HM Revenue
& Customs

Northern Ireland National Insurance Fund Account

For the year ended 31 March 2013

Northern Ireland National Insurance Fund Account 2012-13

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

Ordered by the House of Commons to be printed on 17 December 2013

HC 894 LONDON: The Stationery Office Price: £8.75

Any enquiries regarding this publication should be sent to us at HMRC Finance, Room C4, South Block, Barrington Road, Worthing, BN12 4XH

You can download this publication from: www.GOV.UK

ISBN: 9780102986761

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID 2592448 12/13 34063

Printed on paper containing 75% recycled fibre content minimum.

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Principal Accounting Officer's Foreword

1. Introduction

The National Insurance Fund (NIF) holds the contributions of the National Insurance Scheme (which includes income from employees, employers and the self-employed, plus interest on its investments), and is used to pay for social security benefits such as state retirement pensions.

The NIF Account presents the receipts and payments for the financial year and the balance held on the National Insurance Fund at the year-end.

National Insurance Contributions also finance the National Health Service (NHS). Contributions are paid into the NIF net of money allocated to the NHS.

2. Basis for the preparation of the NIF Accounts

The HM Treasury accounts direction, issued under Section 161(2) of the Social Security Administration Act 1992 requires HMRC to prepare each year a statement of the transactions on the NIF. The accounts are prepared on a cash basis and all relevant accounting and disclosure requirements given in *Managing Public Money* and other guidance issued by HM Treasury is taken into account.

3. 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.

Section 141(1) of the Social Security Administration (Northern Ireland) Act 1992 (as amended by the Social Security Contributions (Transfer of Functions etc) (Northern Ireland) Order 1999) placed the Northern Ireland National Insurance Fund (NI NIF) under the control and management of the Inland Revenue (now HM Revenue & Customs (HMRC)).

Under the Social Security Administration (Northern Ireland) Act 1992 benefits due under the National Insurance Scheme are payable out of the NI NIF. The funds required for meeting the cost of these benefits are mainly provided from National Insurance Contributions (NICs) 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 NICs. Transfers between the Great Britain and Northern Ireland National Insurance Funds are made so that, as far as practicable, the balance in the Northern Ireland Fund is maintained at 2.84 per cent of the joint balance of the two Funds. The system of parity payments acts as a final safeguard against serious imbalances between the Great Britain and Northern Ireland National Insurance Funds.

The amounts received into and paid out of, the NI NIF and the resulting balance on the fund depends 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 consider changes in the general level of earnings, the balance on the fund and payments expected to be made from it in future (Sections 129, 130 and 131 of the Social Security Administration (Northern Ireland) Act 1992). In addition both demographic and economic changes can affect amounts received, paid out and therefore the overall balance on the fund.

The Government Actuary produces a report on the likely effect on the Fund of the Government's annual benefits up-rating and contributions re-rating orders.

4. Operational responsibilities

National Insurance Contributions are payable by employed earners, employers and others. HMRC is responsible for collecting these contributions and recording them against individuals' contribution records (which determine entitlement to social security benefits payable from the Fund). As Principal Accounting Officer for the NI NIF, I am responsible for the control and management of the Fund.

The Northern Ireland Social Security Agency (NISSA) an Executive Agency within the Department for Social Development (DSD) has overall responsibility for the award and payment of most benefits payable from the NI NIF, including those relating to retirement, sickness and contribution based Jobseeker's Allowance. Entitlement to benefit is determined by the claimant satisfying qualifying conditions. For Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP), employers reduce the amount of National Insurance contribution paid to HMRC by the SSP and SMP paid out. Subsequently, DSD pays over to HMRC an amount to compensate the NIF for this shortfall in contributions.

The Department for Employment and Learning (DEL) is responsible for making Redundancy Payment Scheme (RPS) awards. The payment of awards and collection of receipts is facilitated through the use of the Northern Ireland Shared Services Centre.

For Statutory Adoption Pay (SAP) and Statutory Paternity Pay (SPP), employers reduce the amount of National Insurance contribution paid to HMRC by the SAP and SPP paid out. Subsequently, DSD pays over to HMRC an amount to compensate the NIF for this shortfall in contributions.

5. 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 on it, before Parliament.

6. 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.

The balance on the Fund at 31 March 2013 has decreased by £256 million to £881 million (31 March 2012, £1,137 million); the balance represents approximately 38 per cent of annual benefit expenditure (31 March 2012, 52 per cent).

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

7. Responsibilities of the Chief Executive of HM Revenue & Customs

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

Lin Homer
Principal Accounting Officer
12 December 2013

National Insurance Fund Governance Statement

This statement is given in respect of the 2012-13 Northern Ireland National Insurance Fund Account.

1. Purpose of the National Insurance Fund Governance Statement

1.1 This statement includes:

- The National Insurance Fund (NIF) governance arrangements;
- Details of NIF related risks and action taken to address these; and
- Details of assurance provided by other government departments involved in NIF related activities.

1.2 Specific work undertaken on behalf of the NIF forms only a small part of the whole work of HM Revenue & Customs (HMRC). HMRC has produced a full Governance Statement setting out details of its compliance with the Corporate Governance Code, the role of the Board and committees within HMRC along with risks to HMRC's performance and how these have been managed. This includes disclosures relating to issues outside of the scope of work relating to the NIF. The Governance Statement is included in the published 2012-13 HMRC Annual Report and Accounts.

2. Scope of responsibility

2.1 As Principal Accounting Officer for the NIF, I have responsibility for ensuring risks are effectively managed across HMRC and safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

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

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

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

3. Risks to the NIF and how these are managed

3.1 Control and management of the NIF risks are consistent with the over-arching HMRC Governance Statement (for full details see the published 2012-13 HMRC Annual Report and Accounts).

3.2 Risk management operates at all levels in HMRC including:

- Running risk management escalation/de-escalation process, based on risk registers operated at various levels throughout the business;
- Having an independent corporate risk management team;
- Embedding risk partners within business areas by developing appropriate risk related activity; and

- Examining specific risks in greater detail with the Executive Committee (ExCom) ensuring the assessment of the risk, the mitigating actions and tolerance of the residual risk levels are appropriate.

3.3 The National Insurance Product and Process Owner, a senior leadership team member of the Personal Tax Customer, Product and Process Directorate is accountable for the overall smooth running of the NICs process including the management of the National Insurance Management Board which evaluates and reports on risks related to the collection and management of NICs.

4. Risk Identified

4.1 HMRC has identified the following risks to the NIF:

Risk	Progress	Action being taken by HMRC
Increase in Class 2 debt balance That we are unable to reduce the levels of outstanding Class 2 National Insurance Contributions. Without any further intervention beyond existing activity, the debt balance could continue to rise and the cost to collection could be disproportionate. At October 2013 the debt balance had increased by £18 million in the last year to £1,002 million.	✓	• improving the bills issued for payment to make the consequences of not paying clearer • piloting the taking of direct debit mandates over the phone • coding out of small debts allows HMRC to collect debt through the PAYE tax code. Following the passing of regulations work is proceeding to code out Class 2 from April 2014 onwards • an IT enhancement in October 2013 will allow Class 2 debt not suitable for coding out to transfer from the National Payment Service (NPS) to HMRC's debt management's IT system. Ahead of this, debt with a value of £152 million (270,000 cases) has been passed to debt collection agencies (DCA) • reducing the amount of spurious debt in the figures by stripping out debt not actually due because the customer has, for example, ceased self employment • consulting with individuals, practitioners, businesses and other organisations during 2013 to find ways to improve the collection process.
Over-allocation to NHS That we are unable to correctly estimate the proportion of NIC receipts to be allocated to the NHS. In 2011-12 weaknesses were identified in three scans used in the apportionment of National Insurance Contributions between the NI and NHS. The issue does not affect the total funding available to NI NHS (refer to note 2 of the accounts for further details).	✓	• HMRC has reviewed the scans and identified solutions • an accounting adjustment will be made to correct the over allocation of NIF funds to NHS.
Data management and control That we do not adequately monitor Other Government Departments (OGD's) access to HMRC data; specifically access to the HMRC NPS system.	New risk	• implementing improved governance, defining clear roles and responsibilities • regularly reviewing with OGDs to ensure access controls are being maintained and assured.

4.2 A letter of assurance has been received from NISSA that has been approved by its Audit Committee containing details of their significant risks and the action they have taken to address these. Details of their risks are as follows:

Risk	Progress	Action being taken by NISSA
Fraud and error in benefit payments That benefit payments could be subject to increasing levels of fraud and error. A full breakdown of fraud and error estimated over and under payments can be found in Other Financial Information section d. The Comptroller and Auditor General again qualified his opinion on the regularity of benefit payments due to fraud and error. For further detail refer to the Report by the Comptroller and Auditor General, page 27.	=	Throughout the year NISSA has developed a wide range of activities to reduce fraud and error, including: • continuing to fully utilise a risk based targeting approach; ensuring the most effective use of resources, maximising the impact of work to increase financial accuracy levels and to reduce fraud and error • progressing work on the National Fraud Initiative with the commencement of the National Fraud Initiative Programme • continued implementation of the significant fraud and error modernisation programme, which includes new initiatives (for example a wider range of powers to deal with customer fraud and error). In addition, looking towards the coming year and beyond, two of the key elements of this programme are: • the establishment of the Single Investigation Service (SIS) – this will complete the Agency's integration of its fraud and error approach by amalgamating resources to maximise knowledge and expertise and improve the prevention and detection of customer fraud and error • the creation of the Integrated Risk and Intelligence Service (IRIS) – a hub system for collecting and analysing claimant information and applying fraud and error filters; enabling information to be checked and authenticated prior to the payment of the benefit award; thereby preventing fraud and error.

4.3 A letter of assurance has been received from Department for Employment and Learning (DEL) that has been approved by its Audit Committee and contains details about its significant risks. The letter gives assurances that there were no significant risks that impact on the Northern Ireland NIF.

5. Review of effectiveness

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

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

5.2 Taking all of these into account, as well as observations from regular meetings of ExCom, ExCom (Performance) Committee, the Audit and Risk Committee, the Director of Internal Audit and from the NAO, I am confident that the risks related to NIF are being identified and actively managed. The risks apply to both the Great Britain and Northern Ireland Funds, and numbers of items and monetary amounts quoted are the total impact across both Funds (the way the NIF is administered makes it difficult to disaggregate the required information so that it relates solely to Great Britain or Northern Ireland).

6. Conclusion

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

Lin Homer
Principal Accounting Officer
12 December 2013

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

I certify that I have audited the financial statements of the Northern Ireland National Insurance Fund for the year ended 31 March 2013 under the Social Security Administration (Northern Ireland) Act 1992. The financial statements comprise the Receipts and Payments Account (including the Statement of Balances) and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Basis for Qualified Opinion on Regularity

The Northern Ireland National Insurance Fund Account records benefit payments of £2.31 billion paid out on its behalf by the Northern Ireland Social Security Agency (NISSA) within the Department for Social Development (DSD) in Northern Ireland.

NISSA estimates that in 2012-13 fraud and error within benefit payments resulted in overpayments of £12.3 million (0.53 per cent of related payments) and underpayments of £8.8 million (0.38 per cent of the relevant payments). Where fraud and error result in over or underpayment of benefits, the transactions are not in conformity with the primary legislation which specifies the entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid.

I have therefore qualified my opinion on the regularity of benefit payments which have not been made in accordance with the relevant authorities.

Qualified Opinion on Regularity

In my opinion, except for the level of fraud and error in benefit payments referred to in the basis for qualified opinion on regularity paragraph, 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.

Opinion on financial statements

In my opinion:

- the financial statements properly present the receipts and payments of the Northern Ireland National Insurance Fund for the year ended 31 March 2013; and
- the financial statements have been properly prepared in accordance with Section 141(2) of the Social Security Administration (Northern Ireland) Act 1992 and HM Treasury directions issued thereunder.

Opinion on other matters

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

Matters on which I report by exception

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

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

Report

My report on the financial statements, which sets out the issues leading to my qualified opinion on regularity, is at pages 27 to 29.

Amyas C E Morse
Comptroller and Auditor General

16 December 2013

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

Receipts and Payments Account

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

For the year ended 31 March	Notes	2013 £000	2012 £000
Receipts			
National Insurance Contributions	2	**1,729,136**	1,723,598
Transfers from Great Britain NIF	5	**334,000**	145,000
Compensation for statutory pay recoveries	3	**61,740**	53,435
Income from investment account	4	**6,147**	7,238
Other receipts	7	**1,601**	1,829
Redundancy receipts	8	**725**	652
State scheme premiums	6	**630**	750
		2,133,979	1,932,502
Less			
Payments			
Benefit payments	9	**2,306,193**	2,177,520
Personal pensions	10	**43,000**	41,700
Administrative costs	11	**26,306**	34,464
Redundancy payments	8	**13,859**	10,063
		2,389,358	2,263,747
Excess of payments over receipts		**(255,379)**	(331,245)

Statement of balances

As at 31 March		2013 £000	2012 £000
Opening balance		**1,136,683**	1,467,928
Less excess of payments over receipts		**(255,379)**	(331,245)
Closing balance	12	**881,304**	1,136,683

Lin Homer
Principal Accounting Officer
12 December 2013

The notes on pages 12 to 24 form part of these accounts.

Notes to the Account

Notes to the financial statements provide additional information required by statute and accounting standards to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

1. Statement of accounting policies

1.1 Basis of preparation of the Account

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

1.2 Net accounting

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

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

1.3 Receipts Recognition

Use of estimates

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

National Insurance Contributions

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

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

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

Employers are responsible for calculating their own and their employees' contributions. National Insurance records are subject to examination by HMRC. These checks and other checks on contributors may result in additional receipts or repayments in future years in respect of contribution liabilities for 2012-13.

Class 1 National Insurance Contributions

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

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

Class 1A National Insurance Contributions

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

Class 4 National Insurance Contributions

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

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

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

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

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

1.4 Payments recognition

Benefit payments

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

Personal pensions

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

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

Administrative costs

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

2. National Insurance Contributions

For the year ended 31 March	Notes	2013 £000	2012 £000
Contributions			
Class 1 (employed earner)	i	**1,656,981**	1,657,989
Class 1A & 1B	ii	**21,391**	17,074
Class 2 (self-employed flat rate)	iii	**6,559**	4,614
Class 3 (voluntary contributions)	iv	**772**	972
Class 4 (self-employed earnings related)	v	**43,433**	42,949
		1,729,136	1,723,598

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

i. **Class 1 contributions** comprise two parts: primary contributions payable by employees and secondary contributions payable by employers.

ii. **Class 1A contributions** are paid by employers on most benefits provided to employees. Employers pay Class 1A contributions to HMRC via the Pay-As-You-Earn (PAYE) scheme with their Class 1 contributions.

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

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

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

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

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

NHS allocation

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

The NHS allocation is paid over by HMRC to the NHS before any contributions are paid into the Northern Ireland NIF and so the figures above are shown net of this NHS allocation. The NHS allocation was £473 million in 2012-13 (£479 million in 2011-12) and forms part of the total NHS funding.

A misinterpretation of data used in apportioning National Insurance Contributions between the NIF and NHS meant the allocation to the Northern Ireland NHS was overestimated between 2000-01 and 2009-10. This has not affected the total funding available to the Northern Ireland NHS during this same period, as the aggregate amount (NI funds plus voted funds) is a fixed sum, the voted amount being adjusted according to the level of NI funding.

The over allocation to the Northern Ireland NHS is estimated at £9 million in total between 2000-01 and 2009-10, representing 0.2 per cent of the total Northern Ireland NHS allocation over the same period. The Northern Ireland NIF has been underfunded by the same estimated amount and the correction will take place during 2013-14.

The estimated overpayment has reduced compared to the amount reported in the 2011-12 accounts. This is because corrective action taken by HMRC on the scans used as part of the allocation process means that the apportionment will have been made correctly for the years 2010-11 and 2011-12.

3. Compensation for statutory pay recoveries

For the year ended 31 March	2013 £000	2012 £000
Statutory Sick & Statutory Maternity pay	**60,240**	46,340
Statutory Adoption & Statutory Paternity pay	**1,500**	7,095
	61,740	53,435

The Government compensates the NIF for loss of revenue due to contribution receipts being reduced by recoveries by employers of statutory sick, maternity, adoption and paternity payments. The compensation is drawn down from the Consolidated Fund and amounts based on estimates of the four elements are paid over to the NIF by DSD.

4. Income from Investment Account

For the year ended 31 March	2013 £000	2012 £000
Interest received	**6,147**	7,238

Interest is received on the Fund surplus, placed on deposit by the Commissioners for the Reduction of National Debt (CRND). During the year the value of the Investment Account decreased from £1.27 billion at 31 March 2012 to £1.03 billion at 31 March 2013 (Note 12) with a consequent impact on interest received during 2012-13. The average interest rate received during 2012-13 was 0.5 per cent (2011-12, 0.5 per cent).

5. Transfers from Great Britain NIF

For the year ended 31 March	2013 £000	2012 £000
Transfers from Great Britain NIF	**334,000**	145,000

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

These adjustments are consequential upon the arrangement made for co-ordinating the systems of insurance established in the two countries to ensure they operate, to such an extent as is provided in those arrangements, as a single system. The balances in the two Funds are adjusted in proportion to the population of working age as established by the 2001 Census returns. Payments are made on a provisional basis and are adjusted when end of year balances in the two funds are available.

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

The transfer is based on the fund balances for GB and Northern Ireland which themselves are based on the differences between two large numbers (receipts and expenditure) and therefore the results are subject to considerable variability year on year.

6. State Scheme Premiums

For the year ended 31 March	2013 £000	2012 £000
State Scheme Premiums	**630**	750

State Scheme Premiums are payable to the Fund in respect of employed persons who cease to be covered, in certain specified circumstances, by a contracted-out pension scheme. The premiums buy back the persons' additional pension entitlement in the state additional pension scheme. Total receipts are net of refunds of £0.08 million (2011-12: £0.1 million).

7. Other receipts

For the year ended 31 March	2013 £000	2012 £000
Recoveries of compensation payments	**1,601**	1,829

These amounts relate to recoveries from insurers and other bodies in respect of compensation claims for damages where NIF benefits have already been paid to people by DSD.

8. Redundancy payments and receipts

For the year ended 31 March	2013 £000	2012 £000
Redundancy payments	**13,859**	10,063
Redundancy receipts	**(725)**	(652)
	13,134	9,411

DEL administers the Redundancy Payments Scheme under the provisions of the Employment Rights (Northern Ireland) Order 1996.

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

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

9. Benefit payments

For the year ended 31 March	Notes	2013 £000	2012 £000
State pension	i	**1,919,170**	1,778,041
Incapacity Benefit	ii	**199,882**	275,773
Employment & Support Allowance	iii	**127,642**	64,178
Jobseeker's Allowance (contributory)	iv	**23,305**	23,910
Bereavement benefits	v	**21,343**	21,315
Maternity Allowance	vi	**11,408**	10,801
Christmas bonus	vii	**3,388**	3,441
Guardian's Allowance and Child's Special Allowance	viii	**55**	61
		2,306,193	2,177,520

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

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

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

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

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

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

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

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

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

State pension and bereavement benefits do not include payments to Northern Ireland pensioners living abroad. For administrative convenience, these payments are made by the Department for Work and Pensions and the cost is borne by the Great Britain NIF. It is not possible to provide an accurate figure for Northern Ireland's share of the expenditure on overseas pensions but an estimate of the amount involved in 2012-13 is £5.6 million (2011-12: £5.8 million).

For details of fraud and error in benefit payments refer to Other Financial Information, section d.

10. Personal pensions

For the year ended 31 March	2013 £000	2012 £000
Personal pensions	43,000	41,700

The Pension Schemes Act (Northern Ireland) 1993, supplemented by the Pensions Act 1995, entitles employed earners with a personal pension to a "minimum contribution" to their plan from the NIF.

For 1997-98 and later tax years the contributions are based on earnings between the lower and upper earnings level and the age of the member. Similarly, from April 1997, members of contracted out money purchase schemes are entitled to a "top-up" payment of age-related rebate based on the age of the member and calculated using the earnings on which the contracted out rate of National Insurance Contributions have been paid.

11. Administration costs

For the year ended 31 March	Notes	2013 £000	2012 £000
Department for Social Development	i	**19,500**	24,560
HM Revenue & Customs	ii	**4,711**	7,371
Department of Finance and Personnel	iii	**1,532**	1,984
Department for Employment and Learning	iv	**431**	431
Commissioners for the Reduction of the National Debt	v	**61**	62
National Audit Office – Audit Fees	vi	**41**	37
Government Actuary's Department	vii	**30**	19
		26,306	34,464

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

i. For administration costs relating to the award and payment of contributory benefits on behalf of the Fund.

ii. For the collection of National Insurance Contributions, maintenance of individual records and associated tasks.

iii. For payroll and investment services provided to Northern Ireland Departments.

iv. For the administration of the Redundancy Payment Scheme as required under the Employment Rights (Northern Ireland) Order 1996.

v. For investment services provided in pursuance of Section 141(3) of the Social Security Administration (Northern Ireland) Act 1992.

vi. For the audit of the 2011-12 NIF Account.

vii. For actuarial services relating to the NIF.

12. Closing balance

As at 31 March	Notes	2013 £000	2012 £000
Securities held by the CRND[1]	i	**1,033,668**	1,270,061
Cash at bank		**3**	8
Other balances	ii	**(152,367)**	(133,386)
Total	iii	**881,304**	1,136,683

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

ii. Other balances represent sums owing to government departments and overseas administrations in respect of the operation of the NI NIF.

iii. Had the overfunding position of the NHS allocation explained in note 2 not occurred the balance of the fund would have stood at an estimated £890.3 million.

Other Financial Information

The information below on losses, redundancy payments, special payments and fraud and error in benefit payments is not included in the Receipts and Payment Account, which is produced on a cash basis. Details are included below to provide further information on the Fund for the reader of the accounts. Full details can be found in the published annual report and accounts for HMRC and NISSA.

a. Losses

For the year ended 31 March		2013		2012	
	Notes	Amount £000	No. of cases	Amount £000	No. of cases
Contribution losses	i	**11,666**		10,300	
Redundancy losses	ii	**3,639**	**326**	3,930	298
Other losses	iii	**3,492**	**9,289**	4,002	7,404
		18,797		18,232	

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

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

[1] Commissioners for the Reduction of National Debt

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

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

b. Redundancy payments and receipts (debt and adjustments)

For the year ended 31 March	2013 £000	2012 £000
Outstanding debt as at 1 April	**30,965**	25,484
Plus: Redundancy payments	**13,859**	10,063
Less: Redundancy receipts	**(725)**	(652)
Less: Debt adjustment	**(3,639)**	(3,930)
Outstanding debt at 31 March	**40,460**	30,965

The total debt outstanding at 31 March 2013 was £40.5 million.

The debt adjustment and outstanding debt do not form part of the accounts. They are shown here to give additional information. Further detail can be found in the Department for Employment and Learning (DEL) accounts for 2012-13.

c. Special payments

For the year ended 31 March		2013		2012	
	Notes	£000	No. of cases	£000	No. of cases
Wrongly advised benefit	i	**128**	**33**	143	57
Extra statutory payments	ii	**37**	**200**	–	–
Total special payments		**165**		143	

i. These are ex gratia payments made to claimants who were wrongly advised of their entitlement by NISSA.

ii. In addition for 2012-13 NISSA paid extra statutory payments of Employment and Support Allowance (contributory) for individuals who moved across from GB to NI. Pending a change in legislation they cannot be paid via the normal benefit payment system and therefore, temporarily, have to be paid by way of special payment.

d. Fraud and error in benefit payments

Background

The Social Security and Benefits (Northern Ireland) Act 1992 and related legislation sets out the basis on which the NISSA within the Department for Social Development (DSD), calculates and pays benefits from the NIF.

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

Overall performance analysis

The estimated level of overpayments from the NIF due to fraud and error remained the same from 2011-12 to 2012-13 at £12.3 million. The level of overpayments as an overall percentage of expenditure has decreased from 0.56 per cent (2011-12) of total NIF benefit expenditure to 0.53 per cent (2012-13). The estimated amount of underpayments decreased from £9.9 million (2011-12) compared to £8.8 million (2012-13). The proportion decreased from 0.45 per cent to 0.38 per cent of total annual NIF benefit expenditure.

This represents an overall improvement in performance for 2012-13 as a result of:

- A reduction in the estimated level of Incapacity Benefit (IB) overpayments
- A decrease in the level of underpayments predominately due to a decrease in State Pension underpayments.

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

Figure 1: Estimated levels of overpayments due to fraud and error[2]

	Expenditure		Overpayments			
	2012-13	2011-12	2012-13		2011-12	
Benefit	£ million	£ million	£ million	percentage of NIF benefit expenditure	£ million	percentage of NIF benefit expenditure
State pension and bereavement benefits	**1,940.5**	1,799.4	**1.4**	**0.07**	0.6	0.04
Incapacity Benefit	**199.9**	275.8	**6.3**	**3.16**	8.7	3.16
Employment & Support Allowance	**127.6**	64.2	**4.1**	**3.22**	2.5	3.90
Contribution based Jobseeker's Allowance	**23.3**	23.9	**0.5**	**2.27**	0.5	2.09
Other	**14.8**	14.2	**N/A**	**N/A**	N/A	N/A
	2,306.1	**2,177.5**	**12.3**	**0.53**	**12.3**	**0.56**

Source: Northern Ireland Social Security Agency (NISSA) fraud and error estimates produced by NISSA Standards Assurance Unit. For additional information relating to the estimated levels of over/underpayments due to fraud and error please refer to the 2012-13 NISSA Annual Report and Accounts. Rows, columns and percentages may not sum due to roundings.

Figure 2: Estimated levels of underpayments due to fraud and error[2]

Benefit	Expenditure 2012-13 £ million	Expenditure 2011-12 £ million	Overpayments 2012-13 £ million	Overpayments 2012-13 percentage of NIF benefit expenditure	Overpayments 2011-12 £ million	Overpayments 2011-12 percentage of NIF benefit expenditure
State pension and bereavement benefits	**1,940.5**	1,799.4	**6.4**	**0.33**	7.0	0.39
Incapacity Benefit	**199.9**	275.8	**1.0**	**0.48**	1.3	0.48
Employment & Support Allowance	**127.6**	64.2	**1.4**	**1.07**	1.6	2.42
Contribution based Jobseeker's Allowance	**23.3**	23.9	**0.1**	**0.23**	0.04	0.18
Other	**14.8**	14.2	**N/A**	**N/A**	N/A	N/A
	2,306.1	**2,177.5**	**8.8**	**0.38**	**9.9**	**0.45**

Source: Northern Ireland Social Security Agency (NISSA) fraud and error estimate produced by NISSA Standards Assurance Unit. For additional information relating to the estimated levels of over/underpayments due to fraud and error please refer to the 2012-13 NISSA Annual Report and Accounts. Rows, columns and percentages may not sum due to roundings.

2 The above tables (figures 1 & 2) are based on the Agency's estimates and are subject to a degree of statistical uncertainty. They are prepared to within a stated range of accuracy, described as confidence intervals. NISSA has prepared the estimates to a 95 per cent confidence level. NISSA estimates that for 2012-13 that the levels of overpayment lie in the range of £5 million to £21.6 million (2011-12 £4 million to £22.8 million); whilst the corresponding range of underpayments is from £2.6 million to £18.5 million (2011-12 £3.1 million to £20.5 million).

The percentages used to calculate the estimated Monetary Value of Error against the provided NIF expenditures for Employment Support Allowance (ESA) and contributory Job Seekers Allowance (JSA) were taken from the combined income and contributory results for the respective ESA and JSA benefits.

Ongoing action/strategies

NISSA has made a long term commitment to reduce benefit fraud and error and this issue has remained within its key business priorities for a number of years. They have introduced specific checks and case reviews in each of the main benefits to identify and correct error, and where appropriate investigates and prosecutes suspected fraud. These arrangements support a wide range of checks and controls in place right across NISSA and form part of their normal governance procedures.

NISSA ensures current and proposed future activities are proportionate and represent value for money having regard to the cost of control, the impact on accessibility for customers, the timeliness of benefit payments, and the resulting impact on fraud and error.

These activities continue to be successful with the levels of NIF fraud and error overpayments now at their lowest recorded levels ever. Over the last 4 years in percentage terms, estimated total overpayments have reduced by 0.22 per cent from £15.1 million (0.75 per cent of benefit expenditure in 2009) to £12.3 million (0.53 per cent of benefit expenditure) in 2012.

NISSA gives equal attention and priority to identifying and correcting both overpayments and underpayments. Indeed identifying those cases not receiving their full entitlement and correcting the benefit payment is an integral part of the NISSA Error Reduction activities. Of the approximate 11,500 total benefits cases identified and corrected during 2012-13 over 4,200 represented an increase in benefit awards.

Errors in benefit accounting

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

The report by the Comptroller and Auditor General (page 27) comments on the estimated level of accounting errors. NISSA has a monthly process in place to correct a proportion of the benefits awarded from the incorrect fund.

Annex

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

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

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

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

   a) a foreword;

   b) an account of receipts and payments;

   c) a statement of balances

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

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

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

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

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

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

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

Schedule

Format of Account and Disclosure requirements – Northern Ireland

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

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

   a) statutory background;

   b) operational responsibilities;

   c) financial performance;

   d) audit arrangements; and

   e) responsibilities of the Accounting Officer.

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

4. The **notes** shall include:

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

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

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

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

Report by the Comptroller and Auditor General

Introduction

1. The National Insurance Scheme, covering both Great Britain and Northern Ireland, 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 Northern Ireland National Insurance Scheme are payable out of the Northern Ireland National Insurance Fund. The monies required for meeting the cost of these benefits are mainly provided from National Insurance Contributions payable into the Fund by employed earners, employers, the self-employed and voluntary contributions. 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.

2. Under section 141 of the Social Security Administration (Northern Ireland) Act 1992 (as amended), Her Majesty's Revenue and Customs (HMRC) is responsible for the control and management of the Northern Ireland National Insurance Fund and for preparing the Northern Ireland National Insurance Fund Accounts. However, the Northern Ireland Social Security Agency (NISSA) is responsible for administering benefits paid to customers out of the Fund.

3. In 2012-13, receipts amounting to £2.13 billion were paid into the Fund, of which £1.73 billion related to National Insurance contributions, and payments out of £2.39 billion were made.

Audit opinions

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

   - the Northern Ireland National Insurance Fund Account properly presents the receipts and payments for the year ended 31 March 2013;
   - the account has been properly prepared in accordance with the 1992 Act and Treasury Directions thereunder; and
   - the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them (the 'regularity' opinion).

5. While the account for the year ended 31 March 2013 properly presents the amounts received and paid, I have qualified my opinion on the regularity of benefit expenditure because of the estimated level of overpayments attributable to fraud and error which do not conform to Parliament's intentions; and because of the level of under and overpayments which are not in conformity with the relevant authorities.

Fraud and error in benefit payments

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

7. The Northern Ireland Social Security Agency produces an annual estimate of over and underpayments in benefits based on its review of official error, customer fraud and customer error.[1]

8. In 2012-13, the Northern Ireland Social Security Agency estimated (as shown in note d in the Other Financial Information section of these accounts on page 20) that the value of overpayments was £12.3 million (0.53 per cent of related payments) and the value of underpayments was £8.8 million (0.38 per cent of the relevant payments). I have combined these estimates to determine that the value of incorrect contributory benefit payments due to fraud and error was £21.1 million, some 0.91 per cent of benefit payments (2011-12: £22.2 million, 1.01 per cent), continuing the trend of a reduction in fraud and error levels for a third consecutive year. These estimates are subject to a degree of statistical uncertainty which is explained further within note d.

9. As can be seen in note d in Other Financial Information, the level of fraud and error can vary significantly depending on the benefit in payment. Incapacity Benefit and Employment and Support Allowance both have estimated levels of fraud and error greater than 3 per cent of the related benefit expenditure. In contrast, State Pension has an estimated level of error and fraud of under 0.5 per cent of related benefit expenditure. This means that the overall estimated level of fraud and error depends on the relative proportions of each type of benefit expenditure incurred in the year.

10. As part of my audit of benefit payments, I reviewed the work of the Standards Assurance Unit and obtained assurances around the Agency's fraud and error estimates, including un-reviewed benefits. I am satisfied that the figures reported by the Agency were the best estimates available at the time the accounts were produced.

Errors in benefit accounting

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

12. The Agency has improved its methodology for estimating accounting errors in 2012-13 enabling it to produce its own estimates of the level of error. The Agency's current best estimate of the level of accounting errors in 2012-13 is that a net £13.8 million, some 0.60 per cent of benefit payments (2011-12: £15.6 million, 0.72 per cent) have been incorrectly met from the Consolidated Fund rather than from the Northern Ireland National Insurance Fund. This error estimate comprises £15.5 million (2011-12: £15.9 million) in respect of contributory benefits that have not been charged to the Fund and £1.7 million (2011-12: £0.3 million) of non-contributory benefits that have been charged to the Fund erroneously.

13. I welcome the Agency's progress in producing these estimates which enable it to better determine the extent of the accounting errors and therefore enable them to take corrective action where necessary. When forming my regularity opinion, I have considered the level of accounting errors separately to the monetary value of fraud and error referred to in paragraphs 6 to 10 of my Report. I do not consider that the estimated level of accounting errors in 2012-13 to be material to the reader's understanding of the Northern Ireland National

[1] The Northern Ireland Social Security Agency estimates the monetary value of official error from a financial accuracy exercise undertaken by its Standards Assurance Unit, which involves the examination of a statistical sample of all benefit awards. Its estimates of customer fraud and error for Employment and Support Allowance are based on results from the Benefit Reviews completed in 2012. Customer fraud and error estimates for Jobseeker's Allowance are based on the most recent Benefit Review completed in 2011 and updated for 2012-13. Customer fraud and error estimates for Incapacity Benefit and State Pension are based on the most recent Benefit Reviews completed in 2009 and updated for 2012-13. As in 2011, a formal financial accuracy exercise was carried out for official error in 2012 covering State Pension, Jobseeker's Allowance, Employment and Support Allowance and Widow's Benefit/Bereavement Benefit and the Agency's estimates of official error in these benefits are therefore based on the results of that exercise. Official error for Incapacity Benefit is based upon the financial accuracy exercise carried out in 2011 and updated for 2012-13.

Insurance Fund, and therefore these do not form a part of my decision to qualify my regularity opinion on these accounts.

Actions taken by the Northern Ireland Social Security Agency to reduce fraud and error

14. During 2012-13, the reduction of benefit fraud and error remained one of the Northern Ireland Social Security Agency's key business priorities. Examples of some of the activities undertaken by the Agency to reduce fraud and error are included in note d in Other Financial Information. Strategies include risk-based targeting to identify and correct error and training to improve staff knowledge.

15. The Agency believes that, as a result of the cumulative impact of their actions over time, they are now seeing sustained reductions in fraud and error levels. Given the statistical uncertainty inherent in the estimation process, as discussed in paragraph 8, I have been unable to determine how much of the reported fraud and error is due to an underlying movement in rates of fraud and error over time and how much is due to normal statistical variations in the estimates produced by the Northern Ireland Social Security Agency, although the Agency's best estimate of error and fraud does suggest a further decline in 2012-13.

Conclusion

16. I consider the levels of benefit over and underpayments material within the context of the £2.31 billion benefit payments made from the Fund in 2012-13. I have therefore qualified my opinion on the regularity of benefit expenditure as these payments do not conform to Parliament's intention and are not in conformity with the relevant authorities.

17. However, the Agency has again reiterated to me its commitment to tackling fraud and error in the benefits system. I welcome that overall estimated levels of fraud and error in benefit expenditure have again declined in 2012-13 and I look forward to seeing further sustained improvements in future years.

Amyas C E Morse
Comptroller and Auditor General

16 December 2013

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

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ISBN 978-0-10-298676-1