



Department
for Work &
Pensions

Client Funds Account – Statutory child maintenance schemes 2013/14

Presented to Parliament pursuant to Section 7 of the Government
Resources and Accounts Act 2000

Ordered by the House of Commons to be printed December 2014

HC 865



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Foreword

The Department for Work and Pensions (the Department) is responsible for the management of client funds relating to the Child Support Agency 1993 and 2003 schemes, and the new Child Maintenance Service 2012 statutory child maintenance scheme. 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 before 2008, the funds are paid to the Secretary of State.

The Department is required, by Her Majesty's 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 historic 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 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 Child Maintenance Service 2012 scheme, underpinned by a completely new system. Both the 1993 and 2003 schemes are now closed to all new applications and, from 2014, parents are being 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

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The Department for Work and Pensions (the Department) is responsible for the child maintenance system in Great Britain, including the Child Support Agency and the Child Maintenance Service.

Major reforms

The Department has made significant progress in delivering the Government's major reforms to child maintenance while at the same time administering the Child Support Agency 1993 and 2003 schemes. With around half of the estimated 2.5 million separated families in Great Britain having an effective financial arrangement in place, the Government is determined to get more money to more children. It has a two-pronged approach: more support for separated families to work together and reach family-based arrangements; and for those that need it the new Child Maintenance Service, which can collect money on behalf of parents although there will be a fee for doing so.

In addition to the Child Maintenance Options service, which launched in 2008 and helps separated parents to make informed choices about their maintenance arrangements, the Department is investing up to £14 million in its Help and Support for Separated Families initiative. This includes a Sorting Out Separation web application, which launched in November 2012. The web application is designed to help parents identify their needs and signpost them to trusted information, tools and services. It includes more than 300 signposts to over 50 different organisations. Additionally, almost £10 million is being spent on the Support for Separated Families Innovation Fund, involving 17 voluntary and private sector organisations that have received funding to test and evaluate innovative and effective interventions that are designed to help separated parents to collaborate more effectively in their children's interests.

Following the introduction of the 2012 scheme, which started as a pathfinder before opening to all new applicants in November 2013, the Department was able to proceed to its second phase of reform on 30 June 2014. This included the introduction of a £20 application fee as well as collection and enforcement charges as part of a package of financial incentives to encourage collaboration where possible, better compliance among non-resident parents and to reduce costs for the taxpayer. Once in the 2012 scheme, both parents can usually avoid collection charges entirely by using the Direct Pay service, which can be a step towards a more collaborative relationship. By the end of March 2014, even before any of these financial incentives were introduced, 39 per cent of non-resident parents were using Direct Pay.

The other key element to the second phase of reform is the ending of liabilities on cases in the Child Support Agency 1993 and 2003 schemes, which also commenced, as a pathfinder starting with nil assessed cases, in summer 2014. This will, after around three years, lead to there being just one statutory scheme in operation, the 2012 scheme run by the Child Maintenance Service. We expect case closure to affect around 800,000 cases. Many of these will go on to make family-based arrangements, leaving the 2012 scheme to manage a reduced caseload that can be run more effectively, ensuring more money for more children, while also reducing costs for the taxpayer.

Performance during 2013/14 – 2012 scheme

Intake on the 2012 scheme was 32,300 in the quarter to the end of March 2014, when the caseload stood at 45,000. By the end of March 2014, 39 per cent of those parents due to pay their liability were using Direct Pay rather than the collection service. While these payments do not flow through the Client Funds Account they are a key part of the reforms. In the 2012 scheme, the amount collected and arranged¹ over the year totalled £12.3 million, of which £7.6million of liability was satisfied using Direct Pay.

Receipts of child maintenance

During 2013/14, 0.03 million individual receipts were recorded. Total monies received were £4.8 million with 100 per cent of receipts by volume received electronically.

Payments of child maintenance in the statutory schemes

During 2013/14 the number of individual payments to parents with care were 0.04 million with total value of £4.3 million. One hundred per cent are made by funds transferred electronically to clients' bank accounts.

Fewer funds were paid out than were received. Maintenance monies received are paid to parents with care as quickly as possible, and cash held at 31 March 2014 equated to around 7 per cent of the funds received during the year.

Outstanding arrears of child maintenance

In addition to reporting the receipts and payments of maintenance monies, the Department is required to report on the value of outstanding child maintenance arrears and the collectability of those arrears in Note 6 below.

¹ Maintenance collected is sourced from 2012 scheme general ledger. Direct Pay arranged is the total assessed by the Child Maintenance Service based upon the gross income of the paying parent paid directly to the receiving parent.

Outstanding child maintenance totalled £11.9 million at 31 March 2014, which was owed by the non-resident parent. Outstanding maintenance accrued under 2012 scheme totalled £6.6 million, which was due to the parent with care, whilst arrears transferred to 2012 scheme from 1993 and 2003 schemes totalled £5.3 million and were due to the parent with care and in some instances the Secretary of State.

Assessment accuracy

With the 2012 scheme, the Department has simplified the way it administers child maintenance by, for example, significantly reducing the number of procedures and manual operations involved in its administration, and building a direct interface with Her Majesty's Revenue and Customs (HM Revenue and Customs) and Jobcentre Plus systems to establish parental income and calculate maintenance.

Performance during 2013/14 – 1993 and 2003 schemes

From 25 November 2013, all new applications for child maintenance have been made under the 2012 scheme. Consequently, the increase in live caseload for the 1993 and 2003 schemes has slowed as no new intake is received, cases close, and the caseload for the 2012 scheme has steadily increased. The live 1993 and 2003 scheme caseload was at 1,394,000 by the end of March 2014 (1,380,700 at March 2013). The number of 1993 and 2003 scheme cases with a current liability had reduced to 738,500 (772,600 at March 2013), whilst the percentage of cases contributing to their current liability increased to a high of 85.6 per cent by the end of March 2014.

The number of children benefiting from maintenance through the 1993 and 2003 schemes during the year was 871,800 by year end, a reduction of 33,600 since March 2013, which can be attributed to the fact that all new maintenance applications are now processed on the 2012 scheme. The amount of maintenance collected or arranged² over the year through the 1993 and 2003 schemes increased to £1,270.5 million, of which £155.7 million was arrears (down from £167.5 million in the 12 months to March 2013).

Receipts of child maintenance

During 2013/14, 4.8 million individual receipts were recorded, a 4.8 per cent increase in volume compared to 2012/13. Total monies received were 2.4 per cent higher at £847 million (2012/13: £827 million). Of these, 94 per cent of receipts by volume (2012/13: 92 per cent) and 91 per cent by value (2012/13: 89 per cent) were received electronically.

By value, 65 per cent of receipts from non-resident parents were paid using the following methods via the collection service: direct debit, deduction from earnings orders via employers and payment by debit or credit card. This represented an increase of 2 per cent over 2012/13 by value and 3 per cent by volume. Within the collection service, direct debit and deduction from earnings orders result in the highest levels of compliance; collection by debit or credit card is particularly effective for one-off payment of arrears.

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 Support Agency following a request from the parent with care. If the Child Support Agency becomes aware that the Maintenance Direct arrangement has changed, the calculation is adjusted.

A further 21 per cent of receipts were executed under the Faster Payments system (2012/13: 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 (2012/13: 4 per cent). More than 99 per cent of these failures are initiated by non-resident parents and the most common reasons being the cancellation of a direct debit instruction or insufficient funds in the paying account.

Payments of child maintenance in the statutory schemes

During 2013/14 the number of individual payments to parents with care rose by 6 per cent to 9.1 million, representing an increase in volume of 0.5 million transactions, whilst the total value of payments rose by 3.5 per cent, consistent with overall receipts. More than 99 per cent of payments to clients by value (99.9 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 an employer through 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 2013/14, fewer funds were paid out than were received. Total net payments to the Secretary of State fell by £2.5 million, or 9 per cent. Around £2 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. This follows the repeal of Section 6 in October 2008, which meant all cases were 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.

Maintenance monies received are paid to parents with care as quickly as possible, and cash held at 31 March 2014 equated to around 2 per cent of the funds received during the year. The Department systems and policies do not support the use of Faster Payments as an outgoing payment on a routine basis.

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 Her Majesty's Treasury (HM Treasury). Despite the inherent challenge of translating 4.8 million receipts into 9.1 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, the Department is required to report on the value of outstanding child maintenance arrears and the collectability of those arrears, which totalled £3,980 million at 31 March 2014 on the 1993 and 2003 schemes.

Outstanding child maintenance arrears totalled £3,980 million at 31 March 2014 (an increase of £127 million on 1993 and 2003 scheme arrears at 31 March 2013 of £3,853 million), and were owed by non-resident parents to their respective parent with care and to the Secretary of State. The Department is responsible for pursuing their collection. The £3,980 million arrears owing have accumulated over the last 21 years.

Assessment accuracy

The Department 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. Recent advances in assessment checking and root cause analysis have resulted in consistent accuracy rates on 1993 and 2003 schemes. However, the issues that led to the modification of the audit opinion are unlikely to be substantially resolved.

Robert Devereux

Principal Accounting Officer

Statement of Accounting Officer's responsibilities

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As Principal Accounting Officer of the Department, I have responsibility for the Client Funds Account.

Under Section 7(1) and (2) of the Government Resources and Accounts Act 2000, Her Majesty's Treasury (HM Treasury) has directed the Department for Work and Pensions 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.

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

- observe the Accounts Direction issued by 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.

HM Treasury has appointed the Permanent Secretary of the Department as Accounting Officer of the Department for Work and Pensions.

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

3 December 2014

Governance Statement

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1 Introduction

- 1.1 The Department for Work and Pensions (the Department) 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 Treasury (HM Treasury) Direction under Section 7 of the Government Resources and Accounts Act 2000. The Department operates through the Child Support Agency for the 1993 and 2003 schemes and through the Child Maintenance Service for the 2012 scheme, these are collectively referred to as the Child Maintenance Group within the Department.
- 1.2 The governance arrangements set out in the Departmental Resource Account for year ended 31 March 2014 relate to the Child Maintenance Group as part of the Department.
- 1.3 This statement covers topics which are specific to the Child Maintenance Group operating within the Department with particular emphasis on the significant control weaknesses identified in relation to child maintenance.

2012 scheme

- 1.4 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 effectively ceased. Cases on the existing 1993 and 2003 schemes are being gradually closed, requiring parents to choose between making their own, family-based arrangement and putting in an application to the Child Maintenance Service.

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- 1.5 The intention is by the end of 2018 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.
- 1.6 The 2012 scheme uses new operational, processing 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.

1993 and 2003 schemes

- 1.7 Many of the 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, a key part of the strategic solution remains with the introduction of the 2012 scheme.

2 Control challenges

2012 Scheme

2.1 Assessment Accuracy

- 2.1.1 The 2012 scheme utilises gross income obtained from Her Majesty's Revenue and Customs (HM Revenue and Customs) to assess maintenance liabilities for non-resident parents. Where HM Revenue and Customs do not hold historic income details or a where change to income is reported which exceeds the 25 per cent tolerance, caseworker intervention and decision making is required. Cash Value Accuracy has already reached 97.1 per cent. This was achieved whilst the system was evolving, the case load growing and additional aspects of the client journey being developed. There is a strong management focus on using this learning in the business in order to further drive up accuracy.

2.2 Management Information

- 2.2.1 Development of management information for 2012 Scheme. Work continues to develop the new Data Warehouse and, whilst it progresses, contingency reports have been developed to allow performance to be monitored. A strategy for the publication of information on the performance of the 2012 Scheme, delivered by the Child Maintenance Service, was published in February 2014³ and a number of releases of experimental statistics have been made.
- 2.2.2 For 2012 Scheme cases, system management information will improve our ability to show the age of debt when available.

³ <https://www.gov.uk/government/publications/publication-strategy-for-the-2012-scheme-administered-by-the-child-maintenance-service>

3 Significant control challenges

1993 and 2003 Scheme

3.1 Cases managed off the 1993 and 2003 systems

- 3.1.1 The Department operated two main child maintenance computer systems under the Child Support Agency umbrella during 2013/14. 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.
- 3.1.2 At the end of March 2014, there were 107,200 cases managed wholly off the 2003 system marginally higher than the 106,700 at the end of March 2013.
- 3.1.3 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.

3.2 Assessment accuracy

- 3.2.1 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.
- 3.2.2 Cash Value Accuracy in 2013/14 has remained broadly consistent with prior years at 98.0 per cent, compared to 98.2 per cent in 2012/13. Improving Cash Value Accuracy remains an area of focus and action to drive up efficiency continues, despite the difficult conditions caused by the movement of work as the Department balances running 2012 alongside the existing schemes, the absorption of new people and case migration.

3.3 Adjustments to assessments and arrears

- 3.3.1 In the 1993 and 2003 schemes the accuracy of adjustments is 88.4 per cent for 2013/14 which compares to 86.4 per cent in 2012/13. This improvement is as a result of considerable management attention during the year and a review of the debt adjustment procedures, which included the issue of specific procedures on how debt adjustments should be recorded and approved.

3.4 System and transaction controls

- 3.4.1 During 2013/14, the Department continued to utilise and improve the 1993 and 2003 child maintenance systems to ensure efficient processing of receipts and payments.
- 3.4.2 The small systems introduced in 2010/11 have continued to deliver robust and automated solutions, providing streamlined receipt and payment processing, accuracy and efficiency. In total, 98 per cent of child maintenance receipt processes on the 1993 and 2003 schemes continue to be managed by systems and solutions rather than requiring manual intervention.
- 3.4.3 Retaining and re-using historical data, in addition to utilising existing core data from the existing mainframe systems, has allowed the Department to obtain and deliver better management information on the 1993 and 2003 schemes.

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- 3.4.4 The 2012/13 process reviews, which identified major improvements to the processing of manual payments, have been maintained. The use of small system solutions to control and remove repetitive resource intensive tasks continues to bring significant resource savings and efficiencies, including full auditability and support to financial accounting requirements.
- 3.4.5 As in prior years, the 1993 and 2003 scheme element of Note 6 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).

3.5 Reimbursements to clients

- 3.5.1 The Department continued to make reimbursements to clients due to short-term timing differences in updating client change of circumstances across all schemes. These reimbursements are treated as a loss and recorded as such in the Department's Annual Report and Accounts.
- 3.5.2 Robust authorisation and controls introduced in 2011/12 continued but the value of these payments increased to £5.98 million in 2013/14, of which £3.3 million flowed through the Client Funds bank account.

3.6 Information Security

- 3.6.1 The control challenge remains to protect the vast amount of sensitive personal data necessary to assess and pay child maintenance while at the same time making efficient use of that data. Efficient use of data helps claimants and partnership working, for example with local government and other Departments. The Department's information security risk appetite formally remains low, but will continue to be reviewed to ensure it remains appropriate. However, the system introduced to manage the 1993 scheme, CSCS, is not security accredited and given its expected limited life there are no plans to pursue accreditation.

3.7 Management information

- 3.7.1 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 key performance indicators being met. However, some issues remained over the robustness, timeliness and completeness of this information, in particular:
- Stability of management information production for 1993 and 2003 Schemes. The Department produced many forms of performance reporting both for internal and external consumption. In the period, the production of management information was affected on occasion by problems centring on the data runs carried out by the Department's Information Governance and Security Directorate. Work is continuing to further improve the situation.
 - Ability to 'age' arrears. The 1993 and 2003 computer systems lack the functionality to 'age' arrears of balances due to the parent with care from the non-resident parent. This impacts the Department's ability to assess the collectability of debt. The cost of remedying this issue is considered prohibitive.

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 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: 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 Treasury (HM Treasury). These financial statements have been prepared under the accounting policies set out within them, namely:

- Note 6, detailing outstanding maintenance balances, which has been prepared on an accruals basis; and
- All other sections of the financial statements, which are prepared on a cash basis.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer of the Department for Work and Pensions (the Department) 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 and I provide three opinions on the financial statements:

- On note 6, 'Outstanding Maintenance Balances', I provide an opinion as to whether the note gives a true and fair view of the outstanding maintenance balances;
- On all sections other than note 6 'Outstanding Maintenance Balances', I provide an opinion as to whether the account properly presents the receipts and payments of the Client Funds Account and the cash balances held and that the account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions thereunder; and

- For all sections of the financial statements, I provide an opinion as to whether in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

I conduct my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

1. **Note 6: 'Outstanding Maintenance Balances'**

Adverse opinion on Note 6 'Outstanding Maintenance Balances'

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 2014.

Basis for adverse opinion on Note 6 'Outstanding Maintenance Balances' 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 2014 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 £114.2 million within the reported balance of £3.993 billion in Note 6 to the account.

2. All sections other than note 6, ‘Outstanding Maintenance Balances’

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 2014 and the cash balances held as at 31 March 2014; and
- The account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions thereunder.

3. Opinion on regularity for the Client Funds Account**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.

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 £858.4 million are shown in the Client Funds Account. I estimate that errors in underlying maintenance assessments resulted in overpayments of around £7.3 million and underpayments of around £6.9 million which are not in accordance with the relevant legislation.

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 35.

Sir Amyas C E Morse

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

12 December 2014

Receipts and Payments Statement for the year ended 31 March 2014

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| | Notes | 2013/14 £000's | 2012/13 £000's |
|--------------------------------|-------|-------------------|-------------------|
| Receipts | 2 | 858,427 | 827,300 |
| Bank interest | 3 | - | - |
| Total receipts | | 858,427 | 827,300 |
| Less payments to: | | | |
| Parents with care | 2 | 823,886 | 792,914 |
| Secretary of State | 2 | 25,317 | 27,779 |
| Non-resident parents/employers | 2 | 3,344 | 4,340 |
| Department in respect of fees | 2 | 317 | 326 |
| Total payments | | 852,864 | 825,359 |
| Net receipts | | 5,563 | 1,941 |
| Balance as at 1 April | | 18,766 | 16,825 |
| Balance as at 31 March | | 24,329 | 18,766 |

Statement of Balances at 31 March 2014

6

| | Notes | As at 31 March 2014 £000's | As at 31 March 2013 £000's |
|--------------|-------|----------------------------------|----------------------------------|
| Cash balance | 4 | 24,329 | 18,766 |

Notes to the account for the year ended 31 March 2014



1 Statement of accounting policies

The account has been prepared on a cash basis and in the form directed by Her Majesty's Treasury (HM Treasury). The outstanding maintenance arrears note records amounts owed by non-resident parents as at 31 March 2014, 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 1993/2003 scheme cases with arrears. The criteria used to assess collectability are explained in Section 5.1.

The term 'likely to be collected' denotes the Department for Work and Pensions (the Department) 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 22 per cent and the amount deemed potentially collectable by 3 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 55 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 36 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 pre-2008 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.

Included in the non child maintenance receipts is £6.7 million in relation to the transfer of funds to the Child Maintenance Group previously held by a third party agent in respect of girocheques which have not been cashed by clients. This was received into a new account separate to the main Client Funds bank account.

Monies are also received from the Secretary of State to refund non-resident parents in cases where an overpayment has been made and the amount is irrecoverable. This totalled £5.9 million (2012/13, £4.6 million) and is disclosed as a loss in the Department's Annual Report and Accounts 2013/14.

Included in the £824 million (2012/13, £793 million) paid to the parent with care is £2.2 million (2012/13, £2.1 million) paid to the Northern Ireland Child Maintenance and Enforcement Division to fund payments made on the Department's behalf.

The payments to the Secretary of State of £25.3 million, include payments of £20.6 million (2012/13 £27.8 million) that have been made in respect of funds received on cases where clients were in receipt of benefit at the time of the assessment, pre-October 2008. The repeal of Section 6 in October 2008 resulted in all cases being re-classified as private cases with no involvement with the benefit system. However, when funds are received which relate to periods when clients were in receipt of benefits these payments continue to be made to the Secretary of State. In addition to this a payment of £4.7 million was made to the Secretary of State, this relates to funds transferred to HM Treasury in respect of Girocheques issued but not cashed.

Other payment categories relate to refunds/reimbursements to non-resident parents and employees for overpayments of maintenance, totalling £3.3 million in 2013/14 (2012/13, £4.3 million). Also, payments were made to the Department in respect of fees for DNA tests and court costs, £0.32 million in 2013/14 (2012/13, £0.32 million).

Breakdown of Receipts and Payments via Scheme

| £'000 | 2003/1993/ Clerical | 2012 | Total |
|------------------------------------------------------------|------------------------|--------------|----------------|
| Receipts | 846,915 | 4,764 | 851,679 |
| Transfer in of 3rd party asset | 6,748 | - | 6,748 |
| Total | 853,663 | 4,764 | 858,427 |
| Less payments to: | | | |
| Parents with Care | 819,568 | 4,318 | 823,886 |
| Secretary of State | 20,565 | - | 20,565 |
| 3rd party asset transfer to HM Treasury | 4,752 | - | 4,752 |
| Non-resident parents/employers | 3,314 | 30 | 3,344 |
| The Department (Child Support Agency Fees and Court Costs) | 314 | 3 | 317 |
| Total | 848,513 | 4,351 | 852,864 |

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 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 2013/14 (2012/13, £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 accounts.

5 Outstanding maintenance arrears at 31 March 2014

Under the Accounts Direction dated 15 May 2013 issued by 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.

1993 and 2003 schemes

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 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.

2012 scheme

The 2012 scheme offers one simpler assessment type based on gross income and benefits in payment. The system pulls data automatically from HM Revenue and Customs and the Department's benefits system to carry out the assessment calculations.

5.1 Outstanding maintenance arrears – collectability

1993 and 2003 schemes

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 five 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, powers within the Child Maintenance and Other Payments Act 2008 were introduced, which 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.

In total £16 million has been written off under these powers across the 1993, 2003 and 2012 schemes in the financial year.

2012 scheme

The Department has not conducted collectability analysis on the 2012 scheme for this year due to the newness of the scheme and therefore the assumption has been made that all arrears are collectable.

6 Arrears Balances

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 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. The main activity to achieve this goal has now commenced and will impact on the arrears balance in the following financial years. 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 £1,075 million of the total outstanding balance as at 31 March 2014 is at least potentially collectable (31 March 2013, £1,152 million), of which £512 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 2014

| | £'000 | 2003 System | 1993 System | Clerical Case Database | CMS 2012 System | Total |
|----------------------------------------------------------------------|-------|------------------|------------------|------------------------------|-----------------------|------------------|
| Outstanding Maintenance Arrears as at March 2013 (Note a) | | 2,067,282 | 1,427,389 | 358,637 | 39 | 3,853,347 |
| Transfer between schemes (Note b) | | (3,566) | (439) | (1,338) | 5,343 | - |
| Write Off (Note 5.1) | | (4,704) | (10,881) | (435) | (14) | (16,034) |
| Maintenance charged in year and other adjustments (Note 6.2ii/c/d/e) | | 835,942 | 51,618 | 91,883 | 11,224 | 990,667 |
| Maintenance received in the year (Note 6.2iii) | | (664,648) | (85,656) | (80,503) | (4,630) | (835,437) |
| Outstanding Maintenance Arrears 31 March 2014 (Note 6.2iv) | | 2,230,306 | 1,382,031 | 368,244 | 11,962 | 3,992,543 |
| Collectability analysis (Note 5) | | | | | | |
| Likely to be collected | | 325,246 | 121,104 | 53,701 | 11,962 | 512,013 |
| Potentially collectable | | 409,875 | 85,929 | 67,674 | - | 563,478 |
| Uncollectable | | 1,495,185 | 1,174,998 | 246,869 | - | 2,917,052 |
| | | 2,230,306 | 1,382,031 | 368,244 | 11,962 | 3,992,543 |

Note a

1993 scheme cases are managed on both the 1993 and 2003 systems. 2003 scheme cases and 'trans' old scheme cases are managed on 2003 and on the clerical case database. The format of this note continues to report by system rather than scheme basis.

Note b

Transfer between schemes relates to the movement of arrears balances from 1993 and 2003 schemes to 2012 scheme.

Note c

The Child Maintenance Group makes an annual adjustment to the arrears total for duplicated suspended arrears on the 1993 system. Caseworkers have been reviewing the duplicated debt on a case-by-case basis and during 2013/14 the value of the estimate of double counted arrears reduced by £9.6 million. The effect is to increase reported arrears by £9.6 million.

Note d

To remove a double count of arrears for cases managed off system, the Department has historically calculated an adjustment to the accounts on a NINO basis. Improved reporting at case level has allowed for a more accurate adjustment to be calculated, however this has reduced the adjustment by £37 million.

Note e

The effect of Note c / d is an increase in reported arrears of £46.6 million. The increase in arrears during 2013/14 was £139.0 million, of which £90.4 million was a true increase.

Note 6.1: 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 a) | | 1,945,689 | 1,519,427 | 332,679 | – | 3,797,795 |
| Maintenance charged in year and other adjustments (Note b/c/d) | | 743,161 | 18,398 | 104,113 | 45 | 865,717 |
| Maintenance received in the year (Note 6.2iii) | | (621,568) | (110,436) | (78,155) | (6) | (810,165) |
| Outstanding Maintenance Arrears 31 March 2013 (Note 6.2iv) | | 2,067,282 | 1,427,389 | 358,637 | 39 | 3,853,347 |
| <hr/> | | | | | | |
| Collectability analysis (Note 5) | | | | | | |
| 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

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 b

The Child Maintenance Group makes an annual adjustment to the arrears total for duplicated suspended arrears on the 1993 system. Caseworkers 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 c

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 d

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.

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 2013/14 was £991 million (2012/13, £866 million); this increase comes despite a declining average maintenance assessment and greater use of the 'maintenance direct' and 'direct pay' services, which removes the compulsion to use the Department's collection service, however this value is impacted by recalculation of adjustments to the accounts outlined in Note 6.0 c/d/e.
- ii) Child Maintenance Group has continued to make use of write off powers introduced as part of Write off and Part Payment legislation introduced in 2010, with £16 million being written off on 1993, 2003 and 2012 schemes.
- iii) 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, assignment and allocation contributes to the difference between the value of the receipts in the Receipts and Payments Statement and the receipts in Note 6. The total value of receipts allocated to cases in 2013/14 was £835 million (2012/13, £810 million). Additionally the Receipts and Payments Statement includes the transfer of funds from 3rd party to the Department (Note 2 refers) and payments of non child maintenance not reported in Note 6, which purely covers child maintenance.
- iv) Outstanding maintenance arrears as at 31 March 2014. 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 Events after the reporting date

The authorised date for issue is 12 December 2014.

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

8

Introduction

The statutory child maintenance schemes in Great Britain are delivered by the Department for Work and Pensions (the Department), which is leading the schemes through a period of major reform. For the first time since 2003, a new scheme has been introduced (the ‘2012 scheme’) which is intended to eventually process all child maintenance cases in Great Britain. At present the Department is running the older ‘legacy’ schemes concurrently with the new ‘2012 Scheme’, while it begins to transfer cases from one to the other.

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 non-resident parents to either parents 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 2014 for the reasons set out 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.

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 2014 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 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 2013-14, the Department received £851.7 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 £7.3 million (0.9 per cent of receipts), while others have made underpayments totalling £6.9 million (0.8 per cent of receipts). The cases affected by overpayments are unconnected to the cases affected by underpayments, and consequently I have had to consider the gross error 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.

Incorrect maintenance assessments

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.

Transactions passing through the 2012 Scheme during 2013-14 form approximately 0.5 per cent of receipts. Therefore, the primary driver of irregularity within the 2013-14 Account remains error within the legacy schemes, and this is discussed further below. More detail on the 2012 Scheme is included under the heading '2012 Scheme'.

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 assessed 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.

The Department's Client and Process Assurance 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. The Client and Process Assurance Team reported that for the legacy schemes the Department achieved a cash value accuracy⁴ of 98.0 per cent in 2013-14 (98.2 per cent in 2012-13). Table 1, below, shows the percentage of maintenance assessments that Client and Process Assurance Team found to be accurate has remained consistent over the past four years.

Table 1: Accuracy of maintenance assessments – legacy systems

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|-------------------------------------------------------|----------------|----------------|----------------|----------------|
| Cash value Accuracy ⁴ | 97% | 98% | 98% | 98% |
| NAO estimated irregular receipts and payments (gross) | 3.1% | 2.7% | 1.7% | 1.7% |

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

The Client and Process Assurance Team performs root cause analysis on errors found, to allow focussed training and improvements to processing procedures.

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 £3.993 billion as at 31 March 2014 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.

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 at 90 per cent.

I am required to give an opinion on whether the outstanding maintenance arrears balance as at 31 March 2014 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 2014. The misstatement is primarily a result of:

- a) Incorrect maintenance assessments (as outlined in above); and
- b) Incorrect adjustments to arrears.

Incorrect maintenance assessments

Where the Department has made incorrect maintenance assessments, for the reasons set out above, 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 2014 is significant.

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 to 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 £114.2 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.

A separate part of the Department's Client and Process Assurance Team measures the accuracy of adjustments to arrears and undertakes a similar root cause analysis as with the accuracy of maintenance assessments to allow focussed training and improvements to processing procedures.

Table 2, below, shows that in 2013-14 the Department continued to improve the accuracy of adjustments made to arrears. However, the Department has no plans to correct cases where errors have occurred previously. 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 2010-11 to 2013-14

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|----------------------------------------------------------|---------|---------|---------|---------|
| Percentage of cases with accurate adjustments to arrears | 86% | 91% | 86% | 94% |

The clerical case database

The two issues described above are the primary causes 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 107,000 cases managed in this way. There are two specific problems 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 either the Department or 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 clerical case 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 online 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 now managed on the clerical case database. However, 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, the Department has assessed the collectability of the outstanding maintenance balances and disclosed the results in Note 6 to the Account. 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.

The Department'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 pay their outstanding arrears. 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 2014 which will actually be collected in the future may be significantly different to that reported as 'likely to be collected' within Note 6.

Financial Reporting and IT Systems

Since the inception of the statutory child maintenance schemes there have been significant problems with the legacy 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 use 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. 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.

2012 Scheme

Since 25 November 2013, all new child maintenance applications are processed by the Department under the 2012 Scheme. By 31 March 2014, the 2012 Scheme caseload was 45,000, and during 2013-14 the Department processed total receipts of £4.7 million relating to the 2012 Scheme. For 2013-14, the transactions passing through the 2012 Scheme form only 0.5 per cent of receipts, and 0.3 per cent of arrears. However, although the 2012 Scheme has a minimal impact on the 2013-14 Account, that impact will increase in future years.

The Department has also started to close existing cases on legacy systems, and part of the closure process is to give parents the option of starting a new case on the 2012 Scheme. The closure process will take place in segments, with the Department intending to complete the process in 2018.

Incorrect maintenance assessments

Within the 2012 Scheme, I have estimated that for 2013-14, overpayments made by non-resident parents amount to £0.04 million (0.9 per cent of total receipts), while underpayments amount to £0.1 million (2.0 per cent of total receipts). These are included within the total over and underpayments outlined under 'Irregular Receipts and Payments' above. These represent a greater percentage of error than that within the legacy schemes, although they compare favourably with the accuracy of assessments at a similar point in the roll-out of the 2003 Scheme.

As described below, the 2012 Scheme is supported by a new IT system, which interacts directly with Her Majesty's Revenue and Customs (HM Revenue and Customs) and the Department databases to obtain information necessary to produce maintenance calculations. The Department anticipates that, over time, this will result in quicker, more accurate assessment calculations. In the future, therefore, the Department expects accuracy levels to improve, but at the current early stage of the 2012 Scheme, these expectations are still to be proven.

Arrears

Where the Department closes a case on a legacy system and opens a new case on the 2012 Scheme, any arrears balances will transfer to the new case. The Department currently has no plans to undertake a comprehensive exercise to correct all cases which have previously been subject to incorrect maintenance assessments or incorrect adjustments to arrears. As such, errors on arrears already in the legacy systems are expected to continue if the cases transfer on to the 2012 Scheme. It is likely, therefore, that a material error on arrears will remain in future years.

Financial Reporting and IT Systems

The Department has developed new IT systems to underpin the 2012 Scheme. Full IT functionality to support both management information for the 2012 Scheme and the latter stages of case closure, is dependent on completion of the data warehouse, which has been substantially delayed. Existing functionality has been sufficient for the current year, given the low volume of receipts and payments relating to the 2012 Scheme, but will become increasingly problematic as the volume of cases on the 2012 Scheme increases.

The new systems, alongside the simplified assessment rules, are designed to reduce manual intervention, and therefore improve the timeliness and accuracy of assessments. In particular, the systems interface directly with income details held by HM Revenue and Customs, which has resulted in automated income details for 90 per cent of applications. The anticipated increase in volume of cases on the 2012 Scheme in 2014-15 will better test the effectiveness of these changes.

My assessment of the early progress of the 2012 Scheme is covered in more detail in a report published in June 2014: www.nao.org.uk/report/child-maintenance-2012-scheme-early-progress-2/

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