

Pensions Audit Sub Committee

2.00 p.m., Tuesday, 27 September 2016

Fraud Prevention

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 participation in fraud prevention initiatives as an integral part of the control environment and the overall management of risk.

Pensioner existence is one of the biggest fraud risks. Participating in the National Fraud Initiative (NFI) and matching of records with the General Registrar's Office ensures un-notified deaths are dealt with quickly. The Fund also uses Western Union's "Existence" service to verify that overseas pensioners are alive. The Local Government Association (LGA) has also developed a service that enables all Local Government Pension Funds access to "Tell us Once", a national application of registering a birth or death. The LGA database has two purposes, (i) to prevent the payment of duplicate death grants and (ii) to enable LGPS to join the Tell Us Once Service. It is anticipated that Lothian Pension Fund will become an active participant very shortly.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Fraud Prevention

Recommendations

Committee is requested to:

- 1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider;
- 1.2 Note the report and highlight any points it would like to raise at the Pensions Committee on 28 September 2016.

Background

- 2.1 An annual update on fraud prevention is reported to Pensions Audit Sub Committee.
- 2.2 The pensions 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.
- 2.3 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;
 - if any beneficiary of a lump sum death grant is a Minor (under age 16), and their share is over £5000, the payment must be referred to the Accountant of Court. If their share is under £5,000 their parent or guardian must set up a Trust Fund. The parent or guardian must also evidence that they are capable and have the appropriate capacity to act in the best interests of the child;
 - authorisation of payments in line with the Council's Scheme of Delegation.
- 2.4 The Fund processes one-off payments to members and nominated third parties, such as solicitors and dependents. Controls ensure that payments are made to authorised recipients only and that all payments are authorised in line with the Scheme of Delegation. On a monthly basis, all member movements (for example active member to pensioner member status) are reconciled against financial transactions.

- 3.1 The National Fraud Initiative (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 2014/15 finally identified 11 cases where Lothian Pension Fund was not aware of the death of a pensioner. With one exception, however, these cases did not reflect any fraudulent activity. The total value of the overpayments, excluding the exception, amounted to £2,794. Of this sum, £284 has since been written-off, with recovery being pursued for the balance.
- 3.2 Despite the Fund undertaking regular mortality screening checks, NFI 2014/15 did identify a member as being deceased since 23 July 2003. In this particular case, a match had also been made in NFI 2004/05 and 2008/09. In previous years, a “Life Certificate” was sent to ascertain whether or not the pensioner was alive and these were completed and returned, validated by another person. When a match was again made in 2014/15, the case was scrutinised in further detail and an incident raised with Police Scotland for investigation. An overpayment of £31,519.52 has occurred and Police Scotland has submitted a report to the Procurator Fiscal. (Although the Fund also matches its records to the General Registrars Office for Scotland (see below), volumes restrict the Fund to looking at “good” matches. In this particular case, there was an anomaly in the initials of the individual member. It has since been ascertained that this case appeared in the “possible” matches).
- 3.3 The “Tell Us Once” service has been available to public service pension schemes since March 2016. The Local Government Association (LGA) on behalf of all Local Government Pension Scheme (LGPS) administering authorities holds a central database, known as the “National Insurance (NI) database”. Should a match between an NI Number on the LGPS NI database occur the relevant LGPS Fund is notified that data relating to a death of one of their members is available for it to access. It is anticipated that the resolution of technical computing issues should enable Lothian Pension Fund to become an active participant very shortly. In the meantime, on a quarterly basis, the Fund continues to match its records to the General Registrar’s Office for Scotland (GRO). Undertaking this exercise highlights cases promptly.
- 3.4 Since last year, the Fund has undertaken an overseas pensioner existence check in partnership with Western Union and its network of agents. The Fund’s overseas pensioners have to verify that they are alive by means of a face-to-face meeting at which they have to produce a valid form of identification, such as a passport or driving licence. In this year’s exercise, overseas pensioners had up until 22 August 2016 to complete the procedure. Ten pensioners have not yet

completed the existence check and consequently payment of their pensions has been suspended. Later in the year, we will commence a second existence check designed to cover pensioners living overseas who have their pension paid to a UK bank account. This will require the pensioner to follow the same Western Union process.

- 3.5 The Fund continues to exercise its discretion as to whether to approve transfers in order to prevent “pension liberation” scams. 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, the Fund has a procedure which involves additional levels of diligence/enquiry of the member 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. Over the period 1 September 2015 – 31 August 2016 no transfer payments were rejected.
- 3.6 During 2015/16, the Fund undertook a trial period with of the” CallValidate” product. CallValidate checks members names and addresses against their bank account. However, the trial highlighted a fundamental weakness in that CallValidate can only accurately match bank accounts opened after 1990. A significant proportion of the Fund’s retiring members hold accounts opened prior to 1990. The Fund is exploring whether any other similar product may offer a more effective solution.

Measures of success

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

Financial impact

- 5.1 The Lothian Pension Fund budget includes expenditure for fraud prevention. 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 rising from this report.

Sustainability impact

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

Consultation and engagement

9.1 The Pension Board, 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 partnerships to improve services and deliver agreed objectives

Single Outcome Agreement

Appendices None