

# **Report by the Comptroller and Auditor General on the Child Maintenance and Enforcement Commission Client Funds Account 2011-12**

## **Part One: Key Features of the Client Funds Account**

The Child Maintenance and Enforcement Commission (the Commission) was the body responsible for preparing the Client Funds Account until 31 July 2012, when it was abolished and the government transferred all its functions to the Department for Work and Pensions. The Client Funds Account records 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 at the year end, this being the value of maintenance received which has not yet been paid out. I have issued an unqualified audit opinion on whether these receipts and payments are properly presented, and a qualified audit opinion on regularity. Further details of my reasons for the qualification are set out below.

The Account includes an arrears balance (note 6); this is the amount of child maintenance which is outstanding and which is owed from the non-resident parent to either the parent with care or to the Secretary of State. Note 6 also includes an analysis of the collectability of the outstanding arrears. I have concluded that this Note does not give a true and fair view of the arrears outstanding as at 31 March 2012 for the reasons set out in my report below.

The modifications to my audit opinions are longstanding and reflect the significant problems in the accurate calculation of maintenance and with the underlying systems since statutory child maintenance schemes were first introduced. I have reported on these issues previously.

## **Part Two: Irregular Receipts and Payments**

### **Audit Opinion**

As the independent external auditor, I am required to give an opinion on whether in all material respects the Client Funds Account properly presents the receipts and payments for the year ended 31 March 2012, and whether these transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them (the 'regularity' opinion).

The Commission, and now the Department, is required to adhere to specific legislative requirements when determining maintenance assessments, and has no authority to exercise latitude. When an assessment is made that is not in accordance with these legislative requirements, the receipt and associated payment are incorrect and not in accordance with legislation. Whilst the account properly presents the amounts of child maintenance received and paid in year, I have qualified my regularity audit opinion on the grounds of material errors in the calculations of maintenance assessments; these assessments are not in accordance with the legislation and therefore are not in line with the purposes intended by Parliament.

In 2011-12, the Commission received £807.8 million in respect of child maintenance from non-resident parents. As a result of errors in the calculations of maintenance assessments, I have estimated that, within this amount, a proportion of non-resident parents have made overpayments of child maintenance amounting to £8.8 million, while others have made underpayments totalling £13.3

million. The cases affected by overpayments are unconnected to the cases affected by underpayments; consequently I must report the gross figures. I have therefore qualified my regularity audit opinion on the basis of the value of irregular receipts and payments.

My estimate for the level of over- and underpayments remains unadjusted within the reported receipts and payments figure in the Client Funds Account. An adjustment cannot be made to the figures because the value of over- and underpayments is an accumulation of a significant number of individual incorrect maintenance assessments. To correct these errors, every decision on each of the affected cases would need to be re-assessed from the inception of the case to the present day. Since each case can have a large number of re-assessments over its lifetime to account for changes in circumstance, this would represent a significant piece of work.

### **How do incorrect maintenance assessments occur?**

There are currently two statutory maintenance schemes in operation, where the basis for maintenance assessments is set out in the relevant legislation: cases under the “old rules” follow legislation passed in 1993, while cases under the “current rules” follow legislation introduced in 2003. Both pieces of legislation determine the value of the maintenance assessment and the date from which the assessment is effective.

The original 1993 legislation required 148 different pieces of information to calculate a maintenance assessment. An error in any element of the assessment will impact the regularity of the child maintenance received from the non-resident parent. Ordinarily there are multiple assessments throughout the lifetime of a case to reflect changes in circumstance; where re-assessments occur, the likelihood for error increases.

The new legislation introduced in 2003 sought to simplify the assessment process and significantly reduced the amount of information required by the Commission to make an assessment. Despite this simplification, the Commission determined the error rate for cases assessed under these rules to be higher than those operated under the “old rules”. This suggests that caseworker error, rather than complexity of legislation, is the primary cause of incorrect maintenance assessments.

### **Action taken to address incorrect maintenance assessments**

The Commission’s Quality Assurance Team (QAT) carries out extensive checking of maintenance assessments each year. These checks cover both new applications for child maintenance and cases where there has been a recalculation owing to a change in circumstance. QAT reported that the Commission achieved a cash value accuracy<sup>1</sup> of 98.3% in 2011-12 (97.4% in 2010-11), of which 93.4% was accurate to the penny (89.5% in 2010-11). The Commission’s target for 2011-12 was to achieve a cash value accuracy of 97%, which it achieved.

Figure 1, below, shows the percentage of maintenance assessments that QAT found to be accurate to the penny has improved significantly over recent years. The improvement reflects a more sophisticated analysis by QAT of the root-cause of the errors it found. This has in turn allowed both a more targeted process of training for caseworkers and the development of clearer business procedures for undertaking assessments.

Cash value accuracy has remained relatively stable over the same period. In the commission’s view, this reflects the embedding of measures introduced to improve the accuracy of assessments.

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<sup>1</sup> Cash value accuracy is a measure of the value of 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%.

Figure 1: Accuracy of maintenance assessments 2008-09 to 2011-12

	2008-09	2009-10	2010-11	2011-12
<i>Assessments accurate to within a penny</i>	86%	85%	90%	93%
<i>Cash value accuracy<sup>1</sup></i>	97%	97%	97%	98%

## Part Three: Outstanding Maintenance Arrears

### Audit Opinion

Where a non-resident parent does not make payments in accordance with their child maintenance assessment, the Commission records any shortfall in the outstanding maintenance arrears balance and reports it in Note 6 of the Client Funds Account. The balance of £3.798 billion is the cumulative total of outstanding arrears since the Child Support Agency was established in 1993. This balance represents the total amount owed by non-resident parents to either the parent with care or, in some instances, the Secretary of State. Current legislation does not allow outstanding arrears to be written off.

As the independent external auditor, I am required to give an opinion on whether the outstanding maintenance arrears balance as at 31 March 2012 is true and fair. In my opinion there is material error in the value of arrears recorded in Note 6 to the account and as a result I have concluded that Note 6 does not give a true and fair view of the maintenance arrears outstanding at 31 March 2012. The misstatement is primarily a result of:

- a) Incorrect maintenance assessments by caseworkers (as outlined in Part Two); and
- b) Incorrect adjustments to arrears.

#### a) Incorrect maintenance assessments

Where the Commission has made incorrect maintenance assessments, for the reasons set out in Part Two of this report, any arrears accruing will be doing so at an incorrect rate and consequently the value of the accrued outstanding maintenance arrears will be misstated. My estimate is that arrears as at 31 March 2012 are overstated by £192.4 million and understated by £228.3 million as a result of the cumulative impact of incorrect maintenance assessments.

#### Action taken to address incorrect maintenance assessments

Part Two of this report outlines the action taken by the Commission to address the issue of incorrect maintenance assessments.

#### b) Incorrect adjustments to arrears

Caseworkers administering child maintenance cases are able to adjust the value of arrears on individual cases. This is to allow the Commission, and now the Department, to take retrospective action when circumstances change which alter the value of maintenance charged. An incorrect calculation could result in an over- or under-adjustment, which consequently leads to a misstatement in the value of arrears.

Note 6 in the Client Funds Account reports the arrears balance net of any caseworker adjustments, which means that any errors made in these adjustments affect the arrears balance reported. I

estimate that arrears are overstated by around £15 million and understated by around £90 million as a result of such errors.

As with the level of irregular receipts and payments, a revision cannot be made to the arrears Note in the Account to correct for this, because the error is an estimated aggregation of the accumulated over- and under-adjustments made to individual cases since the inception of the statutory schemes.

### **Action taken to address incorrect adjustments to arrears**

The actions taken by the Commission to tackle incorrect adjustments to arrears is similar to the action taken to address incorrect maintenance assessments. A separate part of the Commission's Quality Assurance Team (QAT) measures the accuracy of adjustments to arrears and undertakes a similar root-cause analysis to allow focussed training and improvements to processing procedures.

Figure 2, below, shows steady improvement in the accuracy of adjustments made to arrears. However, because the errors that have accumulated over the years remain uncorrected in the arrears balance, and are likely to remain so.

**Figure 2: Accuracy of adjustments to arrears 2008-09 to 2011-12**

	2008-09	2009-10	2010-11	2011-12
<i>Percentage of cases with accurate adjustments to arrears</i>	88%	84%	86%	91%

### **Other significant issues – the clerical case database**

The two issues described above are the primary cause of the high value of errors in the arrears balance. Further errors also arise as a result of other issues, but where it is not possible to accurately estimate the financial impact. The most significant of these are set out below. The Department is planning to take corrective action on the clerical case database balances in readiness for the transition of these cases to the 2012 Child Maintenance Scheme.

#### ***Incorrect charging status of cases***

Where system failures prevent on-line case management, the Commission (and now the Department) has to manage the affected cases manually on a separate clerical case database. The database was originally set up to manage around 10,000 cases, but there are currently over 104,000 cases managed in this way. The clerical case database requires manual processing of the cases; one of these processes is the manual input of the maintenance schedule. A maintenance schedule which is not correctly maintained can result in cases incorrectly reporting that no maintenance is due, which will understate the arrears balance at the year end. There is no adequate information available from which I can provide a reliable estimate of error, but evidence indicates that arrears are understated as a result.

The Department is taking action to address this issue, but it is too early to conclude on how effective these measures have been.

#### ***Opening balances on the clerical case database***

As noted above, some 104,000 cases are managed on the clerical case database. Of the cases that the Commission transferred from the online system, there are a number which it transferred without

arrears balances. The Department has adjusted for this in the Account by increasing the arrears balance by the value of arrears reported on the online systems for the affected cases before they transferred. The two key assumptions underlying this adjustment are that all nil opening balances are errors and that the closing balance is the correct arrears balance. My testing has confirmed that this is not the case in all instances. While it is clear that the arrears balance is overstated, there is not, however, sufficient information available to make a reliable estimate for the value of this error.

## Part Four: Financial Reporting and IT Systems

Since the inception of the statutory child maintenance schemes there have been significant problems with the main IT systems supporting the schemes. Amongst other problems, the IT systems do not have the functionality to fully report arrears for the account. In order to address this, the Commission developed a separate process to scan the underlying systems and produce a suite of reports. The Department used these reports, in addition to the general ledgers, as the basis for preparing Note 6 to the Account.

The Commission first used this revised methodology in 2008-09, and the reports generated have increased the visibility of a number of historic problems which were not previously identifiable. In response to this, the Commission has made a number of refinements to the reports since 2008-09 to take account of the issues identified in the underlying data.

In 2011-12, the Commission undertook work to further cleanse the arrears recorded on its main IT systems. As a result it added £18.2 million to the value of arrears in respect of balances which it previously believed to be duplicated, and hence had previously excluded from the Account.

The Commission has also undertaken an exercise to cleanse arrears recorded as “deferred” on the IT systems. Deferred arrears arose as a result of a scheme which ran between 1995 and 2006, whereby the Secretary of State committed to make a proportion of arrears payments to the parent with care in cases where the non-resident parent honoured an agreement made at the time. The arrears committed for payment by the Secretary of State were those arrears which were deferred. The deferred arrears are no longer due where the agreement has been met and for 2011-12 the Commission removed some of these balances from the system. Although the Commission has always had the power to write off these balances, it has not exercised them until now. As a result of this exercise, the Department has removed some £9.6 million from the value of arrears reported in the accounts.

The efforts of the Commission have resulted in the reporting of a more robust arrears position to that reported in the past. However, due to the scale and age of the issues which have accumulated against some of these arrears balances, there remain significant and unresolved inaccuracies, which materially misstate the arrears balance reported in the accounts.

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