

The Pension, Disability and Carers Service Statement on Internal Control

Scope of responsibility

1. The Pension, Disability and Carers Service is part of the Department for Work and Pensions (DWP). It administers benefits to pensioners, disabled people and carers. I am accountable to the DWP Permanent Secretary for £89.9 billion of expenditure in pensions and benefits, serving 15 million customers.

2. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the agency's policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

3. I am accountable for the delivery of Pension, Disability and Carers Service objectives, to the standard defined in operational targets. I deliver these objectives within a framework of policies developed by Ministers, the Permanent Secretary, the Welfare and Wellbeing Client Group and Pensions Client Group as outlined in the Department's Public Service Agreement. I am responsible for developing strategies and plans to deliver the objectives using the resources allocated to the agency.

4. The agency works with other organisations to ensure customers receive the help and support they require. Agreements are in place with other parts of the DWP to govern our co-operation. This includes Jobcentre Plus and the Department's Shared Services organisation which delivers common employee and financial transaction services. A substantial part of Pension, Disability and Carers Service activity – including IT and other hard infrastructure, facilities management, medical services, and other office support functions – is delivered via external commercial partners. Contract management arrangements are in place and managed through the Department's Commercial Directorate, whose role is to ensure commercial activity is carried out legally and provides best value for money.

5. The work of the Pension, Disability and Carers Service relies on sharing data and developing policy and practice with other government departments and other organisations.

6. In addition to the delivery of day-to-day services to customers, I am also accountable for investment activity. The Pension, Disability and Carers Service investment portfolio included three major projects during the year, namely, Pension Transformation Programme, Pension Reform Delivery Programme and Customer Information System. The Transformation of Government Programme 'Tell Us Once' is within my overall accountabilities. I am the Senior Responsible Officer for all four programmes.

7. As the DWP Business Continuity Director I am responsible for ensuring that our emergency planning strategies are robust and fully tested, and enable us to respond effectively to disruption and continue to deliver key services to our customers, whatever the circumstances. I have lead responsibility within DWP as Head of Profession for Operational Delivery.

8. The agency is working collaboratively with the Department's centrally managed Change Programme. With the Chief Executive for Jobcentre Plus I jointly Chair the Implementation Steering Group ensuring that the projects of this programme deliver tangible operational improvements.

The purpose of the system of internal control

9. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

10. I manage and provide leadership of the agency's risks with my Executive Management Team (EMT), with support from the dedicated Pension, Disability and Carers Service Risk Team. My EMT consider the strategic risks to delivering the Pension, Disability and Carers Service objectives and report them in the Strategic Risk Register. Executives have clear accountability to ensure that systems are in place to manage risk within their Directorates and are required to provide assurance as to the effectiveness of these risk management processes through the annual Letter of Assurance (LOA) process.

11. The merger of the Disability and Carers Service and The Pension Service in April 2008 and the formation of the new agency provided an opportunity to review risk management capacity and consolidate its combined risk assessment and management.

12. Pension, Disability and Carers Service adopts the DWP Risk Management Policy and strategy as its own and adheres to the standards and common language of risk in line with the DWP Executive Team directive to support a common methodology.

13. With my EMT, Board and Audit Committee I ensure that risk management is clearly linked to the success of our objectives and is built into our planning, management and reporting systems. Through a process of independent challenge by internal audit and the non-executive members of the Pension, Disability and Carers Service Audit Committee and Board, I ensure

that risk management is routinely appraised. Internal audit's work programme is aligned with the strategic risks. Their quarterly reports to the Audit Committee and regular engagement with executives help inform their future work programme, capturing key concerns on the control environment.

14. The Pension, Disability and Carers Service Balanced Scorecard is the agency's vehicle for managing the achievement of its strategic and business objectives. It is reported monthly, and a full review of the agency's performance takes place every quarter. Investment activity is governed using the DWP's recognised arrangements and risk-based reporting features regularly.

15. My EMT ensures that all people involved in the management of risks are suitably trained and have the appropriate risk management knowledge and that the Pension, Disability and Carers Service Change Programme has a dedicated team of trained risk practitioners. Areas of concern or threat are presented to staff on a regular basis through key messages on the Intranet, Senior Management Conferences and Leadership Events, minutes from senior management meetings and other internal communication tools.

The risk and control framework

16. The agency defined and reviewed during the year the overarching management framework of systems, processes and products that allow good governance. The risk management process is an integral part of this framework.

17. On behalf of my EMT, the Pension, Disability and Carers Service Risk Team oversees the risk management process and departmental methodology is applied to identify and assess risks and identify the accountable owners at Executive level. Directors are responsible for refreshing their risk assessment and mitigating action on a continuous basis appropriate to the risk in hand.

18. Risks are identified at all levels of the business and are managed at the most appropriate level. Any risk that cannot be effectively managed within the business is escalated to my EMT. Risks that cannot be adequately managed by the agency are elevated to the DWP Executive Team. However this has not been necessary in the last year.

19. My Work Performance Impacting Team and Portfolio Management Team facilitate the risk management process by providing a business impact assurance for operations on all new products and services at each stage of development, ensuring that the final products fit with service delivery objectives. They assess and predict Pension, Disability and Carers Service operational capability to successfully deliver change while meeting the performance agenda; assess and report the risks facing successful delivery of Pension, Disability and Carers Service objectives; and use business intelligence to provide comprehensive and honest analysis that will allow senior managers to make informed decisions. In this way, we better manage the risk of implementing changes while maintaining normal business.

20. Risk is formally reviewed and challenged by my EMT on a monthly basis; including the prioritisation of the key agency risks by way of approval of the top five risks. During the year we developed a summary 'heat map' of our top risks. Risk appetite is now a mandatory consideration for all risks that are all included in our strategic risk register. The strategic risk register and mitigating activity is reviewed, challenged and refocused as necessary, at each Pension, Disability and Carers Service Board and Audit Committee meeting.

21. The **Information Security Committee** is chaired by the Department's Director General Legal Group, in his capacity as the Senior Information Risk Owner. The Committee sets policy and oversees the major information security issues facing the Department. Comprehensive **Information System Security Standards** are in place and new information systems are subject to security accreditation in accordance with Cabinet Office Standards. The accreditation process was subject to an independent review and recommendations have been taken forward during 2008/09. A full risk assessment is being completed on one of our unaccredited legacy systems to confirm that residual risks are being adequately mitigated. Similar activity is now underway on the other unaccredited legacy systems. We have fully supported the Cabinet Office Data Handling Review.

22. My Governance Manager has reviewed the assurances from the other Accounting Officers in DWP who provide services on behalf of Pension, Disability and Carers Service to ensure they have taken appropriate action and have effective controls in place to manage the risks associated with the provision of those services.

Review of effectiveness

23. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by my Board and Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

24. During the course of 2008/09 a detailed review was undertaken of a single benefit payment process to assess the effectiveness of existing process controls and compliance with these at a local level. Although no instances of error or financial loss were uncovered, the review did identify a need to tighten controls in a number of areas and to improve the risk awareness of operational staff. Action has already been taken to resolve the specific weaknesses identified and work is in hand to consider how best to address the longer term recommendations made on improving our overall business control environment.

25. My Security and Assurance team are working closely with the Department's Compliance and You initiative which is spearheading activity to address this issue on a phased basis, linking in with the strategic response to the Vulnerability Review.

26. The role of the Pension, Disability and Carers Service Board is to advise and support me in my role as Chief Executive. This function is being reviewed to ensure that the Board continues to add value on the development of Pension, Disability and Carers Service strategies and plans to meet Departmental and Ministerial objectives and Public Service Agreement targets.

27. The Pension, Disability and Carers Service Audit Committee works with my EMT and Risk Assurance Division (RAD) to focus on those areas of the business at greatest risk. The Committee comprises three non-executives and is chaired by Jane Tozer, a Non-Executive Director of my Board. My Audit Committee receives regular updates on actions to address previously identified weaknesses within the Pension, Disability and Carers Service system of internal control. This allows them to assess the effectiveness of mitigating actions and, where appropriate, request further work to be undertaken to strengthen the control environment.

28. RAD undertakes a risk-based work programme, taking into account the business requirements in collaboration with Pension, Disability and Carers Service senior management, and provides a quarterly assurance report to my Audit Committee. Each Pension, Disability and Carers Service Board meeting focuses on one of the agency's most significant risks so that members can reassess the controls and mitigations in place.

29. RAD provides an overall assessment of the Pension, Disability and Carers Service performance risk and control framework in year. For 2008/09 the overall assessment remains at Reasonable Assurance and achieved more 'strong' assurance opinions than its two predecessor agencies in 2007/08 and no 'weak' assurance assessments.

Significant control challenges

30. Pension, Disability and Carers Service came into being on 1 April 2008. The merger of the two former agencies, the Disability and Carers Service and The Pension Service aimed to facilitate a more coherent service to customers, strengthen collective capability and support the delivery of departmental strategic objectives. The significant control challenges identified by each of the former agencies have been monitored and reviewed as part of the new agency's internal control framework.

31. The issue raised in last year's Disability and Carers Service assurance letter of an inadequate **audit trail** on the Disability Living Allowance and Attendance Allowance Computer System has not been resolved in 2008/09. I am mindful that these risks have been present since the introduction of the computer system over 15 years ago and I have commissioned an enhancement which should ensure that our systems are more robust. This is planned for April 2010. In the meantime, the agency is undertaking a risk assessment to identify any interim controls or mitigations that can be introduced.

32. Last year's The Pension Service and Disability and Carers Service assurance letters also highlighted a control challenge with the National Insurance Recording System (NIRS) 2 system. Since NIRS 2 was introduced over 10 years ago, only a small percentage of **RD23** notifications have been received to enable the Carers Allowance Unit (CAU) to prevent and detect overpayments of benefit. As a result, Pension, Disability and Carers Service recognises that there may be cases in the CAU caseload where benefit is being paid incorrectly. A fix to NIRS2 was implemented in October 2008, but we will not be in a position to assess the full impact of the number of cases affected until we have received all past referrals from previous tax years. Estimates based on a previous review in 2002/03 indicate that around 18 per cent of working age CAU cases could generate overpayments estimated at £9 million per annum. The backlog could extend back as far as 1997/98. However, plans are in place to effectively manage the risks surrounding the backlog of referrals in CAU, once they are generated and RAD have provided a strong assurance on the progress being made.

33. Our agencies have continued to report problems with the accurate recording of National Insurance Credits and the interfaces with the HM Revenue and Customs National Insurance Recording System (NIRS2), leading to incorrect payment of benefit in some cases. Progress has been made following an enhancement to the NIRS2 system in October 2008 and we have plans to assess the full impact of cases affected by this enhancement and manage the backlog of cases once they are generated. A new DWP/HM Revenue and Customs National Insurance Credits Steering Group has been established specifically to focus on National Insurance Credit and service delivery issues. The Group is seeking assurance that the current National Insurance Credit regime is working effectively, and where it is not, is ensuring that appropriate fixes are commissioned and implemented. Its membership includes senior managers in policy, operations and information technology from both departments.

34. I have had a series of meetings with HM Revenue and Customs regarding Modernising Pay As You Earn Processes for Customers (MPPC), at Pension, Disability and Carers Service level and at the wider Departmental Business Continuity level. HM Revenue and Customs are merging two separate IT systems, **NIRS** and **PAYE** into one system. Release 3, which is the biggest component of the programme, was scheduled to go live in June 2009. It involved the cut over and migration of 49 million employment data records from the PAYE system to NIRS2 to provide a single PAYE record. DWP staff did not have access to NIRS for five days during implementation, but service has since been fully restored across the Department following a downtime period from 12pm on 19 June to 12pm on 24 June 2009. We made every effort to put effective continuity plans in place to deliver our services during the interruption in NIRS functionality.

35. During 2008/09 the Department continued to focus heavily on the **security of the information** that we hold. We have implemented a range of information security improvements based on internal audit and Cabinet Office recommendations, managed through a formal project which reports to the Information Security Committee. This has included the separation of the Senior Information Risk Owner and Chief Information Officer

roles, the creation of Information Asset Owners at senior level across the DWP and the development of a comprehensive Information Asset Inventory. The increased senior focus has already started to have an impact in driving forward improvements in the management of information risk. We have worked hard to improve our information assurance maturity, and we are confident that we meet and in many areas exceed the Data Handling Review requirements. Our information security training and awareness campaigns have been reflected by very positive results in the recent Staff Survey. We have identified a number of areas where we can further strengthen and improve the overall management of the information risk across the DWP. Although recognising that very substantial progress towards eliminating weakness has been made in 2008/09, the DSO has assessed that the overall level of assurance around security controls remains limited.

36. **Debt referral:** The levels of debt referred to the Central Debt Management Operation have a direct impact upon the Departmental Resource Account, where incomplete referrals continue to represent a significant control weakness and have been a particular problem for the agency this year. We are continuing work to strengthen controls in this area and an action plan is in place to improve performance through increased awareness and compliance with monthly site level performance monitoring. We have also continued to liaise with Departmental Debt Management colleagues to ensure accurate MI is recorded and a more efficient process is also being introduced for handling small value overpayments increasing the numbers of referrals and improving Debt Management recovery rates. We will continue to work closely with the Department to further strengthen the end to end referral process and ensure that performance does not deteriorate in 2009/10.

37. Determined effort has been put into reducing the levels of **fraud and error** in the live case load. Activities to maximize quality and drive out inaccuracies from State Pension and Pension Credit without increasing costs are improving control and this is evident by the improving accuracy rates on Pension Credit. Early indicators also show that our monetary value of fraud and error on Pension Credit is reducing and work will continue in this area with close monitoring of performance. The latest result for MVFE from the National Statistics Report for year ending September 2008 show that overall, error is at its lowest levels since 2004/05.

38. We are progressing our top ten policy simplification measures and have identified our top ten IT fixes that will help to reduce the level of fraud and error and improve accuracy. Of these, seven will be in place by the end of 2009.

39. The timescale to undertake a case-cleanse exercise to identify and correct high value overpayments has been extended due to the agency supporting Jobcentre Plus. The work restarted on 5 May 2009 and will have an impact on reducing error on the live load for 2009/10.

40. An error was identified in the calculation of the uprated rate of State Pension for 2009/10 whereby the planned reduction in the rate of **Invalidity Addition** for customers under State Pension age had been applied to State Pension. The age addition payable to Incapacity

Benefit customers is being paid at a lower rate from April 2009 to start to bring Incapacity Benefit into line with the Employment and Support Allowance. It was possible to correct the cases paid by the Pension Strategy Computer System before April 2009 and, where incorrect notifications had already been issued to customers, revised notifications have been issued. For around 77,000 cases where State Pension is paid with Pension Credit it was not possible to correct these cases by April 2009. All affected cases are being reviewed with priority being given to those cases which will be underpaid from April 2009, and any arrears issued.

41. The Chancellor announced a one-off increase in the **2008 Christmas Bonus** payment in the Pre-Budget Report Statement of 24 November 2008. The first payment was in early January, but included payment to people starting their State Pension between the qualifying week and this date. The timing of the announcement, change in the qualifying week, and the short timescales to issue payments to the first tranche of customers (12 million), mainly pensioners, meant that some overpayments were made. These payments are not recoverable from the customer. Out of a total of 15 million payments it is estimated that up to 50,000 may have been overpaid, totalling up to £3 million.

42. The provision of **accurate information** remains a priority for Pension, Disability and Carers Service and has been reviewed as part of the transition to the new agency. A Risk and Assurance Division review in 2008/09 examined the governance systems and processes in place to ensure accuracy. It reported a reasonable level of assurance over the controls designed to prevent inaccurate information being provided to Pension, Disability and Carers Service customers. More recently, a follow-up review has focused on Pension Credit new claim controls and highlighted where the agency can improve the robustness of its checking mechanisms and accuracy controls.

43. Options for reducing the risks associated with the storage, movement of and access to paper based information in Warbreck House were developed, and we will be introducing more secure storage and further reductions in the movement of material during 2009/10.

44. Corrective action to identify **duplicate payments** of Disability Living Allowance and Attendance Allowance has continued throughout the year and preventative and corrective controls have been reviewed and strengthened. However, there is a need to continue to improve the preventative controls to stop further duplicate payments being made and a number of technical and procedural enhancements are currently being tested.

Signed



Terry Moran
Chief Executive
8 July 2009