

Child Maintenance and Enforcement Commission

Client Funds Account

2010-11

Report by the Comptroller and Auditor General to the Houses of Parliament

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 year ended 31 March 2011 received a clear audit opinion on 14 July 2011.

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 2011;
 - Note 6 to the account gives a true and fair view of the outstanding maintenance assessment balances as at 31 March 2011;
 - 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 account, 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 2011.
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 2010-11 Client Funds Account. The issues it covers are largely the same as those included in my reports on both the 2008-09 and 2009-10 Client Funds Accounts.

Regularity of Receipts and Payments

12. In 2010-11, £786.9 million (2009-10: £784.1 million) was received from non resident parents and payments were made of £737.4 million (2009-10: £715.8 million) to parents with care. In addition, £39.4 million (2009-10: £57.8 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 or 2003 rules" apply to cases received after the Child Support Reforms were introduced in March 2003 and the "old or 1993 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: 2008-09 to 2010-11

	2008-09		2009-10		2010-11	
	Current rules	Old rules	Current rules	Old rules	Current rules	Old rules
Percentage of assessments that were accurate to within a penny	84%	91%	83%	92%	89%	93%
Cash value accuracy ¹	96%	98%	96%	97%	97%	98%

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%.

17. As shown in Figure 1, the accuracy of maintenance assessments has remained relatively stable during the three year period to 31 March 2011 with some improvement in 2010-11. Receipts and payments reported in the 2010-11 account are based on assessments made in 2010-11 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 £10.2 million overpayments (1.3% of receipts) and £13.9 million underpayments (1.8% of receipts) (2009-10: £10.0 million overpayments (1.3 %) and £14.4 million underpayments (1.8%)). 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 2011

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 2011, of £3.748 billion (31 March 2010: £3.694 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.
21. In order to prepare the 2008-09 Client Funds Account, the Commission undertook a significant piece of work to produce lists of individual arrears in support of the account figure. During this process 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 2008-09 account figures to correct them. The Commission has undertaken the same process to produce subsequent arrears notes and continues to make adjustments to the basic listings in respect of known errors in the underlying data, including:
 - 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 and only affects cases on the older CSCS IT system. Consequently the Commission reduced the value of arrears by £186 million to reflect its best estimate of the overstatement as at 31 March 2010.

However, during 2010-11, the Commission undertook significant further work on the cases originally identified and have reduced the level of adjustment required to £102 million. An adjustment of £83.6 million has been made to the arrears balance by the Commission to reflect this revision. This adjustment is disclosed separately on the face of note 6 to the Account.

The need for the revision has resulted from the way in which the Commission had previously attempted to estimate the adjustment required. This was not done on a case by case basis due to the volume of cases involved (circa 65,000); instead the estimate was derived using a report with certain criteria to capture the case 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 was uncertainty in the adjustment.

In my report last year, I made specific reference to this issue and stated that I considered the arrears balance to be understated as a result of this adjustment although given the lack of readily available information I was unable at that time to estimate the level of error in this adjustment reliably, without reviewing a substantial proportion of the cases included within the adjustment.

- During 2010-11 the Commission also identified an issue in relation to the use of a reason code which was used historically to identify suspended arrears. On further investigation this code was found not to relate to suspended arrears cases and consequently an adjustment of £63 million has been made to the account to correct this error. This adjustment is also separately disclosed on the face of note 6 to the Account.
- 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 £76 million as at 31 March 2011 has been identified by the Commission and adjusted for in the accounts. The corresponding adjustment at 1 April 2010 was £95m and the reduction in the adjustment is principally the result of a misclassification of cases in the prior year.
- 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 £59 million at 31 March 2011 and so has adjusted the case listings by this amount. The corresponding adjustment in the prior year was £65 million. The adjustment has reduced in value because the Commission has refined the methodology used to determine this estimate, and further information is given in paragraph 31 below.
- On CS2, negative arrears balances of £18.9 million were identified at 31 March 2011. 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. £17.5 million of the adjustment is already reflected in the opening balance brought forward at 1 April 2010 and an additional adjustment of £1.4 million has been made in year to reflect those errors arising in 2010-11.

22. The errors in the underlying data 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 and its continuing efforts to improve arrears accuracy. 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 extraction of the underlying data in the child maintenance IT systems, adjusted for an estimate of 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 2011. My estimate is that arrears as at 31 March 2011 are overstated by £192 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, an internal audit report from April 2010 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 2011. I estimate that, for cases managed on CSCS and CS2 arrears are overstated by a total of £15 million and understated by around £85 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 £102 million, a significant reduction compared to the prior year following further work performed by the Commission. The way in which the adjustment is estimated, as explained in paragraph 21, indicates that the reduction in arrears may still be too large. There is no further 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 which the Commission have still included within the adjustment. Consequently the reported arrears balance relating to cases managed on the CSCS system may be understated as a result of the Commission removing too many arrears balances when determining the level of adjustment to be made.

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. Some progress has been made by the Commission to retrospectively correct cases, but this work has not yet been completed. 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 on-going 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 2011 deferred arrears balances of £13.6 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 £13.6 million of balances reported as deferred.

f) Opening balances on the clerical case database

30. Around 100,000 child maintenance cases were managed on a clerical database at 31 March 2011 (circa 86,000 at 31 March 2010), 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. 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 of £59 million to the arrears values reported on the clerical case database at 31 March 2011 for these cases. This is a reduction from the £65 million adjustment in the prior year, due to improvements in the way in which this estimate is derived. However, there remain errors within the adjustment as the amount transferred cannot reflect an accurate opening balance position and the Commission has assumed that there are no cases with legitimate nil opening balances. Whilst I cannot reliably estimate the value of the overstatement in this respect, it must be between nil and the full £59 million of the adjustment made.

g) Incorrect charging of maintenance on CS2 cases

32. A system fault on CS2 has been identified by the Commission affecting cases which have been cancelled or withdrawn on the same day that a maintenance assessment is completed on the case. In these circumstances the cases continue to charge arrears as the maintenance assessments do not have an end date. This issue has affected approximately 3,000 cases with a total arrears value of £9 million. A system fix has been introduced which is expected to resolve the issue going forwards on some of these cases, however the historic position of the affected cases on CS2 has not yet been updated. Consequently the CS2 arrears balance reported at 31 March 2011 is overstated by this amount.

Estimated impact of errors identified

33. The best available estimates of the cumulative errors described in paragraphs 23 to 32 indicate that the outstanding maintenance arrears contain overstatements of at least £219 million and understatements of at least £316 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 2011.
34. These misstatements reflect errors made in maintenance assessments as well as the on-going 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 and it continues to improve its assessment of the cases impacted. However, the adjustments that the Commission has 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

35. 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.

36. The Commission's current assessment is that only £1.176 billion of the total outstanding balance at 31 March 2011 is at least "potentially collectable" (31 March 2010 restated: £1.204 billion), of which £0.540 billion (14% of the total reported arrears) is "likely to be collected" (31 March 2010 restated: £0.566 (15%)). The Commission identified a categorisation error when preparing this year's collectability assessment and consequently restated the prior year comparatives so that the assessments are prepared on a comparable basis. The impact of this re-categorisation was to increase the amounts shown as "likely to be collected" by £78m, and amounts shown as "potentially collectable" by £104m at 31 March 2010. There has been a corresponding decrease in the "uncollectable" category.
37. 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 32. As a result the value of arrears existing as at 31 March 2011 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

38. The Commission's Quality Assurance Team continues to review the accuracy of maintenance assessments and looks at around 6,500 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 has informed me that team leaders now spend a greater proportion of their time checking the accuracy of maintenance assessments made by caseworkers.
39. New guidelines and checks for the processing of technical adjustments have been introduced as well as new tools and training 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. Figure 2 below shows the accuracy rates for debt adjustments reported by the Commission's Quality Assurance Team for 2010-11 which indicate a slight decline in accuracy rates compared to 2009-10. My staff will continue to review the use of these adjustments in the course of future audit work

Figure 2 – QAT's average accuracy rates on debt adjustments

	2009-10	2010-11
CSCS	92%	91%
CS2	80%	78%

40. The Commission has performed some detailed work around the opening arrears balances on cases which had transferred to the clerical case database and has been working closely with their service providers to address accuracy issues in the future.
41. 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. The Commission has therefore stated that it will weigh up 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 also indicated that they do not consider that it will be cost-effective to rectify all the known issues.

IT systems

42. 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.
43. Neither the CSCS nor the CS2 system had full reporting functionality for arrears. As noted in paragraph 21, 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 2011 has increased significantly and stands at approximately 100,000 (8.7%) of a total caseload of 1,145,700 compared to 86,000 (7.5%) cases out of 1,150,800 at 31 March 2010. A major upgrade (Productivity Release 1) to the CS2 IT system in 2008, brought to light additional cases which had not been progressing within CS2 and which needed to be handled clerically. This upgrade resulted in a better service to clients but highlighted the problems in the original CS2 system. The increasing clerical caseload results 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. In 2010 the Commission established separate teams within its existing Debt Enforcement teams to specifically target historic arrears.
46. The Commission’s target in relation to maintenance collection for 2010-11, set by the Secretary of State, was to collect or have arranged £1,135 million of child maintenance. Published statistics for 2010-11 indicate that £1,150 million was collected or arranged, i.e. the total target was exceeded by £15 million (1.3 %). In the previous year, a specific target was also set for recoveries against arrears, however no such target was set for 2010-11. 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. The Commission has informed me that the new systems will provide this accounting functionality. Furthermore it is also planned that the new systems 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 2011 owing to the level of error in the underlying case level data.
50. The Commission continues 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. However, 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 continues to face a significant challenge to collect a large proportion of these arrears.

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