



Food and drink fraud

What consumers expect

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Audit / Tax / Advisory / Risk

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Food and drink 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's interest. 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. Since 2013 numerous, albeit smaller, fraud-related incidents affecting food and drink businesses have been reported in the media.

Since the 2013 horsemeat incident, the food and drink industry's response to assessing and managing fraud has changed. There is a general acceptance that it is no longer 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 an organisation, not just known fraud issues related to products or ingredients. There has been a steady evolution, from relying primarily on testing and audit to a greater emphasis on comprehensive steps to strengthen organisations' fraud resilience.

Crowe UK commissioned research agency Ipsos Mori to establish consumer expectations with respect to food and drink businesses' approach to counter fraud. The findings presented here suggest that, despite the progress made by the industry, consumers expect more transparency from the businesses they trust to provide their food.



Sharing information with the authorities

Consumer perceptions of the food and drink industry suggest there is a divergence between current practice and what consumers expect food and drink businesses to do. Consumer expectations are reasonable and would, if adopted by the industry, contribute towards strengthening the fraud resilience of the UK food and drink industry. Aligning industry practice with consumer expectations will help to improve transparency of the food and drink industry with respect to fraud, and by doing so increase consumer trust.

In which situations should businesses share information about fraud incidents?

The response to our survey reveals widespread support among the public for food and drink businesses to share information about fraud incidents with the Scottish Food Crime and Incidents Unit/National Food Crime Unit. In addition to when there could be a health impact, consumers expect food and drink businesses to share information about fraud incidents that may result in financial losses. Consumers appreciate the financial nature of the offence and understand that it is not limited to issues with potentially negative health impacts.

The majority of people in the UK (64%) expect food and drink businesses to share information with the Scottish Food Crime and Incidents Unit/National Food Crime Unit when the incident may cause a health risk. Almost half (49%) expect food and drink businesses to share information with the regulators when the incident may cause a financial loss to a customer or other member of the public.

Over a third (35%) expect food and drink businesses to share information about fraud incidents that may cause a financial loss to the business affected, and also when the incident may cause a financial loss to another business.

When should businesses share information about fraud incidents?

Many consumers expect food and drink businesses to share information with the regulators about fraud incidents as soon as a suspicion is confirmed with one piece of reliable evidence. That is, before an incident is confirmed. Fraud is complicated and requires professional investigation to be confirmed. Waiting until for confirmation means fewer examples/incidents will be shared with authorities. Prompt reporting by food and drink businesses would increase the amount of intelligence shared with authorities, which would increase the amount of intelligence the authorities have to share with industry. Everyone benefits from prompt reporting, everyone except the fraudsters.

Food and drink products are consumable and perishable, meaning that evidence connected to a fraud is often gone by the time it is detected, and almost certainly before it is investigated and confirmed. Regular and prompt sharing of information by industry would provide useful and actionable intelligence for authorities, increase the amount of intelligence shared by the authorities with to industry, enhance consumer protection, and also better meet consumer expectations.



Consumers expect food and drink businesses to share information about fraud incidents that may cause:

49%

financial losses to a
customer or other
members of the public

35%

financial loss to
another business

35%

financial loss to the
defrauded business

The public expects that food and drink businesses act more promptly for frauds that could cause a health risk, with 42% of consumers expecting businesses to share information with the

regulators as soon as they have a suspicion of fraud. That is, before they have any supporting evidence and long in advance of confirming whether a fraud has occurred.

How much information should businesses share about fraud incidents?

Current arrangements to share information between the food and drink industry and authorities about fraud are not in line with consumer expectations. In many cases the information shared by industry groups typically includes reference to the commodity affected, the type of fraud, and in some cases the supply chains affected. The shared information is 'cleaned' to strip out anything that could identify a specific company and/or particular food product.

Our research shows that consumers expect food and drink businesses to be much more transparent and, in the majority cases, share all available information with authorities. This means that businesses would share information about the product, organisations, and individuals involved.

As the response to the previous question suggests, consumers expect that businesses do not wait until a fraud has been confirmed for this information to be shared. A significant proportion of consumers expect that businesses share this information with regulators, as soon as a suspicion is confirmed with one piece of reliable evidence.

The majority of consumers expect that food and drink businesses should share all available information with regulators about most fraud incidents.

This includes incidents that cause:



55%

a direct
financial loss



58%

a financial loss to
another business



67%

a financial loss to
a member of the public



76%

a health risk

The only exception relates to incidents without a financial impact and/or health risk. In such circumstances, the responses were split evenly between sharing all information, and key information excluding the identity of individuals involved (42% each). For such fraud incidents 16% of respondents expect businesses to only identify the suspected product to regulators, not provide details about the company and/or individual involved.

Collecting and sharing information about fraud

Effective counter fraud approaches require that fraud is managed like any other business issue. It should be measured, monitored using specific counter fraud metrics, and deliver measurable outcomes. Outcomes are the specific and measurable changes as a direct result of counter fraud measures. Without an outcomes-focused programme it is impossible to determine whether activities, such as testing and/or supply chain mapping, improve fraud resilience and/or reduce the financial cost of fraud.

Measuring and monitoring counter fraud would generate information about the type and amount of fraud affecting food and drink businesses. It would provide businesses with the information necessary to demonstrate what they are doing to counter fraud, track progress over time, and (in the event of a fraud) provide the appropriate context to demonstrate that it is managed appropriately.

Monitoring and reporting the type of fraud

Fraud affecting food and drink businesses is more than the adulteration of products or the misrepresentation of a product's provenance. The term 'food fraud' encompasses 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. The table below demonstrates the types of food fraud which may affect a food and drink business:

Adulteration	A component of the finished product is fraudulent.
Tampering	Legitimate product and packaging are used in a fraudulent way.
Over-run	Legitimate product is made in excess of production agreements.
Theft	Legitimate product is stolen and passed off as legitimately procured.
Diversion	The sale or distribution of legitimate products outside of intended markets.
Simulation	Illegitimate product is designed to look like but not exactly copy the legitimate product.
Counterfeit	All aspects of the fraudulent product and packaging are fully replicated.

Comparing the wide range of fraud affecting food and drink businesses with current efforts to detect and prevent fraud highlight how far the food and drink industry has to go to become fraud resilient. Most monitoring undertaken in the industry relates to instances of detected adulteration and/or provenance. There is little, if any, systematic monitoring of other types of fraud.

The vast majority of consumers agree that food and drink businesses should monitor (80% agree) and report (81% agree) the type of fraud their businesses are subject to. The high levels of support suggest that consumers expect food and drink businesses to have measures in place to collect information about how fraud affects their businesses.

In the absence of such information, it is impossible to design and implement effective prevention and detection measures.

Measuring and reporting the amount of fraud

Fraud is a financial cost, and like any other business cost should be measured and managed down to the lowest extent possible.

In almost every other area, businesses know what their costs are – staffing costs, accommodation costs, utility costs, procurement costs, and many others. For centuries, these costs have been assessed and reviewed and measures developed to reduce them and improve business efficiency. This process now often delivers relatively small additional improvements. Fraud and error costs, in contrast, have only had the same focus over the last 15 to 20 years.

It is now possible to measure a business's total cost of fraud. Establishing the cost enables a proportionate response that reflects a business's particular circumstances. The financial cost of fraud is estimated to be around 5.85% of turnover, and this figure varies between and within sectors. Appropriate counter fraud practices can cut the financial cost of fraud by up to 40% in two years.

The majority of consumers (76%) agree that food and drink businesses should measure the amount of fraud they are subject to. Measuring the total amount is fundamentally different from recording detected instances. Measuring the total involves examining transactions in detail to actively identify losses and subsequently determining if the losses are attributable to fraud or error. Relying on detected losses leads to a significant underestimation of the actual cost of fraud affecting an organisation.

The majority of consumers (81%) agree that businesses should report the amount of fraud their businesses are subject to. Reporting on rates of fraud losses would provide a powerful outcome-based metric to monitor the extent to which it affects food and drink businesses, and also reveal what counter fraud approaches are the most effective. In the absence of outcome-based metrics it is currently impossible to determine whether increases in reported cases signify an increase in the amount of fraud affecting the sector (a bad thing), or whether it signifies that detection measures are more effective.

Measuring and reporting the amount of fraud food and drink businesses are subject to would open the possibility of developing sector averages, helping businesses to understand their performance relative to peers. Current arrangements, relying on recording and reporting instances of detected fraud, limit meaningful comparison between businesses or over time.



Whistleblowing hotlines

As highlighted by recent Financial Services Authority (FSA) funded research, most fraud in the food and drink supply chain is committed by insiders operating in established businesses, so-called 'legitimate actors', rather than criminals operating outside the supply chain. The significance of insiders in committing and facilitating fraud means that whistleblowing hotlines should be a fundamental component of food and drink businesses' counter fraud approach.

Whistleblowing occurs when an employee, contractor or supplier goes outside the normal management channels to report suspected wrongdoing at work. Whistleblowing can be internal, with arrangements maintained by the organisation concerned, or external, to a regulator or other independent body. The National Food Crime Unit and Scottish Food Crime and Incidents Unit both maintain hotlines to report suspected fraud.

Suspected frauds are often first identified through whistleblowing hotlines. It can help to ensure that problems are revealed and addressed before it is too late, helping to avoid negative impacts to consumers and other businesses. Whistleblowing can be a vital tool to manage business risks, providing a route for employees to express concerns that bypasses employees that would prefer to keep issues hidden.

Food and drink businesses with a strong anti-fraud culture embed whistleblowing systems across their organisations. They disseminate clear whistleblowing policies and procedures to staff, suppliers, contractors and customers to encourage confidential disclosures which are treated seriously and without prejudice to the individual's interest. Organisations that take whistleblowing seriously include details of their hotlines in employee inductions, regular training, websites, and supplier contracts.

Over three quarters of consumers (78%) agree that food and drink businesses should raise awareness of whistleblowing hotlines provided by the Scottish Food Crime and Incidents Unit/National Food Crime Unit. This includes, for example, promoting and advertising details of the hotlines to staff in the industry. Similarly, the majority of consumers (72%) agree food and drink businesses should support whistleblowing hotlines provided by both food crime units. This includes, for instance, providing funding or staff to run whistleblowing hotlines.

Food and drink businesses that respond to consumer sentiment on the topic of whistleblowing hotlines would strengthen their fraud resilience and reduce their vulnerability to fraud.

Appendices

The following tables show in detail the results of the survey research.

Table 1: Results for Q2. In which of the following situations, if any, would you expect a business in the food and drinks industry to share information about an incident of fraud with the Scottish Food Crime and Incidents Unit/National Food Crime Unit

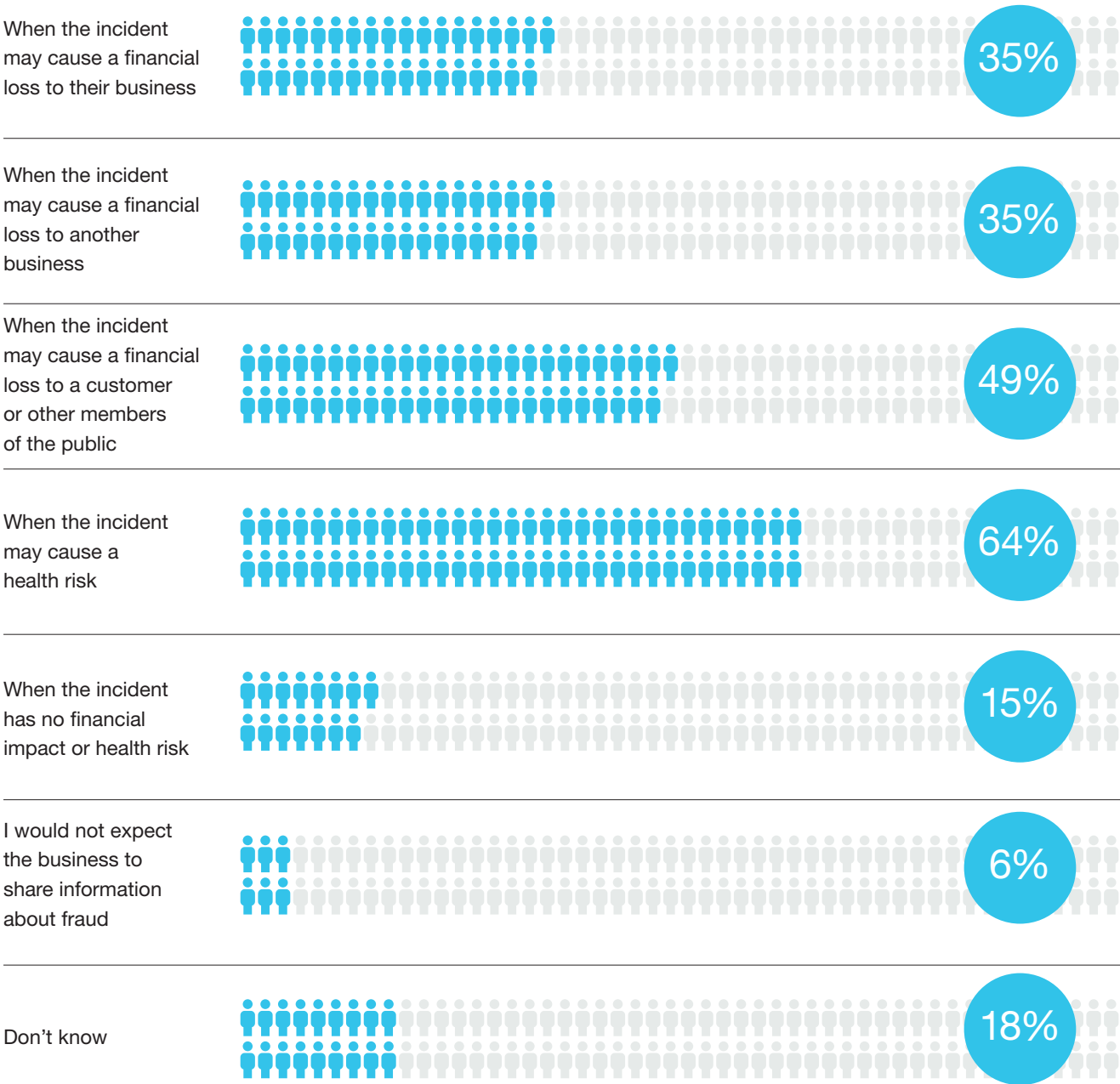


Table 2: Results to Q3. For each of the following types of incident, at what point, if at all, would you expect a business in the food and drinks industry to share information about an incident of fraud with the Scottish Food Crime and Incidents Unit/National Food Crime Unit

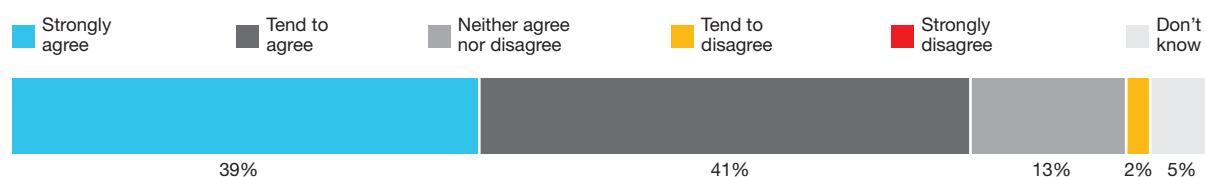
	An incident that causes a financial loss to their business	An incident that causes a financial loss to another business	An incident that causes a financial loss to a customer or other members of the public	An incident that causes a health risk	An incident that has no financial impact or health risk
When the business has suspicions of fraud, but no evidence	15%	14%	20%	41%	9%
When the business has suspicions of fraud, and has at least one piece of reliable evidence	42%	41%	39%	31%	21%
When the business has a confirmed case of fraud	28%	31%	28%	18%	28%
I would not expect the business to share information about fraud	6%	8%	6%	5%	31%
Don't know	8%	7%	6%	6%	11%

Table 3: Q4. For each of the following types of incident, please indicate how much information, if any, you would expect a business in the food and drinks industry to share with the Scottish Food Crime and Incidents Unit/National Food Crime Unit

	An incident that causes a financial loss to their business	An incident that causes a financial loss to another business	An incident that causes a financial loss to a customer or other members of the public	An incident that causes a health risk	An incident that has no financial impact or health risk
All information that is available to the business, including the identity of the individuals	55%	58%	67%	76%	42%
Key information only, not including the identity of any individuals	36%	32%	26%	17%	42%
Identify the suspected product only, but no details about the company or individual	9%	9%	7%	6%	16%

Table 4: Q5. To what extent do you agree, or disagree, with the following statements? Food and drink businesses should...

Monitor the type of fraud their businesses are subject to



Report the type of fraud their businesses are subject to

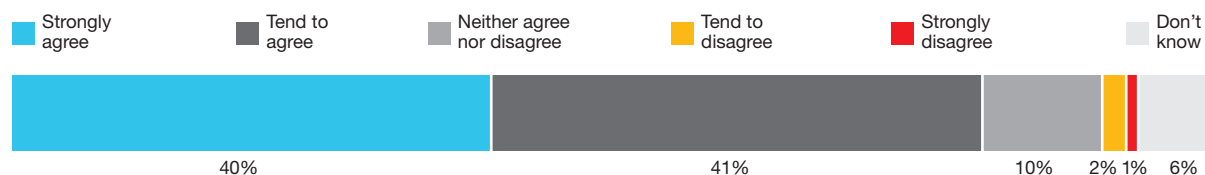
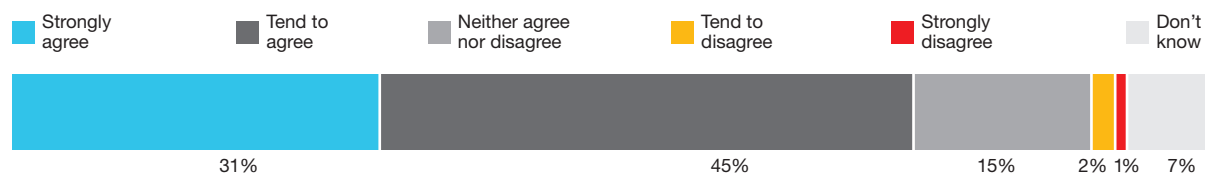


Table 5: Q5. To what extent do you agree, or disagree, with the following statements? Food and drink businesses should...

Measure the amount of fraud their businesses are subject to



Report the amount of fraud their businesses are subject to

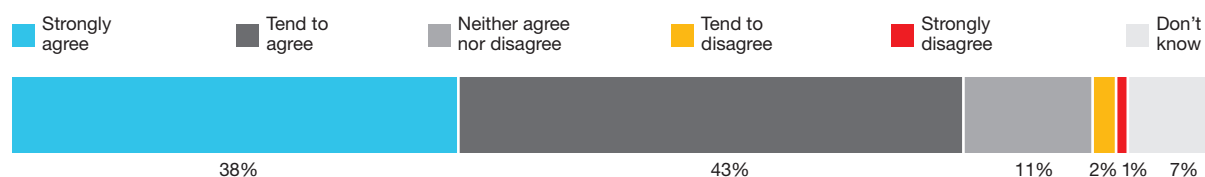
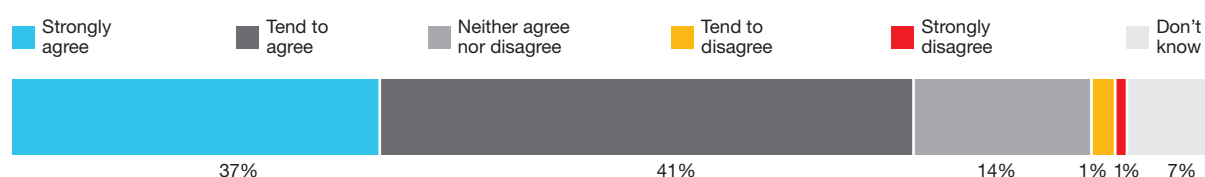
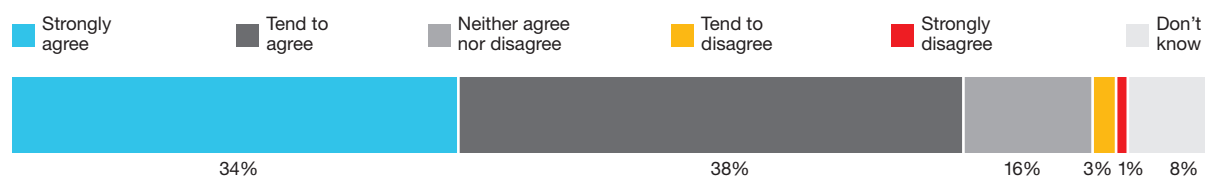


Table 6: Q6. To what extent do you agree, or disagree, with the following statements? Food and drink businesses should...

Raise awareness of whistleblowing hotlines provided by the Scottish Food Crime and Incidents Unit/ National Food Crime Unit, for example by promoting and advertising details of the hotlines to staff in the industry



Support whistleblowing hotlines provided by the Scottish Food Crime and Incidents Unit/National Food Crime Unit, for example by providing funding or staff to run whistleblowing hotlines.



About Crowe UK's Forensic Services

Crowe's Forensic and Counter Fraud Services are designed to help clients whatever the problem, wherever the place. We help clients to react to an adverse event or to better protect themselves against such events in the future. We have delivered such services across most continents, and in some of the most difficult countries in which to operate.

We offer a full range of forensic services including:

- counter fraud services which focus on measuring, managing and minimising fraud as a business cost
- cybercrime and data protection
- expert investigation and litigation support
- professional counter fraud training
- professional mentoring
- business intelligence services – undertaking due diligence work across the world
- advice on combating bribery and corruption
- advanced data analytics.

Our aim is to deliver significant financial benefits for clients which far exceed our fees. Crowe's Forensic Services team are specialists with a high-level national and international track record built up over many years. We have advised clients of all different types and sizes, including governments, major national and international companies and high profile charities. Our staff hold professional qualifications and have many years practical experience.

We adopt a business approach to fraud, cyber and forensic issues, making sure your organisation is as financially healthy and stable as possible, for now and the future.

For more on Crowe UK visit:
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About Us

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We are trusted by thousands of clients for our specialist advice, our ability to make smart decisions and our readiness to provide lasting value. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.

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