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Archwilydd Cyffredinol Cymru
Auditor General for Wales

National Fraud Initiative in Wales

Report 1 April 2016 to 31 March 2018



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



This report summarises the findings of the biennial National Fraud Initiative in Wales for the period 1 April 2016 to 31 March 2018 I have prepared this report for presentation to the National Assembly under the Public Audit (Wales) Act 2004.

Members of the Wales Audit Office staff who assisted me in preparing this report comprised Steven O' Donoghue and David Rees.

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The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Foreword



It has been 10 years since the global financial crisis caused shockwaves across political, economic and social structures and the impact of that crisis is still being felt today. Public bodies across the UK have had to deal with unprecedented funding cuts and are having to meet ever-increasing demand for public services whilst experiencing year on year budget cuts. Within this context it is encouraging to see how Welsh public bodies are adopting new and innovative ways of working to ensure that service users are insulated from the impact of funding cuts and in some cases service provision is being improved.

Whilst Welsh public bodies need to continue to explore new ways of working, it is essential that they continue to ensure that services and benefits are only provided to those eligible to receive them. Sadly, there are those who attempt to commit fraud to obtain public service and benefits they are not entitled to. In June 2013, the National Fraud Authority estimated that the annual loss to fraud against the public sector in the UK amounted to £662 million (excluding tax fraud). Every pound lost to fraud is a pound wasted and reducing the funding available to those who need public services most. It is therefore crucial that public bodies use all the tools at their disposal to prevent and detect fraud.

I am delighted to be able to support Welsh public bodies as they combat fraud by providing them with the biennial National Fraud Initiative (NFI). NFI is a highly effective data-matching tool which enables organisations to identify and investigate data anomalies that may be due to fraud. Since its inception in 1996, the NFI has been used to identify more than £35 million of fraud and overpayments against the Welsh public sector.

The findings of the latest exercise which are set out in this report show that £5.4 million of fraud and overpayments were identified (compared to £4.4 million in the previous exercise). This represents continued success of the initiative, and I would like to thank those members of staff across the Welsh public sector for their diligence in investigating the data-matches. Without their efforts this success would not have been possible.

I am continuing to implement a strategy for widening participation and usage of the NFI in Wales and encourage all public sector organisations to come forward with proposals for further potential data matches that could help in the prevention and detection of fraud.

Adrian Crompton

Auditor General for Wales

Summary

- 1 Public bodies in Wales spend many billions of pounds of taxpayers' money in providing benefits and services to address the social needs of the people of Wales. In most cases, the recipients of these benefits and services are entitled to them and they can make a considerable difference to improving quality of life.
- 2 When fraudsters claim from public bodies for services and benefits they are not entitled to, it means that individuals in genuine need may have to wait longer for services, treatment or help. Fraud is not a victimless crime.
- 3 In order to support Welsh public bodies in their fight against fraud, the Auditor General runs the NFI in Wales on a biennial basis. The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions.
- 4 The current NFI exercise has been one of the most successful to date and has already resulted in the identification of £5.4 million of fraud and overpayments in Wales, and £301 million across the UK. This report includes a number of case studies which highlight the excellent work that participating are doing to drive out fraud in public services.
- 5 These outcomes could not have been achieved without the hard work of many members of staff within participating bodies who have shown commitment to reviewing and investigating the data-matches.
- 6 We are grateful for the support of the National Assembly for Wales in providing the Wales Audit Office with the funding necessary to enable NFI to be provided to participating bodies without charge.
- 7 As part of the next exercise, the Auditor General's auditors will continue to work with participating bodies to help them to maximise the potential benefit that can be achieved through NFI.
- 8 The Auditor General is committed to supporting public bodies in their efforts to prevent and detect fraud by applying data-matching techniques into fraud risk areas not currently within NFI. During 2017-18, the Auditor General has been working in partnership with the Welsh Government, DWP, Cabinet Office and HMRC to develop pilot data-matching exercises to help prevent and detect fraud in education and housing provision. The early results from these pilot exercises are proving very positive and the outcomes will be reported once the pilots have been fully evaluated.

The latest National Fraud Initiative has made a significant contribution to tackling fraud against Welsh public bodies

The latest biennial NFI exercise in Wales has detected and prevented £5.4 million in fraud and overpayments

- 1 When fraudsters claim for services and benefits they are not entitled to, it means that individuals in genuine need may have to wait longer for services, treatments or help. Fraud is not a victimless crime.
- 2 In order to support Welsh public bodies in their fight against fraud, the Auditor General runs the NFI in Wales on a biennial basis. The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. **Exhibit 1** sets out some of the data matches that are run through the NFI and the types of issues which may be found.

Exhibit 1: examples of the types of issue that the NFI has uncovered

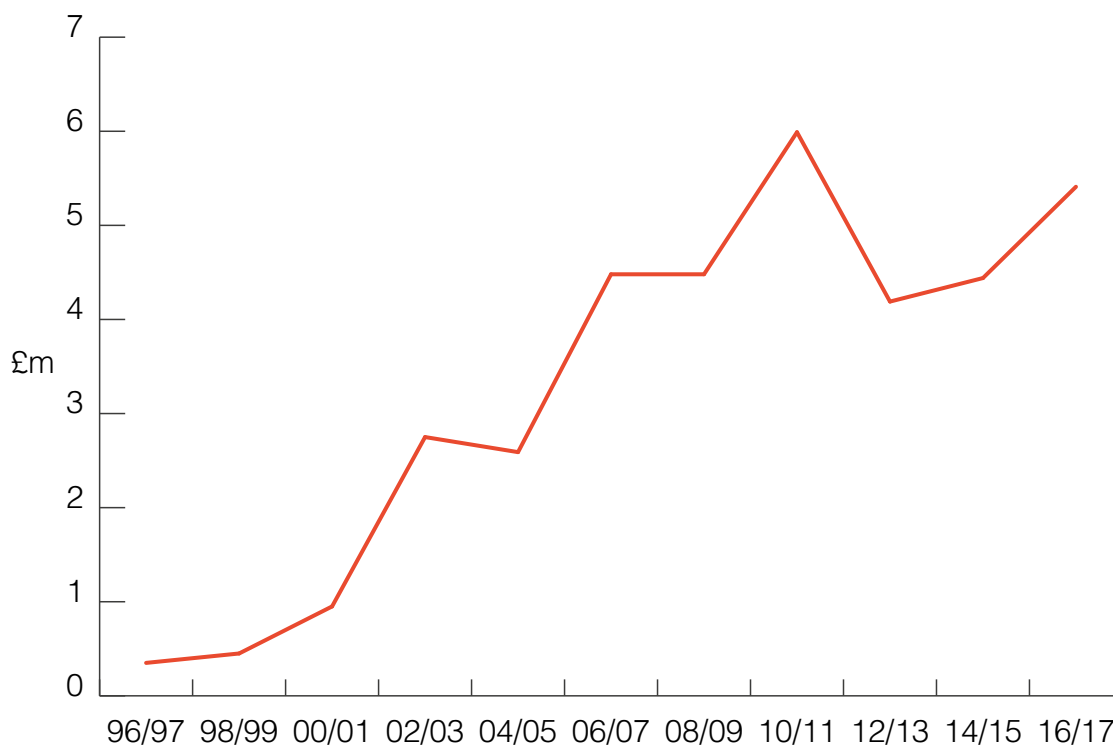
Datasets matched	Issues uncovered
Housing benefit to housing-benefit claims	Individuals who are claiming housing benefit at more than one property.
Housing benefit, housing rent and payroll records to immigration data ¹	Individuals employed or in receipt of public benefits who have no entitlement to live or work in the UK.
Council tax single person discount (CTSPD) to electoral register	Individuals falsely claiming to be the sole adult occupant of a property in order to receive a 25 per cent discount on their council tax bill.
Payments to residential care home to deceased persons' records.	Ongoing payments to residential care home residents after the resident has died.
Creditor payments to creditor payments	Public bodies have paid twice for the same goods or service following the receipt of duplicate invoices.
Blue-badge holder records to deceased persons' records.	Improper use of blue badges, where a permit holder has died, but the local authority has not have been notified.

¹ This includes data about refused and expired visas, visas where there is no right to work and failed asylum applications.

- 3 The Auditor General collaborates on the NFI with the Cabinet Office, Audit Scotland and the Northern Ireland Audit Office to match data across 1,300 organisations in England, Scotland, Wales and Northern Ireland. This includes joint development of new data matching modules, sharing data processing arrangements and sharing resources such as staff and technical guidance. Further information on the NFI and how it works is provided in [Appendix 1](#).
- 4 Since its commencement in 1996, NFI exercises have identified over £35 million of fraud and overpayments in Wales, and £1.69 billion across the UK. Reported overpayments include sums of money that have already been paid out and forward projections, where it is reasonable to assume that fraud, overpayments and error would have continued undetected without NFI data matching.
- 5 The most recent exercise covers the period 1 April 2016 to 31 March 2018. Forty-seven Welsh public sector bodies participated in the latest NFI exercise. These included the following mandatory participants:
 - Local authorities
 - Police authorities
 - Fire authorities
 - NHS bodies
- 6 The Welsh Government, some Welsh Government Sponsored bodies and the Wales Audit Office participated in the NFI on a voluntary basis. The payroll details of the vast majority of public sector staff and their external auditors are included within NFI for data matching to detect and prevent fraud.
- 7 The majority of data matches for this latest NFI exercise were provided to public bodies in January 2017. Since then, most of the matches have been reviewed by participating bodies and, where appropriate, investigations undertaken.
- 8 Between July 2014 and March 2016, responsibility for investigating potential housing-benefit frauds transferred from local authorities to the Department of Work and Pensions Fraud and Error Services (DWP FES). As a consequence, for the NFI exercise to which this report relates, DWP FES was responsible for investigating NFI housing-benefit data-matches considered to be possible frauds.

- 9 The latest exercise detected and prevented fraud and overpayments against public bodies in Wales of over £5.4 million, compared to £4.4 million in the previous exercise. **Exhibit 2** demonstrates how the value of savings identified in Wales through the NFI has changed since the exercise started in 1996.

Exhibit 2: NFI reported savings in Wales in £ millions

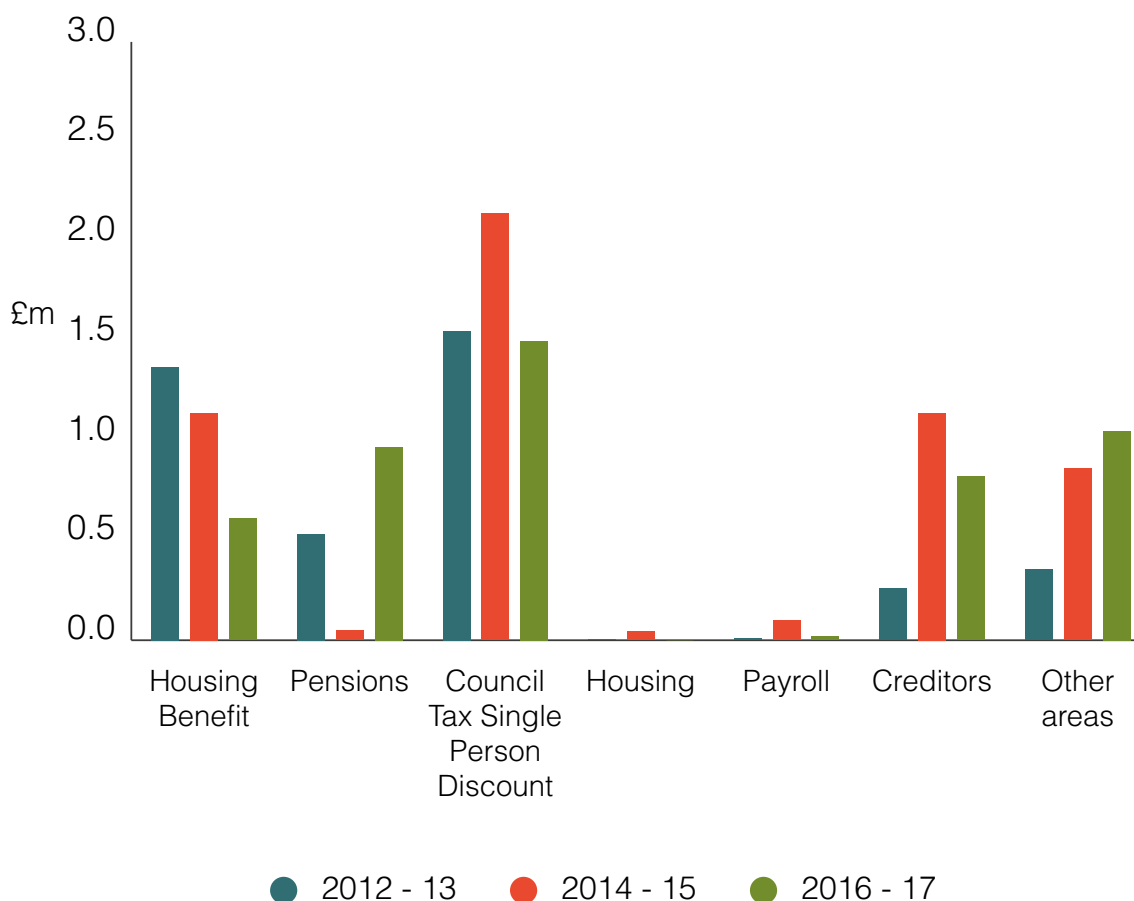


Source: NFI database

NFI matching has helped to identify cases of fraud and overpayments in a wide range of areas

- 10 When the NFI began in 1996, the main thrust of the NFI was to match data to identify fraud and overpayments in what were considered high-risk areas, in particular:
 - Student awards
 - Housing benefits
 - Public sector payroll
 - Public sector pensions
- 11 Over many years, data matching in these areas has led to the identification of high-value fraud and overpayments, including many longstanding frauds. In particular, longstanding pension payments made in the name of deceased pensioners have been stopped. The latest NFI exercise has found that these traditional data matches are still proving to be an effective tool in the detection of fraud and overpayments, and continue to detect frauds. The value of individual frauds in these areas tends to be lower because most longstanding frauds have been eliminated.
- 12 Since the first NFI exercise many new modules have been introduced which have provided the opportunity for participating organisations to identify fraud and overpayments in other areas, such as creditor payments and Council Tax Single Person Discount claims (CTSPD). The highest-value areas of fraud and overpayments detected and prevented as part of the latest NFI exercise were CTSPD (£1.47 million) and pensions (£0.97 million).
- 13 As shown in [Exhibit 3](#), the value of fraud and overpayments identified in 'other areas' significantly increased in the latest exercise. This is largely due to the introduction of new data sets in recent exercises such as 'blue badge' parking permits and council tax reduction (CTR) claims. When NFI data-matching is introduced in new areas, it has the potential to make a significant financial impact in addressing long-standing fraud.

Exhibit 3: Overpayments and related future savings identified through NFI 2016-17 compared with NFI 2014-15, 2012-13 and NFI 2010-11



Source: NFI database

- 14 When NFI first matched public-sector pensions in payment to deceased persons' records, it found significant numbers of pensions still being paid after a pensioner's death. The cancellation of these payments resulted in significant savings to the public purse. Over time, NFI has helped to largely eliminate this type of fraud and it is now relatively unusual for NFI to identify pensions in payment after a pensioner's death.
- 15 In 2008-09, NFI started matching CTSPD to the electoral register for the first time. Since then, fraud and overpayments of CTSPD amounting to £9.19 million have been detected and prevented. In the latest exercise, £1.47 million of fraud and overpayments were detected. This compared to £2.14 million in the previous exercise. We anticipate that this trend will continue in future exercises as longstanding frauds in this area are eliminated.

NFI has been successful in identifying housing-benefit fraud and overpayments

- 16 The NFI matches housing-benefit records to a number of datasets to identify fraudulent or erroneous claims. The detection and recovery of housing-benefit fraud and overpayments have traditionally been one of the most successful areas within the NFI.
- 17 Investigating housing-benefit fraud often helps identify other overpayments. People that are in receipt of housing benefit may also be in receipt of other benefits and payments, such as council tax benefit ,income support, or universal credit . The most common benefit frauds and errors detected through NFI are caused by applicants failing to declare occupational pensions or employment earnings, and students claiming housing benefit when not entitled to do so.
- 18 Between July 2014 and March 2016, responsibility for investigating housing-benefit fraud transferred from Welsh local authorities to DWP FES. The transfer was on a phased basis.
- 19 The latest NFI exercise identified £0.64 million of housing-benefit overpayments. This compares to £1.6 million in 2010-11, £1.37 million in 2012-13 and £1.14 million in 2014-15. The decline in benefits outcomes achieved through NFI is not unique to Wales and a similar trend is in evidence across the UK. This may be due to the following reasons:
 - the transfer of responsibility for investigating benefit fraud from councils to the DWP's FES has resulted in local-authority investigators now concentrating on other areas.
 - the DWP is now using real-time information (RTI) on payroll and pension to help prevent benefit overpayments occurring.
 - the DWP only investigates potential frauds of a significant value.
 - efforts by public bodies to continuously improve housing benefit systems. Councils are also participating in DWP schemes such as the Right Benefit Initiative from April 2017, which aims to identify and reduce housing-benefit fraud and error.
- 20 Whilst the overall housing-benefit savings outcomes have reduced, the latest exercise identified 169 cases of benefit fraud or overpayments. Each case had an average value of £3,781. This indicates that NFI participants are effectively targeting high-value and high-risk benefit matches.

NFI helped to find housing-benefit claimants who had not fully disclosed employment or pension income

- 21 As housing benefit is means-tested, claimants are required to disclose to the local authority any pay and/or pension income they receive and to notify the local authority if their income changes. Claimants are also required to disclose the pay and/or pension of any non-dependants they live with. Failure to fully disclose income is likely to result in housing benefit being overpaid and can be fraudulent.

Case Study 1

Pembrokeshire County Council reviewed NFI data-matches between payroll and housing benefit. In one instance the Council found that a Council employee in receipt of housing benefit had failed to disclose that their pay had increased. Salary details were obtained from the Payroll department and further review of the claim identified that the individual had received housing benefit of £2,760.00 to which they were not entitled. The Council is recovering the over claimed benefit.

Case Study 2

Gwynedd Council investigated an NFI match between housing benefits and payroll that indicated that a housing-benefit claimant had employment income from a local health board that had not been disclosed on their claim for housing benefit. The Council followed up the match by seeking further information from the claimant and HMRC. The Council found that the claimant had overclaimed housing benefit amounting to £3,472.17. The Council also referred the case to the DWP which resulted in the housing-benefit claim being terminated.

Case Study 3

Cardiff Council when reviewing NFI matches between housing benefit and occupational pension income identified that a benefit claimant was in receipt of a teacher's pension from another Welsh local authority and that she had not declared this when claiming housing benefit. The Council sought and obtained confirmation of the pension income from HMRC via RTI and was able to use this information to update the claim and calculate that the claimant had falsely claimed £3,180.25. The case was referred to the DWP, and following investigation, the claimant also accepted an administrative penalty of £1,590.13.

Case Study 4

Torfaen County Borough Council investigated an NFI match that indicated that a housing-benefit claimant was in receipt of an occupational pension, that not been declared as part of the housing-benefit claim. The claimant was also claiming a reduction of Council Tax on the basis of low income. The claimant was of an advanced age and therefore the Council sought evidence from the claimant's daughter as to the amount of pension the pensioner was receiving. The information received from the daughter was inconsistent with the information shown by the NFI match. The Council therefore sought independent confirmation of the pension payments from the pension provider. This confirmed that the amount notified by the claimant's daughter was significantly understated. The Council concluded that the housing-benefit claim had been false from the outset, resulting in housing benefit of £7,201 and CTR of £1,810 being overclaimed.

Case Study 5

Pembrokeshire County Council reviewed NFI data matches between taxi licensing and housing benefit. One case reviewed identified a number of non-declared changes, including an increase in earnings, self-employed earnings as a taxi driver and a dependant of the claimant commencing work. As a result, the claimant had received housing benefit of £2,972 that they were not entitled to and no longer qualified for any benefit. The overpayment is being repaid to the Council.

NFI was used to identify housing-benefit claimants who had no right to work or stay in the UK

- 22 As NFI data-matches housing-benefit claimants against Home Office immigration and visa records. Individuals who do not have, or have not been granted, a right to reside or work in the UK are ineligible to receive housing benefit.

Case Study 6

Cardiff Council reviewed NFI matches between Housing Benefit and Immigration status. In one instance, having sought further information from the Home Office, the Council confirmed that the housing benefit claimant had no leave to remain in the UK and therefore had no entitlement to receive housing benefit. The Council calculated that the claimant had received an overpayment of £6,854 and suspended the claim. The individual subsequently won an immigration tribunal case which reinstated her entitlement to benefit, and the Council was able to recover the overpayment in full from future benefit payments.

NFI helped to identify students claiming housing benefit when not entitled to do so

- 23 Most students in receipt of a student loan are ineligible to claim housing benefit. The NFI exercise matched student-loan data to housing-benefit records to identify potentially fraudulent or erroneous housing-benefit payments. Following a review of the matched data, local authorities in Wales identified a significant number of cases where it was suspected that students had claimed housing benefit when ineligible to do so. Many of these cases were referred to DWP FES for investigation.

Case Study 7

Cardiff Council reviewed NFI matches between Housing Benefit and Student Finance. This review confirmed that a number of students in receipt of student finance had failed to declare that they were in receipt of student finance whilst claiming housing benefit. The Council contacted the individuals concerned to confirm the details in the NFI matches and this led to 26 cases of entitlement to housing benefit being reassessed and overclaims calculated. The overclaims are being recovered by the Council. One case was referred to the DWP for investigation and in that case an overpayment of £7,974 was identified, and the claimant also accepted an administrative penalty of £2,000.

The NFI pension matches have successfully helped to eliminate many longstanding pension frauds and overpayments but a small number of new cases are still being identified

- 24 The NFI matches occupational pensions in payment to deceased people to identify instances where pensions were still being paid after a pensioner had died.
- 25 When this NFI data match was first introduced as part of NFI 2004-05, it identified many cases where pensions were still in payment several years after the pensioner had died. As a consequence, significant pension overpayments had been made. Since then, through the investigation of the NFI matches, public bodies in Wales have been able to eliminate many of these longstanding cases. Whilst NFI continues to identify new cases where pensions have continued after the date of death, the average overpayment is significantly less. This demonstrates the effectiveness of NFI in reducing levels of fraud and error.

Case Study 8

The City and County of Swansea reviewed matches between persons in receipt of occupational pensions paid by the Council and DWP records of deceased persons. Checks were undertaken to confirm that the matched parties were the same. Where this was the case, further checks were undertaken to confirm that the pension was still in payment and whether pension records had been updated to record that the pensioner had died. Where pensions were still in payment after the date of death, payments were suspended, and attempts made to trace the next of kin. Eligibility forms were also sent out as a means of determining continued eligibility. As a consequence of the review, 26 cases were identified where incorrect pension payments were being made, and the Council is seeking to recover the overpayments. In one case, the pension overpayment amounted to £10,058. A further 11 pensions remain suspended, pending ongoing investigations to trace next of kin.

NFI matching between council tax single-persons-discounts data and the electoral register has achieved savings to the public purse of £1.5 million

- 26 Council-tax payers are eligible for a discount on their bill where they are the only occupant of a household aged over 18, or the other occupants of the household fall into exempted categories, for instance, students. The discount results in a reduction of 25% of the full council-tax bill payable on the property. This discount is commonly referred to as the Council Tax Single Persons Discount (CTSPD).
- 27 In many cases, CTSPD claimants were eligible on application but failed to declare subsequent changes in their personal circumstances. The effort of local authorities to establish the dates of changes in circumstances has enabled local authorities to recover previous years' ineligible discounts rather than just stopping the discount going forward.
- 28 Local authorities are recovering the amount overclaimed in 89% of cases. Furthermore, local authorities have found that some individuals, who inappropriately claimed the discount, also claimed other benefits inappropriately.
- 29 Whilst some Welsh local authorities have been very proactive in reviewing and where necessary cancelling inappropriate claims for CTSPD, others have not invested sufficient resources to address the matches. This is regrettable, because those authorities which have adopted a rigorous approach have achieved savings of £1.5 million by investigating the matches. Case studies 9 and 10 provide two examples of authorities which have been very proactive in this area.

Case Study 9

Bridgend County Borough Council reviewed and investigated NFI matches showing individuals in receipt of CTSPD, where the electoral register showed that more than one individual was registered to vote at the property in question. As a result, 435 claims were identified where claimants were not or were no longer entitled to a discount. The amount overclaimed amounted to £245,175 of which £89,931 is being recovered. The cancellation of these claims has also increased the council-tax revenue being collected going forward.

Case Study 10

Pembrokeshire County Council carried out a review of NFI data matches between those in receipt of council tax discounts where single person discount had been awarded against details held on the electoral register where there was more than one person registered to vote. Household details were cross checked against internal records, verification checks with other local authorities and by contacting the taxpayer directly. As a result of this review, 247 single person discounts were cancelled and the full council-tax charge applied. The Council is recovering £19,550 of underpaid council tax.

A new NFI data match between claimants receiving Council Tax Reduction and other NFI datasets identified 54 cases where discount was being overclaimed

- 30 Each council in Wales operates its own Council Tax Reduction (CTR) scheme. The CTR scheme helps people on low incomes and/or certain welfare benefits to pay their council tax bill. CTR replaced the national council tax benefit scheme with effect from 1 April 2013.
- 31 As CTR is an income-based discount, where applicants fail to declare their full income, they receive discounts on their Council Tax they are not entitled to. The latest NFI exercise matched CTR and other NFI datasets for the first time. The new data match proved successful, identifying 54 cases in Wales where CTR was being overclaimed. In many of these cases, it was found that the individual was also overclaiming other means-tested benefits.

Case Study 11

Gwynedd Council investigated an NFI match between Payroll and CTR. The evidence held on the Housing Benefit/CTR file showed that the claimant had declared that they were living with a non-dependant who was working part time. However, after reviewing the NFI match and making further enquiries, the Council confirmed that the non-dependant had changed employment in October 2015 and was working full time. The claimant had not notified the Council of this change. The Council calculated that the claimant had overclaimed CTR of £434 and also found that Housing Benefit of £5,794 had also been illegitimately claimed. The claimant accepted an administrative penalty of £2,420. The Council is currently recovering the overpayments through deductions from benefit payments.

Case Study 12

Conwy County Borough Council investigated an NFI match that indicated that a claimant in receipt of full CTR for a property in the Council's area was also in receipt of Housing Benefit and CTR at an address in England. Enquiries made with the other Council in England confirmed that the claimant was resident at a housing association property in that Council's area and was receiving Housing Benefit and CTR from it. The English Council had not been informed that the claimant owned a property in Wales and was therefore not entitled to be paid Housing Benefit or CTR in England. Further checks made of the Land Registry confirmed that the claimant still owned the property in Wales. The Welsh CTR claim was cancelled back to May 2010 and an overpayment of £6,399 calculated. Recovery action is ongoing.

Case Study 13

Caerphilly County Borough Council investigated an NFI match that showed that an individual who in April 2016 had started claiming CTR and CTSPD and housing benefit, had since September 2016 been living with a Council employee at the property to which the claims related. The claimant had not notified the Council of his change in circumstances and had not declared the Council employee's income for benefit assessment purposes. The Council referred the case to the DWP as a potential fraud. When the DWP contacted the claimant, he admitted that he was in a relationship with the Council employee and that they had jointly contrived the tenancy in order to falsely claim housing benefit and CTR. The Council cancelled the CTR, CTSPD and housing benefit claims and are recovering £5,309 in overclaimed housing benefit and £1,212 CTR. The Council commenced disciplinary action against the employee and her employment has now been terminated.

NFI matching of creditor-payment data has helped to identify 61 cases of creditor overpayments

- 32 The creditor-payment data match is designed to help public bodies identify problems such as duplicate invoices or incorrect VAT rates. It also enables public bodies to highlight system deficiencies which could make them susceptible to fraud or error.
- 33 The latest NFI exercise identified 61 cases where overpayments had been made and in 60 cases these payments have or are being recovered.

Case Study 14

Caerphilly County Borough Council undertook a review of creditor-payment matches to identify and investigate potential duplicates. A number of duplicates were identified which had already been recovered by means of supplier credits or refunds but a number of unrecovered duplicates were also identified through this exercise. Thirty-seven unrecovered duplicated payments were identified with a total value of £60,534. The Council has recovered, or is seeking to recover, all the duplicate payments identified and is continuing to review its systems and procedures to prevent overpayments in the future.

Review of the NFI matches has led to 1,690 blue badges and 28,584 concessionary travel passes being cancelled

- 34 The NFI matches blue badges and concessionary travel permits to deceased persons' records. The match is designed to identify badges and permits which are potentially still in circulation after the death of the registered owner. Blue-badge records are also matched to identify cases where blue-badge holders have been issued with badges by more than one local authority.
- 35 Blue badges provide a range of parking concessions and are a lifeline for people with severe mobility problems. However, it is essential that the badges are cancelled when the holder dies. Failure to do so can lead to badges being used by those who have no entitlement.
- 36 It is a criminal offence to display a blue badge for the purposes of evading parking charges or to obtain preferential parking when the car driver or passenger is not the legitimate owner of the badge. This does not stop fraudsters targeting the scheme, and blue badges may be sold for considerable sums of money. The fraud not only results in a loss of parking revenues for the local authority, but it also means that parking spaces may be denied to genuine blue-badge holders.
- 37 This year, the match has led to the cancellation of 1,690 blue badges across Wales, compared to 1,044 in the previous NFI exercise. Once the badges have been cancelled, it is possible for local authorities to check whether the cancelled badges are being fraudulently displayed.

Case Study 15

One local authority received a number of NFI matches between blue-badge holders and deceased persons. Having reviewed these matches the Council was able to confirm in 281 cases that the blue-badge holder had died but the Council had not been notified. The blue badges were cancelled and the Council's records updated.

- 38 The Welsh concessionary travel passes scheme entitles all those aged 60 and over and people with disabilities to free bus travel across Wales. Where owners of concessionary travel passes have died or have moved to a different local-authority area, this is not always reported to the local authority and the pass may remain in circulation. This provides the opportunity for fraudsters to avoid travel costs. In previous NFI exercises, NFI data matches in respect of concessionary travel passes were provided to Welsh local authorities for review and investigation. Not all local authorities effectively reviewed these matches. In the latest exercise, the Welsh Government agreed to review the data matches on an all-Wales basis. As a result of work undertaken by the Welsh Government, 28,584 concessionary passes were cancelled. In a number of cases, cancelled passes had been in circulation several years after the holder had died.

Case Study 16

The Welsh Government checked NFI matches between concessionary travel pass holders and deceased persons records on an all-Wales basis. Where the Welsh Government was able to confirm that both sides of the match related to the same person, it cancelled the passes which related to deceased persons. This ensured that the passes in question could not be used fraudulently by third parties. In addition, as the Welsh Government pays an annual charge for each pass in circulation, it was able to achieve an £84,000 a year saving in administration costs.

The NFI data matches of local-authority payments for residential care have identified a small number of high value cases where local authorities have been charged for residential care costs after the death of a resident

- 39 Dependent upon circumstances, local authorities may contribute to the cost of care for residents of private residential homes. The NFI matches local-authority payments for residential care to deceased persons. If payments continue to be made after a resident's death, very substantial overpayments can accrue.

Case Study 17

Conwy County Borough Council investigated an NFI match that indicated that the Council was still making payments to a private residential care home in respect of a resident who had passed away. On receipt of the NFI match in January 2017, the Council contacted the care home to verify the date of death. The care home confirmed that the resident had died in November 2016. The Council had not been informed of the death by the care home and therefore the Council had continued to make care payments in respect of the resident. As a consequence, the care home had overclaimed £3,859 from the Council. The Council has recovered the overpayment in full from the care home.

Case Study 18

Newport City Council carried out a detailed review of Council payments to private residential homes for placed residents and DWP records of deceased persons. The matching process enabled Council officers to identify that care fees of £68,194 had been made to a care home in respect of a resident who had died. A detailed review by the Council found that neither the Local Health Board nor the care home had notified the Council that the resident had been awarded Continuing Healthcare Funding and had subsequently passed away. Following this discovery, the Commissioning and Contracts team undertook a review of reporting procedures and the Council was able to successfully recover the fees in full.

A new NFI data match designed to prevent housing waiting list fraud was successful and has resulted in 52 applicants ineligible to be housed being removed from housing waiting lists

- 40 There is a scarcity of social housing stock available to provide accommodation to those who need housing. The demand for social housing is increasing and most providers of social housing have long waiting lists. It is essential that social housing is only provided to those entitled to be housed. When individuals apply for housing that they have no entitlement to, or they fail to notify the housing provider that their circumstances have changed, it can lead to tenancies being granted to those who do not qualify for them and delays in housing those who are entitled.
- 41 In the previous NFI exercise, a pilot exercise was run at a small number of local authorities to match housing waiting lists against other NFI data-sets including existing housing tenancies, housing-benefit claimants, immigration data and deceased persons. The purpose of the matching was to identify examples where fraudulent applications had been made, or where personal circumstances had changed, meaning that individuals on waiting lists no longer qualified to be housed.
- 42 The exercise was successful and the Auditor General decided to extend this match to all Welsh local authorities in the latest exercise. This resulted in 52 applicants ineligible to be housed being removed from Welsh local authority housing waiting lists.

Case Study 19

The City and County of Swansea investigated the waiting list matches it received. After confirming the match parties were the same, checks were undertaken to confirm that the matched party was still on the housing waiting list. The NFI data enabled the Council to check its records and confirm whether the Council's records needed updating or whether a dual/fraudulent claim for housing had been made. As a result of the work undertaken, the Council was able to remove 34 applications from its housing waiting list.

Most Welsh public-sector bodies participating in the NFI were proactive in reviewing the data matches but a small number of participants did not review the matches in a timely or effective manner

- 43 Auditors have reviewed the work undertaken by authorities to make the best use of the NFI matches and have found that the majority of participants have an effective approach for managing the NFI and reviewing data matches. However, there is still considerable variation in the level of commitment being shown by participants and, in a small number of cases, participants have failed to adequately review NFI matches in an effective or timely manner.
- 44 The Auditor General's auditors will work closely with participating organisations which did not engage effectively with NFI to seek to improve their understanding of and engagement with the exercise.

The Auditor General, with the support of the National Assembly for Wales is continuing to develop the National Fraud Initiative to ensure it remains effective

- 45 The NFI is an important tool available to public bodies in Wales to use as part of a wider fraud-prevention and detection strategy. The NFI has been a highly effective tool in the prevention and detection of fraud against the public sector for a number of years. Fraud, however, changes over time. New fraud trends emerge and fraudsters themselves change their practices to target areas which they perceive have the weakest controls to prevent and/or detect their fraudulent activities. The NFI must therefore adapt and develop if it is to remain effective. The NFI must respond to emerging trends and policy changes, and introduce new types of data matches in areas which are susceptible to fraud.
- 46 The Auditor General is committed to maintaining, developing and improving the NFI in the future through:
- increased focus on fraud prevention;
 - increasing the number of organisations in Wales participating in the NFI;
 - extending the NFI into new areas which are susceptible to fraud; and
 - ensuring that the current high standards of the NFI data security are maintained.

- 47 In the latest exercise, the Auditor General has continued to provide participants with access without charge to a new NFI fraud prevention tool, 'AppCheck'. AppCheck is a point-of-application data-matching system that enables NFI participants to cross check information provided by applicants for benefits, goods or services against other datasets at the time the application is made. The resultant matches identify anomalies which could be due to fraud, enabling public bodies to investigate and resolve these anomalies in advance of decisions on applications being taken. Whilst some participants are already using this new tool well, it is not yet being used to its full potential. The Auditor General's auditors will continue to work with participants to show how when AppCheck is used as part of a key control when assessing applications, it can stop fraudulent applications being approved, preventing overpayments and the need for costly fraud investigations.
- 48 In the latest exercise, five more public bodies in Wales participated in NFI on a voluntary basis. The Auditor General is keen for more organisations to participate in future exercises.
- 49 The Auditor General is committed to supporting public bodies in their efforts to prevent and detect fraud by applying data-matching techniques into fraud risk areas not currently within NFI. During 2017-18, the Auditor General has been working in partnership with the Welsh Government, DWP, Cabinet Office and HMRC to develop pilot data matching exercises to help prevent and detect fraud in education and housing provision. The early results from these pilot exercises are proving very positive and the outcomes will be reported once the pilots have been fully evaluated.
- 50 Fundamental to the success of the NFI, is public confidence in the security of the data it holds. There are extremely robust controls in place to ensure data security and to minimise the risk of data being accessed inappropriately. Details of the security and governance arrangements in place for NFI are set out in [Appendix 2](#).

51 In 2008, in accordance with Part 4A of the Public Audit (Wales) Act 2004, the Auditor General prepared a Code of Data Matching Practice (the Code). Following an extensive public consultation exercise, the Code was laid before the National Assembly and approved. The Code has statutory status and is designed to ensure that people's information is protected and processed appropriately during data-matching exercises, in accordance with the Data Protection Act 1998 and best practice. The Auditor General will continue to keep the Code under review to ensure it is consistent with new legislation and best practice. In recognition of the recent changes in data protection legislation and the advancement in data-matching techniques, the Auditor General has publicly consulted on an updated Code. The finalised Code will be published shortly.

Appendix 1 – How the NFI works

In 1996, the Audit Commission in England and Wales launched the NFI to help public bodies match claimant information across different service areas and geographical boundaries. The exercise was a success, and since then NFI has run biennially, introducing new participants and new modules for identifying fraud and overpayments in each new exercise. Whilst NFI is run as a UK-wide initiative, it is administered in Wales by the Auditor General for Wales, in Scotland by Audit Scotland and in Northern Ireland by the Northern Ireland Audit Office. NFI was administered in England by the Audit Commission until 2015 when responsibility transferred to the Cabinet Office.

The NFI has established itself as the UK's premier public-sector fraud-detection exercise. Since 1996, the NFI has identified more than £35 million of fraud and overpayments in Wales, and nearly £1.7 billion across the UK.

Welsh NFI participants in the NFI provide data relating to their financial systems to the Cabinet Office on behalf of the Auditor General. The information submitted is wide-ranging and includes data relating to housing benefits, student-loan recipients, payroll and pension payments. The data is uploaded to the NFI system which has been designed to match different sets of data for the purpose of identifying fraudulent or erroneous claims and payments. Where a match is found, it may indicate an inconsistency which requires further investigation; it is not in itself evidence of a fraud.

Participating organisations are provided with online reports containing the matches which relate to their organisation and they are responsible for analysing those matches. The participants must review the matches in an appropriate and proportionate way to enable them to eliminate co-incidental matches. They must use evidence from a range of other sources to undertake appropriate investigations to determine whether individual matches have arisen due to a fraudulent claim or payment. In many cases, matches arise because of errors in the data, and because the NFI has highlighted the issue, it allows participants to correct or update the data held in their records.

The results of investigations are recorded by appropriate staff members. Where fraudulent payments or overpayments are identified, the value of those transactions is recorded and the information is provided to the Auditor General.

Datasets are transferred by participants to the NFI system using an electronic transfer process which encrypts data on upload. The data is transferred via a secure NFI website, and all matches are provided back to participants using the same tool. Access to the tool and NFI matches is controlled by password access, and strict controls exist to ensure access is provided to appropriate individuals.

Auditors review the progress made by participants, and provide guidance and advice to organisations as required.

Appendix 2 – NFI governance arrangements

Background

This appendix summarises the key legislation and controls governing the NFI data matching exercise.

Legislation

The NFI exercise is carried out under the data matching powers given to the Auditor General for Wales in the Public Audit (Wales) Act 2004.

The Public Audit (Wales) Act 2004 includes important data protection safeguards. These include a requirement for the Auditor General to prepare a Code of Data Matching Practice (the Code), and to consult with the Information Commissioner and others before publication. The code that was in place for the latest NFI exercise, the Code of Data Matching Practice 2008, was followed to ensure that the latest NFI exercise complied with:

- data protection requirements; and
- best practice in notifying individuals about using their information for the NFI.

The Auditor General has recently updated the Code to reflect important data protection changes introduced by the General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679) and the subsequent Data Protection Act 2018. The updated Code will apply to the next NFI exercise.

The NFI web application

Bodies access the application online using passwords and encryption controls similar to internet banking. The secure website is the safest method of providing the data matches to bodies. The Cabinet Office, acting on behalf of the Auditor General for Wales, Audit Scotland and the Northern Ireland Audit Office, regularly reviews the application and implements changes to improve its functionality, ease of use, and security.

Interactive training is available to participating bodies and auditors through the web application to support guidance provided by the Cabinet Office and the Auditor General for Wales' auditors.

Security review and accreditation

The NFI system has gone through the Cabinet Office's information assurance and risk management process. This means the system is HM Government-accredited annually to store and process data.

Any firm processing data for the Cabinet Office will do so under a contract in writing. This imposes requirements covering technical and organisational security standards. Under the contract the firm may only act on instructions from the Cabinet Office. The Cabinet Office, assisted by the Auditor General for Wales and the other UK public sector audit agencies, reserves the right to review the firm's compliance with these standards at any time. The Cabinet Office also requires annual security testing, supplemented by additional tests as appropriate.

This accreditation involves demonstrating that the NFI is suitably secured and that information risks are managed to government standards.

All of these measures provide current and future NFI participants with assurances that data is processed according to rigorous government security standards.

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