

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

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# Northern Ireland National Insurance Fund Account 2003-2004

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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 Northern Ireland National Insurance Fund (NI NIF). The funds required for meeting the cost of these benefits are mainly provided from National Insurance Contributions (NIC) 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 NI NIF under the control and management of the Inland Revenue (IR). The Deputy Chairman of the Board of IR is the Accounting Officer for the NI NIF. Section 141(2) of the Order requires IR to prepare accounts of the NI NIF in such form, and in such manner and at such times, as the Treasury may direct. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balance held at the year-end.

### Operational responsibilities

National Insurance Contributions are payable by employed earners, employers and others. The 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 NI 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 NI NIF including those relating to retirement, sickness and contribution based Jobseekers 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 (RPS) awards. The payment of awards and collection of receipts is contracted out to the Department of Enterprise, Trade and Industry (DETI).

The amounts received by, and paid out of the NI NIF, 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 NI NIF. The latest quinquennial report was laid before Parliament on 27 October 2003.

### Audit arrangements

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, 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. Changes in contribution levels in response to the needs of the Fund take time to implement, therefore a working balance is necessary because the NI NIF has no borrowing powers. In his report on the financial provisions of the Social Security Bill 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 NI NIF against short-term disruptions.

The balance on the NI NIF has decreased by £3 million compared with the position at 31 March 2003 (£737 million). At 31 March 2004 the balance in the NI NIF is £734 million (50 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 Department (GAD) 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). Short-term fluctuations in the balance may not be a good guide to the long-term position. The balance is currently greater than the minimum recommended level, however cash injections are available from the DSD Consolidated Fund should they be required.

## Responsibilities of the Deputy Chairman of the Board of Inland Revenue

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

*Paul Gray*  
Accounting Officer  
Inland Revenue

13 December 2004

## Statement on Internal Control

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

### Scope of responsibility

- 2 As Accounting Officer for the Northern Ireland National Insurance Fund, I have responsibility for the stewardship of the Fund and for maintaining a sound system of internal control that supports the achievement of the Inland Revenue's policies, aims and objectives, whilst safeguarding the public funds for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.
- 3 Whilst the Inland Revenue has overall responsibility for the control and management of the Fund and for collecting National Insurance Contributions, the Department for Social Development (DSD) is responsible for benefit payments and the Department for Employment and Learning (DEL) is responsible for Redundancy Scheme payments which are covered by the Fund. I receive Letters of Assurance from the Accounting Officers of those Departments, approved by their audit committees, that refer to their own statements on internal control (SIC) and highlight any significant issues that impact on the Fund. In addition, the Government Actuary is responsible for reporting to Parliament on the performance of the Fund.

### The purpose of the system of internal control

- 4 The system of internal control is designed to manage risk at a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks and achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Inland Revenue for the year ended 31 March 2004 and up to the date of the approval of the accounts, and accords with Treasury guidance.
- 5 Specific work undertaken on behalf of the NIF only forms a small part of the whole work of the IR. A separate Statement on Internal Control (SIC) is produced for the Inland Revenue's 2003-2004 Resource Accounts and Trust Statement that fully sets out details of the Department's capacity to handle risk and its risk and control framework, as well as disclosures that relate to issues outside of the scope of work relating to the NIF. Details of the full SIC can be found in the Department's 2003-2004 Annual Report that incorporates the Resource Accounts and Trust Statement.
- 6 The main elements of the Department's capacity to handle risk and the risk and control framework are summarised below.

### Control environment

- 7 I have a clearly defined 'Statement of Accounting Officer Responsibilities'.
- 8 There is a Departmental Board and committee structure, with clear terms of reference and defined membership. Throughout 2003-2004 the Departmental Audit and Security Committee (DASC) was chaired by a non-executive director.
- 9 Accountability frameworks are in place for Directors in operational, policy and corporate support areas. These complement our primary mechanisms for business accountabilities, which are the operating plans for each business area.

### Capacity to handle risk

- 10 Within the Inland Revenue the strategic risk management process continues to be the six-monthly risk stocktakes by the Departmental Management Committee (DMC). These have been effective in reinforcing the importance of having a clear and structured view of key risks when reviewing performance or for decision making.

- 11 A Risk Review Group (RRG) has been set up to look at risk reports in detail, and bring forward recommendations for discussion at DMC on how to reduce our risk exposure.
- 12 Risk management guidance is available to all staff through the Intranet with additional support provided by the Risk Support team.

### The risk and control framework

- 13 During the year we drew the elements of our risk management strategy into a single document, which has been approved by DASC and DMC.
- 14 Risk management is a mandatory element of the business planning process and is incorporated into our commissioning note for the annual planning round.
- 15 Directors from the Department update their top risks on the Corporate Risk Register at six-monthly intervals, which is then used to inform the DMC and RRG discussions, and assists in determining whether action is needed to reduce exposure on specific risks.

### Review of effectiveness

- 16 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control within the Inland Revenue. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Inland Revenue who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have taken advice on the effectiveness of internal control from the Departmental Board, DMC and the RRG, and from the chair of DASC, and plans to address weaknesses and ensure continuous improvement of the systems that are in place.
- 17 The Director of Internal Audit meets regularly with Board members and senior Directors, and reported in Spring and Autumn to the DASC, to the standards defined in the Government Internal Audit Manual. These reports included his opinion on the adequacy and effectiveness of the Department's system of risk management, control and governance.
- 18 Following the Spring and Autumn DASC meetings, the external independent Chair of the DASC, along with the Director of Internal Audit, presented her Certificate of Assurance to the Accounting Officer. This highlighted the areas where, in her opinion, the risk exposure needs to be reduced. This certificate is recorded in the Director of Internal Audit's Assurance report provided to the Accounting Officer.
- 19 Specific areas within the IR relating to the NIF requiring updates are

#### **Progress on non-matching items**

- These items are a result of inaccurate information received from employers on End-of-Year submissions. Representing about 4% of the total year's return. Steps continue to encourage and assist employers to submit accurate information, which will enable reductions in the number of Non Matching Items.

#### **Progress on Age Related Rebates**

- This issue has been reported on by the NAO for the last five years and is largely resolved. This issue is further disclosed in the DWP Resource Accounts SIC as the account included a provision.

### Payments to the National Insurance Funds

- 20 Because of errors in administrative processes going back to the mid 1990's, the Inland Revenue have not paid over to the Great Britain and Northern Ireland NIFs the full amount shown in the NIF Accounts as due. Over that period, the Inland Revenue has instead paid some £1bn to the Exchequer. Had it been paid over at the right time, the NIF would have invested it in government Securities and earned additional investment income, which is in the process of being quantified, although there has been no overall loss to the Exchequer.

The Inland Revenue has removed the source of these errors and is in discussion with the Treasury over corrections to be made.

### Assurance from DSD in respect of Contributory Benefit Payments

- 21 A Letter of Assurance has been received from DSD that has been approved by their Audit Committee and contains details about their capacity to handle risk and their risk control framework. The Letter indicates that the following significant internal control issues impact on the NIF.
- 22 During the year 2003-2004 action was taken to address a number of weaknesses in systems of internal control that were identified within the Social Security Agency. In his audit on the 2002-2003 DSD Resource Account the Comptroller and Auditor General raised a number of qualification issues in relation to the SSA. The Chief Executive of DSD issued a strongly worded letter to his Directors regarding the qualifications issues and this has had a significant positive impact on the issues raised.
- 23 The first of these issues was in relation to the estimated levels of fraud and incorrectness in Social Security benefits. During 2003-2004 the Agency has continued its regular monitoring and measurement of the levels for fraud, error and decision making. The report from the Standards Committee on Decision Making and Accuracy for 2003-2004 has shown that, with the exception of two minor benefits, all decision making standards have been either maintained or improved since the last report with nine out of the thirteen benchmarks achieved or exceeded. Results in relation to payment accuracy standards have also shown an improvement in performance in the four main benefit areas, namely Income Support, Jobseekers Allowance, Disability Living Allowance and Incapacity Benefit, with seven out of the nine targets either achieved or exceeded. The Chairperson of the Standards Committee has commended the Agency's performance in this area.
- 24 As previously noted the financial accuracy levels for Incapacity Benefit and Retirement Pension/Widows Pension/Bereavement Benefit have improved over the past twelve months. The figures show the level of financial accuracy in both benefits to be 99%. This high level of correctness has reduced the monetary loss in each benefit to £3.6m and £10.5m respectively.
- 25 All benefit branches agreed Programme Protection Plans for 2003-2004 and these are also in place for 2004-2005 to improve accuracy, and identify areas for action to reduce levels of fraud and customer error. Agency Management Board monitors performance against these plans on a monthly basis.
- 26 Another issue from the C&AG's 2002-2003 report involved uncertainties over certain debtor and creditor balances within the Programme Accounting Computer System (PACS) which have led to qualification issues on the Agency's balance sheet. In relation to the debtors balance work has continued during 2003-2004 to improve the accuracy and completeness of these figures. Some progress has been made, but major work still needs to be done. This work involves improvements in the flow of information to the PACS system itself and a fundamental review of the debt management system used within the Agency. In relation to the creditors balance, the Encashment Control Creditor, there are still the underlying problems concerning the accuracy of this figure in the accounts. However, the final year end creditor figure has been reduced, partly due to the uptake of Direct Payment throughout the 2003-2004 year.
- 27 The SSA Internal Audit Annual report for 2003-2004 considered that limited assurance was appropriate for Programme Expenditure. The main areas of concern were the inability of the current Agency OPSTRAT computer systems to allow effective segregation of duties and certain non-compliance with laid down procedural guidance. Internal Audit also considered that the measurement system in relation to one of the Agency's PSA Targets was inadequate.
- 28 Improvements in the OPSTRAT computer systems are reliant on concurrent changes in the similar systems used in Great Britain (GB) and Agency management is therefore limited in the control of system change requests. Hence the position in relation to the segregation of duties remains unchanged from 2002-2003. However, to try and address the issue, the Agency continues to work with Internal Audit to minimise the weaknesses identified in the OPSTRAT computer systems.
- 29 Non-compliance with laid down procedures is an ongoing problem. However the Agency has recently introduced a new performance reporting process which requires senior managers to complete Certificates



of Assurance for the Chief Executive. The certificates confirm that all areas of the business are being properly controlled, or where this assurance cannot be given, an exception report is completed.

- 30 The measurement system in relation to the PSA Target for the recovery of benefit overpayments is considered to be inadequate. Debt Management Unit (DMU) which is responsible within the Agency for the recovery of benefit overpayments has designed and agreed a plan of work that will validate the information supplied to and recorded by the branch. Work has also commenced by DMU to examine and validate the records held on the Overpayment Recovery System (OPREC) to obtain assurance that the information held is complete and accurate.
- 31 In the statement last year my predecessor referred to problems within DMU concerning the completeness of overpayment information sent to the unit and the work that was being undertaken to address the issues. This work is continuing with revised processes being piloted in two Districts within the Agency and if successful there will be a full implementation of the improved procedures.

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

- 32 A Letter of Assurance has been received from the DEL that has been approved by their Audit Committee and contains details about their capacity to handle risk and their risk control framework and their use of the accounting and payments systems of the Department of Trade, Enterprise and Investment.
- 33 The Letter gives an assurance that there were no significant internal control issues that impact on the NIF.
- 34 There is a NIF Audit Forum consisting of representatives from key Internal Audit Units, the National Audit Office and management. The Forum focuses on co-ordinating risk-based audit activity such as planning, reporting and implementation of recommendations and fostering opportunities for joint working and exchange of best practice.
- 35 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).

*Paul Gray*  
Accounting Officer  
Inland Revenue

13 December 2004

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

I have audited the financial statements, 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 Account.

## Respective responsibilities of the Accounting Officer and the Auditor

As described in the Responsibilities of the Accounting Officer in the Foreword, the Accounting Officer is responsible for the preparation of the financial statements in accordance with 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 I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with 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 Northern Ireland National Insurance Fund's Statement of Internal Control reflects compliance with Treasury's guidance on the Statement on 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.

I am not required to consider, nor have I considered, whether the Accounting Officer's Statement of Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the corporate governance procedures or its risk and control procedures.

The maintenance and integrity of the Inland Revenue's website is the responsibility of the Accounting Officer. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

## 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 significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the National Insurance Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by 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 the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements properly present the receipts and payments of the Northern Ireland National Insurance Fund for the year ended 31 March 2004 and the balance held at that date and have been properly prepared in accordance with Section 161(2) of Social Security Administration (Northern Ireland) Act 1992 and directions made thereunder by Treasury;

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 the financial transactions conform to the authorities which govern them.

See also my Report on the Account.

*John Bourn*  
Comptroller and Auditor General

10 January 2005

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## Receipts and Payments Account for the year ended 31 March 2004

|  | Notes | 2003-2004<br>£000       | 2002-2003<br>£000 |
|--|-------|-------------------------|-------------------|
| <b>Receipts</b>                        |       |                         |                   |
| National Insurance contributions       | 2     | <b>1,239,297</b>        | 1,236,483         |
| Transfers from Great Britain           | 5     | <b>260,000</b>          | 350,000           |
| Compensation for SSP & SMP recoveries* | 3     | <b>33,480</b>           | 19,596            |
| Income from investments                | 4     | <b>34,886</b>           | 34,992            |
| State Scheme premiums                  | 6     | <b>3,040</b>            | 4,026             |
| Other receipts                         | 7     | <b>4,135</b>            | 2,705             |
| Redundancy receipts                    | 8     | <b>1,176</b>            | 246               |
|  |       | <b><u>1,576,014</u></b> | <u>1,648,048</u>  |
| <i>Less</i>                            |       |                         |                   |
| <b>Payments</b>                        |       |                         |                   |
| Benefit payments                       | 9     | <b>1,457,794</b>        | 1,356,253         |
| Personal pensions                      | 10    | <b>76,300</b>           | 59,800            |
| Administrative costs                   | 11    | <b>40,068</b>           | 38,944            |
| Redundancy payments                    | 8     | <b>5,223</b>            | 2,276             |
| Other payments                         | 12    | <b>1</b>                | 2                 |
|  |       | <b><u>1,579,386</u></b> | <u>1,457,275</u>  |
| Excess of payments over receipts**     |       | <b>(3,372)</b>          | 190,773           |
| <b>Statement of balances</b>           |       |                         |                   |
|  |       | <b>£000</b>             | £000              |
| Opening balance                        |       | <b>737,442</b>          | 546,669           |
| <i>Plus</i>                            |       |                         |                   |
| Excess of payments over receipts**     |       | <b>(3,372)</b>          | 190,773           |
| Closing balance                        | 14    | <b><u>734,070</u></b>   | <u>737,442</u>    |

*The notes on pages 11 to 19 form part of these accounts.*

\* SSP: Statutory Sick Pay  
SMP: Statutory Maternity Pay

\*\* Excess of receipts over payments 2002-2003

*Paul Gray*  
Accounting Officer  
Inland Revenue

13 December 2004

# 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 NI NIF. 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 (NHS).

Employers are responsible for calculating contributions payable by themselves and their employees. Their records are subject to examination by the IR. These checks and other checks on contributors may result in additional receipts or repayments in future years in respect of contribution liabilities for 2003-2004.

### *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 (DHSS) to the Department for Social Development (DSD). DSD administers a range of social security benefits, financed either from the NI NIF or from the Consolidated Fund in Northern Ireland through DSD. 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. NI NIF benefits are paid by giro-cheque, payable order, order book, credit transfer and direct payment. The Department is currently working towards having all customers paid by direct payment. It is not practicable for DSD 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 DSD in consultation with the PACS Team (Programme Accounting Computerised System). Provision for accounting on this basis is contained in the Social Security Administration (Northern Ireland) Act 1992.

### *Use of estimated figures*

Certain figures in the account are based on estimates and may be subject to adjustment in subsequent years on the basis of more reliable information. These included 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, and 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 | 2003-2004<br>£000       | 2002-2003<br>£000       |
|--|-------|-------------------------|-------------------------|
| <b>Contributions</b>                     |       |                         |                         |
| Class 1 (employed earners)               | i     | <b>1,158,556</b>        | 1,152,942               |
| Class 1A & 1B                            | ii    | <b>14,118</b>           | 7,678                   |
| Class 2 (self-employed flat rate)        | iii   | <b>5,590</b>            | 6,095                   |
| Class 3 (voluntary contributions)        | iv    | <b>1,667</b>            | 1,396                   |
| Class 4 (self-employed earnings-related) | v     | <b>59,366</b>           | 68,372                  |
|  |       | <b><u>1,239,297</u></b> | <b><u>1,236,483</u></b> |

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

- i Class 1 contributions are divided into two parts: primary contributions payable by employees and secondary contributions payable by employers.
- ii Class 1A contributions are paid by employers on most benefits provided to employees. Employers pay Class 1A contributions to 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 (PSA) for tax enabling them to settle their National Insurance and Income Tax liability in a lump sum after the end of the tax year.

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

- iii Class 2 Self employed persons pay flat rate weekly contributions.
- iv Class 3 voluntary flat rate contributions are paid to maintain a person's National Insurance record for certain benefit and/or pension purposes.
- v Class 4 Self employed persons pay earnings related contributions.

### *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 NHS. The NHS allocation is deducted and paid at source before contributions are paid into the NI NIF and so the figures shown above are shown net of the NHS element. NHS allocation was £332m in 2003-2004 (£171m 2002-2003). The increase is principally attributable to the additional 1% contribution implemented following the 2002 Budget.

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

**3 Compensation for Statutory Sick Pay and Statutory Maternity Pay recoveries**

|   | <b>2003-2004</b> | 2002-2003 |
|---|------------------|-----------|
|   | <b>£000</b>      | £000      |
| Compensation for Statutory Sick Pay and Statutory Maternity Pay | <b>33,480</b>    | 19,596    |

The amount from DSD recompenses the NI NIF for loss of revenue due to contribution receipts being reduced by recoveries in respect of statutory sick and statutory maternity payments paid by employers.

**4 Income from investments**

|                                  | <b>2003-2004</b>     | 2002-2003     |
|----------------------------------|----------------------|---------------|
|                                  | <b>£000</b>          | £000          |
| Interest received                | <b>38,182</b>        | 34,356        |
| Profit (loss) on realisation     | <b>(4,188)</b>       | (1,040)       |
| Bank interest (see note 14 (ii)) | <b>892</b>           | 1,676         |
|                                  | <b><u>34,886</u></b> | <u>34,992</u> |

During the year, the value of the investments held decreased from £674.8 million at 31 March 2003 to £653.2 million at 31 March 2004. A substantial proportion of the investments continues to be held in short term securities. At 31 March 2004 the proportion was approximately 54% (45% at 31 March 2003).

**5 Transfers from Great Britain NIF**

|                                 | <b>2003-2004</b> | 2002-2003 |
|---------------------------------|------------------|-----------|
|                                 | <b>£000</b>      | £000      |
| Transfer from Great Britain NIF | <b>260,000</b>   | 350,000   |

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

**6 State Scheme premiums**

|                       | <b>2003-2004</b> | 2002-2003 |
|-----------------------|------------------|-----------|
|                       | <b>£000</b>      | £000      |
| State Scheme premiums | <b>3,040</b>     | 4,026     |

State Scheme Premiums are payable in respect of employed persons who cease to be covered, in certain specified circumstances, by a contracted-out pension scheme. The premiums buy back the persons' additional pension entitlement in the State Earnings Related Pension Scheme (SERPS). The total amount shown is net of refunds.

**7 Other receipts**

|                       | Notes | <b>2003-2004</b>    | 2002-2003    |
|-----------------------|-------|---------------------|--------------|
|                       |       | <b>£000</b>         | £000         |
| <b>Recoveries of</b>  |       |                     |              |
| Compensation payments | i     | <b>4,135</b>        | 2,677        |
| Contributions         | ii    | <b>0</b>            | 28           |
| <b>Total</b>          |       | <b><u>4,135</u></b> | <u>2,705</u> |

i The recoveries from damages paid to recipients of certain NI NIF benefits. These amounts relate to recoveries from insurers and other bodies in respect of compensation claims for damages where NI NIF benefits have already been paid to people by DSD. The recovery receipts were not adjusted for refunds of compensation payments. As a result, £1.3m of the amount shown will be paid back to DSD in 2004-2005.

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

**8 Redundancy payments and receipts**

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

The RPS ensures that employees who have been made redundant are paid the statutory money due to them when their employers are unable to do so, usually because of insolvency. In doing so, the 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 NI NIF to employees whose employers have failed to make payments due or who were insolvent. The payments are awarded by the DETI. The receipts represent amounts recovered from employers. The total debt outstanding at 31 March 2004 was £16 million.

|  | <b>2003-2004</b>     |
|--|----------------------|
|  | <b>£000</b>          |
| <b>Outstanding debt at 31 March 2003</b> | <b>14,143</b>        |
| Opening adjustment                       | (2)                  |
| Plus redundancy payments 2003-2004       | <b>5,220</b>         |
| Less redundancy receipts 2003-2004       | <b>(1,176)</b>       |
| Less debt written off in 2003- 2004      | <b>(1,907)</b>       |
| <b>Outstanding debt at 31 March 2004</b> | <b><u>16,278</u></b> |

In addition DEL paid other charges of £3,240. These are included within the Redundancy figures shown on the face of the Receipts and Payments account.



|  | <b>2002-2003</b><br><b>£000</b> |
|--|---------------------------------|
| <b>Outstanding debt at 31 March 2002</b> | 15,771                          |
| Adjustment to the opening balance        | (7)                             |
| Plus redundancy payments 2002-2003       | 2,271                           |
| Less redundancy receipts 2002-2003       | (246)                           |
| Less debt written off in 2002-2003       | (3,646)                         |
| <b>Outstanding debt at 31 March 2003</b> | <u>14,143</u>                   |

## 9 Benefit payments

|  | Notes | <b>2003-2004</b><br><b>£000</b> | 2002-2003<br>£000 |
|--|-------|---------------------------------|-------------------|
| <b>Benefits</b>                          |       |                                 |                   |
| Retirement pension                       | i     | <b>1,082,605</b>                | 987,432           |
| Incapacity benefit                       | ii    | <b>321,648</b>                  | 317,963           |
| Bereavement allowance                    | iii   | <b>33,069</b>                   | 32,289            |
| Jobseeker's allowance (contributory)     | iv    | <b>14,011</b>                   | 13,566            |
| Christmas bonus for pensioners           | v     | <b>3,040</b>                    | 3,102             |
| Maternity allowance/payment              | vi    | <b>3,347</b>                    | 1,814             |
| Guardians' and child's special allowance | vii   | <b>74</b>                       | 87                |
|  |       | <u><b>1,457,794</b></u>         | <u>1,356,253</u>  |

- i 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 from the date of bereavement. Bereavement Payment replaced Widow's payment in April 2001 and is a one-off lump sum payment. Both are based on the late husband or wife's National Insurance Contributions.
- iv Contributory Job Seekers Allowance is payable to customers who are capable of working, available for work and actively seeking work who have paid or have been credited with sufficient National Insurance Contributions.
- v The Christmas Bonus is a tax-free payment of £10 paid before Christmas to pensioners who are getting one or more qualifying benefits (e.g. retirement pension).
- vi Maternity Allowance is paid for up to 26 weeks at a standard weekly rate, dependent on earnings, to a person who cannot get Statutory Maternity Pay.
- vii Guardian's & Child's Special allowance is payable to people bringing up a child or children because one or both of the parents has died. Responsibility for the payment of this allowance passed to the IR in April 2003.

The benefits reported above consist partly or wholly of apportioned expenditure (see note 1).

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 and Pensions and the cost is borne by the NIF in Great Britain.

**10 Personal pensions**

|                           | <b>2003-2004</b><br><b>£000</b> | 2002-2003<br>£000 |
|---------------------------|---------------------------------|-------------------|
| Personal pension payments | <b>76,300</b>                   | 59,800            |

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 NI NIF.

For 1997-1998 and later tax years, this is based on earnings between the lower and upper earnings level and the age of the member. Similarly, from April 1997, members of Contracted Out Money Purchase (COMP) Schemes are entitled to a 'top-up' payment of age related rebate based on the age of the member and calculated using the earnings on which the contracted out rate of National Insurance Contributions have been paid.

**11 Administration costs**

*Payments made in respect of administration*

|   | <b>2003-2004</b><br><b>£000</b> | 2002-2003<br>£000 |
|---|---------------------------------|-------------------|
| Department of Social Development  | <b>29,910</b>                   | 29,100            |
| Inland Revenue (for the collection of National Insurance Contributions) | <b>7,138</b>                    | 6,950             |
| Department of Finance and Personnel (payroll and investment services)   | <b>2,308</b>                    | 2,199             |
| Department for Employment and Learning (administration of the RPS)      | <b>532</b>                      | 530               |
| Commissioners for the Reduction of the National Debt                    | <b>21</b>                       | 20                |
| Government Actuary's Department*  | <b>0</b>                        | 40                |
| National Audit Office (Audit fees)**                                    | <b>90</b>                       | 0                 |
| Law costs   | <b>69</b>                       | 105               |
| Total   | <b>40,068</b>                   | 38,944            |

\* Government Actuary's Dept did not receive any payments in 2003-2004. Payment will be made in 2004-2005.

\*\* The accounts for 2000-2001, 2001-2002 and 2002-2003 were audited during 2003-2004 and the fees relating to those audits paid in 2003-2004.

**12 Other payment**

|                    | Note | <b>2003-2004</b><br><b>£000</b> | 2002-2003<br>£000 |
|--------------------|------|---------------------------------|-------------------|
| Insolvency refunds | i    | <b>1</b>                        | 2                 |

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

**13 Securities held by the Commissioners for the Reduction of National Debt (CRND) at 31 March 2004**

The arrangements for the investment of the assets of the NI NIF 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.

|  | <b>Nominal<br/>value</b> | <b>Cost<br/>value</b> | <b>Market<br/>value at<br/>31 March<br/>2004<br/>£000</b> |
|--|--------------------------|-----------------------|---|
|  | <b>£000</b>              | <b>£000</b>           | <b>£000</b>   |
| <b>Government and government guaranteed stocks</b> |                          |                       |   |
| Up to one year                                     | <b>348,858</b>           | <b>352,544</b>        | <b>352,260</b>  |
| One to five years                                  | <b>250,582</b>           | <b>275,399</b>        | <b>270,308</b>  |
| Five to ten years                                  | <b>12,550</b>            | <b>12,472</b>         | <b>12,830</b>   |
| Over ten years                                     | <b>10,505</b>            | <b>12,811</b>         | <b>12,570</b>   |
| <b>Total</b>                                       | <b><u>622,495</u></b>    | <b><u>653,226</u></b> | <b><u>647,968</u></b>                                     |

|  | <b>Nominal<br/>value</b> | <b>Cost<br/>price</b> | <b>Market<br/>value at<br/>31 March<br/>2003<br/>£000</b> |
|--|--------------------------|-----------------------|---|
|  | <b>£000</b>              | <b>£000</b>           | <b>£000</b>   |
| <b>Government and government guaranteed stocks</b> |                          |                       |   |
| 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  |
| <b>Total</b>                                       | <b><u>640,989</u></b>    | <b><u>674,833</u></b> | <b><u>686,140</u></b>                                     |

#### 14 Closing balance

|                                     | Notes | <b>31 March<br/>2004<br/>£000</b> | 31 March<br>2003<br>£000 |
|-------------------------------------|-------|-----------------------------------|--------------------------|
| Securities held by the CRND at cost |       | <b>653,226</b>                    | 674,833                  |
| <b>Cash at bank</b>                 |       |                                   |                          |
| Current account                     | i     | <b>9,001</b>                      | 30                       |
| Deposit account                     | ii    | <b>0</b>                          | 1,456                    |
| Other balances                      | iii   | <b>71,843</b>                     | 61,123                   |
|                                     |       | <b><u>734,070</u></b>             | <b><u>737,442</u></b>    |

- i The Current account balance is significantly higher as a result of the closure of the Deposit account. The revised ideal maximum balance for this account has been set at £10m in order to meet funding requirements.
- ii The Deposit account balance is nil for 2003-2004 as it was closed at the end of August 2003. The decision to close the account was taken following legal advice and the money held was transferred to CRND for investment. The closure in turn led to a decrease in the interest received (see note 4).
- iii Other balances represent sums due from or owing to Government Departments and overseas administrations in respect of the operation of the NI NIF.

**15 Losses**

|   | 2003-2004    |                 | 2002-2003    |                 |
|---|--------------|-----------------|--------------|-----------------|
|   | £000         | Number of cases | £000         | Number of cases |
| <b>1 Contributions - NI NIF share</b>           |              |                 |              |                 |
| a IR remissions and waivers                     | 2,397        | 1,753           | 1,775        | 2,616           |
| b IR debt transferred                           | 2,450        | 478             | 141          | 353             |
| c National Insurance Contributions Office in GB | 14           | 112             | 56           | 416             |
| <b>Total loss</b>                               | <b>4,861</b> | <b>2,343</b>    | <b>1,972</b> | <b>3,385</b>    |
| <b>2 Redundancy</b>                             | <b>1,907</b> | <b>224</b>      | <b>3,646</b> | <b>507</b>      |
| <b>3 Other losses</b>                           | <b>564</b>   | <b>2,959</b>    | <b>473</b>   | <b>3,128</b>    |

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 from its Trust Statement to the NIF 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.

**16 Special payments**

|                  | 2003-2004 |                 | 2002-2003 |                 |
|------------------|-----------|-----------------|-----------|-----------------|
|                  | £000      | Number of cases | £000      | Number of cases |
| Special payments | 39        | 25              | 45        | 27              |

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

**17 Benefit security review**

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.

Figures for 2003-2004 show a marked improvement in financial accuracy with the levels of correctness in Incapacity Benefit and Retirement Pension/Widows Pension/Bereavement Benefit rising to 99%. This improvement is largely due to the resolution of longstanding problems in the areas of filing and case paper retrieval.

Also during the 2003-2004 year, Active Case Management within Incapacity Benefit identified 1,740 cases 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. Of these 1,740 cases, 701 had the rate of benefit changed and 449 ceased to receive Incapacity Benefit. This resulted in a Monetary Value Adjustment of £2.0 million.

## 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 NIF 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 NIF 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 NIF 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

## 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 Treasury in pursuance of Section 141(2) of the Social Security Contributions (Transfer of Functions etc.) (1999 Order) (Commencement No 1 and Transitional provisions) Order (Northern Ireland) 1999.
- 2 The foreword will also include details of the following
  - a statutory background;
  - b operational responsibilities;
  - c financial performance;
  - d audit arrangements; and
  - e responsibilities of the Accounting Officer.
- 3 The receipts and payments account, and statement of balances shall conform to the formats shown in the Annex, although minor variations may be made.
- 4 The notes shall include
  - a an analysis of the payments and receipts included under the headings set out in the attached format, including any explanation or background that may be necessary to understand the accounts;
  - b in the notes on administrative costs, the estimated costs for the current year and the adjustments for previous years separately identified;
  - c a statement of the securities, certified by the Inland Revenue, in which money forming part of the NIF 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;
  - d Details of any irregular, uncertain or special payments.

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

|  | Notes | <b>XXXX</b><br><b>£000</b> | XXXX<br>£000 |
|--|-------|----------------------------|--------------|
| <b>Receipts</b>  |       |                            |              |
| National Insurance contributions   |       |                            |              |
| Grant from Class XX, Vote X  |       |                            |              |
| Transfers from Great Britain   |       |                            |              |
| Compensation for Statutory Sick Pay and Statutory Maternity Pay recoveries |       |                            |              |
| Income from investments  |       |                            |              |
| State scheme premiums  |       |                            |              |
| Other receipts   |       |                            |              |
| Redundancy receipts  |       |                            |              |
|  |       |                            |              |
| <i>Less</i>  |       |                            |              |
| <b>Payments</b>  |       |                            |              |
| Benefit payments   |       |                            |              |
| Personal pensions  |       |                            |              |
| Administration costs   |       |                            |              |
| Redundancy payments  |       |                            |              |
| Transfers to Northern Ireland  |       |                            |              |
| Other payments   |       |                            |              |
|  |       |                            |              |
|  |       |                            |              |
| Excess of receipts over payments   |       |                            |              |

## Statement of Balances

|                                  | Notes | <b>XXXX</b><br><b>£000</b> | XXXX<br>£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.*



# Report by the Comptroller and Auditor General

## Introduction

- 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 2003-2004, receipts of £1,576 million (mainly in the form of National Insurance Contributions) were paid into the Fund and payments of £1,579 million (mainly contribution-based benefits) were paid out of it. The balance on the Fund at 31 March 2004 was £734 million.
- 2 The Department for Social Development are responsible for administering those benefits paid out to people out of the Fund. In 2003-2004 payments mainly comprised of Retirement Pension and Bereavement Allowance (£1,116 million) and Incapacity Benefit (£322 million) and contribution-based Jobseeker's Allowance (£14 million).

## Estimated losses in benefit expenditure from fraud and error

- 3 The Department's Standards Assurance Unit carries out a rolling programme of checks on the accuracy of a sample of awards of the main benefits paid from the Fund. From this, using statistical techniques, the Department is able to estimate the extent of over and under payments in each benefit due to errors by officials (see Figure 1). The National Audit Office reviewed a sample of cases examined by the Department as part of this process in 2003-2004 to confirm that these estimates are reasonable.
- 4 In previous years the Department had experienced some problems with storage facilities and in recovering papers and evidence for their checks, particularly in older cases picked for checking. In such cases 'deemed' errors were recorded until the evidence was produced, although the payments might ultimately have proved to be correct. This had the effect of inflating the estimated level of errors.
- 5 Following qualification of the 2002-2003 account because of the unacceptably high level of error in benefit payments, the Department took immediate and decisive action to ensure that for 2003-2004 all papers requested for checking by the Standards Assurance Unit and the National Audit Office were delivered. This, together with improvements in the accuracy of decision making on benefit claims by the Department, has significantly reduced the level of estimated errors.
- 6 From time to time the Department carries out Benefit Reviews, which seek to identify the total monetary value of errors by officials and customers, and overpayments due to fraud. The last such review of Retirement Pension was carried out in 1999-2000 while the latest review of Incapacity Benefit was completed in 2002-2003. Although these reviews identified the existence of both customer error and fraud, the small number of cases reviewed where errors or suspected irregularities were found meant that it was not possible to calculate an accurate figure for each category of error and for fraud.

**Figure 1: Estimated over and underpayment in benefits paid from the Northern Ireland National Insurance Fund in 2003-2004**

(2002-2003 figures are shown in brackets)

| <b>Benefit</b>                             | <b>Over payments</b>        | <b>Under payments</b>           |
|--|-----------------------------|---------------------------------|
| Retirement pension and bereavement benefit | £9.4 (39.3) million         | £1.0 (1.8) million              |
| Incapacity benefit                         | £4.0 (12.6) million         | £4.0 <sup>1</sup> (3.7) million |
| <b>Total</b>                               | <b>£13.4 (51.9) million</b> | <b>£5.0 (5.5) million</b>       |

### Notes

- 1 In 83 per cent of underpayments of Incapacity Benefit, the claimants suffered no financial loss as they received an equivalent sum of Income Support.
- 2 Source: 2002-2003 Benefit Review.

Source: Department for Social Development

## Audit opinion

- 7 Despite the positive and successful action taken by the Department significantly to reduce the levels of estimated overpayments of benefit due to fraud and error and also underpayments, the extent of estimated incorrect payments remains a material sum and I have qualified my audit opinion because of this. I hope that further improvements by the Department on reducing errors by officials and more up to date information on levels of fraud and customer error will enable me to lift the qualification in the near future.

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