

# Pensions Audit Sub Committee

2.00pm, Tuesday, 25 September 2018

## Fraud Prevention

<b>Item number</b>	5.6
<b>Report number</b>	
<b>Executive/routine</b>	
<b>Wards</b>	All
<b>Council Commitments</b>	<a href="#">Delivering a Council that works for all</a>

### Executive Summary

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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 National Records of Scotland 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

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Committee is requested to:

- 1.1 Note the report and highlight any points it would like to raise at the Pensions Committee on 26 September 2018.

### 2. Background

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- 2.1 An annual update on fraud prevention is reported to Pensions Audit Sub Committee.

### 3. Main report

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- 3.1 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.
- 3.2 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.
- 3.3 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 monthly.

- 3.4 The Fund continues to carry out bank validation checks on all new pensioners, when a change to a pensioner's bank account is received and before a lump sum death grant is paid to a beneficiary.
- 3.5 **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. The link to the 2016/17 report is provided later in this report. NFI 2018/19 is due to start in Autumn 2018.
- 3.6 **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. From 1 September 2017 - 31 August 2018, 443 death notifications have been received through the service.
- 3.7 On a quarterly basis, Lothian Pension Fund usually matches its records to the **National Records of Scotland (NRS)**. To demonstrate compliance with data transfer rules under the General Data Protection Regulation (GDPR), the Fund undertook a review of the data transfer. Undertaking this exercise highlighted a safer transfer process. However, a technical problem caused a delay in setting up the new process. The delay meant that the quarterly matching exercises in 2017 and March 2018 was missed. As Lothian Pension Fund participates in the Tell Us Once service, the Funds intention was to undertake a review at the end of 2017 to consider if the NRS matching exercise is still required. However, given the missing matches the Fund will continue to match records with NRS and undertake a review at the end of 2018.
- 3.8 The Fund continues to carry out a yearly overseas pensioner **existence check in partnership with Western Union** and its network of agents. There are 162 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 2018 to complete the procedure. One pensioner has not yet completed the existence check and consequently payment of the pension has been suspended. A second existence check designed to cover pensioners living overseas who have their pension paid to a UK bank account is also carried out. There are 208 overseas pensioners with an UK bank account. The pensioner is required to follow the same Western Union process. Following the 2017 exercise 9 members initially had their pension suspended. Of those 2

remain suspended and under investigation at present. The exercise will be carried out again in November 2018.

- 3.9 The Fund continues to exercise its discretion as to whether to approve transfers to prevent “**pension liberation**” scams.
- 3.10 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 2017 – 31 August 2018, Lothian Pension Fund received 71 transfer requests to a Defined Contribution (DC) Scheme. No transfer payments were rejected.
- 3.11 On 22 June 2018, “Combating Pension Scams: A Code of Good Practice”, was published by the Pension Scams Industry Group. The Fund will review its procedures to ensure compliance with these standards. Also, on 14 August 2018, The Pensions Regulator (TPR) and Financial Conduct Authority (FCA) launched a refreshed “ScamSmart” campaign to warn savers about unsolicited pension communications.

#### **4. Measures of success**

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- 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**

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- 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**

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

## 7. Equalities impact

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

## 8. Sustainability impact

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

## 9. Consultation and engagement

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

## 10. Background reading/external references

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10.1 [http://www.audit-scotland.gov.uk/uploads/docs/report/2018/nr\\_180705\\_national\\_fraud\\_initiative.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2018/nr_180705_national_fraud_initiative.pdf).

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## 11. Appendices

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