

Northern Ireland National Insurance Fund Account 2010-11

Presented to Parliament pursuant to Section 141 of the Social Security Administration
(Northern Ireland) Act 1992

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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) placed the NI NIF under the control and management of the Inland Revenue (now HM Revenue & Customs (HMRC)).
4. The Deputy 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 19 July 2011. Section 141(2) 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. DSD also pays over to the NIF recoveries for Statutory Sick and Statutory Maternity pay due to loss of revenue from contribution receipts being reduced by statutory payments.
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 facilitated through the use of the Northern Ireland Shared Services Centre, AccountNI.
8. The Department for Business, Innovation and Skills (BIS) is responsible for paying over recoveries of Statutory Adoption and Statutory Paternity pay due to loss of revenue from contribution receipts being reduced by statutory payments.
9. 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 balance on 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). In

addition both demographic and economic changes can affect amounts received, paid out and subsequently the overall balance.

10. 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 Up-rating and Contributions Re-rating Orders. These reports are laid before Parliament and debated alongside the relevant orders.

Audit arrangements

11. 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

12. 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.
13. The balance on the Fund has decreased by £312 million compared with the position at 31 March 2010 (£1,787 million). At 31 March 2011 the balance held is £1,475 million (approx 71 per cent of annual benefit expenditure).
14. The Government Actuary's next Report on the Government's Benefits Up-rating and Contributions Re-rating Orders will be tabled in early in 2012, alongside the 2012 Up-rating Order and the Re-rating Orders. The Orders, which will cover the financial year 2012-13, 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 Deputy Chief Executive of HM Revenue & Customs

15. As Deputy 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 the 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 (e.g. DSD & DEL) and agencies on my behalf and I receive letters of assurance from them as detailed in the Statement on Internal Control.

Dave Hartnett CB
Principal Accounting Officer
7 December 2011

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 maintaining a sound system of internal control that supports the achievement of HM Revenue & Customs (HMRC) 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 facilitated through the use of the Northern Ireland Shared Services Centre, AccountNI.
3. I receive Letters of Assurance from the Accounting Officers of those departments, 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 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 HMRC for the year ended 31 March 2011 and up to the date of approval of the 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 has been produced for the HMRC 2010-11 accounts that fully sets out details of HMRC's capacity to handle risk and its risks 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 2010-11.

Capacity to handle risk

6. Over the past two years HMRC has implemented a standardised approach to corporate risk management that affirms its commitment to take the right risks and opportunities to support the delivery of its business objectives. It sets out the roles, responsibilities and expected behaviours of all members of the Department in doing this, and makes sure they are supported by the appropriate tools, training and guidance.
7. Each business area of the Department has a Lead Risk Champion, who works with the relevant senior management team to lead the approach, and a Business Risk Partner, who oversees risk management activities. These stakeholders come together on a regular basis to make sure the approach is implemented consistently across the Department, learn from good practice and support the Executive Committee in effectively identifying and managing risk. A professional Corporate Risk Management function provides central support to help staff understand their respective roles and responsibilities for risk management, acting as a challenge function to ensure risk processes are working consistently across business areas.

8. The National Audit Office (NAO) has recently issued a report on risk management in the 16 largest government departments, which includes examples of best practice from HMRC. The implementation of the Department's approach to risk management is the subject of periodic review by Internal Audit.

The risk and control framework

9. HMRC's approach to risk management is set out in the Corporate Risk Management Strategy, which has been endorsed by the Executive Committee and the Audit and Risk Committee. The key components of the Strategy have been integrated into governance arrangements across the organisation, improving its risk management capability and bringing it in line with industry good practice.
10. HMRC applies a structured framework for identifying, assessing, communicating, escalating and managing risk consistent with the Committee of Sponsoring Organisations (COSO) framework – an established methodology for assessing risk and evaluating controls used in both the public and private sectors. It is also consistent with the guidance on risk management set out in HM Treasury's Orange Book.
11. The framework involves both a top down strategic view of risk and the upward reporting or escalation of risks, with reporting lines established at key levels of the organisation. Management teams review their key risks, and consider whether any risks need to be escalated to the next management level based on pre-defined escalation criteria. There is also a process for 'fast track' escalation of emerging risks to ExCom. Risks must have a clear accountable owner who is responsible for reviewing mitigating actions to ensure the risk is being managed within acceptable levels.
12. There is a NIF Audit Forum consisting of representatives from key Internal Audit units, the 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 practices.

Information risk

13. In September 2010, the Information Commissioner lifted, nine months early, the Enforcement Notice placed upon HMRC following the Child Benefit data loss incident. This recognised the commitment made to meet the terms of the notice, and also required HMRC to continue to implement the recommendations contained in the Poynter Report.
14. The expansion of the Department's Secure Electronic Transfer (SET) service has continued, providing enhanced security for high volume electronic data transfers. HMRC has met its target of 80 per cent of outbound file transfers via SET.
15. Governance and assurance activities continue to improve and particular focus has recently been given to the 'Cyber' risks facing HMRC. The Senior Information Risk Owner (SIRO) has sponsored a Cyber Oversight Group and Cyber Working Group, to ensure cross department stakeholders remain engaged, and investment funding focuses on areas of greatest value.
16. HMRC has developed and piloted an enhanced security incident capture tool for phased roll out in 2011-12. It will ensure root causes and trends can be assessed and the probability of repeat incidents reduced.
17. Engagement with targeted areas of the business, Delivery Partners and third party suppliers as part of HMRC's Security Risk Management Overview for the Cabinet Office, has enabled the Department to better inform its information risk tolerance. It has also helped achieve improvements in a number of areas, including ownership and accreditation of HMRC's legacy information systems; testing of end-to-end process continuity requirements; ongoing recertification of user access entitlements; and managing risks to information stored and processed in our customer facing on-line systems.

18. Protecting the confidentiality, availability and integrity of our customers' information remains a strategic objective, and HMRC has been pleased by the independent recognition of the progress it has made by The National Archives in their recent Information Management Assessment. It praises senior management's commitment to information management and describes HMRC's approach to information security as best practice saying, "HMRC should be proud of its achievements in raising levels of understanding, awareness and compliance in relation to information security and assurance."
19. Plans also exist to build on progress to date, to drive both immediate improvements and longer term change, particularly in the areas of data quality; longer term digital continuity, where storage requirements and technologies are continually evolving; and a more consistent approach to identifying records that no longer need to be kept.

Review of effectiveness

20. 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 the NAO in management letters and other reports.
21. I discuss significant control issues with my executive team as they arise at our regular Executive Committee and Performance Committee meetings. Executive Committee meetings are informed by an assessment of our current exposure to strategic risk. Performance Committee meetings are further informed by monthly reports on performance. The focus of these is the progress being made to deliver our key targets and objectives and the issues and risks that could prevent this.
22. To provide me with an assurance on the effectiveness of the system of internal control, the Director of Internal 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 and Risk Committee, who is a non-executive Board member, provides the Board with a written report after each Audit and Risk Committee meeting.
23. The Directors General 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 Directors of Internal Audit and the NAO, I recognise that there are a number of significant control weaknesses relating to the NIF. These are detailed below. All the 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. (The way the NIF is administered makes it difficult to disaggregate the required information so that it relates solely to Great Britain or Northern Ireland.)

Class 2 National Insurance debt balances

24. 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. The timeliness of HMRC's collection of outstanding Class 2 debt and lack of a suitable process for collection is a long standing issue that has been commented on in previous years. The class 2 debt balance on the National Insurance & Pay as You Earn Service (NPS) continues to rise. At October 2011 the debt balance had increased by £200 million in the last year to £927 million. The debt balance continues to increase as there is no functionality within NPS to pursue and recover outstanding debts or IT capabilities to transfer debts to systems within Debt Management & Banking (DMB).
25. In 2009–10, DMB led a successful initiative to both trial and test the value for money and prove the concept of using private sector Debt Collection Agencies (DCAs) to recover a range of HMRC debts. This trial included old Class 2 debts held on DMB's Integrated Debt Management System (IDMS). Early results were very positive. During 2010–11, DMB put an increased volume of 21,500 old Class 2 debts, (with a value of £7.6 million) into the DCA process. A tactical IT solution was also developed to enable a sample of 3,500 Class 2 cases (with a value of £1 million) held on NPS to be referred directly to DCAs. In both instances suitable debts were only transferred to DCAs in March and April 2011. Whilst both aspects of Class 2 debt presented operational and IT challenges, DMB continues to work with key stakeholders to build upon recent experiences to include a further 200,000 cases (with an approx. value of £90 million) of Class 2 debt from NPS in DMB's 2011-12 DCA Programme.
26. DMB is currently working with key stakeholders to determine if a strategic solution can be developed to recover class 2 debts on NPS by Coding Out, routing to DMB's Campaign Strategy and via the continued use of DCAs. Early indications of this solution are positive.
27. The annual remissions exercise undertaken in April 2011 resulted in £17.3 million of time-barred debt being remitted. Class 2 debt is only remitted if it has become 6 years old and has not previously been protected by enforcing the debt via a County Court Judgement. Debt of this nature is referred to as 'time-barred'. The remissions exercise is an annual batch exercise run on NPS to identify debt of this type and age. Results from this exercise are produced for business areas within NICE&O and DMB to confirm that the debts identified should in fact be remitted on NPS. If approved, a further batch exercise on NPS runs to update appropriate periods of debt as having been remitted as they have become time-barred.

Home Responsibilities Protection (HRP) and National Insurance Credits

28. In the 2009-10 Statement on Internal Control I reported on inaccuracies in the recording of HRP and National Insurance Credits. The problems associated with these issues have now been resolved to the extent that they are no longer considered a significant control challenge. This issue will therefore not be included in future updates.
29. In the 2009-10 Statement on Internal Control HMRC reported inaccuracies in recording of National Insurance Credits and problems with interfaces to the HM Revenue and Customs National Insurance and PAYE System (NPS).
30. HMRC has monitored the position regarding inaccuracies in recording since completion of the two year exercise to correct errors in the recording of credits for periods of incapacity reported in last year's SIC and has found the residual level of error to be minimal.
31. Following the suspension of the automatic notifications from NPS to the Carers Allowance Unit reported in previous years, systems changes were applied and monitoring demonstrates that the referral process has now been working effectively since April 2009. Work is underway to clear the backlog of notifications.
32. On that basis HMRC is satisfied that the problems associated with these challenges have now been resolved to the extent that they are no longer considered a significant control challenge.

Non-matching contribution items

33. The returns containing end of year information that we receive from employers can include NI contributions (and earnings data used to calculate NI benefit payments) that cannot be matched to the relevant employee record because some employers provide insufficient (or insufficiently clear) personal details about their employees. Because the items cannot be matched to an individual employee, the NI contribution records and earnings data for those employees cannot be updated. Therefore National Insurance benefit payments to those individuals may not be calculated based on accurate information. For 2009-10 (the most recent tax year for which information is held) the proportion that could not be matched was 2.01 per cent.
34. However, this proportion has steadily fallen from 5 per cent in 2003-04. Those returns that cannot be matched are not discarded. They are kept indefinitely on a non-matched suspense file until such time as new information is received (e.g. when a customer makes a subsequent enquiry or claims a benefit) that helps HMRC to match the return to the customer's record.
35. In 2009-10, 1.16 million new non-matched items were added to the suspense file. The current gross total (based on the same calculation used in previous years for comparison purposes) is 120.6 million. The actual number of items is less, as this gross total is derived from a series of annual tax year reviews carried out from 1975 and does not take into account returns that are matched after the review for each year has taken place. Not all such items have an impact on future benefit payments. An analysis of the non-matched suspense file for 2009-10 showed that 61.5 per cent have nil earnings for National Insurance purposes; therefore they have no effect on pension entitlement or other benefits. A further 28 per cent (total 89.5 per cent) have earnings below the main threshold (the Lower Earnings Limit) used to calculate benefit entitlement, meaning that individually and without being added to contributions or credits from another source, they cannot attract benefit payments.
36. HMRC is continuing to work with employers to maintain the steady fall in the annual proportion of non-matched items entering the suspense file. Recommendations from a 2010-11 Internal Audit review of non-matching items that concluded this year are being taken forward. In addition, the focus of the Real Time Information (RTI) Programme's Data Improvement Project is to address data quality issues, which, if they remain unresolved, will negatively impact the successful delivery of RTI. A key element of the project will be to ensure that RTI submissions are matched to the correct individual and employment record. The interventions that will be delivered are expected to increase the match rates to individual NI accounts to exceed 98 per cent.

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

37. A Letter of Assurance has been received from NISSA that has been approved by its Audit Committee. The letter contains details about NISSA's capacity to handle risk and its control framework.
38. For 2009-10, the Northern Ireland Comptroller and Auditor General qualified his opinion on the regularity of benefit expenditure, with the exception of State Pension, because of the level of overpayments attributable to fraud and error that had not been applied to the purposes intended by the Assembly and because of the level of over and underpayments in such benefit expenditure that had not been in conformity with the relevant authorities.
39. For this reason the Northern Ireland NIF accounts have also been qualified by the Comptroller and Auditor General for Great Britain.
40. There is an underlying level of fraud and error associated with the payment of social security benefits. However NISSA is satisfied that it has adequate systems, procedures and controls in place to prevent, minimise and detect losses to the Fund. In addition, the NISSA Annual Audit report 2010-11 has been finalised and in relation to the adequacy of NISSA risk management, and corporate governance control and review arrangements, a substantial assurance rating was awarded. In relation to both NISSA programme and resource expenditure, the work undertaken by

the DSD Internal Audit team confirmed that an adequate and effective level of control had been in place.

41. Throughout the financial year 2010-11 reducing fraud and error in the benefit system remained one of the top priority areas for the Agency. The regular monitoring and measuring of Official Error, Customer Error and Customer Fraud continued through the Financial Accuracy and Benefit Review processes.
42. The key performance results for the more established Fund-specific benefits in relation to reducing fraud and error were as follows.

2010	2009 for comparison
State Pension	
Financial accuracy 99.9 per cent against target 99 per cent	Financial accuracy 99.6 per cent against target 99 per cent
Estimated total overpayment amount £0.65 million (0.04 per cent of expenditure)	Estimated total overpayment amount £2.3 million (0.15 per cent of expenditure)
Underpayments £4.5 million (0.3 per cent of related expenditure)	Underpayments £6.3 million (0.4 per cent of expenditure)
Widows Benefit and Bereavement Benefit.	
No targets set for financial accuracy but estimated total overpayment amount £0.23 million (1.06 per cent of expenditure)	Estimated total overpayment amount £0.006 million (0.02 per cent of related expenditure)
Underpayments £0.03 million (0.1 per cent of related expenditure)	Underpayments £0.08 million (0.4 per cent of expenditure)
Incapacity Benefit	
Financial accuracy performance 98.4 per cent accuracy against target 99 per cent. Target achieved within statistical tolerance	Financial accuracy performance 98.6 per cent accuracy against target 99 per cent. Target achieved within statistical tolerance
Estimated total overpayment amount £12.8 million (4.2 per cent of expenditure)	Estimated total overpayment amount £12.5 million (3.8 per cent of expenditure)
Estimated level of underpayments £1.6 million (0.5 per cent of expenditure)	Estimated level of underpayments £2.7 million (0.8 per cent of expenditure)

43. Employment and Support Allowance (ESA) has contributory and non-contributory elements. The contribution based element is included in the Fund. The ESA benefit was introduced in October 2008 and this is the first time that financial accuracy performance relating to it has been formally reported. The 2010 ESA financial accuracy performance target (for both contributory and non-contributory expenditure) was 95 per cent. A performance of 94.6 per cent accuracy was achieved and the target was therefore achieved within statistical tolerance.

44. A range of activities including Accuracy Improvement Planning, Direct Intervention Error Reduction activities, Quality Forums, Customer Compliance interviews and Criminal Investigations are in place to reduce social security benefit fraud and error. NISSA's work in analysing fraud and error outcomes, and targeting high risk high value cases, remains a key element in maintaining its performance.
45. During 2010-11 the Agency's targeted error reduction activity, which is additional to its normal checking procedures, exceeded target. This work involved over 90,450 case checks and resulted in over 14,000 corrections with a value of adjustment to the amount of benefit paid totalling around £39.3 million. The Agency has achieved significant value for this investment with every £1 spent on targeted activity generating a return of just over £19.
46. The impact of the Agency's counter fraud activities again reflects further improvement in this year's outcome. In total 1,128 sanctions were imposed during 2010-11, compared to 982 in the previous year, an increase of 15 per cent and the highest number of sanctions ever achieved. In addition, the Agency's Financial Investigation Unit brought about the recovery of £506,131 of criminally obtained assets by way of confiscation orders obtained through the Courts and additional voluntary payments.
47. This year the Agency established a new Customer Compliance Team which examined a particular range of case referrals that were at risk of error or may potentially have been fraudulent. The aim of the team is to help tackle more cases of customer error more effectively and thereby enable fraud specialists to concentrate on and maximise their criminal intervention activities. Early progress and performance is very encouraging with changes of circumstances discovered in 21.4 per cent of all customer compliance interventions. The Compliance Team was only fully operational for half the financial year and error was identified in 612 cases equating to a value of over £2 million.
48. Looking forward the Agency is contributing to the review of Fraud and Error currently being undertaken by the Department for Work and Pensions (DWP) and HM Revenue and Customs (HMRC). The Fraud and Error Strategy sets out a joint approach to tackling fraud and error in the benefits and tax credits systems and contains a wide range of new initiatives many of which will be helpful and relevant in tackling fraud and error in the NI social security system. The Agency now has representation on all the GB programme and project boards with a view to influencing the design principles in a Northern Ireland context. The Agency is also in the process of developing its own Fraud and Error Implementation project. In addition in 2010-11 the Agency has continued to positively contribute towards the Northern Ireland Audit Office's (NIAO) National Fraud Initiative (NFI) exercises and this work will be ongoing throughout 2011-12.
49. All of NISSA's activity continues to be monitored and directed at senior level via the Agency's Fraud & Error Reduction Board, which also agreed a three year Error Reduction Strategy published on the Internet in early 2010-11.

Assurance from DEL in respect of the Redundancy Payments Scheme

50. 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 control framework. The letter gives assurances that there were no significant internal control issues that impact on the Northern Ireland NIF.

Dave Hartnett CB
Principal Accounting Officer
7 December 2011

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 2011 under the Social Security Administration (Northern Ireland) Act 1992. These comprise the Receipts and Payments Account (including the Statement of Balances) 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 section "Responsibilities of the Chief Executive of HM Revenue & Customs", the Chief Executive of HM Revenue & Customs as Accounting Officer is responsible for preparing the financial statements in accordance with the Social Security Administration (Northern Ireland) Act 1992 and HM Treasury directions made thereunder. My responsibility is to audit, certify and report on the financial statements in accordance with the Social Security Administration (Northern Ireland) Act 1992. I conducted my audit in accordance with 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 Northern Ireland National Insurance Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Foreword and the Statement on Internal Control to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Basis for Qualified Opinion on Regularity

The Northern Ireland National Insurance Fund Account records benefit payments of £2.06 billion paid out on its behalf by The Northern Ireland Social Security Agency (NISSA) within the Department for Social Development (DSD) in Northern Ireland.

NISSA estimates that in 2010-11 fraud and error within benefit payments resulted in overpayments of £16.4 million (0.79 per cent of related payments) and underpayments of £7.4 million (0.36 per cent of the relevant payments). Where fraud and error result in over or underpayment of benefits the transactions are not in conformity with the primary legislation which specifies the entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid.

In addition, the Agency has identified errors in which benefit payments which should have been funded by the Northern Ireland Insurance Fund have been charged to the Consolidated Fund and vice versa. This has led to an estimated net £7.3 million of benefits being paid out of the Consolidated Fund rather

than the Northern Ireland National Insurance Fund. Where funding for benefits is provided from the incorrect source, the payments are not made in accordance with Parliament's intentions. I have therefore qualified my opinion on the regularity of benefit payments because of the level of over and underpayments attributable to fraud and error which have not been applied to the purposes intended by Parliament and are not in conformity with the relevant authorities.

Qualified Opinion on Regularity

In my opinion, except for the level of fraud and error in benefit payments as referred to in the basis for qualified opinion on regularity paragraph, in all material respects the receipts and payments have been applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- the financial statements properly present the receipts and payments of the Northern Ireland National Insurance Fund for the year ending 31 March 2011; and
- the financial statements have been properly prepared in accordance with Section 141(2) of the Social Security Administration (Northern Ireland) Act 1992 and HM Treasury directions made thereunder.

Opinion on other matters

In my opinion, the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 returns; or
- I have not received all the information and explanations that I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

My report on the financial statements, which sets out the issues leading to my qualified opinion on regularity, is at pages 26 to 31.

Amyas C E Morse
Comptroller and Auditor General
14 December 2011

National Audit Office
157 - 197 Buckingham Palace Road
Victoria, London SW1W 9SP

Receipts and Payments Account for the year ended 31 March 2011

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

Receipts	Notes	2010-11 £000	2009-10 £000
National Insurance contributions	2	1,655,107	1,627,689
Transfers from Great Britain NIF	5	125,000	395,000
Compensation for statutory pay recoveries	3	59,578	59,879
Investment Income	4	8,845	9,630
Other receipts	7	1,863	1,680
State Scheme Premiums	6	965	1,068
Redundancy receipts	8	525	820
		1,851,883	2,095,766
<i>Less</i>			
Payments			
Benefit payments	9	2,066,303	2,003,730
Personal Pensions	10	45,400	51,500
Administrative costs	11	43,000	46,018
Redundancy payments	8	8,620	6,123
Other payments	12	167	114
		2,163,490	2,107,485
Excess of payments over receipts		(311,607)	(11,719)
Statement of balances		2010-11 £000	2009-10 £000
Opening balance		1,786,644	1,798,363
Less excess of payments over receipts		(311,607)	(11,719)
Closing balance	13	1,475,037	1,786,644

Dave Hartnett CB
Principal Accounting Officer
7 December 2011

The notes on pages 14 to 22 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 and in a form directed by HM Treasury, shown as an annex to this account, and the policies outlined below.

National Insurance contributions

The account shows those contributions received by the Department during the year. Contributions are recognised in the accounting period in which they are received and measured at the cash amount allocated.

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 employees' contributions. National Insurance 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 2010-11.

Payment of Social Security Benefits

The Northern Ireland Social Security Agency (NISSA) within the Department for Social Development (DSD) administers a range of Social Security Benefits, financed either from the NIF or from the Consolidated Fund. The payment of contribution-based benefits is recognised in the NIF account in the accounting period in which the DSD pays the benefit to the claimant.

DSD accounts for benefit expenditure using the Programme Accounting Computer System (PACS). This system is used as the basis for determining the payments of contribution-based benefits in the NIF account.

Net accounting

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

Use of estimates

Actual information necessary to support the allocation of receipts between National Insurance and other taxes is often received by the Department after the end of financial year. The Department therefore allocates certain receipts and payments on the basis of estimates. The most significant areas where the initial accounting for receipts and payments relies on estimates are set out below.

Class 1 National Insurance contributions

Almost all amounts received in respect of Class 1 National Insurance contributions are collected via the monthly Pay-as-You-Earn (PAYE) process. As part of this process, there is no requirement for employers to provide a breakdown between Income Tax and National Insurance until the P14 and P35 forms (end of year returns) are submitted to the Department after the end of the financial year.

The Department therefore allocates PAYE receipts between Income Tax and Class 1 National Insurance contributions based on its best estimate of the split likely to be reported in employers' end of year returns. The allocation is re-assessed and adjusted in the next financial period when the actual information on the Income Tax and Class 1 National Insurance split is known.

Class 4 National Insurance contributions

The collection of receipts for Income Tax and Class 4 National Insurance contributions within the Self-Assessment involves long time lags. Receipts in any one year will relate to payments on account for that year and the settlement of liabilities for previous years. Self-Assessment receipts are allocated between Income Tax, Class 4 National Insurance contributions, and Capital Gains Tax on the basis of periodic analysis of individuals' records in the Self-Assessment system.

Statutory Sick Pay and Statutory Maternity Pay (SSP/SMP)

Statutory Sick Pay and Statutory Maternity Pay (SSP/SMP) receipts are recognised in the NIF on the basis of expected recoveries by employers. Unlike most other benefits where the benefit payment is made directly to the claimant, the employer is responsible for calculating and paying SSP and SMP. The employer is able to recover this amount via the PAYE system.

The actual amounts of SSP and SMP are not known until after the end of the financial year to which the SSP or SMP payment related; thus an estimated payment is made in respect of the total recovery for the past financial year.

The estimate is produced using information on past recoveries taken from systems administered by HMRC.

2. National Insurance Contributions

Contributions	Notes	2010-11 £000	2009-10 £000
Class 1 (employed earners)	i	1,594,767	1,561,671
Class 1A & 1B	ii	17,066	17,944
Class 2 (self-employed flat rate)	iii	5,571	5,652
Class 3 (voluntary contributions)	iv	1,322	2,488
Class 4 (self-employed earnings related)	v	36,381	39,934
		<u>1,655,107</u>	<u>1,627,689</u>

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 (PAYE) 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 PAYE 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 were introduced on 6 April 1999 and 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 the Government Actuary's Department (GAD) to apportion the National Insurance contributions collected each year. The main purpose of this exercise is to confirm 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. The NHS allocation was £465 million in 2010-11 (2009-10: £456 million).

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

	Notes	2010-11 £000	2009-10 £000
Statutory Sick & Statutory Maternity pay	i	58,411*	59,201
Statutory Adoption & Statutory Paternity pay	ii	1,167	678**
Total		59,578	59,879

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 over by DSD.
- ii. Statutory Adoption and Statutory Paternity pay recoveries are paid over by the Department for Business, Innovation and Skills (BIS).

*Analysis has identified that there may be an under-allocation of SSP/SMP receipts for 2010-11 and prior years. Work is ongoing to confirm if this is the case and to quantify any top up payments which may be required

**2009-10 SAP/SPP cash receipts of £1.28 million adjusted down by £0.603 million due to overstating receipts in 2005-06

4. Investment Income

	2010-11 £000	2009-10 £000
Investment account	8,836	9,621
Bank interest	9	9
	8,845	9,630

Interest is received on the Fund surplus, placed on deposit by the Commissioners for the Reduction of National Debt (CRND). During the year the value of the Investment Account decreased from £1.89 billion at 31 March 2010 to £1.56 billion at 31 March 2011 (Note 13) with a consequent impact on interest received during 2010-11. The Investment Account interest rate tracks the Bank of England base rate.

The responsibilities of HMRC and 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

	2010-11 £000	2009-10 £000
Transfers from Great Britain NIF	125,000	395,000

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

	2010-11 £000	2009-10 £000
State Scheme premiums	<u>965</u>	<u>1,068</u>

State Scheme premiums are payable to the Fund 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 persons' additional pension entitlement in the state additional pension scheme. The total receipts are net of refunds of £0.07 million (2009-10 £0.09 million).

7. Other receipts

	2010-11 £000	2009-10 £000
Recoveries of compensation payments	<u>1,863</u>	<u>1,680</u>

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

	2010-11 £000	2009-10 £000
Outstanding debt at 1 April 2010	18,424	15,418
Plus Redundancy payments	8,620	6,123
Less Redundancy receipts	(525)	(820)
Less debt written-off (note 14)	(1,035)	(2,293)
Less prior year adjustment	-	(4)
Outstanding debt at 31 March 2011	<u>25,484</u>	<u>18,424</u>

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 receive their statutory redundancy entitlement where their employers are unable to make such payments, usually because of insolvency. In doing so, the scheme also protects 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 meet their statutory responsibilities. The receipts represent amounts recovered from employers. The total debt outstanding at 31 March 2011 was £25.5 million.

9. Benefit payments

	Notes	2010-11 £000	2009-10 £000
State Pension	i	1,661,479	1,587,981
Incapacity Benefit	ii	299,463	320,667
Employment & Support Allowance	iii	43,968	25,687
Jobseeker's Allowance (contributory)	iv	26,188	32,574
Bereavement Benefits	v	21,594	23,241
Maternity allowance	vi	10,121	10,106
Christmas Bonus	vii	3,430	3,408
Guardian's Allowance and Child's Special Allowance	viii	60	66
		2,066,303	2,003,730

- 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 Second Pension (S2P). Under the current rules, the State pension Age for women is in the process of rising from 60 to 65 to equalise with men; and then state pension age for both men and women was due to increase from 65 to 66 between 2024 and 2026. The Pensions Bill is bringing forward the timing of equalisation and the rise in the State Pension Age from 65 to 66 for both men and women. Under the new legislation, women's state pension age will reach 65 by November 2018. The rise from 65 for both men and women will begin in December 2018 and reach 66 by April 2020.
- 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. Incapacity Benefit has been replaced by ESA (see note iii) for new claims since October 2008.
- iii. As part of the government's welfare reform programme, from 27 October 2008, the Department for Social Development (DSD) introduced a new benefit, Employment and Support Allowance (ESA). The benefit was introduced to improve employment opportunities for those with a health condition or disability which limits their capacity for work.
- 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 enough National Insurance contributions. It is payable for 182 days and no additional benefit is payable for dependents.
- v. 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.
- vi. 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.
- vii. Christmas Bonus is a tax-free payment of £10 paid before Christmas to anyone who is getting one or more qualifying benefits.

- viii. Guardian's Allowance and Child's Special Allowance are 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 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 2010-11 is £6.0 million (2009-10; £6.3 million).

10. Personal pensions

	2010-11 £000	2009-10 £000
Personal Pensions	45,400	51,500

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	2010-11 £000	2009-10 £000
Department for Social Development	i	31,890	34,310
HM Revenue & Customs	ii	8,108	8,600
Department of Finance and Personnel	iii	2,554	2,697
Department for Employment and Learning	iv	347	327
Commissioners for the Reduction of the National Debt	v	43	43
National Audit Office	vi	38	38
Government Actuary's Department	vii	20	2
Bank Charges	viii	0	1
Total		43,000	46,018

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 relating to the National Insurance Fund.
- viii. Bank charges incurred on the Northern Ireland NIF account held at the Citibank.

12. Other payments

	Notes	2010-11 £000	2009-10 £000
Incapacity Benefit Tax Payments	i	5	6
State Pension Deferred Lump Sum Tax Payments	ii	162	108
		<u>167</u>	<u>114</u>

- i. Under the Income Tax Acts, Incapacity Benefit is assessed as taxable income. Tax is deducted from Incapacity Benefit every time a payment is made to a customer and paid to HMRC monthly in arrears.
- ii. Under the Income Tax Acts, State Pension Deferred Lump Sum is assessed as taxable income. Tax is deducted from State Pension Deferred Lump Sum every time a payment is made to a customer and paid to HMRC monthly in arrears.

13. Closing balance

	Notes	2010-11 £000	2009-10 £000
Securities held by the CRND	i	1,560,994	1,893,623
Cash at bank		23	2,370
Other balances	ii	(85,980)	(109,349)
Total		<u>1,475,037</u>	<u>1,786,644</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 Treasury and in line with the Memorandum of Understanding between HMRC and CRND.
- ii. Other balances represent sums owing to government departments and overseas administrations in respect of the operation of the NI NIF.

14. Losses

	Notes	2010-11		2009-10	
		Amount £000	No. of cases	Amount £000	No. of cases
Contributions losses	i	12,945		14,555	
Redundancy write-off	ii	1,035	147	2,293	165
Other losses	iii	1,904	6,936	2,886	11,380
Total losses		<u>15,884</u>		<u>19,734</u>	

- 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 & Employer Office.

Contribution losses are recorded across various tax collection and accounting systems used in support administration of National Insurance and tax. To extract this information, the Department employs a number of computer interrogations to identify and quantify the losses attributable to the National Insurance Fund.

- 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.

15. Special payments

	2010-11		2009-10	
	£000	No. of Cases	£000	No. of Cases
Special payments	<u>455</u>	163	<u>146</u>	65

These are payments made to claimants who were wrongly advised of their entitlement by the Northern Ireland Social Security Agency.

Annex

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 1992, as amended by paragraph 44(2) of Schedule 3 to the Social Security Contributions (Transfer of Functions, etc.) (Northern Ireland) Order 1999, places the National Insurance Fund of Northern Ireland 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.) (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 2010, 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 Accounts Direction dated 10 February 2006.

Chris Wobschall
Head of Assurance and Financial Reporting, HM Treasury
10 October 2010

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;
 - 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
Receipts			
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>			
Payments			
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

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

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. HM Revenue and Customs (the Department) is responsible for the collection and recording 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 customers out of the Fund.
2. In 2010-11, receipts amounting to £1,852 million were paid into the Fund and payments of £2,163 million were paid out of it, an excess of payments over receipts of £311.6 million. At 31 March 2011 the balance on the Fund was £1,475 million compared to £1,787 million at 31 March 2010.

The purpose of my report

3. The purpose of this report is to explain the background to the qualification of my audit opinion on Northern Ireland National Insurance Fund Account for 2010-11 in respect of material fraud and error in the payment of contributory benefits. I also outline the steps the Agency is taking to reduce fraud and error.

My obligation as Auditor

4. Under the Social Security Administration (Northern Ireland) Act 1992, I am required to examine, certify and report on the Fund's accounts. I am also required, under International Standards on Auditing (UK and Ireland), to obtain sufficient evidence to satisfy myself that the financial statements of the Northern Ireland National Insurance Fund properly present the receipts and payments and are properly prepared in accordance with the 1992 Act and Treasury Directions made thereunder. In forming my opinion, I examine, on a test basis, evidence supporting the amounts, disclosures and regularity of financial transactions included in the financial statements.
5. As part of my audit of the accounts, I am also required to satisfy myself that the receipts and payments shown in the accounts have been applied to the purposes intended by Parliament and conform to the authorities that govern them; that is, they are "regular". In determining whether expenditure and income conform to the authorities that govern them, I have regard to the legislation authorising the financial transactions and relevant regulations issued under the governing legislation.

Qualified opinion due to material error in the regularity of contributory benefit payments

6. 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. Errors in the payment of contributory benefits arising from the incorrect assessment of amounts due under governing regulations and payments made in respect of fraudulent claims are by definition not in accordance with the relevant Parliamentary authority.
7. In addition, the Agency has identified errors in its accounting for benefit payments which has led to contributory benefits that are a proper charge on the Northern Ireland National Insurance Fund being incorrectly funded from the Consolidated Fund and vice versa. Where funding for benefits is provided from the incorrect source, the payments are not made in accordance with Parliament's intentions.
8. For the financial year 2010-11 I have therefore qualified my opinion on the regularity of benefit expenditure because of the estimated level of over and underpayments attributable to fraud and error which do not conform to Parliament's intention and which are not in conformity with the relevant authorities.
9. Except for the estimated level of incorrect payments attributable to erroneous awards and fraudulent claims in contributory benefits, I am satisfied that in all material respects the financial transactions conform to the authorities that govern them. I am also satisfied that the financial statements properly present the receipts and payments of the Northern Ireland National Insurance Fund for the year ended 31 March 2011 and the balance held at that date and that they have been properly prepared in accordance with the Social Security Administration Act (Northern Ireland) 1992 and Treasury Directions made thereunder.

Estimated level of over and underpayments in benefits paid from the Fund due to fraud and error

10. In 2010-11, the Agency paid £2,066.3 million in benefits from the Northern Ireland National Insurance Fund. As shown in Figure 1, the 2010-11 estimated value of incorrect contributory benefit payments due to fraud and error was £23.8 million, some 1.15 per cent of benefit payments (2009-10: £24.3 million, 1.21%). This comprises an estimated £16.4 million (0.79% of total benefit payments) which may have been lost through overpayments from the Fund in 2010-11 because of fraud and error (2009-10: £15.1 million, 0.75%) and an estimated £7.4 million (0.36% of total benefit payments) which may have been underpaid because of error (2009-10: £9.2 million, 0.46%).
11. The estimated level of fraud and error in the Northern Ireland National Insurance Fund at 1.15 per cent is higher than the corresponding levels in the Great Britain National Insurance Fund. As shown in my Report on the Accounts of the Great Britain National Insurance Fund for 2010-11, the Department of Work and Pensions estimates 0.6 per cent of contributory benefit payments from the Great Britain Fund were incorrect in 2010-11; comprising overpayments of 0.4 per cent and underpayments of 0.2 per cent.¹

¹ Comptroller and Auditor General's Report on the Great Britain National Insurance Fund 2010-11, (HC 1685, 2011-12)

Figure 1: Northern Ireland National Insurance Fund: Estimated level of incorrect payments due to fraud and error**1A: Estimated level of incorrect payments due to fraud and error 2010-11**

2010-11	Total Payments	Estimated Overpayments		Estimated Underpayments		Total Incorrect Payments	
Benefit	£ million	£ million	% of benefit expenditure	£ million	% of benefit expenditure	£ million	% of benefit expenditure
State Pension and Bereavement Benefits	1,683.1	0.9	0.05%	4.6	0.27%	5.5	0.32%
Incapacity Benefit	299.5	12.6	4.22%	1.6	0.53%	14.2	4.75%
Contribution based Jobseeker's Allowance	26.2	0.6	2.23%	0.1	0.56%	0.7	2.79%
Employment and Support Allowance	44.0	2.3	5.21%	1.1	2.52%	3.4	7.73%
Other	13.5	n/a	n/a	n/a	n/a	n/a	n/a
Total for 2010-11	2,066.3	16.4	0.79%	7.4	0.36%	23.8	1.15%

Source: National Audit Office analysis based on estimates of official error and customer fraud and error provided by the Northern Ireland Social Security Agency's Standards Assurance Unit and on the Northern Ireland National Insurance Fund 2010-11 payment figures. Estimated over and underpayment figures and percentage rates are rounded to assist presentation.

1B: Estimated level of incorrect payments due to fraud and error 2009-10

2009-10	Total Payments	Estimated Overpayments		Estimated Underpayments		Total Incorrect Payments	
Benefit	£ million	£ million	% of benefit expenditure	£ million	% of benefit expenditure	£ million	% of benefit expenditure
State Pension and Bereavement Benefits	1,611.2	2.4	0.15%	6.5	0.40%	8.9	0.55%
Incapacity Benefit	320.7	12.1	3.79%	2.6	0.82%	14.7	4.61%
Contribution based Jobseeker's Allowance	32.6	0.6	1.94%	0.1	0.20%	0.7	2.14%
Other	39.2	n/a	n/a	n/a	n/a	n/a	n/a
Total for 2009-10	2,003.7	15.1	0.75%	9.2	0.46%	24.3	1.21%

Source: National Audit Office analysis based on estimates of official error and customer fraud and error provided by the Northern Ireland Social Security Agency's Standards Assurance Unit and on the Northern Ireland National Insurance Fund 2009-10 payment figures. Estimated over and underpayment figures and percentage rates are rounded to assist presentation.

Estimating fraud and error

12. The Agency provides an annual estimate of over and underpayments in benefits based on a review of the following three categories; official error, customer fraud and customer error. It estimates the monetary value of official error from a financial accuracy exercise undertaken by its Standards Assurance Unit (SAU), which involves the examination of statistical samples of all benefit awards on a continuous basis. Its estimates of customer fraud and error for State Pension, Incapacity Benefit and Jobseeker's Allowance are based on results from the Benefit Reviews completed in 2009. Employment and Support Allowance was introduced in October 2008 to replace Incapacity Benefit and certain elements of Income Support. A formal financial accuracy exercise was carried out for official error for the first time in 2010. The levels of customer fraud and error for both Incapacity Benefit and Income Support have been used to calculate proxy estimates for Employment and Support Allowance for 2010.
13. The Agency's estimates are subject to a degree of statistical uncertainty. The estimates are prepared to within a stated range of accuracy, described as confidence intervals, within which the most likely fraud and error estimates lie. The Agency has produced its fraud and error estimates to a 95 per cent confidence level and estimates that whilst the best estimate of over and underpayments is £23.8 million, the true level could lie within the range from £12.6 million to £38.8 million.
14. As part of the audit of benefit payments we reviewed the work of the Standards Assurance Unit and obtained assurances around the estimation of error in un-reviewed benefits. We are satisfied that the figures reported by the Agency were the best estimates available at the time the accounts were produced.

Movements in estimated fraud and error

15. The Agency's latest estimates for 2010-11 show a level of fraud and error in Incapacity Benefit similar to those in 2009-10. While the estimated levels of fraud and error in State Pension and Bereavement Benefits are lower than those reported in 2009-10, this fall has been offset by the estimated fraud and error in Employment and Support Allowance, for which the level of fraud and error has been formally measured and reported for the first time. The levels of fraud and error are linked to both the complexity of the benefit claim process and the susceptibility of the benefit to fraud.
16. On Incapacity Benefit, over and underpayments are higher because the qualifying criteria are more complex, it is dependent upon the recorded level of National Insurance contributions and credits and the potential exists for entitlement to change in the shorter term. In 2010-11 the overall level of incorrect payments is estimated at 4.75 per cent, compared with 4.61 per cent in the previous year. The majority of this increase reflects a higher level of overpayment errors in the benefit of 4.22 per cent in 2010-11 compared with 3.79 per cent in 2009-10. The majority of these errors arise from the inaccurate declaration of income by claimants, including income from pensions and spouses' income. Errors by the Agency's staff also led to the individuals' National Insurance contributions not being accurately reflected in awards and the failure to close claims where the individual had returned to work.
17. On Employment and Support Allowance the overall level of incorrect payments is estimated at 7.73 per cent. Fraud and error rates for Employment and Support Allowance are proportionally high as the benefit calculation requires consideration of a range of income, expenditure and

other information to establish eligibility to, and the value of, the benefit. The benefit award may also be subject to numerous changes as the claimant's circumstances change. The two main types of incorrect Employment and Support Allowance award identified by the Agency relate to National Insurance contributions not being accurately reflected in awards and the calculation of severe disability premiums.

18. On State Pension the levels of over and underpayments are lowest because it is easy to claim, relatively straightforward to calculate, and largely unaffected by changes in circumstances. The overall level of incorrect payments in State Pension and Bereavement Benefits is now estimated at 0.32 per cent of payments in 2010-11, compared with the Agency's estimate of 0.55 per cent in 2009-10. This reduction is attributable to lower value of monetary error identified in the Agency's processing of State Pension awards in 2010-11.

Reducing fraud and error

19. The Agency has established annual accuracy improvement plans for all major benefits, including Incapacity Benefit and Employment and Support Allowance. These plans are designed to minimise 'new' errors entering the system, target error within existing awards and promote learning and development based on its analysis of error data. These plans identify the key types of error and where they enter the claims process, for example, at the new claims stage or when changes in claimants' circumstances occur. In delivering the plan, the Agency has implemented specific responses to each type of error, through improvements in training and new guidance for staff, supported by detailed monitoring to assess the impact of these changes and targeted checking in high risk areas.
20. Given the statistical uncertainty inherent in the estimation process, we have been unable to determine how much of the reported error is due to an underlying movement in rates of fraud and error over time and how much is due to more accurate measurement. The Agency has re-iterated its commitment to tackling incorrectness in the benefit system, but believes that to deliver a major reduction in the level of official and customer error, significant efforts would be required to drive forward benefit simplification, address existing complexities and enhance the IT systems that deliver the benefits.

Errors in benefit accounting

21. The social security system comprises complex and often interrelated benefit payments which can be funded either by the National Insurance Fund, depending on the claimant's contribution record, or from funds voted by Parliament. The estimated levels of incorrect payments due to fraud and error from the Northern Ireland National Insurance Fund shown in Figure 1A exclude errors in accounting classification. These errors relate to benefits that have been paid to claimants at the right amount but due to operational accounting errors are recorded against the wrong source of funding.
22. Errors in benefit accounting are of particular significance if the incorrect classification results in contributory benefits, which are a proper charge to the Northern Ireland National Insurance Fund, being met from Parliamentary funding and vice versa. Our analysis of the Agency's estimates shows that in 2010-11 these errors resulted in a net £7.3 million of benefit payments being incorrectly met from the Consolidated Fund rather than from the Northern Ireland National Insurance Fund. This comprises an estimated £8.0 million of contributory benefits that have not been charged to the Fund and an estimated £0.7 million of non-contributory benefits that have been charged to the Fund erroneously. As with all estimates of benefit error, the estimates of errors in benefit accounting are subject to statistical uncertainty.

Conclusions

23. Based on the latest information, an estimated £23.8 million of incorrect payments may have been made in relation to contributory benefits, some 1.15 per cent of total benefit payments (2009-10: 24.3 million, 1.21%). I consider these levels of over and underpayment material within the context of the £2,066.3 million payments made from the Fund in 2010-11. In addition to the incorrect payments noted above, errors in benefit accounting have resulted in a net £7.3 million of contributory benefit payments being incorrectly met from the Consolidated Fund rather than the Northern Ireland National Insurance Fund.
24. As a result, I have qualified my opinion on the regularity of benefit expenditure because of the estimated level of over and underpayments attributable to fraud and error which do not conform to Parliament's intention and which are not in conformity with the relevant authorities.
25. I have previously recommended that the Agency should undertake further analysis to understand the root causes of fraud and error in the sampled cases, assess how these have entered the benefit system and consider the scope for strengthening its processing. It should also consider whether errors in processing are leading to the incorrect classification of payments between contributory and non-contributory benefits.

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Comptroller and Auditor General
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