

# Child Maintenance and Enforcement Commission

## Client Funds Account – Statutory Maintenance Schemes 2009/10

Administered by the CSA  
division of the Commission



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and Other Payments Act 2008

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## Foreword

Since taking responsibility for the functions of the Child Support Agency in November 2008, the Child Maintenance and Enforcement Commission has continued to operate the two existing statutory maintenance schemes. As part of this responsibility, the Commission reports annually on the client funds managed by the CSA operating division of the Commission.

### **Progress during 2009/10**

In 2009/10 further progress was made in a number of areas. All principal ministerial targets were met, new enforcement powers were introduced and a new approach to the assessment of arrears collectability was developed for the 2008/09 and 2009/10 client fund accounts.

The Commission exceeded its targets on maintenance outcomes and collections. 77% of those non-resident parents with a liability to pay maintenance through the statutory schemes now pay, against a target of 72%, and £1,141 million was collected or arranged over the year, against a target of £1,135 million. For the first time the number of children benefiting from a child maintenance arrangement passed 900,000, reaching 905,700 by the end of March 2010. In addition, the headline level of child maintenance arrears owed by non-resident parents to parents with care, remained roughly constant during the year, falling from £3,717 million to £3,694 million.

To strengthen the enforcement regime, new powers were introduced in 2009/10, including the power to seize money directly from bank accounts through deduction orders. By the end of March 2010, over 300 deduction orders had been authorised, resulting in recoveries in excess of £450,000.

### **Arrears collectability**

Although good progress has been made, issues remain over the collectability of child maintenance arrears. This year we have taken a new approach to assess collectability, which has resulted in far more robust information being produced to support our arrears figures. Publication of the 2009/10 Client Funds Accounts has been delayed in order to allow us to complete this significant piece of work.

We now estimate that £1,021 million of the total outstanding balance as at 31 March 2010 is at least potentially collectable, of which £488 million is likely to be collected. At 31 March 2009 we estimated that £1,017 million was potentially collectable, of which £482 million was likely to be collected. These figures, for both 31 March 2009 and 31 March 2010, are clearly lower than previous estimates which were based on less robust calculations, but give the Commission, for the first time, realistic targets to work towards. This position will need to be reviewed at each future reporting date to take account of changes to current service, priorities and activities on cases.

### **Format of the client funds account**

The delay in publication of these accounts has caused us to question whether current reporting arrangements can provide adequate and timely information for those who take an interest in these matters to understand our performance in assessing and collecting maintenance. We therefore intend to undertake a review into the best future reporting format, which will be conducted in conjunction with HM Treasury and the National Audit Office.

### **Audit opinions**

In relation to the opinions given by the Comptroller and Auditor General, I am glad that he has recognised the progress made in improving the information underpinning this account and 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 steps we have taken to improve the accounting information available from our main computer systems and that, as a result, there is now 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 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 that of an understatement of the overall arrears balance. The estimated net understatement in the balance is in the order of 2-3%<sup>1</sup>, 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.

For these accounts a substantial amount of additional verification work has been undertaken. Whilst it has provided a much stronger foundation for the arrears note and collectability analysis, this work has also provided further evidence of the historical system and data issues and even highlighted some further types of error which had not been identified in previous years. Taking account of all the evidence now available, the C&AG has given an adverse opinion on the arrears note. The opinion does not reflect a deterioration in the accuracy of the accounting records, but rather a fuller understanding gained from additional work performed by the Commission of errors that have accumulated since the inception of the statutory child maintenance schemes. Naturally this is a disappointing outcome for us, but we welcome the C&AG's recognition in his report of the significant improvements made and also note his comments about the need to avoid carrying over the problems of the past into the new scheme and system now under development.

The audit opinions given are the result of long-standing 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. The Commission will weigh carefully the costs and benefits of making further improvements in current systems to cleanse data in light of the fact that a new computer system is being built for the future scheme of child maintenance. In my view the results of the audit have confirmed that there is no case for such further investment, but rather the case has been substantially reinforced for bringing to an end the current schemes and systems and starting again. This is what our current programme of reforms aims to do.

Most importantly, the Commission remains committed to pursuing these 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.

**Stephen Geraghty**  
Commissioner

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<sup>1</sup> The Comptroller and Auditor General in his report on the account estimates that overall impact of the errors identified during the audit of the maintenance arrears is a net understatement of £101m as at 31 March 2010. This represents 2.73% of the total arrears balance of £3.69bn as disclosed in Note 6 to this account.

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

The Child Maintenance and Enforcement Commission was established as a Crown non-departmental public body by the Child Maintenance and Other Payments Act 2008 and came into being on 24 July 2008. The Commission took over responsibility for the child maintenance system in Great Britain, including the child support functions of the Secretary of State on 1 November 2008.

The primary objective of the Commission is to maximise the total number of effective maintenance arrangements, whether made privately, by court order or through the statutory maintenance schemes. The Commission does this through its three core functions, which are 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 private arrangements; and
3. provide an efficient statutory maintenance service, with effective enforcement.

The Commission has two delivery mechanisms; Child Maintenance Options, which provides the information and support services, and the CSA, which continues to administer the two current statutory schemes. Throughout the Client Funds Account, 'CSA' is used to refer to the division of the Commission operating the existing statutory child maintenance service.

## Client Funds Account

One of the responsibilities of the Child Support Agency as an Executive Agency was to handle and control child maintenance monies relating to the two existing statutory schemes, keeping these separate from administration monies. It was responsible for keeping proper accounting records for these transactions and for publishing a Client Funds Account each year as part of its Annual Report and Accounts.

The Commission took over these responsibilities with the transfer of functions on 1 November 2008. In accordance with an Accounts Direction issued by the Secretary of State for Work and Pensions, the Commission 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.

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

## Operations

Since taking responsibility for the functions of the Child Support Agency from the Department for Work and Pensions, the Commission has continued to operate the two existing statutory maintenance schemes: an 'old scheme' for applications made before 3 March 2003 and a 'current scheme' for applications made on or after 3 March 2003.

'Client funds' relate 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 Commission's computer systems and are paid out to the relevant parents with care or the Secretary of State. In some cases, however, manual assignment and allocation of receipts, and manual payments are required. These, classified as exceptions, 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 most old scheme cases, CS2 for the remaining old and current scheme cases). A number of cases are managed off-system, on the Clerical Case Database. Receipts and payments are accounted for directly in the associated financial ledger systems (FMS, reporting on CSCS transactions, and BMS-R, reporting on CS2 transactions and clerical cases).

## Significant developments during 2009/10

Substantial and wide-ranging improvements in performance and services were made to the statutory maintenance service under the Operational Improvement Plan which concluded in March 2009 and the Commission continued to build on that success during 2009/10.

Record numbers of children benefited from maintenance during the year, with the number exceeding 900,000 for the first time ever and reaching 905,700<sup>2</sup> by year end. The amount of maintenance collected or arranged over the year reached a record level of £1,141 million, exceeding the Commission's target by £6 million. The portion of the total collected which was reported as being against arrears was £147 million against a sub-target of £170 million. The percentage of cases with maintenance flowing increased to 77%, ahead of the target of 72%. New application performance also continued to improve with 86.9% of applications received in December 2009 cleared within 12 weeks, and the number of uncleared applications down from over 50,000 in March 2009 to around 24,000 in March 2010. The telephony service provided to clients also continued to improve, with over 98% of calls answered within 60 seconds. More detailed information on performance can be found in the Commission's published Annual Report and Accounts for 2009/10.

In order to ensure that parents meet their financial responsibilities to their children, the Commission is developing the range of new enforcement powers that can be used under the current statutory schemes and the planned future scheme of child maintenance. A number of new powers were introduced during 2009/10.

The first, Deduction Orders, enable the Commission to instruct banks and building societies to deduct child maintenance from the accounts on non-compliant parents without the need to go to court. Two types of Deduction Order are available to the Commission:

- Regular Deduction Orders, which can be used to collect regular maintenance and arrears on an ongoing basis; and
- Lump Sum Deduction Orders, which collect arrears through a single deduction from an account.

The Commission assumed this power in August 2009 following the introduction of the relevant commencement order in June 2009.

In January 2010, the Commission also gained the power to recover debt from a deceased non-resident parent's estate. A claim can now be lodged with the executor of the estate in order to recover the debt owed, in much the same way that Her Majesty's Revenue and Customs or other creditors would make a claim.

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<sup>2</sup> Of which 60,000 children benefited from private arrangements made following contact with Child Maintenance Options.



The Commission also continues to review and improve both its use of existing enforcement powers and the organisation of its enforcement resources. The resulting improvements contributed to the record level of child maintenance collections in the year 2009/10.

### **Significant developments since 31 March 2010**

The Public Bodies Bill was announced in the Queen's speech on 25 May 2010 and is, at the time of publication, with the House of Lords. The impact on the Commission is described in account note 7.

### Receipts of Child Maintenance

During 2009/10, 4.67 million individual receipts were recorded, a 3% reduction in volume compared to 2008/09. Total monies received were 1% higher at £784 million. 87% of receipts by volume (2008/09: 89%), and 82% by value (2008/09: 76%) were received electronically.

36% 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 6% over 2008/09 by value and 2% by volume. Direct debit and deduction from earnings are preferred methods for ongoing maintenance since 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 17% of receipts were made under the new Faster Payments system (2008/09: 7%), recently introduced by the major UK clearing banks. Faster Payments has significantly reduced the timescales for receipts from non-resident parents.

Receipt failure rates remain low overall, except for direct debits, where 8% of receipts fail (2008/09: 11%). More than 90% of these failures are initiated by non-resident parents and the most common reason is the cancellation of a direct debit instruction. During 2009/10, the introduction of paperless direct debits has contributed to a reduction in such failures.

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 42% of receipts in 2009/10 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 Royal Mail, 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 2009/10 to address off-system cases has not reduced the need for manual processing significantly.

### Payments of child maintenance

During 2009/10 the number of individual payments to parents with care rose by 9.5% to 8.35 million, representing an additional 750,000 transactions, whilst the total value of payments rose by 2%, in line with overall receipts. Some 85% of payments to clients by value (88% by volume) are made by funds transferred 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 2009/10 the Commission has paid out more funds than it has received. The principal reason for this is that receipts that were received in prior years but which were previously "stuck" in the CS2 system due to unresolved system defects were allocated and paid out in 2009/10.

Total net payments to the Secretary of State fell by £37 million, or 39% (in 2008/09 it fell by £10 million which represented a fall of 10%) to £58 million, due principally to the repeal of section 6 of the Child Support Act 1991 in November 2008, which removed the compulsion for parents with the main day-to-day care of their children who received benefits to use the statutory service. Around £4 million per month relating to arrears is still being 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 2010 equated to less than 3% of the funds received during the year. There are a 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. Progress was made during 2009/10 in continuing to clear these accumulated funds. This was achieved through close management of the bank reconciliation process and a reduction in the number of items for reconciliation from around 40,000 in 2006/07 to around 2,200 at March 2010.

Despite the inherent challenge of translating 4.67 million receipts into 8.35 million payments – including many instances of sub-dividing or aggregating payments between or across multiple cases – the vast majority of payments are made accurately, whether processed automatically or manually. Achieving further improvement in payment times depends on addressing the underlying causes of manual receipt data entry, assignment, allocation and payment, for which plans are in place.

## Outstanding arrears of child maintenance

In addition to reporting the receipts and payments of maintenance monies, the Commission is required to report on the value of outstanding maintenance arrears. Whilst these amounts, which totalled £3,694 million at 31 March 2010 (a fall of £23 million on the figure at 31 March 2009), are owed by non-resident parents to their respective parents with care and to the Secretary of State, the Child Support Agency was, and the Commission is now, responsible for pursuing their collection. As the amounts are 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 £3,694 million arrears owing have accumulated over the last 17 years. This sum represents around one quarter of the total maintenance charged during the life of the statutory schemes. The Commission has no power to write off arrears, although it is able to make adjustments to correct assessments where necessary and to suspend the collection of arrears in some circumstances. Through a combination of improved collection and enforcement of arrears, and adjustments to assessments, the rate of arrears accumulation has been significantly reduced and in recent months some small net reductions in the total amounts outstanding have been achieved.

A major programme of work was carried out during 2009 and 2010 on client funds arrears, aimed at improving the quality of the arrears information reported by the child maintenance systems. The exercise identified that the arrears reported at 31 March 2008, and in prior years, were potentially overstated. The new basis for reporting arrears took effect in the 2008/09 account, and the resulting adjustments are included within the figures brought forward as at 1 April 2009.

The new Commission board wished to test the assumptions used in previous collectability assessments and decide whether the approach that had been used in the past was still appropriate. In doing so it wished to take external advice on arrears recoverability and benchmark the arrears portfolio against information held by debt recovery specialists, whilst simultaneously examining the internal management information used to construct collectability estimates.

In order to effect this change a new approach for estimating collectability has been taken, based on a 'bottom-up', rather than a 'top-down', analysis of the caseload. In effect arrears are now presumed to be uncollectable unless there is positive evidence of collectability. This shift in the presumption gives a more prudent estimate, in line with analysis performed by PricewaterhouseCoopers. Additionally, the Commission is required to disclose the amount of arrears likely to be collected, a more stringent definition of collectability than was used in the past.

The approach used to assess collectability for the 2008/09 and 2009/10 client funds accounts 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. More information on the approach can be found in the notes to these accounts.

We now estimate that only £1,021 million of the total outstanding balance as at 31 March 2010 is at least potentially collectable, of which £488 million is likely to be collected, based on the Commission's current service, priorities and activities on cases. Of the outstanding balance as at 31 March 2009 we estimated that £1,017 million was potentially collectable, of which £482 million was likely to be collected.

This review has provided a more robust view of outstanding arrears of child maintenance and for the first time arrears listings have been prepared on a case by case basis. This represents a significant improvement in the information underpinning the reporting of arrears totals than that used in previous years. Page 14 contains more information on this work.

The Commission has a strategy in place in order to recover as much of the likely collectable and potentially collectable arrears as possible, although we remain no less committed to recovery of all arrears, irrespective of how categorised in the accounts. However, much of the outstanding arrears balance is old and it is likely that less than the total of £1,021 million 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.

The Coalition Government has set out its priorities to promote family responsibility and address child poverty. In particular, it has stated that tackling outstanding child maintenance arrears should be a measurable target for the Commission. The Commission is working to support the Coalition Government in addressing these objectives and is reviewing its plans in light of them. The proportion of the £1,021 million which is collected will depend on the detail of the new plans agreed between Ministers and the Commission and the amount of resources allocated to the pursuit of arrears.

## Assessment accuracy

The Commission 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 have resulted in significantly improved accuracy rates. However, the issues that led to modification are unlikely to be substantially resolved.

## Future priorities and challenges

The Coalition Government set out its vision for the reform of the child maintenance system in its Green Paper *'Strengthening families, promoting parental responsibility: the future of child maintenance'*, published in January 2011. In it, the Government states 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 maintenance scheme which will replace the CSA schemes.

The Commission is working to support the Coalition Government in addressing these objectives and is reviewing its plans in light of them. A new business plan will be published shortly.

**Stephen Geraghty**  
Commissioner

## Statement of Accounting Officer's Responsibilities

The Secretary of State for Work and Pensions has directed the Child Maintenance and Enforcement Commission to prepare for each financial year a Client Funds Account for the existing schemes in the form and on the basis set out in the Accounts Direction. 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; and
- make judgements and estimates on a reasonable basis.

The Accounting Officer of the Department for Work and Pensions has designated the Commissioner for Child Maintenance as Accounting Officer of the Child Maintenance and Enforcement Commission. 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*'.

**Stephen Geraghty**  
Commissioner

# Statement on Internal Control

## 1. Scope of responsibility

As Accounting Officer for the Child Maintenance and Enforcement Commission (the Commission) I have responsibility for maintaining a sound system of internal control that supports client funds accounting, whilst safeguarding the public funds and Commission assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

Under the Commission's *Framework Document* (paragraph 3.4.2), which sets out the respective responsibilities and delegations of the Commission and Accounting Officer agreed with the Department for Work and Pensions, I am responsible to Parliament for signing a *Statement on Internal Control*, which sets out the key control challenges facing the Commission.

### The Client Funds Account

The Client Funds Account summarises all of the cash received and payments made between non-resident parents, parents with care, the Secretary of State and the Commission. A note to the Account also records amounts owed by non-resident parents to parents with care as at 31 March 2010, along with movements in those arrears balances during the financial year.

In 2009/10 the Commission processed more than four million electronic receipts from non-resident parents, plus 0.5 million manual receipts. ('Electronic receipts' are received via an automated process directly from the bank and uploaded into the Commission's computer systems. 'Manual receipts' are cheques from non-resident parents or from their employers. These need to be manually assigned to the system by Commission employees). These receipts collectively totalled some £784 million.

The Commission made approximately 8.4 million payments to parents with care, again to a value of around £721 million. Approximately one million of these payments were by giro-cheque, automatically issued by the Commission's IT partners. The remainder were by automated credit transfer, or through BACS.

## 2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Commission policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control was in place in the Commission throughout 2009/10, and the system accords with HM Treasury guidance, except for the matters noted below.

## 3. Capacity to handle risk

The Commission's Board and Executive Team have a broad range of skills and experience from the public and private sectors, and recognise the importance of risk management, of which each of its members has relevant practical experience. The team has actively managed the risks that have emerged during the year and demonstrated leadership through a series of measures.

The Commission has a number of tools including a risk management framework, standardised guidance, templates, desk aids and a risk management intranet site. These tools were used to drive up the quality of risk management during the year through a programme of awareness sessions and regular risk workshops.

The Commission's overall risk management approach involves a series of risk registers, maintained to a consistent standard. There is an overarching risk register for the Commission, fed by a risk register for the Commission's Corporate Services Management Team. The Corporate Services risk register covers the Banking and Payment Allocation Service, which carries out client funds accounting. The managers and team members responsible for client funds work are familiar with this structure, and used it throughout 2009/10 whenever client funds risks needed to be escalated.

More specifically, client funds accounting is organised into dedicated teams, which are responsible for, and who manage risk in, the areas of technical accounting, exceptions and manual payments, and automated receipts and payments.

An external risk management bench-marking exercise was performed by Internal Audit, with Deloitte, in March 2010 to highlight where the Commission can make improvements in its risk management methodology. The conclusion drawn was that the Commission's risk management processes were mature and comparable with other government departments, but that risk controls were operating inconsistently across the Commission and that the true risk portfolio should be more visible. The recommendations of the exercise were that the Board ensure that risks are visible across the organisation, driven by a well-documented and understood risk policy and a defined appetite for risk in each business area. The recommendations will be implemented during 2010/11.

#### **4. The risk and control framework**

The Commission operates within a structured risk and control framework, which enables the identification, prioritisation and escalation of key strategic risks. The Commission has clear risk processes and structures across all levels of the organisation through a comprehensive set of risk registers and team risk discussions at all key governance and management forums.

Client funds accounting cuts across the risk and control framework; although much of it is concentrated in the Commission's finance team, there is a heavy dependency on other colleagues. For example, the Commission's IT partners operate the systems that automatically process receipts and payments. Moreover, while some 'manual' activity is centralised in the Commission's finance team, other activity is dispersed.

Information risk remained an important area of focus during 2009/10. 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.

During the year progress continued to be made, specifically in the following areas:

- inception of a Security and Information Governance Forum, chaired by the Senior Information Risk Owner, which brings together all subject matter experts across the Commission in the security arena to increase awareness of the importance of security and information risk management.
- during 2009/10, the introduction of ongoing programmes of communications and presentations to senior management, supported by the implementation of a security e-learning course across the Commission.

At the end of 2009/10, directors provided letters of assurance confirming that they had complied with the Commission risk procedures. Specific concerns raised have been reflected as appropriate within Section 6 of this Statement.

#### **5. Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. In 2009/10, my review was informed by the work of our internal auditors, the Audit Committee, executive managers across the organisation with responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors and other reports. I was advised on the



implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Commission's main governance structure was fully detailed in the Annual Report and Accounts for 2009/10. The Audit Committee had four full meetings in the year to 31 March 2010, in addition to two ad hoc meetings to discuss specific issues relating to client funds accounting. In line with HM Treasury guidance, the Audit Committee comprises non-executive members. During the year, the Audit Committee recruited two additional non-executive members, not members of the main Board, to the Committee.

Internal Audit reviews of Client Funds Accounting covered areas of concern using a risk-based approach in 2009/10. In total, six audits were carried out, of which two provided reasonable levels of assurance. Four audits in particular highlighted room for improvement: three provided a limited level of assurance and one provided a weak level of assurance. An audit of change of circumstances resulted in management undertaking to improve governance to help inform the monitoring of progress on reducing outstanding tasks. An audit of accuracy of maintenance assessments has recommended the implementation of action plans to provide more accurate effective dates in assessment calculations, improved clarity of reporting, and checking of controls and "free text" compliance. An audit of performance monitoring highlighted a need for better management information at an operational level and agreed Client Service Standards for 2009/10. Finally, an audit of 'effectiveness of debt recovery activities' (weak assurance) recommended compliance with guidance to prevent high levels of error in debt adjustment activities, and the publication of compliance targets to enable further improvement to be tracked. All internal audit recommendations due, relating to Client Funds Accounting, were implemented during the year, and in the opening months of 2010/11.

There were many sources of assurance available to the Commission during 2009/10, including periodic and ad hoc management monitoring, externally commissioned reviews and an independent, risk-based internal audit programme. The findings from internal audit work continued to reflect the improving trend in governance, risk management and control, but overall internal audit provides only a limited assurance that material risks are identified and managed effectively. This reflects the inherently challenging risk management agenda for the Commission and some of the longstanding and deep-rooted systems issues inherited from the Child Support Agency.

## 6. Significant internal control challenges

From the various assurances available to the Commission, significant control challenges, some of which were inherited from the Child Support Agency, were identified as follows:

**Accounting information.** In November 2008 the Commission inherited responsibility from the Department for Work and Pensions 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.

During the audit of the 2008/09 client funds account, weaknesses were identified in the information available to support the overall arrears balance reported at 31 March 2009. The child maintenance computer systems (CSCS and CS2) were not capable of providing a full list of balances owed at an individual case level or non-resident parent level. It took considerable time and effort to design and run suitable reports for this purpose. For cases where the balance is held on the CS2 system this was a relatively straightforward task; for the remainder, which are either managed off the main computer systems or CSCS cases, particularly those for which collection has been suspended and the arrears balances archived (mostly older balances on cases where there has been little or no activity for a number of years), a considerable amount of data extraction, manipulation and reconciliation was necessary. The processes defined during the 2008/09 audit were repeated and refined during the 2009/10 audit.

**Stuck and off-system cases.** The CSA division of the Commission operates two principal child maintenance computer systems: CSCS, implemented in 1993, and CS2, implemented in 2003. A major

historical problem with the CS2 system was that cases became unprogressable or 'stuck' on the system due to data issues, software defects or both. These cases became invisible to caseworkers unless and until clients complained about the lack of progress on their cases at which point they were referred for off-system or 'clerical' management. The September 2008 upgrade to CS2 fixed some known software defects and introduced for the first time a system of validation and error trapping so that cases experiencing problems have since then been systematically identified and either rectified by caseworkers or referred to an 'initially stuck' queue for technical fixes. From there problems were either fixed and the cases transferred back to caseworkers for normal progression or, where that was not possible, referred onwards for processing either wholly or partially off the main computer systems. Around 4,000 cases per week enter the initially stuck queue and approximately 25% of these cannot be returned to business as usual and require some degree of clerical processing.

The term 'clerical' is not strictly accurate as such cases are managed using a number of small systems; however, these systems are very limited in their functionality compared to CS2 and the manual effort required in, and hence cost of managing them, is higher than fully on-system cases, by at least a factor of two. By March 2010 there were some 86,000 cases managed wholly off the main computer systems and a further 45,000 cases partially managed off the main systems. Every effort is being made to stem the flow of new stuck cases, but so far with only limited success. The reason for this is that the software and data problems which cause cases to stick are very deep rooted in the system and very difficult and costly to fix.

Various potential solutions have been considered to load existing clerical cases back on to CS2. The only potential solution considered viable involved developing and implementing functionality to delete such cases (together with any other cases involving one or more of the same persons) from the system and start them again. Development of this solution was stopped once the scale of the required deletion (up to a third of the CS2 caseload) and the enormous difficulty of implementing and tracking the process became clear; and in the context of limited life for CS2 before it is replaced by the planned future IT system it was considered to represent too great a risk operationally and for clients, the majority of whom are now receiving a good level of service. Hence, the Commission is left with an ever increasing number of cases managed off the main systems representing an increasing proportion of the caseload and continuing upwards pressure on the overall cost of running the statutory schemes.

**Arrears collectability.** The basis for analysing the collectability of the arrears and identifying the amounts likely to be collected required review. In previous years an extrapolated sample was used to estimate collectability; from 2008/09 onwards a new method, which considers the characteristics of the caseload, has been used. This has historically been a difficult analysis owing to the limited arrears reporting functionality within the child support IT systems.

The new method for analysing collectability is based on the presumption that arrears are uncollectable unless positive evidence of collectability exists. This shift in basis leads to a more prudent estimate of collectability than was used in previous years.

The Commission's accounts direction requires only that the collectability of the arrears be analysed and the amounts considered likely to be collected disclosed. In prior years, the Client Funds Account disclosed amounts 'uncollectable', 'collectable', 'possibly uncollectable' and 'probably uncollectable'. The 2009/10 figures for arrears likely to be collected are based on an analysis of the characteristics of the caseload using new methods and are substantially lower than amounts previously disclosed by the Child Support Agency as 'collectable'. This is partly because the new methodology is more rigorous, and is based on a bottom-up rather than a top-down analysis, and partly because the definition of 'likely to be collected' is not the same as that of 'collectable', used in previous years.

**System and transaction controls.** Historical difficulties in identifying the non-resident parent from whom funds have been received have impacted the speed with which parents with care received payments. During 2009/10 the following efforts were also made to further strengthen controls since the previous year.

- Further reduction in the number of un-reconciled items on the bank reconciliation. (The level of un-reconciled items had been as high as 42,000 in 2006). There were around 20,000 un-reconciled items at the end of 2007/08, 5,000 by the end of 2008/09, and falling further to around 2,200 by the end of 2009/10.
- Ongoing scrutiny of outstanding balances at the bank. This involved developing a detailed understanding of the various timing differences, both at the bank and within the mainframe systems CSCS and CS2. As a result of this, the 'unassigned' balances at the bank have been reduced.
- An independent programme of checking key risk transactions. For example, a dedicated team checked a sample of 1,400 'method of payment' changes in 2009/10, finding a cash value accuracy rate of 96%, an improvement from 94% in 2008/09. A further sample of 2,000 'refunds to clients' showed a cash value accuracy rate of 88% in 2009/10, an improvement from 85% in 2008/09.
- Reducing the number of manual workarounds. Two IT releases in 2009/10 helped to reduce the number of workarounds, both in accounting for client funds and in making maintenance assessments.

**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 Commission continues to improve accuracy, but the accumulated inaccuracies arising mainly from earlier years continue to affect current arrears balances.

Further improvements have been made in current levels of accuracy, following the introduction of the Quality Assurance Framework. Cash Value Accuracy<sup>3</sup> increased from 92% in 2006/07 and continued to climb to 96.7% in 2008/09, although a slight fall occurred in 2009/10 to 96.5%.

The issue of inaccuracy continues to be subject to sharper focus. With this in mind, the Commission has launched an additional drive to further improve accuracy in 2010/11, including root cause analysis of errors, and general improvements in process accuracy, in particular CSCS paperless checking where notifications are recorded on the system once only. Furthermore, accuracy has been aided by the repeal of Section 6 of the Child Support Act 1991.

**Adjustments to assessments and arrears.** It is estimated by the DWP's internal audit team (the Risk Assurance Division, or RAD) that up to £83 million of arrears were incorrectly adjusted downwards on the CS2 system rather than suspended over the combined seventeen-year lifetime of the Commission and the Child Support Agency. This means that some arrears balances, relating to cases on which arrears are not actively pursued and which are classed as uncollectable, may be understated. No formal assessment on the same basis is available for the CSCS system, but error rates assessed by the Commission's quality assurance team ("QAT") are similar. Since suspended arrears are not actively chased, we have assessed that the impact on collections is minimal; collections are driven by current maintenance collection schedules. The Commission believes that the impact on payments to PWCs will be minimal.

The Commission addressed this matter by introducing clearer guidelines and education for caseworkers. Whilst the improved guidance will reduce the level of technical adjustment errors in the future, the accumulated historical errors remain.

**Change programme funding.** The Commission is part of the way through a major change programme to deliver a new statutory maintenance system. The key elements of the programme are: a new maintenance scheme using the gross taxable income from HMRC (to be updated annually) as the basis of assessments; a new IT platform built from proven industry standard "off the shelf" customer relationship management and banking software packages; a high level of process automation drawing data directly from other government systems wherever possible; a supported transition of existing scheme clients either to private maintenance

<sup>3</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 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 might be £3,570 or 8% of the total assessments. This would give accuracy by value of 92%.

arrangements or to the new statutory scheme; a clear separation or “clean break” from existing schemes so that inaccurate legacy data and arrears are not carried over to the new scheme but rather are managed separately; a new operating model with an optimal blend of insourced and outsourced service delivery to drive efficiency and innovation.

The design of the new statutory maintenance system draws on the lessons learned from the implementation of the current systems. The current system was built on a bespoke basis, and experience has shown that both the design and the system are not fit for purpose. The IT system is currently being built, with the launch of the new scheme planned for 2012. The transition of existing clients is planned to start in 2012/13, with “clerical” or off-system cases likely to be the first to transition, principally because this will realise the maximum cost reduction. There are risks associated with the case transition process, and a formal programme structure is in place to draw on specialist knowledge and make sure that risks are anticipated and managed.

If the change programme were either cancelled or reduced in scope due to cuts in funding, the Commission would be left without a solution to the stuck or “clerical” cases problem and will lose the opportunity to address the £3.7 billion legacy arrears through the clean break approach. This funding risk therefore represents a major control risk for the Commission.

**Information security.** In recent years there has been continuing public and media focus on information security. The Cabinet Office requirements are set out in Data Handling Procedures in Government, June 2008, in addition to the HM Government Security Policy Framework, revised October 2009.

The Commission holds a wide range of personal data relating to its clients. The 2009/10 Information Assurance Maturity Model analysed the approach to information risk management across the Commission. The model incorporates the requirements of the HMG Security Policy Framework and the 2008 Data Handling Review and is aligned with the International Standard for Information Security (ISO27001). For a relatively new organisation, the level of maturity was positive at level 1, which shows an awareness of the criticality of information assurance to the business and its legal requirements. Some progress has also been made at level 2, in that information assurance processes are institutionalised, and business critical systems and the information assurance status of such systems has been identified. Action plans have been identified and agreed with senior management, and a major security awareness initiative was launched in April 2010, ‘Protecting Our Clients: Protecting Ourselves’.

Of the Commission’s two main operating systems, CS2 gained full security accreditation during 2008/09; CSCS has always had stronger security features than CS2 and DWP has since confirmed that as a legacy system, it is no longer required that we seek full security accreditation.

**Refunds made to clients.** The Commission refunded £9.7 million to clients during 2009/10 due to short term timing differences in confirming changes of circumstances. These refunds are financed by, and recorded as a loss in, the Commission’s administration account. In 2010/11 there will be an increased focus to reduce the value of these refunds, primarily by speeding up the process of verifying and implementing the changes.

## 7. Conclusion

The Commission continues to operate in an inherently challenging environment. Real and lasting benefits in performance and control were delivered, but some serious underlying problems accumulated over the 17-year life of the Child Support Agency were inherited by the Commission following transfer of child support functions in November 2008. The Commission is designing and building a future child maintenance scheme, planned for launch in 2012, which should not be burdened with the historical problems of the Child Support Agency. We have no expectation that the existing scheme systems will be completely fixed, however the Commission will continue to improve the existing schemes in the meantime.

Despite these challenges, during 2009/10, its first full operational year, the Commission collected or arranged over £1,141 million in child maintenance, the highest since the inception of the Child Support Agency in 1993. The Commission also met or exceeded all of its principal Secretary of State targets and most of its other targets and Client Service Standards. This was achieved by the introduction of a number of improvements to the child maintenance systems, at the same time as the Commission faced significant internal control challenges throughout a year of significant organisational and process change. It also delivered further improvements to the existing statutory maintenance scheme via the CS2 system.

The Commission has no expectation that the weaknesses in the existing statutory scheme systems will be completely fixed, but the Commission will continue to improve the existing systems in the meantime.

Signed

**Stephen Geraghty**

Accounting Officer

**18 April 2011**

# Independent Auditor's Report

I have audited the Child Maintenance and Enforcement Commission's Client Funds Account for the year ended 31 March 2010. This comprises: the Receipts and Payments Statement, the Statement of Cash Balances and notes relating to receipts, payments and outstanding maintenance balances. 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 Commissioner for Child Maintenance, as Accounting Officer, 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 in accordance with applicable law and 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 Commission; 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 conform to the authorities which govern them.

## Opinions

### Qualified opinion on regularity as a result of transactions not in conformity with legislation

Certain receipts from non resident parents (and the subsequent payments over to the parent with care or Secretary of State) were for wrong amounts because of errors in the underlying maintenance assessments. Receipts from non resident parents of £784 million are shown in the Client Funds Account. I estimate that errors in underlying maintenance assessments resulted in overpayments of around £10.0 million and underpayments of around £14.4 million which are not in accordance with the relevant legislation.

In my opinion, except for the over and under payments relating to errors in maintenance assessments, in all material respects the receipts and payments 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 for the year ended 31 March 2010 and the cash balances held as at 31 March 2010; and
- the account has been properly prepared in accordance with the Secretary of State Direction issued with the consent of HM Treasury.

## 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.

I estimate that these issues have led to overstatements of £204 million and understatements of £305 million within the reported balance of £3.694 billion in Note 6 to the account.

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 2010.

## 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 Statement on Internal Control does not reflect compliance with HM Treasury’s guidance.

## Report

Further details of my modified opinions are provided in my report on pages 29 to 36.

**Amyas C E Morse**

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

21 April 2011

## Receipts and Payments Statement for the year ended 31 March 2010

	Notes	2009/10 £'000	2008/09 £'000
Receipts	2	784,076	768,877
Bank interest	3	–	673
<b>Total receipts</b>		<b>784,076</b>	<b>769,550</b>
<b>Less payments to:</b>			
Persons with care	2	720,651	668,012
Secretary of State	2	57,782	94,937
Non-resident parent/employers	2	6,627	7,188
Commission in respect of fees	2	193	509
<b>Total payments</b>		<b>785,253</b>	<b>770,646</b>
<b>Net payments</b>		<b>(1,177)</b>	<b>(1,096)</b>
<b>Balance as at 1 April 2009</b>		<b>17,432</b>	<b>18,528</b>
<b>Balance as at 31 March 2010</b>		<b>16,255</b>	<b>17,432</b>

## Statement of Balances as at 31 March 2010

	Notes	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Funds awaiting clearance	4	7,992	7,256
Cleared funds awaiting distribution	4	8,263	10,176
<b>Balance on bank account</b>		<b>16,255</b>	<b>17,432</b>

The notes on pages 22 to 28 form part of these accounts.

**Stephen Geraghty**  
Accounting Officer  
18 April 2011



# Notes to the Account for the year ended 31 March 2010

## 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 also records amounts owed by non-resident parents as at 31 March 2010, 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 note 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 totals disclosed in Note 6 as 'likely to be collected', 'potentially collectable' and 'uncollectable' are therefore approximations and subject to a significant degree of uncertainty. They do not represent a definitive statement of recoverability.

As part of its work in finalising the account during 2010, 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 5% and the amount deemed potentially collectable by 6%. The assessment based on the six-month timeframe was used for reasons of prudence. The collectability classifications were verified by testing a sample of arrears on 398 cases, of which 100 had been classified as likely to be collected by the Commission's estimation exercise, 100 potentially collectable and 198 uncollectable. By checking the pattern of payments received after the accounting date, we established that 84% of the cases on which the arrears were deemed likely to be collected received a payment during the six months after the accounting date. The equivalents for the cases deemed potentially collectable and uncollectable were 22% and 3% respectively.

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 and twelve month period prior to the reporting date.
- The existence, in the six months prior to the balance sheet 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 £9.7 million (2008/09, £7.6 million) and is disclosed as a loss in Note 20 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 £721 million (2008/09, £668 million) paid to the persons with care is £2.536 million (2008/09, £1.493 million) 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 0.5%. 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 2009/10 (2008/09, £0.673 million) as a consequence of the low Bank of England base rate.

£0.012 million (2008/09, £0.119 million) was paid to persons with care. The balance of £0.012 million was recovered from the Secretary of State. (2008/09, £0.554 million paid to Secretary of State)

## 4. Statement of balances

The balances relate to monies collected, including interest received, which had not been paid over at the year end. "Funds awaiting clearance" are those received from non-resident parents, which have not yet cleared in the banking system. "Cleared funds awaiting distribution" are those which, at the year end, were in the process of being allocated to the relevant payee.

## 5. Outstanding maintenance arrears at 31 March 2010

**5.1** Under the Accounts Direction issued by the Secretary of State with the consent of HM Treasury, the Child Maintenance and Enforcement Commission is 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 old rules apply and both the parent with care and the non-resident parent provide all the information requested.

- Interim maintenance assessments – where the old rules apply and it has not been possible to obtain sufficient information to make a full maintenance assessment.
- Maintenance calculation – where the current rules apply and both the person with care and the non-resident parent provide all the information requested.
- Default maintenance decision – where the current 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 compliance by the non-resident parent, and hence take no account of their income or ability to pay.

**5.4** Where the Commission 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. The approach to estimating collectability has changed compared to that used in accounts previously published by the Child Support Agency. From 2008/09 onwards, collectability has been assessed on the basis of a presumption that arrears are uncollectable unless positive evidence of collectability exists. The types of evidence considered are explained below. Three categories of collectability have been established:

#### ***Likely to be collected***

Amounts outstanding which meet certain criteria indicating that the Commission has 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 balance sheet 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, cannot 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 balance sheet 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 balance sheet 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; the Commission concentrates its enforcement resources 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 Commission's 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. Both were introduced in the 2009/10 financial year.

### ***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 has no general power to write off outstanding maintenance arrears, hence the amounts outstanding on individual cases continue to be due in full. The Commission will continue to consider any new facts brought to our attention regarding collectability and the Commission maintains 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 2010

	£'000	Current system CS2	Legacy system CSCS	Clerical Case Database	Total
Outstanding maintenance arrears brought forward at 1 April 2009 ( <i>Note b</i> )		1,734,554	1,805,747	176,535	3,716,836
Maintenance charged during the year and other adjustments ( <i>Note 6.2i</i> )		507,752	82,807	150,423	740,982
Maintenance received during the year ( <i>Note 6.2ii</i> )		(494,888)	(208,310)	(60,444)	(763,642)
<b>Outstanding maintenance arrears at 31 March 2010</b> ( <i>Note 6.2iii</i> )		<b>1,747,418</b>	<b>1,680,244</b>	<b>266,514</b>	<b>3,694,176</b>
<b>Collectability analysis</b> ( <i>Note a</i> )					
Likely to be collected		216,700	238,668	33,051	488,419
Potentially collectable		312,125	173,324	47,605	533,054
Uncollectable		1,218,593	1,268,252	185,858	2,672,703
		<b>1,747,418</b>	<b>1,680,244</b>	<b>266,514</b>	<b>3,694,176</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 child maintenance" in the management commentary. See Note 5 to the Account.*

*Note b: Old scheme cases are managed on both the CSCS and CS2 systems. Current scheme cases and 'trans' old scheme cases are managed on CS2 and on the clerical case database. The format of this note has changed and is reported by system rather than scheme, which more closely reflects how the caseload is managed. The brought forward balances are consequently reported in a different manner than was used in previous published accounts.*

## Note 6.1 Outstanding maintenance arrears at 31 March 2009

	£'000	Current system CS2	Legacy system CSCS	Clerical Case Database	Total
Outstanding maintenance arrears brought forward at 1 April 2008 (notes e,f)		1,594,331	2,077,315	134,796	3,806,442
Maintenance charged during the year and other adjustments (Note 6.2i)		610,542	133,835	41,286	785,663
Maintenance received during the year (Note 6.2ii)		(480,878)	(247,331)	(36,969)	(765,178)
Adjustment in respect of double counted suspended arrears (Note c)			(173,956)		(173,956)
Adjustment in respect of opening arrears for clerical cases (Note d)				37,422	37,422
Other adjustments (Note e)		10,559	15,884		26,443
<b>Outstanding maintenance arrears at 31 March 2009</b>		<b>1,734,554</b>	<b>1,805,747</b>	<b>176,535</b>	<b>3,716,836</b>
<b>Collectability analysis</b>					
Likely to be collected		197,312	264,805	20,082	482,199
Potentially collectable		309,062	194,595	31,455	535,112
Uncollectable		1,228,180	1,346,347	124,998	2,699,525
		<b>1,734,554</b>	<b>1,805,747</b>	<b>176,535</b>	<b>3,716,836</b>

Note c: A number of cases with suspended arrears were found to carry double counted arrears, where previously suspended arrears had been reinstated incorrectly without the suspended balance having been adjusted accordingly. The adjustment reflects the Commission's estimate of the amount required to correct the double count for the years up to 31 March 2009.

Note d: A number of cases managed on the Clerical Case database were found to have been set up without the requisite opening balance. This adjustment is the Commission's estimate of the impact of the omitted balances.

Note e: From 2008/09 onwards, closing arrears balances are determined on a different basis to that used previously. The 31 March 2009 arrears balances have been prepared from individual case-by-case arrears listings; previous closing balances were determined by adjusting the opening balance by movements in-year. It is not possible to restate the 1 April 2008 arrears balances on the new basis; the required system functionality was not available on that date and creating it would be prohibitively expensive. Consequently a single adjustment restating the balances, covering the accumulated differences since the inception of each system, has been shown on the face of the note. For the same reason, no prior year comparative arrears note has been included in these accounts. The brought forward balances for CS2 and the clerical case database were combined under "new system" in previous published accounts.

Note f: Old scheme cases are managed on both the CSCS and CS2 systems. Current scheme cases and 'trans' old scheme cases are managed on CS2 and on the clerical case database. The format of this note has changed and is reported by system rather than scheme, which more closely reflects how the caseload is managed. The brought forward balances are consequently reported in a different manner than was used in previous published accounts.

## 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 Child Maintenance Enforcement Division of Northern Ireland, 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 net amount charged in 2009/10 was £741 million (2008/09, £786 million); the reduction is largely attributable to 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 Child Maintenance and Enforcement Division of Northern Ireland 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.

For a period from 1995 the Child Support Agency were able to defer some outstanding maintenance arrears indefinitely, provided that non-resident parents met certain conditions on payment of both regular maintenance and the remaining outstanding maintenance arrears. In these cases, we can settle the deferred amounts due to the parents with care from money provided by the Secretary of State, and can assume responsibility for the remaining outstanding maintenance arrears. During 2009/10 the Commission paid £0.02 million (2008/09, £0.02 million) using this method. The total receipts in 2009/10 were £764 million (2008/09, £765 million).

### iii) Outstanding maintenance arrears at 31 March 2010

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 will become an executive agency of the Department for Work and Pensions during 2011, following the announcement of the Public Bodies Bill in the Queen's speech on 25 May 2010.

# Report by the Comptroller and Auditor General

## Introduction

1. Under the Child Maintenance and Other Payments Act 2008, the Child Maintenance and Enforcement Commission (“the Commission”) was established on 24 July 2008. The Commission is a crown Non-Departmental Public Body of the Department for Work and Pensions (“DWP”). On 1 November 2008, the child support functions of the Secretary of State, previously administered by the Child Support Agency were transferred to the Commission. The Commission now administers the statutory child maintenance schemes using the same systems and processes as the Child Support Agency prior to the transfer of functions. In addition, staff who previously worked for the Agency were transferred to the Commission and continue to operate the statutory child maintenance schemes.
2. My predecessor’s value for money report on the Child Support Agency (*Child Support Agency – Implementation of the Child Support Reforms*) highlighted fundamental weaknesses in the IT systems which the Commission has inherited. These weaknesses directly contribute towards the longstanding issues set out in this report and the challenges faced by the Commission in providing an effective statutory maintenance service.
3. The Commission is required to prepare a Client Funds Account which reports the receipts of child maintenance from non resident parents; payments to parents with care and the Secretary of State; and a statement of cash balances held.
4. The notes to the account are required to include a summary of outstanding maintenance balances. The Commission is also required to disclose the extent to which outstanding arrears are likely to be collected and to categorise the arrears as to their collectability.
5. I am appointed by agreement with the Commission to audit the Client Funds Account.
6. The administration costs of running the Commission are reported separately in the Administration Accounts of the Commission, of which I am the statutory auditor. The Commission’s Administration Accounts for the year ended 31 March 2010 received a clear audit opinion on 22 July 2010.

## Audit Opinions

7. As the independent external auditor, I am required to give an opinion on whether in all material respects:
  - the Commission’s Client Funds Account properly presents the receipts and payments for the year ended 31 March 2010;
  - Note 6 to the account gives a true and fair view of the outstanding maintenance assessment balances as at 31 March 2010;
  - the account has been properly prepared in accordance with the Accounts Direction; and
  - the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them (the ‘regularity’ opinion).
8. Whilst the account properly presents the amounts received and paid, I have qualified my regularity opinion on the grounds that there have been material errors in the calculations of maintenance assessments, which are therefore not in accordance with the legislation which prescribes the basis for these calculations. As a result, a proportion of receipts have been based on the wrong assessment and associated payments to parents with care or the Secretary of State have also been made at the wrong rate.



9. Furthermore, there is material error in the value of arrears recorded in Note 6 to the account, caused by:
- inaccurate maintenance assessments by caseworkers since the inception of the statutory schemes (as noted in paragraph 8); and
  - incorrect processing of cases with arrears since the inception of the statutory schemes.
10. As a result I have concluded that Note 6 to the account does not give a true and fair view of the maintenance arrears outstanding at 31 March 2010.
11. This report provides further details of the basis for my opinions together with a summary of the significant matters arising from my examination of the 2009-10 Client Funds Account. The issues it covers are largely the same as those included in my report on the 2008-09 Client Funds Account.

## Regularity of Receipts and Payments

12. In 2009-10, £784.1 million (2008-09: £768.9 million) was received from non resident parents and payments were made of £720.7 million (2008-09: £668 million) to parents with care. In addition, £57.8 million (2008-09: £94.9 million) was transferred to the Secretary of State, where parents with care were in receipt of Income Support or income-based Jobseeker's Allowance and the Secretary of State had taken action to recover child maintenance from the non resident parents.

13. Under the statutory maintenance schemes non resident parents are required to make payments of child maintenance based on assessments which are calculated in accordance with rules laid down in legislation. These rules also determine the date from which assessments are payable. Following the initial assessment of maintenance payable, assessments are also revisited whenever the Commission is notified of any changes in circumstances which would affect the amounts payable.

14. The Commission is currently required to carry out these calculations according to two distinct sets of rule: the "current rules" apply to cases received after the Child Support Reforms were introduced in March 2003 and the "old rules" apply to cases predating the Reforms. The Commission, like the Child Support Agency previously, has no authority to exercise any latitude in making these assessments.

15. Maintenance received from non resident parents is paid over to either the parent with care or the Secretary of State. All amounts are paid out in their entirety and, if an error is made in the initial assessment or any subsequent assessment, it will therefore have an impact on the regularity of both the receipt and the related payment out.

16. Extensive checks are carried out by the Commission's Quality Assurance Team (QAT) to assess the accuracy of the maintenance decisions made each year. These checks cover new applications for child maintenance and cases where there has been a recalculation of maintenance owing to changes in circumstances. Figure 1 shows the accuracy of maintenance assessments reported by QAT.

**Figure 1: Accuracy of maintenance assessments: 2007-08 to 2009-10**

	2007-08		2008-09		2009-10	
	Current rules	Old rules	Current rules	Old rules	Current rules	Old rules
Percentage of assessments that were accurate to within a penny	85%	94%	84%	91%	83%	92%
Cash value accuracy <sup>4</sup>	96%	98%	96%	98%	96%	97%

<sup>4</sup> Cash value accuracy is a measure of the value of the correct assessment against the value of the incorrect assessment. This means that, for an incorrect maintenance assessment calculated at £90 per week, which should have been calculated at £100 per week, cash value accuracy would be reported as 90%.

17. As shown in Figure 1, the accuracy of maintenance assessments has remained relatively stable during the three year period to 31 March 2010. Receipts and payments reported in the 2009-10 account are based on assessments made in 2009-10 and in earlier years.

18. Where receipts and associate payments are based on incorrect maintenance assessments, these transactions are not in accordance with the relevant legislation and are therefore irregular. The best available estimates of the financial value of errors in maintenance assessments are £10.0 million overpayments (1.3% of receipts) and £14.4 million underpayments (1.8% of receipts) (2008-09: £11.5 million overpayments (1.5 %) and £15.5 million underpayments (2.0%)). I have therefore qualified my regularity opinion on the receipts and payments account on the basis of the value of irregular receipts and payments.

## Outstanding maintenance balances at 31 March 2010

### *Background*

19. Where a non resident parent does not make payments in accordance with the maintenance assessment, and the Commission is responsible for collecting the monies, any shortfall is included in the outstanding maintenance balances reported in Note 6 to the account. The total outstanding maintenance arrears have accumulated since the Child Support Agency was established in 1993. In Note 6, the Commission reports maintenance arrears, as at 31 March 2010, of £3.694 billion (31 March 2009: £3.717 billion). Legislation does not permit the Commission to write off outstanding balances on the grounds of (for example) age or low likelihood of collectability.

20. Historical system limitations within the two primary IT systems for child maintenance (the Child Support Computer System (CSCS) and Child Support 2 (CS2)) meant that the former Child Support Agency was not able to analyse fully the total reported outstanding maintenance balance by case or non resident parent. For the financial years up to 2007-08, the Child Support Agency compiled the maintenance arrears note on spreadsheets, using the reported balance at the end of the previous financial year as the opening position for the following financial year which was then adjusted for in-year movements based on data obtained from the operational systems.

21. In order to prepare the 2008-09 Client Funds Account, the Commission undertook a significant piece of work to produce lists of individual arrears in support of the account figure. During this process the Commission discovered a number of errors in the underlying data which had been caused by recurring system or caseworker error and made adjustments to the 2008-09 account figures to correct them. The Commission has undertaken the same process to produce the arrears note at 31 March 2010 and has made adjustments to the basic listings in respect of known errors in the underlying data, including:

- The duplication of an arrears balance when suspended balances (i.e. those not being actively pursued) were reinstated as live arrears. This arose due to caseworker error. Consequently the Commission has reduced the value of arrears by £186 million which reflects its best estimate of the overstatement as at 31 March 2010. £174m of this adjustment has already been included in the opening balance brought forward at 1 April 2009 with an additional £12 million being adjusted for in-year to reflect those errors made during 2009-10. This only affected cases on the older CSCS IT system.
- For certain cases that had transferred from the CSCS system to the CS2 system, the correct arrears balance did not transfer. This was because the information had been archived and, on transfer to CS2, these balances were not picked up by the system. A net understatement of £95 million as at 31 March 2010 was identified by the Commission and has been corrected in the accounts. £92m of this adjustment has already been included in the opening balances brought forward at 1 April 2009 with an additional £3 million being adjusted for in-year to reflect those errors arising in 2009-10.
- A number of cases managed off the primary IT systems, on a separate clerical case database, did not have opening arrears balances entered onto that database. In compiling the accounts the Commission has estimated that this would have led to an understatement of the overall arrears balance by £65 million

at 31 March 2010 and so has adjusted the case listings by this amount. £37 million of this was already reflected in the opening balances and the remainder has been accounted for in-year. This error only affected cases managed on the clerical case database.

- On CS2, negative arrears balances of £17.5 million were identified at 31 March 2010. These had been caused by a system defect and had the effect of creating balances which appeared to be owed to non resident parents, when in fact no amounts were due. The Commission has corrected the total arrears balance for these cases. £14.8 million of the adjustment is already reflected in the opening balance brought forward at 1 April 2009 and an additional adjustment of £2.7 million has been made in year to reflect those errors arising in 2009-10.

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

### **Errors remaining in Note 6 to the account**

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

#### **a) Inaccurate maintenance assessments**

24. Where an error is made in the initial maintenance assessment or any subsequent assessment (as described in paragraphs 12 to 18 above) any arrears that have accrued under that assessment will have accrued at the wrong rate. The arrears will consequently be misstated. Errors in maintenance assessments made since the inception of the existing statutory schemes could therefore impact on the value of error in the reported arrears across all systems as at 31 March 2010. My estimate is that arrears as at 31 March 2010 are overstated by £191 million and understated by £224 million as a result of inaccurate maintenance assessments.

#### **b) Incorrect adjustments to arrears**

25. Caseworkers have the facility to adjust the value of outstanding arrears on cases where, for example, a non resident parent provides information about their circumstances which alters the maintenance charges retrospectively. This facility can result in errors if not used properly, misstating the total arrears on a case. For example, an internal audit report from April 2010 identified a number of cases where the arrears balance had been written down as opposed to simply having the status of the arrears changed to suspended (i.e. do not actively pursue). Internal audit assessed the potential impact of this caseworker error to be in the region of £83 million for cases held on the CS2 system alone. The report also highlighted the potential for similar errors to have been made on cases held on the CSCS system although no attempt was made to quantify this.

26. Incorrect adjustments to the value of arrears that have been made since the inception of both statutory schemes could impact on the accuracy of the reported arrears as at 31 March 2010. I estimate that, for cases managed on CSCS and CS2 arrears are overstated by a total of £13 million and understated by around £81 million.

#### **c) Duplication of arrears balances**

27. The duplication of arrears balances by caseworkers when reinstating suspended arrears (see paragraph 21 above) has been estimated by the Commission at £186 million. The audit work carried out indicated that the reduction in arrears was too large as it included cases that did not appear to require

adjusting. This error has arisen due to the way in which the Commission has attempted to estimate the adjustment required. The adjustment was not done on a case by case basis due to the volume of cases involved (64,973); instead the estimate was derived using a report with certain criteria to capture the cases likely to have been affected by the original caseworker error. These criteria would not necessarily account for all the possible scenarios which might exist on a case; therefore there is uncertainty in the adjustment. There is no information readily available which would enable me to estimate the level of error in this adjustment reliably, without reviewing a substantial proportion of the cases included within the adjustment. The result is that the reported arrears balance relating to cases managed on the CSCS system is understated.

#### **d) Incorrect charging status of cases**

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

#### **e) Deferred arrears no longer due**

29. In the earlier years of the statutory child maintenance schemes some arrears balances were deferred (not pursued for payment at that time) subject to the non resident parent committing to make regular payments for ongoing maintenance. The legislation stated that, if the non resident parent honoured the agreement made at the time the arrears were deferred, then the arrears they owed would no longer be due. (These amounts would be owed to the Secretary of State if recovered, since the Secretary of State would have previously paid the amounts over to the parent with care.) At 31 March 2010 deferred arrears balances of £15.8 million are included in the accounts. My audit work indicates that a proportion of these are no longer due from the non resident parent because the terms of the agreement were honoured. The Commission has not carried out any work to identify those balances which need to be removed from the accounts. These reported arrears balances are consequently overstated, and whilst I cannot reliably estimate the value of the overstatement in this respect, it must be between nil and the full £15.8 million of balances reported as deferred.

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

30. Around 86,000 child maintenance cases were managed on a clerical database at 31 March 2010 (circa 60,000 at 31 March 2009), rather than on the primary child support IT systems. These cases had transferred from CS2 because IT problems prevented them from being processed further on that system. The Commission discovered that the opening arrears balances on these cases had not been entered onto the database when the cases transferred from CS2. This meant that arrears on these cases would be understated by reporting only the closing balance on the database as the arrears for each of these cases.

31. The Commission has made an adjustment of £65 million to the arrears values reported on the clerical case database at 31 March 2010 for each of these cases. Internal audit work indicates that the estimate, whilst performed on a reasonable basis, has the effect of overstating the arrears for some clerical cases. Whilst I cannot reliably estimate the value of the overstatement in this respect, it must be between nil and the full £65 million of the adjustment made.

32. The best available estimates of the cumulative errors described in paragraphs 23 to 31 indicate that the outstanding maintenance arrears contain overstatements of at least £204 million and understatements of at least £305 million. I have therefore concluded that Note 6 does not give a true and fair view of the outstanding maintenance balances as at 31 March 2010.

33. These misstatements reflect errors made in maintenance assessments as well as the ongoing processing of cases and maintenance of arrears data. These errors are symptoms of the IT issues in the

former Child Support Agency, and inherited by the Commission. The additional work undertaken by the Commission has led to progress in identifying causes of error, some of which were previously unknown. The adjustments that the Commission have made in respect of some of these errors have been made at a financial statement level only and further work would need to be undertaken by the Commission to establish the correct arrears balances at an individual case level.

## **Collectability of maintenance balances**

34. In line with the Accounts Direction, Note 6 also provides an analysis of the Commission's assessment of the collectability of the outstanding maintenance balances. The Commission has estimated the value of arrears "likely to be collected" and "potentially collectable" based on the history of payments from, and payment agreements with, non resident parents, as well as the Commission's estimate of additional recoveries they could secure using existing enforcement powers. The definitions of these categories are set out in the notes to the account.

35. The Commission's current assessment is that only £1.021 billion of the total outstanding balance at 31 March 2010 is at least "potentially collectable" (31 March 2009: £1.017 billion), of which £0.488 billion (13% of the total reported arrears) is "likely to be collected" (31 March 2009: £0.482 billion (13%)).

36. Management's assumptions are subject to an inherent degree of uncertainty since a number of external factors (including the economic climate and the resources available to the Commission to pursue the enforcement of arrears) influence whether any individual non resident parent will satisfy their arrears balance. The collectability assessment is applied to information on arrears from the underlying IT systems, which is known to contain errors as described in paragraphs 23 to 31. As a result the value of arrears existing as at 31 March 2010 which will actually be collected in the future may be significantly different to that reported as "likely to be collected" within the account.

## **Actions taken by the Commission and the former Child Support Agency**

### ***Issues affecting the audit opinions***

37. The Commission has continued the operation of the former Child Support Agency's Quality Assurance Team, which reviews the accuracy of maintenance assessments on around 6,000 cases each year. The results of this exercise are used to inform management on the accuracy of decision-making and identify common causes of error which are then addressed through further caseworker training. Recently this has included workshops on the effective dates of assessments and the assessment of non resident parents' income. The Commission have informed me that team leaders now spend a greater proportion of their time checking the accuracy of maintenance assessments made by caseworkers.

38. The Commission requested work by their internal auditors (DWP Risk Assurance Division) to gain some quantification of the errors in arrears data caused by incorrect technical adjustments. When the results of this work indicated that it was a significant issue, new guidelines and checks for the processing of these adjustments were introduced. The Commission's Quality Assurance Team has reported higher accuracy rates for technical adjustments since then, which my staff will review in the course of future audit work. Tools and training have been developed with the aim of improving staff knowledge in relation to adjustments to arrears and how these should be processed. If effective, this should help to drive down the level of error further, in relation to future adjustments made.

39. The Commission has performed some detailed work around the opening arrears balances on cases which had transferred to the clerical case database and will be working closely with their service providers to address accuracy issues in the future.

40. Whilst the Commission is working to improve the quality of underlying data supporting the reported arrears balance, some of the issues affecting the accuracy of these balances date back to the inception of both statutory maintenance schemes and relate primarily to arrears which are unlikely to be collected. Since

current legislation does not permit child maintenance arrears to be written off, the Commission cannot easily rectify the errors within those historic arrears. As indicated in the Foreword to this account, the Commission will weigh the costs and benefits of making further improvements to the systems and cleansing the data they contain, in the light of the planned introduction of a new scheme for child maintenance. However, management have indicated that they do not consider that it will be cost-effective to rectify all the known issues.

## IT systems

41. Since the inception of the statutory child maintenance schemes there have been problems with the underlying IT systems supporting those schemes. The issues relate to the accounting information generated by both CSCS which records the “old rules” cases, and CS2 which records the “current rules” cases. A suite of workarounds had been developed by the Child Support Agency involving significant manual adjustments to the ledgers to align them with the cash received and paid out. The Commission inherited these IT systems from the Child Support Agency.

42. Neither the CSCS nor the CS2 system had full reporting functionality for arrears. As noted in paragraph 21, the Commission undertook a significant project to obtain the information which now supports the balance in Note 6, and which has also brought to light accuracy issues previously unknown to the Child Support Agency.

43. An increasing number of total cases are being maintained manually outside the two main IT systems. As a result, the CSCS and CS2 databases are not a complete record of case activity. The total number of cases managed clerically at 31 March 2010 has increased significantly and stands at approximately 86,000 (7.5%) of a total caseload of 1,150,800 compared to 60,000 (4.7%) cases out of 1,279,400 at 31 March 2009. A major upgrade (Productivity Release 1) to the CS2 IT system, implemented in September 2008, brought to light additional cases which had not been progressing within CS2 and which needed to be handled clerically. This upgrade has resulted in a better service to clients but highlights the problems in the original CS2 system. The increased clerical caseload has resulted in increasing administrative costs in this area.

## Enforcement of arrears

44. In order to manage the enforcement of outstanding maintenance balances the Commission uses two primary methods. Cases recently falling into arrears due to a missed payment are flagged for attention via specific tasks on a workflow system. The Commission inherited from the Child Support Agency an analysis of outstanding maintenance balances by case recorded on CSCS and CS2 known as the “debt book”. This was designed as a management information tool to record the value of maintenance arrears existing on CSCS and CS2 at a case level and to assist in the collection of arrears. The Commission’s view is that the debt book has been used successfully for this purpose. In 2010 the Commission established separate teams within its existing Debt Enforcement teams to specifically target historic arrears. The Commission should consider whether the reports showing individual arrears balances which support the account figure for arrears would assist in targeting enforcement action if they could be produced on a more frequent basis and combined with information about the non resident parents’ ability and willingness to satisfy the arrears.

45. The Commission’s target in relation to maintenance collection for 2009-10, set by the Secretary of State, was to collect or have arranged £1,135 million of child maintenance, including at least £170 million of arrears. Published statistics for 2009-10 indicate that £1,141 million was collected or arranged, i.e. the total target was exceeded by £6 million (0.5 %). However the arrears element of the target was not achieved, due to both the prioritisation of collecting ongoing maintenance liabilities and the underperformance in recoveries by external debt collection agencies. Recoveries of £147 million arrears were made which represented a shortfall of £23 million (13.5%).

As the Commission has recognised in its assessment of the collectability of arrears, a large proportion of child maintenance owed to parents with care and the Secretary of State is unlikely ever to be collected.

## Future statutory scheme for child maintenance

46. As well as its responsibility for the statutory maintenance schemes reported in these accounts, the Commission is responsible for developing and implementing a new scheme for statutory child maintenance. Work is underway to develop the information systems which will support this scheme. It will be critical to the success of the scheme that the information systems provide a full audit trail from the accounts to individual case transactions for receipts and payments and to individual case arrears for outstanding maintenance balances; it is the Commission's intention that the new systems will provide this accounting functionality. It is planned that this will enable the historic data problems of the existing statutory maintenance schemes to be segregated from the new scheme.

47. In the light of the Commission's investment in the IT system to support the new scheme, the Commission considers that the cost of rectifying all the known issues on the existing CSCS and CS2 systems would outweigh the benefits.

## Conclusions

48. The estimated level of error in maintenance assessments for the current statutory schemes is material, and I have therefore qualified my opinion on the regularity of receipts and payments in the accounts. I have concluded that Note 6 to the account does not give a true and fair view of the outstanding maintenance balances as at 31 March 2010 owing to the level of error in the underlying case level data.

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

### **Amyas C E Morse**

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