



# **Child Maintenance and Enforcement Commission**

## **Client Funds Account – Statutory Maintenance Schemes 2011/12**





# Child Maintenance and Enforcement Commission

## Client Funds Account – Statutory Maintenance Schemes 2011/12

Presented to Parliament by the Secretary of State  
for Work and Pensions by Command of Her Majesty  
December 2012

© Crown copyright 2012

You may re-use this information (excluding logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or e-mail: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk).

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

Any enquiries regarding this publication should be sent to us at [www.childmaintenance.org/en/contact/contact.asp](http://www.childmaintenance.org/en/contact/contact.asp)

This publication is available for download at [www.official-documents.gov.uk](http://www.official-documents.gov.uk) and from our website at [www.childmaintenance.org/en/publications/index.html](http://www.childmaintenance.org/en/publications/index.html)

ISBN: 9780108512148

Printed in the UK by The Stationery Office Limited  
on behalf of the Controller of Her Majesty's Stationery Office

ID 2524897 12/12 25080 19585

Printed on paper containing 75% recycled fibre content minimum.

# Contents

Foreword	2
Management Commentary	5
Statement of Accounting Officer's Responsibilities	9
Governance Statement	10
Independent Auditor's Report to the Houses of Parliament	20
Receipts and Payments Statement for the year ended 31 March 2012	22
Statement of Balances as at 31 March 2012	22
Notes to the Account for the year ended 31 March 2012	23
Report by the Comptroller and Auditor General to the Houses of Parliament	30

## Foreword

2011/12 was the last full financial year for the Child Maintenance and Enforcement Commission before its abolition on 31 July 2012. Operational responsibility for the child maintenance system in Great Britain has now returned to the Department for Work and Pensions (DWP), with the transfer of the Commission's functions to the Secretary of State.

The impending change did not affect what was another year of steady performance as we continued to deliver the Government's reforms and made good progress in increasing the number of effective child maintenance arrangements in place.

Our main focus was to develop and implement the Government's vision for the future; a system where more parents are given the right support to be able to make their own, family-based, arrangements with a new, more effective and efficient statutory scheme in place for those who need it most. This will help to improve upon the current situation where only around half of children in separated families are supported by an effective child maintenance arrangement.

### **Performance of the statutory maintenance schemes**

The limitations of the current schemes and their IT systems are abundantly clear. They continue to impact adversely on clients and our employees every day and will do until they are fully replaced by the new statutory scheme IT system. The statutory schemes continue to cost over £400m each year to maintain.

Notwithstanding this, the CSA division of the Commission did continue to provide a stable service to its clients over the year. £1,187m was collected or arranged over the year and a record 80% of those non-resident parents with a liability to pay child maintenance were paying at financial year end. Just under 900,000 children were benefiting from statutory child maintenance as at 31 March 2012.

Arrears of child maintenance grew over the year from £3.748bn to £3.798bn as at 31 March 2012, an increase of 1.4%.

### **Arrears Collectability**

We estimate that £1,161m of the total outstanding balance as at 31 March 2012 is at least potentially collectable (31 March 2011, £1,176m), of which £509m is likely to be collected (31 March 2011, £540m). The position will need to be further reviewed at each future reporting date to take account of changes to government priorities, availability of resources and enforcement capabilities. Note 5.7 to this account explains the collectability assessment further.

The Government remains firmly committed to ensuring that parents meet their financial responsibilities for their children. The Secretary of State tasked an independent panel of financial services experts to consider the total level of child maintenance arrears outstanding and how they could be most effectively addressed. We are already acting upon some of the recommendations and are chasing collectable debt more aggressively – for example: through more effective use of existing enforcement powers and through tackling more rapidly those non-resident parents who miss a child maintenance payment.

However, we have to be realistic that not all arrears are collectable. We are undertaking a trial in which we are providing a small group of clients an assessment of whether or not their arrears are currently collectable, in line with the recommendations of the House of Commons Public Accounts Committee. On 15 October 2012, the Government also published a response to the consultation on the Draft Child Support Management of Payment and Arrears (Amendment) Regulations 2012,

which set out the intention to take powers to write-off or allow part payment of some arrears in limited circumstances.

The collectability assessment included in this document is consistent in approach to those carried out at 31 March 2011 and 31 March 2010. Details of the approach to the collectability assessment are shown in the Notes to the Account, 5.7, later in this document. We intend to publish a full child maintenance arrears strategy shortly which may inform future collectability assessments within the Client Funds Account.

## **Format of the Client Funds Account**

The Department for Work and Pensions is exploring different ways of presenting information on receipts, payments and arrears for future years. The Department will be consulting with HM Treasury and the National Audit Office on any proposed changes to the format of the Client Funds Account.

## **Audit opinion**

In relation to the opinions given by the Comptroller and Auditor General, I am glad that the distinction between the accounting for receipts and payments and the historic balances has been acknowledged; the way in which we account for receipts and payments is considered to properly present, in all material respects, the cash handled by the Commission.

Where underlying child maintenance assessments are not in accordance with child support regulations, the amounts of maintenance collected and paid out are irregular and for this reason the receipts and payments statement has received a qualified opinion on regularity grounds.

The Comptroller and Auditor General acknowledges the greater visibility of the historic problems which have led to inaccuracies in reported arrears balances and have arisen due to errors made over many years. As with client funds accounts published by the Commission and Child Support Agency in previous years, the Comptroller and Auditor General has given a modified opinion on this section of the account.

The most significant issues remain in respect of the arrears balance (note 6), which consists for the most part of unpaid maintenance arrears on the least compliant cases. In his report, the Comptroller and Auditor General lists a number of historic and ongoing errors. The accounting impact is an understatement of the overall arrears balance. The estimated net understatement in the balance is in the order of 3%, but this is subject to considerable uncertainty and could be significantly more or less. Due to the materiality and pervasiveness of these and other errors, the Comptroller and Auditor General has given an adverse opinion on this note to the accounts.

The audit opinions given are the result of longstanding issues in our computer systems and the accuracy of the data they hold, of which our understanding has deepened through the work undertaken to produce a more accurate picture of child maintenance arrears. In my view the results of the audit have again confirmed that there is no case for any further investment in our existing systems, but the case has been further reinforced for implementing the Government's programme of reforms to child maintenance, including the introduction of the 2012 scheme and system to replace the current schemes and their failing systems.

Most importantly, the Commission remains committed to pursuing payments and ensuring that parents meet their financial responsibilities for their children. The opinions given should not be taken as a signal that child maintenance arrears are no longer payable.

## **Abolition of the Commission**

On 1 August 2012 an Order made under the Public Bodies Act abolished the Commission and transferred its functions to the Secretary of State for Work and Pensions. This change reflected the Coalition Government's desire for greater ministerial accountability for public bodies. For the Commission's employees and clients these changes will make very little day-to-day difference.

This account, the history of which pre-dates the establishment of the Commission, will continue to be published by the Department as we prepare for the closure of the two existing schemes and introduce their replacement, the new 2012 statutory scheme which will be administered by the Child Maintenance Service.

**Robert Devereux** Principal Accounting Officer



### The Child Maintenance and Enforcement Commission and the Child Support Agency

The Child Maintenance and Enforcement Commission took over responsibility for the child support maintenance system in Great Britain on 1 November 2008. The primary objective of the Commission was to maximise the total number of effective child maintenance arrangements, whether made collaboratively by parents through a family-based arrangement, by court order or through the statutory child support maintenance schemes. The Commission did this through its three core functions, which were to 1. promote the financial responsibility that parents have for their children; 2. inform parents about the different options available, guide them to those most appropriate for them and support them in making family-based arrangements; and 3. provide an efficient statutory child support maintenance service, with effective enforcement. The Commission had two delivery mechanisms; Child Maintenance Options, which provides the information and support service, and the Child Support Agency (CSA) division, which administered the two existing statutory schemes under the Child Support Agency brand name. Throughout the Client Funds Account, 'CSA' is used to refer to the division of the Commission which operated the existing statutory child maintenance service.

The Commission was abolished on 31 July 2012. Its functions transferred to the Secretary of State for Work and Pensions (see below).

### Operations

The Commission operated two current statutory maintenance schemes: the '1993 scheme' for applications made before 3 March 2003 and the '2003 scheme' for applications made on or after 3 March 2003. The term 'client funds' relates to the collection service provided under these two existing schemes. This service comprises the calculation of maintenance due from the parent who does not normally live with the child (the non-resident parent) to the parent who has the main day-to-day care of the child (the parent with care), together with the collection and, where necessary, enforcement of payment from non-resident parents. Receipts, payments, and accumulated maintenance arrears are only correct to the extent that these underlying calculations are correct. As accuracy has improved in recent years, receipts and payments in the year are more accurate overall than the arrears balance, which contains much higher levels of error accumulated in earlier years. Monies are received into a single bank account by various methods of collection, including direct debit, standing order, electronic funds transfer and cheque. The majority of receipts flow automatically through the computer systems and are paid out to the associated parents with care or the Secretary of State for Work and Pensions. In some cases, however, manual assignment and allocation of receipts to the correct cases, and manual payments are required. These are undertaken by a central accounting team with additional support from caseworkers where necessary. Apart from manual receipts and payments, which are recorded only within the financial ledgers, receipts and payments are processed through the two main operational computer systems (CSCS for the majority of 1993 scheme cases, CS2 for the remaining 1993 and 2003 scheme cases). A significant number of cases are managed off the two main systems, on the Clerical Case Database.

### The Client Funds Account

The Department for Work and Pensions is required to publish the Client Funds Account separately from its Annual Report and Accounts, which relate to the administration of the Commission as a whole, in accordance with an Accounts Direction issued by the Secretary of State for Work and

Pensions. The Client Funds Account, as published, comprises a receipts and payments account and a statement of cash balances together with supporting notes, including a note of accumulated outstanding maintenance arrears owed by non-resident parents to parents with care and the Secretary of State for Work and Pensions.

## Child maintenance reform

The Coalition Government set out its vision for the reform of the child support maintenance system in its Green Paper '*Strengthening families, promoting parental responsibility: the future of child maintenance*', published in January 2011. In it, the Government stated its commitment to supporting families and promoting parental responsibility by ensuring that parents are encouraged to play a full role in their children's lives and that co-parenting is the norm post-separation. The Government proposes a new approach to child maintenance, in which more people are supported to make family-based arrangements that deliver the best outcomes for their children. Those who cannot make family-based arrangements will be able to use a new streamlined statutory child support maintenance scheme which will replace the existing CSA schemes.

## Significant developments during 2011/12

2011/12 was another year of stable performance, delivering more money for children at the same time as a reduction in costs. Record numbers of children again benefited from maintenance through the statutory schemes during the year, with the number reaching 899,700 by year-end. The amount of maintenance collected or arranged over the year through the statutory schemes reached £1,187m, the portion of the total collected which was reported as being against arrears was £119m. The percentage of cases with maintenance flowing increased to 80%. New application performance also continued to improve with 90% of applications received in December 2011 cleared within 12 weeks, and the number of uncleared applications was down from 14,600 in March 2011 to around 13,700 in March 2012. Over 95% of telephone calls from clients were answered within 60 seconds, a reduction on the previous year, although the Commission took steps to answer more queries in a single call and to reduce the number of clients who had to be called back to resolve their query. More detailed information on performance can be found in the Commission's Annual Report and Accounts for 2011/12.

The IT systems underpinning the current statutory schemes still have significant underlying flaws and the number of cases managed off these systems continues to grow. Cases managed off the main IT systems cost significantly more (around 70%) to manage than cases on the systems. These cases increased by 3,900 to 104,100 during the year. The introduction of the new statutory scheme from late 2012 (known as the "2012 scheme") is considered to be the only cost-effective means of resolving these problems.

## Significant developments since 31 March 2012

The Public Bodies Act 2011, which received Royal Assent in December 2011, provides the right for Ministers to abolish the Commission and transfer the Commission's functions to the Secretary of State. A public consultation on the proposed changes was completed in January 2012, the approval of both Houses of Parliament obtained, and the Commission was formally abolished and its functions transferred to the Secretary of State on 1 August 2012. Under the order abolishing the Commission, responsibility for publishing a Client Funds Account was given to the Secretary of State.

## Receipts of Child Maintenance

During 2011/12, 4.65m individual receipts were recorded, a 1% increase in volume compared to 2010/11. Total monies received were 3% higher at £808m (2010/11: £787m). 93% of receipts by volume (2010/11: 92%), and 88% by value (2010/11: 85%) were received electronically. By value 44% of receipts were made using the methods of collection preferred by the Commission: direct debit, deduction from earnings orders via employers and payment by debit or credit card. This represented an increase of 4% over 2010/11 by value and 3% increase by volume. Direct debit and deduction from earnings are preferred methods for ongoing maintenance as they result in the highest levels of compliance; collection by debit or credit card is particularly effective for one-off payment of arrears. A further 21% of receipts were executed under the new Faster Payments system (2010/11: 20%), introduced by the major UK clearing banks. Faster Payments has significantly reduced the timescales for receipts from non-resident parents and has the additional benefit of ensuring cleared funds are received promptly. Receipt failure rates remain low overall, except for direct debits, where 5% of receipts fail (2010/11: 6%). More than 47% of these failures are initiated by non-resident parents and the most common reason is the cancellation of a direct debit instruction.

The introduction of paperless direct debits in 2009/10 has continued to contribute to a reduction in such failures. However, failures on both types were at broadly similar rates. Another significant and longstanding problem is that many receipts require manual processing, even where they arrive by electronic means into the Commission's bank account. Around 45% of receipts in 2011/12 required manual intervention. The main categories of receipts affected are deduction from earnings payments from employers relating to multiple non-resident parents, cheques banked in bulk by our post opening contractor, receipts with erroneous reference data and manual payments relating to off-system cases, which are progressed partially or wholly outside of the Commission's main computer systems. Whilst manual processing is executed efficiently, solutions are required to reduce and, where possible, eliminate the need for it. The continued activity during 2011/12 to address off-system cases has contained the increase in manual processing but has not reduced it.

## Payments of child maintenance in the statutory schemes

During 2011/12 the number of individual payments to parents with care rose by 4% to 8.81m, representing an additional volume of 381,000 transactions, whilst the total value of payments rose by 3%, consistent with overall receipts. Some 93% of payments to clients by value (96% by volume) are made by funds transferred electronically directly from the Commission to clients' bank accounts. Volumes of payments can vary considerably since one receipt from a non-resident parent can be allocated to multiple parents with care. Similarly, one receipt from a deduction of earnings order may relate to multiple non-resident parents, in which circumstances the single receipt will be allocated to a number of parents with care. In 2011/12 the Commission paid out marginally more funds than it received. Total net payments to the Secretary of State fell by £5.5m, or 14%. Around £3m per month relating to arrears continues to be paid to the Secretary of State; only amounts relating to arrears are payable to the Secretary of State. Maintenance monies received are paid to parents with care as quickly as possible, and cash held at 31 March 2012 equated to around 2% of the funds received during the year. There are a very small number of receipts which historically have been difficult to match to individual clients and cases and consequently have not been paid to the relevant parent with care. Despite the inherent challenge of translating 4.65m receipts into 8.81m payments – including many instances of sub-dividing or aggregating payments between or across multiple cases – the vast majority of payments are made accurately and in a timely manner, whether processed automatically or manually.

## Outstanding arrears of child maintenance

In addition to reporting the receipts and payments of maintenance monies, the Commission was required to report on the value of outstanding child maintenance arrears. Whilst these amounts, which totalled £3,798m at 31 March 2012 (an increase of £50m on the total arrears at 31 March 2011), were owed by non-resident parents to their respective parents with care and to the Secretary of State, the Commission was responsible for pursuing their collection. As the amounts were neither owed to nor owed by the Commission, they are not recognised as an asset of the Commission in its own accounts and are disclosed in a note to the Client Funds Account. The £3,798m arrears owing have accumulated over the last nineteen years. The Commission had no power to write-off any arrears, although it was able to make adjustments to correct assessments where necessary and to suspend the collection of arrears in some circumstances.

The approach used to assess collectability of arrears for the Client Funds Account is based on a clear set of principles and assumptions and uses the best available management information, derived from the child support systems, indicating the characteristics of the entire caseload. Collectability is primarily assessed on the basis of the behaviour of the non-resident parent from whom the arrears are due. The approach is the same in principle as that used in the preparation of previous years' Client Funds Accounts dating back to 2008-09. More information on the approach can be found in the notes to this Account. We now estimate that £1,161m of the total outstanding balance as at 31 March 2012 is at least potentially collectable, of which £509m is likely to be collected. Of the outstanding balance as at 31 March 2011 we estimated that £1,176m was at least potentially collectable, of which £540m was likely to be collected.

The Government is determined to recover as much of the likely to be collected and potentially collectable arrears as possible, and will bring forward an arrears strategy shortly. However, the Government is mindful of the fact that much of the outstanding arrears balance is old, based on incomplete information and therefore subject to change, or may not be wanted by parents with care, and it is therefore likely that significantly less than the total of £1,161m estimated to be potentially collectable will, in practice, be collected. A full breakdown of outstanding maintenance arrears can be found in note 6 to the Account.

## Assessment accuracy

The Department for Work and Pensions recognises the problems experienced by the Child Support Agency, dating back to its inception, in accurately working out how much child maintenance should be paid in each case. These problems have led to inaccuracies in receipts, associated payments and underlying arrears balances, which has resulted in long-term modified audit opinions on both the regularity of receipts and payments, and the accuracy of the reported arrears values, for which the amounts are in many cases inconsistent with the authorising legislation. It is this underlying assessment inaccuracy which has been, and remains, at issue. Accuracy of receipts and payments continues to improve. Recent advances in assessment checking and root cause analysis have resulted in improved accuracy rates. However, the issues that led to the modification of the audit opinion are unlikely to be substantially resolved.

**Robert Devereux**

Principal Accounting Officer

## Statement of Accounting Officer's Responsibilities

Under Section 18(2) of Schedule 1 to the Child Maintenance and Other Payments Act 2008, the Secretary of State for Work and Pensions directed the Commission to prepare, for each financial year, a Client Funds Account for the current statutory schemes in the form and on the basis set out in the Accounts Direction.

The Principal Accounting Officer of the Department for Work and Pensions appointed the Commissioner for Child Maintenance as the Accounting Officer for the Child Maintenance and Enforcement Commission up to 31 July 2012.

Following the transfer of functions from the Commission to the Department for Work and Pensions I am required to sign these accounts as Principal Accounting Officer of the Department. The previous Accounting Officer Noel Shanahan, on transfer of functions, continued as Director General for Child Maintenance within the Department. I have sought representation from Noel Shanahan as my predecessor as Accounting Officer and as far as he is aware there is no information relevant to the audit of these accounts of which the auditors are unaware. In his capacity of Director General for Child Maintenance Noel Shanahan has taken all reasonable steps to make himself aware of any relevant audit information and to establish that the auditors are aware of this information.

The account must comprise a Receipts and Payments Account and a Statement of Cash Balances, and must properly present the receipts and payments for the financial year, and the balances held at the year end. The notes to the Client Funds Account must include a summary of the maintenance assessment balances at the beginning and end of the year and the movements thereon during the year. The summary must also disclose the extent to which any outstanding maintenance arrears are likely to be collected. In addition the amount of arrears must be categorised as to its collectability.

In preparing the accounts, the Accounting Officer is required to:

- Observe the Accounts Direction issued by the Secretary of State with the consent of HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Commission's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in '*Managing Public Money*'.

**Robert Devereux**

Principal Accounting Officer



# Governance Statement

## 1. Introduction

- 1.1. In line with guidance issued by HM Treasury, the Governance Statement replaces the Statement on Internal Control (SIC) in previous Client Fund Accounts. It is assembled from work carried out during the year and provides;
- a clear understanding of how the Commission worked and the control framework;
  - an overview of the arrangements that were in place for the stewardship of the Commission;
  - a description of the systems of internal control that were employed;
  - a summary of the key risks the Commission faced during 2011/12 and their management.
- 1.2. Noel Shanahan was appointed Accounting Officer with effect from 9 May 2011, replacing Stephen Geraghty. There was a full handover of Accounting Officer responsibilities, conducted over a series of meetings. As Accounting Officer, Noel Shanahan was responsible for the management and control of the resources used in the Commission during the year. The Commission's Executive Team, chaired by the Accounting Officer, had collective responsibility for the management of the Commission and its business, in line with Ministers' aims and the business strategy set by the Commission Chair and Board.
- 1.3. On 31 July 2012 the Child Maintenance and Enforcement Commission was abolished and its functions transferred to the Department for Work and Pensions (DWP) on 1 August 2012.
- 1.4. Noel Shanahan led on the completion of this Statement, supported by the Commission's Board and, as the Principal Accounting Officer for the DWP, I have taken assurance from him that the system of internal control in place during 2011/12 accorded with the HM Treasury guidance. I am therefore able to sign these accounts.
- 1.5. Noel Shanahan is now Director General for Child Maintenance

## 2. Oversight by the Department for Work and Pensions

- 2.1. The Department for Work and Pensions was the Commission's sponsoring Department and the Commission was accountable to DWP and its Ministers for its use of resources and performance. The corporate governance arrangements between the DWP and Commission can be found in the Framework Document archived at the National Archives website at <http://webarchive.nationalarchives.gov.uk/20120604081032/http://childmaintenance.org/en/pdf/Framework.pdf>
- 2.2. The Commission submitted monthly data to DWP on its forecasts for, and use of, resources and quarterly data on its operational performance. This data was incorporated in DWP Executive Team Reports and Quarterly Data Summaries.
- 2.3. Regular meetings took place between DWP Ministers and the Commissioner.

### 3. Governance within the Commission

3.1. The Commission Board was responsible for setting the overall strategic direction of the Commission and evaluating its performance. Chair of the Commission, Dame Janet Paraskeva, was Chair of the Board and had responsibility for ensuring that the Commission's policies and actions supported the wider policies of the Secretary of State and that its decisions complied with statute and any direction given by the Secretary of State.

3.2. During the 2011/12 year the Board members were:

- Dame Janet Paraskeva – Chair
- Stephen Geraghty – Commissioner (to 6 May 2011)
- Noel Shanahan – Commissioner and Chief Executive (from 9 May 2011)
- Deborah Absalom - Non-Executive Director<sup>1</sup>
- Rosemary Carter - Non-Executive Director<sup>2</sup>
- Bill Griffiths - Non-Executive Director<sup>3</sup>
- Heather Jackson - Non-Executive Director<sup>4</sup>
- Alan Hardy - Finance and Commercial Director
- Susan Park - Corporate Affairs Director
- Ian Wright - Change Director

The Commission also had three non-executive members who sat on sub-committees:

- Peter Conway (Audit Committee)
- Dawn Johnson (Audit Committee)
- Liz McMekein (Remuneration Committee)

3.3. The non-executive directors and members were not employees of the Commission. The non-executive directors were office holders and they provided 20 days a year to the Commission. The non-executive members offered constructive challenge across the whole of the Commission's business and ensured that all aspects of strategy and delivery of policy were independently scrutinised for effectiveness and efficiency.

3.4. **Non-Executive Functions Committee.** The Board and the Non-Executive Functions Committee, which was a sub-committee of the Board and had joint ownership of senior succession planning for the Commission including identifying and managing any risk areas.

3.5. **Audit Committee.** The Audit Committee was a sub-committee of the Non-Executive Functions Committee and consisted of two non-executive directors of the Commission Board and two other non-executive members. The Board Chair, Commissioner, executive directors, officials from DWP or the National Audit Office and other employees of the Commission attended at the Committee's request to provide advice and information.

3.6. The Audit Committee met six times during the period. The Committee provided an independent view on the appropriateness, adequacy and value for money of the Commission's governance, risk management and assurance processes. It provided

---

<sup>1</sup> Also chair of the non-executive functions committee and a member of the remuneration sub-committee

<sup>2</sup> Also chair of the remuneration sub-committee and a member of the non-executive functions committee

<sup>3</sup> Also chair of the Audit sub-Committee and a member of the non-executive functions committee

<sup>4</sup> Also a member of the audit sub-committee and the non-executive functions committee

constructive challenge, opinion and advice, taking account of risks, on the effectiveness of the Commission's control environment.

3.7. During the year, the Audit Committee discussed a variety of items, including:

- the Administration Account and Client Funds Account;
- proposals for future reporting of the Client Funds Account;
- Internal and External Audit Assurance reports;
- development of a comprehensive assurance framework;
- the Commission's approach to risk management;
- the 2010/11 Annual Report and Accounts and Client Fund Accounts

3.8. The Audit Committee Chair provided information to the Board after each meeting detailing the Committee's discussions. During the year, Non-Executive Director Heather Jackson left the Audit Committee and was replaced in October 2011 by Deborah Absalom, who was also a member of the Commission Board.

4. **Remuneration Committee.** The Remuneration Committee was a sub-committee of the Non-Executive Functions Committee and met three times during 2011/12. All reward recommendations were determined within guidance received from Cabinet Office for members of the Senior Civil Service and from HM Treasury for other senior colleagues. For Commission Executive Directors, the Commissioner made recommendations to the Remuneration Committee. The Remuneration Committee was also invited to scrutinise and recommend reward proposals for the remainder of the Executive Team. The Committee's recommendations were submitted to the Non-Executive Functions Committee for ratification. The terms of any reward for the Commissioner were recommended by the Chair of the Commission to the Remuneration Committee and were then subject to final approval by the Secretary of State and the Minister for the Civil Service.

## 5. **Board and Committee Activity and Performance**

5.1. The Board conducted a review of its performance and operation during the year, led by the Chair and the Commission Legal Adviser. Board members were first invited to complete a questionnaire, the responses to which formed the basis of two Board discussions.

5.2. The Board was satisfied that it was able to oversee the Commission and its business effectively. It was agreed that issues raised in the previous review had been addressed.

5.3. The Board met monthly until January 2012 when meetings became bi-monthly, starting from March 2012. All Board meetings were attended in full during the year.

5.4. Each meeting covered a range of items raised by the Board; standing items including the Commission's performance, funding, the Green Paper<sup>5</sup>, other policy changes and the Commission's Change Programme. Additional items included the quarterly Audit Report and an overview of the Commission's risk management process.

5.5. The Commission's Audit Committee also undertook a review of its performance in June 2011 with a summary of the findings discussed at a subsequent meeting. The review confirmed that the Committee met all five of the key principles (role, independence and objectivity, skills, scope of work and communication).

---

<sup>5</sup> Strengthening families, promoting parental responsibility: the future of child maintenance CM 7990 January 2011  
Client Funds Account 2011/12 12



5.6. I can confirm that there are no conflicts of interest between the members of the Board and its Committees and the Commission.

5.7. I confirm that no Ministerial Directions were received in the Commission during 2011/12.

## 6. **Data Quality to support the Board's needs**

6.1. The Board received reports at its meetings to support its discussions. All reports complied with a prescribed layout to ensure that the Board was able to focus on the key issues and the decisions which were required.

6.2. The Board did not raise any specific concerns with the quality of the information it received. The Board was aware of the underlying management information issues within the Commission and the steps being taken to improve this.

## 7. **Compliance with the Corporate Governance Code**

7.1. The Commission was required to comply with the provisions in the Corporate Governance Code ("the code") or explain where it had not done so. The only provision of the code with which the Board did not comply, was the requirement for a Nominations and Governance Committee of the Board.

7.2. The code indicates that the role of a Nominations and Governance Committee is to;

- Ensure that there are satisfactory systems for identifying leadership and high potential;
- Scrutinise the incentive structure and succession planning for the Board and senior leadership;
- Scrutinise governance arrangements.

7.3. The Board was satisfied that relevant assurance covering each of these aspects was obtained through the Commission's Human Resources Director, the lead non-executive Board member (who was also Chair of the Remuneration Committee) and the Audit Committee. The Board therefore concluded that it did not need a Nominations and Governance Committee.

## 8. **Risk, controls and compliance**

8.1. The Commission operated a structured risk and control framework which enabled the identification, prioritisation and escalation of key strategic risks. Over the year, new risks were identified and risks escalated or de-escalated as circumstances changed. The Commission's Executive Team (ET) regularly reviewed the top risks and the Commission Board ensured that the top risks were considered as part of each meeting.

8.2. The Commission's Board and ET had a broad range of skills and experience from the public and private sectors. They recognised the importance of risk management and managed the risks that emerged during the year through a series of measures, including regular risk workshops and regular programme board meetings specifically addressing risks to the successful delivery of major programmes.

8.3. The letters of assurance completed by directors at the year end included confirmation that the Commission's risk process had been followed and that the risk management process was firmly embedded into directorates and programmes.

8.4. Information risk remained an important focus during 2011/12 and information security featured as a risk on the Commission's strategic risk register, which was regularly

reviewed by the Executive Team. As well as the overall risk register review, the Executive Team also looked at specific aspects of the information security risk during the year.

- 8.5. A range of potential information risks were defined in a high level “Information Risk Profile” document, together with associated residual issues and key mitigations, which were actively tracked and monitored at the Security and Information Governance Forum. There were no significant lapses of information security during the year.
- 8.6. The Commission had a number of assurance measures to ensure that it effectively managed security risks to people, IT systems, information and buildings. During 2011/12, the overall level of assurance over the management of information risks and mitigation of known control weaknesses remained relatively stable, with progress being made in a number of areas. This reflected the comprehensive end of year assessment against the HMG Information Assurance Maturity Model, which was independently assured by DWP Information Assurance Division.
- 8.7. During the year, progress was made in the following areas:
- key security policies, including the Commission’s Identity Management and Access Control Policy and Information Sharing Policy, were reviewed and developed;
  - there was continued focus on security awareness with programmes of communications;
  - middle and senior managers received security presentations;
  - all our people were again required to complete the DWP security e-learning course.
- 8.8. A major security awareness initiative entitled ‘Protecting Client Information’ which had begun in April 2010, was completed in June 2011. This delivered improvements in security awareness, in particular around telephone security, post despatch and e-mail security.
- 8.9. This effectiveness of this activity can be seen in a reduction in security incidents across the Commission.
- 8.10. Business continuity exercises were undertaken across the Commission to ensure that plans were robust. A number of live incidents were successfully managed during the year by the Commission’s business continuity teams. These included two periods of Whitehall-wide industrial action, during which all Commission offices remained open and disruption to service delivery was kept to a minimum.

## 9. Findings from Internal Audit, External Audit and other reviews

- 9.1. During the year, the Commission was subject to a Value for Money study by the National Audit Office<sup>6</sup>, which was then followed by a Public Accounts Committee (PAC) hearing and report<sup>7</sup>. The main recommendations from NAO and PAC, which both recognised the progress that had been made by the Commission, concerned: improving the robustness of the Commission’s cost saving plans; further driving up productivity; ensuring thorough testing of the new IT system; understanding the impact of fees; and developing an effective arrears strategy. The Government welcomed these reports and accepted the majority of recommendations, most of which have been implemented<sup>8</sup>.
- 9.2. Findings from internal audit work during 2011/12 continued to reflect the improving trend in governance, risk management and control, with audits completed throughout the year with the majority achieving “reasonable” or “strong assurance”. No audits resulted in a

<sup>6</sup> [http://www.nao.org.uk/publications/1012/cmec\\_cost\\_reduction.aspx](http://www.nao.org.uk/publications/1012/cmec_cost_reduction.aspx)

<sup>7</sup> <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1874/187402.htm>

<sup>8</sup> [http://www.hm-treasury.gov.uk/d/hmt\\_minutes\\_75\\_77\\_79-81\\_83-88\\_reports\\_cpas\\_july2012.pdf](http://www.hm-treasury.gov.uk/d/hmt_minutes_75_77_79-81_83-88_reports_cpas_july2012.pdf)

"weak" rating.

9.3. The overall internal audit opinion was that the Child Maintenance and Enforcement Commission's governance, risk management and control arrangements provide reasonable assurance that material risks were identified and managed effectively, with the exception of the following matters:

- Client Funds Accounting, where cumulative errors in maintenance assessments since the CSA was formed continue to impact on the accuracy of accounting records in relation to the outstanding debt balance. The Commission acknowledged that these problems would not be resolved and the position would remain unchanged, with the 2012 scheme being the way forward; and
- the 2012 scheme, where the Commission had made steady progress over the year in increasing capabilities and embedding stronger programme management disciplines, but where there remain a number of delivery challenges.

The majority of 2011/12 internal audit recommendations were implemented during the year and in the opening months of 2012/13.

## 10. Internal Control Challenges

10.1. The Commission's Executive Team identified the following significant control challenges.

10.2. **Client Funds Account.** The Commission had responsibility for the management of client funds relating to the two existing statutory maintenance schemes and for the pursuit of the accumulated arrears of maintenance owed by non-resident parents. The Commission was required by the Secretary of State for Work and Pensions to produce a Client Funds Account, which was separate from its Annual Report and Accounts.

10.3. Following the identification of a number of weaknesses in the information available from the child maintenance systems during preparation of the 2008/09 Client Funds Account, a suite of reports was developed to produce arrears listings. These listings formed the basis of Note 6 to the 2009/10 and 2010/11 Client Funds Accounts and were used to prepare Note 6 of this Account.

10.4. The Client Funds Account for 2010/11 was laid before Parliament on 14 May 2012. In common with the 2008/09 and 2009/10 accounts, the 2010/11 account carried an adverse opinion on the arrears note, arising from estimated errors in the underlying arrears, alongside the long-standing regularity qualification arising from estimated errors in maintenance assessments.

10.5. **2012 scheme.** The Commission was part-way through a major programme to reform the system of child maintenance. The DWP will continue with this programme. The 2012 statutory maintenance scheme, which will ultimately replace the two existing schemes, is underpinned by a new IT system. The DWP is focused on delivery of the 2012 scheme by the end of the year. It will be introduced using a pathfinder approach. Initially, applications will be accepted onto the scheme where four or more qualifying children with the same parents are named in the application. When the 2012 scheme is seen to be working well, it will be opened to new applications where there are two or more qualifying children with the same parents, and thereafter to all new applicants.

10.6. Functionality for charging will be introduced after the 2012 scheme has been opened to all new applicants and is working well.

- 10.7. Like any major programme there are significant risks, but these are being managed and the DWP has reaffirmed the Commission's statement that the 2012 scheme will not be implemented until it is confident that it will work properly.
- 10.8. **Stuck and off-system cases.** The Commission operated two child maintenance computer systems: CSCS, implemented in 1993, and CS2, implemented in 2003. A problem with the CS2 system is that cases become unprogressable or 'stuck' on the system due to data issues, software defects or both. These cases become invisible to caseworkers and only come to light if clients complain about the lack of progress. At that point, the case would be referred for off-system management.
- 10.9. These off-system cases are known as "clerical" cases, although this is not strictly accurate as they are managed using a number of small IT systems. However, these systems are very limited in their functionality compared to CS2 and significant additional resource is required, incurring a much higher cost – estimated to be around 70% higher.
- 10.10. In March 2012, there were 104,100 cases managed wholly off the main computer systems and a further 42,400 cases managed partially off the main systems, compared with 100,200 and 44,400 respectively in March 2011.
- 10.11. The September 2008 upgrade to CS2 fixed some known software defects and introduced for the first time a system of validation and error trapping. Cases experiencing problems are identified and either rectified by caseworkers or referred to an 'initially stuck' queue for technical fixes, if possible. If successful, the case is then transferred back to caseworkers for normal progression. In March 2012, around 1900 cases per week were entering the 'initially stuck' queue and approximately 16% of these cases move to the 'long term stuck' queue. Long term stuck cases are processed either wholly or partially off the main computer systems.
- 10.12. Although the permanent solution for the problems of stuck and off-system cases is the 2012 scheme IT system, the DWP remains committed to continuing the Commission's efforts to reduce the number of cases requiring clerical intervention and improving the management of such cases in the meantime, where it is cost effective to do so.
- 10.13. **Assessment accuracy.** A continuing issue, which has been central to the modified audit opinions of the Client Funds Account, concerns the inaccuracy of maintenance assessments and the consequent uncertainty around reported arrears (including doubts around the accuracy of estimates for non-collectability of arrears). The accumulated inaccuracies arising mainly from earlier years continue to affect current arrears balances.
- 10.14. The Commission continued to drive up accuracy and there was a sustained campaign during 2011/12, which included increased education and increased management focus. As a result, the Commission made steady improvements over the last few years with Cash Value Accuracy<sup>9</sup> increasing from 97.4% in 2010/11 to 98.2% in 2011/12. DWP will continue the Commission's approach of ensuring that lessons learned from the working of the existing schemes are carried through into the 2012 scheme.
- 10.15. **Adjustments to assessments and arrears.** The Commission became concerned that in some circumstances, case workers were inappropriately "adjusting" arrears (ie reducing

---

<sup>9</sup> 'Cash Value Accuracy' gives an overall measure of inaccuracy for the Commission. This involves dividing the sum of all the errors by the sum of all the correct maintenance assessments for a sample of both accurate and inaccurate cases. Suppose, for example, that the total weekly value of correct assessments is £45,000. Of the cases found to be inaccurate, the aggregate error in weekly maintenance across might be £3,570 or 8% of the total assessments. This would give accuracy by value of 92%.

the arrears balance) rather than “suspending” the arrears (ie not actively pursuing them) due to a poor understanding of procedures.

- 10.16. The Commission responded by introducing clearer guidelines and education for caseworkers. The Commission’s accuracy checking regime confirmed these improvements were reducing the level of adjustment errors and the accuracy of Debt Adjustments rose from 84.6% in 2009-10 to 90.6% in 2011-12. This action however, did not reduce the accumulated historical errors.
- 10.17. **System and Transaction Controls.** Difficulties in identifying the non-resident parent from whom funds have been received, has sometimes impacted the speed with which parents with care received payments. Payments which cannot be linked to an assessment are held as “unassigned balances”.
- 10.18. During 2010/11, small systems were introduced which were designed to improve accuracy through process automation and therefore reduce refunds and enable faster payments to be made. In 2011/12 the Commission made some improvements to these small systems to further improve accuracy and efficiency. The new systems support effective workflow management and allow monitoring of caseworkers’ performance. As a result, more receipts automatically assign to the non-resident parent’s case first time and consequently, the unassigned balance is at its lowest ever level. Also at 31 March 2012, the number of outstanding bank reconciliation items was 1,457 – compared to a high of 42,000 in 2006.
- 10.19. To strengthen control of key risk transactions, there is a programme of independent checking. The checking team checked a sample of 610 ‘method of payment’ changes in 2011-12, finding no signs of fraud or irregularity. A further sample of 2,100 ‘refunds to clients’ showed a cash value accuracy rate of 86% in 2011/12. This marks a decline from the 90% accuracy figure in 2010/11 and so a programme of improvement was put in place from spring 2012.
- 10.20. **Reimbursements made to clients.** The Commission continued to make inappropriate reimbursements to clients due to short term timing differences in confirming changes of circumstances. These reimbursements are treated as a loss and recorded as such in the administration accounts.
- 10.21. Throughout 2011/12, the Commission continued to implement recommendations from earlier internal audit reviews to put in place robust controls over the checking and authorisation of reimbursements. Additionally, managers were provided with better management information on the volume and value of refunds.
- 10.22. As a result of these measures, the payment of inappropriate reimbursements continued to reduce. The value of refunds in 2011/12 was £5.3m, some £3.2m lower than in 2010/11. The DWP will continue to review processes to further reduce the costs of reimbursements.
- 10.23. **Information security.** The Cabinet Office requirements on information security are set out in ‘Data Handling Procedures in Government’, published in June 2008 and ‘HM Government Security Policy Framework’, revised in April 2012.
- 10.24. The Commission held a wide range of personal data. The 2011/12 Information Assurance Maturity Model (IAMM) analysed the approach to information risk management across the Commission. The overall maturity shows that information assurance processes are regarded as business enabling. Business critical information systems and the information assurance status of all such systems have been identified. All critical areas of the



business, including information systems, are subject to a robust information assurance regime.

- 10.25. The CS2 IT system has full security accreditation. CSCS system has stronger security features than CS2. However, following a formal risk assessment by the Child Support Agency in 2008 the DWP's executive team decided not to pursue full security accreditation for CSCS. The Accounting Officer at the time was sighted on this decision in his capacity as senior responsible owner of CSCS.
- 10.26. The overall Internal Audit opinion of information risk within the Commission, was 'Reasonable', which reflected the result of the IAMM assessment and the 'Reasonable' opinion of the 2011/12 internal audit of Information Risk Management and Assurance. The Commission had been working with the DWP to address a number of significant control challenges where these affected the Commission due to dependencies on DWP systems. DWP will continue to address these issues.
- 10.27. **Management information (MI).** The provision of robust management information continued to be an issue for the Commission. Action was taken to improve the ability of managers to drive performance improvement, which in the period was evident through higher maintenance collection and principal Ministerial targets being met. However, some issues remained over the robustness, timeliness and completeness of this information, in particular:
- Stability of MI production. The Commission produced many forms of performance reporting both for internal and external consumption. In the period, MI production was affected by a number of problems centring on the data runs carried out on the Commission's behalf by the DWP's Information Governance and Security Directorate (IGS). DWP continues to work with IGS to improve the situation.
  - Ability to "age" arrears. The child maintenance computer systems lack the functionality to "age" arrears of payments to the Parent with Care from the Non-Resident Parent. This impacts the Commission's ability to assess the collectability of debt. The cost of remedying this issue is considered prohibitive. The 2012 scheme will improve our ability to show the age of debt.
  - Legal enforcement. 'Tallyman' was introduced during 2010/11 replacing civil and criminal enforcement small systems. Tallyman is a commercial service which is widely used to provide support for managing and monitoring casework through the enforcement processes and on-line work management tools. Tallyman supports the Commission's business within both civil and criminal proceedings and is tailored to each of the three jurisdictions (England/Wales, Scotland and Northern Ireland). When first introduced within the Commission there were issues with the MI as a result of users not properly understanding the features of the system. An improvement programme was undertaken during 2011/12 and, although there remains some need for additional refinement, the Commission made substantial use of the system with regard to caseload and collections information.
  - Complaints information. This was previously an area for improvement for the Commission, particularly around the reliability of Management Information. The computer system used to manage complaints was upgraded in 2009/10 which partially addressed performance issues and following a 2010/11 Internal Audit review key governance and controls were enhanced. The Commission considered that MI and governance in this area was robust during the period.

## 11. Conclusion

- 11.1. There were real and lasting improvements in performance and control, which were evident through the 899,700 children benefiting from statutory maintenance during

2011/12 and with the Commission collecting or arranging £1,186.6m in child maintenance, the highest amount since the inception of the Child Support Agency.

- 11.2. Despite a rolling programme of pragmatic value for money improvements to its systems and processes, the Commission continued to operate in a challenging environment, caused by serious underlying IT problems. Unfortunately, these issues will remain while the current systems remain in use.
- 11.3. Despite the problems, I believe the continuing improvement in performance, coupled with the introduction of the new statutory child maintenance system, provides a solid footing for a much improved child maintenance service in the future.

**Robert Devereux**

Principal Accounting Officer

# Independent Auditor's Report to the Houses of Parliament

I have audited the Client Funds Account for the year ended 31 March 2012. This comprises: the Receipts and Payments Statement, the Statement of Balances and the related notes. This account has been prepared in the form directed by the Secretary of State with the consent of HM Treasury. It has been prepared on a cash basis with the exception of Note 6, detailing the outstanding maintenance balances, which has been prepared on an accruals basis. The account has been prepared under the accounting policies set out within it.

## **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Principal Accounting Officer of the Department for Work and Pensions is responsible for the preparation of the Client Funds Account in accordance with the Secretary of State Direction made with the consent of HM Treasury. My responsibility is to audit the account. I conduct my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the account sufficient to give reasonable assurance that the account is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Client Funds Account and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department for Work and Pensions in respect of the Client Funds Account; and the overall presentation of the account.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments reported in the account have been applied to the purposes intended by Parliament and the financial transactions recorded in the account conform to the authorities which govern them.

## **Opinions**

### ***Basis for Qualified opinion on regularity as a result of transactions not conforming with legislation***

Certain receipts from non-resident parents (and the subsequent payments over to the parent with care or Secretary of State) were for incorrect amounts because of errors in the underlying maintenance assessments. Receipts from non-resident parents of £808 million are shown in the Client Funds Account. I estimate that errors in underlying maintenance assessments resulted in overpayments of around £8.8 million and underpayments of around £13.3 million which are not in accordance with the relevant legislation.

### ***Qualified opinion on regularity***

In my opinion, except for the over and under payments relating to errors in maintenance assessments, in all material respects the receipts and payments recorded in the accounts have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### ***Unqualified opinion on the Receipts and Payments Statement***



In my opinion:

- the Account properly presents the receipts and payments of the Client Funds Account for the year ended 31 March 2012 and the cash balances held as at 31 March 2012; and
- the account has been properly prepared in accordance with the Secretary of State Direction issued with the consent of HM Treasury.

***Basis for adverse opinion on Note 6 “Outstanding Maintenance Arrears” as a result of errors in underlying data***

The individual arrears balances supporting the reported outstanding arrears balances are misstated as a result of:

- inaccurate maintenance assessments by caseworkers since the inception of the statutory schemes; and
- incorrect processing of cases with arrears since the inception of the statutory schemes.

The best available estimates to me of the cumulative impact of these errors indicate that they have led to overstatements of at least £210.0 million and understatements of £319.1 million within the reported balance of £3.798 billion in Note 6 to the account.

***Adverse opinion on Note 6 “Outstanding Maintenance Arrears”***

In view of the effect of the errors referred to above, in my opinion Note 6 to the account does not give a true and fair view of the outstanding maintenance balances as at 31 March 2012.

**Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the account is not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury’s guidance.

**Report**

Further details of my modified opinions are provided in my report on pages 30 to 34.

Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria, London, SW1W 9SP

Date: 29 November 2012

## Receipts and Payments Statement for the year ended 31 March 2012

	Notes	2011-12 £'000	2010-11 £'000
Receipts	2	807,865	786,930
Bank Interest	3	-	-
<b>Total Receipts</b>		<b>807,865</b>	<b>786,930</b>
<b>Less payments to:</b>			
Persons with Care (PWC)	2	767,273	737,358
Secretary of State (SoS)	2	33,883	39,429
Non-resident Parents (NRP)/employers	2	6,333	9,307
Commission in respect of fees	2	383	259
<b>Total Payments</b>		<b>807,872</b>	<b>786,353</b>
<b>Net receipts/(payments)</b>		<b>(7)</b>	<b>577</b>
<b>Balance as at 1 April 2011</b>		<b>16,832</b>	<b>16,255</b>
<b>Balance as at 31 March 2012</b>		<b>16,825</b>	<b>16,832</b>

## Statement of Balances at 31 March 2012

	Notes	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Cash balance	4	16,825	16,832

The notes on pages 23 to 29 form part of these accounts.

Signed

**Robert Devereux**  
Principal Accounting Officer

Date: 26 November 2012

# Notes to the Account for the year ended 31 March 2012

## 1. Statement of accounting policies

The Account has been prepared on a cash basis and in the form directed by the Secretary of State with the consent of HM Treasury. The outstanding maintenance arrears note records amounts owed by non-resident parents as at 31 March 2012, along with movements in these arrears balances during the financial year and is prepared on an accruals basis.

### 1.1 Accounting convention

The Account has been prepared under the historical cost convention.

### 1.2 Estimation techniques

The collectability classifications applied to gross outstanding maintenance arrears are based on an analysis of the entire portfolio of cases with arrears. The criteria used to assess collectability are explained in section 5.7.

The term 'likely to be collected' denotes the Commission's view that it stands a good chance of recovering the arrears. The term 'potentially collectable' denotes arrears the Commission believes it has a reasonable chance of collecting. The method of estimating likely to be collected and potentially collectable arrears is described below. The total disclosed in Note 6 as 'likely to be collected' is therefore an approximation and is subject to a significant degree of uncertainty. It is not a definitive statement of recoverability.

As part of its work in finalising this Account during 2012, the Commission carried out some sensitivity analysis on its collectability estimate. We established that extending the period prior to the accounting date for which payments and payment arrangements were taken into account in establishing what was likely to be collected and potentially collectable from six months to twelve months increased the amount deemed likely to be collected by 33% and the amount deemed potentially collectable by 8%. The assessment based on the six-month timeframe was used for reasons of prudence. The collectability classifications were tested using a statistically valid sample of arrears on 300 cases, of which 100 had been classified as likely to be collected by the Commission's estimation exercise, 100 potentially collectable and 100 uncollectable. By checking the pattern of payments received after the accounting date, we established that 61% of the cases on which the arrears were deemed likely to be collected received a payment during the five months after the accounting date. The equivalents for the cases deemed potentially collectable and uncollectable were 61% and 7% respectively.

These results indicate that the classification is meaningful, but imperfect as a predictor of collection. Collectability assessment is necessarily an area of estimation and judgment by management since the collection of any arrears balance is inherently uncertain and there are no definitive or absolute indicators of collectability. Consequently, the collectability assessment is based on a number of factors indicating the quality of the arrears and the Commission's ability to collect them. The Commission believes that the assessment has been made on the basis of the best available data. The factors considered in the collectability assessment include:

- Evidence of payments having been made against the arrears in the six month period prior to the reporting date;
- The existence, in the six months prior to the reporting date, of an agreement by the non-resident parent to clear the arrears;

- The age of the arrears; for arrears that have accumulated in the past six months on the CS2 system, which can arise whilst a case is being assessed, the subsequent payment history after the reporting date was considered.

## 2. Receipts and payments

2.1 Receipts from clients relate to child maintenance and fees collected from non-resident parents by the Commission for payment to persons with care of children (maintenance) or to the Secretary of State (where maintenance offsets benefits paid to persons with care) and to the Commission (fees).

2.2 The receipts quoted in the Receipts and Payments Statement differ from the receipts total shown in movements on outstanding maintenance arrears (see Notes 6.0 and 6.1). This is due principally to timing differences and the inclusion of non-maintenance receipts in the amounts shown in the receipts and payments statement.

2.3 Monies are also received from the Secretary of State to refund non-resident parents in cases where an overpayment has been made and the amount is irrecoverable. This totalled £5.8m (2010/11, £8.5m) and is disclosed as a loss in Note 19 of the Administration Account. The Secretary of State also funds interest payments to parents with care (see note 3) where the interest earned on the Commission's client funds bank account is insufficient to cover the liability.

2.4 Included in the £767m (2010/11, £737m) paid to the persons with care is £2.889m (2010/11, £2.654m) paid to the Northern Ireland Child Maintenance and Enforcement Division to fund payments made on the Commission's behalf.

## 3. Interest received and paid

The Commission receives interest on balances deposited in the Client Funds bank account, at Bank of England base rate minus 1.0%. Since the base rate was 0.5% during the period, the effective rate was 0%.

Persons with care may, in specific circumstances, be entitled to receive interest payments. Where the Commission earns less interest on the client funds bank account than it is required to pay out, the difference is drawn down from the Secretary of State. Where the Commission earns more interest than it pays out to persons with care, the difference is returned to the Secretary of State. See note 2.3.

No interest was received in 2011/12 (2010/11, £nil) as a consequence of the low Bank of England base rate and the effective rate being 0.0%.

£nil (2010/11, £nil) was paid to persons with care. No recovery from the Secretary of State was required (2010/11, £nil).

## 4. Statement of balances

The balances relate to monies collected, including any interest received, which had not been paid over at year end.

## 5. Outstanding maintenance arrears at 31 March 2012

5.1 Under the Accounts Direction issued by the Secretary of State with the consent of HM Treasury, the Child Maintenance and Enforcement Commission was required to disclose the balances outstanding from non-resident parents at the year end, the movements in the balances

outstanding between the beginning and end of the year and an estimate of the arrears likely to be collected, with an assessment of collectability by category.

5.2 There are four types of maintenance assessments:

- Full maintenance assessments – where the 1993 rules apply and both the parent with care and the non-resident parent provide all the information requested
- Interim maintenance assessments – where the 1993 rules apply and it has not been possible to obtain sufficient information to make a full maintenance assessment.
- Maintenance calculation – where the 2003 rules apply and both the person with care and the non-resident parent provide all the information requested
- Default maintenance decision – where the 2003 rules apply and it has not been possible to obtain sufficient information to make a maintenance calculation.

5.3 The majority of interim maintenance assessments were set at punitive rates to encourage contact from and compliance by the non-resident parent, and hence take no account of their income or ability to pay.

5.4 Where the statutory maintenance service is in contact with a non-resident parent on whom an interim maintenance assessment has been imposed, a proportion of the amount outstanding may prove collectable. This is particularly likely where the non-resident parent is co-operating with us and we are able to replace the interim maintenance assessment with a full maintenance assessment.

5.5 Where an interim maintenance assessment has been imposed on or after 18 April 1995, the subsequent full maintenance assessment will be backdated and will replace the interim maintenance assessment. Any amounts collected under the interim maintenance assessment will be offset against the full maintenance assessment due.

5.6 A default maintenance decision is a calculation based on a weekly average wage and is not set at punitive rates.

5.7 Outstanding maintenance arrears – Collectability

An exercise is undertaken annually to establish the Collectability of outstanding maintenance arrears as at the year end. Three categories of Collectability have been established:

*Likely to be collected* Amounts outstanding which meet certain criteria indicating that the Commission had a good chance of collecting the outstanding arrears. The criteria are:

- Receipt of at least one payment against the outstanding arrears in the six month period prior to the reporting date.
- Funds received in the Commission's client funds bank account in excess of the ongoing scheduled payments for cases with arrears which, due to system limitations, could not be allocated to a case but indicate the non-resident parent's intent to clear arrears.

*Potentially collectable* Amounts outstanding for which the evidence base indicating that the arrears will be recovered is not as strong as for the 'likely to be collected' category but which meet criteria suggesting that the Commission has a reasonable chance of collecting the arrears. The criteria are:

- The existence of a maintenance arrears schedule at any point during the six months prior to the reporting date, even though no payments were received in the period. Arrears schedules are established following contact with the non-resident parent, who makes a commitment to clear the arrears over a specified period. Non-resident parents do not

always adhere to the schedule, but the fact that contact had been made with the individual and a commitment had been made is considered to indicate that the arrears are potentially collectable.

- For recent arrears, i.e. aged six months or less, the receipt of at least one payment against those arrears after the reporting date. Recent arrears arise on new cases, where the set-up process can mean that no receipts can be accepted immediately, or on older cases where an existing maintenance arrangement has recently broken down. Schedules are seldom put in place until arrears have been accumulating for more than six months; enforcement resources are concentrated on re-establishing broken down arrangements quickly. Consequently, receipts after the balance sheet date for young arrears are considered to provide reasonable evidence that the arrears will be cleared. Arrears can only be aged on the CS2 system for current scheme cases.
- The anticipated impact of some of the enforcement powers on the arrears, were the powers to be used more widely. The two powers considered were the deduction order, which enables the Commission to seize funds from non-resident parents' bank accounts, and the use of orders for sale of non-resident parents' property.

*Uncollectable* These balances represent amounts outstanding which do not meet any of the criteria outlined above for the 'likely to be collected' or 'potentially collectable' categories.

5.8 The Child Maintenance and Enforcement Commission had no general power to write off outstanding maintenance arrears, hence the amounts outstanding on individual cases continued to be due in full. The Department for Work and Pensions will continue to consider any new facts brought to our attention regarding Collectability and maintain its discretion to take action in the future to collect any amount outstanding, however classified in the notes to these accounts.

## Note 6.0 Outstanding maintenance arrears at 31 March 2012

	£'000	Current system CS2	Legacy system CSCS	Clerical Database	Case	Total
Outstanding maintenance arrears brought forward at 1 April 2011 ( <i>Note b</i> )		1,835,103	1,604,772	308,290		3,748,165
Maintenance charged in year and other adjustments ( <i>Note 6.2i</i> )		684,859	51,574	103,976		840,409
Maintenance received in the year ( <i>Note 6.2ii</i> )		(574,273)	(136,919)	(79,587)		(790,779)
<b>Outstanding maintenance arrears at 31 March 2012</b> ( <i>Note 6.2iv</i> )		<b>1,945,689</b>	<b>1,519,427</b>	<b>332,679</b>		<b>3,797,795</b>
<b>Collectability analysis</b> ( <i>Note a</i> )						
Likely to be collected		281,437	179,814	48,121		509,372
Potentially collectable		429,287	149,033	73,401		651,721
Uncollectable		1,234,965	1,190,580	211,157		2,636,702
		<b>1,945,689</b>	<b>1,519,427</b>	<b>332,679</b>		<b>3,797,795</b>

### Note a

Collectability has been assessed by considering the entire portfolio of cases with arrears. The criteria used to assess Collectability are explained under "outstanding arrears of maintenance" in the management commentary and in Note 5 to the Account.

### Note b

1993 scheme cases are managed on both the CSCS and CS2 systems. 2003 scheme cases and 'trans' old scheme cases are managed on CS2 and on the clerical case database. The format of this note continues to report by system rather than scheme, which more closely reflects how the caseload is managed. The brought forward balances are consequently reported on the same basis.

### Note c

The Commission makes an annual adjustment to the arrears total from duplicated suspended arrears on the CSCS system. Case workers have been reviewing the duplicated debt on a case basis and during 2011/12 the value of the estimate of double counted arrears reduced by £26m. The effect is to increase reported arrears by £26m.

### Note d

The effect of Note c is an increase in reported arrears of £26m. The increase in arrears during 2011/12 was £50m, of which £24m was a true increase and £26m arises through the accounting adjustment explained above.

## Note 6.1 Outstanding maintenance arrears at 31 March 2011

	£'000	Current system CS2	Legacy system CSCS	Clerical Database	Case	Total
Outstanding maintenance arrears brought forward at 1 April 2010 ( <i>Note b</i> )		1,747,418	1,680,244	266,514		3,694,176
Adjustment to estimate of duplicated CSCS arrears ( <i>Note c</i> )			83,598			83,598
Adjustment to suspended CSCS arrears ( <i>Note d</i> )			(63,892)			(63,892)
Maintenance charged in year and other adjustments ( <i>Note 6.2i</i> )		611,871	74,132	117,248		803,251
Maintenance received in the year ( <i>Note 6.2ii</i> )		(524,186)	(169,310)	(75,472)		(768,968)
<b>Outstanding maintenance arrears at 31 March 2011 (<i>Note e</i>)</b>		<b>1,835,103</b>	<b>1,604,772</b>	<b>308,290</b>		<b>3,748,165</b>
<b>Collectability analysis (<i>Note a</i>)</b>						
Likely to be collected		282,503	209,803	47,447		539,753
Potentially collectable		420,483	161,423	54,078		635,984
Uncollectable		1,132,117	1,233,546	206,765		2,572,428
		<b>1,835,103</b>	<b>1,604,772</b>	<b>308,290</b>		<b>3,748,165</b>

### Note a

Collectability has been assessed by considering the entire portfolio of cases with arrears. The criteria used to assess collectability are explained under "outstanding arrears of maintenance" in the management commentary and in Note 5 to the Account.

### Note b

1993 scheme cases are managed on both the CSCS and CS2 systems. 2003 scheme cases and 'trans' old scheme cases are managed on CS2 and on the clerical case database. The format of this note continues to report by system rather than scheme, which more closely reflects how the caseload is managed. The brought forward balances are consequently reported on the same basis.

### Note c

The Commission makes an annual adjustment to the arrears total for duplicated suspended arrears on the CSCS system. The estimation method was refined during 2010/11 and the value of the estimate of double-counted arrears reduced by £84m. The effect is to increase the reported arrears by £84m.

### Note d

During 2010/11 the Commission discovered that transactions previously accounted for as arrears suspensions were, in fact, misclassified and did not relate to arrears. The effect is to reduce the reported arrears by £64m.

### Note e

The net effect of the adjustments in Notes c and d is an increase in reported arrears of £20m. The increase in arrears during 2010/11 was £54m, of which £34m was a true increase and £20m arises through the accounting adjustments explained above.



## 6.2 Movements in outstanding maintenance arrears

The following notes explain movements from the opening outstanding maintenance arrears balance to the closing balance.

i) Maintenance charged during the year and other adjustments This comprises assessments made on non-resident parents during the year, outstanding maintenance arrears transferred to and from the Northern Ireland Child Maintenance and Enforcement Division, and adjustments arising from cancelled or terminated assessments, or where the liability has been reduced, for example as a result of a direct payment between parties offset against the maintenance due. The amount charged in 2011/12 was £840m (2010/11, £803m); this increase comes despite a declining average maintenance assessment and greater use of the 'maintenance direct' service, which removes the compulsion to use the Commission's collection service.

ii) Maintenance received during the year. This comprises amounts received from non-resident parents and the Northern Ireland Child Maintenance and Enforcement Division during the year. When a receipt is subsequently allocated to a case by the child support computer systems, the receipt becomes a constituent of the arrears balance for that case. The timing difference between receipt and allocation explains the difference between the value of the receipts in the receipts and payments statement and the receipts in the arrears note.

The total value of receipts allocated to cases in 2011/12 were £791m (2010/11, £769m).

iii) Adjustments to CSCS arrears

One adjustment has been made to reported arrears on the CSCS system in relation to the Commission's estimated value of duplicated suspended arrears as case workers have been reviewing duplicated suspended arrears on cases. This has resulted in an adjustment of £26m, which has increased arrears.

iv) Outstanding maintenance arrears as at 31 March 2012. This is the balance of outstanding maintenance arrears recognised by the Commission, after allowing for maintenance assessments in the year and the adjustments to the carried forward arrears explained in the notes to this account and after receipts of maintenance and deferred outstanding maintenance arrears have been deducted.

## 7. Events after the reporting date

The Child Maintenance and Enforcement Commission was abolished on 31 July 2012. From 1 August 2012, the Commission's functions have transferred to the Department of Work and Pensions.

The authorised date for issue is 29 November 2012.

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

## 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. These modifications to my audit opinions are longstanding and reflect the significant problems in the accurate calculation of maintenance and with the underlying IT 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>10</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.

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

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

<sup>10</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%.

## **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**

	2008-2009	2009-10	2010-11	2011-12
Percentage of cases with accurate adjustments to arrears	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.

Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9S

Date: 29 November 2012





information & publishing solutions

Published by TSO (The Stationery Office) and available from:

**Online**

[www.tsoshop.co.uk](http://www.tsoshop.co.uk)

**Mail, Telephone, Fax & E-mail**

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline Lo-Call: 0845 7 023474

Fax orders: 0870 600 5533

Email: [customer.services@tso.co.uk](mailto:customer.services@tso.co.uk)

Textphone: 0870 240 3701

**The Houses of Parliament Shop**

12 Bridge Street, Parliament Square

London SW1A 2JX

Telephone orders: 020 7219 3890/General enquiries: 020 7219 3890

Fax orders: 020 7219 3866

Email: [shop@parliament.uk](mailto:shop@parliament.uk)

Internet: <http://www.shop.parliament.uk>

TSO@Blackwell and other accredited agents

ISBN 978-0-10-851214-8



9 780108 512148