

SFO 

SERIOUS FRAUD OFFICE
Te Tari Hara Taware

ANNUAL REPORT
2013



SERIOUS FRAUD OFFICE

PO Box 7124
Wellesley Street
Auckland 1141

Level 6
21 Queen Street
Auckland 1010
Ph: (09) 303 0121
Fax: (09) 303 0142
Email: sfo@sfo.govt.nz
www.sfo.govt.nz

Complaints

Email: complaints@sfo.govt.nz
Freephone: 0800 109 800



Except where otherwise noted, this work is licensed under
<http://creativecommons.org/licenses/by/3.0/nz/>

ISSN 1176-9630 (Print)
ISSN 1174-0213 (Online)
E.40 Annual Report (2013)

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

CONTENTS

| | |
|---|----------------------------|
| 2 | Chief Executive's overview |
| 4 | Achievements at a glance |
| 6 | Foreword |

PART 1 WHAT WE DID AND ITS IMPACT

| | |
|----|--|
| 8 | Strategic context |
| 10 | Strategic case selection |
| 12 | Early intervention |
| 14 | Emerging areas of financial crime |
| 16 | Interagency cooperation |
| 18 | Resource sharing and specialist skills |
| 20 | Effective communication and engagement |
| 22 | Financial crime awareness education |

PART 2 ORGANISATIONAL CAPABILITY AND PERFORMANCE

| | |
|----|---------------------------------------|
| 26 | Our people |
| 27 | Our systems, processes and technology |
| 28 | Effective use of resources |
| 29 | Managing our risks |
| 30 | Reputation and integrity |

PART 3 SERVICE PERFORMANCE AND FINANCIAL STATEMENTS

| | |
|----|----------------------------------|
| 32 | Statement of responsibility |
| 33 | Statement of service performance |
| 39 | Financial statements |
| 64 | Independent auditor's report |

APPENDICES

| | |
|----|--|
| 67 | Appendix 1 – Organisational structure |
| 68 | Appendix 2 – Employee demographics |
| 69 | Appendix 3 – Business processes of the Serious Fraud Office |
| 70 | Appendix 4 – Use of statutory powers |
| 71 | Appendix 5 – Serious Fraud Office Panel Counsel as at 30 June 2013 |

CHIEF EXECUTIVE'S OVERVIEW

The 2012/13 year has been a watershed year for the Serious Fraud Office (SFO). It has been a year of bedding down and consolidating on the rapid changes caused by the substantial investment made in rebuilding SFO. The past year brings to completion our work addressing the turmoil in the financial markets caused by the global financial crisis. It has also seen us formulate and begin to implement a sustainable long term strategy for SFO.

Operationally, the year saw us bring the finance company investigations to an end. By year end we had completed 15 finance company investigations and commenced prosecutions for nine of those. Of those prosecutions, seven have already returned convictions, with three cases remaining with some or all of the defendants to face trial. The year also saw us complete a number of investigations and prosecutions relating to personal investment advisor or Ponzi scheme frauds. The majority of these cases are nearing completion. While the final prosecutions will continue to engage significant resources, it marks the passing of a significant milestone for SFO.

In total, SFO launched 30 new investigations. We completed 83 percent of our investigations within 12 months.

As resources became available, our focus moved to new emerging areas of fraud such as the risks surrounding the Canterbury earthquake rebuild and the threat to our economy posed by corruption and bribery. While the rebuild remains in its early stages, we have investigated, and continue to investigate an increasingly significant number of cases of concern. However the most notable emerging threat of the year has been a significant rise in the number of corruption and bribery complaints received, resulting in significant investigations, some of which entered or were close to entering the prosecution phase by year end.

We have also progressed and completed the investigation of a wide range of cases in more traditional areas; mortgage fraud, employee fraud, and addressing high profile confidence fraudsters.

The year's results have been pleasing. We have achieved an extremely high conviction rate for the prosecutions we have taken. We have held, and in some cases improved, our high operational performance of the past two years. One of our most satisfying achievements has been the outcome of our stakeholder survey. These results have confirmed the high regard our peers have for the work of SFO and how highly they perceive our effectiveness in combating financial crime.

Stakeholders gave us 7.7 out of 10 when asked to rate the effectiveness of our investigations and prosecutions.

This reinforces we are achieving our primary goal of building confidence in the resilience of our financial markets and economic infrastructure to financial crime. Our overriding aim remains to support the Government's goals of developing a confident business environment, increasing confidence in the justice system, especially for victims of financial crime, and contributing to Better Public Services.

This year we have confirmed our strategic intentions and priorities and have been making real progress on bringing those to fruition.

Those priorities have been:

- **Early intervention through intelligence led detection.** During the year we built our intelligence capacity, invested in technology and built strong connections with the intelligence activities of our partner agencies. In Christchurch we have been instrumental in establishing the Christchurch fraud prevention group and the insurance fraud group involving both public sector agencies and private sector stakeholders;
- **Efficient interagency responses to financial crime through development and sharing of our core financial investigation and forensic accounting capacity.** This year we undertook a series of joint operations with New Zealand Police (Police) and other frontline regulatory agencies. We have also supported those agencies with the secondment of specialist resources and other technical assistance;
- **Domestic and international engagement.** Highlights of the year were financial crime awareness seminars for the public and private sectors conducted in Auckland and Christchurch, hosting the inaugural international Economic Crime Agencies Network meeting in Auckland and implementation of our stakeholder engagement plan. We also developed additional resources for the victims of financial crime.

We have made further progress improving our internal systems and efficiencies, progressing and refining our training programmes, acquiring an integrated case management system and further refining our quality assurance processes and measures.

In 2012/13 we brought 16 prosecutions, charging 29 individuals.

The year has not been without challenges and uncertainties, but SFO has risen well to these and is well placed to address new and emerging risks to the New Zealand economy. Success will not be measured by resolving high profile cases that have already delivered substantial damage to the New Zealand economy, as has been the experience of the last three years. Success will involve steady and incremental improvements in our resistance to financial crime.

By maintaining our capability we will avoid a repetition of the past and will minimise the impact of financial crime to sustain a confident and healthy economy.

As always, it is essential that I pay tribute to the efforts of the Panel Counsel who have supported SFO throughout the year with dedication and expertise. Along with our professional advisors from other professions and industries, they are fundamental to the success we enjoy.

I also need to acknowledge and express my thanks for the support our work has received from our Minister, the Hon Anne Tolley, throughout the year.

“we are achieving our primary goal of building confidence in the resistance of our financial markets and economic infrastructure to financial crime”

Finally the SFO team, including those with us temporarily during the year on secondment from Police, the Crown Law Office or elsewhere, are due a large vote of thanks. Thank you for another year of hard work, enthusiasm and dedication. The successes we can demonstrate are the result of the passion and commitment you have shown during the year, and you deserve to be extremely proud of those achievements.



Simon McArley
Acting Chief Executive

ACHIEVEMENTS AT A GLANCE

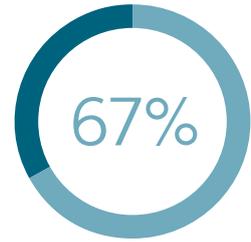
KEY ACTIVITIES



CHARGES AND CONVICTIONS



conviction rate



rate of custodial
sentences secured

4.67
YEARS

average imprisonment sentence

JOINT INVESTIGATIONS

7
joint investigations
with other agencies

KEY STATISTICS

287,779 documents scanned
as evidence

430 interviews conducted
by investigators

83% rate of investigations completed
within a 12 month period

15 OF 15 finance company
investigations completed

3.7 YEARS average imprisonment sentence
for completed finance company
investigations

3 OF 9 finance company
prosecutions to be
completed

COMPUTER FORENSICS

174
ITEMS

taken to the New Zealand
Customs lab for forensic analysis

717.4
HOURS

of computer forensics work
spent on investigations

TYPES OF SERIOUS FINANCIAL CRIME

13
Investment

5
Corruption
and bribery

4
Foreign

3
Advertising
invoice scam

2
Insurance

2
Secret
commission

1
Forgery

FOREWORD

In accordance with section 44(1) of the Public Finance Act 1989, I submit the following report on the operations of the Serious Fraud Office for the period 1 July 2012 to 30 June 2013. This includes the audited financial statements in Part 3 of this report.



Simon McArley
Acting Chief Executive

Role of the Serious Fraud Office

The Serious Fraud Office was established as an operational department by the Serious Fraud Office Act 1990 (the Act). Its point of difference from other government agencies is its sole mandate to focus resources on detection, investigation and prosecution of serious financial crime. Since its inception SFO has been a specialist law enforcement agency which detects, investigates and prosecutes New Zealand's most serious and complex financial crimes. With 23 years of experience, SFO has built a solid understanding of the drivers of serious financial crime. Given this depth of experience, the strategic focus has turned to early detection, with more extensive collaboration with other agencies investigating fraud. In taking this approach SFO seeks to minimise the longer term impacts of financial crime. This work contributes to the wider economic outcome of increased confidence and participation in New Zealand's financial markets and Better Public Services outcomes for the Justice sector.

The Serious Fraud Office administers Vote Serious Fraud, and the Minister of Police is responsible for its financial performance.

Independence of the 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. Therefore, all SFO's operational decisions are made without ministerial direction. Section 30 of the Act 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 Director shall not be responsible to the [responsible Minister], but shall act independently"*.

Powers of the Serious Fraud Office

The complexity of financial crimes and the sheer volume of documentary evidence associated with investigations create enormous challenges for a law enforcement agency. For this reason SFO has particular statutory powers to compel the production of documents and to require witnesses or suspects to answer any question put to them. These powers, although coercive, are an essential tool in uncovering evidence of financial crime, but also ensure that any witness is relieved of any liability for otherwise unlawful disclosure of evidence. For this reason by far the most frequent use of coercive powers is at the request of an otherwise willing witness. Appendix 4 summarises the instances in which SFO has used these powers as part of its investigative role.

Justice sector

SFO works within the context of the Justice sector which is led by the Ministry of Justice (MoJ). Its primary focus within the sector is on collaboration with New Zealand Police (Police) and the Crown Law Office on operational matters to reduce crime, enhance public safety and provide modern, accessible and cost-effective services. SFO provides input into the Justice sector policy development process when required. SFO's point of difference within the sector is its size and operational focus. As a small agency we have the flexibility to change priorities quickly in order to investigate arising cases which are deemed to have greater impact on the economy or the public's perception that perpetrators are being held to account. As an operational agency we provide the Justice sector with hands-on experience of financial crime, which can inform policy on future regulatory frameworks and education which can deter, detect and prevent future financial crime.



PART 1
WHAT WE DID
AND ITS IMPACT



STRATEGIC CONTEXT

Our activities aim to contribute to the Government's long term goal of building a more competitive and internationally-focused economy. We achieve this by focusing on the detection, investigation and prosecution of financial crimes that threaten the integrity or stability of New Zealand's economic or legal systems. We seek to minimise the frequency and impact of serious financial crime on its victims, including investors and taxpayers. We achieve this by conducting investigations which lead to successful prosecutions in order to hold perpetrators to account and provide a deterrent to the commission of further serious financial crime.

Our 2012-2015 Statement of Intent describes the intended outcomes and impacts of our activities as:

→ **ECONOMIC A confident business environment that is largely free of serious financial crime.**

- business and investor confidence in the integrity of our financial markets is increased
- the regulatory environment minimises the risks and impacts of financial crime

→ **JUSTICE A safe and just society that is largely free of fraud, corruption and bribery.**

- public and victims' confidence that those who commit financial crime are held to account is increased
- New Zealand maintains its international reputation for very low levels of corruption and bribery

This Annual Report summarises how our work this past year has supported the strategic focus outlined in our 2012-2015 Statement of Intent and how we delivered to achieve the intended outcomes and impacts.

Serious financial crime has direct impacts in terms of the monetary losses suffered by victims, and indirect impacts of the economic damage to investor confidence, capital flight and the support which can be made available to victims.

In 2012/13 we focused on the seven priority areas of: strategic case selection; early intervention; identification of emerging risks; increased interagency cooperation; development and application of our specialist skills; effective communication and engagement; and raising awareness of financial crime.

Our highly skilled team is focused on achieving SFO's outcomes and we have used a number of indicators to monitor our progress. SFO conducted surveys with key stakeholders and victims of financial crime, and analysed results from prosecutions and international benchmarking surveys. These results, as well as intelligence from our networks in New Zealand and overseas, have enabled us to keep our strategies current and flexible. We can respond rapidly to circumstances which affect financial crimes and impact upon New Zealand's economic environment.

The cases which we have highlighted throughout this Annual Report demonstrate how one case has multiple impacts on achieving the outcomes.

2012-2015 Outcomes Performance Framework

Table I illustrates how the priority areas we focused on during the year have delivered across the results and impacts. It demonstrates that our work is not linear, with one case often having a multitude of impacts.

Table 1: Key Achievements within Serious Fraud Office Outcomes Framework 2012-2015

| | OUR ACTIVITIES | STRATEGIC CASE SELECTION | EARLY INTERVENTION | EMERGING AREAS OF FINANCIAL CRIME | INTERAGENCY COOPERATION | RESOURCE SHARING AND SPECIALIST SKILLS | EFFECTIVE COMMUNICATION AND ENGAGEMENT | FINANCIAL CRIME AWARENESS EDUCATION |
|--------|---|--------------------------|--------------------|-----------------------------------|-------------------------|--|--|-------------------------------------|
| RESULT | Financial crimes being detected earlier, thereby minimising the impacts on the economy and victims | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ |
| | An improved level of corporate responsibility by businesses ensuring their systems are designed to prevent and detect fraud | | | | | | ✓ | ✓ |
| | More effective use of intelligence obtained by SFO and other agencies | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | Policies being developed which take into account the changing nature, scale and impact of financial crime in New Zealand | | ✓ | ✓ | ✓ | | ✓ | ✓ |
| | Conviction rates and sentencing levels deterring future offending | ✓ | | | | | | |
| | Public awareness being raised as to the impact of financial crime on society | ✓ | ✓ | ✓ | | | ✓ | ✓ |
| | Business in New Zealand conducted in an honest and transparent environment | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | An efficient and effective open market being maintained | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IMPACT | Business and investor confidence in the integrity of our financial markets is increased | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | The regulatory environment minimises the risks and impacts of financial crime | ✓ | ✓ | | ✓ | ✓ | ✓ | |
| | Public and victims' confidence that those who commit financial crime are held to account is increased | ✓ | ✓ | ✓ | | | ✓ | ✓ |
| | New Zealand maintains its international reputation for very low levels of corruption and bribery | ✓ | | ✓ | | ✓ | ✓ | ✓ |

STRATEGIC CASE SELECTION

As a government agency SFO must deliver on its outcomes within a modest and constrained budget. We therefore assess cases, prioritising those with the greatest impact on our economic or justice outcomes. This has seen us focus on cases which involve greater losses, a larger number of victims, involve publicly funded entities, or otherwise involve offending which may have a materially adverse effect on the New Zealand economy.

In 2012/13 we commenced 30 investigations. Each case was strategically selected to ensure our overall impact was maximised. These were cases with a high level of public interest and scale and impact that was large, or had the potential to be large.

Our case selection criteria ensured that we tackled the 'tough' cases where areas of legal uncertainty needed to be tested in the public interest. Appendix 3 summarises the process we undertook to choose cases to be investigated, and the life cycle of a case from consideration to prosecution.

Overall our case selection and subsequent successful prosecution with substantive sentencing is a key factor in working to build business and investor confidence in the integrity of New Zealand's financial markets. It also provides public confidence that perpetrators are being held to account.

Prosecution in the public eye

LOIZOS MICHAELS

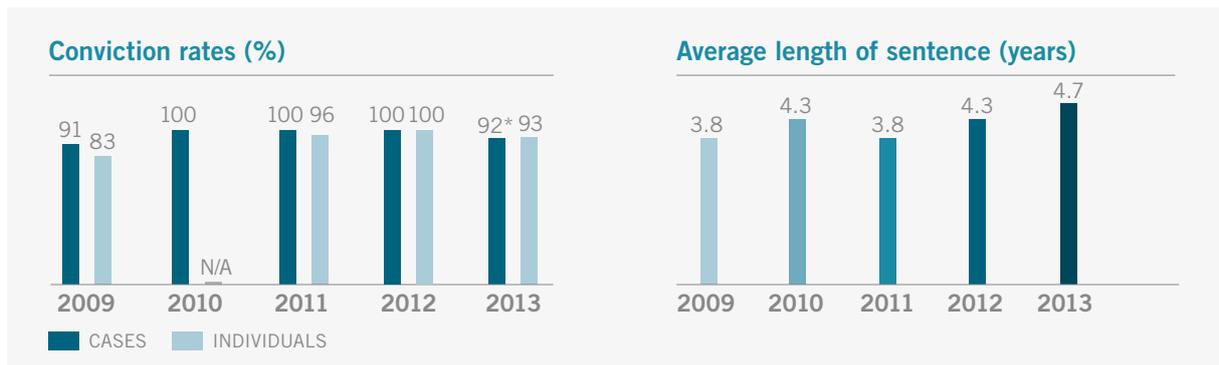
Loizos Michaels defrauded 19 people in New Zealand of over \$3 million between 2007 and 2008. His exploits involved convincing a range of people, including casino executives, moteliers and even a high profile sports star, that he was a wealthy businessman backed by overseas interests. After gaining their trust he then proceeded to defraud them of significant amounts of money. The case gained notoriety because of the people involved and the elaborate and complex deceptions.

Mr Michaels' offending was not limited to New Zealand. SFO worked in close cooperation with the Queensland Police Service who gave evidence in his New Zealand trial of similar conduct in Australia. Both the Victorian and Queensland Police assisted in the apprehension, detention and subsequent extradition of Mr Michaels after he failed to return to a Court hearing in New Zealand. In December 2012 Michaels was sentenced to eight years' imprisonment after being found guilty of 30 charges under the Crimes Act 1961 of obtaining or causing loss by deception.

Measuring our impact

We monitor public and victims' confidence that perpetrators are being held to account in a number of ways. By analysing sentences following convictions, over time we are able to demonstrate to the public the real consequences of financial crime.

While imprisonment and sentence length do not provide financial recompense for the losses suffered by victims, they do provide a sense of justice to those defrauded and ensure accountability. They also play an important role in ensuring cases involving significant financial crime have a high public profile. High profile cases provide an opportunity to share messages about the impact of serious and complex financial crimes on both immediate victims and the wider business community. They also act as a strong deterrent to others.



* The Capital and Merchant case was split into two. The individuals charged in the first case were acquitted but were subsequently convicted, together with an additional defendant, in the second case.

By selecting this case, SFO has raised awareness about the impact of serious financial crime and demonstrated that serious offenders were being brought to account, thereby improving public confidence. It demonstrated the importance of well-developed international relationships. Through strong international collaboration, SFO was able to strengthen its case against this serial fraudster. This case achieved the following result and impacts we are seeking to achieve:

RESULT:

- Business in New Zealand is conducted in an honest and transparent environment

IMPACT:

- Public and victims' confidence that those who commit financial crime are held to account is increased
- New Zealand maintains its international reputation for very low levels of corruption and bribery

The public and victims of crime have increased confidence when criminals, regardless of who they are, or in Michaels' case who they say they are, are held to account.

To maintain effectiveness, we have adopted a target of at least 75 percent of prosecutions resulting in a custodial sentence. This was exceeded in 2012/13 at 84 percent. Though the rate was lower than in the previous year (95 percent), the average length of the sentences imposed increased in 2012/13 to 4.7 years from 4.3 years and the rate of imprisonment increased to 67 percent. The overall increase in the length of sentences and imprisonments ordered over the last five years are strong indicators that our case selection is working.



In the past we have also assessed business confidence by monitoring New Zealand’s position on the Global Opportunity Index - Attracting Foreign Investment (previously the Capital Access Index) produced by the Milken Institute¹. This new survey index provides a baseline assessment for countries seeking to improve their business environments and attract foreign investors. New Zealand had a ranking of third out of 106 countries in 2010. The survey was updated in 2012, however it did not include New Zealand as insufficient data was available.

We have recently extended our surveys to include victims of crime and the public to measure our effectiveness on public confidence that perpetrators are being held to account. These surveys are run every second year. In 2011/12 we asked victims of financial crime if they felt the actions of SFO helped ensure that offenders were being held to account. With 100 percent stating they agreed, the survey will be run in 2013/14 and will measure progress made over the past two years with respect to all aspects of our work to ensure that confidence that perpetrators are continuing to be held to account is maintained.

EARLY INTERVENTION

The longer financial crimes go undetected, the greater their impact on victims and the economy. In 2012/13 we continued our focus on detecting complex financial crime early to lessen such impacts.

We have placed greater emphasis on intelligence gathering to enable early disruption of criminal activity. Last year we continued to build our intelligence gathering capabilities within SFO, employing an intelligence analyst, implementing a new database and introducing a new complaint system to better record intelligence. In addition we implemented the Wynyard Investigator. This software allows us to better capture and analyse information gathered during investigations for later intelligence purposes.

1. The Milken Institute is a non-partisan independent Think Tank based in Washington DC, USA.

As an agency, we cannot minimise financial crime on our own. We continue to increase our engagement with key public and private sector stakeholders who are likely to be involved in the early detection of financial crime. In the past year we worked with other government agencies and businesses to ensure there was an improved level of corporate responsibility and that the right systems are designed to prevent and detect fraud earlier. By working to identify potential fraud, we are supporting New Zealand's long-standing reputation as one of the least corrupt countries in the world and minimising the impacts on the economy and victims.

Early intervention stops greater losses

ELITE PACKAGING

Paul Normington was Purchasing Manager for an Auckland-based dairy producer. His primary role was to identify reputable suppliers, negotiate commercial terms and place orders to meet the demand for the plant. Jin Weifeng was employed as Purchasing Assistant around the same time, providing support to Mr Normington. Mr Weifeng was later promoted to Warehouse Manager where he was responsible for supervising all employees in the warehouse.

Mr Normington and Mr Weifeng were both employees of the same company when they set up Elite Packaging Limited as a supplier to the company that employed them. After setting up Elite Packaging, the pair created orders and submitted invoices to the company for product, such as pallets and packaging tape, that never existed.

Together the pair faced 28 charges; Mr Normington 17 charges and Mr Weifeng 11 charges, for participating in a number of transactions to defraud their employer by creating false invoices, theft of product or by receiving secret commissions. Mr Normington also copied electronic files from his employer's servers for his own benefit.

The pair pleaded guilty in December 2012. Mr Normington has been sentenced to 15 months' imprisonment and Mr Weifeng to five months' home detention and ordered to pay \$25,000 reparation.

This case demonstrates how early intervention by SFO halted the potential for much greater offending and losses within the dairy industry. The case achieved the following results and impacts we are seeking to achieve:

RESULT:

- Financial crimes being detected earlier, thereby minimising the impacts on the economy and victims
- Public awareness being raised as to the impact of financial crime on society

IMPACT:

- Business and investor confidence in the integrity of our financial markets is increased
- Public and victims' confidence that those who commit financial crime are held to account is increased



During 2012/13 our early intervention initiatives included:

- Identifying the risk of financial crime occurring during the Christchurch rebuild and working with Christchurch Earthquake Recovery Authority (CERA) and other agencies to address this risk. We established a financial crime working group to better coordinate enforcement and intelligence responses. We worked closely with the insurance industry and established an insurance fraud working group. In establishing these groups we significantly increase our ability to identify offending earlier in the rebuild process and limit the scope and impact of offending.
- Establishing a financial crime analysts group and better sharing of information with the Police Financial Intelligence Unit.

Measuring our impact

We measure the effectiveness of our detection strategies by adopting a target for self-initiated cases. In the past year we have completed 24 self-initiated evaluations against a target of 20. These self-initiated cases result from the reorientation by our Evaluation and Intelligence team to take a more proactive approach to early intervention.

We now have an improved capacity for early intervention after appointing a senior intelligence analyst and further developing our stakeholder engagement plans so we can receive early notification of potential issues.

Our work in Christchurch has raised the awareness of potential financial crimes and resulted in both public and private sector organisations reviewing and improving their business systems.

EMERGING AREAS OF FINANCIAL CRIME

In recent years a key piece of work for our teams was addressing crime carried out within finance companies. During the 2012/13 year we completed the investigations resulting from the global financial crisis. While some prosecutions remain to be completed, we now have more capacity to broaden our focus into emerging areas of financial crime in New Zealand.

One such area is corruption and bribery. SFO is New Zealand's lead agency for the investigation of corruption and bribery. We work closely with the Police and have memoranda of understanding (MOUs) with other law enforcement agencies based on specific cases and the resources required. This includes international jurisdictions.

We place a particular emphasis on our international obligations under the United Nations and the Organisation for Economic Co-operation and Development (OECD) conventions. An example of this is our work on the resistance to bribery of foreign officials by New Zealand companies and how New Zealand is perceived internationally. In the past year we worked with Transparency International and the Ministry of Justice, among other agencies, on the OECD Working Group on Bribery Assessment of New Zealand.

During the year we have seen an increase in corruption and bribery complaints. There was a heightened awareness of these areas as a result of our education and the efforts of the OECD Working Group. We commenced five corruption and bribery related investigations during the year, and more than one of these has progressed to the prosecution stage.

By focusing on corruption and bribery as an emerging area of financial crime we are ensuring that New Zealand maintains its international reputation and the impact of financial crime is minimised.

Corrupt scheme to defraud North Shore City Council

HEMANT MAHARAJ AND SURESH DIN

Hemant Maharaj and Suresh Din were working for the North Shore City Council in 1999 when they formed an agreement to invoice the Council for road and berm maintenance work. The work was never completed. They used 151 invoices, with Mr Din submitting the invoices under the name of S Din Family Trust. After the invoices were submitted by Mr Din, Mr Maharaj would sign off the work as being completed and forward the invoice for payment.

SFO laid charges in September 2010 and the pair were found guilty in June 2013 of four joint charges of using a document with intent to defraud and seven charges of dishonestly using a document over a period of approximately 10 years.

Mr Maharaj has also been found guilty of two charges of attempting to pervert the course of justice in relation to the alteration and provision of a diary and the creation of a receipt book. Mr Din has been found guilty of one charge of using a document with intent to defraud and six charges of dishonestly using a document in relation to the use of income tax returns that claimed expenditure he had not incurred.

Corruption and bribery, particularly where there is an abuse of public funds by corrupt public employees, is a high priority of SFO. SFO acted decisively against Mr Maharaj and Mr Din and their corrupt scheme within the North Shore City Council. The pair used their roles as an employee and a contractor within the Council to obtain approximately \$850,000 in illegal funds.

While New Zealand has a very clean record of corruption within the public sector, SFO believes that only vigilance and robust internal processes will enable New Zealand to maintain this reputation. This case demonstrates SFO's commitment to addressing emerging financial crime. The case achieved the following result and impacts we are seeking to achieve:

RESULT:

- Public awareness being raised as to the impact of financial crime on society

IMPACT:

- Public and victims' confidence that those who commit financial crime are held to account is increased
- New Zealand maintains its international reputation for very low levels of corruption and bribery

It may take courage but SFO strongly recommend people bring matters to our attention when they suspect unethical practices.

Over the year we also identified a number of other areas of emerging risks. This included the risks arising out of the Canterbury earthquake rebuild. A greater focus on the Canterbury rebuild has also led us to identify another emerging risk area: procurement and construction fraud. In the past year we have seen an increasing number of allegations of procurement and construction fraud. These are not just connected to Christchurch but across the wider industry in New Zealand. International experience shows that the construction industry features highly in financial crime risk surveys. These typically involve allegations of payments for non-completed work or secret commissions and payments.

Measuring our impact

The Transparency International² Corruption Perception Index (CPI) is the measure we use to quantify the success of our anti-corruption work and our ability to maintain New Zealand's image as a mostly corruption-free nation. The CPI measures the perceived level of public sector corruption and bribery in New Zealand.

The table below shows New Zealand's excellent top ranking in recent years. The five year trend demonstrates to those investing in New Zealand that they can do business without bearing the added cost of corruption and bribery. Our goal is to remain ranked within the top three corruption-free nations.

| Transparency International Corruption Perception Index | | | | | | |
|--|--------------------------|--|----------------------|---|----------------------|---|
|  | NEW ZEALAND RANKS | 2008 FIRST EQUAL DENMARK, SWEDEN | 2009 FIRST | 2010 FIRST EQUAL SINGAPORE, DENMARK | 2011 FIRST | 2012 FIRST EQUAL FINLAND, DENMARK |

INTERAGENCY COOPERATION

Knowledge sharing and collaboration is a fundamental part of the process of improving the current regulatory framework in a cost-effective way. In order to ensure a safe and just society that is largely free of fraud, corruption and bribery, the regulatory environment must make committing financial crimes more difficult and detection and prosecution of fraud more effective.

Our aim has been to lead greater collaboration between agencies in addressing serious financial crime. All agencies with an interest in financial crime need to work together to identify the gaps in their own jurisdictions as well as understanding how they impact across the economy. In 2012/13 we focused on finding opportunities to collaborate with other agencies which has resulted in greater intelligence available across all relevant agencies and resulted in quicker conclusions to our investigations.

Over the year, seven SFO investigations benefited from a collaborative approach with other public sector and private agencies, including those from international jurisdictions. By working together on these cases we not only achieved overall cost efficiencies and greater effectiveness, but improved the long term regulatory capacity of the agencies we worked with. There is now an established template for coordinated efforts to detect future offending and undertake joint investigations.

2. Transparency International is a non-partisan network, headquartered in Berlin, which aims to reduce global corruption through a variety of initiatives (see www.transparency.org/whoware/organisation). The 2013 results are not yet published.

Joint investigation results in guilty plea

ROSS ASSET MANAGEMENT

David Ross had carried on an extensive funds management and financial advisory business for over 10 years. He had a wide and diverse client base. Following complaints in October 2012 from clients experiencing difficulty accessing their funds, the FMA moved to preserve investors' funds and SFO and FMA commenced a joint investigation into the Ross Asset Management (RAM) business.

It was alleged by the RAM receivers that the company was running a \$400 million Ponzi scheme, impacting 1,200 RAM client accounts. SFO joined the investigation because of the potential loss, the large number of victims, the concerns raised by the receivers, the complexity of the case and the significant public interest.

SFO's investigation concluded that Mr Ross had conducted a Ponzi scheme which he disguised by falsely reporting clients' investments.

The investigation showed that a large portion of client portfolios shown as invested through a broker 'Bevis Marks' were likely to have been fictitious, resulting in an overstatement of investment positions by more than \$380 million. Initial inquiries by receivers PricewaterhouseCoopers had shown investments of only \$10.2 million actually existed.

SFO worked alongside FMA, providing the expertise to address the alleged serious criminal offending and to protect the interests of the victims. Through utilising SFO's skills and experience, a complex investigation was completed to a high quality, in a timely manner with a very successful result. It demonstrates the efficiencies of effective interagency cooperation. The case also achieved the following results and impact we are seeking to achieve:

RESULT:

- Business in New Zealand conducted in an honest and transparent environment
- An efficient and effective open market being maintained

IMPACT:

- The regulatory environment minimises the risks and impacts of financial crime

By completing high profile investigations such as RAM in a timely manner, SFO was able to have a major impact on increasing business and investor confidence.

We continued to see the benefits from the MOUs with Police and FMA to ensure seamless operational collaboration between these agencies, including coordination of investigations around financial crime, corruption and bribery, secondments and resources. Our work also included:

- joint investigations
- identifying opportunities for developing systems to gather financial crime intelligence and opportunities to share information and experiences.

Measuring our impact

Our regular stakeholder survey measured our collaboration with other agencies, as well as our responsibilities and how we influenced and supported policy development. A common theme among respondents was that close collaboration between stakeholders and SFO was considered valuable.

A typical survey response provided by one professional services provider was:

“Their ability to work with and alongside other government agencies is certainly a positive attribute. And when I say that, I think particularly of the FMA, where I think there are real synergies between the SFO and the FMA and certainly they have worked alongside each other very effectively on certain files in the last couple of years; similarly with Police.”

Almost 60 percent of the stakeholders (18 out of 31) surveyed said they had noticed significant changes to the SFO in the past 12 months, with 80 percent commenting on SFO working more closely with other government agencies and building effective relationships with these agencies.

RESOURCE SHARING AND SPECIALIST SKILLS

In 2012/13 we focused on cementing our reputation as a ‘centre of excellence’ for financial investigation and forensic accounting within the New Zealand public sector agencies and internationally. We recognise that to get maximum efficiency from our specialist skills we need to share them across the public sector, thereby enabling other agencies to achieve success while avoiding duplication of resource. As well as collaborating on joint investigations and providing ad hoc support, we provided forensic accountants on short term secondments to Police and other agencies.

In a sector as specialised as ours, the skills, commitment and professionalism of our people are key to achieving our goals. We worked hard to maintain and develop our capability in order to be one of the leading employers of forensic accounting and financial crime investigation expertise.

By building and maintaining our expert capabilities we have not only worked to maintain New Zealand’s reputation, but also to position ourselves as a world leader in our field.

Specialist expertise leads to arrests

OPERATION EDIT

It was alleged that a group of individuals were operating a scheme that sold and invoiced for advertising in magazines that were either never printed, or the number of magazines that were printed and circulated was grossly exaggerated. The magazines were generally titled in a way that suggested worthwhile causes in subjects such as road safety, parenting or drug addiction. It was alleged that the scam has generated up to \$1.6 million since 2008. At least one of the group had previously faced regulatory action for similar pro-forma invoicing activities, but appeared to be continuing the activity.

A multi-agency taskforce was created in May 2012 to combat this scam, and named Operation Edit. The operation combined SFO, Police, Organised and Financial Crime Agency of New Zealand (OFCANZ), Commerce Commission, New Zealand Customs Service, and Inland Revenue Department (Inland Revenue). While more than one of the agencies involved had been aware of the group's activities for some time, the joint agency approach enabled a detailed and multi-faceted investigation to be completed in a relatively short space of time.

SFO led the joint agency operation and is now leading the prosecution into the alleged scam. SFO provided expert knowledge and leadership around fraud detection.

In October 2012, six people were arrested, and search warrants or other activities undertaken at over 25 locations in the North and South Islands. One defendant has since pleaded guilty.

This was an excellent example of government agencies working together to prevent crime. The agencies were able to each contribute their specialist skills and achieve a result that none working alone would have attained.

While the dollar amount of individual alleged offending is not huge, taking action in relation to high volume/low value fraud is important. Overall this can have a significant impact on the economy and public confidence in the effectiveness of law enforcement. The case demonstrates what can be achieved by sharing our resources across the public sector. The following results and impacts were also achieved:

RESULT:

- Business in New Zealand conducted in an honest and transparent environment
- An efficient and open market being maintained

IMPACT:

- Business and investor confidence in the integrity of our financial markets is increased
- New Zealand maintains its international reputation for very low levels of corruption and bribery

**By sharing specialist resources
we deliver more efficient
prosecutions and stronger
regulatory outcomes.**

Measuring our impact

Results from our stakeholder survey showed 80 percent of stakeholders surveyed commented that we were now working more closely with other government agencies to build effective relationships.

One professional services provider said:

“SFO have seconded Police into the organisation, they’ve seconded their people out to the Police, so they’re cross-pollinating well. They’ve got a Memorandum of Understanding with the FMA and Police about how to handle files, which is all common sense stuff. That seems to be working. They share each other’s resources.”

A public sector stakeholder said:

“The level of engagement in Wellington is far superior to what it ever used to be – and, as far as I’m concerned, they’re a very easy agency to work with. They are always collegial in the way they approach things, and they certainly now play a very full part in the Wellington conversations and discussions.”

EFFECTIVE COMMUNICATION AND ENGAGEMENT

Effective communication is an important tool for improving business confidence. Through reporting on our investigations and prosecutions we communicate to the business community and the public important messages about the work SFO does. Engagement with local and international economic crime agencies improves our efficiency and widens our skill base.

Stakeholder engagement is also key to our strategy of early intervention through intelligence gathering. Engagement enables us to raise awareness of our role and to be identified as the channel for financial crime intelligence.

In 2012/13 we have advanced and improved our communications strategy to ensure complainants, victims and witnesses were kept informed of the progress of our investigations.

Through our media communication and public comments we raise awareness of the personal and economic losses while also demonstrating that perpetrators are being held to account. In 2012/13 we brought 16 prosecutions, charging 29 individuals.

Measuring our impact

By conducting regular stakeholder surveys, we are able to measure our progress and ensure that we are communicating effectively with stakeholders and have a good understanding of our impact. We conduct three surveys: with the public, key stakeholders, and victims of financial crime which will be undertaken every two years. The first surveys were conducted in 2011/12 with the stakeholder survey repeated this year, and the victim and public surveys to be repeated in 2014.

Our 2012 victims of financial crime survey showed almost 89 percent of respondents believed our work helped bring integrity to New Zealand's financial markets; 83 percent believed their concerns were understood and considered; 75 percent said SFO helped them understand the investigation and the trial process.

In 2011/12 and again in 2013 we asked stakeholders to rate SFO on a 10 point scale across three key categories: effectiveness of investigations and prosecutions, communication, and overall performance. Stakeholders have noted good improvement in SFO's investigations and prosecutions being effective, with a 7.7 rating out of 10. To further measure how our work is impacting on improving the integrity of financial markets, in our next survey we will ask stakeholders to respond specifically in this regard, and set a benchmark of 7.7. In 2011/12, our victims of financial crime survey had 97 percent agree that SFO helped bring integrity to New Zealand's financial markets and/or legal system (2012/13 target was 65 percent).

Stakeholder survey 2013

| WE ASKED | RATED AS IN 2013 | RATED AS IN 2012 |
|--|--------------------|-------------------|
| “How well do you believe the SFO is performing its role?” | 7.3 range 3–9 | 7.3 range 3–10 |
| “How happy are you with the level of contact and communication?” | 7.6 range 3–9 | 7.2 range 3–10 |
| “How effective have SFO investigations and prosecutions been?” | 7.7 range 5–9.5 | 7.1 range 3–9 |

The survey results showed a clear understanding of SFO's primary role as the agency responsible for the investigation and prosecution of serious or complex financial crime and we received good feedback on our success rate with regard to prosecutions over the past year. Good progress has also been made to improve the effectiveness of our communication.

Engaging with the international economic crime community

Engaging with our international counterparts enables us to share skills, knowledge and experience on an international basis. Our recent work with international agencies attending the Cambridge International Symposium on Economic Crime culminated in the formation of a new network of international law enforcement agencies. This comprises agencies devoted to financial crime prevention, detection and investigation. In February 2013, SFO hosted the inaugural meeting of the Economic Crime Agencies Network (ECAN) in Auckland. This was attended by agencies including:

- Malaysian Anti-Corruption Commission
- Indonesian Corruption Eradication Commission
- Federal Bureau of Investigation (FBI)
- United Kingdom Serious Fraud Office (UK SFO)
- European Commission Anti-Fraud Office
- City of London Police.

Since then the network has expanded to include the Hong Kong Independent Commission Against Corruption, the Australian Federal Police and the Nigerian Economic and Financial Crimes Commission.

The next meeting will be hosted in Singapore in February 2014. Some of the benefits from the network have included secondments for two employees, one to the FBI and one to UK SFO.

FINANCIAL CRIME AWARENESS EDUCATION

While we do not have a prevention or education role under the Act, we support education and awareness raising to enhance our detection activities, and to encourage reporting of financial crime. It has been through this work, being transparent about our activities on our website and engaging with the media that we have created a level of increased confidence amongst business, investors and the general public.

By raising awareness among the general public, among businesses and other government agencies, we are able to support them to identify potential financial crime. In particular, our actions with businesses helped promote the importance of an improved level of corporate responsibility to ensure systems are designed to prevent and detect financial crime.

SFO worked with Transparency International New Zealand, preparing an education and awareness programme for New Zealand individuals and organisations on corruption and bribery. This nationwide corruption awareness e-training is able to be used across all sectors.

We have developed cross-agency financial crime training which is scheduled to be delivered in November 2013. Work also continued within the New Zealand Justice sector as part of the all-of-government response to organised and financial crime, addressing some of the wider issues raised by Transparency International.

Measuring our impact

We have experienced a significant rise in complaints about suspected financial crime over the past two years. We conclude that increased awareness about financial crime is being reflected in the rise of individuals and organisations reporting financial crime.

This view is supported by the Global Economic Crime survey conducted by PricewaterhouseCoopers which shows there has been an increase of experience of economic crime globally. The New Zealand experience matches this trend.

| Comparative data Global Economic Crime survey | | | |
|---|------|------|--------|
| | 2009 | 2011 | CHANGE |
|  New Zealand | 42% | 50% | 13% |
|  Globally | 30% | 34% | 13% |
|  Companies responding | 85% | 93% | 9% |

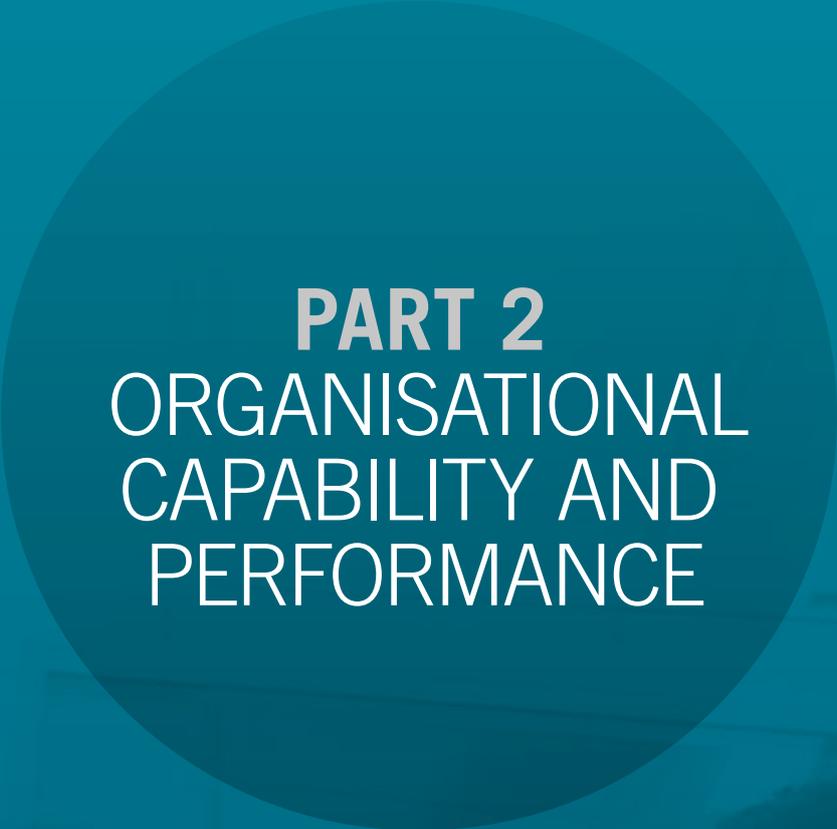
We anticipate a short term rise in reporting of crimes as awareness grows about the negative impact on society and the economy, but over time we would expect this figure to decline.

Raising awareness in the business community

During the 2012/13 year SFO organised economic crime seminars for the business community. In February a seminar was presented in Auckland, in conjunction with the ECAN conference. The seminar was attended by approximately 150 public and private sector stakeholders. A range of international speakers addressed the impacts of serious financial crime, the benefits of collaboration between agencies and the need for continued vigilance. The key note speaker, Harry Markopolis, had been involved in the uncovering and reporting of the \$US50 billion Bernie Madoff Ponzi scheme in the United States. He highlighted the vital role whistleblowers play in the detection of financial crime. The seminar was extremely well received.

In June, we presented a further seminar in Christchurch in conjunction with Christchurch Earthquake Recovery Authority (CERA). This involved a wide range of agencies addressing economic crime in relation to the Canterbury rebuild and included Police, Office of the Auditor-General, CERA, Commerce Commission and FMA. The seminar highlighted the areas of risk arising and provided background to the responses each of the various agencies were adopting to address these risks. The seminar was extremely well received.

By continuing to engage the business community in this manner we will raise awareness of the risks of serious economic crime and support early identification and reporting of that crime.



PART 2 **ORGANISATIONAL CAPABILITY AND PERFORMANCE**

The Government's expectation of Better Public Services is that public sector agencies deliver improved services in terms of efficiency and effectiveness on which New Zealanders can rely, within constrained budgets. We have worked to achieve this through our people, collaborative relationships and innovative use of systems and technology.



OUR PEOPLE

Our aim has been to have an organisational culture which supports high performance, success, teamwork and individual development. To achieve this we provided our people with effective tools and systems, a safe working environment and training opportunities to upskill and increase knowledge.

→ Leading our people

The Chief Executive and senior managers recognise that the primary asset of SFO is its people. The senior leadership team has engaged our people in the strategic planning process through general discussion and by providing them with clear links between their work and the wider strategic direction, the outcomes framework and SFO's performance measures.

All of our people were supported with an individual performance plan and appraisals during the year. Remuneration levels were reviewed during the year and benchmarked against market data, with roles adjusted accordingly based on individual skills and performance and overall budget.

→ Employee development

We continued our focus on providing and supporting career development paths within the team. Our secondment programme was active with four detectives seconded from Police. We provided four forensic accountants to Police on short term secondments during the year. The outward secondment programme supported our strategy to be a centre of excellence for forensic accounting and financial investigators. During the year we also held a cultural awareness seminar which was presented by the Human Rights Commission.

In addition we focused on finding opportunities to collaborate with other agencies. This included collaboration with FMA on a joint training programme and on investigations which resulted in greater intelligence available across all relevant agencies and has resulted in quicker conclusions in the relevant investigations.

We maintained a focus on the health and safety of our people with regular workplace assessments and promoting healthy lifestyle options and protecting our people from bullying and harassment through a code of conduct and policy.

→ Employee engagement

The level of engagement of our people is a key factor in SFO being able to deliver high quality services. In our most recent Employee Engagement Survey, the proportion of engaged employees was 72 percent. In response to this survey the senior leadership team has aimed to improve engagement levels through a focus on leadership development and internal communication.

Finally, in 2012/13 we continued to enhance our training and development programme, which included technical training and leadership development.

OUR SYSTEMS, PROCESSES AND TECHNOLOGY

Technology needs to be utilised in a manner that will not only enable more efficient management of cases, but quickly alert us to the possibility of financial crime. To enable this, our systems and structures must be maintained to support our people in delivering high quality and cost-effective services.

Our aim has been to ensure that our people are better informed and have greater intelligence on serious financial crime issues and to have this supported through systems, processes, tools and technology which can efficiently and effectively work across agencies within New Zealand and internationally.

In 2012/13 we updated our case management approach through the implementation of Wynyard Investigator. This software will support our existing systems and processes and will improve both efficiency and effectiveness of our investigations and prosecutions.

In 2012/13 we made capital investments in the IT network infrastructure, as well as the replacement of a motor vehicle.

Capital Investment

| | ACTUAL 2012/13 \$000 | BUDGET 2012/13 \$000 | ACTUAL 2011/12 \$000 | ACTUAL 2010/11 \$000 |
|----------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Leasehold improvements | - | - | 103 | 181 |
| Information technology hardware | 79 | 50 | 138 | 116 |
| Software | 18 | 50 | 17 | 106 |
| Furniture and fittings | 1 | 10 | 80 | 143 |
| Office equipment | 5 | 0 | 30 | 33 |
| Motor vehicles | 41 | 40 | 0 | 21 |
| TOTAL CAPITAL INVESTMENTS | 144 | 150 | 368 | 600 |

EFFECTIVE USE OF RESOURCES

Cost-effectiveness and efficient systems is a priority of the Better Public Services programme. We have continued to review the way we operate to increase effectiveness and efficiency.

Areas of focus identified were:

- Maintaining and expanding SFO's core functionality of financial investigations, forensic accounting and prosecution of complex financial crime. We will further develop a 'centre of excellence' in these areas by building our human resources and adopting specialist tools, such as intelligence and case management systems.
- Adopting a 'professional service' rather than a 'process' model in developing these core functions so that in addition to investigation and prosecution of SFO's own cases, segments of those functions can be made available outside SFO to support the wider 'financial crime' enforcement community.
- Using the core expertise, to work more closely with other financial crime agencies to deliver an integrated response to financial crime at all levels, including supporting regulatory and frontline activities of partner agencies. Our existing secondment programme will be further developed and enhanced and an increasing number of joint operations will be undertaken.
- Promoting SFO's technical competence and identifying opportunities to provide training opportunities for forensic accounting and financial investigation specialists across the public sector.
- Enhancing information sharing (both domestically and internationally) to assist detection of financial crime.
- Maintaining and improving networks in business and finance sectors and with international counterparts, building on the local and international events undertaken to date.
- Identifying opportunities to externally resource non-core activities and corporate support functions from within the Justice sector or wider public sector.



MANAGING OUR RISKS

In the past year we undertook a comprehensive organisation-wide review and identified key risks. These included: potential failure to address cases that would have the biggest impacts; potential failure to respond quickly to a major incidence of fraud, corruption or bribery; or a failure to align investigative priorities with the wider enforcement priorities of the Justice sector and Government.

In addition, we identified some internal organisational risks which, if not addressed, could impact on the delivery of key outputs. These included: potential loss of key staff; potential for failure of internal management systems; failure of information technology systems; and employees breaching standards of probity.

From this work we have developed and implemented a formal risk register which was designed to identify and determine actions required to mitigate the material risks. Within this work we also completed a comprehensive security review, of both information and physical security, and implemented the recommendations.

REPUTATION AND INTEGRITY

Given the nature of our work, it is essential people have confidence in our organisation. Our integrity, work quality and maintenance of confidentiality have been managed through the following key areas.

Confidentiality of information

Individual employment agreements for new employees contained confidentiality provisions and all contractors engaged by SFO signed a confidentiality agreement when they were engaged. The new employee induction process further reinforced the need for confidentiality and awareness of the confidentiality provisions contained in our Act. Our IT and file security systems are robust and effective due to the quality assurance measures in place. In addition, we maintain an extensive security system within our physical premises.

Releasing high-value public data

In accordance with the Declaration on Open and Transparent Government that was approved by the New Zealand Cabinet, this year we have reviewed all data held by SFO and released data where appropriate in a machine-readable and non-proprietary format.

Our website is regularly updated to ensure that the public has easy access to case information and SFO publications.

Employees accessing knowledge

The intranet is a key tool for employees to access and share information across teams. Our team structure also encouraged regular and effective knowledge sharing through weekly team meetings to review cases and share issues and ideas regarding best practice.



PART 3
SERVICE
PERFORMANCE
AND FINANCIAL
STATEMENTS

STATEMENT OF RESPONSIBILITY

In accordance with sections 35 and 45C of the Public Finance Act 1989, I am responsible as Chief Executive and Director of the Serious Fraud Office for the preparation of the financial statements and statement of service performance, and the judgements made in the process of producing those statements.

I am responsible for establishing, and I have established, a system of internal control procedures that provide reasonable assurance as to the integrity and reliability of financial reporting. These systems have been maintained throughout the year.

In my opinion, the financial statements and statement of service performance fairly reflect the financial position and operations of the Serious Fraud Office for the year ended 30 June 2013.

Signed:



Simon McArley

Acting Chief Executive and Director

30 September 2013

Countersigned by:



Carol Palmer

General Manager, Corporate Services

30 September 2013

STATEMENT OF SERVICE PERFORMANCE

VOTE SERIOUS FRAUD

The Serious Fraud Office provided services within the Vote through two output expenses in order to impact on the outcomes of:

- a confident business environment that is largely free of serious financial crime
- a safe and just society that is largely free of fraud, corruption and bribery.

Performance measures and standards have been established to monitor the efficiency and effectiveness of managing the three key activities of complaints, investigations and prosecutions within each output expense and our work in relation to contributions to policy development.

OUTPUT EXPENSE: INVESTIGATION AND PROSECUTION OF SERIOUS FINANCIAL CRIME

Description

This output expense provided for services by SFO to detect, investigate and prosecute serious financial crimes, including activities directed at making the commission of financial crimes more difficult, and detection and prosecution more effective.

PERFORMANCE MEASURES AND STANDARDS

Complaints

Complaints are first assessed by the Evaluation and Intelligence team to determine whether or not they fit the criteria set for investigations by SFO. If the matter falls within the mandate of SFO, the complaint moves to the inquiry phase. If not, the complaint is either referred to the appropriate agency, or closed and the initiator of the complaint is notified of the status.

| ACTUAL 2012 | PERFORMANCE MEASURE | BUDGET STANDARD | ACTUAL 2013 | COMMENT |
|-------------------|---|-----------------|-------------|----------|
| QUANTITY | | | | |
| 465 | Number of complaints received | 350-450 | 435 | Achieved |
| 12 | Number of evaluations initiated by SFO commenced | 20 | 24 | Exceeded |
| TIMELINESS | | | | |
| New measure | Percentage of complaints evaluated within 30 working days | 90% | 91.5% | Achieved |

Actual performance

The number of evaluations initiated by SFO exceeding the target is a result of SFO's strategy on early detection, in order to minimise the impact of financial crime. Greater emphasis has been placed on intelligence and information received through public and private sector networks. This was in addition to general complaints received from the public, which have remained steady.



Investigations

Part 1 of the Act provides SFO with limited powers to carry out an investigation into the affairs of any person where the Director may suspect that the investigation may disclose serious or complex fraud. Part 2 of the Act provides SFO with more extensive coercive powers to investigate matters where there are reasonable grounds to suspect that an offence involving serious or complex fraud may have been committed. Once a complaint meets the criteria for a full investigation, the case is managed within one of two teams, depending on the nature of the allegations. The Financial Markets and Corporate Fraud team has responsibility for cases involving public investment related frauds and corporate fraud. The Fraud and Corruption team deals with corruption and bribery matters as well as some general fraud.

| ACTUAL 2012 | PERFORMANCE MEASURE | BUDGET STANDARD | ACTUAL 2013 | COMMENT |
|-------------------|--|--------------------------------|-------------|--------------|
| QUANTITY | | | | |
| 40 | Number of formally commenced investigations | 40-50 | 30 | Not achieved |
| TIMELINESS | | | | |
| Revised measure | Percentage of cases for which an investigation plan is established within 10 working days | 90% | 92% | Achieved |
| New measure | Percentage of cases for which an investigation plan is reviewed monthly | 90% | 96% | Achieved |
| New measure | Percentage of cases investigated within targeted time | 40% of cases within six months | 33% | Not achieved |
| | | 80% of cases within 12 months | 83% | Achieved |
| QUALITY | | | | |
| 96% | Percentage of investigations on which a quality assurance review is completed with the stated regularity | Quarterly; 80% | 95% | Achieved |
| Revised measure | Percentage of formal post-investigation reviews that are conducted and acted upon by senior management | 90% | 90.6% | Achieved |

Actual performance

The number of new investigations commenced during the year was below target due to a strategic decision to refocus resources on fewer cases – those investigations which were large with greater impact and high profile, rather than many smaller investigations. In particular a number of complex joint investigations were undertaken. New complaints received have been evaluated in light of this strategy, ensuring that alleged financial crime was of sufficient seriousness, the complexity is addressed and appropriate investigative resources are applied.

The percentage of investigations being completed within six months of commencement was not achieved due to the larger, high profile nature of the cases dealt with during the year. This was a new measure in 2012/13 and has been reviewed for the 2013/14 year, having regard to the focus on early intervention and higher impact cases.

Statistical trends

The level of new investigations peaked in 2011/12 with 2012/13 investigations declining to 2010/11 levels. This trend sees out the completion of investigations relating to the collapse of finance companies following the global financial crisis. Resources have now been refocused on early intervention and emerging areas of crime, particularly those with impacts across agencies.

| | 2010 | 2011 | 2012 | 2013 |
|---|----------|----------|----------|----------|
| Investigations commenced | 15 CASES | 34 CASES | 40 CASES | 30 CASES |
| Investigations completed within prescribed timeframes | 18% | 84% | 86% | 83% |

NOTE: 2013 – 85% completed in less than 12 months



Prosecutions

A decision on whether or not to commence a prosecution is made by applying the *Prosecution Guidelines* issued by the Solicitor-General. The decision is also assisted by the advice of the Prosecution Panel Counsel assigned to the particular investigation and SFO's internal prosecution guidelines. The Panel member provides the Director with their opinion on the proposed prosecution and reviews the proposed charges.

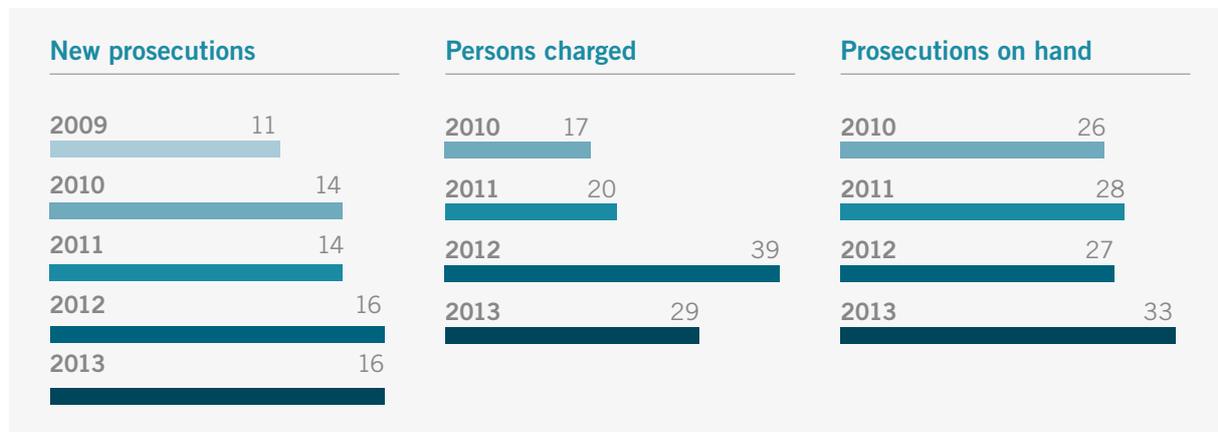
| ACTUAL 2012 | PERFORMANCE MEASURE | BUDGET STANDARD | ACTUAL 2013 | COMMENT |
|-----------------|--|-----------------|-------------|--------------|
| QUANTITY | | | | |
| 16 | Number of cases brought to prosecution | 20 | 16 | Not achieved |
| QUALITY | | | | |
| 100% | Percentage of prosecutions commenced where Panel Counsel agrees with SFO decision to charge | 90% | 100% | Achieved |
| New measure | Percentage of formal post-prosecution reviews that are conducted and acted upon by senior management | 90% | 100% | Achieved |

Actual performance

The ability to achieve the forecast number was largely dependent on sufficient evidence being established to lay charges. However, it is also a function of the number of investigations commenced. While we have not achieved the forecast number of prosecutions, we did maintain the forecast proportion of 50 percent of commenced investigations progressing to prosecution. It is also relevant that SFO had 33 prosecutions on hand at year end, which exceeds previous years.

Statistical trends

The emphasis over the past three years has been on building up investigative capacity, concluding a legacy of ageing cases and significantly improving the timeliness of investigations. As this focus moves to the quality and impact of cases taken on, and focus is placed on earlier intervention and disruption, the volume of prosecutions will level out. However, there has been a modest increase in the number of individuals charged and as we focus on more complex offending this is expected to continue.



FINANCIAL PERFORMANCE

| | ACTUAL 2013 \$000 | MAIN ESTIMATES 2013 \$000 | SUPP ESTIMATES 2013 \$000 | ACTUAL 2012 \$000 |
|------------------------------|-------------------------|------------------------------------|------------------------------------|-------------------------|
| REVENUE | | | | |
| Crown | 9,515 | 9,490 | 9,515 | 7,140 |
| Departments | 5 | 0 | 5 | 87 |
| Other | 519 | 439 | 530 | 363 |
| <i>Total income</i> | 10,039 | 9,929 | 10,050 | 7,590 |
| Expenditure | 10,000 | 9,929 | 10,050 | 7,890 |
| NET SURPLUS/(DEFICIT) | 39 | 0 | 0 | (300) |

OUTPUT EXPENSE: POLICY ADVICE

Description

This output expense provided advice (including research and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters relating to financial crime.

PERFORMANCE MEASURES AND STANDARDS

| ACTUAL 2012 | PERFORMANCE MEASURE | BUDGET STANDARD | ACTUAL 2013 | COMMENT |
|-------------------|--|---|------------------|---|
| TIMELINESS | | | | |
| New measure | Policy advice is provided in a timely manner in accordance with agreed timetables with the Minister and Justice sector (as appropriate) via six-monthly reviews. | 90% | 100% | Achieved |
| QUANTITY | | | | |
| New measure | Significant policy papers or reports on financial or economic crime are peer reviewed by an equivalent organisation internationally. | Recommendations taken under consideration prior to completion of report | NA | No significant policy papers completed in 2012/13 |
| QUALITY | | | | |
| New measure | Minister's assessment of their satisfaction that the policy advice conforms to the quality characteristics via six-monthly meetings. ³ | Meets expectations | Met expectations | Achieved |

Actual performance

The findings from Cost of Economic Crime report (as part of the All-of-Government Response to Economic Crime) were disseminated to policy agencies who will utilise the information in future policy development.

FINANCIAL PERFORMANCE

| | ACTUAL 2013 \$000 | MAIN ESTIMATES 2013 \$000 | SUPP ESTIMATES 2013 \$000 |
|------------------------------|----------------------|------------------------------|------------------------------|
| REVENUE | | | |
| Crown | 225 | 250 | 225 |
| Other | 0 | 0 | 0 |
| <i>Total income</i> | 225 | 250 | 225 |
| Expenditure | 210 | 250 | 225 |
| NET SURPLUS/(DEFICIT) | 15 | 0 | 0 |

3. The quality characteristics measured for policy advice in 2012/13 are: purpose, logic, accuracy, evaluation, options, consultation, practicality, presentation and timeliness.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2013

| | NOTE | ACTUAL 2013 \$000 | MAIN ESTIMATES 2013 \$000 | SUPP ESTIMATES 2013 \$000 | ACTUAL 2012 \$000 |
|---------------------------------------|------|-------------------------|------------------------------------|------------------------------------|-------------------------|
| INCOME | | | | | |
| Crown | | 9,740 | 9,740 | 9,740 | 7,140 |
| Other | 2 | 524 | 439 | 535 | 449 |
| Gains | 3 | 0 | 0 | 0 | 1 |
| <i>Total income</i> | | 10,264 | 10,179 | 10,275 | 7,590 |
| EXPENDITURE | | | | | |
| Personnel costs | 4 | 5,968 | 6,378 | 6,021 | 5,478 |
| Depreciation and amortisation expense | 9,10 | 265 | 261 | 273 | 206 |
| Capital charge | 5 | 36 | 65 | 36 | 62 |
| Finance costs | 6 | 9 | 0 | 6 | 22 |
| Other operating expenses | 7 | 3,932 | 3,475 | 3,939 | 2,122 |
| <i>Total expenditure</i> | | 10,210 | 10,179 | 10,275 | 7,890 |
| Net surplus/(deficit) | | 54 | 0 | 0 | (300) |
| Other comprehensive income | | 0 | 0 | 0 | 0 |
| TOTAL COMPREHENSIVE INCOME | | 54 | 0 | 0 | (300) |

STATEMENT OF CHANGES IN EQUITY for the year ended 30 June 2013

| | NOTE | ACTUAL 2013 \$000 | MAIN ESTIMATES 2013 \$000 | SUPP ESTIMATES 2013 \$000 | ACTUAL 2012 \$000 |
|--|------|-------------------------|------------------------------------|------------------------------------|-------------------------|
| BALANCE AS AT JULY | | 452 | 452 | 452 | 772 |
| Comprehensive income/(expense) | | | | | |
| Surplus/(deficit) for the year | | 54 | 0 | 0 | (300) |
| <i>Total comprehensive income</i> | | 506 | 452 | 452 | 472 |
| Owner transactions | | | | | |
| Return of operating surplus to the Crown | 12 | (54) | 0 | 0 | (20) |
| BALANCE AT 30 JUNE | 15 | 452 | 452 | 452 | 452 |

Explanations of significant variances against budget are detailed in note 21.
The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2013

| | NOTE | ACTUAL 2013 \$000 | MAIN ESTIMATES 2013 \$000 | SUPP ESTIMATES 2013 \$000 | ACTUAL 2012 \$000 |
|--------------------------------------|------|-------------------------|------------------------------------|------------------------------------|-------------------------|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | | 2,255 | 1,366 | 1,463 | 1,467 |
| Debtors and other receivables | 8 | 23 | 0 | 0 | 50 |
| Prepayments | | 59 | 0 | 1 | 30 |
| <i>Total current assets</i> | | 2,337 | 1,366 | 1,464 | 1,547 |
| Non-current assets | | | | | |
| Property, plant and equipment | 9 | 680 | 626 | 654 | 816 |
| Intangible assets | 10 | 33 | 136 | 59 | 37 |
| <i>Total non-current assets</i> | | 713 | 762 | 713 | 853 |
| Total assets | | 3,050 | 2,128 | 2,177 | 2,400 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Creditors and other payables | 11 | 1,325 | 963 | 920 | 857 |
| Return of operating surplus | 12 | 54 | 0 | 0 | 20 |
| Provisions | 13 | 122 | 0 | 0 | 78 |
| Employee entitlements | 14 | 476 | 164 | 294 | 441 |
| <i>Total current liabilities</i> | | 1,977 | 1,127 | 1,214 | 1,396 |
| Non-current liabilities | | | | | |
| Provisions | 13 | 614 | 542 | 504 | 545 |
| Employee entitlements | 14 | 7 | 7 | 7 | 7 |
| <i>Total non-current liabilities</i> | | 621 | 549 | 511 | 552 |
| Total liabilities | | 2,598 | 1,676 | 1,725 | 1,948 |
| NET ASSETS | | 452 | 452 | 452 | 452 |
| EQUITY | | | | | |
| Taxpayers' funds | 15 | 452 | 452 | 452 | 452 |
| TOTAL EQUITY | | 452 | 452 | 452 | 452 |

Explanations of significant variances against budget are detailed in note 21.
The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2013

| | NOTE | ACTUAL 2013 \$000 | MAIN ESTIMATES 2013 \$000 | SUPP ESTIMATES 2013 \$000 | ACTUAL 2012 \$000 |
|---|------|-------------------------|------------------------------------|------------------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from Crown | | 9,740 | 9,740 | 9,740 | 9,860 |
| Receipts from other revenue | | 542 | 439 | 530 | 461 |
| Payments to suppliers | | (3,848) | (3,733) | (4,680) | (4,957) |
| Payments to employees | | (5,448) | (5,952) | (5,417) | (4,718) |
| Payments for capital charge | | (36) | (65) | (36) | (62) |
| Goods and services tax (net) | | (10) | (43) | 4 | (29) |
| <i>Net cash flow from operating activities</i> | 16 | 940 | 386 | 141 | 555 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Receipts from sale of property, plant and equipment | | 33 | 0 | 5 | 7 |
| Purchase of property, plant and equipment | | (148) | (100) | (101) | (311) |
| Purchase of intangible assets | | (17) | (50) | (49) | (17) |
| <i>Net cash flow from investing activities</i> | | (132) | (150) | (145) | (321) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Return of operating surplus | | (20) | 0 | 0 | 0 |
| <i>Net cash flow from financing activities</i> | | (20) | 0 | 0 | 0 |
| NET (DECREASE)/INCREASE IN CASH | | 788 | 236 | (4) | 234 |
| Cash at the beginning of the year | | 1,467 | 1,130 | 1,467 | 1,233 |
| Cash at the end of the year | | 2,255 | 1,366 | 1,463 | 1,467 |

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

Explanations of significant variances against budget are detailed in note 21.
The accompanying notes form part of these financial statements.

STATEMENT OF COMMITMENTS

as at 30 June 2013

Capital commitments

The Serious Fraud Office has no capital commitments as at 30 June 2013 (2012: \$nil).

Non-cancellable operating lease commitments

The Serious Fraud Office leases property, plant and equipment in the normal course of its business. The primary leases relate to the current office accommodation at 21 Queen Street, Auckland, which expires on 3 March 2023, with no right of renewal. In addition, the SFO leases office accommodation at 120 Mayoral Drive, Auckland, which expires on 29 February 2016, with no right of renewal. These premises were vacated in March 2011 and subleased effective 29 August 2011. A provision for the onerous portion of the lease has been made as at 30 June 2013.

The Serious Fraud Office also leases car parks with a rent review on 1 March 2014. The car parks were also subleased effective 29 August 2011.

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|--|-------------------------|-------------------------|
| NON-CANCELLABLE OPERATING LEASE COMMITMENTS | | |
| Not later than one year | 606 | 655 |
| Later than one year and not later than five years | 3,088 | 3,583 |
| Later than five years | 3,191 | 3,900 |
| <i>Total non-cancellable operating lease commitments</i> | 6,885 | 8,138 |
| TOTAL COMMITMENTS | 6,885 | 8,138 |

The decrease in commitments over the prior year reflects a reduction in operating expenses for both the Queen Street and Mayoral Drive properties, the latter resulting from a statutory rates exemption granted to the sub-lessee.

The total of minimum future sublease payments expected to be received under the non-cancellable sublease at 30 June 2013 is \$947,000 (2012: \$1,579,000).

STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS

as at 30 June 2013

Quantifiable contingent liabilities

The Serious Fraud Office has no contingent liabilities as at 30 June 2013 (2012: \$225,000).

The amount of rent payable by the Serious Fraud Office for 120 Mayoral Drive from March 2011 was in dispute as at 30 June 2012 and as such a contingency was declared at that date. A negotiated settlement was reached in March 2013 and all obligations resulting from this have been met and accounted for in the 2012/13 financial year. As a consequence the contingency declared in 2012 is no longer required.

Contingent assets

The Serious Fraud Office has no contingent assets (2012: \$nil).

STATEMENT OF DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

for the year ended 30 June 2013

| | ACTUAL 2013 \$000 | APPROPRIATION VOTED ⁴ 2013 \$000 | ACTUAL 2012 \$000 |
|---|-------------------------|---|-------------------------|
| VOTE SERIOUS FRAUD | | | |
| Appropriation for output expenses | | | |
| Investigation and prosecution of complex or serious fraud | 0 | 0 | 7,890 |
| Investigation and prosecution of serious financial crime | 10,000 | 10,050 | 0 |
| Policy advice | 210 | 225 | 0 |
| <i>Total appropriation for output expenses and other expenses</i> | 10,210 | 10,275 | 7,890 |
| DEPARTMENTAL CAPITAL EXPENDITURE | | | |
| Serious Fraud Office – Permanent Legislative Authority | 144 | 150 | 368 |

STATEMENT OF DEPARTMENTAL UNAPPROPRIATED EXPENDITURE AND CAPITAL

for the year ended 30 June 2013

Expenses and capital expenditure in excess of appropriation

\$nil (2012: \$nil)

Expenses and capital expenditure incurred without appropriation or other authority, or outside the scope of appropriation

\$nil (2012: \$nil)

Breaches of projected departmental net asset schedules

\$nil (2012: \$nil)

The accompanying notes form part of these financial statements

4. This includes adjustments made in the Supplementary Estimates.

NOTES TO FINANCIAL STATEMENTS

1 Statement of accounting policies for the year ended 30 June 2013

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 2013. The financial statements were authorised for issue by the Acting Chief Executive on 30 September 2013.

Basis of preparation

Statement of compliance

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

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

Measurement base

The financial statements have been prepared on a historical cost basis.

Functional and presentation currency

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

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

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

Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Serious Fraud Office, are:

- NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: recognition and Measurement*. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under the Accounting Standards Framework, the Serious Fraud Office is classified as a Tier 2 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS). These standards are being developed by the XRB based on current international Public Sector Accounting Standards. The effective date for the new standards for public benefit entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the Serious Fraud Office expects to transition to the new standards in preparing its 30 June 2015 financial statements. As the PAS are still under development, the Serious Fraud Office is unable to assess the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities until the new Accounting Standards Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

Significant accounting policies

The following accounting policies, which materially affect the measurement of comprehensive income and financial position, have been applied consistently.

Revenue

Revenue is measured at the fair value of consideration received or receivable.

→ Revenue Crown

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.

→ Other income

Lease receipts under an operating sublease are recognised as income on a straight-line basis over the lease term.

Any other revenue received from other organisations is recognised as revenue upon entitlement.

Capital charge

The capital charge is recognised as an expense in the period to which the charge relates.

Leases

→ Finance leases

A finance lease is a lease that transfers to the Serious Fraud Office substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over the useful life. If there is no certainty as to whether the Serious Fraud Office will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

→ Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Debtors and other receivables

Short-term debtors and other receivables are recorded at their fair value, less any provision for impairments.

Impairment of a receivable is established when there is objective evidence that the Serious Fraud Office will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision for impairment amount, and the account of the loss is recognised in the surplus or deficit. Overdue receivables that are renegotiated are reclassified as current (not as past due).

Property, plant and equipment

Property, plant and equipment consists of land and buildings, leasehold improvements, furniture and office equipment, and motor vehicles. Property, plant and equipment is measured at cost or valuation, less accumulated depreciation and impairment losses.

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.

→ Additions

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that the 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.

Work-in-progress is recognised at cost less impairment and is not depreciated.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised as income at fair value as at the date of acquisition.

→ Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus and deficit.

→ Subsequent costs

Costs incurred subsequent to the 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, other than land, at rates that will write-off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of property, plant and equipment have been estimated as follows:

| | USEFUL LIFE | DEPRECIATION RATE |
|--------------------------------|-------------|-------------------|
| Computer equipment | 3 years | 33% |
| Furniture and office equipment | 3-5 years | 20%-33% |
| Motor vehicles | 6-7 years | 15% |

Leasehold improvements 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 are reviewed, and adjusted if applicable, at the end of each financial year.

Intangible assets

→ Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. Software is capitalised if its cost is \$1,000 (excluding GST) or more.

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 the software development, employee costs and an appropriate portion of relevant overheads.

Employee training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with the development and maintenance of the Serious Fraud Office's website are recognised as an expense when incurred.

→ Amortisation

The carrying value of an 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 no longer recognised. The amortisation charge for each period is recognised in the statement of comprehensive income.

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

| | USEFUL LIFE | AMORTISATION RATE |
|-----------------------------|-------------|-------------------|
| Acquired computer software | 3-5years | 20%-33% |
| Developed computer software | 3 years | 33% |

Impairment of property, plant equipment and intangible assets

Intangible assets that have an indefinite useful life, or are not yet available for use, are tested annually for impairment.

Property, plant and equipment and intangible assets that have a finite useful life 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.

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 total impairment loss is recognised in the statement of comprehensive income.

The reversal of an impairment loss is recognised in the statement of comprehensive income.

Creditors and other payables

Short-term creditors and other payables are recorded at their face value.

Employee entitlements

→ Short-term employee entitlements

Employee entitlements expected 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 earned but not yet taken at balance date, retirement and long service leave entitlements expected to be settled within 12 months, and sick leave.

A liability for sick leave is recognised to the extent that absences in the 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 it will be used by employees to cover those future absences.

A liability and an expense is recognised for bonuses where the Serious Fraud Office has a contractual obligation or where there is a past practice that has created a constructive obligation.

→ Long-term employee entitlements

Employee benefits that are due to be settled beyond 12 months after the end of the reporting period in which the employee renders the related service, such as long service and retirement leave, are calculated on an actuarial basis, where practical. The calculation is based on:

- likely future entitlement accruing to staff, based on years of service, years to entitlement, the likelihood that employees will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows.

Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.

→ Presentation of employee entitlements

Sick leave, annual leave, vested long service leave and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

→ Defined contribution schemes

Obligations for contributions to the State Sector Retirement Savings Scheme, KiwiSaver and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the statement of comprehensive income as incurred.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

Equity

Equity is the Crown's investment in the Serious Fraud Office and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds.

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.

Goods and services tax (GST)

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (Inland Revenue) is included as part of receivables or payables in the statement of financial position.

The net GST paid to or received from Inland Revenue, including GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Budget figures

The budget figures are those included in the Information Supporting the Estimates of Appropriation for the Government of New Zealand for the year ended 30 June 2013, which are consistent with the financial information in the Main Estimates. In addition, the financial statements also present the updated budget information from the Supplementary Estimates. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

Statement of cost accounting policies

The Serious Fraud Office determines the cost of outputs using the cost allocation method below.

Direct costs are charged to output classes as and when they occur. Indirect costs are accumulated and allocated to output classes based on an assessment of personnel time. Direct costs are those that can be directly attributed to an output. Indirect costs are those that cannot be identified in an economically feasible manner to a specific output.

Critical accounting estimates and assumptions

In preparing these financial statements estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying accounting policies

Management has exercised the following critical judgments in applying accounting policies for the year ended 30 June 2013:

→ Provisions

In note 13, the Serious Fraud Office has exercised its judgement in application of determining the level of unutilised space in order to calculate an onerous lease provision and impairment of assets associated with the utilised office space.

2 Other revenue

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|--|-------------------------|-------------------------|
| State Sector Retirement Savings scheme, KiwiSaver recovery | 0 | 87 |
| Rental income from subleases | 429 | 359 |
| Economic Crime Agencies Network conference | 94 | 0 |
| Interest | 1 | 0 |
| Sale of minor assets (equipment) | 0 | 3 |
| TOTAL OTHER REVENUE | 524 | 449 |

3 Gains

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|---|-------------------------|-------------------------|
| Net gain on disposal of property, plant and equipment | 0 | 1 |
| TOTAL GAINS | 0 | 1 |

4 Personnel costs

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|--|-------------------------|-------------------------|
| Salaries and wages | 5,622 | 5,078 |
| Employer contributions to defined contribution plans | 54 | 90 |
| Increase/(decrease) in employee entitlements | 35 | 118 |
| Employee training and development | 196 | 54 |
| Fringe benefit tax | 11 | 11 |
| Other | 50 | 127 |
| TOTAL PERSONNEL COSTS | 5,968 | 5,478 |

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

During the year ended 30 June 2013, one employee (2012: nil) received compensation and other benefits in relation to cessation.

5 Capital charge

The Serious Fraud Office pays a capital charge to the Crown on its equity at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2013 was 8% (2012: 8%).

6 Finance costs

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|---|-------------------------|-------------------------|
| Interest on PAYE late filing | 0 | 5 |
| Discount unwind on provisions (note 13) | 9 | 17 |
| TOTAL FINANCE COSTS | 9 | 22 |

7 Other operating expenses

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|---|-------------------------|-------------------------|
| Fees to Audit New Zealand for audit of financial statements | 38 | 33 |
| Rental and operating lease expense | 1,137 | 974 |
| Onerous lease provision | 103 | (2,169) |
| Lease make-good provision | 0 | 75 |
| Other occupancy expenses | 118 | 89 |
| Legal fees on panel of prosecutors | 275 | 502 |
| Consultancy | 63 | 21 |
| Travel expense | 367 | 309 |
| IT and telecommunications | 688 | 638 |
| Net loss on disposal of property, plant and equipment | 13 | 7 |
| Professional services | 141 | 596 |
| Specialist advice - case related | 320 | 583 |
| Other operating expenses | 669 | 464 |
| TOTAL OTHER OPERATING EXPENSES | 3,932 | 2,122 |

8 Debtors and other receivables

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|--|-------------------------|-------------------------|
| Other receivables | 23 | 50 |
| TOTAL DEBTORS AND OTHER RECEIVABLES | 23 | 50 |

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

The ageing profile of receivables at year end is detailed below:

| | 2013 | | | 2012 | | |
|---------------------|----------------|---------------------|--------------|----------------|---------------------|--------------|
| | GROSS \$000 | IMPAIRMENT \$000 | NET \$000 | GROSS \$000 | IMPAIRMENT \$000 | NET \$000 |
| Not past due | 23 | 0 | 23 | 18 | 0 | 18 |
| Past due 1-30 days | 0 | 0 | 0 | 0 | 0 | 0 |
| Past due 31-60 days | 0 | 0 | 0 | 0 | 0 | 0 |
| Past due 61-90 days | 0 | 0 | 0 | 32 | 0 | 32 |
| TOTAL | 23 | 0 | 23 | 50 | 0 | 50 |

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 2011 | 1,071 | 509 | 558 | 21 | 2,159 |
| Reclassification 1 July 2011 | 0 | 0 | 66 | 0 | 66 |
| Additions | 183 | 30 | 138 | 0 | 351 |
| Disposals | (22) | (86) | 0 | 0 | (108) |
| <i>Balance at 30 June 2012</i> | <i>1,232</i> | <i>453</i> | <i>762</i> | <i>21</i> | <i>2,468</i> |
| Balance at 1 July 2012 | 1,232 | 453 | 762 | 21 | 2,468 |
| Additions | 2 | 5 | 79 | 41 | 127 |
| Disposals | 0 | (5) | (1) | (21) | (27) |
| BALANCE AT 30 JUNE 2013 | 1,234 | 453 | 840 | 41 | 2,568 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES | | | | | |
| Balance at 1 July 2011 | 687 | 418 | 426 | 2 | 1,533 |
| Depreciation expense | 69 | 26 | 87 | 3 | 185 |
| Eliminate on disposal | (8) | (58) | 0 | 0 | (66) |
| <i>Balance at 30 June 2012</i> | <i>748</i> | <i>386</i> | <i>513</i> | <i>5</i> | <i>1,652</i> |
| Balance at 1 July 2012 | 748 | 386 | 513 | 5 | 1,652 |
| Depreciation expense | 92 | 22 | 126 | 4 | 244 |
| Eliminate on disposal | 0 | (1) | 0 | (7) | (8) |
| BALANCE AT 30 JUNE 2013 | 840 | 407 | 639 | 2 | 1,888 |
| CARRYING AMOUNTS | | | | | |
| At 1 July 2011 | 384 | 91 | 132 | 19 | 626 |
| At 30 June and 1 July 2012 | 484 | 67 | 249 | 16 | 816 |
| At 30 June 2013 | 394 | 46 | 201 | 39 | 680 |

Asset reclassification

No reclassification in 2012/13. In 2011/12 assets were reclassified between intangible assets (software) and computer hardware, which was effective 1 July 2011.

Work in progress

The total amount of property, plant and equipment in the course of construction as at 30 June 2013 is \$nil (2012: \$nil).

10 Intangible assets

| | ACQUIRED SOFTWARE \$000 |
|---|----------------------------|
| COST | |
| Balance at 1 July 2011 | 246 |
| Reclassification 1 July 2011 | (66) |
| Additions | 17 |
| <i>Balance at 30 June 2012</i> | 197 |
| Balance at 1 July 2012 | 197 |
| Additions | 17 |
| BALANCE AT 30 JUNE 2013 | 214 |
| ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES | |
| Balance at 1 July 2011 | 139 |
| Amortisation expense | 21 |
| <i>Balance at 30 June 2012</i> | 160 |
| Balance at 1 July 2012 | 160 |
| Amortisation expense | 21 |
| BALANCE AT 30 JUNE 2013 | 181 |
| CARRYING AMOUNTS | |
| At 1 July 2011 | 107 |
| At 30 June and 1 July 2012 | 37 |
| At 30 June 2013 | 33 |

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

Asset reclassification

No reclassification in 2012/13. In 2011/12 assets were reclassified between intangible assets (software) and computer hardware, which was effective 1 July 2011.

Work in progress

The total amount of intangible assets in the course of implementation as at 30 June 2013 is \$nil (2012: \$nil).

11 Creditors and other payables

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|---|-------------------------|-------------------------|
| Creditors | 461 | 180 |
| Accrued expenses | 86 | 125 |
| Accrued rent payable | 653 | 432 |
| GST payable | 25 | 35 |
| Other payables | 100 | 85 |
| TOTAL CREDITORS AND OTHER PAYABLES | 1,325 | 857 |

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.

12 Return of operating surplus

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|--|-------------------------|-------------------------|
| Net surplus/(deficit) | 54 | (300) |
| Add 2011 surplus retained | 0 | 320 |
| TOTAL RETURN OF OPERATING SURPLUS | 54 | 20 |

13 Provisions

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|----------------------------------|-------------------------|-------------------------|
| CURRENT PORTION | | |
| Onerous contracts | 122 | 78 |
| <i>Total current portion</i> | 122 | 78 |
| NON-CURRENT PORTION | | |
| Lease make-good | 325 | 325 |
| Onerous contracts | 289 | 220 |
| <i>Total non-current portion</i> | 614 | 545 |
| TOTAL PROVISIONS | 736 | 623 |

Provisions continued

| | LEASE MAKE-GOOD \$000 | ONEROUS CONTRACTS \$000 | TOTAL \$000 |
|--------------------------------|-----------------------------|-------------------------------|----------------|
| Balance 1 July 2011 | 250 | 2,450 | 2,700 |
| Additional provisions made | 75 | 13 | 88 |
| Amounts used | 0 | (157) | (157) |
| Unused amounts reversed | 0 | (2,025) | (2,025) |
| Discount unwind (note 6) | 0 | 17 | 17 |
| BALANCE 30 JUNE 2012 | 325 | 298 | 623 |
| Balance 1 July 2012 | 325 | 298 | 623 |
| Additional provisions made | 0 | 213 | 213 |
| Amounts used | 0 | (109) | (109) |
| Discount unwind (note 6) | 0 | 9 | 9 |
| BALANCE AT 30 JUNE 2013 | 325 | 411 | 736 |

Lease make-good

In respect of the 120 Mayoral Drive and 21 Queen Street leased premises, the Serious Fraud Office is required at the expiry of the lease term to make-good any damage caused to the premises and to remove any fixtures or fittings installed by the Serious Fraud Office. The Mayoral Drive lease expires on 29 February 2016 and the Queen Street lease on 3 March 2023. As there is no right of renewal on either lease, it expected that the timing of the expected cash outflow to make-good will occur at the expiry of the leases respectively.

Onerous contracts

The provision for onerous contracts arises from a non-cancellable lease where the unavoidable costs of meeting the lease contract exceed the economic benefits to be received from it. At 30 June 2013, the Serious Fraud Office has two years and eight months remaining on the lease.

On 7 March 2011, the Serious Fraud Office moved premises, vacating 120 Mayoral Drive, Auckland. The premises were sublet effective 29 August 2011. As at 30 June 2013, an onerous lease provision is in place reflecting the difference between the lease expense and sublease recovery for the premises.

The provision was reviewed at the end of the reporting year, 30 June 2013 and has been adjusted to reflect current best estimates. Adjustments arise from a market rent review back dated to 1 March 2011, the forecast market rent review for 1 March 2014 and changes to present value and discount rates to reflect current market conditions.

14 Employee entitlements

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|---|-------------------------|-------------------------|
| CURRENT PORTION | | |
| Accrued salaries and wages ⁵ | 245 | 221 |
| Annual leave | 230 | 218 |
| Long service leave | 1 | 2 |
| <i>Total current portion</i> | 476 | 441 |
| NON-CURRENT PORTION | | |
| Long service leave | 7 | 7 |
| <i>Total non-current portion</i> | 7 | 7 |
| TOTAL EMPLOYEE ENTITLEMENTS | 483 | 448 |

The measurement of the long service obligation was based on a number of assumptions. An assessment of 51 employees employed as at 30 June 2013 was undertaken as to which employees would reach the long service criteria, given the impact of the 2010 restructure and the average turnover rate within the profession.

One employee had earned a portion of long service leave and this is reflected as the current portion.

The non-current portion reflects the assessment that 50⁶ employees had the probability of earning long service leave in the future. Due to the number of employees affected and relatively low length of service, discount rates and salary inflation factors were not incorporated into the calculation.

15 Equity

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|---------------------------------|-------------------------|-------------------------|
| TAXPAYERS' FUNDS | | |
| Balance at 1 July | 452 | 772 |
| Surplus/(deficit) | 54 | (300) |
| Provision for return to surplus | (54) | (20) |
| <i>Balance at 30 June</i> | 452 | 452 |
| TOTAL EQUITY | 452 | 452 |

5. Includes performance paid, FBT and contributions to defined contribution plans.

6. Excludes Chief Executive and casual employees.

16 Reconciliation of net surplus/(deficit) to net cash flow from operating activities

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|--|-------------------------|-------------------------|
| NET SURPLUS/(DEFICIT) | 54 | (300) |
| Add/(less) non-cash items: | | |
| Depreciation and amortisation expense | 265 | 206 |
| <i>Total non-cash items</i> | 265 | 206 |
| Add/(less) items classified as investing or financing activities: | | |
| (Gains)/losses on disposal of property, plant and equipment | 12 | 7 |
| Add/(less) movements in working capital items: | | |
| (Inc)/dec in debtors and other receivables ⁷ | 0 | 2,720 |
| (Inc)/dec in prepayments | (29) | (17) |
| Inc/(dec) in creditors and other payables ⁸ | 491 | (102) |
| Inc/(dec) in employee entitlements | 35 | 118 |
| Inc/(dec) in provisions | 112 | (2,077) |
| <i>Net movement in working capital items</i> | 609 | 642 |
| NET CASH FROM OPERATING ACTIVITIES | 940 | 555 |

17 Related party transactions

All related party transactions have been entered into on an arms length basis.

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

Significant transactions with government-related entities

The Serious Fraud Office has received funding from the Crown of \$9,740,000 to provide services to the public for the year ended 30 June 2013 (2012: \$7.140m).

Collectively, but not individually, significant transactions with government-related entities

In conducting its activities, the Serious Fraud Office was required to pay various taxes and levies (such as GST, FBT, PAYE and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, was based on the standard terms and conditions that apply to all tax and levy payers. The Serious Fraud Office is exempt from paying income tax.

7. Excludes outstanding receivables of \$nil for fixed asset sales (2012: \$28,000).

8. Excludes outstanding payables of \$19,000 for fixed assets purchases (2012: \$40,000).

The Serious Fraud Office also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2013 totalled \$465,000 (2012: \$413,000). These purchases included the purchase of electricity from Mercury Energy, air travel from Air New Zealand, legal services and office rental from the Crown Law Office, postal services from New Zealand Post, SEEmail from the Department of Internal Affairs, access to the electronic crime lab from New Zealand Customs Service, training from New Zealand Police, audit services from the Office of the Auditor-General, advice from the Parliamentary Counsel Office and financial systems support from the State Services Commission and the Treasury.

Amounts payable to entities controlled, significantly influenced, or jointly controlled by the Crown at 30 June 2013 totalled \$34,766 (2012: \$35,303). In addition, during the year four FTEs were seconded and funded from the New Zealand Police to undertake investigative services. In turn, four SFO FTE's were seconded back to New Zealand Police on short term secondments. These positions were funded by the Serious Fraud Office.

Transactions with key management personnel and their close family members

Key management personnel compensation

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|--|-------------------------|-------------------------|
| Salaries and other short-term employee benefits | 1,302 | 1,267 |
| Post-employment benefits | 0 | 0 |
| Termination benefits | 64 | 0 |
| TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION | 1,366 | 1,267 |

Key management personnel of the Serious Fraud Office comprised of the Chief Executive and the five members of the Senior Management team (2012: five members). These management positions were the General Manager Evaluation and Intelligence, General Manager Fraud and Corruption, General Manager Financial Markets and Corporate Fraud, General Manager Corporate Services and General Counsel.

→ Related party transactions involving key management personnel (or their close family members)

- There were no close family members of key management personnel employed by the Serious Fraud Office.
- There were no related party transactions involving key management personnel or their close family members in 2013 (2012: nil).

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

18 Events after the balance date

There are no significant events after the balance date.

19 Financial instruments

19A. Financial instrument categories

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

| | ACTUAL 2013 \$000 | ACTUAL 2012 \$000 |
|---|-------------------------|-------------------------|
| LOANS AND RECEIVABLES | | |
| Cash and cash equivalents | 2,255 | 1,467 |
| Debtors and other receivables (note 8) | 23 | 50 |
| <i>Total loans and receivables</i> | 2,278 | 1,517 |
| FINANCIAL LIABILITIES MEASURED AT AMORTISED COST | | |
| Creditors and other payables (note 11) | 1,325 | 857 |

The Serious Fraud Office has a letter of credit facility with Westpac of \$175,000 in 2013 (2012: \$100,000) to allow for the payment of employee salaries by direct credit.

19B. Financial instrument risks

The Serious Fraud Office's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Serious Fraud Office has a series of 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.

Market risk

→ Currency risk

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

→ Interest rate risk

Under section 46 of the Public Finance Act 1989 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.

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 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.

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 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 Serious Fraud Office has a credit card facility of \$25,000 as at 30 June 2013 (2012: \$55,000).

→ Contractual maturity analysis of financial liabilities, excluding derivatives

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

| | CARRYING AMOUNT \$000 | CONTRACTUAL CASH FLOWS \$000 | LESS THAN 6 MONTHS \$000 | 6 MONTHS- 1 YEAR \$000 | 1-5 YEARS \$000 |
|------------------------------|-----------------------------|------------------------------------|--------------------------------|------------------------------|--------------------|
| 2013 | | | | | |
| Creditors and other payables | 672 | 672 | 672 | 0 | 0 |
| Accrued rent expense | 653 | 653 | 150 | 144 | 359 |
| 2012 | | | | | |
| Creditors and other payables | 425 | 425 | 425 | 0 | 0 |
| Accrued rent expense | 432 | 432 | 75 | 144 | 213 |

20 Capital management

The Serious Fraud Office's capital is its equity, which comprises taxpayers' funds. Equity is represented by net assets.

The Serious Fraud Office manages its revenues, expenses, assets, liabilities and general financial 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, Treasury Instructions and the Public Finance Act 1989.

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

21 Explanation of major variances against budget

Statement of comprehensive income

→ Other revenue

Other revenue was greater than budgeted by \$85,000. This was primarily attributable to conference fees received from an Economic Crime Agencies Network conference hosted by the Serious Fraud Office.

→ Personnel costs

Personnel costs were less than budget by \$410,000 due to two vacant positions. These positions have been filled internally while a permanent Chief Executive is recruited.

→ Capital charge

Capital charge was less than budgeted by \$29,000 due to the timing of the retention of equity of \$320,000 being spent.

→ Other operating expenses

Other operating expenses were greater than budgeted by \$457,000 due mainly to an increase in rent and the onerous lease provision for the Mayoral Drive premises, IT support required for the new case management system and expenses associated with the Economic Crime Agencies Network conference.

Statement of financial position

→ Cash and cash equivalents

Cash and cash equivalents were greater than budgeted by \$889,000 primarily due to significantly higher current liabilities (as noted below).

→ Current liabilities

Current liabilities were greater than budgeted by \$850,000. Creditors at year-end increased by \$281,000 and included a small number of suppliers with sizeable balances relating to work completed in June on a new case management system, Performance Improvement Framework self-assessment, a remuneration survey and specialist casework. In addition the Queen Street rent accrual, arising from contractual rent holidays, increased by \$221,000. Other increases included employee entitlements including annual leave liability of \$230,000, accrued payroll of \$135,000 and an increase in the onerous lease provision from the Mayoral Drive rent rise.

Statement of cash flows

The net cash increase for the year was \$552,000 more than budgeted. This was the result of savings against budget on payments to employees of \$504,000 (refer personnel costs above), additional income of \$103,000 and offset by costs of \$135,000 mainly from the Economic Crime Agencies Network conference. Net cash from investing activities for the year was \$18,000 less than budgeted, which represented asset purchases in creditors.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF SERIOUS FRAUD OFFICE'S FINANCIAL STATEMENTS AND NON-FINANCIAL PERFORMANCE INFORMATION for the year ended 30 June 2013

The Auditor-General is the auditor of Serious Fraud Office (SFO). The Auditor-General has appointed me, Karen Young, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the non-financial performance information of SFO on her behalf.

We have audited:

- the financial statements of SFO on pages 39 to 63, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2013, the statement of comprehensive income, statement of changes in equity, statement of departmental expenses and capital expenditure against appropriations, statement of departmental unappropriated expenditure and capital and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of SFO that comprises the statement of service performance on pages 33 to 38 and the report about outcomes on pages 7 to 24.

Opinion

In our opinion:

- the financial statements of SFO on pages 39 to 63:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect SFO's:
 - › financial position as at 30 June 2013;
 - › financial performance and cash flows for the year ended on that date;
 - › expenses and capital expenditure incurred against each appropriation administered by SFO and each class of outputs included in each output expense appropriation for the year ended 30 June 2013; and
 - › unappropriated expenses and capital expenditure for the year ended 30 June 2013.

- the non-financial performance information of SFO on pages 7 to 24 and 33 to 38:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects SFO's service performance and outcomes for the year ended 30 June 2013, including for each class of outputs:
 - › its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
 - › its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 30 September 2013. This 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 our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the nonfinancial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to SFO's preparation of the financial statements and the non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of SFO's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Chief Executive;
- the appropriateness of the reported non-financial performance information within SFO's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and the non-financial performance information; and
- the overall presentation of the financial statements and the non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the non-financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and the non-financial performance information.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Chief Executive

The Chief Executive is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect SFO's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
- fairly reflect its service performance and outcomes.

The Chief Executive is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Chief Executive is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Chief Executive's responsibilities arise from the Public Finance Act 1989.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and 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 External Reporting Board.

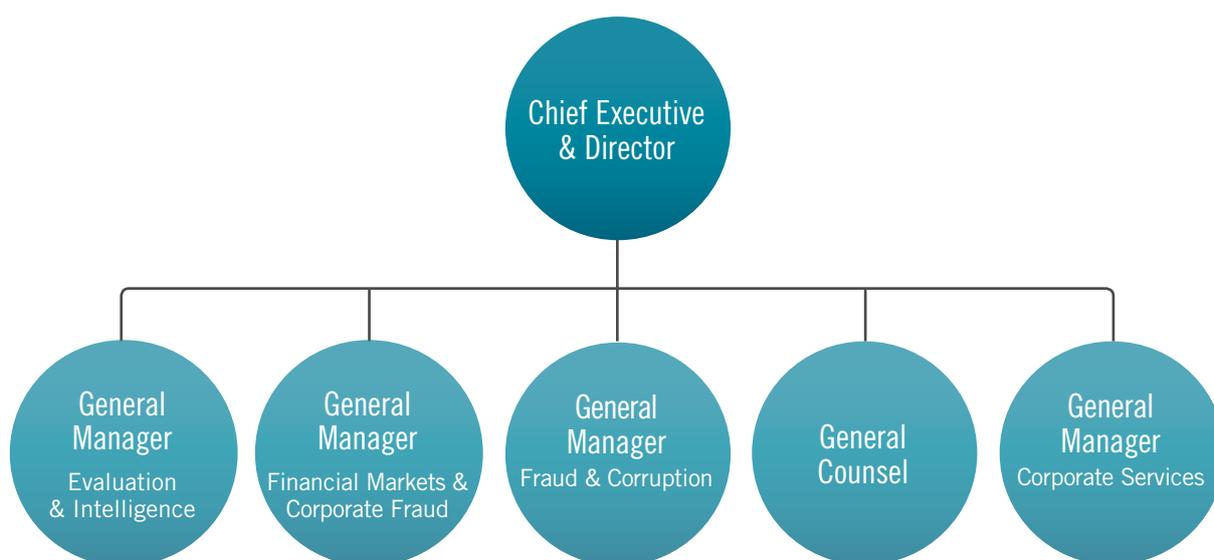
Other than the audit, we have no relationship with or interests in SFO.



Karen Young
Audit New Zealand

On behalf of the Auditor-General
Wellington, New Zealand

APPENDIX 1 ORGANISATIONAL STRUCTURE



Evaluation and Intelligence

The Evaluation and Intelligence team is responsible for the assessment of complaints and referral to other agencies as appropriate.

Financial Markets and Corporate Fraud

The Financial Markets and Corporate Fraud team is responsible for focusing on fraud committed in financial markets and large corporations in existing public securities and other investment related fraud.

Fraud and Corruption

The Fraud and Corruption team has responsibility for general fraud matters as well as co-responsibility with the New Zealand Police for bribery and corruption.

General Counsel

This role is responsible for providing independent legal advice to the Director on all operational matters.

Corporate Services

The Corporate Services team is responsible for managing activities relating to strategic planning, accountability reporting, financial management, human resources, IT systems, communications, operational policies and general administration.

APPENDIX 2

EMPLOYEE DEMOGRAPHICS

As at 30 June 2013 we had a core team of 49.67 full-time equivalent employees (2012: 50.5), or 51 employees (2012: 52).

Demographic make-up of employees

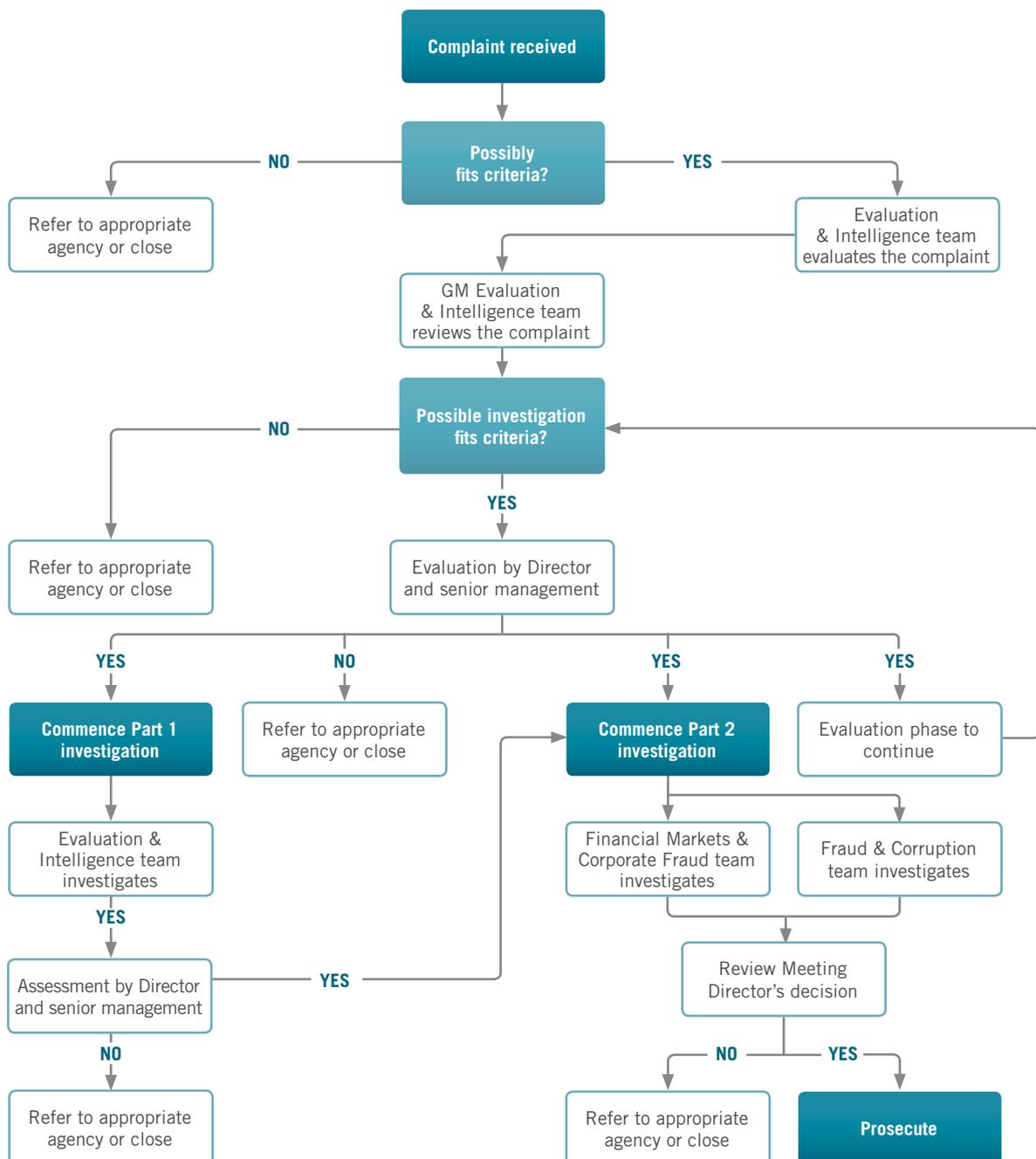
| | EMPLOYEE NUMBERS | | PERCENTAGE | |
|------------------------|------------------|-----------|------------|------|
| | 2013 | 2012 | 2013 | 2012 |
| Male | 23 | 24 | 45% | 46% |
| Female | 28 | 28 | 55% | 54% |
| Māori/Pacific | 1 | 1 | 2% | 2% |
| Asian | 3 | 3 | 6% | 6% |
| European | 47 | 48 | 92% | 92% |
| Part-time | 5 | 6 | 10% | 12% |
| Full-time | 46 | 46 | 90% | 88% |
| TOTAL EMPLOYEES | 51 | 52 | | |

Management and non-management diversity

| 2013 | TOTAL | FT | PT | MĀORI/PACIFIC | ASIAN | EUROPEAN |
|------------------------|-----------|-----------|----------|---------------|----------|-----------|
| FEMALE | | | | | | |
| Management | 5 | 4 | 1 | - | - | 5 |
| Non-management | 23 | 19 | 4 | - | 2 | 21 |
| <i>Total female</i> | 28 | 23 | 5 | - | 2 | 26 |
| MALE | | | | | | |
| Management | 8 | 8 | - | 1 | - | 7 |
| Non-management | 15 | 15 | - | - | 1 | 14 |
| <i>Total male</i> | 23 | 23 | - | 1 | 1 | 21 |
| TOTAL EMPLOYEES | 51 | 46 | 5 | 1 | 3 | 47 |

APPENDIX 3 BUSINESS PROCESSES OF THE SERIOUS FRAUD OFFICE

The Serious Fraud Office investigates complaints of serious or complex financial crime and brings them to a successful conclusion as quickly as circumstances allow. The following diagram illustrates the processes that make up this intervention.



APPENDIX 4

USE OF STATUTORY POWERS

The Serious Fraud Office Act 1990 recognises that, on occasions, it may be reasonable and appropriate for other persons to assist with an investigation by providing the Director with the ability to authorise the use of statutory powers by non-SFO persons. This enables SFO to add specific expertise to an investigation, particularly where the resources of SFO may be stretched in a manner which would otherwise cause undesirable delay to an investigation. Despite having this ability, we have not used its right of authorisation from 1990 to 2010.

In 2009/10, we adopted a different approach by engaging external investigative resources under the Act. In so doing, we have been able to more effectively manage our caseload, build more effective relationships with the private sector and promote a better understanding of the work of SFO. In maintaining this approach, we have met all the requirements of the Serious Fraud Office Act 1990. An analysis of the 'Use of Statutory Powers' as notices issued under the Act is summarised in the table below.

| SECTION | PART 1 OF ACT | 2012/13 | 2011/12 | 2010/11 | 2009/10 | 2008/09 |
|-----------|-------------------------|------------|-----------|------------|-----------|------------|
| s 5(1)(a) | Requiring documents | 108 | 72 | 136 | 50 | 209 |
| s 5(1)(b) | Supply information | 25 | 11 | 43 | - | 1 |
| s 6 | Search warrant obtained | - | 1 | - | - | - |
| | TOTAL | 133 | 84 | 179 | 50 | 210 |

| SECTION | PART 2 OF ACT | 2012/13 | 2011/12 | 2010/11 | 2009/10 | 2008/09 |
|--------------|--------------------------------|--------------|------------|------------|------------|------------|
| s 9c (1) (c) | Attend | 66 | 55 | 73 | 39 | 36 |
| s 9(1)(d) | Requiring answers to questions | 73 | 57 | 73 | 39 | 36 |
| s 9(1)(e) | Requiring information | 216 | 128 | 114 | 82 | 103 |
| s 9(1)(f) | Requiring documents | 620 | 647 | 521 | 419 | 412 |
| s 10 | Search warrant obtained | 33 | 5 | 2 | 3 | 7 |
| s 36(2) | | 36 | 21 | - | 9 | 36 |
| | TOTAL | 1,044 | 913 | 783 | 591 | 630 |

The Director signs all notices requiring persons to attend to answer questions. 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 must be notified in advance of, and approve, any request for a search warrant. There were five warrants sought in the period to 30 June 2013 (2012: 5).

APPENDIX 5

SERIOUS FRAUD OFFICE PANEL OF PROSECUTORS (AS AT 30 JUNE 2013)

Under section 48 of the Serious Fraud Office Act 1990 the Solicitor-General is required to appoint a panel of prosecutors for the prosecution of cases of serious or complex fraud brought by SFO. Members of the Panel are appointed for three-year terms. Appointments to the Panel are made by the Solicitor-General after consultation with the Director.

| | | | |
|-----------------|--|---------------------|---|
| Auckland | John Billington QC Ross Burns Peter Davey Brian Dickey John Dixon Nick Flanagan Alan Galbraith QC Christine Gordon QC Simon Moore QC, Crown Solicitor Rachael Reed Mike Ruffin Todd Simmonds Nick Williams | Wellington | Grant Burston, Crown Solicitor Colin Carruthers QC Dale La Hood Kristy McDonald QC Bruce Squire QC John Upton QC |
| Tauranga | Paul Mabey QC | Christchurch | Nick Davidson QC Brent Stanaway, Crown Solicitor Nicholas Till QC Mark Zarifeh |
| Rotorua | Fletcher Pilditch, Crown Solicitor | Dunedin | Robin Bates, Crown Solicitor Marie Grills |
| Hamilton | Phil Morgan QC | | |





