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

Northern Ireland National Insurance Fund Account 2004-2005

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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 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) placed the NI NIF under the control and management of the Inland Revenue (IR).

Following the Chancellor's announcement in his March 2004 budget speech, legislation received Royal Assent on 7 April 2005 bringing into existence a new department, HM Revenue and Customs. This became a legal entity on 18 April 2005, incorporating the Inland Revenue and HM Customs and Excise. HM Revenue and Customs (HMRC) have prepared these accounts and references to HMRC also cover the functions of the Inland Revenue.

The Deputy Chairman of the Board of HMRC is the Accounting Officer for the Fund. Section 141(1) of the Social Security Administration (Northern Ireland) Act 1992 requires HMRC to prepare accounts of the NI NIF in such form, and in such manner and at such times, as the Treasury may direct. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balance held at the year-end.

Operational responsibilities

National Insurance contributions are payable by employed earners, employers and others. HMRC are 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 control and management 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. The Northern Ireland Social Security Agency (NISSA), an agency of DSD, actually administer the payment of benefits. 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 and an update provided 23 December 2004.

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 1992 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.

The balance on the NI NIF has decreased by £33 million compared with the position at 31 March 2004 (£734 million). At 31 March 2005 the balance in the NI NIF is £701 million (46 per cent of annual benefit expenditure).

The Government Actuary's last Report on the Government's benefits uprating and contributions re-rating Orders were laid before Parliament on 26 January 2006 alongside the 2005 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 estimates of benefit payments and contributions, both large 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.

Responsibilities of the Deputy Chairman of the Board of HM Revenue and Customs

As Deputy Chairman of the Board of HMRC, 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 letters of assurance from them as detailed in the Statement on Internal Control.

Paul Gray 18 April 2006
Accounting Officer

Statement on Internal Control

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

Scope of responsibility

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 HM Revenue and Customs (HMRC) and previously Inland Revenue (IR) 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.

Whilst HMRC has overall responsibility for the control and management of the Fund and for collecting National Insurance contributions, the Northern Ireland Social Security Agency (NISSA), an agency of Department for Social Development (DSD), has responsibility for benefit payments, and the Department Education and Learning (DEL), has responsibility 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

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 IR for the year ended 31 March 2005 and in HMRC up to the date of the approval of the accounts, and accords with Treasury guidance.

Specific work undertaken on behalf of the NIF only forms a small part of the whole work of HMRC. A separate SIC is produced for the HMRC 2004-2005 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 Inland Revenue 2004-2005 Accounts.

The main elements of the HMRC's capacity to handle risk and the risk and control framework are summarised below.

Control environment

I have a clearly defined 'Statement of Accounting Officer responsibilities'.

The Commissioners of HMRC, created by the Act of Parliament, met in April 2005 and put in place a high level governance structure to include:

- the Departmental Board;
- an Executive Committee;
- an Operating Committee; and
- an Audit Committee.

More details of which are contained within the Statement on Internal Control in the Inland Revenue 2004-2005 Accounts.

I also plan to carry out a review of the investment policy applied to the NIF, reporting before the end of the financial year, and aiming to apply its findings to investment activity from 2006-2007. Amongst its terms of reference will be a consideration of the types of investment made relative to the size of the fund and the costs of making those investments.

Capacity to handle risk

The creation of HMRC presented significant risks both in terms of achieving the merger of the former HM Customs and Excise and IR, and maintaining delivery of Business Objectives. The decision was therefore taken to de-risk the process as far as possible by ensuring legislation addressed the specific issues necessary to get the new organisation in place, while carefully managing the integration both to minimise the impact on delivery and to ensure there was no spend on HMRC prior to successful enactment of the Bill.

Staff in the two former Departments continue to have access, through the Intranet to risk management guidance. HMRC are in the process of drawing this guidance together into a single risk framework.

The Executive Committee meets weekly and considers the progress in managing top risks as part of those meetings. Work is also in progress to draw up a single risk framework for HMRC.

The risk and control framework

The risk management frameworks developed in the two former departments, although different, were consistent with common risk management principles and practices. Each involved a process for identifying top risks, taking account of impact and probability, and the upward reporting of these. The new risk management framework HMRC are putting in place will retain these fundamental elements and will seek to embed them across the organisation. HMRC are also putting in place arrangements to integrate risk and performance reporting. Risk management is also a key component of the Management Framework that has been developed for all HMRC managers.

There is a NIF Audit Forum consisting of representatives from key Internal Audit Units, the National Audit Office, other Government Departments and management. The forum focuses on co-ordinating risk-based audit activity such as planning, reporting and implementation of recommendations and fostering opportunities for joint working and exchange of best practice.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control within HMRC. 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 HMRC 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.

To provide me with an assurance on the effectiveness of the system of internal control, the Director of Internal Audit provides a summary of the findings from every internal audit review, raising significant control issues as they arise. The Chairman of the Audit Committee, who is also a non-Executive Board member, provides the Board with a written report after each Audit Committee meeting.

In making my assessment, I also take account of the management letters made by the NAO, the Comptroller and Auditor General's report to Parliament, and of the findings of the Committee of Public Accounts (PAC).

The Directors General and other senior managers have drawn up statements that set out governance, risk and control arrangements in their business areas. Taking these into account, and the views of the Director of Internal Audit and NAO, I recognise that there are a number of significant control weaknesses. Specific areas relating to the NIF requiring disclosure are:

Update on issues raised in 2003-2004 Statement

Payments to the National Insurance Funds from HMRC

Last year I reported on an accumulated underpayment owed from the IR to the National Insurance Funds. During 2004-2005 the IR implemented controls to prevent similar underpayments occurring in the future. In March 2005 the IR with the agreement of HM Treasury, paid over £938 million to the Funds to make good the underpayment.

Non-matching items

I reported on this issue in the 2003-2004 SIC. We continue to look at how best to further reduce the number of non-matched National Insurance contributions and we have introduced a number of initiatives to address these issues. The Modernising PAYE Processes for Customers (MPPC) programme and the introduction of a quality standard will ensure that the quality of data received will be improved. We also commissioned MORI to undertake independent research on non-matching items, the results, ideas and suggestions from employers have, where possible, been fed into initiatives already underway with our Data Quality Task Force programme.

New Issues Raised in 2004-2005

Age Related Rebates

As part of the Modernising PAYE Processes for Customers (MPPC) programme we developed a data routing and validation system called the External Routing Interface Component (ERIC). ERIC supports the processing of employer's end of year returns (EYRs) and was planned to go live in April 2005 but was delayed until June 2005. The delay in processing EYRs has impacted the payment schedule of Age Related Rebates to pension providers.

The Government Actuary Department calculates the percentage rebate rates and assumes that 80 per cent of rebates will be processed by the beginning of November each year. This year around 70 per cent have been paid by the beginning of November.

HMRC has been in regular discussion with Pension Industry representatives and has plans in place to ensure that the remaining rebates are paid over as quickly as possible.

Re-platforming of NIRS2

The National Insurance Recording System (NIRS) is a single Head of Duty system administered by HMRC with the purpose of recording contribution and credit data, maintenance of personal details, liability and Contracted–out Scheme information.

NIRS is a strategic IT system supporting key business operations in both HMRC and DWP. Responsibility for development and operational management of the system transferred from Accenture on 2 January 2005, in accordance with the provisions of the Inland Revenue's ASPIRE contract. The new contract required the ASPIRE suppliers to re-platform the NIRS system onto modern software and hardware. The agreed strategy was to undertake this over three phases. The final phase was completed on the August 2005 Bank Holiday weekend following extensive testing and liaison with our stakeholders.

The re-platforming was completed to plan with all functions working as expected with batch processing showing significant performance improvements. Initial difficulties with limited access to the system, affecting a number of users in HMRC but not DWP users, have been largely resolved. Further changes may be required over the next few weeks to strengthen the solutions already introduced.

Class 2 National Insurance 'debt ' balances

Class 2 National Insurance (C2N) is a flat rate contribution (currently £2.10 per week) paid by the self-employed. When HMRC are notified that a person is self-employed, HMRC assume that they continue to be liable for C2N until they are told otherwise. Inevitably, some of the debt balance held on HMRC systems will be false – for example, where a person has ceased self-employment, but failed to notify HMRC.

As a result of a combination of factors, the level of the C2N debt balance has continued to rise over a number of years, and £616 million of it was over six years old as at 6 April 2005 and therefore time-barred. A cross-departmental working group was set up in February 2005 to gain an understanding of the end to end C2N process – which included establishing what percentage of the total balance represents true debt. In June 2005, the departmental Operating Committee agreed the following actions:

- within the time-barred irrecoverable balance of £616 million, the level of true debt is estimated as £333 million, which has been formally written-off. The remainder of the balance, which is not debt, has been written out of the accounts;
- we will pursue as a priority those balances, estimated as £71million, which will become time-barred and irrecoverable after 6 April 2006;
- we will look at options for reviewing the C2N policy and processes; and
- a director-level group will oversee all actions and report regularly to the Operating Committee.

Incapacity Benefit credits

The Department for Work and Pensions' (DWP) Pension Service Computer System (PSCS) provides Incapacity Benefit start and end dates to NIRS2, where credits are awarded for relevant weeks. These contribution credits are used in the calculation to determine whether a particular tax year is a qualifying year for benefit purposes. We are aware that the information on periods of incapacity on NIRS2 and PSCS does not correlate in a number of cases, and during 2005 we have been working with the DWP to establish the full scope and extent of these mismatches. This work will continue to be progressed in 2006 enabling us to take action to correct the situation.

Assurance from NISSA (an agency of DSD) in respect of Contributory Benefit Payments

A Letter of Assurance has been received from the NISSA that has been approved by their Audit Committee and contains details about their capacity to handle risk and their risk control framework. The letter draws on the NISSA SIC which can be found within their published Resource Accounts.

The Letter indicates significant internal control issues which have been detailed at high level below.

Arising from his audit of the 2003-2004 Resource Accounts the Comptroller and Auditor General (C&AG) reported on two major qualification issues.

The first of these concerned significant levels of estimated fraud and error in certain social security benefits.

During 2004-2005 the Agency has continued to monitor the levels of fraud, error, and decision making within its benefit administration.

The Standards Committee Report for 2004-2005 on Decision Making and Accuracy indicates that in terms of decision making standards seven out of fourteen benefit benchmark targets have been achieved, with six of these actually exceeding the benchmark.

In addition, results for payment/case accuracy show that six out of the ten targets were achieved with five exceeding the target. Regarding performance of the main benefits, both Jobseekers Allowance and Incapacity Benefit exceeded target, while Income Support improved on last year and was within 1 per cent of the new target set for 2004-2005. Performance for Disability Living Allowance however dipped slightly.

The final Benefit Review figures for 2004-2005 for levels of fraud and error relating to Income Support, Jobseekers Allowance, and the 2003-2004 figures for Disability Living Allowance have not yet been published. However, the information currently available indicates that in Income Support and Jobseekers Allowance the levels of fraud and error are continuing to reduce and the relevant PSA targets will be met.

A periodic Benefit Review into the level of Customer Fraud and Error for Incapacity Benefit has seen a decrease in the level of Customer Fraud from £5.8 million (2002-2003) to £3.7 million (2004-2005). However the level of Customer Error has increased significantly from £0.6 million (2002-03) to £5.9 million and overall percentage increase from 2.1 per cent (2002-2003) to 3 per cent (2004-2005).

During 2004-2005 there was also a focus on training and awareness and the sharing of best practice in the drive to improve standards.

For 2005-2006 reducing fraud and error is one of the five key priority areas for the Agency with a primary focus on quality and accuracy in the provision of benefits to customers.

Assurance from DEL in respect of the Redundancy Payments Scheme

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.

The Letter gives an assurance that there were no significant internal control issues that impact on the NIF.

Paul Gray
Accounting Officer

18 April 2006

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

I certify that 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 Deputy Chairman of the Board of HM Revenue and Customs 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 on 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 on 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.

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 Northern Ireland 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 also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion due to irregular benefit payments

As disclosed in paragraph 9 of my Report, payments include benefit payments calculated erroneously and benefit payments arising from fraudulent claims. Under Social Security legislation, the Department for Social Development must calculate benefits due in accordance with the regulations; it has no authority to vary benefit awards. Fraudulent transactions cannot, by definition, be regular since they are without proper authority. Accordingly I have concluded that payments arising from erroneous benefit awards and fraudulent benefit claims have not been applied to the purposes intended by Parliament and they are not in conformity with the authorities which govern them.

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 2005 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; and
- except for the payments relating to erroneous benefit awards and arising from fraudulent benefit claims, 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.

My report on the financial statements is at pages 23 to 25.

John Bourn
Comptroller and Auditor General

25 April 2006

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Receipts and Payments Account for the year ended 31 March 2005

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

	Notes	2004-2005 £000	2003-2004 £000
Receipts			
National Insurance contributions	2	**1,292,845**	1,239,297
Transfers from Great Britain NIF	5	**270,000**	260,000
Compensation for SSP,SMP,SAP,SPP Recoveries*	3	**37,487**	33,480
Income from investments	4	**32,842**	34,886
State Scheme Premiums	6	**2,413**	3,040
Other receipts	7	**2,068**	4,135
Redundancy receipts	8	**324**	1,176
		1,637,979	1,576,014
Less			
Payments			
Benefit payments	9	**1,560,851**	1,457,794
Personal pensions	10	**66,400**	76,300
Administration costs	11	**41,095**	40,068
Redundancy payments	8	**2,610**	5,223
Other payments	12	**2**	1
		1,670,958	1,579,386
Excess of payments over receipts		**(32,979)**	(3,372)

Statement of Balances

	Note	2004-2005 £000	2003-2004 £000
Opening balance		**734,070**	737,442
Less			
Excess of payments over receipts		**(32,979)**	(3,372)
Closing balance	14	**701,091**	734,070

*SSP: Statutory Sick Pay
SMP: Statutory Maternity Pay
SAP: Statutory Adoption Pay
SPP: Statutory Paternity Pay

Paul Gray 18 April 2006
Accounting Officer

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

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, maternity, adoption and paternity 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 HMRC. These checks and other checks on contributors may result in additional receipts or repayments in future years in respect of contribution liabilities for 2004-2005.

Payment of Social Security benefits

The Department for Social Development (DSD) is responsible for administering social security benefits in Northern Ireland, financed either from the NI NIF or from the Consolidated Fund. Where an individual is in receipt of more than one benefit, it is the DSD policy to combine amounts due into a single payment wherever practicable. NI NIF benefits are paid by cash cheque, payable order, order book, credit transfer and direct payment. The DSD is currently working towards having all customers paid by direct payment. DSD cannot 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 DSD PACS Team (Programme Accounting Computer 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, maternity, adoption and paternity pay and settlements with Great Britain NIF.

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

		2004-2005 £000	2003-2004 £000
Contributions			
Class 1 (employed earners)	(i)	**1,222,603**	1,158,556
Class 1A and 1B	(ii)	**14,610**	14,118
Class 2 (self-employed flat rate)	(iii)	**5,200**	5,590
Class 3 (voluntary contributions)	(iv)	**2,219**	1,667
Class 4 (self-employed earnings-related)	(v)	**48,213**	59,366
		1,292,845	1,239,297

In March 2005 the Inland Revenue paid over £938 million to the Great Britain and Northern Ireland National Insurance Funds to make good an accumulated underpayment of National Insurance. £31 million of this relates to the Northern Ireland National Insurance Fund in respect of contributions reported in previous years, reducing the amount of money due from HMRC to the NIFs.

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 HMRC Pay as You Earn scheme with their Class 1 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 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.

NHS Allocation

The Social Security Administration (Northern Ireland) Act 1992 requires that the Government Actuary's Department apportion the National Insurance contributions collected each year. The main focus 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 the contributions are paid into the NI NIF and so the figures shown above are shown net of the NHS element. NHS allocation was £381 million 2004-2005 (£332 million 2003-2004).

Additionally, GAD also allocates amounts recovered by employers in respect of statutory sick, maternity, adoption and paternity pay from the Class 1 total.

3 Compensation for Statutory Sick, Maternity, Adoption and Paternity Pay recoveries

	2004-2005	2003-2004
	£000	£000
Statutory Sick and Maternity Pay (i)	**37,487**	33,480
Statutory Adoption and Paternity Pay (ii)	**0**	0
Total	**37,487**	33,480

The Government compensates the NIF for loss of revenue due to contribution receipts being reduced by recoveries of statutory sick, maternity, adoption and paternity pay. The compensation is drawn down from the Consolidated Fund and then paid over to the NI NIF by other Government Departments, as the NIF has no facility to do so.

i Recoveries in respect of statutory sick and statutory maternity payments are paid from the DSD Resource Accounts.

ii Statutory adoption and paternity pay were introduced in April 2003 and the compensation due to the NIF is to be paid over by the DTI. At present actual data is not available and the amount of compensation shown as due is based on estimates. The DTI paid £57 million over to the GB NIF. This estimated figure will be reviewed during 2005-2006 and adjusted to reflect known actuals. A proportion of this sum is due to NI NIF and an adjustment will be made once figures are finalised.

4 Income from investments

	2004-2005	2003-2004
	£000	£000
Interest received	**36,073**	38,182
Loss on realisation	**(3,686)**	(4,188)
Bank interest	**455**	892
	32,842	34,886

During the year, the value of the investments at cost held increased from £653.2 million at 31 March 2004 to £762.6 million at 31 March 2005 (note 13).

The responsibilities of HMRC and the Commissioners for the Reduction of National Debt in respect of the investment of surplus NIF funds are set out in a Memorandum of Understanding. The current Investment Strategy requires the balance of the Fund to be invested in gilt holdings with a residual maturity of no longer than 20 years.

5 Transfers from Great Britain NIF

	2004-2005	2003-2004
	£000	£000
Transfer from Great Britain NIF	**270,000**	260,000

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

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

6 State Scheme Premiums

	2004-2005	2003-2004
	£000	£000
State Scheme Premiums	**2,413**	3,040

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

	2004-2005	2003-2004
	£000	£000
Recoveries of compensation payments	**2,068**	4,135

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 NIF benefits have already been paid to people by DSD.

The 2003-2004 recovery receipts were not adjusted for refunds of compensation payments. This resulted in an overpayment of £1.3 million, which was recovered by DSD in 2004-2005.

8 Redundancy payments and receipts

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

The scheme ensures that employees who have been made redundant are paid the statutory money due to them when their employers are unable to do so, usually because of insolvency. In doing so, the scheme also has to protect the taxpayers interests by ensuring that it does not make payments, which can and should be made by the employers themselves. The scheme 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 2005 was £16 million.

	2004-2005	2003-2004
	£000	£000
Outstanding debt at 31 March	**16,278**	14,143
Opening Adjustment	**4**	(2)
Plus Redundancy Payments	**2,602**	5,220
Less Redundancy Receipts	**(324)**	(1,176)
Less Debt written off (note 15)	**(2,410)**	(1,907)
Outstanding debt at 31 March (year end)	**16,150**	16,278

In addition DEL paid other charges of £8,882 (2003-2004 £3,240). These are included within the Redundancy payments figures shown on the face of the Receipts and Payments account.

9 Benefit payments

		2004-2005 £000	2004-2005 £000 Adj *	**2004-2005 £000 Total**	2003-2004 £000
Benefits					
Retirement pension	(i)	1,142,583	49,673	**1,192,256**	1,082,605
Incapacity benefit	(ii)	319,140	(6,178)	**312,962**	321,648
Bereavement allowance	(iii)	31,077	3,145	**34,222**	33,069
Jobseekers allowance (Contributory)	(iv)	12,269	1,104	**13,373**	14,011
Christmas bonus for pensioners	(v)	3,029	499	**3,528**	3,040
Maternity allowance/payment	(vi)	4,237	315	**4,552**	3,347
Guardian's and Child's special allowance	(vii)	60	(102)	**(42)**	74
		1,512,395	48,456	**1,560,851**	1,457,794

* As a result of more reliable information becoming available to the DSD the prior year benefit expenditure figures from 2001-2002 to 2003-2004 have been revised. The breakdown of the amended expenditure has been shown seperately for the purpose of the note to the accounts but is shown as an aggregate whole figure in the receipts and payments account. Additional funding required for the expenditure already incurred will be paid in 2005-2006.

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 people 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 HMRC 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

	2004-2005 £000	2003-2004 £000
Personal Pension Payments	**66,400**	76,300

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

For 1997-98 and later tax years, this is based on earnings between the lower and upper earnings level and the age of the member. Similarly, from April 1997, members of Contracted Out Money Purchase (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

		2004-2005 £000	2003-2004 £000
Payments made in respect of Administration			
Department of Social Development	(i)	**30,200**	29,910
Inland Revenue	(ii)	**7,909**	7,138
Department of Finance and Personnel	(iii)	**2,308**	2,308
Department for Employment and Learning	(iv)	**499**	532
Commissioners for the Reduction of the National Debt	(v)	**71**	21
Government Actuary's Department	(vi)	**21**	0
National Audit Office (Audit fees)	(vii)	**35**	90
Law Costs	(viii)	**52**	69
Total		**41,095**	40,068

The administration costs relate to services directly attributable to the NI NIF and are reimbursed to the respective service provider from the NI NIF. The costs are fixed for the year 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 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.

v For Actuarial services involving Social Insurance. No payments were received in 2003-2004. Payment was made in 2004-2005.

vii For the annual audit of these Accounts and the production of the Report thereon. 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.

viii Payment of court related recovered costs.

12 Other payments

		2004-2005 £000	2003-2004 £000
Insolvency Refunds	(i)	**2**	1

i Upon winding up the affairs of an insolvent business the insolvency practitioner pays over any arrears of National Insurance Contributions to HMRC. 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 2005

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 Functions, etc.) (Northern Ireland) Order 1999 for the investments of the NIF. They are authorised to invest in accordance with directions given by Treasury and in line with the Memorandum of Understanding between HMRC and CRND as detailed in Note 4.

	Nominal value £000	Cost price £000	**Market value at 31 March 2005 £000**
Government and Government Guaranteed Stocks			
Up to 1 year	464,396	464,691	**466,973**
1 to 5 years	248,117	272,640	**261,855**
5 to 10 years	23,055	25,283	**25,222**
Over 10 years	0	0	**0**
Total securities	735,568	762,614	**754,050**

	Nominal value £000	Cost price £000	Market value at 31 March 2004 £000
Government and Government Guaranteed Stocks			
Up to 1 year	348,858	352,544	352,260
1 to 5 years	250,582	275,399	270,308
5 to 10 years	12,550	12,472	12,830
Over 10 years	10,505	12,811	12,570
Total securities	622,495	653,226	647,968

14 Closing balance

		31 March 2005 £000	31 March 2004 £000
Securities held by the CRND at Cost (note 13)			
Cash at Bank – Current Account	(i)	**762,614**	653,226
Other balances	(ii)	**10,604**	9,001
		(72,127)	71,843
Total		**701,091**	734,070

i It is necessary for this account to maintain a closing balance around £10 million in order to meet funding requirements.

ii 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

		2004-2005		2003-2004	
		£000	**No of cases**	£000	No of cases
Contributions - NI NIF share					
HMRC: Remissions and waivers	(i)	**2,501**	**1,426**	2,397	1,753
HMRC: Debt transferred	(ii)	**3,087**	**593**	2,450	478
National Insurance Contributions Office in GB	(iii)	**30**	**275**	14	112
		5,618	**2,294**	4,861	2,343
Redundancy	(iv)	**2,410**	**268**	1,907	224
Other losses	(v)	**751**	**11,364**	564	2,959

i HMRC 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.

ii Relating to National Insurance debts in respect of insolvent companies where the National Insurance Contributions Office are responsible for the subsequent write-off or recovery.

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

iv 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.

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

16 Special payments

	2004-2005		2003-2004	
	£000	**No of cases**	£000	No of casess
Special payments	**60**	**34**	39	25

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

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.1 5) 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;

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 16 October 2000

Treasury Officer of Accounts

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;

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	**XXXX** **£000**	XXXX £000
Receipts			
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			
Less			
Payments			
Benefit payments			
Personal pensions			
Administration costs			
Redundancy payments			
Transfers to Northern Ireland			
Other payments			
Excess of receipts over payments			

Statement of Balances

	Notes	**XXXX** **£000**	XXXX £000
Opening balance			
Plus			
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 (the Fund) provides for expenditure on benefits and allowances where individuals have paid sufficient National Insurance contributions and have met other qualifying conditions.

2 Until April 2005 the Inland Revenue was accountable for the Fund. From April 2005 this responsibility is vested in HM Revenue and Customs, following the merger of the Inland Revenue with HM Customs and Excise. In this report, references to HM Revenue and Customs also cover the functions of the Inland Revenue.

3 HM Revenue and Customs are responsible for the collection of National Insurance contributions from employers, employees, the self employed and those who pay additional contributions. The Department for Social Development (the Department) is responsible for administering those benefits paid out to claimants from the Fund.

4 In 2004-2005, receipts of £1,638 million (mainly in the form of National Insurance contributions) were paid into the Fund and payments of £1,671 million (mainly contribution-based benefits) were paid out of it. The balance on the Fund at 31 March 2005 was some £701 million.

Qualified opinion due to irregular benefit payments

5 I am required, under Auditing Standards, to obtain sufficient evidence to satisfy myself that the financial statements of the Northern Ireland National Insurance Fund properly present the receipts and payments and are properly prepared in accordance with the Social Security Administration Act (Northern Ireland) 1992 and Treasury Directions made thereunder. I am also required to form an opinion on 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. In forming my opinion, I examine, on a test basis, evidence supporting the amounts, disclosures and regularity of financial transactions included in the financial statements and assess the significant estimates and judgements made in preparing them.

6 I have qualified my opinion on the Fund's financial statements for 2004-2005 because of the estimated level of fraud and error in benefit payments. Under Social Security legislation, the Department must calculate benefits due in accordance with the regulations. Payments of benefit awards which are incorrectly assessed under governing regulations or made in respect of fraudulent claims are by definition without proper authority. Accordingly I have concluded that the payments arising from erroneous benefit awards and fraudulent benefit claims have not been applied to the purposes intended by Parliament and they are not in conformity with the authorities which govern them.

7 Except for the payments relating to erroneous benefit awards and arising from fraudulent benefit claims, I am satisfied that, in all material respects, the receipts and payments of the Fund have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I am also satisfied that financial statements properly present the receipts and payments of the Northern Ireland National Insurance Fund for the year ended 31 March 2005 and the balance held at that date and have been properly prepared.

Estimated level of irregular benefit payments due to fraud and error

8 In 2004-2005, the Department paid out £1,512 million in benefits from the Northern Ireland National Insurance Fund. Most of the expenditure on benefits paid was on retirement pension (£1,143 million), incapacity benefit (£319 million), bereavement benefits (£31 million) and contribution-based jobseeker's allowance (£12 million).

9 The National Audit Office, based on information provided by the Department and its own independent testing, has concluded that an estimated £16.1 million may have been lost through over-payments of benefit awards because of fraud and error, and there were further estimated underpayments of £3.9 million arising from errors by officials (See Figure 1).

10 These figures do represent a reduction in the level of official error compared to previous years and I am advised by the Department that this was due to more intensive efforts being devoted to making sure full evidence is available in all cases and greater emphasis on accuracy of assessments.

Figure 1: Estimated over and underpayment in benefits paid from the Northern Ireland National Insurance Fund in 2004-2005 (2003-2004 figure shown in brackets)

Benefit	Overpayments £ million	Underpayments £ million
Retirement Pension and Bereavement Benefit		
Official Error	3.1 (9.4)	1.6 (1.0)
Incapacity Benefit[1]		
Official Error	3.4 (4.0)	2.3 (4.0)
Customer Fraud [2]	3.7 (5.8)	n/a
Customer Error [2]	5.9 (0.6)	n/a
Total Incapacity Benefit	**13.0 (10.4)**	2.3 (4.0)
Total	**16.1 (19.8)**	**3.9 (5.0)**

Notes

1 In 80 per cent of underpayments of Incapacity Benefit, the claimants suffered no financial loss as they received an equivalent sum of Income Support.

2 2004-2005 Benefit Review. Comparative Figures based on the 2002-2003 Benefit Review for Incapacity Benefit.

Source: Department for Social Development

11 The Department's estimates of fraud and error are based on annual assessments of official error for short term and long-term benefits, and periodic National Benefit Reviews which provide a snapshot of the level of customer error and fraud.

12 The Department's Standards Assurance Unit supports this process with a rolling programme of checks on the accuracy of a sample of awards of the main benefits paid from the Fund. From this, the Department is able to prepare an annual estimate of the extent of over and under payments in each benefit due to errors by officials. This programme of checks does not provide an assessment of the level of customer error and fraud in benefit payments.

13 The Department also carries out Benefit Reviews, which on a cyclical basis seek to identify the total monetary value of errors by customers, and overpayments due to fraud for the reviewed benefit stream. A review in 2004-2005 by the Standards Assurance Unit on 'Customer Fraud and Error for Incapacity Benefit' has provided an update to previously recorded figures. While this showed a decrease in the level of customer fraud from £5.8 million (2002-2003) to £3.7 million (2004-2005), the level of customer error has increased significantly from £0.6 million (2002-2003) to £5.9 million (2004-2005) and the overall percentage increased from 2.1 per cent (2002-2003) to 3 per cent (2004-2005). In aggregate, including official error, the overpayments of incapacity benefit as a result of fraud or error stand at £13.0 million, some 4 per cent of incapacity benefit payments made in the year.

14 The Department has advised me that in 2005-2006 a plan to detect and drive out error from Incapacity Benefit has been implemented. As a result of this in the eleven months to the end of February 2006 I have been advised that over 6,000 cases have been examined and adjustments to benefit made to the equivalent of an annual value of over £5 million. Similar exercises will be carried out in 2006-2007 with the aim of reducing the levels of fraud and error in the benefit. In addition in March 2005, the Department launched a counter fraud publicity campaign to change the public perception of social security fraud from one of tolerance to one where it is unacceptable.

15 The last Benefit Review of Retirement Pension was carried out in 1999-2000. Given the length of time since this review and the small number of cases reviewed where errors or suspected irregularities were found, it was not possible to calculate a separate figure for each category of error and for fraud and this number is therefore excluded from the Department's figures. The Department has advised me that Benefit Reviews are not carried out regularly on Retirement Pension because the rules of the benefit are such that the risk of customer error and fraud is minimal. A pilot exercise on Retirement Pension in Great Britain is underway and the Department is monitoring that exercise with a view to replicating actions taken by the Department for Work and Pensions in Great Britain.

16 For 2005-2006 reducing fraud and error is one of the five key priority areas for the Department with a primary focus on quality and accuracy in the provision of benefits to customers.

Conclusion

17 Because of the varying nature and timing of the exercises undertaken by the Department to estimate the level of fraud and error in benefits paid from the Northern Ireland National Insurance Fund, there is no complete and up-to-date assessment of the levels of claimant fraud and error across all benefits. Despite the positive action taken by the Department for Social Development to reduce the level of official error, the National Benefits Review of payments of incapacity benefit shows that the level of claimant fraud and error is significant. The estimated £13.0 million in overpayments of incapacity benefit as a result of fraud and error is material in the context of the benefit stream and the estimated £16.1 million in total overpayments is material in the context of the total benefit expenditure of the Fund. I have therefore qualified my audit opinion on the account.

John Bourn 25 April 2006
Comptroller and Auditor General

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