Governors' Pensions Scheme

Financial report
for the year ended
30 June 2019

INDEPENDENT AUDITOR'S REPORT

Government of South Australia
Auditor-General's Department

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To the Chief Executive
Department of Treasury and Finance

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987*, I have audited the financial report of the Governors' Pension Scheme for the financial year ended 30 June 2019.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Governors' Pension Scheme as at 30 June 2019, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Financial Position as at 30 June 2019
- an Income Statement for the year ended 30 June 2019
- a Statement of Changes in Member Benefits for the year ended 30 June 2019
- a Statement of Changes in Equity for the year ended 30 June 2019
- a Statement of Cash Flows for the year ended 30 June 2019
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chief Executive, Department of Treasury and Finance, Chief Executive, State Superannuation Office and the Director, Finance and Business Transformation, State Superannuation Office.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of Governors' Pension Scheme. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants* have been met.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Executive, Department of Treasury and Finance for the financial report

The Chief Executive, Department of Treasury and Finance is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Governor's Pension Scheme's internal control

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive, Department of Treasury and Finance

- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive, Department of Treasury and Finance about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

Andrew Richardson
Auditor-General
18 September 2019

Governors' Pensions Scheme

Statement of Financial Position

as at 30 June 2019

	Note	2019 $000	2018 $000
Assets			
Cash and cash equivalents		9	6
Investments	4	3 247	284
Total assets		3 256	290
Liabilities			
Benefits payable		6	5
Payables	6	5	5
Total liabilities excluding member benefits		11	10
Net assets available for member benefits		**3 245**	**280**
Members benefits			
Defined benefit member liabilities	3	2 247	2 298
Total net assets/(liabilities)		998	(2 018)
Equity			
Defined benefits that are over (under) funded		998	(2 018)
Total equity		**998**	**(2 018)**

The Statement of Financial Position should be read in conjunction with the accompanying notes.

Income Statement

for the year ended 30 June 2019

	Note	2019 $000	2018 $000
Changes in investments measured at fair value		257	48
Total revenue		257	48
Investment expenses	7	13	4
Administration expenses	8	21	20
Total expenses		34	24
Result from superannuation activities		223	24
Net change in defined benefit member liabilities		(207)	(216)
Net operating result		**16**	**(192)**

The Income Statement should be read in conjunction with the accompanying notes.

Statement of Changes in Member Benefits

for the year ended 30 June 2019

	2019 $000	2018 $000
Opening balance as at 1 July	2 298	2 334
Benefits to members	(258)	(252)
Net benefits allocated, comprising:		
Net change in member benefits	207	216
Closing balance as at 30 June	**2 247**	**2 298**

The Statement of Changes in Member Benefits should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the year ended 30 June 2019

	2019	2018
	$000	$000
(Under) funded benefits opening balance 1 July	(2 018)	(1 826)
Transfer from Consolidated Account	3 000	-
Net operating result	16	(192)
Over/(under) funded benefits closing balance 30 June	**998**	**(2 018)**

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the year ended 30 June 2019

	Note	2019	2018
		$000	$000
Administration expenses paid		(20)	(20)
GST recoup		(1)	(1)
Net cash flows from operating activities	10	(21)	(21)
Receipts from the sale of investments from Funds SA		280	283
Payments to Funds SA for the purchase of investments		(3 000)	(10)
Net cash flows from investing activities		(2 720)	273
Past Service Liability funding		3 000	-
Benefits paid		(256)	(252)
Net cash flows from financing activities		2 744	(252)
Net change in cash		3	-
Cash at the beginning of the financial period		6	6
Cash at the end of the financial period		**9**	**6**

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. Objectives and funding

(a) Governors' Pensions Scheme
The *Governors' Pensions Act 1976* (the Act) establishes provisions for the payment of pensions to certain former Governors of the State or their families. The provisions of the Act are commonly referred to as the "Governors' Pensions Scheme" (the Scheme).

Under the Act the Treasurer may authorise the payment of an annual pension for life to a former Governor, the spouse of a deceased Governor, or the spouse of a deceased former Governor of the State. In determining the amount of pension the Treasurer will have regard to any other pension or retiring allowance payable to a former Governor or spouse in respect of remuneration activities undertaken by the Governor before commencing office. The Scheme is non-contributory.

The Scheme is an exempt public sector superannuation scheme and operates on a not for profit basis.

(b) Superannuation Funds Management Corporation of South Australia
Funds SA is a South Australian Government Entity established under the *Superannuation Funds Management Corporation of South Australia Act 1995*. Funds SA is responsible for the investment and management of the Scheme's funds pursuant to strategies formulated by Funds SA.

For further information on the investment of the Fund and the Governors' Pension Account (the Account), reference should be made to the annual report of Funds SA. The investment assets, liabilities, income and expense contained in this financial report are related to the investment activities of Funds SA.

(c) Funding Arrangements
Under section 6 of the Act all benefits paid must be made out of the Consolidated Account (that is appropriated to the necessary extent). The Treasurer subsequently seeks reimbursement from a Special Deposit Account entitled "Governors' Pensions Account" for the value of benefits paid.

2. Significant accounting policies

(a) Basis of accounting
This financial report is a general purpose financial report. The financial statements have been prepared in accordance with relevant Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board, Treasurer's Instructions and Accounting Policy Statements promulgated under the provision of the *Public Finance and Audit Act* 1987 (PFAA), except as provided below.

This financial report has been prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

This financial report is presented in Australian currency and all amounts have been rounded to the nearest thousand dollars ($000).

The scheme is a not-for-profit entity for the purpose of preparing financial statements.

(b) Impact of standards and statements not yet effective
Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 reporting period. The assessment of the impact of these new standards and interpretations is set out below.

Super SA has assessed the impact of new and changed Australian Accounting Standards Board Standards and Interpretations on behalf of the Scheme. There are no Accounting Policy Statements that are not yet effective. The material impacts on the Scheme are outlined below.

AASB 15 – Revenue from Contracts with Customers
AASB 15 introduces a 5-step approach to revenue recognition. The objective of AASB 15 is that recognition of revenue depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. It provides extensive guidance as to how to apply this revenue recognition approach to a range of scenarios. *AASB 15 – Revenue from Contracts* replaces *AASB 111 – Construction Contracts* and *AASB 118 – Revenue*.

AASB 1058 – Income of Not for Profit Entities
AASB 1058 introduces consistent requirements for the accounting of non-reciprocal transactions by not-for-profit entities, in conjunction with AASB 15. These requirements closely reflect the economic reality of not-for-profit entity transactions that are not contracts with customers. AASB 1058 replaces parts of *AASB 1004 – Contributions*.

Super SA has assessed the impact of the new rules on behalf of the Scheme and determined that there will be no material impact on the financial statements as a result of *AASB 15 – Revenue from Contracts with Customers* and *AASB 1058 – Income of Not for Profit Entities.*

AASB 16 – Leases
AASB 16 is first applicable for the year ending 30 June 2020. Assets and liabilities are to be reported on the statement of financial position for all leases with a term of more than 12 months, even if they were previously classified as an operating lease.

The Scheme has no operating leases, and Super SA has assessed the impact of the new standard on the Scheme, and has determined there will be no material impact on the Scheme's financial statements.

(c) ***Financial assets and liabilities***

(a) Classification
The Scheme classifies its financial assets and financial liabilities into the categories below in accordance with AASB 9.

Financial assets and liabilities held for trading:
These assets are acquired principally for the purpose of generating a profit from short-term fluctuation in price. All derivatives are classified as held for trading. Derivative financial instruments entered into by the Scheme do not meet the hedge accounting criteria as defined by AASB 9. Consequently hedge accounting is not applied by the Scheme.

Financial instruments designated at fair value through profit or loss upon initial recognition:
These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis in accordance with risk management and investment strategies of the Fund.

Other financial liabilities
This category includes all financial liabilities, other than those classified at fair value through profit or loss. Other financial liabilities are measured at their nominal amounts. Amounts are generally settled within 30 days of being recognised as other financial liabilities. Given the short-term nature of other financial liabilities, the nominal amount approximates fair value.

(b) Recognition
The Scheme recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Scheme commits to purchase or sell the asset.

(c) Initial recognition
Financial assets and financial liabilities at fair value through profit and loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in the income statement.

Receivables and financial liabilities (other than those classified at fair value through profit or loss) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

For financial assets and liabilities where the fair value at initial recognition does not equal the transaction price, the Scheme recognises the difference in the income statement, unless specified otherwise.

(d) Subsequent measurement
After initial measurement, the Scheme measures investments at fair value through profit or loss. Subsequent changes in the fair value of those investments are recorded as 'changes in assets measured at fair value' through the income statement. Interest earned is recorded in 'Interest revenue'.

(e) Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Scheme.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Scheme uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. Refer to financial statement note 4.

(f) Cash and cash equivalents
Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

(g) Receivables and payables
Receivables are carried at nominal amounts due that approximate fair value. Receivables are normally settled within 30 days. Payables are carried at nominal amounts that approximate fair value. They represent liabilities for goods and services provided to the Scheme prior to the end of the financial year that are unpaid when the Scheme becomes obliged to make future payments in respect of the purchase of these goods or services.

(h) Benefits payable
Benefits payable are valued at fair value and relate to pension payments payable on or prior to 30 June 2019 but paid after the end of financial year.

(i) Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Scheme and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognised:

Changes in fair values
Changes in the fair value of investments invested with Funds SA are calculated as the difference between the fair value at sale, or at balance date, and the fair value at the previous valuation point. All changes are recognised in the income statement.

Interest
Interest revenue on cash and other financial assets carried at fair value is recorded according to the terms of the contract and recognised in the income statement.

(j) Taxation
The Scheme is a constitutionally protected superannuation fund in terms of Section 295-15 of the *Income Tax Assessment Act 1997*, Regulation 995-1.04 (Schedule 4) and is exempt from income tax. Therefore no income tax has been brought to account in this financial report.

(k) Goods and services tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except:
- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable; or
- When receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to the ATO are classified as operating cash flows.

(l) Foreign currency
The functional and presentation currency of the Scheme is Australian Dollars, which is the currency of the primary economic environment the Scheme operates. The Scheme's performance is evaluated and its liquidity managed in Australian Dollars. Therefore, the Australian Dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

(m) Investments
Funds SA manages the Defined benefit (DB) High Growth strategy, with individual investment asset classes measured at fair value. Below is the basis for these investments.

<u>(i) Inflation Linked Securities A</u>

The Inflation Linked Securities portfolio invests in discretely managed portfolios and internal inflation linked securities. Discretely managed portfolios are invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at balance date.

Internally managed inflation linked securities, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at balance date was performed by an independent valuer.

(ii) Property A

The Property A portfolio comprises two sub-sectors:

Listed Property Trusts

These investments comprise arrangements whereby professional fund managers are appointed under an investment management agreement to manage and invest in listed property securities and real estate investment trusts. Investments in this sub-sector are in pooled funds and have been valued in accordance with the valuations supplied by the managers.

Unlisted property vehicles

The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this sub-sector have been valued in accordance with the valuations supplied by the managers.

(iii) Australian Equities A

The Australian Equities A portfolio comprises investments in listed Australian equities, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the valuations supplied by the managers.

(iv) International Equities A

The International Equities A portfolio comprises investments in equities listed on international share markets, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at balance date. Investments in pooled international vehicles have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date where applicable.

(v) Short Term and Long Term Fixed Interest

The Short Term and Long Term Fixed Interest portfolios have exposure to domestic and global debt instruments and is managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at balance date.

(vi) Diversified Strategies Growth A

The Diversified Strategies Growth A portfolio comprises investments in Australian and international private equity funds and Australian and international pooled funds, which are invested and managed by external managers. The valuation of private equity investments is based on the most recent valuation performed by the fund managers plus or minus cash flows between the last valuation date and the reporting date. Both Australian and international private equity valuations are generally in accordance with the International Private Equity and Venture Capital Valuation Guidelines (December 2018). Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date where applicable.

(vii) Diversified Strategies Income

The Diversified Strategies Income portfolio comprises investments in discretely managed investments and Australian and international pooled funds, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at balance date where applicable.

(viii) Cash

Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers. Deposits at call have been valued on the basis of principal plus accrued interest.

(n) Operation of investment portfolio

Funds SA is responsible for the investment and management of the Scheme's funds pursuant to strategies formulated by Funds SA (refer Note 1 (b)). Funds SA operates a multi-layered notional unitisation structure to facilitate the administration of different investment strategies applying to the various public sector superannuation funds. For the year ending 30 June 2019, funds of the Scheme were invested in the DB High Growth strategy.

Reference should be made to Funds SA's Annual Report for the strategic asset allocations applying to the DB High Growth strategy discussed in the preceding paragraph.

(o) Member liabilities

Member liabilities are measured at the amount of accrued benefits, with defined benefit member liabilities measured as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits at the date they are expected to fall due.

(p) Significant accounting judgements, estimates and assumptions
The preparation of the Scheme's financial statements requires management to make judgments, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The significant accounting policies have been consistently applied in the current financial year and the comparative period, unless otherwise stated. Where necessary, comparative information has been presented to be consistent with current period disclosures.

Fair value of investments
When the fair values of the investments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including a discounted cash flow model. The inputs in these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required to establish fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Changes in assumptions about these factors could affect the reported fair value of these investments.

Valuation of defined benefits member liabilities
The amount of member liabilities in relation to defined benefits has been determined using actuarial valuation techniques and assumptions. An actuarial valuation involves making various assumptions about the future. Actual developments in the future may differ from these assumptions. The assumptions include member turnover, future investment returns, pension indexation rates, mortality rates and future salary increases. Due to the complexities involved in the valuation and its long term nature, defined benefit member liabilities are highly sensitive to changes in these assumptions. Assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the actuary considers an investment portfolio that reflects the opportunities reasonably available to the Scheme in the investment markets, and also reflects the Scheme's actual investments and investment strategy in respect of defined benefit member liabilities.

The mortality assumption is based on publicly available mortality tables. Future salary increases are based on the Wage Price Index produced by the Australian Bureau of Statistics and in consultation with the employer-sponsors.

3. Defined benefit member liabilities

The Scheme engages Bruce Watson, Fellow of the Institute of Actuaries of Australia from consulting actuaries Brett & Watson Pty Ltd to measure the accrued superannuation liability. The Scheme has no information that would lead to adjustments to the assumptions, and which are all unchanged from the previous reporting period.

Accrued benefits

	2019	2018
	$000	$000
Accrued benefits	2 247	2 298

The actuarial valuation of member liabilities reflects the actuarial assessment of the benefits accrued up to the reporting date and payable to members on retirement, resignation, death and disability. The accrued liabilities are the present values of expected future benefit payments arising from membership of the Scheme up to 30 June 2019.

The expected future benefit payments have been determined using the 2016 triennial review assumptions relating to mortality, disability, withdrawal, preservation and retirement. The actuarial valuation of member liabilities of the Scheme is undertaken annually, as the end of each financial year.

The key assumptions used to determine the values of accrued benefits were:
- The future rate of investment earnings (net of investment taxes and fees): 7.0 per cent (2018: 7.0 per cent); and
- The CPI of 2.5 per cent (2018: 2.5 per cent).

The Scheme uses sensitivity analysis to monitor the potential impact of changes to key variables about which assumptions need to be made. The Scheme has identified two assumptions (being the discount rate and the rate of salary adjustment) for which changes are reasonably possible that would have a material impact on the amount of the defined benefit member liabilities.

The assumed discount rate has been determined by reference to the investment returns expected on an investment portfolio that reflects the opportunities reasonably available to the Scheme in the investment markets, and also reflects the Scheme's actual investments and investment strategy in respect of defined benefit member liabilities.

The other variables about which assumptions have been made in measuring defined benefit member liabilities and for which changes are not considered reasonably possible, or for which reasonably possible changes would not be expected to have a material effect, include: pension indexation rates, mortality rates and resignations.

Governors' Pensions Scheme

The following table outlines the sensitivity of key assumptions provided by the scheme actuary on the discount rate, salary increase rate and pension increase rate.

	Member Liability result	Change in member benefit liability	Change in member benefit liability
Scenario	$000	$000	%
Base case	2 247	-	-
Discount rate + 0.5%	2 159	(88)	(3.9)
Discount rate - 0.5%	2 343	95	4.2
Pension increase rate + 0.5%	2 346	99	4.4
Pension increase rate - 0.5%	2 155	(92)	(4.1)

Vested Benefits

	2019	2018
	$000	$000
	2 247	2 298
Vested benefits	2 247	2 298

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

4. Fair value of financial instruments

Classification of financial Instruments under the fair value hierarchy
AASB 13 requires disclosures relating to fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The following table shows financial instruments recognised at fair value, categorised between those whose fair value is based on:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Valuation technique
The Scheme's investments are not quoted in an active market. To ensure fair value can be determined, the Scheme's investment manager, Funds SA, applies due diligence and considers valuation techniques and inputs used in valuing the funds, prior to investing. In measuring fair value, consideration is given to the amounts for which financial assets can be sold, excluding transaction costs. The Scheme classifies these funds as Level 2.

There were no changes in valuation techniques during the year.

	2019	2018
Financial assets at fair value through profit or loss - Level 2	$000	$000
Unlisted managed investment schemes		
Funds SA	3 247	284

5. Movement in the value of investments

	2019	2018
	$000	$000
Investments at 1 July	284	512
Change in value of investments	2 963	(228)
Investments at 30 June	3 247	284

6. Payables

	2019	2018
	$000	$000
Audit fees payable	5	5

7. Investment expenses

	2019	2018
	$000	$000
Investment Expenses	13	4

Investment expenses comprise fees paid to Funds SA. Funds SA advises the amount applicable to the Scheme based on the Scheme's investment.

8. Administration expenses

	2019	2018
	$000	$000
Administration expenses (i)	14	14
Other expenses (ii)	7	6
	21	20

(i) Administration Expenses comprise the costs incurred by the Department of Treasury and Finance in administering the Scheme, which are met in the first instance from the Department of Treasury and Finance Operating Account. The Department of Treasury and Finance seeks reimbursement from the Scheme.

(ii) Other expenses include Auditor's remuneration. Refer note 9.

9. Auditors' remuneration

	2019	2018
	$000	$000
Audit fees	5	5

Audit fees paid or payable to the Auditor-General's Department relating to work performed under the PFAA were $5 100, GST exclusive (2018: $5 000). No other services were provided by the Auditor-General's Department.

10. Reconciliation of cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and deposits with the Department of Treasury and Finance. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:

	2019	2018
	$000	$000
Cash and cash equivalents	9	6
Reconciliation of net cash from operating activities		
Net operating result	16	(192)
Adjustments for:		
Changes in investments measured at fair value	(257)	(48)
Investment expenses	13	4
GST recoup adjustment	-	(1)
Allocation to members' accounts	207	216
Net cash flows from operating activities	(21)	(21)

11. Financial risk management objectives and policies

The Scheme's investments are managed by Funds SA predominantly by the appointment of investment managers as determined by the Funds SA Board. Each investment manager is required to invest the assets in accordance with the terms of a written mandate. The Funds SA Board has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with the Scheme's investment strategy. The Funds SA Board obtains regular reports from each manager on the nature of the investments made on its behalf and the associated risks.

The allocation of assets between the various types of financial instruments is determined by the Funds SA Board. Divergence from target asset allocations and the composition of the portfolio is monitored by the Funds SA Board on a regular basis.

The Scheme's investing activities expose it to the following risks from its use of financial instruments:

- market risk
- credit risk
- liquidity risk

The nature and extent of the financial instruments employed by the Scheme are discussed below. This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risk.

The Funds SA Board has overall responsibility for the establishment and oversight of the Scheme's investment risk management framework.

The Scheme's investment risk management policies are established to identify and analyse the risks faced by the Scheme, including those risks managed by the Scheme's investment managers, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Scheme's activities.

The Scheme receives regular reports from Funds SA concerning compliance with investment objectives.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Scheme's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

I. Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of a change in foreign exchange rates.

The Scheme's currency risk is managed by Funds SA as investments include assets denominated in foreign currencies.

Funds SA strategic policy for the management of its foreign currency exposure is as follows:

- Foreign currency exposures in the diversified strategies (growth), diversified strategies (income) and fixed interest asset sectors are fully hedged to Australian dollars.

- Foreign currency exposures over the developed markets component of the international equities asset class are 40 per cent hedged to Australian dollars. In addition, up to 25 per cent of the international equities asset class may be hedged by the equities managers.

For the purpose of managing foreign currency risk, within defined constraints, the exposure to foreign currency can be varied from the strategic policy stated above, by Funds SA.

II. Interest rate risk

Interest rate risk is the risk that a movement in interest rates will cause the value of fixed interest securities to deviate from expectations.
The Fund's interest rate risk is managed by Funds SA, as investments include fixed interest securities.

Funds SA manages interest rate risk through:
- Ensuring asset allocations of different investment products are consistent with the time horizon of each.
- The use of specialist external investment managers to manage Funds SA's cash and fixed income portfolios.
- The Scheme's receivables and payables are non-interest bearing. The carrying amounts of these assets approximate fair value.

III. Other market price risk

Other market price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer, or factors affecting all instruments traded in the market.

As the Scheme's financial instruments are valued at fair value with changes in fair value recognised in the Income Statement, all changes in market conditions will directly affect investment revenue.

The Fund's other market price risk is managed by Funds SA, as investments include financial instruments exposed to market prices.

Funds SA manages the risk of financial market volatility through the adherence to two principles:
- Ensuring a diversity of exposures to different financial markets and sub markets.
- Ensuring asset allocations for different investment options are consistent with the time horizon of each.

IV. Investments sensitivity analysis

The Funds SA Board has determined that its forecast risk/return profile provides a reasonable measure of the sensitivity of the expected returns in the investment for the year ahead. The following tables show the standard deviation around expected nominal returns for DB High Growth investment.

2019	**Average return**	**Market risk**	**Average FUM**	**Potential impact of market risk (+/-) on Income Statement**
Investment	%	%	$000	$000
DB High Growth	7.9	9.9	1 766	175

2018	**Average return**	**Market risk**	**Average FUM**	**Potential impact of market risk (+/-) on Income Statement**
Investment	%	%	$000	$000
DB High Growth	8.4	11.3	398	45

Note: 2018 values have been restated for consistency with the 2019 presentation.

The statistics shown above are averages calculated over 10 years, net of investment management fees and gross of tax. These investment statistics have zero per cent tax rate applied and exclude franking credits.

Market risk is a useful historical measure of the variability of returns earned by an investment portfolio. The market risk shown above represents the range at which actual future returns are expected to occur either side of the nominal return approximately two thirds of the time.

The dollar value of the potential impact on the Income Statement arising from the market risk is indicative only. The impacts are not additive across investment asset classes, as each asset class operates in different markets and is subject to different conditions.

Actual movements in returns may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the underlying trusts invest. As a result, historic variations in rates of return are not a definitive indicator of future variations in rates of return.

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme.

The value of financial assets, included in the Statement of Financial Position represents the Scheme's maximum exposure to credit risk in relation to those assets. The Scheme does not have any significant exposure to any individual counterparty or industry. The credit risk is monitored by Funds SA through ongoing reviews of the investment managers.

The Scheme does not have any assets which are past due or impaired and there is no concentration of credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. The Scheme's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its payment of benefits to members and liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation.

For the Scheme's investments, Funds SA manages liquidity risk as follows:

- By giving careful consideration to the expected net cash redemption requirements of Funds SA's clients. The allocation to cash in the strategic asset allocation of each investment product is set at a level sufficient to manage expected cash redemptions.
- A large proportion of each investment product is invested in highly liquid investments such as actively traded equities, unit trusts or securities with short-term maturities.

For the Scheme itself, the liquidity position is monitored on a daily basis. The Scheme's cash and liquidity policy is to have sufficient cash balances to meet anticipated weekly benefit payments, expenses and investing activities.

The following tables summarise the expected maturity profile of the Scheme's financial liabilities based on the earliest date on which the Scheme can be required to pay. The amounts in the table are the contractual undiscounted cash flows.

2019	Less than 3 Months	Total Contractual Cash Flows	Carrying Amount Liabilities
Financial liabilities	$000	$000	$000
Benefits payable	6	6	6
Vested benefits(i)	2 247	2 247	2 247
Total	2 253	2 253	2 253

2018	Less than 3 Months	Total Contractual Cash Flows	Carrying Amount Liabilities
Financial liabilities	$000	$000	$000
Benefits payable	5	5	5
Vested benefits(i)	2 298	2 298	2 298
Total	2 303	2 303	2 303

(i) Vested benefits have been included in the table, as this is the amount that members could call upon as at balance date. This is the earliest date on which the Scheme can be required to pay members vested benefits, however, members may not necessarily call upon amounts vested to them during this time.

(d) Derivative financial instruments

Derivatives can be defined as financial contracts whose value depends on, or is derived from, assets, liabilities, reference rates or indices. Funds SA uses derivatives to manage portfolio risk and to facilitate the implementation of investment strategies efficiently and cost effectively. Funds SA uses a variety of derivative instruments, such as over the counter swap agreements, forward rate agreements, futures and options.

Derivatives are an authorised investment within certain mandates managed by Funds SA's external investment managers for the purposes described above.

12. Segment information

The Scheme operates in one reportable segment, being the provision of benefits to members. The Scheme also operates from one reportable geographic segment, being Australia, from where its activities are managed. While the Scheme operates from Australia only, the Scheme, through its investment managers Funds SA, has investment exposures in different countries and across different industries.

13. Related parties

Key management personnel
The key management personnel of the Scheme includes the Treasurer, the Chief Executive, Department of Treasury and Finance, and the Chief Executive and four members of the Executive Leadership Group, State Superannuation Office, who have responsibility for the strategic direction and management of the Scheme.

Compensation
All key management personnel are compensated by the Department of Treasury and Finance therefore their compensation is disclosed in the respective financial reports.

Transactions with key management personnel and other related parties
There were no transactions with key management personnel or related parties.

Transactions with other government entities
There were no significant transactions with government entities other than those disclosed elsewhere in the financial statements.

14. Events after the reporting period

There were no significant events after the reporting period.

Governors' Pensions Scheme

Certification of the financial report

We certify that the:

- Financial statements of the Governors' Pension Scheme:
  - are in accordance with the accounts and records of the Scheme; and comply with relevant Treasurer's instructions; and
  - comply with relevant accounting standards; and
  - present a true and fair view of the financial position of the Scheme at the end of the financial year and the result of its operations and cash flows for the financial year.
- Internal controls employed by the Scheme over its financial reporting and its preparation of the financial statements have been effective throughout the financial year.

David Reynolds
CHIEF EXECUTIVE
DEPARTMENT OF TREASURY AND FINANCE

Dascia Bennett
CHIEF EXECUTIVE
STATE SUPERANNUATION OFFICE

Erin Fitzgerald
DIRECTOR, FINANCE AND BUSINESS TRANSFORMATION
STATE SUPERANNUATION OFFICE

Date 12/9/19.