

Child Maintenance and Enforcement Commission

Client Funds Account – Statutory Maintenance Schemes 2008/09

Administered by the CSA
division of the Commission



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and Other Payments Act 2008

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Foreword

On 1 November 2008, the functions of the Child Support Agency transferred to the Child Maintenance and Enforcement Commission from the Secretary of State for Work and Pensions. Along with these functions came the responsibility for managing and reporting on client funds. This account covers the full 2008/09 financial year.

Progress during 2008/09

Considerable progress was made during 2008/09. The final year of the Agency's Operational Improvement Plan was delivered and all principal ministerial targets were met. 71% of those non-resident parents with a liability to pay maintenance through the statutory schemes paid, against a target of 69% and £1,132 million was collected or arranged over the year, against a target of £1,080 million and the number of children benefiting from a child maintenance arrangement passed 800,000 for the first time. Operational improvements resulted in higher levels of compliance and a slowing in the rate of increase of outstanding maintenance arrears, owed by non-resident parents to parents with care, which stood at £3,717 million at 31 March 2009. Receipts and payments increased by 12% to £770 million and £771 million respectively.

Arrears collectability

Publication of the 2008/09 Client Funds Account has been delayed in order to allow us to complete a significant piece of work to assess collectability. This exercise has resulted in far more robust information being produced to support our arrears figures.

As a result of this exercise, we now estimate that only £1,017 million of the total outstanding balance as at 31 March 2009 is potentially collectable, of which £482 million is likely to be collected. At 31 March 2008 we estimated that £1,518 million was collectable. 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.

These figures are lower than previous estimates, but are based on more robust criteria and are more realistic in my view. I am confident that for the first time we have the detailed understanding of arrears balances that is required.

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%¹, 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

¹ 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 £80m as at 31 March 2009. This represents 2.15% of the total arrears balance of £3.72bn 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 on 24 July 2008, to take responsibility for the child maintenance system in Great Britain. The Commission's primary objective is to maximise the number of those children living apart from one or both parents who have effective child maintenance arrangements in place. These may be arranged privately, or through the statutory maintenance schemes. To meet this objective the Commission has 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 functions of the Secretary of State for Work and Pensions under the Child Support Act 1991, including the two statutory maintenance schemes managed by the Child Support Agency, were transferred to the Commission on 1 November 2008. The Commission continues to deliver the two existing schemes through a division operating under the CSA brand name, to ensure continuity of client service and continued performance improvement. Throughout the Client Funds Account, 'CSA' is used to refer to the division of the Commission operating the current statutory child maintenance service.

Client Funds Account

Prior to 1 November 2008, one of the responsibilities of the Child Support Agency as an Executive Agency was to handle and control maintenance monies relating to the existing child maintenance 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, and in accordance with an Accounts Direction issued by the Secretary of State for Work and Pensions, is required to publish the Client Funds Account separately from the Commission's Annual Report and Accounts, which relate to the administration of the organisation 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

There are currently two statutory schemes for calculating child maintenance: 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 statutory schemes. This service comprises the calculation of maintenance due from the parent who does not normally live with the child (non-resident parent) to the parent who has the main day-to-day care of the child (parent with care), together with the collection and, where necessary, enforcement of payment from non-resident parents.

Receipts, payments and the accumulated maintenance arrears are only correct to the extent that these underlying assessments and calculations are correct. As accuracy has improved markedly in recent years, receipts and payments in the year are more accurate overall than the arrears balance, which contains much higher levels of error accumulated in earlier years.

Monies are received into a single bank account by various methods of collection, including direct debit, standing order, electronic funds transfer and cheque. The majority of receipts flow automatically through the computer systems and are paid out to the relevant parents with care or in some cases back to the Secretary of State, where they represent a recovery of past benefits paid. 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 2008/09

As well as the transfer of functions from the Secretary of State for Work and Pensions to the Commission, some significant changes took place:

- The Commission launched a new information and support service, Child Maintenance Options, to guide and support parents in making effective child maintenance arrangements.
- From July 2008, the option to choose from a range of child maintenance arrangements – private, statutory or court-based – was introduced for parents with the main day-to-day care of their child who were newly claiming benefits, removing the previous compulsion for them to apply for statutory child maintenance. In October 2008 this option to choose was extended to all parents with the main day-to-day care of their child who already claimed income-related benefits. This means that all parents are now able to choose the child maintenance arrangements that best suit their circumstances, supported by the Child Maintenance Options service.
- The programme to improve performance and service on the existing statutory maintenance schemes continued in 2008/09, with the final year of the CSA's Operational Improvement Plan, adopted by the Commission. This included a major upgrade to the computer system to support new ways of working, and performance was better than ever before.

As well as delivering the final year of the Operational Improvement Plan, performance continued to improve. In 2008/09 the Commission exceeded the target levels for maintenance arranged, with 810,500² children benefiting against a target of 790,000 and maintenance collected, with the target of £1,080 million exceeded by £52 million. The targets for families benefiting, the percentage of non-resident parents paying and on the speed of answering telephone calls were also exceeded.

In addition, there were three significant developments which directly impacted on client funds accounting during the year.

Firstly, the child maintenance disregard for benefit calculation purposes was increased and extended. Until October 2008, the disregard allowed a parent with care on the current scheme and receiving Income Support or income-based Jobseeker's Allowance, to keep up to £10 per week of any child maintenance

² Of which 30,000 children benefited from private arrangements made following contact with Child Maintenance Options.

paid. From October 2008, this was increased from £10 to £20 per week per household and extended to old scheme cases, which had not previously been eligible. Only amounts relating to arrears are payable in their entirety to the Secretary of State.

Secondly, a major upgrade of the CS2 financial ledger system (BMS-R), was implemented in March 2009. This has provided a substantially improved audit trail, analysis and reporting of receipts, payments and other transactions together with a much more robust underpinning for the accounts. Other improvements have also been made in the use and promotion of more efficient and effective methods of collection and payment and in the identification and timely processing of receipts.

Thirdly, upon transfer of responsibility for the Child Support Agency functions to the Commission, a review was undertaken of the assumptions underpinning the assessment of the collectability of outstanding maintenance arrears. The conclusion was that the assumptions used previously had been over-optimistic and should be revised downwards to more realistic levels. More information can be found on page 8.

Significant developments since 31 March 2009

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.

In order to ensure that parents meet their financial responsibilities to their children, the Commission developed the range of 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.

Receipts of Child Maintenance

During 2008/09, 4.88 million receipts were recorded, which is a 5% increase over 2007/08. Total monies received were 12% higher at £770 million, of which £769 million was child maintenance and £1 million was bank interest. 89% of receipts by volume (2007/08: 89%), and 76% by value (2007/08: 73%) were received electronically.

Also, 30% of receipts were made by 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 29% over 2007/08 by value and 19% by volume. Direct debit and deduction from earnings are preferred methods for ongoing maintenance as they result in the highest levels of compliance; collection by debit or credit card is especially effective for one-off payment of arrears.

A further 7% of payments were made under the new Faster Payments system, introduced by the major UK clearing banks in May 2008. These receipts now clear on the same day as clients make their payments, and can be paid onwards more quickly as a result.

Receipts failure rates remain low overall, except for direct debits, where 11% of receipts fail. More than 90% of these failures are initiated by non-resident parents and the most common reason is the cancellation of direct debit instructions. The introduction of paperless direct debits will prevent some, but not all, of these failures in the future.

Another significant and long-standing problem is that many receipts require manual processing even where they arrive by electronic means into the bank account (around 45% in 2008/09). The main categories 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 cases, which are progressed partially or wholly outside of the Commission's main computer systems. While improvements mean that this manual processing is executed efficiently, solutions are required to reduce and, where possible, eliminate the need for it.

Payments of child maintenance

During 2008/09 the number of payments rose by 10% to 7.63 million – double the rate of increase in receipts compared with 2007/08 – while the total value of payments rose by 12%, in line with overall receipts. The principal reason for the increase was the extension of the child maintenance disregard to cases on the old scheme at the end of October 2008. This resulted in a significant increase in the number of clients to whom payments are made and a 16% increase in the value of such payments.

Total net payments to the Secretary of State fell by £10 million to £95 million during 2008/09 as a result of the child maintenance disregard for benefit calculation purposes having been increased and extended. Until October 2008, the disregard allowed a parent with care on the current scheme and receiving Income Support or income-based Jobseeker's Allowance, to keep up to £10 per week of any child maintenance paid. From October 2008, this was increased from £10 to £20 per week per household and extended to old scheme cases, which had not previously been eligible. A full child maintenance disregard was introduced in 2010, meaning that parents with care may now keep all the child maintenance they receive. Only amounts relating to arrears are now payable to the Secretary of State. Approximately £4 million, relating to arrears, is paid to the Secretary of State each month.

Maintenance monies received are paid as quickly as possible to clients, and cash held at 31 March 2009 equated to around 2% of the monies received during the year. Historically there has been an accumulation of receipts, albeit a small proportion of the total, which have been very difficult to match to clients and their

cases and hence have not been paid out. Considerable progress was made during 2008/09 in continuing to clear these. 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 approximately 5,000 at March 2009.

Despite the inherent challenge of translating 4.88 million receipts into 7.63 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.

Outstanding arrears of child maintenance

In addition to the receiving and paying out of maintenance monies, the Commission is required to report the amounts of outstanding maintenance arrears. While these amounts, which total £3,717 million as at 31 March 2009, are owed by non-resident parents to their respective parents with care or to the Secretary of State, the Child Support Agency was, and the Commission now is, responsible for pursuing their collection. As the amounts are neither owed to nor owed by the Commission, they are not reflected in the Commission's balance sheet and are disclosed in a note to the Client Funds Account.

The £3,717 million arrears owing have accumulated over the previous 16 years. This sum represents around one quarter of the total maintenance charged over the period. The Commission, like the Child Support Agency before it, 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 limited circumstances. Through a combination of improved collection and enforcement of arrears and adjustment to correct assessments, the rate of accumulation has significantly reduced and, in the final months of 2008/09 some small net reductions in the total amounts outstanding were achieved.

A major programme of work was carried out during 2009 and 2010 on maintenance arrears, aimed at improving the quality of the arrears information reported by the child maintenance computer systems (page 14 contains more information on this work). The exercise identified that the arrears reported at 31 March 2008, and in prior years, were potentially overstated.

By reviewing opening balances in detail we identified a net reduction in total arrears of £110 million at 31 March 2009, arising from (1) the change in the basis on which the arrears are reported, from rolling forward the balance at the previous reporting date, adjusted for the receipts and payments in-year to a detailed case by case listing, (2) double-reporting of certain arrears in the previous total and (3) a review of the opening balances on 'clerical' cases managed off the main system. These, combined with arrears growth during 2008/09 of £20 million, result in an overall reduction of £90 million in reported arrears at 31 March 2009 compared to the total reported at 31 March 2008.

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.

Collectability

Each year the Commission is required to carry out and subsequently report on an exercise to analyse the collectability of outstanding arrears. Following the transfer of the Agency's functions to the Commission, an exercise was undertaken to review the validity of the collectability assumptions previously used by the Agency.

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 conducting this review, the Commission took account of a recent report it commissioned through PricewaterhouseCoopers. The report highlighted that the Child Support Agency's own collection rates were consistent with those of external debt collection agencies and also noted that non-paying non-resident parents are generally less creditworthy than the overall population. By applying various analytical methods, the report estimated that somewhere between £800 million and £1,100 million of the £3,806 million arrears outstanding at 31 March 2008 was collectable. This was significantly lower than the estimate of £1,518 million disclosed within the Child Support Agency's 2007/08 report and accounts, calculated using different criteria.

In light of the PricewaterhouseCoopers' analysis and recommendations as well as internal management data, the Commission concluded that the collectability analysis should be revised to show a more realistic view of collectability.

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 PricewaterhouseCoopers' analysis. 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 Commission's analysis of the caseload applied a number of criteria to arrears, including payment history, age of arrears and the existence of an agreement by the non-resident parent to clear the arrears (see page 15). Collectability is primarily assessed on the basis of the behaviour of the non-resident parent from whom the arrears are due.

The result was that £482 million of the overall £3,717 million arrears reported at 31 March 2009 are deemed likely to be collected, based on the Commission's current service, priorities and activities on cases, with at least a further £535 million potentially collectable. The remaining £2,700 million is considered uncollectable. (Note 5.7 on page 23 explains the categories of collectability).

This gives a more realistic assessment of the amount of arrears that can be collected. The Commission has a strategy in place in order to recover as much of the 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 £1,017 million estimated to be likely to be collected or potentially collectable as at 31 March 2009 will, in practice, be collected.

Assessment accuracy

The Commission recognises the problems of the Child Support Agency, dating back to its inception, in accurately assessing maintenance payable. These have led to inaccuracies in receipts, in the associated payments and in underlying arrears balances.

This has resulted in 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.

Recent improvements in assessment accuracy and subsequent checking have resulted in significantly improved cash value accuracy rates. During the period 1 April 2007 to 31 March 2009 the Commission estimates that more than 400,000 cases were reassessed, with an average accuracy rate of 96.3%. Hence, by 31 March 2009, 39% of the caseload had been re-assessed under the new arrangements.

Accuracy of receipts and payments is therefore improving, as is the collection of outstanding maintenance arrears, although to a lesser extent. 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 coparenting 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 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, in this case specifically to the Client Funds Account.

On 1 November 2008 the Child Support Agency's functions were transferred to the Commission, under the Child Maintenance and Other Payments Act 2008. I was also Accounting Officer for the Child Support Agency from 1 April 2008 to 31 October 2008, which had its own governance and assurance arrangements, which I have drawn on in preparing this *Statement on Internal Control*.

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, the Commission and the Child Support Agency for the year ended 31 March 2009. A note to the Account also records amounts owed by non-resident parents to parents with care as at 31 March 2009, along with movements in those arrears balances during the financial year.

In 2008/09 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 £769 million.

The Commission made approximately 7.6 million payments to parents with care, to a value of £668 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 from the point of vesting on 24 July 2008 for the year ending 31 March 2009, and for the Child Support Agency from 1 April 2008 up to the transfer of its functions to the Commission on 1 November 2008. This 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 period 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 period 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 division 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 2008/09 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.

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 risks acquired a higher profile during 2008/09. The Commission appointed an information asset owner and supporting team. 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 information security risk during the period.

The main issue arising from the review involved employers' returns. Employers had been submitting returns to the Agency by a variety of channels (e.g. fax and post) which were not always secure, and had also been including an element of unnecessary personal data. The Commission worked with employers to standardise returns and improve security, and is also planning to create a secure website as part of the future child maintenance scheme it is currently developing. This service would provide employers with a secure method of transferring information, via the Government Gateway, by uploading data to the Commission website.

At the end of 2008/09, 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 2008/09, 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 in their management letter 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 its Annual Report and Accounts for 2008/09. Before 1 November 2008, the Child Support Agency had its own governance structure that provided the framework for controlling the organisation. In compiling this Statement on Internal Control for the Commission, I took assurance from the Child Support Agency's governance and assurance arrangements.

The Commission's Audit Committee had two full meetings over the period December 2008 to March 2009. In line with HM Treasury guidance, the Audit Committee comprises non-executive members and provides leadership and advice on internal control matters and related assurances.

Internal Audit reviews of Client Funds Accounting covered areas of concern using a risk-based approach in 2008/09. In total, eight audits were carried out, of which six provided satisfactory levels of assurance. Two audits in particular highlighted room for improvement. An audit of manual payments recommended that there was a need for better management information and a more consistent approach to authorising these payments. An audit of 'partial' processing of cases off the two main computer systems recommended stronger control of the workflow and better quality checking. All internal audit recommendations were implemented, most during 2008/09 and the remainder in the opening months of 2009/10.

There were many sources of assurance available to the Commission during 2008/09 and to the Agency before the transfer of its functions, 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.

The last Child Support Agency Annual Report and Accounts (for 2007/08) incorporated a Client Funds Account, which reported a balance of £3,806 million arrears owed at 31 March 2008, of which £1,518 million was estimated to be collectable. The account was qualified in respect of this balance due to errors caused by inaccurate maintenance assessments over the life of the Agency. The Commission is required by the Secretary of State for Work and Pensions to produce a client funds account, which is separate from its Annual Report and Accounts.

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 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 during 2009/10 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.

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 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 2009 there were some 60,000 cases managed wholly off the main computer systems and circa 49,000 further cases partially managed off the main system. 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 'clerical' cases 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.

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 2008/09 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 2008/09 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 unreconciled items had been as high as 42,000 in 2006). There were around 20,000 un-reconciled items at the end of 2007/08, falling to 5,000 by the end of 2008/09.
- 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 main computer 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 1,500 'method of payment' changes in 2008/09, finding a cash value accuracy rate of 94%.
- Reducing the number of manual workarounds. Various IT releases in 2008/09 helped to reduce the number of workarounds, both in accounting for client funds and in making maintenance assessments.
- Greater focus on variances between the management accounts showing outstanding arrears and the various ledger accounts. In 2008/09 the variances were never greater than 0.5%.

Assessment accuracy. A continuing issue, which has been central to the continuing qualifications of the Client Funds Account, concerns the inaccuracy of maintenance assessments, and the consequent uncertainty around reported 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 accuracy³ increased from 92% in 2006/07 to 96.2% in 2007/08, and continued to climb, albeit less steeply, to 96.7% in 2008/09. The issue of inaccuracy continues to be subject to sharper focus. With this in mind, the Commission launched a drive to further improve accuracy in 2009/10.

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 sixteen-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 parents with care will be minimal.

The Commission has 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 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.

³ '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%.

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.

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 £7.6 million to clients during 2008/09 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 is operating in an inherently challenging environment. Real and lasting benefits in performance and control were delivered by the Child Support Agency’s Operational Improvement Plan (which ran from 2006 to 2009), but some serious underlying problems accumulated since the birth of the Child Support Agency were inherited by the Commission. The Commission is designing and building a future statutory scheme, planned for launch in 2012, which will not be burdened with the historical problems of the Child Support Agency. We have no expectation that the weaknesses in the existing statutory scheme systems will be completely fixed, but the Commission will continue to improve the existing schemes in the meantime.

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 2009. 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, 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

The Commissioner for Child Maintenance, as Accounting Officer, is responsible for preparing the Client Funds Account in accordance with the Secretary of State Direction made with the consent of HM Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the account in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the account properly presents the receipts, payments and cash, whether Note 6 detailing the outstanding maintenance balances gives a true and fair view, and whether the account has been properly prepared in accordance with the Secretary of State Accounts Direction. I also report whether 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.

In addition, I report to you if the Child Maintenance and Enforcement Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by the Secretary of State is not disclosed.

I review whether the Statement on Internal Control reflects the Child Maintenance and Enforcement Commission's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Child Maintenance and Enforcement Commission's corporate governance procedures or its risk and control procedures in relation to client funds.

I read the information accompanying the account, which comprises the Foreword, The Child Maintenance and Enforcement Commission and the Child Support Agency, the Management Commentary and the Statement of Accounting Officer's Responsibilities and consider whether it is consistent with the audited account. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the account. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the account. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the account.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the account is free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the account.

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 £769 million are shown in the Client Funds Account. I estimate that errors in underlying maintenance assessments resulted in overpayments of around £11.5 million and underpayments of around £15.5 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 2009 and the cash balances held as at 31 March 2009; 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 £208 million and understatements of £288 million within the reported balance of £3.717 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 2009.

Report

Further details of my modified opinions are provided in my report on pages 27 to 35.

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 2009

	Notes	2008/09 £'000	2007/08 £'000
Receipts	2	768,877	689,538
Bank interest	3	673	1,068
Total receipts		769,550	690,606
Less payments to:			
Persons with care	2	668,012	575,701
Secretary of State	2	94,937	105,084
Non-resident parent/employers	2	7,188	6,175
Child Support Agency/Commission in respect of fees	2	509	198
Total payments		770,646	687,158
Net (payments)/receipts		(1,096)	3,448
Balance as at 1 April 2008		18,528	15,080
Balance as at 31 March 2009		17,432	18,528

Statement of Balances as at 31 March 2009

	Notes	As at 31 March 2009 £'000	As at 31 March 2008 £'000
Funds awaiting clearance	4	7,256	10,499
Cleared funds awaiting distribution	4	10,176	8,029
Balance on bank account		17,432	18,528

The notes on pages 21 to 26 form part of these accounts.

Stephen Geraghty
Accounting Officer
18 April 2011

Notes to the Account for the year ended 31 March 2009

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 2009, 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 calculated on an analysis of cases based on an analysis of the entire caseload of cases with arrears, to which a number of criteria, set out below, are applied.

The term 'likely to be collected' denotes the Commission's belief that it stands a good chance of recovering at least an arrears balance. 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 7% 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 collectable 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 for payment to parents with care of children or to the Secretary of State (where maintenance offsets benefits paid to persons with care) and fees collected from non-resident parents which are paid across to the Commission.

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 £7.58 million (2007/08, £7.23 million restated) and is disclosed as a loss in note 22 to the Commission's Annual Report and Accounts. 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 £668 million (2007/08, £576 million) paid to parents with care is £1.49 million (2007/08, £0.73 million) paid to the Northern Ireland Child Maintenance and Enforcement Division to fund payments made on our 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%. Parents 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 parents with care, the difference is returned to the Secretary of State. See note 2.3.

Of the £0.67 million (2007/08, £1.07 million) interest received, £0.12 million (2007/08, £0.13 million) was paid to parents with care. The balance of £0.55 million (2007/08, £0.93 million) was paid to the 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 2009

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

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 2009

	£'000	Current system CS2	Legacy system CSCS	Clerical Case Database	Total
Outstanding maintenance arrears brought forward at 1 April 2008 (Note a)		1,594,331	2,077,315	134,796	3,806,442
Maintenance charged during the year (Note 6.1i)		610,542	133,835	41,286	785,663
Maintenance received during the year (Note 6.1ii)		(480,878)	(247,331)	(36,969)	(765,178)
Adjustment in respect of double counted suspended arrears (Note a)			(173,956)		(173,956)
Adjustment in respect of opening arrears for clerical cases (Note b)				37,422	37,422
Other adjustments (Note c)		10,559	15,884		26,443
Outstanding maintenance arrears at 31 March 2009 (Note 6.1iii)		1,734,554	1,805,747	176,535	3,716,836

Collectability analysis

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
	1,734,554	1,805,747	176,535	3,716,836

Note a 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 b 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 c 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.

Note d 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. The brought forward balances for CS2 and the clerical case database were combined under "new system" in previous published accounts.

6.1 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

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 because there has been a direct payment between parties which is offset against the maintenance due.

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 we have been able to defer some outstanding maintenance arrears indefinitely, provided that non-resident parents meet 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 2008/09 the Commission paid £0.02 million (2007/08, £0.05 million) under this category. The total receipts received as per the outstanding maintenance arrears note is £765 million (2007/08, total £679 million).

iii) Outstanding maintenance arrears at 31 March 2009

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 period ended 31 March 2009 received a clear audit opinion on 13 July 2009.

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 2009;
 - Note 6 to the account gives a true and fair view of the outstanding maintenance assessment balances as at 31 March 2009;
 - 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 2009.
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 2008-09 Client Funds Account.

Regularity of Receipts and Payments

12. In 2008-09, £768.9 million (2007-08: £689.5 million) was received from non resident parents and payments were made of £668 million (2007-08: £575.7 million) to parents with care. In addition, £94.9 million (2007-08: £105.0 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: 2006-07 to 2008-09

	2006-07		2007-08		2008-09	
	Current rules	Old rules	Current rules	Old rules	Current rules	Old rules
Percentage of assessments that were accurate to within a penny	79%	83%	85%	94%	84%	91%
Cash value accuracy ⁴	Not measured		96%	98%	96%	98%

17. As shown in Figure 1, there was an improvement in the accuracy of assessments between 2006-07 and 2007-08 but the percentage of accurate assessments has declined slightly in 2008-09. Receipts and payments reported in the 2008-09 account are based on assessments made in 2008-09 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 £11.5 million overpayments (1.5% of receipts) and £15.5 million underpayments (2.0% of receipts) (2007-08: £21.0 million overpayments (3.2%) and £15.5 million underpayments (2.2%)). 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 2009

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 2009, of £3.717 billion (31 March 2008: £3.806 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. The lack of a full breakdown of the reported arrears balance by individual non resident parent or case led to a delay in the audit as the Commission undertook further work to produce this information.

Adjustments made by the Commission

21. In the process of producing the arrears listings which now form the basis of Note 6, 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 account figures to correct them. The most significant errors found, and corrected by the Commission, included:

⁴ 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%.

- 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 £174 million which reflects its best estimate of the overstatement. 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 £92 million was identified by the Commission and has been corrected in the accounts.
- 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 £37 million and so has adjusted the case listings by this amount. This error only affected cases managed on the clerical case database.
- On CS2, negative arrears balances of £14.8 million were identified. 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.

22. These errors 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 2009. My estimate is that arrears as at 31 March 2009 are overstated by £196 million and understated by £227 million as a result of inaccurate maintenance assessments.

b) Incorrect adjustments to arrears

25. Caseworkers have the facility to adjust the value of outstanding arrears on cases where, for example, a non resident parent provides information about their circumstances which alters the maintenance charges retrospectively. This facility can result in errors if not used properly, misstating the total arrears on a case. For example, a recent internal audit review 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 2009. I estimate that, for cases managed on CSCS and CS2 arrears are overstated by a total of £12 million and understated by around £61 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 £174 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 (63,177); 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 2009 deferred arrears balances of £17.2 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 £17.2 million of balances reported as deferred.

f) Opening balances on the clerical case database

30. Around 60,000 child maintenance cases were managed on a clerical database 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. Whilst performing assurance work on the lists of arrears balances supporting Note 6, the Commission noticed that a large volume of clerical cases were shown as having a zero or blank opening arrears balance on the clerical database. On further investigation 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 for each of these cases, which has been taken as the value of the arrears existing on CS2 at the end of the financial year in which the case transferred. The total value of the adjustment was £37.4 million at 31 March 2009. 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 £37.4 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 £208 million and understatements of at least £288 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 2009.

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 £1.017 billion of the total outstanding balance at 31 March 2009 is at least "potentially collectable", of which £0.482 billion (13% of the total reported arrears) is "likely to be collected". At 31 March 2008 £1.518 billion (39.9% of the total reported arrears) was reported as "collectable". The categories of collectability used by the Commission are different to those used by the former Child Support Agency and its collectability assessment is based on a different methodology, so no direct comparison can be made.

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 2009 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. The Commission implemented a major upgrade to the CS2 accounting ledger in March 2009. In preparation for the upgrade, a considerable amount of effort was undertaken to cleanse the data within the existing systems as well as prepare the data necessary to populate the accounting ledger. The upgrade was not in place early enough for the CS2 ledger to be used in the preparation of the 2008-09 Receipts and Payments Statement. Instead, the Commission maintained supplementary records, outside the main accounting systems to provide the necessary information for preparation of the Receipts and Payments Statement.

43. Neither the CSCS nor the CS2 system had full reporting functionality for arrears. As noted in paragraph 20, the Commission undertook a significant project to obtain the information which now supports the balance in Note 6, and which has also brought to light accuracy issues previously unknown to the Child Support Agency.

44. An increasing number of total cases are being maintained manually outside the two main IT systems. As a result, the CSCS and CS2 databases are not a complete record of case activity. The total number of cases managed clerically at 31 March 2009 has increased significantly and stands at approximately 60,000 (4.7%) of a total caseload of 1,279,400 compared to 37,000 (2.7%) cases out of 1,357,800 at 31 March 2008. 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

45. In order to manage the enforcement of outstanding maintenance balances the Commission uses two primary methods. Cases recently falling into arrears due to a missed payment are flagged for attention via specific tasks on a workflow system. The Commission inherited from the Child Support Agency an analysis of outstanding maintenance balances by case recorded on CSCS and CS2 known as the “debt book”. This was designed as a management information tool to record the value of maintenance arrears existing on CSCS and CS2 at a case level and to assist in the collection of arrears. The Commission’s view is that the debt book has been used successfully for this purpose. The Commission has recently 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.

46. 2008-09 was the third year of the Child Support Agency’s Operational Improvement Plan (“OIP”), which was adopted by the Commission when it became responsible for the statutory maintenance schemes. One of the aims of the OIP was to increase the total maintenance arranged and collected, including increasing the recovery of outstanding arrears. Performance has improved and the OIP has been effective in slowing the rate of increase in arrears. One of the Commission’s targets for 2008-09 (inherited from the Child Support Agency) was to collect or have arranged £1,080 million in child maintenance, including at least £220 million of arrears. Published statistics for 2008-09 indicate that £1,132 million was collected or arranged, i.e. the total target was exceeded by £52 million (4.8%). 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 £158 million arrears were made which represented a shortfall of £62 million (28.2%). As the Commission has recognised in its assessment of the collectability of arrears, a large proportion of child maintenance owed to parents with care and the Secretary of State is unlikely ever to be collected.

Future statutory scheme for child maintenance

47. As well as its responsibility for the statutory maintenance schemes reported in these accounts, the Commission is responsible for developing and implementing a new scheme for statutory child maintenance. Work is underway to develop the information systems which will support this scheme. It will be critical to the success of the scheme that the information systems provide a full audit trail from the accounts to individual case transactions for receipts and payments and to individual case arrears for outstanding maintenance balances; 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.

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

Conclusions

49. The estimated level of error in maintenance assessments for the current statutory schemes is material, and I have therefore qualified my opinion on the regularity of receipts and payments in the accounts. I have concluded that Note 6 to the account does not give a true and fair view of the outstanding maintenance balances as at 31 March 2009 owing to the level of error in the underlying case level data.

50. Since its establishment the Commission has taken steps 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.

51. 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 faces a significant challenge to collect a significant 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

Comptroller and Auditor General
National Audit Office
157-159 Buckingham Palace Road
Victoria
London
SW1W 9SP
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