

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

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# Northern Ireland National Insurance Fund Account 2005-2006

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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 (IR).
- 4 Following the Chancellor's announcement in his March 2004 budget speech, legislation received Royal Assent on 7 April 2005 bringing into existence a new department, HM Revenue & Customs (HMRC). This became a legal entity on 18 April 2005, incorporating the Inland Revenue and HM Customs & Excise.
- 5 The Chairman of HMRC is the Accounting Officer for the Fund. 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

- 6 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 Accounting Officer for the NI NIF, I am responsible for the control and management of the Fund.
- 7 The Department of 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. The Northern Ireland Social Security Agency (NISSA), an agency of DSD, actually administers the payment of benefits. Entitlement to benefit is determined by the claimant satisfying qualifying conditions.
- 8 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).
- 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 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).

- 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. 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 in October 2003. An update of the main results was issued in December 2004 with variant projections issued in June 2005.

### 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 £20 million compared with the position at 31 March 2005 (£701 million). At 31 March 2006 the balance held is £681 million (approx 43 per cent of annual benefit expenditure).
- 14 In January 2007 the Government Actuary reported on the drafts of the Social Security Benefits Up-rating Order 2007 and the Social Security (Contributions)(Re-rating and National Insurance Funds Payments) Order 2007. The Orders are subject to debate and require the approval of both Houses.
- 15 The Government Actuary's Department estimates of benefit payments and contributions, both large figures, are sensitive to changes in a number of assumptions (such as the level of employment and earnings). Short-term fluctuations in the balance may not be a good guide to the long-term position.

### Responsibilities of the Chairman HM Revenue & Customs

- 16 As Chairman of HMRC, I am the Accounting Officer for the NI NIF. My relevant responsibilities as 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 'Government Accounting'. 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.

*Paul Gray*  
Accounting Officer

29 March 2007

## 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 Accounting Officer for the Northern Ireland National Insurance Fund (NI NIF), I have responsibility for the stewardship of the Fund and 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 for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.
- 2 Whilst HMRC has overall responsibility for the control and management of the Fund and for collecting National Insurance contributions, the Department for Social Development (DSD) 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 those Departments, approved by their audit committees that refer to their own statements on internal control (SIC) 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 at 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 and 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 2006 and up to the date of the approval of the accounts, and accords with Treasury guidance.
- 5 Specific work undertaken on behalf of the NI NIF only forms a small part of the whole work of HMRC. A separate SIC is produced for HMRC 2005-2006 Accounts that fully sets out details of HMRC's capacity to handle risk and its risk and control framework, as well as disclosures that relate to issues outside of the scope of work relating to the NI NIF. Details of the full SIC can be found in HMRC's 2005-2006 Accounts.
- 6 A review of the investment policy applied to the NI NIF was undertaken in 2005-2006, including consultation with HM Treasury, we aim to apply its findings to investment activity from 2006-2007.

### Capacity to handle risk

- 7 HMRC's Executive Committee takes an active role in shaping the Department's risk management arrangements, determining the risk priorities, and reviewing progress in managing the risk in the Strategic Risk Register. They are supported in this by the Risk Management Group. This is peer-review group of risk owners, who challenge the effectiveness of action to manage the top risks, and identify new emerging risks.
- 8 HMRC's Audit Committee, supported by Internal Audit and the National Audit Office (NAO), plays a key role in reviewing HMRC's risk arrangements, and is a catalyst for ensuring that HMRC continue to adapt and improve these.
- 9 HMRC have set up a network of governance practitioners, to help ensure a shared understanding across the Department of risk management principles and practices, and to identify and share examples of good practice.

## The risk and control framework

- 10 HMRC have a new risk management framework in place. The framework is available to all staff through the HMRC Intranet site and sets out the principles, processes and accountabilities for risk management in HMRC.
- 11 There is a NIF Audit Forum consisting of representatives from key Internal Audit units, the National Audit Office, 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

- 12 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control within HMRC. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within HMRC who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.
- 13 To provide me with an assurance on the effectiveness of the system of internal control, the Director of Internal Audit provides a summary of the findings from every internal audit review, raising significant control issues as they arise. The Chairman of the Audit Committee, who is also a non-Executive Board member, provides the Board with a written report after each Audit Committee meeting.
- 14 In making my assessment, I also take account of the management letters made by the NAO, the Comptroller and Auditor General's report to Parliament, and of the findings of the Committee of Public Accounts (PAC).
- 15 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 into account, and the views of the Director of Internal Audit and NAO, I recognise that there are a number of significant control weaknesses. Specific areas relating to the NIF requiring disclosure are

## Update on issues raised in 2004-2005 Statement

### Age related rebates

- 16 For 2004-2005 the target to process 98 per cent of Employers' Returns was achieved at the end of April 2006, one month late. 99 per cent was achieved by June 2006. To date a total of £3.1bn has been paid in Age Related Rebates across the NI and GB NIF Funds.
- 17 There are some residual issues with payments of Age Related Rebates – the major one concerns where an employer, due to no fault of their own, made their returns using compression technology. HMRC was unable to open the return and process it accordingly. HMRC diagnosed the problem far later in the day than it should have done, causing a delay in the payment of Age Related Rebates. Payment of the majority of the outstanding amount was made on 1 September 2006 with further, smaller, amounts paid on 1 October and 1 November 2006. The total Age Related Rebates paid for this employer is £1.738m. The pension scheme trustees are seeking redress which is currently being handled by the Department's solicitor.

### Re-platforming of NIRS2

- 18 I last reported on this issue in the 2004-2005 SIC and can provide a positive update. All outstanding performance issues were resolved in November 2005 and the NIRS2 Migration programme formally ceased from 30 November 2005.

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

- 19 A cross-departmental working group has been looking at the outstanding debt on the Class 2 National Insurance (C2N) system. When HMRC is notified that a person is self-employed, they assume that they continue to be liable for C2N until told otherwise. As a result, some of the debt balance on the system will be false.
- 20 It was reported last year that £616 million of Class 2 debt was over 6 years old as at 6 April 2005 and therefore time-barred under the Limitation Act 1980. £333 million was estimated as time barred true debt and formally written off in the 2004-2005 IR Accounts. The remaining £283 million was considered not true debt and has been waived.
- 21 HMRC has addressed the ongoing issues by
- Identifying and prioritising the £71 million 1999-2000 estimated true debt, which would have become time-barred after 6 April 2006. This has included work to trace missing contributors and prioritise for enforcement action. The true debt balance has now reduced by £16.5 million;
  - Developing a strategy to clear debt balances from the systems in a timely fashion; and
  - Reviewing the end-to-end C2N process to see whether any cost-effective changes could be made which would improve the position in future. Work continues on this aspect.
- 22 A director-level group has overseen these actions and made periodic reports to the HMRC Operating Committee.

### **Incapacity benefit credits**

- 23 The Department for Work and Pensions' (DWP) Pension Service Computer System (PSCS) provides Incapacity Benefit start and end dates to NIRS2, where credits are awarded for relevant weeks. These contribution credits are used in the calculation to determine whether a particular tax year is a qualifying year for benefit purposes. We are aware that the information on periods of incapacity on NIRS2 and PSCS does not correlate in a number of cases, and during 2005 we have been working with the DWP to establish the full scope and extent of these mismatches.
- 24 In late July 2006 DWP and HMRC scanned PSCS to allow detailed comparison with the NIRS2 data so that the extent and significance of mismatches could be properly understood, and appropriate corrective action planned. The scan data is now being profiled against some 21 different scenarios in order to fully understand the number of contributors in each scenario and the potential impact. When the profiling work is complete, proposals for appropriate remedial action will be prepared and it is currently anticipated that implementation will begin in 2007.

### **Issues raised in 2005-2006**

- 25 There were no new issues raised in 2005-2006.

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

- 26 A Letter of Assurance has been received from the Northern Ireland Social Security Agency that has been approved by their Audit Committee and contains details about their capacity to handle risk and their risk control framework. The Letter indicates significant internal control issues which have been detailed at high level.
- 27 During 2005-2006 the Agency has continued its regular monitoring and measurement on the levels of fraud and error.



- 28 Essentially this involves the measurement of financial accuracy and the official error in the administration of each benefit and, complementary to this, benefit reviews which estimate the levels of customer fraud and customer error.
- 29 During 2005-2006 the Agency undertook a review of its approach to measurement and on completion has agreed a new methodology which, in future, should enable the Agency to produce more accurate and transparent estimates of total fraud and error in the benefit system in Northern Ireland. The new 'common sample' approach will be applied to all future measurement exercises from 2006-2007 onwards. This should remove the previous problem surrounding the duplication of the calculation of official error commented on in the past by the Northern Ireland Audit Office.
- 30 The most recently published benefit fraud and error figures for the period January 2005 to December 2005 are roughly on par with 2004-2005 and 2003-2004 in percentage terms.
- 31 Comparative estimates for previous years have now been updated and are now largely based on the most recent benefit reviews. Benefit reviews have been published for the calendar year January to December 2005 and also for 2004-2005. Previous years' estimates used financial accuracy figures in lieu of full benefit review figures.
- 32 In other benefits while fraud and error levels in percentage terms have remained the same the corresponding monetary amounts have increased slightly mainly due to increased benefit expenditure.
- 33 For 2005-2006 reducing fraud and error was one of the Agency's key priority areas. In addition to improvement plans all benefit branches have Programme Protection plans in place to improve accuracy and identify areas for action to reduce levels of fraud and customer error. Activity levels and success have improved in detecting and removing error. From 1 April 2005 to 31 March 2006, almost 209,000 checks/interventions have been performed compared to the previous year figure of 141,000 checks/interventions.
- 34 The DSD have provided an estimate for the level of Customer Fraud and Error and Official Error for Incapacity Benefit. The estimates figures are unchanged from 2004-2005: Customer Fraud £3.7m 2005-2006 (£3.7m 2004-2005), Customer Error £5.9m 2005-2006 (£5.9m 2004-2005). Official Error £4.3m 2005-06 (£4.3m 2004-2005). The overall percentage has remained at 4.3 per cent for 2005-2006 (4.3 per cent 2004-2005).

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

- 35 A Letter of Assurance has been received from the DEL, on behalf of the DETI, that has been approved by their Audit Committee and contains details about their capacity to handle risk and their risk control framework.
- 36 The Letter gives an assurance that there were no significant internal control issues that impact on the NI NIF.

*Paul Gray*  
Accounting Officer

29 March 2007

# 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 2006 under the Social Security Administration (Northern Ireland) Act 1992. These comprise the Receipts and Payments Account and the Notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Accounting Officer and Auditor

As described in the Responsibilities of the Chairman of the Board of HM Revenue & Customs in the Foreword, the 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. The Accounting Officer is also responsible for the preparation of the Foreword. 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 also report whether in all material respects the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Foreword is not consistent with the financial statements, if the Northern Ireland National Insurance Fund has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 4 to 7 reflects the Northern Ireland National Insurance Fund's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls or to form an opinion on the effectiveness of the Northern Ireland National Insurance Fund's 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 opinion

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, and of whether the accounting policies are most appropriate to the Northern Ireland National Insurance Fund's circumstances, consistently applied and adequately disclosed.

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.

## Qualified opinion due to irregular benefit payments

As disclosed in paragraph 7 of my report, based on the latest information provided by the Agency on the monetary value of errors in the payment of contributory benefits, an estimated £15.0 million may have been lost through overpayments incorrectly paid from the Fund in 2005-2006 because of official error and customer fraud and error. A further estimated amount of £8.3 million in benefits may have been underpaid because of official error. Under Social Security legislation, the Agency must calculate benefits due in accordance with the regulations. Payments of benefit awards which are incorrectly assessed under governing regulations or made in respect of fraudulent claims are by definition without proper authority. Accordingly I have concluded that the payments arising from erroneous benefit awards and fraudulent benefit claims have not been applied to the purposes intended by Parliament and they are not in conformity with the authorities which govern them.

In my opinion

- the financial statements properly present the receipts and payments of the Northern Ireland National Insurance Fund for the year ended 31 March 2006 and the balance held at that date;
- except for the estimated level of incorrect payments due to error and losses due to fraud in certain contributory benefit payments, in all material respects the financial transactions conform to the authorities which govern them; and
- the account has been properly prepared in accordance with Section 161(2) of Social Security Administration (Northern Ireland) Act 1992 and HM Treasury directions made thereunder.

My report on the financial statements is at pages 22 to 26.

*John Bourn*  
Comptroller and Auditor General

17 April 2007

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

# Receipts and Payments Account for the year ended 31 March 2006

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

	Notes	2005-2006 £000	2004-2005 £000
<b>Receipts</b>			
National Insurance contributions	2	<b>1,383,757</b>	1,292,845
Transfers from Great Britain NIF	5	<b>185,000</b>	270,000
Compensation for SSP, SMP, SAP, SPP recoveries*	3	<b>39,720</b>	37,487
Income from investments	4	<b>34,968</b>	32,842
State Scheme premiums	6	<b>2,453</b>	2,413
Other receipts	7	<b>2,993</b>	2,068
Redundancy receipts	8	<b>610</b>	324
		<b>1,649,501</b>	1,637,979
<i>Less</i>			
<b>Payments</b>			
Benefit payments	9	<b>1,575,442</b>	1,560,851
Personal pensions	10	<b>51,100</b>	66,400
Administration costs	11	<b>40,377</b>	41,095
Redundancy payments	8	<b>2,243</b>	2,610
Other payments	12	<b>1</b>	2
		<b>1,669,163</b>	1,670,958
Excess of payments over receipts		<b>(19,662)</b>	(32,979)

## Statement of balances

	Note	2005-2006 £000	2004-2005 £000
Opening balance		<b>701,091</b>	734,070
<i>Less</i>			
Excess of payments over receipts		<b>(19,662)</b>	(32,979)
Closing balance	14	<b>681,429</b>	701,091

\*SSP: Statutory Sick Pay

SMP: Statutory Maternity Pay

SAP: Statutory Adoption Pay

SPP: Statutory Paternity Pay

Paul Gray  
Accounting Officer

29 March 2007

The notes on pages 11 to 18 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 during the year. The amounts shown are due to the NI NIF 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 specified percentages of contributions allocated to the National Health Service (NHS).

Employers are responsible for calculating contributions payable by themselves and their employees. 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 2005-2006.

### *Payment of Social Security benefits*

The Department for Social Development (DSD) is responsible for administering social security benefits in Northern Ireland, financed either from the NI NIF or from the Consolidated Fund through the DSD Resource Accounts. Where an individual is in receipt of more than one benefit, it is the DSD policy to combine amounts due into a single payment wherever practicable. NI NIF benefits are paid by cash cheque, payable order, credit transfer and direct payment. The DSD is currently working towards having all customers paid by direct payment. DSD cannot account precisely for all expenditure on individual benefits at the time payable instruments are issued. Instead, they rely on statements from Post Office Ltd of all separate and combined order book payments falling within nine accounting groups allocated by Post Office Ltd. Some expenditure by giro-cheque, payable order and credit transfer is apportioned between benefits by DSD in consultation with the DSD PACS Team (Programme Accounting Computerised System). Provision for accounting on this basis is contained in the Social Security Administration (Northern Ireland) Act 1992.

### *Use of estimated figures*

Certain receipts and payments during the year in the Account are based on estimates and may be subject to adjustment in subsequent years on the basis of more reliable information. These included the calculation of certain 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.

### *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	2005-2006 £000	2004-2005 £000
<b>Contributions</b>			
Class 1 (employed earner)	i	<b>1,307,082</b>	1,222,603
Class 1A and 1B	ii	<b>15,881</b>	14,610
Class 2 (self-employed flat rate)	iii	<b>5,934</b>	5,200
Class 3 (voluntary contributions)	iv	<b>2,525</b>	2,219
Class 4 (self-employed earnings related)*	v	<b>52,335</b>	48,213
		<b>1,383,757</b>	1,292,845

\*HMRC paid over an additional £9m to the Northern Ireland NIF in 2005-2006 in respect of the period 1996-1997 to 2004-2005. It represented the cumulative position following the final estimate of Class 4 contributions due to be paid over to the Northern Ireland NIF for that period.

Different groups of people pay different classes of contributions. Currently there are six classes: 1, 1A, 1B, 2, 3 and 4. 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 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 that the Government Actuary's Department apportion the National Insurance contributions collected each year. The main focus 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 shown above are shown net of the NHS element. NHS allocation was £400m 2005-2006 (£381m 2004-2005).

Additionally, GAD also allocates amounts recovered by employers in respect of statutory sick, maternity, adoption and paternity pay from the Class 1 total.

**3 Compensation for Statutory Sick, Maternity, Adoption and Paternity Pay recoveries**

	Notes	2005-2006 £000	2004-2005 £000
Statutory Sick and Statutory Maternity pay	i	39,117	37,487
Statutory Adoption and Statutory Paternity pay	ii	603	0
<b>Total</b>		<b>39,720</b>	<b>37,487</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.

- i Recoveries in respect of Statutory Sick and Statutory Maternity payments are paid from the DSD Resource Accounts.
- ii Statutory Adoption and Statutory Paternity pay were introduced in April 2003 and the compensation due to the NI NIF is to be paid over by the DTI. The amount of compensation shown as due is based on estimates. The DTI paid £57.8m over to the GB NIF in respect of 2003-2004 and 2004-2005. 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**

	2005-2006 £000	2004-2005 £000
Interest received	36,014	36,073
Loss on realisation	(1,530)	(3,686)
Bank interest	484	455
	<b>34,968</b>	<b>32,842</b>

During the year, the value of the investments at cost held decreased from £762.6 million at 31 March 2005 to £709.1 million at 31 March 2006. (note 13)

The responsibilities of HMRC and the Commissioners for the Reduction of National Debt in respect of the investment of surplus NI NIF funds are set out in a Memorandum of Understanding. The current Investment Strategy requires the balance of the Fund to be invested in gilt holdings with a residual maturity of no longer than 20 years.

**5 Transfers from Great Britain NIF**

	2005-2006 £000	2004-2005 £000
Transfers from Great Britain NIF	185,000	270,000

The amount shown in this Account is in respect of financial adjustments made by the National Insurance Joint Authority 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.

**6 State Scheme premiums**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
State Scheme premiums	<b>2,453</b>	2,413

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 persons' additional pension entitlement in the State Earnings Related Pension Scheme (SERPS). The total amount shown is net of refunds.

**7 Other receipts**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Recoveries of compensation payments	<b>2,993</b>	2,068

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**

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. The scheme also collects information about larger redundancies before they take place so that they can alert other agencies to be on hand to extend help to employees.

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 the DETI. The receipts represent amounts recovered from employers. The total debt outstanding at 31 March 2006 was £17.1 million.

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
<b>Outstanding debt at 31 March</b>	<b>16,150</b>	16,278
Opening adjustment	<b>(15)</b>	(4)
<i>Plus</i> Redundancy payments	<b>2,243</b>	2,610
<i>Less</i> Redundancy receipts	<b>(610)</b>	(324)
<i>Less</i> debt written off (note 15)	<b>(596)</b>	(2,410)
<b>Outstanding debt at 31 March</b>	<b>17,172</b>	16,150

In addition DEL paid other charges of £15,156 (£8,882 2004-2005). These are included within the redundancy payments figures shown on the face of the Receipts and Payments account.



## 9 Benefit payments

	Notes	2005-2006 £000	*2004-2005 £000
State Pension	i	<b>1,201,920</b>	1,192,256
Incapacity Benefit	ii	<b>324,263</b>	312,962
Bereavement Benefits	iii	<b>28,797</b>	34,222
Jobseeker's Allowance (contributory)	iv	<b>12,413</b>	13,373
Christmas Bonus for pensioners	v	<b>3,501</b>	3,528
Maternity Allowance	vi	<b>4,506</b>	4,552
Guardian's and Child's Special Allowance	vii	<b>42</b>	(42)
		<b>1,575,442</b>	1,560,851

\* As a result of more reliable information becoming available to the DSD regarding prior year benefit expenditure figures from 2001-2002 to 2003-2004 an additional £48.4m was included in these figures to cover additional benefits.

- 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 and whose Statutory Sick Pay has ended or is not applicable.
- iii Bereavement Allowance replaced Widow's pension in April 2001 and is a regular payment for 52 weeks from the date of bereavement. Bereavement Payment replaced Widow's payment in April 2001 and is a one-off lump sum payment. Both are based on the late husband or wife's National Insurance contributions.
- 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.
- v Christmas Bonus is a tax-free payment of £10 paid before Christmas to pensioners who are getting one or more qualifying benefits.
- vi Maternity Allowance is paid for up to 26 weeks at a standard weekly rate, dependent on earnings, to a person who cannot get Statutory Maternity Pay.
- vii Guardian's & Child's Special Allowance is payable to people bringing up a child or children because one or both of the parents has died. Responsibility for the payment of this allowance passed to HMRC in April 2003.

Where people receive more than one benefit these are generally paid together as a composite payment. This means that all of the amounts reported above consist partly or wholly of apportioned expenditure (see note 1).

State Pension and Bereavement Allowance 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 2005-2006 is £7.5 million (£7.8 million in 2004-2005).

**10 Personal pensions**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Personal pensions	<b>51,100</b>	66,400

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 1997-1998 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**

Payments made in respect of Administration

	Notes	<b>2005-2006</b>	2004-2005
		<b>£000</b>	£000
Department of Social Development	i	<b>29,850</b>	30,200
HM Revenue & Customs	ii	<b>7,726</b>	7,909
Department of Finance and Personnel	iii	<b>2,308</b>	2,308
Department for Employment and Learning	iv	<b>382</b>	499
Commissioners for the Reduction of the National Debt	v	<b>54</b>	71
Government Actuary's Department	vi	<b>22</b>	21
National Audit Office	vii	<b>35</b>	35
Law Cost	viii	<b>0</b>	52
<b>Total</b>		<b>40,377</b>	41,095

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 actuarial services involving Social Insurance. The 2005-2006 charge also includes costs relating to some special exercises on contracted-out pensions and quinquennial review.
- vii For the annual audit of these Accounts and the production of the report thereon.
- viii Payment of court related recovered costs. There were no Court costs payments for 2005-2006.

**12 Other payments**

	Note	2005-2006 £000	2004-2005 £000
Insolvency refunds	i	1	2

- i Upon winding up the affairs of an insolvent business the insolvency practitioner pays over any arrears of National Insurance contributions to HMRC. These payments represent refunds to either the practitioner or individual where such National Insurance contributions have been overpaid.

**13 Securities held by the Commissioners for the Reduction of National Debt (CRND) at 31 March 2006**

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 Functions, etc.) (Northern Ireland) Order 1999 for the investments 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 as detailed in Note 4.

	Nominal Value £000	Cost Price £000	Market Value at 31 March 2006 £000
<b>Government and Government Guaranteed Stocks</b>			
Up to one year	444,222	453,864	447,976
One to five years	217,447	229,951	223,185
Five to ten years	23,055	25,283	25,273
<b>Total securities</b>	<b>684,724</b>	<b>709,098</b>	<b>696,434</b>

	Nominal Value £000	Cost Price £000	Market Value at 31 March 2005 £000
<b>Government and Government Guaranteed Stocks</b>			
Up to one year	464,396	464,691	466,973
One to five years	248,117	272,640	261,855
Five to ten years	23,055	25,283	25,222
<b>Total securities</b>	<b>735,568</b>	<b>762,614</b>	<b>754,050</b>

**14 Closing balance**

	Notes	31 March 2006 £000	31 March 2005 £000
Securities held by the CRND at cost (note 13)		709,098	762,614
Cash at bank	i	13,849	10,604
Other balances	ii	(41,518)	(72,127)
		<b>681,429</b>	<b>701,091</b>

- i It is necessary for this account to maintain a closing balance around £14m in order to meet funding requirements for the first working day of the following financial year.

- ii Other balances represent sums due from or owing to Government Departments and overseas administrations in respect of the operation of the NI NIF.

**15 Losses**

	Notes	2005-2006		2004-2005	
		Amount £000	No. of cases	Amount £000	No. of cases
Contributions–NI NIF share*					
HMRC: remissions and waivers	i	922	878	2,501	1,426
HMRC: debt transferred	ii	0	0	3,087	593
National Insurance Contributions Office in GB	iii	2,247	2,288	30	275
<b>Total contributions loss</b>		<b>3,169</b>	<b>3,166</b>	5,618	2,294
Redundancy write off	iv	596	123	2,410	268
Other losses	v	1,575	6,579	751	11,364
<b>Total losses</b>		<b>5,340</b>	<b>9,868</b>	8,779	13,926

\* HMRC wrote off in the 2004-2005 IR Trust Statement £333m time barred Class 2 debt. £137m (97,084 cases) of this, as reflected in the HMRC remissions and waivers figure, was actually written off from contributor accounts in November 2005. A proportion of this being appropriate to the Northern Ireland National Insurance Fund, it is not possible for HMRC to provide details of the NI NIF share of that debt. Paragraphs 19-22 of the Statement on Internal Control outlines this issue in more detail.

- i HMRC grants remissions in respect of unpaid contributions where pursuit is unlikely to be successful and waives arrears when pursuit of the debt is regarded as neither practical nor cost effective.
- ii Relating to National Insurance debts in respect of insolvent companies where the National Insurance Contributions Office are responsible for the subsequent write-off or recovery.
- iii Comprises Northern Ireland's share (2 per cent) of the United Kingdom total of certain losses incurred by the National Insurance Contributions Office in Great Britain.
- iv 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.
- v Other losses include benefit losses, administrative losses and Compensation Recovery Unit losses.

**16 Special payments**

	2005-2006		2004-2005	
	£000	No of cases	£000	No of cases
Special payments	191	62	60	34

These are payments made to claimants who were wrongly advised of their entitlement by the Northern Ireland Social Security Agency. The sum of £191,000 includes £74,000 relating to the Widowers Litigation exercise carried out by the DSD.

## Annex

## 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 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; and
  - c a statement of balancesand 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 Government Accounting 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 CFPA*  
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	20XX-XX £000	20XX-XX £000
<b>Receipts</b>			
National Insurance contributions			
Grant from Request for Resources 1			
Transfer 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	20XX-XX £000	20XX-XX £000
Opening balance			
<i>Plus:</i> Excess of receipts over payments			
<b>Closing balance</b>			

*The notes on page X to X 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 2005-2006, £1,650 million was paid into the Fund and £1,669 million was paid out of it. At 31 March 2006 the balance on the Fund was some £681 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.
- 3 In 2005-2006, the Agency paid £1,575 million in benefits from the Northern Ireland National Insurance Fund. Most of this was for Retirement Pension (£1,202 million), Incapacity Benefit (£324 million), Bereavement Benefits (£29 million) and Contributory Jobseeker's Allowance (£12 million).

## Qualified opinion due to irregular benefit payments

- 4 I am 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 Social Security Administration Act (Northern Ireland) 1992 and Treasury Directions made thereunder. I also report on whether, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. 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 in 2004-2005, I have qualified my opinion on the Fund's financial statements for 2005-2006 because of the estimated level of fraud and error in benefit payments. Under Social Security legislation, the Agency must calculate benefits due in accordance with the regulations. 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. Accordingly I have concluded that the payments arising from erroneous benefit awards and fraudulent benefit claims have not been applied to the purposes intended by Parliament and are not in conformity with the authorities which govern them.
- 6 Except for the estimated level of incorrect payments attributable to erroneous awards and fraudulent benefit claims in certain contributory benefits, I am satisfied that in all material respects the financial transactions conform to the authorities that govern them, and that the financial statements properly present the receipts and payments of the Northern Ireland National Insurance Fund for the year ended 31 March 2006 and the balance held at that date.

## Estimated level of incorrect benefit payments due to fraud and error

- 7 Based on the latest information provided by the Agency on the monetary value of errors in the payment of contributory benefits, an estimated £15.0 million may have been lost through overpayments incorrectly paid from the Fund in 2005-2006 because of official error and customer fraud and error. A further estimated amount of £8.3 million in benefits may have been underpaid because of official error (see Figure 1). The increase in the estimated level of underpayments compared with previous years is attributable to an increase in the level of official error in the payment of Retirement Pension.
- 8 For Retirement Pension overpayments, a fall in the level of official error has contributed to a small decrease in the Agency's estimate of the aggregate level of error and fraud reported in previous years. Estimated overpayments of Incapacity Benefit as a result of fraud and error stand at £13.6 million, some 4 per cent of the total Incapacity Benefit payments made in the 2005-2006.



- 9 The estimates in Figure 1 are based on the results of the financial accuracy exercise by the Agency's Standards Assurance Unit designed to measure the level of error in benefit payments. The Unit examines statistical samples of all benefit awards on a continuous basis. From these samples it is able to monitor the accuracy of payments made and the annual monetary amounts estimated to be paid incorrectly. The NAO examine and re-perform a sample of contributory benefit cases to assess the reliability of the Unit's estimates of fraud and error.

**Figure 1: Northern Ireland National Insurance Fund: Estimated level of incorrect payments due to fraud and error 2005-2006 and 2004-2005**

2005-2006	Total payments	Estimated incorrect payments		Estimated overpayments		Estimated underpayments	
		£ million	% of benefit expenditure	£ million	% of benefit expenditure	£ million	% of benefit expenditure
Retirement Pension and Bereavement Benefit Official Error <sup>1</sup>	1,230.7	9.2	0.75	1.4	0.11	7.8	0.63
Incapacity Benefit Official Error <sup>2</sup>	324.3	4.4	1.35	3.9	1.19	0.5	0.16
Customer Error <sup>2</sup>		5.9	1.82	5.9	1.82	n/a	n/a
Customer Fraud <sup>2</sup>		3.8	1.16	3.8	1.16	n/a	n/a
<b>Total</b>		<b>14.1</b>	<b>4.32</b>	<b>13.6</b>	<b>4.17</b>	<b>0.5</b>	<b>0.16</b>
Other	20.4	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total</b>	<b>1,575.4</b>	<b>23.3</b>	<b>1.48</b>	<b>15.0</b>	<b>0.95</b>	<b>8.3</b>	<b>0.53</b>

2004-2005	Total payments	Estimated incorrect payments		Estimated overpayments		Estimated underpayments	
		£ million	% of benefit expenditure	£ million	% of benefit expenditure	£ million	% of benefit expenditure
Retirement Pension and Bereavement Benefit <sup>4</sup> Official Error <sup>3</sup>	1,173.7	4.7	0.38	3.1	0.25	1.6	0.13
Incapacity Benefit <sup>4</sup> Official Error <sup>3</sup>	319.1	4.3	1.35	3.8	1.19	0.5	0.16
Customer Error <sup>3</sup>		5.8	1.82	5.8	1.82	n/a	n/a
Customer Fraud <sup>3</sup>		3.7	1.16	3.7	1.16	n/a	n/a
<b>Total</b>		<b>13.8</b>	<b>4.32</b>	<b>13.3</b>	<b>4.17</b>	<b>0.5</b>	<b>0.16</b>
Other	19.6	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total</b>	<b>1,512.4</b>	<b>18.5</b>	<b>1.22</b>	<b>16.4</b>	<b>1.08</b>	<b>2.1</b>	<b>0.14</b>

Notes

- 1 The 2005-2006 Retirement Pension and Bereavement Benefit official error figure is the result of the 2005 financial accuracy exercise.
- 2 The official error, customer error and customer fraud figures for 2005-2006 are estimated by rolling forward the 2004-2005 percentages and applying them to the 2005-2006 Incapacity Benefit payments.
- 3 Retirement Pension error rates are based on the 2004-2005 financial accuracy exercise. Incapacity Benefit error rates are based on the results of the 2004-2005 Benefit Review which includes revised figures for customer error and fraud.
- 4 Payments refer to actual payments made in the year as disclosed at note 9 of the Northern Ireland National Insurance Fund Account 2004-2005.

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

- 10 The Standards Assurance Unit also completes a programme of periodic Benefit Reviews which are designed to produce a reasonable estimate of the level of customer fraud and error in benefit awards. The findings from the Unit's most recent Benefit Review of Incapacity Benefit payments made over a three year period up to 2004-2005 have been used as the basis for estimating customer fraud and error for Incapacity Benefit in 2005-2006.
- 11 The Agency does not have a current estimate for customer fraud and error for Retirement Pension. The Agency last carried out a Benefit Review of Retirement Pension in 1999-2000. This exercise showed that the estimated losses through fraud and error for Retirement Pension were negligible and the small number of cases with error did not allow for an accurate monetary estimate of fraud and error to be made. The Agency has advised me that based on the results of this 1999-2000 exercise and because the rules of the benefit are such that the risk of customer error and fraud is minimal, regular Benefit Reviews are not carried out on Retirement Pension. In addition, the Agency has also considered the results and action taken by the Department for Work and Pensions (DWP) in a pilot review to estimate fraud and error in Retirement 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.
- 12 The Agency's estimate of amounts paid incorrectly is subject to uncertainties. The Agency presents these uncertainties as confidence intervals, which provide a statistical measure of the extent that the estimate of amounts paid incorrectly is likely to deviate from the true level of error in the population (Figure 2). In the case of Incapacity Benefit, while the best estimate of errors due to incorrect payments is £14.1 million, the Agency estimates show that true level of error in the population could lie anywhere between £9.4 million and £18.8 million. For Retirement Pension and Bereavement Benefit paid incorrectly the range is between £1.9 million to £16.5 million. In order to reduce the confidence interval and produce a more robust estimate of the level of error in the population the Agency would need to test a larger sample of benefit payments. It has advised me however that to reduce the confidence intervals significantly a major increase in sample sizes would be required. The Agency considers that, given the proportionate level of incorrectness within the benefits, an increase in the samples size would not significantly improve the accuracy of its estimates of fraud and error and would be difficult to justify in terms of value for money.

**Figure 2: Northern Ireland National Insurance Fund: Confidence intervals surrounding the estimated level of incorrect payments due to fraud and error in 2005-2006**

Benefit	Payments	Estimated incorrect payments		Confidence interval <sup>3</sup>	
	£ million	£ million	% of benefit expenditure	£ million	Confidence interval as % of incorrect payments <sup>4</sup>
Retirement Pension and Bereavement Benefit <sup>1</sup> Official Error only	1,230.7	9.2	0.75	1.9-16.5	79
Incapacity Benefit <sup>2</sup> Total Fraud and Error	324.3	14.1	4.32	9.4-18.8	33
Other	20.4	n/a	n/a		
<b>Total</b>	<b>1,575.4</b>	<b>23.3</b>	<b>1.48</b>		

## Notes

- 1 The 2005-2006 Retirement Pension and Bereavement Benefit official error figures are the result of the 2005 financial accuracy exercise.
- 2 Estimates based on Standards Assurance Unit's Customer Fraud & Error for Incapacity Benefit report 2004-2005 which includes revised figures for customer error and fraud.
- 3 The confidence intervals for each estimate are based on a 95% confidence level. Statistically this means that there is a 1 in 20 chance that the true level of error in the population will lay outside these limits.
- 4 The confidence interval expressed as a percentage of the estimate of the amounts paid incorrectly is a measure of the reliability of the Agency's estimate: the higher the percentage the wider the confidence interval and therefore the less reliable the result.

Source: Based on fraud and error rates provided by the Northern Ireland Social Security Agency's Standards Assurance Unit. Fraud and error estimate figures and percentage rates are rounded to assist presentation.

- 13 One of the Agency's key priority areas for 2005-2006 was to reduce fraud and error. The Agency has put in place programme protection plans to improve accuracy and identify areas for action to reduce levels of customer fraud and error. In addition improvement plans have been introduced across all benefits to drive up standards and reduce levels of official error.
- 14 The Agency has told me that it is continuing to pursue vigorously its strategy of identifying and removing fraud and error that has penetrated the system while at the same time securing the gateways into the benefits system. However, the Agency emphasised that it is important to recognise that different factors contribute to fraud and error, not all of which are within its control. For example, the Agency has highlighted that the complexity of 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.

## Conclusion

- 15 Despite the positive action taken by the Northern Ireland Social Security Agency to reduce the level of official error, the National Benefits Review of payments of Incapacity Benefit shows that the level of claimant fraud and error is significant. Based on the latest information provided by the Agency an estimated £15.0 million may have been lost through the overpayment of contributory benefits from the Fund in 2005-2006 because of official error and customer fraud and error. A further estimated amount of £8.3 million in benefits may have been underpaid because of official error. The estimated level of incorrect benefit payments is material in relation to the total benefits paid by the Fund; I have therefore qualified my opinion on the account.
- 16 Because of the varying nature and timing of the exercises undertaken by the Agency to estimate the level of fraud and error in benefits paid from the Northern Ireland National Insurance Fund, there is no complete and up-to-date assessment of the levels of claimant fraud and error across all benefits. The updated estimates in this report for Retirement Pension are based on the most recent 2005 financial accuracy exercise while the Incapacity Benefit updated estimates are based on the most recent 2004-2005 Benefit Review exercise. The Agency plans to subject Incapacity Benefit to Benefit Review again in 2007-2008.

*John Bourn*  
Comptroller and Auditor General

17 April 2007

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

For further information about the National Audit Office please contact:

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Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP  
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