



Department
for Work &
Pensions

Client Funds Account – Statutory child maintenance schemes 2012/13

Presented to Parliament by the Secretary of State
for Work and Pensions by Command of Her Majesty
March 2014



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Foreword

The Department for Work and Pensions is responsible for the management of client funds relating to the 1993, 2003 and 2012 statutory child maintenance schemes. These schemes support children by collecting funds from non-resident parents and paying these funds to parents with care. In some cases, where parents with care have received benefits, the funds are paid to the Secretary of State.

The Department is required, by Her Majesty's (HM) Treasury, to publish a Client Funds Account which is separate from the accounts for the rest of its activities.

The Comptroller and Auditor General has provided an unqualified opinion that receipts and payments are properly presented, but he has repeated modified opinions on other aspects from previous years, both of which relate to the weaknesses with the 1993 and 2003 statutory schemes.

The first, is a qualified opinion on the regularity of receipts and payments, because the assessment of some of the amounts due to be paid are incorrect (the sums underpaid, and overpaid, are each estimated at less than 1 per cent of the total collected, with the gross error around 1.7 per cent). Second, is an adverse opinion on arrears, because the accumulated arrears owed by some non-resident parents are misstated reflecting inaccurate assessments and incorrect processing since the inception of the statutory schemes.

These are historic failings for which the strategic solution was the introduction of the 2012 scheme, underpinned by a completely new system. Both the 1993 and 2003 schemes are now closed for new applications and, from 2014, parents will be supported and encouraged to make their own family-based arrangements. If this is not possible they will need to make a new application to the 2012 scheme.

The Department remains committed to pursuing payments, and ensuring that parents meet their financial responsibilities for their children.

Robert Devereux
Principal Accounting Officer

Management commentary

1

The Child Maintenance and Enforcement Commission was abolished on 31 July 2012 and operational responsibility for the child maintenance system in Great Britain returned to the Department for Work and Pensions (DWP). On 1 August 2012, the functions of the Commission were transferred to the Secretary of State for Work and Pensions.

This change did not affect what was another year of steady performance as we continued to deliver the Government's child maintenance reforms.

Performance during 2012/13¹

The number of children benefiting from maintenance through the statutory schemes during the year was 905,400 by year end. The number of children benefiting has increased by 34,300 since March 2012. The amount of maintenance collected or arranged² over the year through the statutory schemes reached £1,229.9 million, of which £167.5 million was arrears.

The percentage of cases with maintenance flowing is down slightly from March 2012, at 83.7 per cent. Of the intake received in December 2012, 87.5 per cent was cleared within 12 weeks, a slightly lower proportion than in December 2011. The number of uncleared applications in March 2013 increased slightly from March 2012 to approximately 13,700. Of telephone calls received in the year to March 2013, 88 per cent were answered within 60 seconds.

1 These performance data are based on a new methodology that provides greater accuracy. The new methodology was introduced through the Quarterly Summary Statistics (QSS) release publication on 26 February 2014, which restated data back to January 2012. Full details are available in the QSS via the following link: <https://www.gov.uk/government/publications/child-support-agency-quarterly-summary-statistics-december-2013>.

2 Maintenance collected is sourced from 1993/2003 scheme general ledger. Maintenance arranged is based on the actual value of any calculation for Maintenance Direct performed by the Child Maintenance Group (CMG) following a request from the parent with care. If CMG become aware that the Maintenance Direct arrangements has changed, the calculation is adjusted.

The Child Maintenance (CM) Options service continued to provide information to parents and support them in making child maintenance arrangements. An estimated 178,000 children benefited from an effective family-based arrangement put into place following contact with the service at 31 March 2013.³

Receipts of child maintenance

During 2012/13, 4.6 million individual receipts were recorded, a 0.01 per cent decrease in volume compared to 2011/12. Total monies received were 2 per cent higher at £827 million (2011/12: £808 million). 92 per cent of receipts by volume (2011/12: 93 per cent) and 89 per cent by value (2011/12: 88 per cent) were received electronically.

By value, 63 per cent of receipts were made using preferred methods of collection: direct debit, deduction from earnings orders via employers and payment by debit or credit card. This represented an increase of 1 per cent over 2011/12 by value and 1 per cent increase by volume. Direct debit and deduction from earnings orders are preferred methods for ongoing maintenance as they result in the highest levels of compliance; collection by debit or credit card is particularly effective for one-off payment of arrears.

A further 21 per cent of receipts were executed under the new Faster Payments system (2011/12: 21 per cent), 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 direct debits, where 4 per cent of receipts fail (2011/12: 5 per cent). More than 97 per cent of these failures are initiated by non-resident parents and the most common reason is the cancellation of a direct debit instruction.

Payments of child maintenance in the statutory schemes

During 2012/13 the number of individual payments to parents with care fell by 2 per cent to 8.6 million, representing a decrease in volume of 0.21 million transactions, whilst the total value of payments rose by 2 per cent, consistent with overall receipts. Ninety-nine per cent of payments to clients by value (99 per cent by volume) are made by funds transferred electronically directly 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 2012/13, fewer funds were paid out than were received. Total net payments to the Secretary of State fell by £6.1 million, or 18 per cent. Around £2.1 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 2013 equated to around 2 per cent of the funds received during the year. DWP systems and policies do not support the use of Faster Payments as an outgoing payment on an industrial scale.

³ This figure also includes those children benefiting whose parents already had an arrangement in place, but changed it following contact with the CM Options service.

There are a very small number of receipts which historically have been difficult to match to individual clients and cases, and consequently have not been paid to the relevant parent with care. Once all avenues to correctly assign a receipt to a non-resident parent have been exhausted, surpluses are transferred to Treasury. Despite the inherent challenge of translating 4.6 million receipts into 8.6 million payments – including many instances of sub-dividing or aggregating payments between or across multiple cases – the vast majority of payments are made accurately and in a timely manner, whether processed automatically or manually.

Outstanding arrears of child maintenance

In addition to reporting the receipts and payments of maintenance monies, DWP is required to report on the value of outstanding child maintenance arrears and the collectability of those arrears. Whilst these amounts, which totalled £3,853 million at 31 March 2013 (an increase of £55.5 million on the total arrears at 31 March 2012), were owed by non-resident parents to their respective parent with care and to the Secretary of State, the Commission (until its abolition on 31 July 2012) and DWP (from 1 August 2012) were responsible for pursuing their collection. The £3,853 million arrears owing have accumulated over the last 20 years.

Assessment accuracy

DWP 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 payment and underlying arrears balances, which have 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 which has been, and remains, an 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.

Major reforms

At the same time as operating the 1993 and 2003 schemes, the Department has been delivering the Government's major reforms to child maintenance. These reforms aim to support and encourage parents to work together after a separation in the interests of their children and set up their own family-based child maintenance arrangements. They are explained in more detail in the consultation *Supporting separated families; securing children's futures* which was published on 19 July 2012. The Government's response to that consultation was published on 5 November 2013.

As part of these reforms, we made good progress in implementing the Help and Support for Separated Families initiative. On 29 November 2012, we launched the Sorting out Separation web app, which directs people to information and support on the range of issues they face after a separation. We also launched the Help and Support for Separated Families mark, which helps parents to identify the organisations they can trust to help them work together after a separation in the interests of their children; and an Innovation Fund, which will test and evaluate interventions that will help separated parents work together and reduce conflict.

8 Management commentary

For those who are unable to set up their own family-based child maintenance arrangements, we introduced the 2012 child maintenance scheme, administered by the Child Maintenance Service. This was developed to help increase the number of payments reaching children on time and in full, bringing better value for money for the taxpayer, speedier processing of applications, simpler calculations and faster enforcement action for those that choose not to pay.

The 2012 child maintenance scheme was introduced on a pathfinder basis. This approach ensured that the 2012 scheme was operating effectively before it opened to all clients, on 25 November 2013. No future applications can be made under the 1993 or 2003 schemes.

Robert Devereux
Principal Accounting Officer

Statement of Accounting Officer's responsibilities

2

For the first four months of the reporting period, under Section 18(2) of Schedule 1 to the Child Maintenance and Other Payments Act 2008, the Secretary of State for Work and Pensions directed the Child Maintenance and Enforcement Commission to prepare a Client Funds Account for the current statutory schemes in the form, and on the basis, set out in the Accounts Direction. The Commissioner for Child Maintenance, Noel Shanahan, was the Accounting Officer of the Child Maintenance and Enforcement Commission until its abolition on 31 July 2012.

Following the transfer of functions from the Commission to the Department for Work and Pensions (DWP) on 1 August 2012, I took over responsibility for signing the Client Funds Account as Principal Accounting Officer of the Department. On transfer of functions, Noel Shanahan continued as a Director General within the Department: I have sought representation from him and he has assured me that all Accounting Officer responsibilities were correctly carried out during his time as Accounting Officer.

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 during the year. The summary must also disclose the extent to which any outstanding maintenance arrears are likely to be collected, and 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 Her Majesty's (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.

10 Statement of Accounting Officer's responsibilities

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 assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in *Managing Public Money*.

Robert Devereux

Principal Accounting Officer

Governance Statement

3

1 Introduction

- 1.1 The Department for Work and Pensions (DWP) has responsibility for the management of client funds relating to the 1993, 2003 and 2012 statutory child maintenance schemes, which include the flow of receipts from non-resident parents, payments to parents with care and the Secretary of State, and accumulated maintenance arrears. The Department is required to publish a separate Client Funds Account, in accordance with Her Majesty's (HM) Treasury Direction under Section 7 of the Governance Resources and Accounts Act 2000.
- 1.2 Until its abolition on 31 July 2012, the Child Maintenance and Enforcement Commission had operational responsibility for the child maintenance system in Great Britain. Its functions transferred to the DWP on 1 August 2012. The governance arrangements set out in the Departmental Resource Account for year ended 31 March 2013 relate to the period since 1 August 2012.
- 1.3 For information on the governance of the Child Maintenance and Enforcement Commission during the period from 1 April 2012 until 31 July 2012, please refer to pages 37 to 45 of the *Child Maintenance and Enforcement Commission Report and Accounts for four months to 31 July 2012*, which was published on 5 December 2012.
- 1.4 This statement covers topics which are specific to the Child Maintenance Group (CMG) operating within the Department with particular emphasis on the significant control weaknesses identified in relation to child maintenance.
- 1.5 Many of these control weaknesses arise as a result of the limitations of the systems underpinning the 1993 and 2003 statutory schemes, which have led to successive qualifications by the Comptroller and Auditor General. While this statement records the action which the Department has taken to manage these control weaknesses, the strategic solution lies with the introduction of the 2012 scheme.

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- 1.6 On 10 December 2012, the Department launched the 2012 statutory child maintenance scheme, delivered by the Child Maintenance Service. This is being introduced using a pathfinder approach. Initially it opened to new applicants with four or more children by the same two parents. On 29 July 2013 it opened to new applications with two or more children by the same two parents. On 25 November 2013, it opened to all new applicants and applications to the 2003 scheme will cease. From 2014, cases on the existing 1993 and 2003 schemes will be gradually closed, requiring parents to choose between making their own, family-based arrangement and putting in an application to the Child Maintenance Service.
- 1.7 The intention is by the end of 2017–18 to have all cases managed on the 2012 scheme. At this point it will be possible to decommission the systems underpinning the 1993 and 2003 schemes and planning is underway to manage this process.
- 1.8 The 2012 scheme uses new operational and accounting systems, and is maintained on a new platform entirely separate from the 1993 and 2003 schemes. There are significant improvements being delivered to the accounting systems for Client Fund accounting within the Department.

2 Significant control challenges

2.1 Cases managed off the main systems

- 2.1.1 The Department operated two main child maintenance computer systems during this period. These were 1993 (previously known as CSCS) and 2003 (previously known as CS2). Data issues, software defects or both mean that some cases either cannot be managed at all on the 2003 system, or can only partially be managed on that system.
- 2.1.2 In March 2013, there were 106,700 cases managed wholly off the 2003 system compared with 103,900 in March 2012.
- 2.1.3 These cases are managed on a number of small IT systems, however, the limited functionality of these systems means a significant additional resource is required to manage these cases.
- 2.1.4 The long-term solution for the management of these cases is to move them onto the 2012 scheme. In the meantime the Department continues to reduce the number of cases requiring intervention and improving the management of such cases in the meantime, where it is cost effective to do so.
- 2.1.5 All cases opened to date on the 2012 system are being maintained and managed on the main operational system without the need to utilise off system database solutions.

2.2 Assessment accuracy

- 2.2.1 Assessment accuracy remains an issue for the 1993 and 2003 schemes. It is central to the modified audit opinions on the Client Funds Account from the inaccuracy of maintenance assessment and consequent uncertainty around the reported arrears (including the estimate for non-collectability of arrears). The accumulated inaccuracies arising mainly from earlier years continue to affect current arrears balances.

2.2.2 Cash Value Accuracy⁴ in 2012/13 has remained consistent with prior years at 98.3 per cent compared to 98.3 per cent in 2011/12, however, DWP are committed to increased education for case workers and management focus on accuracy to ensure lessons learned from the 1993 and 2003 systems are carried through to the 2012 system.

2.2.3 The 2012 scheme utilises gross income obtained from Her Majesty's Revenue and Customs (HMRC) to assess maintenance liabilities for non-resident parents. This is used to automatically calculate the assessment which is expected to dramatically improve the accuracy of these calculations in comparison to the 1993 and 2003 schemes.

2.3 Adjustments to assessments and arrears

2.3.1 Accuracy of adjustments is 86.4 per cent for 2012/13 which compares to 90.6 per cent in 2011/12. This deterioration in performance is mainly due to procedural errors on the CS2 system. DWP responded to this by initiating a review of the debt adjustment procedures, which included the issue of specific procedures on how debt adjustments should be recorded and approved.

2.4 System and transaction controls

2.4.1 During 2012/2013 DWP continued to develop, improve and bring up-to-date arrears to ensure efficient processing of receipts and payments.

2.4.2 The small systems introduced in 2010/2011 have continued to deliver robust and automated solutions, providing streamlined receipt and payment processing, accuracy and efficiency. Ninety-eight per cent of DWP child maintenance receipt processes are now managed by systems and solutions, which allows the maximum flexibility of resources.

2.4.3 Focusing on the retention and re-use of historical data, along with utilising existing core data from the existing Legacy Mainframe systems, has allowed DWP to obtain and deliver better management information (MI). This has provided more useful, real-time information on key performance areas.

2.4.4 In 2012/13 process reviews identified major development and improvements around the processing of manual payments. Again, the use of small system solutions to control and remove repetitive resource intensive tasks has brought significant resource savings and efficiencies, including full auditability and production of financial accounting requirements.

2.4.5 The 2012 scheme features much more automation of receipts and payments with much reduced instances of manual intervention being required. Early indications are that this functionality is working and delivering benefits to clients in terms of both the speed and accuracy of payments to parents with care.

2.4.6 As with prior years, Note 6 to this account has been prepared using a suite of reports developed as a result of weaknesses in the information on outstanding levels of maintenance arrears (Client Funds Account 2008/09 covers this in more detail).

⁴ Cash value accuracy is a measure of the value of correct assessment against the value of 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 per cent.

2.5 Reimbursements to clients

- 2.5.1 DWP continued to make reimbursements to clients due to short-term timing differences in updating client change of circumstances. These reimbursements are treated as a loss and recorded as such in the DWP Annual Report and Accounts.
- 2.5.2 More robust authorisation and controls introduced in 2011/12 continue to reduce the value of these payments to £4.6 million in 2012/13, (a reduction of £1.2 million compared to 2011/12). DWP will continue to review processes to further reduce the value of these payments.

2.6 Information security

- 2.6.1 The continuing control challenge is to protect the vast amount of sensitive personal data necessary to determine and pay maintenance accurately, while at the same time making efficient use of that data, both for claimants themselves and in the efficient administration of other public services. The Department's information security risk appetite remains low.
- 2.6.2 The Department is continuing to operate with some known control weaknesses. Many of these reflect longstanding shortcomings in the Department's legacy IT systems, which cannot readily be remedied. Some weaknesses are being addressed, or will be in due course, but have been deferred as a deliberate choice because of cost or the impact on the timetable for other priorities. In each case, the Department is taking action to mitigate, but not eliminate, the associated risk. There are plans to achieve the information assurance goals the Department intends to meet by the end of 2014–15. The system introduced to manage the 1993 scheme, CSCS, is not security accredited and there are no plans to pursue accreditation for this system.
- 2.6.3 Despite these weaknesses, and the vast amount of information the Department uses, there have been no major information-related incidents.
- 2.6.4 Looking ahead, increased risks and threats arising from on-line services will make the information security challenge greater. The Department will need to review its risk appetite as well as the appropriate information assurance maturity level at which to operate.

2.7 Management information

- 2.7.1 Action was taken to improve the ability of managers to drive performance improvement, which in the period was evident through higher maintenance collection and principal Ministerial targets being met. However, some issues remained over the robustness, timeliness and completeness of this information, in particular:
- Stability of MI production. DWP produced many forms of performance reporting both for internal and external consumption. In the period, MI production was affected by a number of problems centring on the data runs carried out by the DWP's Information Governance and Security Directorate. Work is continuing to improve the situation.
 - Ability to 'age' arrears. The child maintenance computer systems lack the functionality to 'age' arrears of payments to the parent with care from the non-resident parent. This impacts DWP's ability to assess the collectability of debt. The cost of remedying this issue is considered prohibitive. For 2012, scheme cases the system will improve our ability to show the age of debt.

- Legal enforcement. ‘Tallyman’ was introduced during 2010/11 replacing civil and criminal enforcement small systems. Tallyman is a commercial service which is widely used to provide support for managing and monitoring casework through the enforcement processes and on-line work management tools. Tallyman supports DWP’s business within both civil and criminal proceedings and is tailored to each of the three jurisdictions (England/Wales, Scotland and Northern Ireland). When first introduced within DWP there were issues with the MI as a result of users not properly understanding the features of the system. An improvement programme was undertaken during 2011/12 and, although there remains some need for additional refinement, DWP made substantial use of the system with regard to case progression and overall caseload.
- A strategy for publication of information on the performance of the 2012 statutory child maintenance scheme, delivered by the Child Maintenance Service has been published and we are working to assure 2012 data as it comes on-stream.

Robert Devereux
Permanent Secretary DWP
Principal Accounting Officer

Date: 12 March 2014

Certificate of the Comptroller and Auditor General to the House of Commons

4

I have audited the Client Funds Account for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. This comprises: the Receipts and Payments Statement, the Statement of Balances and the related notes. This account has been prepared in the form directed by Her Majesty's (HM) Treasury. It has been prepared on a cash basis with the exception of Note 6, detailing the outstanding maintenance balances, which has been prepared on an accruals basis. The account has been prepared under the accounting policies set out within it.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's responsibilities, the Principal Accounting Officer of the Department for Work and Pensions (DWP) is responsible for the preparation of the Client Funds Account in accordance with the HM Treasury Direction. My responsibility is to audit the account in accordance with the Government Resources and Accounts Act 2000. I conduct my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practises 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 DWP in respect of the Client Funds Account; and the overall presentation of the account.

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

Opinions

Basis for qualified opinion on regularity as a result of transactions not conforming with legislation

Certain receipts from non-resident parents (and the subsequent payments over to the parent with care or Secretary of State) were for incorrect amounts because of errors in the underlying maintenance assessments. Receipts from non-resident parents of £827.3 million are shown in the Client Funds Account. I estimate that errors in underlying maintenance assessments resulted in overpayments of around £7.6 million and underpayments of around £6.1 million which are not in accordance with the relevant legislation.

Qualified opinion on regularity

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

Unqualified opinion on the Receipts and Payments Statement

In my opinion:

- the account properly presents the receipts and payments of the Client Funds Account for the year ended 31 March 2013 and the cash balances held as at 31 March 2013; and
- the account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Basis for adverse opinion on Note 6 ‘Outstanding Maintenance Arrears’ as a result of errors in underlying data

The individual arrears balances supporting the reported outstanding arrears balance 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 Department is unable to estimate the value of the misstatements as a result of inaccurate maintenance assessments, but our audit work indicates that the cumulative impact on the value of arrears as at 31 March 2013 is significant.

The best estimates available to me of the impact of incorrect processing of cases with arrears indicate that they have led to overstatements of at least £15.2 million and understatements of £105.2 million within the reported balance of £3.853 billion in Note 6 to the account.

Adverse opinion on Note 6 ‘Outstanding Maintenance Arrears’

In view of the effect of the errors referred to above, in my opinion Note 6 to the account does not give a true and fair view of the outstanding maintenance balances as at 31 March 2013.

Matters on which I report by exception

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

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

Further details of my modified opinions are provided in my report on pages 29 to 34.

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

Date: 18 March 2014

Receipts and Payments Statement for the year ended 31 March 2013

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	Notes	2012/13 £000's	2011/12 £000's
Receipts	2	827,300	807,865
Bank interest	3	-	-
Total receipts		827,300	807,865
Less payments to:			
Parent with care	2	792,914	767,273
Secretary of State (SoS)	2	27,779	33,883
Non-resident parent/employers	2	4,340	6,333
Department in respect of fees	2	326	383
Total payments		825,359	807,872
Net receipts		1,941	(7)
Balance as at 1 April 2012		16,825	16,832
Balance as at 31 March 2013		18,766	16,825

Statement of Balances at 31 March 2013

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	Notes	As at 31 March 2013 £000's	As at 31 March 2012 £000's
Cash balance	4	18,766	16,825

The notes on pages 21 to 28 form part of these accounts.

Signed

Robert Devereux
Principal Accounting Officer

Date: 12 March 2014

Notes to the account for the year ended 31 March 2013

7

1 Statement of accounting policies

The account has been prepared on a cash basis and in the form directed by Her Majesty's (HM) Treasury. The outstanding maintenance arrears note records amounts owed by non-resident parents as at 31 March 2013, along with movements in these arrears balances during the financial year. It 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 5.1.

The term 'likely to be collected' denotes the Department's view that it stands a good chance of recovering the arrears. The term 'potentially collectable' denotes arrears the Department 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, the Department 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 12 months increased the amount deemed

likely to be collected by 40 per cent and the amount deemed potentially collectable by 29 per cent. 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 these, 100 had been classified as likely to be collected by the Department's estimation exercise; 100 had been classified as potentially collectable; and 100 were classified as uncollectable. By checking the pattern of payments received after the accounting date, we established that 58 per cent 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 per cent and 2 per cent 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 our ability to collect them. The Department 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

Receipts from clients relate to child maintenance and fees collected from non-resident parents by the Department for payment to parents with care (maintenance) or to the Secretary of State (where maintenance offsets benefits paid to the parent with care) and to the Department (fees for DNA and court costs).

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.

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 £4.6 million (2011/12, £5.8 million) and is disclosed as a loss in the Department for Work and Pensions (DWP) Annual Report and Accounts 2012-13.

Included in the £793 million (2011/12, £767 million) paid to the parent with care is £2.101 million (2011/12, £2.889 million) paid to the Northern Ireland Child Maintenance and Enforcement Division to fund payments made on the Department's behalf.

Payments of £27.8 million (2011/12 £33.9 million) have been made to the Secretary of State in respect of funds received on cases which were classed as being on benefit pre-October 2008. The repeal of Section 6 in October 2008 meant cases were all classified as being private cases with no benefit involvement.

However, payments continue to be due to the Secretary of State as and when funds are received relating to on benefit periods.

Other payment categories relate to refunds/reimbursements to non-resident parents and employees for overpayments of maintenance, totalling £4.3 million in 2012/13 (2011/12, £6.3 million). Also, payments were made to DWP in respect of fees for DNA tests and court costs, £0.32 million in 2012/13 (2011/12, £0.38 million).

3 Interest received and paid

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

As a consequence of the low rate no interest was received in 2012/13 (2011/12, £nil) and no interest was paid to parents with care.

4 Statement of balances

The balances relate to monies collected, including any interest received, which had not been paid over at year end and was held in the Client Funds bank account. In addition there is a balance held outside the main Client Funds bank account, Note 7 refers.

5 Outstanding maintenance arrears at 31 March 2013

Under the Accounts Direction dated 15 May 2013 issued by Her Majesty's (HM) Treasury, the Department was required to disclose the balances outstanding from non-resident parents at the year end, the movements in the balances outstanding between the beginning and end of the year and to categorise those balances by reference to their collectability.

There are four types of maintenance assessments:

- Full maintenance assessments – where the 1993 rules apply and both the parent with care and the paying 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 parent 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.

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.

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

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.

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

5.1 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 Department had a good chance of collecting the outstanding arrears. The criteria are:

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

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

- The existence of a maintenance arrears schedule at any point during the six months prior to the reporting date, even though no payments were received in the period. Arrears schedules are established following contact with the non-resident parent, who makes a commitment to clear the arrears over a specified period. Non-resident parents do not always adhere to the schedule, but the fact that contact had been made with the individual and a commitment had been made is considered to indicate that the arrears are potentially collectable.
- For recent arrears, i.e. aged six months or less, the receipt of at least one payment against those arrears after the reporting date. Recent arrears arise on new cases, where the set-up process can mean that no receipts can be accepted immediately, or on older cases where an existing maintenance arrangement has recently broken down. Schedules are seldom put in place until arrears have been accumulating for more than six months; enforcement resources are concentrated on re-establishing broken down arrangements quickly. Consequently, receipts after the balance sheet date for young arrears are considered to provide reasonable evidence that the arrears will be cleared.
- The anticipated impact of some of the enforcement powers on the arrears, were the powers to be used more widely. The two powers considered were the deduction order, which enables the Department 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.

On 10 December 2012, new powers within the Child Maintenance and Other Payments Act 2008 were introduced. These allowed for the writing off of some arrears in certain circumstances.

These are circumstances when the parent with care specifically requests us not to collect it, or when collection is impossible because (for example) the non-resident parent has died and the arrears cannot be recovered from the estate. There are several reasons why a parent with care would ask for the arrears to be written off. They may, for example, have reconciled with their former partner.

Provision has also been made for the parent with care to accept part payment in full and final satisfaction of the outstanding arrears. These arrangements will be made on a case-by-case basis and, where the Department is considering use of these powers, the parent with care will be required to provide their consent to the part-payment arrangement and the amount to be paid.

6 Arrears

On 31 January 2013, the Government published the *Preparing for the future, tackling the past: Child Maintenance – Arrears and Compliance Strategy 2012-2017*. This explained that in reforming the statutory Child Maintenance Service, the Government's chief priority is to ensure more parents pay the child maintenance they owe not only in full, but also on time. Only by the effective prevention and management of arrears can we get more money flowing to children and avoid increasing debts owed by parents for their children.

However, it also acknowledged that we must deal with a legacy of allowing arrears to build up, with money owed by parents expected to pay child maintenance accruing in the Child Support Agency (CSA) at an average rate of £20 million per month between 1993 and 2008. The operational priority of the statutory service is to collect money for children who will benefit from regular ongoing maintenance payments today, rather than prioritising the pursuit of historic arrears in cases where the children have now grown up.

The strategy included several proposed collection initiatives to tackle the historical arrears and ensure the overall balance either remains stable or decreases over time. There is no 'silver bullet' solution and, with such a large and diverse client base, our approach is to trial a variety of innovative approaches, drawing on all available intelligence about debtor parents and their ability to pay.

We estimate that £1,152 million of the total outstanding balance as at 31 March 2013 is at least potentially collectable (31 March 2012, £1,161 million), of which £556 million is likely to be collected. This position will need to be reviewed at each future reporting date to take account of government priorities, availability of resources and enforcement capabilities. Note 5.1 to this account explains the collectability assessment further.

Parents who owe money for their children, whenever that debt arose, are still expected to pay it; and our aim is to collect as much as we can. However, provision has also been made allowing for the writing off of some arrears in certain circumstances. Decisions on writing off arrears are made on a case-by-case basis and are instigated either at the specific request of the parent to whom the money is owed, or with their full consent.

In developing this strategy we were helped by the independent Advisory Panel on Child Maintenance Arrears appointed by the Secretary of State for Work and Pensions.

Note 6.0: Outstanding maintenance arrears at 31 March 2013

	£'000	2003 System	1993 System	Clerical Case Database	CMS 2012 System	Total
Outstanding Maintenance Arrears as at March 2012 (Note b)		1,945,689	1,519,427	332,679	-	3,797,795
Maintenance charged in year and other adjustments (Note 6.2i/e)		743,161	18,398	104,113	45	865,717
Maintenance received in the year (Note 6.2ii)		(621,568)	(110,436)	(78,155)	(6)	(810,165)
Outstanding Maintenance Arrears at 31 March 2013 (Note 6.2iii)		2,067,282	1,427,389	358,637	39	3,853,347
Collectability analysis (Note a)						
Likely to be collected		344,730	151,302	59,804	39	555,875
Potentially collectable		447,960	70,081	77,713	-	595,754
Uncollectable		1,274,592	1,206,006	221,120	-	2,701,718
		2,067,282	1,427,389	358,637	39	3,853,347

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 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 Child Maintenance Group makes an annual adjustment to the arrears total for duplicated suspended arrears on the 1993 system. Case workers have been reviewing the duplicated debt on a case-by-case basis and during 2012/13 the value of the estimate of double counted arrears reduced by £2.5 million. The effect is to increase reported arrears by £2.5 million.

Note d

The effect of Note c is an increase in reported arrears of £2.5 million. The increase in arrears during 2012/13 was £55.5 million, of which £53 million was a true increase and £2.5 million arises through the accounting adjustment explained in Note c.

Note e

Other adjustments includes the extinguishment of child maintenance debt enacted under the Child Maintenance and Other Payments Act 2008 on 10 December 2012 as part of Write Off and Part Payments powers, and reduced arrears by £1.2 million.

Note 6.1: Outstanding maintenance arrears at 31 March 2012

	£'000	2003 System	1993 System	Clerical Case Database	Total
Outstanding maintenance arrears brought forward at 1 April 2011 (Note b)		1,835,103	1,604,772	308,290	3,748,165
Maintenance charged in year and other adjustments (Note 6.2i)		684,859	51,574	103,976	840,409
Maintenance received in the year (Note 6.2ii)		(574,273)	(136,919)	(79,587)	(790,779)
		<hr/>	<hr/>	<hr/>	<hr/>
Outstanding maintenance arrears at 31 March 2012 (Note 6.2iii)		1,945,689	1,519,427	332,679	3,797,795
Collectability analysis (Note a)					
Likely to be collected		281,437	179,814	48,121	509,372
Potentially collectable		429,287	149,033	73,401	651,721
Uncollectable		1,234,965	1,190,580	211,157	2,636,702
		<hr/>	<hr/>	<hr/>	<hr/>
		1,945,689	1,519,427	332,679	3,797,795

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

Note d

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

6.2 Movements in outstanding maintenance arrears

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

- i) Maintenance charged during the year and other adjustments. This comprises: assessments made on non-resident parents during the year; outstanding maintenance arrears transferred to and from the Northern Ireland Child Maintenance and Enforcement Division, and adjustments arising from cancelled or terminated assessments; or where the liability has been reduced, for example, as a result of a direct payment between parties offset against the maintenance due. The amount charged in 2012/13 was £866 million (2011/12, £840 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 Department's collection service.
- ii) Maintenance received during the year. This comprises amounts received from non-resident parents and the Northern Ireland Child Maintenance and Enforcement Division during the year. When a receipt is subsequently allocated to a case by the child support computer systems, the receipt becomes a constituent of the arrears balance for that case. The timing difference between receipt and allocation explains the difference between the value of the receipts in the Receipts and Payments Statement and the receipts in the arrears note. The total value of receipts allocated to cases in 2012/13 was £810 million (2010/11, £791 million).
- iii) Outstanding maintenance arrears as at 31 March 2013. This is the balance of outstanding maintenance arrears recognised by the Department, after allowing for maintenance assessments in the year and after receipts of maintenance have been deducted.

7 Girocheque outstanding balance at the reporting date

At the reporting date an asset was held in the DWP Annual Report and Accounts. This balance is held in a bank account with the third party paying agent and is solely used for the purposes of the issue and encashment of girocheques across the Department, including the child maintenance division of the Department and its predecessor organisations.

This balance amounts to £6.6 million related to girocheques which have not been cashed. We estimate £1.6 million may be cashed by clients, the remainder is payable to Her Majesty's (HM) Treasury. As the balance is held by a third party paying agent it is not included in this account.

Girocheques are no longer in use by the Department, these balances will be remitted to HM Treasury once the uncleared balance has been resolved.

8 Events during the reporting year

The Child Maintenance and Enforcement Commission was abolished on 31 July 2012. On 1 August 2012, its functions were transferred to the DWP.

9 Events after the reporting date

The authorised date for issue is 18 March 2014.

Report by the Comptroller and Auditor General to the House of Commons

8

Part One: Key features of the Client Funds Account

Following the abolition of the Child Maintenance and Enforcement Commission on 31 July 2012, operational responsibility for the statutory child maintenance schemes in Great Britain has passed to the Department for Work and Pensions (DWP). The Client Funds Account records the receipts of child maintenance from non-resident parents; payments to parents with care and the Secretary of State; and a statement of cash balances held at the year end, this being the value of maintenance received which has not yet been paid out. I have issued an unqualified audit opinion on whether these receipts and payments are properly presented, and a qualified audit opinion on regularity. Further details of my reasons for the qualification are set out below.

The account also includes an arrears balance (Note 6), which is the amount of child maintenance outstanding and owed by the non-resident parent to either the parent with care or to the Secretary of State. Note 6 also includes an analysis of the collectability of the outstanding arrears. I have concluded that this note does not give a true and fair view of the arrears outstanding, or its collectability, as at 31 March 2013 for the reasons set out in my report below.

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

Part Two: Irregular receipts and payments

Audit opinion

As the independent external auditor, I am required to give an opinion on whether, in all material respects, the Client Funds Account properly presents the receipts and payments for the year ended 31 March 2013 and whether these transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them (the 'regularity' opinion).

The Department is required to adhere to specific legislative requirements when determining maintenance assessments and has no authority to exercise latitude. When an assessment is made that is not in accordance with these legislative requirements, the receipt and associated payment are incorrect and not in accordance with legislation. Whilst the account properly presents the amounts of child maintenance received and paid in the year, I have qualified my regularity audit opinion on the grounds of material errors in the calculations of maintenance assessments; these assessments are not in accordance with the legislation and therefore are not in line with the purposes intended by Parliament.

In 2012–13, the Department received £827.3 million in respect of child maintenance from non-resident parents. As a result of errors in the calculations of maintenance assessments, I have estimated that, within this amount, a proportion of non-resident parents have made overpayments of child maintenance amounting to £7.6 million, while others have made underpayments totalling £6.1 million. The cases affected by overpayments are unconnected to the cases affected by underpayments; consequently I must report the gross figures. I have therefore qualified my regularity audit opinion on the basis of the gross value of irregular receipts and payments.

My estimate for the level of over and underpayments remains unadjusted within the reported receipts and payments figures in the account. An adjustment cannot be made to the figures because the value of over and underpayments is an accumulation of a significant number of individual incorrect maintenance assessments. To correct these errors, every decision on each of the affected cases would need to be reassessed from the inception of the case to the present day. Since each case can have a large number of reassessments over its lifetime to account for changes in circumstance, this would represent a significant piece of work.

How do incorrect maintenance assessments occur?

There are currently three statutory maintenance schemes in operation, and the basis for the maintenance assessments under each scheme is set out in the relevant legislation introduced in 1993, 2003 and 2012. The legislation determines the value of the maintenance assessment and the date from which the assessment is effective.

The original 1993 legislation required up to 148 different pieces of information to calculate a maintenance assessment. An error in any element of the assessment will impact the regularity of the child maintenance ultimately received from the non-resident parent. Ordinarily there are multiple assessments throughout the lifetime of a case to reflect changes in circumstance. Where such reassessments occur, the likelihood of error increases.

The 2003 legislation sought to simplify the assessment process and significantly reduce the amount of information required to make an assessment. Despite this simplification, the Department has determined the error rate for cases assessed under these rules to be higher than those operated under the 1993 legislation. This suggests that caseworker error and system problems, rather than complexity of legislation, are the primary causes of incorrect maintenance assessments.

On 10 December 2012, the Department introduced a third maintenance scheme (the 2012 scheme). It was initially launched for new cases involving four or more qualifying children, but from 29 July 2013 the scheme has been extended to new applicants with two or more qualifying children. The Department intends that from 25 November 2013 all new applicants will pass through the 2012 scheme, and that it will transfer all remaining cases on the 1993 and 2003 schemes to the 2012 scheme by 2018, thereby allowing for the closure of the older schemes. At 31 March 2013, there were 581 live cases on the 2012 scheme, of which 187 had amounts charged, with £11,000 received in the year. The latest scheme is managed through new processes and a new IT system, which uses gross income information directly drawn from Her Majesty's Revenue and Customs (HMRC) records and systems to automatically calculate assessments. The Department intends that this will reduce much of the administrative complexity and reliance on manual processes that has previously attended the calculation of assessments.

Action taken to address incorrect maintenance assessments

The Department's Client and Process Assurance (C&PA) team carries out extensive checking of maintenance assessments each year. These checks cover both new applications for child maintenance and cases where there has been a recalculation owing to a change in circumstance. C&PA reported that the Department achieved a cash value accuracy⁵ of 98.3 per cent in 2012–13 (98.3 per cent in 2011–12), of which 95 per cent was accurate to the penny (93.4 per cent in 2011–12). The Department's target for 2012–13 was to achieve a cash value accuracy of 97 per cent, which it achieved.

Table 1 shows the percentage of maintenance assessments that C&PA found to be accurate to the penny has improved significantly in recent years. The improvement reflects a more sophisticated analysis by C&PA of the root cause of the errors it found. This has, in turn, allowed both a more targeted process of training for caseworkers and the development of clearer business procedures for undertaking assessments.

Cash value accuracy has remained relatively stable over the same period. In the Department's view, this reflects the embedding of measures introduced to improve the accuracy of assessments.

The table also includes my estimate of the percentage of irregular receipts and payments each year (gross of both under and overpayments). Although the cash value accuracy percentage is used within the calculation of irregular receipts and payments, the two are not directly linked due to the complex calculation methodology.

Table 1: Accuracy of maintenance assessments

	2009–10	2010–11	2011–12	2012–13
Assessments accurate to within a penny	85%	90%	93%	95%
Cash value accuracy ⁶	97%	97%	98%	98%
Estimated irregular receipts and payments (gross)	3.1%	3.1%	2.7%	1.7%

⁵ Cash value accuracy is a measure of the value of correct assessment against the value of 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 per cent.

⁶ *Ibid.*

Part Three: Outstanding maintenance arrears

Audit opinion

Where a non-resident parent does not make payments in accordance with their child maintenance assessment, the Department records any shortfall in the outstanding maintenance arrears balance and reports it in Note 6 of the Client Funds Account. The balance of £3.853 billion is the cumulative total of outstanding arrears since the Child Support Agency was established in 1993. This balance represents the total amount owed by non-resident parents to either the parent with care or, in some instances, the Secretary of State. Current legislation allows the Department to write off arrears only in very limited circumstances.

I am required to give an opinion on whether the outstanding maintenance arrears balance as at 31 March 2013 is true and fair. In my opinion there is material error in the value of arrears recorded in Note 6 to the account and as a result I have concluded that Note 6 does not give a true and fair view of the maintenance arrears outstanding at 31 March 2013. The misstatement is primarily a result of:

- a) incorrect maintenance assessments (as outlined in Part Two); and
- b) incorrect adjustments to arrears.

Incorrect maintenance assessments

Where the Department has made incorrect maintenance assessments, for the reasons set out in Part Two of this report, any arrears accruing will be doing so at an incorrect rate and consequently the value of the accrued outstanding maintenance arrears will be misstated. The Department is unable to estimate the value of this misstatement, but our audit work indicates that the cumulative impact of incorrect maintenance assessments on the value of arrears as at 31 March 2013 is significant.

Action taken to address incorrect maintenance assessments

Part Two of this report outlines the action taken by the Department to address the issue of incorrect maintenance assessments. These actions are taken with a view to improving the accuracy of assessments performed. No action is taken to rectify the errors which remain within arrears, which have built up over a number of years.

Incorrect adjustments to arrears

Caseworkers administering child maintenance cases are able to adjust the value of arrears on individual cases. This is to allow the Department to take retrospective action when circumstances change which alter the value of maintenance charged. Errors can arise in the calculation of the required adjustment, which can then result in a misstatement in the value of arrears.

Note 6 in the Client Funds Account reports the arrears balance net of any caseworkers' adjustments, which means that any errors made in these adjustments affect the arrears balance reported. I estimate that arrears are overstated by around £15.2 million and understated by around £105.2 million as a result of such errors.

As with the level of irregular receipts and payments, the Department is unable to make a revision to the arrears note in order to correct for these errors, because they are an estimated aggregation of the accumulated over- and under-adjustments made to individual cases since the inception of the statutory schemes.

Action taken to address incorrect adjustments to arrears

The actions taken by the Department to tackle incorrect adjustments to arrears are similar to the actions taken to address incorrect maintenance assessments. A separate part of the Department's C&PA team measures the accuracy of adjustments to arrears and undertakes a similar root cause analysis to allow focused training and improvements to processing procedures.

Table 2 shows that the Department has reached a steady state in the accuracy of adjustments made to arrears. However, as the errors that have accumulated over the years remain uncorrected in the arrears balance, we consider a material level of error remains.

Table 2: Accuracy of adjustments to arrears 2009–10 to 2012–13

	2009–10	2010–11	2011–12	2012–13
Percentage of cases with accurate adjustments to arrears	84%	86%	91%	86%

The clerical case database

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

Where system failures prevent on-line case management, the Department has to manage the affected cases manually on a separate clerical case database. This database was originally set up to manage around 10,000 cases, but there are currently over 106,000 cases managed in this way. There are two specific issues with the clerical case database, which are set out below. The Department is planning to take corrective action on the clerical case database balances from 2014–15 onwards, in readiness for the transition of these cases to the 2012 scheme.

Incorrect charging status of cases

The clerical case database requires the manual input of customer maintenance schedules. A maintenance schedule which is not correctly maintained can result in cases incorrectly reporting that no maintenance is due, which will understate the arrears balance at the year end. There is no adequate information available from which I can provide a reliable estimate of error, but the available evidence indicates that arrears are understated as a result.

Opening balances on the clerical case database

Of the cases that the Department has transferred onto the database, there are a number which it transferred without arrears balances. The Department had adjusted for this in the account by increasing the arrears balance by the value of the arrears reported on the on-line systems for the affected cases before they transferred. The Department's two key assumptions underlying this adjustment are that the majority of nil opening balances on the clerical case database are errors and that the closing balance on the 2003 system is the correct opening balance for cases managed on the clerical case database. My testing has confirmed that this is not the case in all instances. While it is clear that the arrears balance is overstated, there is not, however, sufficient information available to make a reliable estimate for the value of this error.

Collectability analysis

In line with the Accounts Direction, Note 6 also provides an analysis of the Department's assessment of the collectability of the outstanding maintenance balances. The Department has estimated the value of arrears 'likely to be collected' and 'potentially collectable', based on the history of payment from, and payment agreements with, non-resident parents, as well as an estimate of additional recoveries it could secure using existing enforcement powers.

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 Department to pursue the enforcement of arrears) influence whether any individual non-resident parent will satisfy their arrears balance. Furthermore, the collectability assessment is applied to information on arrears which is known to contain errors as described above. As a result, the value of arrears existing as at 31 March 2013 which will actually be collected in the future may be significantly different to that reported as 'likely to be collected' within Note 6.

Part Four: Financial reporting and IT systems

Since the inception of the statutory child maintenance schemes there have been significant problems with the main IT systems supporting the schemes. Amongst other problems, the IT systems do not have the functionality to fully report arrears for inclusion in the account. In order to address this, the Department has developed a separate process to scan the underlying systems and produce a suite of reports. The Department used these reports, in addition to the general ledgers, as the basis for preparing Note 6 to the account.

The Department first used this revised methodology in 2008–09, and the reports generated have increased the visibility of a number of historic problems which were not previously identifiable. In response to this, the Department has made a number of refinements to the reports since 2008–09 to take account of the issues identified in the underlying data.

The efforts of the Department have resulted in the reporting of a more robust arrears position to that reported in the past. However, due to the scale and age of the issues which have accumulated against some of these arrears balances, there remain significant and unresolved inaccuracies, which materially misstate the arrears balance reported in the account.

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