



Counter fraud good practice for food and drink businesses

Improve fraud resilience and reduce the financial cost of fraud



Written by

Eoghan Daly Policy and Technical Adviser, CIEH Food

Jim Gee Visiting Professor, University of Portsmouth Centre for Counter Fraud Studies

With contributions from

Andy Morling Head of Food Crime, Food Standards Agency

Ron McNaughton Head of Scottish Food Crime and Incidents Unit, Food Standards Scotland

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Foreword from Andy Morling, Head of Food Crime, Food Standards Agency



I am really pleased to introduce this guide. For me, it sets out an approach to fraud within the United Kingdom's food and drink industry which will help businesses not only to understand the threats and vulnerabilities they face from food fraud, but also to proactively address those issues and better protect themselves from them. This will deliver clear benefits for UK business, consumers and for the economy as a whole.

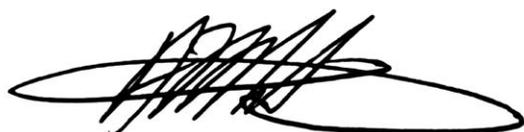
It is not enough simply to ask the question 'can I see fraud within my business?' Fraud, by its very nature, seeks to remain hidden. It is only through the development of a proportionate counter fraud strategy, underpinned by specific processes to detect and address fraud, that a food business will be able to protect itself and its customers.

“Introducing fraud resilience will equip a business to understand what fraud issues affect it, which in turn will make it easier to detect fraud and then address it”

Detecting fraud is only one aspect of fraud resilience. Sampling is one tool at a business' disposal, but introducing fraud resilience will equip a business to understand what fraud issues affect it, which in turn will make it easier to detect fraud and then address it. It will also allow businesses to prevent fraud – by understanding the issue and how it manifests itself, a business can design out the issue. This reduces loss and enhances business image, demonstrating a commitment to customers that their food is what it says it is, and that it is food that they can trust.

This approach supports the work of the National Food Crime Unit in England, Wales and Northern Ireland, and in Scotland the work of the Scottish Food Crime and Incidents Unit, as businesses will be able to alert both units to identified issues which need an enforcement response. In fact, this approach means that businesses are not merely supporting the National Food Crime Unit and Scottish Food Crime and Incidents Unit, but are working alongside them as partners in the fight against food crime. We are all on the same side. We all want to see the UK as a place where food production and supply are free from and a hostile environment to criminality.

Creating a culture in which all staff are both able and confident to report suspicions of wrongdoing is vital. Businesses can do this by ensuring they provide an environment in which staff are able to see the moral as well as the commercial benefits of identifying wrongdoing, whether within or outside of their business. Working with the National Food Crime Unit, whether by sharing fraud concerns or by finding new ways to design out fraud, will make the UK food sector both a safer and a more economically prosperous place, benefitting both businesses and consumers alike.



Andy Morling,
Head of Food Crime,
Food Standards Agency



Foreword from Ron McNaughton, Head of Scottish Food Crime and Incidents Unit, Food Standards Scotland



As Head of the Scottish Food Crime and Incidents Unit, it is extremely important for me that any UK good practice guide for the food and drink sector reflects the differences that exist in terms of the law and the approach to food fraud in Scotland. With that in mind, I was delighted that both Food Standards Scotland and indeed the Scottish Food Crime and Incidents Unit were asked to contribute to the development of this guide. Those involved in the perpetration of fraud do not recognise any borders and it is therefore crucial that we work collaboratively across the UK to counter fraud.

By its very nature, the use of this guide by the food and drink sector will provide a consistency of approach across the UK in terms of the investigation, protection and, crucially, the prevention of fraud. Having a strategy in place to prevent fraud from occurring in the first place is of paramount importance and this guide will assist business to develop and understand the many issues relating to food crime and measures that can be introduced to mitigate the risks.

“This guide will provide a consistency of approach across the UK in terms of the investigation, protection and, crucially, the prevention of fraud”

The commission of food fraud requires networks to be successful and in that regard in order to combat fraud we also need to rely on networks to share information, to identify emerging risks, to take enforcement action and to prevent crime. Within the Scottish Food Crime and Incidents Unit we are working tirelessly in our efforts to build close relationships with industry, law enforcement organisations and Local Authorities. We are also improving lines of communication to enable those working within the food and drink sector to provide information to us anonymously through the Scottish Food Crime Hotline, which was launched by Food Standards Scotland in partnership with Crimestoppers.

I would urge industry leaders to promote this guide and encourage those working within the food and drink sector to play their part in combatting fraud. This guide will assist them in this regard and they should use it proactively. The SFCIU are committed to tackling fraud affecting Scotland and will continue to build relationships with industry and other partners so that efforts in this regard are truly collaborative, as this is the only way that fraud can be effectively challenged.



Ron McNaughton
Head of SFCIU,
Food Standards Scotland



About the authors



Eoghan Daly

Eoghan Daly is policy and technical advisor at CIEH Food. He works with organisations across the sector to enhance collaboration and address existing and emerging issues relevant to food safety and food fraud.

Prior to joining CIEH Eoghan worked with ICF International, a consultancy, to help clients consider the impacts of policy choices on the environment, food chain, society and economy. This included offering systems analysis, policy evaluation and impact assessment services to policy makers in the UK Government, European Commission and national governments around Europe.

Eoghan has extensive expertise in food chain governance and regulatory issues from the perspective of the private and public sector. His work, grounded in evaluation theory, has involved a mix of qualitative and quantitative social research, technical analysis and modelling.

Connect with Eoghan on LinkedIn [here](#).

Jim Gee



Jim Gee is Partner and Head of Forensic and Counter Fraud Services at a leading accountancy firm. He is also Visiting Professor at the University of Portsmouth and Chair of the Centre for Counter Fraud Studies, Europe's leading centre for research into fraud and related issues and Chair of the

U.K. Fraud Costs Measurement Committee.

During more than 25 years as a counter fraud specialist, he has advised Ministers, Parliamentary Select Committees and the Attorney-General, as well as national and multi-national companies and some of the most prominent charities. To date he has worked with clients from 39 countries.

He specialises in helping organisations reduce the cost and incidence of fraud through strengthening the resilience to fraud of relevant processes and systems.

Connect with Jim on LinkedIn [here](#).

About the Chartered Institute of Environmental Health

The Chartered Institute of Environmental Health (CIEH) is the professional body for Environmental Health Professionals working across the private, public and third sectors.

Environmental health is the practice of improving and protecting people's health, safety and wellbeing and incorporates the disciplines of food, housing, health and safety in the workplace, environmental protection and health protection.

CIEH has its roots in the 1800s with the emergence of the first public health pioneers and exists to support its members and the wider environmental health profession to protect consumers, help businesses grow and improve the health and wellbeing of local communities across the UK.

CIEH sets standards, accredits courses and develops qualifications to educate and inform members, EHPs and the wider professional community. It promotes the practice of environmental health and acts as the voice of the profession and our members to the Government, media and the general public.

CIEH Food is a specialist group of CIEH members with an interest in issues related to food safety and integrity. For more information on food fraud related resources, training and services, visit food.cieh.org

Executive summary

“Fraud has a financial cost, undermines customer and consumer confidence and in the most serious cases can negatively impact consumers’ health and well-being”

The purpose of this guide is to outline how food and drink business can apply established counter fraud good practice to improve fraud resilience and reduce its financial and reputational cost. Fraud resilience is a measure of how well organisations protect themselves against fraud. It is a holistic term used to describe:

- How well an organisation understands the nature and cost of fraud affecting it.
- Whether an organisation has an effective strategy to address the problem.
- Whether an organisation has a counter fraud structure to implement its strategy.
- Whether an organisation takes a range of pre-emptive and reaction actions to counter fraud.
- The extent to which fraud is addressed and managed like any other business issue.

An organisation that is fraud resilient will have strong systems and processes in place in respect of each item listed.

Fraud is a specific problem with specific solutions, it requires a counter fraud approach

Fraud is an issue for every business in every sector. It has a financial cost, undermines customer and consumer confidence and in the most serious cases can negatively impact consumers’ health and well-being.

Fraudsters work hard to ensure fraud remains unknown. The worst, and most costly, frauds are subtle and difficult to detect. The number of potential fraud issues is practically unlimited, and once one type of fraud is addressed other vulnerabilities may be exploited.

Fraud can affect the food and drink industry in many forms. It can take the form of an adulterant substance being added to a product, for example, or may relate to fictitious companies receiving goods on credit and disappearing without paying invoices, or food products being underprovided in terms of quality or quantity, or overcharging.

It is not good enough to simply react to known fraud risks. An effective and comprehensive counter fraud strategy needs to be proactive and based on reliable evidence about the nature and scale of all fraud risks

facing the organisation, not just known fraud issues related to products or ingredients.

Food and drink businesses should calculate the financial cost of fraud and manage it like any other business issue

Counter fraud work should be based on reliable estimates of an organisation’s financial cost of fraud, including detected and undetected fraud. This type of loss measurement work is widely undertaken in different countries and sectors. However, despite extensive work undertaken by food and drink businesses to address fraud there is no evidence that food and drink businesses are measuring the financial cost of fraud to their organisations. Considering fraud in terms of a cost that can be managed turns it from a fact of doing business to something that can reduce costs, improve profitability and enhance competitive advantage.

Without information on an organisation’s total financial cost of fraud it is difficult to determine whether fraud is increasing or decreasing, and whether an increase in the number of detected frauds signals an increase in fraud, or an increase in the rate of detection. Food and drink businesses need to adjust their approach and prove fraud risk is being managed effectively.

Fraud is a business cost to be measured, managed and minimised and counter fraud work should be performance-managed like any other area of work. Counter fraud work should be driven through the use of performance indicators.

Proving the effectiveness of counter fraud work requires a focus on outcomes, not activities

Too often food and drink businesses focus on activity related to fraud prevention and detection rather than outcomes. For example, activity indicators of the successful delivery of counter fraud interventions may include the number of tests undertaken and/or number of issues identified. Activity indicators will never reveal whether fraud is increasing or decreasing, or whether counter fraud measures have improved fraud resilience or reduced an organisation’s financial cost of fraud.

Food and drink businesses should focus on the outcomes of counter fraud work. That is, the specific and measurable change as a direct result of counter fraud measures. Most other business decisions to invest resources are based on the expectations of specific and measurable benefits. Counter fraud work should be treated in the same manner. Doing so helps to embed counter fraud, strengthen the

businesses case for counter fraud measures, and as a result, improve overall fraud resilience.

Food and drink businesses should make use of the skills and experience of accredited counter fraud professionals

Counter fraud work should be undertaken under the guidance of suitably qualified and experienced counter fraud professionals and a significant body of counter fraud expertise is available to the food and drink industry. The food and drink industry does not have to work in isolation to address fraud and there is much the food and drink industry can learn from other sectors.

There are over 14,000 counter fraud specialists trained and accredited at foundation, diploma, degree, and master's levels. The accreditation provides an assurance that its holder has the necessary technical skills and ethical understanding to undertake counter fraud work to a satisfactory standard. Training courses are widely accessible via the Counter Fraud Professional Accreditation Board. In some cases it may be beneficial to obtain guidance and advice from specialist external experts.

Counter fraud can be centrally managed and requires clear authority to secure the changes necessary

The remit of those tasked with countering fraud needs to be clear and comprehensive. Counter fraud responsibilities should be centralised and coordinated rather than divided between different parts of an organisation. The issue needs a focus and a profile, both of which are harder to achieve if different groups are each undertaking different aspects of the work. Splitting counter fraud responsibilities also means that it is much more difficult to create synergy between different aspects of the work or to achieve the optimum return on costs.

Countering fraud is not an easy task and not just because of the need to deal with fraudsters. It can be difficult to change processes and systems to prevent fraud recurring. Sometimes the systems and processes will have been developed over many years (although often without any specialist counter fraud input).

Counter fraud staff will need clear authority from senior levels of the organisation to secure the necessary changes. There should be a reporting line to a senior executive member of the board to ensure counter fraud teams have the mandate to make the appropriate changes.

The emphasis of counter fraud work should be on prevention rather than detection...

Food businesses' should undertake proactive counter fraud exercises that look for fraud vulnerabilities rather than waiting for it to be detected and reported. Fraud is more likely where

processes or systems are known to be weak. Proactive counter fraud exercises should first focus on the weakest processes and/or systems. Pre-emptive measures include:

- **Developing an anti-fraud culture:** The right tone from senior management, in the context of effective governance arrangements, sends a clear message about what is acceptable and what is unacceptable.
- **Creating a strong deterrence effect:** Developing a strong anti-fraud culture involves communicating messages to mobilise the honest majority. Creating a strong deterrent effect involves communicating different messages to the dishonest minority.
- **Reducing the fraud opportunity:** Once the nature and extent of fraud is defined, a systematic review of systems, processes and contracts should be undertaken to identify potential vulnerabilities. Vulnerabilities that enable fraud should be designed out of processes, systems and contracts. The review should be prioritised to reflect the nature and extent of fraud affecting the business.

...but detection is an important component of any counter fraud strategy

In addition to proactive counter fraud exercises, effective detection is an important deterrent. Well-functioning and well-publicised fraud detection processes reduce the attractiveness of an organisation to fraudsters.

The techniques below are useful to detect fraud and should be implemented by food and drink businesses as a minimum. More comprehensive detection methods can be tailored to suit individual businesses.

- **Data analysis:** Data analysis to reveal anomalies which may represent fraud. Care is required as the quality of analytical outputs depends on the quality of the data inputs.
- **Expectation setting:** Ensuring expectations of staff, agents and contractors about speaking-up and reporting concerns are explicit and well-publicised.
- **Whistleblowing:** Arrangements, internal or external, so employees can provide information about fraud while minimising the risks to themselves and their employment.

Government organisations can help food and drink businesses to detect fraud and improve fraud resilience

Several government organisations are responsible for addressing issues related to fraud affecting the food and drink sector. The Food Standard Agency's National Food Crime Unit (NFCU) covers England, Wales and Northern

Ireland and Scotland is covered by Food Standards Scotland's Food Crime and Incidents Unit (SFCIU). Both units have law enforcement capability dedicated to protecting consumers and the legitimate food and drink industry. The Intellectual Property Office is the official UK government body responsible for intellectual property rights including patents, designs, trademarks and copyright. The remit of the Office relates more specifically to brand/patent infringements.

All three organisations work closely with a broad spectrum of stakeholders to protect the food and drink industry from fraud. To be effective they require that information and intelligence about suspected dishonesty with the food and drink supply chain is submitted to them. Partnership working will enable the organisations to improve fraud detection and generate insights for food and drink businesses to improve fraud resilience. Numerous confidential routes are available to providing information and intelligence about suspected dishonesty. It is vital that food and drink businesses share concerns with any of the three organisations.

Investigative processes should be planned in advance to enable a considered response in the event of a fraud being detected

Specialist knowledge and skills are required to ensure investigations are legally and ethically compliant. Decisions at the outset must be thought through as it is easy to 'jump in' without considering the potential consequences of an investigator's actions. Investigative processes should be planned and documented in advance of a fraud being detected. The processes should, at a minimum, include steps that:

- Will result in legally compliant investigations.
- Seek appropriate criminal, civil and regulatory sanctions.
- Include action to recover losses.

Some evidence-gathering techniques will be beyond the scope of the food business investigator and will require the use of an expert. The in-house investigator should be able to identify situations where crucial evidence may be revealed by the use of such a professional, for example digital evidence, forensic accounting, surveillance and specialist legal tools.

Some elements of counter fraud good practice will be new to the food and drink industry, first movers stand to gain significant advantage

There is much that is unique about the food and drink sector, but there is much more that is similar to other sectors. Counter fraud is a well-established profession with good practice proven to improve fraud resilience in a variety

of sectors. Counter fraud good practice will help the food and drink industry to improve its fraud resilience and reduce its financial cost of fraud.

Counter fraud good practice provides the framework food and drink businesses need to shift from qualitative, opinion-based assessments of what might happen in the future to evidence based assessments of the actual nature and extent of fraud to their organisations.

Counter fraud is new to the food and drink industry and can appear to be a complex and potentially difficult task. This is always the case with new ways of working. They seem difficult until they have been completed. The most important thing to do when considering applying counter fraud good practice is to start. Acquiring and deploying specialist skills makes the process much easier.

The most useful lessons will emerge during actual efforts to apply the seven steps described in this guide. It might take a number of attempts to get right, but without taking the first step it will be impossible to improve and refine the process.

1. Introduction

Fraud is an issue for every business in every sector. It has a financial cost, undermines customer and consumer confidence and in the most serious cases can negatively impact consumers' health and well-being.

Despite extensive work undertaken by food and drink businesses to address fraud there is no reliable information about the nature and extent of fraud affecting the sector. Without such information it is impossible to determine whether fraud is increasing or decreasing, and whether an increase in the number of detected frauds signals an increase in fraud, or an increase in the rate of detection. The food and drink industry needs to change its approach to tackling fraud so it can prove it is managing fraud risk effectively.

The industry does not have to work in isolation to address fraud. There is much that can be learned from other sectors. Although unique in some respects the food and drink industry shares more similarities than differences with other sectors. Experience from other sectors is relevant to the food and drink sector. There is a significant body of counter fraud expertise based on practical application with other sectors. Counter fraud is recognised profession with established good practice proven to improve fraud resilience.

Purpose of the guide

The purpose of this guide is to outline how food and drink business can apply established counter fraud good practice to improve fraud resilience and reduce the financial cost of fraud. The guide includes the following sections:

- Section 2 sets out the rationale for improving fraud resilience.
- Section 3 describes the modern strategic approach to counter fraud.
- Section 4 summarises the seven steps to improve fraud resilience and reduce the financial cost of fraud.
- Section 5 includes a short conclusion.

Annex 1 includes four case studies describing how counter fraud good practice has been applied by food and drink businesses.

Scope of the guide

Adopting the principles of counter fraud good practice improves resilience to all types of fraud. In addition to the classic description of 'food fraud' with respect to product integrity and/or provenance, the guide covers all types of fraud that may affect food businesses. Examples include payroll fraud¹, European distribution fraud² and long- and short-firm fraud³.

How this guide was developed

The guide was developed by the CIEH Food in collaboration with the University of Portsmouth's Centre for Counter Fraud Studies, the Food Standards Agency's National Food Crime Unit, Food Standards Scotland's Food Crime and Incidents Unit, and the Intellectual Property Office.

Conversations were held with individuals from a broad range of food and drink businesses from across the food processing, manufacturing, retail and catering/hospitality sectors. The purpose of the conversations was to discuss the businesses' current approach to addressing fraud, and to explore how counter fraud good practice could be applied. In total, the businesses consulted with had a combined turnover of £137bn in 2015, and employ over 1.4 million people. Individual businesses are not identified in this document to preserve the confidentiality of discussions.

The consultation informed the description of good practice in Section 4.

1. Payroll fraud is the theft of cash from a business via the payroll processing system. <http://www.accountingtools.com/payroll-fraud>

2. European distribution fraud happens when a European manufacturer or supplier is contacted by a fraudster claiming to be a well-known UK company and places a large order of goods. These goods are sent to the UK where they are picked up by criminals and never paid for. The reverse can happen too, a UK manufacturer or supplier can be defrauded by a European fraudster. <http://www.actionfraud.police.uk/fraud-az-edf>

3. Long- and short-firm fraud is when criminals set up what's an apparently legitimate business, but with the intention of defrauding both its suppliers and customers. http://www.actionfraud.police.uk/fraud_protection/long_term_and_short_term_fraud

2. The rationale for improving fraud resilience

Fraud can affect the food and drink industry in many forms. It can take the form of an adulterant substance being added to a product, for example, or may relate to fictitious companies receiving goods on credit and disappearing without paying invoices, food products being underprovided in terms of quality or quantity, or overcharging.

Fraud is pernicious and fraudsters react to controls by inventing new types of fraud. For this reason it is not possible to define a comprehensive fraud typology. Any list would quickly become dated and could provide a false sense of security to organisations focusing only on the frauds listed. The key is to improve pre-emptive fraud resilience rather than reacting to specific frauds after they have occurred.

Food and drink businesses should manage the development of fraud resilience like any other area of work. It should be measured, monitored using specific metrics, and deliver specific and measurable outcomes. It is impossible to prove the effectiveness of work to address fraud without focusing on outcomes. Without an outcomes-focused programme it is impossible to determine whether activities, such as testing and / or supply chain mapping and checking, are improving fraud resilience.

The definition of fraud

Criminal law definition of fraud

The criminal law in England & Wales concerning fraud is primarily derived from the Fraud Act 2006⁴. There are three ways to commit fraud under the Fraud Act 2006:

- By false representation.
- By failing to disclose information.
- By abusing a position of trust.

Each way requires:

- An element of dishonesty (as defined by the standards of ordinary reasonable people) on the part of the fraudster.
- Evidence of their intent to make a gain or cause a loss⁵.

Criminal prosecution under the Act requires an assessment of what a defendant intended to happen as a result of their dishonest behaviour, not the actual consequence of the behaviour. Cases are normally brought by the Crown Prosecution Service although prosecutions can be launched by local authorities or, indeed, by private companies or individuals, so long as there is *prima facie* evidence showing that there is a case to answer.

In Scotland, fraud is prosecuted by the Crown Office and Procurator Fiscal Service, normally after an investigation by Police Scotland or a local authority. Unlike England and Wales, there is no statutory offence of fraud in Scotland and offences are normally prosecuted using the common law offence of fraud. In Scotland the accepted modern definition of this is “...*the bringing about of some practical result by means of false pretences.*”⁶ The ‘practical result’ is, in essence, causing someone to do something that they would otherwise not do, usually, but not necessarily, with a subsequent economic loss. The ‘false pretences’ can include omissions and lack of action, as well as overt acts. Where the fraud involves the use of forged documents, as may well be the case in food fraud, then the common law offence of ‘Uttering’ may be prosecuted instead of common law fraud, as the facts are more likely to fit this offence. Uttering occurs where someone produces as genuine a forged document to another, to the prejudice of the person receiving it.

4. HM Government, 2006. The Fraud Act 2006. <http://www.legislation.gov.uk/ukpga/2006/35/contents>

5. Gain or loss is limited to money and other property, which can include real, personal or intangible property, or things in action; the gain can also be temporary or permanent. ‘Gain’ includes a gain by keeping what one has, as well as a gain by getting what one does not have. ‘Loss’ includes a loss by not getting what one might get as well as a loss by parting with what one has.

6. MacDonald, JHA A Practical Treatise on the Criminal Law of Scotland (1948, 5th edn.) (eds. Walker, J & Stevenson, DJ)

Civil law definition of fraud

Fraud is primarily defined under civil law in terms of false representation to induce parties into contract. A well-known and commonly used definition of fraud was established in the case of *Derry v Peek* 1889; the definition is used as a starting point for civil courts in England, Wales and Scotland. The case established that fraud is proved when it is shown that a false representation has been made:

- Knowingly,
- Without belief in its truth,
- Recklessly, careless whether it be true or false, and,
- When there has been a consequent financial gain or loss.

Food fraud and food crime definition

Food fraud is a type of fraud unique to food and drink businesses. In the UK the National Food Crime Unit and the Scottish Food Crime and Incident Unit make a distinction between 'food fraud' and 'food crime'. Food fraud is considered to encompass the deliberate and intentional substitution, addition, tampering or misrepresentation of food, food ingredients, or food packaging; or false or misleading statements made about a product for economic gain⁷. The types of food fraud include adulteration, tampering (for example cargo theft, shoplifting, employee theft, etc), product overrun, theft, diversion (including illegal grey market, parallel trade, smuggling, etc.), simulation, and counterfeiting⁸. The distinction between food fraud and food crime is considered to be generally one of scale and complexity, with the former sometimes an early indicator of the latter⁹. Food crime is considered to have a broader reach, encompassing forms of criminality that may have an indirect impact on the safety or authenticity of food.

It is important that food and drink businesses consider food fraud and food crime in the context of overall efforts to improve fraud resilience and address fraud vulnerabilities. A comprehensive and holistic approach will help to engage the support necessary from across an organisation.

The impact of fraud

It is well documented that fraud is an issue for the food and drink industry. The contamination of the European beef supply chain with undeclared horsemeat uncovered in 2013 is the most high-profile incident to have occurred in the UK in recent years. Despite the minimal, if any, risk to human health the incident captured the public imagination as it laid bare the complexity of the European beef supply chain and the practical challenges of ensuring product integrity across each point in the chain. An increased awareness and interest by the food and drink industry has contributed to the identification of several alleged food frauds since 2013.

Fraud in the food and drink industry is important as it can affect consumer health and confidence, the viability of food and drink businesses, and the overall health of the economy.

Fraud affects consumers

A significant amount of trust is required when purchasing food from a business and then consuming that food. Consumers must trust that the food is what it purports to be, that the business is a responsible operator with the systems in place to ensure the food will not cause adverse health impacts, and that the business operates within a supply network of other responsible operators with the necessary checks in place. Evidence provided by the Food Standards Agency¹⁰ suggests that consumers are concerned about the food available to them, expressing concerns about food not being what the label says it is. Without sufficient trust consumer confidence decreases, with consequent impacts on consumer propensity to buy particular food products from particular food businesses.

Fraud can lead to adverse public health impacts in addition to reduced consumer confidence. Three types of food fraud risks for public health have been identified¹¹:

1. **Direct** food fraud risk puts the consumer at immediate or imminent risk. For example, the inclusion of an acutely toxic contaminant.
2. **Indirect** food fraud risk puts the consumer at risk via long-term exposure. For example, the build-up of a chronically toxic contaminant in the body through the ingestion of low doses.

7. HM Government, 2014. Elliott Review into the Integrity and Assurance of Food Supply Networks – Final Report. A National Food Crime Prevention Framework.

8. Spink J, Moyer DC, 2011. Defining the public health threat of food fraud. *J Food Sci.* 2011 Nov-Dec;76(9):R157-63. doi: 10.1111/j.1750-3841.2011.02417.x

9. FSA and FSS, 2016. Food Crime Annual Strategic Assessment. A 2016 Baseline

3. **Technical** food fraud risk is non-material in nature, that is, there is no risk to health. For example, misrepresentation of a product's country or origin.

Fraud affects food businesses

Losses due to fraud often have a significant impact on business viability due to the relatively low profit margins common across parts of the food and drink industry. Fraud can affect food and drink businesses in a variety of ways, for example:

- **Fraud can increase prices**

Food businesses specify the quality and quantity of a product they wish to purchase from suppliers. 'Quality' can include a broad range of attributes including, for example, the particular type of food product (basmati instead of long grain rice), the mode of production (organic versus non-organic), and the place of production (domestically produced instead of imported).

Fraud could mean that products are not provided to the contractually agreed specification. As such, the food business will be paying more than it would otherwise pay for the product supplied. For example, a business could overpay by paying a premium for basmati rice but instead receiving regular long grain rice.

This type of fraud also enables rogue operators to undercut legitimate businesses. In the example of the long grain rice sold as basmati the supplier responsible may have won the contract by offering to supply basmati rice at a price below what other legitimate operators could offer.

- **Fraud can reduce profitability**

Food businesses are targeted by fraudsters that attempt to secure products without providing payment. This type of fraud has different names, such as long-firm fraud, short-firm fraud and/or European distribution fraud and typically involves criminals setting up an apparently legitimate business but with the intention of defrauding its suppliers and customers.

The food industry is susceptible to this type of fraud as food products are generally easy to sell on and can re-enter 'grey' supply chains. Evidence gathered in the consultation for this guide, and previous discussions with food and drink businesses, suggests levels of

fraud resilience are often low and businesses typically undertake minimal checks on the credentials of suppliers and customers.

- **Fraud can reduce brand integrity**

When a fraud is uncovered the damage to food brands can be significant, sometimes even resulting in a brand being retired. A major fraud event can even result in whole categories of food businesses and / or product types being adversely affected, whether or not they are directly implicated.

Fraud affects the economy

Reliable operators undercut by dishonest businesses cannot fulfil their potential capacity due to lower profitability and reduced capacity to invest. Individual fraud incidents adversely affect individual businesses and may affect groups of businesses or product categories. The perception that the UK food and drink industry is vulnerable to fraud has a wider impact, potentially affecting perceptions of the 'brand' of UK food and drink products.

Sustaining and increasing UK food exports will require that destination countries perceive the UK to have a robust regulatory system and an industry where high standards are the norm. A failure to adequately address fraud, by industry and government, will reduce opportunities for food and drink exports from the UK.

What is fraud resilience?

Fraud resilience is the holistic term used by counter fraud practitioners to describe:

- How well an organisation understands the nature and cost of fraud affecting it.
- Whether an organisation has an effective strategy to address the problem.
- Whether an organisation has a counter fraud structure to implement its strategy.
- Whether an organisation takes a range of pre-emptive and reactive actions to counter fraud.
- The extent to which fraud is addressed and managed like any other business issue.

10. Food Standards Agency, 2015. Biannual Public Attitudes Tracker Survey May 2015.

11. Spink J, Moyer DC, 2011. Defining the public health threat of food fraud. J Food Sci. 2011 Nov-Dec;76(9):R157-63. doi: 10.1111/j.1750-3841.2011.02417.x

An organisation that is fraud resilient will have the systems and processes necessary to prevent and deter fraud. The concept of fraud resilience is based on the latest counter fraud professional standards. It can be assessed using centrally administered robust and reliable methodologies. The assessment is an important starting point for organisations implementing counter fraud work to reduce the financial cost of fraud as it provides the diagnosis for the areas requiring urgent attention.

In the UK fraud resilience is an accepted measure of how effectively an organisation protects itself against fraud. Originally sponsored by the Government's National Fraud Authority, it is holistic and encompasses everything an organisation needs to do (strategic, pre-emptive, reactive and governance-related) to protect itself against fraud. It is important that levels of fraud resilience are regularly monitored and reported to an organisation's board.

The advantage of focusing on fraud resilience

Improving fraud resilience requires action from across an organisation but in the food and drink sector addressing fraud risks is typically the responsibility of the food safety/quality technical team. The arrangement is understandable as the food safety/quality technical team is most often responsible for ensuring products meet required specifications and are safe to consume. Issues addressed by food safety/quality technical teams have traditionally been 'known' problems for which testing and assurance schemes provide an effective solution. For example, food hygiene threats related to microorganisms are caused by a known set of pathogenic microorganisms for which specific tests exist. The tests for pathogenic microorganisms are well-established, high-risk products are reliably identified, and the preparation and storage practices to prevent microorganism-related food hygiene risks are known. The contrast with fraud is stark.

Fraud is an unknown issue that fraudsters work hard to ensure remains unknown. The worst, and most costly, frauds are subtle and difficult to detect. The number of potential fraud issues is practically unlimited, and once one type of fraud is addressed other vulnerabilities may be exploited.

The amount of money food and drink businesses could spend on testing and other technical approaches is almost unlimited. There are always different and/or additional tests that could be undertaken. Food and drink businesses investing significant resources in technical approaches to improve fraud resilience may still have relatively low fraud resilience. Testing and other technical approaches are useful but must be considered in the context of an overarching organisational counter fraud strategy. They should

contribute to a specific and measurable objective related to fraud resilience. They should be a means to reduce the financial cost of fraud to the organisation with a clearly defined financial benefit. If testing detects more fraud, is fraud going up or is the testing programme more effective? It is impossible to tell without outcome-based objectives (such as an increase in fraud resilience and / or a decrease in the financial cost of fraud).

The financial benefit of improving fraud resilience

Reducing the financial cost of fraud helps to improve profitability. Organisations which have not yet implemented a counter fraud strategy have the most significant savings to make. Like any cost, additional savings become more difficult to find as the cost is reduced. Reductions in the financial cost of fraud of around 40 per cent are not uncommon in the first 12 months following the implementation of a counter fraud strategy.

The savings obtained by reducing the financial cost of fraud can be reinvested, helping to grow and strengthen a business, or can be added to an organisation's profit.

Counter fraud good practice can help to unlock resources

Resources are scarce in even the most profitable food and drink businesses and are allocated on a rational basis, informed by an assessment of expected benefits versus costs. Food safety/quality technical teams that use the language of investment and the benefit of the investment will be better able to communicate with other parts of the business.

Food and drink technical teams are necessary to protect an organisation and its customers. A desire to keep business costs low can make it difficult for technical teams to secure investment for issues which are considered low-risk or non-critical. The hidden nature of fraud, and the need for investigative work to establish its nature and extent, means that it is often difficult to justify the necessary investment.

Counter fraud good practice involves establishing the nature and extent of fraud affecting an organisation. That is, establishing the financial cost of fraud and the particular types of fraud. Food safety/quality technical teams that can justify investment in terms of financial returns will more easily communicate with other parts of the organisation where decision making is typically considered in financial terms. By doing so they will be better equipped to obtain the resources necessary for effective and sufficient counter fraud activity.

3. The role of government in detecting and addressing fraud

This section describes the role of government agencies in detecting and addressing fraud.

Detecting and addressing fraud: the role of the National Food Crime Unit

A national unit for England, Wales and Northern Ireland dedicated to understanding and tackling food criminality

The National Food Crime Unit (NFCU) was established in January 2015 as part of the Government response to the Elliott review into the integrity and assurance of food supply networks¹². It is a stand-alone unit within the Food Standards Agency.

The NFCU is the first and only law enforcement capability dedicated to protecting consumers and the legitimate food and drink industry in England, Wales and Northern Ireland from serious dishonesty within the industry's supply chains. The Unit includes two linked commands united by the single mission to work with others to reduce food crime.

The NFCU currently performs the following functions:

- Managing the receipt, evaluation and dissemination of criminal intelligence, providing a single focal point for such information.
- Producing strategic intelligence products to improve knowledge of food crime and to drive counter fraud activity.
- Gathering and developing tactical intelligence to instigate criminal justice and other interventions by and with partners.
- Advising, supporting and coordinating national and local law enforcement partners in respect of food crime investigations.

The challenges of food crime, and why information from industry partners is so important

Food and drink is a £200 billion industry in the UK and like any major industry, it is vulnerable to a wide range of criminal activity. Unlike many industries, the crimes affecting food and drink businesses are often undetected or unreported. Consumers may not be aware they are victims of food crime, while businesses may worry that reporting a crime will damage their reputation and/or profits.

Nonetheless, reported or otherwise, the impact of food crime can be extremely grave for individuals, the economy and the UK's reputation abroad.

Food crime is dishonesty in food production or supply, which is either complex or results in serious harm to consumers, businesses or the public interest. The unit has worked hard since its inception to gain insight into this diverse, complex and nuanced area of criminal activity. In March 2016 the unit, in collaboration with the Scottish Food Crime and Incidents Unit, published the first UK-wide Food Crime Annual Strategic Assessment¹³ (FCASA) which examines the scale and nature of the food crime threat to the UK's food and drink industry.

The initial assessment explores what current intelligence and reporting can reveal about food crime, and also highlights what is not known, and why this might be the case. Estimating the scale and impact of food crime can be challenging. Fraud is by definition a hidden activity and the parties involved may be skilled at cloaking their criminality. This challenge has been magnified by a lack of available intelligence and crime reporting relating to this area.

It is recognised that the identification of food crime has certain inherent characteristics that will always pose challenges when seeking to fully understand and assess its scale and nature. Almost uniquely amongst serious crime, food fraud and food crime generally lack natural 'break-out points' from which offending is identified. This makes discovery by law enforcement extremely challenging.

That is why reporting from industry partners is so vital for the NFCU. Industry vigilance and confidence to identify and share concerns of suspected wrong-doing within food supply chains with the NFCU is an important way of identifying and addressing criminality which affects legitimate UK business.

A two way street: How the NFCU will work with industry to combat food criminality

The UK benefits from some of the safest and most authentic food and drink in the world. But threats do exist and the more that is understood about them, the more can be done to prevent trust and quality being undermined.

It is clear that in order to deliver positive counter fraud outcomes for consumers and food businesses, the NFCU needs to leverage support from a broad spectrum of stakeholders from across the UK and overseas. Receiving

12. HM Government, 2014. Elliott Review into the Integrity and Assurance of Food Supply Networks – Final Report. A National Food Crime Prevention Framework. <https://www.gov.uk/government/publications/elliott-review-into-the-integrity-and-assurance-of-food-supply-networks-final-report>

13. Food Standards Agency and Food Standards Scotland, 2016. Food Crime Annual Strategy Assessment. A 2016 Baseline. <https://www.food.gov.uk/sites/default/files/fsa-food-crime-assessment-2016.pdf>

assistance from its partners and supporters in the private and voluntary sectors will enable the NFCU to do more ground-breaking work than would be possible on its own.

The commitment of partners and supporters to tackling food crime will mean that the NFCU can embed a truly holistic approach into its operating model involving the sharing of skills across sectors, expertise and information. The support the NFCU anticipates receiving will take many forms and will grow organically to meet the ever-changing nature of food crime.

How we can work together

The NFCU wants any information that industry partners might hold in relation to suspected dishonesty within the food supply chain. The information will help it to identify and disrupt food criminality and take appropriate action.

As part of its efforts to disrupt criminality, the NFCU also wants to be able to engage with industry for their expertise and insight into the supply chains under investigation. This will ensure that NFCU actions are well informed and appropriate.

The Unit wants to identify and tackle specific issues of food crime, and also wants to use the information to gain a greater understanding about the circumstance that make offending possible. This will support the production of future iterations of the FCASA, which can then be used to direct the operational focus of the NFCU and identify areas where it can work with industry to design out fraud opportunity.

The information shared with the unit will also be used to produce regular quarterly bulletins which will be shared with industry as appropriate, helping to raise awareness and increase the understanding of the threat from food crime in order to inform industry resilience planning.

How the unit will protect your information

Information can be shared lawfully with the NFCU under the Data Protection Act 1998, as long as the information is for:

- The prevention or detection of crime, or
- The apprehension or prosecution of offenders, and
- A failure to share might respectively prejudice these matters.

The NFCU may be subject to a legal obligation to disclose information in certain circumstances, for example where it receives a request under access to information legislation (primarily the Freedom of Information Act 2000 (FOIA), Environmental Information Regulations 2004 (EIRs) and the Data Protection Act 1998 (DPA)).

Any such request will be dealt with on a case by case basis. The NFCU is committed to strenuously protecting all sensitive information, and if an exemption is applicable it will take the appropriate steps to protect the information from disclosure. This may include, but is not limited to, applying the following exemptions from disclosure contained in relevant law where they appear appropriate and it is in the public interest to do so:

- Section 31 of the FoIA, which provides for an exemption where disclosure would, or would be likely to, prejudice the prevention or detection of crime, the apprehension or prosecution of offenders, or the administration of justice.
- Section 36(2)(c) of the FoIA, which provides an exemption where the disclosure either would, or would be likely to, prejudice the effective conduct of public affairs.
- Section 41 of the FoIA, which allows the FSA to withhold information provided to it in confidence if its disclosure would constitute an actionable breach of confidence owed by the FSA to the individual or body who shared that information with the FSA.
- Section 43 of the FoIA, which provides an exemption from releasing, for example, sampling or supply-chain information if its release would, or would be likely to, prejudice the commercial interests of any person - not just the person who supplied it to the FSA.

In cases where it is deemed appropriate to release the information, the originator of that information will always be consulted as soon as is possible about the appropriateness of disclosing information. The points above do not change the legal obligation on food and drink businesses to disclose safety issues which could adversely affect consumers' health.

Detecting and addressing fraud: the role of the Scottish Food Crime and Incidents Unit

Food Standards Scotland established the Scottish Food Crime and Incidents Unit (SFCIU) in October 2015. The purpose of the Unit is to provide leadership in the prevention, investigation, disruption and enforcement of food crime and in the management of food safety incidents nationally for Scotland.

The SFCIU works with key partners to proactively develop intelligence aimed at identifying serious threats faced in Scotland as a result of food crime and in taking the appropriate action to combat those threats. In that regard the Unit will:

- Develop an intelligence and information sharing landscape to facilitate sharing of intelligence and evidence packages with key partner agencies.
- Lead investigations when merited by the complexity or seriousness of the criminality; co-ordinate partnership activity to achieve the most effective response in relation to threat, risk and harm, particularly where food crime transcends local authority boundaries; and support partners through access to subject matter expertise and specialist resources.
- Work with key partners to disrupt food crime and, where possible as a Specialist Reporting Agency, submit prosecution reports directly to the Crown Office and Procurator Fiscal Service.
- Play a leading role in establishing standards for the criminal investigation of food crime in Scotland.
- Provide guidance to regulators on the criminal offences that they may encounter.
- Assist in establishing standards for the criminal investigation of food crime in Scotland, for example, SFCIU has provided specialist investigators training to its own staff and local authority staff.
- Identify and resolve capability gaps.

Industry partners and their importance in tackling food crime

The SFCIU supports the need for a collaborative approach with industry partners to tackle food crime. Collaboration is necessary to fully understand the extent of food crime, establish emerging trends and risks, support the food and drink sector protect the integrity of premium brands, and ensure consumer safety.

SFCIU has regular meetings with industry groups and has recently established an information sharing agreement with the Food Industry Intelligence Network (FIIN). The agreement will improve understanding about food crime and help reduce the threat posed.

The collection of intelligence about food crime activity from law enforcement and other key partners, and continuous engagement with industry partners, will enable robust confrontation of food crime.

Intelligence collection and its security

SFCIU has a dedicated intelligence unit contained in a secure environment. Intelligence unit staff are vetted by Scottish Government to the highest security levels and are experienced with security classifications and the handling of

sensitive information.

SFCIU partners contribute intelligence related to food crime and associated matters to a secure electronic database managed by SFCIU. The database enables the SFCIU intelligence team to review information from across Scotland and develop actionable intelligence.

SFCIU strictly adheres to the Data Protection Act 1998 and handles all information under its control accordingly. The Unit is subject to the Freedom of Information (Scotland) Act 2000 and will comply with its legal obligations. Where necessary, the SFCIU will seek to protect sensitive information from disclosure.

Engaging with the SFCIU

The Unit welcomes any contact with industry, whether that be to share intelligence or simply wishing to have a general discussion about food crime and associated issues. The Unit works office hours between Monday and Friday and can be contacted at: 01224 288364; or email at foodcrime@fss.scot

SFCIU, in partnership with Crimestoppers, has a dedicated Scottish Food Crime Hotline to encourage members of the public and industry whistleblowers to report anonymously any suspicions of food crime. The hotline number (0800 028 7926) is operational 24 hours a day, seven days a week. There is also an option to report concerns via a [non-traceable online form](#).

Detecting and addressing fraud: the role of the UK Intellectual Property Office Intelligence Hub

An intelligence function within the UK's Intellectual Property Rights Granting department

The UK Intellectual Property Office is the operating name of the Patent Office. The rights granting and management relates to patents, designs, trademarks and copyrights. The IPO's Intellectual Enforcement Strategy 2016 – 2020 includes core strategic ambitions to ensure that:

- UK businesses, including small businesses, are more confident in operating internationally as a result of better intellectual property protection globally.
- Rights owners and rights users have access to proportionate and effective mechanisms to resolve disputes and tackle intellectual property infringement.
- Consumers and users are educated to the benefits of respecting intellectual property rights, and respect those rights.

The IPO Intelligence Hub was formed to provide a link between rights holders and law enforcement where criminal infringement relating to trademarks or copyright is identified. The Intelligence Hub has experience of working with partners in industry, government and law enforcement to resolve issues of food crime and has been part of the UK's response to the Interpol initiated OPSON fake and substandard food operation. In recent years they have been partnered by NFCU on the OPSON operation. The IPO also has a financial investigation capability and can target criminal assets when necessary.

Although food related issues form a relatively small part of the Intelligence Hub's work there is a close working relationship with NFCU and SFCIU to share data and develop intelligence as appropriate. In relation to counterfeit foodstuffs the IPO's Intelligence Hub performs similar functions to NFCU and SFCIU in terms of evidence and intelligence gathering and assessment. The IPO policy teams also have responsibility for food products where the geographical indices can be applied.

How do I engage with the Intelligence Hub?

The previous sections about the NFCU and SFCIU's willingness and ability to work with industry, and the management of intelligence apply equally to the working practices of the IPO's Intelligence Hub. The team work in a secure unit based at the IPO's Newport office in south Wales.

For any enquiries contact the Intelligence Hub using the secure e-mail address ipintel@ipo.gsi.gov.uk or the telephone number 01633 814303.

4. The modern strategic approach to counter fraud

Counter fraud is an established profession, accredited in the UK by the Counter Fraud Professional Accreditation Board. Over the last decade the profession has established good practice principles that can be applied to strengthen any business' fraud resilience.

The basis of the approach

Good counter fraud practice treats fraud as a business risk like any other. Good practice involves assessing the financial cost of fraud and determining the financial benefits of reducing its cost.

Considering fraud in terms of a cost that can be managed turns it from a threat to something that can reduce costs, improve profitability and enhance competitive advantage. Defining an organisation's financial cost of fraud, the cost of interventions to reduce the cost, and the expected financial returns provides a rational basis for investment decisions to address fraud. It also provides a degree of equivalency with other business decisions.

Counter fraud good practice requires an assessment of the nature and extent of fraud affecting an organisation. This is a fundamental step as it provides the evidence for the type of frauds affecting an organisation and the impact of each type. Traditional approaches, especially in food and drink businesses, often commence by focusing on products or commodities where there are known issues. It is understandable that businesses want to start with known issues but this approach can lead to significant oversights about other potentially significant frauds affecting the organisation.

Research shows that the largest part of the fraud cost affecting businesses relates to high volume, low value rather than low volume, high value fraud. Individual low value frauds may appear insignificant and unworthy of extensive prevention efforts. It can also seem disproportionate to investigate a low value fraud. However, assessing the nature and extent of fraud affecting an organisation may reveal, for example, that aggregate low value frauds add up to the greatest cost. This information is vital at the outset of efforts to improve fraud resilience. Without such information it is impossible to allocate counter fraud resources efficiently and effectively. The large, high value cases which are sometimes reported in the media are reported on precisely because they are unusual. Establishing the mix of frauds affecting an organisation enables a better understanding of how to address the problem.

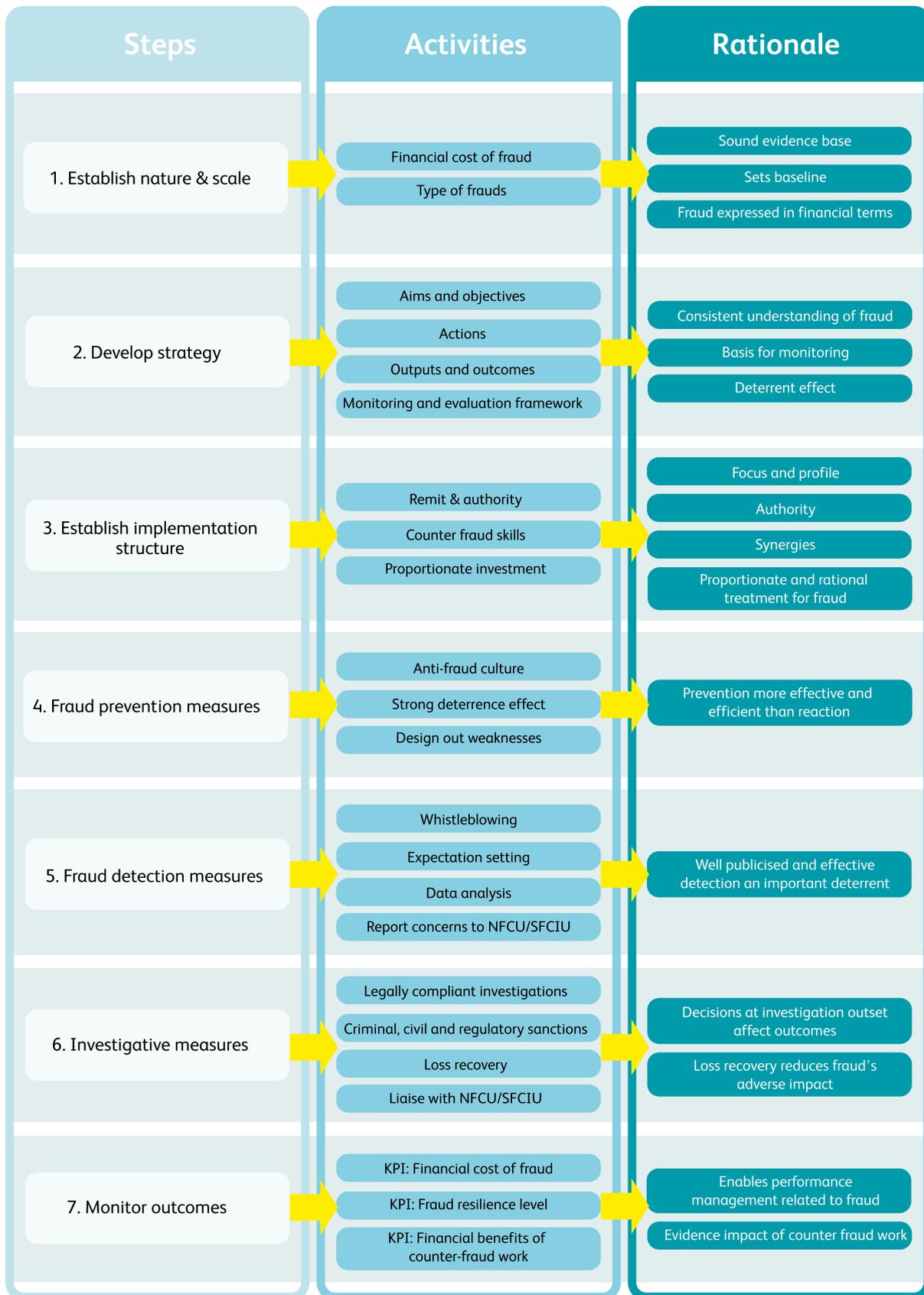
Counter fraud good practice involves a proactive approach to improve general fraud resilience. A proactive approach is a more effective use of resources than attempting to detect and deal with fraud when it does occur. Detected fraud typically represents a small proportion of the fraud that is actually taking place. Global research¹⁴ suggests that, even in the best performing organisations, detected fraud can represent as little as one-thirtieth of its total cost. Low levels of detection do not mean that processes to detect fraud are weak. Detection is low because, by definition, fraud is something that is kept hidden and concealed.

Fraud takes place because a dishonest minority exploit process and systems vulnerabilities. Good practice involves reducing the number of opportunities the dishonest minority can exploit. Organisations of any size will always be affected by fraud, but the extent to which this is the case will vary according to what efforts are made to tackle it. If counter fraud efforts focus on detection and not correcting the flaw in the system that gave rise to fraud occurring, others will still be able to take advantage of that vulnerability at a later date. The focus of counter fraud activities should include analysing processes and systems which allow fraud to take place, and on removing the vulnerabilities in a systematic and prioritised way.

Figure 1 (overleaf) provides an overview of the seven steps of counter fraud good practice. The next section describes each step in detail.

14. Button et al., 2012. Fraud and Punishment: Enhancing Deterrence Through More Effective Sanctions. Centre for Counter Fraud Studies, University of Portsmouth.

Figure 1: A summary of counter fraud good practice



5. Counter fraud good practice for food and drink businesses

This section describes how counter fraud good practice can be applied by food and drink businesses to improve fraud resilience. The seven steps are based on established good practice which has been refined for application by food and drink businesses.

Experience from the counter fraud profession suggests that fraudsters do not typically specialise in one type of fraud or focus on one sector in particular. They are opportunists that strike where ever fraud vulnerability presents itself. The principles of counter fraud good practice improve fraud resilience to all types of fraud. In addition to the classic description of 'food fraud' with respect to product integrity and/or provenance, the guide covers all types of fraud that may affect food businesses. Examples include payroll fraud¹⁵, European distribution fraud¹⁶ and long- and short-firm fraud¹⁷.

Step 1: Establish the nature and scale of the problem

The first step involves organisations establishing the nature and extent of the fraud 'problem' through a Fraud Loss Measurement¹⁸ exercise. It is important to start with an assessment of the evidence rather than starting with suspected issues. Assessing the evidence provides a solid basis for a subsequent cost benefit analysis about the greatest return on investment for the business. Focusing on known issues could result in larger unknown issues being missed and a disproportionate level of resources allocated to what may be relatively minor issues.

The assessment should produce evidence about the nature of fraud affecting the organisation, that is, the type of fraud, where it is occurring and how, and also the extent of the fraud, that is the volume and financial cost. Determining the nature and extent of fraud will provide the diagnosis necessary to identify the most effective remedy. There are several ways to do so, ranging from fraud loss measurement exercises that have different levels of accuracy and statistical validity (and thus vary in cost), through to indicative losses figures derived from assessments of organisations' fraud resilience.

Fraud Loss Measurement measures the actual financial cost of fraud. The result is derived from examining a

representative sample of items of expenditure in terms of information and evidence demonstrating correctness, error and fraud. Fraud Loss Measurement is accurate and statistically valid. It can be undertaken centrally with minimal disruption to business as usual. Much of the work can be undertaken by staff following a short period of training, complemented by specialist expertise at certain stages.

Fraud Loss Measurement starts with a statistically valid, representative sample of payments or cases which are examined in detail. A larger sample will provide more accurate results with higher levels of statistical confidence. Good practice is a sample sufficient for accuracy of plus or minus 1 per cent and a 95 per cent level of statistical confidence.

Each payment/case in the sample is evaluated to determine the presence of fraud and error. Errors are excluded from the final estimation of the financial cost of fraud. Businesses which have not previously measured fraud losses accurately typically find fraud present in 4.5 per cent of cases examined.

Fraud loss measurement is distinct from a 'risk assessment' as the latter identifies the likelihood and potential consequence of a fraud occurring with respect to existing controls. Risk assessment is based on the assessors' opinion and does not quantify the level of fraud that may actually be present. The distinction is especially important in the context of food and drink technical teams that typically have comprehensive experience of risk assessment for food safety issues but often minimal experience in fraud loss measurement.

Step 2: Develop a strategy

Once the nature and extent of fraud has been defined, the next step is to develop and make public a clear strategy describing the aims and objectives, intended action, and deliverable outcomes of work to tackle fraud. The development of a strategy can be phased to provide time for an organisation to adapt to new processes and procedures. The importance of focusing on outcomes cannot be overstated. Outcomes are crucial to provide the evidence on the effectiveness of counter fraud work and

15. Payroll fraud is the theft of cash from a business via the payroll processing system. <http://www.accountingtools.com/payroll-fraud>

16. European distribution fraud happens when a European manufacturer or supplier is contacted by a fraudster claiming to be a well-known UK company and places a large order of goods. These goods are sent to the UK where they are picked up by criminals and never paid for. The reverse can happen too, a UK manufacturer or supplier can be defrauded by a European fraudster. <http://www.actionfraud.police.uk/fraud-az-edf>

17. Long- and short-firm fraud is when criminals set up what's an apparently legitimate business, but with the intention of defrauding both its suppliers and customers. http://www.actionfraud.police.uk/fraud_protection/long_term_and_short_term_fraud

18. CCFS, 2010. Fraud Loss Measurement. A short guide to the methodology and approach.

the value to the business of investing to improve fraud resilience.

The strategy should be communicated extensively to employees, suppliers, agents, contractors and others. Demonstrating that the organisation has a plan in place to identify and uncover fraud will act as a significant deterrent to fraudsters. The information included in the strategy should be sufficient to communicate that there is an effective counter fraud strategy in place, but should not include information that could potentially aid fraudsters.

The sections which should be included in the strategy are described below.

The aims and objectives of counter fraud work

The strategy should include the broad aim and specific objectives of the counter fraud work, that is, what is being done and why. The aims and objectives are important as they set the context and direction of the work and provide a framework against which success or failure can be assessed. Aims and objectives should be SMART (**S**pecific, **M**easurable, **A**chievable, **R**elevant, **T**ime bound).

The strategy is an important communication document and should describe the seriousness of fraud, how it impacts the organisation, its employees, suppliers and customers, the potential benefits of tackling it effectively, and the responsibility of everyone to work together to pre-empt fraud. Describing each point will help engage employees and turn fraud from an abstract concept into something that everyone has a stake in addressing.

The counter fraud actions which will be undertaken

The strategy should describe how the organisation plans to strengthen fraud resilience. Describing the specific actions and who/what department is responsible enables employees to understand what the organisation is doing to address fraud. Publicising the actions will act as a deterrent to fraudsters considering targeting the organisation.

The actions should be described in a manner that communicates the importance of counter fraud work and helps to mobilise support. The actions themselves should reflect what is known about the nature and extent of fraud obtained in Step 1.

The expected outputs and outcomes

It is important to describe the expected outputs and outcomes of the strategy. Outputs and outcomes coherent with wider organisational objectives helps employees and wider stakeholders understand the benefits of improving fraud resilience. Focusing on outputs and outcomes ensures the strategy is a means to an end rather than an end in itself.

Outputs could include, for example, completing the assessment of the nature and extent of fraud affecting the organisation and calculating the financial cost of fraud to the organisation. Outcomes could include reducing the financial cost of fraud by 5 per cent a year for three years, and/or reducing the frequency of procurement fraud incidents.

The monitoring and evaluation framework

The strategy should include details about how implementation will be monitored and evaluated. This could include for example, the reporting process and responsibilities to ensure counter fraud actions are undertaken, the expected date by which actions will be complete, the data that will be used to determine whether actions have achieved the intended output and outcomes, how the data will be compiled, by who, and how it will be analysed.

Providing a framework for assessing the value of particular courses of action will strengthen analysis about the costs and benefits of improving fraud resilience. Assuming that the investment in counter fraud leads to a reduction in the financial cost of fraud, which the evidence suggests is likely, it is important to have a monitoring and evaluation framework to evidence the financial benefits of the investment. A strong financial benefit will help to unlock funding for additional counter fraud work.

Step 3: Establish an implementation structure

Having sought to know as much as possible about the nature and scale of the problem and then having designed a counter fraud strategy to address it, the next step is to put in place an organisational structure with the remit, authority, skills and resources necessary to implement the strategy effectively.

Define the remit and authority

The remit of those tasked with countering fraud needs to be clear and comprehensive. Counter fraud responsibilities should be centralised rather than divided between an organisation's units/teams. The issue needs a focus and a profile, both of which are harder to achieve if different groups are each undertaking different aspects of the work. Splitting counter fraud responsibilities also means that it is much more difficult to create synergy between different aspects of the work or to achieve the optimum return on costs.

Countering fraud is not an easy task and not just because of the need to deal with fraudsters. It can be difficult to change processes and systems to prevent fraud reoccurring. Sometimes the systems and processes will have been

developed over many years (although often without any specialist counter fraud input). Counter fraud staff need clear authority from senior levels of the organisation to secure the necessary changes. There should be a reporting line to a senior executive member of the board to ensure counter fraud teams have the mandate to make the appropriate changes.

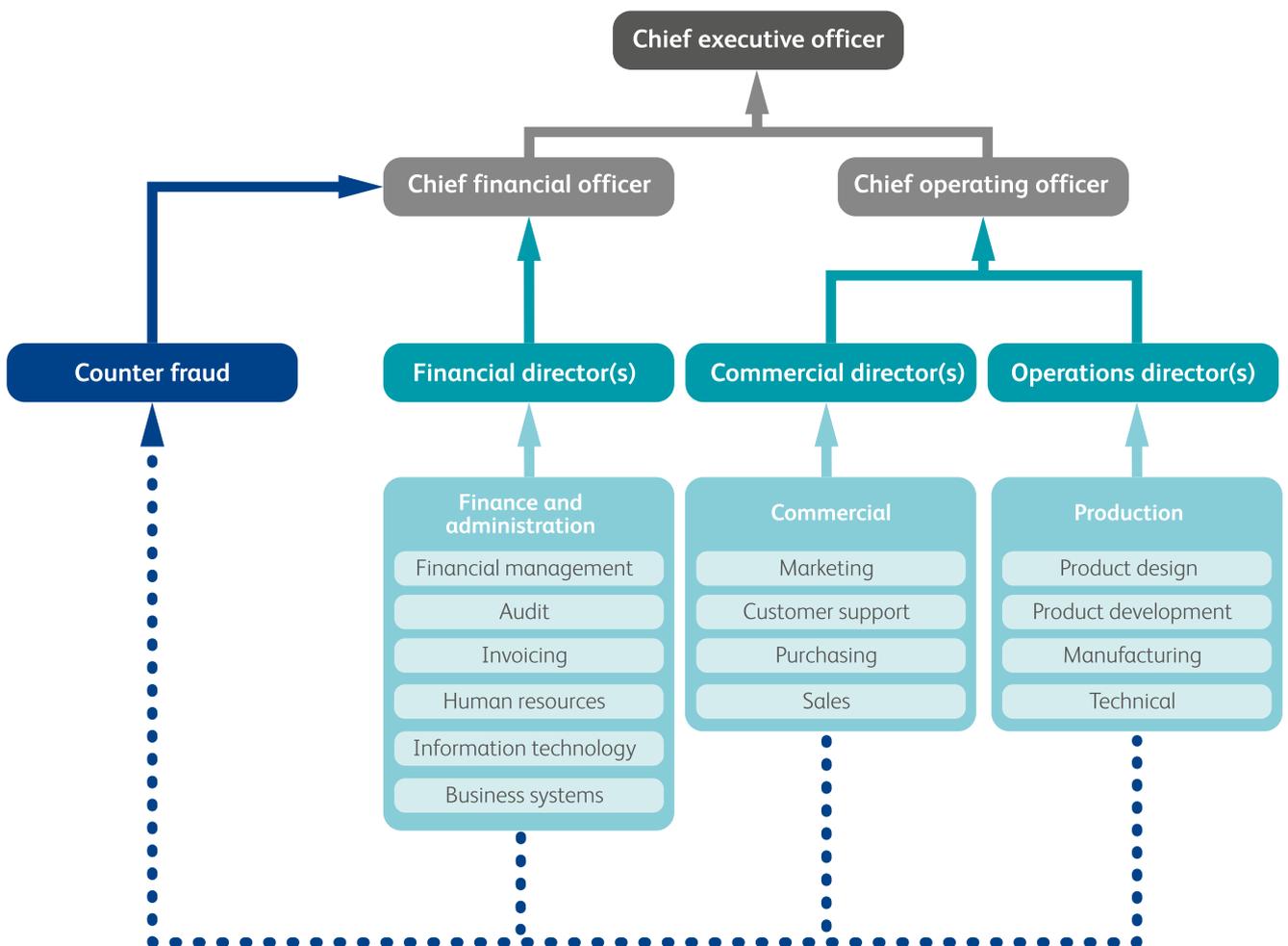
Ensure professional counter fraud skills are available

Counter fraud work should be undertaken under the guidance of qualified and experienced counter fraud professionals. Counter fraud is a recognised and accredited

profession with the knowledge and expertise necessary to improve fraud resilience.

There are over 14,000 counter fraud specialists trained and accredited at foundation, diploma, degree, and masters levels. The accreditation provides an assurance that its holder has the necessary technical skills and ethical understanding to undertake the work to a satisfactory standard. Training courses are widely accessible and have been delivered across UK devolved administrations¹⁹. In some cases it may be beneficial to obtain guidance and advice from specialist external experts.

Figure 2: Counter fraud should be independent of other business units and should have sufficient authority to mandate change



19. See the Counter Fraud Professional Accreditation Board for details of qualifications and training courses. <http://www.port.ac.uk/centre-for-counter-fraud-studies/counter-fraud-professional-accreditation-board/>

Invest proportionately in counter fraud work

Determining how much to invest in counter fraud work should be informed by an assessment of:

- The nature and scale of fraud.
- The financial cost of fraud to the organisation.
- The extent to which the organisation is already fraud resilient.

Fraud is a business cost and should be managed like any other business cost, proportionately and rationally. Assessing each point above provides a solid foundation for calculating the expected financial return for improving fraud resilience. That is, the assessment indicates the scale of the problem and provides the basis for deciding on the amount of resources which should be allocated to address the problem.

Step 4: Design and implement fraud prevention measures

Once the counter fraud structure is in place work can begin to strengthen fraud resilience. Food businesses should undertake proactive counter fraud exercises that look for fraud and fraud vulnerabilities rather than waiting for it to be detected and reported. Fraud is more likely where processes or systems are known to be weak. Proactive counter fraud exercises should first focus on the weakest processes and/or systems. Close liaison between counter fraud specialists and those responsible for the audit function can be very helpful in this respect.

Develop an anti-fraud culture

The right tone from the top, in the context of effective governance arrangements, sends a clear message about what is acceptable and what is unacceptable. Many different issues compete for time and attention in any organisation, however, in respect of fraud, the right messages from leadership levels can have a major impact.

When strengthening anti-fraud cultures, particular messages have been found to resonate with the honest majority:

- The professional and ethical nature of counter fraud work.
- The importance of protecting the consumer from food fraud.
- The importance of protecting the organisation, its reputation and its resources against fraud.
- The potential financial benefits of reducing the cost of

fraud and what this would mean in terms of improved revenues, cheaper prices and greater job security for everyone in the supply chain.

It is important to avoid using language that is opaque, technical, or panders to stereotypes about those undertaking counter fraud, for example, 'cracking down', 'fraud-busters' etc. Such language reduces the seriousness of the work and makes it harder for some to support it.

The development of an organisation's anti-fraud culture should be assessed and tracked. Doing so is relatively simple, two factors are key:

1. The extent to which those concerned acknowledge that they have a responsibility to protect the organisation (and by wider definition, the consumer) against fraud.
2. The extent to which those concerned understand how their responsibility is exercised.

Many organisations regularly survey their staff about a variety of issues. Adding questions about the anti-fraud culture can provide important information about the effectiveness of efforts to change attitudes about counter fraud.

Create a strong deterrence effect

Developing a strong anti-fraud culture involves communicating messages to mobilise the honest majority. Creating a strong deterrent effect involves communicating different messages to the dishonest minority.

Prospective fraudsters make an assessment, their own 'risk assessment', about possible gains to be made from perpetrating fraud versus the risks that they might face such as getting caught and/or potential social criticism from peers. Rationalisation is a key element of the fraudster's decision-making process. Taking the first dishonest step is easier if fraudsters can justify their actions in their own mind. A strong culture that stresses fraud is never be acceptable, whatever the circumstances and even if there is no potential harm to the consumer, is a very good deterrent.

Factors influencing deterrence include:

- The strength of peer group pressure that fraud is unacceptable.
- The perceived strength of arrangements to prevent fraud.
- The perceived likelihood of fraud being detected.
- The perceived likelihood of a professional investigation uncovering evidence of how the fraud was perpetrated.

- Considerations of the likelihood that proportionate sanctions will be applied, by the courts, business and the regulator, if they are sought.
- The extent to which it is thought likely that the food business will recover its losses.

Each factor is important to deter fraud. The relative importance of each depends on whether the prospective fraudster understands the extent of the risks they face. For example, if the fraudster understands the nature and strength of arrangements to prevent fraud he is less likely to undertake the fraudulent activity. If the factors are not publicised, then the fraudster will not be made to understand the risks that he or she faces and may attempt to undertake the fraud.

The impact of deterrence can also be reviewed by considering changes in human behaviour after instances of fraud are publicised²⁰. Sometimes, depending on the extent and nature of the publicity, major changes have taken place in the short term, only for the position to revert over time. Where deterrence has had an impact, it is important to consolidate it with further publicity.

Reduce the fraud opportunity

Once the nature and extent of fraud is defined, a systematic review of systems, processes and contracts should be undertaken to identify potential vulnerabilities. Vulnerabilities that enable fraud should be designed out of processes, systems and contracts. The review should be prioritised to reflect the nature and extent of fraud affecting the business.

Staff undertaking counter fraud work should be involved in the systematic review and the redesign of existing, and design of new, processes and/or systems. Ensuring that at least some staff have the appropriate counter fraud skills and expertise will aid the development of fraud resilient processes and systems.

There should be a link between investigative work and work to redesign processes and/or systems. It is important that information about processes and/or system vulnerabilities are included in investigation reports to ensure that similar frauds cannot be repeated. A register of processes and/or system vulnerabilities, linked to prioritised actions for resolving the vulnerabilities, should be established to provide a record of issues and related actions. Audit work should be targeted to areas where vulnerabilities are identified.

Step 5: Design and implement fraud detection measures

In addition to proactive counter fraud exercises, effective detection is an important deterrent. Well-functioning and well-publicised fraud detection processes reduce the attractiveness of an organisation to fraudsters.

There are several ways to maximise the likelihood of fraud being detected but the nature of fraud is about hiding the truth and concealment, and food and drink businesses should expect that some fraud will remain undetected. Wherever research has been undertaken, it shows that the value of undetected fraud typically far exceeds the value of what has been detected. The objective of counter fraud work should be to reduce the financial cost of fraud to the point where the marginal cost of further reduction exceeds the financial (and reputational) return from doing so.

The techniques below are useful to detect fraud and should be implemented by food and drink businesses as a minimum. More comprehensive detection methods should be tailored to suit individual businesses.

Data analysis

Data analysis can help to reveal anomalies which may represent fraud but care is required as the quality of analytical outputs depends on the quality of the data inputs. Data analytic exercises will produce a list of issues requiring further investigation, and working through the list will take time and resources. It is important that the prioritisation reflects the outputs of the initial exercise to define the nature and extent of fraud affecting the organisation. Failure to prioritise coherently could provide fraudsters with sufficient time to undertake financially costly frauds.

Expectation setting

Food businesses should ensure expectations of staff, agents and contractors about speaking-up and reporting concerns are explicit and well-publicised. Arrangements for reporting fraud or suspected fraud to a designated person should be clearly stated and widely publicised. Detailed records should be kept and processes to react to reported incidents should be rehearsed and quick to deploy.

Whistleblowing

All employing organisations within the food sector should ensure that they have effective whistleblowing arrangements in place, so, for whatever reason, employees who wish to provide information can do so while minimising

20. Button et al., 2012. Fraud and Punishment: Enhancing Deterrence Through More Effective Sanctions. Centre for Counter Fraud Studies, University of Portsmouth.

the risks to themselves and their employment. To increase the deterrent effect the processes should be publicised beyond company boundaries to consumers and along supply chains.

The Public Interest Disclosure Act 1998 (c.23) protects whistleblowers from detrimental treatment by their employer. Under the Act, employees that make disclosures of certain types of information (such as reporting suspicions of illegal activity or damage to the environment) are protected from retribution by their employers, such as dismissal or being passed over for promotion. In cases where such retribution takes place, the employee may bring a case before an employment tribunal that can award compensation.

Whistleblowing arrangements can be internal, involving confidential in-house reporting telephone lines for the provision of information about suspected fraud. They can also be external, for example via the Government's 'Action Fraud' service, the charity Public Concern at Work²¹, the FSA's Food Crime Confidential reporting facility²², and the Scottish Food Crime Hotline²³.

Sharing concerns with NFCU/SCFIU

Implementation of the above measures is likely to lead to the identification of potential food fraud issues. On discovering such issues, concerns affecting businesses or consumers in England, Wales or Northern Ireland should be reported to the NFCU, or to the SCFIU if affecting Scottish equivalents. Information shared will be handled sensitively and securely.

NFCU or SCFIU will be able to provide advice and support if required, and instigate an investigation if proportionate while working alongside the business/es affected. Shared information will inform the NFCU/SCFIU's strategic understanding of food crime issues, potentially facilitating the identification of links between fraud issues affecting food and drink businesses.

Step 6: Design and implement investigative processes

Specialist knowledge and skills are required to conduct an investigation in a way that ensures it will be legally and ethically compliant. Decisions at the outset must be thought

through as it is easy to 'jump in' without considering the potential consequences of an investigator's actions.

Some evidence-gathering techniques will be beyond the scope of the in-house food business investigator and will require the use of an external expert. The in-house investigator should be able to identify situations where crucial evidence may be revealed by the use of an external expert, for example digital evidence, forensic accounting, surveillance and specialist legal tools.

Undertake legally compliant investigations

The purpose of an investigation is to establish truth and it is important that the investigator retains an open mind. There may be an innocent explanation for what looks like fraud. Care is necessary as steps taken at the start of an investigation determine whether the outcome will be successful.

It is important to keep all possible sanction options available at an investigation's outset. It is often the case that the fraud that has been detected will not be the first that has been committed and what has first appeared to have been a minor fraud may be one of many, amounting to a significant loss and requiring a different sanction. Compliance with procedural legislation and best practice is required to ensure that the investigation is conducted in a manner that enables criminal, civil, disciplinary or regulatory action. The investigator should adopt the criminal standard and consider whether the Human Rights Act 1998, the Regulation of Investigatory Powers Act 2000 or the Regulation of Investigatory Powers (Scotland) Act 2000 will apply to the case being examined. The requirements and obligations of the Data Protection Act 1998 will apply to the investigation, although there are exemptions where a criminal investigation is taking place²⁴.

Gathering evidence is a key component of an investigation, whether by collecting documents, securing digital evidence, interviewing witnesses and taking statements, or by interviewing the suspect. Each evidence gathering method requires specialist skills and the investigator should demonstrate best practice, ensuring that the evidence collected is admissible in criminal, civil, disciplinary or regulatory proceedings. The Criminal Procedure and Investigations Act 1996 requires that material collected during the course of an investigation in England & Wales

21. Public Concern at Work is an independent authority which seeks to ensure that concerns about malpractice are properly raised and addressed in the workplace. They can support existing whistleblowing arrangements or help to set up new arrangements from scratch. <http://www.pcaw.co.uk/>

22. The Food Crime Confidential number is 0207 276 8787 or email foodcrime@foodstandards.gsi.gov.uk

23. The Scottish Food Crime Hotline is 0800 028 7926 or a non-traceable online form available [here](#).

24 S.29 provides exemptions where a criminal offence is being considered and s.35 provides similar exemptions where prospective legal proceedings are being prepared.

must be recorded, retained securely and revealed to the prosecutor. Anything that may undermine the prosecution case or assist the defence has to be revealed. All material gathered must be continually reviewed to determine whether this is the case. In Scotland, similar provisions apply under the terms of the Criminal Justice and Licensing (Scotland) Act 2010 and its associated Code of Practice.

Although it is possible in England and Wales to undertake a private prosecution where fraud has occurred, it is preferable that the Crown Prosecution Service (CPS) takes such action. Action by the CPS normally requires police involvement during the course of the investigation. In Scotland, prosecutions are launched by the Crown Office and Procurator Fiscal Service (COPFS). Police involvement brings additional benefits as they have investigative tools and powers outside the scope of a food business investigator, such as powers of search and arrest. It is important that food businesses' fraud investigators develop good working relationships with local police services. Food and drink businesses' fraud investigators should also develop good working relationships with the National Food Crime Unit and the Scottish Food Crime and Incidents Unit. Both units can help food, drink and feed businesses to initiate and develop effective investigations.

Starting a fraud investigation

1. Establish who will undertake the investigation and who they will report to.

This should be described in the organisation's counter fraud strategy.

2. Record initial concerns in a durable and retrievable format.

Note what has been said and by whom to help identify potential witnesses and the location of evidence.

3. Document the investigation's aim and terms of reference.

Review periodically to ensure the investigation progresses as necessary.

4. Establish who knows what and who should be notified of the allegation during the early stages of the investigation.

The number of people that know about the investigation should be as restricted as possible, and it should be made clear that their knowledge should remain confidential.

Seek appropriate criminal, civil and regulatory sanctions

A range of sanctions are available to address uncovered frauds. Which sanction(s) is (are) appropriate depends on the organisation's objective and the nature and extent of the fraud uncovered. This section highlights what is possible

but does not provide detailed information. In the event of a fraud event food and drink businesses should seek specialist professional advice.

Criminal prosecution

There are advantages to pursuing a criminal prosecution. The threat of a criminal prosecution can encourage fraudsters to cooperate and even repay the sums defrauded. Publicising that a criminal prosecution will be pursued in the event of fraud being identified can have a general deterrent effect.

Barriers and disadvantages include:

- The prosecuting body (either the CPS or COPFS) may decide not to pursue a case. To proceed with a case the prosecutor must be satisfied that the tests set-out in their relevant Codes have been passed.
- The complexities of disclosure rules may lead to commercially sensitive information coming into the public domain.
- The delays sometimes involved in criminal investigations.
- The challenges in securing compensation as criminal courts are designed to punish offenders rather than to recover losses.

Private prosecution

A private prosecution can be brought in England or Wales under s.6 of the Prosecution of Offences Act 1985. The advantages of private prosecutions include the possibility of triggering police interest and the recovery of the costs of private prosecution from the State.

The disadvantages and barriers include the same up-front costs of prosecution, the potential reluctance of the prosecuting body and the police, a concern about the quality of such prosecutions and their 'independence', and reluctance by the courts to remand in custody those being prosecuted.

Private Prosecutions are extremely rare in Scotland and require an application to be made to the High Court for a Bill for Criminal Letters. Only two such applications have been successful since 1900.

Civil sanctions

Civil sanctions can be used to pursue fraudsters for losses and damages. Usually the desired outcome is to freeze a defendant's assets to encourage them to negotiate a settlement out of court. There are a range of powerful legal tools that can be used to support this approach.

Benefits of the civil approach include:

- Speed of action.
- A focus on the recovery of financial losses.
- The claimant has good control of the process.
- Flexibility.
- A lower standard of proof to be achieved (balance of probability rather than beyond reasonable doubt).
- It is not necessary to rely on police to gather evidence.
- It is possible to obtain court orders to compel the accused party to:
 - Desist from their actions.
 - Produce documents and other evidence.
 - Deliver-up fraudulent food-stuffs and ingredients for examination.

Barriers and disadvantages include:

- Potentially high costs.
- Likely need for professional advice to navigate complex civil law.
- Civil prosecutions will not result in a criminal record for the fraudster.

Parallel sanctions

It is also possible to pursue parallel sanctions, such as:

- Civil litigation and a criminal prosecution.
- A staff disciplinary process and civil litigation.
- A staff disciplinary process and a criminal prosecution.
- A staff disciplinary process, civil litigation and a criminal prosecution.
- Civil litigation and regulatory sanctions.

The advantages of parallel sanctions include:

- Flexibility to pursue multiple outcomes.
- Publicising a potent deterrence message.

Barriers and disadvantages include:

- The perceived complexity of undertaking multiple processes.
- A desire to rely on 'traditional methods', such as criminal prosecutions.
- A lack of understanding of the interplay between different types of sanctions.
- Police/prosecutor lack of experience of parallel sanctions and reluctance to support multiple processes.

The barriers and disadvantages listed above have been overcome in the United States where there is evidence of much more effective use of parallel sanctions. In some parts of the UK public sector (such as the National Health Service) the consideration of parallel sanctions is legally mandatory. There is a growing trend to pursue parallel sanctions in the private sector and a number of reputable professional services and law firms provide such services²⁵.

Ensure action is taken to recover losses

One of the most significant adverse effects of fraud is financial loss. It is important to recover financial losses when a fraud takes place. There are two main ways of recovering losses, through civil litigation and/or insurance.

When larger sums are involved it may be appropriate to pursue civil litigation to recover losses. Doing so is a simpler and easier process than is often believed. Civil law can be a flexible and powerful weapon, allowing plaintiffs to trace, freeze and recover assets. The costs of civil litigation may not be excessive and should be compared to the value of potentially recovered costs and the additional benefit of taking a firm approach to deter future frauds.

Civil litigation requires accurate quantification of losses to a standard acceptable to the civil court. Loss quantification to such a standard is a specialist area of work but is routinely undertaken by a variety of accountancy firms. Specialist expertise may also be required to assess the level of assets held by the fraudster.

It may be possible to insure against losses incurred due to fraud and food and drink businesses should ensure such

25. Information about appropriate and available fraud sanctions are described in detail in a study, Button et al., 2012. Fraud and Punishment: Enhancing Deterrence Through More Effective Sanctions. Centre for Counter Fraud Studies, University of Portsmouth.

cover is arranged. To ensure recovery from insurers food and drink businesses are required to act to prevent and mitigate losses. In most circumstances, acting to mitigate losses means that adequate fraud prevention measures are in place and that civil litigation is pursued when appropriate. After The Event (ATE) insurance can provide protection for the costs of a fraud investigation and subsequent legal processes. In some cases the premium for the ATE insurance can be recovered from the defendant.

Liaise with NFCU/SCFIU

Both the NFCU and SCFIU exist to detect and disrupt food criminality. Both will be able to assist with and, if proportionate, take the lead in progressing criminal investigations into suspected food fraud.

By engaging with these units at the earliest possible stage advice and support on how to proceed with an investigation can be provided to exploit every avenue of disruption and to secure the best possible end result.

Step 7: Monitor outcomes

Counter fraud good practice requires that counter fraud is performance-managed like any other area of work. There should be clear management information available about its cost and the financial benefits delivered by reducing fraud.

Track and monitor progress in achieving the outcomes stated in the strategy

People focus on activities where performance is measured at the expense of activities where performance is not measured, irrespective of the relative importance of the different activities. Key Performance Indicators (KPIs) influence human behaviour by defining outcomes, driving performance towards the outcomes, and providing clear indications of progress towards outcomes.

The development of KPIs and the calculation of the financial benefits arising from counter fraud work are technical areas. Organisations should seek advice as necessary.

The following KPIs will enable food and drink businesses to measure progress towards fraud resilience:

- **Outcome KPI:** The financial cost of fraud to the organisation.

The KPI's baseline should be set at the outset, informed by an assessment of the nature and extent of fraud affecting the business. Periodic assessment of KPI (the financial cost of fraud, and the types of fraud) enables comparison to the baseline to determine whether

counter fraud activities are effective.

- **Quality KPI:** The organisation's level of fraud resilience.

The baseline level of fraud resilience should be established at the outset by reviewing the vulnerabilities of organisational processes and systems (related to the assessment of the nature and extent of fraud affecting the business). Counter fraud activities should address specific elements contributing to fraud resilience levels, and progress against the baseline monitored regularly.

- **Return on investment KPI:** The financial benefits to the organisation of counter fraud work.

This is the total value of;

- a) Cash recoveries in individual cases of fraud,
- b) The savings from detecting and stopping ongoing frauds before this would have otherwise happened, and,
- c) The measured reduction in the cost of fraud where it is not attempted because of the creation of a strong anti-fraud culture and successful deterrence.

Structured approaches are available to assess the financial benefits of counter fraud work and the return on investment. There are three main areas of financial benefit:

- Measurement and reduction in the aggregate cost of fraud.
- Interventions that curtail a fraud before it would have otherwise ceased.
- Recovery of specific losses.

Food and drink businesses should obtain specialist advice to calculate each financial benefit.

6. Conclusion

There is much that is unique about the food and drink sector, but there is much more that is similar to other sectors. Counter fraud is a well-established profession with good practice proven to improve fraud resilience in a variety of sectors. Counter fraud good practice will help the food and drink industry to improve its fraud resilience and reduce its financial cost of fraud. It provides the framework food and drink businesses need to shift from qualitative, opinion-based assessments of what might happen in the future to evidence based assessments of the actual financial cost of fraud to their organisations.

Counter fraud is new to the food and drink industry and can appear to be a complex and potentially difficult task. This is always the case with new ways of working. They seem difficult until they have been completed. The most important thing to do when considering applying counter fraud good practice is to start. Acquiring and deploying specialist skills makes the process much easier.

The most useful lessons will emerge during actual efforts to apply the seven steps described in this guide. It might take a number of attempts to get right, but without taking the first step it will be impossible to improve and refine the process.

Related organisations

CIEH Food

food.cieh.org/

The Centre for Counter Fraud Studies, University of Portsmouth

www.port.ac.uk/centre-for-counter-fraud-studies

Food Standards Agency

www.food.gov.uk

Food Standards Scotland

www.foodstandards.gov.scot

Intellectual Property Office

www.gov.uk/government/organisations/intellectual-property-office

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Glossary

TERM	DESCRIPTION
Adulterant substance	A fraudulently added component of a finished product.
Business case	A justification for a proposed project or undertaking on the basis of its expected commercial benefit.
Counter fraud	The professional approach to addressing fraud by measuring, pre-empting and reducing its cost as far as possible and reacting to and sanctioning fraudsters where necessary.
Existing controls	Procedures, systems or processes used by an organisation to control risks.
Food crime	Dishonesty relating to the production or supply of food which is either complex or likely to result in serious detriment to consumers, businesses or the overall public interest.
Food fraud	A collective term used to encompass the deliberate and intentional substitution, addition, tampering, or misrepresentation of food, food ingredients, or food packaging; or false or misleading statements made about a product, for economic gain.
Food fraud vulnerability	Susceptibility or exposure to a food fraud risk, which is regarded as a gap or deficiency that could place consumer health at risk if not addressed.
Fraud affecting food and drink businesses	The variety of frauds food and drink businesses are affected by.
Fraud loss measurement	The method used to determine the nature (type) and extent (financial cost) of fraud affecting an organisation.
Fraud resilience	A measure of how well organisations protect themselves against fraud.
Fraud vulnerability	Susceptibility or exposure to a fraud risk.
Risk	The effect of uncertainty on objectives, and an effect is a positive or negative deviation from what is expected.

Appendices

Annex 1: Counter fraud case studies

This annex includes four case studies that describe how counter fraud practice has been used by food and drink businesses to improve their fraud resilience and reduce the financial cost of fraud. The case studies are illustrative, based on real examples which have been changed to protect the identities of the organisations involved.

Each case study describes the issue, how a counter fraud approach was used to diagnose the nature and extent of fraud affecting the organisation, identify the solutions, and the outcomes achieved.

Case study 1: Reducing stock losses via supply and distribution

A supermarket retailer noticed that stock losses had increased 400 per cent over a year. The reason for the increase was unclear. Table 1 sets out how the retailer used a counter fraud approach to diagnose the problem and identify the solutions.

Table 1: Case study 1: Reducing stock losses via supply and distribution

Issue	Diagnosis	Solution	Outcome
<p>Stock losses increased by 400 per cent in 12 months.</p> <p>Identified via a KPI on stock loss.</p> <p>Reason for sudden increase not clear.</p>	<p>Measurement of nature and (type) extent (financial cost) of fraud across business.</p>	<p>Introduction of financial cost of fraud KPI.</p>	<p>Improved management of the financial cost of fraud.</p>
	<p>Majority of stock delivered to the regional distribution centres to correct quality and quantity.</p>	<p>Shift from scanning pallets to scanning each item on pallet to confirm receipt.</p>	<p>Stock losses reverted to normal.</p>
	<p>Some instances of pallets with stock arranged on the edges to mask stock missing from the centre.</p>		<p>Reduction in the financial cost of fraud.</p>
	<p>Stock ordered by stores correctly selected and packed by pickers.</p>	<p>N/A</p>	
	<p>Correct quantity of stock left distribution centres.</p>	<p>N/A</p>	
	<p>Stock losses identified between distribution centres and stores.</p>	<p>Security cameras on lorries tested and upgraded where necessary.</p>	
	<p>Review of lorry GPS records with database of employee home addresses revealed correlation between stoppages and some employees.</p>	<p>Staff informed about periodic review of lorry GPS data for anomalies.</p>	
	<p>Stores reporting delivered stock as non-delivered to maintain low levels of reported wastage.</p>	<p>KPIs adjusted to reduce incentive to mis-report stock wastage as non-delivered stock.</p>	
	<p>KPIs examined to identify incentives driving store manager behaviour.</p>		
	<p>KPI to minimise wastage encouraged store managers to wrongly report wasted stock as non-delivered stock.</p>		

Case study 2: Reducing stock losses due to staff theft

A food manufacturer found that stock counts were not correlating across the business. More stock was being manufactured than was sold to customers, and the losses were higher than would be expected due to production losses. There was no formal system in place to prevent stock theft. Table 2 sets out how the manufacturer used a counter fraud approach to diagnose the problem and identify solutions.

Table 2: Case study 2: Reducing stock losses due to staff theft

Issue	Diagnosis	Solution	Outcome
Large food manufacturer finds that stock counts are not correlating across the business.	Measurement of nature and (type) extent (financial cost) of fraud across business.	Introduction of financial cost of fraud KPI.	Improved management of the financial cost of fraud.
Stock control mechanisms underdeveloped.	Site security cameras poor quality, not working, and not connected to a centralised system	New cameras linked to centralised system.	Stock losses reverted to normal.
Reliance on staff honesty and no routine checks in place.	Random checks find 'surprising' amounts of stock in staff cars leaving car park. No evidence of receipts from company shop.	Requirement introduced for company shop to issue receipts for every transaction. Routine monitoring of stock volumes sold through company shop and review of shop receipts and revenue. Random checks implemented of staff cars leaving the car park.	Reduction in the financial cost of fraud.
	Review of manufacturing processes identifies several weak points where vulnerability to theft by staff is higher.	Change of staff compensation to link stock losses to remuneration. Introduction of independent and anonymous whistleblowing hotline.	

Case study 3: Counter Fraud to cut through complexity

A supermarket retailer's technical director wanted to improve the organisations fraud resilience. The food safety/quality technical team decided to use horizon scanning to inform the prioritisation of testing resources and sourcing decisions. An initial trial revealed that the results of the horizon scanning were unsuitable to identify fraud vulnerabilities. The technical team were of the opinion that would be difficult to interpret the relative likelihood and consequence of the identified threats and opportunities, and because of this, it would be difficult to use horizon scanning to identify the organisation's fraud vulnerabilities. The technical director was not able to prove that the investment necessary for horizon scanning would deliver specific and measurable benefits to the business.

A different approach was sought. The technical director wanted to establish the current nature and extent of fraud affecting the business, and then invest to improve fraud resilience. Table 3 sets out how the technical director applied counter fraud principles to diagnose the nature and extent of fraud affecting the business, decide on the measures necessary to improve fraud resilience, and monitor progress in terms of the financial cost of fraud.

Table 3: Case study 3: Counter Fraud to cut through complexity

Issue	Diagnosis	Solution	Outcome
Supermarket retailer wants to improve fraud resilience but complexity of supply networks is preventing progress.	Measurement of nature and (type) extent (financial cost) of fraud in procurement spend. Representative sample across all food procurement spend over a 6 month period.	Introduction of financial cost of fraud KPI.	Improved management of the financial cost of fraud.
Large volume of procured products, and product's complex supply networks, increases resource necessary for horizon scanning.	Issues identified in fish products related to species substitution. Financial cost of fraud is approximately £500,000 a year (i.e. retailer overpaying by £500,000).	Review and change of incentives for category buyers.	Reduction in the financial cost of fraud.
Recognised difficulty of using horizon scanning information to inform operational decisions that improve fraud resilience.		Closer working between technical and procurement teams to foster closer relationships.	Increase in fraud resilience.
		Species testing programme for problem products.	Deterrent effect for potential future frauds.
		Termination of contract with supplier.	Additional resources available to technical team.
		Civil legal action to recover losses and act as a deterrent.	

Case study 4: Addressing on-line sales of counterfeit products

A fast-moving consumer goods (FMCG) business has identified that counterfeits of its branded products are available for sale online via closed social media groups. The business has established a process to monitor the online market in the counterfeit goods. Over recent years the business found that its retained private investigators could not adequately address the shift to online distribution and sale of counterfeit products via closed social media groups. Table 4 sets out how the counter fraud professional helped the business update its system to reflect the shift to online.

Table 4: Case study 4: Addressing on-line sales of counterfeit products

Issue	Diagnosis	Solution	Outcome
FMCG business finds that counterfeits of its branded products are available for online sale in the UK.	Measurement of nature and (type) extent (financial cost) of fraud across business.	Estimation of cost of counterfeit products to the business (in terms of lost sales).	Increase in the business' fraud resilience and a reduction in its financial cost of fraud.
Brand protection risk related to consumer safety concerns.	FMCG business commissions fraud investigator to identify social media groups selling counterfeit product, its source, and whether brand protection features on packaging are sufficiently robust.	System established to monitor illicit social media groups and gather intelligence to enhance brand protection.	Reduction in the volume of counterfeit branded products available for sale in the UK.
Brand protection risk related to quality of counterfeit product.	Investigator gains access to closed groups on social media where counterfeit product is being sold.	Investigator monitors group for intelligence on the source of counterfeit products. Investigator builds evidence presents to enforcement authority.	Reduction in the volume of counterfeit branded products manufactured in Europe.
	Investigator researches on dark web to identify criminal networks selling product across Europe.	Investigator shares intelligence with enforcement authorities in Europe to disrupt manufacturer of counterfeit product.	
	Investigator monitors dark web to identify whether brand protection packaging features likely to be copied successfully.	Investigator identifies chat rooms dedicated to discussions about how to overcome packaging brand protection features.	

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15Hatfields, London SE1 8DJ
food.cieh.org