

Child Maintenance and Enforcement Commission
Client Funds Account
2008-09
Report by the Comptroller and Auditor General

Introduction

1. Under the Child Maintenance and Other Payments Act 2008, the Child Maintenance and Enforcement Commission (“the Commission”) was established on 24 July 2008. The Commission is a crown Non-Departmental Public Body of the Department for Work and Pensions (“DWP”). On 1 November 2008, the child support functions of the Secretary of State, previously administered by the Child Support Agency, were transferred to the Commission. The Commission now administers the statutory child maintenance schemes using the same systems and processes as the Child Support Agency prior to the transfer of functions. In addition, staff who previously worked for the Agency were transferred to the Commission and continue to operate the statutory child maintenance schemes.
2. My predecessor’s value for money report on the Child Support Agency (*Child Support Agency – Implementation of the Child Support Reforms*) highlighted fundamental weaknesses in the IT systems which the Commission has inherited. These weaknesses directly contribute towards the longstanding issues set out in this report and the challenges faced by the Commission in providing an effective statutory maintenance service.
3. The Commission is required to prepare a Client Funds Account which reports the receipts of child maintenance from non resident parents; payments to parents with care and the Secretary of State; and a statement of cash balances held.
4. The notes to the account are required to include a summary of outstanding maintenance balances. The Commission is also required to disclose the extent to which outstanding arrears are likely to be collected and to categorise the arrears as to their collectability.
5. I am appointed by agreement with the Commission to audit the Client Funds Account.
6. The administration costs of running the Commission are reported separately in the Administration Accounts of the Commission, of which I am the statutory auditor. The Commission’s Administration Accounts for the period ended 31 March 2009 received a clear audit opinion on 13 July 2009.

Audit Opinions

7. As the independent external auditor, I am required to give an opinion on whether in all material respects:
 - the Commission’s Client Funds Account properly presents the receipts and payments for the year ended 31 March 2009;
 - Note 6 to the account gives a true and fair view of the outstanding maintenance assessment balances as at 31 March 2009;
 - the account has been properly prepared in accordance with the Accounts Direction; and
 - the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them (the ‘regularity’ opinion).
8. Whilst the account properly presents the amounts received and paid, I have qualified my regularity opinion on the grounds that there have been material errors in the

calculations of maintenance assessments, which are therefore not in accordance with the legislation which prescribes the basis for these calculations. As a result, a proportion of receipts have been based on the wrong assessment and associated payments to parents with care or the Secretary of State have also been made at the wrong rate.

9. Furthermore, there is material error in the value of arrears recorded in Note 6 to the accounts, caused by:
 - inaccurate maintenance assessments by caseworkers since the inception of the statutory schemes (as noted in paragraph 8); and
 - incorrect processing of cases with arrears since the inception of the statutory schemes.
10. As a result I have concluded that Note 6 to the account does not give a true and fair view of the maintenance arrears outstanding at 31 March 2009.
11. This report provides further details of the basis for my opinions together with a summary of the significant matters arising from my examination of the 2008-09 Client Funds Account.

Regularity of Receipts and Payments

12. In 2008-09, £768.9 million (2007-08: £689.5 million) was received from non resident parents and payments were made of £668 million (2007-08: £575.7 million) to parents with care. In addition, £94.9 million (2007-08: £105.0 million) was transferred to the Secretary of State, where parents with care were in receipt of Income Support or income-based Jobseeker's Allowance and the Secretary of State had taken action to recover child maintenance from the non resident parents.
13. Under the statutory maintenance schemes non resident parents are required to make payments of child maintenance based on assessments which are calculated in accordance with rules laid down in legislation. These rules also determine the date from which assessments are payable. Following the initial assessment of maintenance payable, assessments are also revisited whenever the Commission is notified of any changes in circumstances which would affect the amounts payable.
14. The Commission is currently required to carry out these calculations according to two distinct sets of rule: the "current rules" apply to cases received after the Child Support Reforms were introduced in March 2003 and the "old rules" apply to cases predating the Reforms. The Commission, like the Child Support Agency previously, has no authority to exercise any latitude in making these assessments.
15. Maintenance received from non resident parents is paid over to either the parent with care or the Secretary of State. All amounts are paid out in their entirety and, if an error is made in the initial assessment or any subsequent assessment, it will therefore have an impact on the regularity of both the receipt and the related payment out.
16. Extensive checks are carried out by the Commission's Quality Assurance Team (QAT) to assess the accuracy of the maintenance decisions made each year. These checks cover new applications for child maintenance and cases where there has been a recalculation of maintenance owing to changes in circumstances. Figure 1 shows the accuracy of maintenance assessments reported by QAT.

Figure 1: Accuracy of maintenance assessments: 2006-07 to 2008-09

| | 2006-07 | | 2007-08 | | 2008-09 | |
|--|---------------|-----------|---------------|-----------|---------------|-----------|
| | Current rules | Old rules | Current rules | Old rules | Current rules | Old rules |
| Percentage of assessments that were accurate to within a penny | 79% | 83% | 85% | 94% | 84% | 91% |
| Cash value accuracy ¹ | Not measured | | 96% | 98% | 96% | 98% |

17. As shown in Figure 1, there was an improvement in the accuracy of assessments between 2006-07 and 2007-08 but the percentage of accurate assessments has declined slightly in 2008-09. Receipts and payments reported in the 2008-09 account are based on assessments made in 2008-09 and in earlier years.
18. Where receipts and associate payments are based on incorrect maintenance assessments, these transactions are not in accordance with the relevant legislation and are therefore irregular. The best available estimates of the financial value of errors in maintenance assessments are £11.5 million overpayments (1.5% of receipts) and £15.5 million underpayments (2.0% of receipts) (2007-08: £21.0 million overpayments (3.2%) and £15.5 million underpayments (2.2%)). I have therefore qualified my regularity opinion on the receipts and payments account on the basis of the value of irregular receipts and payments.

Outstanding maintenance balances at 31 March 2009

Background

19. Where a non resident parent does not make payments in accordance with the maintenance assessment, and the Commission is responsible for collecting the monies, any shortfall is included in the outstanding maintenance balances reported in Note 6 to the account. The total outstanding maintenance arrears have accumulated since the Child Support Agency was established in 1993. In Note 6, the Commission reports maintenance arrears, as at 31 March 2009, of £3.717 billion (31 March 2008: £3.806 billion). Legislation does not permit the Commission to write off outstanding balances on the grounds of (for example) age or low likelihood of collectability.
20. Historical system limitations within the two primary IT systems for child maintenance (the Child Support Computer System (CSCS) and Child Support 2 (CS2)) meant that the former Child Support Agency was not able to analyse fully the total reported outstanding maintenance balance by case or non resident parent. For the financial years up to 2007-08, the Child Support Agency compiled the maintenance arrears note on spreadsheets, using the reported balance at the end of the previous financial year as the opening position for the following financial year which was then adjusted for in-year movements based on data obtained from the operational systems. The lack of a full breakdown of the reported arrears balance by individual non resident parent or case led to a delay in the audit as the Commission undertook further work to produce this information.

¹ Cash value accuracy is a measure of the value of the correct assessment against the value of the incorrect assessment. This means that, for an incorrect maintenance assessment calculated at £90 per week, which should have been calculated at £100 per week, cash value accuracy would be reported as 90%.

Adjustments made by the Commission

21. In the process of producing the arrears listings which now form the basis of Note 6, the Commission discovered a number of errors in the underlying data which had been caused by recurring system or caseworker error and made adjustments to the account figures to correct them. The most significant errors found, and corrected by the Commission, included:

- The duplication of an arrears balance when suspended balances (i.e. those not being actively pursued) were reinstated as live arrears. This arose due to caseworker error. Consequently the Commission has reduced the value of arrears by £174 million which reflects its best estimate of the overstatement. This only affected cases on the older CSCS IT system.
- For certain cases that had transferred from the CSCS system to the CS2 system, the correct arrears balance did not transfer. This was because the information had been archived and, on transfer to CS2, these balances were not picked up by the system. A net understatement of £92 million was identified by the Commission and has been corrected in the accounts.
- A number of cases managed off the primary IT systems, on a separate clerical case database, did not have opening arrears balances entered onto that database. In compiling the accounts the Commission has estimated that this would have led to an understatement of the overall arrears balance by £37 million and so has adjusted the case listings by this amount. This error only affected cases managed on the clerical case database.
- On CS2, negative arrears balances of £14.8 million were identified. These had been caused by a system defect and had the effect of creating balances which appeared to be owed to non resident parents, when in fact no amounts were due. The Commission has corrected the total arrears balance for these cases.

22. These errors have built up over the life of the statutory child maintenance schemes. The Commission has brought to light these pre-existing issues through the extensive exercise undertaken. The issues causing the errors are a direct consequence of the historic IT problems of the Child Support Agency which continue to impact on the operations of the Commission.

Errors remaining in Note 6 to the account

23. Whilst the reported arrears balances in Note 6 are, in all material respects, an accurate and complete reflection of the underlying data in the child maintenance IT systems, adjusted for the common errors known to the Commission, there remain errors in the underlying data for the reasons set out in the following paragraphs.

a) Inaccurate maintenance assessments

24. Where an error is made in the initial maintenance assessment or any subsequent assessment (as described in paragraphs 12 to 18 above) any arrears that have accrued under that assessment will have accrued at the wrong rate. The arrears will consequently be misstated. Errors in maintenance assessments made since the inception of the existing statutory schemes could therefore impact on the value of error in the reported arrears across all systems as at 31 March 2009. My estimate is that arrears as at 31 March 2009 are overstated by £196 million and understated by £227 million as a result of inaccurate maintenance assessments.

b) Incorrect adjustments to arrears

25. Caseworkers have the facility to adjust the value of outstanding arrears on cases where, for example, a non resident parent provides information about their circumstances which alters the maintenance charges retrospectively. This facility can result in errors if not used properly, misstating the total arrears on a case. For example, a recent internal audit review identified a number of cases where the arrears balance had been written down as opposed to simply having the status of the arrears changed to suspended (i.e. do not actively pursue). Internal audit assessed the potential impact of this caseworker error to be in the region of £83 million for cases held on the CS2 system alone. The report also highlighted the potential for similar errors to have been made on cases held on the CSCS system although no attempt was made to quantify this.
26. Incorrect adjustments to the value of arrears that have been made since the inception of both statutory schemes could impact on the accuracy of the reported arrears as at 31 March 2009. I estimate that, for cases managed on CSCS and CS2 arrears are overstated by a total of £12 million and understated by around £61 million.

c) Duplication of arrears balances

27. The duplication of arrears balances by caseworkers when reinstating suspended arrears (see paragraph 21 above) has been estimated by the Commission at £174 million. The audit work carried out indicated that the reduction in arrears was too large as it included cases that did not appear to require adjusting. This error has arisen due to the way in which the Commission has attempted to estimate the adjustment required. The adjustment was not done on a case by case basis due to the volume of cases involved (63,177); instead the estimate was derived using a report with certain criteria to capture the cases likely to have been affected by the original caseworker error. These criteria would not necessarily account for all the possible scenarios which might exist on a case; therefore there is uncertainty in the adjustment. There is no information readily available which would enable me to estimate the level of error in this adjustment reliably, without reviewing a substantial proportion of the cases included within the adjustment. The result is that the reported arrears balance relating to cases managed on the CSCS system is understated.

d) Incorrect charging status of cases

28. My audit work has found that a number of cases managed off the primary IT systems (on the clerical case database) have not been maintained accurately in respect of the maintenance due. For example, some cases are shown as not currently charging (i.e. no receipts from the non resident parent are due) when they should be shown as charging. Since the arrears balance represents the total maintenance receivable up to the reporting date less any maintenance receipts up to the reporting date, the arrears are understated in this respect. No reliable estimate of the understatement can be made on the basis of the information available.

e) Deferred arrears no longer due

29. In the earlier years of the statutory child maintenance schemes some arrears balances were deferred (not pursued for payment at that time) subject to the non resident parent committing to make regular payments for ongoing maintenance. The legislation stated that, if the non resident parent honoured the agreement made at the time the arrears were deferred, then the arrears they owed would no longer be due. (These amounts would be owed to the Secretary of State if recovered, since the Secretary of State would have previously paid the amounts over to the parent with care.) At 31 March 2009 deferred arrears balances of £17.2 million are included in the accounts. My audit work indicates that a proportion of these are no longer due from the non resident parent because the terms of the agreement were honoured. The Commission has not carried out any work to identify those balances which need to be removed from the accounts. These reported arrears balances are consequently overstated, and whilst I cannot reliably estimate the value of the overstatement in this respect, it must be between nil and the full £17.2 million of balances reported as deferred.

f) Opening balances on the clerical case database

30. Around 60,000 child maintenance cases were managed on a clerical database at 31 March 2009, rather than on the primary child support IT systems. These cases had transferred from CS2 because IT problems prevented them from being processed further on that system. Whilst performing assurance work on the lists of arrears balances supporting Note 6, the Commission noticed that a large volume of clerical cases were shown as having a zero or blank opening arrears balance on the clerical database. On further investigation the Commission discovered that the opening arrears balances on these cases had not been entered onto the database when the cases transferred from CS2. This meant that arrears on these cases would be understated by reporting only the closing balance on the database as the arrears for each of these cases.

31. The Commission has made an adjustment for each of these cases, which has been taken as the value of the arrears existing on CS2 at the end of the financial year in which the case transferred. The total value of the adjustment was £37.4 million at 31 March 2009. Internal audit work indicates that the estimate, whilst performed on a reasonable basis, has the effect of overstating the arrears for some clerical cases. Whilst I cannot reliably estimate the value of the overstatement in this respect, it must be between nil and the full £37.4 million of the adjustment made.

32. The best available estimates of the cumulative errors described in paragraphs 23 to 31 indicate that the outstanding maintenance arrears contain overstatements of at least £208 million and understatements of at least £288 million. I have therefore concluded that Note 6 does not give a true and fair view of the outstanding maintenance balances as at 31 March 2009.

33. These misstatements reflect errors made in maintenance assessments as well as the ongoing processing of cases and maintenance of arrears data. These errors are symptoms of the IT issues in the former Child Support Agency, and inherited by the Commission. The additional work undertaken by the Commission has led to progress in identifying causes of error, some of which were previously unknown. The adjustments that the Commission have made in respect of some of these errors have been made at a financial statement level only and further work would need to be undertaken by the Commission to establish the correct arrears balances at an individual case level.

Collectability of maintenance balances

34. In line with the Accounts Direction, Note 6 also provides an analysis of the Commission's assessment of the collectability of the outstanding maintenance balances. The Commission has estimated the value of arrears "likely to be collected" and "potentially collectable" based on the history of payments from, and payment agreements with, non resident parents, as well as the Commission's estimate of additional recoveries they could secure using existing enforcement powers. The definitions of these categories are set out in the notes to the account.
35. The Commission's current assessment is that only £1.017 billion of the total outstanding balance at 31 March 2009 is at least "potentially collectable", of which £0.482 billion (13% of the total reported arrears) is "likely to be collected". At 31 March 2008 £1.518 billion (39.9% of the total reported arrears) was reported as "collectable". The categories of collectability used by the Commission are different to those used by the former Child Support Agency and its collectability assessment is based on a different methodology, so no direct comparison can be made.
36. Management's assumptions are subject to an inherent degree of uncertainty since a number of external factors (including the economic climate and the resources available to the Commission to pursue the enforcement of arrears) influence whether any individual non resident parent will satisfy their arrears balance. The collectability assessment is applied to information on arrears from the underlying IT systems, which is known to contain errors as described in paragraphs 23 to 31. As a result the value of arrears existing as at 31 March 2009 which will actually be collected in the future may be significantly different to that reported as "likely to be collected" within the account.

Actions taken by the Commission and the former Child Support Agency

Issues affecting the audit opinions

37. The Commission has continued the operation of the former Child Support Agency's Quality Assurance Team, which reviews the accuracy of maintenance assessments on around 6,000 cases each year. The results of this exercise are used to inform management on the accuracy of decision-making and identify common causes of error which are then addressed through further caseworker training. Recently this has included workshops on the effective dates of assessments and the assessment of non resident parents' income. The Commission have informed me that team leaders now spend a greater proportion of their time checking the accuracy of maintenance assessments made by caseworkers.
38. The Commission requested work by their internal auditors (DWP Risk Assurance Division) to gain some quantification of the errors in arrears data caused by incorrect technical adjustments. When the results of this work indicated that it was a significant issue, new guidelines and checks for the processing of these adjustments were introduced. The Commission's Quality Assurance Team has reported higher accuracy rates for technical adjustments since then, which my staff will review in the course of future audit work. Tools and training have been developed with the aim of improving staff knowledge in relation to adjustments to arrears and how these should be processed. If effective, this should help to drive down the level of error further, in relation to future adjustments made.
39. The Commission has performed some detailed work around the opening arrears balances on cases which had transferred to the clerical case database and will be working closely with their service providers to address accuracy issues in the future.

40. Whilst the Commission is working to improve the quality of underlying data supporting the reported arrears balance, some of the issues affecting the accuracy of these balances date back to the inception of both statutory maintenance schemes and relate primarily to arrears which are unlikely to be collected. Since current legislation does not permit child maintenance arrears to be written off, the Commission cannot easily rectify the errors within those historic arrears. As indicated in the Foreword to this account, the Commission will weigh the costs and benefits of making further improvements to the systems and cleansing the data they contain, in the light of the planned introduction of a new scheme for child maintenance. However, management have indicated that they do not consider that it will be cost-effective to rectify all the known issues.

IT systems

41. Since the inception of the statutory child maintenance schemes there have been problems with the underlying IT systems supporting those schemes. The issues relate to the accounting information generated by both CSCS which records the “old rules” cases, and CS2 which records the “current rules” cases. A suite of workarounds had been developed by the Child Support Agency involving significant manual adjustments to the ledgers to align them with the cash received and paid out. The Commission inherited these IT systems from the Child Support Agency.
42. The Commission implemented a major upgrade to the CS2 accounting ledger in March 2009. In preparation for the upgrade, a considerable amount of effort was undertaken to cleanse the data within the existing systems as well as prepare the data necessary to populate the accounting ledger. The upgrade was not in place early enough for the CS2 ledger to be used in the preparation of the 2008-09 Receipts and Payments Statement. Instead, the Commission maintained supplementary records, outside the main accounting systems to provide the necessary information for preparation of the Receipts and Payments Statement.
43. Neither the CSCS nor the CS2 system had full reporting functionality for arrears. As noted in paragraph 20, the Commission undertook a significant project to obtain the information which now supports the balance in Note 6, and which has also brought to light accuracy issues previously unknown to the Child Support Agency.
44. An increasing number of total cases are being maintained manually outside the two main IT systems. As a result, the CSCS and CS2 databases are not a complete record of case activity. The total number of cases managed clerically at 31 March 2009 has increased significantly and stands at approximately 60,000 (4.7%) of a total caseload of 1,279,400 compared to 37,000 (2.7%) cases out of 1,357,800 at 31 March 2008. A major upgrade (Productivity Release 1) to the CS2 IT system, implemented in September 2008, brought to light additional cases which had not been progressing within CS2 and which needed to be handled clerically. This upgrade has resulted in a better service to clients but highlights the problems in the original CS2 system. The increased clerical caseload has resulted in increasing administrative costs in this area.

Enforcement of arrears

45. In order to manage the enforcement of outstanding maintenance balances the Commission uses two primary methods. Cases recently falling into arrears due to a missed payment are flagged for attention via specific tasks on a workflow system. The Commission inherited from the Child Support Agency an analysis of outstanding maintenance balances by case recorded on CSCS and CS2 known as the "debt book". This was designed as a management information tool to record the value of maintenance arrears existing on CSCS and CS2 at a case level and to assist in the collection of arrears. The Commission's view is that the debt book has been used successfully for this purpose. The Commission has recently established separate teams within its existing Debt Enforcement teams to specifically target historic arrears. The Commission should consider whether the reports showing individual arrears balances which support the account figure for arrears would assist in targeting enforcement action if they could be produced on a more frequent basis and combined with information about the non resident parents' ability and willingness to satisfy the arrears.
46. 2008-09 was the third year of the Child Support Agency's Operational Improvement Plan ("OIP"), which was adopted by the Commission when it became responsible for the statutory maintenance schemes. One of the aims of the OIP was to increase the total maintenance arranged and collected, including increasing the recovery of outstanding arrears. Performance has improved and the OIP has been effective in slowing the rate of increase in arrears. One of the Commission's targets for 2008-09 (inherited from the Child Support Agency) was to collect or have arranged £1,080 million in child maintenance, including at least £220 million of arrears. Published statistics for 2008-09 indicate that £1,132 million was collected or arranged, i.e. the total target was exceeded by £52 million (4.8%). However the arrears element of the target was not achieved, due to both the prioritisation of collecting ongoing maintenance liabilities and the underperformance in recoveries by external debt collection agencies. Recoveries of £158 million arrears were made which represented a shortfall of £62 million (28.2%). As the Commission has recognised in its assessment of the collectability of arrears, a large proportion of child maintenance owed to parents with care and the Secretary of State is unlikely ever to be collected.

Future statutory scheme for child maintenance

47. As well as its responsibility for the statutory maintenance schemes reported in these accounts, the Commission is responsible for developing and implementing a new scheme for statutory child maintenance. Work is underway to develop the information systems which will support this scheme. It will be critical to the success of the scheme that the information systems provide a full audit trail from the accounts to individual case transactions for receipts and payments and to individual case arrears for outstanding maintenance balances; it is the Commission's intention that the new systems will provide this accounting functionality. It is planned that this will enable the historic data problems of the existing statutory maintenance schemes to be segregated from the new scheme.
48. In the light of the Commission's investment in the IT system to support the new scheme, the Commission considers that the cost of rectifying all the known issues on the existing CSCS and CS2 systems would outweigh the benefits.

Conclusions

49. The estimated level of error in maintenance assessments for the current statutory schemes is material, and I have therefore qualified my opinion on the regularity of receipts and payments in the accounts. I have concluded that Note 6 to the account does not give a true and fair view of the outstanding maintenance balances as at 31 March 2009 owing to the level of error in the underlying case level data.

50. Since its establishment the Commission has taken steps to improve the accounting information available from the IT systems inherited from the Child Support Agency. There is now increased visibility of historic problems which have led to inaccuracies in the reported arrears balances.
51. The scale, age and collectability of the outstanding maintenance balances which have accumulated since the inception of the statutory child maintenance schemes, mean that the Commission faces a significant challenge to collect a significant proportion of these arrears. Issues inherited from the former Child Support Agency continue to impact on the accuracy of arrears data. The Commission will need to consider the relative costs and benefits of cleansing these (largely historic) balances in the light of the introduction of the future scheme for child maintenance.

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