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

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> Future directions

Investment performance

The PSS Default Fund achieved a return of 13.1% 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 PSS Default Fund for three, five and 10 year periods is: 13.7%, 7.4% and 9.1% per annum respectively.

The PSS Cash Investment Option performance is in line with its benchmark, achieving a return of 4.8% per annum for 2005/06.

The PSSap investment choice options performed well in 2005/06, their first year of existence. The Trustee Choice default fund returned 14.3% per annum, which was above its long-term target return of 7% per annum.

The other three pre-mixed, diversified options also acheived good performance, with the highest returns achieved by the options having the largest allocation to equities. The Aggressive option returned 16.1% per annum, the Balanced option 10.2% per annum and the Conservative option 7.7% per annum.

For contributing members of the PSS, investment performance is not particularly significant. Investment performance does have a significant impact on the Government's long-term liability in relation to the defined benefit scheme. Performance is however, significant for PSS preserved benefit members and those members who have transferred superannuation from other funds into the PSS.

Regulatory environment

During the year the PSS 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 schemes are 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

aria
Australian
Reward
Investment
Alliance

On 1 July 2006, the PSS Board merged with the CSS 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 Commonwealth Superannuation Scheme (CSS) 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 PSS Board and the CSS Board had to adapt.

The new structure will enable the PSS 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 PSS 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 PSS with best practice corporate governance principles and more equitable distribution of earnings between departing and remaining members.

May Budget announcement

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 PSS Schemes.

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.

Choice of fund for PSSap members

From 1 July 2006 all new government employees have a choice of superannuation funds. This new environment will change fundamentally the dynamics of the superannuation industry and we have already witnessed significant rationalisation within the industry, for example, with the merging of major funds. The establishment of ARIA is in part a response to these major industry changes and it will enable us to provide members of all the schemes for whom the Trustee is responsible with competitive and sustainable superannuation arrangements into the future.

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 PSS Board

The PSS Board administers the Public Sector Superannuation (PSS) Scheme in accordance with the provisions of the *Superannuation Act 1990* (the PSS Act), the Trust Deed and the Scheme Rules and is responsible for the management and investment of the PSS Fund. The PSS Board is also the Trustee of the Public Sector Superannuation Accumulation Plan (PSSap) as established under the *Superannuation Act 2005* (PSSap Act) and associated PSSap Trust Deed and Rules.

From 1 July 2006, the PSS and CSS 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 2005/06

The PSS Board consisted of five members; two with experience in the formulation of government policy and public administration; two nominated by the ACTU and an independent chairman. All are appointed to the Board by the Minister for Finance and Administration under section 23 of the PSS Act.

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 PSS 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 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 Australian 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 and 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 a Council Member of the Australian Strategic Policy Institute.

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 6.6%
Integrate existing PSS and CSS Boards into a single entity	ARIA commenced on 1 July 2006
Successful accumulation scheme for new government employees	Membership and funds under management exceed targets

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.

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	11	11	n/a	n/a
David Connolly	10	11	6	6
Peter Feltham	11	11	n/a	n/a
Winsome Hall	9	11	6	6
Des Moore	10	11	6	6

Board staff

The Board 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 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 PSS and the PSSap
- ensuring the Board's responsibilities to maintain appropriate records are met
- advising the Board on investment strategy
- coordinating advice from external advisers and overseeing the recommendations which go to the Board
- ensuring compliance with all relevant legislation and law
- communicating with members and in particular, preparing and producing Annual Member Statement Packs and Parliamentary reports
- providing comprehensive administrative and executive support services to the Board.

Board resources

Human resources

During 2005/06, the number of staff employed jointly by the PSS and CSS Boards increased from 24 to 34 as the Boards expanded their investment, compliance, communications and finance teams. Staff employed directly by the Board 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 PSS 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 PSS Board (in conjunction with the CSS 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 PSS Board has a general duty of care which must be met by taking all reasonably practicable steps to protect the health and safety of its employees and third parties at work. Staff employed by the PSS 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 PSS Board is responsible for the administration of the PSS Schemes and the management and investment of the PSS Fund. Costs of the PSS Board related to its responsibilities for the management of the PSS Fund and the investment of its monies are a charge against the Fund. Fees paid to the Chairman of the PSS Board and a proportion of those paid to the Trustees are also a charge against the Fund.

All other costs incurred by the PSS 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 PSS, and then transfers to the Board the Board's share of those monies.

Funding arrangements

The PSS legislation allows the Board to hold only monies belonging to the PSS Schemes. The legislation does not provide any capacity for the Board to hold monies in respect of its administration of the PSS Schemes. To enable the PSS Board to hold such 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 PSS Board is required to prepare two sets of financial statements–first, in respect of the monies held in the PSS Schemes (the Scheme financial statements) and second, in respect of the Board's administration monies (the Board financial statements).

Purchasing

In 2005/06, the PSS 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 PSS Schemes, were recorded and managed in accordance with the Board's Chief Executive Instructions.

Ecologically sustainable developments and environmental performance

In conducting its operations, the PSS 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 PSS Board is constituted under the *Superannuation Act 1990* and the regulations under that Act. It is accountable to members of the Schemes 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 Schemes.

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.pss.gov.au/pss/governance/statement.htm).

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

Licences

The Board gained its APRA (Australian Prudential Regulation Authority) licence on 28 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

Overview

PSS

Table 4: PSS Overview

Established	The PSS was established on 1 July 1990 by the *Superannuation Act 1990* and closed to new members on 30 June 2005
Type	Defined-benefit plan
Funds under management as at 30 June 2006	$9 billion+
Members as at 30 June 2006	240 500+
Employer agencies as at 30 June 2006	223

PSSap

Table 5: PSSap Overview

Established	The PSSap was established on 1 July 2005 by the *Superannuation Act 2005*
Type	Accumulation plan
Funds under management as at 30 June 2006	$100 million+
Members as at 30 June 2006	21 000+
Employer agencies as at 30 June 2006	223

Description of the PSS

The PSS is a defined-benefit superannuation scheme. For contributing members, final benefits are calculated as a multiple of final average salary and an accrued benefit multiple. A member's accrued benefit multiple depends on the rate at which contributions are made to the scheme and the period of membership. Members may contribute between 2% and 10% of salary. The employer contribution rate varies with the member contribution rate, subject to a cap in any ten years of total membership.

For preserved benefit members, investment performance has a more direct impact on their final benefit. Any member and productivity components will grow with the performance of the Fund, while the employer component grows in line with CPI.

Retirement benefits can be paid as lump sums with the option to exchange the lump sum (or part of it) for an indexed pension. The benefits are generally made up of two components:

1. A member-financed component

   This part comprises 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 comprises the superannuation productivity contributions paid by the employer into the Fund plus earnings.
   - The second part of the employer component is the 'benefit balance', which is determined at the time the member exits from the PSS. The amount is the balance after the member and productivity components are deducted from the (defined) total lump sum benefit.

Description of the PSSap

The PSS accumulation plan (PSSap) is an accumulation plan. It is a 'profit for members' fund which means that, after fees and taxes, investment earnings are returned to members.

Employers make a 15.4% contribution to the PSSap on behalf of each contributing member.

Members can make before tax (salary sacrifice) and after tax (personal) contributions to the PSSap.

The retirement benefit will be a lump sum amount and will generally consist of the following components:

Table 6: Retirement benefit components

	Employer contributions
+	Any member contributions (before or after tax)
+	Any transfers from other funds
+	Investment earnings
-	Fees and charges
-	Insurance premiums if applicable
-	Taxes
=	**Retirement benefit**

SIS compliance

The PSS and PSSap are complying funds under the *Superannuation Industry (Supervision) Act 1993* (SIS) and so continue to be eligible to have tax payable on net income of the Fund assessed at the concessional rate of 15%.

Actuarial review of the PSS

The most recent actuarial review of the PSS was completed by Mercer Human Resource Consulting Pty Ltd during 2005/06. The PSS 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 7: Results of actuarial reviews

	30 June 2005	30 June 2002	30 June 1999
Net assets	7.6	4.5	3.5
Unfunded liability	13.8	9.1	5.7
Notional Commonwealth employer contribution rate (including 3% productivity contribution) as a percentage of salaries	15.6%	15.4%	14.2%

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

The Australian Government's outlay on the PSS 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 PSS Fund.

The 2005 review provided the following actuarial projection of the Australian Government's estimated costs for the PSS over the three years to 30 June 2008 (adjusted to 2005 dollars using a discount rate of 6%).

Table 8: Actuarial projections

Year ending 30 June	Estimated Australian Government PSS costs $m
2006	459
2007	454
2008	452

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

Functional chart

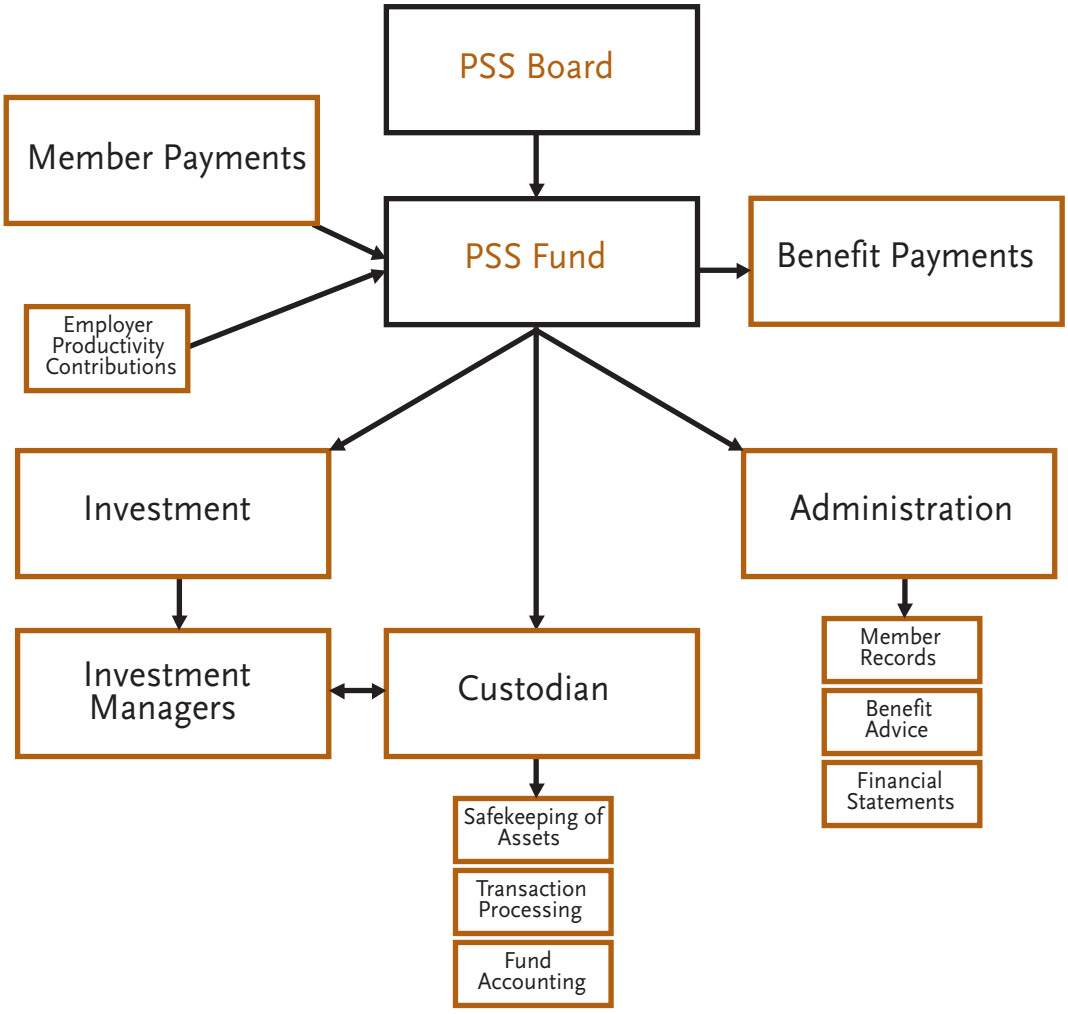


Illustration 1: Functional chart

3 Investments

Investment management

Investment structure

The Board has divided both the PSS Fund and the PSSap investment options 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. The PSS Fund and PSSap investment options tap into the same asset class pools, and therefore investment managers, with the exception of property.

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 master custodian for the PSS Fund and the PSSap investment options is JPMorgan, whose custodial function in relation to investment management includes:

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

Investment managers

All investment managers are paid a fee that is generally based on the value of assets under their control. The fee reflects the investment costs applicable to each particular sector and the investment style (that is, index tracking or active) employed by each manager. In addition, some managers are paid a performance incentive, which is generally a share of any excess performance above an agreed benchmark.

Table 9: PSS Default Fund and PSSap 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
Deutsche Asset Management (Australia) Limited
Eureka Funds Management Company
Fiduciary 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 10: PSS Cash Investment Option investment manager at 30 June 2006

INVESTMENT MANAGER
Colonial First State Investments Limited

Investment objectives

PSS Default Fund

The total benefit payable to members is set by the governing legislation and rules of the PSS. It does not depend on the earning rate of the Fund. This differs for preserved benefit members where investment performance has a more direct impact on their final benefit.

The difference between the total benefit payable to a member and the accumulated member and productivity contributions (including interest) invested in the Fund is paid by the employer from Consolidated Revenue. The call on Consolidated Revenue will depend on the investment performance of the Fund. The better the investment performance of the Fund, the smaller the call on Consolidated Revenue. In these circumstances, it is the employer who bears the investment risk arising from the investment of the Fund.

If the call on Consolidated Revenue is to be minimised, achieving a good return over the long term is of vital importance. This is explicitly recognised by the Fund's investment objective, which is to maximise the long-term real return of the Fund.

The Fund has a long-term perspective (maximising real returns in the accumulation fund), but managing shorter-term volatility is also an imperative. The investment objectives of the Fund specify the target, or acceptable, levels of portfolio risk and return. They are distilled from the characteristics of the scheme, including benefit design, crediting rate policy and liability position. The Board expects to achieve an average real return after tax and fees of no less than 4.5% per annum, which derives from a nominal return of 7.0% per annum over the longer term.

In developing an investment strategy to achieve that objective, and recognising that the average person might have a working life of around 30 years, the Board has adopted 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%.

PSS Cash Investment Option

Preserved benefit members of the PSS may choose to have their funds invested in a Cash Investment Option. This fund's key investment objective is to preserve its capital and earn a return (before tax) close to that of the official cash rate (that is, the 11am cash rate determined by the Reserve Bank of Australia).

PSSap Trustee Choice Investment Option

The key investment objective is to maximise the long-term real return within appropriate risk constraints. This is expected to translate to an average real return, after tax and fees of no less than 4.5% per annum over the long-term. At the same time, the Fund is expected to achieve a positive annual return in at least 24 out of every 30 years.

PSSap Conservative Investment Option

The key investment objective is to maximise the long-term real return within appropriate risk constraints. This is expected to translate to an average real return over the long-term of 3.0% per annum after tax and fees.

PSSap Balanced Investment Option

The key investment objective is to maximise the long-term real return within appropriate risk constraints. This is expected to translate to an average real return over the long-term of 4.0% per annum after tax and fees.

PSSap Aggressive Investment Option

The key investment objective is to maximise the long-term real return within appropriate risk constraints. This is expected to translate to an average real return over the long-term of 5.0% per annum after tax and fees.

PSSap Bonds / Fixed Interest Investment Option

The key investment objective is, before taxes and fees are deducted from returns, to at least match the return of a composite index of global and Australian fixed interest securities.

PSSap Australian Shares Investment Option

The key investment objective is, before taxes and fees are deducted from returns, to at least match the return of the Australian share market.

PSSap International Shares (unhedged) Investment Option

The key investment objective is, before taxes and fees are deducted from returns, to at least match the return of the unhedged international share market.

PSSap International Shares (hedged) Investment Option

The key investment objective is, before taxes and fees are deducted from returns, to at least match the return of the hedged international share market.

PSSap Property Investment Option

The key investment objective is, before taxes and fees are deducted from returns, to at least match the return from the Mercer Direct Property Index.

PSSap Sustainable Investment Option

The key investment objective is, before taxes and fees are deducted from returns, to at least match the return of the Australian share market.

PSSap Cash Investment Option

The key investment objective is, before taxes and fees are deducted from returns, to at least match the return from the UBS Warburg Australian Bank Bill Return Index.

Strategic review

During each year, the Board conducts a review of its investment strategy. This year's review endorsed the appropriateness of the Board's investment objectives for the PSS Default Fund, the PSS Cash Investment Option and each of the PSSap diversified, pre-mixed Investment Options.

Asset allocation

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

Table 11: PSS Default Fund asset allocation

Asset class	Asset allocation %	
	2005	2006
Australian shares	28.7	32.1
International shares	24.1	23.0
Bonds	8.2	12.7
Market neutral strategies	8.9	9.9
Long/short equity funds	4.7	4.8
Property	10.1	11.2
Cash	15.3	6.3
Total Fund	100	100

The following table sets out the asset allocation for the PSSap diversified, pre-mixed investment options as at 30 June 2006:

Table 12: PSSap pre-mixed investment options asset allocation

Asset class	SAA %			
	Trustee Choice	Conservative	Balanced (50/50)	Agressive
Listed Australian shares	29.2	15.0	18.2	39.3
International shares	25.9	12.0	17.2	35.8
Long/short equity funds	5.0	-	5.0	5.0
Property	9.8	2.9	9.8	9.9
Bonds	12.5	37.3	27.9	-
Market neutral fund	10.0	-	9.9	8.0
General cash	7.6	32.8	12.0	2.0
Total Fund	100	100	100	100

Events during the year

Apart from the strategic review, 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.

Alternative investments

The 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 four new international private equity funds. Some of the funds previously committed to private equity, infrastructure and opportunistic property were drawn down during the year, while some investments were realised and the proceeds returned. The net result of these flows was that the investments in these assets rose from a valuation of $346.7 million at the start of the year (reflecting commitments of $854 million) to a valuation of $416.9 million (commitment of $1244 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 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.

One new international bond manager, Brandywine, was appointed 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. A specialist Australian bond manager was terminated during the year.

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 PSS previously held units in. Arcadian, who manages exclusively on behalf of PSS and CSS, will manage a number of new properties.

Cash

The existing cash manager was replaced at the end of the year by Macquarie Investment Management Limited.

Fund performance

PSS

PSS Default Fund

The Fund posted a net return of 13.1%, 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 22.9%, buoyed by robust domestic economic growth and a significant rise in commodity prices. International equities rose by 18.1% 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 11.5%, while property achieved a return of 14.8%. 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 9.1% per annum compared with average inflation of 2.3% per annum.

PSS Cash Investment Option

The Cash Investment Option posted a net return of 4.8%, which is in line with its benchmark once account is taken of the impact of tax on returns.

PSSap

The performance of the various options in 2005/06 was as follows:

Table 13: PSSap performance

PSSap Trustee Choice Investment Option	14.3%
PSSap Conservative Investment Option	7.7%
PSSap Balanced Investment Option	10.2%
PSSap Aggressive Investment Option	16.1%
PSSap Bonds / Fixed Interest Investment Option	2.0%
PSSap Australian Shares Investment Option	22.3%
PSSap International Shares (unhedged) Investment Option	17.8%
PSSap International Shares (hedged) Investment Option	15.5%
PSSap Property Investment Option	11.7%
PSSap Sustainable Investment Option	19.0%
PSSap Cash Investment Option	4.6%

Performance by asset class

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

PSS Default Fund

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 22.9%. 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 PSS 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 6.6%.

Long/short equity funds

The Fund has invested in this asset class since October 2004. Over the course of the year, the Fund return was 11.5%. 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 14.8%.

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%.

Table 14: PSS Default Fund investments 2005/06

Investments	Holdings at 30 June 05	Holdings at 30 June 06	Proportion
Sector	$m	$m	%
Australian shares	2 220.2	2 984.5	32.0
International shares	1 858.6	2 137.6	23.0
Bonds	632.6	1 178.1	12.7
Market neutral funds	689.8	921.6	9.9
Long/short equities	361.2	444.3	4.8
Property	778.5	1 042.0	11.2
Cash	1 182.6	592.2	6.4
Total Fund Investments	7 723.5	9 104.2	100.0

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

Table 15: Default Fund performance 2005/06

	One-year performance	Three-year performance	Five-year performance
	%	%	%
Australian shares	22.9	23.2	12.3
International shares	18.1	18.5	6.6
Bonds	2.0	6.4	6.1
Market neutral funds	6.6	9.4	n/a
Long/short equities	11.5	n/a	n/a
Property	14.8	13.0	11.6
Cash	5.9	5.6	5.2
Total Fund Investments	13.1	13.7	7.3

Note: Return numbers in the table above are post fees and pre tax, except Total Fund Investments, which is post tax and fees

Table 16: PSS Cash Investment Option fund performance 2005/06

	Holdings at 30 June 2005 $m	Holdings at 30 June 2006 $m	One year performance	Three year performance	Five year performance
			%	%	%
Total Fund	7.0	7.9	4.8	n/a	n/a

Fund investments

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

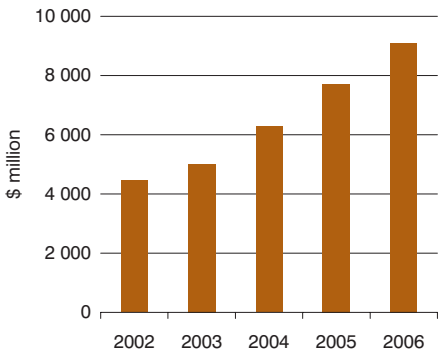
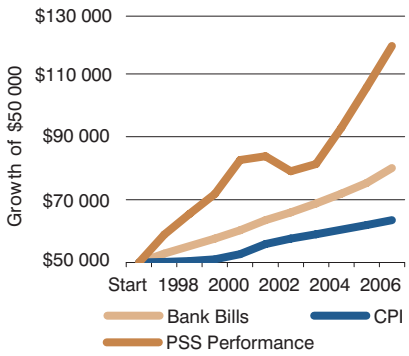


Chart 2: PSS Default Fund performance comparison over 10 years



Investment information

Further information on investment performance can be obtained from:

Web: www.pss.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

PSS 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 PSS 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 PSS members as follows:
   i. The exit rate shall be the net investment earnings of the Fund from 1 July 2003, where net investment earnings are determined as earnings after tax, fees and after replenishment of the negative reserve that existed at 30 June 2003.
   ii. This exit rate will fluctuate. Members are guaranteed never to exit the Fund with less than their account balance as at 30 June 2003, plus contributions since that date.
   iii. Exit rates will be determined on a Tuesday, based on the estimated net investment earnings of the Fund as at the end of the previous Friday. They will be published on the next business day to apply to benefit payments from that day.
   iv. A determined weekly rate will be varied where market movements have an estimated 0.5% or greater effect on the Fund's investment performance.

Members were advised of these changes in the 2004 Annual Member Statement Pack and the Guide to the PSS Cash Investment Option for preserved benefit members, issued in 2004.

Allocating Earnings

PSS

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 $2533 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.

PSSap

Members' interests in the PSSap are valued in units. Contributions and other amounts transferred to the PSSap are used to buy units which are invested in accordance with members' investment choices. There are 11 investment options to choose from.

The Fund's net earnings are allocated to members' accounts through changes in the unit price which fluctuate in line with investment markets. The unit price for an investment option reflects the total value of assets in the investment option (net of taxes and expenses) divided by the number of units issued in the investment option. A buy/sell spread is applied to all the investment options to reflect the costs associated with the purchase or sale assets.

Calculation of the value of assets in each investment option is generally based on the latest available market value at the end of each business day and published on the Fund's website at www.pssap.gov.au daily.

Where fees are payable directly from a member's account (for example, insurance premiums and switching fees), units are sold to the extent required for payment.

PSS investment governance

The Board's approach to investment governance

The PSS 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.

PSS investment governance is undertaken through a number of initiatives, including:

- the Governance Advisory Service
- proxy voting.

Governance Advisory Service

The objective of the PSS 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 PSS Board appointed Westpac Investment Management (now called BT Financial Group, or BT) to actively 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 actively researches and monitors potential environmental, social and corporate governance risks in PSS's Australian company investments, which represent around $4.5 billion, in combination with the Commonwealth Superannuation Scheme (CSS).

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 PSS 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 PSS 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 17: Investment governance milestones 2005/06

Date	Milestone
Whole year	67 companies were engaged by the Governance Advisory Service on behalf of the PSS 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	PSS mandated the Governance Advisory Service to undertake new research into risks relating to: • 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	PSS called on Australian company directors to have and make publicly available a policy on share trading that includes: • 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

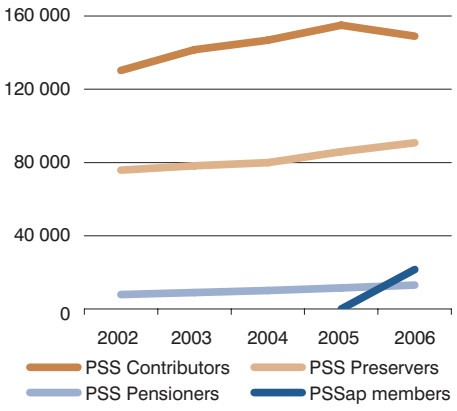
Table 18: PSS Membership summary

Year ending 30 June		2002	2003	2004	2005	2006
Contributors	male	55 270	60 009	62 284	65 352	62 851
	female	75 013	81 536	84 502	89 587	86 200
	total	**130 283**	**141 545**	**146 786**	**154 939**	**149 051**
	Member contributions	$367m	$421.5m	$453m	$509m	$516m
	Employer funded contributions	$151m	$178m	$203m	$218m	$224m
Preserved benefit members	male	31 409	32 077	32 974	35 193	37 049
	female	44 394	46 079	46 971	50 758	53 724
	total	**75 803**	**78 156**	**79 945**	**85 951**	**90 773**
Pensions in force		7 938	9 036	10 093	11 513	13 122
Total members		214 024	228 737	236 824	252 403	252 946

Table 19: PSSap Membership summary

Year ending 30 June		2006
Super accounts	male	8 591
	female	12 887
	total	**21 478**
Members and contributions	Employer contributions	$59m
	member contributions (post-tax)	$2m
	member contributions (pre-tax)	$1.5m
	Transfers in	$53m

Chart 3: 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.

Entry medical requirements

During the year, the scheme administrator assessed 361 Confidential Medical and Personal Statements (CMAPS) with 259 being accorded limited benefit status. The number assessed with limited benefits status represents 71.7% of the total CMAPS assessed over the year.

With some exceptions, PSSap members receive Death and Total & Permanent Disability cover automatically when they join the scheme. These exceptions are outlined in the PSSap Product Disclosure Statement.

Table 20: PSSap gross sum insured 2005/06

Death Cover	$4 214 282 564
Total and permanent Disability cover	$4 214 278 745
Income protection (monthly benefits)	$53 436 722

Additional insurance cover

At 30 June 2006 there were 4212 PSS members paying premiums for additional death and invalidity cover, compared with 4292 at 30 June 2005. The gross amount of cover has grown from $388m to $417m. The average value of additional cover was $99 159 per member.

At 30 June 2006, there were 36 PSSap members who had elected for additional Death cover, Total & Permanent Disability cover, or Income protection.

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 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 PSS Board is required to maintain surcharge debt accounts for members whose surchargeable contributions up to and including the financial year ended 30 June 2005 attracted the surcharge.

The PSS 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.

No surcharge debts were received for PSSap members.

Table 21: PSS surcharge activity during 2005/06

	Number	Value
Applied surcharge debts reported by the ATO to members' accounts	10 576	$8 340 491
Received surcharge debt payments from members	1 239	$2 887 452
Recovered debts from member benefits	393	$1 768 556
Applied interest to members' surcharge debts that remained outstanding as at 30 June 2006	17 695	$2 217 063

Family Law

PSS legislation enables the creation of accounts for non-member spouses in Family Law splitting situations. During the year 95 cases were received and non-member spouse records created.

PSSap legislation enables the creation of accounts for non-member spouses, rolling over of benefits, or (if the non-member spouse has met a condition of release) cashing of benefits in Family Law splitting situations. No cases were received for PSSap super accounts during the year.

Benefit payments

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. Requests for release on financial hardship or compassionate grounds are given appropriate priority.

Table 22: PSS and PSSap exits by type 2005/06

	PSS					PSSap
	Contributor exits		Preserved claims		PSS Total	
	04/05	05/06	04/05	05/06	05/06	
Age / Retirement	1 546	1 752	722	827	2 579	15
Invalidity	191	235	14	20	255	0
Death	124	118	64	58	176	1
Resignation / other	7 825	7 555	0	0	7 555	61
Retrenchment	1 250	1 147	0	0	1 147	0
Early release	0	0	1 228	1 225	1 225	0
Total	10 936	10 807	2 028	2 130	12 937	77

Processing of invalidity claims

PSS 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.

PSSap members' Total and Permanent Disablement (TPD) benefits can comprise the member's account and the member's TPD sum insured. Insurance cover is provided by AIG Life.

AIG Life assesses TPD insurance claims. The PSS Board determines whether they can release the member's account balance.

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 Occupational 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.

PSSap Income protection

The Board has an Income protection policy with AIG Life for PSSap members. If AIG Life accepts their claim, this allows members to receive an income stream paid up to 75% of their salary for up to two years when they are unable to work due to disability caused by sickness or injury.

Income protection is available for ongoing and non-ongoing employees working 15 hours or more per week under the age of 65. PSSap members can reduce their income protection or opt out altogether.

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 (for PSS members), 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 23: PSS Invalidity claims 2005/06

Invalidity claims	
received	230
approved	231
withdrawn	16
Pre-assessment claims	
received	154
approved	154
Cases considered by the Assessment panel	
received	241
approved	266
refused	11
Invalidity retirement certificates issued	231
Invalidity retirement certificates fast tracked	31

Table 24: PSSap Invalidity claims 2005/06

Total & Permanent Disablement claims	Received	1
	Approved	1
Income protection claims	Received	2
	Approved	2
Invalidity retirement certificates	Issued	1
	Fast tracked	0

Please note that the accepted PSSap Total and Permanent Disablement claim was paid as a death benefit, as unfortunately the member died shortly after the claim was accepted.

Pensions

At the end of June 2006 there are 13 119 PSS pensioners.

The PSS keeps them updated with a biannual 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 PSS for record maintenance and articles that directly relate to superannuation. A Focus group is run to assist in the contents of Pension Update and it has been very informative.

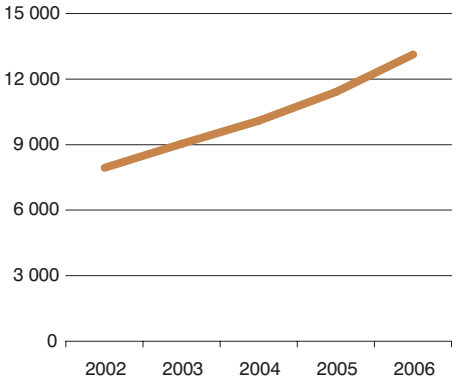
The Board did not offer a pension product to PSSap members in 2005/06.

PSS Pensions in force

Table 25: Pensioner summary

Pensions in force at 30 June	2005	2006	Change
Age retirement	3 674	4 614	940
Involuntary retirement	5 906	6 359	453
Invalidity retirement	1 424	1 595	171
Spouse and orphans	509	554	45
Total	11 513	13 122	1 609
Pensions paid	$172m	$189m	$17m
Average yearly pension	$16 147	$16 929	$782

Chart 4: Growth in PSS Pensioner population past five years



PSS 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 the 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, additional information is sought. Depending on whether the matter in dispute relates to a decision made under the PSS Rules or the PSS Act, the case is then referred to either the Reconsideration Advisory Committee (RAC) or the Complaints Advisory Committee (CAC). The RAC and CAC comprise four members (two independent and two scheme administrator representatives) with a quorum of three members, one of whom must be an independent member. The Committees currently comprise:

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

The relevant committee 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* (the SIS Act) and should a person be unhappy with the Board's decision, they may request the Superannuation Complaints Tribunal to review the decision in accordance with the *Superannuation (Resolution of Complaints) Act 1993*.

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 2005/06,15 applications for reconsideration were received, compared with 29 last year.

Of the requests received, four involved applications for the early release of preserved benefits on hardship grounds, two involved the determination of benefit multiples and two involved the issue of invalidity retirement certificates. The remaining requests concerned various other scheme provisions.

Cases finalised

Twenty cases were finalised during the year, compared with 27 for the previous year. In five cases the original decision was varied in favour of the applicant on the basis of additional evidence being made available as part of the reconsideration process.

Table 26: Reconsideration applications received and outcomes 2004 to 2006

	2004/05		2005/06	
	Decision of the:			
	Delegate	Board	Delegate	Board
Brought forward	9	0	10	1
Received	28	1	13	2
Withdrawn or lapsed	11	0	6	1
Decisions affirmed	10	0	7	1
Decisions set aside	6	0	4	1
Resolved	27	0	17	3
Carried forward	10	1	6	0

Note: Table 26 shows number of cases brought forward from 2004/05

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 (SCT), 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 27: PSS complaints lodged with the SCT

Carried over	Received	Completed	Outstanding
8	10	*Withdrawn: 8	10
		Affirmed: 0	
		Set aside: 0	
		Total: 8	
*2 matters withdrawn by the complainant, 6 by the Tribunal			

Federal Court

Decisions 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, on the grounds of an error of law only, must be instituted within 28 days of notification of the SCT decision.

Decisions taken in the administration of the PSS 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 no PSS cases reviewed by the Federal Court under the SRC Act or 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 3 claims still outstanding as at 1 July 2005. The Board and its delegates considered 10 claims during the year with 5 cases remaining outstanding as at 30 June 2006. Of the 10 claims considered during 2005/06 liability was accepted in 8 cases. Total compensation payments amounted to $61 435.

Complaints and representations

PSS

Transfer of benefits to other funds, benefit payments and taxation rates were the most frequent theme of complaints and representations during the year. Other issues that were the subject of complaints and enquires included the release of benefit estimates. One complaint was unable to be resolved within the SIS legislative timeframe of 90 days.

PSSap

Content of the Product Disclosure Statement, online access and nominated beneficiary policy were the theme of complaints during the year. All complaints were able to be resolved within the SIS legislative timeframe of 90 days.

Table 28: Complaints and representations received 2004 to 2006

	PSS		PSSap	
	2004/05	2005/06	2004/05	2005/06
Complaints	112	222	n/a	8
Parliamentary representations	5	10	n/a	0
Total	117	232	n/a	8

Stakeholder communications

Overview

Communications efforts during the 2005/06 year were focused on the introduction of the PSSap as well as a continued focus on significant regulatory, policy and service initiatives for members, employers and other stakeholders.

Member communications

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

- 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 PSS and PSSap members
- regular briefings for stakeholders who are seen by members as sources of information
- a new welcome process for all new PSSap members, which includes a personal welcome call. The welcome process aims to help members off to a good start with their PSSap super, by making joining easy, with minimal paperwork and maximum personalised support. It also helps to reduce administration and distribution work for employers. This process was recognised with both a Gold Award and overall Award for Excellence at the 2006 Conference of Major Super Funds.

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

- rolling out the 'At Work for You' workshops
- the development of additional online transactions for members
- ensuring members have the information they need to make informed decisions about Choice of Fund
- redevelopment of the PSS website.

Member enquiries

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 it's 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 focused on educating PSS and PSSap 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.

New contact centre arrangements started on 1 July 2005 for PSSap members. In addition to responding to members' phone and written enquiries, the Board also welcomes all new members to the PSSap. This includes sending new members a welcome letter, sending them a membership card, and phoning new members to assist them with their new super account.

The Board won an Excellence Award for innovative communications from the Conference of Major Superannuation Funds in 2006 for the personal way it welcomes members to the PSSap.

Member enquiries are currently predominantly about joining the PSSap, how members can consolidate their superannuation and insurance cover.

Table 29: Enquiry volumes

Enquiry type	PSS Number of enquiries	PSSap Number of enquiries
Phone calls	171 382	11 714
Written enquiries	7 258	0
Email enquiries	17 164	2 142
Family law enquiries	419	1
Seminars presented	105	0
Personal counselling interviews	610	0

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 preserved benefit members.

The Pack, like every major PSS 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 that participated in this year's Panel.

SIS legislation requires the Board to distribute annual member statements by 31 December each year. The bulk of 2004/05 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.

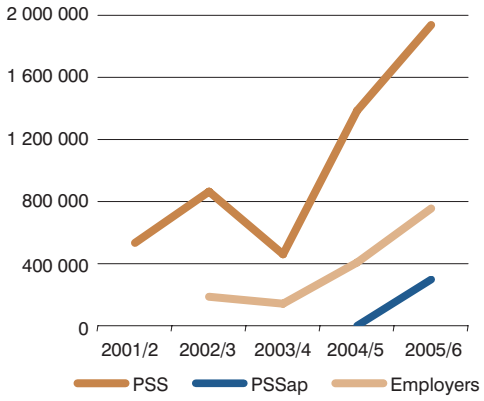
The 2005/06 Annual Member Statement Pack will be issued to members from September 2006 onwards, and all efforts are being made to meet the 31 December deadline.

Online services

The PSS website (www.pss.gov.au) and PSSap website (www.pssap.gov.au) continue 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 almost 2 million for the year.

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

Chart 5: PSS/PSSap and employer website hits



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

PSS 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 61 333 statements were accessed and 55 197 benefit estimates produced using the i-Estimator.

PSSap Secure website access

Member Services Online allows members to:

- check their balance and transaction history
- select their investment options
- view their nominated beneficiaries
- view their statements
- update their contact details
- use calculators to help keep their super investment on track.

Member Services Online was accessed 16 735 times in 2005/06 by 4836 unique members.

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 member's satisfaction with the benefit payment and written estimates services, along with a smaller decrease in satisfaction with the telephone information service. The decline can be partially counterbalanced by a substantial increase with satisfaction with PSS seminars. Further, the trend in PSS 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 telephone 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 PSS benefit payment. Around 85% of members indicated satisfaction with the PSS written estimate service. There was a significant increase in the proportion of members who made the request for written estimates by email from S16. Results illustrate that email is now the preferred method to request written estimates, followed by telephone.

The most significant increase since S16 is the overall satisfaction with PSS 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 PSS 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 4.4 percentage points for PSS members. Satisfaction with the i-Estimator remained the same for PSS members in S17.

Ratings for the usefulness of the i-Estimator were almost unchanged for both schemes in S17, and were consistent with ratings given in S16.

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 help 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.

There was some residual training carried out in the first few months of the financial year on the PSSap and ESO, then the emphasis turned to employer site visits to assist employers with the transition to the new reporting arrangements and any issues regarding administration of the PSSap.

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 employers 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 30: 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 PSS and PSSap 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 PSS and PSSap websites 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

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

Australian National
Audit Office

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

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 Public Sector Superannuation Accumulation Plan for the year ended 30 June 2006 as set out on pages 2 to 15. 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 Public Sector Superannuation Accumulation Plan.

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 financial position, the results of its operations and its cash flows.

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 26(5) of the *Superannuation Act 2005*; and

(ii) the financial statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of Public Sector Superannuation Accumulation Plan as at 30 June 2006 and the results of its operations and its cash flows for the year ended 30 June 2006.

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

(B) Compliance

Scope

I have conducted tests in accordance with Australian Auditing and Assurance Standards as necessary to provide reasonable assurance whether the trustee of Public Sector Superannuation Accumulation Plan 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 a Derivatives Risk Statement is unnecessary under 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.

Audit Opinion

In my opinion the trustee of Public Sector Superannuation Accumulation Plan 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

Public Sector Superannuation Accumulation Plan (ABN 65 127 917 725)

Statement by the Trustee of the Public Sector Superannuation Accumulation Plan ("Plan")

The Trustee hereby states that in its opinion:

(a) the attached financial statements of the Plan show a true and fair view of the matters required by Australian Accounting Standard AAS 25 "Financial Reporting by Superannuation Plans" and Schedule 1 of the *Commonwealth Authorities and Companies Orders* (*Financial Statements for reporting periods ending on or after 1 July 2005*) to the extent that the latter is not inconsistent with the former;

(b) the attached financial statements of the Plan show a true and fair view of the financial position as at 30 June 2006, the operating result for the year ended 30 June 2006, and the cash flows for the year ended 30 June 2006;

(c) at the date of this statement there are reasonable grounds to believe that the Plan will be able to pay its debts as and when they fall due;

(d) the financial statements are in a form agreed by the Minister for Finance and Administration and the PSS Board in accordance with sub-section 26(1) of the *Superannuation Act 2005* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;

(e) the financial statements have been prepared based on properly maintained financial records; and

(f) the operations of the Plan were conducted in accordance with the *Superannuation Act 2005*, the Trust Deed establishing the Plan, 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 Plan.

S. Doyle
Chairman

D. Connolly
Trustee

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

Operating Statement
For the Year Ended 30 June 2006

	Note	2006 $'000
Investment Revenue		
Interest		297
Changes in net market values	3c	2 346
Total Investment Revenue		2 643
Contribution Revenue		
Employer contributions		66 202
Member contributions		2 044
Transfer from other funds		53 233
Government co-contributions		42
Total Contributions Revenue	5a	121 521
Other Revenue		
Insurance proceeds		101
Total Other Revenue		101
Total Revenue		124 265
Insurance premiums		3 151
Total Expenses		3 151
Benefits accrued as a result of operations before income tax		121 114
Income tax expense	6a	(10 178)
Benefits accrued as a result of operations after income tax		110 936

The attached notes form part of these financial statements.

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

Statement of Financial Position
As at 30 June 2006

	Note	2006 $'000
Investments		
Pooled superannuation trust	4b	104 168
Total Investments		104 168
Other Assets		
Cash at bank	9a	17 071
Sundry debtors	7	63
Deferred tax asset	6c	69
Total Other Assets		17 203
Total Assets		121 371
Less:		
Liabilities		
Benefits payable		5
Sundry creditors	8	520
Current tax liability	6b	10 247
Total Liabilities		10 772
Net Assets Available to Pay Benefits		110 599
Represented by:		
Liability for Accrued Benefits		
Allocated to members' accounts		103 556
Not allocated to members' accounts	10b	7 043
Total Liability for Accrued Benefits	10a	110 599

The attached notes form part of these financial statements.

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

Statement of Cash Flows
For the Year Ended 30 June 2006

	Note	2006 $'000 Inflows / (Outflows)
Cash Flows from Operating Activities		
Contributions received -		
Employer		66 202
Member		2 044
Transfer from other funds		53 233
Government co-contributions		42
Interest received		234
Insurance proceeds		101
Benefits paid		(332)
Insurance premiums		(2 631)
Net Cash Inflows from Operating Activities	9b	118 893
Cash Flows from Investing Activities		
Proceeds from sales of units in pooled superannuation trusts		266
Purchases of units in pooled superannuation trusts		(102 088)
Net Cash Outflows from Investing Activities		(101 822)
Net Increase in Cash Held		17 071
Cash at the beginning of the financial year		-
Cash at the end of the financial year	9a	17 071

The attached notes form part of these financial statements.

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

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 Public Sector Superannuation Accumulation Plan ("Plan") 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, the *Superannuation Industry (Supervision) Act 1993* and provisions of the Trust Deed. 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 Plan was established on 1 July 2005. Accordingly, this is the first financial report of the Plan and covers the period from 1 July 2005 to 30 June 2006.

The financial report was authorised for issue by Australian Reward Investment Alliance (ABN 48 882 817 243) ("ARIA") 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*

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

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 form of these financial statements has been agreed by the Minister for Finance and Administration and the PSS Board in accordance with sub-section 26(1) of the *Superannuation Act 2005*.

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) *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.

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 amount originally incurred (if the investment was acquired during the period).

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.

Other Revenue
Insurance claim amounts on a group life policy are recognised on a cash basis.

(d) *Insurance Premiums*

Death and total & permanent disability insurance premiums are charged to member accounts on a monthly basis and then remitted to the life insurer in arrears.

(e) *Valuation of Investments*

Investments are included in the Statement of Financial Position at net market value as at the balance date, and changes in the net market value of investments are recognised in the Operating Statement in the periods in which they occur.

Net market value means the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal.

Net market value has been determined as follows:

(i) Pooled Superannuation Trust - units are valued at their most recent redemption price as determined by the manager of the relevant trust.

(f) *Foreign Currency Translation*

The Plan does not undertake transactions denominated in foreign currencies.

(g) *Use of Derivatives*

The Plan does not enter into derivative financial instruments to manage its exposure to interest rate and foreign currency risks.

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) *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 substantially enacted by balance date. Current tax for the current period 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 arising from the carrying amounts 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 income 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 substantially 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 Plan 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 Plan intends to settle its current tax assets on a net basis.

Current and deferred tax for the period
Current and deferred tax is recognised as an expense or benefit in the Operating Statement.

(i) *Cash*

Cash includes cash at bank and is used to transact member and employer contributions, transfers from other funds and benefit payments.

(j) *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 Plan during the financial year and which are unpaid at balance date. All amounts are unsecured. Other debtors and creditors are subject to normal credit terms.

(k) *Benefits Payable*

The Plan 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 Plan administrator (ComSuper).

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

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

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an expense item; or

(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

2. NATURE OF FUND AND PRINCIPAL ACTIVITIES

The Plan is a defined contribution scheme constituted by trust deed under the *Superannuation Act 2005*.

The Plan is operated for the purpose of providing new employees who join Commonwealth Government or participating employers on or after 1 July 2005 with lump sum benefits on retirement, termination of service, death or disablement.

The PSS Board pays costs of and incidental to the management of the Plan and the investment of its money from the assets of the PSS Investments Trust that are referable to the Plan - see note 5(b).

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 Plan is:
Level 10, 12 Moore Street
CANBERRA, ACT 2601

3. CHANGES IN NET MARKET VALUE OF INVESTMENTS

	2006 $'000
(a) ***Investments held at 30 June:***	
Units in Pooled Superannuation Trusts	2 346
(b) ***Investments realised during the year:***	
Units in Pooled Superannuation Trusts	-
(c) ***Total changes in net market values of investments***	2 346

4. RELATED PARTIES

(a) ***Trustee***

The trustee of the Plan from commencement of operations on 1 July 2005 to balance date was the PSS Board. The PSS Board merged with the CSS Board on 1 July 2006 and the resulting entity was renamed Australian Reward Investment Alliance - see note 17 for further details.

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

(b) ***Investing entities***

Throughout the year ended 30 June 2006, the Plan's only investment consisted of units in the PSS Investments Trust . The only other investors in PSS Investment Trust at balance date were Public Sector Superannuation Scheme and Commonwealth Superannuation Scheme.

PSS Investment Trust was established to provide a cost efficient means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

The PSS Board acted as trustee of the Plan, PSS Investment Trust and Public Sector Superannuation Scheme throughout the year ended 30 June 2006.

Various costs of administration were borne by other related parties - see note 5(b).

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

4. RELATED PARTIES (Continued)

(c) *Trustees of the PSS Board*

The trustees of the PSS Board from inception of the Plan to 30 June 2006 were:

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

(d) *Key Management Personnel Compensation*

The trustees of the PSS Board from inception of the Plan to 30 June 2006 are listed under note 4(c) above.

The following executives of the PSS Board also had authority and responsibility for planning, directing and controlling the activities of the Plan from inception to 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

No compensation was paid to key management personnel (including trustees) from the assets of the Plan. The compensation of key management personnel for the year ended 30 June 2006 was met by the PSS Board.

The aggregate compensation of the key management personnel in relation to the Plan is set out below:

	2006 $'000
Short-term employee benefits	3.0
Post-employment benefits	0.3
Other long-term benefits	-
Termination benefits	-
Share-based payment	-
	3.3

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

The Plan 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.

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

5. FUNDING ARRANGEMENTS

(a) *Contributions*

Employer Contributions
Employers contribute at least 15.4% of employees superannuation salary to the Plan, subject to superannuation law.

Member Contributions
Members may make voluntary contributions to the Plan in the form of personal contributions (after tax). Alternatively, employers may make salary sacrifice contributions (before tax) to the Plan on behalf of members.

Transferring superannuation from other funds
Money invested in other superannuation funds can be rolled over to the Plan.

Spouse Contributions
Additional contributions can be made by a spouse on behalf of a member of the Plan.

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

(b) *Costs of Administration*

Costs of and incidental to the management of the Plan and the investment of its money are charged against the assets of PSS Investments Trust that are referable to the Plan. Transactions in respect of these costs have been brought to account in the financial statements of PSS Investments Trust.

The *Superannuation Act 2005* requires the Commissioner for Superannuation (through ComSuper) to assist the PSS Board (now ARIA) in performing its member administration responsibilities in relation to the Plan. 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 trustee to fund costs other than those incurred in managing and investing the assets of the Plan. 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 PSS Board and the Commissioner for Superannuation (ComSuper).

Plan administration costs met by sponsoring employers are as follows:

	2006
	$'000
PSS Board fees	70
ComSuper fees	757
Total	827

Direct expenses met by PSS Investments Trust (and therefore ultimately met by members) are as follows:

	2006
	$'000
Administration	73
Investment	
Investment advisors	3
Investment managers	136
Custodian	22
Other	3
Total	237

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

6. INCOME TAX

Income tax in the Operating Statement represents the tax on the benefits accrued as a result of operations before income tax, adjusted for permanent (non-assessable) differences.

The tax effect of timing differences, which occur where items are allowed for income tax purposes in a period different from that in which they are recognised in the financial statements, is included in the deferred tax asset at current taxation rates.

The tax rate used in the reconciliation below is the superannuation tax rate of 15% payable by Australian superannuation funds on taxable profits under Australian tax law.

	2006 $'000
(a) *Income tax recognised in Operating Statement*	
Tax expense comprises:	
Current tax expense	10 247
Deferred tax income relating to the origination of temporary differences	(69)
Total tax expense	10 178

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Benefits accrued as a result of operations before income tax	121 114
Income tax expense calculated at 15%	18 167
Less non-assessable permanent differences:	
Group life insurance proceeds	(15)
Member contributions and transfers from other superannuation funds	(7 622)
Investment revenue already taxed	(352)
	10 178

(b) *Current tax balances*	
Current tax payables:	
Provision for current income tax	10 247
	10 247

(c) *Deferred tax balances*	
Deferred tax asset:	
Temporary differences	69
	69

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

7. SUNDRY DEBTORS

	2006 $'000
Interest Receivable	63
	63

8. SUNDRY CREDITORS

	2006 $'000
Insurance premiums payable	520
	520

9. CASH FLOW INFORMATION

(a) *Reconciliation of Cash*

For the purposes of the Statement of Cash Flows, cash represents cash at bank. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2006 $'000
Cash at Bank	17 071

(b) *Reconciliation of Benefits Accrued as a Result of Operations after Income Tax to Net Cash Inflows from Operating Activities*

	2006 $'000
Benefits accrued as a result of operations after income tax	110 936
Benefits paid	(337)
Increase in net market value of investments	(2 346)
Increase in sundry debtors	(63)
Increase in deferred tax asset	(69)
Increase in benefits payable	5
Increase in sundry creditors	520
Increase in provision for income tax	10 247
Net Cash Flow Inflows from Operating Activities	118 893

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

10. LIABILITY FOR ACCRUED BENEFITS

The liability for accrued benefits is the Plan's present obligation to pay benefits to members and beneficiaries and has been calculated as the difference between the total assets and total liabilities as at year-end.

(a) *Changes in the Liability for Accrued Benefits*

	2006 $'000
Liability for accrued benefits at beginning of the year	-
Add: Benefits accrued as a result of operations	110 936
Less: Benefits paid	
- Withdrawal and retirement	(234)
- Death and invalidity	(103)
	(337)
Liability for accrued benefits at the end of the year	110 599

(b) *Funds Not Allocated to Members' Accounts*

Employer contributions (net of contributions tax) and member transfers received prior to year-end but not allocated at balance date.	6 082
Change in net market value of investments	664
Other	297
Funds not allocated to members' accounts at the end of the year	7 043

11. GUARANTEED BENEFITS

No guarantees have been made in respect of any part of the liability for accrued benefits.

12. VESTED BENEFITS

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

The Plan's administrator, ComSuper, has advised that the amount of Vested Benefits at 30 June 2006 is $109.6 million. The value of Vested Benefits represents the liability that would have fallen on the Plan if all members had ceased service on 30 June and accordingly became entitled to their benefit.

The value of members' Vested Benefits has been verified by Mercer Human Resource Consulting. Mercer has confirmed the reasonableness of this value to the Trustee in reports dated 31 August 2006 and 13 September 2006.

The Vested Benefits amount is made up of:

	2006 $million
Members' account balances at 30 June 2006	103.6
plus Contributions allocated after balance date	7.0
less Accrued contributions tax on unallocated contributions	(1.0)
Vested Benefits	109.6
Net Assets available to pay benefits	110.6

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

13. AUDITOR'S REMUNERATION

	2006 $'000
Amounts received or receivable by the Australian National Audit Office as auditor of the Plan	48 125

The Plan audit fee has been met by PSS Investment Trust for the year ended 30 June 2006.

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 Plan during the reporting period.

14. FINANCIAL INSTRUMENT DISCLOSURES

(a) ***Financial risk management objectives***

See note 4(a) for details regarding investment in the PSS Investment Trust - a related entity.

The PSS Board, as trustee of the PSS Investment Trust, has appointed specialist investment managers to invest funds on its behalf under the terms of a written investment mandate. The PSS Board has determined that the appointment of such managers is appropriate for the PSS Investment Trust, and is in accordance with the trustee's investment strategy.

The PSS Board, in its capacity as trustee of the Plan and of the PSS Investment Trust, has appointed JANA Investment Advisors to provide advice on strategic asset allocation and investment policy.

JANA Investment Advisors also provides to ARIA, in its capacity a trustee of the PSS Investment Trust, advice on manager selection and risk management, investment research and performance reporting.

(b) ***Significant accounting policies***

Details of significant accounting policies, and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(c) ***Use of derivative financial instruments***

The Plan does not invest in derivative financial instruments to manage its exposure to interest rate and foreign currency risks.

(d) ***Credit risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Plan. ARIA, both in its capacity as trustee of the Plan and of the PSS Investment Trust, has adopted a policy of only investing in or dealing with creditworthy counterparties. The net market value of financial assets included in the Statement of Financial Position represents the Plan's exposure to credit risk in relation to those assets.

The financial assets of the Plan are mainly invested in PSS Investments Trust which, in turn, invests in a diverse range of investment securities and funds.

(e) ***Interest rate risk***

Except for cash held at bank for purposes of managing contribution receipts, insurance expenses and benefit payments, the Plan's financial assets and liabilities are not exposed to changes in interest rates.

Cash at bank earned an average interest rate of 5.3% during the year ended 30 June 2006.

(f) ***Currency risk***

The Plan does not undertake transactions denominated in foreign currencies.

PUBLIC SECTOR SUPERANNUATION ACCUMULATION PLAN

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

14. FINANCIAL INSTRUMENT DISCLOSURES (Continued)

(g) ***Fair values of financial assets and liabilities***

The carrying amount of the Plan's financial assets and liabilities in the Statement of Financial Position approximate their net fair values.

(h) ***Liquidity risk***

The Plan manages liquidity risk by maintaining adequate banking facilities and through continuous monitoring of contribution revenues against benefit payments.

15. SEGMENT REPORTING

The Plan operates in Australia and the pooled superannuation trust in which it invests is managed and administered in Australia. However, a proportion of the underlying assets of the pooled superannuation trust are invested overseas.

The members of the Plan are based in Australia.

16. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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 Plan 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 materiality liability on the Plan.

There were no other contingent liabilities or contingent assets as at balance date.

17. 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 name of the PSS Investment Trust was changed to ARIA Investments Trust.

Australian National
Audit Office

PUBLIC SECTOR 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 Public Sector Superannuation Scheme and the consolidated entity (comprising Public Sector Superannuation Scheme and its controlled entities) for the year ended 30 June 2006 as set out on pages 2 to 22 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 Public Sector 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 Public Sector 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.

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

(B) Compliance

Scope

I have conducted tests in accordance with Australian Auditing and Assurance Standards as necessary to provide reasonable assurance whether the trustee of the Public Sector 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 830 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 Public Sector 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

Public Sector Superannuation Scheme (ABN 74 172 177 893)

Statement by the Trustee of the Public Sector 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 PSS Board in accordance with sub-section 28(1)(b) of the Superannuation Act 1990 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 830 exit statements were not issued to members within six months of their exit from the PSS Fund, the operations of the PSS Fund were conducted in accordance with the *Superannuation Act 1990*, the Trust Deed establishing the Scheme, 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

PUBLIC SECTOR SUPERANNUATION SCHEME

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

	Note	Group 2006 $'000	Group 2005 $'000	Scheme 2006 $'000	Scheme 2005 $'000
Net assets available to pay benefits at the start of the financial year		**7 583 012**	6 203 657	**7 583 012**	6 203 657
Add:					
Revenue from ordinary activities					
Net investment revenue					
Interest		**41 972**	54 527	**2 677**	53 082
Dividends and distributions		**490 819**	317 437	**-**	289 115
Other investment income		**2 406**	2 966	**-**	1 629
Changes in net market values	4c	**663 433**	669 916	**1 072 368**	653 136
Less: Direct investment expenses	5c	**(27 112)**	(17 530)	**(1 890)**	(17 433)
		1 171 518	1 027 316	**1 073 155**	979 529
Contribution revenue					
Member contributions	5a	**515 803**	509 078	**515 803**	509 078
Employer contributions	5a	**223 993**	218 657	**223 993**	218 657
Government co-contributions	5a	**40 861**	10 411	**40 861**	10 411
Appropriation from Consolidated Revenue Fund	5b	**187 448**	185 617	**187 448**	185 617
Transfers from the Commonwealth Superannuation Scheme	7	**1 455**	-	**1 455**	-
		969 560	923 763	**969 560**	923 763
Total revenue from ordinary activities		**2 141 078**	1 951 079	**2 042 715**	1 903 292
Less:					
General administration expenses	5c	**(4 995)**	(3 527)	**160**	(3 316)
Benefits paid	5b	**(464 627)**	(406 460)	**(464 627)**	(406 460)
Total expenses from ordinary activities		**(469 622)**	(409 987)	**(464 467)**	(409 776)
Total revenue less expenses and benefits paid before income tax		**1 671 456**	1 541 092	**1 578 248**	1 493 516
Income tax expense	6a	**(88 525)**	(115 073)	**(36 224)**	(114 161)
Total revenue less expenses and benefits paid after income tax		**1 582 931**	1 426 019	**1 542 024**	1 379 355
Distributions paid and payable to minority interest		**-**	(25 271)	**-**	-
Increase in net assets attributable to minority interest		**(40 907)**	(21 393)	**-**	-
Net assets available to pay benefits at the end of the financial year		**9 125 036**	7 583 012	**9 125 036**	7 583 012

The attached notes form part of these financial statements.

PUBLIC SECTOR SUPERANNUATION SCHEME

Statement of Net Assets
As at 30 June 2006

	Note	**Group 2006 $'000**	Group 2005 $'000	**Scheme 2006 $'000**	Scheme 2005 $'000
Investments					
Cash and short term deposits	3	**219 567**	168 478	**34**	159 905
Money market securities	3	**476 808**	971 992	**-**	971 992
Fixed interest securities	3	**750 364**	489 450	**-**	489 450
Equity investments	3	**7 719 841**	5 789 938	**9 147 933**	5 257 614
Property investments	3	**899 963**	799 990	**-**	799 990
Derivatives contracts	3	**(7 454)**	28 929	**-**	28 929
Total investments		**10 059 089**	8 248 777	**9 147 967**	7 707 880
Other assets					
Cash at bank		**29 635**	34 530	**29 635**	34 530
Interest receivable		**12 509**	8 333	**223**	8 247
Dividends and distributions receivable		**28 216**	46 030	**-**	26 577
Trade settlements receivable		**64 931**	56 207	**-**	56 207
Amount to be appropriated from Consolidated Revenue Fund		**23 549**	1 322	**23 549**	1 322
GST recoverable		**165**	168	**24**	168
Sundry debtors		**1 787**	905	**-**	905
Amounts due from the CSS Fund		**-**	1 133	**-**	1 133
Deferred tax assets	6c	**5 413**	24	**-**	24
Total other assets		**166 205**	148 652	**53 431**	129 113
Total assets		**10 225 294**	8 397 429	**9 201 398**	7 836 993
Less: Liabilities					
Benefits payable		**45 605**	28 958	**45 605**	28 958
Trade settlements payable		**110 765**	79 724	**-**	79 724
Sundry creditors	8	**12 521**	10 442	**1 789**	10 251
Distribution payable		**-**	25 388	**-**	-
Current tax liabilities	6b	**59 435**	55 919	**28 935**	55 529
Deferred tax liabilities	6c	**107 658**	79 519	**33**	79 519
Total liabilities		**335 984**	279 950	**76 362**	253 981
Net assets		**9 889 310**	8 117 479	**9 125 036**	7 583 012
Net assets attributable to minority interest		**(764 274)**	(534 467)	**-**	-
Net assets available to pay benefits		**9 125 036**	7 583 012	**9 125 036**	7 583 012

The attached notes form part of these financial statements.

PUBLIC SECTOR 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 Public Sector 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, the *Superannuation Industry (Supervision) Act 1993* and provisions of the Trust Deed. 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 statements were 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 Scheme 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

The financial statements have been prepared in accordance with the defined benefit plan provisions of AAS 25 "Financial Reporting by Superannuation Plans". 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 PSS Fund, together with details of the unfunded liability of the Commonwealth Government to meet anticipated future benefits.

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.

The form of these financial statements has been agreed by the Minister for Finance and Administration and the PSS Board in accordance with sub-section 28(1)(b) of the *Superannuation Act 1990*.

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.

PUBLIC SECTOR 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 Net Assets as a receivable.

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

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 ecognised 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 PSS Board which relate to its responsibilities for the management of the PSS Fund and the investment of its moneys. See notes 2 and 5c for further information on the PSS Fund and administration costs respectively.

(f) Cash

Cash held within 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 held within Other Assets includes cash at bank used to transact member and employer contributions, transfers from other funds and benefit payments.

PUBLIC SECTOR 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) Short-term money market securities - 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 - open futures contracts are revalued to closing price quoted on 30 June.

(iv) Equities - 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).

(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 PSS Board's investment managers may use a number of derivative securities such as futures, options and forward exchange 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 PSS 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 PSS Board's internal investment team and/or investment advisors monitor the use of derivatives and ensure that such use is consistent with the PSS Board's policy.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

(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 substantially 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 substantially 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 be 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 1997* 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 incurred by the Scheme that is not recoverable from the Australian Taxation Office, has been recognised as part of the expense to which it applies. Receivables and payables are stated with any applicable GST 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.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

(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	7 583 012	6 203 657	7 583 012	6 203 657
Change in valuation of investments	-	-	-	-
Reclassification of unitholders' funds to liability	-	-	-	-
Ending equity under AIFRS	7 583 012	6 203 657	7 583 012	6 203 657

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	1 426 019	1 379 355
Change in valuation of investments	-	-
Prior year total revenue less expenses and benefits paid after income tax as reported under AIFRS	1 426 019	1 379 355

PUBLIC SECTOR 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 benefits scheme which provides benefits to its members under the *Superannuation Act 1990* (as amended).

Moneys paid to the PSS Board (now ARIA) for the purposes of the Scheme are held in the PSS Fund. The PSS Fund comprises contributions made by members and employers, income rising from investments, and accretions to or profits on realisation of investments held within the PSS Fund.

The PSS Board pays member benefits and taxes relating to the Scheme and the PSS Fund out of the PSS Fund. The PSS Board pays costs of and incidental to the management of the PSS Fund and the investment of its money from the assets of the PSS Investments Trust that are referable to the PSS 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

	2006	2005
	#	#
Number of members		
- Contributors	**149 051**	154 939
- Deferred beneficiaries/preservers	**90 773**	85 951
- Pensioners	**13 122**	11 513
	252 946	252 403
Number of employees directly employed to manage the Scheme	**25**	20

3. INVESTMENTS

	Group 2006 $'000	Group 2005 $'000	**Scheme 2006 $'000**	Scheme 2005 $'000
Cash and short term deposits				
Cash at bank - Australia	**176 612**	120 411	**34**	111 838
Cash at bank - international	**40 806**	41 594	**-**	41 594
Cash deposits with futures brokers	**2 149**	6 473	**-**	6 473
	219 567	168 478	**34**	159 905
Money market securities				
Australian	**432 678**	961 759	**-**	961 759
International	**44 130**	10 233	**-**	10 233
	476 808	971 992	**-**	971 992
Fixed interest securities				
Australian	**53 979**	218 616	**-**	218 616
International	**696 385**	270 834	**-**	270 834
	750 364	489 450	**-**	489 450
Equity investments				
Equity securities - Australian	**2 368 881**	1 820 773	**-**	1 815 762
Equity securities - international	**3 113 024**	2 934 626	**-**	1 706 817
Unlisted Australian trusts - equity securities	**1 096 431**	491 970	**-**	493 841
Unlisted Australian controlled trusts - equity securities	**-**	-	**9 147 933**	698 625
Unlisted Australian associated trusts - equity securities	**94 897**	-	**-**	-
Unlisted international trusts - equity securities	**1 046 608**	542 569	**-**	542 569
	7 719 841	5 789 938	**9 147 933**	5 257 614
Property securities				
Unlisted Australian trusts - property securities	**899 963**	799 990	**-**	799 990
	899 963	799 990	**-**	799 990
Derivatives contracts				
Forward currency - Australia	**3 759 742**	2 848 930	**-**	2 848 930
Forward currency - international	**(3 775 895)**	(2 824 034)	**-**	(2 824 034)
Options - Australian	**565**	1 187	**-**	1 187
Options - international	**7 050**	2 332	**-**	2 332
Futures - Australian	**264**	139	**-**	139
Futures - international	**820**	375	**-**	375
	(7 454)	28 929	**-**	28 929

PUBLIC SECTOR 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 securities				
	Australian	**731**	1 778	**-**	1 778
	International	**390**	-	**-**	
	Fixed interest securities				
	Australian	**(517)**	1 785	**-**	1 785
	International	**15 306**	(3 638)	**-**	(3 638)
	Equity investments				
	Equity securities - Australian	**223 213**	228 110	**-**	228 233
	Equity securities - International	**177 259**	68 811	**-**	44 175
	Unlisted Australian trusts - equity securities	**(35 704)**	14 015	**-**	16 255
	Unlisted Australian controlled trusts - equity securities	**-**	-	**1 052 791**	11 155
	Unlisted Australian associated trust - equity securities	**1 361**	-	**-**	-
	Unlisted international trusts - equity securities	**125 590**	(228)	**-**	(228)
	Property securities				
	Unlisted Australian trusts - property securities	**(14 320)**	41 681	**-**	41 681
	Derivatives contracts				
	Forward currency	**(51 838)**	92 945	**-**	92 941
	Options - Australian	**2 539**	(574)	**-**	(574)
	Options - International	**39**	(41)	**-**	(41)
	Futures - Australian	**263**	139	**-**	139
	Futures - International	**820**	375	**-**	375
		445 132	445 158	**1 052 791**	434 036
(b)	**Investments realised during the year:**				
	Money market securities	**35 883**	35 921	**-**	35 921
	Australian fixed interest securities	**(2 823)**	3 854	**175**	3 854
	International fixed interest securities	**(480)**	(4 677)	**499**	(4 677)
	Australian equity securities and unlisted trusts	**83 970**	36 675	**7 126**	36 682
	Unlisted Australian controlled trusts - equity securities	**-**	-	**3 727**	-
	International equity securities and unlisted trusts	**124 594**	(40 392)	**8 254**	(46 505)
	Forward currency	**(31 514)**	176 033	**(204)**	176 481
	Options	**(55)**	1 393	**-**	1 393
	Futures	**8 726**	15 951	**-**	15 951
		218 301	224 758	**19 577**	219 100
(c)	**Total changes in net market values of investments**	**663 433**	669 916	**1 072 368**	653 136

All investments held directly by the Scheme at 30 June 2005 were transferred to the PSS Investments Trust (now ARIA Investments Trust) in exchange for units in that trust on 1 July 2005. The transfer price exceeded the net market value of the securities at 30 June 2005 by the amount of estimated selling costs including 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 7 of the *Superannuation (Consequential Amendments) Act 2005*.

Throughout the year ended 30 June 2006 the Scheme's only investment consisted of units in the PSS Investments Trust. The value of units in the PSS Investments Trust at 30 June 2006 in the Scheme's financial statements reflects an equivalent provision for estimated investment selling costs in the books of the PSS Investments Trust.

PUBLIC SECTOR 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 ranging from 2% - 10% of 10 per cent of salary paid to the member.

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 rolled over 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 PSS 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 $23.5m (2005: $1.3m). The Commonwealth is the corresponding debtor for this amount in accordance with the funding arrangements described above.

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

	Scheme 2006 $'000	Scheme 2005 $'000
Gross Appropriation from Consolidated Revenue Fund	**435 857**	377 268
less: Transfers from PSS Fund to Consolidated Revenue Fund	**248 409**	(191 651)
Net Appropriation	**187 448**	185 617
Consolidated Revenue Fund		
Lump-sum benefits	**229 502**	197 171
Transfer values	**-**	4 614
Pensions	**206 355**	174 217
Other	**-**	1 266
	435 857	377 268
PSS Fund		
Lump-sum benefits	**28 770**	29 192
Total benefits paid	**464 627**	406 460

PUBLIC SECTOR 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

From 1 July 2005 costs of and incidental to the management of the Scheme and the investment of its money are charged against the assets of PSS Investments Trust that are referable to the Scheme. Transactions in respect of these costs have been brought to account in the financial statements of PSS Investments Trust. Costs of the prior year were met directly by the Scheme.

The *Superannuation Act 1990* requires the Commissioner for Superannuation (through ComSuper) to assist the PSS 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 PSS Board to fund costs other than those incurred in managing and investing the assets of the PSS 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 PSS Board and the Commissioner for Superannuation (ComSuper).

Scheme administration costs met by sponsoring employers are as follows:

	Scheme 2006 $'000	Scheme 2005 $'000
PSS Board fees	**2 282**	1 450
ComSuper fees	**23 331**	18 993
Total	**25 613**	20 443

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

	Group 2006 $'000	Group 2005 $'000	**Scheme 2006 $'000**	Scheme 2005 $'000
Investment managers	**22 545**	14 749	**1 870**	14 749
Custodian	**3 607**	1 674	**20**	1 577
Investment consultants	**484**	523	**-**	523
Other investment expenses	**476**	584	**-**	584
Total direct investment expenses	**27 112**	17 530	**1 890**	17 433
Administration	**4 995**	3 527	**(160)**	3 316
	32 107	21 057	**1 730**	20 749
Less: Minority interest	**(217)**	(193)	**-**	-
Total costs met by Scheme members	**31 890**	20 864	**1 730**	20 749

The increase in direct investment costs 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.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

6. INCOME TAX

	Group		Scheme	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
(a) *Income tax recognised in the Statement of Changes in Net Assets*				
Tax expense comprises:				
Current tax expense	**67 607**	76 831	**37 103**	76 302
Adjustments recognised in the current year in relation to the current tax of prior years	**(1 832)**	(1 322)	**(1 824)**	(1 705)
Adjustments recognised in the current year in relation to the deferred tax of prior years	**27 144**	(2 826)	**-**	(2 826)
Deferred tax expense relating to the origination and reversal of temporary differences	**(4 394)**	42 390	**945**	42 390
Total tax expense	**88 525**	115 073	**36 224**	114 161
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	**1 671 456**	1 541 092	**1 578 248**	1 493 516
Income tax expense calculated at 15%	**250 718**	231 164	**236 737**	224 027
Permanent differences - items not assessable or deductible				
Employee contributions	**(83 028)**	(77 270)	**(83 028)**	(77 270)
Benefits paid	**69 694**	60 969	**69 694**	60 969
Appropriation from CRF	**(28 117)**	(27 842)	**(28 117)**	(27 842)
Investment revenue already taxed	**(6 033)**	1 344	**(153 583)**	1 139
Non-taxable income	**(13 219)**	(6 705)	**-**	-
Imputation credits from franked dividends received	**9 048**	7 841	**643**	7 858
Indexation/CGT discount on realised capital gains	**(35 210)**	(17 803)	**-**	(17 803)
Imputation and foreign tax credits	**(67 921)**	(52 477)	**(4 298)**	(52 386)
Previously unrecognised tax losses now recognised as deferred tax assets	**(6 577)**	-	**-**	-
Adjustment to recognise losses at 10%	**1 002**	-	**-**	-
(Over)/under provision of income tax in previous year	**(1 832)**	(4 148)	**(1 824)**	(4 531)
	88 525	115 073	**36 224**	114 161
(b) *Current tax liabilities*				
Current tax payables:				
Income tax payable	59 435	55 919	28 935	55 529
	59 435	55 919	28 935	55 529
(c) *Deferred tax balances*				
Deferred tax assets comprise:				
Temporary differences	5 413	24	-	24
	5 413	24	-	24
Deferred tax liabilities comprise:				
Temporary differences	107 658	79 519	33	79 519
	107 658	79 519	33	79 519

PUBLIC SECTOR 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	**73 049**	**30 548**	**7 358**	**-**	**110 955**
Other	**6 470**	**(2 409)**	**(7 358)**	**-**	**(3 297)**
	79 519	**28 139**	**-**	**-**	**107 658**
Gross deferred tax assets:					
Accounts payable	**24**	**47**	**-**	**-**	**71**
Other	**-**	**5 342**		**-**	**5 342**
	24	**5 389**	**-**	**-**	**5 413**
	79 495	**28 092**	**-**	**-**	**107 587**

2005	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	47 014	26 035	-	-	73 049
Other	2 186	4 284	-	-	6 470
	49 200	30 319	-	-	79 519
Gross deferred tax assets:					
Accounts payable	15	9	-	-	24
Other	9 254	(9 254)	-	-	-
	9 269	(9 245)	-	-	24
	39 931	39 564	-	-	79 495

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	**73 049**	**-**	**(73 049)**	**-**	**-**
Other	**6 470**	**921**	**(7 358)**	**-**	**33**
	79 519	**921**	**(80 407)**	**-**	**33**
Gross deferred tax assets:					
Accounts payable	**24**	**(24)**	**-**	**-**	**-**
Other	**-**			**-**	**-**
	24	**(24)**	**-**	**-**	**-**
	79 495	**945**	**(80 407)**	**-**	**33**

2005	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	47 014	26 035	-	-	73 049
Other	2 186	4 284	-	-	6 470
	49 200	30 319	-	-	79 519
Gross deferred tax assets:					
Accounts payable	15	9	-	-	24
Other	9 254	(9 254)	-	-	-
	9 269	(9 245)	-	-	24
	39 931	39 564	-	-	79 495

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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7. TRANSFER TO THE PUBLIC SECTOR SUPERANNUATION SCHEME FROM THE COMMONWEALTH 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	**9 581**	5 243	**482**	5 243
Accrued expenses	**1 633**	624	**-**	433
Other	**1 307**	4 575	**1 307**	4 575
	12 521	10 442	**1 789**	10 251

9. AUDITOR'S REMUNERATION

	Group 2006 $	Group 2005 $	**Scheme 2006 $**	Scheme 2005 $
Amounts received or receivable by Australian National Audit Office	**225 014**	59 500	**70 829**	59 500
Amounts received or receivable by other auditors for the audit of group entities	**20 500**	16 000	**-**	-

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.

The Scheme audit fee for 2005 - 06 was charged against assets of the PSS Investments Trust that are referable to the Scheme.

10. 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	**33 862**	25 319
Adjustment to opening balances	**(791)**	978
Assessments received during the year	**8 288**	8 464
Interest on outstanding surcharge liabilities at end of year	**2 229**	1 608
	43 588	36 369
Less: Amounts paid by members and Consolidated Revenue Fund	**(2 869)**	(2 507)
Total surcharge liability outstanding at end of year	**40 719**	33 862

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.

PUBLIC SECTOR 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 are managed on behalf of the PSS Board (now ARIA) by specialist investment managers who are required to invest their respective allocation of assets in accordance with the terms of a written investment mandate. The PSS Board has determined that the appointment of these managers is appropriate for the Group and is in accordance with the PSS Board's investment strategy.

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

The PSS Board employs JANA Investment Advisors to:

i) advise on strategic asset allocation, investment policy, investment manager selection, risk management, investment research and performance reporting;

ii) monitor Australian and international equities, fixed interest, Australian property and non-Australian alternative investments.

The PSS Board employs Macquarie Investment Management Limited to advise on new Australian private equity investments and monitor the PSS Board's existing Australian private equity commitments.

The PSS Board employs Arcadia Funds Management Limited to invest, manage and administer the assets of the PSS / CSS B 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 Group's exposure to different investment markets. Derivative securities are not to be used for gearing the portfolio or for placing the Group 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 PSS Board's investment managers use derivative securities, the PSS 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 were as follows:

	Group					
	Notional Principal Amounts Purchase Contracts		**Notional Principal Amounts Sale Contracts**		**Net Market Value**	
	2006	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Fixed interest futures	**83 531**	107 362	**281 789**	77 852	**753**	27
Share price index futures	**9 758**	29 279	**889**	-	**331**	487
Exchange traded options	**48 501**	29 546	**43 681**	29 223	**7 615**	3 519
Currency Contracts	**3 759 742**	2 848 930	**3 775 895**	2 824 034	**(16 153)**	24 896
Total	**3 901 532**	3 015 117	**4 102 254**	2 931 109	**(7 454)**	28 929

(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 $53.0 million (2005: $26.9 million). The Group does not have significant exposures to any individual counterparty or industry.

PUBLIC SECTOR 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 unitholders. As such, the Group's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in market interest rates.

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

30 June 2006	Weighted Average Interest Rate (% pa)	Floating Interest Rate $'000	Fixed Interest Rate Up to 1 Year $'000	Fixed Interest Rate 1 - 5 Years $'000	Fixed Interest Rate Over 5 Years $'000	Non Interest Bearing $'000	Total $'000
Assets							
Cash and short-term deposits	5.15	219 567					219 567
Money market securities	5.77	476 808					476 808
Fixed interest securities	4.54		32 324	228 236	489 804		750 364
Equity investments						7 719 841	7 719 841
Property investments						899 963	899 963
Derivatives contracts						(7 454)	(7 454)
Other assets	5.52	29 635				136 570	166 205
Liabilities							
Benefits payable						(45 605)	(45 605)
Trade settlements payable						(110 765)	(110 765)
Sundry creditors						(12 521)	(12 521)
Current tax liabilities						(59 435)	(59 435)
Deferred tax liabilities						(107 658)	(107 658)
Net assets attributable to minority interests						(764 274)	(764 274)
Total		726 010	32 324	228 236	489 804	7 648 662	9 125 036

30 June 2005	Weighted Average Interest Rate (% pa)	Floating Interest Rate $'000	Fixed Interest Rate Up to 1 Year $'000	Fixed Interest Rate 1 - 5 Years $'000	Fixed Interest Rate Over 5 Years $'000	Non Interest Bearing $'000	Total $'000
Assets							
Cash and short term deposits	5.23	162 005				6 473	168 478
Money market investments	5.11	971 992					971 992
Fixed interest securities	5.00		33 870	189 959	219 015	46 606	489 450
Equity investments						5 789 938	5 789 938
Property investments						799 990	799 990
Derivatives contracts						28 929	28 929
Other assets	5.18	34 530				114 122	148 652
Liabilities							
Benefits payable						(28 958)	(28 958)
Trade settlements payable						(79 724)	(79 724)
Sundry creditors						(10 442)	(10 442)
Distribution payable						(25 388)	(25 388)
Current tax liabilities						(55 919)	(55 919)
Deferred tax liabilities						(79 519)	(79 519)
Net assets attributable to minority interests						(534 467)	(534 467)
Total		1 168 527	33 870	189 959	219 015	5 971 641	7 583 012

PUBLIC SECTOR 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:

30 June 2006	**US Dollars A$'000**	**Japanese Yen A$'000**	**U Kingdom Pounds A$'000**	**European Euros A$'000**	**Other Currencies A$'000**	**Total A$'000**
Assets						
Investments excluding forward international currency	3 508 758	202 990	212 224	544 532	358 789	4 827 293
Other assets	18 888	8 373	5 203	9 598	14 077	56 139
Total Assets	3 527 646	211 363	217 427	554 130	372 866	4 883 432
Liabilities						
Other liabilities	48 678	207	2 193	4 676	20 283	76 037
Total Liabilities	48 678	207	2 193	4 676	20 283	76 037
Net assets above denominated in foreign currency	3 478 968	211 156	215 234	549 454	352 583	4 807 395
Amount effectively hedged	(2 538 631)	(127 761)	(201 728)	(739 382)	(168 393)	(3 775 895)
Minority interest	(580 540)	-	-	-	-	(580 540)
Net exposure (excess hedge)	359 797	83 895	13 506	(189 928)	184 190	451 460

30 June 2005	**US Dollars A$'000**	**Japanese Yen A$'000**	**U Kingdom Pounds A$'000**	**European Euros A$'000**	**Other Currencies A$'000**	**Total A$'000**
Net assets denominated in foreign currency	1 552 480	143 436	190 269	349 369	246 275	2 481 829
Amount effectively hedged	(1 926 054)	(111 951)	(178 506)	(409 604)	(197 921)	(2 824 036)
Net Exposure (excess hedge)	(373 574)	31 485	11 763	(60 235)	48 354	(342 207)

(f) 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 PSS 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 PSS 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	**1 470 000**	630 360
Add: Investment revenue less expenses and taxes thereon for the year	**1 070 689**	894 850
Add / (Less): Adjustments for estimates	**47 396**	(23 698)
Add:Adjustments for 2004-05 preserver balances	**45 759**	-
Less: Earnings paid out in benefit payments	**(54 474)**	(31 512)
Closing balance of unallocated income	**2 579 370**	1 470 000

The closing balance of unallocated income at 30 June 2006 is estimated to represent 39.1 per cent (2005: 23.9 per cent) of the members' funded entitlements.

PUBLIC SECTOR 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 $31.3 billion (2005: $27.0 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	**9.1**	7.6
Unfunded component	**22.2**	19.4
	31.3	27.0

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

	Scheme 2006 $million	Scheme 2005 $million
Funded component	**9.1**	7.6
Net assets plus funded benefits payable	**9.1**	7.6
Surplus/(Deficiency)	**-**	-

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	**7.6**	4.7
Unfunded component	**13.8**	9.1
	21.4	13.8

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

	Scheme 2005 $billion	Scheme 2002 $billion
Funded accrued benefits	**7.6**	4.7
Net assets plus funded benefits payable	**7.6**	4.5
Surplus/(Deficiency)	**-**	(0.2)

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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14. SEGMENT REPORTING

The Group operates in the superannuation administration and funds management industries in Australia. Approximately 50% (2005: 47%) of Group investments (excluding cash and derivatives contracts) are placed directly overseas.

15. RELATED PARTIES

(a) Trustee

The Trustee of the Scheme throughout the year ended 30 June 2006 was the PSS Board. The PSS Board merged with the CSS Board on 1 July 2006 and the resulting entity was renamed Australian Reward Investment Alliance - see note 20 for further details.

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

(b) Trustees of the PSS Board

The trustees of the PSS 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	Sandra Wilson (Alternate for Desmond Moore)
Desmond Moore	

(c) Key Management Personnel Remuneration

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

The following executives of the PSS 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 compensation of key management personnel (including trustees) for the year ended 30 June 2006 was charged against the assets of PSS Investments Trust that are referable to the PSS Fund. Compensation for the year ended 30 June 2005 was charged directly against the assets of the Scheme as part of general administration expenses..

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	**784**	703	**385**	703
Post-employment benefits	**88**	73	**43**	73
Other long-term benefits	**-**	-	**-**	-
Termination benefits	**-**	-	**-**	-
Share-based payment	**-**	-	**-**	-
	872	776	**428**	776

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

The compensation of key management personnel (including trustees) for the year ended 30 June 2006 was charged as part of general administration expenses against assets of the PSS Investments Trust that are referable to the Scheme. Compensation of key management personnel (including trustees) for the prior year was charged directly to the Scheme as part of general administration expenses.

The Scheme 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.

PUBLIC SECTOR 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 2006 $'000	Net Market Value of Investment 2005 $'000	Share of Net Income after tax 2006 $'000	Share of Net Income after tax 2005 $'000
Controlled Entities				
PSS Investments Trust	**9 147 933**	**-**	**1 052 791**	-
Colonial Funds Management Limited Pooled Superannuation Trust	-	8 312	-	1 283
PSS/CSS International Investments Trust	-	690 313	-	9 872
	9 147 933	698 625	**1 052 791**	11 155

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 %
Parent Entity			
Public Sector Superannuation Scheme	Australia		
Subsidiaries			
PSS Investments Trust (i)	Australia	**99**	-
Colonial Funds Management Limited Pooled Superannuation Trust	Australia	**57**	94
PSS/CSS International Investments Trust	Australia	**59**	56
PSS/CSS B Property Trust (ii)	Australia	**70**	-

(i) Established 1 July 2005
(ii) Established 23 September 2005

18. INVESTMENT IN ASSOCIATES

The Group acquired a 61% ownership interest in the ARIA Long Short Trust ("Associate") during the year ended 30 June 2006. The Associate is domiciled in Australia and invests primarily in Australian equities and equity futures. The fair value of the investment at balance date is $94 897 000.

The PSS Board (now ARIA) does not have the power to govern the financial and operating policies of the Associate by virtue of the powers reserved for the responsible entity of the Associate under its constitution, and therefore the Trustee does not control this entity. Accordingly, this entity has not been consolidated in the Group financial statements. The Group's share of net income has been taken up as a change in net market value of investments in accordance with AAS 25 "Financial Reporting by Superannuation Plans".

The following information is obtained from the Associate's balance sheet and income statement at 30 June 2006:

	2006 $'000
Assets	173 245
Liabilities	16 961
Income	2 411
Net profit before financing costs	2 244

The Group's share of the Associate's 2006 net profit is $1 361 000. The Associate is not subject to income tax as its taxable income is distributed in full.

The Associate had no capital commitments, other expenditure commitments or contingent liabilities at balance date.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2006

19. CONTINGENT LIABILITIES

(a) Investments

At 30 June the Scheme and Group had outstanding investment capital commitments of $522.0 million (2005: $238.8million). These commitments are expected to be settled as follows:

	2006	2005
	$'000	$'000
Within 12 months	**87 951**	113 606
Greater than 12 months but less than 5 years	**252 880**	125 150
Greater than 5 years	**181 144**	-
	521 975	238 756

At 30 June 2006 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 potential contingent liabilities of $461 000 (2005:$20 000).

20. 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, approximately $6.4 billion of investments held by the Commonwealth Superannuation Scheme were transferred to the ARIA Investments Trust in exchange for units in that trust. With effect from date of transfer, the Scheme's effective ownership of the ARIA Investments Trust has reduced from 99% to 58%.

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Human Resource Consulting

Information Required for Purposes of Australian Accounting Standard AAS25 Relating to the Actuarial Valuation of the Public Sector 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 Public Sector Superannuation Scheme at the request of the PSS 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	21.4	27.0

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

Vested Benefits are benefits which the PSS 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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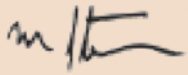
MMC Marsh & McLennan Companies

MERCER
Human Resource Consulting

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 PSS. Attachment 2 to this Statement provides a summary of the report on the Long Term Cost of the PSS and the Commonwealth Superannuation Scheme (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

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 PSS 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 PSS 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 PSS.

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 PSS as at 30 June 2005.

PSS MEMBERSHIP as at 30 JUNE 2005			
	Male	**Females**	**Total**
Number of Contributors	65,341	89,556	154,897
Salaries - Total - Average	$3,954 m $60,509	$4,817 m $53,787	$8,771 m $56,623
Number of Deferred Beneficiaries	35,093	50,616	85,709
Number of Age Pensioners	5,062	4,440	9,502
Number of Invalidity Pensioners	718	692	1,410
Number of Reversionary Pensioners	161	346	507

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) 3.5% per annum (real)	6.0% per annum (nominal) 3.5% per annum (real)
General Salary Increases	4.0% per annum (nominal) 1.5% per annum (real)	4.0% per annum (nominal) 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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MMC Marsh & McLennan Companies

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 PSS assets as at 30 June 2005 was $7.6 billion.

Accrued Benefits

The value of accrued benefits as at 30 June 2005 was $21.4 billion.

Accrued Benefits were determined as the present value of expected future benefit payments that arise from membership of the PSS 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 $7.6 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 $5.0 billion in respect of pensioners and preserved beneficiaries of the PSS.

Vested Benefits

Vested Benefits of the PSS 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 PSS as at 30 June 2005 is $27.0 billion.

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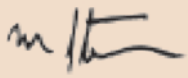
Vested Benefits are determined as the value of benefits which the PSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the PSS.

Financial Condition

The PSS 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 PSS 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

> Independent audit report from the ANAO
> Financial statements

Australian National
Audit Office

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 PSS 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 PSS 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.

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BARTON ACT
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I have performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* 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 PSS 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 PSS 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

CJago

Carla Jago

Executive Director

Delegate of the Auditor-General

Canberra

30 October 2006

PSS Board

Statement by the Chairman and Chief Executive

In our opinion, the attached financial statements for the financial 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

Steve Gibbs
Chief Executive Officer
AUSTRALIAN REWARD INVESTMENT ALLIANCE

30 October 2006

PSS Board

Income Statement
for the financial year ended 30 June 2006

	Notes	2006 $	2005 $
INCOME			
Revenue			
Goods and services	4A	**6 830 147**	4 609 434
Total Revenue		**6 830 147**	4 609 434
Gains			
Resources received free of charge	4B	**29 840**	4 500
Reversals of previous asset write-downs	5D	**6 194**	-
Total Gains		**36 034**	4 500
Total Income		**6 866 181**	4 613 934
EXPENSES			
Employees	5A	**2 355 589**	1 705 194
Suppliers	5B	**3 811 313**	3 299 473
Depreciation and amortisation	5C	**121 945**	159 246
Write-down and impairment of assets	5D	**-**	61 450
Net loss from disposal of assets	4C	**938**	3 978
Total Expenses		**6 289 785**	5 229 341
Operating Result		**576 396**	(615 407)
Net Surplus / (Deficit) Attributable to the Australian Government		**576 396**	(615 407)

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

PSS Board

Balance Sheet
as at 30 June 2006

	Notes	2006 $	2005 $
ASSETS			
Financial Assets			
Cash and cash equivalents	6A	**986 315**	93 096
Receivables	6B	**1 239 767**	759 359
Total Financial Assets		**2 226 082**	852 455
Non-Financial Assets			
Plant and equipment	7A	**104 865**	123 333
Intangibles	7B	**26 813**	48 648
Leasehold improvements	7C	**172 500**	162 750
Total Non-Financial Assets		**304 178**	334 731
Total Assets		**2 530 260**	1 187 186
LIABILITIES			
Payables			
Suppliers	8B	**1 209 644**	630 741
Other payables	8C	**155 420**	125 414
Total payables		**1 365 064**	756 155
Provisions			
Employees	8A	**341 692**	228 659
Total provisions		**341 692**	228 659
Total Liabilities		**1 706 756**	984 814
NET ASSETS		**823 504**	202 372
EQUITY			
Parent Entity Interest			
Contributed equity		**359 929**	359 929
Asset revaluation reserve		**79 843**	35 106
Retained surplus / (accumulated deficit)		**383 732**	(192 664)
Total Parent Entity Interest		**823 504**	202 371
TOTAL EQUITY		**823 504**	202 371
Current Assets		**2 226 082**	852 455
Non-Current Assets		**304 178**	334 731
Current Liabilities		**1 563 636**	877 823
Non-Current Liabilities		**143 120**	106 991

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

PSS Board

Statement of Cash Flows
for the financial year ended 30 June 2006

	Notes	2006 $	2005 $
OPERATING ACTIVITIES			
Cash Received			
Goods and services		**6 830 967**	4 828 473
Net GST receipts		**163 968**	182 772
Total Cash Received		**6 994 935**	5 011 245
Cash Used			
Employees		**2 356 562**	1 720 213
Suppliers		**3 703 754**	3 814 258
Total Cash Used		**6 060 316**	5 534 471
Net Cash From / (Used by) Operating Activities	9	**934 619**	(523 226)
INVESTING ACTIVITIES			
Cash Received			
Proceeds from sales of plant and equipment		**-**	176
Total Cash Received		**-**	176
Cash Used			
Purchase of plant and equipment		**21 860**	142 209
Purchase of computer software		**-**	60 638
Leasehold improvements		**19 540**	42 918
Total Cash Used		**41 400**	245 765
Net Cash Used By Investing Activities		**(41 400)**	(245 589)
FINANCING ACTIVITIES			
Net Increase / (Decrease) in Cash Held		**893 219**	(768 815)
Cash at the beginning of the reporting period		**93 096**	861 911
Cash at the End of the Reporting Period		**986 315**	93 096

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

PSS Board

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

Item	Accumulated Results		Asset Revaluation Reserve		Contributed Equity		Total Equity	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	$	$	**$**	$	**$**	$	**$**	$
Opening Balance	**(192 664)**	422 743	**35 106**	6 435	**359 929**	359 929	**202 371**	789 107
Income and Expense								
Income and expenses recognised directly in equity								
Revaluation Adjustment	**-**	-	**44 737**	28 671	**-**	-	**44 737**	28 671
Net Operating Result	**576 396**	(615 407)	**-**	-	**-**	-	**576 396**	(615 407)
Total Income and Expenses recognised directly in Equity	**576 396**	(615 407)	**44 737**	28 671	**-**	-	**621 133**	(586 736)
Closing Balance	**383 732**	(192 664)	**79 843**	35 106	**359 929**	359 929	**823 504**	202 371
Closing Balance attributable to the Australian Government	**383 732**	(192 664)	**79 843**	35 106	**359 929**	359 929	**823 504**	202 371

PSS Board

Schedule of Commitments
as at 30 June 2006

	Notes	2006 $	2005 $
BY TYPE:			
Other Commitments			
Operating leases		**1 443 988**	315 837
Total Other Commitments		**1 443 988**	315 837
Commitments Receivable		**(131 272)**	(28 712)
Net Commitments		**1 312 716**	287 125
BY MATURITY:			
Operating Lease Commitments			
One year or less		**283 655**	154 633
From one to five years		**1 029 061**	132 492
Net Commitments by Maturity		**1 312 716**	287 125

Operating leases include leases for accommodation and motor vehicles.

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

PSS Board

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

CONTENTS

PSS 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 PSS Board

The PSS Board was established under section 20 of the Superannuation Act 1990 (PSS Act). Until 30 June 2006 the PSS Board administered the Public Sector Superannuation Scheme (PSS) in accordance with the provisions of the PSS Act, and was responsible for the management and investment of the PSS Fund.

The PSS Fund represents the funded component of PSS (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 PSS Board conducted its activities through the PSS Special Account - an account held with Reserve Bank of Australia. The objective of the PSS 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 PSS 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 PSS Board's activities were funded through:

- an agreed share of the scheme administration charges collected by ComSuper from employers participating in PSS; and
- charges to the PSS Investments Trust (a subsidiary of PSS) to recover the cost of administering and managing the PSS Fund.

On 1 July 2006 the PSS Board merged with the CSS 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.

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

1.2 Basis of Accounting

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

The statements have been prepared in accordance with:

- the Financial Management and Accountability Orders (Financial Statements for periods ended 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, as noted, 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.

PSS 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 PSS 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 PSS Board 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 PSS Board's initial assessment at this date, but may change. The PSS Board 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
	AASB7 Financial Instruments: Disclosures	1 January 2007	Revise the disclosure requirements for financial instruments from AASB132 requirements.	No expected impact, changes disclosure requirements

1.4 Revenue

Goods and Services

The PSS Board recharges actual expenses incurred (on an accruals basis) in respect of the administration and management of the PSS Fund. From 1 July 2005, all rebills are to the PSS Investments Trust. Rebills of prior years were to PSS.

The PSS Board receives a share of the quarterly administration fees charged by ComSuper to participating employers of PSS and Public Sector Superannuation Accumulation Plan. 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.

PSS 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)

1.5 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 PSS 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 PSS Board has formally identified positions as excess to requirements and no suitable alternative position within the PSS Board is available.

(d) Superannuation

The directors and employees of the PSS 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 PSS 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.

PSS 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)

1.8 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.

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 PSS 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 PSS 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 price 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.

PSS 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 PSS Board's intangibles comprise purchased software. These assets are carried at cost which approximates their 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 PSS Board's purchased software is 3 years.

1.13 Taxation

The PSS 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 PSS 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.

PSS 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

PSS 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 PSS 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	789 107	202 371
Adjustment to retained earnings:	-	-
Total equity translated to AIFRS	789 107	202 371

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

	12 months ended 30 June 2005
Prior year loss as previously reported	615 407
Adjustments:	-
Prior year loss translated to AIFRS	615 407

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 PSS Board merged with the CSS 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.

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.

Note 4: Income

Note 4A: Goods and Services	**2006**	2005
PSS Board's share of agency fees collected by ComSuper	**2 351 861**	1 449 536
Administration fees from the PSS Investments Trust	**4 478 286**	-
Administration fees from the PSS Fund	**-**	3 159 898
Total sales of goods and services	**6 830 147**	4 609 434

Note 4B: Resources received free of charge from Government		
Resources received free of charge - audit services	**29 840**	4 500
Total resources received free of charge from government	**29 840**	4 500

Note 4C: Net Loss from Disposal of Assets		
Plant and equipment		
Proceeds from disposal	**-**	176
Net book value of assets disposed	**(938)**	(4 154)
Net (loss) from disposal of plant and equipment	**(938)**	(3 978)

PSS Board

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

Note 5: Expenses from Ordinary Activities

Note 5A: Employee

Wages and salaries	**1 965 534**	1 450 255
Superannuation	**280 563**	173 788
Leave and other entitlements	**90 929**	67 038
Other	**18 563**	14 113
Total employee expenses	**2 355 589**	1 705 194

Note 5B: Supplier

Goods and services from related entities	**614 457**	464 083
Goods and services from external entities	**3 029 885**	2 666 449
Operating lease rentals - accommodation	**157 124**	158 248
Workers compensation premiums	**9 847**	10 693
Total supplier expenses	**3 811 313**	3 299 473

Note 5C: Depreciation and amortisation

Depreciation - plant and equipment	**45 583**	62 731
Amortisation of software	**21 835**	19 576
Amortisation of leasehold improvements	**54 527**	76 939
Total depreciation and amortisation	**121 945**	159 246

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

Note 5D: Write-down of Assets

Plant and equipment - revaluation to fair value (increment)/decrement	**(6 194)**	61 450
Total revaluation of assets	**(6 194)**	61 450

Note 6: Financial Assets

Note 6A: Cash

Cash on hand and at bank: PSS Special Account	**986 315**	93 096

Note 6B: Receivables

Goods and services	**764 659**	433 212
GST receivable from the Australian Taxation Office	**219 866**	175 960
Accrued income	**255 242**	150 187
Total receivables	**1 239 767**	759 359

All receivables are current assets.

Receivables (gross) are aged as follows:		
Not Overdue	**1 239 767**	759 359
Overdue by:		
Less than 30 days	**-**	-
30 to 60 days	**-**	-
60 to 90 days	**-**	-
Over 90 days	**-**	-
Total receivables	**1 239 767**	759 359

PSS 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)	**104 865**	123 333
Total plant and equipment	**104 865**	123 333
Note 7B: Intangibles - computer software purchased		
At cost	**108 939**	108 939
Accumulated amortisation	**(82 126)**	(60 291)
Total intangibles - computer software	**26 813**	48 648
Note 7C: Leasehold Improvements		
At valuation (fair value)	**172 500**	162 750
Total leasehold improvements	**172 500**	162 750

All valuations 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	**44 737**	28 671
Increment/(Decrement) for Plant and Equipment included in Income Statement:	**6 194**	(61 450)

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

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

	Other Plant & Equipment At Valuation	Intangibles At Cost	Leasehold Improvements At Valuation	Total
	$	$	$	$
As at 1 July 2005				
Gross book value	123 333	108 939	162 750	395 022
Accumulated depreciation/amortisation	-	(60 291)	-	(60 291)
Net book value	123 333	48 648	162 750	334 731
Assets purchased	21 860	-	19 540	41 400
Depreciation/amortisation expense	(45 584)	(21 835)	(54 527)	(121 946)
Revaluation through operating result	6 194	-	-	6 194
Revaluation through equity	-	-	44 737	44 737
Disposals	(938)	-	-	(938)
As at 30 June 2006				
Gross book value	104 865	108 939	172 500	386 304
Accumulated depreciation/amortisation	-	(82 126)	-	(82 126)
Net book value as at 30 June 2006	104 865	26 813	172 500	304 178

PSS 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 $
Note 8A: Employee provisions		
Wages and salaries	**26 252**	5 658
Leave	**313 244**	222 315
Superannuation	**2 196**	686
Total employee provisions	**341 692**	228 659
Employee provisions are classified as:		
Current liabilities	**210 412**	139 429
Non-current liabilities	**131 280**	89 230
	341 692	228 659
Note 8B: Trade suppliers		
Trade creditors - unpaid invoices	**1 209 644**	630 741
Total trade suppliers	**1 209 644**	630 741
Trade suppliers are classified as:		
Current liabilities	**1 209 644**	630 741
Non-current liabilities	**-**	-
	1 209 644	630 741
Note 8C: Other Payables		
Lease incentive - non interest bearing	**11 840**	17 761
Goods and services tax payable to ATO	**143 580**	107 653
Total other payables	**155 420**	125 414
Other payables are classified as:		
Current liabilities	**143 580**	107 653
Non-current liabilities	**11 840**	17 761
	155 420	125 414

PSS 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	**986 315**	93 096
Balance Sheet items comprising above cash:		
Financial asset - Cash	**986 315**	93 096
Reconciliation of net surplus to net cash from operating activities:		
Net surplus/(deficit)	**576 396**	(615 407)
Depreciation/amortisation	**121 945**	159 246
(Write-up)/write down of non-current assets	**(6 194)**	61 450
Net loss from sale of assets	**938**	3 978
(Decrease) in net receivables	**(480 409)**	(158 350)
Increase in employee provisions	**113 033**	14 850
Increase/(Decrease) in supplier payables	**578 904**	(23 296)
Increase in other payables	**30 006**	34 303
Net cash from/(used by) operating activities	**934 619**	(523 226)

Note 10: Contingent Liabilities and Contingent Assets

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

Note 11: Remuneration of Trustees

The trustees of the PSS Board also act as trustees of the CSS Board. A fixed remuneration is paid to each trustee for acting in respect of 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	2	4
$15 000 to $29 999	-	2
$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 $232 638 (2005: $207 104) of which $116 319 (2005: $103 552) was borne by the PSS Board.

Note 12: Executive Remuneration

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

	2006	2005
$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.

PSS Board

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

Note 13: Remuneration of Auditors

	2006	2005
	$	$
Audit services in respect of the PSS Board financial statements are provided free of charge to the PSS 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 auditor of entities in respect of which the PSS Board acts as Trustee or Joint Trustee	**204 865**	58 776

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 PSS Board.

Note 14: Average Staffing Levels

	2006	2005
The average staffing levels for the PSS Board and CSS Board during the year were:	**25.4**	20.4

Note 15: Compensation and Debt Relief

No 'Act of Grace' payments were made under subsection 33(1) of the F*inancial 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

PSS 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 PSS 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.

PSS 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: 1 Year or Less		Fixed Interest Rate Maturing In: 1 to 5 Years		Fixed Interest Rate Maturing In: > 5 Years		Non Interest Bearing		Total		Weighted Average Effective Interest Rate	
		2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
		$	$	**$**	$	**$**	$	**$**	$	**$**	$	**$**	$		$
Financial Assets															
Cash	6A	**-**	-	**-**	-	**-**	-	**-**	-	**986 315**	93 096	**986 315**	93 096	**n/a**	**n/a**
Receivables for goods and services	6B	**-**	-	**-**	-	**-**	-	**-**	-	**1 239 767**	759 359	**1 239 767**	759 359	**n/a**	n/a
Total		**-**	-	**-**	-	**-**	-	**-**	-	**2 226 082**	852 455	**2 226 082**	852 455		
Total Assets												**2 530 260**	1 187 186		
Financial Liabilities															
Trade Creditors	8B	**-**	-	**-**	-	**-**	-	**-**	-	**1 209 644**	630 741	**1 209 644**	630 741	**n/a**	n/a
Other	8B	**-**	-	**-**	-	**-**	-	**-**	-	**155 420**	125 414	**155 420**	125 414	**n/a**	n/a
Total		**-**	-	**-**	-	**-**	-	**-**	-	**1 365 064**	756 155	**1 365 064**	756 155		
Total Liabilities												**1 706 756**	**984 814**		

PSS 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
		$	**$**	$	$
		Total Carrying Amount	**Aggregate Fair Value**	Total Carrying Amount	Aggregate Fair Value
Departmental Financial Assets	**Notes**				
Cash	6A	**986 315**	**986 315**	93 096	93 096
Receivables for goods and services	6B	**1 239 767**	**1 239 767**	759 359	759 359
Total financial assets		**2 226 082**	**2 226 082**	852 455	852 455
Financial Liabilities					
Trade suppliers	8B	**1 209 644**	**1 209 644**	630 741	630 741
Other	8B	**155 420**	**155 420**	125 414	125 414
Total financial liabilities		**1 365 064**	**1 365 064**	756 155	756 155

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.

No restatement of comparative information is required, or is allowed under Policy 8A.1 of the Finance Minister's Orders, in order for these financial instrument disclosures to comply with AIFRS.

Note 17D: Credit Risk Exposures

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

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

PSS Board

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

Note 18: Special Accounts

PSS Special Account (Departmental)

Legal Authority: Financial Management and Accountability Act 1997, s20
Purpose: For expenditure relating to:
- *the administration of the PSS Scheme by the PSS Board;*
- *the performance of any other function conferred on the PSS Board under legislation; or*
- *the management and investment of the PSS Fund by the PSS Board, where a corresponding amount has been or is to be credited to the PSS Special Account from the PSS Fund in respect of such expenditure.*

	2006	2005
	$	$
Balance carried forward from previous year	**93 096**	861 911
Costs recovered from non-government sector		
Services - Rendering of services to external entities	**6 830 967**	4 828 473
Sale of assets	**-**	176
GST refunds received	**565 364**	457 374
Amount available for expenditure	**7 489 427**	6 147 934
Expenditure	**(6 503 112)**	(6 054 838)
Balance carried to next year	**986 315**	93 096
Represented by		
Cash held by the PSS Board	**986 315**	93 096
Total balance carried to next year	**986 315**	93 096

PSS 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	**6 283 591**	5 229 341	**6 283 591**	5 229 341
Costs recovered from provision of goods and services to the non-government sector				
Departmental	**4 478 286**	3 159 898	**4 478 286**	3 159 898
Total costs recovered	**4 478 286**	3 159 898	**4 478 286**	3 159 898
Other external revenues				
Departmental				
Goods and services revenue from related entities	**2 351 861**	1 449 536	**2 351 861**	1 449 536
Other	**29 840**	4 500	**29 840**	4 500
Total other external revenues	**2 381 701**	1 454 036	**2 381 701**	1 454 036
Net (contribution)/cost of outcome	**(576 396)**	615 407	**(576 396)**	615 407

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	**2 355 589**	1 705 194	**2 355 589**	1 705 194
Suppliers	**3 811 313**	3 299 473	**3 811 313**	3 299 473
Depreciation and amortisation	**121 945**	159 246	**121 945**	159 246
Other expenses	**(5 257)**	65 428	**(5 257)**	65 428
Total departmental expenses	**6 283 591**	5 229 341	**6 283 591**	5 229 341
Funded by:				
Revenues from Government	**29 840**	4 500	**29 840**	4 500
Sale of goods and services	**6 830 147**	4 609 434	**6 830 147**	4 609 434
Total departmental revenues	**6 859 987**	4 613 934	**6 859 987**	4 613 934

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

Appendices

Appendix A: Changes to legislation

PSS

The following amendments have been made to the 1990 Act:

- 26th Amending Deed amends the Rules to change the amount by which a PSS benefit can be reduced where the member has a surcharge debt to reflect the abolition of the surcharge from the 2005/06 financial year onwards;

- Amendments to the 1990 Act to consolidate and enhance the governance arrangements for the PSS; 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);

- 27th Amending Deed amends the Rules as a consequence of the safety of superannuation reforms in relation to the new fitness and propriety standards required under APRA's new licensing regime and the establishment of ARIA;

- Amendments to the 1990 Act amending the provisions of PSS 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 PSS.

PSSap

- The *Superannuation Act 2005* came into effect on 1 July 2005 and established the PSS accumulation plan (PSSap) as a separate entity from the PSS defined benefit scheme;

- Amendments to the 2005 Act to consolidate and enhance the governance arrangements for the PSSap; 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).

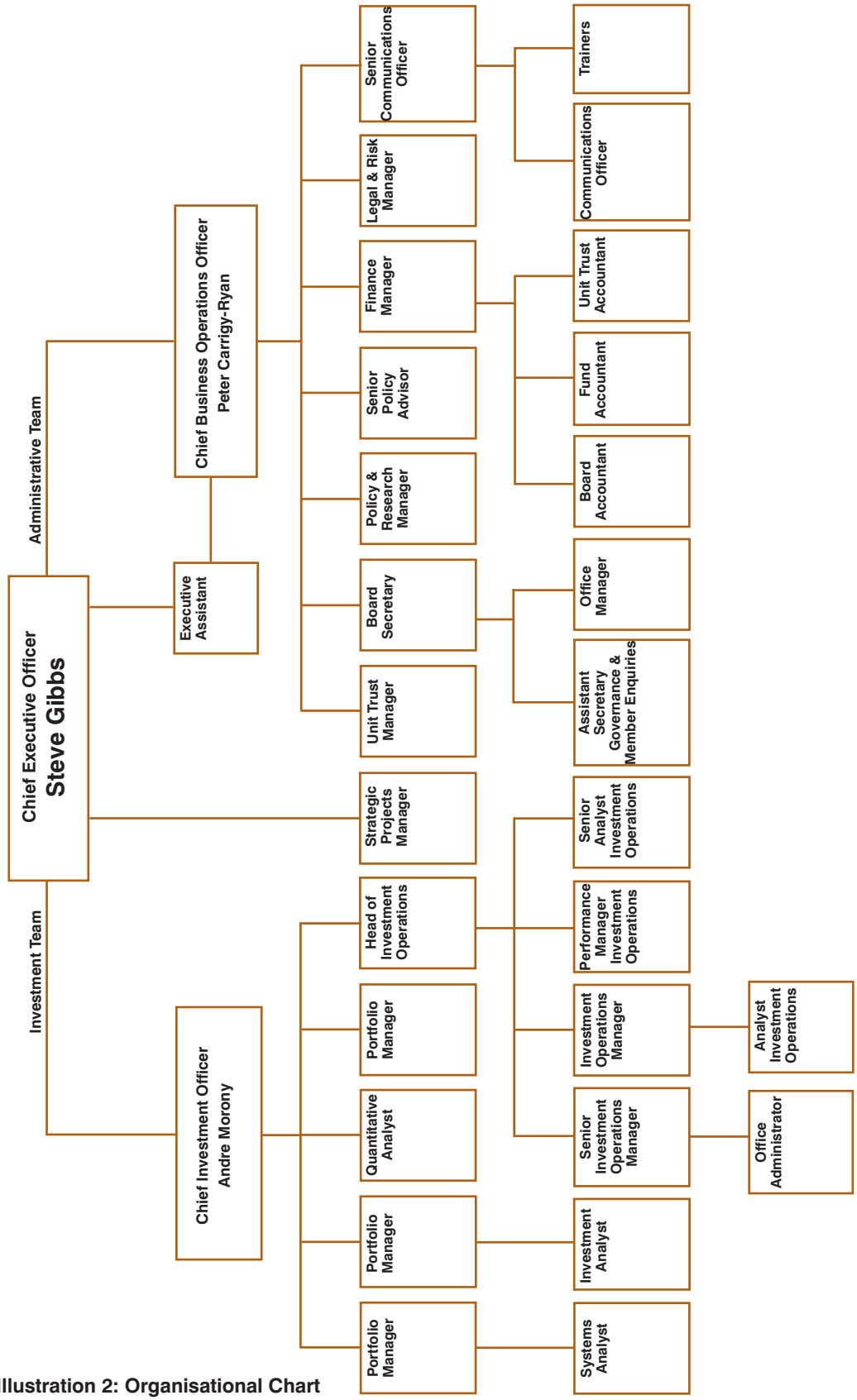

Illustration 2: Organisational Chart

Appendix C: Freedom of Information

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.

PSS members made 53 requests for access to documents during 2005/06. Of these requests, 46 were granted in full and five partial releases were granted. Two requests were 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@pss.gov.au
Website: www.pss.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

The decision-making powers of the PSS Board are set out in clause 3 of the PSS Trust Deed. The authority for the PSS Board to delegate its powers and functions is contained in clause 12 of the PSS Trust Deed. The PSS 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's 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 them.

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@pss.gov.au
Website: www.pss.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 PSS, 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 PSS 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 via the PSS website.

Appendix D: Publications

PSS

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

Publications

Annual Reports
- Annual report to Parliament
- Annual report to Members

Family Law and Splitting Super: How it's done and what happens next
Product Disclosure Statement, Supplementary PDS dated 8 September 2004 and Supplementary PDS dated 7 January 2005
The PSS Super Book: Your Guide to the PSS
Service Charter of our administrator ComSuper
Tax and your PSS Benefit
Take a walk Into the Future - Mini-Report 2004

Fact Sheets

Additional Death and Invalidity Cover
Cash Investment Option for Preserved Benefit and Associate Members
Changing from Full-time to Part-time
Contributing to the PSS
Death Benefits
Family Law and Your Super
Getting Info Online
Invalidity Benefits
Leave Without Pay
The MAC Report on Organisational Renewal
Maximum Benefit Limits
Multiple PSS Memberships
Pensions for an Eligible Spouse
Post Retirement Marriages
Preservation of Benefits
Reasonable Benefit Limits (RBLs)
Rolling Money into the PSS
Retrenchment Benefits
Salary Reductions and your PSS super
Super Co-contribution for Members Earning Less than $58,000 p.a.
Superannuation Contributions Surcharge
Taxation Concessions for Pensions
Transfer of Performance Based Pay
Transition to Retirement
Using Average Weekly Ordinary Time Earnings

These publications are available by calling 1300 000 377 or online at www.pss.gov.au.

PSSap

Find out about the overall features, benefits, risks and cost of investing in PSSap from our Product Disclosure Statement

The following publications and fact sheets are available from the PSSap website (www.pssap.gov.au).

Publications

Product Disclosure Statement
Financial Services Guide
Your quick guide to the PSSap

Fact Sheets

Beneficiary Nomination
Contributions
Dependants
Financial Planning
Superannuation Salary
Tax and your super
Transfers
Type of Employment
Withdrawing your super

The Product Disclosure Statement and 'Your quick guide to the PSSap' are available by calling 1300 725 171 or online at www.pssap.gov.au.

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.aria.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 administrator's operations are provided in the *Commissioner for Superannuation Annual Report 2005/06.*

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Appendix G: Consultancies

The PSS 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 PSS 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 PSS and PSSap

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 $26 461 000.

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 (see page 58) 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.

During 2005/06 the CSS and PSS Boards jointly engaged the following consultancies. The following list covers expenditure of relevant public moneys and excludes expenditure related to the management and investment of the PSS and CSS Funds.

Table A1: PSS/CSS 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	Communicatons 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	Communicatons 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	Communicatons 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	Communicatons Panel [1]	Skill
Total Consultancies 2005/06		**891 639**		

Notes

1. In February 2006 the PSS and CSS 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 year term, with an option to extend the initial term of any resulting agreement up to two times for a period of one 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 PSS 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
- 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 PSS 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 Orima Research.

The PSS Board provides a website 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, PSS and PSSap 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 PSS Board Executive Unit offices and the scheme administrator's offices provide wheelchair 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
ADIC	Addition death and invalidity cover
AIG	American International Group
AFSL	Australian Financial Services Licence
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 PSS Board of Trustees
CAC	Complaints Advisory Committee
CDRom	Compact Disc Read-Only Memory
CEO	Chief Executive Officer
CMAPS	Confidential Medical and Personal Statements
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*
ESO	Employer Services Online
fax	facsimile
FBT	Fringe benefit tax
FICS	Finance Industry Complaints Scheme
Finance	Department of Finance
FMA Act	*Financial Management and Accountability Act 1997*
FOI	Freedom of Information
FSR	Financial Services Reform
GST	Goods and Services Tax
HR	Human Resources
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
MSO	Member Services Online
NRMA	National Roads and Motorists' Association Limited
NRMC	Natural Resource Management Consultants
PDS	Product Disclosure Statement

portfolio	collection of investments of a particular fund or investment manager
PSS	Public Sector Superannuation (scheme)
PSSap	Public Sector Superannuation accumulation plan
PSS Act	*Superannuation Act 1990*
QSI	Quality Service Index
RAC	Reconsideration Advisory Committee
RBL	Reasonable benefit limit
S16	ComSuper sixteenth semester client satisfaction survey
S17	ComSuper seventeenth semester client satisfaction survey
SAA	strategic asset allocation
S&P	Standard and Poors
sector	a category of financial assets
SES	Senior executive service
SIS Act	*Superannuation Industry (Supervision) Act 1993*
SCT	Superannuation Complaints Tribunal
SLA	Service level agreement
SPIN	Superannuation Product Identification Number
SRC Act	*Superannuation (Resolution of Complaints) Act 1993*
superannuant	a person receiving a pension from a superannuation fund or RSA
surcharge	Commonwealth Government tax on employer contributions
T9	ComSuper ninth trimester client satisfaction survey
TPD	Total & Permanent Disablement
TTY	Text Telephone (tele-typewriter)
UNEP	United Nations Environment Programme
WC3	World Wide Web Consortium

Symbols

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