



## **Pensions Audit Sub Committee**

2.00pm, Tuesday, 26 September 2023

### **Fraud Prevention**

#### **Item number 6.4**

#### **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.

#### **David Vallery**

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# Fraud Prevention

## 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 (LPF) 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. There were no cases of fraud (member, employer, supplier or colleague) identified in this period.

## 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 delivers 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, LPF'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:
- 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 and;
  - authorisation of payments in line with the LPF's delegations.
- 4.3 LPF 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 LPF carries 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. This is 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 2022/23 identified 21 pensioner members and 14 deferred members who had not previously been reported as deceased. As LPF also submits its pensioner and deferred members to a mortality tracing service (see 4.7 below) LPF queried the high number of deceased pensioners with the tracing service who reported that there was a partial failure due to a technical issue with their software. The issue is now resolved.
- 4.7 To supplement NFI exercises, in September of each year, LPF submits its pensioner and deferred members to a mortality tracing service which identifies and report deaths throughout the year. Data is resubmitted every year to ensure the screenings are up to date. LPF investigates any deaths identified.
- 4.8 The Local Government Association (LGA) on behalf of all Local Government Pension Scheme (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 2022 -31 August 2023, 702 death notifications have been received through this service.
- 4.9 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.

- 4.10 An existence check designed to cover pensioners living overseas who have their pension paid to either a UK or overseas bank account is carried out on a yearly basis. Our new provider, Crown Agents Bank enables overseas pensioners to carry out proof of life verification from home using their laptop, tablet, or smartphone by taking a picture of themselves and a picture of their photographic ID showing their name and date of birth. Their system then carries out facial recognition on the two pictures to verify that they match. There are 401 overseas pensioners. An existence check was carried out in October 2022. 381 members completed the exercise, and of those 335 did so using the digital method. Investigations are ongoing for the 20 suspended pensions. To-date 4 pensions have been reinstated.
- 4.11 LPF continues to exercise its discretion and carry out rigorous due diligence (where required), as to whether to approve transfers to prevent pensions liberation scams. Our transfer out procedure has been reviewed and updated to comply with The Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021. This gives pension schemes more power to delay or stop transfers where there is suspicion of fraud/scams. Over the period 1 September 2022– 31 August 2023, Lothian Pension Fund received 29 transfer requests to a Defined Contribution Scheme. No transfers were stopped.
- 4.12 LPF also includes information about the possibility of pension liberation scams on our main web page, in all transfer out and retirement packs and through its annual newsletters to alert active and deferred members to the issue and provide links to further information on the subject. We will also be adding this information to deferred member notifications.

## **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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