A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3) OF THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

THE 2003/04 AUDIT OF THE SCOTTISH TEACHERS' PENSION SCHEME SCOTLAND ACCOUNTS

1. I have received the audited accounts of the Scottish Teachers' Pension Scheme Scotland (the Scheme) for the year ended 31 March 2004. The auditor's report on the regularity of expenditure is qualified because the use of resources by the Scheme exceeds limits authorised by the Budget Scotland Act 2003. The auditor's report on the financial statements is also qualified due to a limitation of scope concerning the accuracy of the scheme liability.

2. I submit these accounts and the auditor's report in terms of Section 22(4) of the Public Finance and Accountability (Scotland) Act 2000 (the 2000 Act), together with this report which I have prepared under Section 22(3) of the 2000 Act.

3. The Scheme is unfunded, in that employers' pension contributions and other receipts are not invested to create funds to pay pensioners. Income is credited to the Scheme's Revenue Account but the cash received is transferred to the Consolidated Fund. Pension payments, along with transfers out of the Scheme, are met from the Consolidated Fund. When income is received from employers for pensionable service, this increases the Scheme's liability to pay the employee as a future pensioner. This increase, known as the current service cost, combined with other expenditure such as interest on scheme liabilities, is charged to the Scheme's Revenue Account.

Qualified opinion on the regularity of expenditure

4. Under Section 22(1)(a)(ii) of the 2000 Act, the auditor is required to report whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with the Budget Act or Acts for the financial year, or any part of the financial year, to which the account relates. The Budget Scotland Act 2003 set a resource budget for 2003/04 for the Scheme of £1,481 million. The resource budget provides an estimate of gross expenditure (increases to the scheme liability) and budgeted income (contributions and other income receivable). As a result of the adoption of Financial Reporting Standard (FRS) 17 Retirement Benefits, the resource budget for 2003/04 also includes a prior year adjustment equivalent to the movement in scheme liability in 2001/02 and 2002/03.

5. The 2003/04 resource outturn against the resource budget was £1,715 million, resulting in an overspend against the resource budget of £234 million. The auditor has, therefore, qualified the audit opinion on the regularity of expenditure because, without Parliamentary approval, the overspend must be deemed irregular. Some £216 million of the £234 million overspend is due to the actual prior year adjustment exceeding that included in the Budget Act estimates. This was because HM Treasury guidance on how to calculate the adjustment was received too late to seek an increase in the Budget Act provisions. There was also a higher level of contributions than expected which led to a corresponding increase in current service pension costs, and therefore contributed to the resource outturn exceeding the Budget Act.

Qualified opinion arising from limitation in audit scope

6. Statutory regulations require a full actuarial valuation of the Scheme's liability to be conducted every five years, although there is no reporting deadline for these periodic valuations. The Government Actuary Department (GAD) has been unable to carry out a full valuation since 1996 because of deficiencies in the pension data provided to it. For 2003/04, the GAD has applied approximate updating for known changes but reported considerable uncertainties caused by rolling forward out of date information. The auditor has therefore issued a limitation of scope on her audit opinion because, without a more recent full actuarial valuation, the evidence available to the auditor was limited

and there were no other satisfactory audit procedures that could be adopted to confirm the £10,700 million scheme liability was not materially misstated.

7. The Scottish Public Pension Agency (SPPS), the administrators of the Scheme, attributes the problems in providing robust pension data to a backlog of records caused by staff turnover before and after its relocation from Edinburgh to Galashiels. It is confident that relevant data will be provided to the GAD to ensure the 2001 full actuarial valuation is completed in time for the preparation of the 2004/05 accounts. The auditor will continue to monitor the progress made by SPPA in this respect.

ROBERT W BLACK
Auditor General for Scotland
14 December 2004