



Child Maintenance and Enforcement Commission

Client Funds Account – Statutory Maintenance Schemes 2010/11

Administered by the CSA division of the Commission



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Administered by the CSA division of the Commission

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

2010/11 was a year of significant change and steady performance for the Child Maintenance and Enforcement Commission. A new vision for the future of child maintenance was set out by the Coalition Government. As well as working to support this new vision and adapting our plans accordingly, the Commission focused on maintaining performance on the current statutory schemes and driving down costs. I took over from Stephen Geraghty as the Commission's accounting officer on 9 May 2011.

The future of child maintenance

The Government's proposals for the future of child maintenance were published in a Green Paper *Strengthening families, promoting parental responsibility: the future of child maintenance* in January 2011.

The vision set out in the paper is for a child maintenance system where more parents are supported to take responsibility for their children by making their own family-based arrangements, and a more efficient statutory service is there for parents who are unable to come to their own arrangement.

The proposed changes are intended to benefit children in separated families and provide better value for the taxpayer. Key to the changes will be rebalancing the child maintenance system by supporting parents to work collaboratively to make their own, family-based arrangements, wherever possible, rather than treating the statutory scheme as the default option. The new policy direction will help to move away from a system which entrenches conflict and leads to around half of children in separated families not being supported by a child maintenance arrangement.

Whilst the current statutory schemes are performing as well as they can given the policy and IT limitations they operate under, further improvements are only considered possible with the new statutory scheme, which is simpler, more transparent and more efficient, and supported by a new IT system. The limitations of the current IT systems and the way the schemes operate continue to impact adversely both on our clients and our employees every day and the costs of running the schemes in 2010/11 stood at around £450m. The new scheme, planned for launch from 2012, will bring an improved service to clients as well as a step change in efficiencies.

Progress during 2010/11

Despite the limitations of the IT systems and the way the statutory schemes operate, the Commission continued to meet its principal targets in 2010/11. Record numbers of children benefited from statutory maintenance during the year, with the number reaching 867,000 by year-end. The total amount of maintenance collected or arranged exceeded the target by £15m and was the highest in the history of the statutory maintenance schemes at £1,150m. 78% of those non-resident parents with a liability to pay maintenance through the statutory schemes now pay, against a target of 76%. The headline level of child maintenance arrears owed by non-resident parents to parents with care rose during the year from £3,694 million to £3,748 million. £20m of the £54m increase arose through accounting adjustments, explained in note 6 to this account.

Arrears collectability

Although good progress has been made, issues remain over the collectability of child maintenance arrears. From 2008/09 a new approach was taken to assess collectability, which resulted in more robust information being produced to support our arrears figures.

We now estimate that £1,176 million of the total outstanding balance as at 31 March 2011 is at least potentially collectable (31 March 2010 [restated] £1,203m), of which £540 million is likely to be collected (31 March 2010 [restated] £566m). The position will need to be further reviewed at each future reporting date to take account of changes to government priorities, availability of resources and enforcement capabilities. Note 5 to this account explains the collectability assessment further.

The Commission does, though, remain committed to ensuring that parents meet their financial responsibilities for their children. Tackling non-compliance and reducing arrears is a priority for the Coalition Government and the Commission continues to pursue arrears through its enforcement powers and operational initiatives. However, we have to be realistic about arrears which cannot be collected and the Commission has launched a consultation to explore views on writing off some arrears in limited circumstances.

Format of the client funds account

The Commission is exploring different ways of presenting information on receipts, payments and arrears for future years. We will be consulting with HM Treasury, the National Audit Office and the Department for Work and Pensions in order to agree a suitable format.

Audit opinion

In relation to the opinions given by the Comptroller and Auditor General, I am glad that he has recognised the continued 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 Commission and Child Support Agency in previous years, the Comptroller and Auditor General has given a modified opinion on this section of the account.

The most significant issues remain in respect of the arrears balance (note 6), which consists for the most part of unpaid maintenance arrears on the least compliant cases. In his report, the Comptroller and Auditor General lists a number of historic and ongoing errors. The accounting impact is an understatement of the overall arrears balance. The estimated net understatement in the balance is in the order of 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.

The audit opinions given are the result of longstanding issues in our computer systems and the accuracy of the data they hold, of which our understanding has deepened through the work undertaken to produce a more accurate picture of child maintenance arrears. 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 new scheme of

¹ The National Audit Office estimate in the report and account of the Comptroller and Auditor General on this account that the cumulative net errors in maintenance arrears represent a net understatement of £97m at 31 March 2011. This represents 2.59% of the total £3.75Bn arrears disclosed in note 6 to this account.

child maintenance. In my view the results of the audit have again confirmed that there is no case for such further investment, but the case has been further reinforced for implementing the Government's programme of reforms to child maintenance, including the introduction of the new scheme and system to replace the current schemes and their failing systems.

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

Noel Shanahan

Commissioner and Chief Executive

Management Commentary

The Child Maintenance and Enforcement Commission and the Child Support Agency

The Child Maintenance and Enforcement Commission took over responsibility for the child maintenance system in Great Britain on 1 November 2008.

The primary objective of the Commission is to maximise the total number of effective child maintenance arrangements, whether made collaboratively by parents through a family-based arrangement, by court order or through the statutory maintenance schemes. The Commission does this through its three core functions, which are to:

1. promote the financial responsibility that parents have for their children;
2. inform parents about the different options available, guide them to those most appropriate for them and support them in making family-based arrangements; and
3. provide an efficient statutory maintenance service, with effective enforcement.

The Commission has two delivery mechanisms; Child Maintenance Options, which provides the information and support service, and the Child Support Agency (CSA) division, which continues to administer the two existing statutory schemes under the Child Support Agency brand name.

Throughout the Client Funds Account, 'CSA' is used to refer to the division of the Commission operating the existing statutory child maintenance service.

Operations

The Commission operates two current statutory maintenance schemes: the '1993 scheme' for applications made before 3 March 2003 and the '2003 scheme' for applications made on or after 3 March 2003.

The term 'client funds' relates to the collection service provided under these two existing schemes. This service comprises the calculation of maintenance due from the parent who does not normally live with the child (the non-resident parent) to the parent who has the main day-to-day care of the child (the parent with care), together with the collection and, where necessary, enforcement of payment from non-resident parents.

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

Monies are received into a single bank account by various methods of collection, including direct debit, standing order, electronic funds transfer and cheque. The majority of receipts flow automatically through the Commission's computer systems and are paid out to the relevant parents with care, the Secretary of State for Work and Pensions or the Commission. In some cases, however, manual assignment and allocation of receipts, and manual payments are required. These are undertaken by a central accounting team with additional support from caseworkers where necessary.

Apart from manual receipts and payments, which are recorded only within the financial ledgers, receipts and payments are processed through the two main operational computer systems (CSCS

for the majority of 1993 scheme cases, CS2 for the remaining 1993 and 2003 scheme cases). A number of cases are managed off the two main systems, on the Clerical Case Database.

The Client Funds Account

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

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

Significant developments since 31 March 2011

The Public Bodies Act, which received Royal Assent in December 2011, provides the right for Ministers to abolish the Commission, in which case the Commission's functions would transfer to the Department for Work and Pensions. A public consultation on the proposed changes was completed in January 2012 and the Government response to the consultation will be published in due course. Under the proposals, responsibility for publishing a Client Funds Account would also transfer to the Department. The impact on the Commission is described in account note 7.

Child maintenance reform

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 stated its commitment to supporting families and promoting parental responsibility by ensuring that parents are encouraged to play a full role in their children's lives and that co-parenting is the norm post-separation.

The Government proposes a new approach to child maintenance, in which more people are supported to make family-based arrangements that deliver the best outcomes for their children. Those who cannot make family-based arrangements will be able to use a new streamlined statutory child maintenance scheme which will replace the existing schemes.

During 2010/11, the Commission reviewed its plans and reset its priorities for the future, to ensure they aligned with the Coalition Government's vision for families and children, while continuing to focus on maintaining performance on the current statutory schemes.

Significant developments during 2010/11

2010/11 was a year of stable performance, delivering money for children at the same time as a reduction in costs.

Record numbers of children benefited from maintenance through the statutory schemes during the year, with the number reaching 867,000 by year-end. The amount of maintenance collected or arranged over the year through the statutory schemes reached £1,150m, exceeding the Commission's target by £15m. The portion of the total collected which was reported as being against arrears was £125m. The percentage of cases with maintenance flowing increased to 78%, ahead of the target of 76%. New application performance also continued to improve with 89% of applications received in December 2010 cleared within 12 weeks, and the number of uncleared

applications was down from 39,000 in March 2009 to around 14,900 in March 2011. The telephony service provided to clients also continued to improve, with over 98% of calls answered within 60 seconds. More detailed information on performance can be found in the Commission's Annual Report and Accounts for 2010/11.

In April 2010, a full child maintenance disregard was introduced, which allows those parents on income-related benefits to keep all the money they receive for child maintenance without it affecting their entitlement to benefits. The Coalition Government has affirmed its commitment to this disregard, benefiting parents on low incomes.

The CSA division has continued to expand the use of deduction orders, a new enforcement power introduced in 2009, which allows the Commission to instruct banks and building societies to deduct child maintenance from the accounts of non-resident parents with arrears. More than £1m had been collected using this power by the end of the year. The CSA division also refocused its enforcement efforts during the year and redeployed 400 people towards pursuing older arrears.

Whilst the CSA division has maintained or improved its performance during 2010/11, the current schemes remain inefficient. The IT systems underpinning the current statutory schemes still have significant underlying flaws and the number of cases managed off these systems continues to grow. Cases managed off the main IT systems cost significantly more (around 70%) to manage than cases on the systems. The launch of the new statutory scheme from 2012 is considered to be the only cost-effective means of resolving these problems.

Receipts of Child Maintenance

During 2010/11, 4.59 million individual receipts were recorded, a 2% reduction in volume compared to 2009/10. Total monies received were 0.4% higher at £787 million. 92% of receipts by volume (2009/10: 87%), and 85% by value (2009/10: 82%) were received electronically.

By value 39% of receipts were made using the methods of collection preferred by the Commission: direct debit, deduction from earnings orders via employers and payment by debit or credit card. This represented an increase of 3% over 2009/10 by value and 4% by volume. Direct debit and deduction from earnings are preferred methods for ongoing maintenance as they result in the highest levels of compliance; collection by debit or credit card is particularly effective for one-off payment of arrears.

A further 20% of receipts were made under the new Faster Payments system (2009/10: 17%), introduced by the major UK clearing banks. Faster Payments has significantly reduced the timescales for receipts from non-resident parents and has the additional benefit of ensuring cleared funds are received promptly.

Receipt failure rates remain low overall, except for direct debits, where 6% of receipts fail (2009/10: 8%). More than 90% of these failures are initiated by non-resident parents and the most common reason is the cancellation of a direct debit instruction. The introduction of paperless direct debits in 2009/10 has continued to contribute to a reduction in such failures. However, failures on both types were at broadly similar rates.

Another significant and longstanding problem is that many receipts require manual processing, even where they arrive by electronic means into the Commission's bank account. Around 42% of receipts in 2010/11 required manual intervention. The main categories of receipts affected are deduction from earnings payments from employers relating to multiple non-resident parents, cheques banked in bulk by our post opening contractor, receipts with erroneous reference data and manual payments relating to off-system cases, which are progressed partially or wholly

outside of the Commission's main computer systems. Whilst manual processing is executed efficiently, solutions are required to reduce and, where possible, eliminate the need for it. The continued activity during 2010/11 to address off-system cases has contained the increase in manual processing but has not reduced it.

Payments of child maintenance

During 2010/11 the number of individual payments to parents with care rose by 1.8% to 8.50 million, representing an additional 150,000 transactions, whilst the total value of payments rose by only 0.1%, consistent with overall receipts. Some 89% of payments to clients by value (91% by volume) are made by funds transferred directly from the Commission to clients' bank accounts. Volumes of payments can vary considerably since one receipt from a non-resident parent can be allocated to multiple parents with care. Similarly, one receipt from a deduction of earnings order may relate to multiple non-resident parents, in which circumstances the single receipt will be allocated to a number of parents with care.

In 2010/11 the Commission paid out marginally less funds than it received. The principal reason for this is that the number of receipts received in the final days of March 2011 was relatively high and these could not be processed and paid before the year end.

Total net payments to the Secretary of State fell by £19 million, or 32% (in 2009/10 it fell by £37 million which represented a fall of 39%) to £39 million, due principally to the child maintenance disregard for benefit cases. Around £3 million per month relating to arrears continues to be paid to the Secretary of State; only amounts relating to arrears are payable to the Secretary of State.

Maintenance monies received are paid to parents with care as quickly as possible, and cash held at 31 March 2011 equated to around 2% of the funds received during the year. There are a small number of receipts which historically have been difficult to match to individual clients and cases and consequently have not been paid to the relevant parent with care. Progress continued in 2010/11 in clearing these accumulated funds, such that the net unresolved balance at the year end was down to under £1.0 million. 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 2,154 at March 2011. At 31 March 2010 unreconciled items stood at 2,200.

Despite the inherent challenge of translating 4.59 million receipts into 8.50 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 reporting the receipts and payments of maintenance monies, the Commission is required to report on the value of outstanding maintenance arrears. Whilst these amounts, which totalled £3,748 million at 31 March 2011 (an increase of £54 million on the figure at 31 March 2010), are owed by non-resident parents to their respective parents with care and to the Secretary of State, the Commission is responsible for pursuing their collection. As the amounts are neither owed to nor owed by the Commission, they are not recognised as an asset of the Commission in its own accounts and are disclosed in a note to the Client Funds Account.

The £3,748 million arrears owing have accumulated over the last 18 years. This sum represents around one quarter of the total maintenance charged during the life of the statutory schemes. The Commission currently has no power to write off arrears, although it is able to make adjustments to correct assessments where necessary and to suspend the collection of arrears in some circumstances. Through a combination of improved collection and enforcement of arrears, and

adjustments to assessments, the rate of arrears accumulation has been reduced. £20m of the £54m in-year increase in arrears arises through two accounting adjustments explained in note 6 to this account.

The approach used to assess collectability for the 2010/11 client funds account is based on a clear set of principles and assumptions and uses the best available management information, derived from the child support systems, indicating the characteristics of the entire caseload. Collectability is primarily assessed on the basis of the behaviour of the non-resident parent from whom the arrears are due. The approach is the same in principle as that used in the preparation of the 2008/09 and 2009/10 Client Funds Accounts, albeit with some improvement in the data. More information on the approach can be found in the notes to this Account.

We now estimate that £1,176 million of the total outstanding balance as at 31 March 2011 is at least potentially collectable, of which £540 million is likely to be collected. Of the outstanding balance as at 31 March 2010 we estimate that £1,203 million (restated) was at least potentially collectable, of which £566 million was likely to be collected.

The Government is determined to recover as much of the likely to be collected and potentially collectable arrears as possible, and is looking at ways of increasing the effectiveness of the enforcement system. However, the Government is mindful of the fact that much of the outstanding arrears balance is old, based on incomplete information and therefore subject to change, or may not be wanted by parents with care, and it is therefore likely that less than the total of £1,176 million estimated to be potentially collectable will, in practice, be collected. A full breakdown of outstanding maintenance arrears can be found in note 6 to the Account.

Assessment accuracy

The Commission recognises the problems experienced by the Child Support Agency, dating back to its inception, in accurately working out how much child maintenance should be paid in each case. These problems have led to inaccuracies in receipts, associated payments and underlying arrears balances, which has resulted in long-term modified audit opinions on both the regularity of receipts and payments, and the accuracy of the reported arrears values, for which the amounts are in many cases inconsistent with the authorising legislation. It is this underlying assessment inaccuracy which has been, and remains, at issue.

Accuracy of receipts and payments continues to improve. Recent advances in assessment checking and root cause analysis have resulted in improved accuracy rates. However, the issues that led to the modification of the audit opinion are unlikely to be substantially resolved.

Noel Shanahan

Commissioner and Chief Executive

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 current statutory 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*'.

Noel Shanahan

Commissioner and Chief Executive

Statement on Internal Control

1. Scope of responsibility

For 2010/11 reporting year, Stephen Geraghty had responsibility as Accounting Officer for the Child Maintenance and Enforcement Commission (the Commission). As Accounting Officer, Stephen Geraghty had responsibility for maintaining a sound system of internal control that supported the achievement of the Commission's policies, aims and objectives, while safeguarding public funds and its assets for which he was personally responsible, in accordance with the responsibilities assigned to him in *'Managing Public Money'*.

I was appointed Accounting Officer with effect from 9 May 2011. There was a full handover of Accounting Officer responsibilities from Stephen Geraghty to me. The handover took place over a series of meetings in the run-up to 9 May. 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 (DWP), I am responsible to Parliament for signing a Statement on Internal Control, which sets out the key control challenges facing the Commission.

The Client Funds Account

The Client Funds Account summarises all of the cash received and payments made between non-resident parents, parents with care, the Secretary of State and the Commission. A note to the Account also records amounts owed by non-resident parents to parents with care and the Secretary of State as at 31 March 2011, along with movements in those arrears balances during the financial year.

In 2010/11 the Commission processed more than 4.1 million electronic receipts from non-resident parents, plus 0.4 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 £787 million.

The Commission made approximately 8.5 million payments to parents with care to a value of around £737 million, within total payments, including those made to the Secretary of State, of £786 million. Approximately 869,000 of these payments were by giro-cheque, automatically issued by the Commission's IT partners. The remainder were by automated credit transfer, or through BACS.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Commission policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control was in place in the Commission throughout 2010/11, and the system accords with HM Treasury guidance, except for the matters noted below.

3. Capacity to handle risk

The Commission's Board and Executive Team have a broad range of skills and experience from the public and private sectors, recognise the importance and have practical experience of risk management. The team has actively managed the risks that have emerged during the year and demonstrated leadership through a series of measures. These have included conducting regular risk workshops; setting a risk-based forward meeting agenda; and holding regular programme board meetings specifically addressing risks to the successful delivery of major programmes.

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 continued to be used to drive up the quality of risk management during the year through a programme of awareness sessions and 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 each directorate within the Commission that provides a portfolio of risk for that directorate and subsequently the Commission overall. The CSA Operations Directorate risk register covers the Banking and Payment Assignment Service, which carries out client funds accounting. The managers and team members responsible for client funds work are familiar with the risk approach, and used it throughout 2010/11. The risks were escalated as appropriate to the CSA Operational Management Team for discussion and or resolution actions.

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

An external risk management benchmarking exercise was performed during 2009/10 by Internal Audit, with Deloitte, to highlight where the Commission can make improvements in its risk management methodology. The conclusion drawn was that the Commission's risk management processes were mature and comparable with other government departments, but that risk controls were operating inconsistently across the Commission and that the true risk portfolio should be more visible. The recommendations of the exercise were that the Board ensure that risks are visible across the organisation, driven by a well-documented and understood risk policy and a defined appetite for risk in each business area. Work continued in 2010/11 to move from a risk aware to a risk intelligent culture. There is now greater consistency of approach and visibility of risk at senior forums. During 2011/12 the plan is to embed a more dynamic approach to risk management, which is better integrated into broader decision making and more streamlined reporting.

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.

During the year, progress was made in the following areas:

- Development of key security policies, including the Commission's Information Security and Risk Management Policy and Data Protection Policy;
- Continued focus on security awareness with ongoing programmes of communications and presentations to middle and senior management, supported by security e-learning across the Commission (of which 99.9% compliance was achieved).

At the end of 2010/11, directors provided letters of assurance confirming that they had complied with the Commission's risk procedures. Specific concerns raised have been reflected as appropriate within Section 6 of this statement. In April 2011, the 'Protecting Client Information' security awareness initiative was launched.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. In 2010/11, my review was informed by the work of our internal auditors, the Audit Committee, executive managers across the organisation with responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors and other reports. I was advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place. The Commission's main governance structure was fully detailed in the Annual Report and Accounts for 2010/11.

Internal Audit reviews of activity related to Client Funds Accounting took place during the year and covered areas of concern using a risk-based approach. In total, six audits were carried out, of which one provided a strong level of assurance, and two others reasonable assurance. The remaining audits performed provided limited assurance. Specifically, these were an audit to evaluate key controls over new claims, client service, debt enforcement, legal enforcement and complaints within the Commission's Child Support Assessment Centres and reviews of off-system case opening balances and the adequacy for managing escalated complaints. These reviews made recommendations to strengthen internal governance and controls. All internal audit recommendations due, relating to Client Funds Accounting, were implemented during the year or in the opening months of 2011/12.

There were many sources of assurance available to the Commission during 2010/11, 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, the planning and implementation of the complex programmes of change to deliver better child maintenance outcomes, and some of the longstanding and deep-rooted systems issues inherited from the Child Support Agency.

6. Significant internal control challenges

The 2010/11 year has seen a continued improvement in our control environment, however from the various assurances available to the Commission, the significant control challenges, some of which were inherited from the Child Support Agency, were identified as follows:

Client Funds Account. In November 2008 the Commission inherited responsibility for the management of client funds relating to the two existing statutory maintenance schemes and for the pursuit of the accumulated arrears of maintenance owed by non-resident parents.

During the audit of the 2008/09 Client Funds Account, a number of weaknesses were identified with the information available to support the overall arrears balance reported. The child maintenance computer systems (CSCS and CS2) were not capable of providing a full list of balances owed at an individual case level or non-resident parent level. It took considerable time and effort to design and run suitable reports for this purpose.

For cases where the balance is held on the CS2 system this was a relatively straightforward task; for the remainder, which are either managed off the main computer systems or are CSCS cases, particularly those for which collection has been suspended and the arrears balances archived (mostly older balances on cases where there has been little or no activity for a number of years), a considerable amount of data extraction, manipulation and reconciliation was necessary.

The Client Funds Accounts for 2008/09 and 2009/10 were finally laid on 28 April 2011.

Stuck and off-system cases. 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 would be referred for off-system or 'clerical' management. The September 2008 upgrade to CS2 fixed some known software defects and introduced for the first time a system of validation and error trapping so that cases experiencing problems have since then been systematically identified and either rectified by caseworkers or referred to an 'initially stuck' queue for technical fixes. At this point problems are either fixed and the cases transferred back to caseworkers for normal progression or, where that is not possible, referred onwards for processing either wholly or partially off the main computer systems.

The term 'off-system' 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 and the cost of managing them is higher than fully on-system cases. There were some 100,000 cases managed wholly off the main computer systems and a further 48,000 cases partially managed off the main systems as at March 2011 compared with 86,000 and 45,000 respectively at March 2010.

As at March 2011 some 2,600 cases per week enter the 'initially stuck' queue. Initially stuck cases are those which require remedial action in order to progress them on the system. Not all initially stuck cases enter the long-term stuck queue, which are managed clerically. This is a reduction of some 1,400 cases per week since April 2010. Approximately 25% of these cases cannot be returned to business as usual and require some degree of 'clerical' processing. The key initiative during 2010/11 was to focus operational management by establishing a specific directorate for the end to end process for stuck and off-system cases. Internal controls have also been strengthened and the Commission has successfully implemented a further upgrade to the CS2 system. These additional controls have helped reduce the flow of new cases entering the 'initially stuck' queue and those becoming long-term stuck, and hence requiring clerical intervention. Since April 2010 the flow of cases into the long-term stuck queue has reduced from 500 cases per week to 200 cases per week at March 2011.

Nevertheless, the permanent solution for the problems on stuck and off system cases is the new scheme and its IT system, which is due to launch from 2012. However, in the meantime the Commission remains committed to reducing the number of cases requiring clerical intervention and improving the management of such cases. A necessary upgrade to the clerical case database has been tabled for 2011/12.

Assessment accuracy. A continuing issue, which has been central to the modified audit opinions of the Client Funds Account, concerns the inaccuracy of maintenance assessments, and the

consequent uncertainty around reported arrears (including doubts around the accuracy of estimates for non-collectability of arrears). The accumulated inaccuracies arising mainly from earlier years continue to affect current arrears balances.

The Commission does however continue to drive up accuracy. There has been a sustained campaign to improve accuracy this year, including increased education and management focus. As a result, Cash Value Accuracy² increased from 92% in 2006/07 (under the Child Support Agency) to 97.4% in 2010/11 (including a 0.9% improvement on the 2009/10 performance). We will continue this campaign in 2011/12, and will ensure lessons are learned for the new scheme.

Arrears collectability. The method for analysing collectability is based on the presumption that arrears are uncollectable unless positive evidence of collectability exists. The new approach was adopted with effect from the 2008/09 client funds account. This shift in basis, compared to the client funds accounts for the years up to and including 2007/08, led to a more prudent estimate of collectability than was used in accounts previously published by the Child Support Agency.

The Commission's accounts direction requires only that the collectability of the arrears be analysed and the amounts considered likely to be collected disclosed. The 2010/11 figures for arrears likely to be collected are based on an analysis of the characteristics of the caseload.

Adjustments to assessments and arrears. It was estimated in 2009/10 that contrary to policy and procedures up to £83 million of arrears had been adjusted downwards on the CS2 system rather than suspended and further unquantified errors of a similar nature on CSCS, and that this had occurred over the combined 18 year lifetime of the Child Support Agency and the Commission. This means that some arrears balances, relating to cases on which arrears are not actively pursued and which are classed as uncollectable, are understated.

Refunds made to clients. The Commission refunded £8.5m to clients during 2010/11 due to timing differences in confirming changes of circumstances. These refunds are financed by, and recorded as a loss in, the Administration Accounts. The amount refunded is £1.2m lower than in 2009/10 because of initiatives taken forward by the Commission, which included additional internal controls around payment authorisation and checking. However an internal audit review on mandatory checking of refunds found an absence of robust management information on the volume and value of refunds and reimbursements made. The Commission accepted the findings of the audit and has already implemented three of the seven recommendations; the remainder will be completed in the opening months of 2011/12. There will be continued focus during 2011/12 to reduce the need to make client refunds, primarily by strengthening internal procedures and processes.

System and transaction controls. Historical difficulties in identifying the non-resident parent from whom funds have been received have, in the past, impacted the speed with which parents with care received payments. During 2010/11 the following efforts were made to strengthen controls beyond those taken the previous year.

- Introduction of small systems designed to automate processes to improve accuracy, reduce refunds and enable faster payments to be made to parents with care. The new systems support the effective workflow management and monitoring of caseworker performance. As a result the unassigned balance is at its lowest state ever, meaning more receipts now automatically assign to the non-resident parent's case first time.

² 'Cash value accuracy' gives an overall measure of inaccuracy for the Commission. This involves dividing the sum of all the errors by the sum of all the correct maintenance assessments for a sample of both accurate and inaccurate cases. Suppose, for example, that the total weekly value of correct assessments is £45,000. Of the cases found to be inaccurate, the aggregate error in weekly maintenance might be £3,750 or 8% of the total assessments. This would give an accuracy by value of 92%.

- 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. As at 31 March 2011 the number of unreconciled items was 2,154.
- An extended independent programme of checking key risk transactions. For example, a dedicated team checked a sample of 800 'method of payment' changes in 2010/11, finding a cash value accuracy rate of 99%, an improvement from 96% in 2009/10. A further sample of 2,300 'refunds to clients' showed a cash value accuracy rate of 90% in 2010/11, an improvement from 88% in 2009/10.

Change programme. The Commission is leading a major change programme to deliver a new statutory maintenance scheme underpinned by a new IT system. In June 2010, the Government undertook a radical review of all major projects, including this one, to assess strategic alignment, and confidence in both the business case and programme delivery. The new scheme successfully passed this review, with a strong endorsement for the business case and approach in delivery. In January 2011 DWP also completed a further review to assess the approach to the transition from an old to a new IT system, and to ensure lessons had been learned from the past. This review found that the programme was lacking an agreed verified delivery plan supported by the necessary funding approvals. A rebaselining of the plan was recommended by the Commission Board and agreed by Ministers. This is a challenging programme with considerable technical risks and implementation issues, with internal reviews planned at key stages in the programme over coming months. These reviews will focus on code strength and test velocity and we will continue to review our implementation plans to ensure successful delivery; the Commission does not intend to go live with the system unless it is confident that it is robust.

The Government remains committed to the current change programme and the introduction of a new scheme and the Green Paper 'Strengthening Families, promoting parental responsibility' stated that it would be launched to new applicants in 2012.

The development of the new scheme is expected to be completed in 2012. Funding settlements have been agreed up to and including 31 March 2012; the settlement for the following year has now been agreed with DWP and ministers and the settlements for the remaining two years of the spending review period have been agreed in principle.

Independent programme reviews have highlighted significant issues requiring management team attention, principally around programme planning and management. These disciplines have been strengthened by the management team.

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, published in June 2008, in addition to the HM Government Security Policy Framework, revised in February 2011.

The Commission holds a wide range of personal data relating to its clients. The 2010/11 Information Assurance Maturity Model (IAMM) analysed the approach to information risk management across the Commission. The model incorporates the requirements of the HM Government's 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 overall maturity was assessed as 'established'. This shows that information assurance processes are institutionalised and business critical information systems and the information assurance status of all such systems have been identified. Good progress has also been made to show that information assurance is considered as 'business enabling', and that all critical areas of the business, including information systems, are subject to a robust information assurance regime. Action plans have been identified and agreed with senior management, and a major security awareness initiative was launched in April 2010 entitled 'Protecting Client Information'.

Of the Commission's two main operating systems: CS2 gained full security re-accreditation during 2010/11; CSCS has always had stronger security features than CS2 and following a formal risk assessment carried out by the Child Support Agency in 2008 the DWP's executive team made a decision not to pursue full security accreditation for CSCS. Stephen Geraghty, the previous Commissioner, was sighted on this decision in his capacity as senior responsible owner of CSCS. The same decision applied to similar legacy mainframe systems used by the DWP. Consequently, the Commission is no longer required to seek full security accreditation for CSCS.

Notwithstanding the work undertaken by the Commission, recognised through the IAMM and the 'reasonable' opinion of the 2010-11 Information Risk Management internal audit, the overall internal audit opinion of information risk is 'limited'. This is because of the Commission's dependency on DWP for some elements of our security of information. DWP has some significant control challenges and working with them, we will continue to address these information security issues, whilst striving for continuous improvement.

7. Conclusion

The Commission continues to operate in an inherently challenging environment. Real and lasting benefits in performance and control have been delivered, but serious and insoluble underlying system problems remain, many of which were accumulated over the 18 year life of the Child Support Agency. The Commission is continuing to design and build a new statutory child maintenance scheme, planned for launch in 2012, which should not be burdened with the historical problems of the Child Support Agency.

Despite these inherent challenges, during 2010/11, the Commission collected or arranged over £1,150m in child maintenance through the statutory schemes, the highest since the inception of the Child Support Agency in 1993, and 867,000 children were benefiting from statutory maintenance at the end of the year. This provides a solid footing for the challenges of the years ahead.

Signed

Noel Shanahan
Commissioner and Chief Executive

Date: 26 April 2012

Independent Auditor's Report to the Houses of Parliament

I have audited the Child Maintenance and Enforcement Commission's Client Funds Account for the year ended 31 March 2011. This comprises: the Receipts and Payments Statement, the Statement of Cash Balances and notes relating to receipts, payments and outstanding maintenance balances. This account has been prepared in the form directed by the Secretary of State with the consent of HM Treasury. It has been prepared on a cash basis with the exception of Note 6, detailing the outstanding maintenance balances, which has been prepared on an accruals basis. The account has been prepared under the accounting policies set out within it.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinions

Basis for qualified opinion on regularity

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 £787 million are shown in the Client Funds Account. I estimate that errors in underlying maintenance assessments resulted in overpayments of around £10.2 million and underpayments of around £13.9 million which are not in accordance with the relevant legislation.

Qualified opinion on regularity

In my opinion, except for the over and under payments relating to errors in maintenance assessments described in the basis for qualified opinion paragraph, 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 2011 and the cash balances held as at 31 March 2011; and
- the account has been properly prepared in accordance with the Secretary of State Direction issued with the consent of HM Treasury.

Basis for adverse opinion on Note 6 “Outstanding Maintenance Arrears”

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

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

The best available estimates to me of the cumulative impact of these issues indicate that they have led to overstatements of £219 million and understatements of £316 million within the reported balance of £3.748 billion in Note 6 to the account.

Adverse opinion on Note 6 “Outstanding Maintenance Arrears”

In view of the effect of the errors referred to in the basis for adverse opinion on Note 6 “Outstanding Maintenance Arrears”, 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 2011.

Matters on which I report by exception

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

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

Report

Further details of my modified opinions are provided in my report on pages 28 to 37.

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

Date: 9 May 2012

Receipts and Payments Statement for the year ended 31 March 2011

	Notes	2010/11 £'000	2009/10 £'000
Receipts	2	786,930	784,076
Bank interest	3	-	-
Total receipts		786,930	784,076
Less payments to:			
Persons with care	2	737,358	715,768
Secretary of State	2	39,429	57,782
Non-resident parents /employers	2	9,307	11,510
Commission in respect of fees	2	259	193
Total payments		786,353	785,253
Net receipts/(payments)		577	(1,177)
Balance as at 1 April 2010		16,255	17,432
Balance as at 31 March 2011		16,832	16,255

Statement of Balances as at 31 March 2011

	Notes	As at 31 March 2011 £'000	As at 31 March 2010 £'000
Cash balance	4	16,832	16,255

The notes on pages 21 to 27 form part of these accounts.

Signed

Noel Shanahan
Commissioner and Chief Executive

Date: 26 April 2012

Notes to the Account for the year ended 31 March 2011

1. Statement of accounting policies

The Account has been prepared on a cash basis and in the form directed by the Secretary of State with the consent of HM Treasury. The outstanding maintenance arrears note records amounts owed by non-resident parents as at 31 March 2011, along with movements in these arrears balances during the financial year and is prepared on an accruals basis.

1.1 Accounting convention

The Account has been prepared under the historical cost convention.

1.2 Estimation techniques

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

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

As part of its work in finalising this Account during 2011, 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 21% and left the amount deemed potentially collectable materially unchanged. The assessment based on the six-month timeframe was used for reasons of prudence. The collectability classifications were tested using a statistically valid sample of arrears on 300 cases, of which 100 had been classified as likely to be collected by the Commission's estimation exercise, 100 potentially collectable and 100 uncollectable. By checking the pattern of payments received after the accounting date, we established that 58% of the cases on which the arrears were deemed likely to be collected received a payment during the five months after the accounting date. The equivalents for the cases deemed potentially collectable and uncollectable were 28% and 0% respectively.

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

- Evidence of payments having been made against the arrears in the six month period prior to the reporting date.
- The existence, in the six months prior to the reporting date, of an agreement by the non-resident parent to clear the arrears.
- The age of the arrears; for arrears that have accumulated in the past six months on the CS2 system, which can arise whilst a case is being assessed, the subsequent payment history after the reporting date was considered.

2. Receipts and payments

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

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

2.3 Monies are also received from the Secretary of State to refund non-resident parents in cases where an overpayment has been made and the amount is irrecoverable. This totalled £8.5 million (2009/10, £9.7 million) and is disclosed as a loss in Note 19 of the Administration Account. The Secretary of State also funds interest payments to parents with care (see note 3) where the interest earned on the Commission's client funds bank account is insufficient to cover the liability.

2.4 Included in the £737 million (2009/10, £716 million) paid to the persons with care is £2.654 million (2009/10, £2.536 million) paid to the Northern Ireland Child Maintenance and Enforcement Division to fund payments made on the Commission's behalf.

2.5 Due to a misclassification in the prior year, the 2009/10 payments to persons with care and to non-resident parents / employers have been reclassified. The total payments for that year are the same; only the allocation between lines has changed. Payments to persons with care in 2009/10 are now showing as £716m (previously £721m) and payments to non-resident parents are now showing as £12m (previously £7m).

3. Interest received and paid

The Commission receives interest on balances deposited in the Client Funds bank account, at Bank of England base rate minus 1.0%. Since the base rate was 0.5% during the period, and since the rate reduction is restricted and cannot fall below 0.0%, the effective reduction was 0.5%.

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

No interest was received in 2010/11 (2009/10, £nil) as a consequence of the low Bank of England base rate and the effective rate being 0.0%.

£nil (2009/10, £0.012 million) was paid to persons with care. No recovery from the Secretary of State was required (2009/10, £0.012 million).

4. Statement of balances

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

5. Outstanding maintenance arrears at 31 March 2011

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

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

5.4 Where the 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. 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 reporting date.
- Funds received in the Commission's client funds bank account in excess of the ongoing scheduled payments for cases with arrears which, due to system limitations, 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 reporting date, even though no payments were received in the period. Arrears schedules are established following contact with the non-resident parent, who makes a commitment to clear the arrears over a specified period. Non-resident parents do not always adhere to the schedule, but the fact that contact had been made with the individual and a commitment had been made is considered to indicate that the arrears are potentially collectable.
- For recent arrears, i.e. aged six months or less, the receipt of at least one payment against those arrears after the reporting date. Recent arrears arise on new cases, where the set-up process can mean that no receipts can be accepted immediately, or on older cases where an existing maintenance arrangement has recently broken down. Schedules are seldom put in place until arrears have been accumulating for more than six months; 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.

Uncollectable

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

5.8 The Child Maintenance and Enforcement Commission currently 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.

5.9 During the preparation of the 31 March 2011 collectability estimate, an error in the 31 March 2010 determination of collectability was discovered. The impact of the error was to understate amounts likely to be collected by £78m and amounts potentially collectable by £104m. The Commission has accordingly restated the collectability estimate at 31 March 2010.

Note 6.0 Outstanding maintenance arrears at 31 March 2011

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

Note a

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

Note b

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

Note c

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

Note d

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

Note e

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

Note 6.1 Outstanding maintenance arrears at 31 March 2010

	£'000	Current system CS2	Legacy system CSCS	Clerical Case Database	Total
Outstanding maintenance arrears brought forward at 1 April 2009 (<i>Note b</i>)		1,734,554	1,805,747	176,535	3,716,836
Maintenance charged in year and other adjustments		507,752	82,807	150,423	740,982
Maintenance received in the year		(494,888)	(208,310)	(60,444)	(763,642)
Outstanding maintenance arrears at 31 March 2010		1,747,418	1,680,244	266,514	3,694,176
Collectability analysis (restated) (<i>Note a</i>) (<i>Note 5.9</i>)					
Likely to be collected		283,844	239,124	43,292	566,260
Potentially collectable		392,342	185,348	59,840	637,530
Uncollectable		1,071,232	1,255,772	163,382	2,490,386
		1,747,418	1,680,244	266,514	3,694,176

Note a

Collectability has been assessed by considering the entire portfolio of cases with arrears. The criteria used to assess collectability are explained under "outstanding arrears of maintenance" in the management commentary and in Note 5 to the Account. Collectability at 31 March 2010 has been restated from the amounts disclosed in the 2009/10 Account; see Note 5 to this Account for explanation.

Note b

1993 scheme cases are managed on both the CSCS and CS2 systems. 2003 scheme cases and 'trans' old scheme cases are managed on CS2 and on the clerical case database. The format of this note has changed and is reported by system rather than scheme, which more closely reflects how the caseload is managed. The brought forward balances are consequently reported in a different manner than was used in previous published accounts.

6.2 Movements in outstanding maintenance arrears

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

i) Maintenance charged during the year and other adjustments

This comprises assessments made on non-resident parents during the year, outstanding maintenance arrears transferred to and from the Northern Ireland Child Maintenance and Enforcement Division, and adjustments arising from cancelled or terminated assessments, or where the liability has been reduced, for example as a result of a direct payment between parties offset against the maintenance due. The amount charged in 2010/11 was £803 million (2009/10, £741 million); this increase comes despite a declining average maintenance assessment and greater use of the 'maintenance direct' service, which removes the compulsion to use the Commission's collection service.

ii) Maintenance received during the year

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

For a period from 1995 the Child Support Agency was able to defer some outstanding maintenance arrears indefinitely, provided that non-resident parents met certain conditions on payment of both regular maintenance and the remaining outstanding maintenance arrears. In these cases, we can settle the deferred amounts due to the parents with care from money provided by the Secretary of State, and can assume responsibility for the remaining outstanding maintenance arrears. The usage of this scheme has dramatically reduced during 2010/11; the Commission paid £0.001 million (2009/10, £0.018 million) using this method. The total receipts in 2010/11 were £769 million (2009/10, £764 million).

iii) Adjustments to CSCS arrears

Two adjustments have been made to the reported arrears on the CSCS system. The first is an adjustment to the Commission's method of estimating the value of duplicated suspended arrears. The value of the adjustment is £84 million and has the effect of increasing arrears by that amount. The second adjustment recognises a misclassification of CSCS transactions previously accounted for as arrears suspensions; the transactions in question were, in fact, arrears adjustments. The effect of the adjustment is to reduce arrears by £64m.

iv) Outstanding maintenance arrears as at 31 March 2011

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 is expected to be abolished during 2012, following the royal assent of the Public Bodies Act in December 2011. The Commission's functions are expected to transfer to the Department for Work and Pensions.

The authorised date for issue is: 9 May 2012

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

Introduction

1. Under the Child Maintenance and Other Payments Act 2008, the Child Maintenance and Enforcement Commission (“the Commission”) was established on 24 July 2008. The Commission is a crown Non-Departmental Public Body of the Department for Work and Pensions (“DWP”). On 1 November 2008, the child support functions of the Secretary of State, previously administered by the Child Support Agency were transferred to the Commission. The Commission now administers the statutory child maintenance schemes using the same systems and processes as the Child Support Agency prior to the transfer of functions. In addition, staff who previously worked for the Agency were transferred to the Commission and continue to operate the statutory child maintenance schemes.
2. My predecessor’s value for money report on the Child Support Agency (*Child Support Agency – Implementation of the Child Support Reforms*) highlighted fundamental weaknesses in the IT systems which the Commission has inherited. These weaknesses directly contribute towards the longstanding issues set out in this report and the challenges faced by the Commission in providing an effective statutory maintenance service.
3. The Commission is required to prepare a Client Funds Account which reports the receipts of child maintenance from non resident parents; payments to parents with care and the Secretary of State; and a statement of cash balances held.
4. The notes to the account are required to include a summary of outstanding maintenance balances. The Commission is also required to disclose the extent to which outstanding arrears are likely to be collected and to categorise the arrears as to their collectability.
5. I am appointed by agreement with the Commission to audit the Client Funds Account.
6. The administration costs of running the Commission are reported separately in the Administration Accounts of the Commission, of which I am the statutory auditor. The Commission’s Administration Accounts for the year ended 31 March 2011 received a clear audit opinion on 14 July 2011.

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 2011;
 - Note 6 to the account gives a true and fair view of the outstanding maintenance assessment balances as at 31 March 2011;
 - 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 2011.
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 2010-11 Client Funds Account. The issues it covers are largely the same as those included in my reports on both the 2008-09 and 2009-10 Client Funds Accounts.

Regularity of Receipts and Payments

12. In 2010-11, £786.9 million (2009-10: £784.1 million) was received from non resident parents and payments were made of £737.4 million (2009-10: £715.8 million) to parents with care. In addition, £39.4 million (2009-10: £57.8 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 or 2003 rules" apply to cases received after the Child Support Reforms were introduced in March 2003 and the "old or 1993 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: 2008-09 to 2010-11

	2008-09		2009-10		2010-11	
	Current rules	Old rules	Current rules	Old rules	Current rules	Old rules
Percentage of assessments that were accurate to within a penny	84%	91%	83%	92%	89%	93%
Cash value accuracy ³	96%	98%	96%	97%	97%	98%

17. As shown in Figure 1, the accuracy of maintenance assessments has remained relatively stable during the three year period to 31 March 2011 with some improvement in 2010-11. Receipts and payments reported in the 2010-11 account are based on assessments made in 2010-11 and in earlier years.
18. Where receipts and associate payments are based on incorrect maintenance assessments, these transactions are not in accordance with the relevant legislation and are therefore irregular. The best available estimates of the financial value of errors in maintenance assessments are £10.2 million overpayments (1.3% of receipts) and £13.9 million underpayments (1.8% of receipts) (2009-10: £10.0 million overpayments (1.3 %) and £14.4 million underpayments (1.8%)). 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 2011

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 2011, of £3.748 billion (31 March 2010: £3.694 billion). Legislation does not permit the Commission to write off outstanding balances on the grounds of (for example) age or low likelihood of collectability.
20. Historical system limitations within the two primary IT systems for child maintenance (the Child Support Computer System (CSCS) and Child Support 2 (CS2)) meant that the former Child Support Agency was not able to analyse fully the total reported outstanding maintenance balance by case or non resident parent. For the financial years up to 2007-08, the Child Support Agency compiled the maintenance arrears note on spreadsheets, using the reported balance at the end of the previous financial year as the opening position for the following financial year which was then adjusted for in-year movements based on data obtained from the operational systems.
21. In order to prepare the 2008-09 Client Funds Account, the Commission undertook a significant piece of work to produce lists of individual arrears in support of the account figure. During this process the Commission discovered a number of errors in the underlying data which had been caused by recurring system or caseworker error and made adjustments to the 2008-09 account figures to correct them. The Commission has

³ 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%.

undertaken the same process to produce subsequent arrears notes and continues to make adjustments to the basic listings in respect of known errors in the underlying data, including:

- The duplication of an arrears balance when suspended balances (i.e. those not being actively pursued) were reinstated as live arrears. This arose due to caseworker error and only affects cases on the older CSCS IT system. Consequently the Commission reduced the value of arrears by £186 million to reflect its best estimate of the overstatement as at 31 March 2010.

However, during 2010-11, the Commission undertook significant further work on the cases originally identified and have reduced the level of adjustment required to £102 million. An adjustment of £83.6 million has been made to the arrears balance by the Commission to reflect this revision. This adjustment is disclosed separately on the face of note 6 to the Account.

The need for the revision has resulted from the way in which the Commission had previously attempted to estimate the adjustment required. This was not done on a case by case basis due to the volume of cases involved (circa 65,000); instead the estimate was derived using a report with certain criteria to capture the case 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 was uncertainty in the adjustment.

In my report last year, I made specific reference to this issue and stated that I considered the arrears balance to be understated as a result of this adjustment although given the lack of readily available information I was unable at that time to estimate the level of error in this adjustment reliably, without reviewing a substantial proportion of the cases included within the adjustment.

- During 2010-11 the Commission also identified an issue in relation to the use of a reason code which was used historically to identify suspended arrears. On further investigation this code was found not to relate to suspended arrears cases and consequently an adjustment of £63 million has been made to the account to correct this error. This adjustment is also separately disclosed on the face of note 6 to the Account.
- 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 £76 million as at 31 March 2011 has been identified by the Commission and adjusted for in the accounts. The corresponding adjustment at 1 April 2010 was £95m and the reduction in the adjustment is principally the result of a misclassification of cases in the prior year.
- 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 £59 million at 31 March 2011 and so has adjusted the case listings by this amount. The corresponding adjustment in the prior year was £65 million. The adjustment has reduced in value because the Commission has refined the methodology used to determine this estimate, and further information is given in paragraph 31 below.
- On CS2, negative arrears balances of £18.9 million were identified at 31 March 2011. 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. £17.5 million of the adjustment is already reflected in the opening balance brought forward at 1 April 2010 and an additional adjustment of £1.4 million has been made in year to reflect those errors arising in 2010-11.

22. The errors in the underlying data have built up over the life of the statutory child maintenance schemes. The Commission has brought to light these pre-existing issues through the extensive exercise undertaken and its continuing efforts to improve arrears accuracy. 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 extraction of the underlying data in the child maintenance IT systems, adjusted for an estimate of 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 2011. My estimate is that arrears as at 31 March 2011 are overstated by £192 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, an internal audit report from April 2010 identified a number of cases where the arrears balance had been written down as opposed to simply having the status of the arrears changed to suspended (i.e. do not actively pursue). Internal audit assessed the potential impact of this caseworker error to be in the region of £83 million for cases held on the CS2 system alone. The report also highlighted the potential for similar errors to have been made on cases held on the CSCS system although no attempt was made to quantify this.
26. Incorrect adjustments to the value of arrears that have been made since the inception of both statutory schemes could impact on the accuracy of the reported arrears as at 31 March 2011. I estimate that, for cases managed on CSCS and CS2 arrears are overstated by a total of £15 million and understated by around £85 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 £102 million, a significant reduction compared to the prior year following further work performed by the Commission. The way in which the adjustment is estimated, as explained in paragraph 21,

indicates that the reduction in arrears may still be too large. There is no further 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 which the Commission have still included within the adjustment. Consequently the reported arrears balance relating to cases managed on the CSCS system may be understated as a result of the Commission removing too many arrears balances when determining the level of adjustment to be made.

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. Some progress has been made by the Commission to retrospectively correct cases, but this work has not yet been completed. 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 on-going 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 2011 deferred arrears balances of £13.6 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 £13.6 million of balances reported as deferred.

f) Opening balances on the clerical case database

30. Around 100,000 child maintenance cases were managed on a clerical database at 31 March 2011 (circa 86,000 at 31 March 2010), rather than on the primary child support IT systems. These cases had transferred from CS2 because IT problems prevented them from being processed further on that system. The Commission discovered that the opening arrears balances on these cases had not been entered onto the database when the cases transferred from CS2. This meant that arrears on these cases would be understated by reporting only the closing balance on the database as the arrears for each of these cases.

31. The Commission has made an adjustment of £59 million to the arrears values reported on the clerical case database at 31 March 2011 for these cases. This is a reduction from the £65 million adjustment in the prior year, due to improvements in the way in which this estimate is derived. However, there remain errors within the adjustment as the amount transferred cannot reflect an accurate opening balance position and the Commission has assumed that there are no cases with legitimate nil opening balances. Whilst I cannot reliably estimate the value of the overstatement in this respect, it must be between nil and the full £59 million of the adjustment made.

g) Incorrect charging of maintenance on CS2 cases

32. A system fault on CS2 has been identified by the Commission affecting cases which have been cancelled or withdrawn on the same day that a maintenance assessment is completed on the case. In these circumstances the cases continue to charge arrears as the maintenance assessments do not have an end date. This issue has affected approximately 3,000 cases with a total arrears value of £9 million. A system fix has been introduced which is expected to resolve the issue going forwards on some of these cases, however the historic position of the affected cases on CS2 has not yet been updated. Consequently the CS2 arrears balance reported at 31 March 2011 is overstated by this amount.

Estimated impact of errors identified

33. The best available estimates of the cumulative errors described in paragraphs 23 to 32 indicate that the outstanding maintenance arrears contain overstatements of at least £219 million and understatements of at least £316 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 2011.
34. These misstatements reflect errors made in maintenance assessments as well as the on-going 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 and it continues to improve its assessment of the cases impacted. However, the adjustments that the Commission has 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

35. 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.
36. The Commission's current assessment is that only £1.176 billion of the total outstanding balance at 31 March 2011 is at least "potentially collectable" (31 March 2010 restated: £1.204 billion), of which £0.540 billion (14% of the total reported arrears) is "likely to be collected" (31 March 2010 restated: £0.566 (15%)). The Commission identified a categorisation error when preparing this year's collectability assessment and consequently restated the prior year comparatives so that the assessments are prepared on a comparable basis. The impact of this re-categorisation was to increase the amounts shown as "likely to be collected" by £78m, and amounts shown as "potentially collectable" by £104m at 31 March 2010. There has been a corresponding decrease in the "uncollectable" category.
37. 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 32. As a result the value of arrears existing as at 31 March

2011 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

38. The Commission’s Quality Assurance Team continues to review the accuracy of maintenance assessments and looks at around 6,500 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 has informed me that team leaders now spend a greater proportion of their time checking the accuracy of maintenance assessments made by caseworkers.
39. New guidelines and checks for the processing of technical adjustments have been introduced as well as new tools and training 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. Figure 2 below shows the accuracy rates for debt adjustments reported by the Commission’s Quality Assurance Team for 2010-11 which indicate a slight decline in accuracy rates compared to 2009-10. My staff will continue to review the use of these adjustments in the course of future audit work

Figure 2 – QAT’s average accuracy rates on debt adjustments

	2009-10	2010-11
CSCS	92%	91%
CS2	80%	78%

40. The Commission has performed some detailed work around the opening arrears balances on cases which had transferred to the clerical case database and has been working closely with their service providers to address accuracy issues in the future.
41. 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. The Commission has therefore stated that it will weigh up 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 also indicated that they do not consider that it will be cost-effective to rectify all the known issues.

IT systems

42. 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.

43. Neither the CSCS nor the CS2 system had full reporting functionality for arrears. As noted in paragraph 21, the Commission undertook a significant project to obtain the information which now supports the balance in Note 6, and which has also brought to light accuracy issues previously unknown to the Child Support Agency.
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 2011 has increased significantly and stands at approximately 100,000 (8.7%) of a total caseload of 1,145,700 compared to 86,000 (7.5%) cases out of 1,150,800 at 31 March 2010. A major upgrade (Productivity Release 1) to the CS2 IT system in 2008, brought to light additional cases which had not been progressing within CS2 and which needed to be handled clerically. This upgrade resulted in a better service to clients but highlighted the problems in the original CS2 system. The increasing clerical caseload results 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. In 2010 the Commission established separate teams within its existing Debt Enforcement teams to specifically target historic arrears.
46. The Commission's target in relation to maintenance collection for 2010-11, set by the Secretary of State, was to collect or have arranged £1,135 million of child maintenance. Published statistics for 2010-11 indicate that £1,150 million was collected or arranged, i.e. the total target was exceeded by £15 million (1.3 %). In the previous year, a specific target was also set for recoveries against arrears, however no such target was set for 2010-11. 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. The Commission has informed me that the new systems will provide this accounting functionality. Furthermore it is also planned that the new systems 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 2011 owing to the level of error in the underlying case level data.
50. The Commission continues to improve the accounting information available from the IT systems inherited from the Child Support Agency. There is now increased visibility of historic problems which have led to inaccuracies in the reported arrears balances. However, the scale, age and collectability of the outstanding maintenance balances which have accumulated since the inception of the statutory child maintenance schemes, mean that the Commission continues to face a significant challenge to collect a large proportion of these arrears.

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