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Dear Financial Secretary

Today's publication of the Kieran Poynter and IPCC reports into the loss of the Child Benefit data was an important milestone for HMRC. This loss was the most serious incident in the department's history and damaged HMRC's reputation for handling our customers' data.

While the IPCC found no evidence whatsoever of misconduct or criminality by any member of HMRC, the two reports make clear that the data loss was avoidable and a result of serious failings within HMRC. In short, it should never have happened.

Immediately following the data loss, both HMRC and the police carried out extensive searches in an attempt to locate the missing data. While the data has not been found I can confirm that there is no evidence of any fraudulent activity as a result of the loss.

I am grateful to both Kieran Poynter and the IPCC for their thorough reports. HMRC is absolutely committed to delivering all of their recommendations and to ensuring data security remains an explicit priority in the future.

As we have discussed, since the incident HMRC has significantly strengthened data security, including removing the ability of all staff to save data to portable media such as CDs and memory sticks and reintroducing this only where there is a compelling business case to do so.

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We have also introduced tight restrictions on the bulk transfer of sensitive information and are conforming to new cross government rules on encryption. We are also reviewing all bulk data transfers and have stopped those which are not business critical. And we are working with our stakeholders to further improve the security of bulk data transfers that do still need to be made.

The progress made by HMRC since the data loss occurred is acknowledged by Mr Poynter. He notes that of his 45 recommendations, which are designed to ensure HMRC achieves the highest standards of data security, HMRC has made good progress on 39, including 13 which have been implemented. He also notes that the issues that led directly to the data loss have now been addressed.

However, despite the good progress, Mr Poynter makes clear that a great deal of further work will be required "to bring HMRC up to and sustain the world class standard for information security to which it now properly aspires." I agree with his assessment and am determined that HMRC continues to prioritise the implementation of these recommendations.

Mr Poynter's report identifies three areas for urgent action. Firstly, he highlighted a weakness in specific information security policies and criticised existing policies as too complicated and difficult for staff to navigate. We have addressed this through enhanced security policies, including issuing every staff member with new data security rules written in plain English and ensuring they are briefed on these by line managers across the Department.

The second issue identified by Mr Poynter is inadequate awareness, communication and training on data security. Improvements on this front have included delivering mandatory 2½ hour face to face data security training for all staff as well as an ongoing programme of engagement with staff, awareness raising and regular training updates. This will help ensure that the data security rules become embedded in HMRC staff culture.

The third issue identified by Mr Poynter is a lack of clarity around the governance and accountability for data guardianship. We have addressed this by appointing Data Guardians across the department to act as experts and champions of data security in their business areas. These people play a lead role in individual business areas in setting, monitoring and enforcing data security.

In addition, as you are aware, we have introduced a new management structure that gives Executive Directors much clearer accountabilities for lines of business (Personal Tax, Business Tax, Benefits & Credits, and Enforcement & Compliance).

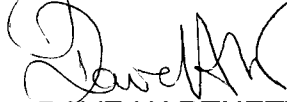
Alongside this immediate work HMRC will be exploring Kieran Poynter's long term vision for data security in HMRC, which includes a single customer record, phasing out physical data transfers and working to eliminate paper records. This vision is consistent with HMRC's strategic direction and existing projects such as Modernising PAYE Processes for Customers (MPPC3) will take us part of the way there. For the longer term it will require investment to bring greater coherence to our IT infrastructure and make the business changes necessary.

I also welcome the Information Commissioner's support for implementation of the recommendations of the Poynter review.

HMRC is focussed on continuing to deliver substantial improvements to the way we manage and secure data. Mike Clasper, who has been appointed as the new

Chairman of HMRC, has expressed his commitment to taking this substantial programme of work forward and will work to ensure HMRC is setting a very high standard in information security.

*Your sincerely*



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