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Our purpose

To detect, investigate and prosecute New Zealand's most serious or complex financial crimes.

Core principles

Excellence: We strive to be a world-class financial crime and corruption agency.

Pride: In the work we do and our contribution to New Zealand.

Connect: Recognising our own strengths and opportunities, and those arising from close collaboration with and connections across agencies and sectors.

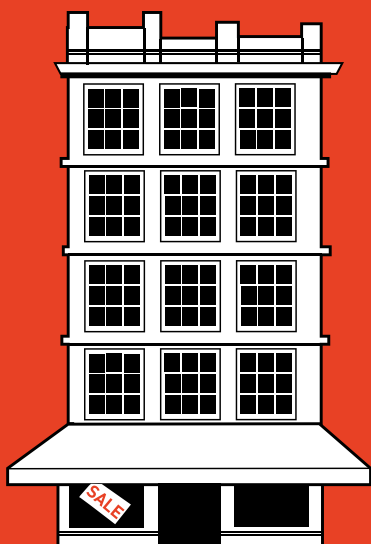
Achievements at a glance

536 Complaints
15 Investigations
6 Prosecutions
5 Corruption investigations
2 Joint agency investigations
11 International investigations
Average imprisonment sentence
4 years 7 months



Part A

Our achievements and outcomes



Director's overview

2015 marks 25 years since the Serious Fraud Office (SFO) was established as a specialised, stand-alone agency. Ten years ago, my predecessor David Bradshaw said in his annual report that the SFO rates with the best in the world for its investigative techniques, its prosecutorial ability and its results. We continue in 2015 to deliver excellent results on a modest budget, results which serve to protect New Zealand's highly regarded reputation as a safe place to invest and do business. Working effectively with limited resources is something this office prides itself on.

The past year has been a busy one, with six trials and involvement in the investigation of 11 international cases, including assisting the Cook Islands Government with a corruption investigation. In general, bribery and corruption complaints remain at similar levels to the previous two years but, as people come to better understand what the SFO's role is, we are investigating a larger number of appropriate cases and several bribery and corruption charges have been laid this year.

Working on our business

Alongside working in our business, we have placed a greater focus in 2014/15 on working on the business, reviewing our operating model to determine the right size for the agency and introducing greater efficiency into the process for the most important decisions we make – that is, which cases we investigate and which cases we don't. Applying our most experienced employees to critical decision points earlier in the process is expected to increase our efficiency and lead to better outcomes.

Following the 2014 General Election we have a new Minister responsible for the SFO, the Hon. Michael Woodhouse. Our four-year plan to 2019 has allowed the agency to present to the Minister in more detail about the challenges and opportunities ahead, and to secure additional funding. With the efficiency improvements implemented before and as a result of an Expenditure Review this year we have confirmed that the agency can operate at \$9.27 million through to 2017/18.

Change can be unsettling and I want to thank all the SFO's employees for engaging with a process that is also resulting in more robust performance, talent and remuneration frameworks. These frameworks clearly link performance, reward and the agency's three core principles.

The SFO 2015 Conference, held in June, was themed 'Connect'. The conference covered a wide range of technical and other skills designed to better equip our employees to respond to current and future challenges in the investigation of serious or complex financial crime.

The darker side of connectivity is increasingly sophisticated cyber crime. Technology is equally the repository of evidence of such crime. The ongoing success of the SFO relies on maintaining a technical edge in electronic search, seizure and analysis. We have a significant focus on, and we maintain our edge, through training and networks in this area to ensure that our capacity to investigate keeps pace with developments. Criminals also take advantage of the interstices between agencies. A recommendation of our Performance Improvement Framework (PIF) was the need to strengthen sector connections at a senior level. This report outlines the proactive ways we are joining up sub-sets of knowledge into a web of intelligence and information sharing, from successful joint investigations such as Operation Edit, to government networks, international conferences and with the private sector to better understand emerging risks. We are also developing a business case for a system-wide intelligence strategy.

The global outlook

Global fraud rates continue to increase and New Zealand's 2014 fraud rate of 33 percent is only slightly below the international average, according to the latest PwC Global Economic Crime Survey. There is no room for complacency.

Bribery and corruption is fast becoming one of the biggest items on the international business agenda, as evidenced by the importance placed on specific UN and OECD conventions. The cost to business and society is estimated by Transparency International at US\$2.6 trillion per annum. Organised crime and anti-corruption legislation before Parliament will help us align with international conventions. Many New Zealand businesses trade in jurisdictions where corruption is rife and we need to do all we can to prevent them from becoming caught in its trap and to investigate and prosecute those who give in to the temptation to compete in this way. International co-operation with multiple law enforcement agencies is part of our mandate and is providing an increasingly robust cross-border enforcement environment to combat illegal activities.

We look forward to continuing our work to ensure that financial crime and corruption do not take root and flourish in New Zealand.



Julie Read

Chief Executive and Director

Our role

The SFO works to reduce the impact of serious financial crime, including bribery and corruption, on both the economy and the New Zealand public. We play a strategic role in maintaining New Zealand's long-standing reputation as one of the least corrupt countries in the world.

Through administering the Serious Fraud Office Act 1990, we aim to provide investors and the public with the confidence that New Zealand law enforcement agencies are alert to all forms of serious financial crime. We do this by investigating possible instances of financial crime and, where evidence of offending is found, bringing about prosecutions to hold the offenders to account. The SFO has statutory independence: operational decisions are made without ministerial direction, we have the right to compel the production of documents and those interviewed do not have recourse to the right to silence.

As a government agency with limited resources, we must focus on a relatively small number of cases that significantly impact the economy or the New Zealand public. In the case of bribery or corruption, we investigate crimes that could undermine confidence in the public sector or are of significant public interest. Cases are prioritised using a set of criteria that addresses the scale of the crime and its impact on victims, the complexity of the crime and the degree of public interest.

Custodial sentences and public disclosure are strong deterrents of white collar crime. We play an important role in achieving both results. While our role is not to seek compensation for losses suffered by victims, our work can provide a sense of justice. High-profile cases are also an opportunity for us to share our expertise and increase understanding of the impact of complex financial crime, both on immediate victims and the wider business community.

Our partners

To maximise value-for-money and provide an all-of-government response to financial crime, we collaborate with other law enforcement and regulatory agencies.

Our partners include:

- Crown Law Office
- New Zealand Police
- Organised and Financial Crime Agency of New Zealand
- New Zealand Customs Service
- Department of Internal Affairs
- Office of the Auditor-General
- Ministry of Justice
- Ministry of Business, Innovation and Employment
- Inland Revenue Department
- Financial Markets Authority
- Commerce Commission.

We also maintain strategic partnerships with relevant private sector interests, such as accounting firms, law firms, and with our international counterparts.

What we report against

This annual report summarises how our work this past year has supported the strategic focus outlined in our 2014–2018 Statement of Intent (SOI) and the outcomes it contains.

Strategic objectives

The SFO contributes to:

- the Government's priority of building a more competitive and productive economy – including actively collaborating with public and private sector partners to minimise the risk of bribery and corruption inherent in both the Christchurch rebuild and the development of Auckland infrastructure
- the Justice Sector's Safe and Just Society priority and Better Public Services targets of reducing rates

of total crime and reoffending – conviction rates and custodial sentences can be strong deterrents as they reinforce that crime has been taken seriously. Reduced crime helps to maintain strong institutions, and builds public, business and investor confidence.

The tables below summarise the outcomes we aim to achieve and how we measure our performance.

A confident business environment that is largely free of serious financial crime

Impacts	Indicators	Measures	Trend results
Business and investor confidence in the integrity of our financial markets is increased	Those who say that law enforcement action is maintaining or improving the integrity of our financial and commercial markets	Biennial SFO Stakeholder Survey "How effective have SFO investigations and prosecutions been?" Maintain or improve on 7.1 (scale of 10)	2015: 7.3 2013: 7.7 2011: 7.1

A just society that is largely free of fraud, bribery and corruption

Impacts	Indicators	Measures	Trend results
Public and victims' confidence that those who commit financial crime are held to account is increased	Frequency of custodial sentences being ordered where a conviction was obtained	Annual analysis, including trends compiled by the SFO: Maintain or increase from 75% of cases	2014/15: 69%* 2013/14: 89% 2012/13: 84% 2011/12: 95%
	Victims of financial crime perceive that the actions of the SFO help to ensure that perpetrators of financial crime are held to account	SFO Complainants and Victims' Survey "The actions of the SFO make a difference and help deter serious financial crime." Maintain or increase from 65% of respondents	Measure discontinued** 2013/14: 38% 2011/12: 65%

* The remaining 31% of cases received home detention, which although not a term of imprisonment, is a custodial sentence. For consistency with previous years, this has not been included. Note that the SFO's role is to put the cases before the Courts, not to determine sentences.

**The Complainants and Victims' Survey has been discontinued following an evaluation of its usefulness and/or potentially confusing messages.

Victims' responses to how well we are performing our role can be influenced by factors over which we have no control. Although SFO prosecutions can involve hundreds or even thousands of victims, we do not hold responsibility for some factors that are understandably important to victims, e.g. deciding penalties and recovering losses.

New Zealand maintains its international reputation for very low levels of bribery and corruption	New Zealand's ranking of corruption-free nations	Transparency International Corruption Perception Index. Maintain rank within the top three	Least corrupt ranking 2014/15: 2nd 2013/14: 1st equal Denmark 2012/13: 1st equal Finland, Denmark 2011/12: 1st
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A confident business environment and a just society

To improve the economy and attract investors, New Zealand needs to actively demonstrate that its markets are largely free of financial crime as a result of an environment in which crime is readily detected and punished.

This year we received 536 complaints. Of these, 31 became Part 1 enquiries and 15 progressed to Part 2 investigations. We commenced six prosecutions. Themes appearing this year were:

- corruption in education and health-related charities and trusts
- invoicing fraud
- large-scale mortgage fraud
- public sector bribery and corruption.

Bribery and corruption is not the most common form of crime committed but its incidence is on the rise in New Zealand, up from 11 percent in 2012 to 15 percent in 2014 according to PwC's Global Economic Crime Survey. Bribery and corruption are perceived as having the most severe impact on corporate reputation, while potential investors see it as adding unwarranted cost, risk and uncertainty to their decisions.

Public sector bribery and corruption

This year, we laid charges against former employees of two public service entities: Auckland Transport and Immigration New Zealand.

We also charged an Auckland resident with attempting to bribe an Auckland Council official and while the sum involved in this case was modest, the offence itself was of concern. It is an important part of our legal system that its rules apply to all and may not be subverted by those able to pay to avoid those rules. The SFO charges prevent this particular form of offence from being perceived as being an acceptable business practice.

We also successfully prosecuted Alex Swney, former CEO of Auckland's Heart of the City for filing false invoices to the value of \$2.5 million. He was sentenced in June to five years seven months' imprisonment on charges of invoice fraud and tax evasion (charges also laid by the Inland Revenue).

Private sector fraud

Organised Crime and Anti-Corruption legislation making its way through Parliament would see penalties for bribery and corruption in the private sector increased in line with those of the public sector. This year, the SFO brought a case against Peter Scutts, former CEO of the New Zealand Wine Company Limited (NZWC). Scutts was found guilty on 17 fraud charges

Celebrating 25 years



The Serious Fraud Office is established and is one of a number of responses to the collapse of capital markets.



The 'Winebox Inquiry' is set up to investigate repeated allegations by MP Winston Peters of corruption and incompetence by the SFO and Inland Revenue. The Commission concluded in 1997 there were no grounds supporting the allegations.

20 cases being investigated, including 'Undiegate' investigation into MP and Aotearoa Television executive Tuku Morgan.

Former Auditor General and ACC boss, Jeff Chapman, is convicted of 10 charges of fraudulently using documents.

1990 1992 1994 1997

The first Director Charles Sturt. First Attorney General Rt Hon David Lange followed by Hon Paul East (91-97).

Approx \$4m budget.

Equiticorp founder director Allan Hawkins is sentenced to six years' imprisonment.

Publicly listed meat company Fortex goes into receivership. Investigation reveals extensive fraud resulting in CEO Graeme Thompson and CFO Michael Mullen being jailed.

Charles Sturt stands down as Director for health reasons. Retired Judge Ron Jamieson appointed Acting Director until David Bradshaw appointed.

37

Full-time employees

91%

Conviction rate

related to receiving \$64,000 in commissions from an Australian wine wholesaler for advising the NZWC to enter into a supply contract. While this case was also modest in dollar terms, our decision to prosecute was again made to protect New Zealand’s reputation for tackling corruption before it takes root.

Another high-volume, low-value case was known as Operation Edit.

Operation Edit was the first joint investigation of its kind, established in May 2012 to combat a long-running invoice scam. The operation was led by the SFO and included the New Zealand Police, the Organised and Financial Crime Agency of New Zealand, the Commerce Commission, the New Zealand Customs Service and the Inland Revenue.

In October 2012, 67 employees were involved in search warrants or other activities undertaken at over 25 locations in the North and South Islands. Six people were arrested and five accused were eventually charged with multiple fraud offences and with participating in an organised criminal group.

The scam involved copying pre-existing advertisements from genuine publications and promising prospective advertisers their advertisements would be printed and distributed. To encourage purchase, the magazines

were titled in a way that suggested support of worthwhile causes such as road safety, parenting or family support. The number of magazines purported to be in circulation was grossly misrepresented – in some instances only sufficient numbers to provide a copy to advertisers who requested copies were produced.

Having attempted to obtain more than \$1 million under the scam between February 2010 and October 2012, the primary offender, Anthony Hendon, was successful in obtaining funds in excess of \$750,000. This deception had a negative impact on many small businesses as no gains were realised from their wasted marketing spend. Mr Hendon was sentenced to four years’ imprisonment. All other defendants were also convicted and sentenced.

Another joint investigation, Operation Chestnut, is the largest-ever criminal case involving pokie machines in pubs and clubs (the Class 4 gambling sector), and four men in an alleged multi-million-dollar fraud. This case is still before the Court.

Keeping watch on environmental risks

Two working groups initiated by the SFO, a Canterbury public sector working group and an insurance fraud working group, have led to a number of investigations and promoted information sharing aimed at preventing fraud risks associated with the Christchurch rebuild. No charges have been laid but we continue to monitor the



High Court decides in *Jaffe v Bradshaw* that compulsory interviews can be videotaped.



Ex-Citibank executive Graeme Rutherford jailed for six years and five months after defrauding five victims of \$7m to invest in a Nigerian bank scam.

American evangelist Donald Allen is prosecuted for defrauding 154 people of \$8.5 million through a South Pacific high-yield investment fraud.

Four men accused of defrauding the Auckland Regional Helicopter Trust are acquitted after an SFO investigation and prosecution.

1998

Attorney General Rt Hon Sir Douglas Graham.

2000

Attorney General Hon. Margaret Wilson (00-04).

2004

SFO announces investigation into certain matters regarding John Tamihere and the Waipareira Trust.

2005

Attorney General Hon. Dr Michael Cullen (05-08).



city as many commercial and public buildings are yet to be procured and constructed.

Auckland’s property market and the scale of impending commercial developments represent a key environmental risk. We have invested significant resources into investigating a large-scale mortgage fraud involving highly organised teams of property developers, shell company directors, property valuers and lawyers. This investigation was still ongoing at June 2015.

Finance company completion

The last of the Finance Company cases concluded in December 2014, with the largest and most complex case against South Canterbury Finance. The outcome of a five-month trial was only a partial success for the SFO but given the scale of the collapse and its impact on investors the case warranted prosecution in the public interest.

International bribery and corruption cases

It is an offence under New Zealand law for a New Zealand citizen to bribe an official in any other country. As a result we investigated four cases of alleged foreign bribery this year, which was also consistent with our obligations under the OECD Convention on Combating Bribery and as a signatory to the UN Convention against Corruption.

We also supported the Cook Islands Police in its investigation of allegations against a government minister by providing specialist expertise and capability such as computer cloning and analysis, and forensic accounting. An application has been made to the Cook Islands High Court for leave to commence proceedings.

Determining the best operating model

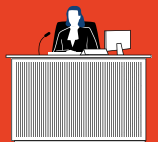
The SFO helps protect New Zealand’s reputation as a safe place to invest and do business and it is important that the SFO is the ‘right size’ for this purpose. Following on from the 2014 PIF review and conclusion of litigation against finance company collapses, we completed an Expenditure Review this year. The review, and associated efficiency improvements, supported our submission to the Government on the ongoing funding levels required for the SFO, which has subsequently been confirmed at \$9.27 million annually.

This commitment will allow the SFO to respond to potential changes in our operating environment, such as an increase in case numbers, keeping up with the latest technology developments and carrying out additional international responsibilities for investigating corruption. (See *Growing international relationships* on page 12.)

Bridgecorp and Capital & Merchant finance companies collapse, owing a combined \$657m.

Labour announces the SFO is to be replaced by a new Organised Crime Agency but this Bill is overturned in 2008 by the newly elected National Government.

Otago District Health Board CIO, Michael Swann, is convicted of defrauding the DHB of \$16.9m and is sentenced to nine years six months’ imprisonment.



2007

33 cases and 19 active prosecutions.

David Bradshaw completes 10-year term as Director, replaced by Grant Liddell.

Budget \$5.6m.

2009

Minister Hon Judith Collins (09–11). Adam Feeley appointed SFO Director.

Office moves from Duthie White Building in Mayoral Drive to 21 Queen Street.

2010

South Canterbury Finance collapses. ASB investment advisor Stephen Versalko admits \$17.7m fraud against bank clients and is jailed for six years.

2011

DataSouth goes into liquidation. Charges amounting to \$103m are laid against CEO Gavin Bennett and result in an eight-year jail term.

40

Full-time employees



A system-wide approach

The PIF noted a lack of systemic or strategic future focus on financial crime. A key barrier to detection is that a wide variety of agencies responsible for addressing financial crime hold sub-sets of intelligence information and only see a sub-set of complaints within their respective remits.

With our partner agencies in this area we are exploring the development of a system-wide approach to financial crime intelligence to help us assess the serious financial crime threatscape and be alert to emerging risks. The SFO is considering an indicative business case with our partners and we anticipate further progress over the next six to 12 months.

Connecting with partners

We believe that the strength and depth of our connections with government and the private sector are important to the SFO's ongoing success and capacity to contribute to whole-of-government priorities such as Better Public Services. Better Public Services' goals are designed to enable the public sector to deliver improved services in terms of efficiency and effectiveness, within constrained budgets.

A key driver for building Better Public Services is co-location of agencies, where this does not impact on front line security, confidentiality and privacy standards. Closer working relationships make for greater efficiencies and galvanise cross-agency collaboration. The SFO has provided premises for the Crown Law Office (CLO) on an informal basis for two years and we are now working on plans to formalise the arrangement and to accommodate growth in the CLO on a longer term basis.

Strategic relationships with government and the private sector ensure we are delivering coordinated, effective and efficient responses to financial crime and excellent value. This year, four members of the New Zealand Police were seconded into the SFO to assist with investigations. At various times throughout the year, a total of 11 SFO employees were seconded to assist with Police cases where our specific skills were required.

We made changes to our biennial stakeholder survey questions that reflect a shift in how we want our stakeholder relationships to work. Rather than simply asking about past performance the questions are more future focused, and ask stakeholders what we can do better while working with them – resulting in a more useful set of qualitative data and in a 'valued client' type of relationship.

New Zealand's largest-ever Ponzi scheme, Ross Asset Management, is among the 40 new cases opened – the most to date (from 465 complaints). Nine finance company cases on-going. No finance companies among new cases.

David Ross is sentenced to 10 years 10 months' imprisonment.



2012

2013

2014

2015

Minister Hon Anne Tolley (12-14).

Adam Feeley resigns and Simon McArley is appointed acting head.

Budget \$10.1m.

Julie Read appointed as Director. Instigates an Expenditure Review to determine the right size for the agency, following a Performance Improvement Framework review.

South Canterbury Finance director Edward Sullivan is the last of 20 individuals convicted for finance company fraud. Finance company cases completed in December.

Minister Hon Michael Woodhouse.

Budget set at \$9.3m.

93%

Conviction rate

47

Full-time employees

In celebrating 25 years, we also recognised the value our alumni have as potential networking connections and informed advocates for our work by initiating what are intended as regular alumni gatherings. Two events have been held to date.

Private sector advisory panel

This year, significant thought has gone into scoping the objectives and make-up of an advisory panel to attract key players from across New Zealand's private sector and academia. This panel is now in the process of being established and will assist the SFO with its strategic outlook in respect of themes and high-level emerging risks, along with offering insights on our performance with investigations and prosecutions.

The Government Legal Network

The Government Legal Network (GLN) provides important linkages and support for the diverse range of lawyers in public sector departments. This year, the SFO has led a drive to promote the benefits of the GLN to Auckland's network of lawyers. We have held regular meetings of senior legal managers across government agencies based in Auckland, supported by the GLN Director's attendance by video-link from Wellington.

Growing international relationships

Our relationships with similar international agencies continue to expand through the Economic Crime Agencies Network (ECAN) and other fora. ECAN was established by the SFO in 2013 to promote practical cross-jurisdictional cooperation among member agencies.

The Director and two General Managers represented the SFO at the third annual ECAN meeting in Hong Kong in May 2015, hosted by the Hong Kong Independent Commission against Corruption. 20 enforcement experts from 11 international agencies discussed the current issues in financial crime and corruption investigations in our various jurisdictions. At a time when investigations increasingly have an international dimension, this meeting forms a key part of the SFO's strategy to maintain strong links with overseas financial crime enforcement agencies to benefit operational outcomes.

Further information about GLN and ECAN outcomes is included in *Training opportunities*, opposite.

Our people

Our success in achieving priorities within a limited budget and delivering Better Public Services relies in large part on continually enhancing the capabilities of our small, streamlined workforce, 90 per cent of whom perform frontline activities.

New frameworks to enhance engagement

Following the 2013 employee engagement survey we held four focus group sessions in August and September 2014 to gain a clearer understanding of the results and collective agreement on areas for improvement. Feedback indicated high levels of commitment to the objectives of the SFO and respect for work colleagues. Three areas identified as driving greater engagement were discussed: leadership and vision, valued contribution and personal growth and development.

Focus group feedback, along with our PIF review, has informed development of three new frameworks:

- performance management framework (PMF)
- remuneration framework
- talent management framework.

We have developed a 'best-in-class, fit-for-purpose' PMF. Introduced in June 2015, the new PMF will see a more rigorous approach to performance and development reviews. It identifies talent, learning and development opportunities and succession plans, and has a clear link to remuneration. Further work on the remuneration framework has created more rigorous and transparent links between performance, reward and recognition, with the new remuneration framework showing clear pathways and relativities.

The SFO is a talent house for growing a specialist skill base. A 'best-in-class' talent management framework has been introduced using an external provider. The framework aligns to the State Services Commission model but links the identification phase to a bespoke talent management strategy to ensure the SFO attracts, engages, develops and retains its capability.

All three frameworks transparently and directly link employee performance and rewards to the SFO's outcomes framework and core principles.

Training opportunities

The SFO Connect 2015 Conference in June offered a two day line-up of presentations that responded to areas of interest identified by employees and supported the agency in maintaining its technical edge as we face new challenges. Presentations included New Zealand's cyber security challenge and corruption context, technical accounting, responding to generational change and the neuroscience of creativity and change.

Specific training opportunities this year included:

- two employees attended specialist training in Florida to ensure the agency's electronic forensic skills remain up-to-date in this rapidly moving digital environment
- a forensic accountant and a lawyer attended a Foreign Bribery and Corruption Conference in Washington, DC, organised by the United States Securities and Exchange Commission. A key outcome was exposure to best-practice tools and methods
- a junior lawyer attended an in-house criminal litigation course run by the Public Defence Service
- Pacific Island Affairs and the Ministry for Women presented to the SFO on Pasifika and Women's issues which will assist us in our aim to support diversity within the agency and the public sector.

We shared our own expertise in a number of ways, including:

- a senior forensic accountant who assisted the Cook Islands Government spent additional time in the islands training the government's financial intelligence unit
- a training day in Auckland, co-ordinating with the GLN in Wellington, brought together around 80 lawyers from 11 government agencies. Speakers on a wide range of topics included the New Zealand Police, Crown Law, Public Defence Service and Ministry for Primary Industries. Interest in the day exceeded expectations enhancing capabilities, knowledge and networking across agencies. This type of internal training is also more cost-effective than paying external providers.

A review and stock take of the technical skills required by discipline and role has been conducted to assist us in the process of developing a comprehensive technical training plan that will be implemented in 2015/16.

Our systems, processes and technology

Complaint assessment process creates greater efficiency

Allegations of financial crime are often complex and it can be difficult to assess potential criminality. This year, we implemented a new two-part complaint assessment process that places our most experienced employees at the start of the process to ensure we investigate the right things, at the right time and in the right way. Not achieving this balancing act can impact on a law enforcement agency's efficiency and effectiveness, but importantly also affect the public's confidence in the agency and the justice system.

The eight Principal investigators, lawyers and forensic accountants are now involved from the point when the complaint arrives. Once a formal investigation is started a Principal will then lead the investigation to provide a consistent management approach and direction throughout the life of that investigation and any prosecution. The result is that we are opening more

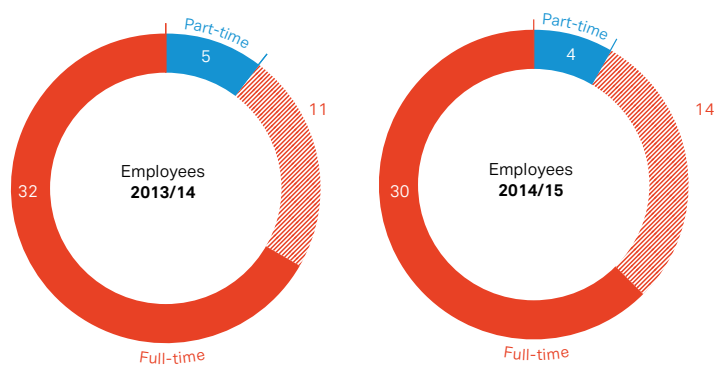
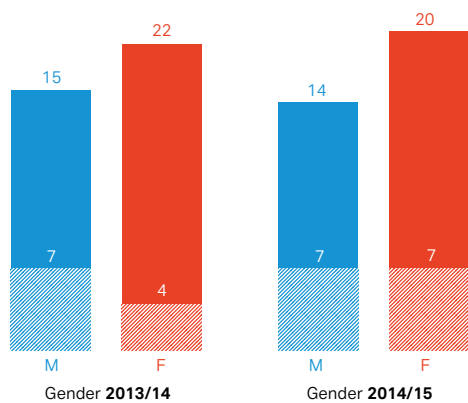
Part 1 enquiries and these are more focused on the key issues. The resulting Part 2 investigations are then more efficiently passing through the process to prosecution.

Outsourcing of document management results in faster return

Documents can extend to hundreds of thousands of pages per case. To date, each page has been manually barcoded and scanned. Spikes of pressure have led to delays in returning documents and the need to source external assistance in order to meet deadlines so, following an end-to-end review of how we handle all our evidence, this year the SFO has contracted to outsource the scanning phase of its document management. Pilot testing was carried out in May and the system is being migrated. We expect that these changes will provide a faster, more robust process using electronic numbering.

As at 30 June 2015 we had a core team of 46.6 full-time equivalent employees (2013/14: 45.9), or 48 employees (2013/14: 48).

Management roles Non-management roles



Ethnicity 2013/14

Ethnicity 2014/15

Ethnicity	2013/14			2014/15		
	M	F	Total	M	F	Total
Māori/Pacific	1	1	0	3	1	2
Asian	3	0	3	2	0	2
European	44	10	34	43	13	30

World class groups

One of our three core principles is Excellence – we strive to be a world class financial crime and corruption prevention agency. This requires the SFO to constantly evolve so we have created a number of work groups to review the way we operate in selected areas to make sure we are using world-class techniques, processes and technology. These work groups are led by our Principals. This year, we began reviewing disclosure, investigation planning, statutory notices and evidence handling.

accessible for tablet and smart phone viewing and will offer an improved service for the public interested in the SFO’s work.

We have signed up to the All-of-Government panels and aligned our IT strategy with central government’s strategy. Where appropriate to our size and scale, this has included adopting mandated services such as desktop and infrastructure services.

New IT platforms align with central government

Both the intranet and SFO website migrated to new IT platforms this year. An enhanced website is due to be launched before the end of 2015. It will be more

Key capabilities

The table on the following page lists the indicators and associated measures that we use to check our progress towards achieving improved organisational performance.

Capability	Indicators	Measure and target	Trend results
People – effective performance management	Performance management processes are embedded	90% of performance agreements are completed by 30 September and 95% of appraisals are completed by 31 July of each year	2014/15: Not completed* 2013/14: 97% Plans 98% Appraisals 2012/13: 95% Plans 95% Appraisals
Leadership and organisational culture	Employees’ engagement in their organisation	SFO Employee Engagement survey Employees engagement index is 75% or higher	2014/15: Survey not conducted** 2013/14: 76% 2012/13: 72%
Relationships and partnerships	Partner agencies indicate satisfaction with their relationship with SFO to demonstrate effective communication and collaboration	Biennial SFO Stakeholders Survey Rating is eight out of 10 or higher	2014/15: 8.3 2012/13: 7.2
Technology, systems and processes	Effective resources made available to employees	SFO Employee Engagement survey “I have the tools and resources I need to do my job effectively” response is 66% or higher	2014/15: Survey not conducted** 2013/14: 69% 2012/13: 66%
Communication	Communication to complainants, victims and witnesses is effective	SFO Complainants and Victims’ Survey “My concerns were understood and considered by SFO” Response is 89% or higher	2014/15: Survey not conducted*** 2013/14: 94% 2012/13: 89%

*A redesign of the performance management system delayed the completion. We expect to be 100% complete by the end of September 2015.

**The timing of the survey has been changed to allow for the initiatives from the workshops following the previous survey to be embedded.

***Discontinued following an evaluation of its usefulness and/or potentially confusing messages. Principal investigators, lawyers and forensic accountants are now involved from the point when the complaint arrives to ensure an improved service.

Profiles of long-serving employees

Joanne Pettifer is one of the SFO's Principal Forensic Accountants. She began her career at the SFO in 1999. Jo had initially wanted to be a police accountant but on enquiry she discovered the NZ Police had no such role. The SFO however, gave Jo the opportunity to experience the world of law enforcement as well as use her formal accounting skills.

Jo's mentors in the early years included David Osborn and Gib Beattie. Gib, the former assistant Director, was a forensic accountant by training and Jo remembers the valuable lessons he taught her. She hopes that in her Principal role she can do the same for others.

Being able to delve into a variety of industries is a welcome challenge for Jo. She worked for five years on finance company cases. With a significant number of investigations under her belt, Jo is still never bored. The work always changes and the agency continues to evaluate the way it does things. Jo's work has been instrumental in securing convictions in a number of matters and she sees her role with the SFO and within the public service as a source of pride.

Clive Hudson is a Principal Forensic Accountant. Clive has the added responsibility of being in charge of the SFO's Electronic Forensic Unit, a specialist unit that manages all electronic evidence encountered during an investigation.

Clive was hired as a forensic accountant in 1996 and admits that from the start, he discovered the need for excellence in all the disciplines that the SFO entails. On his first day he was assigned with a pair of experienced team members to a case of a lawyer stealing client funds and he realised how much he still had to learn. Clive's appointment as a Principal recognises that he has achieved that.

As the agency's 'unofficial historian' he is the go-to for a myriad of case and personnel information from the past and he has seen a few Directors come and go. Clive says all of them had specific strengths and made the place what it is today.

Clive is proud to be a part of the SFO and its history. He has a public service ethos and enjoys helping people. Investigations have taken him from Dunedin to Kaikohe and up to Fiji and the Cook Islands on corruption and copyright infringement cases.

Susan Winters has been with the SFO since 1998. Her role in Investigations Support saw her thrown in the deep end among mountains of paperwork. There can be hundreds of thousands of documents in a single case. The SFO had a backlog of evidence to be returned when Sue started.

Sue prepares all the cases for Court, including exhibits and documentation. She has travelled with the teams to hearings and it is the sheer variety of the job and unexpected challenges that motivate her.

Although many documents are still in hard copy, Sue's role has been the most affected by rapid changes to technology. When she started, there was a typing pool and the agency was still running DOS as Windows computers had not arrived. She remembers printing Court information sheets on an ancient printer, pounding its way through four sets of paper copies, making an awful racket! Sue has also monitored the systems that record interviews and managed the video archives; today these are controlled by the investigators. The whole team agrees that the SFO wheels would not turn without Sue's expertise in the many aspects of preparing a prosecution for Court.



Part B

Statement of performance and financial statements



Statement of responsibility

As Chief Executive and Director of the Serious Fraud Office I am responsible for the preparation of the financial statements and statement of 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:

- the preparation of the Serious Fraud Office's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them;
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting;
- ensuring that end-of-year performance information on each appropriation administered by the Serious Fraud Office is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report; and
- the accuracy of any end-of-year performance information prepared by the Serious Fraud Office, whether or not that information is included in the annual report.

In my opinion the financial statements fairly reflect the financial position of the Serious Fraud Office as at 30 June 2015 and its operations for the year ended on that date; and the forecast financial statements fairly reflect the forecast financial position of the Serious Fraud Office as at 30 June 2016 and its operations for the year ending on that date.

Signed:



Julie Read

Chief Executive and Director
30 September 2015

Statement of performance

Statement of Performance

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

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

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 the output expense.

Output expense: investigation and prosecution of serious financial crime

Description

This output expense provides for services by the 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. These activities include work outside our core role such as educating those in the industry through attending events or speaking opportunities. We pro-actively communicate and raise awareness of our work with our stakeholders. The SFO also actively researches and gathers knowledge from international bodies to improve our effectiveness.

Performance measures and standards

A number of the performance measures have notes (1 to 5) to provide further explanation to their meaning and context. As the explanations are referred to on multiple occasions, these notes are included at the end of this section on page 23.

Complaints

Complaints evaluated include those made by telephone which can be quickly referred to the most appropriate agency or agencies if necessary. Including these complaints allows us to better measure the level of service provided to the public. Complaints are first assessed by the Evaluation and Intelligence team to determine whether or not they fit the criteria set for investigations by the SFO. If the matter falls within the mandate of the SFO, the complaint moves to the enquiry phase. If not, the complaint is either referred to the appropriate agency, or closed and the complainant is notified.

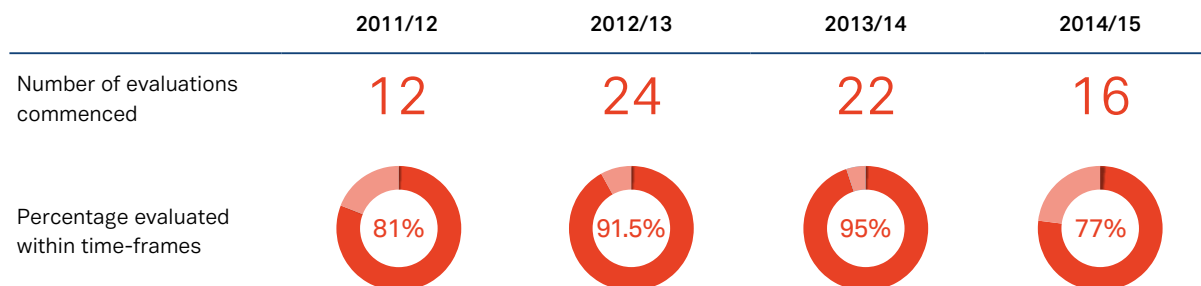
Actual 2013/14	Performance Measure	Budget Standard 2014/15	Actual 2014/15
	Quantity		
22	Number of evaluations initiated by the SFO commenced	15	16
	Timeliness		
95%	Percentage of complaints evaluated within 30 working days*	80%	77%

* Does not include open complaints at end of financial year which may still have met the 30 working days measure.

Actual performance: Complaints

The percentage of complaints evaluated within 30 working days was affected by a change in process during the financial year – the introduction of the Principals into the evaluation stage (see page 14). As a result some complaints took longer to evaluate, but this meant that we have been more confident that we did not inadvertently miss a matter that could have warranted an investigation.

Statistical trends



Investigations

Part 1 of the SFO Act provides the SFO with limited powers to carry out an investigation into the affairs of any person where the Director suspects that the investigation may disclose serious or complex fraud. Part 2 of the SFO Act provides the SFO with more extensive and coercive powers to investigate matters where there are reasonable grounds to believe that an offence involving serious or complex fraud may have been committed. Once a complaint meets the criteria, the investigation is undertaken by one of the two investigation teams.

Actual 2013/14	Performance Measure	Budget Standard 2014/15	Actual 2014/15
Quantity			
30	Number of formally commenced investigations (Note 2)	23–30	15
Timeliness			
100%	Percentage of cases for which an investigation plan is established within 10 working days (Note 3)	90%	100%
45%*** 82%	Percentage of cases investigated within targeted time	30% of cases within six months** 80% of cases within 12 months**	30% 50%

** Cases closed this year

*** This result was against the budget standard '40% of cases within six months'

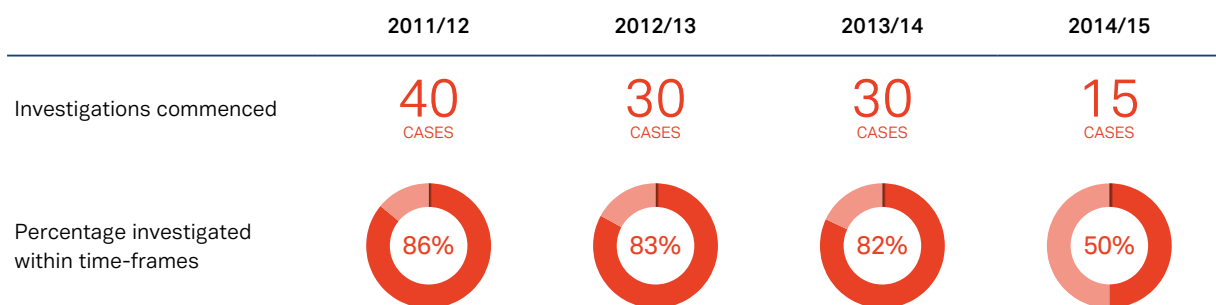
Actual 2013/14	Performance Measure	Budget Standard 2014/15	Actual 2014/15
Quality			
90%	Percentage of cases for which an investigation plan is reviewed monthly and recommendations addressed by senior management monthly (Notes 4 and 5)	90%	100%
100%	Percentage of formal post-investigation reviews that are conducted and recommendations addressed by senior management within two months of review (Note 3)	90%	100%
100%	Percentage of formal post-investigation reviews that meet the SFO quality criteria (Note 5)	80%	83%

Actual performance: Investigations

During the year, changes to create efficiencies in the complaint evaluation process meant that Part 1 enquiries were counted separately and not considered formal investigations. As a result the number of formally commenced investigations reported for this year only reflect Part 2 investigations (15) whereas the Budget Standard included both Part 1 and Part 2 (a target of 23 to 30) This target was higher as it included the two parts of the investigation process. Using the previous measurement approach the actual 'investigations' for the year would have been 46.

The SFO has a number of significantly complex files under way. With growing quantities of evidence (both hard copy and electronic) they require more resources and take longer to investigate (in reference to Budget Standard within 12 months). The impact of increased resources being consumed by a small number of large cases is that other cases are given a lower priority and hence take longer also.

Statistical trends



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 supported by the advice of Prosecution Panel Counsel and the SFO team assigned to the particular investigation. The Panel member provides the Director with their opinion on the proposed prosecution and reviews the proposed charges.

Actual 2013/14	Performance Measure	Budget Standard 2014/15	Actual 2014/15
Quantity			
8	Number of cases brought to prosecution	10–12	6
Quality			
100%	Percentage of formal post-prosecution reviews that are conducted and recommendations addressed by senior management within two months of review (Notes 2 and 3)	90%	100%
100%	Percentage of formal post-prosecution reviews that meet the SFO quality criteria (Note 5)	80%	100%
100%	Percentage of prosecutions commenced where external Counsel agrees with the SFO decision to charge	90%	100%

Actual performance: Prosecutions

The flow-on effect of lower actuals in the investigations has meant the number of cases brought to prosecution is also lower. The SFO is also working on a number of highly complex cases which will take longer to reach prosecution. If appropriate, these will be brought to prosecution in the next financial year.

Statistical trends

	2011/12	2012/13	2013/14	2014/15
Number of cases brought to prosecution	16	16	8	6
Percentage where Counsel agrees with SFO	100%	100%	100%	100%

Performance measure notes

Note 1: The SFO recently changed its complaint evaluation process to create greater efficiencies in the evaluation process. We now count Part 1 enquiries separately. This enables the SFO to ensure that potential instances of serious or complex fraud are not missed and that any subsequent investigations are well scoped and focused.

Note 2: This measure reflects only Part 2 investigations. In previous years the measure for new investigations included both Part 1 and Part 2 matters. Under the new evaluation process Part 2 investigations will generally have resulted from an initial Part 1 enquiry.

Note 3: This measure has been expired as the creation of investigation plans is now incorporated in the other quality measures.

Note 4: This measure establishes clear expectations on the timeliness of progressing investigations. It recognises that an investigation is a process made up of several key phases and ensures that employees remain focused on a timely completion of the investigation.

Note 5: Formal written quality assurance reviews will be conducted post each investigation and prosecution will include:

- a summary of issues arising during the course of the case
- any recommendations for changes to improve SFO policies, case management procedures or external issues
- an overall assessment of the quality of the conduct of the investigation or the prosecution.
- Recommendations from the quality assurance reviews will be formally assessed by the senior leadership team within two months of the completion of the review.

Capital performance

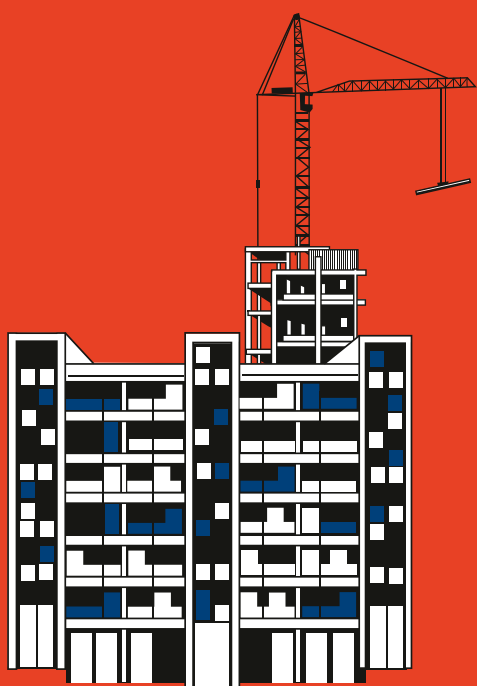
Actual 2013/14	Performance Measure	Budget Standard 2014/15	Actual 2014/15
Completed 1 July 2013	The capital plan is developed and managed throughout the year	Capital plan for implementation by 1 July 2014	Completed 1 July 2014

Financial performance

	2014 Actual \$000	2015 Main estimates \$000	2015 Supp estimates \$000	2015 Actual \$000	2016 Main estimates \$000
Revenue					
Crown	9,040	7,240	8,740	8,740	9,270
Departments	10	0	0	10	0
Other	336	355	365	348	237
Total revenue	9,386	7,595	9,105	9,098	9,507
Expenditure	8,961	7,595	9,105	8,945	9,507
Net surplus	425	0	0	153	0

There have been no material changes between New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Public Sector Accounting Standards (IPSAS).

Financial statements



Statement of comprehensive revenue and expense

for the year ended 30 June 2015

Actual 2014 \$000	Notes	Actual 2015 \$000	Unaudited Budget 2015 \$000	Unaudited Forecast 2016 \$000
Revenue				
9,040	Revenue Crown	8,740	7,240	9,270
346	Other revenue	358	355	237
9,386	Total revenue	9,098	7,595	9,507
Expenses				
5,605	Personnel costs	5,696	4,655	6,023
2,978	Other expenses	3,022	2,695	3,294
332	Depreciation and amortisation expense	185	203	148
36	Capital charge	36	36	36
10	Finance costs	6	6	6
8,961	Total expenses	8,945	7,595	9,507
425	Surplus/(deficit)	153	0	0
0	Other comprehensive revenue and expense	0	0	0
425	Total comprehensive revenue and expense	153	0	0

The accompanying notes form part of these financial statements.

Explanations of major variances against original 2014/15 budget are provided in note 20.

Budget 2015 and Forecast 2016 figures are Budget and Economic Forecast Update (BEFU) forecasts which are not audited.

Statement of financial position

as at 30 June 2015

Actual 2014 \$000	Notes	Actual 2015 \$000	Unaudited Budget 2015 \$000	Unaudited Forecast 2016 \$000
Assets				
Current assets				
2,476	Cash and cash equivalents	2,129	2,368	1,765
45	Receivables	5	10	3
45	Prepayments	67	1	49
2,566	Total current assets	2,201	2,379	1,817
Non-current assets				
401	Property, plant and equipment	499	389	477
11	Intangible assets	3	53	21
412	Total non-current assets	502	442	498
2,978	Total assets	2,703	2,821	2,315
Liabilities				
Current liabilities				
1,156	Payables	1,230	1,637	1,315
425	Return of operating surplus	153	0	0
375	Employee entitlements	287	259	216
141	Provisions	500	122	250
2,097	Total current liabilities	2,170	2,018	1,781
Non-current liabilities				
7	Employee entitlements	6	7	7
422	Provisions	75	344	75
429	Total non-current liabilities	81	351	82
2,526	Total liabilities	2,251	2,369	1,863
452	Net assets	452	452	452
Equity				
452	Taxpayers' funds	452	452	452
452	Total equity	452	452	452

The accompanying notes form part of these financial statements.

Explanations of major variances against original 2014/15 budget are provided in note 20.

Budget 2015 and Forecast 2016 figures are Budget and Economic Forecast Update (BEFU) forecasts which are not audited.

Statement of changes in equity

for the year ended 30 June 2015

Actual 2014 \$000		Notes	Actual 2015 \$000	Unaudited Budget 2015 \$000	Unaudited Forecast 2016 \$000
452	Balance at 1 July		452	452	452
425	Total comprehensive revenue and expense		153	0	0
	Owner transactions				
(425)	Return of operating surplus to the Crown	11	(153)	0	0
452	Balance at 30 June	14	452	452	452

The accompanying notes form part of these financial statements.

Explanations of major variances against original 2014/15 budget are provided in note 20.

Budget 2015 and Forecast 2016 figures are Budget and Economic Forecast Update (BEFU) forecasts which are not audited.

Statement of cash flows

for the year ended 30 June 2015

Actual 2014 \$000	Note	Actual 2015 \$000	Unaudited Budget 2015 \$000	Unaudited Forecast 2016 \$000
Cash flows from operating activities				
9,040	Receipts from Revenue Crown	8,740	7,240	9,270
346	Receipts from other revenue	358	355	237
(3,625)	Payments to suppliers	(3,270)	(3,021)	(3,432)
(5,405)	Payments to employees	(5,453)	(4,655)	(6,023)
(36)	Payments for capital charge	(36)	(36)	(36)
5	Goods and services tax (net)	4	120	13
325	Net cash flow from operating activities	15	343	29
Cash flows from investing activities				
0	Receipts from sale of property, plant and equipment	3	0	0
(50)	Purchase of property, plant and equipment	(268)	(100)	(75)
0	Purchase of intangible assets	0	0	(25)
(50)	Net cash flow from investing activities	(265)	(100)	(100)
Cash flows from financing activities				
(54)	Return of operating surplus	11	(425)	0
(54)	Net cash flow from financing activities	(425)	0	0
221	Net (decrease)/increase in cash	(347)	(97)	(71)
2,255	Cash at the beginning of the year	2,476	2,465	1,836
2,476	Cash at the end of the year	2,129	2,368	1,765

The accompanying notes form part of these financial statements.

Explanations of major variances against original 2014/15 budget are provided in note 20.

Budget 2015 and Forecast 2016 figures are Budget and Economic Forecast Update (BEFU) forecasts which are not audited.

There have been no material changes between NZ IFRS and IPSAS.

Statement of commitments

as at 30 June 2015

Capital commitments

The Serious Fraud Office has no capital commitments as at 30 June 2015 (2014: \$nil).

Operating leases as lessee

The Serious Fraud Office leases property, plant and equipment in the normal course of its business. The primary lease agreement relates to the current office accommodation on level 6 at 21 Queen Street, Auckland. The Serious Fraud Office also occupied part of level 12, in addition to level 6 until August 2014 when level 12 was vacated, with all personnel and functions being combined on level 6. The level 12 lease was surrendered on 31 August 2014, with no further rent or other obligation thereafter. The level 6 lease, which expires on 3 March 2023 with no right of renewal, will continue unaffected.

In addition, the Serious Fraud Office leases office accommodation and car parks 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 2015.

The decrease in commitments over the prior year stems primarily from the surrender on 31 August 2014, of the level 12 Queen Street lease, which was due to terminate in March 2023.

The total of minimum future sublease payments expected to be received under the non-cancellable sublease at 30 June 2015 is \$232,000 (2014: \$581,000).

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

Actual 2014 \$000		Actual 2015 \$000
659	Not later than one year	474
2,009	Later than one year and not later than five years	1,736
1,872	Later than five years	1,366
4,540	Total non-cancellable operating lease commitments	3,576

The accompanying notes form part of these financial statements.

Statement of contingent liabilities and contingent assets

as at 30 June 2015

Contingent liabilities

The Serious Fraud Office has no quantifiable or unquantifiable contingent liabilities as at 30 June 2015 (2014: \$nil).

Contingent assets

The Serious Fraud Office has no contingent assets as at 30 June 2015 (2014: \$nil).

Notes to financial statements

1 Statement of accounting policies for the year ended 30 June 2015

Reporting entity

The Serious Fraud Office is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled and operates in New Zealand. The relevant legislation governing the Serious Fraud Office's operations includes the Public Finance Act 1989 and the State Sector Act 1988. The Serious Fraud Office's ultimate parent is the New Zealand Crown.

The Serious Fraud Office's primary objective is to provide services to the New Zealand public. The Serious Fraud Office does not operate to make a financial return.

The Serious Fraud Office has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of the Serious Fraud Office are for the year ended 30 June 2015, and were approved for issue by the Chief Executive/Director on 30 September 2015.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

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 includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and Treasury Instructions.

These financial statements have been prepared in accordance with Tier 2 of the PBE accounting standards on the basis that expenditure exceeds \$2 million but is less than \$30 million with Reduced Disclosure Regime concessions applied.

These financial statements comply with PBE accounting standards.

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards. There were no material

adjustments arising on transition to the new PBE accounting standards.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

Standards issued that are not yet effective and have not 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:

- In May 2013, the External Reporting Board issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. The Serious Fraud Office has applied these standards in preparing the 30 June 2015 financial statements.
- In October 2014, the PBE suite of accounting standards was updated to incorporate requirements and guidance for the not-for-profit sector. These updated standards apply to PBEs with reporting periods beginning on or after 1 April 2015. The Serious Fraud Office will apply these updated standards in preparing its 30 June 2016 financial statements. The Serious Fraud Office expects there will be minimal or no change in applying these updated accounting standards.

Summary of Significant accounting policies

Revenue

The specific accounting policies for significant revenue items are explained below:

– Revenue Crown

The Serious Fraud Office is primarily funded from the Crown. This funding is restricted in its use for the purpose of the Serious Fraud Office meeting the objectives specified in its founding legislation, the Serious Fraud Office Act 1990 and the scope of the relevant appropriations.

The Serious Fraud Office considers there are no conditions attached to the funding and it is recognised as revenue at the point of entitlement.

The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

– Rental revenue

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

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 lessee 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 where the Serious Fraud Office is the lessee 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 reasonable 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 to the lessee.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense 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.

The Serious Fraud Office is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

Receivables

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

A receivable is considered impaired when there is evidence that the Serious Fraud Office will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amounts expected to be collected.

Property, plant and equipment

Property, plant and equipment consists of the following asset classes: leasehold improvements, computer equipment, furniture and office equipment, and motor vehicles. The Serious Fraud office does not own any land or buildings.

Individual assets, or groups of assets, are capitalised if their cost is greater than \$2,000 (excluding GST). The value of an individual asset that is less than \$2,000 (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 only when 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 initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its 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 or deficit. When a revalued asset is sold, the amount included in the property revaluation

reserve in respect of the disposed asset is transferred to taxpayers' funds.

– 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.

The costs of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

– 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 (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of 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 the shorter.

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

Intangible assets

– Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Software is capitalised if its cost is \$2,000 (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 cost of material and services, employee costs and directly attributable 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 of software updates or upgrades are only capitalised when they increase the usefulness or value of the software.

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 derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit.

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

	Useful life	Depreciation rate
Acquired computer software	3–5 years	20%–33%
Developed computer software	3 years	33%

Impairment of property, plant and equipment and intangible assets

The Serious Fraud Office does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

– Non-cash-generating assets

Intangible assets subsequently measured at cost have an indefinite useful life or are not yet available for use, are not subject to amortisation and are tested annually for impairment.

Property, plant, and equipment and intangible assets held at cost 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 service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is the present value of the asset's remaining service potential. Value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss is recognised in the surplus or deficit.

Payables

Short-term payables are recorded at their face value.

Employee entitlements

– Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date, 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 and a reliable estimate of the obligation can be made.

– 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 leave and retirement gratuities, have been calculated on an actuarial basis where practical. The calculation is based on:

- likely future entitlement accruing to employees, 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 and KiwiSaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit as incurred.

– Defined benefit schemes

The Serious Fraud Office does not contribute to any defined benefit schemes.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service 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 net deficits from future operating activities.

Provisions are measured at the present value of the expenditure and are discounted using market yields

on government bonds at balance date with terms of maturity that match, as closely as possible, the estimated timing of the future cash outflows. The increase in the provision due to the passage of time is recognised as an interest expense and is included in “finance costs”.

– **Restructuring**

A provision for restructuring is recognised when an approved detailed formal plan for the restructuring has either been announced publicly to those affected, or for which implementation has already commenced.

– **Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits or service potential to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

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, memorandum accounts and property revaluation reserves. Memorandum accounts and property revaluation reserves do not apply to the Serious Fraud Office.

Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date. Information on non-cancellable capital and lease commitments are reported in the statement of commitments.

Cancellable capital commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are reported in the statement of commitments at the lower of the remaining contractual commitment and the value of those penalty or exit costs (i.e. the minimum future payments).

Goods and services tax (GST)

All items in the financial statements and appropriation statement 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 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 (IRD) is included as part of receivables or payables in the statement of financial position.

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

Commitments and contingencies are disclosed exclusive of GST.

– **Income tax**

The Serious Fraud Office is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

– **Statement of cost accounting policies**

The Serious Fraud Office has a single appropriation for all of its activities, therefore no cost allocation was required.

– **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. The Serious Fraud Office has not identified any significant risks for the next financial year.

– **Critical judgements in applying accounting policies**

Management has exercised the following critical judgement in applying accounting policies for the year ended 30 June 2015. In note 13, Provisions, the Serious Fraud Office has exercised its judgement in determining the level of the make-good required for the Mayoral Drive lease which expires on 29 February 2016.

Budget and forecast figures

– Basis of the budget and forecast figures

The 2015 budget figures are for the year ended 30 June 2015 and were published in the 2014 annual report. They are consistent with the Serious Fraud Office's best estimate financial forecast information submitted to Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 2014/15. Subsequent to this the Serious Fraud Office received approval for additional funding of \$1.5 million from the Justice Sector Fund for the 2014/15. This was not included in the forecast figures for 2014/15 in the 2014 annual report.

The 2016 forecast figures are for the year ending 30 June 2016, which are consistent with the best estimate financial forecast information submitted to Treasury for the BEFU for the year ending 30 June 2016.

The forecast financial statements have been prepared as required by the Public Finance Act 1989 to communicate forecast financial information for accountability purposes.

The budget and forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

The 30 June 2016 forecast figures have been prepared in accordance with PBE FRS 42 Prospective Financial Statements and comply with PBE FRS 42.

The forecast financial statements were approved for issue by the Chief Executive on 26 March 2015. The Chief Executive is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

While the Serious Fraud Office regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2016 will not be published.

– Significant assumption used in preparing the forecast financials

The forecast figures contained in these financial statements reflect the Serious Fraud Office's purpose and activities and are based on a number of assumptions on what may occur during the 2015/16 year. The forecast figures have been compiled on the basis of existing government policies and Ministerial expectations at the time the Main Estimates were

finalised. The main assumptions, which were adopted as at 26 March 2015, were as follows:

- The Serious Fraud Office's activities and output expectations will remain substantially the same as the previous year focusing on the Government's priorities.
- Personnel costs were based on 55 full-time equivalent staff, which takes into account staff turnover.
- Operating costs were based on historical experience and other factors that are believed to be reasonable in the circumstances and are the Serious Fraud Office's best estimate of future costs that will be incurred.
- Remuneration rates are based on current wages and salary costs, adjusted for anticipated remuneration changes.
- Estimated year end information for 2014/15 was used as the opening position for the 2015/16 forecasts.

The actual financial results achieved for 30 June 2016 are likely to vary from the forecast information presented, and the variations may be material.

Since the approval of the forecasts, there have been no significant changes or events that would have a material impact on the forecasts.

2 Other revenue

Actual 2014 \$000		Actual 2015 \$000
346	Rental revenue from subleases	358
346	Total other revenue	358

3 Personnel costs

Actual 2014 \$000		Actual 2015 \$000
5,465	Salaries and wages	5,477
58	Defined contribution plan employer contributions	15
(101)	Increase/(decrease) in employee entitlements	(89)
136	Employee training and development	228
3	Fringe benefit tax	0
44	Other	65
5,605	Total personnel costs	5,696

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

4 Capital charge

The Serious Fraud Office pays a capital charge to the Crown on its taxpayers' funds at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2015 was 8% (2014: 8%).

5 Finance costs

	Actual 2014 \$000		Actual 2015 \$000
10		Discount unwind on provisions (note 13)	6
10		Total finance costs	6

6 Other expenses

	Actual 2014 \$000		Actual 2015 \$000	Unaudited Budget 2015 \$000	Unaudited Forecast 2016 \$000
39		Fees to auditor fees to Audit New Zealand for audit of financial statements	40	40	49
919		Rental and operating lease expense	936	918	745
0		Lease make-good provision	153	0	0
(183)		Onerous contracts	(147)	(141)	(94)
100		Other occupancy expenses	102	86	91
296		Legal fees on panel of prosecutors	135	239	332
151		Consultancy	127	68	139
418		Travel	317	370	305
673		IT and telecommunications	744	556	836
0		Net loss on disposal of property, plant and equipment	5	0	0
31		Professional services	24	23	27
120		Specialist advice – case related	204	221	467
414		Other expenses	382	315	397
2,978		Total other expenses	3,022	2,695	3,294

Budget 2015 and Forecast 2016 figures are Budget and Economic Forecast Update (BEFU) forecasts which are not audited. There have been no material changes between NZ IFRS and IPSAS.

7 Receivables

Actual 2014 \$000		Actual 2015 \$000
45	Debtors (gross)	5
0	Less: provision for impairment	0
45	Net debtors	5
45	Total receivables	5
	Total receivables comprise:	
45	Receivables from supplier refunds (exchange transactions)	5
0	Receivables (non-exchange transactions)	0

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

	2014			2015		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	33	0	33	5	0	5
Past due 1–30 days	12	0	12	0	0	0
Past due 31–60 days	0	0	0	0	0	0
Past due 61–90 days	0	0	0	0	0	0
Past due >91 days	0	0	0	0	0	0
Total	45	0	45	5	0	5

All receivables greater than 30 days in age are considered to be past due.
There was no impairment of receivables in 2014/15 (\$nil 2013/14).

8 Property, plant and equipment

Movements for each class of property, plant and equipment are as follows:

	Office furniture, fixtures and fittings \$000	Office equipment \$000	Computer equipment \$000	Motor vehicles \$000	Total \$000
Cost					
Balance at 1 July 2013	1,234	453	840	41	2,568
Additions	0	0	31	0	31
Disposals	(660)	(260)	(331)	0	(1,251)
Balance at 30 June 2014	574	193	540	41	1,348
Balance at 1 July 2014	574	193	540	41	1,348
Additions	200	8	75	0	283
Disposals	(24)	(2)	0	0	(26)
Balance at 30 June 2015	750	199	615	41	1,605
Accumulated depreciation and impairment losses					
Balance at 1 July 2013	840	407	639	2	1,888
Depreciation expense	160	16	128	6	310
Eliminate on disposal	(660)	(260)	(331)	0	(1,251)
Balance at 30 June 2014	340	163	436	8	947
Balance at 1 July 2014	340	163	436	8	947
Depreciation expense	77	17	77	6	177
Eliminate on disposal	(16)	(2)	0	0	(18)
Balance at 30 June 2015	401	178	513	14	1,106
Carrying amounts					
At 1 July 2013	394	46	201	39	680
At 30 June and 1 July 2014	234	30	104	33	401
At 30 June 2015	349	21	102	27	499

There are no restrictions over the title of the Serious Fraud Office's property, plant and equipment, nor are any property, plant and equipment pledged as securities for liabilities.

9 Intangible assets

	Acquired software \$000
Cost	
Balance at 1 July 2013	214
Additions	0
Disposals	(56)
Balance at 30 June 2014	158
Balance at 1 July 2014	158
Additions	0
Disposals	0
Balance at 30 June 2015	158
Accumulated amortisation and impairment losses	
Balance at 1 July 2013	181
Amortisation expense	22
Eliminate on Disposal	(56)
Balance at 30 June 2014	147
Balance at 1 July 2014	147
Amortisation expense	8
Eliminate on Disposal	0
Balance at 30 June 2015	155
Carrying amounts	
At 1 July 2013	33
At 30 June and 1 July 2014	11
At 30 June 2015	3

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.

10 Payables and deferred revenue

Actual 2014 \$000		Actual 2015 \$000
Payables and deferred revenue under exchange transactions		
245	Creditors	308
146	Accrued expenses	97
680	Accrued rent payable	734
1,071	Total payables and deferred revenue under exchange transactions	1,139
Payables and deferred revenue under non-exchange transactions		
85	Taxes payable (e.g. GST and rates)	91
1,156	Total payables and deferred revenue	1,230

11 Return of operating surplus

Actual 2014 \$000		Actual 2015 \$000
425	Net surplus	153
425	Total return of operating surplus	153

The net surplus for 2014 is based on the net surplus reported in the Serious Fraud Office's 2014 Annual Report and has not been adjusted for changes arising from the transition to the new PBE accounting standards.

The return of operating surplus to the Crown is required to be paid by 31 October of each year.

12 Employee entitlements

Actual 2014 \$000		Actual 2015 \$000
Current portion		
153	Accrued salaries and wages ¹	42
222	Annual leave	245
0	Long service leave and retirement gratuities	0
375	Total current portion	287
Non-current portion		
7	Long service leave and retirement gratuities	6
382	Total employee entitlements	293

Key assumptions in measuring retirement and long service leave obligations

The measurement of the long service obligation was based on a number of assumptions. An assessment of 47² employees employed as at 30 June 2015 was undertaken as to which employees would reach the long service criteria. No employees earned or took long service leave in the year to 30 June 2015. All long service leave earned has been taken and as such the current portion of the long service leave balance is nil. The non-current portion reflects the assessment of the probability of employees 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.

¹ Includes performance pay, FBT and contributions to defined contribution plans.

² Excludes Chief Executive and casual employees.

13 Provisions

Actual 2014 \$000		Actual 2015 \$000
Current portion		
141	Onerous contracts	97
0	Lease make-good	403
141	Total current portion	500
Non-current portion		
325	Lease make-good	75
97	Onerous contracts	0
422	Total non-current portion	75
563	Total provisions	575

Movements for each class of provision are as follows:

	Lease make-good \$000	Onerous contracts \$000	Total \$000
Balance 1 July 2013	325	411	736
Additional provisions made	0	0	0
Amounts used	0	(122)	(122)
Discount unwind (note 5)	0	10	10
Unused amounts reversed	0	(61)	(61)
Balance 30 June 2014	325	238	563
Balance 1 July 2014	325	238	563
Additional provisions made	153	0	153
Amounts used	0	(147)	(147)
Discount unwind (note 5)	0	6	6
Unused amounts reversed	0	0	0
Balance at 30 June 2015	478	97	575

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 is expected that the timing of the expected cash outflow to make-good will occur at the expiry of the leases respectively.

The make-good provision for 120 Mayoral Drive was revalued during the year following an external review of its adequacy to meet obligations when the lease expires in February 2016.

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. On 7 March 2011, the Serious Fraud Office moved premises, vacating 120 Mayoral Drive, Auckland. The premises was sublet effective 29 August 2011. As at 30 June 2015 the onerous lease provision reflects the difference between the lease expense and sublease recovery for the premises. As at 30 June 2015 there are eight months remaining on the lease.

The provision was reviewed at the end of the reporting year, 30 June 2015 and has been adjusted for changes to present value and discount rates to reflect current market conditions.

14 Equity

Actual 2014 \$000		Actual 2015 \$000
	Taxpayers' funds	
452	Balance at 1 July	452
425	Surplus/(deficit)	153
(425)	Return of operating surplus to the Crown	(153)
0	Balance at 30 June	0
452	Total equity	452

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

Actual 2014 \$000		Actual 2015 \$000	Unaudited Budget 2015 \$000	Unaudited Forecast 2016 \$000
425	Net surplus/(deficit)	153	0	0
	Add/(less) non-cash items:			
332	Depreciation and amortisation expense	185	203	148
332	Total non-cash items	185	203	148
	Add/(less) items classified as investing or financing activities:			
0	(Gains)/losses on disposal of property, plant and equipment	5	0	0
0	Total items classified as investing or financing activities	5	0	0
	Add/(less) movements in statement of financial position items:			
(22)	(Inc)/dec in receivables ³	40	2	0
14	(Inc)/dec in prepayments	(22)	3	0
(150)	Inc/(dec) in payables and deferred revenue ⁴	59	25	(34)
(101)	Inc/(dec) in employee entitlements	(88)	(82)	12
(173)	Inc/(dec) in provisions	11	(148)	(97)
(432)	Net movement in working capital items	0	(200)	(119)
325	Net cash flow from operating activities	343	3	29

³ Excludes outstanding receivables of \$nil for fixed asset sales (2014: \$nil).

⁴ Excludes outstanding payables of \$15 for fixed assets purchases (2014: \$nil).

Budget 2015 and Forecast 2016 figures are Budget and Economic Forecast Update (BEFU) forecasts which are not audited. There have been no material changes between NZ IFRS and IPSAS.

16 Related party transactions

The Serious Fraud Office is a wholly owned entity of the Crown.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/ recipient relationship on terms and condition no more or less favourable than those that it is reasonable to expect the Serious Fraud Office would have adopted if dealing with an entity at arms-length, in the same circumstances. Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Related party transactions required to be disclosed

The Serious Fraud Office has no related party transactions it is required to disclose (2014: nil).

Key management personnel compensation

Actual 2014 \$000		Actual 2015 \$000
	Senior Leadership Team, including the Chief Executive	
1,237	Remuneration	1,244
5.86	Full-time equivalent members	6.00

Key management personnel of the Serious Fraud Office comprised of the Chief Executive/Director and the five members of the senior leadership team (2014: five members). These management positions were the General Manager Evaluation and Intelligence, General Manager Investigations (two), 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 (2014: nil).
- There were no related party transactions involving key management personnel or their close family members in 2015 (2014: nil).

The above key management personnel disclosure excludes the Minister responsible for the Serious Fraud

Office. The Minister's remuneration and other benefits are not received only for his role as a member of key management personnel of the Serious Fraud Office. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and not paid by the Serious Fraud Office.

In addition, during the year three FTEs were seconded and funded from the New Zealand Police to undertake investigative services and one Serious Fraud Office FTE was seconded the New Zealand Customs Services on a short term secondment, funded by the Serious Fraud Office.

17 Events after the balance date

There are no significant events after the balance date.

18 Financial instruments

18A. Financial instrument categories

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

Actual 2014 \$000		Actual 2015 \$000
Loans and receivables		
2,476	Cash and cash equivalents	2,129
45	Receivables	5
2,521	Total loans and receivables	2,134
Financial liabilities measured		
1,156	Payables (excluding revenue in advance)	1,230

The Serious Fraud Office has a letter of credit facility with Westpac of \$175,000 in 2015 (2014: \$175,000) to allow for the payment of employee salaries by direct credit.

18B. Fair value hierarchy

The Serious Fraud Office has no instruments recognised at fair value in the statement of financial position.

18C. 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

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates. The Ministry has

no exposure to interest rate risk because it has no interest-bearing financial instruments.

– Credit risk

Credit risk is the risk that a third party will default on its obligations to the Serious Fraud Office causing the Serious Fraud Office to incur a loss. In the normal course of its business, credit risk arises from receivables, deposits with banks and derivative financial instruments. The Serious Fraud Office is only permitted to deposit funds only with Westpac (Standard and Poors' credit rating of AA-), a registered bank and enter into foreign exchange forward contracts with the New Zealand Debt Management Office (Standard and Poor's credit rating of AA). These entities have high credit ratings.

For its other financial instruments, the Serious Fraud does not have significant concentrations of credit risk. The Serious Fraud Office's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, receivables, and derivative financial instrument assets. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Liquidity risk

– Management of 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 draw-downs 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 \$35,000 as at 30 June 2015 (2014: \$40,000).

– Contractual maturity analysis of financial liabilities, excluding derivatives

The table below analyses the Serious Fraud Office's financial liabilities (excluding derivatives) 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
2014					
Payables	476	476	476	0	0
Accrued rent expense	680	680	97	164	419
Total	1,156	1,156	573	164	419
2015					
Payables	496	496	496	0	0
Accrued rent expense	734	734	202	203	329
Total	1,230	1,230	698	203	329

19 Capital management

The Serious Fraud Office's capital is its equity, which comprises of 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 managed as a by-product of managing revenue, expenses, assets, liabilities, and compliance with the government budget processes, Treasury Instructions and the Public Finance Act 1989.

The objective of managing the Serious Fraud Office's 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.

20. Explanation of major variances against budget

The Serious Fraud Office was expecting a reduction in baseline funding from 2014/15, returning to 2009/10 levels. The original 2015 budget was therefore prepared on this basis and as such did not include a funding application of \$1.5 million to the Justice Sector Fund to enable the Serious Fraud Office to maintain capacity at 2013/14 levels. The application was approved in October 2014. The budget and actual spend increased

accordingly, the impact of which was predominantly on personnel and operational capacity.

Explanations for major variances from the Serious Fraud Office's original 2014/15 budget figures are as follows:

Statement of comprehensive revenue and expenses

– Revenue Crown

Revenue Crown was \$1.5 million greater than budget as a result of funding received through the Justice Sector Fund. This funded activities to maintain capacity at 2013/14 levels. This was not included in the original budget.

– Personnel costs

Personnel costs were \$1.041 million greater than the original budget as a direct result of the additional funding received. This was primarily applied to salaries and staff training, resulting in variances against budget of \$973,000 and \$157,000 respectively. This was offset by net favourable variances of \$89,000 mainly relating to savings on temporary staff, secondments, and the exclusion of performance pay.

– Other expenses

Other operating expenses were \$327,000 greater than budget. The additional funding allowed for unbudgeted IT and website support, general

consultancy to undertake human resource and financial crime intelligence work. In addition there was an increase in make-good for the Mayoral Drive premises, resulting from an external review of the adequacy of the provision. These together have resulted in an unfavourable variance of \$431,000. This was offset by lower than budgeted legal case costs of \$104,000.

Statement of financial position

– Non-current assets

Non-current assets were \$59,000 greater than budget. This is mainly attributable to leasehold improvements associated with the consolidation of office accommodation and additional asset purchases to address purchases delayed in the prior year, pending re-evaluation of requirements for the office consolidation, with the net impact of these being \$46,000. Lower than anticipated depreciation of \$21,000 from delayed purchases contributed to this, offset by unbudgeted disposals with a net book value of \$8,000.

– Current liabilities

Current liabilities were \$152,000 greater than budget. Payables were \$407,000 under budget, primarily as a result of a late payment run and fewer accruals. Areas that were greater than budget were the repayment of year end surplus, \$153,000, employee entitlements, \$28,000 being a higher accrual required based on increased salaries stemming from the additional funding noted above and \$403,000 in provisions resulting from an increase of \$153,000 in the make-good and a reclassification of \$250,000 from long to short term provisions as the lease expires in 2016.

– Statement of cash flows

Receipts from Revenue Crown were greater than budgeted by \$1.5 million as a result of additional funding received from the Justice Sector Fund. As a consequence, cash outflows to employees and suppliers were greater than budgeted by \$798,000 and \$249,000 respectively. In addition there were cash outflows in excess of budget for asset purchases of \$168,000 and \$425,000 repayment to the Crown of the 2013/14 operating surplus.

21 Adjustments arising on transition to the new PBE accounting standards

Reclassification adjustments

There have been no reclassifications on the face of the financial statements in adopting the new PBE accounting standards.

Statements of expenses and capital expenditure

Statement of actual expenses and capital expenditure incurred against appropriations

for the year ended 30 June 2015

Annual and permanent appropriations for Vote Serious Fraud

Expenditure after remeasurements 2014 \$000	Appropriation title	Expenditure after remeasurements 2015 \$000	Approved appropriation 2015* \$000	Location of end-of-year performance information**
Departmental output expenses				
8,961	Investigation and prosecution of serious financial crime	8,945	9,105	Pages 19–23
8,961	Total departmental output expense	8,945	9,105	
Departmental capital expenditure				
31	Serious Fraud Office – Permanent Legislative Authority under section 24(1) of the PFA	283	337	Page 23

*These are the appropriations from the Supplementary Estimates, adjusted for any transfers under section 26A of the PFA.

** The numbers in this column represent where the end-of-year performance information has been reported for each appropriation administered by the Serious Fraud Office in this Annual Report on these specific pages.

Statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority

for the year ended 30 June 2015

\$nil (2014: \$nil)

Expenses and capital expenditure incurred in excess of appropriation

\$nil (2014: \$nil)

Expenses and capital expenditure without appropriation outside the scope or period of appropriation

\$nil (2014: \$nil)

Statement of departmental capital injections without, or in excess of authority

for the year ended 30 June 2015

The Serious Fraud Office has not received any capital injections during the year without, or in excess of, authority.

Independent Auditor's report

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

To the readers of Serious Fraud Office's annual report for the year ended 30 June 2015

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

- the financial statements of the SFO on pages 27 to 52, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2015, the statement of comprehensive revenue and expense, statement of changes in equity, 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;
- the performance information prepared by the SFO for the year ended 30 June 2015 on pages 7 to 12 and pages 19 to 24;
- the statements of expenses and capital expenditure of the SFO for the year ended 30 June 2015 on page 53.

- the statements of expenses and capital expenditure of the SFO on page 53 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.

Our audit was completed on 30 September 2015. 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 information we audited is 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 information we audited. 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 information we audited. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the information we audited, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the SFO's preparation of the information we audited 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 the SFO's internal control.

Opinion

In our opinion:

- the financial statements of the SFO:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2015; and
 - its financial performance and cash flows for the year ended on that date;
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Reporting Standards.
- the performance information of the SFO:
 - presents fairly, in all material respects, for the year ended 30 June 2015:
 - what has been achieved with the appropriation; and
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure;
 - complies with generally accepted accounting practice in New Zealand.

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 performance information within the SFO's framework for reporting performance;
- the adequacy of the disclosures in the information we audited; and
- the overall presentation of the information we audited.

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

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 that present fairly the SFO's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand and the Public Benefit Entity Reporting Standards.
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand.
- statements of expenses and capital expenditure of the SFO, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.

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

The Chief Executive is responsible for such internal control as is determined is necessary to ensure that the annual report is free from material misstatement, whether due to fraud or error. The Chief Executive is also responsible for the publication of the annual report, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the information we are required to audit, and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

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 the SFO.



Karen Young
Audit New Zealand
On behalf of the Auditor-General
Wellington
New Zealand

Appendix 1

Use of statutory powers

An analysis of the 'Use of Statutory Powers' as notices issued under the Act is summarised in the tables below.

Section	Part 1 of Act	2014/15	2013/14	2012/13	2011/12	2010/11
s 5(1) (a)	Requiring documents	56	147	108	72	136
s 5(1) (b)	Supply information	1	13	25	11	43
s 6	Search warrant obtained	2	0	0	1	0
	Total	59	160	133	84	179

Section	Part 2 of Act	2014/15	2013/14	2012/13	2011/12	2010/11
s 9c (1) (c)	Attend	32	63	66	55	73
s 9(1) (d)	Requiring answers to questions	32	64	73	57	73
s 9(1) (e)	Requiring information	88	128	216	128	114
s 9(1) (f)	Requiring documents	341	361	620	647	521
s 10	Search warrant obtained	42	33	33	5	2
s 36(2)				36	21	0
	Total	535	903	1,044	913	783

Serious Fraud Office

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Level 6, 21 Queen Street, Auckland 1010

Phone 09 303 0121

Fax 09 303 0142

Email: sfo@sfo.govt.nz

sfo.govt.nz

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