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# Strategic Plan

## 2016-2020

Our vision is...

# A productive and prosperous New Zealand safe from financial crime, bribery and corruption

**We will become a stronger, more capable agency that will:**

Conduct investigations and prosecutions of the highest quality and effectiveness

Align the SFO's role, objectives, functions and activities with those of our key stakeholders

**To do this we need to:**



Attract and retain the best people



Challenge and support our team to be the best



Invest in the right tools and systems



Have a culture of continuous improvement



Achieve more through effective collaboration with our NZ partners





**So that...**

- New Zealand is a safe place to invest and do business
- Our reputation for low levels of financial crime, bribery and corruption provides a global competitive advantage to New Zealand businesses

Lead the understanding of financial crime, bribery and corruption in the private and public sectors

Lead in the sharing of financial crime intelligence sharing between agencies to identify and prevent threats

Contribute to financial crime law reform and policy

Prevent financial crime through education and advice



**Enhance connections with overseas agencies**



**Use intelligence to understand the financial crime landscape**



**Support the creation of a financial crime policy forum**



**Educate and interact with the community**



Achievements at a glance

**596 Complaints**  
**16 Investigations**  
**10 Prosecutions**  
**4 Corruption investigations**  
**1 International investigation**  
**6 Inter-agency support**  
**89% Percentage of  
custodial sentences**

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What New Zealanders think about the SFO

Results of the SFO Public Trust and Confidence Survey, April 2016 reveal that:

**46%**

**of New Zealanders think the  
SFO's role could be given  
more importance**

**63%**

**of people feel that New Zealand  
is increasingly seen as a safe  
place to invest (up from 55 percent in 2014).**

**Part A**  
**Our achievements and outcomes**

## Director's overview

The SFO's new strategy to 2020 has been a significant piece of work for the agency in 2015/2016, reflected in its placement on page 2 of this annual report. While the report measures our performance against a Statement of Intent developed back in 2014, we cannot adopt a business-as-usual approach in the face of ever-more sophisticated financial crime, increased responsibilities in the arenas of bribery and corruption, and the need for joined-up thinking to tackle cross-border financial crime.

### Picking up pace on bribery and corruption

In 2015/2016, the issue of corruption gathered momentum. Corruption in sporting bodies continued to make world headlines and the campaigns of not-for-profit organisations such as Global Witness to end corruption in the global political and economic system had significant successes in influencing legislation.

New Zealand increasingly has links to high-risk jurisdictions, including doing more business abroad in countries in the red zone of the Transparency International index. We ratified the UN Convention Against Corruption in December 2015 and introduced new organised crime and anti-corruption legislation, including higher penalties for bribing public officials abroad. In May, the London Anti-Corruption Summit affirmed New Zealand's commitment to preventing corrupt practices from flourishing, either here or abroad. The SFO's successful prosecution this year of bribery of an immigration official sends a clear message of zero tolerance.

New Zealand remains the least corrupt country in the Asia Pacific region and compares well against Australia, at 13th place in this year's Corruption Perceptions Index (CPI). We topped the CPI for eight consecutive years until 2014 and this year's fourth placing sees us outperformed only by Nordic countries. The result is a good one and the SFO would expect to see an upward shift in 2016, given the above achievements.

### Understanding diversity

A new concept has emerged of 'superdiversity', coined to describe places on the global map with increasingly high population diversity. We are the fifth most ethnically diverse country in the OECD, with 213 ethnicities represented and 160 languages spoken. Over 25 percent of residents were born overseas, and that number climbs to 40 percent in Auckland, where the SFO is based. In a rapidly changing social landscape the agency is ideally located to increase its understanding of ethnic diversity, and also be vigilant in protecting NZ Inc as a safe place to invest and do business.

As a counterbalance, it is important to remember that western norms are subject to change; for example until 1996 bribes paid to public officials abroad were tax deductible in many OECD countries.

### Business and financial performance

Working on the business is starting to show results. Successful performance this year included a significantly higher number of prosecutions achieved than in the previous 12 months and the SFO met or exceeded nearly all the measures that are relevant and appropriate to the way we now operate. Complex, multi-year cases do not lend themselves easily to annual performance reviews and have a heavy impact on resources. Our three-year budget also reflects the needs for contingencies as much of our work responds to complaints for which we cannot plan. We had an underspend for 2015/2016, which comes from three factors: staffing levels, efficiencies and a lower lease divestment than budgeted. Positioning ourselves for a future more focused on data analytics has created timing issues in relation to salaries as we have not incurred budgeted costs while we determine specialised skills needed in the areas of data analytics and forensic accounting. Greater efficiencies have been realised from last year's implementation of new investigation processes, as resources are better coordinated.



In June the SFO held its second employee Conference 'Elevate', at which we welcomed our Minister responsible for the SFO, the Hon. Judith Collins. Seminars included many of the topics discussed in this overview, including building resilience. Innovation, adaptability and renewal are the hallmarks of a resilient organisation. I believe the agency is demonstrating resilience and I thank my senior leadership team and all our employees for their commitment to embracing our vision of a productive and prosperous New Zealand safe from financial crime, bribery and corruption.



**Julie Read**  
Chief Executive and Director

## Our role

The Serious Fraud Office (SFO) is the lead law enforcement agency for investigating and prosecuting serious financial crime, including bribery and corruption. The presence of an agency dedicated to white collar crime is integral to New Zealand's reputation for transparency, integrity, fair-mindedness and low levels of corruption.

The country's cultural, social and financial landscape is rapidly changing as migration, free trade deals and investment continue. These pose a potential threat as changes in normal business practices come into play. Through our work, 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 employing a highly experienced team of financial crime investigation specialists who examine possible instances of financial crime and, where evidence of offending is found, bring about prosecutions to hold the offenders to account. The SFO has statutory independence; operational decisions are made without ministerial direction, and we have the right to compel the production of documents and the answering of questions.

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 and the degree of public interest.

The decision to prosecute is based on sufficient evidence and public interest. While it is not the role of the SFO to find guilt or seek compensation for losses suffered by victims – that sits with the courts – public disclosure and custodial sentences, where imposed, are strong deterrents of white collar crime. We play an important role in achieving both results. 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.

## 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.

## 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:

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

We also maintain strategic partnerships with relevant private sector interests, such as accounting firms and insolvency practitioners, and with our international counterparts, including the UK SFO, the USA FBI, the Independent Commission Against Corruption (ICAC) Hong Kong, the Corrupt Practices Investigation Bureau (CPIB) Singapore, and the Australian Federal Police.

## 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
- the Justice Sector's Safe and Just Society priority and Better Public Services targets of reducing rates of total crime and reoffending – we aim for an 85

percent conviction rate with at least 90 percent of convictions receiving a custodial sentence, which is a strong deterrent. This deterrent effect 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 and commercial 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

\* The 2015 independent survey requested the participation of 42 key SFO stakeholders in New Zealand. Of these, 37 were interviewed about their perceptions of the SFO's performance, using a rating scale of 1-10. This survey is qualitative research with no margin of error. The next survey will be conducted in 2017.

### 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	2015/16: 89%* 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	2015/16: Survey discontinued** 2013/14: 38% 2011/12: 65%

\* This year's result includes home detention, which although not a term of imprisonment, is a custodial sentence. This method of calculation is a change from previous years when home detention was not included. Note that the SFO's role is to put the appropriate 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. 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. Victim responses to how well we are performing our role can be influenced by these measures which we have no control over.

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 2015/16: 4th*** 2014/15: 2nd 2013/14: 1st equal Denmark 2012/13: 1st equal Finland, Denmark 2011/12: 1st
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\*\*\* This year's 4th placing sees us outperformed only by Nordic countries. The SFO would expect to see an upward shift in 2016, given that new organised crime and anti-corruption legislation has come into effect since the underlying surveys for this index were undertaken.

## A confident business environment and a just society

A survey of investor migrants shows the majority factor transparent investment options in their decision to invest in New Zealand.<sup>1</sup> NZ Inc needs to actively demonstrate its markets are largely free of financial crime as a result of an environment in which crime is readily detected and punished.

The SFO looks at approximately 550 cases each year and consistently has 55-60 active matters on its books. In 2015/2016, we received 596 complaints. Of these, 31 became Part 1 enquiries and 16 progressed to Part 2 investigations. We commenced 10 prosecutions, which was four more than in 2014/2015. Over half of all cases (58%) extend beyond 12 months, and this year the agency closed a significant number of long-running cases.

Themes appearing in 2015/2016 were:

- property development-related fraud in the greater Auckland region
- employee fraud
- misappropriation of funds by individuals.

The agency is also seeing an increase in complaint referrals from other government departments as they take a more stringent approach to auditing their service providers.



## Achieve more through effective collaboration with our NZ partners

### Bribery and corruption

More than six billion people live in 68 countries worldwide with a serious corruption problem, according to Transparency International. The SFO plays a role in responding to international expectations in relation to corruption – from bodies such as the OECD, the UN and APEC.

The Anti-Corruption Summit held in London in May 2016 saw New Zealand commit to appointing a representative to the International Anti-Corruption Coordination Centre (IACCC). The aim of the IACCC is to help investigators of corruption work together across multiple jurisdictions. New Zealand has made a range of other commitments and the SFO is contributing to those where appropriate.

This year we provided the OECD Working Group on Bribery with a formal report on progress, including recommendations made in a peer review process in 2013. The December 2015 report, which was tabled in Paris by Ministry of Justice and SFO representatives, confirmed the passage of the Organised Crime and Anti-Corruption legislation in the preceding month. This legislation includes harsher penalties for the offence of foreign bribery and provides for companies to be held directly liable for corrupt acts of its employees, agents, directors and officers. It also enabled New Zealand to ratify the 2003 UN Convention against Corruption (UNCAC). It was a significant factor in meeting the recommendations made in 2013 to strengthen our capacity to enforce the OECD Anti-Bribery Convention. Three new SFO bribery cases, and our training and awareness work, were also reported on.

This year's fourth placing on the Transparency International Corruption Perceptions Index (CPI) has seen New Zealand drop two places, although it is still bracketed with the top Nordic countries. The high-profile index assesses countries' perceived levels of public sector corruption, and its methodology is complex. To better understand the drivers behind the scoring and how government policies may be better informed by the index, the SFO is working together with other agencies to put together a cohesive submission to Transparency International New Zealand.

Transparency International ran a day-long presentation on sports corruption, and corruption in general, this year. SFO representatives attended and also spoke.

An SFO corruption group was formed this year to anticipate strategic threats. Each member of the group has a specialist focus area, which include OECD, APEC, Transparency International, UNCAC and Sport. The group contributes to our goal of leading in the understanding of corruption in New Zealand (when interacting with overseas agencies or contributing to Justice Sector material). We monitor media coverage to stay current and regularly report updates back to the corruption group, and continue to use our knowledge to initiate conversations with partners to better understand emerging threats and make best use of our networks.

The SFO has actively contributed to wider government initiatives in the bribery and corruption space.

<sup>1</sup> MBIE survey 2015, Investor migrant investment behaviour.



## Enhance connections with overseas agencies

### International cooperation

One of the biggest challenges facing the SFO is the complexity of cross-border investigations based on 'mutual assistance' arrangements. The Economic Crime Agencies Network (ECAN) promotes practical cross-jurisdictional cooperation among members, and the agency's Director spoke in March this year in Brussels at its annual gathering.

The SFO has previously assisted the Hong Kong ICAC with a corruption investigation concerning a listed company in Hong Kong involved in the acquisition of a venture for a dairy farm business in New Zealand. The investigation resulted in three persons, including two senior executives of the listed company as well as the vendor, being charged with offences of conspiracy to defraud and of dealing with crime proceeds. In June 2016, we sent one of our accountants to the trial as a witness. The defendants were convicted and sentenced to jail terms of between five and eight years.

The SFO sent one of its employees to the second Anti-Corruption Executive (ACE) Programme in Singapore during August and September 2015. Run by Singapore's Corrupt Practices Investigation Bureau (CPIB), the programme was attended by approximately 25 participants from throughout Asia and Australasia. The topics of presentations included:

- interviewing
- current issues faced when investigating and prosecuting corruption cases
- cross border investigation and co-operation
- public sector corporate governance
- how social media impacts investigations
- intelligence gathering.

The programme included a number of case studies and field visits to the Malaysian Anti-Corruption Commission Headquarters in Kuala Lumpur and Woodlands Checkpoint on the Singapore/Malaysia border.

Bribery and corruption is also a focus for APEC, evidenced by the establishment in 2005 of an Anti-Corruption and Transparency Experts Task Force (ACT). Its purpose is to promote cooperation in areas such as extradition, legal assistance and law enforcement. This year, the Philippines chaired the APEC ACT event and one of our General Managers attended. Discussion focused on:

- the trans-national nature of the offences being investigated
- increased reliance on overseas law enforcement agencies.

It was pleasing to note that New Zealand is still perceived as being largely corruption-free.



## Enhance connections with overseas agencies; Educate and interact with the community

### Support we provide others

#### The Pacific Islands

In July 2015, one of our senior forensic accountants spoke to the sixth Pacific Prosecutors' Association Meeting in Tonga on forensic accounting expert evidence. The meetings support heads of prosecuting agencies within the Pacific to develop region-wide services. She subsequently made a similar presentation via Skype to the Samoan Office of the Attorney-General and Samoan Audit Office, and met with Samoa's Auditor General when he was in Auckland. Contact has been maintained with the Samoan Audit Office and the SFO continues to respond to requests for assistance.

A 2014 OECD report into the cost of foreign bribery and corruption found that 57 percent of bribes were paid to obtain public procurement contracts. The SFO provided specialist expertise for such a case in the Cook Islands against the then opposition leader Minister Teina Bishop, which went to trial in July 2016 and resulted in a guilty verdict.

We are currently assisting the Tongan Police with an investigation of alleged corruption by providing specialist forensic accounting assistance.



## Achieve more through effective collaboration with our NZ partners

### New Zealand Police

Support provided to the Police this year has focused on:

- four asset recovery operations, including a year-long secondment of a forensic accountant to the Northern Asset Recovery Unit
- forensic accounting assistance to Counties Manukau Police for an alleged driver licencing fraud
- giving evidence at trial for a Napier Police case that saw two partners in a law firm successfully prosecuted for theft
- forensic accounting assistance to the Wanaka Police for the prosecution of a health centre manager
- one embedded secondment of a lawyer to the Police Prosecution Service.



## Educate and interact with the community

### Environmental and corporate risks

Auckland's over-heated property market and the scale of commercial developments now under way represent a key financial crime 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. We have laid charges against one person in relation to this and the investigation was still ongoing at June 2016.

This year, the SFO successfully prosecuted another multi-million-dollar mortgage fraud in the Auckland region.

#### – Mortgage fraud – Eli Devoy

In June 2016, Eli Devoy (47) was found guilty of 20 charges relating to an extensive mortgage fraud scheme that took place between 2007 and 2010. Charges were first laid against Mrs Devoy in 2013 for conducting a series of property sales and purchases which deceived lending institutions into approving mortgage applications. The fraudulent scheme involved 11 properties in the Auckland area with a value of around \$9.2 million, and six co-defendant relatives. Devoy, who had a string of aliases, was sentenced along with her co-defendants in August. She has appealed against a sentence of five years' imprisonment with a minimum period of imprisonment of two years and six months.

#### – Employee fraud – Paul Rose and Jane Rose

In May 2016, a former employee of one of New Zealand's largest power companies Mighty River Power was sentenced to three years and two months' imprisonment. Paul Rose and his former wife Jane Rose were found guilty of a \$2.2 million procurement fraud spanning almost seven years. Jane Rose was sentenced to nine months of home detention for her role in the fraud.

The company began an internal investigation in November 2012 before referring the matter to the SFO. Paul Rose had been employed as an electrical engineer at the Southdown power station. He organised for companies to be set up in his then-wife's and a former partner's names to conceal his interest in these companies and then used them to invoice Mighty River Power for parts at inflated prices.

#### – Financial advice fraud – Jonathan West

In May 2016, financial planner Jonathan West was sentenced to three years' imprisonment after being found guilty of five charges of 'theft by person in a special relationship.' From 1994 to 2013 Mr West offered financial planning advice, implementation of investment strategies and ongoing reporting on investments, as director of two limited liability companies. Between 2009 and 2013, he began using client funds on their behalf outside the agreed terms or for his own purposes. The offending amounted to around \$1.4 million and affected multiple Waikato and Bay of Plenty victims.

The agency is also investing resources into a new series of targeted events, instigated to replace the proposed private sector advisory panel. The first event was held in June 2016 with a small gathering of invitees from the banking and accounting sectors meeting for discussion with the SFO's general managers.

The events are an opportunity to educate and interact with the business community face to face, to find out what others are talking about and to help us decide how we can work together.



## How to protect your business against fraud

Common indicators of fraud include:

- audit reports that are either incomplete or uncover irregularities
- transactions for services not delivered to the company
- limited or vague controls surrounding discretionary ability to make payments
- discrepancies in accounting records and unexplained items on reconciliations
- missing documents, or only photocopied documents available
- missing inventory or physical assets
- alterations to documents (e.g. back dating)
- inexplicably complex transactions, or transactions for no apparent business purpose
- disproportionate payments in excess of the value or effort provided
- unexplained fluctuations in trade volumes or values
- arbitrary or unexplained valuation methodology
- undocumented or incompletely documented transactions
- high levels of related party transactions.

Be wary of situations where:

- an employee has control of a process from start to finish, with no segregation of duties
- a person has large financial debts and/or appears to be living beyond their means
- over-reliance on the integrity of a long-term employee
- employees with financial responsibilities are reluctant to take annual leave.



## Use intelligence to understand the financial crime landscape; Invest in the right tools and systems

### A system-wide approach

The benefits of taking a system-wide approach include early intervention by the SFO in sector-wide financial crime cases, which results in a consistent, faster and more effective process for all concerned. It is also clear there is scope for significantly reducing the harm of financial crime by making more and better use of the large amount of disparate knowledge available within agencies in relation to financial crime and by bringing our approach more in line with international best practice and standards.

The agency this year developed its own intelligence strategy aligned to the new SFO Strategy, which lays the groundwork for proactive and coordinated inter-agency sharing, by assessing what we currently do in the financial crime intelligence space. We have developed a risk matrix to identify the top risks and other intelligence products that could best contribute to prioritising responses to fraud threats, appropriate allocation of cases with our partners and facilitating information sharing and timely responses. A standard intelligence package for every case has been rigorously reviewed before release in September 2016.

The SFO has used this groundwork to draft a strategic assessment of the benefits of investing in an all-of-government Financial Crime Intelligence System that would fit within an overarching Financial Crime Strategy. This work will continue in 2016/2017 with the development of a pilot.

## Our people



### **Attract and retain the best people; Challenge and support our team to be the best; Have a culture of continuous improvement**

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

The agency's unplanned turnover rate is a low 5.9 percent for 2015/2016, with two career advancements and one employee leaving for overseas travel. Although our employees are attractive to the private sector, which pays significantly higher salaries, they demonstrate a strong engagement with the SFO's vision and objectives. In December 2015 we became the first public sector organisation to use a cloud-based engagement survey tool called Ask Your Team. AYT replaces the annual engagement survey. This cost-effective and information-rich tool covers all aspects of the business and supports our senior leadership team in developing a cycle of continuous improvement, by analysing the gap between strategic aspiration and employee perception. Because its methodology differs from the previous survey, previous years' results are not comparable. Workshops have been held this year to identify three areas for improvement emerging from the first survey: leadership, culture and communications.

### **Health and safety**

To prepare for the new Health and Safety at Work Act, which came into force in April 2016, the SFO contracted an independent specialist to assess current practice in relation to the Act. A new plan is being implemented at both policy and incident management levels. The health and wellbeing of front-line investigators is the greatest risk factor. We have panic buttons in interview rooms in case of aggression and we carry out risk assessments before search warrants are implemented. These assessments are now being formally recorded.

### **Training opportunities**

The public service needs to represent contemporary New Zealand, if it is to retain public confidence. Auckland gives us access to a diverse talent pool and the agency works to create an environment where employees can use their cultural backgrounds to enable us to be most effective. We provided training for employees in cross-cultural communication at this year's Elevate conference in June, and intend maintaining a focus on this area.

The two-day line-up at Elevate responded to areas of interest identified by employees and also featured presentations on cyber-enabled fraud, private versus public investigations, and some resilience work.

We also provided training to our investigators in Open Source intelligence gathering, sent employees on the Police Basic Investigators Course, and sent two employees to the Association of Certified Fraud Examiners (ACFE) International Conference in the USA.



## Our systems, processes and technology



### Invest in the right tools and systems

This year we commenced a systems transformation project, seeking to implement new tools for case and complaint management and for evidence management. The agency is transitioning from now-dated tools to fully integrated systems that will increase the speed, accuracy and efficiency of our operations. A request for proposal went out to the market in July. We are also in the process of upgrading the current finance system.

### Complaint assessment process creates greater efficiency

Last year we instigated a 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. This is anticipated to result in an increase in the number of prosecutions resulting from investigations and is a more efficient use of resources. See statistical trends on page 21 for metrics.

### Outsourcing document management and phone calls

Documents can number up to hundreds of thousands of paper pages per case, along with electronic files. A new outsourced, automated process for document scanning was phased in from August 2015, with full migration in April 2016. Benefits include a fast turnaround of scanned documents and the integration of electronic and scanned information into one data set. The system will also future proof the agency for the anticipated exponential increase in data being generated. A dedicated evidence manager position was created this year in order to best manage the changes we anticipate.

Incoming calls were also outsourced this year to the MBIE Contact Centre, resulting in a time and cost saving. This allowed employees to better focus on evaluating matters that are likely to result in investigations.

### New website

An enhanced website is being launched as part of our communications function. It will be accessible for tablet and smartphone viewing and offer an improved service for the public interested in the SFO's work.

### Prepare for New Zealand Business Numbers

New Zealand Business Numbers (NZBN) are unique identifiers that will be assigned to all businesses in New Zealand by 2017. NZBNs are part of the government's Better for Business Programme and enable all essential electronic business information to be streamlined, reducing the time and energy businesses spend providing government the same information in different ways. NZBNs also enable businesses to easily update, share key information and interact with each other. Current scoping of any impact on the SFO's own system has begun. The impact is considered to be minor and is being addressed as part of the agency's systems' transformation project.

## Key capabilities

The table below 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	2015/16: 0% performance agreements,* 96% Appraisals 2014/15: Not completed 2013/14: 97% Plans 98% Appraisals
Leadership and organisational culture	Employees' engagement in their organisation	Ask Your Team**  Level of engagement	2015/16: 60% Baseline
Technology, systems and processes	Effective resources made available to staff	Ask Your Team**  "We have the technology to support our business processes"  Employee Engagement Survey  'My Job' response is 66% or higher	2015/16: 66% Baseline  2015/16: Discontinued** 2014/15: Not conducted 2013/14: 69% 2012/13: 66%
Relationships and partnerships	Partner agencies indicate satisfaction with their relationship with the 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
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	2015/16: Discontinued*** 2014/15: Discontinued*** 2013/14: 94% 2012/13: 89%

\* The performance management system was redesigned in 2015, which delayed completion of the performance agreements. These were 100 percent completed by December 2015.

\*\* The SFO Employee Engagement Survey was discontinued in 2014/15 and replaced by the new Ask Your Team tool, with the first baseline results in 2015/16. The 'My Job' question has been replaced with a new agree/disagree question: 'We have the technology to support our business processes.'

\*\*\* The Complainants and Victims' Survey was discontinued in 2014/15, 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.

As at 30 June 2016 we had a core team of 51 employees, compared to 48 the previous year.

Full/part time 2015/16



Full/part time 2014/15



Full/part time 2013/14



Gender 2015/16



Gender 2014/15



Gender 2013/14



Ethnicity 2015/16

Māori/Pacific	3
Asian	1
European	47

Ethnicity 2014/15

Māori/Pacific	3
Asian	2
European	43

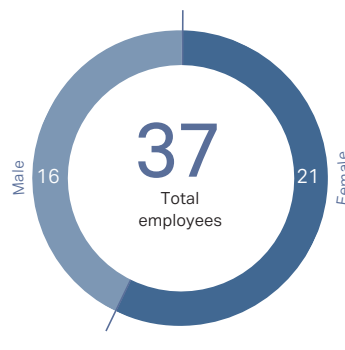
Ethnicity 2013/14

Māori/Pacific	1
Asian	3
European	44

Management



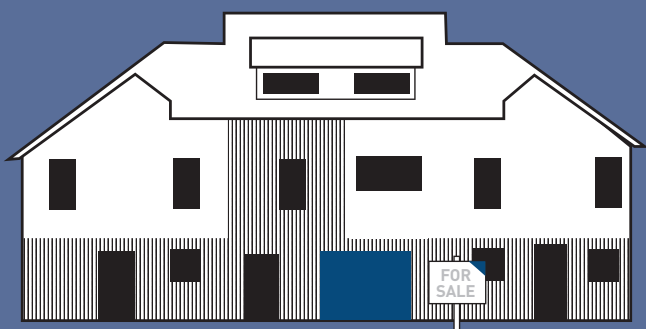
Non-management





# 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 2016 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  
29 September 2016

# Statement of performance

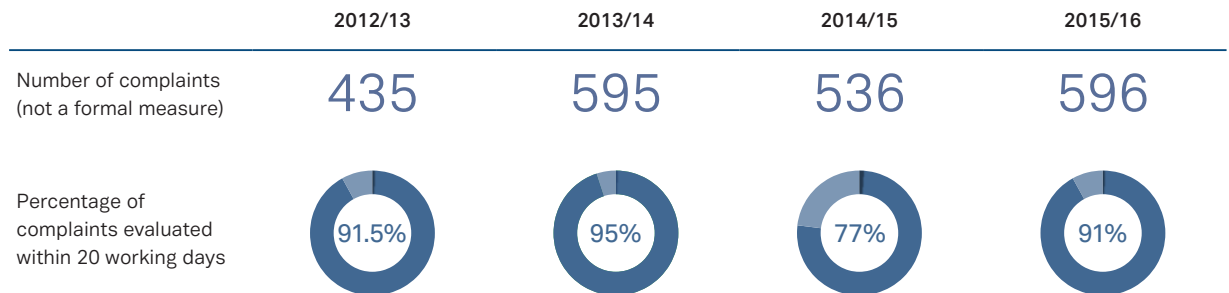
## Statistical trends

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

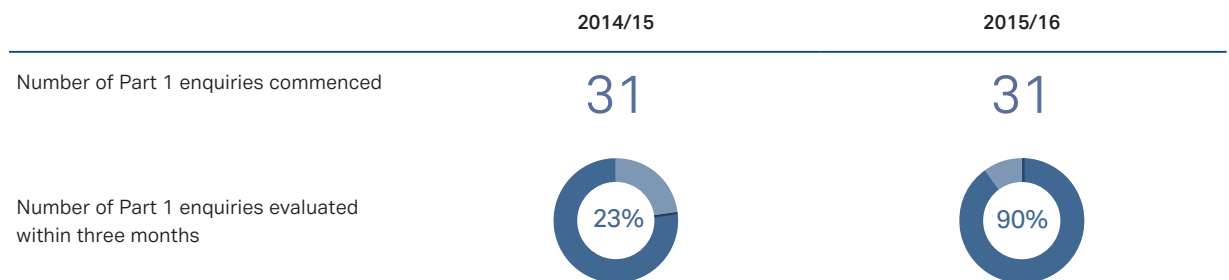
- a confident business environment that is largely free of serious financial crime
- a just society that is largely free of fraud, bribery and corruption.

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. Below is a snapshot of our performance. The measures for Part 1 enquiries are new this year so the 2014/15 results are provided for comparison. Investigations commenced refers only to Part 2 investigations. Prior to 2014/15 results included figures that are now separate Part 1 enquiries. Timeliness achieved for investigations has reduced due to changes in work practices as part of separating enquiries and investigations. This is explained in more detail on page 24.

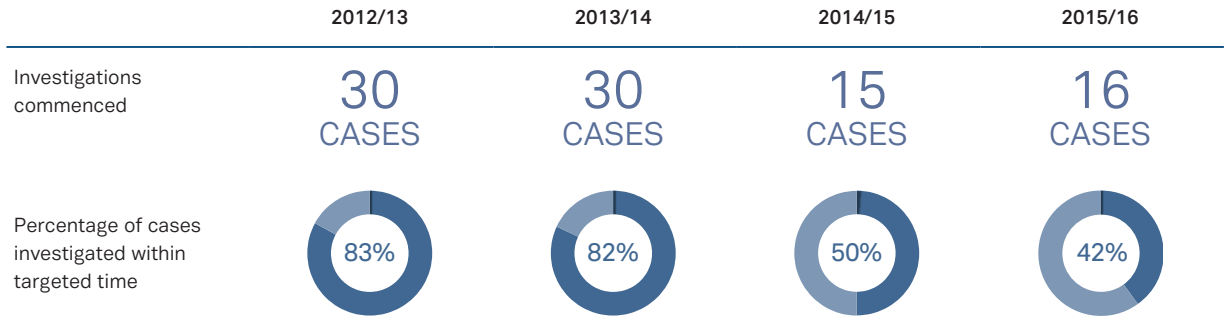
### COMPLAINTS: Statistical trends



### PART 1 ENQUIRIES: Statistical trends



**INVESTIGATIONS: Statistical trends**



**PROSECUTIONS: Statistical trends**





## 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 proactively 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.

### Complaints

Complaints are first evaluated 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 Part 1 enquiry phase. If not, the complaint is either referred to the appropriate agency, or closed and the complainant is notified.

Actual 2014/15	Performance Measure	Budget Standard 2015/16	Actual 2015/16
16	<b>Quantity</b> Number of evaluations initiated by the SFO commenced	15	15
77%	<b>Timeliness</b> Percentage of complaints evaluated within 20 working days*	80%	91%

\* Does not include open complaints at the end of the financial year which may still have met the 20 working days measure.

### Actual performance: Complaints

Performance this year exceeded the budgeted timeliness standard, aided by the SFO outsourcing telephone complaints to the MBIE Contact Centre. This has made the complaint handling procedures more efficient and allowed the evaluating lawyers to better apply their time to those complaints that are likely to result in investigations.

## Part 1 enquiries

In 2015/16, we introduced a Part 1 enquiries target (previously referred to as Part 1 investigations) as a result of changes in our investigation processes, implemented to realise greater efficiencies. Part 1 enquiries align with Part 1 of the SFO Act, which provides the agency 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.

The new Part 1 enquiries target enables the SFO to better determine whether allegations of fraud should progress to a full investigation. Distinct Part 1 enquiries and Part 2 investigations targets also provide greater transparency and separation between the two, reflecting our updated operational practices. A new timeliness measure was introduced for Part 1 enquiries (completion within three months). The 2014/15 results are provided for comparison purposes.

Actual 2014/15	Performance Measure	Budget Standard 2015/16	Actual 2015/16
31	<b>Part 1 Investigations Quantity</b> Number of Part 1 enquiries commenced	30-40	31
23%	<b>Timeliness</b> Percentage of Part 1 enquiries completed within three months	80%	90%

### Actual performance: Part 1 enquiries

A more efficient process, including greater clarity as to the work to be conducted during Part 1 enquiries, together with more involvement from the evaluating lawyers (achieved through greater efficiencies gained by outsourcing telephone complaints) to support the Principals have resulted in the timeliness target being exceeded.

## Investigations

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 and Part 1 enquiry meet the criteria, the formal investigation is undertaken by one of the two investigation teams.

Actual 2014/15	Performance Measure	Budget Standard 2015/16	Actual 2015/16
15	<b>Quantity</b> Number of formally commenced investigations	20-25	16
30%	<b>Timeliness</b> Percentage of cases investigated within targeted time	30% of cases within six months	21%
50%		80% of cases within 12 months	42%
n/a	<b>Timeliness and Quality</b> Percentage of cases for which an investigation plan is reviewed monthly (new measure 2015/16)	95%	100%
83%	Percentage of formal post-investigation reviews that meet the SFO quality criteria (Note 1)	90%	100%

### Actual performance: Investigations

In 2015/16, we commenced more Part 2 investigations than for the previous year. Although still below the new performance target, this is considered a stretch target. It is likely we will review the investigations commenced target for the 2017/18 year with a potential target of around 16 to 18 new investigations being more realistic, given the available resources and current work practices.

Part 1 inquiries take less time and resources than a full investigation. In previous years Part 1 and Part 2 were measured together. In 2015/16, the two parts were separated into distinct timeliness measures but the target for Part 2 was not adjusted to account for the effect of this imbalance. It has become evident that the unadjusted target is unrealistic, hence a revised timeliness measure of completing 60% within 12 months has been introduced for 2016/17.

### 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 2014/15	Performance Measure	Budget Standard 2015/16	Actual 2015/16
6	<b>Quantity</b> Number of cases brought to prosecution	10-12	10
100%	<b>Quality</b> Percentage of formal post-prosecution reviews that meet the SFO quality criteria (Note 1)	90%	91%

### Actual performance: Prosecutions

This year's performance is in line with the standard.

Note 1: Formal written quality assurance reviews are conducted following each investigation and prosecution, and 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 are considered by the senior leadership team within two months of the completion of the review.

## Capital performance

Actual 2014/15	Performance Measure	Budget Standard 2015/16	Actual 2015/16
Completed 1 July 2014	The capital plan is developed and managed throughout the year	Capital plan for implementation 1 July 2015	Completed 1 July 2015

## Financial performance

	2015 Actual \$000	2016 Main estimates \$000	2016 Supp estimates \$000	2016 Actual \$000	2017 Main estimates \$000
<b>Revenue</b>					
Crown	8,740	9,270	9,255	9,255	9,255
Other	358	237	293	281	85
Total revenue	9,098	9,507	9,548	9,536	9,340
<b>Expenditure</b>					
Expenditure	8,945	9,507	9,548	8,853	9,340
Net surplus	153	0	0	683	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 2016

Actual 2015 \$000		Notes	Actual 2016 \$000	Unaudited Budget 2016 \$000	Unaudited Forecast 2017 \$000
<b>Revenue</b>					
8,740	Revenue Crown		9,255	9,270	9,255
358	Other revenue	2	281	237	85
9,098	<b>Total revenue</b>		9,536	9,507	9,340
<b>Expenses</b>					
5,696	Personnel costs	3	5,985	6,023	6,262
3,022	Other expenses	6	2,634	3,294	2,889
185	Depreciation and amortisation expense	8, 9	197	148	153
36	Capital charge	4	36	36	36
6	Finance costs	5	1	6	0
8,945	<b>Total expenses</b>		8,853	9,507	9,340
<b>153</b>	<b>Surplus/(deficit)</b>		<b>683</b>	<b>0</b>	<b>0</b>
0	Other comprehensive revenue and expense		0	0	0
<b>153</b>	<b>Total comprehensive revenue and expense</b>		<b>683</b>	<b>0</b>	<b>0</b>

The accompanying notes form part of these financial statements.

Explanations of major variances against original 2015/16 budget are provided in note 19.

Budget 2016 and Forecast 2017 figures are Budget and Economic Forecast Update (BEFU) forecasts which are not audited.

## Statement of financial position

as at 30 June 2016

Actual 2015 \$000		Notes	Actual 2016 \$000	Unaudited Budget 2016 \$000	Unaudited Forecast 2017 \$000
<b>Assets</b>					
Current assets					
2,129	Cash and cash equivalents		2,213	1,765	1,665
5	Receivables	7	11	3	0
67	Prepayments		96	49	48
2,201	<b>Total current assets</b>		2,320	1,817	1,713
<b>Non-current assets</b>					
499	Property, plant and equipment	8	499	477	415
3	Intangible assets	9	5	21	43
502	<b>Total non-current assets</b>		504	498	458
<b>2,703</b>	<b>Total assets</b>		<b>2,824</b>	<b>2,315</b>	<b>2,171</b>
<b>Liabilities</b>					
Current liabilities					
1,230	Payables	10	1,270	1,315	1,348
153	Return of operating surplus	11	683	0	0
287	Employee entitlements	12	305	216	290
500	Provisions	13	0	250	75
2,170	<b>Total current liabilities</b>		2,258	1,781	1,713
<b>Non-current liabilities</b>					
6	Employee entitlements	12	5	7	6
75	Provisions	13	109	75	0
81	<b>Total non-current liabilities</b>		114	82	6
<b>2,251</b>	<b>Total liabilities</b>		<b>2,372</b>	<b>1,863</b>	<b>1,719</b>
<b>452</b>	<b>Net assets</b>		<b>452</b>	<b>452</b>	<b>452</b>
<b>Equity</b>					
452	Taxpayers' funds		452	452	452
<b>452</b>	<b>Total equity</b>		<b>452</b>	<b>452</b>	<b>452</b>

The accompanying notes form part of these financial statements.

Explanations of major variances against original 2015/16 budget are provided in note 19.

Budget 2016 and Forecast 2017 figures are Budget and Economic Forecast Update (BEFU) forecasts which are not audited.



## Statement of changes in equity

for the year ended 30 June 2016

Actual 2015 \$000		Notes	Actual 2016 \$000	Unaudited Budget 2016 \$000	Unaudited Forecast 2017 \$000
452	<b>Balance at 1 July</b>		452	452	452
153	Total comprehensive revenue and expense		683	0	0
	<b>Owner transactions</b>				
(153)	Return of operating surplus to the Crown	11	(683)	0	0
452	<b>Balance at 30 June</b>	14	452	452	452

The accompanying notes form part of these financial statements.

Explanations of major variances against original 2015/16 budget are provided in note 19.

Budget 2016 and Forecast 2017 figures are Budget and Economic Forecast Update (BEFU) forecasts which are not audited.

## Statement of cash flows

for the year ended 30 June 2016

Actual 2015 \$000		Notes	Actual 2016 \$000	Unaudited Budget 2016 \$000	Unaudited Forecast 2017 \$000
<b>Cash flows from operating activities</b>					
8,740	Receipts from Revenue Crown		9,255	9,270	9,255
358	Receipts from other revenue		281	237	85
(3,270)	Payments to suppliers		(3,389)	(3,432)	(2,979)
(5,453)	Payments to employees		(5,649)	(6,023)	(6,262)
(36)	Payments for capital charge		(36)	(36)	(36)
4	Goods and services tax (net)		(21)	13	53
343	<b>Net cash flow from operating activities</b>	15	441	29	116
<b>Cash flows from investing activities</b>					
3	Receipts from sale of property, plant and equipment		0	0	0
(268)	Purchase of property, plant and equipment		(199)	(75)	(65)
0	Purchase of intangible assets		(5)	(25)	(35)
(265)	<b>Net cash flow from investing activities</b>		(204)	(100)	(100)
<b>Cash flows from financing activities</b>					
(425)	Return of operating surplus	11	(153)	0	0
(425)	<b>Net cash flow from financing activities</b>		(153)	0	0
(347)	<b>Net (decrease)/increase in cash</b>		84	(71)	16
2,476	Cash at the beginning of the year		2,129	1,836	1,649
<b>2,129</b>	<b>Cash at the end of the year</b>		<b>2,213</b>	<b>1,765</b>	<b>1,665</b>

The accompanying notes form part of these financial statements.

Explanations of major variances against original 2015/16 budget are provided in note 19.

Budget 2016 and Forecast 2017 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 2016

### Capital commitments

The Serious Fraud Office has no capital commitments as at 30 June 2016 (2015: \$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.

During the 2015/16 year the Serious Fraud Office entered into a co-location agreement whereby office space on level 6, 21 Queen Street, Auckland has been allocated to Crown Law for their sole use, the terms and conditions of which are recorded in a Memorandum of Understanding. The Agreement expires on 3 March 2023, however can be terminated on giving 12 months' notice. The Memorandum of Understanding is deemed to contain a lease.

In addition, the Serious Fraud Office leased office accommodation and car parks at 120 Mayoral Drive, Auckland. These premises were vacated in March 2011 and subleased effective 29 August 2011. The lease and sublease both expired on 29 February 2016, with no right of renewal.

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 2016 is \$nil (2015: \$232,000).

The total minimum future lease payments expected to be received under the co-location agreement with Crown Law at 30 June 2016 is \$365,000 (2015: \$nil).

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

Actual 2015* \$000		Actual 2016 \$000
879	Not later than one year	511
2,065	Later than one year and not later than five years	2,045
1,366	Later than five years	855
4,310	Total non-cancellable operating lease commitments	3,411

\* Commitments represent the total future aggregate minimum lease payments. In prior years this was reported net of related lease accruals included in Payables, 2016 \$641,000 (2015 \$734,000). Comparative commitments for 2015 have been restated accordingly. The accompanying notes form part of these financial statements.

## Statement of contingent liabilities and contingent assets

as at 30 June 2016

### Contingent liabilities

The Serious Fraud Office has no quantifiable or unquantifiable contingent liabilities as at 30 June 2016 (2015: \$nil).

### Contingent assets

The Serious Fraud Office has a \$50,000 contingent asset as at 30 June 2016 (2015: \$nil).

The Serious Fraud Office's lease and associated sublease of the premises at 120 Mayoral Drive, Auckland expired on 29 February 2016. The provisions of the lease require the Serious Fraud Office to reinstate and redecorate and similarly the deed of sublease requires the sublessee to contribute to these costs up to a maximum of \$50,000 or the actual costs of reinstatement and redecoration incurred by the Serious Fraud Office, if these are less. The Serious Fraud Office was required to reinstate and redecorate on expiry of the lease and agreed with the landlord to make payment in satisfaction of its obligations, rather than physically carry out the works. The amount of the payment as negotiated with the landlord was greater than \$50,000 and hence the Serious Fraud Office believe the sublessee is required to contribute the maximum of \$50,000. The sublessee disputes this on the grounds that the works were not physically undertaken. Although this matter is likely to require arbitration we believe the Serious Fraud Office has a relatively strong case and as such it is being disclosed as a Contingent Asset.

# Notes to financial statements

## 1 Statement of accounting policies for the year ended 30 June 2016

### 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 2016, and were approved for issue by the Chief Executive and Director on 30 September 2016.

### 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.

### 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 and not yet effective and not early adopted

In 2015, the External Reporting Board issued *Disclosure Initiative (Amendments to PBE IPSAS 1), 2015 Omnibus Amendments to PBE Standards, and Amendments to PBE Standards and Authoritative Notice as a Consequence of XRB A1 and Other Amendments*. These amendments apply to PBEs with reporting periods beginning on or after 1 January 2016. The SFO will apply these amendments in preparing its 30 June 2017 financial statements. The Serious Fraud Office expects there will be no effect in applying these amendments.

### 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 subleases 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.

**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: office furniture, fixtures and fittings, office equipment, computer 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” (note 5).

**– 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 is 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 2016. In note 13, Provisions, the Serious Fraud Office has exercised its judgement in determining the level of the make-good required for the Queen Street lease which expires on 3 March 2023.

## Budget and forecast figures

### – Basis of the budget and forecast figures

The 2016 budget figures are for the year ended 30 June 2016 and were published in the 2015 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 30 June 2016.

The 2017 forecast figures are for the year ending 30 June 2017, which are consistent with the best estimate financial forecast information submitted to Treasury for the BEFU for the year ending 30 June 2017.

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 2017 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 6 April 2016. 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 2016/17 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 6 April 2016, 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 employees, which takes into account employee 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 2015/16 was used as the opening position for the 2016/17 forecasts.

The actual financial results achieved for 30 June 2017 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 2015 \$000		Actual 2016 \$000
358	Rental revenue from subleases	281
<b>358</b>	<b>Total other revenue</b>	<b>281</b>

## 3 Personnel costs

Actual 2015 \$000		Actual 2016 \$000
5,477	Salaries and wages	5,670
15	Defined contribution plan employer contributions	1
(89)	Increase/(decrease) in employee entitlements	17
228	Employee training and development	226
65	Other	71
<b>5,696</b>	<b>Total personnel costs</b>	<b>5,985</b>

Employer contributions to defined contribution plans include contributions to the State Sector Retirement Saving 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 2016 was 8% (2015: 8%).

## 5 Finance costs

Actual 2015 \$000		Actual 2016 \$000
6	Discount unwind on provisions (note 13)	1
<b>6</b>	<b>Total finance costs</b>	<b>1</b>

## 6 Other expenses

Actual 2015 \$000		Actual 2016 \$000	Unaudited Budget 2016 \$000	Unaudited Forecast 2017 \$000
40	Fees to auditor – fees to Audit New Zealand for audit of financial statements	41	49	42
936	Rental and operating lease expense	478	745	415
153	Lease make-good provision	34	0	0
(147)	Onerous contracts	(98)	(94)	0
102	Other occupancy expenses	108	91	90
135	Legal fees on panel of prosecutors	91	332	140
127	Consultancy	268	139	200
317	Travel	277	305	372
744	IT and telecommunications	742	836	860
5	Net loss on disposal of property, plant and equipment	3	0	0
24	Professional services	12	27	15
204	Specialist advice – case related	371	467	442
382	Other expenses	307	397	313
<b>3,022</b>	<b>Total other expenses</b>	<b>2,634</b>	<b>3,294</b>	<b>2,889</b>

Budget 2016 and Forecast 2017 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 2015 \$000		Actual 2016 \$000
5	Debtors (gross)	11
0	Less: provision for impairment	0
5	Net debtors	11
<b>Total receivables</b>		
Total receivables comprise:		
5	Receivables from supplier refunds (exchange transactions)	11
0	Receivables (non-exchange transactions)	0

## 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
<b>Cost</b>					
Balance at 1 July 2014	574	193	540	41	1,348
Additions	200	8	75	0	283
Disposals	(24)	(2)	0	0	(26)
<b>Balance at 30 June 2015</b>	<b>750</b>	<b>199</b>	<b>615</b>	<b>41</b>	<b>1,605</b>
Balance at 1 July 2015	750	199	615	41	1,605
Additions	142	0	55	0	197
Disposals	(204)	(16)	(47)	0	(267)
<b>Balance at 30 June 2016</b>	<b>688</b>	<b>183</b>	<b>623</b>	<b>41</b>	<b>1,535</b>
<b>Accumulated depreciation and impairment losses</b>					
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)
<b>Balance at 30 June 2015</b>	<b>401</b>	<b>178</b>	<b>513</b>	<b>14</b>	<b>1106</b>
Balance at 1 July 2015	401	178	513	14	1106
Depreciation expense	122	13	53	6	194
Eliminate on disposal	(201)	(16)	(47)	0	(264)
<b>Balance at 30 June 2016</b>	<b>322</b>	<b>175</b>	<b>519</b>	<b>20</b>	<b>1,036</b>
<b>Carrying amounts</b>					
At 1 July 2014	234	30	104	33	401
At 30 June and 1 July 2015	349	21	102	27	499
<b>At 30 June 2016</b>	<b>366</b>	<b>8</b>	<b>104</b>	<b>21</b>	<b>499</b>

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
<b>Cost</b>	
Balance at 1 July 2014	158
Additions	0
Disposals	0
<b>Balance at 30 June 2015</b>	<b>158</b>
Balance at 1 July 2015	158
Additions	5
Disposals	0
<b>Balance at 30 June 2016</b>	<b>163</b>
<b>Accumulated amortisation and impairment losses</b>	
Balance at 1 July 2014	147
Amortisation expense	8
Eliminate on Disposal	0
<b>Balance at 30 June 2015</b>	<b>155</b>
Balance at 1 July 2015	155
Amortisation expense	3
Eliminate on Disposal	0
<b>Balance at 30 June 2016</b>	<b>158</b>
<b>Carrying amounts</b>	
At 1 July 2014	11
At 30 June and 1 July 2015	3
<b>At 30 June 2016</b>	<b>5</b>

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

Actual 2015 \$000		Actual 2016 \$000
	<b>Payables</b>	
308	Creditors	428
97	Accrued expenses	123
734	Accrued rent payable	641
1,139	<b>Total payables</b>	1,192
	<b>Payables and deferred revenue under non-exchange transactions</b>	
91	Taxes payable (e.g. GST and rates)	78
1,230	<b>Total payables</b>	1,270

## 11 Return of operating surplus

Actual 2015 \$000		Actual 2016 \$000
153	Net surplus	683
153	<b>Total return of operating surplus</b>	683

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



## 12 Employee entitlements

Actual 2015 \$000		Actual 2016 \$000
	<b>Current portion</b>	
42	Accrued salaries and wages <sup>1</sup>	21
245	Annual leave	284
0	Long service leave and retirement gratuities	0
287	<b>Total current portion</b>	305
	<b>Non-current portion</b>	
6	Long service leave and retirement gratuities	5
293	<b>Total employee entitlements</b>	310

### Key assumptions in measuring retirement and long service leave obligations<sup>2</sup>

The measurement of the long service obligation was based on a number of assumptions. An assessment of 50<sup>2</sup> (2014/15: 47<sup>2</sup>) employees employed as at 30 June 2016 was undertaken as to which employees would reach the long service criteria. One employee earned and took long service leave in the year to 30 June 2016. 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.

<sup>1</sup> Includes performance pay, FBT and contributions to defined contribution plans.

<sup>2</sup> Excludes Chief Executive and Director and casual employees.

## 13 Provisions

Actual 2015 \$000		Actual 2016 \$000
<b>Current portion</b>		
97	Onerous contracts	0
403	Lease make-good	0
500	<b>Total current portion</b>	0
<b>Non-current portion</b>		
75	Lease make-good	109
0	Onerous contracts	0
75	<b>Total non-current portion</b>	109
<b>575</b>	<b>Total provisions</b>	<b>109</b>

### Movements for each class of provision are as follows:

	Lease make-good \$000	Onerous contracts \$000	Total \$000
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
<b>Balance 30 June 2015</b>	<b>478</b>	<b>97</b>	<b>575</b>
Balance 1 July 2015	478	97	575
Additional provisions made	34	0	34
Amounts used	(145)	(96)	(241)
Discount unwind (note 5)	0	1	1
Unused amounts reversed	(258)	(2)	(260)
<b>Balance at 30 June 2016</b>	<b>109</b>	<b>0</b>	<b>109</b>

### 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 expired on 29 February 2016. In accordance with the provisions of the lease and in agreement with the landlord the Serious Fraud Office fully satisfied its make-good obligations.

The Queen Street lease expires on 3 March 2023. The make-good provision for Queen Street was revalued during the year following an external review of its adequacy to meet obligations when the lease expires. As there is no right of renewal on the lease, it is expected that the timing of the expected cash outflow to make-good will occur at the expiry of the lease.

### Onerous contracts

The provision for onerous contracts arose from a non-cancellable lease for 120 Mayoral Drive where the unavoidable costs of meeting the lease contract exceeded 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. Both the lease and sublease expired on 29 February 2016. The onerous lease provision has therefore been fully utilised and is nil as at 30 June 2016.

## 14 Equity

Actual 2015 \$000		Actual 2016 \$000
	<b>Taxpayers' funds</b>	
452	Balance at 1 July	452
153	Surplus/(deficit)	683
(153)	Return of operating surplus to the Crown	(683)
452	Balance at 30 June	452
<b>452</b>	<b>Total equity</b>	<b>452</b>

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

Actual 2015 \$000		Actual 2016 \$000	Unaudited Budget 2016 \$000	Unaudited Forecast 2017 \$000
153	<b>Net surplus/(deficit)</b>	683	0	0
	Add/(less) non-cash items:			
185	Depreciation and amortisation expense	197	148	153
185	<b>Total non-cash items</b>	197	148	153
	Add/(less) items classified as investing or financing activities:			
5	(Gains)/losses on disposal of property, plant and equipment	3	0	0
5	<b>Total items classified as investing or financing activities</b>	3	0	0
	Add/(less) movements in statement of financial position items:			
40	(Inc)/dec in receivables <sup>3</sup>	(6)	0	0
(22)	(Inc)/dec in prepayments	(29)	0	0
59	Inc/(dec) in payables and deferred revenue <sup>4</sup>	42	(34)	(61)
(88)	Inc/(dec) in employee entitlements	17	12	24
11	Inc/(dec) in provisions	(466)	(97)	0
0	<b>Net movement in working capital items</b>	(442)	(119)	(37)
<b>343</b>	<b>Net cash flow from operating activities</b>	<b>441</b>	<b>29</b>	<b>116</b>

<sup>3</sup> Excludes outstanding receivables of \$nil for fixed asset sales (2015: \$nil).

<sup>4</sup> Excludes outstanding payables of \$13 for fixed assets purchases (2015: \$15).

Budget 2016 and Forecast 2017 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 conditions 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 in 2016 (2015: nil).

### Key management personnel compensation

Actual 2015 \$000		Actual 2016 \$000
	Senior Leadership Team, including the Chief Executive	
1,244	Remuneration	1,306
6	Full-time equivalent members	6

Key management personnel of the Serious Fraud Office comprised of the Chief Executive/Director and the five members of the senior leadership team (2015: 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 (2015 nil).
- There were no related party transactions involving key management personnel or their close family members in 2016 (2015: 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 her 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 2015/16 two Serious Fraud Office FTEs were seconded out to the New Zealand Police to undertake investigative services, one long term (one year) secondment, funded by the New Zealand Police and the other on a short term basis, funded by the Serious Fraud Office. One FTE was seconded in from and funded by the New Zealand Customs Services, on a short term secondment. Secondments were on normal terms and conditions.

## 17 Events after the balance date

There are no significant events after the balance date.

## 18 Financial instruments

Financial instrument categories

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

Actual 2015 \$000		Actual 2016 \$000
<b>Loans and receivables</b>		
2,129	Cash and cash equivalents	2,213
5	Receivables	11
2,134	<b>Total loans and receivables</b>	2,224
<b>Financial liabilities measured</b>		
1,230	Payables (excluding revenue in advance)	1,270

The Serious Fraud Office has a letter of credit facility with Westpac of \$175,000 in 2016 (2015: \$175,000) to allow for the payment of employee salaries by direct credit.

## 19 Explanation of major variances against budget

Explanations for major variances from the Serious Fraud Office's original 2015/16 budget figures are as follows:

### Statement of comprehensive revenue and expenses

#### – Revenue Crown

Revenue Crown received was less than budget by \$15,000 due to a baseline contribution to the Budget 2015 System Package agreed by Cabinet in August 2015 (CAB-15-MIN-0007.01 refers).

#### – Other Revenue

The favourable variance of \$44,000 on Other revenue relates primarily to receipts from an office sharing arrangements with the Crown Law Office, at the Serious Fraud Office's leased premises in Queen Street, Auckland.

#### – Personnel costs

Overall the variance on Personnel costs of \$38,000 is attributable to timing of recruitment with slight delays in hiring replacements for people going on maternity leave and resignations.

#### – Other expenses

Other expenses were \$660,000 less than budget. The largest contributor to this was the reversal of the unused portion of the make-good provision for Mayoral Drive, \$258,000. In addition, case costs were significantly lower than budget as a result of efficiencies realised in the investigation process (prosecution panel, \$241,000 and contractors \$228,000). Other favourable variances were achieved through IT support and project rationalisation and more efficient travel and office administration, collectively totalling \$194,000. This has been offset by an overspend on general consultancy of \$129,000, mainly for additional HR support and expertise.

### Statement of financial position

#### – Current liabilities

Current liabilities were \$477,000 greater than budget. The main components of this are the repayment of the 2016 operating surplus of \$683,000, offset by a \$250,000 timing difference in the budget for the short-term provision of the make-good settlement for the Mayoral Drive lease. In addition the main element of the employee entitlements variance of \$89,000 is an increase in leave liability, while the budget provided for the reverse. Balancing this is the payables variance of \$45,000 made up mainly of a reduction in the year end GST liability as actual monthly spend was more heavily weighted to the final month than per the budget.

### Statement of cash flows

In accordance with the variances on Revenue Crown and Other revenue noted above, cash receipts were \$15,000 lower and \$44,000 greater than budget respectively. Payments to employees and suppliers were \$417,000 less than budgeted, which stems primarily from the reduced spend resulting in a surplus for the year. In addition there were cash outflows in excess of budget for asset purchases of \$104,000 and repayment to the Crown of the 2015 surplus of \$153,000.

## 20 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 2016

Annual and permanent appropriations for Vote Serious Fraud

Expenditure after remeasurements 2015 \$000	Appropriation title	Expenditure after remeasurements 2016 \$000	Approved appropriation 2016* \$000	Location of end-of-year performance information**
<b>Departmental output expenses</b>				
8,945	Investigation and prosecution of serious financial crime	8,853	9,548	Pages 21 to 26
8,945	Total departmental output expense	8,853	9,548	
<b>Departmental capital expenditure</b>				
283	Serious Fraud Office – Permanent Legislative Authority under section 24(1) of the PFA	201	225	Page 26

\* 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 2016

\$nil (2015: \$nil)

Expenses and capital expenditure incurred in excess of appropriation

\$nil (2015: \$nil)

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

\$nil (2015: \$nil)

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

for the year ended 30 June 2016

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 2016

The Auditor-General is the auditor of the Serious Fraud Office (the SFO). The Auditor-General has appointed me, J R Smaill, 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 29 to 52, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2016, 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 2016 on pages 9 to 13 and 21 to 26; and
- the statements of expenses and capital expenditure of the SFO for the year ended 30 June 2016 on 53.

## Opinion

In our opinion:

- the financial statements of the SFO:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016; 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 the Public Benefit Entity Standards Reduced Disclosure Regime;
- the performance information of the SFO:
  - presents fairly, in all material respects, for the year ended 30 June 2016:
    - 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;
- 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 29 September 2016. 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.

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; and
- 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.



**J R Smail**

Audit New Zealand  
On behalf of the Auditor-General  
Auckland, 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	2015/16	2014/15	2013/14	2012/13	2011/12
s 5(1) (a)	Requiring documents	63	56	147	108	72
s 5(1) (b)	Supply information	3	1	13	25	11
s 6	Search warrant obtained	0	2	0	0	1
Total		66	59	160	133	84

Section	Part 2 of Act	2015/16	2014/15	2013/14	2012/13	2011/12
s 9c (1) (c)	Attend	71	32	63	66	55
s 9(1) (d)	Requiring answers to questions	72	32	64	73	57
s 9(1) (e)	Requiring information	480	88	128	216	128
s 9(1) (f)	Requiring documents	177	341	361	620	647
s 10	Search warrant obtained	13	42	33	33	5
s 36(2)		30			36	21
Total		843	535	903	1044	913



**Serious Fraud Office**

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**Complaints**

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