

PENSION FUND FRAUD

Contact Officers

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Papers with this report

None

SUMMARY

At the June 2012 Audit Committee, the Chairman discussed an article published in the Financial Times regarding Pension Fund Fraud, and it was recommended that a report be brought to Pensions Committee. Whilst the major risk identified in the article was the fraudulent receipt of benefits when a scheme member dies, this report looks at all aspects of fraud in relation to the Pension Fund. The report covers the steps taken to mitigate the threat of fraud, and the contractual arrangements in place to recover any funds obtained as a result of fraud.

RECOMMENDATIONS

The Committee is asked to note the report.

Background

Hillingdon Fund of the Local Government Pension Scheme (LGPS) is administered by Capita Employee Benefits (CEB) on behalf of the London Borough of Hillingdon, and this is done from their offices in Banstead, Surrey. CEB are contracted to provide a full administration functions including the calculation benefits due and receipt and payment of transferred funds from other pension arrangements, all completed in accordance with current legislation. CEB also receive the pension contributions deducted from other employers in the Hillingdon Fund, and it is their responsibility to check that the correct contributions have been deducted and passed to them. In addition, CEB also operates the pensioner's payroll, paying 5,300 pensioners and dependants, formally paid by Hillingdon. The payroll is run from their Sheffield Offices. All of these functions require substantial amounts of money being transferred between their specific Hillingdon Bank Account and Hillingdon's own pension fund bank account, controlled by officers at the Civic Centre.

The pension Fund of the London Borough of Hillingdon is managed external Fund Managers and the Fund's custodian, Northern Trust. These managers deal with substantial funds and are constantly investing and moving fund values between their investment vehicles.

The London Borough of Hillingdon has a duty to ensure that the most stringent controls are in place to mitigate any attempt of Fraud, at any point where funds are being transacted.

1. Pension Fund Controls – Administration

PART I - MEMBERS, PRESS & PUBLIC

PENSIONS COMMITTEE – 12 December 2012

CEB have the following controls in place to mitigate the threat of fraud:

- CEB is individually authorised and regulated by the Financial Services Authority (FSA). Some directors, managers and consultants are authorised as 'approved persons' by the FSA. In accordance with FSA rules, senior management for Capita Employee Benefits are responsible for compliance with FSA regulated activity and must ensure that Capita Employee Benefits "establish and maintain effective systems and controls for compliance with applicable requirements and standards under the regulatory system and for countering the risk that the firm might be used to further financial crime".
- Compliance guidance and support for Capita Employee Benefits is provided by the Capita Life & Pensions Regulated Services (CLPRS) Compliance Department. This activity is undertaken by a dedicated Compliance Support team with specific responsibilities for regulatory guidance and activity for Capita Employee Benefits.
- Compliance support activity is aligned to FSA responsibilities and regulations to which Capita Employee Benefits must adhere and include: maintain good working relationships with FSA; ensure adequate anti-money laundering and data protection procedures are in place and adhered to; monitor the company's regulated activities to ensure adherence to rules; produce biannual FSA reports and forward to the regulator on time; approve promotions and marketing material which impact on FSA regulation; providing regulatory training to staff undertaking FSA regulated activities; and supporting the business with regulatory queries and guidance.

Additionally, the Framework Agreement in place covers the risk of fraud by an employee or sub-contractor of Capita. There is a Professional Indemnity Insurance to the value of £2m in place to cover the eventuality of fraud, proven to be perpetrated by an employee or sub-contractor of Capita

Pensions Officers have access to Capita's administration system and check random calculations to ensure the correct payments are being made, and that payments are made to the eligible recipient. All payments made by Capita are reconciled on a monthly basis. Capita also perform "mortality screening" checks against pension payments, to ensure that pension payments are being made to the eligible individual. The first of these exercises took place in September 2012. A form of "Life Certificate" is sent annually to all overseas pensioners. This form must be signed by the pensioner, and the signature witnessed by an authorised person. When the form is returned, an administrator will initial the form to indicate that the signature is that of the pensioner and it has been checked against records held for the pensioner. Additionally, the Council participates in the National Fraud Initiative (NFI). The NFI is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. To date 2,124 cases of public sector pension benefits being paid in respect of deceased members have been identified by the NFI, one such case occurred in the Hillingdon fund.

All controls and routines are checked annually as part of the audit of the pensions function. To date no concerns have been raised regarding administration processes, although the first audit with Capita has yet to be undertaken.

Within Hillingdon all transactions through the pension funds bank account requires the authorisation of two Pension Fund signatories. Prior to any transactions being completed, the originating officer has to seek verification of the relevant documents associated with the payment of funds. All processes are subject to examination as part of the annual audit review.

Benefits regulations do not permit any discretion in the application of those regulations in the determination of any payment or membership periods.

2. Pension Fund Controls - Managers

Fund Managers and the Custodian provide quarterly reports Pensions Committee and in addition each year comment on how they have performed against their Statement of Internal Control and whether there have been any amendments to their Statement of Internal Control. All trades completed by fund managers are confirmed with the schemes custodian, who will verify the trades and retain documentary evidence. A monthly reconciliation is undertaken by Officers to ensure all reported fund manager transactions are reflected in the custodians' monthly report. This routine is undertaken with the use of independently provided investment reconciliation software. Any discrepancy is brought to the attention of the relevant party immediately.

Within the Custodian contract there is an agreement that they will indemnify the fund in respect of losses suffered as a result of "the negligence, wilful default or fraud of the Custodian".

3. Corporate Responsibilities

Corporately, the Council has to ensure that robust processes and procedures are in place to mitigate any potential fraud or loss, and to monitor and test these processes and procedures. As part of the annual Audit of the pension fund, these tasks are investigated by the auditor, and to date no concerns have been raised. Contractual Statements of remedial action to be taken in the event of fraud are in place with our third party pension administrators, investment managers and our Custodian.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None