

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

Northern Ireland National Insurance Fund Account 2006-2007

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 1 APRIL 2008

The National Audit Office
scrutinises public spending
on behalf of Parliament.

The Comptroller and Auditor General, Tim Burr, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 850 staff. He and the National Audit Office are totally independent of Government.

He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

Our work saves the taxpayer millions of pounds every year: at least £9 for every £1 spent running the Office.

This account can be found on the National Audit Office web site at
www.nao.org.uk

Contents

	Page
Foreword	2
Statement on Internal Control	4
The Certificate of the Comptroller and Auditor General	9
Receipts and Payments Account	11
Notes to the Account	12
Accounts Direction	20
Report by the Comptroller and Auditor General	23

Foreword

Statutory background

- 1 The National Insurance Scheme was established on 5 July 1948 to provide unemployment benefit, sickness benefit, retirement pensions and other benefits in cases where individuals meet the contribution and other qualifying conditions.
- 2 Under the Social Security Administration (Northern Ireland) Act 1992 benefits due under the National Insurance Scheme are payable out of the Northern Ireland National Insurance Fund (NI NIF). The funds required for meeting the cost of these benefits are mainly provided from National Insurance contributions payable by employed earners, employers and others. The Social Security Contributions and Benefits (Northern Ireland) Act 1992 sets out the conditions governing entitlement to most benefits and the basis for assessing liability to pay National Insurance contributions.
- 3 Section 141(1) of the Social Security Administration (Northern Ireland) Act 1992 (as amended by the Social Security Contributions (Transfer of Functions etc) (Northern Ireland) Order 1999) places the NI NIF under the control and management of the Inland Revenue (now HM Revenue & Customs (HMRC)).
- 4 The Acting Chairman of HMRC is the Interim Principal Accounting Officer for the Fund. HM Treasury appointed me as Interim Principal Accounting Officer for HMRC with effect from 21 November 2007. Section 141(1) of the Social Security Administration (Northern Ireland) Act 1992 requires HMRC to prepare accounts of the NI NIF in such form, and in such manner and at such times, as the Treasury may direct. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balance held at the year-end.

Operational responsibilities

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

Audit arrangements

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

Financial performance

- 11 The National Insurance Scheme is financed on a pay-as-you-go basis with contribution rates set at a level broadly necessary to meet the expected benefits expenditure in that year, after taking into account any other payments and receipts, and to maintain a working balance. Changes in contribution levels in response to the needs of the Fund take time to implement, therefore a working balance is necessary because the NI NIF has no borrowing powers. In his report on the financial provisions of the Social Security Bill 1992 the Government Actuary confirmed that it was prudent to plan for a minimum balance of one-sixth (16.7 per cent) of annual benefit expenditure.
- 12 The balance on the Fund has increased by £342 million compared with the position at 31 March 2006 (£681 million). At 31 March 2007 the balance held is £1,023 million (approx 62 per cent of annual benefit expenditure).
- 13 The Government Actuary's next Report on the Government's Benefits Up-rating and Contributions Re-rating Orders will be tabled in the New Year alongside the 2008 Up-rating Order and the Re-rating Orders. The Orders, which will cover the financial year 2007-2008, are subject to debate and require the approval of both Houses.
- 14 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 Acting Chairman of HM Revenue & Customs

- 15 As Acting Chairman of HMRC, I am the Interim Principal Accounting Officer for the NI NIF. My relevant responsibilities as Interim Principal Accounting Officer, including my responsibility for the propriety and regularity of the public finances for which I am answerable, and for keeping of proper records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in 'Government Accounting' (now called 'Managing Public Money' since 1 October 2007). 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.

Dave Hartnett
Interim Principal Accounting Officer

8 February 2008

Statement on Internal Control

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

Scope of responsibility

- 1 As Interim Principal Accounting Officer for the Northern Ireland National Insurance Fund (Northern Ireland 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 (called 'Managing Public Money' since 1 October 2007).
- 2 Whilst HMRC has overall responsibility for the control and management of the Fund and for collecting National Insurance contributions, the Northern Ireland Social Security Agency (NISSA) within the Department for Social Development (DSD) in Northern Ireland is responsible for benefit payments and the Department for Employment and Learning (DEL), is responsible for Redundancy Payments Scheme awards which are covered by the Fund, with the payment of these awards and collection of receipts contracted out to the Department of Enterprise, Trade and Investment (DETI).
- 3 I receive Letters of Assurance from the Accounting Officers of the NISSA and DEL, as 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 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 2007 and up to the date of the approval of the accounts, and accords with HM Treasury guidance.
- 5 Specific work undertaken on behalf of the Northern Ireland NIF only forms a small part of the whole work of HMRC. A separate SIC is produced for the HMRC 2006-2007 Accounts that fully sets out details of HMRC's capacity to handle risk and its risk and control framework, as well as including disclosures that relate to issues outside of the scope of work relating to the NIF. The full SIC can be found in HMRC's published Accounts for 2006-2007.

Capacity to handle risk

- 6 We continue to review and adapt the Department's risk management arrangements to ensure they are fit for purpose. Following the loss of Child Benefit customer data in October 2007 urgent measures have been put in place to improve the Department's security arrangements over customer data. An independent investigation into the Department's security procedures has already resulted in an interim report which was published on 17 December 2007. The Department will action recommendations contained within the full report (due for publication in the spring) and any further interim recommendations notified to the Department. Other reviews into the data security breach are ongoing and recommendations emerging from those reviews will also be actioned.
- 7 As head of the Department, I have a key role to play in promoting and supporting the risk management strategy. I am supported by Executive Committee members who are accountable for identifying, assessing and managing the risks within their portfolio. In turn, Directors are accountable to their Executive Committee members for risk management within their Directorates, and reporting on the actions they are taking to mitigate them.

- 8 The Audit Committee, supported by Internal Audit and informed by the work of National Audit Office (NAO), provides me with independent advice on the effectiveness of the Department's governance, risk and control arrangements.
- 9 The Risk Committee is a sub-committee of the Executive Committee, with responsibility for taking an overview of risks facing HMRC and ensuring effective risk management. The Committee
- Challenges the effectiveness of risk management and risk mitigation in HMRC;
 - Recommends future generic or specific measures to reduce risk;
 - Monitors and steers the management of existing risks; and
 - Identifies new risks and allocates ownership.

The risk and control framework

- 10 The current approach to risk management in HMRC involves the upward reporting of risks. The primary mechanism for this is the Directors' monthly and quarterly performance reports. These Director-level risks inform the strategic risk management process, which is focused around the Departmental Risk Register. Ownership of the risks in the Departmental Risk Register is assigned at Executive Committee level, and at the next level of management down – the Delivery Manager.
- 11 The administration of National Insurance involves a number of business areas within HMRC ranging from processing offices through to information technology and debt management. A National Insurance Management Board (NIMB) has been set up to ensure that the different directorates involved in National Insurance work together, at a strategic level, to plan, manage and improve the performance of the process. The NIMB sets key performance indicators, maintains a strategic risks and issues register, monitors and reports progress, and addresses any major performance issues arising within National Insurance.
- 12 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

- 13 As Interim Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, by the work of the internal auditors and comments made by NAO in management letters and other reports.
- 14 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 Committee, who is a non-executive Board member, provides the Board with a written report after each Audit Committee meeting.
- 15 I discuss significant control issues with my executive team at our regular Executive Committee meetings. These meetings are informed by an assessment of our current exposure to risks associated with our major programmes and projects. They are further informed by feedback from a series of performance reviews held each quarter between the relevant Executive Committee manager and Director. The focus of these reviews is the progress being made in each Director's area to deliver value and the key issues/risks that could prevent the achievement of key targets/objectives by the year end. I also receive a detailed, monthly Management Report, which highlights potential areas of concern.

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

Age Related Rebates (ARRs) – outstanding debt

- 17 Individuals who contract out of the State Earnings Related Pension Scheme (SERPS) or the Second State Pension (S2P) are entitled to a percentage rebate (the age-related rebate) of their National Insurance contributions which is paid to the pension provider.
- 18 Recoveries of ARR take place where, for example, there are downward adjustments to earnings information on an individual's National Insurance account. There are two methods of recovering overpayments; automatically via the National Insurance Recording System 2 (NIRS2) – where recoveries are made from ARR payments due, or by the issue of a bill.
- 19 Where a bill is issued it should be followed up with a reminder if it remains unpaid. This process was not carried forward to NIRS2 and the issue was compounded by significant problems/system faults (which have since been fixed) that existed at the time with the new financial functionality. As a consequence, outstanding debts totalling £27.4 million have remained unactioned.
- 20 Plans have been developed and we will enter into discussions with the Pensions Industry to agree how the recoveries will be handled.

Class 2 National Insurance 'debt' balances

- 21 The level of debt apparently associated with outstanding Class 2 National Insurance Contributions (NICs) is a matter of concern and was also reported on in the 2005-2006 NAO standard report. To address the issue, HMRC decided that
- A Director level group should oversee the issue
 - A review should be undertaken with the aim of recommending proposals for change, including the possibility of the collection of Class 2 liability via the Self Assessment (SA) return.
- 22 This work has been monitored through the Class 2 NICs Directors Group and following the Class 2 Processes Review a number of minor changes have been introduced to improve the position. These include laying greater emphasis on payment by direct debit and, recognising that most Class 2 debts are very low value, wherever possible linking Class 2 and SA arrears for collection. Further improvement is likely to be achievable only through policy change. In the HM Treasury Report on Tax and NICs alignment published with the 2007 Pre Budget Report it was recognised that the two separate classes of self-employed NICs collected through two separate HMRC processes could be confusing for the self-employed. The Report while not proposing merging of Class 2 and Class 4 NICs announced that HMRC would be consulting on the scope for improvements to the collection of NICs from the self employed. It is expected that this consultation will start shortly.

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 we have continued our work with the DWP to establish the full scope and extent of these mismatches.

- 24 Having carried out a detailed comparison with the NIRS2 data we believe we now have a good idea of the extent and significance of mismatches that have occurred. There has been close liaison with DWP on this issue and a Ministerial Statement was made on 23 July 2007. In respect of cases where an overpayment may have occurred, the DWP have introduced regulations allowing the continued payment of these benefits at their current level to the individuals concerned for the duration of their claim.
- 25 Where the individual is under pension age the National Insurance contribution records will be corrected so that future claims will be correctly assessed. Where correcting the record results in any gaps in an individual's contribution record, HMRC will write to the individuals concerned advising them of the options for paying any missing contributions. DWP have started work on the cases and plan to complete the work on underpaid cases by early 2008.
- 26 During the course of the correction exercise it was found that in some cases the presence of incorrect approved training credits were preventing incapacity credits being posted across to NIRS2. These incorrect training credits were therefore removed and processes reviewed to prevent this from happening in future. Work is on-going to establish the extent of this issue outside those cases with incapacity credits.

Non matching contribution items

- 27 In some instances we receive end of year information from employers that includes National Insurance contributions information that cannot be matched to the relevant contributor records. We apply well established routines to trace these non-matching items and make all reasonable effort to update contributor records. Where the items still cannot be matched they are kept permanently on non-matched suspense files. These are maintained to ensure that when an individual queries the completeness of their contribution record we can retrieve unmatched items from suspense files and credit them to the individual's contribution record.
- 28 Up to 2005-2006 the suspense files contained approximately 118 million items. For both the 2004 and 2005 tax years, some 1.7 million new items were added to the suspense files. This represents about three percent of each year's returns. We continue to undertake detailed analysis and work closely with key inter-departmental stakeholders to develop strategies to improve the quality of the data submitted from employers.

Home Responsibilities Protection (HRP)

- 29 HRP was introduced in April 1978 to assist people, especially women, who were precluded from work for periods of caring responsibilities. HRP does not enhance a person's National Insurance record and does not appear as earnings, but is used to reduce the number of qualifying years needed to earn a 100% basic State Pension.
- 30 In Child Benefit cases HRP is normally recorded automatically when data is passed from the Child Benefit system to the National Insurance Recording System (NIRS). Before May 2000, there was no mandatory requirement for people claiming Child Benefit to provide their National Insurance number and, where it was not provided, HMRC could not always match the Child Benefit data with the correct National Insurance record therefore some people may not have had their entitlement to HRP noted on their National Insurance account.
- 31 Since the inception of HRP in 1978 there has been a clerical process in place to match Child Benefit data with the correct National Insurance record, which involves writing to the individual to ask for their National Insurance number; however replies were not followed up. There is no time limit on entitlement to HRP based on child benefit awards and any claims for HRP are investigated and, where appropriate, recorded on the individual's record. This information is then available when it is time to work out an individual pension award or it will automatically activate a Tax Year Review to re-visit a pension award.
- 32 We are currently investigating cases where people have raised queries with us about their entitlement to HRP. We are working with DWP to undertake a scan of the NIRS database which should help to identify other people affected by this issue. Current proposals would see this introduced during 2008.

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

- 33 A Letter of Assurance has been received from the Northern Ireland Social Security Agency (NISSA) which contains details about their capacity to handle risk and their risk control framework. Following consideration by the NISSA Audit Committee a further letter was received containing more detail on the fraud and error issue described below. The letters indicate a significant internal control issue arising from the Report of the Northern Ireland Audit Office (NIAO) Comptroller and Auditor General (C&AG). This matter has been an outstanding audit issue within the NISSA accounts and this is described at a high level below.
- 34 In relation to the Agency's 2006-2007 Annual Report and Accounts a 'regularity' audit qualification issue was raised by the NIAO in relation to the estimated levels of fraud and error within the administration of social security benefits. For the 2006-2007 financial year the Agency adopted the GB DWP approach in the reporting of fraud and error information within the Agency accounts. This involved the enclosure of a note within the NISSA accounts for the first time on Payment Accuracy which provides detailed data on Agency fraud and error exercises and results. In addition fraud and error information as contained within the accounts and as referred to within the NIAO audit report this year highlighted the level of benefit overpayments. In respect of contributory benefits, the estimate for overpayments is £20.1 million for 2006-2007. A further estimated £3.5 million in benefits may have been underpaid because of official error. It is also significant that, for the first time, the Agency has adopted the common sample methodology for all of its 2006 measurement exercises. This approach has removed the previous problems surrounding the duplication of the calculation of official error, an issue previously commented on by the NIAO. Paragraph 36 below describes the action being taken to reduce levels of fraud and error.
- 35 The Agency continued its regular monitoring and measurement on the levels of fraud and error throughout the year. This involves the measurement of the level of financial accuracy in the administration of each benefit and, complementary to this, benefit reviews which estimate the level of customer fraud and customer error.
- 36 For 2006-2007 the Agency again set a very challenging financial accuracy target of 99% for State Pension and Incapacity Benefit. The financial accuracy results for the calendar year January 2006 to December 2006 show that the State Pension target was met. Incapacity Benefit with a result of 97.7% +/- 1.1% was within 0.2% of meeting its 99% target within statistical tolerance.
- 37 Reducing fraud and error in the benefit system remains one of the Agency's top five key priorities and continues to be addressed through a rigorous benefit security strategy. This covers a range of activities including a comprehensive programme of pro-active targeting and correcting of those cases with a high likelihood of error. In 2006-2007 this led to over 10,000 corrections and adjustments to benefit awards of a total value of £24m. Prevention of fresh error continues to be addressed through the introduction of Accuracy Improvement Plans. The Agency also continues to target and investigate those who deliberately make false claims to obtain benefit, which resulted during 2006 in 257 convictions for benefit fraud. The Agency will maintain this momentum and build on the progress to date through continued use of risk analysis to target and focus its counter fraud and error activities.

Assurance from DEL in respect of the Redundancy Payments Scheme

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

Dave Hartnett
Interim Principal Accounting Officer

8 February 2008

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

I certify that I have audited the financial statements of the Northern Ireland National Insurance Fund for the year ended 31 March 2007 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 8 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.

Opinions

Audit opinion

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 2007 and the balance held at that date; and
- the financial statements have been properly prepared in accordance with Section 161(2) of the Social Security Administration (Northern Ireland) Act 1992 and HM Treasury directions made thereunder.

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 £20.1 million may have been lost through overpayments incorrectly paid from the Fund in 2006-2007 because of error and fraud. A further estimated amount of £3.5 million in benefits may have been underpaid because of 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, except for the level of incorrect payments attributable to fraud and error in certain contributory benefit payments, the Fund has been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

T J Burr
Comptroller and Auditor General
26 March 2008

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

Receipts and Payments Account for the year ended 31 March 2007

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

	Notes	2006-2007 £000	2005-2006 £000
Receipts			
National Insurance contributions	2	1,386,632	1,383,757
Transfers from Great Britain NIF	5	630,000	185,000
Compensation for statutory pay recoveries	3	37,456	39,720
Income from investments	4	20,849	34,968
Other receipts	7	2,649	2,993
Redundancy receipts	8	1,780	610
State Scheme premiums	6	1,617	2,453
		2,080,983	1,649,501
<i>Less</i>			
Payments			
Benefit payments	9	1,640,158	1,575,442
Personal pensions	10	56,200	51,100
Administration costs	11	39,925	40,377
Redundancy payments	8	2,696	2,243
Other payments	12	0	1
		1,738,979	1,669,163
Excess of receipts over payments / (payments over receipts)		342,004	(19,662)

Statement of balances

		2006-2007 £000	2005-2006 £000
Opening balance		681,429	701,091
<i>Plus</i>			
Excess of receipts over payments / (payments over receipts)		342,004	(19,662)
Closing balance	14	1,023,433	681,429

Dave Hartnett
Interim Principal Accounting Officer

8 February 2008

The notes on pages 12 to 19 form part of these accounts.

Notes to the Account

1 Accounting policies

Basis of preparation of the Account

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

National Insurance contributions

The Account shows those contributions received by the Fund during the year. The amounts 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 2006-2007.

Payment of Social Security benefits

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

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 the Agency/DSD. Accordingly the Agency/DSD currently has a Service Delivery Agreement (SDA) target of 95% of customers to be paid by direct payment by March 2008. The Agency is currently exceeding this target.

Use of estimated figures

Certain figures in the Account are based on estimates and may be subject to adjustment in subsequent years on the basis of more reliable information. These include the calculation of certain classes of contribution receipts, allocation of contribution receipts to the NHS, recoveries and compensation in respect of statutory sick, maternity, adoption and paternity pay and settlements with Great Britain NIF. However certain NI NIF contributory expenditure information is now no longer derived by estimates and is provided by the Programme Accounting Computer System (PACS). The PACS system is used by the Agency to account for benefit expenditure on a financial accounting accruals or resource basis and can therefore provide more accurate and complete information for inclusion in the NI NIF accounts.

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	2006-2007 £000	2005-2006 £000
Contributions			
Class 1 (employed earners)	i	1,302,379	1,307,082
Class 1A & 1B	ii	16,168	15,881
Class 2 (self-employed flat rate)	iii	5,813	5,934
Class 3 (voluntary contributions)	iv	1,994	2,525
Class 4 (self-employed earnings-related)*	v	60,278	52,335
		<u>1,386,632</u>	<u>1,383,757</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 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 £406m in 2006-2007 (2005-2006: £400 million).

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

	Notes	2006-2007 £000	2005-2006 £000
Statutory Sick & Statutory Maternity pay	i	36,853	39,117
Statutory Adoption & Statutory Paternity pay	ii	603	603
Total		<u>37,456</u>	<u>39,720</u>

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 Recoveries in respect of Statutory Sick and Statutory Maternity payments are paid from the DSD Resource Accounts.
- ii Statutory Adoption and Statutory Paternity pay recoveries are paid over by the DBERR. The DBERR paid £26.09m over to the GB NIF in respect of 2005-2006; 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

	2006-2007 £000	2005-2006 £000
Interest received	44,589	36,014
Loss on realisation	(24,399)	(1,530)
Bank Interest	659	484
	20,849	34,968

During the year the value of investments at cost increased from £709.1 million at 31 March 2006 to £1.08 billion at 31 March 2007 (Note 13).

The responsibilities of HMRC and the Commissioners for the Reduction of National Debt (CRND) in respect of the investment of surplus NI NIF funds are set out in a Memorandum of Understanding. A change to the NIF Investment Strategy made during 2006-2007 is described in Note 13.

5 Transfers from Great Britain NIF

	2006-2007 £000	2005-2006 £000
Transfers from Great Britain NIF	630,000	185,000

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

	2006-2007 £000	2005-2006 £000
State Scheme premiums	1,617	2,453

State Scheme premiums are payable in respect of employed persons who cease to be covered, in certain specified circumstances, by a contracted-out pension scheme. The premiums buy back the person's entitlement to an additional state pension. The total amount shown is net of refunds.

7 Other receipts

	2006-2007 £000	2005-2006 £000
Recoveries of compensation payments	2,649	2,993

The recoveries are 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 NISSA/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.

Redundancy payments are made from the NI NIF to employees whose employers have failed to make payments due or who were insolvent. The payments are awarded by DETI. The receipts represent amounts recovered from employers. The total debt outstanding at 31 March 2007 was £15.1 million.

	2006-2007 £000	2005-2006 £000
Outstanding debt at 31 March	17,172	16,150
Opening adjustment	0	(15)
<i>Plus</i> Redundancy payments	2,685	2,243
<i>Less</i> Redundancy receipts	(1,780)	(610)
<i>Less</i> debt written off (note 15)	(2,955)	(596)
Outstanding debt at 31 March	15,122	17,172

In addition DEL paid other charges of £11,143 (2005-2006: £15,156). These are included within the redundancy payments figures shown on the face of the Receipts and Payments account.

9 Benefit payments

	Notes	2006-2007 £000	2005-2006 £000
State Pension	i	1,267,358	1,201,920
Incapacity Benefit	ii	325,842	324,263
Bereavement Benefits	iii	27,194	28,797
Jobseeker's Allowance (contributory)	iv	11,437	12,413
Maternity Allowance	v	4,726	4,506
Christmas Bonus	vi	3,535	3,501
Guardian's Allowance and Child's Special Allowance	vii	66	42
		1,640,158	1,575,442

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

Where 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 Benefits do not include payments to Northern Ireland pensioners living abroad. For administrative convenience these payments are made by the Department for Work and Pensions and the cost is borne by the Great Britain NIF. It is not possible to provide an accurate figure for Northern Ireland's share of the expenditure on overseas pensions, but an estimate of the amount involved in 2006-2007 is £7.2 million (2005-2006: £7.5 million).

10 Personal pensions

	2006-2007	2005-2006
	£000	£000
Personal pensions	56,200	51,100

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	2006-2007 £000	2005-2006 £000
Department for Social Development	i	30,260	29,850
HM Revenue & Customs	ii	6,866	7,726
Department of Finance and Personnel	iii	2,308	2,308
Department for Employment and Learning	iv	389	382
Commissioners for the Reduction of the National Debt	v	62	54
National Audit Office	vi	35	35
Government Actuary's Department	vii	5	22
Total		39,925	40,377

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

- i For administration costs relating to the award and payment of contributory benefits on behalf of the Fund.
- ii For the collection of National Insurance contributions, maintenance of individual records and associated tasks.
- iii For payroll and investment services provided to Northern Ireland Departments.
- iv For the administration of the Redundancy Payment Scheme as required under the Employment Rights (Northern Ireland) Order 1996.
- v For investment services provided in pursuance of Section 141(3) of the Social Security Administration (Northern Ireland) Act 1992.
- vi For the annual audit of these Accounts.
- vii For actuarial services involving Social Insurance. The 2005-2006 charge included costs relating to some special exercises on contracted-out pensions and quinquennial review.

12 Other payments

	Notes	2006-2007 £000	2005-2006 £000
Insolvency refunds	i	0	1

- 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. There were no payments in 2006-2007.

13 Deposits held by the Commissioners for the Reduction of National Debt (CRND) at 31 March 2007

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.

Following a review by HMRC, CRND and HM Treasury, a change to the NIF investment strategy was approved in December 2006. The change was actioned in January 2007 when all gilt holdings were sold and the proceeds placed into the Debt Management Account Deposit Facility (DMADF).

	31 March 2007
	£000
Monies deposited in the Debt Management Account Deposit Facility	1,080,287

	Nominal value £000	Cost price £000	Market value at 31 March 2006 £000
Government and Government Guaranteed Stocks			
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
Total securities	684,724	709,098	696,434

14 Closing balance

	Notes	31 March 2007 £000	31 March 2006 £000
Securities held by the CRND at cost (note 13)		1,080,287	709,098
Cash at bank		19,243	13,849
Other balances	i	(76,097)	(41,518)
		1,023,433	681,429

i 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	2006-2007		2005-2006	
		Amount £000	No. of cases	Amount £000	No. of cases
Contributions – NI NIF share					
HMRC remissions and write-offs		1,432	551	922	878
Insolvency debts	i	0	0	0	0
National Insurance Contributions Office in GB	ii	5,626	497	2,247	2,288
Total contributions loss		7,058	1,048	3,169	3,166
Redundancy write off	iii	2,955	171	596	123
Other losses	iv	1,385	6,324	1,575	6,579
Total losses		11,398	7,543	5,340	9,868

- i 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.
- ii 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.
- iii 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.
- iv Other losses include benefit losses, administrative losses and Compensation Recovery Unit losses.

16 Special payments

	2006-2007		2005-2006	
	Amount £000	No. of cases	Amount £000	No. of cases
Special payments	474	294	191	62

These are payments made to claimants who were wrongly advised of their entitlement by the Northern Ireland Social Security Agency. The sum of £474,000 includes £441,000 relating to a special exercise carried out by the NISSA Active Case Management Team in Pensions Branch on female claims.

Accounts Direction given by Her Majesty's Treasury

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

10 February 2007

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
Receipts			
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>			
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

	Notes	20XX-XX £000	20XX-XX £000
Opening balance			
<i>Plus: Excess of receipts over payments</i>			
Closing balance			

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 2006-2007, £2,081 million was paid into the Fund and £1,739 million was paid out of it. At 31 March 2007 the balance on the Fund was some £1,023 million.
- 2 HM Revenue & 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 2006-2007, the Agency paid £1,640 million in benefits from the Northern Ireland National Insurance Fund. Most of this was for Retirement Pension (£1,267 million), Incapacity Benefit (£326 million), Bereavement Benefits (£27 million) and Contributory Jobseeker's Allowance (£11 million).

Qualified opinion due to irregular benefit payments

- 4 I am required, under International Standards on Auditing, 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 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. For the financial year 2006-2007, as in 2005-2006, I have qualified my audit opinion on the Fund's financial statements on the basis of the estimated level of irregular benefit payments arising from fraud and error. 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. 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 2007 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 incorrect benefit payments due to fraud and error

- 7 Based on the latest information provided by the Agency on the errors in the payment of contributory benefits, an estimated £20.1 million may have been lost through overpayments incorrectly paid from the Fund in 2006-2007 because of fraud and error. A further estimated amount of £3.5 million in benefits may have been underpaid because of official error (see Figure 1). The reduction in the estimated level of underpayments compared with previous years is attributable to a decrease in the level of official error in the payment of Retirement Pension, which has more than offset the increase in the estimated official level of Incapacity Benefit underpayments.

- 8 The increase in the estimated level of overpayments compared with previous years is mainly attributable to an increase in the level of official error in the payment of Retirement Pension/Bereavement Benefit and Incapacity Benefit. Estimated overpayments of Incapacity Benefit as a result of fraud and error are £15.6 million, some 4.8 per cent of the total Incapacity Benefit payments made in the financial year 2006-2007.
- 9 The estimates in Figure 1 are based on the results of the financial accuracy exercise undertaken by the Agency's Standards Assurance Unit which is 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 estimate the annual monetary amounts considered to have been paid incorrectly.
- 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 again been used as the basis for estimating customer fraud and error for Incapacity Benefit in 2006-2007. The Agency currently plans to include Incapacity Benefit in its 2007-2008 Benefit Review.
- 11 As part of the audit of benefit expenditure, including the Agency's estimate of fraud and error, the NAO reviewed the Standards Assurance Unit's approach to sampling and the methodology applied in checking, including re-performance of a sample of items. The NAO also reviewed the Agency's processes for interpreting the data and for generating the estimated monetary amounts attributable to error and fraud. As a result, I am satisfied that the figures reported by the Agency are the best estimates available.

Figure 1: Northern Ireland National Insurance Fund: Estimated level of incorrect payments due to fraud and error 2006-2007 and 2005-2006

2006-2007	Total payments	Estimated overpayments		Estimated underpayments	
		£ million	% of benefit expenditure	£ million	% of benefit expenditure
Retirement Pension and Bereavement Benefit	1,294.6				
Official Error ¹		3.2	0.25	1.9	0.15
Customer Error ⁵		1.3	0.10	n/a	n/a
Total		4.5	0.35	1.9	0.15
Incapacity Benefit	325.8				
Official Error ¹		5.9	1.82	1.6	0.50
Customer Error ⁴		5.9	1.82	n/a	n/a
Customer Fraud ⁴		3.8	1.16	n/a	n/a
Total		15.6	4.80	1.6	0.50
Other	19.8	n/a	n/a	n/a	n/a
Total	1,640.2	20.1	1.23	3.5	0.21

2005-2006	Total payments	Estimated overpayments		Estimated underpayments	
		£ million	% of benefit expenditure	£ million	% of benefit expenditure
Retirement Pension and Bereavement Benefit Official Error ²	1,230.7	1.4	0.11	7.8	0.63
Incapacity Benefit Official Error ³	324.3	3.9	1.19	0.5	0.16
Customer Error ⁴		5.9	1.82	n/a	n/a
Customer Fraud ⁴		3.8	1.16	n/a	n/a
Total		13.6	4.17	0.5	0.16
Other	20.4	n/a	n/a	n/a	n/a
Total	1,575.4	15.0	0.95	8.3	0.53

Notes

- 1 The 2006-2007 Retirement Pension/ Bereavement Benefit and Incapacity Benefit official error figures are estimated based on the results of the 2006 financial accuracy exercise.
- 2 The 2005-2006 Retirement Pension and Bereavement Benefit official error figures are estimated based on the results of the 2005 financial accuracy exercise.
- 3 The 2005-2006 Incapacity Benefit official error figure is estimated by rolling forward the 2004-2005 percentages and applying them to the 2005-2006 Incapacity Benefit payments total for the year.
- 4 The 2006-2007 and 2005-2006 Incapacity Benefit customer error and customer fraud figures are estimated by rolling forward the 2004-2005 percentages and applying them to the 2006-2007 and 2005-2006 Incapacity Benefit payments total for the respective years.
- 5 For 2006-2007 the Retirement Pension/ Bereavement Benefit customer error figure is estimated by using the outcome of the 2005 GB DWP National Benefit Review Pilot of Fraud and Error in State Pension. This estimated customer error to be 0.1% which has been applied to the 2006-2007 Retirement Pension/Bereavement Benefit payments total for the year.

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.

- 12 There is no current estimate for customer fraud for Retirement Pension. The Agency has advised me that, based on the results of its most recent Benefit Review of Retirement Pension in 1999-2000 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. Also, that in order to determine a more informed indication of customer fraud and error within this particular benefit, the Agency has considered the results of a Department for Work and Pensions (DWP) 2005 pilot review to estimate fraud and error in 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. The Agency has used the outcome of this DWP pilot review to estimate the customer error figure for Retirement Pension by applying this to the 2006-2007 payments made.

- 13 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. In the case of Incapacity Benefit, while the best total estimate of error due to incorrect payments is £17.2 million, the Agency estimates show that true level of error in the population could lie anywhere between £7.6 million and £27.4 million. For Retirement Pension and Bereavement Benefit the estimated total of incorrect payments is £6.4 million and the range is between £2.7 million to £7.6 million. The Agency has advised me however that to reduce the confidence intervals significantly a major increase in sample sizes would be required. Accordingly, the Agency considers that, given the actual proportionate level of incorrectness within the benefits, an increase in the sample sizes would not significantly improve the accuracy of its estimates of fraud and error and also would be difficult to justify in terms of value for money.
- 14 In 2005-2006 the Agency informed me of the efforts being taken to reduce fraud and error. Whilst there has been some improvement in the level of underpayments of Retirement Pension due to official error, there have been increases in both under and overpayments of Incapacity Benefit attributable to official error. The Agency has implemented an Accuracy Improvement Plan with various initiatives designed to reduce official error such as refresher training, mentoring and team discussion to ensure continuous improvement in the future.
- 15 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

- 16 Despite the positive action taken by the Northern Ireland Social Security Agency to reduce the level of official error in Retirement Pension, the National Benefits Review of payments of Incapacity Benefit shows that the level of customer fraud and error is significant. Based on the latest information provided by the Agency an estimated £20.1 million may have been lost through the overpayment of contributory benefits from the Fund in 2006-2007 because of fraud and error. A further estimated amount of £3.5 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 the regularity assertion within my opinion on the account.
- 17 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 customer fraud and error across all benefits. The updated estimates of official error for Retirement Pension and Incapacity Benefit quoted in this report are based on the most recent 2006 financial accuracy exercise. The estimate of customer error for Retirement Pension is based on a 2005 pilot review in Great Britain and customer fraud and error estimates for Incapacity Benefit are based on the most recent 2004-2005 Benefit Review exercise. I welcome the Agency's plan to include Incapacity Benefit in its 2007-2008 Benefit Review.

T J Burr
Comptroller and Auditor General

26 March 2008

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

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

DG Ref: A06170 8346RC

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline Lo-call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: customer.services@tso.co.uk

Textphone 0870 240 3701

TSO Shops

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliamentary Square,
London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax Orders 020 7219 3866

Email bookshop@Parliament.uk

Internet bookshop.Parliament.uk

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-328773-7



9 780103 287737