

Pensions Audit Sub Committee

2.30 p.m., Monday, 22 September 2014

Prevention of Fraudulent Pension Payments

Item number	5.7
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to allow the Pensions Audit Sub-Committee to understand and scrutinise the work undertaken by Lothian Pension Fund to prevent fraud. The report provides details of our participation in fraud prevention initiatives as an integral part of the control environment and the overall management of risk.

Matching of records with the General Registrars Office on a quarterly basis is highlighting that un-notified deaths are now dealt with quicker than they would have been previously.

The Fund continues to exercise discretion as to whether to approve transfers in pensions liberation and is about to implement a new approach to checking the existence of pensioners living overseas.

Links

Coalition pledges

Council outcomes

CO26 –The Council engages with stakeholders and works in partnership to improve services and deliver on agreed objectives.

Single Outcome Agreement

Prevention of Fraudulent Pension Payments

Recommendations

- 1.1 The Pensions Audit Sub Committee is requested to note the work undertaken by Lothian Pension Fund to prevent pension payment fraud and to highlight any points it would like to raise at the Pensions Committee on 23 September.

Background

- 2.1 At its meeting on 20 September 2013, Pensions Audit Sub-Committee noted the report by the Director of Corporate Governance on ongoing fraud prevention measures by Lothian Pension Fund. An update on progress is now provided on an annual basis.

Main report

- 3.1 The pension's administration team deliver services to members using a browser based pension software system. The software stores and controls all aspects of the membership database, document management and benefit calculations. Access is restricted to authorised individuals by user identification and password protection. In addition, the Fund's compliance policy includes the restriction that members of staff should not be involved in the computation or checking benefits payable to a member who is a connected person.

The operation of internal controls also gives comfort that the risk of fraud is mitigated or minimised. Procedural controls include:

- obtaining the originals of relevant certificates;
- where a beneficiary of a death grant is a child and the payment is being made to a parent/guardian on his/her behalf, evidence that the parent/legal guardian is capable and has the appropriate capacity to act in the best interests of the child;
- authorisation of payments in line with the Council's Scheme of Delegation.

- 3.2 The Fund mainly relies on relatives to inform us of the death of a pensioner member. If a payslip or bank credit is returned undelivered, the pension is

suspended pending investigation. To further mitigate the risk of not being informed of a member's death, the following procedures and checks are in place:

- **The National Fraud Initiative (NFI)** - The NFI is a well established data matching exercise led by Audit Scotland, which is carried out every two years. It is designed to help organisations identify causes of fraud and detect and correct any consequential overpayments from the public purse. The matching exercises undertaken include a comparison of public sector records to death records and other pension related outcomes, for example, when retirees have returned to work but not reported circumstances that require their pension to be reduced. Costs are met through the annual audit fee. Investigations from NFI 2012/13 identified 6 cases where Lothian Pension Fund was not aware of the death of a pensioner. The total value of the overpayments amount to £9,026.46. All overpayments are being pursued.
- **Matching our records to the General Registrars Office for Scotland, Disclosure of Death Information** - Since December 2012 Lothian Pension Fund has worked with General Registrars Office for Scotland who offer a quarterly mortality screening service. The fee charged by General Registrars Office for Scotland for providing this service amounts to around £480 each quarter. Undertaking this exercise regularly highlights cases promptly. 28 deaths unnotified to the Fund were highlighted by GRO before being identified through NFI 2012/13.
- To further reduce risk, the Fund intends to access the "Tell us Once (TUO)" project. TUO is a national application of registering a birth and death funded by the UK Government. It facilitates a single point of contact for customers to register a birth and death and notifies the relevant service areas (local and national) of each birth and death registration as soon as they have been reported. Presently, pension services are not yet available through TUO but are anticipated in a future release. Thereafter, it is likely that Local Government Association will set up a UK wide Local Government Pension Scheme database.

- 3.3 **Pensions Liberation** - The Pension Regulator, HM Revenue & Customs, the Financial Conduct Authority and the Serious Fraud Office have all combined to warn pension funds and the public of the dangers associated with those seeking to encourage members to liberate their pensions, commonly with enticements of receiving an early cash-lump sum and/or tapping into 'enhanced' investment performance. The Fund is required to exercise discretion as to whether to approve transfers. While the Pension Regulator has issued guidance in terms of identifying potential cases of liberation fraud, it places the onus on the pension

funds themselves to have sufficient procedures in place to identify any suspicious practices and properly exercise their discretion as to whether or not to approve a transfer. Therefore, we have a procedure which involves additional levels of diligence/enquiry of the member itself and the proposed transferee scheme. This is to ensure that any decisions to approve these types of transfer can be as informed as possible, are clearly documented and also to assert that we are sending a clear external message that these transfers are not being approved as a matter of course. Since September 2013 we have identified 104 potential liberation fraud cases (72 low risk cases and 32 high risk cases). Out of these 104 potential cases, the transfer payment for 11 cases has been refused. Each refused case has been referred to one of the regulatory bodies (The Pensions Regulator, HMRC or Financial Conduct Authority) and/or to Action Fraud, the UK's national fraud and internet crime reporting centre.

- 3.4 **Western Union Business Solutions** – Lothian Pension Fund has been working with Western Union to provide an international payment service to our overseas pensioners (around 140). International payments service is expected to be transferred to Western Union in the coming months. One of the main reasons for using Western Union is to use their “Existence” service. Under this arrangement, Western Union will use their network of agents to verify that overseas pensioners are alive by means of a face to face meeting at which the member is required to produce a valid form of identification such as a passport or driving licence. They will undertake an existence check in the month following the transfer of service, and every following year thereafter. At present, overseas pensioners are written to annually by Lothian Pension Fund and asked to provide written confirmation from a “responsible person” that they are alive. The face to face check is seen as a more effective means of mitigating the risks of pensions being paid to deceased overseas pensioners. At present, the recovery of any such resulting overpayments is both difficult and costly.

Measures of success

- 4.1 Lothian Pension Fund is committed to deter and ultimately prevent fraud. Suitable controls are in place and subjected to regular scrutiny. Should any fraud be detected, however, immediate action is taken to prevent future losses.

Financial impact

- 5.1 The Lothian Pension Fund budget includes expenditure for fraud prevention. Direct costs are detailed in paragraph 3.2. Staff resource is met within the existing budget for pension administration employee costs.

Risk, policy, compliance and governance impact

6.1 There are no adverse risk, policy, compliance or governance impacts arising from this report

Equalities impact

7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

9.1 The Consultative Panel for the Lothian Pension Funds comprising employer and member representatives is integral to the governance of the Funds.

Background reading / external references

None.

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Links

Coalition pledges

Council outcomes CO26 –The Council engages with stakeholders and works in partnership to improve services and deliver on agreed objectives.

Single Outcome Agreement

Appendices