

## National Insurance Fund Account 1997-98

1. The National Insurance Fund was established in 1948 to pay Social Security benefits to individuals who had paid qualifying national insurance contributions. In 1997-98 the National Insurance Fund received £45,542 million in contributions from employers, employed earners and the self-employed. The main benefits paid out of the Fund in 1997-98 were:
  - Retirement pension: £ 33,557,000,000
  - Incapacity benefit: £7,412,000,000
  - Widow's benefit: £987,000,000
  - Jobseeker's allowance: \$£475,000,000
2. Section 161 of the Social Security Administration Act 1992 requires me to examine and certify the National Insurance Fund Account and this report records the results of my examination of the 1997-98 account.
3. My examination includes work to confirm that national insurance contributions received have been properly brought to account in accordance with Parliament's intentions. As I have no rights of access to records maintained by employers and the self-employed, my audit is limited to reviewing the measures taken by the Contributions Agency and the Inland Revenue to monitor and enforce compliance with contributions law.

### **Main Findings and Conclusions**

#### **(a) Benefit fraud**

4. One of the Benefits Agency's main priorities is to tackle fraud and abuse. I support the action taken by the Agency to combat benefit fraud and my report sets out some of the measures the Agency is taking to reduce fraud in benefits paid from the National Insurance Fund.
5. However, because of the estimated loss to the Fund arising from the fraudulent encashment of girocheques and orderbooks (which could be as much as £64 million) and the level of confirmed (£13.2 million) or a high suspicion of fraud (£33.7 million) in contribution based jobseeker's allowance totalling £46.9 million, I have no alternative but to qualify my opinion on this account.

#### **(b) Error in Jobseeker's allowance**

6. My report records error of some £46 million, of which £40.5 million were cash errors and £5.5 million were non cash errors, in awards of contribution based jobseeker's allowance. Jobseeker's allowance is jointly administered by the Employment Service and the Benefits Agency, and the Benefits Agency are responsible for payment. I have reported on this benefit on the Class XII Vote 1 Appropriation Account for 1997-98 (HC 1–XII 1998-99). In that report I set out the actions proposed by the Benefits Agency and the Employment Service to make improvements in the future.

### **(c) Measures to collect National Insurance contributions**

7. My report sets out the measures taken by the Contributions Agency and the Inland Revenue to secure the timely collection of national insurance contributions, by identifying underpayments by employers. Agency inspectors identified underpayments of some £176 million, and Inland Revenue inspectors some £70 million, during their visits to employers. In October 1997 the Agency introduced a new system to confirm that employers have settled the arrears identified during inspection visits. However, the system is not yet sufficiently developed to confirm that employers are promptly discharging these liabilities.
8. The Contributions Agency conducts annual survey visits to a random selection of employers. In 1997-98, these found that some employers are continuing to experience difficulties in calculating their liabilities for Class 1 and Class 1A national insurance contributions. The surveys estimated that errors in Class 1 contributions were some £222 million and £19.5 million in respect of Class 1A.
9. The Contributions Agency and Inland Revenue inspectors made some 12,200 visits in 1997-98 to contractors in the construction industry, and part of the visits included whether they had properly categorised their workers as employed or self employed. The outcome of each visit is recorded individually, and the information is collected nationally which shows the visits to contractors in which employment status was raised an issue. However, information is not, at present, available to estimate the number of workers whose status has changed as a result of compliance visits. The Inland Revenue and the Contributions Agency are looking at how best to provide more detailed information. I am unable, therefore, to provide any meaningful assurance to Parliament on the extent to which contractors have complied with the legal requirements and I am also unable to assess the financial impact on the National Insurance Fund.
10. The Contributions Agency continues to experience difficulties in managing Class 2 national insurance contributions debt, and this has resulted in a failure to maximise the yield to the National Insurance Fund. The level of outstanding Class 2 contribution debt is estimated to be around £513 million, and continues to be a cause for concern, especially as a high proportion of the debt is over one year old or is disputed and some 20,000 cases are awaiting civil recovery action.

### **(d) Progress in implementing the new National Insurance Recording System**

11. My report sets out the causes of delay in the development of the replacement National Insurance Recording System. The contractor, Andersen Consulting, failed to meet the originally agreed delivery dates and full access to the system is currently restricted to a small number of users in a controlled environment. The Agency has been operating contingency arrangements to reduce the impact of this delay. In September 1998 the

Agency, working jointly with the Benefits Agency and Anderson Consulting, implemented a stabilisation and recovery plan to address the high priority areas.

12. Within this report I have commented on a number of initiatives which the Contributions Agency are continuing to progress. In these cases I will monitor and report on progress as part of my audit of the 1998-99 Fund account.