

Archwilydd Cyffredinol Cymru
Auditor General for Wales

National Fraud Initiative 2014-15: Ensuring the proper use of public funds in Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



This report summarises the findings of the National Fraud Initiative 2014-15. 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 David Rees and Anthony Barrett.

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Summary report

Foreword

The financial challenges facing Welsh public services are unprecedented and it is essential that with budgets reducing, public bodies do everything they can to ensure that they spend wisely and continue to provide vital services and support to those who need it the most.

Fraud is not a victimless crime. Those who make false claims to obtain benefits and services to which they are not entitled do so at the expense of the most vulnerable in society. Fraud impacts on the level of funding available for front-line services, so fighting fraud must remain a key element in ensuring that limited public funds are used effectively. It is vital that each public sector body does everything in its power to both prevent and detect fraud.

The National Fraud Initiative (NFI) is a highly effective tool which continues to play a major role in the fight against fraud and I am pleased to present the results of the latest biennial exercise. Since its inception in 1996, the NFI has been used to identify more than £30 million of fraud and overpayments against the Welsh public sector. The latest exercise has been another success, having uncovered £4.4 million of fraud and overpayments.

I am also delighted that in 2015, public bodies in Wales were given access to a new NFI module, 'AppCheck' at no charge to them, which has been designed to help public bodies identify fraudulent applications for services and benefits. I am confident that this new facility will in future years prove highly successful in preventing fraud entering the system and protecting the public purse.

Whilst these savings to the public purse are valuable in helping to protect front-line services, the benefit of the NFI extends beyond the identifiable financial savings. The NFI continues to be a significant deterrent to would-be fraudsters and has enabled public bodies to identify and address weaknesses in their counter-fraud arrangements.

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.

I would like to publicly thank all those involved in the review and investigation of data matches for the essential work that they do. Once again, that work has proved fruitful in identifying a significant level of fraud and error. I would also like to thank the NFI team based in the Cabinet Office, for their invaluable support in the development and operation of the NFI in Wales.

Huw Vaughan Thomas
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 Welsh population. 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 Unfortunately, there are individuals who seek to claim benefits and services to which they are not entitled. They make fraudulent applications and claims and, in doing so, deprive the public services of valuable resources which could be used to fund vital public services. Fraud against the public services is not a victimless crime. It means that individuals in genuine need may have to wait longer for services, treatments or help because of the greed of others.
- 3 The public services in Wales are facing their biggest challenge for a generation. They face significant reductions in real-term budgets in the coming years. It is therefore imperative that public bodies work to eliminate waste and inefficiencies within their current services in order to minimise the potential impact on front-line services. This must include ensuring that those in receipt of public services and benefits are entitled to them.
- 4 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. 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.
- 5 The NFI continues to be a highly effective tool in detecting fraud and overpayments, and delivering savings to the public purse. Since its commencement in 1996, NFI exercises have resulted in the identification of more than £30 million of fraud and overpayments in Wales, and £1.3 billion across the UK.
- 6 The majority of data matches for this latest NFI exercise were provided to public bodies in January 2015. Since then, most of the matches have been reviewed by participating bodies and, where appropriate, investigations undertaken. In 2013, it was announced that responsibility for investigating potential housing-benefit frauds would transfer from local authorities to the Department of Work and Pensions Fraud and Error Services (DWP FES). This transfer to DWP FES took place in Wales on a phased basis between July 2014 and March 2016. In consequence, many potential housing-benefit frauds identified through NFI data-matching were referred to DWP FES by Welsh local authorities for investigation. Many of these investigations are still in progress and therefore the outcomes of these cases are not yet known.

- 7 Nevertheless, the NFI 2014-15 has been highly effective and has already resulted in the identification of £4.4 million of fraud and overpayments in Wales, and £223 million across the UK.
- 8 These outcomes could not have been achieved without the hard work of staff within participating bodies who have shown commitment to reviewing and investigating the data-matches. Nevertheless, there remains considerable variability in the efforts made by participating bodies to review the matches. The Auditor General will provide additional support in the next biennial NFI exercise to those bodies which are not optimising the benefits of the NFI. This will include providing tailored training and additional guidance on following up NFI matches.
- 9 The Auditor General is committed to supporting public bodies in their efforts to prevent and detect fraud through further developing NFI. During 2015, the Auditor General provided Welsh public bodies with access to a new fraud prevention NFI module, 'AppCheck'. This has been made possible by the additional funding approved by the National Assembly. AppCheck has been designed as a fraud prevention tool, enabling public bodies to undertake real time checks for potential fraud within applications for benefits and services. AppCheck helps prevent fraud entering the system, thereby avoiding costly investigations and recovery action which is needed once fraudulent claims are in payment.
- 10 The Auditor General is seeking to extend participation in the NFI and has written to Welsh Government Sponsored Bodies and Housing Associations encouraging their participation in NFI 2016-17. He is also seeking to extend NFI into other areas which are susceptible to fraud. New datasets are being introduced for NFI 2016-2017 to help identify fraudulent transactions and the Auditor General is also intending to undertake Wales-specific data-matching pilot exercises in areas which he considers may be susceptible to fraud.

Part 1

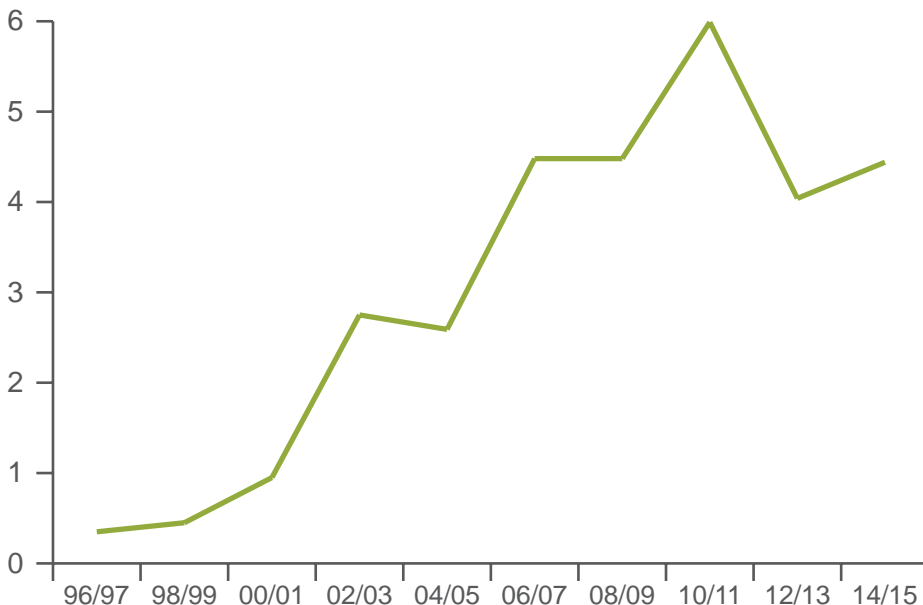
The latest National Fraud Initiative has been another successful exercise in detecting and preventing fraud against the Welsh public sector



- 1.3 The NFI in Wales is run in collaboration with NFI exercises in England, Scotland and Northern Ireland to enable data to be matched across national boundaries. To ensure consistency of approach and to minimise duplication of effort, the Auditor General co operates with the Cabinet Office, Audit Scotland and the Northern Ireland Audit Office. 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](#).
- 1.4 The NFI has been a highly effective tool in detecting fraud and overpayments, and delivering savings to the public purse. Since its commencement in 1996, NFI exercises have identified over £30 million of fraud and overpayments in Wales, and £1.39 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.
- 1.5 The most recent exercise, NFI 2014-15, commenced in October 2014. Forty-two Welsh public sector bodies participated in the NFI 2014-15. These included the following mandatory participants:
- Local authorities
 - Police authorities
 - Fire authorities
 - NHS bodies
- 1.6 The Welsh Government, Cardiff University and Estyn participated in the NFI on a voluntary basis. In addition, the Wales Audit Office and other audit suppliers contracted by the Auditor General to audit public sector bodies in Wales participated in the NFI on a voluntary basis. These suppliers include Grant Thornton, KPMG and PricewaterhouseCoopers. 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.
- 1.7 The majority of data matches for this latest NFI exercise were provided to public bodies in January 2015. Since then, most of the matches have been reviewed by participating bodies and, where appropriate, investigations undertaken.

- 1.8 In 2013, the Chancellor of the Exchequer announced the formation of a single fraud investigation service to be administered by the Department of Work and Pensions' Fraud and Error Services (DWP FES). As a result, DWP FES has responsibility for investigating Housing Benefit fraud and Tax Credit fraud across the UK. Local authorities and Her Majesty's Revenue and Customs (HMRC) were previously responsible for these investigations. In Wales, the transfer of responsibility to DWP FES took place on a phased basis in-between July 2014 and March 2016 and local authority investigation staff transferred to DWP FES. As a consequence, many potential housing-benefit frauds identified through NFI data-matches were referred by local authorities to DWP FES for investigation. In the past, Welsh local authorities would have investigated these matches themselves.
- 1.9 The current exercise (NFI 2014-2015) has detected and prevented fraud and overpayments against public bodies in Wales of over £4.4 million, compared to £4 million in the previous exercise. As set out in paragraph 1.19, a large number of housing-benefit cases referred to the DWP FES for investigation as potential frauds are still being investigated and once these investigations have been concluded, the total value of fraud detected and prevented is likely to increase. **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 £ millions



Source: NFI database

- 1.10 As well as remaining a valuable tool in the detection of fraud, the NFI also provides an important deterrent against those who seek to perpetrate fraud. The latest NFI exercise has led, to date, to the successful prosecution of 25 offenders; other sanctions were imposed in a further 48 cases. These figures are lower than in the previous NFI exercise. However, this is due in part to the fact that a large number of cases are still being investigated by DWP FES. The number of prosecutions and other sanctions is expected to rise significantly in the next few months.
- 1.11 **Exhibit 3** shows a breakdown of the outcomes of NFI cases investigated as part of the NFI exercise 2014-15. NFI continues to help identify fraud and overpayments across a wide range of areas such as housing benefit, CTSPD and pensions.

Exhibit 3 - NFI results – summary of cases for Wales

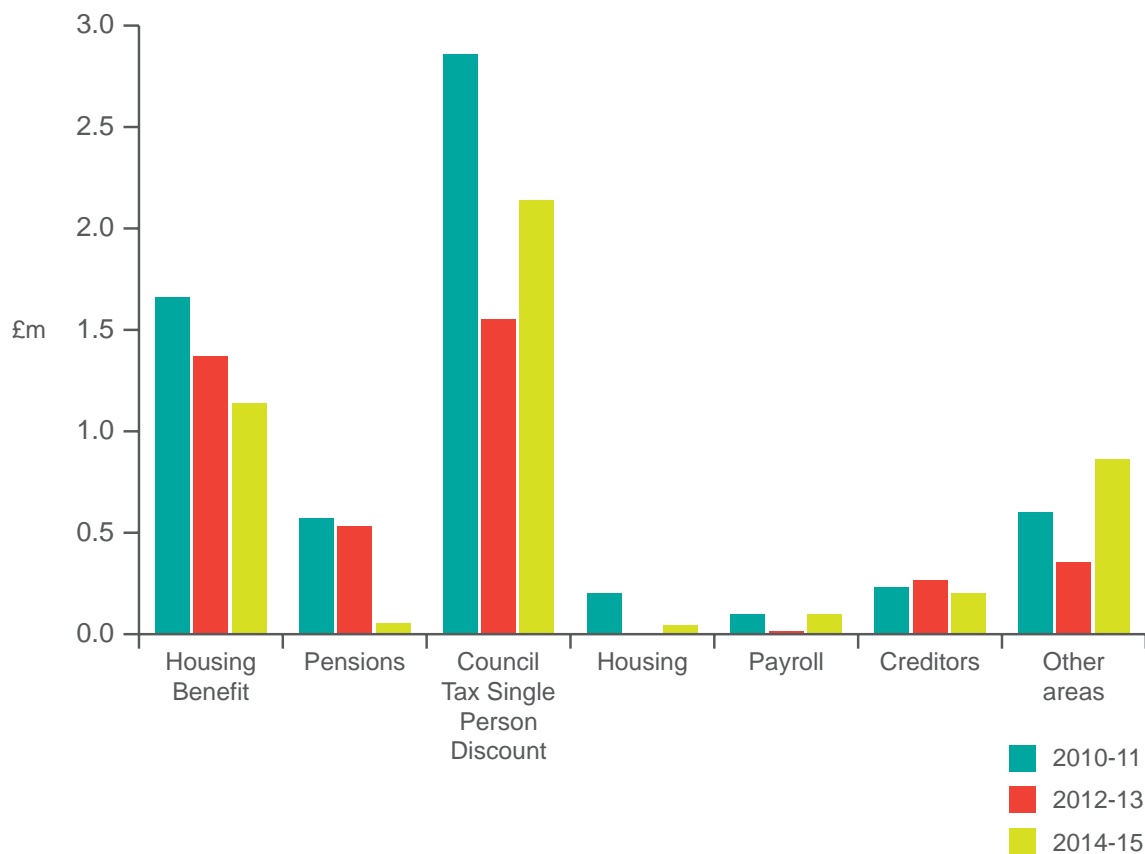
	NFI 2012-13	NFI 2014-15
Successful prosecutions	40	25
Housing-benefit cases which resulted in local authority official cautions	56	30
Housing-benefit cases which resulted in local authority administrative penalties	17	18
Employee dismissed/resigned	2	1
Occupational pension overpayments to deceased pensioners stopped	8	4
Cases of payments identified of overpayments being made to private care homes in respect of deceased patients	3	3
CTSPD applications revoked or withdrawn	1,703	1,988
Blue-badge parking permits cancelled	608	1,044
Concessionary travel permits cancelled	4,753	9,959
Housing-benefit cases involving students	42	46
Housing-benefit cases involving public sector pensioners	129	14
Housing-benefit cases involving local authority employees	94	32
Housing-benefit cases involving NHS employees	39	9
Housing-benefit cases involving licence holders	17	3

Source: NFI database

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

- 1.12 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
- 1.13 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.
- 1.14 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 CTSPD claims. The highest-value areas of fraud and overpayments detected and prevented as part of NFI 2014-15 were CTSPD (£2.14 million) and Housing Benefit (£1.16 million).

Exhibit 4 - Overpayments and related future savings identified through NFI 2014-15 compared with NFI 2012-13 and NFI 2010-11



Source: NFI database

- 1.15 When NFI data-matching is introduced into new areas, it has the potential to make a significant financial impact in addressing long-standing fraud. When NFI first matched public sector pensions in payment to deceased persons records, it found significant numbers of pensions still being paid after the 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 rare for NFI to identify pensions in payment after a pensioner's death.
- 1.16 In 2008-09, NFI started matching CTSPD to the electoral register for the first time. Since then fraud and overpayments of CTSPD amounting to £7.71 million have been detected and prevented. We anticipate that as local authorities continue to review and cancel ineligible claims and recover overpayments, the value of this type of fraud will reduce as longstanding frauds are eliminated.

Whilst the NFI has been successful in identifying housing-benefit fraud and overpayments, some investigations have been delayed due to the transfer of benefit-fraud investigations from local authorities to the Department of Work and Pensions

- 1.17 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, and continue to be, one of the most successful areas within the NFI. The 2014-15 exercise has identified £1.4 million of housing-benefit overpayments (compared to £1.5 million in 2012-13).
- 1.18 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 or income support.
- 1.19 During the course of NFI 2014-15, responsibility for investigating housing-benefit fraud transferred from Welsh local authorities to DWP FES. The transfer was on a phased basis. The earliest transfers took place in July 2014 with the last transfer in March 2016. As a consequence, some Welsh local authorities carried out their own investigations into potential housing benefits arising from NFI data matches. Those Welsh local authorities which transferred their investigation function early referred the potential housing-benefit frauds to DWP FES for investigation. In total over 750 NFI cases were referred to DWP FES for investigation.
- 1.20 The above changes have impacted on the NFI housing-benefit outcomes over the reporting period and are expected to continue to do so as the new arrangements become embedded. The transition to DWP FES appears to have resulted in many of the NFI matches being investigated by local authorities or referred to DWP for investigation later in the period.
- 1.21 At the time of this report many cases referred by Welsh local authorities are still in progress and the outcomes of these cases are unknown. We anticipate that once the outcomes of the cases are known the value of benefit fraud and overpayments detected and prevented as a result of NFI 2014-15 will rise significantly. Now the transfer of responsibility for investigating housing-benefit fraud from local authorities to the DWP FES is complete, we will work with both DWP and local authorities to ensure the arrangements for the next NFI are aligned correctly with the new environment.
- 1.22 Despite the changes set out above, where NFI housing-benefit investigations have been concluded either by DWP FES or local authorities many cases have been identified where housing benefit has been claimed either fraudulently or in error.

1.23 NFI matches housing-benefit claimants across a range of other data sets to identify instances where claimants have failed to disclose their full income, their personal circumstances or have claimed housing benefit at more than one local authority simultaneously. The following case studies highlight some of the frauds or errors which were identified through the review and investigation of NFI housing-benefit data-matches.

NFI helped to identify housing-benefit claimants in receipt of housing benefit from two local authorities at the same time

1.24 Housing benefit is a means-tested benefit intended to provide eligible persons with financial support towards their housing rental costs. A claimant may only claim financial support for the costs of renting one property. A claimant is therefore ineligible to receive housing benefit for two properties simultaneously.

Case Study 1

Carmarthenshire County Council reviewed an NFI match which appeared to show that an individual claiming Housing Benefit in Carmarthenshire had also been claiming Housing Benefit at a different property in a neighbouring local authority area. Carmarthenshire County Council followed up the match by making enquiries to the landlord of the Carmarthenshire property and with the neighbouring local authority. It was established that there was a substantial overlap of the claims with Housing Benefit being paid by both authorities simultaneously. The claimant was interviewed under caution and admitted overclaiming Housing Benefit amounting to £3,935. The claimant was given a formal caution.

Case Study 2

Denbighshire County Council reviewed an NFI-match report which highlights possible instances of Housing Benefit being claimed from more than one local authority at the same time. In one instance, an individual who had been claiming Housing Benefit from Denbighshire County Council since 2005 appeared to have started claiming Housing Benefit in May 2014 from a neighbouring authority without cancelling his Denbighshire claim. The Council confirmed with the neighbouring authority that both claims were in payment at the same time. The Council cancelled the claim and is seeking to recover an overclaimed Housing Benefit amounting to £3,160. The case has been referred to the DWP as a suspected fraud.

Case Study 3

Isle of Anglesey County Council investigated an NFI data-match which indicated that an individual claiming Housing Benefit from the Authority may also be claiming Housing Benefit within a neighbouring authority. Enquiries made by the Corporate Counter Fraud Officer confirmed that the Housing Benefit claim with the Isle of Anglesey County Council was still live and in payment, with the Housing Benefit payments being made direct into the claimant's bank account. Further enquiries revealed that the claimant had vacated the Anglesey property in August 2015. The neighbouring authority confirmed that the claimant had been receiving Housing Benefit from that Council since August 2015. The Isle of Anglesey County Council claim was cancelled back to August 2015 and an overpayment of £2,799 was calculated. The recovery of the overpayment is ongoing. Details of the case have been referred to the DWP for further investigation.

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

- 1.25 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-dependents they live with. Failure to fully disclose income is likely to result in housing benefit being overpaid and can be fraudulent.

Case Study 4

Rhondda Cynon Taf County Borough Council reviewed NFI matches between payroll and Housing Benefit. In one instance the Council found that an employee in receipt of Housing Benefit had failed to disclose that her pay had increased. The individual was interviewed and admitted that she had carried out a number of jobs and failed to report the pay she had received in order to retain entitlement to benefit. The Council calculated that the individual had received £2,199 of Housing Benefit and £610 of Council Tax Reduction which she was not entitled to. The overpayment is being recovered through a reduction to ongoing Housing Benefit payments. The individual received a formal caution.

Case Study 5

Denbighshire County Council carried out a thorough review of NFI matches between its employees and Housing Benefit claimants. One of the matches related to a part-time employee of the Council who had claimed Housing Benefit from the Council since February 2012. Whilst the individual had declared the pay she had received from a second employer, she failed to declare the pay she was receiving from Denbighshire County Council. As a consequence she received £7,779 of Housing Benefit to which she was not entitled. The Council is recovering the over-claimed benefit.

Case Study 6

Rhondda Cynon Taf County Borough Council investigated an NFI match which appeared to show that a Housing Benefit claimant was living at the same property as a Council employee, but had not declared the Council employee's income. The investigation found that the Council employee was a non-dependent daughter of the claimant. When interviewed the claimant explained the reason he had not informed the authority of his daughter's income was because he had assumed the Council would already know. The Council calculated that the individual had received £4,559 of Housing Benefit and £656 of Council Tax Reduction to which he was not entitled. The overpayment is being recovered through a reduction to ongoing Housing Benefit payments. The claimant received a formal caution.

Case Study 7

Carmarthenshire County Council reviewed an NFI address match between a housing-benefit claimant and an individual in receipt of an armed-forces pension. The match appeared to show that the Housing Benefit claimant had not declared the pension income of someone she was living with who was in receipt of an occupational pension. The Council re-visited the housing-benefit claim and confirmed that the claimant had declared that she was the sole adult occupant of the property. Further enquiries were made at other local authorities and the National Anti-Fraud Network, and the claimant was interviewed under caution. The individual admitted having falsely claimed Housing Benefit amounting to £9,482 and was given an Administrative Penalty of an additional £2,000.

Case Study 8

Caerphilly County Borough Council reviewed an NFI match between a Housing Benefit claimant and an occupational pensioner, which raised a concern that the claimant may not have declared their pension income. Initially, the match was referred to DWP FES. However, whilst awaiting a response from DWP FES, the Council obtained information from the HMRC Real Time information system which provided evidence that the claimant was in receipt of undeclared pension income. The Housing Benefit claim was immediately reassessed and an overpayment of £1,583 was confirmed. The overpayment is currently being recovered.

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

- 1.26 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 9

City and County of Swansea Council investigated an NFI match between a housing-benefit claimant and Home Office immigration data. The match appeared to show that the individual had been claiming housing benefit since May 2014 but had no right to work or reside in the UK. The Council made further enquiries of the Home Office which confirmed the individual's immigration status. The Council cancelled the housing-benefit claim and is now seeking to recover over-claimed housing benefit amounting to £5,488 and Council Tax Reduction of £841. The case has also been referred to DWP for further investigation as the individual was also in receipt of Income Support.

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

- 1.27 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 large 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 and are still under investigation.

Case Study 10

Staff within the Housing Benefits Department of **Denbighshire County Council** carried out an investigation into an NFI match which appeared to show that an individual who had been in receipt of Housing Benefit since 2012 had failed to notify the Council that he had started a university course in September 2013 and was in receipt of student finance. The Council obtained independent confirmation from the Student Loan Company that the individual had been in receipt of student finance since September 2013 and as a consequence cancelled the Housing Benefit claim. The Council is now seeking to recover over-claimed Housing Benefit amounting to £8,135.

Case Study 11

The City and County of Swansea Council carried out a thorough review of matches between Housing Benefit claimants and students in receipt of student finance. Following this review, several suspected cases of fraud were referred to DWP FES for investigation. In one case, DWP FES found that the individual had failed to disclose their student status and had claimed £5,517 of Housing Benefit, £6,841 of Jobseekers Allowance and £2,999 of Employment and Support Allowance to which he was not entitled. The individual was prosecuted and given a community order.

In a further case referred by the Council, DWP FES found that an individual had failed to disclose their student status and had claimed £3,273 of Housing Benefit and £2,789 of Jobseekers Allowance to which he was not entitled. The individual accepted an administrative penalty of £1,000 for Housing Benefit and £2,000 for Jobseekers Allowance. The overpayment is in the process of being recovered.

Case Study 12

Conwy County Borough Council investigated an NFI match that showed that a Housing Benefit claimant was in receipt of student loans and grant awards. In most cases, students in receipt of a student loan are not entitled to receive Housing Benefit. The Council reviewed the Housing Benefit claim and confirmed that the individual had not declared the student finance received. The Council also identified that the individual was paying reduced council tax based on his disclosed income. A referral was sent to the DWP with details of the student income, and the Council wrote to the claimant requesting a breakdown of the loan/grant they had received for the 2013 academic year. The customer did not respond and so his claim was adjusted. The claimant has agreed to repay the overpayment over a specified period.

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

- 1.28 The NFI matches occupational pensions in payment to deceased people to identify instances where pensions were still being paid after a pensioner had deceased.
- 1.29 When this NFI data match was first introduced as part of NFI 2004-05, it identified 61 instances of pensions continuing to be paid in the name of a deceased pensioner. In the last few NFI exercises, the number of cases being identified has steadily declined. NFI 2010-11 identified 17 cases, NFI 2012-13 eight cases and NFI 2014-15 just four cases.
- 1.30 The NFI pensions-to-deceased-persons match is a good example of how successful the NFI can be in helping to reduce fraud in an area which had traditionally been susceptible to fraud.

NFI matching between council-tax data and the electoral register has achieved savings to the public purse of £2.1 million

- 1.31 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 per cent of the full council-tax bill payable on the property. This discount is commonly referred to as the Council Tax Single Persons Discount (CTSPD).
- 1.32 Claims for CTSPD were matched with the electoral register. The match identified claims for CTSPD where the claimant was residing in the same property as another individual on the electoral register. Whilst not all matches signified inappropriate claims, the exercise proved to be highly successful. To date, the NFI 2014-15 has resulted in the cancellation of 1,988 CTSPDs (1,703 in NFI 2012-13) and identified savings to the public purse of £2.1 million (£1.5 million in NFI 2012-13). This figure includes related future savings.
- 1.33 In many cases, CTSPD claimants were eligible on application but failed to declare 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.
- 1.34 Local authorities are recovering over 70 per cent of the discount incorrectly awarded. Furthermore, local authorities have found that some individuals, who inappropriately claimed the discount, also claimed other benefits inappropriately.

- 1.35 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 addressing the matches. This is unfortunate, because those authorities which have adopted a rigorous approach have realised significant financial benefits. Case studies 13 and 14 provide two examples of authorities which have been very proactive in this area.

Case Study 13

Caerphilly County Borough Council applied a rigorous approach to the review and investigation of NFI matches showing individuals in receipt of NFI CTSPD, where the electoral register showed that more than one individual was registered to vote at the property in question. As a consequence of following up these matches, 361 fraudulent and 52 erroneous claims were identified where claimants had not or were no longer entitled to a discount. The amount overclaimed amounted to £96,153 of which £92,783 is being recovered. The cancellation of these claims has also increased the council-tax revenue being collected going forward.

Case Study 14

Since the last NFI exercise, one Welsh local authority has systematically reviewed matches between those in receipt of CTSPD and properties on the electoral register where more than one person was registered to vote. The Council followed up these matches and after seeking evidence of continuing entitlement to a discount has cancelled 710 claims. The value of discounts claimed when there was no entitlement amounted to £226,817 of which £164,895 has been, or is in the process of being recovered.

NFI matching of creditor-payment data has helped to identify £201,000 of creditor overpayments

- 1.36 The 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.
- 1.37 The NFI 2014-15 has identified overpayments of £201,000; these overpayments have been or are being recovered wherever possible.

Case Study 15

Caerphilly County Borough Council undertook a rigorous 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 identified through this exercise. Thirty-one unrecovered duplicated payments were identified with a total value of £114,968, of which £71,897 related to two large-value duplicates. The Council has now recovered all the duplicate payments identified and has introduced additional system controls to prevent duplicate payments in the future.

Case Study 16

One Welsh local health board reviewed an NFI match which suggested that an invoice for £19,708 had been paid twice. Further checks confirmed that a duplicate payment had been made. The health board recovered the overpayment from future payments to the supplier.

Review of the NFI matches has led to 1,044 blue badges and 9,959 concessionary travel passes being cancelled

- 1.38 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 badges by more than one local authority.
- 1.39 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.
- 1.40 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.
- 1.41 This year, the match has led to the cancellation of 1,044 blue badges across Wales. Once the badges have been cancelled, it is possible for local authorities to check whether the cancelled badges are being fraudulently displayed.
- 1.42 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, 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. As a result of work undertaken by Welsh local authorities to review the matches, 9,959 passes were cancelled.

Case Study 17

Cardiff Council received a number of NFI matches between blue-badge holders and deceased persons. Having reviewed these matches the Council was able to confirm in 288 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.

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

- 1.43 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 18

Cardiff Council investigated two NFI matches which suggested that the Council had continued to make payments to two residential-care-home providers after a resident had died. The Council's investigations confirmed this to be the case, and the overpayments amounting to £2,166 in one case and £6,386 in the other had accrued. Both providers were asked to refund the money and the full amounts have been recovered.

Case Study 19

Conwy County Borough Council investigated an NFI match which appeared to show that a private residential-care-home provider was still receiving payments from the Council for a service user after their death. On receipt of the match in January 2015, the Council confirmed that the resident had died in July 2014 but the Council had continued to pay for the resident. The Council immediately stopped payment for the resident. Further investigation found that whilst the Council had been notified of the death by the provider, the provider had given an incorrect name to the Council of the deceased. The overpayment, which amounted to £13,155, was therefore deemed to be an error. The overpayment has been fully recovered from the provider.

NFI matching of housing-tenancy data detected and prevented a small number of housing-tenancy frauds

- 1.44 NFI data matches details of local-authority housing tenancy with other data sets and can help identify issues such as individuals:
- holding tenancies for more than one Council-owned property;
 - claiming housing benefit in respect of one property whilst being a tenant of a different Council-owned property; and
 - claiming the right to purchase a Council-owned property when not entitled to do so.
- 1.45 NFI 2014-15 identified a small number of cases where tenancy fraud had been perpetrated or attempted. Whilst the numbers of such cases identified through NFI have fallen from previous NFI exercises, individual housing-tenancy frauds are often high value and have an impact on the availability of scarce social housing stock.
- 1.46 One of the primary reasons for the reduction in the number of tenancy frauds detected through NFI is because a number of Welsh local authorities have transferred their housing stock to housing associations which do not currently participate in NFI. The Auditor General has written to the largest housing associations in Wales encouraging them to participate in future NFI exercises. The Auditor General will also be considering how NFI can be further developed to achieve improved outcomes in this area in the future.

Case Study 20

Cardiff Council undertook a review of all matches relating to Right-to-Buy applications. As a result, the Council was able to cancel 27 Right-to-Buy applications where the applicants were not, or were no longer, eligible to purchase the properties concerned.

Case Study 21

Carmarthenshire County Council reviewed an NFI match which appeared to show that an individual with a tenancy in a Council-provided council house since September 2014, and in receipt of housing benefit and reduced council tax for low income, was also claiming housing benefit from a local authority in England. Carmarthenshire County Council followed up this match and made enquiries of the English local authority. It was confirmed that the individual had been in receipt of housing benefit in England since December 2012 was still resident in England. The Carmarthenshire housing-benefit claim was cancelled from the outset as the investigation proved that the tenant had never moved in, resulting in a recoverable housing-benefit overpayment of £1,953 and an adjustment to council-tax reduction of £1,525.

An NFI data-matching pilot exercise designed to prevent housing waiting-list fraud was successful and the Auditor General plans to include housing waiting-list data-matching in future NFI exercises

- 1.47 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.
- 1.48 As part of NFI 2014-15, local authorities across the UK were invited on a voluntary basis to submit their housing waiting lists to the NFI to be matched against other 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.
- 1.49 The exercise was very successful and led to over 2,000 ineligible applicants being removed from housing waiting lists across the UK. Cardiff Council was the only Welsh local authority to participate in the pilot. The results of Cardiff Council's review of the NFI data matches in this area are highlighted in case study 22.
- 1.50 In view of the success of the pilot exercise, the Auditor General has decided to mandate local authorities in Wales to participate in housing-waiting-list matching as part of NFI 2016-17.

Case Study 21

Cardiff Council volunteered to take part in an NFI Social Housing Waiting List Pilot which ran in conjunction with the main NFI exercise. Following data submission the Authority received a number of reports matching records to Housing, Home Office, Social Housing Waiting List, Housing Benefit and DWP records of deceased persons. Cardiff Council adopted a considered approach and focused on prioritising high-quality matches. The pilot proved to be effective and resulted in Cardiff Council removing 31 applicants who were not eligible to be housed from its Social 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 adequately engage in the initiative

- 1.51 Auditors have reviewed the work undertaken by authorities to make the best use of the NFI 2014-15 matches and have found that most participants have an effective approach for managing the NFI and reviewing data matches. The commitment of bodies to investigate the matches has increased, and participants are generally more proactive in investigating all of the different types of matches.
- 1.52 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. As part of NFI 2016-17, the Auditor General's auditors will be working closely with those participating organisations which did not engage effectively with NFI 2014-15.

Part 2

The National Fraud Initiative is continuing to be developed in order to ensure its effectiveness



- 2.1 Fraud is completely unacceptable wherever and whenever it is perpetrated. When fraud is committed against public bodies it inevitably impacts most on those who rely on the help of public bodies to provide vital services. Those who commit fraud either do not think about the impact of their actions, or do not care. It is essential that public bodies and their auditors do whatever is necessary to prevent and detect fraud occurring in order to ensure that good use is made of the limited available resources. This includes:
- establishing a zero-tolerance culture in respect of fraud;
 - ensuring that rigorous controls are put in place to prevent fraud occurring;
 - sharing information with other organisations to help fight fraud in all sectors;
 - using effective tools to detect fraudulent transactions; and
 - pursuing rigorous sanctions against anyone found to have committed fraud.
- 2.2 The NFI is one 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.
- 2.3 The Auditor General has identified the following key areas for maintaining, developing and improving the NFI in the future:
- 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.

The Auditor General is continuing to develop NFI to support public bodies to prevent fraud as well as helping to detect fraud, and has provided Welsh participants with access to AppCheck, a new point-of-application fraud-prevention tool

- 2.4 Since the NFI commenced in 1996 it has been highly successful in helping public bodies detect fraud which has already taken place. As NFI is a biennial exercise this means that a fraud found through NFI may have gone undetected for up to two years. Recovery of money fraudulently claimed can be difficult and fraud investigations are often complex, resource intensive and costly. It is therefore far better to prevent fraud entering the system in the first place through the use of fraud-prevention controls and tools.
- 2.5 Over the last two years the Auditor General has been working with his NFI counterparts in other parts of the UK to develop and roll out a new NFI module, '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.
- 2.6 In 2015, the Auditor General decided to make AppCheck available to all Welsh NFI participants on a no-fee basis. Many participants are currently considering how they can best integrate AppCheck into their existing system-control arrangements. However, AppCheck is already being used by some participants to check applications for employment, housing benefits, CTSPD, blue badges, and taxi and alcohol licences.
- 2.7 The Auditor General is committed to the continued development of AppCheck, in conjunction with NFI teams in other parts of the UK, and to promoting its use going forward. This includes engaging with relevant third-party system suppliers to integrate AppCheck into their systems, thereby enabling participants to automatically access AppCheck through external systems they are already using, for example, existing case management systems.
- 2.8 The Auditor General has also offered to provide all NFI participants on-site training in how best to use AppCheck, and a number of NFI participants have already taken up this offer.

The Auditor General is committed to encouraging more organisations to participate in the NFI in order to maximise the potential benefits of the exercise

- 2.9 The Auditor General conducts the NFI under the provisions of Section 64A of the Public Audit (Wales) Act 2004. This provision enables the Auditor General to conduct data-matching exercises for the prevention and detection of fraud in or with respect to Wales. The Auditor General can require local authorities and NHS bodies to participate in data-matching exercises and has required all unitary, police, fire and probation authorities, and NHS bodies in Wales to participate in the NFI. The legislation also provides that other organisations, both public and private sector, may voluntarily participate in data-matching exercises run by the Auditor General. The Welsh Government and Cardiff University are voluntary participants in the NFI and their commitment to addressing fraud through participating in the data matching is commendable. The Wales Audit Office also participates in the NFI on a voluntary basis.
- 2.10 The more organisations that contribute to the NFI the greater the impact and effectiveness of the exercise. The greater the number of participants, the more datasets that are available for matching; providing greater potential for frauds to be identified. It can be the case that there is no direct benefit to an organisation participating in the NFI, but if a fraud or overpayment against another public body is prevented or detected then this is to the benefit of the public purse as a whole.
- 2.11 The Auditor General wishes to extend participation in the NFI to as many public bodies in Wales as possible and actively encourages all publicly funded bodies to participate on a voluntary basis. In 2015, the National Assembly for Wales approved a request from the Auditor General for additional funding to increase participation in NFI. This additional funding has enabled the Auditor General to write to potential new participants inviting voluntary participation on a no-fee basis.
- 2.12 Several organisations including some Welsh Government Sponsored Bodies and housing associations have responded indicating that they would like to participate in NFI 2016-17 which is due to commence in October 2016.
- 2.13 The Auditor General continues to encourage more bodies to participate and invites any organisation which is interested to contact the Wales Audit Office for further information.
- 2.14 Welsh public bodies also derive greater benefit from the NFI when public bodies in other parts of the UK participate in the exercise. Fraudsters do not respect geographical boundaries. Local government and NHS bodies in England, Scotland and Northern Ireland currently participate in the NFI, as do a number of government departments.

The Auditor General will continue to extend NFI into new areas of public services which are susceptible to fraud

- 2.15 The NFI needs to be extended into new areas susceptible to fraud. This is necessary because, when fraudsters know that counter-fraud controls are strong in some areas, they will instead target perceived weaker areas.
- 2.16 As part of NFI 2014-15, pilot data-matching exercises were undertaken at volunteer sites aimed at preventing and detecting fraud in respect of social housing waiting lists and the council-tax reduction scheme (CTRS). The housing-waiting-list pilot exercise (see paragraphs 1.47 to 1.50) resulted in 3,000 applications for social housing across the UK being removed from a social-housing waiting list. The local authorities removing these applicants have estimated that the exercise saved almost £20 million.
- 2.17 Following the replacement of council-tax benefits by locally administered CTRs in April 2013, CTRS data matching was piloted to detect fraud in this area. Fifty-one local authorities took part in the CTRS pilot (no Welsh authorities were involved). The exercise prevented and detected fraud and overpayments amounting to £0.25 million.
- 2.18 In view of the success of these pilots, the Auditor General is planning to require Welsh local authorities to provide social-housing waiting-list data and CTRS data in NFI 2016-17.
- 2.19 The Auditor General is also in discussion with the Welsh Government regarding the feasibility of undertaking Wales-specific data-matching pilot exercises designed to prevent and detect fraud as part of NFI 2016-17. Areas currently being considered relate to commercial fisheries licences and private landlords.
- 2.20 Other areas where UK-wide NFI data pilot exercises are planned or in progress include pilots to:
- target property fraud using Land Registry data;
 - establish the benefits NFI can offer in helping reduce fraud and error in European Health Insurance Cards; and
 - prevent fraud and/or identify undisclosed interests using Companies House data.
- 2.21 The Auditor General will continue to develop the NFI to meet new fraud risks by:
- working with the Welsh Government to identify how NFI can help address any inherent fraud risks associated with new policy developments;
 - listening to the concerns raised by organisations about emerging challenges facing them; and
 - working with key stakeholders in the public and private sectors.

The Auditor General will continue to ensure that the current high standards of NFI data security are maintained

- 2.22 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. These controls include:
- automatic data encryption on the upload of data to the NFI;
 - controls to restrict access to only those who need it; and
 - security measures in place to secure the physical environment where the data is held.
- 2.23 The Auditor General recognises that data must not just be held and processed lawfully and securely, it must also be seen to be the case. Furthermore, as cyber-attacks become more sophisticated, the NFI must utilise the most advanced technology available to counteract this threat. The Auditor General is committed to ensuring that the highest standards of security continue to be applied to the NFI going forward.
- 2.24 With advancements in the NFI process and constantly emerging risks, there is always a need to regularly review the security environment to ensure that the arrangements in place are still sufficiently robust. The Wales Audit Office, on behalf of the Auditor General, the Cabinet Office, Audit Scotland, the Northern Ireland Audit Office and the National Audit Office undertake joint security reviews of the NFI on a cyclical basis to ensure that the NFI continues to meet strict security standards (ISO27001). These reviews have confirmed that security controls are strong. Where recommendations are made to enhance the security arrangements, monitoring arrangements have been established to ensure effective implementation. NFI is also accredited under the UK Government's information-assurance standards.
- 2.25 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.
- 2.26 When considering the extension of the NFI to new areas, the Auditor General is committed to balancing the privacy of data subjects with the potential benefits to be achieved through the data-matching exercise. The Auditor General will therefore only consider new NFI matches in areas where there is an appreciable risk of fraud.

Appendices

Appendix 1 – How the NFI works



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 £30 million of fraud and overpayments in Wales, and over £1.3 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 auditors as required.

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