



Report of the

SERIOUS FRAUD OFFICE

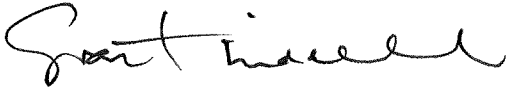
TE TARI HARA TÄWARE

for the year ended
30 June 2008

Presented to the House of Representatives pursuant to section 44(1) of the Public Finance Act 1989

Hon. Dr Michael Cullen
Attorney-General

In accordance with the Public Finance Act 1989 I submit the following report on the operations and financial performance of the Serious Fraud Office for the year ending 30 June 2008.

A handwritten signature in black ink, appearing to read 'Grant Liddell', written in a cursive style.

Grant Liddell
Director

CONTENTS

	PAGE
Statement of Purpose	4
Directory	4
DEPARTMENTAL SCENE SETTING	5
Chief Executive's Overview	5
Statement of Responsibility	9
Report of the Audit Office	10
PERFORMANCE INFORMATION	13
Class of output: 1 – Investigation and prosecution of serious or complex fraud	13
Output Measures	14
Use of Statutory Powers	19
Prosecutions Completed	20
Other Cases	24
Class of output: 2 – Civil forfeiture of criminal assets	25
Financial Statements	26
Statement of Financial Performance	26
Statement of Movements in Taxpayers' Funds	27
Statement of Financial Position	28
Statement of Cash Flows	29
Statement of Commitments	30
Statement of Department Expenses and Capital Expenditure against Appropriations	31
Notes to Financial Statements	32
MANAGEMENT PERFORMANCE INFORMATION	47
Corporate and Collective Interest Management Report	47
INFORMATION ABOUT THE DEPARTMENT	48
Policy on Acceptance of Cases	48
Management and Structure	51
Serious Fraud Office Act – Panel of Prosecutors	52

STATEMENT OF PURPOSE

The Serious Fraud Office (SFO) is an operational department whose purpose is to detect and investigate cases of serious or complex fraud offending (in terms of the Serious Fraud Office Act 1990) and expeditiously prosecute offenders.

The services provided by the Serious Fraud Office contribute to the Government's strategic objectives, principally in the areas of encouraging a strongly growing, internationally competitive enterprise economy and building an economically strong and cohesive New Zealand.

Honest capital markets are crucial to achieving the objective of maintaining a strong and internationally competitive economy. Successful investigation and prosecution of "white collar" crime sustains New Zealand's reputation for honest capital markets, as well as deterring potential offenders.

By maintaining an effective "white collar" law enforcement capacity, the Serious Fraud Office is contributing towards enhancing investor confidence and encouraging savings and investment in New Zealand.

The Serious Fraud Office also contributes to the wider work of the Justice sector in building safer communities being communities in which there is reduced crime.

DIRECTORY

Location:	Level 2, Duthie Whyte Building Cnr Mayoral Drive and Wakefield Street Auckland City
Postal Address:	PO Box 7124, Wellesley Street, Auckland
Telephone:	(09) 3030 121
Freephone:	0800 109 800
Fax:	(09) 3030 142
Website:	www.sfo.govt.nz
Email:	sfo@sfo.govt.nz
Auditor:	Audit New Zealand on behalf of the Controller and Auditor-General
Bankers:	Westpac, Government Branch, Wellington

Departmental Scene Setting

CHIEF EXECUTIVE'S OVERVIEW

Transition of the SFO into OFCANZ

The Government announced on 11 September 2007 its policy to abolish the Serious Fraud Office and to merge it, its functions and resources into a new agency to address organised crime, which agency was to be accommodated within New Zealand Police. At the end of the financial year and at the time of preparing this report, the policy remains to be effected, depending upon the passage of the Serious Fraud Office (Abolition and Transitional Provisions) Bill.

I commenced on 5 November 2007 with the expectation that the transition into a new agency, subsequently known as OFCANZ (Organised and Financial Crime Agency New Zealand), would be completed within the financial year or shortly thereafter.

The year has been one of transition for the organisation and, more pervasively, one of uncertainty, with consequential stress on staff.

The policy work to implement the Government's announcement of 11 September 2007 had commenced when I took up my appointment and I participated in it until the policy was finalised in March 2008. The policy was reflected in the Bill which was introduced on 24 April 2008 and which was considered by the Law and Order Select Committee, which reported the Bill with minor changes on 15 August 2008.

The Bill recognises the need for powers to require the production of documents and for persons to attend for compulsory examination, but modifies the model of the Serious Fraud Office Act 1990 by making the powers dependent upon orders of the Court, rather than by notice issued by the Director. It provides for such powers to be exercised in cases of serious or complex fraud on a transitional basis pending the enactment of new search and surveillance legislation, which was introduced into the House of Representatives before it rose for the 2008 general election. The examination power is modified by dividing it into two contexts, a business context and a non-business context. The non-business context power requires the application to the Court to be approved by the Commissioner of Police and by the Secretary of Justice. The application to the Court for an order in a business context requires the approval only of the Commissioner of Police.

The provision in the Serious Fraud Office Act whereby persons subject to compulsory examination may not rely on the privilege against self incrimination is omitted from the Bill, but the effect of that needs to be read against the context of the Evidence Act 2006, which prevents persons relying on that privilege in the case of previously created documents.

Close work was undertaken with New Zealand Police and in particular the Establishment Director of OFCANZ through the year to make arrangements for the transition of the Serious Fraud Office into the new agency. The Police indicated in February 2008 that the office would continue to function from its present premises in Auckland for the short to medium term future, i.e. 3 – 5 years. In April 2008, Police confirmed that the structures and personnel within the office would be retained and transferred into the new agency. As well, following review, the existing processes and procedures in relation to the investigation and prosecution of cases were confirmed as appropriate for adoption in the new agency.

A memorandum of understanding was agreed between me, the Commissioner and the Establishment Director, which guided the operation of the agencies in working towards the transition. A transition plan

was developed and is ready to be implemented at the point that the Bill is passed. At the time of writing, its passage appears to be dependent on the outcome of the general election. Accordingly, the SFO remains in a period of uncertainty.

That uncertainty has produced stress, quite understandably. Turnover of staff has been higher than in prior years, with some staff leaving the organisation as a direct result of either the uncertainty itself or because they did not wish to be part of the larger organisation of the New Zealand Police.

In light of the Government's announcement that the Serious Fraud Office as a separate agency would be abolished, the Government in March 2008 determined that the function in relation to civil forfeiture of assets used in criminal activities would also transfer to the Police. The Serious Fraud Office's statement of intent for the 2007/2008 year noted the Government's decision to establish the recovery agency under new civil forfeiture legislation with the Serious Fraud Office, with the consequent establishment of another output class in Vote: Serious Fraud Office. In light of the Government's later decision to establish the Police as the recovery agency and as the Criminal Proceeds (Recovery) Bill has not yet passed, the SFO undertook only preparatory work in the 2007/2008 financial year in relation to civil recovery. That work consisted of obtaining further accommodation in the Duthie Whyte Building in Auckland, where the SFO's offices are located.

The Serious Fraud Office has continued to take on new cases and follow cases through to prosecution at about the same rate as in previous years (see pages 21 - 26 for details). Staff have applied themselves with professionalism and dedication to the work of the SFO, which in the circumstances of uncertainty facing them has been highly praiseworthy. It is noteworthy that all completed prosecutions in 2007/2008 resulted in convictions. I commend the staff for their continued professionalism during the time of uncertainty.

By any international comparison, the New Zealand Serious Fraud Office continues to perform effectively and well. It is instructive to compare the results obtained in New Zealand in prosecuting serious or complex fraud with those obtained in comparable jurisdictions. The English Serious Fraud Office was the subject of a review finalised this year by Jessica de Grazia. She compared the English SFO with federal and state prosecution agencies in New York. The performance of the New Zealand Serious Fraud Office indicates that it obtains results comparable to those of the New York agencies, and on a cost effective basis.

	Fraud cases FY2002/3 2006/7	Conviction rate	Resources (\$NZ equivalent) FY2007	Staff
SFO (Eng)	166	61%	\$113m	311
SDNY (federal)	810	97%	not public	77
DANY (state) * = fraud work	124*	92%*	\$108m	19*
SFO (NZ)	57	90%	\$5m	34

(SDNY – Southern District, New York, DANY – District Attorney, New York)

The above table demonstrates that New Zealand obtains high quality results from the Serious Fraud Office at a fraction of the cost of the English and New York agencies. New Zealand has faster throughput than the English Serious Fraud Office. In my assessment, there are three reasons why that is so.

First, the practice and procedures of the Serious Fraud Office in New Zealand encourage relatively speedy progress on investigations to the point where a decision as to charges can be made. Thereafter our cases are in the hands of the criminal court system in New Zealand and can move only as fast as that system allow prosecutions to proceed.

Secondly, it is my assessment that the quality of investigation work, conducted by multi-disciplinary teams of forensic accountants, financial investigators and prosecutors, is of a sufficiently high standard that at the point where a decision to charge is made, I can be satisfied that a well-prepared case exists that meets more than the minimum prima facie standard required for committing a person to trial. By having multi-disciplinary teams work on an investigation from the outset, the investigation is focused, its course is efficiently charted, resources are applied effectively, and a cogent theory of the case is developed so that a decision by me to prosecute a defendant is one a sound foundation has been laid. In difficult cases, I also have the advantage of the opportunity to obtain advice from members of the panel of prosecutors who lead our cases. The system we employ in New Zealand is very similar to that used in the New York prosecutors' offices. Its success is demonstrated by the proportion of cases where defendants plead guilty prior to trial (over 70% of completed prosecutions in 2007/2008). Defendants will do so where they can see that the case against them is strong and that the options of going to trial to obtain a better outcome are less than the options of pleading guilty prior to trial.

Thirdly the professionalism and commitment of the staff at the SFO are a key factor in driving these results. That is demonstrated to me through the regular meetings where I am updated on the progress of each file and at the point where a file is at a point of decision. The work done is invariably of a high standard.

Relations with other agencies

The Serious Fraud Office has enjoyed a positive working relationship at an operational level with the New Zealand Police for many years. That has continued this year, and has in my perception been strengthened at high levels of the Police on policy issues. Closer working relationships with New Zealand Customs have further developed too, and as signalled in the statement of intent for 2007/2008, the joint SFO/Customs forensic laboratory has become fully operational. That enables the Serious Fraud Office to clone computers and other electronic devices for forensic analysis quickly and efficiently.

The Serious Fraud Office has also enjoyed close relations with a number of other central government agencies, particularly in the Justice sector, and with the State Services Commission. Those relationships have been particularly important in terms of readying the SFO for the transition and for the management of the uncertainty in the legislative environment.

International relations have been fostered too this year, with continuing contact with the Serious Fraud Office of England. I had the benefit of meeting the outgoing Director, Robert Wardle, prior to taking up my appointment and have met his successor, Richard Alderman, on a recent visit to England. As well links have been developed with the Revenue and Customs Prosecution Office, the Crown Prosecution Service and the Serious and Organised Crime Agency in England. In May 2008, bilateral discussions were held with representatives of the Abu Dhabi Audit Authority, who visited New Zealand to learn about New Zealand institutional arrangements for prosecuting fraud. It is envisaged that those links will be developed, possibly with the adoption of a memorandum of understanding in relation to the exchange of information between the New Zealand Serious Fraud Office and the Abu Dhabi Audit Authority.

Strategic planning

As part of the preparation of the SFO internally for the transition into OFCANZ, the Serious Fraud Office has adopted a one-page strategic plan, which identifies key goals and is in a form consistent with the plan adopted by New Zealand Police. The object of that work was to ensure that both within the SFO as it exists and within OFCANZ, where it is intended the SFO will become the financial crime group, there is clarity around the goals in relation to the detection, investigation and prosecution of serious or complex fraud, and other financial crime, and that the plan is in a form that OFCANZ can adopt.

Staffing

As noted above, there has been a higher turnover of staff than in other years, some of which at least is attributable to the decision to transfer the Serious Fraud Office into OFCANZ, and some of which is attributed to the uncertainty that has prevailed through the year. That turnover has contributed to a difficult environment, but it is pleasing to report that advertisements to replace professional staff have in each instance been heavily subscribed and highly qualified pools of applicants emerged. The Serious Fraud Office remains at full staffing establishment.

Media relations

The Serious Fraud Office has in the past adopted a relatively low media profile as described in previous annual reports. I have made some modifications to that practice. On appropriate occasions, particularly where a case already has a public profile, I have announced that the Serious Fraud Office has commenced or concluded investigations. As well, when prosecutions are commenced and defendants appear in court, I consider it appropriate to enable the news media to have access to information provided in open court, notably the summary of facts on which the SFO case will proceed. As well, details of the disposition of cases are made more readily available to the news media.

Finance company cases

The work of the SFO is important in contributing to a sense of financial confidence. Where we are able to take cases to prosecution and to obtain convictions, information about those results can strengthen a sense of confidence in financial systems. Particularly important in this regard this year have been the cases the SFO has taken on of failed finance companies. The failures of finance companies have been major matters of public interest through 2007/2008. The Serious Fraud Office has worked with the Securities Commission and the National Enforcement Unit of the Ministry of Economic Development in adopting a co-ordinated approach to investigations and prosecutions. That co-ordination work has built stronger links between the agencies, enabled them to share information within legal limits, and assisted in getting cases to Court more quickly. At the conclusion of the year under review, the Serious Fraud Office had 4 cases of finance companies under investigation, and prosecutions are likely.

The work in relation to finance companies has been high profile and demanding and it is a credit to the organisation that it has managed the work in relation to these difficult cases while at the same time handling the usual range of other cases and dealing with the issues associated with the transition.


Grant Liddell

STATEMENT OF RESPONSIBILITY FOR THE YEAR ENDED 30 JUNE 2008

In terms of the Public Finance Act 1989, I am responsible, as Chief Executive of the Serious Fraud Office, for the preparation of the Department's financial statements and statement of service performance, and the judgements made in them.

I have the responsibility of establishing, and I have established, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of the Department for the year ended 30 June 2008.



Grant Liddell
Director
30 September 2008



Mandy Simpson
Chief Financial Officer
30 September 2008

AUDIT REPORT

TO THE READERS OF
THE SERIOUS FRAUD OFFICE'S
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2008

The Auditor-General is the auditor of the Serious Fraud Office (the Office). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Office for the year ended 30 June 2008.

Unqualified Opinion

In our opinion:

- The financial statements of the Office on pages 26 to 46:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Office's financial position as at 30 June 2008; and
 - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the Office on pages 13 to 18 and 25:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects for each class of outputs:
 - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
 - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 30 September 2008, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Chief Executive;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Chief Executive and the Auditor

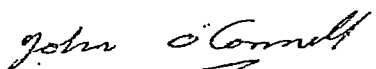
The Chief Executive is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Office as at 30 June 2008 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Department's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Chief Executive's responsibilities arise from sections 45A and 45B of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45D (2) of the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

A staff member from Audit New Zealand was appointed to the permanent position of Chief Financial Officer from 25 August 2008. This is compatible with those independence requirements. Other than the audit and this appointment, we have no relationship with or interests in the Office.



John O'Connell
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters Relating to the Electronic Presentation of the Audited Financial Statements and Statement of Service Performance

This audit report relates to the financial statements and statement of service performance of the Serious Fraud Office for the year ended 30 June 2008 included on the Serious Fraud Office's website. The Serious Fraud Office's Chief Executive is responsible for the maintenance and integrity of the Serious Fraud Office's website. We have not been engaged to report on the integrity of the Serious Fraud Office's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance and related audit report dated 30 September 2008 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Performance Information

SERVICE PERFORMANCE

Class of output: 1 – Investigation and Prosecution of Serious or Complex Fraud

1. SUMMARY OF TOTAL CASES FOR THE YEAR ENDED 30 JUNE 2008

A total of 56 cases were on hand at the beginning of the year at assessment/detection, full investigation or prosecution stage. During the year a further 45 new cases were assessed and no cases were reinstated. This gave the Office an overall caseload of 101 files. At the end of the financial year there were 59 cases on hand – 10 at assessment/detection, 26 at full investigation and 23 prosecutions.

Note:

Assessment	complaints undergo an initial assessment to determine whether the matter has reached the statutory threshold for further consideration under either the detection or investigation provisions of the Serious Fraud Office Act 1990.
Detection	some complaints require further consideration of all the documentary material to determine whether the complaint should proceed to a full investigation.
Investigation	involves obtaining and analysing documents, researching financial transactions and interviewing potential witnesses and suspects to determine whether charges are to be laid.
Prosecution	involves preparing the prosecution files, briefing evidence and conducting the prosecution. Prosecution cases do not include cases where appeals have been lodged. Nor do they include related Court proceedings such as judicial reviews or costs applications.

2. OUTPUT MEASURES

Description

The output class involves the investigation of suspected cases of serious or complex fraud brought to the attention of, or detected by, the Serious Fraud Office, and the prosecution of those cases where the Director is satisfied that a prosecution should be commenced.

Following investigation, the Director makes a decision whether criminal charges should be laid.

The prosecution of the case requires the preparation of a well-researched and documented case. This encompasses the filing of all court documents; the preparation, researching and collating of all documentary and oral evidence; and appearing as Counsel at all preliminary court hearings and as Junior Counsel at trial.

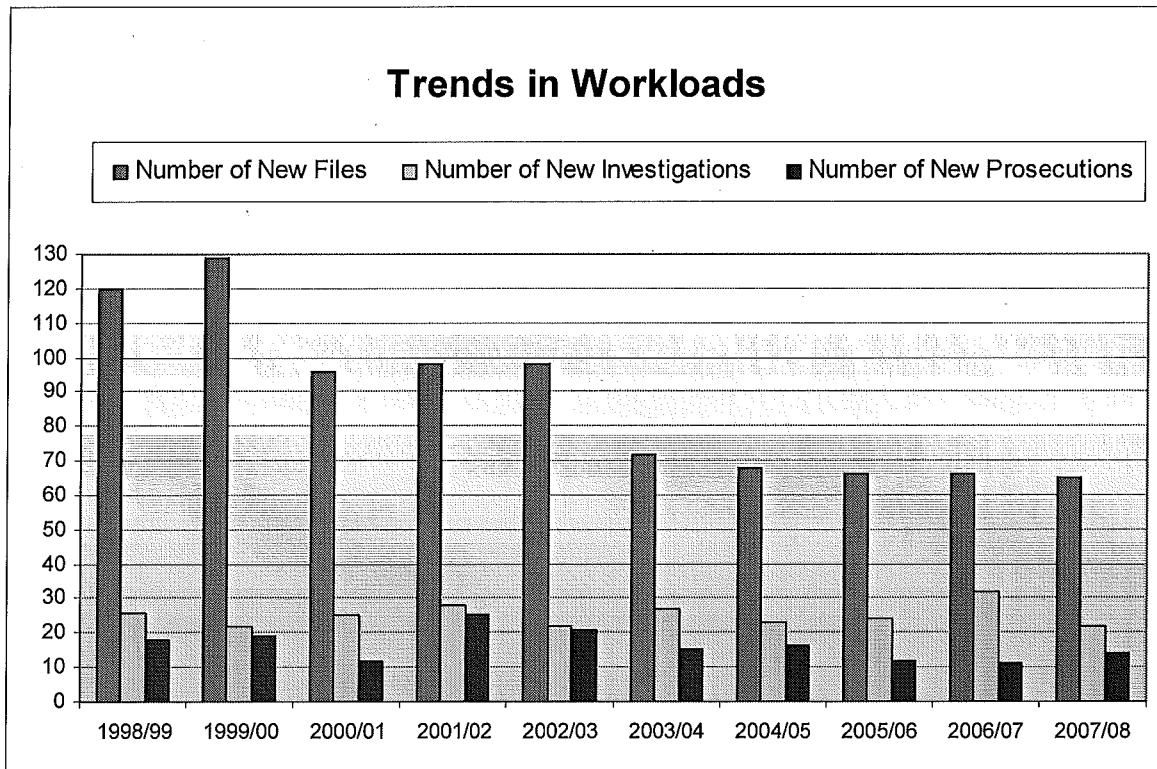
This output class includes the briefing of the outside Counsel engaged for the trials, the giving of evidence at trials and the provision of expert advice throughout the course of trials.

Outcome

To combat serious and/or complex fraud offending.

Details of Complaints and Investigations

In the current year, 45 complaints were assessed. Over the past few years a higher proportion of the complaints have met the threshold for a full investigation. Between 25% and 30% of new complaints in the past five years have resulted in a full investigation compared to around 18% to 20% in the period 2000-2003. In the past 12 months out of 46 complaints 12 were assessed as warranting a full investigation from the outset (26%), nine were assessed as warranting further detection (20%), and a further 1 complaint went initially to the detection stage but later when more information was available became a full investigation. Some complaints fall outside the "serious or complex" category and are more properly referred to other agencies. Where that decision is able to be made by the Complaints Officer at the outset, the matter will not be formally recorded as a matter assessed by the Director. Only those matters placed before the Director to determine whether or not the case meets the statutory threshold are recorded as complaints for statistical purposes.



During the reporting period;

- 14** investigations were completed and proceeded to prosecution;
- 6** investigations were completed but did not proceed to prosecution;
- 10** cases were referred to other more appropriate agencies, namely:
 - 5** to the New Zealand Police
 - 1** to the Commerce Commission
 - 1** to the Inland Revenue Department
 - 1** to the Ministry of Health
 - 1** to Australian authorities
 - 1** to a local government body
- 22** cases were closed following consideration and assessment as they were found not to justify further action;
- 10** cases remain at the assessment or detection stage;
- 26** cases remain at the full investigation stage;
- 23** cases remain at the prosecution stage.

The Management Team formally reviewed all the cases on hand at least monthly to ensure that level of momentum was sustained and that the investigations were focusing on the key issues.

Performance Targets

Assessment of Complaints

- ***Within 14 days of receipt of a complaint a preliminary assessment will be completed to determine whether it meets the criteria of the Serious Fraud Office Act 1990.***

The Complaints Officer receives all complaints that are lodged with the Office. Many matters raised with the Complaints Officer are clearly not matters falling within the jurisdiction of the Office but are more properly addressed in a different manner or place. The complainants are advised of this virtually immediately.

Some complainants will not realise that, unlike a complaint to the Police, a complaint to the Serious Fraud Office must reach an evidential threshold before the Director can open a case. Thus, the Complaints Officer may have to seek further information. The preliminary assessment can only be made once that further information has been received in the Office.

Almost all complaints received a preliminary assessment within 14 days of being received in the Office. A small number of complaints (12) fell outside of the 14 days. Complaints receive adequate scrutiny at the outset to ensure that the decision made by the Director is well-founded given the consequences that can flow from a decision to open an investigation into a matter. In several of the complaints where the matters were more complicated further information was needed to be sought before a decision could be taken.

- ***To focus the assessment and/or detection stage and decide within six months whether to abandon preliminary work or to proceed to a full investigation.***
 - 49 Cases at the assessment/detection stage during the year
 - 10 Cases at assessment/detection stage at 30 June 2008
 - 3 Case exceeding 6 months at the assessment/detection stage.

The performance target was met in all but three cases with the decision point being reached well within the timeframe, usually within two – four weeks depending on the level of detail that accompanied the initial complaint. The three cases that exceeded six months were delayed due to the complexity of the investigation and delays in obtaining information and explanations from relevant parties.

Investigations

- ***That in 80% of the cases sufficient work will have been completed within 12 months to reach the prosecution decision point.***

During the reporting period a total of 46 cases were at the investigation stage and of these:

- 6 were completed but did not proceed to prosecution
- 14 resulted in prosecution
- 26 remain under investigation.

It was anticipated that the Office would complete approximately 25 investigations during the year.

In the 14 cases where the investigations were concluded and preceded to a prosecution, the average length of time from the receipt of the complaint to the prosecution commencing was around 11 months. Four investigations fell outside of the 12-month period.

These four cases all involved complex multiple financial transactions that needed to be carefully considered to determine if any offending had occurred, and if so, the extent of that offending. The four cases took 28, 17, 14 and 13 months to reach the stage where a prosecution was commenced. The 28 month investigation involved several mutual assistance requests from overseas jurisdictions and unwillingness, due in part to ill health, of relevant parties to be interviewed or otherwise co-operate.

Of the 6 investigations that were completed but did not result in a prosecution four cases exceeded the 12-month period.

Two of these cases involved mutual assistance requests from overseas jurisdictions. One involved complex property development transactions (and the need to obtain an interview from an overseas jurisdiction) and one involved complexity and some delay in obtaining relevant information.

Of the 26 cases on hand at the investigation stage, twelve cases have been under action for more than 12 months. One case has been delayed considerably by Court action challenging certain steps taken by the SFO. Two cases were delayed by the requirement to get information from overseas authorities by way of mutual assistance. The other cases were delayed by various complexities that arose during the course of the investigation, including the obtaining of documentary and electronic evidence, and delays resulting from the analysis of complex and technical material.

Overall, 20 cases out of the total of 46 cases (43%) exceeded the 12-month target. Where information is required from overseas and has to be sought under the mutual assistance legislation delays in the investigation are almost inevitable.

Prosecutions

During the year ended 30 June 2008, 14 new prosecutions were commenced in addition to the 19 prosecutions that were under action at the beginning of the year. Ten prosecutions were concluded during the year. Several of these cases involved a number of defendants. Convictions were obtained in 9 of the 10 cases. One prosecution case was stayed after the death of the defendant.

It was anticipated that the Office would complete around 15 prosecution cases in the financial year.

At the end of the reporting period there were 23 prosecution cases under action.

For the period from the inception of the Office to 30 June 2008 the Office has a 90.68% success rate with prosecution cases, and an 82.6% success rate in relation to individuals prosecuted by the Office.

- ***To meet the dates set by Courts.***

On all occasions dates set by the Courts have been met. The Office works closely with the Courts in an attempt to ensure the smooth running of the prosecution process.

General

- *To maintain the highest quality of investigative work, case preparation and case presentation.*

The Office continues to receive favourable comments about the high quality of investigative work, case preparation and case presentation. The overall professionalism of the case investigation, preparation and presentation by the Office is a factor in the successful determination of the cases. Assessment will continue to be carried out by observation by the Director, peer review and judicial comment. Prosecution cases are debriefed as a part of ensuring that the Office maintains the highest standards in its prosecutions.

There were no adverse comments from the judiciary or panel counsel during the year in relation to any of the investigative work or case preparation undertaken by the Office.

The progress of each case was reviewed at least monthly by the Director and the senior managers to ensure the timeliness and thoroughness of all investigations and prosecutions.

Statement of cost of services (GST exclusive)

	2007/08 Main Estimates (\$000)	2007/08 Final Estimates (\$000)	2007/08 Actual (\$000)	2006/07 Actual (\$000)
Revenue – Crown	5,060	5,060	5,060	4,760
Revenue – Departments	150	115	108	142
Revenue – Other	9	9	1	-
Total income	5,219	5,184	5,169	4,902
Expenses	5,219	5,184	4,965	4,868
Net surplus/(deficit)	-	-	204	34

3. USE OF STATUTORY POWERS

Target

- To report on all instances where the Director has exercised his powers in accordance with the Serious Fraud Office Act 1990.

The breakdown of the use of the statutory powers during the year was as follows:

SFO Act, Part 1

Detection of serious or complex fraud

		2007/08	2006/07	2005/06	2004/05
s 5(1)(a)	Requiring documents	56	91	44	118
s 5(1)(b)	Requiring answers to questions	5	4	16	13
s 6	Search warrant obtained	Nil	Nil	1	Nil
	TOTAL	61	95	61	131

SFO Act, Part 2

Investigation of suspected offences involving serious or complex fraud

		2007/08	2006/07	2005/06	2004/05
s 9(1)(d)	Requiring answers to questions	84	258	123	101
s 9(1)(e)	Requiring information	82	113	129	69
s 9(1)(f)	Requiring documents	409	669	547	560
s 10	Search warrant obtained	Nil	7	4	5
	TOTAL	575	1,047	803	735

Performance

The Director (or the Assistant Director in the Director's absence) personally signs all notices requiring persons to attend to answer questions. The Assistant Director under delegated authority signs notices requiring the production of documents. To ensure that requisite grounds exist for the exercise of these powers an internal control procedure is followed before the notices are referred for signature.

Search warrants are issued on written application to a District Court Judge. The Director, or the Assistant Director, must be notified in advance of any request for a search warrant.

Enforcement of Statutory Powers

During the last financial year the Office concluded one prosecution for failing to comply with the requirements of the Serious Fraud Office Acts (see case 17 on page 25).

PROSECUTIONS COMPLETED

Case 1

Agrinaut New Zealand Limited – Brian Cornish

Brian Cornish, together with an accomplice, forged livestock improvement corporation dairy cattle export certificates and supplied them to a purchaser in order to obtain payment under \$1.3m contract for the sale and purchase of cattle for export to China. Cornish was sentenced to 11 months home detention, 350 hours community work and ordered to pay \$60,000 in reparation.

Case 2

Access Brokerage – Peter Gerald Marshall

Peter Marshall was the chief executive of Access Brokerage, a Wellington discount share brokerage house. He created false journals which increased debit balances, thus showing the firm to have greater liquidity than it had, and prepared false monthly reports for submission to the New Zealand Stock Exchange. Marshall was sentenced to three years imprisonment on 14 counts.

Case 3

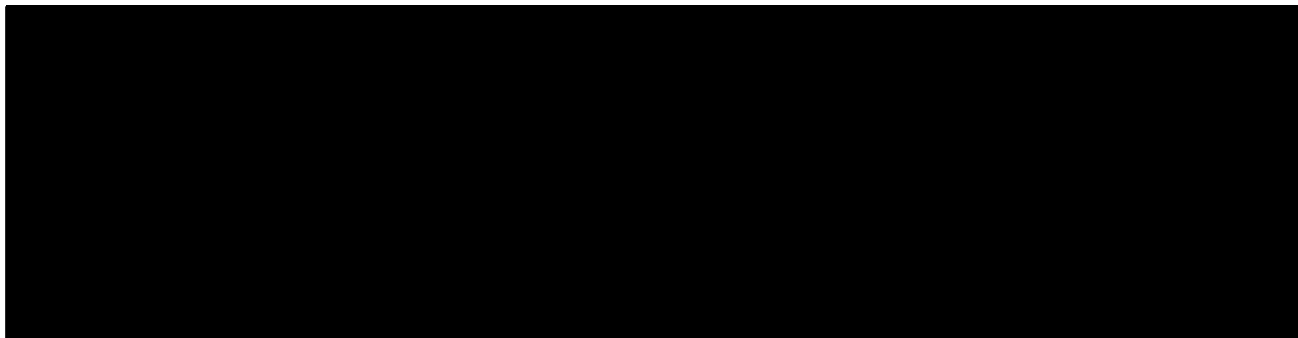
Shayne Lee Bolton

Shayne Bolton was an accounting technician and tax agent who stole over \$1.3m from his main client, Mauch Investments Limited (trading as 'Auto Werks'), by misusing Auto Werks cheques for sums purportedly due to the Inland Revenue Department and Inland Revenue Department cheques for tax refunds due to Auto Werks. Bolton was sentenced to 4 years 6 months imprisonment. He is appealing his sentence.

Case 4

Avon Richard Gillespie

Avon Richard Gillespie used documents dishonestly and/or with attempt to defraud to obtain funds and used funds contrary to restrictions of the Bank of New Zealand in terms of advances to farming businesses and entities that he controlled known as the Gillespie Group and thereby committed theft. The total value of the charges is over \$2.1m. Gillespie was sentenced to 2½ years imprisonment, to be served cumulatively with 4½ years already being served on unrelated firearms, drugs and violence charges.

Case 5Case 6**Cherie Ann Mackey**

Cherie Mackey stole almost \$200,000 from her employer by manipulating an electronic payroll management system and dishonestly arranging direct credits to accounts she controlled. She also used two company cheques dishonestly to obtain further funds and arrange two discrete direct credits from the company social club bank accounts and own accounts. She was sentenced to 2 years imprisonment on each of six charges, to be served concurrently.

Case 7**Nina Maraki**

Nina Maraki accepted \$60,000 in bribes from an immigration consultant for altering electronic documents in the Work and Income New Zealand system, where she was a manager, so the immigration consultant's clients qualified for and received \$382,954.20 in social security benefits to which they were not entitled. She pleaded guilty to and was convicted on two counts of altering documents and one count of corruptly accepting bribes contrary to s 105 of the Crimes Act 1961. She was sentenced to 2 years 6 months imprisonment.

Case 8**Peter Fergus Sibbald**

Peter Sibbald paid refunds on licences to occupy retirement homes totalling \$453,334 to his personal bank account instead of to his employer (name suppressed), the operator of the retirement homes. He also filed false GST returns for eight companies, obtaining refunds of \$123,004.02 where the maximum entitlement was \$15,977.42. He was sentenced to 3 years imprisonment.

Case 9**David Craig Stevenson**

David Stevenson was a lawyer in sole practice in Wellington who between June 2005 and March 2007 stole over \$200,000 from his clients by creating false and inflated invoices, purportedly for legal services, and then transferring client funds to which he had access to his practice account in settlement of those invoices. He was sentenced to 2 years and 3 months imprisonment.

Case 10**Nikita Sherin Singh**

Nikita Singh, an accounts payable clerk employed by Fonterra, dishonestly accessed Fonterra's computer system and caused loss to Fonterra in the sum of \$1,348,866.21. She also borrowed money to buy properties by making false representations concerning income, inducing lenders to execute loan agreements and advance funds to her of \$3,296,845. She committed a fraud against Work and Income New Zealand totalling \$95,681.25 and dishonestly used documents to verify her identity. She was sentenced to 4 years 6 months imprisonment.

Case 11**Christopher Sue**

Christopher Sue worked for Turners Auctions and Turners Fleet Limited in various accounting roles and by means of false accounting entries he misappropriated \$2,829,512.78 from Turners from 1999 to 2006. He obtained an additional \$121,786.90 by agreeing with a Singapore firm supplying second hand vehicles to Turners to take secret commissions on purchase. He was sentenced to 4 years and 6 months imprisonment on the principal charge of false accounting (Crimes Act 1961, s 260) and 4 years on 2 other charges, all to run concurrently.

Case 12**T J Finance and Marketing Solutions – Ema Serina Fuatavai and Tafua Joel Lefaoseu**

Ema Fuatavai and Tafua Lefaoseu were charged with misappropriating \$575,000 from the Tongan Assembly of God Church, the Epsom Samoan Assembly of God Church and the Samoan Assembly of God Church in Manurewa. They were sentenced to 3 years 6 months imprisonment on each charge, the sentences to be served concurrently.

Case 13**Brent Todd and Malik Wijeyaratne**

Brent Todd and Malik Wijeyaratne pleaded guilty to charges of conspiring to fraudulent use of documents. They issued false invoices made out to North Harbour Rugby Union and Touch New Zealand and received 'kick backs'. Todd was sentenced to 2 years home detention and 190 hours community work, in light of him having paid \$300,000 in reparations and an early guilty plea. Wijeyaratne was sentenced to a fine of \$50,000, having pleaded guilty early and paid \$700,000 in reparations. Both had co-operated significantly with the prosecution. Five other defendants remain to be tried in this case.

Case 14**Dan Ping Wu**

Dan Ping Wu submitted fraudulent loan applications totalling in value \$10,217,600 to various lenders between 2002 and 2006. The applications contained misrepresentations as to employment, assets and property value, and were supported with false documents, including employment letters, bank statements and sale and purchase agreements. Wu was sentenced to 12 months home detention and 300 hours community work.

Case 15**Jia Yi Wang**

Wang faced five charges for using documents to mislead the New Zealand Immigration Service in relation to funds provided by immigrants for residence applications. He was convicted on three charges and acquitted on two by a jury. He was also acquitted by a jury on charges of theft by misrepresentation of \$1m given to him by a third person with a view to qualifying that person for residency. He was sentenced to 7 months home detention.

Case 16**Anjila Naidu**

Anjila Naidu committed two offences in breach of the Serious Fraud Office Act in the course of an investigation of one of the SFO's cases. She failed to appear for a compulsory interview in 2006 and then gave false and misleading answers when she attended an interview in 2007. She was convicted on both charges and sentenced to fines totalling \$2,750.

OTHER CASES

Case 17

Name suppressed

The accused, a solicitor in sole practice, stole \$470,000 from the firm's clients. The accused committed suicide in the week before trial. Name suppression was ordered.

Case 18

Tuariki Delamere

Tuariki Delamere (Case 4 in 2007 annual report) applied for costs under the Costs in Criminal Cases Act 1967. His application was dismissed by the High Court, and he has filed an appeal against the dismissal in the Court of Appeal.

Case 19

Douglas Joseph Whipp and Dorothy Mary Penhalluriack

Whipp successfully appealed his conviction and sentence to the Court of Appeal (Case 19 in 2007 annual report). The Court of Appeal held that the Judge misdirected the jury as to the mental element the Crown had to prove, and ordered a retrial. The defendants have applied for a stay of the prosecution.

Case 20

Digitech

The defendants applied for costs under the Costs in Criminal Cases Act 1967. The High Court made an award that the Court of Appeal, by majority, overturned. The Supreme Court reversed the Court of Appeal, reinstating the High Court's award. A Crown appeal to the Court of Appeal on the question whether the award may contain a component for interest is yet to be heard.

(More cases are reported in this section of the report as completed prosecutions than appear in the output measures section on page 15 - 19, because this section includes 1) cases reported in the statistics for a prior period when sentencing occurs in the current period; 2) cases where convictions have been entered in the current period although sentence will be imposed in the next period; and 3) cases where a file remains open as other defendants have yet to be dealt with by the Court.)

Class of Output: 2 – Civil forfeiture of criminal assets

The Office did not undertake any cases under this output class during the year as the legislation had not been enacted. \$92,000 was expended in preparing accommodation.

- *That the outputs are provided within the appropriated sum.*

Statement of Cost of services (GST exclusive)

	2007/08 Main Estimates (\$000)	2007/08 Final Estimates (\$000)	2007/08 Actual (\$000)	2006/07 Actual (\$000)
Revenue – Crown	1,475	1,475	92	-
Revenue – Departments	-	-	-	-
Revenue – Other	-	-	-	-
Total income	1,475	1,475	92	-
Expenses	1,475	1,475	92	12
Net surplus/(deficit)	-	-	-	(12)

Financial statements

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

	Note	30/06/08 Actual (\$000)	30/06/08 Main Estimates (\$000)	30/06/08 Supp. Estimates (\$000)	30/06/07 Actual (\$000)
Income					
Crown		5,152	6,535	6,535	4,760
Other	2	109	159	124	142
<i>Total income</i>		5,261	6,694	6,659	4,902
Expenditure					
Personnel costs	3	3,374	4,470	3,444	3,289
Depreciation and amortisation expense	7,8	135	235	137	167
Capital charge	4	29	39	29	29
Other operating costs	5	1,519	1,950	3,049	1,395
<i>Total expenditure</i>		5,057	6,694	6,659	4,880
Net surplus/(deficit)		204	-	-	22

The accompanying accounting policies and notes form part of these financial statements.

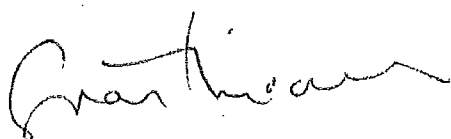
STATEMENT OF MOVEMENTS IN TAXPAYERS' FUNDS FOR THE YEAR ENDED 30 JUNE 2008

	Note	30/06/08 Actual (\$000)	30/06/08 Main Estimates (\$000)	30/06/08 Supp. Estimates (\$000)	30/06/07 Actual (\$000)
Balance at 1 July		387	387	387	387
Surplus/(deficit) for the year		204	-	-	22
Net surplus/total recognised revenues and expenses for the period		204	-	-	22
Capital contribution		-	290	-	-
Repayment of surplus to the Crown	10	(204)	-	-	(22)
Balance at 30 June	12	387	677	387	387

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2008

	Note	30/06/08 Actual (\$000)	30/06/08 Main Estimates (\$000)	30/06/08 Supp. Estimates (\$000)	30/06/07 Actual (\$000)
Taxpayers' funds		387	677	387	387
Assets					
Current assets					
Cash and cash equivalents		681	787	481	356
Debtors and other receivables	6	29	19	28	48
Prepayments		18	7	3	3
<i>Total current assets</i>		728	813	512	407
Non-current assets					
Property, plant and equipment	7	236	551	255	367
Intangible assets	8	5	1	6	8
<i>Total non-current assets</i>		241	552	261	375
Total assets		969	1,365	773	782
Liabilities					
Current liabilities					
Creditors and other payables	9	184	597	268	235
Repayment of surplus	10	204	-	-	22
Employee entitlements	11	188	91	118	138
<i>Total current liabilities</i>		576	688	386	395
Non-current liabilities					
Employee entitlements	11	6	-	-	-
Total liabilities		582	688	386	395
Net assets		387	677	387	387



Grant Liddell
 Director
 30 September 2008.



Mandy Simpson
 Chief Financial Officer
 30 September 2008

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2008

	Note	30/06/08 Actual (\$000)	30/06/08 Main Estimates (\$000)	30/06/08 Supp. Estimate s (\$000)	30/06/07 Actual (\$000)
Cash flows from operating activities					
Receipts from Crown		5,151	6,535	6,535	4,760
Receipts from revenue other		129	163	144	106
Payments to suppliers		(1,572)	(1,889)	(3,027)	(1,455)
Payments to employees		(3,302)	(4,447)	(3,429)	(3,262)
Payments for capital charge		(29)	(39)	(29)	(29)
Goods and services tax (net)		1	-	6	(6)
Net cash from operating activities	13	378	323	200	114
Cash flows from investing activities					
Receipts from sale of property, plant and equipment		25	-	25	-
Purchase of property, plant and equipment		(56)	(387)	(75)	(163)
Purchase of intangible assets		-	-	(3)	-
Net cash from investing activities		(31)	(387)	(53)	(163)
Cash flows from financing activities					
Capital contributions		-	290	-	-
Repayment of surplus		(22)	-	(22)	(13)
Net cash from financing activities		(22)	290	(22)	(13)
Net increase/(decrease) in cash		325	226	125	(62)
Cash at the beginning of the year		356	561	356	418
Cash at the end of the year		681	787	481	356

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

STATEMENT OF COMMITMENTS AS AT 30 JUNE 2008**Non-cancellable operating lease commitment**

At balance date, the Serious Fraud Office has a non-cancellable operating lease commitment in respect of accommodation at Auckland. The lease runs to 30 April 2016 and provides for right of renewal and for escalation. The amounts disclosed below as future commitments are based on the current rental rates.

Capital commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that have not been paid for or not recognised as a liability as balance date.

	30/06/08 Actual (\$000)	30/06/07 Actual (\$000)
Non-cancellable operating lease commitment		
Not later than one year	423	318
Later than one year and not later than five years	1,693	-
Later than five years	1,211	-
Total non-cancellable operating lease commitment	3,327	-
Capital commitments		
Property, plant and equipment – Office renovations	70	-
Total capital commitments	70	-
Total commitments	3,397	318

STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS AS AT 30 JUNE 2008

The Serious Fraud Office had no contingent liabilities or contingent assets as at 30 June 2008 (2007: nil).

The accompanying accounting policies and notes form part of these financial statements.

**STATEMENT OF DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE
AGAINST APPROPRIATIONS FOR THE YEAR ENDED 30 JUNE 2008**

	30/06/08	30/06/08	30/06/07
	Actual	Appropriation	Actual
	(\$000)	Voted*	(\$000)
Vote Serious Fraud			
Appropriations for output expenses			
Investigation and Prosecution of Complex or Serious Fraud	4,965	5,184	4,868
Civil Forfeiture of Criminal Assets	92	1,475	12
Total for outputs	5,057	6,659	4,880
Departmental capital expenditure			
Serious Fraud Office – Capital Expenditure PLA			
This appropriation is limited to the purchase or development of assets by and for use of the Serious Fraud Office, as authorised by section 24(1) of the Public Finance Act 1989	42	64	177
Total departmental expenses and capital expenditure and appropriations	5,099	6,723	5,057

* This includes adjustments made in the Supplementary Estimates and any transfers made under Order in Council under section 26A of the Public Finance Act 1989.

**STATEMENT OF UNAPPROPRIATED EXPENSES AND CAPITAL EXPENDITURE FOR THE YEAR
ENDED 30 JUNE 2008**

The Serious Fraud Office did not incur any expenses or capital expenditure without appropriation or other statutory authority for the year ended 30 June 2008. Additionally the amount of net asset holdings in the Serious Fraud Office did not exceed the amount of projected net assets asset holdings at the end of the financial year as set out in the Appropriation (2007/08 Supplementary Estimates) Act 2008.

The accompanying accounting policies and notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**1. Statement of accounting policies for the year ended 30 June 2008****Reporting Entity**

The Serious Fraud Office is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled in New Zealand.

The primary objective of the Serious Fraud Office is to provide services to the public rather than making a financial return. Accordingly, the Serious Fraud Office has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of the Serious Fraud Office are for the year ended 30 June 2008. The financial statements were authorised for issue by the Chief Executive of the Serious Fraud Office on 30 September 2008.

Basis of preparation

The financial statements of the Serious Fraud Office have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

These financial statements have been prepared in accordance with, and comply with, NZ IFRS as appropriate for public benefit entities.

This is the first set of financial statements prepared using NZ IFRS. The comparatives for the year ended 30 June 2007 have been restated to NZ IFRS accordingly. Because there is no material change in equity and no change in net surplus/(deficit) between previous NZ GAAP and NZ IFRS no reconciliation of the previous NZ GAAP and NZ IFRS figures is required. The changes arising from adoption of NZ IFRS are detailed in note 18.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening NZ IFRS statement of financial position as at 1 July 2006 for the purposes of the transition to NZ IFRS .

These financial statements have been prepared on a going-concern basis (refer note 19) and the measurement base applied is historical cost.

The financial statements are presented in New Zealand dollars and all value are rounded to the nearest thousand dollars (\$'000). The functional currency of the Serious Fraud Office is New Zealand dollars.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted.

Currently the only standard issued but not effective that has not been early adopted, and which is relevant to the Serious Fraud Office is as follows:

- *NZ IAS 1 Presentation of Financial Statements (revised 2007) replaces NZ IAS 1 Presentation of Financial Statements (issued 2004) and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyse changes in equity resulting from transactions with*

the Crown in its capacity as "owner" separately from "non-owner" changes. The revised standard gives the Serious Fraud Office the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Serious Fraud Office expects it will apply the revised standard for the first time for the year ended 30 June 2010, and it is yet to decide whether it will prepare a single statement of comprehensive income or a separate income statement followed by a statement of comprehensive income.

Budget Figures

Main Estimates refers to the figures presented in the 2007/08 Main Estimates of Appropriations.

Supplementary Estimates ("Supp. Estimates") refers to the figures presented in the 2007/08 Supplementary Estimates of Appropriations, and any transfers made by Order in Council under section 26A of the Public Finance Act 1989.

Revenue

The Serious Fraud Office derives revenue through the supply of outputs to the Crown, from State Services Commission (as agent for Crown) for the recovery of State Sector Retirement Savings Scheme. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Debtors and other receivable

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate, less impairment changes.

Operating Leases

The Serious Fraud Office leases office premises. As the lessor retains all the risks and benefits of ownership, these leases are classified as operating leases. Operating lease costs are expensed in the period in which they are incurred.

Property, plant and equipment

Property, plant and equipment consists of operational assets which are computer equipment, office furniture, fixtures and fittings, office equipment, and motor vehicles.

Property, plant and equipment are shown at cost or valuation, less accumulated depreciation and impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Serious Fraud Office and the cost of the item can be measured reliably.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the assets. Gains and losses on disposals are included in the statement of financial performance.

Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Serious Fraud Office and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Office furniture, fixtures and fittings	5 years	(20%)
Office equipment	5 years	(20%)
Computer equipment	3 years	(33.3%)
Motor vehicles	6-7 years	(15%)

Leasehold improvements (included in Furniture, fixtures and fittings) are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Intangible assets

Computer software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by the Serious Fraud Office, are recognised as an intangible asset. Direct costs include that software development, employee costs incurred in the development of software and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the statement of financial performance.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Acquired computer software	3 years	(33.3%)
Developed computer software	3 years	(33.3%)

Capitalisation threshold

Individual assets, or groups of assets, are capitalised if their cost is greater than \$1,000 (excluding GST). The Value of an individual asset that is less than \$1,000 (excluding GST) and is part of a group of similar assets is capitalised.

Impairment of non-financial assets

Non-financial assets are property, plant and equipment and intangible assets.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An intangible asset that is not yet available for use at the balance sheet date is tested for impairment annually.

Property, plant and equipment and intangible assets that have a finite useful are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The impairment loss is recognised in the statement of financial performance.

The reversal of an impairment loss is recognised in the statement of financial performance.

Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Employee Entitlements*Short-term employee entitlements*

Employee entitlements that the Serious Fraud Office expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave and long service leave earned but not yet taken at balance date, and sick leave.

The Serious Fraud Office recognises a liability for sick leave to the extent that absences in coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the Serious Fraud Office anticipates it will be used by staff to cover those future absences.

Long-term employee entitlement

The entitlement for unvested long service leave, payable beyond 12 months, has been calculated on an actuarial basis. The calculation is based on:

- likely future entitlement based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows. A discount rate of 7% has been used.

Statement of Cash Flows

Cash means cash balances on hand and held in bank accounts.

Operating activities include cash received from all income sources of the Serious Fraud Office and record cash payments made for the supply of goods and services, capital charge and personal costs.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise capital injections by, or repayment of capital to the Crown.

Goods and Services Tax (GST)

The Statement of Financial Position is exclusive of GST, except for Debtors and Creditors which are GST inclusive. All other financial statements are GST exclusive.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in Creditors and other payables or Debtors and other receivables (as appropriate).

Income Tax

Government departments are exempt from the payment of income tax as public authorities. Accordingly, no charge for income tax has been provided for.

Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the statement of commitments at the value of that penalty or exit cost.

Contingent Liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

Statement of cost accounting policies

The Serious Fraud Office has derived the costs of outputs shown in these statements using a cost allocation system which is outlined below.

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner, with a specific output.

Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity/usage information. Depreciation and capital charge are charged on the basis of asset utilisation. Personnel costs are charged on the basis of actual time incurred. Property and other premises costs, such as maintenance, are charged on the basis of floor area occupied for the production of each output. Other indirect costs are assigned to outputs based on the proportion of direct staff costs for each output.

There have been no changes in cost accounting policies, since the date of the last audited financial statements.

2: Revenue other

	30/06/08 Actual	30/06/07 Actual
	(\$000)	(\$000)
State Sector Retirement Savings Scheme recovery	108	142
Other	1	-
Total revenue other	109	142

3: Personnel costs

	30/06/08 Actual	30/06/07 Actual
	(\$000)	(\$000)
Salaries and wages	3,201	3,134
Employer contributions to defined contribution plans	109	114
Increase/(decrease) in employee entitlements	56	27
Fringe Benefit Tax	8	14
Total personnel costs	3,374	3,289

Employer contributions to defined contribution plans include contributions to the State Sector Retirement Savings Scheme and KiwiSaver.

4: Capital charge

A capital charge is paid to the Crown based on Taxpayers' Funds at 30 June and 31 December each year. The capital charge was 7.5% for the 2007/08 financial year (2006/07: 7.5%).

5: Other operating expenses

	30/06/08 Actual	30/06/07 Actual
	(\$000)	(\$000)
Audit fees for the financial statement audit	21	19
Audit fees for NZ IFRS transition	2	5
Consultancy	111	196
Rental and leasing costs	427	358
Net loss on disposal of property, plant and equipment	16	-
Legal fees	103	95
Travel expenses	299	230
Other operating expenses	540	492
Total other operating expenses	1,519	1,395

6: Debtors and other receivables

	30/06/08 Actual	30/06/07 Actual
	(\$000)	(\$000)
Debtor Crown	1	-
Other receivables	28	48
Total debtors and other receivables	29	48

The carrying value of debtors and other receivables approximates their fair value.

As at 30 June 2008 and 2007, the Serious Fraud Office debtors and other receivables are current.

7: Property, plant and equipment

	Office Furniture, fixtures and fittings (\$000)	Office equipment (\$000)	Computer equipment (\$000)	Motor vehicles (\$000)	Total (\$000)
Cost					
Balance at 1 July 2006	735	355	414	98	1,602
Additions	-	81	88	0	169
Disposals	-	-	-	-	-
Balance at 30 June and 1 July 2007	735	436	502	98	1,771
Additions	-	-	39	-	39
Disposals	-	-	(141)	(38)	(179)
Balance at 30 June 2008	735	436	400	60	1,631
Accumulated depreciation and impairment losses					
Balance at 1 July 2006	558	302	380	20	1,260
Depreciation expense	55	30	42	17	144
Eliminate on disposal	-	-	-	-	-
Balance at 30 June and 1 July 2007	613	332	422	37	1,404
Depreciation expense	51	32	35	11	129
Eliminate on disposal	-	-	(124)	(14)	(138)
Balance at 30 June 2008	664	364	333	34	1,395
Carrying amounts					
At 1 July 2006	177	53	34	78	342
At 30 June and 1 July 2007	122	104	80	61	367
At 30 June 2008	71	72	67	26	236

8: Intangible assets

	Acquired software (\$000)
Cost	
Balance at 1 July 2006	126
Additions	8
Disposals	-
Balance at 30 June 2007 and 1 July 2007	134
Additions	3
Disposals	(6)
Balance at 30 June 2008	131
Accumulated amortisation and impairment losses	
Balance at 1 July 2006	103
Amortisation expense	23
Disposals	-
Balance at 30 June and 1 July 2007	126
Amortisation expense	6
Disposals	(6)
Balance at 30 June 2008	126
Carrying amounts	
At 1 July 2006	23
At 30 June and 1 July 2007	8
At 30 June 2008	5

There are no restrictions over the title of the Serious Fraud Office's intangible assets, nor are any intangible assets pledged as security for liabilities.

9: Creditors and other payables

	30/06/08 Actual (\$000)	30/06/07 Actual (\$000)
Creditors	4	-
Accrued expenses	94	149
GST payable	34	33
Other payables	52	53
Total creditors and other payables	184	235

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

10: Repayment of surplus

	30/06/08 Actual (\$000)	30/06/07 Actual (\$000)
Net surplus/(deficit)	204	22
Total repayment of surplus	204	22

The repayment of surplus is required to be paid by the 31st October of each year.

11: Employee entitlements

	30/06/08 Actual (\$000)	30/06/07 Actual (\$000)
Current employee entitlements are represented by:		
Accrued salaries and wages	33	20
Annual leave	138	117
Sick leave	2	1
Long service leave (vested)	15	-
Total current portion	188	138
Non-current employee entitlements are represented by:		
Long service leave (unvested)	6	-
Total employee entitlements	194	138

12: Taxpayers' funds

	30/06/08 Actual (\$000)	30/06/07 Actual (\$000)
General Funds		
Balance at 1 July	387	387
Net surplus/(deficit)	204	22
Repayment of surplus to the Crown	(204)	(22)
General funds at 30 June	387	387

13: Reconciliation of net surplus/(deficit) to net cash from operating activities

	30/06/08 Actual (\$000)	30/06/07 Actual (\$000)
Net Surplus/(deficit)	204	22
Add/(less) non-cash items:		
Depreciation and amortisation expense	135	167
Add/(less) items classified as investing or financial activities:		
(Gains)/losses on disposal of property, plant and equipment	16	0
Add/(less) movements in working capital items:		
(Inc)/Dec in debtors and other receivables	19	(36)
(Inc)/Dec in prepayments	(15)	4
Inc/(Dec) in creditors and other payables	(37)	(70)
Inc/(Dec) in employee entitlements	56	27
Net movements in working capital items	23	(75)
Total cash from operating activities	378	114

14: Financial Instruments risk

The Serious Fraud Office is party to financial instrument arrangements as part of its everyday operations. The Serious Fraud Office's financial assets comprise cash and cash equivalents and debtors comprise creditors and other payables. The Serious Fraud Office was not party to any derivative financial instruments as at 30 June 2008.

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

	30/06/08 Actual (\$000)	30/06/07 Actual (\$000)
Loans and receivables		
Cash and cash equivalents	681	356
Debtors and other receivables (note 6)	29	48
Total loans and receivables	710	404
Financial liabilities measured at amortised cost		
Creditors and other payables (note 9)	(184)	(235)

The Serious Fraud Office has policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

The Serious Fraud Office has a letter of credit facility of \$85,000 to allow for the payment of employee salaries by direct credit.

Credit Risk

Credit risk is the risk that a third party will default on its obligations to the Serious Fraud Office causing the Serious Fraud Office to incur a loss.

In the normal course of its business the Serious Fraud Office incurs credit risk from debtors, and bank deposits.

The Serious Fraud Office is only permitted to deposit funds with Westpac, a registered bank with a high credit rating. For its debtors, the Serious Fraud Office has no concentrations of credit risk.

The Serious Fraud Office maximum credit exposure for its financial instruments is represented by the total carrying amount of cash and bank deposits and debtors. There is no collateral held as security against these financial instruments.

Currency and Interest Rate Risk

The Serious Fraud Office has no material exposure to currency risk, and its financial instruments are not interest rate sensitive.

Under section 46 of the Public Finance Act the Serious Fraud Office cannot raise a loan without Ministerial approval, and no such loans have been raised. Accordingly, there is no interest rate exposure for funds borrowed.

Liquidity risk

Liquidity risk is the risk that the Serious Fraud Office will encounter difficulty raising liquid funds to meet commitments as they fall due.

In meeting its liquidity requirements, the Serious Fraud Office closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. The Serious Fraud Office maintains a target level of available cash to meet liquidity requirements.

The table below analyses the Serious Fraud Office's financial liabilities that will be settled based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Less than 6 Months	Between 6 Month and 1 year
2007	(\$000)	(\$000)
Creditors and other payables (note 9)	235	0
<hr/>		
2008		
Creditors and other payables (note 9)	184	0

15. Capital Management

The Serious Fraud Office's capital is its equity (or taxpayers' funds), which comprises general funds. Equity is represented by net assets and is the Crown's net investment in the Serious Fraud Office.

The Serious Fraud Office manages its revenues, expenses, assets, liabilities, and general dealings prudently. The Serious Fraud Office's equity is largely a by-product of managing income, expenses, assets liabilities, and compliance with the Government Budget processes and with Treasury Instructions.

The objective of managing the Serious Fraud Office's equity is to ensure the Serious Fraud Office effectively achieves its goals and objectives for which it has been established, whilst remaining a going concern.

16: Related Party Transactions

The Serious Fraud Office is wholly owned by the Crown. The Government significantly influences the roles of Serious Fraud Office as well as being its major source of revenue.

The Serious Fraud Office enters into transactions with other Government departments, Crown entities and State-owned enterprises on an arm's length basis. Those transactions that occur within a normal supplier or client relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the Serious Fraud Office would have adopted if dealing with that entity at arm's length in the same circumstance are not disclosed.

Apart from the transactions described above the Serious Fraud Office has not entered into any related party transactions.

No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Key management personnel compensation

	30/06/08 Actual (\$000)	30/06/07 Actual (\$000)
Salaries and other short-term employee benefits	855	854
Past-employment benefits	-	-
Other long-term benefits	-	-
Total key management personnel compensation	855	854

Key management personnel include the Serious Fraud Office's Director and three members of the Senior Management Team.

17: Major Budget Variances

There is one major variance in the financial statements compared to the Main Estimates. The implementation of the Civil Forfeiture of Criminal Assets output class is subject to the passage of the Criminal Proceeds (Recovery) Bill. Consequently only \$92,000 operating expenditure was incurred against the \$1,475,000 output expense appropriation and the \$290,000 capital funding has been transferred to 2008/09.

18: Transition to New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)

The Serious Fraud Office's financial statements for the year ended 30 June 2008 are the first financial statements that comply with NZ IFRS. The Serious Fraud Office has applied NZ IFRS 1 First-time Adoption of NZ IFRS (NZ IFRS 1) in preparing these financial statements. The Serious Fraud Office's transition date is 1 July 2006. The Serious Fraud Office prepared its opening NZ IFRS balance sheet at that date. The reporting date of these financial statements is 30 June 2008. The Serious Fraud Office NZ IFRS adoption date is 1 July 2007.

The Serious Fraud Office has not applied any optional exemptions from full retrospective application in transitioning to NZ IFRS.

The only mandatory exception from retrospective application that applies to the Serious Fraud Office is the requirement for estimate under NZ IFRS at 1 July 2006 and 30 June 2007 to be consistent with estimate made for the same date under previous NZ GAAP.

Because there is no material change in equity and no change in net surplus/(deficit) between previous NZ GAAP and NZ IFRS no reconciliation of the previous NZ GAAP and NZ IFRS figures is required. The changes arising from adoption of NZ IFRS are as follows:

Statement of financial performance and statement of cash flows

Other than presentational changes, the change to NZ IFRS has not impacted the statement of financial performance and statement of cash flows.

Statement of financial position

The effect on transition of the 30 June 2006 financial position to the opening 1 July 2007 financial position:

- reclassify computer software as an intangible asset (net book value \$8,000); and
- recognise a current liability for sick leave (valuation \$1,000) under the provision for employee entitlements, with offsetting reduction to Taxpayers' Funds.

19: Post balance date events and going concern basis

On 3 September 2007, Cabinet [CAB Min (07) 32/5 refers] agreed that the Serious Fraud Office be disestablished and its functions, operations and resources relating to the detection, investigation and prosecution of serious fraud be integrated into a new *Organised and Financial Crime Agency* hosted within New Zealand Police. To give effect to this decision the Serious Fraud Office (Abolition and Transitional Provisions) Bill was introduced to parliament on 24 April 2008 and referred to the Law and Order select committee on 20 May 2008. On the 15 August the committee referred the Bill back to parliament with the recommendation that it be passed. The Bill had not passed at the time the House rose for the 2008 general election.

The financial implications of enactment have yet to be formally addressed, however it is anticipated that the net assets of the Serious Fraud Office would transfer to the Police at their carrying amounts. The Bill provides for the transfer of staff to the Police and for the Police to take over Serious Fraud Office's commitments; notably the accommodation lease in Auckland.

Given the current status of the Bill these financial statements have been prepared on a going concern basis.

There are no other significant events after Statement of Financial Position date.

Management Performance Information

CORPORATE AND COLLECTIVE INTEREST MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2008

During the current year the Government announced its intention to disestablish the SFO and to transfer its activities into the new Organised and Financial Crime Agency to be hosted within the Police.

As a result the Office has focused on maintaining the capability of the Office to facilitate the transfer of an effective fraud capability to the Police when the transfer takes place.

Equal Opportunities

We are committed to equal opportunities for all our staff and to ensuring that the employment policies and practices support the recruitment and retention of the widest possible range of skills.

Including the Director, the staff complement as at 30 June 2008 is 34 – 16 women and 18 men.

Information about the Department

The Office is committed to the maintenance of high professional standards in the attainment of its objectives.

Policy on Acceptance of Cases

Selection

For the purposes of determining whether an offence involves serious and/or complex fraud, the Serious Fraud Office Act 1990 provides that the Director, among other things, may have regard to the following four factors:

- the suspected nature and consequences of the fraud;
- the suspected scale of the fraud;
- the legal, factual and evidential complexity of the matter;
- any relevant public interest consideration.

It is not possible to be specific as to the cases that will be investigated and prosecuted by the Serious Fraud Office. However, the following criteria are generally considered:

- all fraud involving over \$500,000;
- all fraud perpetrated by complex means;
- any other complaint of fraudulent offending which is, or is likely to be, of major public interest or concern.

The Director has complete discretion in the selection of cases.

Referral of Cases

The Complaints Officer is available to be contacted by the public in the first instance. Complaints, and referral of cases, come from Government Departments, liquidators, receivers, statutory managers, professional associations and the general public. On occasions the Office is also pro-active in undertaking enquiries.

The Serious Fraud Office emphasises the need for expedition in enquiries relating to fraud and therefore encourages such contact at an early stage.

Where complaints are considered inappropriate for the Office, every endeavour is made to refer them to the relevant enforcement and/or regulatory body for further action.

Independence of Director

It is an important constitutional principle in New Zealand that decisions by law enforcement agencies on the investigation and prosecution of individuals should not be subject to political control or direction.

The Serious Fraud Office Act 1990 provides that, *"in any matter relating to any decision to investigate any suspected case of serious or complex fraud, or to take proceedings relating to any such case or any offence against this Act (the Serious Fraud Office Act 1990), the Director shall not be responsible to the Attorney-General, but shall act independently"*.

Handling of Cases

Every complaint received undergoes an initial assessment to determine whether it is a matter for the Serious Fraud Office. After this assessment, if the Director decides to act on a complaint, the first step is often a further consideration of all the documentary material – referred to as *"the detection stage"*.

At the completion of the detection stage the Director, after consultation with senior management, will then decide the next step. Some cases will be closed at this stage, others upgraded to a full investigation.

Some cases will move to the full investigation stage immediately after assessment, where the available evidence supports that step.

Experienced investigators and forensic accountants work together on investigations, under the overall supervision of the senior management team. Typically, potential witnesses and suspects are interviewed, documents obtained and analysed, and financial transactions researched. Investigation teams regularly exchange information and share experiences and expertise in order to maintain consistency.

Prosecutors are assigned to each investigation. They advise on legal issues, including the exercise of the powers of the Office.

Appraisal meetings are held regularly (usually monthly) to ensure that for each investigation and prosecution an appropriate level of resources is being applied, professional standards and disciplines are being adhered to, and proper progress and direction is being maintained. All current files being worked on are considered at these appraisal meetings.

On the completion of a full investigation the Director holds a review of that case attended by the investigation team and senior management. At the conclusion of the review, the Director determines whether a prosecution is appropriate.

The Serious Fraud Office Act 1990 provides for a panel of experienced barristers to conduct all prosecutions. The Director instructs a member of this panel to conduct a particular prosecution. The Office staff prepare the prosecution file, brief evidence and assist in the conduct of the prosecution.

Powers of the Serious Fraud Office

The powers of the Office are prescribed in the Serious Fraud Office Act 1990. The Director has wide powers to undertake the detection and investigation of serious or complex fraud.

It is essential that the Serious Fraud Office obtains the necessary information to assess a complaint, carry out detection and decide whether an investigation should be commenced.

The powers for detection and investigation are far-reaching; it is not only persons suspected of offences that must provide information to the Director, but also anyone holding information which the Director considers may be relevant to an investigation. These powers of compulsion are a vital investigative tool in the area of serious fraud offending.

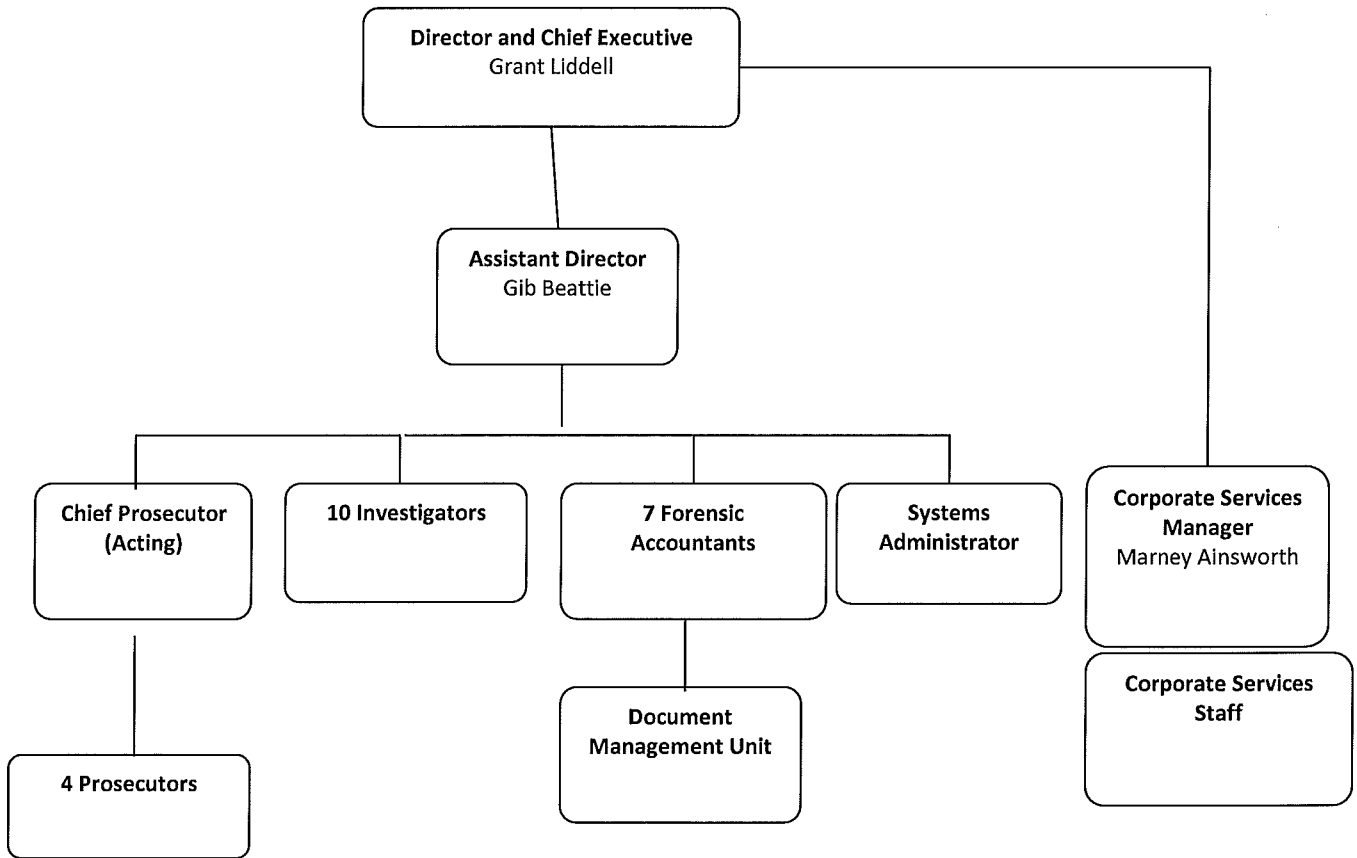
Legal Responsibilities

The Serious Fraud Office operates under the Serious Fraud Office Act 1990. All requirements of that Act have been met. In this report under 'Use of Statutory Powers' (page 20) there is an analysis of the notices issued under the Act.

MANAGEMENT AND STRUCTURE

Nine staff resigned and nine appointments were made during the year. As at 30 June 2008 the staffing level is 33.

Organisational Structure



SERIOUS FRAUD OFFICE ACT PANEL OF PROSECUTORS AS AT 30 JUNE 2008

Auckland

J A Farmer QC
J C Gordon
M R Heron
D P H Jones QC
S J E Moore
M J Ruffin
M A Woolford

Christchurch

N R W Davidson QC
B M Stanaway
Nicholas Till QC
Tom Weston QC
M N Zarifeh

Dunedin

R J Bates
Marie Grills

Hamilton

P J Morgan QC

Wellington

R M Lithgow QC
K P McDonald QC
R B Squire QC
J O Upton QC
Grant Burston

Whangarei

P J Smith