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Department of Education - Teachers' Superannuation

ANNUAL SCHEME STATEMENTS

for the year ended 31 March 2010

Department of Education – Teachers' Superannuation
Annual Scheme Statements
For the year ended 31 March 2010

The Accounting Officer authorised these
financial statements for issue

on

29 June 2010

Laid before the Northern Ireland Assembly by the
Department of Finance and Personnel under
Section 10(04) of the Government Resources
and Accounts Act (Northern Ireland) 2001

2 July 2010

DEPARTMENT OF EDUCATION—TEACHERS' SUPERANNUATION ANNUAL SCHEME STATEMENTS for the year ended 31 March 2010

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DEPARTMENT OF EDUCATION—TEACHERS' SUPERANNUATION

REPORT OF THE MANAGERS

for the year ended 31 March 2010

Introduction

The *Teachers' Superannuation Scheme* is an unfunded contributory, voluntary membership scheme administered by the Department of Education. The current regulations under which the scheme operates are the *Teachers' Superannuation Regulations (NI) 1998 (as amended).*

Further information about the scheme is given in the explanatory booklet dated November 2007, which is issued to all members and which is available on the internet at www.deni.gov.uk within the "Pension Scheme" section.

The *Teachers' Premature Retirement Compensation Scheme,* which is administered by the Department of Education, provides a range of compensation benefits for teachers who leave service before their normal retirement age on grounds of redundancy or in the interests of the efficient discharge of the employer's function. The regulations under which the scheme operated for the year ended 31 March 2010 are *The Teachers' (Compensation for Redundancy and Premature Retirement) Regulations (Northern Ireland) 1991 S.R. 1991 No 132*.

The Managers, Advisers and Employers for both schemes are listed below:

Managers

Accounting Officer

Mr Paul Sweeney
Permanent Secretary
Department of Education
Rathgael House
43 Balloo Road
Rathgill
BANGOR
BT19 7PR

Scheme Manager and Premature Retirement Compensation Scheme Manager

Mr Mark Mawhinney
Department of Education
Rathgael House
43 Balloo Road
Rathgill
BANGOR
BT19 7PR

Scheme Administrator and Premature Retirement Compensation Scheme Administrator

Mr Rory O'Boyle
Department of Education
Teachers' Pensions Branch
Waterside House
75 Duke Street
Gobnascale
LONDONDERRY
BT47 6FP

Advisers

Pension Scheme Actuary

Government Actuary's Department
Finlaison House
15-17 Furnival Street
LONDON
EC4A 1AB

Bankers

Northern Bank Ltd
Donegal Square North
BELFAST
BT1 5GB

Legal Advisers

Departmental Solicitors Office
Victoria Hall
12 May Street
BELFAST
BT1 4NL

Auditors

Northern Ireland Audit Office
106 University Street
BELFAST
BT7 1EU

Employers

The Teachers' Superannuation Scheme and the Teachers' Premature Retirement Compensation Scheme cover the majority of employers within the educational field. These include the Education and Library Boards, Voluntary and Maintained Schools, Further Education Colleges, Universities and a small number of other employers. A full list of employers currently within the scheme can be obtained from the Scheme Administrator.

Performance and Position

The Teachers' Superannuation Scheme account is influenced by changes in membership numbers, salary levels, mortality rates and the age profile of the scheme.

Changes to the Scheme

During the year the following changes were made:

Pension Scheme

- Pensions were increased by 5.0% with effect from 6 April 2009.
- During the year, there was no change to the employers' contribution rate (currently 13.6%) or to the employees' contribution rate (currently 6.4%).

Premature Retirement Compensation Scheme

- Employers have been liable since 1 April 2008 for the additional cost of enhanced pension and lump sum. The Teachers' Superannuation Scheme continued to bear the cost of compensation (excluding enhancement) for premature retirements taking place during the year ended 31 March 2010. The Department has made *The Teachers' (Compensation for Redundancy and Premature Retirement) Regulations (Northern Ireland) 2010 S.R. 2010 No 136*, which revoke and replace the current regulations with effect from 30 April 2010. The new regulations have the effect of transferring the full cost of premature retirement compensation to employers (i.e. the lifetime cost of both enhancement and the payment of unreduced pension benefits before normal pension age). The new regulations also provide for employers to make an enhanced severance payment as an alternative to granting premature retirement.

Additional Voluntary Contributions (AVCs), Free-Standing Additional Voluntary Contributions (FSAVCs) and Stakeholder Pensions

Prudential plc has been selected by the Department of Education to provide AVCs to members of the Teachers' Superannuation Scheme. Scheme members are made aware of the AVC arrangements and there is a facility which allows contributions through payroll. No contributions are made by the Managers of the Teachers' Superannuation Scheme or by employers. The only role of the Managers of the Teachers' Superannuation Scheme is to advise Prudential plc of the date from which a member's pension is payable and of the maximum pension payable under Inland Revenue rules. Members of the Teachers' Superannuation Scheme may make their own arrangements for making payments to institutions which offer FSAVC or Stakeholder Pensions. Where a member has a FSAVC, the only role of the Managers of the Teachers' Superannuation Scheme is to carry out a check at retirement to ensure that pension benefits do not exceed Inland Revenue limits.

Post Reporting Period Events

On the 22nd June 2010 the Chancellor announced a two year public sector pay freeze. Projected public sector pay is a key assumption used in the actuarial valuation of the scheme liabilities. The public sector pay freeze will have a material effect on the future value of the scheme's liabilities, however at this stage the financial effect cannot be reliably estimated.

Membership Statistics

Details of the current membership of the Department of Education Teachers' Pension Scheme are as follows:

A.	Active members	
Active members at 1 January 2009		**24,156**
Add:	New entrants	1,053
	Re-entrants in the year	1,235
	Transfers in	129
Less:	Retirements in the year	(593)
	Members leaving who have deferred pension rights	(476)
	Deaths in Service	(10)
	Refunds/opt out	(131)
Active members at 31 December 2009*		**25,363**

B. Deferred members	
Deferred members at 1 January 2009	**13,870**
Add: Members leaving who have deferred pension rights	476
New members now classed as deferred	234
Less: Members taking up deferred pension rights	(227)
Transfers out	(61)
Re-entrants	(1,235)
Refunds	(26)
Deaths	(6)
Deferred members at 31 December 2009*	**13,025**

C. Pensions in payment	Members	Dependants	Total
Pensions in payment at 1 January 2009	**17,082**	**1,445**	**18,527**
Add: Members retiring in year at normal retirement age	714	-	714
Restorations	10	8	18
New dependants	-	106	106
Less: Deaths in year	(281)	(43)	(324)
Dependants leaving	-	(14)	(14)
Suspensions/other leavers	(9)	-	(9)
Pensions in payment at 31 December 2009*	**17,516**	**1,502**	**19,018**

D. Compensation payments	
Members in receipt of compensation at 1 January 2009	**8,836**
Add: New members in receipt of compensation	50
Less: Deaths/other leavers	(90)
Members in receipt of compensation payments at 31 December 2009*	**8,796**

***** The requirement to meet shortened financial reporting deadlines under Faster Closing has resulted in the Department's decision to disclose membership statistics for the 12 months ending 31 December 2009 instead of the year ending 31 March 2010. This change has been made after consultation with both the Government Actuary's Department (GAD) and the Northern Ireland Audit Office (NIAO). The Department is content, after reviewing financial data for 1 January to 31 March 2010 and making enquiries with key personnel, that there is no evidence of substantial changes to the scheme membership which should be brought to the attention of either GAD, NIAO or the users of these accounts.

Disclosure to the Auditors

The Accounting Officer, Paul Sweeney, has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Scheme's auditors are aware of such information. So far as he is aware there is no relevant audit information of which the entity's auditors are unaware.

Further Information

Any enquiries about the Teachers' Superannuation Scheme or the Teachers' Premature Retirement Compensation Scheme should be addressed to:

Mr Rory O'Boyle
The Scheme Administrator
Teachers' Superannuation Scheme
Department of Education
Waterside House
75 Duke Street
Gobnascale
LONDONDERRY
BT47 6FP

DEPARTMENT OF EDUCATION—TEACHERS' SUPERANNUATION

STATEMENT BY THE ACTUARY

Accounts for the year ended 31 March 2010

Introduction

1. This statement has been prepared by the Government Actuary's Department at the request of the Department of Education, Northern Ireland ('the Department'). It summarises the pensions disclosures required for the 2009-10 Resource Accounts of the Northern Ireland Teachers' Pension Scheme (NITPS or 'the scheme').

2. The NITPS is a final salary defined benefit scheme, the rules of which are set out in the Teachers' Superannuation Regulations (Northern Ireland) 1998 (SR 1998/333) and subsequent amendments. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).

3. The statement is based on an assessment of the liabilities on the resource accounting assumptions carried out as at 31 March 2008, with an approximate updating to 31 March 2010 to reflect known changes

Membership data

4. Tables A1 to A3 (in Appendix) summarise the principal membership data as at 31 March 2008 and 31 March 2010 used to prepare this statement. The membership data as at 31 March 2009 used for the 2008-09 Resource Accounts is also shown.

Methodology

5. The value of the liabilities has been determined using the accrued benefit method known as the projected unit credit method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2009-10 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2010 was determined using the projected unit credit method and the principal financial assumptions applying to the 2008-09 Resource Accounts.

6. This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits, and benefits applicable following the death of the member. It does not include the cost of premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes some pensions already in payment in respect of such cases.

7. The actuarial liability as at 31 March 2010 makes allowance for the new provisions which came into force on 1 April 2007.

Financial assumptions

8. Table A4 (in the Appendix) shows the principal financial assumptions adopted to prepare this statement. With effect from 31 March 2010, the assumed rate of return in excess of prices was reduced from 3.2% a year to 1.8% a year, and the assumed rate of return in excess of earnings was reduced from 1.7% a year to 0.3% a year. In addition, with effect from 31 March 2010, the assumed rate of future price inflation is 2.75% a year and the assumed nominal rate of salary growth is 4.3% a year (both the same as at 31 March 2009).

9. At the request of the Department, this assessment allows for annual pay awards of 2.3% on 1 September 2010, rather than increases in line with the assumed long term rate of salary growth of 4.3% a year.

Demographic assumptions

10. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.

11. The demographic assumptions adopted for the assessment of the liabilities as at 31 March 2010, and to determine the Current Service Cost for the year ending 31 March 2011, have been set by the Department based on the results of the analysis of scheme experience performed as part of the ongoing 2008 valuation. These assumptions differ from those adopted to prepare the 2008-09 Resource Accounts, which were based on those adopted for the 2004 actuarial review of the Scheme (with the mortality assumptions adjusted to allow for future mortality improvement in accordance with the improvements incorporated in the 2006-base principal population projections for the United Kingdom (prepared by ONS).

12. The mortality assumptions adopted for the purpose of the 2009-10 Resource Accounts are in accordance with the S1NMA (men) and S1NFA (women) standard tables projected to 2008 and with future improvements in accordance with those incorporated in the 2008-based principal population projections for the United Kingdom. An age rating of -1 year applies to male pensioners, both current and future (that is they are assumed to experience the mortality rates given in the standard tables but at ages one year younger than their actual age). An age rating of -2 years applies to future female pensions. For current female pensioners, an age rating of -2 applies to the younger pensions increasing to +1 year for the older pensioners. These differ from the assumptions adopted to prepare the 2008-09 Resource Accounts.

13. The contribution rate used to determine the accruing cost in 2009-10 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2008-09 Resource Accounts.

Liabilities

14. Table 1 summarises the capital value of the benefits accrued under the scheme prior to 31 March 2010 based on the data, methodology and assumptions described in paragraphs 4 to 13.

Table 1
Past service liabilities as at 31 March 2010

Value of liability in respect of	£ billion
Pensions in payment	4.95
Deferred pensions	0.32
Active members (past service)	4.66
Total	**9.93**

Accruing costs

15. The cost of benefits accruing in the year ended 31 March 2010 (the ‘current service cost’) is based on a standard contribution rate of 21.8%, as determined at the start of the year. The actual contribution rate payable during the year was 20.0% of pensionable pay, of which members paid 6.4% and employers paid 13.6%. Table 2 shows the contribution rate used to determine the current service cost assuming a members’ contribution rate of 6.4%, with employers meeting the balance of the cost.

Table 2
Contribution rate 2009-10

Contribution rate	Percentage of pensionable pay
Standard contribution rate	21.8%
Members’ contribution rate	6.4%
Employers’ share of standard rate	15.4%
Actual rate charged to employers	13.6%

16. The employers’ share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate charged to employers (which is based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme).

17. In relation to the pensionable payroll for the financial year 2009-10, the contributions actually paid by the members and employers were £172 million (from data provided by the Department). Based on this information, the accruing cost of pensions in 2009-10 (at 21.8% of pay, including member contributions) is estimated to be £190 million.

Disclosures

18. Tables A5 and A6 (in the Appendix) show the Statement of Financial Position and the Revenue Account disclosures as at 31 March 2010.

Sandra Bell

Sandra Bell
Government Actuary's Department
22 June 2010

APPENDIX

Table A1: Active members

	31 March 2008		31 March 2009	31 March 2010
	Number	Total salaries* (£ million)	Total salaries* (£ million)	Total salaries* (£ million)
Males	6,843	256	267	271
Females	19,006	651	638	690
Total	25,849	907	905	961

*Full-time equivalent

Table A2: Deferred members

	31 March 2008		31 March 2009	31 March 2010
	Number	Total deferred pension * (£ million pa)	Total deferred pension † (£ million pa)	Total deferred pension # (£ million pa)
Males	3,555	3.7	5.0	4.0
Females	8,322	9.0	12.1	9.7
Total	11,877	12.7	17.1	13.7

***** Including increases applying from April 2008
† Including increases applying from April 2009
# No increase was applied from April 2010

Table A3: Pensions in payment

	31 March 2008		31 March 2009	31 March 2010
	Number	Annual pension * (£ million)	Annual pension † (£ million)	Annual pension # (£ million)
Males	5,999	94.2	105.4	106.8
Females	10,375	128.2	142.1	145.4
Spouses & dependants	1,345	5.7	6.3	6.5
Total^	17,719	228.1	253.8	258.7

*****Including pension increase awarded in April 2008
† Including pension increase awarded in April 2009
# Including pension increase awarded in April 2010
^ Given the available data, the split of total pensions into component groups is approximate

Table A4: Financial assumptions

Assumption	31 March 2010	31 March 2009
Rate of return (discount rate)*	4.6%	6.0%
Earnings increases	4.3%	4.3%
Pension increases*	2.75%	2.75%
Expected return on assets:	n/a	n/a

*as prescribed by HM Treasury

Table A5: Statement of Financial Position disclosures

	31 March 2010 (£ billion)	31 March 2009 (£ billion)	31 March 2008 (£ billion)	31 March 2007 (£ billion)	31 March 2006 (£ billion)
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	(9.93)	(7.38)	(7.90)	(7.88)	(6.12)
Surplus / (deficit)	(9.93)	(7.38)	(7.90)	(7.88)	(6.12)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Table A6: Revenue Account disclosures

	Year ended 31 March 2010 (£ billion)	Year ended 31 March 2009 (£ billion)
Analysis of amount charged to pension cost		
Current service cost	0.19	0.23
Past service cost	0.01	0.03
Total operating charge	**0.20**	**0.26**
Analysis of the amount credited to other finance income		
Expected return on scheme assets	-	-
Interest on pension liabilities (at 6.0%)	(0.44)	(0.42)
Net return	**(0.44)**	**(0.42)**
Analysis of amount recognised in STRGL		
Actual return less expected return on scheme assets	-	-
Experience gains and losses arising on the pension liabilities	0.10	0.02
Changes in mortality assumptions	(0.09)	-
Changes in demographic assumptions (other than mortality)	0.01	-
Changes to financial assumptions from 31 March 2010	(2.22)	0.91
Actuarial gains / (losses) recognised in STRGL	**(2.20)**	**0.93**
Movement in liability during the year		
Liability at 31 March 2009	(7.38)	(7.90)
Current service cost	(0.19)	(0.23)
Enhancements	-	(0.01)
Benefits paid during the year	0.29	0.28
Past service costs	(0.01)	(0.03)
Other finance income	(0.44)	(0.42)
Actuarial gains / (losses)	(2.20)	0.93
Liability at 31 March 2010	**(9.93)**	**(7.38)**

As required by FReM, all actuarial gains and losses are recognised in full in the period in which they occur.

DEPARTMENT OF EDUCATION—TEACHERS' SUPERANNUATION

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act (NI) 2001, the Department of Finance and Personnel has directed the Department of Education Teachers' Superannuation to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

With the exception of certain transactions (which are accounted for on a cash basis) the combined financial statements are prepared on an accruals basis and must give a true and fair view of the financial transactions of the combined scheme during the year and the disposition, at the end of the financial year, of the combined net liabilities. Note 2, "Accounting Policies", to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the combined net liabilities at the year end.

In preparing the financial statements, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by the Department of Finance and Personnel including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements; and

- prepare the financial statements on a going concern basis.

The Department of Finance and Personnel has appointed the Permanent Head of the Department as Accounting Officer for the Department of Education Teachers' Superannuation. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme, are set out in the Accounting Officers' Memorandum issued by the Department of Finance and Personnel and published in *Managing Public Money Northern Ireland.*

DEPARTMENT OF EDUCATION—TEACHERS' SUPERANNUATION

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department of Education's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money Northern Ireland*.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department of Education for the year ended 31 March 2010 and up to the date of approval of the accounts, and accords with the Department of Finance and Personnel guidance.

3. Capacity to handle risk

The Department's Board has collective responsibility for monitoring and reviewing the high-level risks recorded in the Department's risk registers. The Board has procedures in place for verifying that risk management and internal control are regularly reviewed and reported on.

The Department's Risk Management Framework, which is available to Departmental staff on the DE intranet site, provides direction on the Department's underlying approach to risk management, including the roles and responsibilities of the Departmental Board, the Audit and Risk Management Committee, Heads of Directorates, Heads of Teams, Internal and External Audit.

4. The risk and control framework

The Department has set out its attitude to risk in a Risk Management Framework, which also outlines the mechanisms through which potential risks to the achievement of the Departmental objectives are identified and evaluated. We have carried out appropriate procedures to ensure that risks associated with the Department's key objectives have been assessed, and determined a control strategy for each of the significant risks. Risk ownership has been allocated to the appropriate staff.

Steps taken to manage and control risks to information include: regularly reviewing and restricting system access to specific staff; ensuring staff receive fraud awareness training; and spot checks performed by team management.

The nature of the risk, the current level of control, any further action being taken, and risk owners, are recorded in the Department's risk registers. The Department's Risk Management Framework includes guidance which helps ensure consistent evaluation of risk.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Departmental Board, the Audit and Risk Management Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The risk management arrangements currently in place have been assessed by Internal Audit against HM Treasury guidance. This review has confirmed a satisfactory level of compliance with the guidance and also indicated some areas for improvement including the provision of refresher training for staff.

My review of the effectiveness of the system of internal control is also informed by:

regular performance information provided by managers with executive responsibilities;

the subsidiary statements of internal control presented by Heads of Teams and Heads of Directorates within the Department, who have responsibility for the development and maintenance of the internal control framework in their respective areas;

comments made by the external auditors in their management letters and other reports.

6. Significant internal control problems

In the course of the 2009-10 financial year, the Department failed to operate adequate internal controls to manage effectively the alignment of the budgeting and estimates process, which is dependant upon intricate interactions between a number of stakeholders within and external to the Department. As a result of this the TSS Request for Resource within the Spring Supplementary Estimates for the Department has been exceeded. The Spring Supplementary Estimate for 2009-10 provided a Request for Resource of £467.774 million. The net outturn for 2009-10 is £471.471 million, representing an excess Request for Resource of £3.697 million.

The Department immediately commenced a formal review of its processes for managing effectively the alignment of the budgeting and estimates process. Recommendations for enhancements to the internal controls will be implemented and these will be kept under review. These recommendations include the development of a process map, documented procedures and clarification of responsibilities for management sign off of the key inputs to the process and the accuracy of future Estimates.

The Statement of Internal Control in the TSS Resource Accounts 2008-09 disclosed a significant duplicate payment to a newly retired pensioner (April 2008). The Department took action by immediately recovering most (i.e. 98%) of the overpayment and investigating the circumstances which led to this duplicate payment. As a result of the investigation, additional controls to mitigate against a recurrence have been implemented. The Department continues to seek recovery of the remaining amount of the duplicate payment currently outstanding.

Signed: ______________________________ **Date:** **<u>28 June 2010</u>**

Accounting Officer

Department of Education – Teachers' Superannuation Scheme Accounts

THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSSEMBLY

I certify that I have audited the financial statements of the Department of Education Teachers' Superannuation Scheme for the year ended 31 March 2010 under the Government Resources and Accounts Act (Northern Ireland) 2001. These comprise the Statement of Parliamentary Supply, the Combined Revenue Account, the Combined Statement of Financial Position, the Combined Statement of Recognised Gains and Losses, Combined Statement of Cash flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities**,** the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Teachers' Superannuation Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Teachers' Superannuation Scheme; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Qualified Opinion on Regularity arising from expenditure in excess of resources authorised

The net resource outturn in the Statement of Parliamentary Supply was in excess of the amount authorised by the Assembly mainly because the Department failed to operate adequate internal controls to manage effectively the estimating process.

In my opinion except for the net expenditure of £3,696,852.13 in excess of the amount authorised by the Assembly, in all material respects the expenditure and income have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the scheme's affairs as at 31 March 2010, and the net cash requirement, net resource outturn, net outgoings, recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with Department of Finance and Personnel directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit.
- the Statement on Internal Control does not reflect compliance with the Department of Finance and Personnel's guidance.

Report

The details of the irregular expenditure can be found in my report on these financial statements.

Kieran J Donnelly

KJ Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

Date 29th June 2010

DEPARTMENT OF EDUCATION—TEACHERS' SUPERANNUATION

STATEMENT OF PARLIAMENTARY SUPPLY

SUMMARY OF RESOURCE OUTTURN 2009-10

		Estimate			Outturn			2009-10	2008-09
Request for Resource A	**Note**	**Gross expenditure**	**Accruing resources**	**Net Total**	**Gross expenditure**	**Accruing Resources**	**Net Total**	**Net Total Outturn compared to Estimate saving/ (excess)**	**2008-09 Outturn Net Total**
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Annually managed expenditure		640,449	170,876	469,573	644,146	170,876	473,270	(3,697)	513,780
Non-budget		-	1,799	(1,799)	-	1,799	(1,799)	-	(1,713)
Total resources	3	640,449	172,675	467,774	644,146	172,675	471,471	(3,697)	512,067

SUMMARY OF NET CASH REQUIREMENT 2009-10

		2009-10			2008-09
	Note	**Estimate**	**Outturn**	**Net Total Outturn compared to Estimate saving/ (excess)**	**Outturn**
		£000	**£000**	**£000**	**£000**
Net cash requirement	4	135,791	126,576	9,215	100,538

SUMMARY OF INCOME PAYABLE TO THE CONSOLIDATED FUND

In addition to Accruing Resources (AR) the following income relates to the Department and is payable to the Consolidated Fund (cash receipts are shown in *italics*):

	Note	**Forecast 2009-10**		**Outturn 2009-10**	
		Income	**Receipts**	**Income**	**Receipts**
		£000	**£000**	**£000**	**£000**
Total	5	-	-	4,003	*4,003*

Income Excess AR is £4,002,089.01. Cash Excess AR is £4,002,089.01. Actual CFER receipts were £785.14. This amount is also to be surrendered to the Consolidated Fund.

TSS has incurred an Excess Vote of £3,697k, which represented spending above the amount provided in the RfR and which occurred for reasons outlined below. TSS will seek Assembly approval by way of an Excess Vote in a future Budget Bill.

Explanation of the variation between Estimate and outturn (net total resources):

Annually managed expenditure — Excess £3,697k

The variance is mainly attributable to the fact that in the course of the 2009-10 financial year, the Department failed to operate adequate internal controls to manage effectively the alignment of the budgeting and estimates process, which is dependant upon intricate interactions between a number of stakeholders within and external to DE, resulting in the abovementioned excess.

DEPARTMENT OF EDUCATION—TEACHERS' SUPERANNUATION

COMBINED REVENUE ACCOUNT
for the year ended 31 March 2010

Principal arrangements
Teachers' Superannuation Scheme

	Note	2009-10 £000	2008-09 £000
Income:			
Contributions receivable	7	(172,842)	(168,233)
Transfers in	8	(3,367)	(3,746)
Other pension income	9	(468)	(12,814)
		(176,677)	(184,793)
Outgoings:			
Pension cost	10 & 20.4	200,000	260,000
Enhancements	11	311	300
Transfers in	12	3,367	3,746
Interest on scheme liabilities	13 & 20.4	440,000	420,000
Capitalised cost of enhancement	14	468	12,814
		644,146	696,860
Net outgoings for the year	3(a)	**467,469**	**512,067**

COMBINED STATEMENT OF RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
Actuarial gain / (loss)	20.7	(2,196,090)	945,015
Recognised gains and losses for the financial year		**(2,196,090)**	**945,015**

DEPARTMENT OF EDUCATION—TEACHERS' SUPERANNUATION

COMBINED STATEMENT OF FINANCIAL POSITION
as at 31 March 2010

	Note	2009-10 £000	2008-09 £000	2007-08 £000
Current assets				
Receivables	15	14,067	3,378	3,016
Cash and cash equivalents	16	7,385	753	444
		21,452	4,131	3,460
Payables (within 12 months)	17	(12,405)	(4,099)	(4,089)
Net current assets / (liabilities), excluding pension liability		**9,047**	**32**	**(629)**
Pension liability	20.4	(9,930,000)	(7,380,000)	(7,912,825)
Net liabilities, including pension liability		**(9,920,953)**	**(7,379,968)**	**(7,913,454)**
Taxpayers' equity				
General fund	22	(9,920,953)	(7,379,968)	(7,913,454)
		(9,920,953)	**(7,379,968)**	**(7,913,454)**

Signed: ______________________ Date: 28 June 2010

DEPARTMENT OF EDUCATION—TEACHERS' SUPERANNUATION

COMBINED STATEMENT OF CASH FLOWS
for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
Cash flows from operating activities			
Net outgoings for the year		(467,469)	(512,067)
(Increase)/decrease in receivables	15	(10,689)	(362)
Increase/(decrease) in payables	17	8,306	10
Increase in pension provision	20.4	640,000	680,000
Less movement in payables relating to items not passing through the revenue account	17	(6,632)	(309)
Increase in pension provision – enhancements and transfers in	20.4	3,678	4,046
Increase in pension provision – capitalised cost of enhancement	20.4	468	12,814
Use of provisions – pension liability	20.5	(286,477)	(280,819)
Use of provisions – refunds and transfers	20.6	(2,638)	(2,336)
Use of provisions – death in service	20.5	(1,121)	(1,515)
Net cash outflow from operating activities		(122,574)	(100,538)
Cash flows from financing activities			
From the Consolidated Fund (supply): current year		129,205	100,847
Net Assembly financing		129,205	100,847
Net increase / (decrease) in cash and cash equivalents in the period before adjustments for receipts and payments to the Consolidated Fund		6,631	309
Receipts due to the Consolidated Fund which are outside the scope of the Scheme's activities		1	1
Payments of above amount to the Consolidated Fund		-	(1)
Net increase / (decrease) in cash and cash equivalents in the period after adjustments for receipts and payments to the Consolidated Fund		6,632	309
Cash and cash equivalents at the beginning of the period		753	444
Cash and cash equivalents at the end of the period		**7,385**	**753**

DEPARTMENT OF EDUCATION—TEACHERS' SUPERANNUATION

NOTES TO THE SCHEME STATEMENT

Accounts for the year ended 31 March 2010

1. Basis of preparation of the scheme statement

The combined scheme statements have been prepared in accordance with the relevant provisions of the *2009-10 International Government Financial Reporting Manual (FReM)* issued by the Department of Finance and Personnel, which reflect the requirements of IAS 19 *Employee Benefits* and IAS 26 *Accounting and Reporting by Retirement Benefit Plans.* These accounts show the unfunded pension liability and movements in that liability during the year. These accounts also have regard to the recommendations of the Statement of Recommended Practice entitled *Financial Reports of Pension Schemes* to the extent that these are appropriate. The current regulations under which the Teachers' Superannuation Scheme operates are the Teachers' Superannuation Regulations (NI) 1998 (as amended). The current regulations under which the Teachers' Premature Retirement Compensation Scheme operates are the Teachers' (Compensation for Redundancy and Premature Retirement) Regulations (Northern Ireland) 1991 S.R. 1991 No 132.

In addition to the primary statements prepared under International GAAP, the *FReM* also requires the scheme to prepare an additional statement – a *Statement of Parliamentary Supply*. This, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.1 Department of Education – Teachers' Superannuation Scheme and Teachers' Premature Retirement Compensation Scheme

The scheme statement summarises the transactions of the Department of Education - Teachers' Superannuation Scheme and the Teachers' Premature Retirement Compensation Scheme where the Department of Education acts as a principal. The statement of financial position shows the deficit on the scheme; the Revenue account shows, amongst other things, the movements in the liability analysed between the pension cost, enhancements and transfers in, and the interest on the scheme liability. The actuarial position of the pension scheme is dealt with in the Report of the Actuary, and the scheme statement should be read in conjunction with that Report.

2. Statement of accounting policies

The accounting policies contained in the *FReM* follow international generally accepted accounting practice for companies (International GAAP) to the extent that it is meaningful and appropriate to the public sector.

Where the *FReM* permits a choice of accounting policy, the accounting policy, which has been judged to be most appropriate to the particular circumstances of the Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the accounts.

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Pension contributions receivable

a. Contributions made by employers and employees in respect of pension and premature compensation are combined.

b. Employers' normal contributions are accounted for on an accruals basis.

c. Employers' special contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on an accruals basis.

d. Employees' contributions and amounts received in respect of the purchase of added years service are accounted for on an accruals basis. Neither Additional Voluntary Contributions (AVCs) (note 18) nor payments to providers of Stakeholder Pensions (see the Report of the Managers) are brought into account in these statements.

2.3 Transfers in and out

Transfers in are normally accounted for as income and expenditure (representing the associated increase in the scheme liability) on a cash basis, although group transfers in may be accounted for on an accruals basis where the scheme has formally accepted or transferred a liability.

2.4 Other income

Other income, including refunds of benefits, overpayments recovered other than by deduction from future benefits and miscellaneous income, and the recovery of the capitalised cost of enhancement under the Premature Retirement Compensation Scheme are accounted for on an accruals basis. To the extent that this income also represents an increase in the scheme liability, it is also reflected in expenditure.

2.5 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current members' service in the current period and is recognised in the Revenue account. The cost is based on the discount rate applicable at 1 April 2009, being 3.2 per cent real rate (i.e. 6.0 per cent including inflation).

2.6 Past service costs

Past service costs are changes in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits. Past service costs are recognised in the Revenue Account on a straight-line basis over the period in which the increase in benefits vests.

2.7 Interest on scheme liabilities

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement, and is recognised in the Revenue Account. The interest cost is based on the discount rate applicable at 1 April 2009, being 3.2 per cent real rate (i.e. 6.0 per cent including inflation).

2.8 Other payments

Other payments are accounted for on an accruals basis.

2.9 Scheme liability

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and is discounted at the rate applicable at the close of 31 March 2010, being 1.8 per cent real rate (i.e. 4.6 per cent including inflation).

Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the reporting period date and updates it to reflect current conditions.

2.10 Pension benefits payable

Pension benefits payable are accounted for as a decrease in the scheme liability on an accruals basis.

2.11 Pension payments to those retiring at their normal retirement age

Lump sum and the annual pension payments are accounted for on an accruals basis. Recognition is based on the pension liability accruing from the day following the date of retirement.

2.12 Pension payments to and on account of leavers before their normal retirement age

Refunds of employees' contributions are accounted for on an accruals basis. Refunds include amounts payable both at the time of leaving or at normal retirement age (or earlier death).

2.13 Lump sums payable on death in service

Lump sum payments payable on death in service are accounted for on an accruals basis. They are funded through the normal pension contributions and are a charge on the pension provision.

2.14 Actuarial gains / losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the statement of financial position date are recognised in the Statement of Recognised Gains and Losses for the year.

2.15 Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) are deducted from employees' salaries and are paid over directly by the Department of Education to the approved AVC providers.

2.16 Premature Retirement Compensation

The cost of compensation for early retirement because of redundancy or in the interests of the efficient discharge of the employer's function can be broken down into two elements, being the cost of enhancement (added years) and the cost of the early payment of unreduced pension. From 1 April 2008, employers became liable for the cost of enhancement in the form of a lump sum paid to the scheme to meet the liabilities that have yet to be discharged. During 2008-09 and 2009-10, the Scheme continued to meet the cost of early payment of unreduced pension. The cost of the future liability in setting up and revising the provision is recorded as expenditure in the revenue account, with the offsetting income reflecting the reimbursements receivable from the employers. The Department has made new regulations, which will come into operation on 30 April 2010, which will have the effect of transferring the full cost of premature retirement compensation (i.e. both enhancement and early payment of pension) to employers.

2.17 Cash and cash equivalent

The cash balance is based on cash at bank as adjusted for any outstanding payments and receipts that have yet to be processed through the account.

2.18 Functional currency

The functional currency is Sterling and all figures have been rounded to the nearest thousand pounds.

3. Reconciliation of Estimates, accounts and budgets

3(a) Reconciliation of net resource outturn to net outgoings

	Note	Outturn £000	Supply Estimate £000	2009-10 Outturn compared with Estimate: saving / (excess) £000	2008-09 Outturn £000
Net resource outturn		471,471	467,774	(3,697)	512,067
Non-supply income	5	(4,002)	-	4,002	-
Net outgoings	22	**467,469**	**467,774**	**305**	**512,067**

3(b) Outturn against final administration budget

All costs of administering the Teachers' Superannuation Scheme and the Teachers' Premature Retirement Scheme are borne by the Department of Education.

4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving / (excess) £000
Net resource outturn	3(a)	467,774	471,471	(3,697)
Accruals adjustments:				
Changes in working capital other than cash		-	9,015	(9,015)
Increase in provision	20.4	(640,449)	(644,146)	3,697
Use of provision	20.4	308,466	290,236	18,230
Net cash requirement		**135,791**	**126,576**	**9,215**

Explanation of the variation between Estimate net cash requirement and outturn (net cash requirement):

1. Changes in working capital other than cash — Excess £9,015k

   Changes in working capital are inherently difficult to forecast. As such, in the absence of any known significant changes to debtors or creditors, no accruals to cash adjustment was included in the TSS Spring Supplementary Estimate 2008-09.

2. Increase in provision — Saving £3,697k

   The variance is mainly attributable to the fact that in the course of the 2009-10 financial year, the Department failed to operate adequate internal controls to manage effectively the alignment of the budgeting and estimates process, resulting in the variance.

3. Use of provision — Saving £18,230k

   The variance is primarily attributable to the actual costs associated with pensions and lump sum payments being lower than the amounts included in the Estimate, which was based on the Department's technical estimation process.

5. Analysis of income payable to the Consolidated Fund

		Forecast 2009-10		Outturn 2009-10	
	Note	**Income £000**	**Receipts £000**	**Income £000**	**Receipts £000**
Operating Income and receipts not classified as Accruing Resources		-	-	4,002	*4,002*
Other amounts collectable on behalf of the Consolidated Fund		-	-	1	*1*
Total income payable to the Consolidated Fund		**-**	**-**	**4,003**	***4,003***

6. Reconciliation of income recorded within the Revenue Account to operating income payable to the Consolidated Fund

	Note	2009-10 £000	2008-09 £000
Operating income		176,677	184,793
Income authorised to be Accruing Resource		(172,675)	(184,793)
Operating income payable to the Consolidated Fund	5	**(4,002)**	**-**

7. Pension contributions receivable

	2009-10 £000	2008-09 £000
Employers:		
Normal	117,055	113,418
Refund of overpaid contributions	(630)	-
Employees:		
Normal	54,499	52,802
Refund of overpaid contributions	(190)	-
Premature retirement compensation receipts from DEL	1,797	1,713
Purchase of added years	311	300
	172,842	**168,233**

8. Pension transfer in (*see also* Note 12)

	2009-10 £000	2008-09 £000
Individual transfers in from other schemes	**3,367**	**3,746**

9. Other pension income

	Note	2009-10 £000	2008-09 £000
Amounts falling due within one year:			
Capitalised cost of enhancement	14	**468**	**12,814**

10. Pension cost (*see also* Note 20.4)

	2009-10 £000	2008-09 £000
Current service cost	190,000	230,000
Past service cost	10,000	30,000
	200,000	**260,000**

11. Enhancements *(see also* Note 20.4*)*

	2009-10 £000	2008-09 £000
Employees:		
Purchase of added years	**311**	**300**

12. Transfer in (*see also* Notes 8 and 20.4)

	2009-10 £000	2008-09 £000
Individual transfers in from other schemes	**3,367**	**3,746**

Amounts receivable in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Revenue account as expenditure as part of the movements in the provision during the year.

13. Interest on scheme liabilities (*see also* Note 20.4)

	2009-10 £000	2008-09 £000
Interest charge for the year	**440,000**	**420,000**

14. Capitalised cost of enhancement

	Note	2009-10 £000	2008-09 £000
Capitalised cost of enhancement	9	**468**	**12,814**

15. Receivables—contributions due in respect of pensions

15 (a) Analysis by type

	Note	2009-10 £000	2008-09 £000	2007-08 £000
Amounts falling due within one year:				
Contributions due:				
Employers		9,411	1,991	1,824
Employees		4,428	937	858
Added years and added pension		-	-	8
Capitalised cost of enhancement		-	137	-
Overpaid pensions		230	198	235
DEL debtor		-	142	137
DE debtor		15	-	-
Provision for bad debt		(17)	(27)	(46)
		14,067	**3,378**	**3,016**

Included within these figures is £nil (2008-09 £nil) that will be due to the Consolidated Fund once the debts are collected.

15 (b) Intra-government balances

	Note	2009-10 £000	2008-09 £000	2007-08 £000
Amounts falling due within one year:				
Balances with other central government bodies		44	171	163
Balances with bodies external to government		14,023	3,207	2,853
At 31 March		**14,067**	**3,378**	**3,016**

16. Cash and cash equivalents

	Note	2009-10 £000	2008-09 £000	2007-08 £000
Balance at 1 April		753	444	1,738
Net change in cash balances		6,632	309	(1,294)
Balance at 31 March		**7,385**	**753**	**444**
The following balances at 31 March are held at:				
Commercial banks		**7,385**	**753**	**444**
The balance at 31 March comprises:				
Amounts issued from the Consolidated Fund for supply but not spent at year end	17	3,382	753	444
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	17	4,003	-	-
		7,385	**753**	**444**

17. Payables—in respect of pensions

17 (a) Analysis by type

	Note	2009-10 £000	2008-09 £000	2007-08 £000
Amounts falling due within one year:				
Members		709	271	685
Inland Revenue and voluntary contributions		3,262	3,027	2,924
Interdepartmental balances owed in respect of refund of overpaid contributions		820	-	-
Other interdepartmental balances		6	-	-
Other creditors		223	48	36
Amounts issued from the Consolidated Fund for supply but not spent at year end	16	3,382	753	444
Consolidated Fund Extra Receipts	16	1	-	-
Excess Accruing Resources	16	4,002	-	-
		12,405	**4,099**	**4,089**

17 (b) Intra-government balances

	Note	2009-10 £000	2008-09 £000	2007-08 £000
Amounts falling due within one year:				
Balances with other central government bodies		11,472	3,780	3,368
Balances with bodies external to government		933	319	721
At 31 March		**12,405**	**4,099**	**4,089**

18. Additional Voluntary Contributions

The Department of Education Teachers' Superannuation Scheme provides for employees to make Additional Voluntary Contributions (AVCs) to increase their pension entitlements or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries, for onward payment to the approved provider, namely Prudential plc. The Managers of the Department of Education Teachers' Superannuation Scheme have responsibility only for the onward payment by employers of members' contributions to the scheme's approved provider. These AVCs are not brought to account in this statement. Members participating in this arrangement receive an annual statement from the approved provider as at 31 March confirming the amounts held to their account and the movements in the year.

The aggregate amounts of AVC investments are as follows:

Prudential Teachers' AVC Facility (Northern Ireland)	**2009-10 £000**	**Restated 2008-09 £000**
Movements in the year		
Balance at 1 April	43,261	43,690
New investments	3,962	5,041
Sales of investments to provide pension benefits	(3,293)	(5,439)
Changes in market value of investments	2	(31)
Balance at 31 March	**43,932**	**43,261**

Note 15 (Additional Voluntary Contributions) to the TSS Resource Accounts 2008-09 reported *Sales of investments to provide pension benefits* as £5,126k and *Changes in market value of investments* as £30k. These amounts have been restated following the receipt of updated information from Prudential plc.

19. Contingent liabilities disclosed under IAS 37

In the unlikely event of a default by the Prudential plc, the Department of Education will guarantee pension payments. This guarantee does not apply to members who make payments to institutions offering Free Standing Additional Voluntary Contribution Schemes.

20. Provision for pension liability

20.1 Assumptions underpinning the provision for pension liability

20.1.1 The Department of Education Teachers' Superannuation Scheme is an unfunded defined benefit scheme. The previous assessment was carried out as at 31 March 2009, and the relevant Resource Accounting disclosures were set out in the statement dated 19 June 2009. A full actuarial review of the scheme as at 31 March 2008 is currently in progress and is substantially complete. The most recent completed full actuarial review was carried out as at 31 March 2004—the report on the review was signed on 7 March 2007. An interim review of the scheme was carried out as at 31 March 2006 and the results are summarised in a note prepared by GAD, dated 12 June 2007. The Statement by the Actuary on pages 7 to 13 sets out the scope, methodology and results of the work the Government Actuary's Department has carried out.

20.1.2 The scheme managers together with the actuary and the auditor have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that the scheme manager should make available to the actuary in order to meet the expected requirements of the scheme auditor. This information includes, but is not limited to, details of:

- Scheme membership, including age and gender profiles, active membership, deferred pensioners and pensioners;
- Benefit structure, including details of any discretionary benefits and any proposals to amend the scheme;
- Income and expenditure, including details of expected bulk transfers into or out of the scheme; and
- Following consultation with the actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect the best estimate of future experience.

20.1.3 The major assumptions used by the Actuary were:

	At 31 March 2010	At 31 March 2009	At 31 March 2008	At 31 March 2007	At 31 March 2006
Rate of increase in salaries	2.3%	2.3%	2.45%	2.5%	2.5%
Rate of increase in pensions in payment and deferred pensions	5.0%	3.9%	3.6%	2.7%	3.1%
Rate of return (discount rate)	4.6%	6.0%	5.3%	4.6%	5.4%
Inflation assumption					
Rate of return in excess of:					
Pension increases	1.8%	3.2%	2.5%	1.8%	2.8%
Earnings increases	0.3%	1.7%	1.0%	0.3%	1.3%

20.1.4 These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the scheme liabilities. However, the scheme managers acknowledge that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

20.1.5 The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the *FReM*, and as required by IAS 19, the discount rate net of price inflation is based on yields on high quality corporate bonds. HM Treasury advise the relevant rate each year, based on the advice of the Government Actuary's Department. The inflation assumption reflects the long-term assumption for the RPI used in Treasury forecasting. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

20.1.6 In reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The scheme managers do not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures. In the opinion of the scheme managers, the actuary has used key assumptions that are the most appropriate for the scheme in the light of current knowledge.

20.1.7 Analysis of the provision for pension liability

Categories	At 31 March 2010 £ billion	At 31 March 2009 £ billion	At 31 March 2008 £ billion	At 31 March 2007 £ billion	At 31 March 2006 £ billion
Pensions in payment	4.95	4.06	4.00	3.67	2.86
Deferred members	0.32	0.30	0.34	0.37	0.25
Active members (past service)	4.66	3.02	3.56	3.84	3.01
Total	**9.93**	**7.38**	**7.90**	**7.88**	**6.12**

20.2 Pension scheme liabilities accrue over employee's periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the scheme liability, the Actuary must estimate the impact of several inherently uncertain variables into the future. The variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

20.3 The value of the liability on the statement of financial position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rates of inflation or increases in salaries, the value of the pension liability will increase or decrease. The managers of the scheme accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in Notes 20.8 and 20.9. The note also discloses 'experience' gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

20.4 Analysis of movement in the scheme liability

	Note	2009-10 £000	2008-09 £000	2007-08 £000
Scheme liability at 1 April		**(7,380,000)**	**(7,912,825)**	**(7,889,840)**
Current service cost	10	(190,000)	(230,000)	(260,000)
Past service cost	10	(10,000)	(30,000)	(40,000)
Interest on pension scheme liability	13	(440,000)	(420,000)	(360,000)
		(640,000)	(680,000)	(660,000)
Enhancements	11	(311)	(300)	(549)
Pension transfers in	12	(3,367)	(3,746)	(3,298)
Capitalised cost of enhancement	14	(468)	(12,814)	-
		(4,146)	(16,860)	(3,847)
Benefits paid	20.5	287,598	282,334	268,976
Pension payments to and on account of leavers	20.6	2,638	2,336	1,886
		290,236	284,670	270,862
Actuarial gain/(loss)	20.7	(2,196,090)	945,015	370,000
Scheme liability at 31 March		**(9,930,000)**	**(7,380,000)**	**(7,912,825)**

During the year ended 31 March 2010, contributions were 20% of pensionable pay.

20.5 Analysis of benefits paid

	Note	2009-10 £000	2008-09 £000	2007-08 £000
Pensions or annuities to retired employees and dependants		254,173	236,027	216,179
Commutations and lump sum benefits on retirement		32,304	44,792	52,043
Lump sum benefits on death in service		1,121	1,515	754
Per combined cash flow statement	20.4	**287,598**	**282,334**	**268,976**

20.6 Analysis of payments to and on account of leavers

	Note	2009-10 £000	2008-09 £000	2007-08 £000
Refunds to members leaving service		315	225	91
Individual transfers to other schemes		2,323	2,111	1,795
Per combined cash flow statement	20.4	**2,638**	**2,336**	**1,886**

20.7 Analysis of actuarial gain / (loss)

	Note	2009-10 £000	2008-09 £000	2007-08 £000
Experience gains/(losses) arising on the scheme liabilities		103,910	35,015	(190,000)
Changes in mortality assumptions		(90,000)	-	-
Changes in demographic assumptions underlying the present value of the scheme liabilities		10,000	-	(410,000)
Changes in assumptions underlying the present value of the scheme liabilities (adjustment to discount rate % at 31 March)		(2,220,000)	910,000	970,000
Per combined statement of recognised gains and losses	20.4 & 22	**(2,196,090)**	**945,015**	**370,000**

20.8 History of experience gains and losses

	2009-10	2008-09	2007-08	2006-07	Restated 2005-06
Experience gains/(losses) on scheme liabilities: Amount (£000)	103,910	35,015	(190,000)	(300,000)	(10,000)
Percentage of the present value of the scheme liabilities	1.0%	0.5%	(2.4%)	(3.8%)	(0.2%)
Total amount recognized in the statement of total recognised gains and losses: Amount (£000)	(2,196,090)	945,015	370,000	(1,590,000)	(720,000)
Percentage of the present value of the scheme liabilities	(22.1%)	12.8%	4.7%	(20.2%)	(11.8%)

Refer to Note 20.11 for explanation of restated 2005-06 comparatives.

20.9 Sensitivity analysis

20.9.1 The Government Actuary has been asked to indicate the approximate effects on the actuarial liability as at 31 March 2010 of changes to the main actuarial assumptions.

20.9.2 The principal financial assumptions are the real rates of return in excess of price inflation and earnings growth. (The assumed nominal rate of return is less important although it does affect the past service liability in respect of Guaranteed Minimum Pensions (GMPs).) A key demographic assumption is pensioner mortality (see note 20.10).

20.9.3 Table 1 shows the indicative effects on the total liability as at 31 March 2010 of changes to these assumptions.

Table 1: Sensitivity to main assumptions

Change in assumption*		**Approximate effect on total liability**	
Rate of return			
(i) nominal	-0.5% a year	+ 0.75 %	+ £70 million
(ii) in excess of earnings	-0.5% a year	+ 2.25 %	+ £220 million
(iii) in excess of prices	-0.5% a year	+ 7.25 %	+ £710 million
Pensioner mortality:			
(iv) pensioners living (on average) 2 years longer		+ 4.75 %	+ £460 million

* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

20.9.4 In variant (ii) of Table 1, the assumed rate of return in excess of prices remains unchanged, and in variant (iii), the assumed rate of return in excess of earnings remains unchanged.

20.9.5 Variant (i) shows little change from the central assumptions because the assumed real rates of return (in excess of prices and earnings) are unchanged. The total actuarial liability would change by about 0.75%. Some of this change is because GMP benefits are not fully inflation-linked after they come into payment, and so the change in the nominal rate of return (of 0.5% a year) affects the value of GMP benefits.

20.9.6 Variant (ii) shows a more significant effect because the real rate of return in excess of earnings (or, equivalently, real earnings growth) differs from the central assumptions (by 0.5% a year). The total actuarial liability would change by about 2.25%.

20.9.7 Similarly, variant (iii) shows a substantial effect because the real rate of return in excess of prices differs from the central assumptions (by 0.5% a year). The total actuarial liability would change by about 7.25%.

20.9.8 Variant (iv) shows the significance of pensioner mortality: if longevity at retirement were assumed to be 2 years greater, then this would increase the total actuarial liability by about 4.75%.

20.10 Life expectancies

Tables 2 and 3 show the life expectancy at age 60 and at age 65 respectively of pensioners retiring in normal health, under the mortality assumptions used for the Resource Accounts as at 31 March 2010 and as at 31 March 2009.

Table 2: Life expectancy of normal health pensioners at age 60

	As at 31 March 2010		As at 31 March 2009		As at 31 March 2008		As at 31 March 2007		As at 31 March 2006	
	Men (years)	**Women (years)**	**Men (years)**	**Women (years)**	**Men (years)**	**Women (years)**	**Men (years)**	**Women (years)**	**Men (years)**	**Women (years)**
Current pensioners	29.1	32.6	28.6	31.8	28.5	31.7	25.6	28.6	25.5	28.5
Future pensioners*	30.5	34.0	30.2	33.3	30.1	33.2	27.4	30.4	27.4	30.4

***** Under the assumptions used for the 2009-10 Resource Accounts, the life expectancy from age 60 of future pensioners will depend on their current age. This table shows the life expectancy from age 60 for future pensioners currently aged 45.

Table 3: Life expectancy of normal health pensioners at age 65

	As at 31 March 2010		As at 31 March 2009		As at 31 March 2008		As at 31 March 2007		As at 31 March 2006	
	Men (yrs)	**Women (yrs)**	**Men (yrs)**	**Women (yrs)**	**Men (yrs)**	**Women (yrs)**	**Men (yrs)**	**Women (yrs)**	**Men (yrs)**	**Women (yrs)**
Current pensioners	24.2	27.6	23.5	26.7	23.4	26.6	20.6	23.7	20.6	23.6
Future pensioners*	26.1	29.5	25.6	28.6	25.5	28.6	22.6	25.6	22.6	25.6

***** Under the assumptions used for the 2009-10 Resource Accounts, the life expectancy from age 65 of future pensioners will depend on their current age. This table shows the life expectancy from age 65 for future pensioners currently aged 45.

20.11 Explanation of restated disclosure of 2005-06 comparatives in respect of adjustment to the scheme liability due to change in discount rate

The Combined Statement of Recognised Gains and Losses within the Teachers' Superannuation Annual Scheme Statements 2005-06 disclosed a total movement of £720m, analysed as a £40m actuarial loss and £680m in respect of a restatement of the opening balance of the pension liability as at 1 April 2005, due to a change in the discount rate percentage. In accordance with IAS 19, the £680m adjustment meets the definition of an actuarial loss. As such, this movement was reclassified (between the Resource Accounts 2005-06 and 2006-07) as an actuarial loss in order to make the comparative figures consistent with the subsequent years' disclosures. This restatement is reflected in Note 20.8 of the Notes to the Scheme Statement.

20.12 Expected contributions receivable during 2010-11

The Department of Education estimates total contributions receivable during 2010-11 to be approximately £171,204,000 as set out in the TSS Main Estimate 2010-11.

21. Transfers in and out

Transfers in amounting to £430,419.42 had been agreed in January, February and March 2010 and are expected to be received after 31 March 2010. Small differences between some individual amounts agreed and received may arise due to fluctuations in the underlying investment between the date on which a transfer in is agreed and the date on which it is received.

Transfers out amounting to £110,503.53, which were agreed in March 2010, were paid in April 2010.

22. General fund

	Note	2009-10 £000	2008-09 £000	2007-08 £000
Balance at 1 April		(7,379,968)	(7,913,454)	(7,890,147)
Net parliamentary funding drawn down		129,205	100,847	102,449
Year end adjustment supply (creditor) / debtor—current year		(3,382)	(753)	(444)
Settlement of supply creditor—prior year		753	444	-
Net Transfer from operating activities Net outgoings for the year	3(a)	(467,469)	(512,067)	(495,312)
Income not Accruing Resources, payable to the Consolidated Fund		(4,002)	-	-
Actuarial gain / (loss)(SRGL)	20.7	(2,196,090)	945,015	370,000
Balance at 31 March		**(9,920,953)**	**(7,379,968)**	**(7,913,454)**

The General Fund represents the total assets less liabilities of the pension scheme, to the extent that the total is not represented by other reserves and financing items.

23. Financial instruments

As the cash requirements for the Department of Education Teachers' Superannuation Scheme are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector scheme of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Scheme's expected purchase and usage requirements and the Scheme is therefore exposed to little credit, liquidity or market risk.

24. Related party transactions

The Teachers' Superannuation Scheme and the Teachers' Premature Retirement Scheme fall within the ambit of the Department of Education, which is regarded as a related party. During the year, the schemes have had material transactions with the Department, Non-Departmental Public Bodies and other bodies whose employees are members of the schemes. None of the Managers of the schemes, key managerial staff or other related parties have undertaken any material transactions with the schemes during the year.

25. Losses and special payments

25 (a) Losses statement

During 2009-10 total losses were less than £250,000; and in accordance with Annex 4.10 to Managing Public Money Northern Ireland (MPMNI), no further disclosure is required.

During 2008-09 it was discovered that, due to errors on the level of Guaranteed Minimum Pension (GMP) payable to pensioners from State Pension Age, a number of overpayments were made to pensioners in the Teachers' Superannuation Scheme. It has been agreed by HM Treasury that these overpayments are not to be recovered, and that pensions will be paid at the correct rate from 6 April 2009. The total amount overpaid is £1,144,216.04, relating to 512 cases.

Additional losses relating to cases other than the GMP errors outlined above arose in 30 cases, resulting in total losses of £39,978.68.

25 (b) Special payments

For 2009-10 and 2008-09 expenditure on behalf of TSS relating to special payments was below the reporting threshold of £250,000 (Annex 4.13 MPMNI)

26. Premature retirement compensation

The Teachers' Premature Retirement Compensation Scheme recovers compensation costs via increased employer contributions. The number of compensation cases for the current year and in total broken down by employer group, are:

Number of teachers retiring on grounds of premature retirement in the year to 31 March 2010

	Efficient Discharge	**Redundancy**
Belfast Education and Library Board	-	41
North Eastern Education and Library Board	-	32
Southern Education and Library Board	-	35
South Eastern Education and Library Board	-	25
Western Education and Library Board	-	29
Voluntary Grammar Schools	-	15
Further Education Colleges	1	2
Other Grant-Maintained Schools	-	1
Other Bodies	-	1
TOTAL	**1**	**181**

Total number of teachers retired on grounds of premature retirement as at 31 March 2010

	Efficient Discharge	**Redundancy**
Belfast Education and Library Board	221	1,187
North Eastern Education and Library Board	272	1,267
Southern Education and Library Board	426	967
South Eastern Education and Library Board	334	929
Western Education and Library Board	279	1,045
Voluntary Grammar Schools	162	655
Further Education Colleges	184	911
Other Grant-Maintained Schools	6	18
Other Bodies	27	82
TOTAL	**1,911**	**7,061**

27. First-time adoption of IFRS

The first-time adoption of IFRS during the year ended 31 March 2010 has impacted neither reported taxpayers' equity nor reported net outgoings for the year as reported under UK GAAP. For this reason, there is no need to produce a reconciliation between UK GAAP and IFRS for reported taxpayers' equity or reported net outgoings.

Management has reviewed new accounting standards that have been issued but are not yet effective, nor adopted early for these accounts. Management consider that these are unlikely to have a significant impact on the accounts in the period of initial application.

28. Authorisation of Resource Accounts

The Resource Accounts were authorised for issue on 29 June 2010 and by the Accounting Officer.

On the 22nd June 2010 the Chancellor announced a two year public sector pay freeze. Projected public sector pay is a key assumption used in the actuarial valuation of the scheme liabilities. The public sector pay freeze will have a material effect on the future value of the scheme's liabilities, however at this stage the financial effect cannot be reliably estimated.

Teachers' Superannuation Resource Accounts
Year ended 31st March 2010

Report of the Comptroller and Auditor General

EXCESS VOTE

Purpose of the Report

1. In 2009-10, the Teachers' Superannuation Scheme expended more resource than the Northern Ireland Assembly (the Assembly) had authorised. By so doing, the Scheme breached the Assembly's control over its expenditure and incurred what is termed an 'excess' for which further Assembly approval is required. I have qualified my opinion on the Teachers' Superannuation Scheme 2009-10 resource accounts in this regard.

2. The purpose of this report is to explain the reasons for this qualification and to provide information on the extent and nature of the breach to inform the Assembly's further consideration.

My responsibilities with regard to the breach of regularity

3. As part of my audit of the Teachers' Superannuation Scheme's financial statements, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the resource accounts have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them; that is, they are 'regular'. In doing so, I have had regard to the Supply limits set on expenditure by the Assembly.

Background to the Excess

4. The Assembly authorises and sets limits on expenditure on two bases – 'resources' and 'cash'. Such amounts are set out in the Supply Estimates for which approval and authority is given in the annual Budget Acts Northern Ireland.

5. In the case of the Teachers' Superannuation resource accounts there is one Request for Resources (RfR), the purpose of which is to provide for the payment of pensions, lump sums and premature retirement compensation to persons covered by the Teachers' Superannuation Scheme. The total expenditure on any RfR must not exceed the amount granted by the Assembly.

Limits

6. The resource limit for the Scheme was set out in the Northern Ireland Main Supply Estimates for 2009-10, as amended by the Northern Ireland Spring Supplementary Estimates. The limit on the RfR was set at £507,668,000 and subsequently amended to £467,774,000 for 2009-10. This limit was authorised in the Budget Act (Northern Ireland) 2009, the Budget (No.2) Act (Northern Ireland) 2009 and the Budget Act (Northern Ireland) 2010. The breach reported below is against this limit.

Breach of Resource limit

7. The Statement of Parliamentary Supply to the Teachers' Superannuation Scheme 2009-10 resource accounts shows that the RfR was £471,470,852.13 which is £3,696,852.13 or 0.79 per cent in excess of the Estimate RfR of £467,774,000 authorised. It is proposed to ask the Assembly to authorise a further grant of supply from the Consolidated Fund of £3,696,852.13 by way of an Excess Vote.

Details and Causes

8. As explained in the footnote to the Statement of Parliamentary Supply, (page 20) of the Teachers' Superannuation Scheme 2009-10 resource accounts and the Statement on Internal Control, the Excess arose mainly because of the Department's failure to operate adequate internal controls to manage effectively the estimating process. The biannual exercise for updating the estimates for the Teachers' Superannuation Scheme involves intricate interactions between a number of stakeholders within and external to the Department. The process for agreeing the updates to the figure-work is currently not fully documented which has given rise to ambiguity regarding relevant responsibilities for confirming the estimate figures.

Action to be taken by the Department to help prevent a recurrence

9. Following identification of the Excess vote by the Finance Directorate, the Department instigated an immediate review of their estimate processes in order to ensure that sufficient controls were put in place to avoid any possible future excesses. The review was carried out by the Department's Internal Audit Service and a series of recommendations for enhancements to the internal controls were made. These included:

   - The development of an agreed process map for the Annual Managed Expenditure and Estimates exercises which should be agreed by the various stakeholders.

   - The development of documented procedures to assist staff fulfil their respective responsibilities. Internal Audit has recommended checks for inclusion in these procedures.

- All information providers to sign off Annual Managed Expenditure returns confirming their accuracy and completeness. Sign off should be by the respective team leader or equivalent and the Financial Planning and European Team, who prepare the Annual Managed Expenditure, should check the returns received are properly signed off.

- Prior to the submission of the Teachers' Superannuation Scheme Estimates to the Department of Finance and Personnel, they should be signed off by the team leader or equivalent of Financial Governance and Accountability Team and Teachers' Pay and Pensions Team; in the case of Annual Managed Expenditure, sign off should be by the team leader or equivalent of Financial Planning and European Team and for Spring Supplementary Estimates the team leader or equivalent of the In-Year Monitoring Team. This will provide the opportunity to take into account any changes that have arisen since the Annual Managed Expenditure return was submitted to the Department of Finance and Personnel in December.

- The Financial Planning and European Team management should ensure an independent management check is performed over the accuracy and completeness of the figures entered on the Department of Finance and Personnel template for the Estimates and evidence of this check should be recorded for audit trail purposes.

10. The Department has advised me that the enhancements to internal control will be implemented as appropriate and these will be kept under review.

Summary and conclusions

11. In forming my opinion on the Teachers' Superannuation Scheme 2009-10 financial statements, I am required to confirm whether, in all material respects, the expenditure and income have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them. On the basis of my findings above, I concluded that net resource outturn of £471,470,852.13 was in excess of the £467,774,000 authorised by the Assembly resulting in an excess of £3,696,852.13, and that it was therefore irregular. My audit opinion has been qualified in this respect.

Kieran J Donnelly

K J Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Road
Belfast BT7 1EU
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CDS Belfast
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