

# **CHILD SUPPORT AGENCY CLIENT FUNDS ACCOUNT 2001-2002**

**Report by the Comptroller and Auditor General**

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# Executive Summary

## Introduction

1. The Child Support Agency (the Agency) was established as an Executive Agency of the Department of Social Security (now Department for Work and Pensions) in 1993. It is responsible for implementing the 1991 and 1995 Child Support Acts by ensuring that non-resident parents meet maintenance responsibilities towards their children.
2. The Agency received £545 million from non-resident parents in 2001-02. Of this amount, £391 million was paid over to parents with care and £141 million was paid to the Secretary of State, where parents with care were in receipt of Income Support. The remaining £13 million relates primarily to payments accounted for but not yet paid to either parents with care or the Secretary of State. At 31 March 2002 amounts outstanding and due to be collected by the Agency as a result of maintenance assessments, totalled £611 million.

## Main Findings and Conclusions

### Audit Results

3. I have qualified my audit opinion on the Agency's Client Funds Account for 2001-02 because, following my examination I estimate that 36 percent of receipts from non-resident parents and 81 percent of maintenance assessment debts were incorrect. This is mainly as a result of errors in the underlying maintenance assessments and incorrect adjustments to customer's accounts.
4. Based on these results, I estimate that overpayments by non-resident parents amounted to £12 million while underpayments amounted to £10 million. I also estimate that at 31 March 2002 debts relating to full maintenance assessments contained overstatements of £163 million and understatements of £252 million. Debts relating to interim maintenance assessments, contained overstatements of £30 million and understatements of £6 million.
5. The Agency's poor performance in determining accurate maintenance assessments has left a legacy of error. The Agency's internal performance measurement unit confirmed that high error rates continue although accuracy has improved in 2001-2002 compared to 2000-2001.

## **Child Support Reforms**

6. A legislative change to secure a simpler scheme of Child Support was incorporated in the Child, Pensions and Social Security Act 2000 and in regulations laid in Parliament in December 2000. Under these reforms a simplification of rules surrounding maintenance assessment is allied to the modernisation of operational processes and the introduction of a new computer system. This is intended to promote both increased accuracy over maintenance awards and improved payment compliance.
7. The provisional date for the introduction of the reforms was April 2002. However, the Secretary of State for Work and Pensions announced on 20 March 2002 that implementation was to be delayed. This decision was taken because testing on the new computer system had not been completed and until this has been achieved, the necessary level of assurance cannot be provided that it will operate effectively.
8. The implementation of the reforms has been subject to a wide range of internal and external review and the final decision to delay implementation reflected the Agency's successful implementation of a robust risk management process. The Agency will not introduce the new scheme until the system can be operated to specified standards.

## **Corporate Governance**

9. The Agency has made good progress in setting up arrangements to manage risk right across its business, based on guidance issued by the Department for Work and Pensions. It has developed a policy and methodology on Corporate Governance, including an action plan which is regularly reviewed and updated. Arrangements are in place for senior operational managers to provide periodic assurances to the Agency's Board on the adequacy of internal controls.
10. The Audit Committee and Internal Audit have well defined roles in providing assurance to the Accounting Officer. Further, during a period of great change, the Agency has established a capacity management group that is responsible for assessing the organisation's capacity to deliver business as usual while implementing the Child Support Reforms.
11. The Agency recognises that further work is necessary to ensure that there are plans to tackle all risks and to fill gaps that it has identified in controls.

# Part 1: Introduction and Background

## Introduction

1.1 I am required under the Government Resources and Accounts Act 2000 to examine and certify the Child Support Agency (the Agency) Client Funds Account and report the results to Parliament. This report provides:

- a summary of the significant matters arising from my examination of the 2001-02 Account and explains why I have qualified my audit opinion (Part 2);
- a progress report on the implementation of Child Support Reforms (Part 3);
- an assessment of the Agency's progress in introducing Corporate Governance arrangements in accordance with Treasury requirements (Part 4)

## Background

1.3 The Agency is an Executive Agency of the Department for Work and Pensions. It was established in 1993 and is responsible for implementing the 1991 and 1995 Child Support Acts. Its main purpose is to ensure that non-resident parents meet maintenance responsibilities towards their children whenever they can afford to do so.

1.4 Applications for child support maintenance are assessed against formula contained in regulations approved by Parliament. This process requires Agency staff to obtain information about the personal circumstances of both the non-resident parent and the parent with care including the former's ability to pay. This process is complex and involves gathering many separate pieces of information about income, housing costs and other expenses. This is requested from customers who may be reluctant to provide this information. Consequently there is a significant inherent risk of error in the assessment process.

1.5 Other major functions of the Agency include:

- Collecting payments from non-resident parents and passing items on to the parents with care, or to the Secretary of State where the parent with care is in receipt of Income Support;
- Chasing missing or late payments;

- Taking action to recover arrears and re-establishing payment;
- Updating assessments when changes in circumstances are reported.

## **Part 2: Examination of the Client Funds Account**

2.1 The Child Support Agency's Client Funds Account records that £545 million was received by the Agency from non-resident parents during 2001-02. Of this amount, £391 million (72 per cent) was paid over to parents with care and £141 million (26 per cent) was paid to the Secretary of State, where parents were in receipt of Income Support or income based Job Seeker's Allowance. The balance of £13 million received relates to:

- Payments accounted for but not yet paid to either parents with care or the Secretary of State, or
- Money returned to non-resident parents where there had been a change of circumstances.

2.2 The Agency makes interim assessments where they have received insufficient information to make a full assessment. In most cases, this type of assessment is imposed where non-resident parents have failed to comply with the Agency's requests for information about their personal circumstances. In order to encourage compliance, interim assessments have been set at punitive rates, taking no account of the non-resident parent's ability to pay. Consequently much of this debt is likely to be uncollectable.

2.3 As at 31 March 2002 the amounts due under interim and full maintenance assessments were £102 million and £509 million respectively.

### **Audit Results**

#### **Receipts and Payments**

2.4 The National Audit Office examined a representative sample of the £545 million receipts from non-resident parents during 2001-02. In 64 per cent of cases examined, the receipt was correct. In 36 per cent, receipts were for the wrong amounts, because of errors in the underlying maintenance assessments.

2.5 The Agency's unit that monitors the accuracy of maintenance assessments has reported similar findings for 2001-2002. They found that the accuracy of the whole of the

current assessment, which often includes elements carried forward from the previous assessment, was 72 per cent (67 per cent in 2000-2001). However, they found that 82 per cent of the most recent action taken on cases were accurate (78 per cent in 2000-2001). This exceeds the current target set by the Secretary of State for last action accuracy of 78 per cent.

- 2.6 Sampling techniques used in the National Audit Office's audit have enabled them to extrapolate the results of their testing to provide a quantified estimate of the level of monetary error in the receipts and payments account. As a result estimated overpayments by non-resident parents amounted to £12 million (2 per cent of total receipts) while underpayments amounted to £10 million (2 per cent of receipts). In my view the total estimated over and underpayments is a material sum and therefore I have qualified my audit opinion.

### **Maintenance Balances**

- 2.7 The National Audit Office checked a representative sample of non-resident parents' maintenance balances. This involved verification of all transactions supporting each balance and a re-performance of the assessments, charges, transactions and adjustments made through the lifetime of the case.

- 2.8 This examination identified errors in:

- 83 per cent of full maintenance balances; and
- 79 per cent of interim maintenance balances.

- 2.9 From these test audit results the National Audit Office estimate that the £509 million due at 31 March 2002 from non-resident parents for full maintenance assessments is likely to include overstatement errors amounting to an estimated £163 million (32 per cent of the amount outstanding) and understatement errors amounting to an estimated £252 million (49 per cent of the amount outstanding).

- 2.10 Similarly, the National Audit Office estimate that the £102 million at 31 March 2002 for interim maintenance assessments is likely to include overstatement errors amounting to £30 million (29 per cent of the amount outstanding) and understatement errors amounting to £6 million (6 per cent of the amount outstanding). The misstatements in full and interim maintenance balances were frequently attributable to combinations of errors made in 2001-02 and earlier years.



2.11 In light of these results, I have concluded that the amounts recorded in the Account as being due from non-resident parents at 1 April 2001 and 31 March 2002 are materially misstated. Therefore I have qualified my audit opinion.

## Part 3: Child Support Reforms

3.1 The Government's objective for the Child Support Reform programme is that it should contribute to the reduction of child poverty by achieving an increase in the proportion of parents meeting their financial obligations to their children after separation. The legislative change to secure a simpler scheme of Child Support was incorporated in the Child Support, Pensions and Social Security Act 2000 and in regulations laid before Parliament in December 2000.

3.2 The reforms are intended to deliver a modern child support service which is:

- easier to understand and administer – the complex assessment formula will be replaced by a simpler calculation based upon a percentage of net income dependent on the number of children maintained and this is intended to improve the accuracy of assessment;
- easier to enforce being supported by the introduction of criminal sanctions for withholding or supplying false information to the Agency;
- responsive and accessible to parents with the introduction of caseworker teams; and above all,
- able to establish compliance of maintenance more quickly therefore allowing the Agency to get money to children more regularly.

3.3 A simplification of rules surrounding maintenance assessment is allied to the modernisation of operational processes and the introduction of a new computer system in conjunction with Affinity (a consortium formed to play a major role in developing the modernisation agenda within the DSS).

3.4 The provisional date for the introduction of Child Support Reforms was April 2002. However the Secretary of State announced on 20 March 2002 that the implementation was to be delayed. This decision was taken because testing on the new computer system had not been completed and, until this is achieved, the necessary level of assurance cannot be provided to confirm that it will operate effectively. The decision was made on the basis on a formal assessment against pre-defined criteria covering technical, procedural and operational factors. Key factors were that the Agency was not satisfied that the required technical infrastructure was in place and that the IT

application was available and providing functionality which would meet business requirements.

- 3.5 The implementation of the Child Support Reforms has been subject to a wide range of internal and external review (see Appendix). The final decision to delay implementation reflected the Agency's successful implementation of a robust risk management process. The Agency is committed to introducing the new Child Support scheme at the earliest opportunity but this will not occur until the system can be operated to specified standards.
- 3.6 Notwithstanding this delay, a number of Child Support Reform initiatives have been introduced including 'new customer teams' and a new debt management system. A performance management system has also been introduced which is focused on proactive caseload management.
- 3.7 The new Child Support scheme will address all new cases on new rules from the point that Child Support Reforms are implemented. Any existing cases, which are linked to new applications, will also be migrated to the new system and converted to new rules from this point as well. Existing cases will be moved to the new scheme when Ministers are satisfied that the new arrangements are working well. As I highlighted in my report on the 2000-2001 Account, to achieve successful implementation the Agency faces a number of challenges:

<b>Issue</b>	<b>Current Status</b>
Migration of data from old to new systems.	A migration strategy has been prepared, however a final plan has yet to be confirmed, to include a revised timetable following the deferment of implementation. It is important that data is migrated accurately on a case by case basis. Data cleansing is continuing.
The agreement of brought forward balances between non resident parents and parents with care.	The new system has been developed to enable the Agency to record agreement between the two parties. However, the Agency has chosen not to pursue this issue until the new scheme has bedded down and stabilised.
The impact that the conversion of cases	A comprehensive customer communications

<p>from old to new rules will have on maintenance assessments as there will be both ‘winners’ and ‘losers’</p>	<p>strategy is in place. Several stand-alone call centres will address enquiries from customers affected by assessment changes. These will be staffed on a flexible basis to meet demand.</p>
<p>Ensuring that a simplified system generates improved accuracy rates</p>	<p>Last action accuracy figures show an improvement in accuracy rates (see paragraph 2.5) following enhancements in procedures, for example, to the system of management checks. This provides a good basis for implementing the new assessment rules.</p>
<p>The delivery of staff training</p>	<p>The Agency training strategy is to deliver staff training shortly before implementation. Therefore training has been suspended following the delayed implementation date. A timetable for restarting this will be determined once a revised implementation date is confirmed.</p>

3.8 My staff will continue to monitor progress made in implementing the Child Support Reforms.

## Part 4: Corporate Governance

- 4.1 In line with Treasury requirements the Agency is required to provide a statement on the Systems of Internal Control as part of its accounts for 2001-02. This requires a thorough and regular evaluation of the nature and extent of the risks to which the Agency is exposed. The Agency must then ensure that such risks are managed and controlled if not eliminated. This part of my report looks at how well placed the Agency is to identify and manage risk.
- 4.2 In July 2001 the Departmental Board of the Department for Work and Pensions issued 'Departmental Guidance for Risk Management'. Based on this guidance, the Agency has produced its own Risk Management framework setting out a risk management policy and methodology, which it has implemented across the business.
- 4.3 The Child Support Agency Board has also developed a policy and methodology on Corporate Governance, including a Corporate Governance Action Plan which is regularly reviewed and updated. Senior operational managers have completed assurance statements to confirm whether controls are operating effectively. This is an interim measure pending the introduction of periodic letters of representation to the Board from operational managers setting out their responsibilities, confirming their awareness of corporate governance arrangements and providing assurance on matters such as the adequacy of internal controls and how changes to business practice are being handled to prevent risks maturing. In addition, arrangements have been made to monitor and control on a systematic basis all mandatory checks across the Agency.
- 4.4 The Agency's Audit Committee and Internal Audit have a clearly defined role in providing independent assurances to the Accounting Officer on the effectiveness of governance arrangements. Further, the Agency has arrangements in place that enable management to monitor the implementation of audit recommendations.
- 4.5 During a period of great change the Agency has established a capacity management group. The group is responsible for assessing the organisation's capacity to deliver business as usual while implementing the Child Support Reforms, for example, by helping to define business priorities and implementing change controls.
- 4.6 The Agency has made good progress in setting up arrangements to manage risk but faces a number of challenges:

- Risk Registers have been produced for all areas of the Agency. Mitigation plans are in place for the majority, but not all risks. Work is in progress to ensure that mitigation plans not only cover all risks, but also are specified in full detail;
- The Agency has identified gaps in its control environment. In particular the Agency has a number of clerical control procedures, which can be circumvented, for instance in the areas of Special Payments and Advance Payments of Maintenance. The identification of controls is underway but not yet complete; and
- The Agency's existing systems continue to contain weaknesses, many of which relate to shortcomings within the current computer system. These will not be addressed until the implementation of the new Child Support computer system.

# Appendix

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## EXTERNAL REVIEWS OF CSR PROGRAMME

**Ernst & Young (Baseline review of CSR) November 1999**

To establish where the CSA and its partners had got to and identify the biggest areas of risk to successful delivery.

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**Review of Central & Support Services December 1999**  
**PA Consultancy Group**

Review of CSA central and support services to establish the best design for central and support services and how the transition to the new design is made.

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**Ernst & Young February 2000**  
**(Baseline review of CSR)**

Review progress against recommendations set out in the baseline report of November 1999 and assess the extent to which Programme Management disciplines have been put in place.

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**McCartney Review July 2000**

Assess whether the IT solution could be delivered and whether the commercial arrangements were correctly structured to help ensure that delivery is achieved.

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**Cap Gemini Ernst & Young August 2000**  
**(Programme Healthcheck)**

Review the progress made against the recommendations set in previous reviews.

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**Cap Gemini Ernst & Young (Programme Review, December 2000**  
**excluding IT and Information Services component)**

Assessment of the robustness and integrity of the planning process, including QA arrangements, arrangements and plans for training, and proposals to clean data.

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**Applied Systems Engineering (ASE) February 2001**  
**(IT and Information Services Technical Review)**

On behalf of the Department seek independent assurance that the programme would be delivered in full within the planned timescales.

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**Gateway Review 4 (Programme Assurance) April 2001**

Review the robustness of the IT and Information Service elements of the programme and the readiness of the CSA to implement the associated business changes.

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**Rapid Environment Development (RED) Review 1 (IT Development Plans) June 2001**

To mitigate the risks to the achievement of the successful launch of the new Child Support Scheme in April 2002.

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**Cap Gemini Ernst & Young (Review of the CSR Programme) July 2002**

To assess progress and identify risks to programme objectives.

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**RED Review 2 (IT Development Plans) October 2001**

To further mitigate the risks to the April 2002 launch.

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**Gateway Review 4B (Programme Assurance) January 2002**

Follow up the April 2001 review.

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**INTERNAL REVIEWS OF CSR PROGRAMME**

Internal Audit reviews have covered

- Implementation August 2001
- Organisational Design November 2001
- CSR Operational Controls December 2001
- Workflow Management December 2001
- Testing December 2001
- Assurance Regime January 2002
- Change Control January 2002
- CSA Financial Payments February 2002
- Benefit Realisation March 2002
- Parallel Office March 2002
- CSR Training March 2002

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**End of year Stage 1 Assessment October 2000**

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**End of year Stage 2 Assessment April 2001**



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<b>End of year Stage 3 Assessment</b>	<b>September 2001</b>
<b>End of year Stage 4 Assessment</b>	<b>To be published</b>

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