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National Fraud Initiative 2010-11: Ensuring the proper use of public funds



National Fraud Initiative 2010-11

This report summarises the findings of the National Fraud Initiative 2010-11. I have prepared this report for presentation to the National Assembly under the Public Audit (Wales) Act 2004.

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**Report presented by the Auditor General for Wales to the
National Assembly for Wales on 16 May 2012**



Foreword	5
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Summary	6
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1 The latest National Fraud Initiative exercise has been the most successful to date in preventing and detecting fraud against the Welsh public sector	7
The latest NFI exercise has been the most effective to date, resulting in total savings to the public purse of £6 million	7
NFI matching has helped to identify cases of fraud and overpayments in a wide range of areas	11
Welsh public sector bodies participating in the NFI have been more proactive in reviewing the data matches	22

2 The National Fraud Initiative is continuing to be developed in order to ensure its effectiveness	24
Strong collaborative working arrangements will need to be established with the successor body to the Audit Commission in running the NFI in England	25
The number of participants in the NFI needs to increase in order to maximise the potential benefits of the exercise	25
The NFI needs to continue to extend into new areas of public services which are susceptible to fraud	26
The NFI needs to be developed to support public bodies to prevent fraud from being committed as well as helping to detect fraud	27
The current high standards of the NFI data security must be maintained	28

Appendices	
How the NFI works	29



Foreword



Welsh public services are experiencing a sustained period of cuts in funding, with real-term reductions of £1.6 billion between 2010-11 and 2013-14. This financial challenge impacts upon users and employees of public services as well as those who do business with the public sector.

In such times it is vital that public bodies in Wales use the resources available to them in the most efficient and effective way possible; neither waste nor fraud can be tolerated. The recent Annual Fraud Indicator published by the National Fraud Authority has put the loss to the UK economy from fraud at £73 billion¹. Of this total some £6.3 billion² has been attributed to fraud within central government, the NHS, local government and the benefits and tax credits systems.

The National Fraud Initiative (NFI) is a highly effective tool which continues to play a vital 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 £22 million of fraud and overpayments against the Welsh public sector. The latest exercise has been the most successful to date, having uncovered £6 million of fraud and overpayments. 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.

Public servants across Wales are to be commended on the considerable effort they put in to review the data matches, identify and stop fraud, recover overpayments and ensure that those responsible are brought to account. Whilst NFI participants should be pleased with the continuing success of the initiative we cannot afford to become complacent. The current state of the economy puts even greater pressure on fraudsters to come up with new and increasingly sophisticated means of perpetrating their crimes and the public sector needs to keep pace with developing fraud trends. I am keen to ensure that the NFI contributes to this agenda by making the right tools available to prevent and detect all types of fraud against public bodies. We will look for new datasets and new match areas to enhance our fraud-fighting capability, and I would encourage all public sector organisations (or indeed any organisation) to contact the Wales Audit Office to find out the costs and benefits of being involved in the NFI.

Huw Vaughan Thomas
Auditor General for Wales

¹ National Fraud Authority, Annual Fraud Indicator, March 2012

² National Fraud Authority, Annual Fraud Indicator, March 2012

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 National Fraud Initiative (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 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 resulted in the identification of more than £22 million of fraud and overpayments in Wales, and £939 million across the UK.
- 5 The data matches for the latest NFI exercise (NFI 2010-11) were provided to public bodies in January 2011. Since then, most of the matches have been reviewed and where appropriate investigations undertaken. Whilst most NFI investigations have been completed, some are still in progress.
- 6 The NFI 2010-11 was highly effective resulting in the identification of £6 million of fraud and overpayments in Wales, and £275 million across the UK. In order to continue to contribute to the substantial efficiencies which the Welsh public sector will need to achieve in the future, the Auditor General is continuing to develop NFI further. The NFI is currently being extended into other areas which are susceptible to fraud and new datasets are being introduced to help identify fraudulent transactions. Progress on these improvements and developments is already well underway.



Part 1 - The latest National Fraud Initiative exercise has been the most successful to date in preventing and detecting fraud against the Welsh public sector

The latest NFI exercise has been the most effective to date, resulting in total savings to the public purse of £6 million

1.1 The National Fraud Authority has estimated that fraud losses for the UK public sector alone amount to £20.3 billion³. Fraud is not just damaging to the economy as a whole, fraud against public bodies deprives the public sector of valuable, limited resources and restricts individuals in genuine need from accessing vital services. Fraud is therefore not a victimless crime and it is imperative for all public bodies to minimise loss to fraud

by implementing effective arrangements to prevent and detect fraud. With public bodies facing severe financial constraints, minimising losses to fraud has never been as important.

1.2 In order to support Welsh public bodies in their fight against fraud, the Auditor General runs the National Fraud Initiative (NFI) on a biennial basis. The NFI matches data across organisations and systems to help public bodies identify anomalies which may signify fraudulent 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 issues that the NFI can uncover

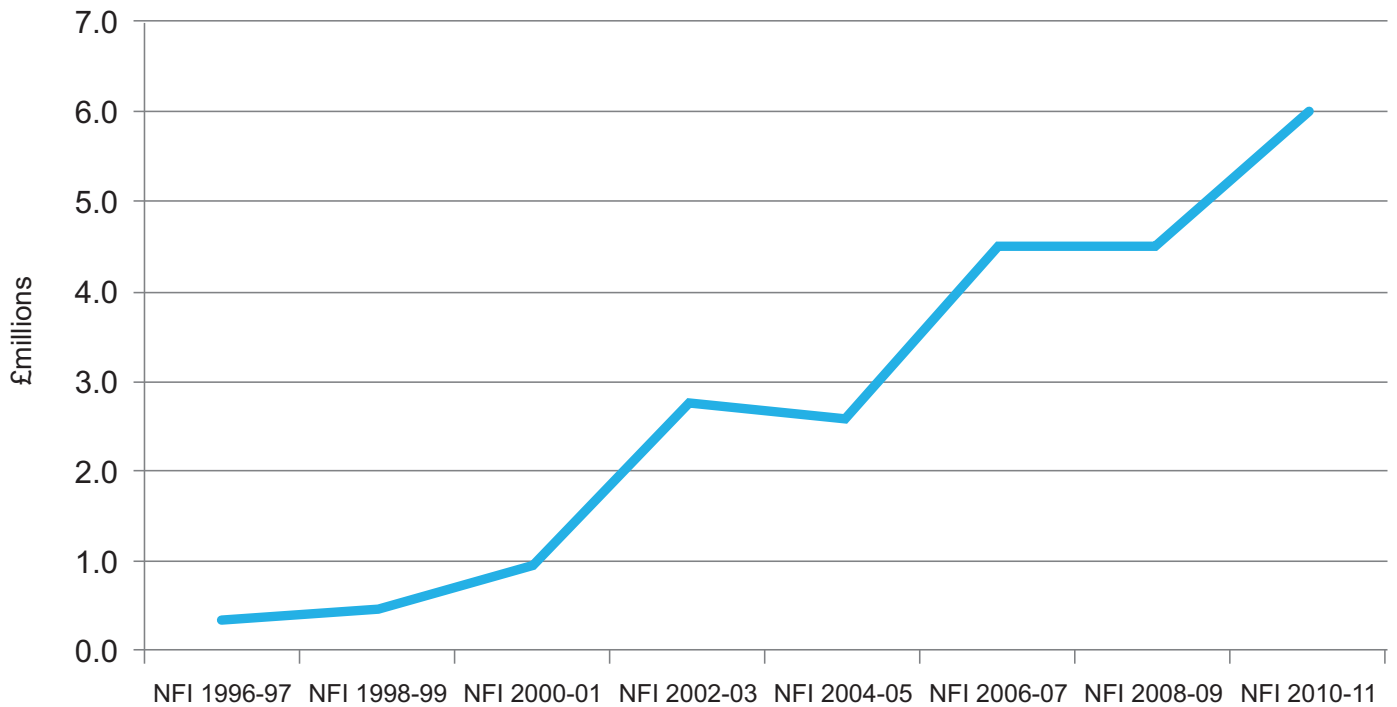
Datasets matched	Issues uncovered
Payroll records to Home Office failed asylum records and expired visa records	Employees working in the public sector who have no entitlement to be in the UK.
Housing benefit and housing rent records to housing benefit and housing rent records	Individuals claiming housing benefits and/or housing rent from more than one local authority.
Pension payroll records to deceased persons' records	Occupational pension being paid where an individual has died, and the death has not been reported to the pension payer.
Payroll records to payroll records	Employees on long-term sick leave from one employer whilst working for another.
Blue badge holder records to deceased persons' records	Improper use of blue badges, where a permit holder has died, but the local authority may not have been notified.

³ National Fraud Authority, Annual Fraud Indicator, March 2012

- 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 other national audit agencies, the Audit Commission, 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 resulted in the identification of £22 million of fraud and overpayments in Wales and £939 million 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 2010-11, commenced in October 2010. Forty-three Welsh public sector bodies participated in the NFI 2010-11. These included the following mandatory participants:
- Local authorities
 - Police authorities
 - Fire authorities
 - NHS bodies
 - The Probation Trust
- 1.6** The Welsh Government and Cardiff University 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 the NFI for data matching to detect and prevent fraud.
- 1.7** The data matches for the latest NFI exercise (NFI 2010-11) were provided to public bodies in January 2011. Since then, most of the matches have been reviewed and where appropriate investigations undertaken. Whilst most NFI investigations have been completed, some are still in progress.
- 1.8** The latest NFI exercise has been the most successful to date; since the previous NFI report £6 million of fraud and overpayments against public bodies in Wales has been detected and prevented. This was significantly higher than the amount identified in the 2008-09 exercise which was £4.5 million. [Exhibit 2](#) demonstrates how the value of savings identified in Wales through the NFI has risen since the exercise started in 1996.



Exhibit 2 - NFI reported savings in Wales £million

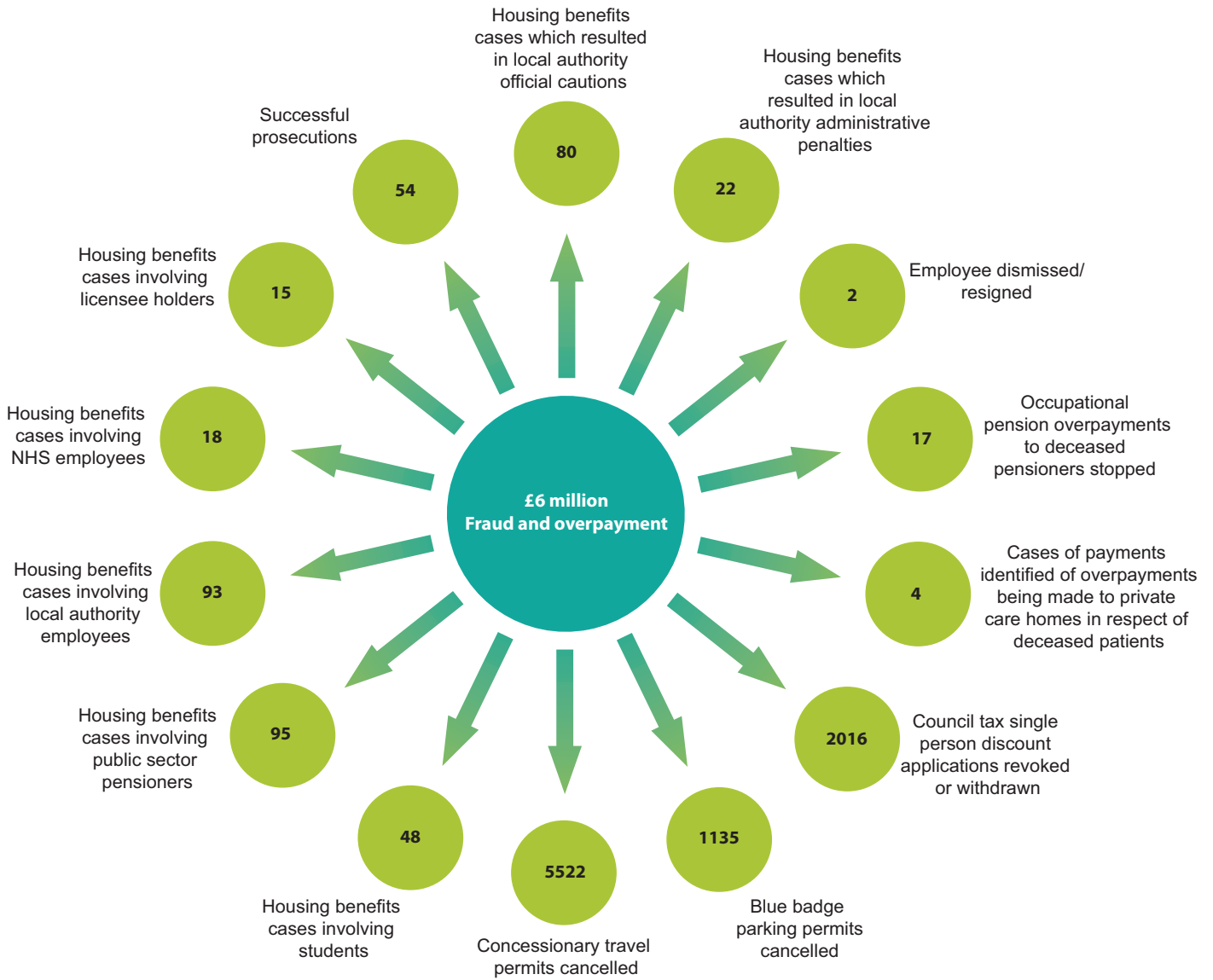


Source: NFI database

1.9 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 led to the successful prosecution of 54 offenders and sanctions were imposed in 102 other cases.

1.10 Exhibit 3 shows a breakdown of the outcomes of NFI cases investigated as part of the NFI exercise 2010-11. This demonstrates that the NFI has helped to identify fraud and overpayments across a wide range of areas such as housing benefit, Council Tax Single Person Discount (CTSPD) and pensions.

Exhibit 3 - NFI results summary of cases for Wales



Source: NFI database



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

1.11 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:

- Housing benefits
- Public sector payroll
- Public sector pensions

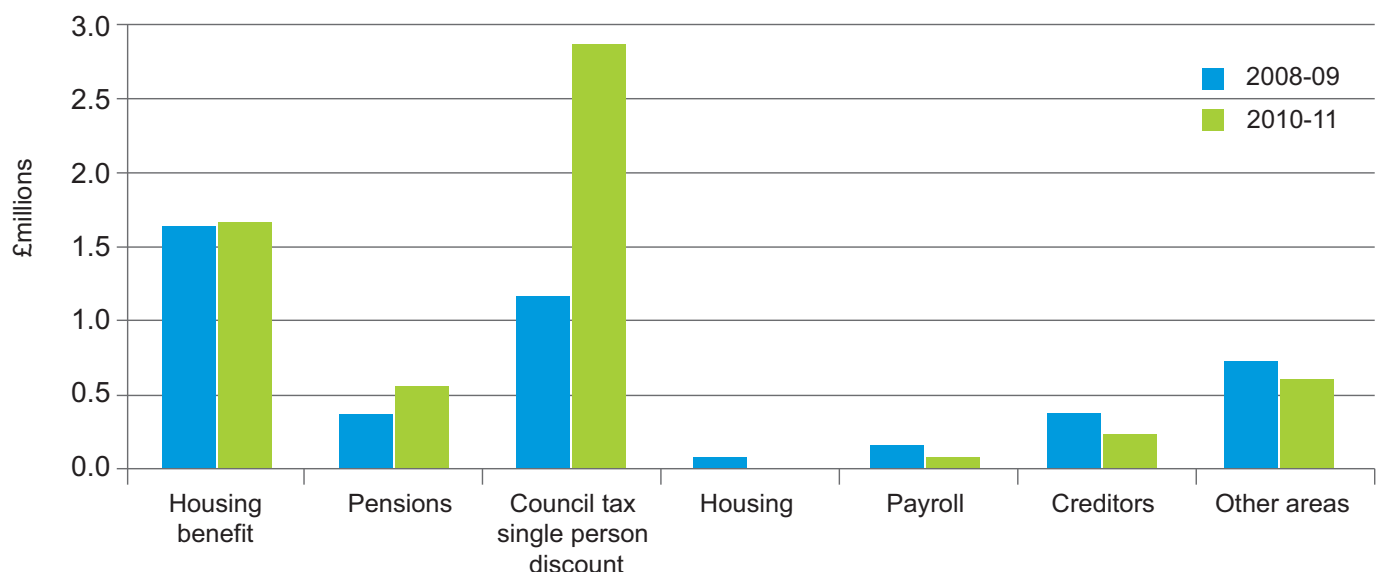
1.12 Over many years, data matching in these areas has led to the identification of high-value fraud and overpayments, including many longstanding frauds. In particular, many longstanding pension payments made in the name of deceased pensioners have been stopped. The latest NFI exercise has found that 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.

1.13 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.

1.14 The 2008-09 NFI exercise introduced a match between the electoral register and recipients of CTSPD. This match was designed to help local authorities identify people in receipt of the discount who might not be entitled. The 2010-11 NFI detected and prevented £2.9 million fraud and overpayments in respect of CTSPD claims. This compared to £1.1 million in the 2008-09 exercise. This increase is primarily due to the proactivity of Welsh local authorities in investigating the data matches.

Exhibit 4 - Overpayments and related future savings identified though NFI 2010-11 compared with NFI 2008-09



Source: NFI database

- 1.15** In September 2011, a pilot exercise was undertaken across the UK to identify cases where fraudsters were using false or stolen identities to seek employment or claim benefits from public sector bodies. Over 200 public bodies were involved in the pilot, including five Welsh public sector bodies.
- 1.16** This exercise involved matching NFI data with the Amberhill database maintained by the Metropolitan Police. The Amberhill database contains tens of thousands of records of fictitious identities and genuine identities which have been stolen and used by fraudsters to create fake documents. This information has been obtained by the police through various police operations.
- 1.17** The pilot exercise was highly successful and identified a wide range of frauds committed against public bodies using stolen or false identities. These frauds related to:
- Employment
 - Housing benefit claims
 - Social housing applications
 - Taxi licence applications
 - Concessionary bus passes and blue badge applications
- 1.18** In Wales, these matches have uncovered a number of cases which include an individual who used a counterfeit driving licence as identification for a taxi driver licence application and an individual who used counterfeit Home Office documentation to gain employment in a Welsh public sector organisation when he did not have the right to work in the UK.

- 1.19** This match has helped public bodies to detect fraudulent activities, and enabled the police to arrest a number of individuals for crimes committed using false identities.
- 1.20** The match has also helped the police to locate and notify innocent people whose identities have been misused by fraudsters. A match between a Welsh public sector employee and the Amberhill database was investigated by the police. The investigation revealed that the employee was an innocent victim who was unaware that his identity had been stolen and used to create fraudulent identity documents.

The NFI has continued to help local authorities to successfully identify housing benefit fraud and overpayments

- 1.21** 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 has traditionally been, and continues to be one of the most successful areas within the NFI. The 2010-11 exercise identified £1.7 million of housing benefit overpayments (compared to £1.6 million in 2008-09).
- 1.22** Whilst the total value of identified cases is broadly similar, the number of housing benefits fraud and overpayment cases detected through the NFI decreased by 12 per cent indicating that the average value of identified frauds and overpayments has increased.
- 1.23** Our review of the NFI across Wales suggests that the increase in the individual value of housing benefit cases which have been successfully investigated is due to a combination of factors. The introduction of new datasets (such as army and teacher pension records) to match housing benefits records has identified a small number of high-value longstanding overpayments,



which has impacted on the average value of housing benefit overpayments. Authorities are becoming more proactive in investigating NFI matches and fraudsters are becoming more proactive in targeting public bodies.

1.24 The housing benefit matches are not only effective in identifying fraud but also in detecting overpayments arising from claimant and local authority error. Half of the identified overclaims were due to claimant fraud and half due to error.

1.25 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.

1.26 Where claims have been identified as potentially fraudulent, local authorities have been proactive in referring cases to the appropriate agencies for criminal investigation. To date, this has resulted in 52 prosecutions, 22 local authority administrative penalties and 80 local authority official cautions. These figures are likely to increase as many cases are still under investigation.

1.27 The most common type of housing benefit fraud identified by the NFI was where claimants either failed to declare or understated their income, or the income of co-habiting partners. The NFI matches housing benefit claims to payroll and occupational pension records of both public and private sector organisations to identify cases where payroll income and/or occupational pensions would either remove entitlement to the benefit or reduce the benefit payable.

1.28 To date, local authorities in Wales have identified 111 cases where current public sector employee income has been understated in claims for housing benefit. The NFI 2010-11 has identified overpayments of £220,000 in this area; this does not include future savings achieved as a result of stopping or reducing benefit payments. **Case studies 1 to 5** set out five examples where housing benefit claimants have understated or failed to declare their or their co-habiting partners' public sector pay.

Case study 1

Carmarthenshire County Council investigated a housing benefit to payroll match which led to a successful prosecution of a fraudster.

The claimant had been claiming housing benefit and council tax benefit, but upon enrolling on a full-time nursing degree course she advised the Council that she no longer qualified for housing benefit. Two months after the course started the claimant reapplied for housing benefit stating that she had given up the course and was now working part-time. She subsequently moved house and continued to claim housing benefit and council tax benefits.

The Council's investigation found that the claimant had not given up the degree course and she had in fact successfully completed the three-year course. The claimant subsequently failed to notify the Council that she had commenced full-time employment as a nurse at **Hywel Dda LHB**. She forged documents from her previous employer to support her claim that she was still working part-time, with a salary significantly lower than what she was actually earning. The Council also discovered that she was a joint owner of the house she lived in, despite having claimed to have been a tenant, paying £500 a month rent.

In total the claimant was found to have claimed more than £18,500 of housing and council tax benefit to which she was not entitled. She was sentenced to eight months imprisonment suspended for 12 months with a requirement that she complete 12 months supervision and 200 hours unpaid community work. Hywel Dda Local Health Board has since dismissed the nurse from her job as a result and **Carmarthenshire County Council** is taking action to recover the overpayments.

Case study 2

Conwy County Borough Council investigated a match between housing benefit and payroll data. The match indicated that a claimant was in receipt of housing, council tax and incapacity benefit. The claimant had not declared that he was in employment. The Council investigated the case jointly with the Department for Work and Pensions. The claimant admitted failing to declare his employment income. The resulting overpayment was in excess of £11,500. The Council and the Department for Work and Pensions has taken action to recover the overpayment. A prosecution is pending.

Case study 3

Bridgend County Borough Council identified a housing benefit and council tax claimant who failed to declare her employment as a domestic service assistant at Abertawe Bro Morgannwg Local Health Board. The investigation also found that the claimant had falsely claimed to be a sole occupant in her house. The housing and council tax benefit overpayments totalled more than £19,000. Following a successful prosecution the claimant was sentenced to 60 days in prison. The Council is recovering the full amount that was wrongfully claimed. **Abertawe Bro Morgannwg Local Health Board** subsequently dismissed the individual.

Case study 4

Torfaen County Borough Council identified a housing benefit claimant who had provided false information in support of his claim for housing benefit, council tax benefit and income support. The individual had claimed for benefits on the basis of being a lone parent. An investigation into a match between the Council's payroll records and housing benefit data revealed that the individual had not declared that he had married and that his employed wife was living with him. The claimant wrongfully claimed more than £17,500. He was prosecuted and received a suspended 16-week prison sentence and was ordered to do 240 hours of unpaid community work. The claimant's benefits have subsequently been reduced and he will be required to pay back the full overpayment.

Case study 5

When reviewing matches between housing benefit claimants and payroll records, **Flintshire County Council** identified a claimant, who claimed to be living alone but was in fact co-habiting. The fraudster pleaded guilty to two charges of failing to declare a change in her circumstances when her employed partner moved into the household.

The claimant overclaimed more than £13,500 of housing and council tax benefit and income support. The claimant received 120 hours of unpaid work and was required to pay £250 costs to the Council. The Council is working to recover the overpayment.



1.29 The NFI 2010-11 identified 95 cases where the income of public sector pensioners had not been declared in applications for housing benefit. The value of overpayments to pensioners amounted to £256,000. This does not include any additional overpayment which would have resulted if the benefits had been allowed to continue. The recent addition of

teacher and army pension records to NFI has helped local authorities in Wales to identify a number of high-value overpayments which had continued for many years. **Case studies 6 and 7** provide examples of how pension-paying bodies have used the NFI to identify housing benefit claimants who have failed to declare public sector pay income.

Case study 6

An NFI match indicated that an individual in receipt of housing and council tax benefit was being paid a teachers pension. On further investigation, **Vale of Glamorgan Council** found that the applicant had been in receipt of the pension for a number of years, but had not declared the pension to the Council or the Department for Work and Pensions (DWP). A joint investigation found that the claimant was not entitled to the level of payment she received. Entitlement to income support was stopped and housing and council tax benefit was reduced. Overpayments made to the individual amount to more than £29,000. A prosecution is pending.

Case study 7

Two authorities worked together to investigate and successfully prosecute a fraudster after **Denbighshire County Council** discovered that a housing and council tax benefit claimant had failed to declare his army pension to the Council. The investigation showed that prior to splitting up with his wife, and moving to his house in Denbighshire, the claimant had previously lived within the Isle of Anglesey County Council's boundaries with his then wife.

Isle of Anglesey County Council discovered that at the previous address, the claimant's then wife had failed to declare his pension when she had been claiming housing and council tax benefit for him, and the claimant had known of this.

As a consequence of the two frauds, the claimant and his ex-wife received more than £27,000 in housing and council tax benefit to which they were not entitled. The Councils jointly successfully prosecuted the claimant; the claimant was given a six-month community order, a tagged curfew order for 16 weeks, and was ordered to pay £200 costs. Isle of Anglesey County Council prosecuted the claimant's ex-wife, successfully; she was ordered to do 200 hours community service and ordered to pay £150 costs. The overpayment to the claimant has been stopped and both Councils are working to recover the overpayments.

1.30 Most students in receipt of a student loan are ineligible to claim housing benefit. The NFI exercise matched student loan data to housing benefits records to identify potentially fraudulent or erroneous housing benefit payments. Following review of the matched data, local authorities in Wales have identified 48 cases where students have either fraudulently claimed or have been overpaid housing benefit. The value of overpayments to students amounted to £136,000. This does not include any additional overpayment which would have resulted if the benefits had been allowed to continue. **Case study 8** demonstrates how important this match is for local authorities with a large student population.

Case study 8

Wrexham County Borough Council has undertaken a rigorous review of matches between housing benefit and student loan data. This has resulted in the identification of 21 students who were claiming either housing benefit, council tax benefit, income support or a combination thereof when not entitled. These cases include:

- a student handed a 12-month conditional discharge following a £3,920 overclaim;
- a student fined £135, ordered to pay £100 costs and ordered to pay a victim surcharge of £15 following a £4,430 overclaim;
- a student fined £380 following a £5,766 overclaim;
- a student sentenced to 40 hours unpaid work as a result of her overclaim of £7,196; and
- a student handed a two-month curfew order monitored by a tag and ordered to pay £100 costs following an overclaim of £7,196.

The Council's efforts in this area have identified overpayments of more than £80,478 and it is working to recover the overpayments.

1.31 Individuals must apply to a local authority for a license before they can legally undertake certain lines of work. The NFI matched records of people licensed to drive taxis, work as market traders and sell alcohol to housing benefit records. This match helps to identify housing benefit claimants who have failed to declare income from either their own, or their partner's or spouse's, trade or employment.

1.32 The exercise led to the identification of 15 instances where housing benefit claimants had either understated income or had failed to mention any income at all. The savings relating to these cases amounted to more than £17,000. This excludes benefits which would have been paid in the future if the fraud or overpayments had not been detected. The work undertaken by housing benefit investigators is helping to reduce fraud and error in this area. The number and value of fraud and error cases detected in this area has reduced significantly since the NFI 2008-09 where £119,000 of fraud and error in 30 cases was identified. **Case study 9** sets out how one authority used this match to identify undeclared income of taxi drivers.

Case study 9

Work undertaken by **Caerphilly County Borough Council** to investigate matches between housing benefit records and holders of taxi driver licences identified five frauds. In each case, claimants had not declared the income of taxi drivers living at the same address that would have removed their entitlement to benefit or reduced the benefit payable. Two claimants have been cautioned, and a third case successfully prosecuted; the claimant was ordered to do 100 hours community service and pay costs. In the other two cases, the Council decided that pursuing prosecutions would not have been in the public interest. In each case, the overpayments have been stopped and the Council is working to recover the overpayments.



1.33 Housing benefit data is matched to housing tenancy data and other housing benefit records to identify individuals committing housing tenancy fraud and/or housing benefit fraud where an individual appears to be resident at two different addresses. The NFI identified eight such cases and overpayments of £9,500, excluding future savings achieved by preventing the overpayments from continuing.

The NFI payroll matches continue to provide public bodies with assurance regarding the integrity of their workforce

1.34 The NFI matches payroll data across the UK public sector and with Home Office systems to identify cases of employees committing employment fraud, breaching conditions of service or EU working time directives. NFI payroll matches can identify individuals:

- with two jobs with incompatible shift patterns (highlighting associated health and safety concerns);
- on long-term sick leave from one organisation, whilst working at another;
- with two full-time jobs; and
- public employees who are failed asylum seekers or have expired visas and therefore have no entitlement to reside or work in the UK.

1.35 Forty-eight cases of overpayments or fraud were identified by the payroll matches in the NFI 2010-11. Whilst the financial value of payroll fraud and overpayments tends to be small (£63,000), the issues identified can be extremely significant. They can highlight health, safety and public confidence concerns. The NFI can also help participating organisations to identify where system controls need to be improved to help prevent fraud and error. **Case study 10** sets out such an example identified in the NFI 2010-11.

Case study 10

Cardiff and Vale University Health Board investigated a match which appeared to show that an employee had two full-time jobs. Further investigation showed that the individual was employed on a rotational scheme between a number of Welsh health boards, and on completion of the placement had moved on to work elsewhere. However, the Cardiff and Vale University Health Board's payroll department did not action the required documentation, and the individual continued to be paid after their employment ceased. This resulted in a salary overpayment of £21,000. Cardiff and Vale University Health Board has subsequently recovered the overpayment, and implemented a revised procedure to prevent future occurrences.

- 1.36** The NFI also matches payroll records to housing benefit claims to identify cases where public sector employees may have claimed housing benefit to which they were not entitled or been overpaid benefits because their full income was not taken into account.
- 1.37** This is an important match because if an employee is found to have committed housing benefit fraud, it impacts on the relationship of trust between employer and employee. It can result in disciplinary action against the employee and, where employees are in a position of fiduciary trust, may raise concerns over their conduct in employment areas.
- 1.38** The outcomes from matching payroll records to housing benefits matches are included in **paragraphs 1.27 to 1.28**. **Case studies 1 and 3** provide examples where the employers of individuals who have been found guilty of committing housing benefit fraud have taken disciplinary action and ultimately dismissed their employees.

The NFI pension matches have successfully eliminated many longstanding pension frauds and overpayments but new cases are still being identified

- 1.39** The NFI matches pension records to housing benefit claimants, records of deceased people and payroll records to identify potential frauds and overpayments. These matches can identify issues such as continuing pension payments to deceased persons, undeclared pension income when claiming housing benefit and pensioners returning to full-time employment with the same employer which should lead to pension payments being reduced.
- 1.40** The total value of pension overpayments and future savings identified in the 2010-11 exercise was just over £568,000. This relates predominately to pension payments to deceased persons. This was a 56 per cent increase from the NFI 2008-09 which identified savings of £364,000. Whilst the financial savings have increased significantly, this does not mean that fraud in this area is necessarily increasing. The number of identified cases of pension payments to deceased persons was 16 in 2008-09 and 17 in 2010-11. The increase in the value of overpayments and future savings is because the average value per case has increased. The work being done to investigate these NFI matches prevents large overpayments accumulating over time.
- 1.41** None of the cases identified have a date of death which precedes the previous NFI exercise. Therefore, many longstanding pension payments to deceased persons have now been eliminated and those now being identified through the NFI have not been paid for long periods of time.

- 1.42** The NFI pensions to deceased persons match is a good example of how successful the NFI can be in significantly reducing fraud in an area traditionally susceptible to fraud. The 2004-05 NFI exercise identified 61 cases of public sector pension schemes being wrongly paid in the name of deceased pensioners.
- 1.43** **Case study 11** provides an example of a pension-paying body that has used the NFI matches to prevent overpayments from continuing.

Case study 11

An investigation by **City and County of Swansea Council** of matches between deceased person records and pensions in payment identified 10 cases where pensions were still being paid after pensioners had died. The early and effective investigation of these matches enabled pension scheme administrators to be notified quickly and payments stopped. The prompt action of the Council has resulted in the value of overpayments being minimised. Where pension matches are not dealt with effectively high-value overpayments can arise very quickly.

Matching of housing data has provided assurance to local authorities that their controls are working to protect them against social housing and right to buy frauds

- 1.44** Housing tenancy data is matched with housing benefit and housing tenancy records from across the UK and Home Office data, to identify potential frauds and overpayments. These matches can identify tenancy fraud from false housing applications, property that is illegally sub-let and applications from individuals who have no right to public sector provided housing.
- 1.45** The NFI 2010-11 did not identify any fraud in this area; this is encouraging. However, as the NFI only includes local authority housing stock, it is not possible to conclude on whether tenancy fraud exists in respect of social



housing managed by other organisations. Several local authorities have transferred their housing stock to other registered social landlords. The Auditor General would welcome the voluntary participation of housing associations in future NFI exercises.

- 1.46** The NFI also helps local authorities to identify cases where false information has been provided on applications from tenants to buy their council property at a discount. Fraud in this area can be significant where large right to buy discounts have been fraudulently claimed. The NFI 2010-11 did not identify any frauds in this area.

NFI matching between council tax data and the electoral register has achieved savings to the public purse of £2.9 million

- 1.47** Council tax payers are eligible for a discount on their bill where they are the only occupant of the 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 Person Discount (CTSPD).
- 1.48** In the NFI 2008-09, the CTSPD match was undertaken at all local authorities in Wales for the first time. Claims for CTSPD by people that declared they lived alone 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. The NFI 2008-09 led to the revocation of 1,098 ineligible discounts and identified savings of £1.2 million for the public purse in respect of discounts awarded to people not entitled and forward savings.

- 1.49** To date, the NFI 2010-11 has resulted in the cancellation of 2,016 CTSPDs and identified savings of £2.9 million to the public purse. This figure includes related future savings based on the average length of time such CTSPD discounts remain in payment. This figure is expected to increase further as the analysis of the CTSPD is not yet complete.

- 1.50** Local authorities have identified 85 per cent more cases than in the previous exercise. The average overpayment per identified case has also increased. Our review of the NFI results suggest that the increase in cancelled CTSPDs and identified overpayments is a result of the increased efforts of most local authorities to investigate the CTSPD NFI matches. In contrast to the last NFI exercise many local authorities have increased their efforts to establish how long claimants have been ineligible for the discount. In many cases, the claimant was 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.

- 1.51** Local authorities are recovering 86 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. **Case study 12** sets out how one authority has used the CTSPD/electoral registration match as a key element of their approach to managing CTSPD.

Case study 12

Bridgend County Borough Council carried out a comprehensive exercise to review matches between the electoral register and council tax records. This match is designed to identify people claiming a CTSPD who are not entitled to it. Those in receipt of a CTSPD receive a 25 per cent discount on their council tax bill. Letters were sent to 1,547 CTSPD claimants to request clarification as to whether they were still entitled to the CTSPD. Follow-up action was taken dependent on the response. This resulted in 677 applications being withdrawn or revoked. The Council has proactively sought to establish the effective date of any change that may have affected their entitlement, and this has enabled them to identify overpayments in previous years too.

NFI matching of creditor payment data has helped to identify £225,000 of creditor overpayments

- 1.52** 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.
- 1.53** The NFI 2010-11 has identified overpayments of £225,000; these overpayments have been or are being recovered wherever possible. The previous exercise identified £372,000 overpayments. The decrease in overpayments is in part due to public bodies improving their payment controls as a result of issues identified by previous NFI exercises.

The review of the NFI matches has led to 1,135 blue badges and 5,522 concessionary travel passes relating to deceased persons being cancelled

- 1.54** 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.
- 1.55** 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.
- 1.56** 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.
- 1.57** The match has led to the cancellation of 1,135 blue badges across Wales. Once the badges have been cancelled, it is possible for local authorities to check that the cancelled badges are no longer in circulation. The recent introduction of new plastic blue badges in Wales will enable police and parking wardens to spot check blue badges against a national database to check the validity.



- 1.58** 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, 5,522 passes have been cancelled.
- 1.59** It is difficult to quantify the additional revenue that authorities will generate as a result of cancelling blue badges and concessionary travel passes as it is not known how many of these cancelled badges or concessionary travel passes were or would have been used fraudulently. In 2011, the National Fraud Authority estimated that blue badge misuse resulted in annual losses of £46 million⁴ in terms of lost revenue in England alone. Furthermore, the National Fraud Authority has estimated that one in five blue badges in circulation in England is misused.
- 1.60** **Case study 13** provides an example of an authority that has undertaken a review of NFI matches to prevent the possible misuse of concessionary bus passes and blue badges.

Case study 13

The **Vale of Glamorgan Council** reviewed a large number of matches between concessionary bus passes, parking permits for disabled persons (blue badges) and deceased persons. This match can help identify bus passes and blue badges still in circulation after the holder has died. As a result of its review, the Council was able to cancel 1,180 bus passes and 274 blue badges to prevent fraudulent use. No new bus passes or blue badges were issued after the death of the owner and the Council has now introduced additional system controls to reduce the risk of concessionary bus passes and blue badges remaining in circulation following the death of the owner.

Data matching of insurance claims made against local authorities has provided assurance that Welsh local authorities have not been subjected to insurance fraud by serial claimants

- 1.61** Anecdotal evidence has suggested that fraudsters target local authorities by submitting insurance claims for personal injuries to several local authorities. Therefore, an NFI match was introduced in NFI 2006-07 to match insurance claims across all UK local authorities.
- 1.62** This match found no cases of attempted insurance fraud against local authorities. This has provided assurance that insurance fraud against Welsh local authorities is rare.

⁴ National Fraud Authority, Annual Fraud Indicator, March 2012

The NFI data matches have identified four cases of ongoing local authority payments for residential care despite the death of the residents

1.63 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. As a result of the NFI matches, local authorities were able to update their records in respect of four cases where they had not been informed of the death of the resident and were able to ensure that payments were stopped. If payments continue to be made after a resident's death, very substantial overpayments can accrue. **Case study 14** provides an example of an investigation by a local authority into an NFI private residential home match.

Case study 14

Rhondda Cynon Taf County Borough Council investigated a match which appeared to show payments being made to a private residential care home in respect of a deceased person. Further investigation showed that the local authority had not been informed of the death of the resident by the care home. The payments continued for some five months after the death of the resident, and led to an overpayment of £3,991. If the issue had not been addressed, the overpayment could have escalated. The Council is in the process of recovering the overpayment from the care home.

Welsh public sector bodies participating in the NFI have been more proactive in reviewing the data matches

- 1.64** In the 2008-09 report, the Auditor General reported that whilst there had been an improvement in the way in which authorities work with the NFI matches, there was still a variance in the commitment of individual bodies to investigate the matches.
- 1.65** Auditors have reviewed the work undertaken by authorities to make the best use of the NFI 2010-11 matches and have found that almost all participants have now developed 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. Most participants now have highly experienced teams responsible for reviewing each of the different types of matches.
- 1.66** **Case study 15** highlights the work undertaken by one local authority to make the best use of data matches to identify overpayments.



Case study 15

Caerphilly County Borough Council has been very rigorous in its investigations of NFI matches and this has led to several fraudulent overpayments being identified and prevented. Since the previous NFI report, Caerphilly has recovered or is recovering £117,000 of overpayments, and has successfully prosecuted eight fraudsters.

The Council has achieved this by implementing a comprehensive approach to the review and investigations of NFI matches. The Council has allocated dedicated resources to investigate matches, and each type of match is considered by staff with skills and expertise in that area. The Council has clearly set out its approach to reviewing matches and its expectations of investigators. High-risk matches are reviewed as a priority and the Council has set deadlines by which the work must be completed. All work is recorded on the NFI web tool. The Council's Lead NFI Investigator regularly monitors the progress of work.

The Council collaborates with other organisations to ensure that relevant information may be obtained to aid investigations. Where fraud is suspected, the Council has a zero tolerance approach, and takes robust action. Fraudsters may be prosecuted or given a formal caution or administrative penalty in addition to being required to pay back the money that was obtained falsely.

Part 2 - The National Fraud Initiative is continuing to be developed in order to ensure its effectiveness

- 2.1** Public bodies in Wales face the challenge of having to deliver economic, efficient and effective services in difficult economic times and against major financial constraints.
- 2.2** 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.
- 2.3** The NFI is one important tool available to public bodies in Wales to be used 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. However, fraud 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.
- 2.4** The Auditor General has identified the following key areas for maintaining, developing and improving the NFI in the future:
- establishing strong collaborative working with the successor of the Audit Commission in running the NFI in England;
 - increasing the number of organisations in Wales participating in the NFI;
 - extending the NFI into new areas which are susceptible to fraud;
 - transforming the NFI from a fraud detection tool to a fraud prevention and detection tool; and
 - ensuring that the current high standards of NFI data security are maintained.



Strong collaborative working arrangements will need to be established with the successor body to the Audit Commission in running the NFI in England

- 2.5** In August 2010, the UK Government announced its decision to abolish the Audit Commission. The Audit Commission is responsible for the NFI in England. As the NFI is run as a UK-wide collaborative exercise, this decision has major implications for the future of the NFI. If the NFI ceased to operate in England it would significantly undermine the effectiveness of the exercise both on an operational and on a cost basis.
- 2.6** In January 2012, the UK Government indicated in its consultation document, *The Future of Local Audit*, that the NFI would continue after the abolition of the Audit Commission. The Auditor General welcomes this announcement. The Government has yet to announce its plans for the continuation of the NFI in England. Once the future arrangements become clearer, the Auditor General will seek, as has been the case with the Audit Commission, to establish strong collaborative working arrangements with the organisation which will host the NFI in England. This is necessary to ensure that the NFI continues to develop in a way which is in the interests of Wales.

The number of participants in the NFI needs to increase in order to maximise the potential benefits of the exercise

- 2.7** 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.
- 2.8** The more organisations that contribute to the NFI has a direct impact on its effectiveness. The greater the number of participants, the more datasets are available for matching which provides greater potential for frauds to be identified.
- 2.9** 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. Some Welsh public bodies which have not participated in the NFI to date have recently expressed interest in participating. The Auditor General will work with these bodies with a view to participation in the next exercise of the NFI

which is due to commence in October 2012. The Auditor General invites any organisation interested in participating to contact his office for further information as to what is involved and what the benefits of participation are.

- 2.10** 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 Northern Ireland government departments.
- 2.11** The number of government departments in England providing information for use in the NFI has gradually increased. The Highways Agency, Department for Communities and Local Government, Department for Works and Pensions and the Home Office submitted some data for use within the NFI.
- 2.12** Overall, however, the level of participation by government departments in England has been disappointing. The NFI in England is currently administered by the Audit Commission. The Government has announced that the Audit Commission will be abolished and that responsibility for administering the NFI will be transferred elsewhere. It is possible that the NFI in the future will be hosted within a government department. The Auditor General is hopeful that the UK government will use this opportunity to encourage all government departments to participate in the NFI.
- 2.13** In the NFI 2010-11, over 80 UK-based private sector organisations voluntarily submitted payroll and/or pension data to the NFI. Many of these organisations operate across the UK and have offices in Wales. This private sector data has helped to identify individuals who did not declare their pensions or employment

earnings when claiming benefits from local authorities. The exercise is also beneficial to private sector employers and their pension schemes as it can identify issues such as pension payments in the name of deceased pensioners and employees who have no right to stay or work in the UK. It also serves to highlight dishonest employees. The introduction of point of application matching referred to in [paragraphs 2.18 and 2.19](#), is likely to be of significant benefit to private sector organisations in preventing fraudulent applications for credit and other services.

The NFI needs to continue to extend into new areas of public services which are susceptible to fraud

- 2.14** The NFI needs to continually develop into new areas susceptible to fraud. This is necessary because where fraudsters know that counter-fraud controls are strong in some areas, they will instead target perceived weaker areas.
- 2.15** The Audit Commission, in collaboration with the Auditor General, has recently piloted or is currently piloting new potential NFI data matches. These include matches designed to help identify:
- Individuals on local authority waiting lists for social housing but have no entitlement to be housed. This match is designed to prevent fraudsters being allocated a residence to which they are not entitled at the expense of those in genuine need to be housed.
 - Individuals who have claimed for blue badges from more than one local authority.



- Individuals obtaining public sector services or employment to which they are not entitled by using virtual office addresses to hide their non-entitlement.

2.16 The Auditor General is considering developing several Wales-specific data matches within the NFI in areas where there has been a divergence of policy from England. Members of the Auditor General's staff have recently held discussions with Welsh Government officials regarding the possibility of undertaking data matching to help identify fraudulent applications for student finance. The Auditor General is intending to undertake a pilot exercise matching applications for 'top-up' grants to the UK electoral register to identify students who are not resident in Wales who may have falsely applied for a grant as a Welsh resident student.

The NFI needs to be developed to support public bodies to prevent fraud from being committed as well as helping to detect fraud

2.17 Since the NFI commenced in 1996 it has been highly successful in helping public bodies detect fraud which had taken place. Whilst this has realised significant financial savings for the public purse, stopping fraud occurring in the first place is far better. The NFI currently runs every two years. This means that a fraud found through the NFI may have gone undetected for two years.

2.18 Over the last year the Audit Commission, in collaboration with the Auditor General, has been piloting flexible, point of application data matching with a view to incorporating this service into the NFI. Point of application data matching would enable a public body to check information provided by applicants for benefits, goods or services to confirm

that the information they have provided with their application is accurate. This would be achieved by cross-checking the information provided against other datasets at the time the application is made.

2.19 By matching data at the point of application, NFI participants would be able to identify anomalies that may indicate fraud before an application for services is approved. This approach could help public bodies identify fraud in a wide range of areas. These include;

- housing waiting lists – by submitting details of an individual near or at the top of the list for matching against UK Border Agency (UKBA) immigration data to confirm their entitlement to social housing before offering a tenancy;
- payroll – by submitting job applicant details for matching against UKBA immigration data to confirm their entitlement to work before offering employment (also applies to recruitment agencies);
- housing benefits – by submitting benefit claimant details for matching against Metropolitan police known false/stolen identity records before awarding benefit; and
- blue badges – by submitting application for matching against deceased person records before issuing the badge.

2.20 Pilot exercises of point of application matches have been successful in preventing fraud and the Auditor General intends to consult participants on making point of application matching facilities available to all participants as part of the NFI.

The current high standards of the NFI data security must be maintained

- 2.21** Fundamental to the success of 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.
- 2.22** 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.
- 2.23** To ensure that security controls are fit for purpose, in 2009, the Audit Commission with the support of the Auditor General, voluntarily engaged external consultants to review the compliance of the NFI with relevant government information standards. The NFI passed the review, and is reaccredited annually to handle, store and process information to the classified levels required by government departments. The most recent reaccreditation being in December 2011.
- 2.24** With advancements in the the NFI process and constantly emerging risks, there is still 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 Audit Commission, 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 (ISO27001/2). 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.
- 2.25** The Auditor General is acutely aware that matching personal data is highly sensitive. In 2008, the Auditor General prepared a Code of Data Matching Practice (the Code) as required under the provisions of the Serious Crime Act 2007. 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.
- 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.



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 the NFI has run biennially, introducing new participants and new modules for identifying fraud and overpayments in each new exercise. The NFI has established itself as the UK's premier public sector fraud detection exercise. Since 1996, the NFI has identified more than £22 million of fraud and overpayments in Wales, and nearly £939 million across the UK.

Participants in the NFI provide data relating to their financial systems to the Audit Commission 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 supplied is input into the Audit Commission's central database 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 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 Audit Commission 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.