

Presented pursuant to s.141 of the Social Security Administration (Northern Ireland) Act 1992

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# Northern Ireland National Insurance Fund Account 2007-08



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# Northern Ireland National Insurance Fund Account 2007-08

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# Foreword

## Statutory background

- 1 The National Insurance Scheme was established on 5 July 1948 to provide unemployment benefit, sickness benefit, retirement pensions and other benefits in cases where individuals meet the contribution and other qualifying conditions.
- 2 Under the Social Security Administration (Northern Ireland) Act 1992 benefits due under the National Insurance Scheme are payable out of the Northern Ireland National Insurance Fund (NI NIF). The funds required for meeting the cost of these benefits are mainly provided from National Insurance contributions payable by employed earners, employers and others. The Social Security Contributions and Benefits (Northern Ireland) Act 1992 sets out the conditions governing entitlement to most benefits and the basis for assessing liability to pay National Insurance contributions.
- 3 Section 141(1) of the Social Security Administration (Northern Ireland) Act 1992 (as amended by the Social Security Contributions (Transfer of Functions etc) (Northern Ireland) Order 1999) places the NI NIF under the control and management of the Inland Revenue (now HM Revenue & Customs (HMRC)).
- 4 The Chief Executive of HMRC is the Principal Accounting Officer for the Fund. HM Treasury appointed me as Principal Accounting Officer for HMRC with effect from 10 November 2008. Section 141(1) of the Social Security Administration (Northern Ireland) Act 1992 requires HMRC to prepare accounts of the NI NIF in such form, and in such manner and at such times, as the Treasury may direct. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balance held at the year-end.

## Operational responsibilities

- 5 National Insurance contributions are payable by employed earners, employers and others. HMRC is responsible for collecting these contributions and recording them against individuals' contribution records (which determine entitlement to social security benefits payable from the Fund). As Principal Accounting Officer for the NI NIF, I am responsible for the control and management of the Fund.
- 6 The Northern Ireland Social Security Agency (NISSA) an Executive Agency within the Department for Social Development (DSD) has overall responsibility for the award and payment of most benefits payable from the NI NIF including those relating to retirement, sickness and contribution based Jobseeker's Allowance. Entitlement to benefit is determined by the claimant satisfying qualifying conditions.
- 7 The Department for Employment and Learning (DEL) is responsible for making Redundancy Payment Scheme (RPS) awards. The payment of awards and collection of receipts is contracted out to the Department of Enterprise, Trade and Industry (DETI).
- 8 The amounts received by, and paid out of, the NI NIF, and the resulting balance, depend on legislation, which is the responsibility of Treasury Ministers and the Secretary of State for Work and Pensions. In setting contribution rates, Treasury Ministers are required to have regard to changes in the general level of earnings, the state of the Fund and payments expected to be made from it in future (Sections 129, 130 and 131 of the Social Security Administration (Northern Ireland) Act 1992).
- 9 The Government Actuary is required under Sections 142(1), 147(2) and 150(8) of the Social Security Administration Act 1992 to report on the likely effect on the Fund of the Government's annual Benefits Updating and Contributions Re-rating Orders. These reports are laid before Parliament and debated alongside the relevant orders. He is also required under Section 166 of the Act to report every five years on the long-term financial estimates of the NI NIF. The latest quinquennial report was laid before Parliament on 27 October 2003 and an update provided on 23 December 2004. The next report is due to be laid before Parliament sometime in Spring 2009.

## **Audit arrangements**

- 10 The Comptroller and Auditor General is required under Section 141(2) of the Social Security Administration (Northern Ireland) Act 1992 (as amended by the Social Security Contributions (Transfer of Functions etc) (Northern Ireland) Order 1999) to examine and certify the NI NIF Account and to lay copies of it, together with his report on it, before Parliament.

## **Financial performance**

- 11 The National Insurance Scheme is financed on a pay-as-you-go basis with contribution rates set at a level broadly necessary to meet the expected benefits expenditure in that year, after taking into account any other payments and receipts, and to maintain a working balance. Changes in contribution levels in response to the needs of the Fund take time to implement therefore, a working balance is necessary because the NI NIF has no borrowing powers. In his report on the financial provisions of the Social Security Bill 1992 the Government Actuary confirmed that it was prudent to plan for a minimum balance of one-sixth (16.7 per cent) of annual benefit expenditure.
- 12 The balance on the Fund has increased by £410 million compared with the position at 31 March 2007 (£1,023 million). At 31 March 2008 the balance held is £1,433 million (approx 81 per cent of annual benefit expenditure).
- 13 The Government Actuary's next Report on the Government's Benefits Up-rating and Contributions Re-rating Orders will be tabled early in 2009, alongside the 2009 Up-rating Order and the Re-rating Orders. The Orders, which will cover the financial year 2008-09, are subject to debate and require the approval of both Houses. These reports include estimates of both benefit payments and contributions which are sensitive to changes due to a number of assumptions made, such as the level of employment and earnings.

## **Responsibilities of the Chief Executive of HM Revenue & Customs**

- 14 As Chief Executive of HMRC, I am the Principal Accounting Officer for the NI NIF. My relevant responsibilities as Principal Accounting Officer, including my responsibility for the propriety and regularity of the public finances for which I am answerable, and for keeping of proper records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in 'Managing Public Money'. Many of the activities relating to the transactions of the NI NIF are carried out by other departments (DSD & DEL) and agencies on my behalf, and I receive letters of assurance from them as detailed in the Statement on Internal Control.

### **Lesley Strathie**

Principal Accounting Officer  
5 December 2008

# Statement on Internal Control

This statement is given in respect of the Northern Ireland National Insurance Fund White Paper Account.

## Scope of responsibility

- 1 As Principal Accounting Officer for the Northern Ireland National Insurance Fund (Northern Ireland NIF), I have responsibility for the stewardship of the Fund and maintaining a sound system of internal control that supports the achievement of HMRC'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.
- 2 Whilst HMRC has overall responsibility for the control and management of the Fund and for collecting National Insurance contributions, the Northern Ireland Social Security Agency (NISSA) within the Department for Social Development (DSD) in Northern Ireland is responsible for benefit payments and the Department for Employment and Learning (DEL), is responsible for Redundancy Payments Scheme awards which are covered by the Fund, with the payment of these awards and collection of receipts contracted out to the Department of Enterprise, Trade and Investment (DETI).
- 3 I receive Letters of Assurance from the Accounting Officers of the NISSA and DEL, approved by their audit committees, which refer to their own statements on internal control (SICs) and highlight any significant issues that impact on the Fund. In addition, the Government Actuary is responsible for reporting to Parliament on the performance of the Fund.

## The purpose of the system of internal control

- 4 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 risk 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 HMRC for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.
- 5 Specific work undertaken on behalf of the Northern Ireland NIF forms only a small part of the whole work of HMRC. A separate SIC is produced for the HMRC 2007-08 Accounts that fully sets out details of HMRC's capacity to handle risk and its risk and control framework, as well as including disclosures that relate to issues outside of the scope of work relating to the NIF. The full SIC can be found in HMRC's published Accounts for 2007-08.

## Capacity to handle risk

- 6 We continue to review and adapt HMRC's risk management arrangements to ensure they are fit for purpose. Following the loss of Child Benefit customer data in October 2007 urgent measures have been put in place to improve the Department's security arrangements over customer data (see paragraphs 34-41).
- 7 As head of the Department I have a key role to play in promoting and supporting the risk management strategy. I am supported by Executive Committee members who are accountable for identifying, assessing and managing the risks within their portfolio. In turn, Directors are accountable to their Executive Committee members for risk management within their Directorates, and reporting on the actions they are taking to mitigate them.
- 8 The Audit Committee, supported by Internal Audit and informed by the work of the National Audit Office (NAO), provides me with independent advice on the effectiveness of the Department's governance, risk and control arrangements.

- 9 Between April 2007 and January 2008 a Risk Committee operated as one of a number of sub-committees of the Executive Committee. It had responsibility for taking an overview of risks facing HMRC and ensuring effective risk management. The committee:
- Reviewed the effectiveness of risk management and risk mitigation in HMRC, and identified improvements;
  - Considered whether existing risks were being well managed;
  - Identified new risks and allocated ownership.
- In January 2008 oversight of risk moved to the lines of business led by individual Executive Committee members.
- 10 In carrying out this role, the Risk Committee received information from individual Directors and Executive Committee members, as well as from other sub-committees. The Committee updated the Executive Committee with their assessment of HMRC's exposure to risk. It also informed the Audit Committee of changes to the risk management arrangements in the Department, to assist the Audit Committee in assessing the effectiveness of those arrangements.

### **The risk and control framework**

- 11 The current approach to risk management in HMRC involves the upward reporting of risks. The primary mechanism for this is the Director's monthly and quarterly performance reports. These Director level risks inform the strategic risk management process, which is focused around the Departmental Risk Register. Ownership of the risks in the Departmental Risk Register is assigned at Executive Committee level, and at the next level of management down – the Delivery Manager.
- 12 The administration of National Insurance (NI) involves a number of business areas within HMRC ranging from processing offices through to information technology and debt management. A National Insurance Management Board (NIMB) sits regularly to ensure that the different directorates involved in NI work together, at a strategic level, to plan, manage and improve the performance of the process. The NIMB sets key performance indicators, maintains a strategic risks and issues register, monitors and reports progress, and addresses any major performance issues arising within NI.
- 13 There is a NIF Audit Forum consisting of representatives from key Internal Audit units, NAO, other government departments and management. The forum focuses on co-ordinating risk-based audit activity such as planning, reporting and implementation of recommendations and fostering opportunities for joint working and exchange of best practice.

### **Review of effectiveness**

- 14 As Principal 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 executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, by the work of the internal auditors and comments made by NAO in management letter and other reports.
- 15 I discuss significant control issues with my executive team as they arise, at our regular Executive Committee meetings. These meetings are informed by an assessment of our current exposure to risks associated with our major programmes and projects. They are further informed by feedback from a series of performance reviews held each quarter between the relevant Executive Committee manager and Director. The focus of these reviews is the progress being made in each Director's area to deliver value and the key issues/risks that could prevent the achievement of key targets/objectives by the year end.
- 16 To provide me with an assurance on the effectiveness of the system of internal control, the Director of Audit provides me with an annual opinion, a summary of the findings from every internal audit review, and he alerts me to significant control issues as they arise. The Chairman of the Audit Committee, who is a non-executive Board member, provides the Board with a written report after each Audit Committee meeting.

- 17 The Director Generals and other senior managers have drawn up statements that set out governance, risk and control arrangements in their business areas. Taking these statements into account, and observations from the Director of Internal Audit, the NIMB, and from NAO, I recognise that there are a number of significant control weaknesses relating to the NIF. These are detailed below. All of these issues apply to both the Great Britain and Northern Ireland Funds, and numbers of items and monetary amounts quoted are the total impact across both Funds.

### **Age Related Rebates (ARRs) – Outstanding Debt**

- 18 Individuals who contract out of the State Earnings Related Pension Scheme (SERPS) or the Second State Pension (S2P) are entitled to a percentage rebate (the age-related rebate) of their National Insurance contributions which is paid to the pension provider.
- 19 Recoveries of ARR take place where, for example, there are downward adjustments to earnings information on an individual's NI account. There are 2 methods of recovering overpayments; automatically via the National Insurance Recording System 2 (NIRS2) – where recoveries are made from ARR payments due, or by the issue of a bill.
- 20 Where a bill is issued it should be followed up with a reminder if it remains unpaid. This process was not carried forward to NIRS2 and the issue was compounded by significant problems/system faults (which have since been fixed) that existed at the time with the new financial functionality. As a consequence, some outstanding debts have remained unactioned.
- 21 Some of the debt (albeit a minority) is up to 20 years old. Legal advice was taken on the practicality of pursuing unpaid amounts of this age and after much consideration agreement has been reached that only debt that has been identified since January 2004 (i.e. debt up to 5 years old) will be pursued. The latest NIRS2 scan indicates that this will reduce the outstanding amount to be recovered to approximately £5 million; the recovery strategy is being reviewed in the light of this latest information.

### **Class 2 National Insurance 'Debt' balances**

- 22 National Insurance Class 2 is a flat-rate weekly contribution paid by the self-employed. Payment of Class 2 contributions gives entitlement to a range of contributory benefits, but collection of outstanding Class 2 debts is a long standing issue which has been commented on in previous years.
- 23 The National Insurance Class 2 (NIC2) Group has focused on the recovery and enforcement of NIC2 debts prioritising those debts which were approaching the time-barred date. Changes were made to improve resource intensive processes and DMB took the lead in the development and implementation of a tactical solution to identify and remit time-barred debts annually, across four major IT systems. This work has not yet been concluded but there has been a positive result with reductions in the debt balance to date of approximately £381 million. The need to comply with enhanced data security controls means that the annual remission exercise for 2008-09 has been delayed but HMRC still expect to be able to remit up to a further £182 million from its IT systems by March 2009.
- 24 Going forward, in the absence of a change in policy to collect Class 2 & 4 together and with the small amounts involved (i.e. £2.30 per week), Class 2 is inherently costly for HMRC to service. Plans for a tactical IT solution have also been shelved. However, HMRC will continue to:
- monitor the debt balances;
  - remit time-barred debts on our systems;
  - look for ways with other HMRC stakeholders of supporting and maximising voluntary compliance by encouraging take up of direct debit;
  - improve the effectiveness of early, relatively low cost, interventions like letters, texts and voice messages.

### **Incapacity Benefit Credits**

- 25 The Department for Work and Pensions (DWP) Pensions Service Computer System (PSCS) provides Incapacity Benefit start and end dates to NIRS2 where credits are awarded for relevant weeks. Due to interface problems between these two systems, some periods of incapacity were recorded incorrectly on NIRS2 over the period from 1994 to 2004.
- 26 In July 2007, a cross departmental exercise involving HMRC, the Department for Work and Pensions (DWP) and Northern Ireland Social Security Agency (NISSA) began work to correct these periods of incapacity. Data from the DWP PSCS system was extracted and compared with that held by NIRS2. Where appropriate, NIRS2 was updated and outputs generated leading to follow up actions by staff. DWP (and NISSA) focussed initially on addressing cases where people have been underpaid contributory based benefits or state pension. With respect to cases of overpayment, DWP introduced regulations allowing the continued payment of benefits at their current level for the duration of the claim. In addition to updating NIRS2, HMRC are in the process of writing to customers who now have gaps in their contribution records as a result of the removal of incorrect credits. Letters have been issued in two tranches (January and August 2008) and a further tranche of activity is being planned for later in 2008-09.
- 27 The work involved in this exercise has proven to be very complex and resource intensive. The majority of planned activities have now been completed; however, we don't expect to complete all of the follow up work until March 2009. Internal Audit are currently conducting a review of all other credit interfaces to ensure these are working effectively.

### **Non Matching Contribution Items**

- 28 In some instances we receive end of year information from employers that includes National Insurance contributions information that cannot be matched to the relevant contributor records. We apply well established routines to trace these non matching items and make all reasonable effort to update contributor records. Where the items still cannot be matched they are kept permanently on non-matched suspense files. These are maintained to ensure that when an individual queries the completeness of their contribution record we can retrieve unmatched items from suspense files and credit them to the individual's contribution record.
- 29 Up to 2006-07 the suspense files contained approximately 116 million items. For the 2006-07 tax year some 2 million new items were added to the suspense files; this represents about 3.5 per cent of the year's returns. We continue to undertake detailed analysis and work closely with key inter-departmental stakeholders to develop strategies to improve the quality of the data submitted from employers.

### **Home Responsibilities Protection (HRP)**

- 30 HRP was introduced in April 1978 to assist people, especially women, who were precluded from work for periods of caring responsibilities. HRP does not enhance a person's National Insurance record and does not appear as earnings, but is used to reduce the number of qualifying years needed to earn a 100 per cent basic State Pension.
- 31 In Child Benefit cases HRP is normally recorded automatically when data is passed from the Child Benefit system to the National Insurance Recording System (NIRS). Before May 2000, there was no mandatory requirement for people claiming Child Benefit to provide their NI number and, where it was not provided, HMRC could not always match the Child Benefit data with the correct NI record. In such cases, HMRC attempted to trace the correct customer record clerically and, if this was unsuccessful, wrote to the customers asking for their NI numbers. This was done at least twice (at the start of the child benefit claim and at the end). Where the customer did not reply, no further action was taken and as a consequence, their HRP entitlement could not be recorded.
- 32 There is no time limit on entitlement to HRP based on child benefit awards and any claims for HRP are investigated and, where appropriate, recorded on the individual's record. This information is then available when it is time to work out an individual pension award or it will automatically activate a Tax Year Review to re-visit a pension award.

- 33 As reported last year, DWP and HMRC are working together to identify those customers who, potentially, might not have received their HRP entitlement. Our priority was to identify current pensioners whose benefits could be increased by correcting this problem. A scan of NIRS relating to pensioners has now been completed and we are currently analysing the results before determining next steps. DWP are exploring measures to address the problem for those working age customers approaching pension age. Additional work to compare and where necessary align current Child Benefit records and NIRS for other affected working age customers is scheduled for January 2009.

#### **Data Security: Data Loss**

- 34 Following the loss of Child Benefit data in November 2007 HMRC took immediate steps to enhance data security following the incident including:

- Appointment of data guardians;
- A complete ban on the transfer of bulk data on removable media without adequate security protection such as encryption;
- Removing the ability of all staff to save data to portable media such as CDs and memory sticks and reintroducing this only where there is a compelling business case to do so;
- The provision of a Data Security Booklet to all staff.

This action was taken across the whole of HMRC, including all areas involved in National Insurance work.

- 35 In the interim report published by HM Treasury on 17 December 2007 Kieran Poynter noted "..... the first actions that I would have recommended had already been taken by HMRC before I began my review ....."
- 36 A final report was published by HM Treasury on 25 June 2008 and the Chancellor made a further statement to Parliament on the same day. The Chancellor has accepted the report's detailed findings and recommendations in full and has endorsed in principle the direction of travel proposed by the review team.
- 37 The IPCC report was also published on 25 June 2008. The report found no evidence whatsoever of misconduct or criminality by any member of HMRC. HMRC is committed to implementing all of its recommendations.

#### **Data Security: Data Sharing with other Departments**

- 38 In common with all other business streams within HMRC, areas involved in National Insurance work have taken action to review and improve data security procedures.
- 39 HMRC shares customer information with several other departments. We ensure that departments receiving HMRC information are aware of their statutory obligations under the provisions of the Data Protection Act including the need to comply with all of the principles of that Act such as the need to keep information safe and secure. These principles are set out in Memoranda of Understanding, Service Level or Partnership Agreements detailing the legal and administrative framework in which HMRC information may be used (including onward disclosure of HMRC information by the receiving department). However, we currently have no formal mechanism for those departments to report back to HMRC on how they comply with data security and what steps they have taken to prevent unlawful disclosures. In addition we have no method of gaining assurance from the receiving department that the data is being held securely and appropriately controlled.
- 40 The Data Security Programme is overseeing a review of HMRC's approach to granting roles and access to IT systems. This will include a review of access rights granted to other government departments and the controls in place to ensure they are granted, used and closed appropriately.
- 41 As part of this program all HMRC members of staff, including those working on National Insurance are required to attend one of a series of data security workshop events. These mandatory workshops are designed to remind staff of HMRC's data security obligations and to ensure they understand how they impact on their every day duties. This should help prevent the possibility of further data losses by up-skilling our staff on data security principles.

**Assurance from the Northern Ireland Social Security Agency (an Agency of DSD) in respect of Contributory Benefit payments**

- 42 A Letter of Assurance has been received from the Northern Ireland Social Security Agency (NISSA) which contains details about their capacity to handle risk and their risk control framework.
- 43 For 2007-08 the Agency again set a very challenging financial accuracy target of 99 per cent for Income Support, Jobseeker's Allowance, State Pension and Incapacity Benefit and 98 per cent for Disability Living Allowance and State Pension Credit. The financial accuracy results for the calendar year January 2007 to December 2007 show that three out of the six main benefits exceeded their target: Jobseeker's Allowance, Disability Living Allowance and State Pension. In addition Income Support and Incapacity Benefit met their targets within statistical tolerance. State Pension Credit missed its target with a result of 94.3 per cent against a target of 98 per cent.
- 44 In terms of social security benefit total losses through fraud and error, the latest estimate, incorporating the 2007 Benefit Review results for Jobseeker's Allowance, Incapacity Benefit, State Pension Credit and Carers Allowance indicate that total estimated losses through overpayments are still following the trend of decreasing. Estimated overpayment losses have reduced by 45 per cent from £109.1m in 2002-03 (3.26 per cent of benefit expenditure) to £60.1m in 2006 (1.72 per cent of benefit expenditure). There has been a further decrease for 2007 of 21 per cent to an estimated total of £47.5m (1.3 per cent of benefit expenditure).
- 45 Reducing fraud and error in the benefit system remains one of the Agency's top five key priorities and it has in place a comprehensive and robust benefit security strategy to challenge the many elements of both benefit fraud and error. This involves a range of activities, and includes a wide ranging programme of pro-active targeting and correcting of those cases with a high likelihood of error. In 2007-08 this led to over 15,380 corrections and adjustments to benefit awards to a total value of almost £36m (of which approximately £23.4m relates to overpayments and £12.6m relates to underpayments). Prevention of fresh error continues to be addressed through the introduction of Accuracy Improvement Plans. The Agency continues to target and investigate those who deliberately make false claims to obtain benefit, which resulted during 2007 in 396 convictions for benefit fraud.
- 46 Due to the Agency's continuous improvement in the area of internal control, along with other factors such as the sustained achievement of financial accuracy targets and a reduction in the overall level of fraud and error, DSD Internal Fraud have raised the assurance rating for programme expenditure for this financial year to satisfactory assurance. This is the first time that this assurance rating has been awarded to benefit expenditure. In addition the overall assurance rating awarded to the Agency for the financial year 2007-08 has now also been raised to satisfactory assurance.

**Assurance from DEL in respect of the Redundancy Payments Scheme**

- 47 A Letter of Assurance has been received from DEL that has been approved by their Audit Committee and contains details about their capacity to handle risk and their risk control framework. The letter gives assurance that there were no significant internal control issues that impact on the Northern Ireland NIF.

**Lesley Strathie**

Principal Accounting Officer  
5 December 2008

# The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Northern Ireland National Insurance Fund for the year ended 31 March 2008 under the Social Security Administration (Northern Ireland) Act 1992. These comprise the Receipts and Payments Account 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**

The Chief Executive of HM Revenue & Customs as Accounting Officer is responsible for preparing the Foreword and the financial statements in accordance with the Social Security Administration (Northern Ireland) Act 1992 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements properly present the receipts and payments and whether the financial statements have been properly prepared in accordance with the Social Security Administration (Northern Ireland) Act 1992 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Foreword is consistent with the financial statements. I also report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if HM Revenue & Customs has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal Control reflects HM Revenue & Customs compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of HM Revenue & Customs corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## **Basis of audit opinions**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinions

### Audit Opinion

In my opinion:

- the financial statements properly present the receipts and payments, in accordance with the Social Security Administration (Northern Ireland) Act 1992 and directions made thereunder by HM Treasury, for the year ended 31 March 2008 and the balance held at that date;
- the financial statements have been properly prepared in accordance with Section 161(2) of the Social Security Administration (Northern Ireland) Act 1992 and HM Treasury directions made thereunder; and
- information given within the Foreword is consistent with the financial statements.

### Audit Opinion on Regularity

In my opinion, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

My report on the financial statements is at pages 23 to 26.

*T J Burr*  
Comptroller and Auditor General  
12 January 2009

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

# Receipts and Payments Account for the year ended 31 March 2008

Prepared in accordance with section 141 of the Social Security Administration (Northern Ireland) Act 1992.

	Notes	<b>2007-08</b> <b>£000</b>	2006-07 £000
<b>Receipts</b>			
National Insurance contributions	2	<b>1,674,797</b>	1,386,632
Transfers from Great Britain NIF	5	<b>452,000</b>	630,000
Compensation for statutory pay recoveries	3	<b>53,397</b>	37,456
Income from investments	4	<b>73,150</b>	20,849
Other receipts	7	<b>3,327</b>	2,649
Redundancy receipts	8	<b>1,094</b>	1,780
State Scheme premiums	6	<b>1,661</b>	1,617
		<b><u>2,259,426</u></b>	<u>2,080,983</u>
<i>Less</i>			
<b>Payments</b>			
Benefit payments	9	<b>1,759,288</b>	1,640,158
Personal pensions	10	<b>49,100</b>	56,200
Administration costs	11	<b>39,181</b>	39,925
Redundancy payments	8	<b>1,903</b>	2,696
		<b><u>1,849,472</u></b>	<u>1,738,979</u>
Excess of receipts over payments		<b><u>409,954</u></b>	<u>342,004</u>

## Statement of balances

		<b>2007-08</b> <b>£000</b>	2006-07 £000
Opening balance		<b>1,023,433</b>	681,429
<i>Plus</i>			
Excess of receipts over payments / (payments over receipts)		<b>409,954</b>	342,004
Closing balance	12	<b><u>1,433,387</u></b>	<u>1,023,433</u>

### Lesley Strathie

Principal Accounting Officer  
5 December 2008

*The notes on pages 13 to 19 form part of these accounts.*

# Notes to the Account

## 1 Accounting policies

### *Basis of preparation of the Account*

This Account has been prepared in accordance with section 141(2) of the Social Security Administration (Northern Ireland) Act 1992. It has been prepared on a cash basis with no provision for accruals and in a form directed by HM Treasury, shown as an annex to this Account.

### *National Insurance contributions*

The Account shows those contributions received by the Fund during the year. The amounts received are after recoveries by employers of amounts due in respect of any statutory sick, maternity, adoption and paternity payments made to their employees and after deduction of contributions allocated to the National Health Service (NHS).

Employers are responsible for calculating their own and their employee's contributions. Their records are subject to examination by HMRC. These checks and other checks on contributors may result in additional receipts or repayments in future years in respect of contribution liabilities for 2007-08.

### *Payment of Social Security benefits*

The Northern Ireland Social Security Agency (NISSA) within the Department for Social Development (DSD) is responsible for administering social security benefits in Northern Ireland. These benefits are financed either from the NI NIF (for contributory benefits), from the NI Consolidated Fund (for non-contributory benefits) or from the Social Fund (for Funeral payments, Winter Fuel payments etc).

### *Use of estimated figures*

Certain figures in the Account are based on estimates and may be subject to adjustment in subsequent years on the basis of more reliable information. These include the calculation of certain classes of contribution receipts, allocation of contribution receipts to the NHS, recoveries and compensation in respect of statutory sick, maternity, adoption and paternity pay and settlements with Great Britain NIF. Certain NI NIF contributory expenditure information is provided by the Programme Accounting Computer System (PACS). The PACS system is used by the Agency to account for benefit expenditure on a financial accounting accruals or resource basis.

### *Net accounting*

National Insurance contributions, state scheme premiums, personal pension and benefit payments are all shown net of refunds or recoveries.

## 2 National Insurance contributions

	Notes	2007-08 £000	2006-07 £000
Class 1 (employed earners)	i	1,591,212	1,302,379
Class 1A & 1B	ii	16,437	16,168
Class 2 (self-employed flat rate)	iii	5,734	5,813
Class 3 (voluntary contributions)	iv	1,792	1,994
Class 4 (self-employed earnings-related)	v	59,622	60,278
		<b>1,674,797</b>	<b>1,386,632</b>

Different groups of people pay different classes of contributions. These can be summarised as follows:

- i Class 1 contributions are divided into two parts: primary contributions payable by employees and secondary contributions payable by employers.
- ii Class 1A contributions are paid by employers on most benefits provided to employees. Employers pay Class 1A contributions to HMRC Pay as You Earn scheme with their Class 1 contributions.

Employers are not required to provide HMRC with details of the split between Class 1 and Class 1A contributions when making payment via the Pay As You Earn scheme. The total amount of Class 1A contributions for the year is, therefore, estimated by the Government Actuary based on employers' End of Year Returns.

Class 1B contributions are payable by employers where they have entered into a PAYE Settlement Agreement (PSA) for tax enabling them to settle their National Insurance and Income Tax liability in a lump sum after the end of the tax year.

The figures for Class 1A and Class 1B have been combined.

- iii Class 2 self employed persons pay flat rate weekly contributions.
- iv Class 3 voluntary flat rate contributions are paid to maintain contributors' National Insurance records for certain benefit and / or pension purposes.
- v Class 4 self employed persons pay earnings related contributions.

### NHS allocation

The Social Security Administration (Northern Ireland) Act 1992 requires GAD to apportion the National Insurance contributions collected each year, confirming the Class split in order to calculate the appropriate amount to be paid over to the NHS.

The NHS allocation is paid over by HMRC to the NHS before the contributions are paid into the NI NIF and so the figures above are shown net of the NHS element. NHS allocation was £488 million in 2007-08 (2006-07: £406 million).

## 3 Compensation for Statutory Sick, Maternity, Adoption & Paternity Pay recoveries

	Notes	2007-08 £000	2006-07 £000
Statutory Sick & Statutory Maternity pay	i	52,490	36,853
Statutory Adoption & Statutory Paternity pay	ii	907	603
<b>Total</b>		<b>53,397</b>	<b>37,456</b>

The Government compensates the NI NIF for loss of revenue due to contribution receipts being reduced by recoveries of statutory sick, maternity, adoption and paternity pay. The compensation is drawn down from the Consolidated Fund and then paid over to the NI NIF by other government departments, as the NI NIF has no facility to do so. The amounts paid over are based on estimates.

- i Statutory Sick and Statutory Maternity pay recoveries are paid from DSD voted funds.
- ii Statutory Adoption and Statutory Paternity pay recoveries are paid over by the BERR. In 2007-08, the BERR paid over £33.5 million to the GB NIF in respect of 2006-07; a proportion of this was due to the NI NIF and will form part of the annual adjustment to bring the two accounts into line as per Note 5.

#### 4 Income from investments

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Interest received	<b>72,726</b>	44,589
Loss on realisation	–	(24,399)
Bank Interest	<b>424</b>	659
	<b>73,150</b>	20,849

The value of investments increased from £1.08 billion at 31 March 2007 to £1.62 billion at 31 March 2008 (Note 12).

The responsibilities of HMRC and the Commissioners for the Reduction of National Debt (CRND) in respect of the investment of surplus NI NIF funds are set out in a Memorandum of Understanding.

#### 5 Transfers from Great Britain NIF

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Transfers from Great Britain NIF	<b>452,000</b>	630,000

The amount shown in this Account is in respect of financial adjustments made between the Northern Ireland National Insurance Fund and the Great Britain National Insurance Fund in accordance with Section 153 of the Social Security Administration (Northern Ireland) Act 1992.

These financial adjustments are consequential upon the arrangement made for co-ordinating the systems of insurance established in the two countries to ensure they operate, to such an extent as is provided in those arrangements, as a single system. They adjust the balances in the two Funds in proportion to the population of working age as established by the latest available Census returns in the two countries. Payments are made on a provisional basis and are adjusted when end of year balances in the two funds are available.

Transfers between the Great Britain and Northern Ireland National Insurance Funds are made so that, as far as practicable, the balance in the Northern Ireland Fund is maintained at 2.84 per cent of the joint balance of the two funds. The system of parity payments acts as a final safeguard against serious imbalances between the Great Britain and Northern Ireland National Insurance Funds.

#### 6 State Scheme premiums

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
State Scheme premiums	<b>1,661</b>	1,617

State Scheme premiums are payable in respect of employed persons who cease to be covered, in certain specified circumstances, by a contracted-out pension scheme. The premiums buy back the person's additional pension entitlement in the State Earnings Related Pension Scheme (SERPS).

**7 Other receipts**

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Recoveries of compensation payments	<b>3,327</b>	2,649

The recoveries from damages paid to recipients of certain NI NIF benefits. These amounts relate to recoveries from insurers and other bodies in respect of compensation claims for damages where NIF benefits have already been paid to people by DSD.

**8 Redundancy payments and receipts**

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
<b>Outstanding debt at 31 March 2007</b>	<b>15,122</b>	17,161
<i>Plus</i> Redundancy payments	<b>1,903</b>	2,696
<i>Less</i> Redundancy receipts	<b>(1,094)</b>	(1,780)
<i>Less</i> debt written off (note 13)	<b>(1,716)</b>	(2,955)
<b>Outstanding debt at 31 March 2008</b>	<b>14,215</b>	15,122

The Department for Employment and Learning (DEL) administers the Redundancy Payments Scheme under the provisions of the Employment Rights (Northern Ireland) Order 1996.

The scheme ensures that employees who have been made redundant are paid the statutory money due to them when their employers are unable to do so, usually because of insolvency. In doing so, the scheme also has to protect the taxpayers' interests by ensuring that it does not make payments which can and should be made by the employers themselves.

Redundancy payments are made from the NI NIF to employees whose employers have failed to make payments due or who were insolvent. The payments are awarded by DETI. The receipts represent amounts recovered from employers. The total debt outstanding at 31 March 2008 was £14.2 million.

**9 Benefit payments**

	Notes	<b>2007-08</b>	2006-07
		<b>£000</b>	£000
State Pension	i	<b>1,383,003</b>	1,267,358
Incapacity Benefit	ii	<b>329,759</b>	325,842
Bereavement Benefits	iii	<b>25,553</b>	27,194
Jobseeker's Allowance (contributory)	iv	<b>10,194</b>	11,437
Maternity Allowance	v	<b>7,134</b>	4,726
Christmas Bonus	vi	<b>3,573</b>	3,535
Guardian's Allowance and Child's Special Allowance	vii	<b>72</b>	66
		<b>1,759,288</b>	1,640,158

- i State Pension is for people who have reached State pension age (currently 65 for men and 60 for women). It is based on National Insurance contributions and is made up of different elements, the largest of which is the basic State Pension, followed by the additional state pension known as State Earnings Related Pension Scheme (SERPS).
- ii Incapacity Benefit is paid at three different rates dependent on age and term of incapacity to a customer who has paid National Insurance contributions at the correct rate and for the relevant period and for whose Statutory Sick Pay has ended or is not applicable.
- iii Bereavement benefits consist of Bereavement Allowance, which is a regular payment for 52 weeks, and Bereavement Payment, which is a lump sum payment. Also Widowed Parent's Allowance is a regular payment payable whilst the customer has dependent children for whom they receive (or could receive) Child Benefit. These benefits are all based on the National Insurance contributions of the deceased spouse.
- iv Contributory Jobseeker's Allowance is payable to people who are capable of working, available for work and actively seeking work who have paid or are treated as having paid a certain number of National Insurance contributions. It is payable for 182 days and no additional benefit is payable for dependents.
- v Maternity Allowance is paid for up to 39 weeks at a standard weekly rate, dependent on earnings, to a person who cannot get Statutory Maternity Pay. It is payable from a maximum of 11 weeks before the expected date of childbirth and is subject to qualifying conditions.
- vi Christmas Bonus is a tax-free payment of £10 paid before Christmas to anyone who is getting one or more qualifying benefits.
- vii Guardian's Allowance and Child's Special Allowance is payable to people bringing up a child or children because both parents have died or in certain circumstances where only one parent has died.

Where an individual is in receipt of more than one benefit, it is established procedure to combine amounts due into a single payment wherever practicable. This means that all of the amounts reported above consist partly or wholly of apportioned expenditure. All social security benefits can be paid by cash cheque, payable order, credit transfer and Direct Payment. The Direct Payment method is the preferred method of payment for benefit by DSD. DSD currently has a target of 95 per cent of customers to be paid by Direct Payment and it is currently exceeding this target.

State Pension and Bereavement Benefits do not include payments to Northern Ireland pensioners living abroad. For administrative convenience these payments are made by the Department for Work and Pensions and the cost is borne by the Great Britain NIF. It is not possible to provide an accurate figure for Northern Ireland's share of the expenditure on overseas pensions, but an estimate of the amount involved in 2007-08 is £6.9 million (2006-07: £7.2 million).

## 10 Personal pensions

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Personal pensions	<b>49,100</b>	56,200

The Pension Schemes Act (Northern Ireland) 1993, supplemented by the Pensions Act 1995, entitles employed earners with a personal pension to a "minimum contribution" to their plan from the NI NIF.

For 1997-98 and later tax years, this is based on earnings between the lower and upper earnings level and the age of the member. Similarly, from April 1997, members of Contracted Out Money Purchase (COMP) Schemes are entitled to a "top-up" payment of age related rebate based on the age of the member and calculated using the earnings on which the contracted out rate of National Insurance contributions have been paid.

**11 Administration costs**

	Notes	<b>2007-08</b> <b>£000</b>	2006-07 £000
Department for Social Development	i	<b>30,600</b>	30,260
HM Revenue & Customs	ii	<b>5,287</b>	6,866
Department of Finance and Personnel	iii	<b>2,808</b>	2,308
Department for Employment and Learning	iv	<b>398</b>	389
Commissioners for the Reduction of the National Debt	v	<b>45</b>	62
National Audit Office	vi	<b>38</b>	35
Government Actuary's Department	vii	<b>5</b>	5
<b>Total</b>		<b><u>39,181</u></b>	<u>39,925</u>

The administration costs relate to services directly attributable to the NI NIF and are reimbursed to the respective service provider from the NI NIF. The costs are fixed for the year and will not be adjusted unless it is considered that the service has been subject to a serious and unforeseen adverse impact.

- i For administration costs relating to the award and payment of contributory benefits on behalf of the Fund.
- ii For the collection of National Insurance Contributions, maintenance of individual records and associated tasks.
- iii For payroll and investment services provided to Northern Ireland Departments.
- iv For the administration of the Redundancy Payment Scheme as required under the Employment Rights (Northern Ireland) Order 1996.
- v For investment services provided in pursuance of Section 141(3) of the Social Security Administration (Northern Ireland) Act 1992.
- vi For the annual audit of these Accounts.
- vii For actuarial services involving Social Insurance.

**12 Closing balance**

	Notes	<b>2007-08</b> <b>£000</b>	2006-07 £000
Securities held by the CRND at cost	i	<b>1,616,613</b>	1,080,287
Cash at bank		<b>1,186</b>	19,243
Other balances	ii	<b>(184,412)</b>	(76,097)
<b>Total</b>		<b><u>1,433,387</u></b>	<u>1,023,433</u>

- i The National Debt Commissioners are responsible, in accordance with section 141(3) of the Social Security Administration (Northern Ireland) Act 1992 amended by paragraph 44(3) of Schedule 3 to the Social Security Contributions (Transfer of Funds, etc) (Northern Ireland) Order 1999 for the investment of the NI NIF. They are authorised to invest in accordance with directions given by HM Treasury and in line with the Memorandum of Understanding between HMRC and CRND.
- ii Other balances represent sums due from or owing to government departments and overseas administrations in respect of the operation of the NI NIF.

**13 Losses**

	Notes	2007-08		2006-07	
		£000	No. of cases	£000	No. of cases
Contributions losses	i	<b>9,106</b>		7,058	1,048
Redundancy write off	ii	<b>1,716</b>	<b>200</b>	2,955	171
Other losses	iii	<b>1,179</b>	<b>6,518</b>	1,385	6,324
Total losses		<b>12,001</b>		11,398	7,543

- i Contribution losses include remissions and write-offs. Remissions in respect of unpaid contributions are granted when HMRC has decided not to pursue the liability, for example on the grounds of value for money or official error. Write-offs occur when there is no practical means of pursuing the liability. Contribution losses also include Northern Ireland's share (2 per cent) of the United Kingdom total of certain losses incurred by the National Insurance Contributions Office. No case numbers are available for these debts following a change in processes for recording NIF losses.
- ii The figure represents amounts written off during the year in respect of redundancy payments to employees, deemed irrecoverable from their employers mainly due to insolvency.
- iii Other losses include benefit losses, administrative losses and Compensation Recovery Unit losses.

**14 Special payments**

	2007-08		2006-07	
	£000	No. of cases	£000	No. of cases
Special payments	<b>299</b>	<b>201</b>	474	294

These are payments made to claimants who were wrongly advised of their entitlement by the Northern Ireland Social Security Agency. The sum of £299k includes £268k relating to a special exercise carried out by the DSD Accuracy Team in Pensions Branch on advice given to female claimants.

## National Insurance Account – Northern Ireland Accounts Direction given by Her Majesty’s Treasury

- 1 Section 141(1) of the Social Security Administration (Northern Ireland) Act 1, as amended by paragraph 44(2) of Schedule 3 to the Social Security Contributions (Transfer of Functions, etc.) (Northern Ireland) Order 1999, places the Northern Ireland NIF under the control and management of HM Revenue & Customs. This Order was brought into force on 1 April 1999 by Statutory Rule 1999 No. 149(C.1 5) The Social Security Contributions (Transfer of Functions, etc.)(1999 Order) (Commencement No.1 and Transitional Provisions) Order (Northern Ireland) 1999.
- 2 Section 141(2) of the above Act, as amended by paragraph 44(3) of Schedule 3 to the Transfer of Functions Order, requires that the account of the National Insurance Fund of Northern Ireland shall be prepared by HM Revenue & Customs in such a form and in such a manner as HM Treasury may direct, and the Comptroller and Auditor General shall examine and certify every such account and shall lay copies of it, together with this report on it, before Parliament. In accordance with section 141(2) the Treasury hereby gives the following Direction.
- 3 HM Revenue & Customs has a duty to prepare each year a statement of the transactions on the National Insurance Fund of Northern Ireland. For the year ended 31 March 2006, and all subsequent years until this direction is amended, this statement shall comprise:
  - a) a foreword;
  - b) an account of receipts and payments;
  - c) a statement of balances;and shall include such notes as may be necessary for the purposes referred to in the attached schedule.
- 4 The Accounting Officer shall observe all relevant accounts and disclosure requirements in *‘Managing Public Money’* and any other guidance issued by HM Treasury as amended or augmented from time to time.
- 5 The format of the statement of account and the disclosure requirements are in the attached schedule.
- 6 The foreword and the account shall be signed by the Accounting Officer.
- 7 The Accounts Direction shall be reproduced as an annex to the accounts.
- 8 This direction supersedes the Account’s Direction dated 16 October 2000.

**Ian Carruthers FCA CPFA**  
**Director, Government Reporting, HM Treasury**  
**10 February 2006**

## Schedule

## Format of Account and Disclosure requirements – Northern Ireland

- 1 The **foreword** shall state that the account has been prepared in accordance with a direction issued by HM Treasury in pursuance of Section 141(2) of the Social Security Contributions (Transfer of Functions etc)(1999 Order)(Commencement No 1 and Transitional provisions) Order (Northern Ireland) 1999.
- 2 The **foreword** will also include details of the following:
  - a) statutory background;
  - b) operational responsibilities;
  - c) financial performance;
  - d) audit arrangements; and
  - e) responsibilities of the Accounting Officer.
- 3 The **receipts and payments account**, and **statement of balances** shall conform to the formats shown in the Annex, although minor variations may be made.
- 4 The **notes** shall include:
  - a) an analysis of the payments and receipts included under the headings set out in the attached format, including any explanation or background that may be necessary to understand the accounts;
  - b) in the notes on administrative costs, the estimated costs for the current year and the adjustments for previous years separately identified;
  - c) a statement of the securities in which the National Insurance Fund of Northern Ireland is invested by the National Debt Commissioners in accordance with Section 141(2)of the Social Security Administration Act (Northern Ireland) 1992; and
  - d) Details of any irregular, uncertain or special payments.

## Annex

## Receipts and Payments Account for the year ended 31 March XXXX

	Notes	200x £000	200y £000
<b>Receipts</b>			
National Insurance Contributions			
Grant from Request for Resources 1			
Transfers from Great Britain			
Compensation for Statutory Sick Pay and Statutory Maternity Pay recoveries			
Compensation for Statutory Adoption Pay and Statutory Paternity Pay recoveries			
Income from Investments			
State Scheme Premiums			
Other receipts			
Redundancy receipts			
		_____	_____
		_____	_____
<i>Less:</i>			
<b>Payments</b>			
Benefit payments			
Personal pensions			
Administrative Costs			
Redundancy payments			
Transfers to Northern Ireland			
		_____	_____
Other payments			
		_____	_____
Excess of receipts over payments			
		_____	_____

## Statement of balances at 31 March

	Notes	200x £000	200y £000
Opening balance			
<i>Plus:</i> Excess of receipts over payments			
<b>Closing balance</b>			

*The notes on pages ( ) to ( ) form part of these accounts*

# Report by the Comptroller and Auditor General

## Introduction

- 1 The Northern Ireland National Insurance Fund (the Fund) provides for the receipt of contributions and for payment of benefits and allowances to individuals who have paid sufficient National Insurance contributions and have met other qualifying conditions. In 2007-08, £2,259 million was paid into the Fund and £1,849 million was paid out of it. At 31 March 2008 the balance on the Fund was £1,433 million.
- 2 HM Revenue and Customs are responsible for the collection of National Insurance contributions and for the administration of the Fund. The Northern Ireland Social Security Agency (the Agency) is responsible for administering benefits paid to claimants out of the Fund.

## Estimated level of over and underpayments due to fraud and error

- 3 In 2007-08, the Agency paid £1,759 million in benefits from the Northern Ireland National Insurance Fund. Most of this was for State Pension (£1,383 million), Incapacity Benefit (£330 million), Bereavement Benefits (£26 million) and Contributory Jobseeker's Allowance (£10 million).
- 4 The Social Security Contributions and Benefits (Northern Ireland) Act 1992 and subsequent legislation specify entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. Where benefit is paid to an individual who is not entitled to that benefit or at a rate which is more than that specified in the legislation, the excess expenditure has not been applied to the purposes intended by Parliament. Where benefit is paid at rates either more or less than those specified in legislation then such transactions do not conform to the authorities which govern them.
- 5 As shown in Figure 1, the Agency estimated that overpayments of contributory benefits, due to fraud and error, totalled £10.3 million (some 0.59 per cent of benefit payments) in 2007-08, compared with £20.1 million in 2006-07. It also estimated that £6.1 million (0.35 per cent of benefit payment) was underpaid due to error in 2007-08 compared with £3.5 million in 2006-07.

**Figure 1: Northern Ireland National Insurance Fund: over and underpayment of benefit expenditure in the last three years**

	2005-06 £ million	2006-07 £ million	2007-08 £ million
<b>Total benefit payments</b>	1,575.4	1,640.2	1,759.3
<b>Overpayments</b>			
Due to official error	5.3	9.1	3.0
Due to customer error and fraud	9.7	11.0	7.3
<b>Total</b>	15.0	20.1	10.3
Percentage of total benefit expenditure	0.95%	1.23%	0.59%
<b>Underpayments</b>			
Due to official error	8.3	3.5	6.1
Percentage of total benefit expenditure	0.53%	0.21%	0.35%

Source: All figures are based on fraud and error rates provided by the Northern Ireland Social Security Agency's Standards Assurance Unit and on the Northern Ireland National Insurance Fund 2007-08 payment figures. Fraud and error estimate figures and percentage rates are rounded to assist presentation.

- 6 State Pension, including Bereavement Benefit and Widow's Benefit (Bereavement Benefits) is the largest single benefit stream accounting for some £1,409 million or around 80 per cent of the total benefit payments. The Agency estimated that overpayments of State Pension and Bereavement Benefits totalled £1.5 million (some 0.11 per cent of relevant benefit payments). Fraud and error are lowest in State Pension because the benefit is easy to claim, relatively straightforward to determine as the benefit calculation is based on National Insurance records and largely unaffected by changes in circumstances.

**Figure 2: Northern Ireland National Insurance Fund: Estimated level of over and underpayments for State Pension and Incapacity Benefit in 2007-08 and 2006-07**

	State Pension (and Bereavement Benefit) £ million		Incapacity Benefit £ million	
	2007-08	2006-07	2007-08	2006-07
Total benefit payments	1,408.6	1,294.6	329.8	325.8
<b>Overpayments</b>				
Due to official error	0.1	3.2	2.9	5.9
Due to customer error and fraud	1.4	1.3	5.9	9.7
Total	1.5	4.5	8.8	15.6
Percentage of total benefit expenditure	0.11%	0.35%	2.67%	4.80%
<b>Underpayments</b>				
Due to official error	5.2	1.9	0.9	1.6
Percentage of total benefit expenditure	0.37%	0.15%	0.27%	0.50%

Source: All figures are based on fraud and error rates provided by the Northern Ireland Social Security Agency's Standards Assurance Unit and on the Northern Ireland National Insurance Fund 2007-08 payment figures. Fraud and error estimate figures and percentage rates are rounded to assist presentation.

**Notes:**

- 1 Estimates of Official Error: The 2007-08 State Pension/ Bereavement Benefit and Incapacity Benefit official error figures are based on the results of the 2007 financial accuracy exercise. The 2006-07 figures are based on the results of the 2006 financial accuracy exercise.
  - 2 Estimates of Customer Error and Fraud: The 2007-08 Incapacity Benefit customer error and fraud figures are based upon the results of the 2007 benefit review. The 2006-07 Incapacity Benefit customer error and fraud figures are estimated by rolling forward the 2004-05 percentages and applying them to the 2006-07 Incapacity Benefit payments total for the year.
  - 3 The 2007-08 and 2006-07 State Pension/ Bereavement Benefit customer error figure is estimated by using the outcome of the 2005 GB DWP National Benefit Review Pilot of Fraud and Error in State Pension. This estimated customer error to be 0.1% which has been applied to the State Pension/Bereavement Benefit payments total for the respective years.
- 7 Incapacity Benefit accounts for some £330 million, or around 18 per cent of the total benefit payments. The Agency estimated that overpayments of Incapacity Benefit totalled £8.8 million (some 2.67 per cent of relevant benefit payments). Incapacity Benefit is more prone to official error as the qualifying criteria are more complex and the potential exists for entitlement to change in the shorter term.

**Official Error**

- 8 The Agency's estimates the monetary value of errors made by its staff in processing of claims (official error), from a financial accuracy exercise undertaken by its Standards Assurance Unit (SAU), which involve the examination of statistical samples of all benefit awards on a continuous basis. The latest estimates show a fall in the level of overpayments of State Pension and Incapacity Benefit due to official error; there has been an increase in underpayments of State Pension attributable to official error. The increase in the estimated level of underpayments within State Pension is within the statistical confidence intervals of the sample and is not statistically significant. However the Agency accepts that there may be an increase in the level of underpayments which represents about 0.2% of expenditure. The Agency has advised that it will continue its drive to reduce the levels of errors, including underpayments.

- 9 The Agency has put in place a number of measures designed to improve accuracy. In State Pension known areas of risk are targeted to minimise new error entering into the system at the outset. This work is complemented by a series of activities to identify and correct error in State Pensions already in payment. The Agency's Incapacity Benefit Branch has a Quality Improvement Plan which is managed by a Quality Council, consisting of managers and staff from across the Branch. The Council focuses on the errors and issues identified by the Branch's own checking regime and SAU comments. This allows it to provide regular feedback to staff on the results of performance checks so that they can benefit from 'lessons learned' and established best practice. All measures to improve accuracy in the processing of benefit cases are focused on the identification and correction of under and over payments and these measures are continuously monitored to assess their effectiveness and revised where appropriate. In addition, the Agency has enhanced its training and has introduced benchmark standards in an effort to reduce the incidence of official error. The Agency believes their activities have been responsible for the reduction in the incidence of fraud and error within benefits and that it is critical that these initiatives are maintained.
- 10 The State Pension and Incapacity Benefit cases selected for reassessment are based on a sample and the estimates of over and underpayments are subject to uncertainties. It is necessary to review the estimates of official error over several years to conclude with absolute certainty whether the efforts of the Agency over recent years have had a lasting impact on the incidence of official error in the overall benefits population.

### Customer Error and Fraud

- 11 The Standards Assurance Unit's recent Benefit Review of Incapacity Benefit payments during 2007 has been used as the basis for estimating customer fraud and error for Incapacity Benefit in 2007-08. This shows that customer error in Incapacity Benefit is lower than those estimated in the previous Review undertaken in 2004-05. As part of its counter error activity, the Agency has implemented procedures to target and review cases with a high risk of a change in circumstances. As with official error, however, it is too early to conclude that these measures have driven down the underlying level of customer error.
- 12 The Agency has emphasised that different factors contribute to fraud and error, not all of which are within its control. For example, the complex benefit regulations can result in inaccurate information being provided by the customer, which in turn contributes to payment errors occurring that are not within its direct control.
- 13 As part of the audit of benefit expenditure the NAO reviewed the work of the Standards Assurance Unit and obtained assurances around the estimation of error in un-reviewed benefits. The NAO was satisfied that the figures reported by the Agency were the best estimates available. The Agency has considered the scope for reducing the uncertainty surrounding its estimates of error through further testing. However, given the actual level of error within the benefits, a significant increase in the sample sizes would be required to improve the accuracy of its estimates and this would be difficult to justify in terms of value for money.
- 14 There is no current estimate for customer fraud for State Pension. Because its most recent Benefit Review of Pensions in 1999-2000 showed that the estimated losses through fraud and error for State Pension were negligible, and because the rules of the benefit are such that the risk of customer error and fraud is minimal, the Agency has not carried out regular Benefit Reviews on State Pension. In order to get a more informed indication of customer fraud and error within this particular benefit, the Agency has considered the results of a Department for Work and Pensions (DWP) 2005 pilot review to estimate fraud and error in State Pension paid from the National Insurance Fund (Great Britain). The results from this exercise, as determined by DWP, have confirmed the Agency's assessment of the relatively low risk of customer fraud and error for this benefit, and similarly that the cost of a full Benefit Review is not justified. The Agency has again used the outcome of this DWP pilot review to estimate the customer error in State Pension payments in 2007-08.

### Conclusion

- 15 Where fraud and error result in over or underpayment of benefits the transactions are not in conformity with the legislation which specifies the entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. Based on the latest information, the Agency estimates that £10.3 million may have been lost through the overpayment of contributory benefits from the Fund in 2007-08 because of fraud and error. A further estimated amount of £6.1 million in benefits may have been underpaid due to error. While the latest estimate is below the levels of fraud and error in benefit payments reported in previous years, it is based on the results of sampling exercises and therefore subject to uncertainty. Notwithstanding this uncertainty, I consider that in all material respects the £1,759 million of benefit payments made from the Fund have been applied in accordance with Parliament's intentions.

- 16 The Agency believes their activities have been responsible for the reduction in the incidence of fraud and error within benefits and that it is critical that these initiatives are maintained. It will take time, however, to know with certainty whether the efforts of the Agency over recent years have had a lasting impact on the incidence of fraud and error in the payment of contributory benefits. The continuous testing of benefit payments by the Standards Assurance Unit should allow the Agency to assess its progress in reducing the levels of official error. In addition to this work, the Agency should perform further analysis to establish whether the increase in the level of underpayment errors is attributable to a specific aspect of its processing of these benefits. It should also undertake further work to assess the progress in tackling customer error and fraud in Incapacity Benefit and the Agency has informed me that another benefit review for Incapacity Benefit is planned for 2009.
- 17 While the Agency considers customer error on State Pension less than that in Incapacity Benefit and customer fraud to be negligible, there is a risk in the Agency continuing to base its assessment of customer error and fraud on State Pension on a Review that was carried out in 2005 in Great Britain. The Agency should undertake a Review of State Pension to determine whether its assessment of the risk associated with customer error and fraud are accurate. The Agency has advised that it is planning to undertake a benefit review of State Pension in 2009.

*T J Burr*  
Comptroller and Auditor General  
12 January 2009

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS





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