A Perfect Match

Report of the 1998 National Fraud Initiative

The efforts of the 470 councils and other public bodies who participated in the National Fraud Initiative (NFI) 1998 led to the detection of over £41 million of fraud and overpayments. These resources are now available to either enhance public services or to reduce the demands upon taxpayers...

- the value of detected fraud and overpayments (including cases under active investigation) rose from £15 million in the NFI 1997 to £41 million in the NFI 1998 – an increase of 166 per cent

- one large metropolitan borough council estimates savings of £2 million

- the Civil Service Pension Scheme anticipates overall savings of £8.6 million

- the 470 organisations that took part in the exercise included local councils, police and fire authorities, pension agencies and central government bodies

- the mutual benefits derived by the NFI participants in central and local government are a practical example of 'joined-up government' in action

The major frauds detected relate to housing benefits and pensions...

- housing benefit remains the key area for local councils, with more than £15 million of fraud and overpayments reported

- the majority of housing benefit frauds arise from claimants failing to disclose earnings and occupational pensions when claiming benefit

- approximately 1,000 cases were detected where an occupational pension was still in payment after the death of the pensioner

...while other benefits arising from the National Fraud Initiative 1998 are...

- benefits have been awarded to claimants previously denied them because of data errors

- local government bodies and central government agencies have been able to correct errors in their data

- the life certificate process has been automated for pension authorities, saving considerable administrative costs each year

Most councils have responded well to the NFI, but a small number can make improvements...

- some councils could improve their results by improving the quantity and quality of the data submitted and by then targeting investigations at the key risk areas

To maintain the levels of fraud detected, the NFI should develop new data-matching partnerships

- remaining public sector pension funds will be introduced to the data matching in NFI 2000

- other payroll and pensions data will be introduced

- a formal NFI user group will be established to allow participating bodies to discuss future NFI arrangements with the Audit Commission

- the NFI exercise will be extended throughout Great Britain and will include other central government departments and agencies

AUDIT COMMISSION
Promoting the best use of public money

Contents

The Background

The NFI involves the use of powerful IT techniques to aid local councils and others to protect the public purse

1. The Audit Commission's National Fraud Initiative (NFI) is a computerised data-matching exercise to detect, primarily, housing benefit fraud perpetrated upon local councils. As the systems for administering complex procedures, such as paying housing benefit, salaries, wages and pensions, become almost totally reliant upon information technology (IT), so must the techniques used to combat the risk of fraud.

2. The NFI involves the use of powerful IT techniques to aid local councils and others to protect the public purse. It works by identifying instances of 'matches', where data about an individual appear on different systems in circumstances indicating that a fraud may be occurring. It is then for the council to investigate to establish whether or not this is the case. It is the efforts of the councils and other public bodies in investigating these matches that confirms whether a fraud is taking place. The results of these investigations as part of the NFI 1998 has meant that £41 million of public funds have been made available for other purposes. The NFI began in 1993 and has been expanded gradually into a nationwide exercise, as part of the statutory external audit process in local government.

3. Agreement has been reached with the Data Protection Registrar (now the Data Protection Commissioner) about protocols for consulting with people over the use of data in the NFI, and the protocols are included in the Commissioner's *Code of Data Matching Practice* (Ref. 1). Councils are required to ensure that applicants for housing benefit and other local services are advised on application forms of the intention to use and share the data to prevent and detect fraud. Most councils use a standard form of words distributed by the National Anti Fraud Network for this purpose. Employers are required to consult with employees through joint consultative committees, and pensioners have to be contacted individually by pension funds.

4. *A Perfect Match* looks at:
- the types and value of frauds detected and other benefits derived from the NFI 1998; and
- what more needs to be done to enable councils to get the maximum benefit from participating in future data-matching exercises.

5. Appendix 1 outlines the main features of the data-matching process and Appendix 2 outlines the development of the NFI, since its inception in 1993.

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The National Fraud Initiative 1998 Results

6.   The NFI 1998 involved matching data supplied by over 400 local councils as well as a number of police and fire authorities. Other contributors of data included the Cabinet Office, the Home Office, the Department for Education and Employment (DfEE), the NHS Pensions Agency and the Contributions Agency. The basic process involves comparing the different types of data, such as housing benefits, pensions, payroll, student awards and deceased persons. The matching identifies instances where information about an individual appears in more than one set of data, or does not fit within pre-defined parameters. This information is passed on to the council or appropriate public body for investigation.

7.   Participating bodies have been asked to submit the results of their investigations to the Commission and, to date, the reported level of fraud and overpayments (mainly in relation to housing benefits and occupational pensions) is some £41 million. Of this, £25 million has been confirmed as fraud and a further £16 million is under active investigation [TABLE 1].

8.   Included in these figures are over one thousand cases of pension fraud and pension overpayment where occupational pensioners have died, but the pension is still being paid. The Civil Service Pension Scheme, in particular, has benefited from this aspect of the NFI 1998 and estimates a saving to the fund of £8.6 million. The mutual benefits derived by the NFI participants in central and local government is a practical example of 'joined-up government' in action.

9.   The rest of this chapter gives a breakdown of the main results from the NFI 1998 data-matching exercise. Each set of results is designed to detect a specific type of fraud or error in the data provided. Training and written guidelines were given to local councils to assist in the interpretation and investigation of the results.

Housing benefit frauds

10.   From the start of the NFI, housing benefit has been the core data match and has provided the majority of the frauds and overpayments detected. Housing benefit has been compared against a wide range of other data [EXHIBIT 1]. Approximately four million housing benefit records were submitted for data matching, and the level of housing benefit fraud detected is substantial.

TABLE 1

Reported levels of fraud and overpayments

	Actual to date (£m)	Potential (£m)
Housing and council tax benefit	15.1	11.0
Pensions	9.4	5.2
Payroll	0.3	0.3
Student awards	0.2	–
Other	0.1	–
Total	**25.1**	**16.5**
Potential overall total		**41.6**

EXHIBIT 1

The range of public sector data sources against which housing benefit was matched
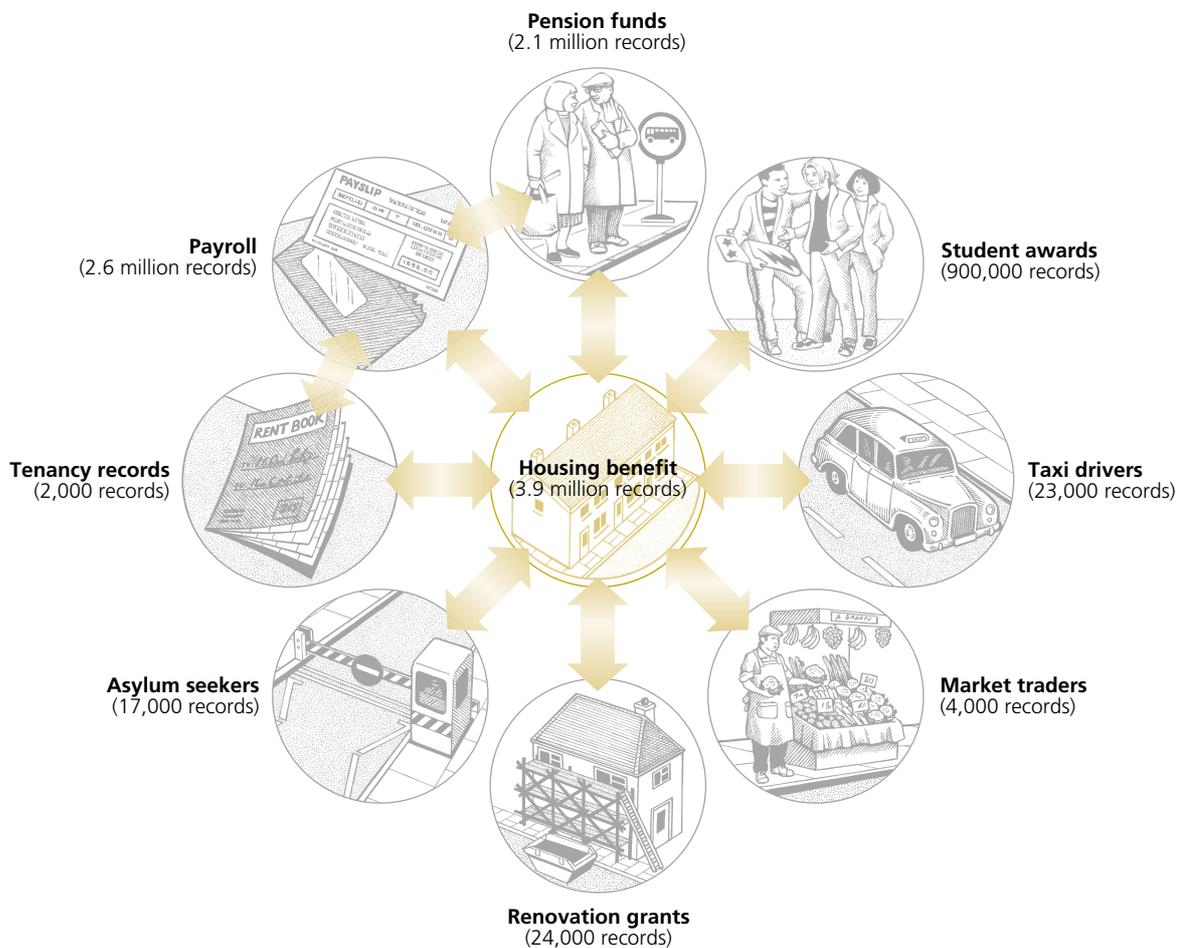
Source: Audit Commission

Housing benefits matches to pensions

11. The most productive data match in the NFI 1998 was between housing benefit data supplied by local councils and data from public sector occupational pension schemes (local government, the NHS, teachers and the civil service). More than 2.1 million pension records were checked to ensure that housing benefit claimants had declared their income from occupational pensions. This process identified over 144,000 cases that warranted further investigation. Councils have found that in up to 40 per cent of these cases, the occupational pension had not been declared as income. This match has been of particular benefit to smaller district councils that previously have had only a small number of matches to investigate.

12. The most serious of these cases had remained undetected for more than ten years, including an individual case involving an overpayment of £70,000. A number of the cases related to relatively small occupational pensions that had no effect on the applicant's housing benefit claim, but the cases have been referred to the Benefits Agency for further investigation.

13. The selection of cases for investigation is straightforward and the council has only to check that a pension has been declared. Where a pension has not been declared, further investigation is required and a protocol has been developed by the Commission to ensure that essential details of the pension being paid are given to the council by the occupational pension scheme. [CASE STUDIES 1 to 3].

CASE STUDIES

Housing benefits data to pensions data

Matching housing benefit claims to pension records shows the scale of frauds being perpetrated.

CASE STUDY 1

The matching showed that a claimant had failed to declare an occupational pension for the last four years. This has resulted in an alleged fraudulent housing benefit overpayment of £5,000, and an additional overpayment of £6,000 in (Department of Social Security) benefits. The alleged fraudster is being prosecuted.

CASE STUDY 2

A retired person claimed housing benefit for three years without declaring an occupational pension. A total of £9,000 was overpaid, but the benefit has now been stopped and recovery action is underway.

CASE STUDY 3

One council discovered a large number of undeclared pensions, including four where the amount of each overpayment exceeded £10,000. The housing benefit for these four cases had been in payment for between 9 and 11 years and the combined value of the overpayments identified was £57,400.

Housing benefits matches to payroll

14. Housing benefit data was also matched to the pay records of public sector employees to determine whether claimants had declared their income from employment.

15. In some cases the employees were claiming housing benefit from the council that employed them and disciplinary measures have been taken according to the scale of the fraud and the nature of the employment. In other cases, where benefit is being claimed from another council, the employing council has been informed of the benefit fraud, so that appropriate disciplinary action can be taken. An information exchange protocol has been distributed to all councils covering this type of case where an employee has perpetrated a fraud against another council **[CASE STUDIES 4 to 8]**.

CASE STUDIES

Housing benefit data matched to payroll data

Housing benefit fraud committed by employees is not confined to any particular type or grade of staff.

CASE STUDY 4

An employee of a council has claimed housing benefit, but had failed to declare her income. She also obtained a renovation grant from the council as an owner-occupier and therefore could not be entitled to housing benefit. The housing benefit overpaid totals £14,000, and a police prosecution is pending. Further enquiries have also found overpayments of council tax benefit and income support.

CASE STUDY 5

An employee was claiming housing benefit from a neighbouring council. When interviewed, she admitted to having been working and claiming 'for some years'. The housing benefit overpayment amounted to £6,000, and the claimant is also being prosecuted by the Benefits Agency for falsely claiming income support.

CASE STUDY 6

An employee claimed housing benefit and income support over a period of five years without declaring their income. The fraudulent overpayment totalled £27,000, and a criminal prosecution has been instigated. The employee has been suspended and faces a disciplinary hearing for gross misconduct.

CASE STUDY 7

A council identified several cases where employees were claiming housing benefit without declaring their income, including one who was responsible for collecting large sums of money for the council. The housing benefit overpayment in this case was £4,500. Payment of benefits in these cases has been stopped.

CASE STUDY 8

An employee claimed housing benefit from a neighbouring council without declaring any income. The total overpayment is more than £44,500 (housing benefit £21,500, income support £23,000), and a police prosecution is pending.

Housing benefit matches to tenancy details

16. One council was particularly successful with matching housing benefit and payroll data and also took part in a pilot exercise to evaluate the potential for detecting tenancy fraud. The council has so far found housing benefit frauds and overpayments of £400,000, and has a number of suspected tenancy frauds under investigation.

17. Investigators paid particular attention to matches between housing benefit claimants and employees and, to date, 6 employees have been dismissed or have resigned, 6 have been subject to disciplinary action and 12 cases are ongoing. One case involved someone who had worked for the council for a number of years, but claimed income support and housing benefit resulting in a total overpayment of £50,000. Further investigation also found tenancy fraud as he no longer lived at his council property, leaving an unauthorised tenant in occupation. The unauthorised tenant was also committing housing benefit fraud. The council is now taking action to recover the property.

18. The pilot exercise uncovered:

- 32 instances of housing benefit fraud and/or the sub-letting of council property;

- 6 former tenants who had left owing considerable arrears and no forwarding addresses were traced;

- 4 instances where tenancies had been obtained by deception; and

- 34 instances of a joint tenant at one council property also claiming housing benefit at another address.

19. These cases will lead to the recovery of a number of properties for re-letting to homeless families, which will also reduce the council's expenditure on expensive bed and breakfast accommodation. The number of such cases detected could increase significantly when tenancy records from different councils are matched together and this will be offered as one of the matches in the NFI 2000.

Housing benefit matches to student awards

20. Housing benefit data was matched to student awards data supplied by local education authorities. Most cases involve students studying and living away from home. The student receives an award from their home council and fraudulently claims housing benefit for accommodation near to the university [CASE STUDIES 9 and 10].

21. Since 1999, local education authorities assess eligibility for student awards but no longer make payments to students. The Commission is liaising with the DfEE about accessing the data for future NFI exercises.

CASE STUDIES

Housing benefit matches to student awards

Only in a very limited number of cases can the recipient of a student award legitimately claim housing benefit.

CASE STUDY 9

A student was assessed for an award, which was first paid in October 1997. The student applied for income support and housing benefit in a neighbouring council, without disclosing the award. As a result of the NFI match, both benefits were stopped and overpayments of £9,400 were recovered.

CASE STUDY 10

An award was paid to a student from October 1998. The student applied for income support and housing benefit from the same council without declaring the award. A recovery of over £5,400 has been claimed.

Housing benefit matches to other systems

22. Councils maintain a variety of systems for recording such things as the payment of licensing fees (for example, for market traders and taxi drivers) and other grants and payments (for example, home improvement grants). Many of these systems are not computerised or lack key information critical to successful data matching. The submission of these data sources was therefore not mandatory, but was received from 40 councils.

23. Data on license holders is used to ensure that income from these activities is declared by housing benefit claimants. Instances were found of individuals who had been licensed to trade in several councils concurrently, but who were not declaring this income when claiming benefit.

24. Home improvement grants are available only to owner-occupiers who are not entitled to claim housing benefit. These and other systems within councils can therefore be used to validate entitlement to benefits or to ensure that income is properly declared **[CASE STUDY 11]**.

CASE STUDY 11

Housing benefit matches to other systems

Matching to other systems can identify under declarations of income. A housing benefit claimant had declared her partner on her claim, but had stated that he was not working. The partner was a door minder registered with the same council and was operating his own company providing door staff to at least three public houses. The claimant was interviewed and admitted that her partner had been working full time since June 1997. An overpayment of over £5,000 has been identified.

Pension frauds

25. Another important area is the £14.6 million of fraud detected by matching pension data to records of deceased persons. This match type was carried out for two purposes:

1. To help pension schemes to check more easily that pensions are paid only to those entitled to receive them.

2. To detect cases of pension fraud and overpayments.

Life certificates

26. Life certificates are sent to pensioners asking them to confirm that they are still entitled to continue to receive their pension. Pension schemes vary in their approach to this process. A small number still send a life certificate to each pensioner every year, while others spread the task over a number of years by checking, for example, 25 per cent each year. Another approach is to send certificates only to those over a certain age, while some have abandoned the process entirely.

27. The reduction in the use of life certificates reflects the cost of the exercise and the inherent flaw in the process. If a pensioner has died and the pension scheme has not been informed of the death by a relative or by a bank, the pension will continue to be paid. This gives an opportunity for a person with access to the pensioner's bank account to defraud the pension scheme by continuing to draw the pension.

28. If a fraud is being committed, a life certificate sent by the pension scheme will almost certainly be returned with a false signature by the fraudster. The signatures on a life certificate can, of course, be checked against the pension scheme records, but this is not always done and is, in any event, unreliable, as signatures can change or deteriorate over time.

29. For many years, given the acknowledged inadequacy of the life certificate process, pension schemes have sought a more reliable method of verification without adding to the burden on the individual pensioner. The data matching of pension payrolls to official national records of deceased persons as part of the NFI 1998 provided the first automated, cost-effective and reliable alternative.

30. The Contributions Agency provided records of deceased persons. These records were matched, using national insurance numbers, to pension payroll records. As part of the process all participating pension schemes had their life certificates automated and more than 1,000 cases of fraud and overpayments were found [CASE STUDIES 12 to 14, overleaf].

CASE STUDIES

Pensions matched to records of deceased persons

Matching pension records to records of deceased persons is a new and effective way of detecting fraud.

CASE STUDY 12

A widow in receipt of a dependant's pension of £3,000 a year died in 1988. Prior to her death her son had obtained power of attorney over her affairs and he continued to withdraw the pension for a period of ten years after his mother's death. During the period of the fraud, three fraudulent life certificates were submitted and a total of £30,000 was fraudulently withdrawn. The son was subsequently prosecuted and sent to prison for 15 months.

CASE STUDY 13

The daughter of a deceased pensioner failed to notify the pension scheme of her father's death in 1991. She continued to use his bank account as a third-party signatory and forged two life certificates. The total overpayment misappropriated amounts to £60,000, and the daughter, who admitted responsibility, has been prosecuted.

CASE STUDY 14

The Civil Service pension scheme has so far confirmed that the NFI 1998 has identified 333 previously unreported deaths. In 258 cases (77 per cent) a full or partial recovery of pensions overpayments has been achieved. The following cases are representative of the investigations carried out:

- a widower failed to inform the pension scheme or bank of the death of his spouse and fraudulently received some £70,000;

- a son fraudulently received over £5,000 by informing the bank that his late father had moved abroad; and

- a neighbour of a deceased pensioner fraudulently endorsed payable orders for over £50,000 during a period of 10 years before the deceit was uncovered by the NFI exercise.

31. The matching between pension and deceased-person records was carried out for the first time in the NFI 1998 and was restricted to cases where the national insurance number in both systems was exactly the same. While this has worked well in the majority of cases, there are a large number of dependants in receipt of, say, a widow's pension, where the national insurance number is not known. Most pension schemes continue to use the original pensioner's national insurance number to pay the dependant's pension and it is not possible to check whether the dependant is still alive by using the current matching process. To solve this problem a process to compare data using name and date of birth is under development for the NFI 2000. Pension schemes are now advised to ask for the national insurance number of dependants of all new pensioners.

32. The Contributions Agency data are extremely accurate and the agency is often informed, through a variety of sources, about the deaths of UK citizens abroad. However, there are a number that are not reported and pension schemes are advised to continue to send life certificates to pensioners living overseas. The certificates themselves could also be improved to ensure that witnesses to signatures can be identified and contacted.

33. In each case reported to a pension scheme where the national insurance number of the pensioner matches that of a deceased person, the scheme is recommended to send a life certificate for completion. The completed life certificate can either serve as evidence in any fraud inquiry or, alternatively, can reveal a rare error in the Contributions Agency data. The matching and investigation process helps to verify the accuracy of data and, on occasion, can lead to the award of benefits as opposed to the detection of fraud [CASE STUDY 15].

CASE STUDY 15

Data matching can lead to the award of benefits as opposed to the detection of fraud

The Contributions Agency data recorded a widow as being deceased in 1980. She is in fact alive and well and has been correctly receiving a dependant's pension from her late husband's former employers. However, due to the inaccurate recording of her death, she has not received her state pension for over 18 years and she is now entitled to approximately £40,000 of backdated benefits.

34. In many of the cases of pension fraud and overpayment reported to the Commission, the fraudster has been assisted, often unwittingly, by the actions of banks and building societies. Most pension payments are paid directly into a pensioner's bank account using the Banks Automated Clearing System (BACS). Where overpayments have been building up in an account that has become dormant since the death of the pensioner, there has been no problem in gaining recovery. Where the money has been drawn by a third party (generally the surviving holder of what was formerly a joint account) or via a cashcard, recovery is less certain.

35. There are, however, a number of instances where a bank has been aware of the death of the pensioner, but has failed to notify the pension scheme and has converted the account to a sole account in the surviving account holder's name. Pension payments are then accepted into the account, allowing the surviving account holder to draw payments to which they are not entitled.

36. There are no standard banking arrangements on how to deal with joint accounts on the death of an account holder. One option would be to close the old joint account and to open a new account, with a new account number, in the name of the surviving account holder. This would ensure that incorrect pension payments are rejected. Some banks have accepted liability on this basis and have refunded overpayments. Others have refused to accept liability and one pension scheme is seeking counsel's opinion about the possibility of taking a test case through the courts.

Payroll frauds

37. The matching of housing benefit data to payroll records to ensure that income is properly declared has been part of the NFI exercises for several years. The discovery of fraud is of interest to both the council making the housing-benefit payment and the employing council. The former may be able to recover the benefit claimed fraudulently, while the latter is made aware of a member of staff carrying out fraud against the public sector. This is a valuable risk-assessment process and has led to the detection of other frauds against employers.

38. Payroll data are also matched against other payrolls and pension payrolls. The four principal benefits of these matches are the detection of:

- employees working for one council while on long-term sick leave from another;
- local government pensioners returning to work in local government without informing the council paying the pension and thus avoiding the pension being abated;
- additional jobs being undertaken contrary to conditions of employment; and
- the use of incorrect or invalid national insurance numbers.

39. The results from the payroll data matching carried out as part of the NFI 1998 identified cases worth £600,000.

40. The best quality payroll matching generally involves the use of national insurance numbers. However, the NFI process frequently identifies incorrect or invalid numbers. This can occur because the Contributions Agency has confused two persons with identical names, but more often the cause is inaccurate data provided to, or captured by, the employing council. In either case poor-quality data hamper accurate data matching and there is a statutory responsibility on employers to hold accurate data.

41. Authorities with concerns about invalid national insurance numbers can now take advantage of 'payroll cleansing', a free service offered by the Customer Account Services of the inland revenue.

2

Future Strategy

42. The NFI has proved to be an important weapon for local councils in the fight against fraud. The more data that are available for comparison, the more fraud and overpayments that are detected. The Audit Commission intends to widen the scope of future NFI exercises and will:
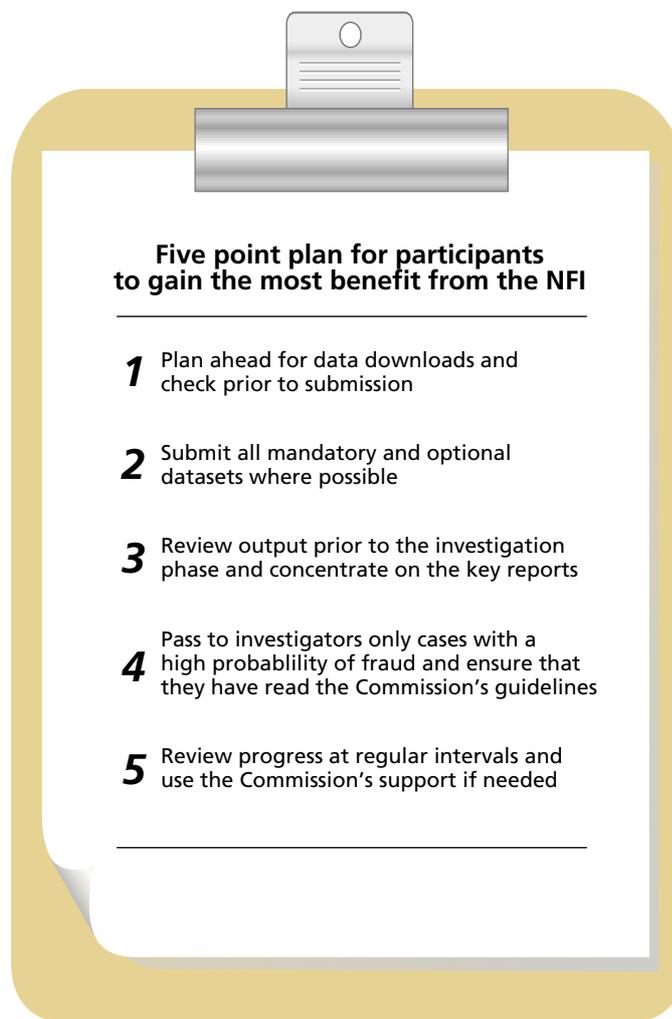
- establish a formal NFI users group with all interested parties to debate the future direction of the NFI. This arrangement will replace the series of discussions and contacts with different groups that have taken place to date;

- continue discussions with the Data Protection Commissioner about the NFI developments; and

- continue to explore different ways of using IT in safeguarding the public purse.

43. A number of additional areas of data matching are also under consideration for the NFI 2000, including home improvement grants and council tax discounts. There will also be an extension of the tenancy fraud pilot to other councils, but its success will depend on the quality of data that councils are able to submit.

44. The Commission will also continue to seek to expand the range and sources of data matched to help councils to root out fraud and overpayments and to enhance their ability to protect the public purse.

45. Bodies that participate in the NFI exercises can take some simple steps to increase the benefit that they are likely to gain from their involvement [**EXHIBIT 2**].

EXHIBIT 2

Five point plan for participants to gain the most benefit from the NFI

**Five point plan for participants
to gain the most benefit from the NFI**

1 Plan ahead for data downloads and check prior to submission

2 Submit all mandatory and optional datasets where possible

3 Review output prior to the investigation phase and concentrate on the key reports

4 Pass to investigators only cases with a high probablility of fraud and ensure that they have read the Commission's guidelines

5 Review progress at regular intervals and use the Commission's support if needed

Source: Audit Commission

Appendix 1

The National Fraud Initiative data-matching process

This section of the report describes the various stages of the NFI process and indicates examples of good practice to maximise the benefits of participation. The four principal stages are:

1. Data collection.
2. Data cleansing.
3. Data matching.
4. The review and investigation of results.

Data Collection

To achieve accurate and timely data matching, it is essential that data are all downloaded and submitted according to the timetable and specification set out in the Audit Commission's *NFI Handbook* (Ref. 2). Ultimately, late submissions mean extra cost (three distributions of output were needed for the NFI 1998) and, in some instances, reduce the impact of the matching process.

Unfortunately, failure to meet the data specification is a common problem. The specification is rarely changed between exercises so that councils can usually re-use downloading software from previous years. However, a number of councils had installed new applications as part of year 2000 preparations or were unable to allocate the technical resources to carry out the download. Several councils suffering these problems were put in touch with other participating councils who had already successfully downloaded from the same software. Others sent in data with errors and were therefore required to resubmit their data.

Errors in data usually occur because the downloading process is started too late, there is a lack of expertise to produce the extract, or because the file is not checked for size and content prior to dispatch to the Audit Commission. Waiting for the resulting re-submissions delays the data-matching timetable and adds to the cost of the process.

Data Cleansing

Once data have been submitted successfully they pass through a cleansing process to present all the key information in the same format and to ensure like is being compared with like. The varying standards of data capture and the variety of methods used to capture it make this necessary.

All problems with the quality of data are logged and passed back to the councils with their results. Councils could resolve many of these problems themselves by using a data quality report as the basis for training staff involved in the NFI.

Data Matching

Data are matched according to a set of predefined rules to identify potential duplicate claims. Matching rules are based on a variety of key fields such as national insurance number, name, date of birth and address. The various rules are operated in a hierarchical fashion so that a match cannot be repeated under different rules.

Matches from previous years are also removed to prevent duplication of effort. This elimination has proved very successful in reducing the volume of matches, although the process relies on the consistent use of key references for claimants and employees. Occasionally, where a council has introduced new software and changed these references, the removal will not be possible.

A filtering process has been designed to remove matched data that are of poor quality. The process consists of a detailed review of the results, and the accuracy of matches is measured using a variety of software developed in partnership with the Commission's IT suppliers.

Reviewing and Investigating the Results

Training

A review of the detected fraud reported by authorities with similar data-matching results in earlier years suggested that guidance was necessary to achieve a more consistent approach to investigations. A series of seminars was held for council staff to minimise the resources used and to maximise the payback from their participation in the NFI 1998.

The seminars provided an opportunity for delegates to discuss an effective approach to the review and investigation of results. It is important that an officer who is not involved in the investigation process reviews the initial output and selects those reports likely to be of most benefit locally, either from a full investigation of all matched data or for investigation on a sample basis.

This filtering process ensures that investigators can concentrate on those cases that are most likely to be fraudulent or involve overpayments. Councils are also invited to contact the Commission throughout the investigation process to arrange a visit to discuss particular problems. A number took advantage of this offer. As a result, they were able to focus their resources in the most effective manner and increase the amount of fraud detected. For example:

- a council increased its detected fraud from nil in 1997 to £400,000 in 1998 by focusing investigation effort on the key data matches; and
- a council that had previously managed to detect only low levels of fraud asked the Commission for ways of improving its results. Following discussions with the Commission and neighbouring councils the fraud detected from the NFI 1998 is expected to be about £1.6 million.

Appendix 2

**Development of the
National Fraud
Initiative**

The NFI began in 1993. District Audit, in conjunction with representatives of the local authority treasurers' societies, ran a pilot exercise at 13 London boroughs to detect housing benefit and student award fraud. More than 500 cases of fraud were detected, and in 1994, all London boroughs were invited to join in.

A series of pilot exercises was undertaken around England and Wales to assess the value of expanding data matching. The pilots clearly demonstrated the potential benefit of carrying out national data matching between housing benefit records and student awards. In 1996, the NFI was established as a national data-matching exercise and by 1997 the number of participating authorities exceeded 300 and more than £30 million of fraud and overpayments had been detected.

Following consultation with local authority treasurers' societies, the Audit Commission introduced a new framework for the NFI 1998. The changes were designed to encourage full participation, and at the same time, to allow for the recovery of the data-matching costs in an equitable manner [TABLE 2]. The NFI was administered by the Commission and was designated as a ring-fenced part of the statutory audit of councils. A single auditor was appointed to all local councils exclusively for the purposes of carrying out the NFI 1998.

Information was required by the auditor for the NFI 1998 under Section 6 of the *Audit Commission Act 1998* (Ref. 3). Disclosure of the data to the Audit Commission was exempt from the non-disclosure provisions of the *Data Protection Acts 1984* (Ref. 4) and *1998* (Ref. 5) because the disclosure was required by statute (Section 34(5) of the Data Protection Act 1984). The NFI 1998 has detected over £41 million of fraud and overpayments.

TABLE 2

Fees for participating in the NFI 1998

	£
County councils, London boroughs and metropolitan councils	1,800
Unitary councils	1,250
Pension authorities	1,000
District councils	900–750
Police and fire authorities	400

References

1. Audit Commission, *Code of Data Matching Practice*, Audit Commission, 1998.

2. Audit Commission, *National Fraud Initiative Handbook*, Audit Commission, 1998.

3. *The Audit Commission Act 1998*, The Stationery Office Ltd, 1998.

4. *The Data Protection Act 1984*, HMSO, 1984.

5. *The Data Protection Act 1998*, The Stationery Office Ltd, 1998.

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