



# **Pensions Audit Sub Committee**

## **2.00pm, Monday, 28 September 2020**

### **Fraud Prevention**

**Item number 6.5**

#### **1. Recommendations**

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The Pensions Audit Sub Committee (Committee) is requested to:

- 1.1 note the report and highlight any points it would like to raise at the Pensions Committee.

**John Burns**

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# Name of report

## 2. Executive Summary

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- 2.1 The purpose of this report is to enable the 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.

## 3. Background

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- 3.1 An annual update on fraud prevention is reported to Committee to ensure appropriate oversight of this area.

## 4. Main Report

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- 4.1 The pension administration team deliver services to members using a browser-based pensions 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 of benefits payable to a member who is a connected person.
- 4.2 The operation of internal controls also gives comfort that the risk of fraud is mitigated or minimised. Procedural controls include:
- obtaining certified copies of relevant certificates;
  - if any beneficiary of a lump sum death grant is a Minor (under age 16), and their share is over £5,000, 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 Fund's delegations.
- 4.3 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 Fund's scheme of delegation and sub-delegations. All member movements (for example active member to pensioner member status) are reconciled against financial transactions monthly.

- 4.4 The Fund continues to carry out bank validation checks on all new pensioners, when a change to a pensioner's bank account is received, before a lump sum death grant is paid to a beneficiary and before a refund of pension contributions is paid to an early leaver. Very recently, this has been augmented by the Royal Bank of Scotland's introduction of Confirmation of Payee (CoP), a name-checking service that checks the name of the account holder along with the sort code, account number and account type. Whilst this service is available for the Fund's payments made through "Bankline", these being "immediate" bank transfers made to new pensioners, it does not yet cover the monthly pensioner payroll which is made through BACS (Bankers' Automated Clearing Services).
- 4.5 Pensioner existence is one of the biggest fraud risks.
- 4.6 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 NFI 2020/21 screening has started and matches available for investigation are expected in January 2021.
- 4.7 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. From 1 September 2019 - 31 August 2020, 815 death notifications have been received through the service.
- 4.8 The LGA NI database is also used to prevent duplicate payments of death grants and to prevent payments of Cash Equivalent Transfer Values (CETV) and Refund of Contributions, should the member have membership in another Scottish local government fund.
- 4.9 The Fund no longer matches pensioners records against the National Records of Scotland database. This is because Tell us Once is now well established (since March 2016) and ensures that most member deaths are captured. Tell Us Once is a service that lets a person report a death to most government organisations in one go.
- 4.10 Each year, in July, the Fund normally carries out an overseas pensioner existence check in partnership with Western Union and its network of agents. There are 197 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. Owing to COVID-19, this year's exercise has been postponed until October 2020.

- 4.11 A separate existence check designed to cover pensioners living overseas who have their pension paid to a UK bank account was carried out in December 2019. There were 185 overseas pensioners with an UK bank account. The pensioner was required to follow the same Western Union process. Following the exercise, three members initially had their pension suspended. Of those, one remains suspended and under investigation. The exercise will be carried out again in December 2020.
- 4.12 The Fund continues to exercise its discretion and carry out rigorous due diligence (where required), as to whether to approve transfers to prevent pensions liberation scams. Over the period 1 September 2019 – 31 August 2020, Lothian Pension Fund received 57 transfer requests to a Defined Contribution Scheme. No transfer payments were rejected.
- 4.13 The Fund also includes information about the possibility of pension liberation scams in all transfer out packs and through its annual newsletters to alert active and deferred members to the issue and provide links to further information on the subject.

## **5. Financial impact**

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- 5.1 Expenditure on fraud prevention measures is met from within the pensions administration budget of the Fund.

## **6. Stakeholder/Regulatory Impact**

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- 6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the funds and they are invited to comment on the relevant matters at Committee meetings.
- 6.2 There are no adverse governance, compliance or regulatory implications as a result of this report.

## **7. Background reading/external references**

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- 7.1 None.

## **8. Appendices**

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- 8.1 None.