

Pensions Audit Sub Committee

2.00pm, Tuesday, 26 September 2017

Fraud Prevention

Item number	5.4
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

The purpose of this report is to enable the Pensions Audit Sub-Committee to review 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 unnotified deaths are dealt with quickly. The Fund also uses Western Union to verify that overseas pensioners are alive. The Local Government Association (LGA) 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. Lothian Pension Fund has been informed of deaths through the Tell Us Once Service since April 2017.

Fraud Prevention

1. 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 27 September 2017.

2. 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 original 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 minor;
 - 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. All member movements (for example active member to pensioner member status) are reconciled against financial transactions on a monthly basis.

3. Main report

- 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. For the first time in 2016/17, the data match exercise included a match against deferred pensioners (not currently in payment). Costs are met through the annual audit fee. The 2016/17 data match against current pensioners and deferred pensioner identified 15 and 26 deaths respectively, that had not been reported. The matches are currently being investigated.
- 3.2 **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 Schemes (LGPS) across the UK 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. Lothian Pension Fund has participated in the Tell Us Once service from April 2017. Up until 31 August 2017, 101 death notifications have been received through the service.
- 3.3 On a quarterly basis, Lothian Pension Fund continues to match its records to the **General Registrar’s Office for Scotland (GRO)**. Undertaking this exercise highlights cases promptly. As Lothian Pension Fund is now participating in the Tell Us Once service, the Fund will undertake a review at the end of the year to consider if the GRO matching exercise is still required.
- 3.4 Since last year, the Fund has undertaken an overseas pensioner **existence check in partnership with Western Union** and its network of agents. There are 159 overseas pensioners with an overseas bank account who must verify that they are alive by means of a face-to-face meeting at which they must produce a valid form of identification, such as a passport or driving licence. In this year’s exercise, overseas pensioners had until 31 August 2017 to complete the procedure. Three pensioners have not yet completed the existence check and consequently payment of their pensions has been suspended. A second existence check designed to cover pensioners living overseas who have their pension paid to a UK bank account was carried out in November 2016. There are 208 overseas pensioners with an UK bank account. The pensioner was required to follow the same Western Union process. Following the exercise 9 members initially had their pension suspended. Of those 4 remain suspended and under investigation at present. The exercise will be carried out again in November 2017.
- 3.5 The Fund continues to exercise its discretion as to whether to approve transfers 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 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 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 2016 – 31 August 2017, Lothian Pension Fund received 57 transfer requests to a Defined Contribution (DC) Scheme. No transfer payments were rejected.

- 3.6 At Spring Budget 2017, the UK Government announced a new 25% overseas transfer charge to some overseas pension transfers that were previously tax free. This will reduce the attractiveness of an overseas transfer.
- 3.7 During 2015/16, the Fund undertook a trial period with of the” **CallValidate**” product. CallValidate checks member’s names and addressed against their bank account. The trial highlighted a fundamental weakness in that CallValidate could only accurately match bank accounts opened after 1990. However, during 2016/17 CallValidate enhanced their product to include “Bank Account Premium”. Bank Account Premium allows a check against older bank accounts. Since January 2017, Lothian Pension Fund carries out a bank validation check on all new pensioners and when a change to a pensioner’s bank account is received.

4. 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.

5. 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.

6. Risk, policy, compliance and governance impact

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

7. Equalities impact

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

8. Sustainability impact

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

9. Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

10. Background reading/external references

10.1 None

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11. Appendices

None.