



National Audit Office

Helping the nation spend wisely

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Mr D Hartnett
HM Revenue & Customs
100 Parliament Street
LONDON
SW1A 2BQ

Our Reference CM/gm
Your Reference
Date 22 November 2007

Dear Dave

In the wake of the Chancellor's statement on Tuesday, questions have been raised about the way in which the decision was taken to make Child Benefit data available to the National Audit Office in March 2007 for audit.

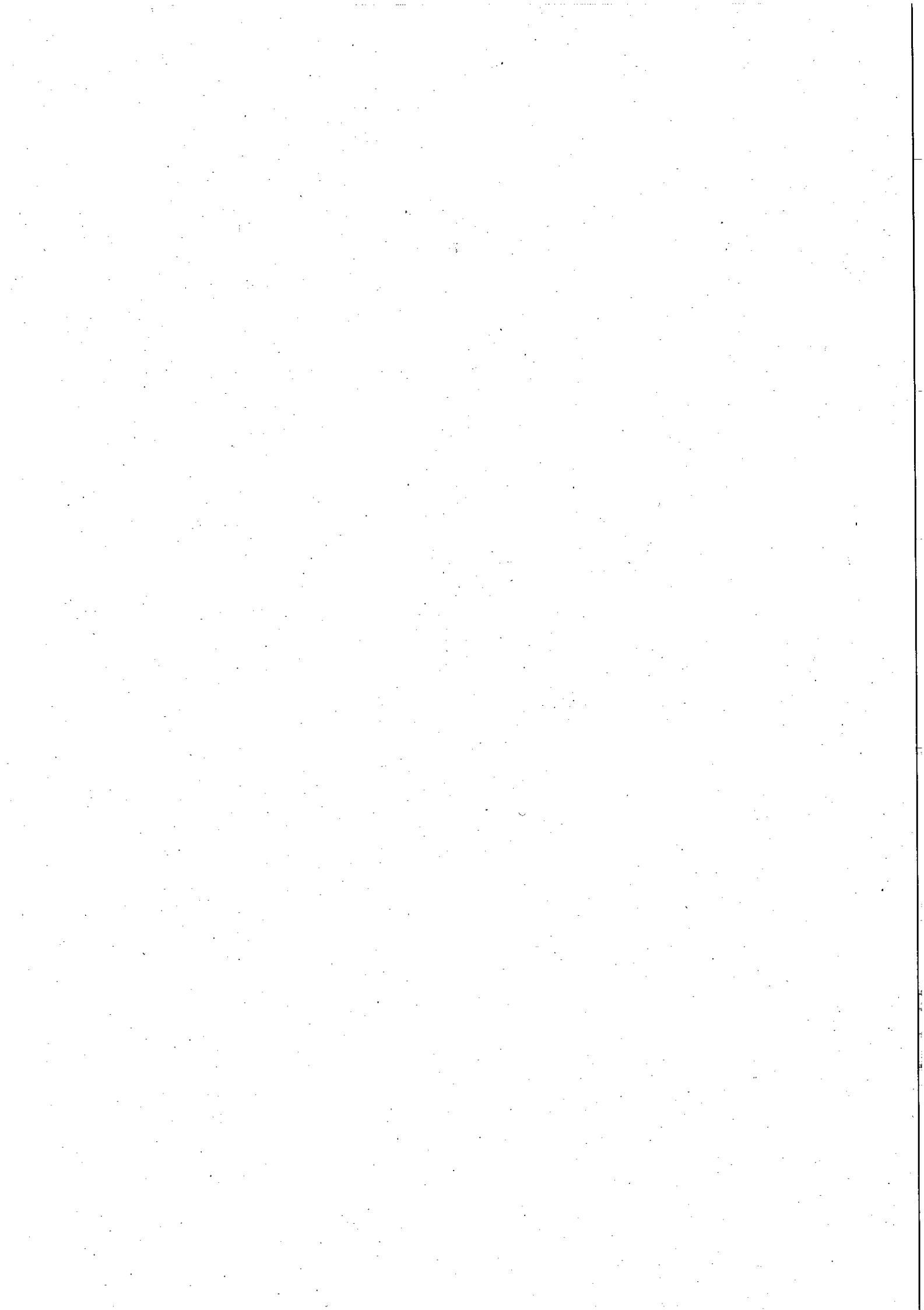
We met this morning and agreed that the HMRC Process Owner for Child Benefit was a copy recipient of an e-mail dated 13 March 2007. The e-mail was sent by a junior HMRC manager. It refers to a reluctance to provide data in the filtered form the NAO had requested. We also agreed that our own NAO audit director was aware of this position, and that we have no evidence that the Process Owner for Child Benefit made the decision to release the data. The National Audit Office is not making an issue of any of this.

We have acknowledged from the start that there are lessons to be learned on both sides, especially in giving due emphasis to data security issues at all stages in the audit process. We have cooperated fully with the Government in dealing with the loss of this data, and as the Chancellor has said, we have undertaken to review our own procedures for requesting data to confirm that these remain in line with best practice and apply any lessons arising. And we will of course be playing our part in ensuring that Kieran Poynter's enquiry sees all relevant documents and other evidence.

Yours sincerely

CAROLINE MAWHOOD







**HM Revenue
& Customs**

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Date 22 November 2007
Our Ref
Your Ref

Dear Caroline

HMRC DATA LOSS

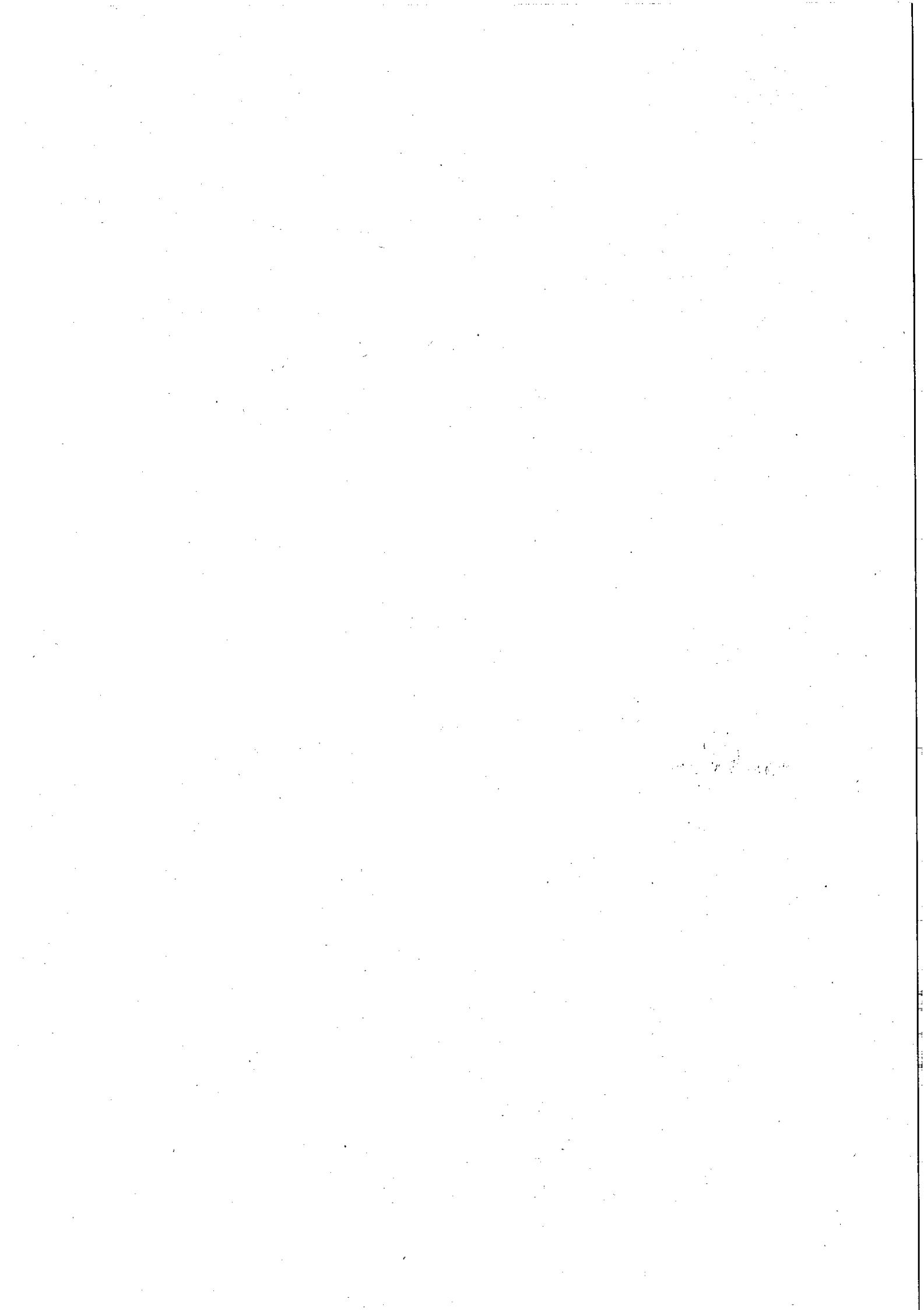
Thank you for your letter of today's date which on current evidence reflects our understanding of the position.

Yours sincerely

DAVE HARTNETT

Information is available in large print, audio tape and Braille formats.
Type Talk service prefix number – 18001





From: [REDACTED] (Benefits and Credits) [REDACTED]
Sent: 13 March 2007 15:23
To: [REDACTED]
Cc: [REDACTED]@nao.gsi.gov.uk; [REDACTED] (Benefits and Credits); [REDACTED] (Benefits & Credits); [REDACTED] (KAI Analysis)
Subject: FW: URGENT Extract from Compliance scan
Importance: High
Sensitivity: Confidential

Hi [REDACTED]

[REDACTED] has passed this over to me for my views.

Your original request was for 100% scan of the data, and fortunately a scan was complete earlier this year, and we have shared this with you at no additional cost to the department. I know you are meeting with Compliance and KAI colleagues on Wednesday and all your issues regarding data extracts etc should be taken up with them. I must stress we must make use of data we hold and not over burden the business by asking them to run additional data scans/filters that may incur a cost to the department.

Trust this is satisfactory for now and look forward to seeing you Thursday

From: [REDACTED] (Benefits & Credits)
Sent: 13 March 2007 15:06
To: [REDACTED] (Benefits and Credits)
Subject: FW: URGENT Extract from Compliance scan
Sensitivity: Confidential

As discussed

From: [REDACTED]@nao.gsi.gov.uk]
Sent: 13 March 2007 14:41
To: [REDACTED] (Benefits & Credits)
Cc: [REDACTED]
Subject: RE: URGENT Extract from Compliance scan
Sensitivity: Confidential

Thanks for this. I have tried to understand it and put it into my testing requirements. From my review of the extract and our telephone conversation, I think it is possible to use the live data dump but need to segregate it into two files:

1) Starters
The file should segregate [REDACTED]

[REDACTED] paragraph contains sensitive technical information

2) Leavers

The file should segregate [REDACTED]

[REDACTED] paragraph contains sensitive technical information

A few queries

- a) Is the above possible to do before handing it over or do we have to take the entire file with all of the data? If this is not possible, how big is this file which I assume will be zipped. I might be able to make use of the data as it stands but I will need to check. I will need to know the total number of records as a check to ensure that I have downloaded from the CD disk(s) the right number of records.
- b) I do not need address, bank or parent details in the download - are these removable to make the file smaller?
- c) Would the file have initial headings or would it be necessary insert these? It is easier with headings but this is not essential.
- d) How much lead time do I need to give if the segregation actions are possible?
- e) How much lead time do I need to give to get records out of archive?

Hope this helps

Regards

From: [REDACTED] (Benefits & Credits) [REDACTED]
Sent: 13 March 2007 13:11
To: [REDACTED]
Cc: [REDACTED] (Benefits and Credits)
Subject: FW: URGENT Extract from Compliance scan
Importance: High
Sensitivity: Confidential

[REDACTED]
Please see attached extract from the Compliance sample as requested. I hope you make sense to you than us however; this is the format the extract arrived in so it will give you an idea of style for future reference. [REDACTED] has also provided a URAC document which should provide a brief explanation of the data in the extract.

Best of luck!

[REDACTED]

From: [REDACTED] (CBO Washington 1)
Sent: 13 March 2007 08:20
To: [REDACTED] (Benefits & Credits)
Cc: [REDACTED] (CBO Washington 1); [REDACTED] (CBO Washington 1)
Subject: FW: URGENT Extract from Compliance scan
Importance: High
Sensitivity: Confidential

[REDACTED]
Please find attached the [REDACTED] data scan [REDACTED] and a sample of the data extracted by EDS based on those requirements. The [REDACTED] should help NAO decipher the information. The scan is run against the old [REDACTED] Awards sections and I have randomly selected and attached part of the [REDACTED]

If anyone has any further questions please do not hesitate to contact me. I will be out of the office Wednesday 14/03/07, but feel free to try my mobile.

Regards,

[REDACTED]
HM Revenue & Customs
[REDACTED] (Personal Tax and Credits)
Child Benefit Office
Mainframe Systems
[REDACTED]
[REDACTED]
[REDACTED]

 Please consider the environment and do not print this email unless absolutely necessary

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From: [REDACTED]
Sent: 02 October 2007 09:56
To: [REDACTED]@hmrc.gsi.gov.uk
Cc: [REDACTED]
Subject: NAO request for data scans being carried out for Compliance

Hi as requested,

Please could we have a copy of the data scans being carried out in early October 2007 and early February 2008. We require this data for our audit. Last time we had a 100 zipped files on 2 CDs. Please could you ensure that the CDs are delivered to NAO as safely as possible due to their content.

Please could you send a copy of the data scan to:

[REDACTED]
National Audit Office

[REDACTED]
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

[REDACTED]
[REDACTED]
Please could you ring [REDACTED] when you have safely received the two CDs, his number [REDACTED] has requested this so that he can pass on the password(s) in an email.

Regards

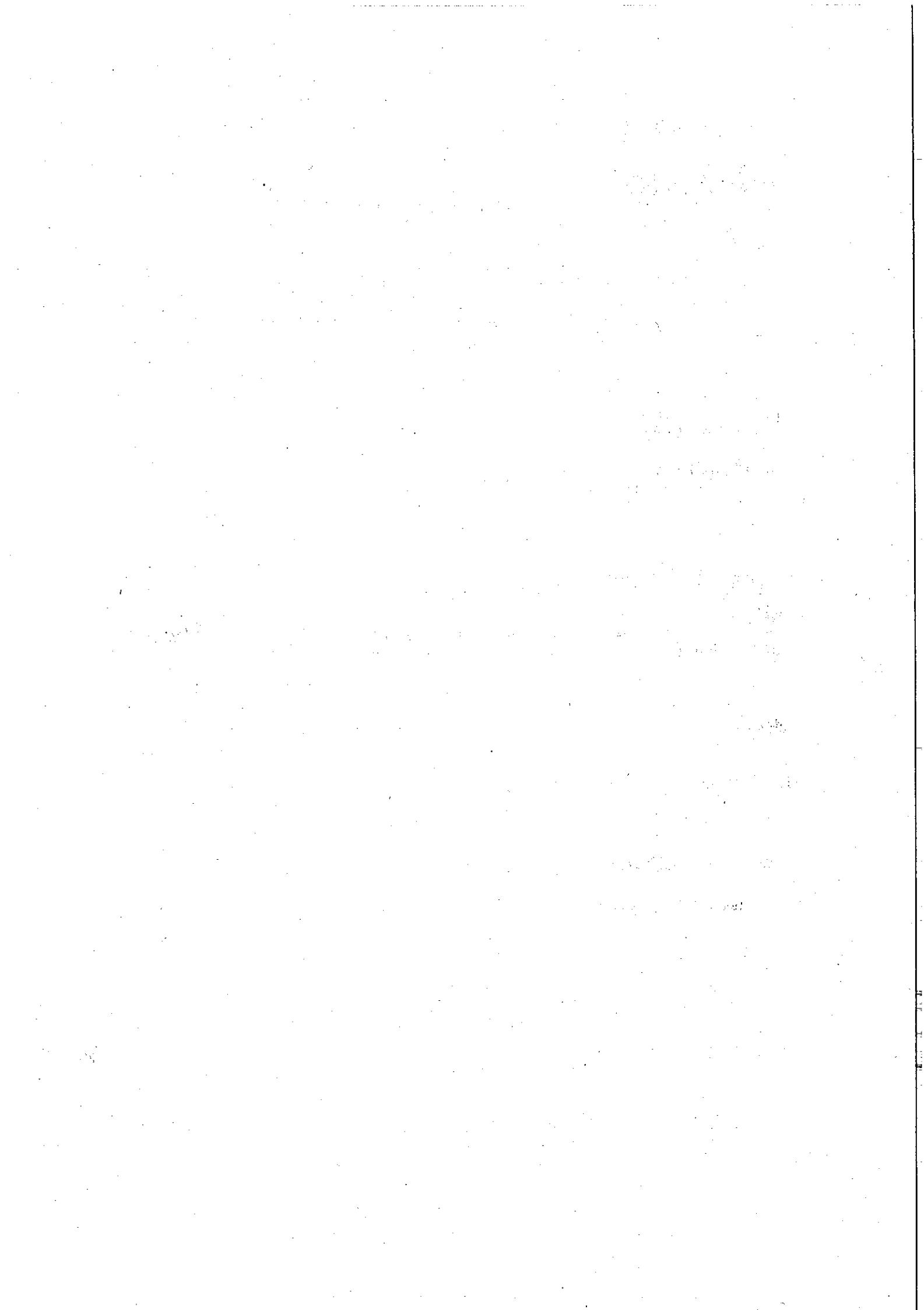
[REDACTED]
Audit Principal

[REDACTED]
National Audit Office

[REDACTED]
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

[REDACTED]
Web: [REDACTED]

Helping the nation spend wisely





National Audit Office

Director
Tax Credits and Benefits
HM Revenue & Customs
100 Parliament Street
London
SW1A 2BQ

Helping the nation spend wisely

GTN 3935
Switchboard +44(0)20 7798 7000
Facsimile +44(0)20 7798 7070

Direct Line [REDACTED]

Reference [REDACTED]
Date 9 November 2007

Dear [REDACTED]

OUR AUDIT OF CHILD BENEFIT

Introduction

I thought that it might be helpful to explain more clearly why we are auditing Child Benefit and why we have sought access to transaction history data relating to Child Benefit Awards.

Our audit objective

We examine Child Benefit as part of our audit of the Department's annual Resource Accounts. Child Benefit constitutes expenditure of some £10 billion, accounting for two-thirds of the Department's net total resources. By any objective measure, Child Benefit is material to the Department's Resource Accounts and we have to carry out substantive audit work on this figure, if we are to obtain sufficient, appropriate evidence to support the C&AG's audit opinion.

Our audit approach to Child Benefit Awards

In our audit of both the 2004-04 and 2005-06 Resource Accounts, in gaining assurance about Child Benefit expenditure, we relied substantially on the Department's own random enquiry programme (review of some 1,500 cases) as our main source of evidence, supported by our own random re-performance of a sample of those cases and related procedures.

In preparing our audit approach for 2006-07, we re-examined the way in which we obtained audit assurance for Child Benefit. We concluded that the existing approach, on its own, would no longer provide us with the necessary independent evidence that we would need to support the C&AG's audit opinion. We reached this view principally by reference to the new International Standards on Auditing, which are more exacting on auditors than the previous standards. We also took account of the results of the random enquiry and the extent of error identified in those programmes.

We signalled the change in our audit approach in our 2006-07 Resource Accounts Audit Strategy, though without being explicit about the additional substantive testing that we proposed, nor addressing how we might extract this data. Our 2007-08 Audit Strategy again reinforced our new approach, this time supported by a separate High Level Audit Plan for our examination of Child Benefit Awards. Whilst both these documents provided indicative sample sizes for our Child Benefit testing, they do not address

the question of how we had planned to access the Child Benefits data to enable us to carry out the analysis and sampling that planned to do.

At a corporate level, the use of Computer Assisted Audit Techniques in our audit of the Accounts of central government sector bodies has been a feature of our work for many years. We are used to have access to and indeed receiving data from clients (transaction history files etc) containing accounts and payments information that we analyse, using specialist audit interrogation software. What has changed recently is that these procedures, which were largely discretionary under the previous auditing standards, are now mandatory.

When we ask for such information, ideally, we are able to specify the precise data elements that we would either like access to or which we would like to receive for interrogation. Usually, we have a discussion with the client about how we might extract the precise data fields that we need for us to satisfy our evidential needs.

Data protection considerations

We do take seriously our data protection responsibilities and I recognise that the security incident that has arisen here has occurred solely as a result of a data request that we initiated; and I accept responsibility for that. Equally, in this case, having redefined the direction of our audit approach for Child Benefit Awards, I should have personally ensured that, as data owner, you were fully apprised of what we planned to do; and what access we would need to the Child Benefit data. I should also have ensured that the Finance Director was also apprised of and understood the implications of the change in audit approach. Neither of these contacts happened and I apologise unreservedly for the fact that I did not give you (both) the opportunity to discuss with us how we might be able to sample Child Benefit data; and carry out the other analysis that we had envisaged on the awards.

I also confirm that I have asked KPMG to provide me with assurances that they have deleted or erased the data that they analysed as part of our 2006-07 Resource Accounts audit; and that we have similar procedures in place to ensure that we delete the 2007-2008 data that we have received. I will let you have a copy of this confirmation once I have received it.

Looking forward

We are obviously aware that there are a number of lessons to be learned from this incident. Clearly, we have to suspend the way in which we are currently accessing Child Benefit Awards data; and I am happy to confirm that we have now done this. We will need to discuss with you how we can meet our obligations under the auditing standards whilst helping you to maintain the high standards of data security sufficient to satisfy the responsibilities we both have for data protection.

Yours sincerely


Second Director, HM Revenue & Customs (Financial)

BRIEFING FOR CHANCELLOR OF EXCHEQUER ON THE NAO'S REQUEST FOR DISCS OF INFORMATION

1. For the audit of the 2006-07 HMRC resource account, which records the annual expenditure on child benefit, the NAO requested data on child benefit awards. The NAO needed the child benefit number, the claimants National Insurance number and their name in order to take a sample to confirm the completeness and accuracy of the child benefit payments and that the right recipient had received the correct amount.
2. On 13 March 2007 NAO emailed HMRC explaining what data we wanted and what we intended to do with it. We requested the more sensitive elements to be removed including bank details and addresses. HMRC stressed to us that they would prefer us to use the data that they held and not run additional data scans/filters that would incur a cost to the department. Therefore they provided the data scan in full on 16 March. The NAO returned the Compact Discs (CDs) to HMRC on 16 April.
3. On 2 October, as part of their preparations for their 2007-08 audit, the NAO requested from the Department a scan of the 2007-08 data. HMRC told us it would take a week to produce the discs.
4. HMRC told the NAO that on 18 October they had sent to the NAO, via TNT, two CDs containing a scan of the Child Benefit Awards database in a sealed envelope contained in a tax post wallet. This wallet does not require a signature from the recipient when it is delivered. On 24 October NAO contacted HMRC to say the discs had not arrived and, in order to avoid delaying the audit, asked for a second set of the discs. Despite searches of the relevant offices there was no evidence that the tax post wallet had arrived at our offices at 157- 197 Buckingham Palace Road.
5. HMRC sent a second set of data on 24 October which arrived on the 25 October – this was by registered overnight courier by TNT. Again the NAO did not need the sensitive data including bank details and addresses but the HMRC supplied the full data as in March 2007. On 25 October we confirmed receipt of the second set of CDs and that we had still not received the first set of CDs. HMRC contacted the NAO by email about the missing discs on 5 November.
6. The NAO moved offices over the three weekends starting with 3-4 November and ending on 17-18 November. The HMRC audit team moved on 3-4 November 14 days after HMRC said they had sent the CDs.
7. On 8 November HMRC contacted the NAO to say that they had raised a security incident on the missing CDs. On the same day we conducted a further search following the expected route of delivery of them in our premises to confirm that we had not received the CDs and found no evidence that we had. The Director responsible wrote to HMRC on 9 November explaining why we needed the data. On 15 November the NAO's Security Officer sent an email to all NAO staff asking them to see if they had received a Tax Post package.
8. Throughout all of this the NAO's prime concern has been to ensure that the missing information is found. The NAO therefore have been fully co-operating with any inquiries by the HMRC and the Metropolitan Police. On Saturday a search team

from HMRC searched the post room and the potential route of delivery at 157-197 Buckingham Palace Road. On Sunday a larger search team searched the whole of the NAO building at 157-197 Buckingham Palace Road. On Sunday afternoon the Metropolitan Police searched 151 Buckingham Palace Road. Three of our staff who are involved in the request for the information have willingly given statements to the Metropolitan Police.

9. The NAO attaches the highest priority to data security and so the NAO's Security Officer has been fully involved and we will continue to ensure that our processes are in line with best practice. We shall review our arrangements accordingly though we have found no defects in them.

NAO
5.50pm
19 November 2007