

1993 and 2003 Child Maintenance Schemes Report on Account

Introduction

The Department for Work and Pensions (the Department) is responsible for the delivery of statutory child maintenance schemes in Great Britain, and the management of client funds relating to these. In Great Britain, the Child Support Agency (CSA) 1993 and 2003 schemes, and the new Child Maintenance Service (CMS) 2012 statutory child maintenance scheme, support children by collecting funds from non-resident parents and paying these funds to parents with care.

The Department is leading the schemes through a period of major reform, where the intention is that, eventually, all child maintenance cases in Great Britain are processed under the 2012 scheme. At present the Department is running the older 1993 and 2003 schemes concurrently with the new 2012 scheme while it continues to transfer cases from one to the other.

This report relates specifically to the Client Funds Account reporting on cases administered under the 1993 and 2003 schemes. I have produced a separate report on the Client Funds Account that reports cases administered under the 2012 scheme (HC856).

The modifications to my audit opinions on the 1993 and 2003 schemes account are longstanding and reflect significant and ongoing problems in the accurate calculation of maintenance and with the underlying IT systems since the 1993 and 2003 statutory child maintenance schemes were first introduced. I have reported on these issues previously.

Qualified Opinion due to Irregular Receipts and Payments

As the independent external auditor, I am required to give an opinion on whether, in all material respects, the Client Funds 1993 and 2003 Scheme Account (the Account) properly presents the receipts and payments for the year ended 31 March 2016 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 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 are irregular. While the Account properly presents the amounts of child maintenance received and paid in year, I have qualified my regularity opinion on the grounds of material errors in the calculations of maintenance assessments underpinning receipts and payments; these assessments are not in accordance with the legislation and therefore associated receipts and payments are not in line with the purposes intended by Parliament.

In 2015-16, the Department received £638.5 million in respect of child maintenance from non-resident parents assessed under the 1993 and 2003 schemes. I have estimated that errors in assessments result in overpayments of child maintenance amounting to £3.3m (£4.2m in 2014-15) and underpayments totalling £4.5m (£6.5m in 2014-15). The cases affected by overpayments are unconnected to the cases affected by underpayments, and consequently I have had to consider the gross error figures. I have therefore qualified my regularity audit opinion on the basis of the gross value of irregular receipts and payments (£7.8m for 2015-16, representing 1.22% of total receipts and £10.7m for 2014-15, representing 1.4% of total receipts).

My estimate for the level of over and underpayments remains unadjusted within the reported receipts and payments figures in the 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.

Incorrect maintenance assessments

The original 1993 legislation required up to 148 different pieces of information to calculate a maintenance assessment. An error in any element of the assessment will impact the accuracy and so 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 such reassessments occur, the likelihood of error increases as the level of manual case worker intervention increases.

The Department's Quality Assurance Team (QAT) carries out extensive checking of maintenance assessments each year. These checks cover cases where there has been a recalculation owing to a change in circumstance only, given that all new cases are being assessed under the 2012 scheme. As part of my audit I have reviewed the findings of the QAT and have estimated a gross error rate of 1.2% in maintenance assessments under the 1993 and 2003 schemes underpinning receipts and payments recorded in 2015-16.

Unlike the 2012 scheme cases, the 1993 and 2003 child maintenance scheme cases are not subject to an annual review. As a result, there are receipts and payments that flow through the 2015-16 account that are based upon maintenance assessments that were calculated in previous years. To take account of this fact, I do not consider the accuracy of calculations processed in 2015-16 in isolation, but also apply historic rates to a proportion of the total receipts and payments when forming my estimate of accuracy in receipts and payments. Therefore, while the Department's QAT has identified an in-year fall in accuracy (from a 97% cash value accuracy in 2014-15 to 95.7% cash value accuracy in 2015-16), because of the higher accuracy rates achieved in previous years, I have estimated a small improvement in the overall accuracy of receipts and payments in the 2015-16 account. The table below shows my estimate of error in receipts and payments for the 2015-16 financial year and how this compares to the previous three years.

Table 2: Accuracy of maintenance assessments – legacy systems

	2012-13	2013-14	2014-15	2015-16
NAO estimated cumulative irregular receipts and payments accuracy (gross)	1.7%	1.7%	1.4%	1.2%

Outstanding Maintenance Arrears

Adverse opinion on Note 6 'Outstanding Maintenance Balances'

Where a non-resident parent does not make payments in accordance with their child maintenance assessment, the Department records any shortfall in the 'outstanding maintenance arrears' balance and reports it in Note 6 of the Client Funds Account. The balance of £3.975 billion as at 31 March 2016 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 allows the Department to write off arrears only in very limited circumstances.

I am required to give an opinion on whether the outstanding maintenance arrears balance as at 31 March 2016 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 2016. The misstatement is primarily a result of:

- a) Incorrect maintenance assessments (as outlined above);
- b) Incorrect adjustments to arrears; and
- c) Issues relating to clerical cases.

a) Incorrect maintenance assessments

Where the Department has made incorrect maintenance assessments, for the reasons set out in more detail above, any arrears accruing will be doing so at an incorrect rate and consequently the value of the accrued outstanding maintenance arrears will be misstated. The Department is unable to estimate the value of this misstatement, but audit work indicates that the cumulative impact of incorrect maintenance assessments on the value of arrears as at 31 March 2016 is material.

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 Department to take retrospective action when circumstances change that alter the value of maintenance charged. Errors can arise in the calculation of the required adjustment, which then result in a misstatement in the value of arrears.

Note 6 to the Account reports the arrears balance net of any caseworkers' adjustments, which means that any errors made in these adjustments affect the arrears balance reported. I estimate that arrears are overstated by around £15.9 million (£15.9m in 2014-15) and understated by around £115.8 million (£113.7m in 2014-15) as a result of such errors.

As with the level of irregular receipts and payments, the Department has chosen not to make a revision to the arrears note in order to correct for these errors, because they are an estimated aggregation of the accumulated over and under-adjustments made to individual cases since the inception of the statutory schemes.

The Department's QAT measures the accuracy of adjustments to arrears and undertakes a 'root cause' analysis of both maintenance assessments and arrears adjustments to allow focussed training and improvements to processing procedures.

In forming my opinion on the arrears balance I have carried out sufficient work to enable me to conclude that a material level of error exists in the arrears balance. This has not included an exercise to estimate the accuracy rate of all adjustments made to the arrears balance. The Department does, however, estimate the level of accuracy in all arrears adjustments and these estimates are shown in Table 3 below.

Table 3: The Department's estimates of the accuracy of adjustments to arrears 2012-13 to 2015-16

	2012-13	2013-14	2014-15	2015-16
Percentage of cases with accurate adjustments to arrears	86%	94%	90%	97%

The Department has no plans to correct cases where errors have occurred previously. As the errors that have accumulated over the years remain uncorrected in the arrears balance, we consider a material level of error remains.

c) The clerical case database

The two issues described above are the primary causes of the high value of errors in the arrears balance. Further errors arise from weaknesses in the management of clerical cases, but it is not possible to accurately estimate the financial impact.

Where system failures prevent on-line case management, the Department has to manage the affected cases manually on a separate clerical case database. This database was originally set up to manage around 10,000 cases, but there are currently over 87,000 cases managed in this way. There are two specific problems with the clerical case database, which are set out below. The Department has continued to take corrective action on the clerical case database balances in readiness for the transition of these cases to the 2012 Scheme.

Incorrect charging status of cases

The clerical case database requires the manual input of customer maintenance schedules. 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 either the Department or I can provide a reliable estimate of error, but the available evidence indicates that arrears are understated as a result.

Opening balances on the clerical case database

Of the cases that the Department has transferred onto the clerical case database, there are a number which it transferred without arrears balances. The Department had adjusted for this in the account by increasing the arrears balance by the value of the arrears reported on the online systems for the affected cases before they transferred. The Department's two key assumptions underlying this adjustment are that the majority of nil opening balances on the Clerical Case Database are errors and that the closing balance on the 2003 system is the correct opening balance for cases now managed on the clerical case database. However, 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.

As part of my audit of the 1993 and 2003 scheme account I have considered the two issues above and have been able to confirm that they remain a source of error within the account. Given the limitations in calculating estimates of the errors and the material errors due to incorrect maintenance assessments and adjustments to arrears, I have not sought to carry out further testing in order to quantify the error resulting from issues with the clerical case database.

Next steps for the 1993 and 2003 schemes

Case Closure and its impact on receipts and payments and the arrears balance

The Department's focus continues to be on the closing of cases on the 1993 and 2003 schemes and providing customers with an option to either create a family based arrangement or apply under the 2012 scheme rules. The live 1993 and 2003 scheme caseload was at 1,220,500 by the end of March 2016, a reduction of 8% from 1,332,800 at March 2015. As at June 2016 586,300 cases had closed on the 1993 and 2003 schemes. The Department believes that it remains on course to have all cases, that have an ongoing liability, closed by 31 March 2018.

Once all cases assessed under the 1993 and 2003 schemes have been closed, the value of receipts and payments made in the 1993 and 2003 Account will decrease significantly as the only receipts and payments recognised will be those that satisfy arrears built up while the cases were assessed under the 1993 and 2003 rules. The Department anticipates that, as the volumes of cases transitioning increases, the 1993 and 2003 arrears balance, which will continue to be reported in this Account, will fall in value but not in its entirety as not all parents will agree to previous arrears being written off.

As parents transition onto the 2012 scheme or opt to move onto a family-based arrangement, where arrears have built up under the 1993 or 2003 schemes they are asked whether they wish for the arrears to be written off. During 2015-16, £30.1 million arrears were written off of which £11.9 million (40%) resulted from parents with care opting to write off arrears as part of the 2012 scheme transition process.

The likely position, following full case closure, is that this account will continue to disclose a large arrears balance, a balance that I consider to be materially misstated. The Department have informed me that cleansing this arrears balance would require a significant level of manual intervention, due to the historic and deeply embedded error, and that they are not willing to dedicate resource to this task. This cleansing activity becomes even less likely as a significant number of staff move from working 1993 and 2003 scheme cases to working on Universal Credit. The issues that lead to me qualifying the 1993 and 2003 Account are therefore not expected to be sufficiently addressed in the natural course of this ongoing transition.

Arrears accumulated under the 1993 and 2003 scheme represent money that is owed to parents with care from non-resident parents that has not been successfully collected and subsequently paid. Cases continue to be assessed under the 1993 and 2003 schemes while the case closure process continues and as such inaccuracies in maintenance assessment calculations under these schemes continue to effect both non-resident parents and parents with care. It is my view, therefore, that the inaccuracies, both historic and current, in the arrears balance and the ongoing maintenance assessments need to be addressed by the Department in order to prevent further significant negative impacts on the people who have used this service.

I am investigating concerns of parents and Parliament relating to case closure and will report in Spring 2017.

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