

# Pension Audit Sub Committee

2.00pm, Tuesday, 24 September 2019

## Fraud Prevention

Item number	5.5
Executive/routine	
Wards	All
Council Commitments	

### 1. Recommendations

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The Pensions Committee is recommended to:

- 1.1 note the report and highlight any points it would like to raise at the Pensions Committee on 25 September 2019.

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## Fraud Prevention

### 2. Executive Summary

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- 2.1 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

### 3. Background

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

### 4. Main report

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- 4.1 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 benefits 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.
- 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 £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; and
  - authorisation of payments in line with the Council's Scheme of Delegation.

- 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 Scheme of Delegation. 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 and before a lump sum death grant is paid to a beneficiary.
- 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 2018/19 data match against current pensioners and deferred pensioners identified 31 and 13 deaths respectively, that had not been reported. The total overpayment of pension for current pensioners amounted to £53,026.23. Recovery is in progress with a current outstanding overpayment amounting to £46,947.46 (as at 7 August 2019). Deferred pensioner matches are currently being investigated.
- 4.7 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. From 1 September 2018 - 31 August 2019, 635 death notifications have been received through the service (443 for the period to 31 August 2018).
- 4.8 LGA will be extending the use of the NI database so it can be used for purposes other than reporting deaths and to prevent duplicate payments of death grants. For example, the database will be used to prevent payments of Cash Equivalent Transfer Values (CETV) and Refund of Contributions, should the member have membership in another Scottish local government fund. Progress of this development has been delayed for some time, pending conclusion of legal agreement between the LGA and the UK LGPS administering authorities. It is expected that implementation should now be imminent.
- 4.9 The National LGPS (Procurement) Framework for Member Data Services was recently established, in which LPF participated as a founder. This framework offers an extensive range of services including address tracing and correction and mortality screening. A contract is the final stage of completion with the preferred

supplier. This mortality screening, through specialist external provider, will allow the Fund to check the existence of individual members and thereby mitigate fraud risk

- 4.10 The Fund also utilises the National Records of Scotland database to ensure member deaths are captured. During the year, however, some data anomalies arose which frustrated effective member identification and matching of records. The Fund is corresponding with National Records of Scotland to try to resolve this matter.
- 4.11 The Fund continues to carry out a yearly 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 30 August 2019 to complete the procedure. Two pensioners have not yet completed the existence check and consequently payment of their pensions has been suspended.
- 4.12 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 2018. There were 174 overseas pensioners with an UK bank account. The pensioner was required to follow the same Western Union process. Following the exercise, five members initially had their pension suspended. Of those, one remains suspended and under investigation. The exercise will be carried out again in December 2019.
- 4.13 The Fund continues to exercise its discretion as to whether to approve transfers to prevent pensions liberation scams. Over the period 1 September 2018 – 31 August 2019, Lothian Pension Fund received 106 transfer requests to a Defined Contribution Scheme. No transfer payments were rejected.

## **5. Next Steps**

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- 5.1 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.

## **6. Financial impact**

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

## **7. Stakeholder/Community Impact**

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- 7.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the pension funds and they are invited to comment on the relevant matters at Committee meetings.
- 7.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report. The forward planning of the Committees' agendas should facilitate improved risk management and governance for the pension funds.
- 7.3 There are no adverse sustainability impacts arising from this report.

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

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- 8.1 None.

## **9. Appendices**

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None