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London Pensions Fund Authority Fraud Control Framework

December 2020



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London Pensions Fund Authority

Fraud Control Framework

1. Introduction

From 8 April 2016, the London Pensions Fund Authority (LPFA) partnered with Lancashire County Pension Fund (LCPF) in order to establish Local Pensions Partnership Ltd (LPP Group), as a pensions services company. As a consequence, the delivery of most of LPFA's functions have been outsourced to LPP Group through the administration subsidiary (Local Pensions Partnership Administration Ltd (LPPA)) and the investment subsidiary (Local Pensions Partnership Investments Ltd (LPPI)). However, the LPFA Board remains responsible for the Fraud Control Framework (the “**Framework**”) and for ensuring that LPFA, as the Administering Authority, and its key suppliers operate effective anti-fraud measures. It is an expectation that such measures are achieved through effective internal controls and procedures in the prevention, detection and investigation of fraud, bribery and corruption.

The Framework sets out LPFA's approach and commitment to fraud prevention and detection. LPFA recognises that its reputation for financial probity must be protected therefore putting in place measures to tackle fraud and corruption is vital.

The Framework is a summary of how LPFA (the “Authority”) sets out its approach to the management of fraud prevention, detection and reporting. Codes of practice, procedures and policies are also available separately. As a body financed by public monies, the LPFA must ensure that the framework of internal control limits exposure to fraud and corruption. The Framework applies to everyone who comes into contact with the LPFA including employees, employers, fund members, contractors and key service suppliers such as LPP Group. It is the responsibility of all the above to be vigilant and assist the LPFA in the area of fraud prevention. The Framework contains an evolving policy statement and is divided into three sections:

Section 1) The LPFA's general approach to internal controls and fraud prevention.

Section 2) Specific fraud related codes and policies.

Section 3) Annual action plan to LPFA officers with the support of LPP Group and other outsourced providers.

Definition of fraud

The Fraud Act 2006 introduces a statutory single offence of fraud which can be committed in three different ways by:

- False representation
- Failure to disclose information when there is a legal duty to do so
- Abuse of position

The existing offences such as theft, corruption, false accounting, forgery, counterfeiting and blackmail will continue to be offences under the relevant acts.

For practical purposes fraud can be defined as “*dishonest conduct with the intention to make gain, or cause a loss, or the risk of a loss, to another*”.

Computer fraud is covered by the Computer Misuse Act 1990. Such fraud arises where information technology equipment has been used to manipulate programs or data dishonestly (for example, by altering, substituting or destroying records, or creating spurious records), or where the use of an IT system was a material factor in the perpetration of fraud. Theft or fraudulent use of computer time and resources is included in this definition.

Definition of bribery

Bribery is defined as giving or receiving a financial or other advantage in connection with the ‘improper performance’ of a position of trust, or a function that is expected to be performed impartially or in good faith.

Any act of bribery or failure to report bribery or attempted bribery will not be tolerated. LPFA principal officers, employees, board members and third-party service providers are expected to recognise and report any alleged instances of bribery. Likewise, LPP Group, as LPFA's main outsourced provider, and any third-party suppliers must show evidence that they have stringent anti-bribery policies in force.

General bribery offences under the Bribery Act 2010

- Offences of bribing another person (active bribery).

The offering, promising, or giving of a financial reward to induce a person to perform a relevant function or activity improperly.

- Offences relating to being bribed (passive bribery).

The accepting of, agreeing to accept or requesting of a financial reward in return for performing a relevant function or activity improperly.

- Bribing of foreign public officials.
- Failure to prevent bribery – this is the “corporate offence” where an organisation fails to stop people who are operating on its behalf from being involved in bribery.

For example, the LPFA could be exposed to fraudulent information provided by suppliers. The LPFA has put in place a number of controlled measures to mitigate the risk, such as whistleblowing procedures, verification checks, and segregation of duties policy.

Employees of the LPFA and any connected persons can report any concerns to the Monitoring Officer who shall take such steps as they consider necessary by way of investigation and notifying the police if deemed necessary. In the absence of the monitoring officer or they were subject to an investigation themselves, then the Chief Executive Officer (CEO) will determine who will carry out an investigation.

LPFA Contacts

Internal contact: Helen Astle, Monitoring Officer
Contact: helen.astle@lpfa.org.uk

External contact: Protect
Website: www.protect-advice.org.uk

Section 1: LPFA's general approach to internal controls and fraud prevention

To help ensure the LPFA's Framework and the management of fraud is effective, it is important to understand the roles and responsibilities that personnel at all levels of the Authority have with respect to fraud risk management.

The Board

The Board has the responsibility to ensure that the Principal Officers design an effective fraud risk management environment to encourage ethical behaviour and to empower employees, and wider stakeholder to insist those standards are met every day.

The Board:

- Considers fraud risk by reviewing the annual fraud action plan;
- Oversees fraud risk assessment for the LPFA and key partners engaged in the delivery of operational functions;
- Monitors fraud risks, policies, and control activities by reviewing management reports;
- Oversees the internal controls established by the Principal Officers, and
- Sets the appropriate tone from the top and ensures that an appropriate s151 Officer and Monitoring Officer is in place.

The Board has chosen to delegate oversight of such responsibilities to the Audit and Risk Committee. The Audit and Risk Committee are tasked with receiving assurance statements on the internal controls that both LPP Group and the LPFA have in place. This is achieved via direct reports from LPP Group or via an internal or external audit review.

The LPFA's Audit and Risk Committee reviews the Framework annually to address fraud risk. This is via an annual action plan and audit reviews carried out by internal and external audit. The Committee also receives details of any criminal or civil actions against perpetrators of fraud on an annual basis.

Responsibilities of the Principal Officers

As stated in LPFA's Constitutional Document, Principal Officers are defined as the CEO, the s151 Officer and the Monitoring Officer and such other officers that have the powers set out in the Scheme of Delegations.

The Principal Officers have overall responsibility for:

- The design and implementation of its fraud risk management system;
- Ensuring that a sound system of internal control is maintained;
- Business is conducted in accordance with the law and proper standards; and
- That public money is safeguarded and properly accounted for, used economically, efficiently, and effectively.

It is one of LPP Group's responsibilities to provide the service and support to the LPFA to ensure the objectives are met.

The Principal Officers review the framework at least annually and lead on generating improvements in risk management and monitoring audit recommendations. They also, along with other members of the LPFA senior management team oversee LPP Group and report the service performance to the LPFA Board.

The key elements of the internal control environment include:

- Setting the tone at the top for the rest of the Authority. Principal Officers create a culture through words and actions where it is clear that fraud is not tolerated, that any such behaviour is dealt with swiftly and decisively, and that whistleblowers will not suffer retribution.
- Establishing procedures for setting objectives and monitoring their achievement.
- Facilitation of policy making and decision making.
- Ensuring compliance with established policies, procedures, laws and regulations.
- Implementing adequate internal controls — including documenting fraud risk management policies and procedures and evaluating their effectiveness — aligned with the Authority's fraud risk assessment.
- Financial management of the Authority and integrity of its reporting.
- Performance management of the Authority and the reporting of performance management.
- Reporting to the LPFA Board on what actions have been taken to manage fraud risks and regularly report on the effectiveness of the fraud risk management program. This includes reporting any remedial steps that are needed, as well as reporting actual fraud instances.

The system of financial management is based on a financial control framework, a financial handbook of procedures, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability.

The financial management system includes:

- Documented financial procedures.
- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts.
- Setting targets to measure financial performance.

LPFA's risk management framework includes the following components:

- Risk identification – at the LPFA Board, team and project level
- Risk assessment – to enable management to prioritise resources
- Risk treatment – steps taken to reduce the impact and likelihood of the risk occurring
- Risk monitoring – an annual cycle of actions ensures regular review of risk
- Risk reporting – annual LPFA Board report on internal control and risk management and quarterly report from the Chair of ARC of the Committee's decisions and discussions.

Internal Audit, External Audit and the Audit and Risk Committee

Audit and Risk Committee

The Audit and Risk Committee reviews the internal (management) and external financial statements and should satisfy themselves that the integrity of financial information presented are robust and reflect best practice. The Audit and Risk Committee discusses with the appointed external and internal auditors the annual audit plans and the nature and scope of each forthcoming audit. It considers all findings from the audit reviews. It also has ultimate responsibility for ensuring fraud control procedures are in place, receiving National Fraud Initiative (NFI) figures and for encouraging action against perpetrators of fraud.

The Audit and Risk Committee operate a policy of open dialogue between both internal and external auditors and receive the reports from external audit to obtain reasonable assurance

that the financial statements are free of material misstatement, whether caused by error or fraud.

The Audit and Risk Committee may request assurance statements on the internal control environment of key suppliers such as LPP Group. This could be in the form of direct reports from LPP Group itself, or via the LPFA's internal or external auditors who have reviewed a particular area of LPP Group's operations.

Internal and External Audit

In relation to fraud, internal audit provides assurance to the LPFA Board and to the Principal Officers that the controls they have in place are appropriate and in line with the Authority's risk appetite. It also provides assurance that the controls are functioning effectively, and risks are being identified.

Internal auditors consider the Authority's assessment of fraud risk when developing their annual audit plan and review the effectiveness of the Fraud management approach.

Financial controls are the major component of an overall resource control framework. Financial control is concerned with the proper use of resources and starts with the LPFA's objectives for its financial operations:

- To prevent and detect fraud, misuse and illegal transactions,
- To ensure the security of financial and physical assets.

The responsibility for design, implementation and monitoring of controls, lies with the LPFA's Principal Officers. All which combine to create a control environment ensuring the achievement of the system's objectives. It is recognised that these controls need to work together to reduce the risks and threats to the organisation:

- Organisational controls – dealing with the way people are organised and structured such as the separation of functions, the quality and training of staff, the allocation of accountabilities and reporting lines, the provision of management and operational information, management reviews and monitoring, supervision and the checking of work.
- Authorisation controls – with written policies and delegations controlling the authorisation of commitments and expenditure.
- Documentation controls – the provision of controlled pre-numbered forms and standard documents being evidenced by authorised personnel.
- Completeness and accuracy controls – checking that all transactions have been included, for example through sequence checking, comparisons, control totals and re-performance routines.
- Physical controls – protecting assets and information through restricted access and physical checks including the verification of changes to supplier details.
- Compliance controls – making every effort to sustain compliance with applicable laws and regulations identified by management or LPP Group.

The following areas are regularly subject to internal audit reviews:

- Contributions
- Benefits
- Investments
- Core Financial Systems and controls
- Risk Management
- IT
- Governance arrangements
- Compliance with The Pensions Regulator Code of Practice 14
- Data Protection
- Partnership Oversight

The reviews highlighted above are either carried out directly by the LPFA's internal auditors or, where the operational activity has been delegated to LPP Group, the LPP Group's own internal auditors will carry out such a review.

Responsibilities of all staff

Although there are a small number of employees at LPFA, strong controls against fraud are the responsibility of everyone in the Authority and those that come into contact with the LPFA such as LPP Group. LPP Group ensures that appropriate safeguards are in place to assure the LPFA Officers and employees that public funds are protected, whether they are involved with cash or payments systems, receipts, stocks or dealings with contractors or suppliers. Employees of the LPFA and LPP Group should alert their line manager where they believe the opportunity for fraud exists because of poor procedures or lack of effective oversight. In addition, it is the responsibility of every member of staff to report details immediately if they suspect that a fraud has been committed or see any suspicious acts or events.

All levels of employees, including Principal Officers, should also:

- Have a basic understanding of fraud.
- Understand how their job procedures are designed to manage fraud risks and when non-compliance may create an opportunity for fraud to occur or go undetected.
- Comply with established procedures, policies, delegations and codes of practice, including other operational policies and procedures, such as procurement manuals.
- Participate in risk reviews and identify new risks.
- As required, participate in the process of creating a strong controlled environment, including monitoring, designing and implementing fraud control activities.
- Register any financial or non-financial interests in any of the LPFA contractors under the Local Authority Code of Conduct for Officers. This occurs annually with subsequent changes notified to HR.
- Consider the risk of fraud when reviewing the Authority's risk registers.
- Take steps to verify any changes to supplier details.
- Report suspicions or incidences of fraud
- Co-operate in investigations

Section 2: Specific fraud related codes and policies

The LPFA manages the detection and prevention of internal and external fraud through a variety of Codes of Practice and Standing Orders. All of them are available to staff as full documents in their own right and are approved by the Board.

Code of Practice on Fraud: An internal document code of practice which sets out the procedure for reporting fraud and other financial irregularities and the necessary steps which will be taken as a result.

Whistleblowing Policy and Procedure: The published document aims to protect those who report financial irregularities outside the normal reporting lines, which encourages staff to report any wrongdoings or a risk that could damage the LPFA's reputation. The document covers suppliers and other third parties which provide services to LPFA under a contract with it.

Local Authority Code of Conduct for Board Members: Board Members are requested to submit declarations of interest on an annual basis, and to alert LPFA of any changes to their interests. They are also required to express declarations during Board and Committee meetings and to withdraw from proceedings where necessary. This is supported by a Conflicts of Interest Policy.

Local Authority Code of Conduct for Staff: Declarations of interest in contractors by staff are required on an annual basis

Contract Standing Orders: Minimum standards for financial controls that are in place for procurement across the Authority.

Gifts, Hospitality & Expenses Framework: The registers of hospitality and gifts that are received and declined, are reported to the Audit and Risk Committee on an annual basis and are published on the LPFA website on a quarterly basis.

Each individual employee and member is responsible for observing these rules and codes. However, there is a duty on the Authority to ensure all parties are aware of their responsibilities and to monitor compliance with them.

National Fraud Initiative (NFI):

The LPFA participates in the NFI public sector data matching and fraud detection exercise as a minimum at least every two years which is a mandatory requirement. The investigation covers:

- Pensioner death cases: This identifies where a pensioner has died but the person is still being paid.
- Deferred death cases: Where those with deferred benefits have died, but payment of a widow/dependant pension has not commenced.
- Pensioner re-employment cases: Identifies pensioners that have gone back into employment with the result that an abatement of pension may apply.

Declaration of Life Certificates are sent to pensioners living abroad and pension payments are subsequently suspended where necessary while an investigation for non-return of the certificate is carried out. Results of NFI are reported to the Audit and Risk Committee.

LPPA on behalf of LPFA also carries out monthly mortality screenings to reduce the likelihood of death overpayments and impersonation of the Deceased fraud.

Recourse and action on fraud detection

NB: This section applies to employees, pension fund employers, fund managers, contractors and suppliers

The LPFA has adopted a Code of Practice that means not only is the fraudulent action corrected but the Authority will seek to recover any overpayment. In addition, where it is suspected that a fraud has been committed, the Authority will take appropriate action that can include police notification and prosecution through the criminal or civil courts.

If the fraud is linked to an LPFA employee, then internal disciplinary action may also be taken in line with the LPFA's disciplinary procedure.

Where the Authority successfully prosecutes for fraud it will be publicised as a deterrent to others.

A fraudulent overpayment policy is in place which details the steps to be taken once a suspected fraud is identified.

What happens when fraud is established?

The decision whether to prosecute a fraudster takes into account the following factors:

- The personal circumstances of the offender.
- Period of the offence.
- The degree of fraud or amount of overpayment.
- Was it a deliberate lie or a false declaration?
- Any evidence that the LPFA has failed in its own responsibilities.
- Did the Authority follow correct procedures or fail to act on information already held?
- Did the offender co-operate with the investigation?
- When confronted with the facts did the offender provide reasonable answers and explanations, or did they compound the fraud by making up excuses?
- Does the offender admit guilt and demonstrate remorse?

Learning from experience and minimisation of losses

The LPFA seeks to ensure that where it is a victim of fraud any loss is minimised, and a review is carried out to ensure the act is not repeated. The review may be localised, or if serious enough involve internal or external audit.

The following steps should be taken:

- Investigate whether there are more cases of a similar nature.
- Investigation of all areas of activity of the person(s) implicated.
- Identify whether there was an absence or lapse of internal control and recommend improvements.
- Ensure that there are controls to either prevent or detect high value transaction frauds so that the Authority is not vulnerable to one-off high value frauds.

Anti-money laundering/Pension liberation application to LPFA

Money laundering is a process by which the proceeds of crime are converted into assets which appear to have a legitimate origin, so that they can be retained permanently or recycled into further criminal enterprises. Legislation defines money laundering as *'concealing, converting, transferring criminal property or removing it from the UK; entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person; and/or acquiring, using or possessing criminal property.'*

The LPFA holds LPP Group accountable that the appropriate internal control environment is in place.

A review of the LPFA's risk in relation to money laundering has been carried out by LPP Group. The outcome was that the risk is low. The main ways that money could enter the LPFA are via:

- Individual transfers in or out of the LGPS: the Pension Teams within LPPA have a thorough verification process and procedure notes in place which ensure that only legitimate transfers in are received. Awareness is also raised regarding transfers out and the potential for pension liberation fraud and any issues are reported internally.
- Recent changes in legislation require a member wanting to transfer out of the LGPS to obtain a financial advice, a copy of which is provided to LPFA.
- New employers: a due diligence process is in place and in addition any new employer would need to be eligible to join the LGPS before proceeding with the process.
- Working on behalf of clients: although this is carried out by LPP Group, if the LPFA were to develop a relationship with a non-local authority client, then the LPFA would take steps to confirm the identity of the company or individual prior to carrying out the project.

When investing, the LPFA does so via LPPI which is authorised and regulated by FCA. LPPI conducts investment and operational due diligence for all direct investments including alternative investments such as investments in infrastructure projects. All investment activity is transacted via custody banks. On rare occasions where the investment is taken directly from the LPFA's bank account to the investee company, the funds transfer will only take place following:

- Proof of the investee company bank account details are received by LPPI's Finance team.
- A sign off process by LPPI's senior members of both the Investment and Finance teams.

LPFA Anti-Money Laundering Policy

The LPFA is committed to conducting its business with due regard to the Money Laundering Regulations 2017¹ and appropriate guidance, and to treating compliance with the Anti Money Laundering legislation as a high priority.

The LPFA Board regard the promotion of anti-money laundering (AML) measures as a mutual objective for management, employees at all levels and those working for or on behalf of the organisation, and are committed to providing the resources necessary to fully implement the AML Policy which is designed to satisfy the requirements of the LPFA Fraud Control Framework, and operate best practice throughout the LPFA.

The LPFA will carry out its activities with consideration for the legitimate origin of the funds being transferred in and out of the Authority as part of the process to prevent crime.

¹ Money Laundering, Terrorist Financing and Transfer of funds (Information on the Payer) Regulations 2017

In order to meet the above requirements, the LPFA will with the support of LPP Group:

- Ensure that areas at risk are identified and action is taken to mitigate the risk;
- Develop a robust and vigilant AML culture;
- Hold managers accountable for performance of their areas of responsibility;
- Monitor AML risk within our control, with a view to reducing the risk where possible;
- Prevent money laundering crime and encourage best practice;
- Maintain sufficient documentation to demonstrate compliance with the AML requirements;
- Comply with all applicable legislation and other relevant requirements that may be placed upon us;
- Verify the identity of clients where necessary, keep records;
- Enable employees to report suspicious circumstances or transactions to an appropriate person;
- Assess, in advance where possible, AML impact resulting from business operations and the effects of any significant business development, and adjust the plans accordingly;
- Ensure that all AML incidents are reported, recorded and root causes identified where the incident occurs or could have occurred and ensure that corrective and preventive actions are implemented;
- Communicate and provide the Policy, any necessary information and training to enable all internal/external stakeholders, affected by the LPFA's undertakings, to carry out their duties.

This policy will be made available to our employees, to those working for or on behalf of the LPFA such as LPP Group; and provided on request to any other interested parties, including members of the public. Failure to comply with the AML legal responsibilities is a criminal offence. Failure to comply with this policy or guidance may lead to disciplinary action. This policy will be reviewed annually in accordance with the LPFA's Fraud Control Framework.

Section 3: An action plan for the LPFA officers and employees

This section of the framework is intended for the LPFA officers and employees.

Fraud Indicators – Staff and Officers should be aware of the following indicators and warning signs of fraud:

- Staff under stress without a high workload
- Marked personality changes
- Always working late
- Reluctance to take leave
- Unexplained wealth or living beyond apparent means
- Sudden change of lifestyle
- Customer complaints of missing statements, unrecognised transactions
- New staff resigning quickly
- Cosy relationships with suppliers/contractors
- Suppliers/contractors who insist on dealing with one individual
- Changes in supplier details
- Rising costs with no explanation
- Key employees having too much control or authority without audit checks
- Employees with external business interests

Staff who observe symptoms of fraud or fraudulent actions should contact the Monitoring Officer or any of the contacts stated in the whistleblowing code of practice.

There are two procedure notes to follow in the event a fraud has been identified:

- Identified Fraud – Next Steps
- Pension Fraud Enforcement Note

In addition to these procedure notes, LPP Group has its own procedures that it follows.

An action plan is set out at the end of this framework which aims to maintain staff awareness for LPFA of the seriousness of fraud, methods of reporting, and the consequences for breach of the Authority's codes of practice. The action plan is communicated and shared with LPP Group. Annual progress against the plan will be reported to the CEO

The action plan is reviewed annually and updated where required and communicated to staff.

Action plan

Actions fall into 4 categories:

- a) Communication of anti-fraud initiatives both internally and externally
- b) Identification of potential new risks and controls to be applied
- c) Engagement with LPFA and LPP Group staff
- d) Testing of internal controls

Action plan	Status	Owner
Regularly publish gifts/hospitality/expenses register on LPFA's website and report to Audit and Risk Committee.	Quarterly	Compliance and Governance Director (Monitoring Officer)
LPFA's ARC review any relevant outcome of internal control reviews for LPP Group.	As per terms of reference	Commercial and Finance Director
LPFA Internal auditors review, test and report on internal controls.	As per internal audit plan	Commercial and Finance Director
Training for LPFA Board and Senior Management Team – Money Laundering/Bribery.	Every two years or when significant statutory/regulatory changes come into force	Compliance and Governance Director (Monitoring Officer)
Ensure fraud awareness forms part of induction programme for the LPFA senior management team and other employees.	Within a month from a new joiner start date	Compliance and Governance Director (Monitoring Officer)
Report on details of any criminal or civil actions against perpetrators of fraud on an annual basis.	Annually	Compliance and Governance Director (Monitoring Officer)
Report on NFI data matching outcomes and consequent action taken.	After every exercise	Compliance and Governance Director (Monitoring Officer)