

## ARIA ANNUAL REPORT

2006 - 2007

### Trustees

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## ARIA trustees

ARIA was established under the *Superannuation Act 1990* and is licensed under the *Corporations Act 2001* and the *Superannuation Industry (Supervision) Act 1993 (SIS Act)*.

ARIA manages the Commonwealth Superannuation Scheme (CSS), Public Sector Superannuation Scheme (PSS) and the Public Sector Superannuation accumulation plan (PSSap) in accordance with the provisions of the CSS, PSS and PSSap Acts, and is responsible for the management and investment of the three Funds.

## Trustee members

The seven trustees of ARIA are appointed by the Minister for Finance and Administration. Three are nominated by the government as employer, three by the Australian Council of Trade Unions (ACTU) and the Chairman is independent.

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 2006 or who have been subsequently appointed are:



Ms Susan Doyle—First appointed 28 July 2003  
Current term expires 27 July 2009

On 28 July 2003, Ms Susan Doyle was appointed Chairman of the CSS and PSS Boards (now ARIA). Ms Doyle has many years experience in the area of superannuation and investments. She worked for Commonwealth Funds Management for 20 years and was 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 an Industrial Officer with the CPSU, the Community and Public Sector Union. He has worked for the CPSU and its predecessor organisations for over 20 years in a range of capacities at the state and national level as both an employee and official. Prior to this Mr Feltham worked for 10 years in the Federal Public Service.



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

Ms Hall is also a member of the Audit and Risk Management Committee. Ms Hall is an independent director of a number of companies including: State Superannuation Financial Services Australia Limited as a nominee of ARIA, a financial planning company providing services to NSW and Commonwealth public servants and their families; Colonial First State Private Capital Limited, a listed private capital and infrastructure investment company; Uniseed (UIIT Pty Ltd) as a nominee of Westscheme. Uniseed funds emerging businesses arising from research at the universities of Melbourne, Queensland and New South Wales; Financial Industry Complaints Scheme as a consumer representative. Ms Hall is also a consultant to the Association of Superannuation Funds Australia. Ms Hall was previously Director of Economic and Income Security in the Office of the Status of Women, Department of Prime Minister and Cabinet and ACT Branch Secretary of the Community and Public Sector Union.



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

Mr Moore is also a member of 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 also a Council Member of the Australian Strategic Policy Institute.



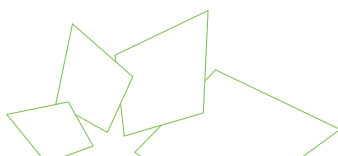
**Ms Joy Palmer**—First appointed 1 July 1996  
Current term expires 30 September 2007

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



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

Mr Rogers is an independent company director and chairman with over 25 years experience as a business leader in the financial services industry. He is an actuary by profession. Past roles include Chief Executive of Equitable Life and founder and first chief executive of Jacques Martin Group. Mr Rogers has restructured the QBE group, rebuilt Colonial Investment Management Ltd, following the 1987 crash, and initiated the Colonial Group's thrust into Asia. He also served two terms as Deputy Chairman of PHIAC (the Australian Health Insurance Regulator). He is currently Deputy Chair of Australian Wealth Management, Chair of Grange Asset Management Ltd and Chair of Regional Imaging Ltd.



**Trustees**

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- Trustee staff
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## Trustee objectives

**Table 1: Major business objectives for the 2006/07 financial year**

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

## Trustee and Trustee committee meetings

ARIA has constituted an Audit and Risk Management Committee and a Remuneration Committee and may from time to time constitute other Trustee 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.

The Remuneration Committee comprises Ms Susan Doyle, Chairman; Mr Peter Feltham, Member and Mr Graham Rogers, Member.

**Table 2: Trustee and Trustee committee meeting attendance 2006/07**

	Trustee meetings		Remuneration Committee meetings		Audit and Risk Management Committee meetings	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Susan Doyle	12	12	5	5	n/a	n/a
David Connolly	12	12	n/a	n/a	5	5
Peter Feltham	12	12	5	5	n/a	n/a
Winsome Hall	12	12	n/a	n/a	5	5
Des Moore	11	12	n/a	n/a	5	5
Joy Palmer	10	12	n/a	n/a	4	5
Graham Rogers	12	12	5	5	n/a	n/a

## Trustee staff

Staff are responsible for providing advice, for implementing Trustee decisions and for the ongoing management of ARIA's functions and responsibilities. Specifically, ARIA staff are responsible for:

- > advising the trustees on investment strategy
- > implementing corporate strategies and plans
- > managing the relationships between the trustees and service providers
- > managing the trustees' financial affairs in relation to the administration of the CSS, PSS and PSSap
- > ensuring the trustees' responsibilities to maintain appropriate records are met
- > coordinating advice from external advisers and overseeing the recommendations which go to the trustees
- > ensuring compliance with all relevant legislation and law
- > communicating with members and, in particular, preparing and producing Annual Member Statement Packs and parliamentary reports; and
- > providing comprehensive administrative and executive support services to the trustees.

## Trustee resources

### Human resources

During 2006/07, the number of staff employed by ARIA increased from 34 to 37 as ARIA expanded its investment, compliance, communications and finance teams. Staff employed directly by ARIA are engaged on fixed-term contracts.

## Staffing profile

**Table 3: Staff numbers at 30 June 2007**

Employment category	Male	Female	Total
Full-time staff	15	17	32
Part-time staff	1	4	5

### Non-salary benefits

ARIA offers staff a variety of salary packaging 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.

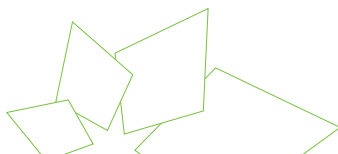
### Performance pay

During 2006/07, ARIA paid a total of \$436 857 in performance bonuses to 24 staff. The average performance bonus paid was therefore \$18 202.

### Professional development

Ongoing staff training and development is an important component of ARIA's human resource management as well as a specific requirement for ARIA in maintaining its Australian Financial Services (AFS) licence.

During 2006/07, all Trustee staff participated in a range of continuing professional development activities, including specialised courses in investment, risk management, finance and business operations.



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### Occupational health and safety

Under the *Occupational Health and Safety (Commonwealth Employment) Act 1991* and the *Safety, Rehabilitation and Compensation Act 1988*, ARIA has a general duty of care that must be met by taking all reasonably practicable steps to protect the health and safety of its employees and third parties at work. Staff employed by ARIA 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; and
- > no remedial provisional improvement notices issued.

### Financial resources

ARIA is a prescribed agency under the *Financial Management and Accountability Act 1997* (FMA Act), in respect of public monies and accordingly the financial management of those monies is carried out in accordance with the requirements of that Act.

### Funding arrangements

ARIA is responsible for the management of the CSS, PSS and PSSap and the investment of those Funds. Costs which are related to ARIA's responsibilities for the management of the Funds and the investment of monies are recovered by ARIA from the Funds. Fees paid to the Chairman and a proportion of those paid to the trustees are also a charge against the Funds.

All other costs incurred by ARIA are met through a user-charging arrangement with employer agencies whereby a share of an administration fee is transferred to ARIA.

### Purchasing

In 2006/07, ARIA complied (in relation to resources subject to the FMA Act) with the purchasing principles and policies 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.

Investment related activities are not covered by the Commonwealth Procurement Guidelines.

### Consultants

During 2006/07, 13 new consultancy contracts were entered into involving total actual expenditure of \$0.28 million. In addition, seven ongoing consultancy contracts were active during the year, involving total actual expenditure of \$0.25 million.

### Asset management

ARIA's assets, not including the investments and other assets of the Funds, were recorded and managed in accordance with ARIA's Chief Executive Instructions.

### Ecologically sustainable development and environmental performance

In conducting its operations, ARIA 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

ARIA was established under the *Superannuation Act 1990*. It is accountable to members of the Schemes it manages under the Superannuation Industry Supervision Act and Regulations (SIS) 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 interests in respect of the administration and investment of the Funds.

Trustees are required by SIS 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, ARIA has developed a Code of Conduct to assist in carrying out its duties, including exercising the wide range of discretions it is required to exercise.

Pursuant to its general governance principles, ARIA:

- > 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.

ARIA's Code of Conduct is set out in full at [http://www.aria.gov.au/about\\_us/governance/governance.html](http://www.aria.gov.au/about_us/governance/governance.html)

In conjunction with the governance principles, ARIA's responsibility for the Funds is supported by comprehensive risk management strategies, plans and compliance programs.

## Licences

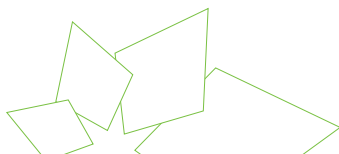
ARIA was issued its APRA (Australian Prudential Regulation Authority) licence on 30 June 2006 with effect from 1 July 2006. It holds this licence in addition to its AFS (Australian Financial Services) licence, administered by ASIC (the Australian Securities and Investments Commission). Significant risk management and compliance resources are necessary to meet the ongoing requirements of these licences.

## Risk management

As an APRA licensee, ARIA has a comprehensive risk management program in place. This covers a range of business, operational and governance risks and outlines risk minimisation strategies and controls for all identified risks. All strategies and plans are kept under constant review by ARIA's Audit and Risk Management Committee. They are reviewed annually in conjunction with ARIA's business plan, and updated or amended as required to meet emerging risk or new business requirements.

## Compliance

ARIA's compliance program meets AFS licence requirements and underpins ARIA's risk management program. 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 service standards, in addition to licensing requirements. This is done regularly – either monthly or quarterly. The Audit and Risk Management Committee oversees compliance reporting, remediation where breaches have occurred and any necessary regulatory reporting. Consistent with ARIA's breach policy, breach reports are required within a timeframe that enables ARIA to make timely regulatory reports, if required.



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### Fraud control

ARIA has a current fraud control plan and fraud risk assessment, prepared in accordance with the Commonwealth Fraud Control Guidelines. Generally ARIA is assessed as having a stable risk environment with effective controls in place.

### Internal audit

Each year the Audit and Risk Management Committee agrees on an audit plan. 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 or business changes. The annual internal audit plan is additional to audits that can be required at any time by the Audit and Risk Management Committee to address changed business priorities or risk profile.