

SOCIAL SECURITY ADMINISTRATION (NORTHERN IRELAND) ACT 1992

Account, of the Northern Ireland Insurance Fund, prepared in accordance with Section 141 of the Social Security Administration (Northern Ireland) Act 1992 for the year ended 31 March 2003 together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons paper No. 525 of 2003-2004)

Presented pursuant to Social Security Administration (Northern Ireland) Act 1992, s 141

Northern Ireland National Insurance Fund Account 2002-2003

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Foreword

Statutory background

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 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.

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 National Insurance Fund under the control and management of the Inland Revenue (IR). The Chairman of the Board of IR is the Accounting Officer for the Fund. Section 141(2) of the Order requires IR to prepare accounts of the National Insurance Fund 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

National Insurance contributions are payable by employed earners, employers and others. IR 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 National Insurance Fund (NIF), I am responsible for the administration of the Fund, payments into the Fund and for the payment of rebates for personal pensions out of the Fund.

The Department for Social Development (DSD) has overall responsibility for the award and payment of most benefits payable from the Fund including those relating to retirement, sickness and contribution based jobseeker's allowance. Entitlement to benefit is determined by the claimant satisfying qualifying conditions.

The Department for Employment and Learning (DEL) is responsible for making Redundancy Payment Scheme awards. The payment of awards and collection of receipts is contracted out to the Department of Enterprise, Trade and Industry.

The amounts received by, and paid out of, the Fund, and the resulting balance in the Fund, 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 the Fund in future (Sections 129, 130 and 131 of the Social Security Administration (Northern Ireland) Act 1992).

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 uprating 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 Fund. The latest quinquennial report was laid before Parliament on 27 October 2003.

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 National Insurance Fund Account and to lay copies of it, together with his report, before Parliament.

Financial performance

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. A working balance is necessary because the Fund has no borrowing powers and because changes in contribution levels in response to the needs of the Fund take time to implement. In his report on the financial provisions of the Social Security Bill 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. However it is only intended to cover the fund against short-term disruptions.

The balance on the fund has increased by £191 million compared with the position at 31 March 2002 (£547 million). At 31 March 2003 the balance in the Fund is £737 million (55 per cent of annual benefit expenditure).

The Government Actuary's next Report on the Government's benefits uprating and contributions re-rating Orders will be tabled in the New Year alongside the 2004 up-Rating Order and the re-rating Orders. The Orders, which will cover the financial year 2004-2005, are subject to debate and require the approval of both Houses.

The Government Actuary's estimates of benefit payments and contributions, both huge figures, are sensitive to changes in a number of assumptions (such as the level of employment and earnings), as well as to changes in behaviour in relation to take-up of contracted out pension schemes. Short-term fluctuations in the balance may not be a good guide to the long-term position. Although the balance is currently greater than the minimum recommended level, in the recent past cash injections from the Consolidated Fund have been needed to maintain the minimum balance.

Responsibilities of the Accounting Officer

As Chairman of the Board of the Inland Revenue, I am the Accounting Officer for the National Insurance Fund. My relevant responsibilities as Accounting Officer, including my responsibility for the propriety and regularity of the public finances for which I am answerable, and for keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in 'Government Accounting'. Many of the activities relating to the transactions of the Fund are carried out by other departments (DSD and DEL) and agencies on my behalf, and I receive assurances from them.

Sir Nicholas Montagu KCB
Accounting Officer
Inland Revenue

11 December 2003

The Accounting Officer's Statement on the System of Internal Control

- 1 This statement is given in respect of the Northern Ireland National Insurance Fund White Paper Account.
- 2 As Accounting Officer for the Inland Revenue, I am responsible for ensuring that the Department maintain and operate a sound system of internal control that supports the achievement of departmental policies, aims and objectives whilst safeguarding the public funds and departmental assets for which I am personally responsible.
- 3 Whilst the Inland Revenue has overall responsibility for the stewardship of the Fund and for collecting National Insurance Contributions, the Department for Social Development (DSD) is responsible for Benefit payments and the Department for Employment and Learning (DEL) is responsible for Redundancy Payments Scheme payments which are covered by the Fund. I have received letters of assurance from the accounting officers of those departments. In Addition, the Government Actuary is responsible for reporting to Parliament on the performance of the Fund.
- 4 The Department's control framework is designed to manage rather than eliminate the risk of failure to achieve departmental aims and objectives. It can therefore provide only reasonable and not absolute assurance of effectiveness.
- 5 During the year ended 31 March 2003 (and up to the date of approval of the annual accounts) we have made further progress in embedding risk management, and the Department is now compliant with the requirements set out in DAO (GEN) letter 13/00. Work on improving risk management will continue, in particular taking forward the risk improvement programme arising from the Cabinet Office's recent risk report¹.
- 6 As Accounting Officer I also have responsibility for reviewing the effectiveness of the system of internal control. The main elements of the Department's control framework are set out below.

6.1 Control environment

- a I have a clearly defined 'Statement of AO Responsibilities'
- b There is a departmental committee structure, with clear terms of reference and defined membership. There are four non-executive members on the Departmental Board, one of whom chairs the Departmental Audit & Security Committee (DASC). The DASC meets three times a year. The Departmental Management Committee (DMC) meets fortnightly to consider the plans and strategic direction of the Department.
- c In 2001-2002 we drew up a new accountability framework for operational Directors. During 2002-2003 we have agreed frameworks for the corporate support, policy and other head office Directors, and these came into effect on 6 June 2003. These frameworks clarify generic corporate accountabilities, and complement our primary mechanisms for business accountabilities, which are the operating plans for each business area, and the individual performance agreements that are agreed annually. Frameworks for Board members will be drawn up during 2003-2004.
- d There is detailed guidance on standards of behaviour and conduct, diversity and equal opportunities on the Revenue intranet. The initial extensive fraud awareness programme, carried out by Internal Audit, was attended by 95% of all staff. A Fraud Awareness module is included in the National Induction Programme to ensure new members of staff receive the necessary awareness information. Following analysis of results from the initial programme new fraud awareness initiatives are being considered for launch in 2003-2004. In February 2003, our new policy on computer misuse was launched jointly by the Board and the Trade Unions. Every member of staff has received a copy of the policy.

6.2 Risk management

We continue to build on the progress we have made in embedding risk management processes in the Department.

Capacity to handle risk

In recognition of my personal responsibility, as Accounting Officer, for ensuring that we have effective risk management arrangements in the Department, I lead the risk management reviews at our DMC meetings.

We are continually looking at ways to improve the strategic risk management process. As a result of discussions I had with the Risk Support team and the chair of DASC, we have decided to set up a senior risk review group to examine risks and action plans in greater depth.

Risk management guidance is available to our staff through the intranet, and the Risk Support team provide additional advice and support (for example through presentations to staff, or by running risk workshops.)

The risk environment

The model of risk management that we have adopted requires upward reporting of risks (to ensure comprehensive risk identification) and risk stewardship arrangements which are top-down.

There is ownership of the most significant risks by individual Board members, with responsibility for managing them assigned to individual Directors.

Our risk management strategy requires teams throughout the Department to identify risks as part of their annual planning cycle, and include details of their top risks in regular performance reports.

6.3 Control activities

We have comprehensive procedures covering all aspects of the conduct of business. Financial procedures are set out in the Finance Manual and the Inland Revenue 'Guide' for staff, which is available on our intranet.

6.4 Information and communication

- a In September 2002 we appointed our first Director of Information Resources. The Departmental Information Strategy, which was agreed at DMC in February 2003, has three main principles
 - to manage our data, knowledge and information as a shared resource;
 - to make sure that people who work with data, information and knowledge can do so quickly, easily and cost effectively; and
 - to make sure that the data, information and knowledge we have is accurate, up to date and complete.
- b In 2001-2002 we started to develop a Balanced Scorecard to provide the Board with regular performance information on our strategic business drivers. The Scorecard has been going through a process of refinement, in discussion with the Board, to ensure it meets their strategic needs.
- c We have continued with our programme of Modernisation Seminars. These are designed to develop all leaders to the same level of commitment to the Core Purpose and change, and enable them to communicate this message to their teams. A Board Member delivers a session to each seminar. During 2002-2003, there were 525 participants at 26 events.
- d Apart from their involvement in Modernisation Seminars, Board members and Directors have been active in explaining to staff the detail and implications of the Core Purpose and the transformation agenda through
 - articles in internal publications;
 - attendance at Departmental conferences and seminars;
 - personal visits to local offices; and
 - telephone open days for staff.

In addition, I took part in a week long 'back to the floor' event in one of our area offices.

- e To communicate and embed the Revenue's Core Purpose to all of our staff, we have begun a programme of modular-based interactive workshops which are designed to allow staff to discuss the key challenges facing the Revenue today. At the end of September 2003, 96% of all Revenue staff had completed two of the four modules.

- f We have a comprehensive range of indicators, against which we measure our performance. The results of key indicators, in particular those linking to our Public Service Agreement (PSA) and Service Delivery Agreements (SDA) are published in our Annual Report. Internal Audit validate a range of key indicators linked to PSA 1, and during 2003-2004 they will be exploring how best to provide an assurance over the other PSA targets.

6.5 Monitoring

- a The Director of Internal Audit reports regularly to the DASC, to standards defined in the Government Internal Audit Manual. These reports include the Director of Internal Audit's opinion on the adequacy and effectiveness of the Department's system of risk management, control and governance.
 - b The external independent Chair of the DASC reports to me.
 - c Our Quality Programme focuses on the improvement of individual performance in core business areas. It provides a clear structure for managing the quality of work, and the development of the necessary staff skills to deliver a quality service.
 - d Assessments of compliance with the principal recommendations in the Cabinet Office report 'Successful IT: Modernising Government in Action'.
 - e Quarterly reports from the Adjudicator on the outcome of complaint cases.
- 7 The Letters of Assurance that I have received from DSD and DEL highlight the following Internal Controls within those departments.

7.1 DSD in respect of contributory Benefit payments

- a The DSD's system of internal control is based on an on-going process designed to identify the principal risks to the achievement of Departmental policies, aims and objectives (including those in Northern Ireland Social Security Agency), to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. By 31 March 2003 the Department had procedures in place necessary to implement DFP guidance.
- b The Department's Corporate Governance Framework includes the following bodies
 - the Departmental Management Board;
 - the NISSA Management Board;
 - the Departmental Audit Committee;
 - the NISSA Audit Committee;
 - the Departmental Internal Audit Service; and
 - the Departmental Corporate Investigations Unit in respect of fraud.
- c DSD and NISSA now have in place risk management policies and appropriate processes and procedures to identify business objectives and risks, including risk registers, allocate risk ownership to appropriate staff and to regularly review and report on aspects of risk management and internal control. At a corporate level, risk management has been incorporated more closely into the corporate and business planning and decision-making processes of the Department, and the Departmental Management Board has ensured that procedures are in place for regular review of key departmental risks and their updating.
- d DSD's corporate and business planning processes ensure that corporate objectives and targets are disaggregated to lower management. A system is in place to ensure regular monitoring of progress by the Departmental Management Board against corporate and business plan objectives and targets.
- e DSD has established a Corporate Investigations Unit within the Financial Management Directorate. This Unit is responsible for providing the Department with an effective investigative capability. It has prime role in the maintenance and servicing of the Department's Fraud Response Plan as well as providing an objective and professional investigation service.

- f DSD has an Internal Audit Unit which operates to standards defined in the Government Internal Audit Manual. The work of the Internal Audit Unit is informed by an analysis of risk to which the Department is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and internal audit plans are endorsed by the Departmental Audit Committee and the Audit Committees of the relevant Group or Agency and approved by me. At least annually, the Head of Internal Audit provides me with a report on internal audit activity in the Department. The report includes the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's system of internal control.
- g During 2002-2003 NISSA had Programme Protection Plans in place across all benefit areas, to minimise the occurrence of fraud and error while continuing its regular monitoring and measurement of the levels of fraud, error and decision making. The report from the Standards Committee on Decision Making and Accuracy has shown improvements in 2002-2003. Although only one out of three payment accuracy targets was met, there was improvement in two of them (Jobseekers Allowance and Incapacity Benefit). Both of these also met their financial accuracy targets. All three targets on the quality of Decision Making were achieved. In 2003-2004 NISSA again has Programme Protection Plans in place across all benefit areas to improve accuracy and reduce levels of fraud and customer error. The implementation of these plans ensures regular management focus on this particular area.
- h Work has been ongoing throughout 2002-2003 to improve the reliability of information in relation to the debtors balance. There are however still limitations in the encashment information provided by NISSA's paying agents. The move to payment of benefit by Direct Payment will therefore substantially reduce the creditor balance issue by 2005.

7.2 DEL in respect of the Redundancy Payments Scheme

- a All expenditure incurred and income received by NIF NI/DEL is governed by the rules and regulations contained in Government Accounting Northern Ireland (GANI). In addition the Northern Ireland Audit Office (NIAO) fulfils the external audit role. The Department also has in place an internal audit service that conducts periodic systems audits of the administrative and financial systems relating to the Fund. In this regard a report is issued by Internal Audit to the management of the NIF NI/DEL.
- b DEL uses the accounting and payment systems of the Department of Enterprise, Trade and Investment (DETI). I can confirm that at the year-end DEL carries out a full reconciliation of its records with the records of DETI Accounts Branch in relation to the National Insurance Fund transactions and can report that for the year ended 31 March 2003 all records reconciled. Assurances have been received from a DETI Internal Audit review of Accounts Branch (DETI) (May 2003) that controls in place within that branch for making Redundancy Payments are effective and that arrangements over the monitoring and recording of expenditure are adequate.
- c All relevant information pertaining to any fraud or suspected fraud, occurring during the financial period would be reported in accordance with the arrangements prescribed by the Department of Finance and Personnel and my Department's own Fraud Policy and Response Plan. No such report was necessary.
- 8 There is a NIF Audit Forum composed of representatives from key departmental audit units such as the Inland Revenue, DSD, DEL and the NAO. 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.
- 9 My assessment of the effectiveness of the system of internal control is based on the work of the internal auditors, and reports from the chair of DASC, and is also informed by regular reports and updates from senior managers.
- 10 In making my assessment, I also take account of the management letters made by the NAO, the C&AG's report to Parliament, and of the findings of the Committee of Public Accounts (PAC).

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

I certify that I have audited the financial statement, comprising the Receipts and Payments Account and the Notes, under the Social Security Administration (Northern Ireland) Act 1992. These financial statements have been prepared in the form and on the basis determined by Treasury, and in accordance with the accounting policies set out in Note 1 to the Accounts.

Respective responsibilities of the Accounting Officer and Auditor

As described in the Responsibilities of the Accounting Officer in the Foreword, the Accounting Officer is responsible for the preparation of financial statements in accordance with the Social Security Administration Act (Northern Ireland) 1992 and Treasury Directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements 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, and 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer 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 of Internal Control reflects compliance with Treasury's guidance 'Corporate Governance: statement on the system of internal control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, 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 also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising due to errors in the award of contribution based benefits

In my opinion

The account properly presents the receipts and payments of the Northern Ireland National Insurance Fund for the year ended 31 March 2003 and the balance held at that date and has been properly prepared in accordance with the Section 161 (2) of the Social Security Administration (Northern Ireland) Act 1992 and directions made thereunder by HM Treasury; and

Except for

- errors in the award of contribution based benefits leading to irregular expenditure, the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

Details of these matters are set out in my Report on the Account.

John Bourn
Comptroller and Auditor General

14 January 2004

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Comptroller and Auditor General Report

Benefits paid from the National Insurance Fund

- 1 The Northern Ireland National Insurance Fund provides for expenditure on benefits and allowances where individuals have paid sufficient National Insurance contributions and met other qualifying conditions. In 2002-2003, receipts amounting to £1,648 million were paid into the Fund and payments of £1,457 million were paid out of it. The balance on the Fund was £737 million at the end of the year.
- 2 The Department for Social Development are responsible for administering benefits paid to individuals. This report records the results of my examination of the 2002-2003 account. The benefits paid out of the Northern Ireland National Insurance Fund in 2002-2003 comprised Retirement Pension and Bereavement Benefit (£1,020 million), Incapacity Benefit (£318 million) and contribution-based Jobseeker's Allowance (£14 million).

Estimated error in 2002-2003

- 3 The Department for Social Development Standards Assurance Unit carried out checks on the accuracy of a sample of awards of Retirement Pension and Bereavement Benefit, Incapacity Benefit and contribution based Jobseeker's Allowance. From this, using statistical techniques, the Department were able to estimate the extent of losses in each benefit due to errors by officials. The National Audit Office reviewed a sample of cases examined by the Department and confirmed that these estimates were reasonable.

Figure 1: Estimated Fraud and Error in Benefits paid from the Northern Ireland National Insurance Fund in 2002-2003

Benefit	Over payments	Under payments
Retirement pension and bereavement benefit	£39.3 million	£1.8 million
Incapacity benefit	£12.6 million	£3.7 million
Jobseekers allowance	£0.1 million	£0
Total	£53.2 million	£5.7 million

Note

The Department has experienced some problems with storage facilities and in recovering papers and evidence, particularly when the case selection results in older cases being picked for checking. In such cases 'deemed' errors are recorded until the evidence is produced, although the payments may ultimately prove to be correct.

Source: Department for Social Development

The Department for Social Development's response to fraud and error

- 4 The Department has continued to implement the strategy it introduced in 2000-2001 to prevent fraud and error from entering the system, to detect and eliminate fraud and error already present, to take corrective action promptly, and to apply sanctions to deliberate offenders.

These measures include

- regular accuracy measurement with results reported monthly to the Agency Management Board;
- detailed analysis showing the causes of errors with feedback to offices given on a quarterly basis;
- local checking and accuracy improvement plans in place in all District and major benefit offices;
- use of data matching to identify cases for corrective action; and
- remedial training tailored to meet the local and agency requirements.

- 5 An internal review of the strategy in 2002-2003 confirmed that the Social Security Agency was doing the right things to reduce fraud and error but was not always applying the strategy in the most effective way. As a result of the review the Agency has placed a renewed emphasis on reducing accuracy levels to reduce official error and on finding missing case papers (see Note to Figure 1).

Receipts and Payments Account for the year ended 31 March 2003

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

	Notes	2002-2003 £000	2001-2002 £000
Receipts			
National Insurance contributions	2	1,236,483	1,211,219
Transfers from Great Britain	6	350,000	110,000
Compensation for statutory sick and statutory maternity pay recoveries	4	19,596	22,240
Income from investments	5	34,992	32,961
State scheme premiums	7	4,026	2,533
Other receipts	8	2,705	3,413
Redundancy receipts	9	246	638
		<u>1,648,048</u>	<u>1,383,004</u>
<i>Less</i>			
Payments			
Benefit payments	10	1,356,253	1,321,628
Personal pensions	11	59,800	67,800
Administration costs	12	38,944	34,414
Redundancy payments	9	2,276	1,273
Other payments	13	2	5
		<u>1,457,275</u>	<u>1,425,120</u>
Excess of receipts over payments		190,773	(42,116)

Statement of Balances

	Note	2002-2003 £000	2001-2002 £000
Opening balance		546,669	588,786
<i>Plus</i>			
Excess of receipts over payments		190,773	(42,116)
Closing balance	14	<u>737,442</u>	<u>546,669</u>

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

Sir Nicholas Montagu KCB
Accounting Officer
Inland Revenue

11 December 2003

Notes to the Account

1 Accounting policies

Basis of preparation of the account

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

National Insurance contributions

The Account shows those contributions received during the year that are due to the Northern Ireland National Insurance Fund ('the Fund'). The amounts shown are after recoveries by employers of amounts due in respect of any statutory sick and statutory maternity payments made to their employees and after deduction of specified percentages of contributions allocated to the National Health Service.

Employers are responsible for calculating contributions payable by themselves and their employees. Their records are subject to examination by the Inland Revenue. These checks and other checks on contributors may result in additional receipts or repayments in future years in respect of contribution liabilities for 2002-2003.

Payment of social security benefits

When devolved government took effect in Northern Ireland from 2 December 1999, responsibility for social security passed from the former Department of Health and Social Services to the Department for Social Development. The Department for Social Development administers a range of social security benefits, financed either from the Fund or from the Consolidated Fund in Northern Ireland through the Department for Social Development. Where an individual is in receipt of more than one benefit, it is the Department's policy to combine amounts due into a single payment wherever practicable. Fund benefits are paid by giro-cheque, payable order or credit transfer, but mainly through order books encashable at a post office. It is not practicable for the Department for Social Development to account precisely for all expenditure on individual benefits at the time payable instruments are issued. Instead, they rely on statements from Post Office Ltd of all separate and combined order book payments falling within nine accounting groups allocated by Post Office Ltd. Order book expenditure reported in this way, along with some expenditure by giro-cheque, payable order and credit transfer is apportioned between benefits by the Department of Social Development in consultation with the Government Actuary. Provision for accounting on this basis is contained in the Social Security Administration (Northern Ireland) Act 1992.

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. The calculation of certain classes of contribution receipts, allocation of contribution receipts to the NHS, recoveries and compensation in respect of statutory sick pay and statutory maternity pay settlements with Great Britain.

Net accounting

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

2 National Insurance contributions

	Notes	2002-2003 £000	2001-2002 £000
Contributions			
Class 1 (employed earners)	i	1,152,942	1,143,602
Class 1A and 1B	ii	7,678	7,371
Class 2 (self-employed flat rate)	iii	6,095	6,203
Class 3 (voluntary contributions)	iv	1,396	1,318
Class 4 (self-employed earnings-related)	iii	68,372	52,725
Total		<u>1,236,483</u>	<u>1,211,219</u>

Different groups of National Insurance contributors pay different classes of contributions. Currently there are six classes: 1, 1A, 1B, 2, 3 and 4. These can be summarised as follows

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

Employers are not required to provide the Inland Revenue 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 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 Self employed persons pay Class 2 flat rate weekly contributions and Class 4 earnings related contributions.
- iv Class 3 voluntary flat rate contributions are paid to maintain a contributors National Insurance record for certain benefit and/or pension purposes.

GAD apportionment

The Social Security Administration (Northern Ireland) Act 1992 requires that the Government Actuary apportion the National Insurance contributions collected each year. The main focus of this exercise is to confirm the Class split to calculate the correct proportion of contributions to be deducted and paid to the National Health Service. The NHS allocation is deducted and paid at source before contributions are paid into the National Insurance Fund and so the figures shown above are shown net of the NHS element.

GAD also allocates amounts recovered by employers in respect of Statutory Sick Pay and Statutory Maternity Pay from the Class 1 total. These are shown in the table below.

The amounts shown are net of refunds of £2,379,833 (2001-2002 £2,182,833), part of which is allocated to the NHS.

	2002-2003 £000	2001-2002 £000
NHS allocation	171,126	166,050
SSP recoveries	1,167	1,140
SMP recoveries	18,371	17,170
	<u>190,664</u>	<u>184,360</u>

3 Grant

Based on the Government Actuary's estimate, a grant may be paid from Department for Social Development to maintain a reasonable working balance in the Fund. Fund balances are currently in excess of the minimum requirements and no grant was made.

4 Compensation for statutory sick pay and statutory maternity pay recoveries

The amount of £19,596,000 (£22,240,000 in 2001-2002) from DSD for Social Development, recompenses the National Insurance Fund for loss of revenue due to contribution receipts being reduced by recoveries in respect of statutory sick and statutory maternity payments paid by employers. This amount, paid by way of compensation, differs from the estimates of the amounts recovered in Note 2 because the two sets of estimates are drawn up at different times. The additions to National Insurance contributions provided by Parliament are based on early estimates to enable compensation to be paid into the Fund before the end of the financial year, whereas the figures for recoveries by employers, shown in Note 2, are based on later estimates.

5 Income from investments

	2002-2003 £000	2001-2002 £000
Profit (loss) on realisation	(1,040)	(1,136)
Interest received	34,356	30,374
Bank interest	1,676	3,723
	<u>34,992</u>	<u>32,961</u>

During the year, securities held by the Fund increased from £496.1million at 31 March 2002 to £674.8 million at 31 March 2003. Cash held for short-term liquidity purposes on deposit at the Bank of Ireland was £1.5 million as at 31 March 2003 (£55.6 million at 31 March 2002).

6 Transfers from Great Britain

	2002-2003 £000	2001-2002 £000
Transfer from Great Britain NIF	350,000	110,000

The amount shown in this account is in respect of financial adjustments made by the National Insurance Joint Authority between the National Insurance Fund and the National Insurance Fund in Great Britain 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.

7 State scheme premiums

State Scheme Premiums are payable in respect of employed persons who cease to be covered, in certain specified circumstances, by a contracted-out pension scheme. The premiums buy back the persons' additional pension entitlement in the State Earnings Related Pension Scheme (SERPS). The total amount shown of £4,026,493 (£2,533,390 in 2001-2002) is net of refunds of £70,971 (£57,921 in 2001-2002).

8 Other receipts

The recoveries from damages paid to recipients of certain National Insurance Fund benefits. These amounts relate to recoveries from insurers and other bodies in respect of compensation claims for damages where National Insurance Fund benefits had already been paid to individual claimants by the Department for Social Development.

There is also a small element relating to recoveries of Class 2, Class 3, SMP receipts and the Court Costs involved in collecting these.

	2000-2001 £000	1999-2000 £000
<i>Recoveries of</i>		
Damages in tort	2,677	3,406
Contributions	28	7
Total other receipts	2,705	3,413

9 Redundancy payments and receipts

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

The Redundancy Payments 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, unusually because of insolvency. In doing so, the RPS also has to protect the taxpayer's interests by ensuring that it does not make payments which can and should be made by the employers themselves.

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

Redundancy payments are made from the Fund to employees whose employers have failed to make payments due or who were insolvent. The payments are awarded by the Department of Trade and Industry. The receipts represent amounts recovered from employers. The total debt outstanding at 31 March 2003 was £14.1 million.

	£000
Outstanding debt at 31 March 2002	15,771
Adjustment to the opening balance	(7.3)
<i>Plus</i> Redundancy Payments 2002-2003	2,271
<i>Less</i> Redundancy Receipts 2002-2003	(246)
<i>Less</i> debt w/o in 2002-2003	(3,646)
Outstanding debt at 31 March 2003	14,143

In addition DEL paid other charges of £4,645. These are included within the Redundancy figures shown on the face of the Receipts and Payments account.

	£000
Outstanding debt at 31 March 2001	17,915
Adjustment to the opening balance	58
<i>Plus</i> Redundancy Payments 2001-2002	1,271
<i>Less</i> Redundancy Receipts 2001-2002	(638)
<i>Less</i> debt w/o in 2001-2002	(2,835)
Outstanding debt at 31 March 2002	15,771

10 Benefit payments

	Notes	2002-2003 £000	2001-2002 £000
Benefit			
Retirement pension	i	987,432	958,232
Incapacity benefit	ii	317,963	312,718
Bereavement allowance	iii	32,289	32,648
Jobseeker's allowance (contributory)	iv	13,566	13,208
Christmas bonus for pensioners	v	3,102	3,152
Maternity allowance	vi	1,814	1,602
Guardian's allowance and Child's special allowance	vii	87	68
		<u>1,356,253</u>	<u>1,321,628</u>

- i The Retirement Pension is the State pension 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 (also known as State Earnings Related Pension Scheme).
- ii Incapacity Benefit is paid at three different rates dependent on age and term of incapacity to a customer who has paid National Insurance contributions and whose Statutory Sick Pay has ended or is not applicable.
- iii Bereavement Allowance replaced Widow's pension in April 2001 and is a regular payment for 52 weeks. Bereavement Payment replaced Widow's payment in April 2001 and is a lump sum payment. Both are based on the late husband or wife's National Insurance contributions.
- iv Contributory Job Seekers Allowance is payable to customers who are capable of working, available for work and actively seeking work who have been paid or treated as having paid a certain number of National Insurance contributions.
- v The Christmas Bonus is a tax free payment of £10 paid before Christmas to customers who are getting one or more qualifying benefits (e.g. retirement pension).
- vi Maternity Allowance is paid at a standard weekly rate dependent on earnings to a customer who can not get Statutory Maternity Pay.
- vii Guardian's allowance is payable to people bringing up a child because one or both of the parents has died.

Where customers receive more than one benefit these are generally paid together as a composite payment. This means that all of the benefits reported above consist partly or wholly of apportioned expenditure.

Retirement Pension and Widow's Benefit do not include payment to Northern Ireland pensioners living abroad. For administrative convenience these payments are made by the Department for Work & Pensions and the cost is borne by the National Insurance Fund in Great Britain. 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 2002-2003 is £8.5 million (£9 million in 2001-2002). Note 6 explains the relationship between the Fund and the National Insurance Fund in Great Britain.

11 Personal pensions

	2002-2003 £000	2001-2002 £000
Personal pension payments	59,800	67,800

The Pensions 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 National Insurance Fund. 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.

12 Administrative costs**Payments made in respect of administration**

	2002-2003	2001-2002
	£000	£000
<i>Department of Social Development</i>	29,100	24,250
Inland Revenue		
For the collection of National Insurance Contributions	6,950	7,297
Department of Finance and Personnel		
Centralised payroll and investment services	2,199	99
Works services	0	1,966
Department of Education and Learning		
Administration of the Redundancy Payments Scheme	530	638
Commissioners for the Reduction of the National Debt	20	40
Government Actuary's Department	40	0
Northern Ireland Audit Office		
Audit fees	0	30
National Audit Office*		
Audit fees	0	30
Law costs	105	65
Total	38,944	34,414

* No audit fees were paid to the National Audit Office in 2002-2003 as no accounts were audited. In 2003-2004 the accounts for 2000-2001, 2001-2002 and 2002-2003 will be audited and fees will be paid on completion of these audits.

13 Other payments

	31 March	31 March
	2003	2002
	£000	£000
Rebates	0	1
Insolvency refunds	2	4
Total	2	5

14 Closing balance

	31 March	31 March
	2003	2002
	£000	£000
Details		
Securities held by the Commissioners for the Reduction of National Debt	674,833	496,116
<i>Cash at bank</i>		
Current Account	30	598
Deposit Accounts	1,456	55,035
<i>Other balances</i>		
Mainly sums due from or owing to Government Departments in Great Britain and Northern Ireland	61,123	(5,080)
	737,442	546,669

15 Securities held by the Inland Revenue at 31 March 2003

The arrangements for the investment of the assets of the Fund are laid down in section 141 (3) of the Social Security Administration (Northern Ireland) Act 1992 and are amended by paragraph 44(3) of Schedule 3 to the Social Security Contributions (Transfer of Functions, etc.) (Northern Ireland) Order 1999.

Commissioners for the Reduction of the National Debt	Nominal value	Cost value	Market value at 31 March 2003
	£000	£000	£000
<i>Government guaranteed stocks</i>			
Up to one year	302,122	305,065	307,274
One to five years	315,812	344,485	352,484
Five to ten years	12,550	12,472	13,253
Over ten years	10,505	12,811	13,129
Total	640,989	674,833	686,140

Commissioners for the Reduction of the National Debt	Nominal value	Cost value	Market value at 31 March 2002
	£000	£000	£000
<i>Government guaranteed stocks</i>			
Up to one year	80,304	82,025	82,520
One to five years	295,871	309,706	310,919
Five to ten years	92,560	104,385	103,141
Total	468,735	496,116	496,580

16 Losses

	2002-2003		2001-2002	
	£000	No of cases	£000	No of cases
1 Contributions-National Insurance Fund share				
a Inland Revenue Remissions and waivers	1,775	2,616	1,447	2,547
b Inland Revenue Debt transferred	141	353	662	442
c National Insurance Contributions Office in Great Britain	56	416	38	224
Total loss	1,972	3,385	2,147	3,213
2 Redundancy	3,646	507	2,835	518
3 Other losses	473	3,128	430	1,853

1a Inland Revenue grant remissions in respect of unpaid contributions where pursuit is unlikely to be successful and waives arrears when pursuit of the debt is regarded as neither practical nor cost effective.

1b Inland Revenue transfer National Insurance debts in respect of insolvent companies for subsequent recovery and/or write-off by their National Insurance Contributions Office.

1c Comprises Northern Ireland's share (2%) of the United Kingdom total of certain losses incurred by the National Insurance Contributions Office in Great Britain.

2 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.

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

17 Special payments

During the year, 27 ex-gratia payments totalling £45,276 (15 payments totalling £46,536.04 in 2001-2002) were made to claimants who were wrongly advised of their entitlement by the Social Security Agency.

18 Benefit security

The Social Security Agency is committed to developing a secure, accurate and timeous benefit administration and to making a significant and permanent reduction in the amount of money lost through incorrect payment of benefits as a result of fraud or error by customers and staff.

The Agency has developed a stringent benefit security strategy which aims to prevent fraud and error from entering the system in the first place, to detect and eliminate that which has already entered the system, to take corrective action promptly, and to apply sanctions to deliberate offenders. This applies across the whole range of benefits.

It is not possible to identify benefit security work on the benefits specifically relating to this account from the overall programme of initiatives. However activity has taken place in relation to benefits that form part of the National Insurance Fund Account such as investigation and prosecution of fraud, identification and recovery of overpayments, data matching between computer systems, recovery of missing instruments of payment and co-operation with the Post Office to prevent wrongful encashment.

During the 2002-2003 year, Active Case Management within Incapacity Benefit identified 4,726 cases as requiring further medical examination to ensure that Incapacity Benefit claims are maintained accurately and that the customers are getting the correct money they are entitled to. During the same period 1,267 cases completed this process resulting in an estimated yearly saving of approximately £680,000.

Annex

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 National Insurance Fund under the control and management of the Inland Revenue. This Order was brought into force on 1 April 1999 by Statutory Rule 1999 No. 149(C.15) 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 shall be prepared by the Inland Revenue in such a form and in such a manner as the 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 The Inland Revenue 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 2000, and all subsequent years until this direction is amended, this statement shall comprise
 - a a foreword;
 - b an account of receipts and payments; and
 - c a statement of 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 18 October 1996.

B Glicksman
Treasury Officer of Accounts

16 October 2000

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 Treasury in pursuance of Section 141(2) of the Social Security Contributions (Transfer of Functions etc)(1999Order)(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, certified by the Inland Revenue, in which money forming part of the National Insurance Fund is for the time being invested and that statement so certified shall be included with the accounts laid before Parliament under Section 141 subsection (2) above; and
 - d Details of any irregular, uncertain or special payments.

Receipts and Payments Account for the year ended 31 March XXXX

	Notes	XXXX £000	XXXX £000
Receipts			
National Insurance contributions			
Grant from Class XX, Vote X			
Transfers from Great Britain			
Compensation for statutory sick and statutory maternity pay recoveries			
Income from investments			
State scheme premiums			
Other receipts			
Redundancy receipts			
<i>Less</i>			
Payments			
Benefit payments			
Personal pensions			
Administration costs			
Redundancy payments			
Other payments			
Excess of receipts over payments			

Statement of Balances

	Notes	XXXX £000	XXXX £000
Opening balance			
<i>Plus</i>			
Excess of receipts over payments			
Closing balance			

The notes on pages x to x form part of these accounts.

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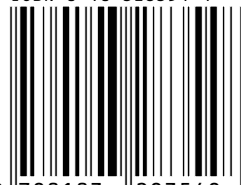
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