Northern Ireland National Insurance Fund Account 2011-12

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

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Foreword

Statutory background

1. The National Insurance Scheme was established on 5 July 1948 to provide unemployment benefit, sickness benefit, retirement pensions and other benefits in cases where individuals meet the contribution and other qualifying conditions.

2. Under the Social Security Administration (Northern Ireland) Act 1992 benefits due under the National Insurance Scheme are payable out of the Northern Ireland National Insurance Fund (NI NIF). The funds required for meeting the cost of these benefits are mainly provided from National Insurance Contributions payable by employed earners, employers and others. The Social Security Contributions and Benefits (Northern Ireland) Act 1992 sets out the conditions governing entitlement to most benefits and the basis for assessing liability to pay National Insurance Contributions. Transfers between the Great Britain and Northern Ireland National Insurance Funds are made so that, as far as practicable, the balance in the Northern Ireland Fund is maintained at 2.84 per cent of the joint balance of the two Funds. The system of parity payments acts as a final safeguard against serious imbalances between the Great Britain and Northern Ireland National Insurance Funds.

3. The amounts received by, and paid out of, the NI NIF and the resulting balance depend on legislation, which is the responsibility of Treasury Ministers and the Secretary of State for Work and Pensions. In setting contribution rates, Treasury Ministers are required to have regard to changes in the general level of earnings, the balance on the Fund and payments expected to be made from it in future (Sections 129, 130 and 131 of the Social Security Administration (Northern Ireland) Act 1992). In addition both demographic and economic changes can affect amounts received, paid out and consequently the overall balance.

4. Section 141(1) of the Social Security Administration (Northern Ireland) Act 1992 (as amended by the Social Security Contributions (Transfer of Functions etc) (Northern Ireland) Order 1999) placed the NI NIF under the control and management of the Inland Revenue (now HM Revenue & Customs (HMRC)). Section 141(2) of the Social Security Administration (Northern Ireland) Act 1992 requires HMRC to prepare accounts of the NI NIF in such form, and in such manner and at such times, as the Treasury may direct. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balance held on the National Insurance Fund at the year-end.

5. The Government Actuary produces a report on the likely effect on the Fund of the Government's annual Benefits Up-rating and Contributions Re-rating Orders.

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 Principal Accounting Officer for the NI NIF, I am responsible for the control and management of the Fund.

7. The Northern Ireland Social Security Agency (NISSA) an Executive Agency within the Department for Social Development (DSD) has overall responsibility for the award and payment of most benefits payable from the NI NIF, including those relating to retirement, sickness and contribution based Jobseeker's Allowance. Entitlement to benefit is determined by the claimant satisfying qualifying conditions. DSD also pays over to the NI NIF compensation in respect of recoveries for Statutory Sick Pay and Statutory Maternity Pay. These recoveries are made by employers and deducted from amounts of National Insurance Contributions paid over to HMRC; DSD then compensates the NI NIF for this loss of revenue.

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 facilitated through the use of the Northern Ireland Shared Services Centre.

9. The Department for Social Development (DSD) pays over recoveries of Statutory Adoption Pay and Statutory Paternity Pay. These recoveries are made by employers and deducted from amounts of National Insurance Contributions paid over to HMRC; DSD then compensates the NI NIF for this loss of revenue.

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.

12. The balance on the Fund at 31 March 2012 has decreased by £331 million to £1,137 million (31 March 2011, £1,468 million); the balance represents approximately 52 per cent of annual benefit expenditure (31 March 2011, 71 per cent).

13. The Government Actuary makes regular estimates of benefit payments and contribution receipts, making assumptions about items sensitive to change such as the level of employment and earnings.

Responsibilities of the Chief Executive of HM Revenue & Customs

14. As Chief Executive of HMRC, I am the Principal Accounting Officer for the NI NIF, appointed by Treasury with effect from 23 January 2012. My relevant responsibilities as Principal Accounting Officer, including my responsibility for the propriety and regularity of the public finances for which I am answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *'Managing Public Money'*. Many of the activities relating to the transactions of the NI NIF are carried out by other departments (e.g. DSD and DEL) and agencies and I receive letters of assurance from them as detailed in the Governance Statement.

Lin Homer
Principal Accounting Officer
11 April 2013

National Insurance Fund Governance Statement

This statement is given in respect of the 2011-12 Northern Ireland National Insurance Fund Account.

1. Purpose of the Governance Statement

1.1 This statement describes:

- The National Insurance Fund (NIF) governance arrangements;
- Risk and control framework;
- Key developments in internal controls and significant control issues; and
- Details of assurance provided by other government departments involved in NIF related activities.

1.2 Specific work undertaken on behalf of the NIF forms only a small part of the whole work of HM Revenue & Customs (HMRC). HMRC has produced a full Governance Statement setting out details of its compliance with the Corporate Governance Code, along with its capacity to handle risk and risks control framework, including disclosures relating to issues outside of the scope of work relating to the NIF. The Governance Statement is included in the published 2011-12 Annual Report and Accounts.

2. Scope of responsibility

2.1 As Principal Accounting Officer for the NIF, I have responsibility for maintaining a sound system of internal control that supports the achievement of HMRC policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

2.2 Whilst HMRC has overall responsibility for the control and management of the Fund, (which includes allocation of funds to other departments with NIF responsibilities and the collection of National Insurance Contributions), the Northern Ireland Social Security Agency (NISSA) within the Department for Social Development (DSD) in Northern Ireland is responsible for the control and management of benefit payments. The Department for Employment and Learning (DEL), is responsible for Redundancy Payments Scheme awards which are covered by the Fund, with the payment of these awards and collection of receipts facilitated through the use of the Northern Ireland Shared Services Centre.

2.3 The Personal Tax Product and Process directorate (part of HMRC) controls and manages the collection of National Insurance Contributions (NICs), regularly reporting to the Personal Tax Senior Leadership Team (SLT). In addition in February 2012 a National Insurance Management Board was introduced to review all matters relating to the collection and management of NICs.

2.4 Governance arrangements for the NISSA and DEL are outlined in their Governance Statements and published within their accounts. However, I receive Letters of Assurance from the Accounting Officers of those departments, approved by their audit committees, which refer to their governance arrangements and highlight any significant issues that impact on the control and management of their NIF related activities. In addition, the Government Actuary is responsible for reporting to Parliament on the performance of the Fund.

3. Our risk and control environment

3.1 Control and management of the NIF is consistent with the over-arching HMRC Governance Statement (for full details see the published 2011-12 Annual Report and Accounts).

3.2 HMRC's approach to risk management and its Corporate Risk Management Strategy has been endorsed by the Executive Committee and the Audit and Risk Committee. The key components of the Strategy cover:

- Leadership and culture to support open and active management of risk;
- Integration of risk management into core business processes; and
- Information to support risk-based decision making.

Over the past twelve months, HMRC has continued to follow a consistent approach to corporate risk management that affirms its commitment to take the right risks and opportunities to support the delivery of its business objectives.

3.3 The National Insurance Product & Process Owner, a senior leadership team member of the Personal Tax Product and Process directorate, is accountable for the overall smooth running of the NICs process, for leading the development of product strategy, and for improving the process to make it more efficient for HMRC and its customers.

3.4 Risk management is supported by the NIF Audit Forum consisting of representatives from key Internal Audit units, the National Audit Office (NAO), other government departments and management. The forum focuses on co-ordinating risk-based audit activity such as planning, reporting and implementation of recommendations and fostering opportunities for joint working and exchange of best practices.

4. Information risk

4.1 Protecting the confidentiality, availability and integrity of our customers' information remains a strategic objective; therefore governance and assurance activities have been enhanced throughout the course of the year, with additional focus being given to HMRC's increasingly important online services.

5. Review of effectiveness

5.1 A number of specific sources inform and contribute to my review of effectiveness including:

- Individual statements from each member of the Executive Committee (ExCom) outlining the governance, risk and control arrangements in their business areas;
- The review that underpins the production of the NIF Governance Statements, which I sign separately;
- NAO reports;
- The Director of Internal Audit's annual opinion to me as Principal Accounting Officer; and
- Formal assurance I receive from the Senior Information Risk Owner (SIRO) that information risk has been appropriately managed in the conduct of HMRC business.

5.2 Taking all of these into account, as well as observations from the regular meetings of ExCom, ExCom (Performance) and the Audit and Risk Committee, from the Director of Internal Audit, and from the NAO, I recognise that there are a number of significant control weaknesses relating to the NIF. These are detailed below. All the issues apply to both the Great Britain and Northern Ireland Funds, and numbers of items and monetary amounts quoted are the total impact across both Funds (the way the NIF is administered makes it difficult to disaggregate the required information so that it relates solely to Great Britain or Northern Ireland).

6. Significant control issues

6.1 Class 2 National Insurance debt balances

6.1.1 National Insurance Class 2 is a flat-rate weekly contribution paid by the self-employed which gives entitlement to a range of contributory benefits. The timeliness of collection of outstanding debt and lack of a suitable process for collection is a long standing issue that has been commented on in previous years. At October 2012 the debt balance had increased by £57 million in the last year to £984 million. The debt balance continues to increase as there is no functionality within the National Insurance and Pay-as-You-Earn Service (NPS) to pursue and recover outstanding debts or IT capabilities to transfer debts to systems within Debt Management & Banking (DMB).

6.1.2 However, the headline figures may overstate the position. An initial analysis suggests a significant proportion of this debt may not be due when the cases are examined individually. This is because some of the Class 2 debt relates to those who have ceased self employment or registered but never started their self employment and have not notified HMRC, as well as those who would be eligible to a small earnings exception. HMRC is doing further work to quantify and identify cost effective methods of removing this from the debt balance.

6.1.3 Individuals can pay Class 2 by direct debit or by individual billing which in October 2011 moved to a system of 6-monthly rather than quarterly bills. The correspondence issued with these bills includes a clarification of the consequences of not paying. The value of Class 2 receipts from individual billing has increased by £18 million (38 per cent) for 2011-12 compared to 2010-11.

6.1.4 In the 2010-11 Statement on Internal Control (SIC), the Accounting Officer reported on the successful trial of the use of private sector Debt Collection Agencies (DCAs) to recover a range of HMRC debts including Class 2 National Insurance. Following the trial this has been rolled out further targeting 200,000 debts for transfer in 2011-12 and 2012-13 with a value of £90 million.

6.1.5 A range of strategic solutions are being developed to recover Class 2 debts including coding out. Indications of this solution are positive.

6.1.6 The annual remissions exercise undertaken in April 2012 resulted in £27.3 million of time-barred debt being remitted. An additional exercise in July 2012 removed a further £70.1 million time-barred debt which had not been removed previously. Class 2 debt is only remitted if it has become 6 years old and has not previously been protected by enforcing the debt via a County Court Judgement or an insolvency claim lodged.

6.2 Non-Matching National Insurance (NI) Contribution items

6.2.1 HMRC receives end of year information from employers and pension schemes which can include returns that cannot be matched to a specific individual's record (for example where the employer or pension scheme administrator has provided insufficient personal details about the individual). If automated tracing action fails these returns are placed in a suspense file until they can be matched to the correct record. HMRC will investigate potential missing or non-matched end of year returns reported by individuals at any time.

6.2.2 An annual exercise is undertaken to monitor progress in driving down the volume of non-matching items (NMI) placed in the suspense file. The 2010-11 analysis showed a continued downward trend in NMI sent to the suspense file: the proportion of items sent to the suspense file in relation to the total volume of end of year returns processed was 1.7 per cent (under 1 million) compared to 2.0 per cent (1.2 million) the previous year. This downward trend has been in evidence since 2004-05 when it stood at 5.0 per cent. The overall total added since 1975 is 121.5 million.

6.2.3 Analysis shows that for 2010-11 91 per cent of NMI added to the suspense file on their own do not affect contributor benefits. The corresponding figure for 2009-10 was 90 per cent.

6.2.4 For the last two years most cases added to the suspense file do not have NI Contributions associated with them. Only 368,000 of the cases added to the suspense file in 2010-11 have earnings potentially subject to NI Contributions (445,000 in 2009-10). A substantial proportion of the returns received are reporting pension income on which no NI Contribution is due.

6.2.5 HMRC will continue to work with employers and pension scheme administrators to maintain the steady fall in the annual proportion of NMI entering the suspense file. One of the aims of the Real Time Information (RTI) Programme Data Improvement Project is to address data quality issues. Significant progress has been made which we expect will lead to a further improvement.

6.3 Ratio checks

6.3.1 End of year returns submitted by employers are subjected to a ratio check which identifies cases where the NI Contributions paid do not match the earnings shown on the form. Around 0.5 per cent (200,000) of the 57 million returns are identified each year for further examination and contributions are recorded on the individual's NI account for that year. This will not count towards benefit entitlement and will not generate any rebate to pension schemes for defined contribution schemes until cleared.

6.3.2 The routine working of non-urgent cases was halted in anticipation of automation under NPS but this has not been possible to date. However, HMRC works these cases when DWP notify that a claim has been made to avoid state pensioners or benefit claimants losing out. Cases from 2004-05 to 2007-08 and all cases involving rebates due to pension providers have now been cleared. For the remainder of the cases an automated IT solution is being investigated for implementation in October 2013. Rebates are only available for defined contributions schemes which are contracted out of the state system. No further new rebates should arise following the abolition of contracting out for these schemes from the 6 April 2012 tax year.

6.4 Data Scans

6.4.1 National Insurance Contributions (NICs) are allocated to the National Insurance Fund (NIF) and the National Health Service (NHS). The formula for determining the level of the NHS allocation is set out in statute. It is based on estimates and is calculated as a percentage of earnings, profits and contributions depending on the class of NICs.

6.4.2 The Government Actuary's Department (GAD) use the results of system scans to estimate the proportion of receipts to be allocated to the NHS. Weaknesses have been identified in three scans used in the apportionment of National Insurance Contributions between the NI NIF and the NHS.

6.4.3 The specification for one of the system scans did not take into account one aspect of the legislation, where employees with income between £102 to £139 per week do not actually pay employee contributions, but are deemed to have paid them. Therefore, since 2000-01 the amount of NHS allocation for this group of employees has been overestimated. This issue does not affect the total funding available to the NHS. See Note 2 to the Accounts, NHS allocation.

6.4.4 This over allocation to the Northern Ireland NHS is estimated to be £15 million in total between 2000-01 and 2011-12, representing 0.3 per cent of the total Northern Ireland NHS allocation over the same period. The Northern Ireland NI Fund has been underfunded by the same estimated amount and this position will be corrected in 2013-14.

6.4.5 Of the two other scan issues: the first relates to HMRC being unable to provide evidence of the parameters/designs for the scan; the second relates to data missing from a scan, leading to the use of an estimate of the allocation based on historical data, rather than actual data.

6.4.6 HMRC will continue to address these issues and aim to resolve them within the next 6 months.

6.5 National Insurance & PAYE System (NPS) Governance Team

6.5.1 The NPS Governance team provides continuous management assurance that HMRC, other government departments (OGDs) and Isle of Man access to NPS is being controlled and reviewed. Their role has evolved over time to include elements of NPS system controls.

6.5.2 HMRC's internal audit of the team's cross cutting governance and controls highlighted: weaknesses in the monitoring of OGDs' access to HMRC data; a lack of clarity around accountability and responsibility for OGDs' access to the HMRC NPS system.

6.5.3 Internal Audit were therefore asked by HMRC to review the area and made five recommendations to address these weaknesses. These include moving the work to a dedicated team in Personal Tax, this team to have a clear governance framework; carrying out a control risk assessment to inform the risk management process; improving the knowledge and understanding of all NPS users.

6.5.4 Action to implement all of these recommendations is significantly completed, with an expected final date of 30 April.

7. Assurance from the Northern Ireland Social Security Agency (NISSA) (an Executive Agency within the Department for Social Development (DSD)) in respect of Contributory Benefit Payments

7.1 A Letter of Assurance has been received from NISSA that has been approved by its Audit Committee. The letter contains details of NISSA's capacity to handle risk and its control framework. Other than levels of fraud and error (detailed below) no further significant internal control issues were identified.

7.2 For the 2011-12 NISSA financial statements the Northern Ireland Comptroller and Auditor General again qualified his opinion on the regularity of benefit expenditure, with the exception of State Pension, because of the level of overpayments attributable to fraud and error which have not been applied to the purposes intended by the Assembly and because of the level of over and underpayments in such benefit expenditure which are not in conformity with the relevant authorities.

7.3 For this reason the Northern Ireland NIF accounts have also been qualified by the Comptroller and Auditor General for Great Britain.

7.4 There is an underlying level of fraud and error associated with the payment of social security benefits. However, NISSA is satisfied that it has adequate systems, procedures and controls in place to try to prevent, minimise and detect losses to the Fund. In addition the NISSA Annual Audit report 2011-12 has been finalised. The report confirms that in relation to the areas of risk management and corporate governance control and review processes, Department for Social Development (DSD) Internal Audit have taken assurance for 2011-12 from the previous year's audit which awarded a substantial assurance rating to this area. In relation to both programme and resource expenditure the work by DSD Internal Audit confirmed satisfactory assurance, and that there was an adequate and effective level of control in place.

7.5 Throughout the financial year 2011-12 reducing fraud and error in the benefit system remained a key NISSA business priority. The regular monitoring and measuring of official error, customer error and customer fraud continued through the Financial Accuracy and Benefit Review Process.

7.6 The key performance results for the more established Fund specific benefits in relation to reducing fraud and error were as follows:

State Pension (SP) 2011 position:

- 99.8 per cent financial accuracy achieved, exceeding the 99 per cent performance target (2010: 99.9 per cent achieved, target 99 per cent);

- Estimated total overpayment amount of £0.52 million, or 0.03 per cent of related expenditure (2010: £0.65 million, or 0.04 per cent); and

- Estimated total underpayment amount of £6.9 million, or 0.4 per cent of related expenditure (2010: £4.5 million, or 0.3 per cent).

Widow Benefit/Bereavement Benefit 2011 position:

- The Agency does not set a financial accuracy target for these benefits;

- Estimated total overpayment amount of £0.11 million, or 0.5 per cent of relevant expenditure (2010: £0.23 million or 1.1 per cent); and

- Estimated total underpayment amount of £0.02 million, or 0.07 per cent of relevant expenditure (2010: £0.03 million or 0.1 per cent).

Incapacity Benefit (IB) 2011 position:

- 99.5 per cent financial accuracy achieved, exceeding the 99 per cent performance target (2010: 98.4 per cent achieved, target 99 per cent);

- Estimated total overpayment amount of £8.7 million, or 3.2 per cent of relevant expenditure (2010: £12.6 million or 4.2 per cent); and

- Estimated total underpayment amount of £1.3 million, or 0.5 per cent of relevant expenditure (2010: £1.6 million or 0.5 per cent).

Employment Support Allowance 2011 position:

- 95.5 per cent financial accuracy achieved, exceeding the 95 per cent performance target (2010: 94.6 per cent achieved, target 95 per cent);

- Estimated total overpayment amount of £2.5 million, or 3.9 per cent of relevant expenditure (2010: £2.3 million or 5.2 per cent); and

- Estimated total underpayment amount of £1.6 million, or 2.4 per cent of relevant expenditure (2010: £1.1 million or 2.5 per cent).

7.7 NISSA employs a comprehensive range of activities to identify and correct fraud and error, including:

- Specific checks and case reviews to identify and correct error;

- Investigation of suspected fraud through criminal investigations; and

- Use of dedicated resources across all benefits to identify and remove fraud and error.

7.8 They also have embedded the Northern Ireland Audit Office's National Fraud Initiative exercises within its business as usual activities and established a formal project to take forward similar proposals to those published in the joint Department for Work and Pensions/HMRC Strategy to tackle fraud and error in the benefit and tax credit systems.

8. Assurance from Department for Employment and Learning (DEL) in respect of the Redundancy Payments Scheme

8.1 A Letter of Assurance has been received from Department for Employment and Learning (DEL) that has been approved by their Audit Committee and contains details about their capacity to handle risk and their control framework. The letter gives assurances that there were no significant internal control issues that impact on the Northern Ireland NIF.

9. Conclusion

9.1 Based on the review I have outlined above I conclude that there is an effective system of governance, risk management and internal control that supports the Fund's aims and objectives. There is still work to do in strengthening processes on the HMRC side and for NISSA to deal with the control issues they have highlighted in their letter of assurance.

Lin Homer
Principal Accounting Officer
11 April 2013

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 2012 under the Social Security Administration (Northern Ireland) Act 1992. The financial statements comprise the Receipts and Payments Account (including the Statement of Balances) and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the section “Responsibilities of the Chief Executive of HM Revenue & Customs”, the Chief Executive of HM Revenue & Customs as Accounting Officer is responsible for the preparation of the financial statements in accordance with the Social Security Administration (Northern Ireland) Act 1992. My responsibility is to audit, certify and report on the financial statements in accordance with the Social Security Administration (Northern Ireland) Act 1992. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Northern Ireland National Insurance Fund and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword and the Governance Statement to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Basis for Qualified Opinion on Regularity

The Northern Ireland National Insurance Fund Account records benefit payments of £2.18 billion paid out on its behalf by The Northern Ireland Social Security Agency (NISSA) within the Department for Social Development (DSD) in Northern Ireland.

NISSA estimates that in 2011-12 fraud and error within benefit payments resulted in overpayments of £12.3 million (0.56 per cent of related payments) and underpayments of £9.9 million (0.45 per cent of the relevant payments). Where fraud and error result in over or underpayment of benefits the transactions are not in conformity with the primary legislation which specifies the entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid.

In addition, the Agency has identified errors in which benefit payments which should have been funded by the Northern Ireland National Insurance Fund have been charged to the Consolidated Fund and vice versa. This has led to an estimated net £15.6 million of benefits being paid out of the Consolidated Fund rather than the Northern Ireland National Insurance Fund. Where funding for benefits is provided from the incorrect source, the payments are not made in accordance with the legislation.

I have therefore qualified my opinion on the regularity of benefit payments because of the level of over and underpayments attributable to fraud and error which have not been made in accordance with the relevant authorities.

Qualified Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements properly present the receipts and payments of the Northern Ireland National Insurance Fund for the year ended 31 March 2012; and
- the financial statements have been properly prepared in accordance with Section 141(2) of the Social Security Administration (Northern Ireland) Act 1992 and HM Treasury directions issued thereunder.

Opinion on other matters

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

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

My report on the financial statements, which sets out the issues leading to my qualified opinion on regularity, is at pages 29 to 31.

Amyas C E Morse
Comptroller and Auditor General

18 April 2013

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

Receipts and Payments Account for the year ended 31 March 2012

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

Receipts	Notes	**2011-12 £000**	2010-11 £000
National Insurance Contributions	2	**1,723,598**	1,655,107
Transfers from Great Britain NIF	5	**145,000**	125,000
Compensation for statutory pay recoveries	3	**53,435**	59,578
Investment Income	4	**7,238**	8,845
Other receipts	7	**1,829**	1,863
State Scheme Premiums	6	**750**	965
Redundancy receipts	8	**652**	525
		1,932,502	1,851,883
Less			
Payments			
Benefit payments	9	**2,177,520**	2,066,303
Personal Pensions	10	**41,700**	45,400
Administrative costs	11	**34,464**	43,000
Redundancy payments	8	**10,063**	8,620
Other payments		**–**	167
		2,263,747	2,163,490
Excess of payments over receipts		**(331,245)**	(311,607)

Statement of balances

		2011-12 £000	2010-11 £000
Opening balance (restated)[1]		**1,467,928**	1,779,535
Less excess of payments over receipts		**(331,245)**	(311,607)
Closing balance[2]	12	**1,136,683**	1,467,928

Lin Homer
Principal Accounting Officer
11 April 2013

The notes on pages 14 to 26 form part of these accounts.

[1] Opening balance (2010-11) has been restated based on analysis of prior year data as better management information has become available. It is not deemed material.
[2] See notes 2 and 12 for further detail on the closing balance.

Notes to the Account

1. Statement of Accounting Policies

1.1 Basis of preparation of the Account

This account has been prepared in accordance with Section 141(2) of the Social Security Administration (Northern Ireland) Act 1992. It has been prepared on a cash basis and in a form directed by HM Treasury, shown as an annex to this account, and the policies outlined below.

1.2 Net accounting

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

An allocation for the National Health Service (NHS) is paid over by HMRC before the contributions are paid into the NIF and therefore the National Insurance Contributions are shown net of the NHS element (see note 2 for further details).

1.3 Receipts Recognition

Use of estimates

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

National Insurance Contributions

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

The contributions are collected and administered on a UK-wide basis for Great Britain and Northern Ireland and the Department is required to allocate the total contributions between the two funds. A scan of the National Insurance and Pay-as-You-Earn Service (NPS) is used to extract postcode data of taxpayers to estimate the ratio of individuals living in each territory who have made National Insurance Contributions. The Department then applies this ratio, to the nearest whole number, to the UK-wide receipts figures to split the contributions between the two Funds.

The amounts received are after recoveries by employers of amounts due in respect of any statutory sick, maternity, adoption and paternity payments made to their employees and after deduction of contributions allocated to the NHS.

Employers are responsible for calculating their own and their employees' contributions. National Insurance records are subject to examination by HMRC. These checks and other checks on contributors may result in additional receipts or repayments in future years in respect of contribution liabilities for 2011-12.

Class 1 National Insurance Contributions

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

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

Class 1A National Insurance Contributions

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

Class 4 National Insurance Contributions

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

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

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

The actual amounts of SSP and SMP are not known until after the end of the financial year to which the SSP or SMP payment related; thus an estimated payment is made to the National Insurance Fund in respect of the total recovery for the past financial year. See note 3 for further details.

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

Personal Pensions

Due to the way that National Insurance information is stored the payment split between the Great Britain and Northern Ireland National Insurance Fund Accounts is estimated by the Government Actuary's Department (GAD).

1.4 Payments Recognition

Benefit Payments

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

Personal Pensions

Personal Pensions are accounted for on the date that the payment is made to the pension providers. See note 10 for further details.

Administrative costs

The costs related to services provided to the NIF are recognised on the date the amount leaves the NIF account.

2. National Insurance Contributions

Contributions	Notes	**2011-12 £000**	2010-11 £000
Class 1 (employed earners)	i	**1,657,989**	1,594,767
Class 1A & 1B	ii	**17,074**	17,066
Class 2 (self-employed flat rate)	iii	**4,614**	5,571
Class 3 (voluntary contributions)	iv	**972**	1,322
Class 4 (self-employed earnings related)	v	**42,949**	36,381
		1,723,598	1,655,107

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

i. Class 1 contributions comprise 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 via the Pay-as-You-Earn (PAYE) scheme with their Class 1 contributions.

Class 1B contributions were introduced on 6 April 1999 and are payable by employers where they have entered into a PAYE Settlement Agreement for tax enabling them to settle their National Insurance and Income Tax liability in a lump sum after the end of the tax year.

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

iii. Class 2 self employed persons pay flat rate weekly contributions.

iv. Class 3 voluntary flat rate contributions are paid to maintain contributors' National Insurance records for certain benefit and / or pension purposes.

v. Class 4 self employed persons pay earnings related contributions.

NHS allocation

The Social Security Administration (Northern Ireland) Act 1992 requires the Government Actuary's Department (GAD) to apportion the National Insurance Contributions collected each year. The main purpose of this exercise is to confirm the Class split in order to calculate the appropriate amount to be paid over to the NHS.

The NHS allocation is paid over by HMRC to the NHS before any contributions are paid into the NI NIF and so the figures above are shown net of this NHS allocation. The NHS allocation was £479 million in 2011-12 (£465 million in 2010-11) and forms part of the total NHS funding.

A misinterpretation of data used in apportioning National Insurance Contributions between the NIF and NHS means the allocation to the Northern Ireland NHS had been overestimated during the last twelve years. This has not affected the total funding available to the Northern Ireland NHS during this same period, as the aggregate amount (NI funds plus voted funds) is a fixed sum, the voted amount being adjusted according to the level of NI funding.

The over allocation to the Northern Ireland NHS is estimated at £15 million in total between 2000-01 and 2011-12, representing 0.3 per cent of the total Northern Ireland NHS allocation over the same period. The Northern Ireland NI Fund has been underfunded by the same estimated amount and this position will be corrected in 2013-14.

See the Governance Statement, page 7.

3. Compensation for Statutory Pay Recoveries

	Notes	**2011-12 £000**	2010-11 £000
Statutory Sick & Statutory Maternity pay	i	**46,340**	58,411
Statutory Adoption & Statutory Paternity pay	ii	**7,095**	1,167
Total		**53,435**	59,578

The Government compensates the 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 NIF by other government departments, as the NIF has no facility to do so. The amounts paid over are based on estimates.

i. Statutory Sick, Statutory Maternity, Statutory Adoption and Statutory Paternity pay recoveries are paid over by DSD.

ii. Statutory Adoption and Statutory Paternity pay recoveries have been paid over by both DSD (£5.05 million) and the Department for Business, Innovation and Skills (BIS) (£2.045 million) in 2011-12. This will be adjusted via payments in 2012-13.

4. Investment Income

	2011-12 £000	2010-11 £000
Investment account	**7,238**	8,836
Bank interest	**–**	9
	7,238	8,845

Interest is received on the Fund surplus, placed on deposit by the Commissioners for the Reduction of National Debt (CRND). During the year the value of the Investment Account decreased from £1.56 billion at 31 March 2011 to £1.27 billion at 31 March 2012 (Note 12) with a consequent impact on interest received during 2011-12. The average interest rate received during 2011-12 was 0.5 per cent (2010-11, 0.5 per cent). The Investment Account interest rate tracks the Bank of England base rate. The responsibilities of HMRC and CRND in respect of the investment of surplus NIF funds are set out in a Memorandum of Understanding.

5. Transfers from Great Britain NIF

	2011-12 £000	2010-11 £000
Transfers from Great Britain NIF	**145,000**	125,000

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

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

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

6. State Scheme premiums

	2011-12 **£000**	2010-11 £000
State Scheme premiums	**750**	965

State Scheme premiums are payable to the Fund in respect of employed persons who cease to be covered, in certain specified circumstances, by a contracted-out pension scheme. The premiums buy back the persons' additional pension entitlement in the state additional pension scheme. Total receipts are net of refunds of £0.1 million (2010-11: £0.07 million).

7. Other receipts

	2011-12 **£000**	2010-11 £000
Recoveries of compensation payments	**1,829**	1,863

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

	2011-12 **£000**	2010-11 £000
Redundancy payments	**10,063**	8,620
Redundancy receipts	**(652)**	(525)
	9,411	8,095

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

The scheme ensures that employees who have been made redundant receive their statutory redundancy entitlement where their employers are unable to make such payments, usually because of insolvency. In doing so, the scheme also protects the taxpayers' interests by ensuring that it does not make payments which can and should be made by the employers themselves.

Redundancy payments are made from the NI NIF to employees whose employers have failed to meet their statutory responsibilities. The receipts represent amounts recovered from employers.

9. Benefit payments

	Notes	**2011-12 £000**	2010-11 £000
State Pension	i	**1,778,041**	1,661,479
Incapacity Benefit	ii	**275,773**	299,463
Employment & Support Allowance	iii	**64,178**	43,968
Jobseeker's Allowance (contributory)	iv	**23,910**	26,188
Bereavement Benefits	v	**21,315**	21,594
Maternity Allowance	vi	**10,801**	10,121
Christmas Bonus	vii	**3,441**	3,430
Guardian's Allowance and Child's Special Allowance	viii	**61**	60
		2,177,520	2,066,303

i. State Pension is for people who have reached State Pension Age (currently 65 for men and 60 for women). It is based on National Insurance Contributions and is made up of different elements, the largest of which is the basic State Pension, followed by the additional State Pension known as State Second Pension (S2P). Under the current rules, the State Pension Age for women is in the process of rising from 60 to 65 to equalise with men; and then State Pension Age for both men and women was due to increase from 65 to 66 between 2024 and 2026. The Pensions Bill is bringing forward the timing of equalisation and the rise in the State Pension Age from 65 to 66 for both men and women. Under the new legislation, women's State Pension Age will reach 65 by November 2018. The rise from 65 for both men and women will begin in December 2018 and reach 66 by October 2020.

ii. Incapacity Benefit is paid at three different rates, dependent on age and term of incapacity to a customer who has paid National Insurance Contributions at the correct rate and for the relevant period and for whose Statutory Sick Pay has ended or is not applicable. Incapacity Benefit has been replaced by Employment & Support Allowance (ESA) (see note iii) for new claims since October 2008.

iii. As part of the government's welfare reform programme, from 27 October 2008, the Department for Social Development (DSD) introduced a new benefit, ESA. The benefit was introduced to improve employment opportunities for those with a health condition or disability which limits their capacity for work.

iv. Contributory Jobseeker's Allowance is payable to people who are capable of working, available for work and actively seeking work, who have paid or are treated as having paid enough National Insurance Contributions. It is payable for 182 days and no additional benefit is payable for dependents.

v. Bereavement Benefits consist of Bereavement Allowance, which is a regular payment for 52 weeks, Bereavement Payment, which is a lump sum payment and Widowed Parent's Allowance which is a regular payment payable whilst the customer has dependent children for whom they receive (or could receive) Child Benefit. These benefits are all based on the National Insurance Contributions of the deceased spouse.

vi. Maternity Allowance is paid for up to 39 weeks at a standard weekly rate, dependent on earnings, to a person who cannot get Statutory Maternity Pay. It is payable from a maximum of 11 weeks before the expected date of childbirth and is subject to qualifying conditions.

vii. Christmas Bonus is a tax-free payment of £10 paid before Christmas to anyone who is in receipt of one or more qualifying benefits.

viii. Guardian's Allowance and Child's Special Allowance are payable to people bringing up a child or children because both parents have died or in certain circumstances where only one parent has died.

Where an individual is in receipt of more than one benefit, it is established procedure to combine amounts due into a single payment, wherever practicable. This means that all of the amounts reported above consist partly or wholly of apportioned expenditure.

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 2011-12 is £5.8 million (2010-11: £6.0 million).

9.1 Fraud and Error in Benefit payments

Background

The Social Security Contributions and Benefits (Northern Ireland) Act 1992 and related legislation sets out the basis on which the Northern Ireland Social Security Agency (NISSA) calculates and pays benefits from the National Insurance Fund (NIF).

The NISSA aims to pay customers the right benefits at the right time, although the complexity of the benefit systems and the inherent risks associated with the award and payment of benefits results in incorrect payments being made in a proportion of the awards made. Despite these challenges, the majority of the Agency's expenditure is paid correctly.

Overall performance analysis

The estimated amount of overpayments from the NIF due to fraud and error decreased from £16.4 million (2010-11) to £12.3 million (2011-12). The level of overpayments as an overall percentage of expenditure has also decreased from 0.79 per cent (2010-11) to 0.56 per cent (2011-12). The estimated amount of underpayments increased from £7.4 million (2010-11) compared to £9.9 million (2011-12). The proportion increased slightly from 0.36 per cent to 0.45 per cent of total annual NIF benefit expenditure.

This represents an overall improvement in performance for 2011-12 as a result of:

- A reduction in the estimated level of Incapacity Benefit overpayments;

- A reduction in the estimated level of Employment & Support Allowance (ESA) overpayments. A benefit review was completed in 2011 for ESA which enabled the production of specific customer fraud and error estimates for this benefit. The figures for ESA customer fraud and error in the prior year were based on proxy levels; and

- There was a small increase (0.09 per cent) in the overall level of underpayments (predominantly due to an increase in the level of State Pension underpayments).

Further details on the level of incorrect payments (resulting from official error, customer fraud and customer error) from the NIF due to fraud and error are stated in Figures 1 and 2.

Figure 1: Estimated levels of Overpayments due to Fraud and Error[1]

			Overpayments			
	Expenditure 2011-12	Expenditure 2010-11	2011-12		2010-11	
Benefit	£ million	£ million	£ million	Percentage of benefit expenditure	£ million	Percentage of benefit expenditure
State Pension/ Widow's Benefit/ Bereavement Benefit	1,799.4	1,683.1	0.6	0.04	0.9	0.05
Incapacity Benefit	275.8	299.5	8.7	3.16	12.6	4.22
Employment & Support Allowance	64.2	44.0	2.5	3.90	2.3	5.21
Contributions-based Jobseeker's Allowance	23.9	26.2	0.5	2.09	0.6	2.23
Other	14.2	13.5	N/A	N/A	N/A	N/A
	2,177.5	**2,066.3**	**12.3**	**0.56**	**16.4**	**0.79**

Source: Northern Ireland Social Security Agency (NISSA) fraud and error estimates produced by the NISSA Standards Assurance Unit. For additional information relating to the estimated levels of over/underpayments due to fraud and error please refer to the 2011-12 NISSA Annual Report and Accounts (Note 26 Payment Accuracy).

Figure 2: Estimated levels of Underpayments due to Fraud and Error[1]

			Underpayments			
	Expenditure 2011-12	Expenditure 2010-11	2011-12		2010-11	
Benefit	£ million	£ million	£ million	Percentage of benefit expenditure	£ million	Percentage of benefit expenditure
State Pension/ Widow's Benefit/ Bereavement Benefit	1,799.4	1,683.1	7.0	0.39	4.6	0.27
Incapacity Benefit	275.8	299.5	1.3	0.48	1.6	0.53
Employment & Support Allowance	64.2	44.0	1.6	2.42	1.1	2.52
Contributions-based Jobseeker's Allowance	23.9	26.2	0.04	0.18	0.1	0.56
Other	14.2	13.5	N/A	N/A	N/A	N/A
	2,177.5	**2,066.3**	**9.9**	**0.45**	**7.4**	**0.36**

Source: Northern Ireland Social Security Agency (NISSA) fraud and error estimates produced by the NISSA Standards Assurance Unit. For additional information relating to the estimated levels of over/underpayments due to fraud and error please refer to the 2011-12 NISSA Annual Report and Accounts (Note 26 Payment Accuracy).

1 The above tables (Figures 1 and 2) are based on the Agency's estimates and are subject to a degree of statistical uncertainty. They are prepared to within a stated range of accuracy, described as confidence intervals. For 2011-12 NISSA estimates that the levels of overpayments lie in the range from £4.0 million to £22.8 million; whilst the corresponding range of underpayments is from £3.1 million to £20.5 million. The Agency has prepared the estimates to a 95 per cent confidence level. The percentages used to calculate the estimated Monetary Value of Error for NIF Employment & Support Allowance and for Contribution Based Jobseekers Allowance are based on the NISSA reported percentages for the overall expenditure amounts for these benefits.

Ongoing Action/Strategies

During 2011-12 reducing fraud and error was one of the NISSA's top 5 key priorities, with a robust and evolving strategy in place to identify incorrect benefit awards. Activities include specific checks and case reviews in each of the main benefits to identify and correct error, and the investigation of suspected fraud with prosecution of offenders if appropriate. This complements a wide range of checks and controls in place right across the NISSA as part of the normal governance procedures.

The NISSA ensures that these activities and any future measures are proportionate and represent value for money having regard to the cost of control, the impact on customers in terms of the accessibility and timeliness of benefit payments and the resulting impact on fraud and error.

These activities are having a positive result, with the levels of NIF fraud and error overpayments now at their lowest recorded levels ever. Over the last 3 years in percentage terms estimated total overpayments have reduced by 19 per cent from £15.1 million (0.75 per cent of benefit expenditure in 2009) to £12.3 million (0.56 per cent of benefit expenditure in 2011).

The NISSA gives equal attention and priority to identifying and correcting both overpayments and underpayments. Indeed identifying those cases not receiving their full entitlement and correcting the benefit payment is an integral part of the NISSA Error Reduction activities. Of the 14,600 plus cases identified and corrected during 2011-12 over 8,600 represented an increase in benefit awards.

Errors in Benefit Accounting

Social Security Benefit payments can be funded from the National Insurance Fund depending on the claimant's contribution record, or from funds voted by the Northern Ireland Assembly. There are instances where a customer has received the correct amount of benefit payment but the benefit award may consist of a misclassification of the benefit category, and the occurrence may lead to the funding of benefit payment from the incorrect fund (known as accounting errors). The overall financial effect on the customer is nil.

The report by the Comptroller and Auditor General (page 29) comments on the estimated levels of accounting errors.

The NISSA has a monthly process in place to correct a proportion of the benefits awarded that are funded from the incorrect fund.

10. Personal Pensions

	2011-12 **£000**	2010-11 £000
Personal Pensions	**41,700**	45,400

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

11. Administration costs

	Notes	**2011-12 £000**	2010-11 £000
Department for Social Development	i	**24,560**	31,890
HM Revenue & Customs	ii	**7,371**	8,108
Department of Finance and Personnel	iii	**1,984**	2,554
Department for Employment and Learning	iv	**431**	347
Commissioners for the Reduction of the National Debt	v	**62**	43
National Audit Office – Audit Fees	vi	**37**	38
Government Actuary's Department	vii	**19**	20
Bank Charges	viii	**–**	–
Total		**34,464**	43,000

The administration costs relate to services directly provided to the NI NIF and are reimbursed to the respective service provider from the NI NIF. The costs are fixed for the year (except audit fees) 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 audit of the 2010-11 NIF Accounts.

vii. For actuarial services relating to the National Insurance Fund.

viii. Bank charges incurred on the Northern Ireland NIF account held at Citibank.

12. Closing balance

	Notes	**31 March 2012 £000**	31 March 2011 £000
Securities held by the CRND	i	**1,270,061**	1,560,994
Cash at bank		**8**	23
Other balances – restated	ii	**(133,386)**	(93,089)
Total	iii	**1,136,683**	1,467,928

i. The National Debt Commissioners are responsible, in accordance with Section 141(3) of the Social Security Administration (Northern Ireland) Act 1992, amended by paragraph 44(3) of Schedule 3 to the Social Security Contributions (Transfer of Funds, etc) (Northern Ireland) Order 1999 for the investment of the NI NIF. They are authorised to invest in accordance with directions given by Treasury and in line with the Memorandum of Understanding between HMRC and CRND.

ii. Other balances represent sums owing to government departments and overseas administrations in respect of the operation of the NI NIF. The opening balance has been restated based on analysis of prior year data as better management information has become available.

iii. Had the overfunding position of the NHS allocation explained in note 2 not occurred the balance of the fund would have stood at an estimated £1,151,683,000.

Other Financial Information

The information below on losses, redundancy payments and special payments is not included in the Receipts and Payment Account, which is produced on a cash basis. It is included to provide further information on the Fund for the reader of the accounts.

a. Losses

	Notes	**2011-12** Amount £000	**2011-12** No. of cases	2010-11 Amount £000	2010-11 No. of cases
Contributions losses	i	**10,300**		12,945	
Redundancy losses	ii	**3,930**	**298**	1,035	147
Other losses	iii	**4,002**	**7,404**	1,904	6,936
Total losses		**18,232**		15,884	

i. Contribution losses include remissions and write-offs. Remissions in respect of unpaid contributions are granted when HMRC has decided not to pursue the liability, for example on the grounds of value for money or official error. Write-offs occur when there is no practical means of pursuing the liability. Contribution losses also include Northern Ireland's share (2 per cent) of the United Kingdom total of certain losses incurred by the National Insurance Contributions & Employer Office.

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

ii. The figure represents amounts written-off during the year in respect of redundancy payments to employees, deemed irrecoverable from their employers mainly due to insolvency.

iii. Other losses include benefit losses, administrative losses and Compensation Recovery Unit losses.

b. Redundancy payments and receipts (debt and adjustments)

	2011-12 £000	2010-11 £000
Outstanding debt at 1 April	**25,484**	18,424
Plus: Redundancy payments	**10,063**	8,620
Less: Redundancy receipts	**(652)**	(525)
Less: Debt adjustment	**(3,930)**	(1,035)
Outstanding debt at 31 March	**30,965**	25,484

The total debt outstanding at 31 March 2012 was £31.0 million.

The debt adjustment and outstanding debt do not form part of the accounts. They are shown here to give additional information. Further detail can be found in the Department for Employment and Learning (DEL) accounts for 2011-12.

c. Special payments

	2011-12		2010-11	
	£000	**No. of cases**	£000	No. of cases
Special payments	**143**	57	**455**	163

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

Annex

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

1. Section 141(1) of the Social Security Administration (Northern Ireland) Act 1992, as amended by paragraph 44(2) of Schedule 3 to the Social Security Contributions (Transfer of Functions, etc.) (Northern Ireland) Order 1999, places the National Insurance Fund of Northern Ireland under the control and management of HM Revenue & Customs. This Order was brought into force on 1 April 1999 by Statutory Rule 1999 No. 149(C.1 5) The Social Security Contributions (Transfer of Functions, etc.) (Commencement No.1 and Transitional Provisions) Order (Northern Ireland) 1999.

2. Section 141(2) of the above Act, as amended by paragraph 44(3) of Schedule 3 to the Transfer of Functions Order, requires that the account of the National Insurance Fund of Northern Ireland shall be prepared by HM Revenue & Customs in such a form and in such a manner as HM Treasury may direct, and the Comptroller and Auditor General shall examine and certify every such account and shall lay copies of it, together with this report on it, before Parliament. In accordance with section 141(2) the Treasury hereby gives the following Direction.

3. HM Revenue & Customs has a duty to prepare each year a statement of the transactions on the National Insurance Fund of Northern Ireland. For the year ended 31 March 2010, and all subsequent years until this direction is amended, this statement shall comprise:

   a) a foreword;

   b) an account of receipts and payments;

   c) a statement of balances

   and shall include such notes as may be necessary for the purposes referred to in the attached schedule.

4. The Accounting Officer shall observe all relevant accounts and disclosure requirements in 'Managing Public Money' and any other guidance issued by HM Treasury as amended or augmented from time to time.

5. The format of the statement of account and the disclosure requirements are in the attached schedule.

6. The foreword and the account shall be signed by the Accounting Officer.

7. The Accounts Direction shall be reproduced as an annex to the accounts.

8. This direction supersedes the Accounts Direction dated 10 February 2006.

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

Schedule

Format of Account and Disclosure requirements – Northern Ireland

1. The **foreword** shall state that the account has been prepared in accordance with a direction issued by HM Treasury in pursuance of Section 141(2) of the Social Security Contributions (Transfer of Functions etc)(1999 Order)(Commencement No 1 and Transitional provisions) Order (Northern Ireland) 1999.

2. The **foreword** will also include details of the following:

   a) statutory background;

   b) operational responsibilities;

   c) financial performance;

   d) audit arrangements;

   e) responsibilities of the Accounting Officer.

3. The **receipts and payments account**, and **statement of balances** shall conform to the formats shown in the Annex, although minor variations may be made.

4. The **notes** shall include:

   a) an analysis of the payments and receipts included under the headings set out in the attached format, including any explanation or background that may be necessary to understand the accounts;

   b) in the notes on administrative costs, the estimated costs for the current year and the adjustments for previous years separately identified;

   c) a statement of the securities in which the National Insurance Fund of Northern Ireland is invested by the National Debt Commissioners in accordance with Section 141(2)of the Social Security Administration Act (Northern Ireland) 1992; and

   d) Details of any irregular, uncertain or special payments.

Report by the Comptroller and Auditor General

Introduction

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. Under the Social Security Administration (Northern Ireland) Act 1992 benefits due under the National Insurance Scheme are payable out of the National Insurance Fund. The funds required for meeting the cost of these benefits are mainly provided from National Insurance Contributions payable by employed earners, employers, the self-employed and voluntary contributions. The Social Security Contributions and Benefits Act 1992 sets out the conditions governing entitlement to most benefits and the basis for assessing liability to pay National Insurance contributions.

2. Under the Social Security Administration (Northern Ireland) Act 1992 (as amended) Her Majesty's Revenue and Customs (HMRC) is responsible for the control and management of the Northern Ireland National Insurance Fund. The Northern Ireland Social Security Agency (NISSA) is responsible for administering benefits paid to customers out of the Fund.

3. In 2011-12, receipts amounting to £1.93 billion were paid into the Fund, of which £1.72 billion related to National Insurance contributions, and payments out of £2.26 billion were made.

Audit opinions

4. Under the Social Security Administration (Northern Ireland) Act 1992 I am appointed statutory auditor of the Northern Ireland National Insurance Fund and I am required to give an opinion on whether in all material respects:

- the Northern Ireland National Insurance Fund account properly presents the receipts and payments for the year ended 31 March 2012;

- the account has been properly prepared in accordance with the 1992 Act and Treasury Directions thereunder; and

- the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them (the 'regularity' opinion).

5. While the account for the year ended 31 March 2012 properly presents the amounts received and paid, I have qualified my opinion on the regularity of benefit expenditure because of the estimated level of overpayments attributable to fraud and error which do not conform to Parliament's intentions; and because of the level of under and overpayments which are not in conformity with the relevant authorities. My qualified opinion also includes benefit accounting errors for which the incorrect funding source has been used.

Fraud and error in benefit payments

6. The Social Security Contributions and Benefits (Northern Ireland) Act 1992 as amended specifies the entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. Errors in the payment of contributory benefits arising from the incorrect assessment of amounts due and payments made in respect of fraudulent claims are by definition not in accordance with the relevant Parliamentary authority.

7. The Northern Ireland Social Security Agency produces an annual estimate of over and underpayments in benefits based on a review of the following three categories; official error, customer fraud and customer error. It estimates the monetary value of official error from a financial accuracy exercise undertaken by its Standards Assurance Unit, which involves the examination of statistical samples of all benefit awards.

8. Its estimates of customer fraud and error for Jobseeker's Allowance and Employment and Support Allowance are based on results from the Benefit Reviews completed in 2011. Customer fraud and error estimates for Incapacity Benefit and State Pension are based on the most recent Benefit Reviews completed in 2009 and updated for 2011-12. Employment and Support Allowance was introduced in October 2008 to replace Incapacity Benefit and certain elements of Income Support. As in 2010, a formal financial accuracy exercise was carried out for official error in 2011 covering State Pension, Jobseeker's Allowance, Incapacity Benefit, Employment and Support Allowance and Widow's Benefit/Bereavement Benefit and the Agency's estimates of official error in these benefits are therefore based on the results of that exercise.

9. As part of the audit of benefit payments my team reviewed the work of the Standards Assurance Unit and obtained assurances around the estimation of error in un-reviewed benefits. I am satisfied that the figures reported by the Agency were the best estimates available at the time the accounts were produced.

10. In 2011-12, the Northern Ireland Social Security Agency has estimated (as shown in note 9.1 of the accounts) that the value of incorrect contributory benefits payments due to fraud and error was £22.2 million, some 1.01 per cent of benefits payments (2010-11: £23.8 million, 1.15%). This value consists of overpayments of £12.3 million (0.56% of related payments) and underpayments of £9.9 million (0.45% of the relevant payments) and I have used the gross value of these estimated errors to determine the overall level of irregular benefit payments. These estimates are subject to a degree of statistical uncertainty which is explained further within the note.

Errors in benefit accounting

11. The social security system comprises complex and often interrelated benefit payments which can be funded either by the National Insurance Fund, depending on the claimant's contribution record, or from funds voted by Parliament. Only contribution-based benefits are within the scope of the Fund. The estimated levels of incorrect payments due to fraud and error from the Northern Ireland National Insurance Fund set out in note 9.1 of the accounts exclude errors in accounting classification. These errors relate to benefits that have been paid to claimants at the right amount but due to operational errors are recorded against the wrong source of funding. Errors in benefit accounting are of particular significance if the incorrect classification results in contributory benefits, which are a proper charge to the Northern Ireland National Insurance Fund, being met from Parliamentary funding and vice versa.

12. The Northern Ireland Social Security Agency has identified errors in its funding sources for benefit payments which led to contributory benefits that are a proper charge on the Northern Ireland National Insurance Fund being incorrectly funded from the Consolidated Fund and vice versa. These errors are referred to as 'accounting errors'. The overall amount of benefit payments made to claimants is correct. As the funding for the benefits is provided from an incorrect source, however, these payments have not been made in accordance with Parliament's intentions and are therefore irregular.

13. Based upon my analysis of the Agency's data, my best estimate of the level of accounting errors in 2011-12 is that a net £15.6 million (2010-11: £7.3 million) of benefit payments have been incorrectly met from the Consolidated Fund rather than from the Northern Ireland National Insurance Fund. This error estimate comprises £15.9 million (2010-11: £8.0 million) in respect of contributory benefits that have not been charged to the Fund and £0.3 million (2010-11: £0.7 million) of non-contributory benefits that have been charged to the Fund erroneously. The information I have used to derive my estimate was not specifically captured for this purpose however there is no further information readily available to me which would enable me to estimate the level of error more reliably without undertaking a significant amount of additional audit work on these benefit payments.

Actions taken by the Northern Ireland Social Security Agency

14. During 2011-12 the reduction of benefit fraud and error remained one of the Northern Ireland Social Security Agency's key business priorities. Examples of some of the activities undertaken by the Agency to reduce fraud and error are included in note 9.1 of the accounts.

15. The Agency has also informed me that it has a process in place to correct mis-funding between the Consolidated Fund bank account and the Northern Ireland National Insurance Fund bank account on the individual cases which have been identified as part of the error estimation process and for those cases that are corrected as part of its operational checking procedures.

Conclusion

16. I consider these levels of benefit over and underpayments and accounting errors material within the context of the £2.18 billion benefit payments made from the Fund in 2011-12. I have therefore qualified my opinion on the regularity of benefit expenditure as these payments do not conform to Parliament's intention and are not in conformity with the relevant authorities.

17. Given the statistical uncertainty inherent in the estimation process, I have been unable to determine how much of the reported fraud and error is due to an underlying movement in rates of fraud and error over time and how much is due to more accurate measurement by the Northern Ireland Social Security Agency. The Agency has again reiterated to me its commitment to tackling fraud and error in the benefits system, but believes in order to address the underlying issues significant benefit simplification and major investment in the benefit IT system is required and these are not matters solely within the Agency's remit to progress.

Amyas C E Morse
Comptroller and Auditor General

18 April 2013

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