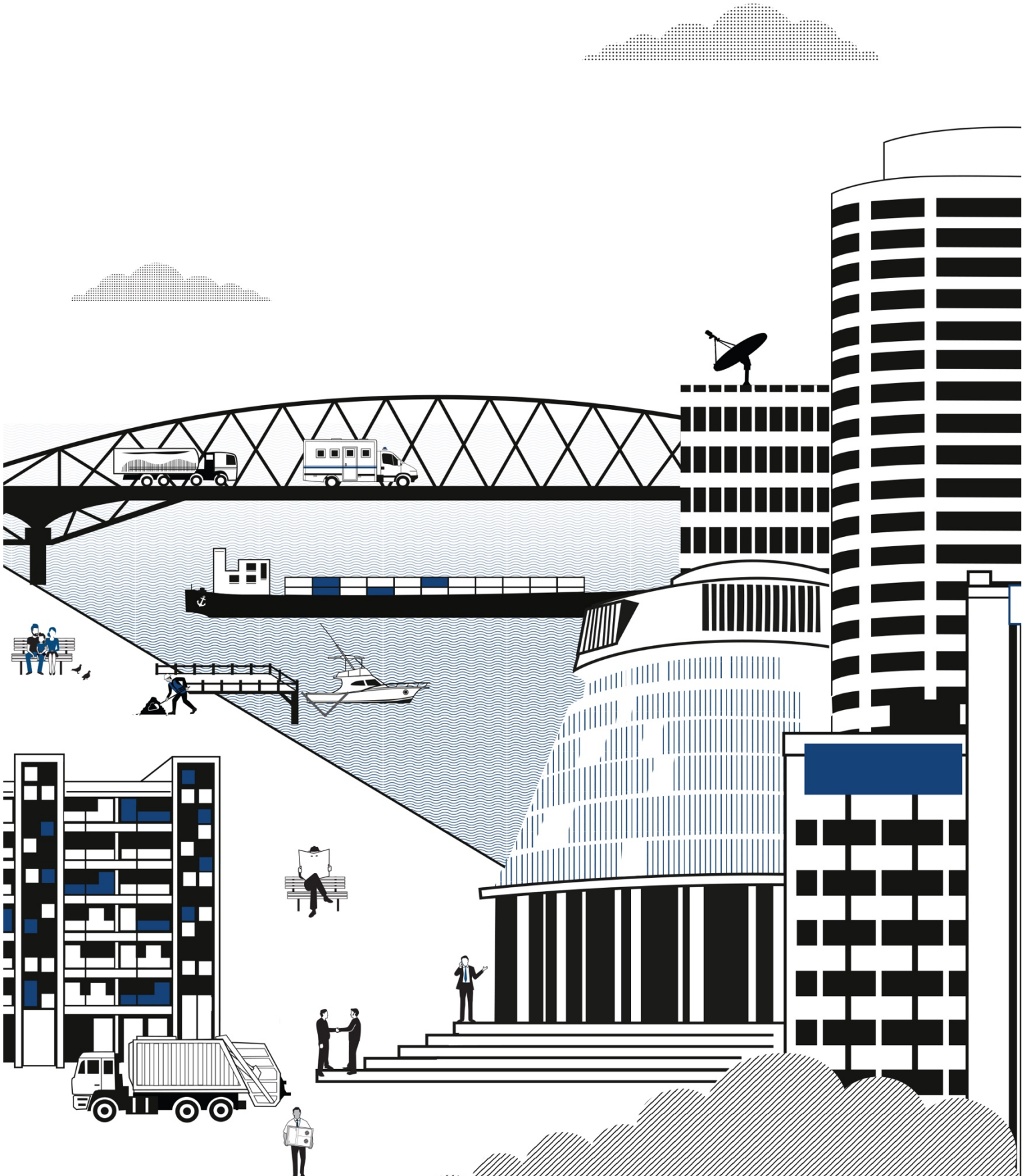


# Annual Report 2017



## Highlights of 2017

**New Zealand tops the world**  
for perceived low levels of public sector corruption

**100% custodial sentences handed down**  
for convictions achieved

**40% more complaints**  
responded to in the same number of days

**The SFO's biennial Fraud and Corruption Conference in February**  
attracted 200+ participants  
and encouraged greater awareness of financial crime

**First government department to publish an online Annual Report**  
[annualreport2017.sfo.govt.nz](http://annualreport2017.sfo.govt.nz)

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## Director's overview

'Bringing together the old and the new' was the theme of the Serious Fraud Office's second International Fraud and Corruption Conference, held in Auckland in February 2017. Fraud and corruption are age-old crimes but today's perpetrators are finding new ways to deceive and corrupt. The challenge for law enforcement, government and the business community is to stay one step ahead of the offenders by embracing new methods and technologies to detect and prosecute those responsible, as well as opportunities to prevent offending and to educate and deter potential offenders. This year's Annual Report highlights progress in this area.

### Action on public sector corruption

New Zealand made a welcome return to joint top ranking, scoring 90 along with Denmark, in the Transparency International (TI) Corruption Perceptions Index 2016. The index measures perceived levels of public sector corruption. A collaborative investment by public sector organisations, regulators, Justice Sector agencies, the State Services Commission, and professional services firms has also seen our public service move towards a proactive approach to preventing corruption. Despite these positive indicators, New Zealand is alive to the threat posed by corruption. The SFO is actively working across the public sector, coordinating an anti-corruption work programme, which is in the planning stages. The work will address education, prevention and deterrence – important elements in building a strong society with integrity as a central characteristic – as well as detection, investigation and prosecution.

The SFO has prosecuted employees from both Auckland Transport and the Ministry of Transport for significant frauds this year. These cases, like most of those we pursue, were complex and embedded in a relational context. It would be easy to get lost in the myriad of minor issues involved in these matters but often such issues make little, if any, difference to the outcome or to the length of sentence. A strategic approach to case investigation and prosecution, focusing on the high-impact offending, ensures we use our resources to maximum effect.

New Zealand's commitment to the London-based International Anti-Corruption Coordination Centre (IACCC) is being embedded. The SFO is leading our participation in the IACCC with NZ Police. New Zealand has representation at the centre and together with Police Assistant Commissioner Investigations, Richard Chambers, I am on the governance group of the IACCC, which was set up to facilitate cooperation across international jurisdictions on cases of high-level corruption. The SFO has also continued our international emphasis on combatting corruption by participating in the OECD peer review process of the Anti-Bribery Convention and in the Phase 1 review in February 2017 of New Zealand's compliance with the United Nations Convention Against Corruption (UNCAC).

### Embracing partnerships and new systems

In December 2016, we welcomed the new Minister of the SFO, Deputy Prime Minister the Hon Paula Bennett. A key government priority is that agencies work together to achieve the best outcomes for New Zealand. The SFO is discussing with partner agencies the concept of a system-wide financial crime strategy. This proposal considers the creation of a system-wide approach by government agencies with roles to play in education, prevention and enforcement. It responds to a key recommendation in the SFO's 2014 Performance Improvement Framework – that the weaknesses inherent in agencies holding sub-sets of knowledge needs to be addressed by a systematic, joined-up response.

The SFO is moving ahead with other projects that sit within the nine key interventions in our 2020 Strategic Plan. As part of a wider business systems transformation, we were successful in presenting the business case for funding new case and evidence management systems and will complete implementation in the 2017/2018 year. We have made continuous improvements to organisational design to align with these new systems and finished the year on target with the agency's budget.

As a small, agile agency we continue to innovate and lead the way in best practice, moving to cloud-based accounting and publishing our first Integrated Statement of Strategic Intent that incorporates the SFO's Four-year Business Plan and an updated Statement of Intent.

The SFO's size and the specialist nature of roles offers limited internal ability for employee development, something we acknowledge by supporting employee professional development wherever possible – this year notably with acting management roles. Two of our specialists with future-thinking roles are featured in this year's report. They are tasked with ensuring we can confidently meet future waves of increasingly digital financial crime.

All our employees make valuable contributions to growing a stronger, more capable agency. I thank them for their achievements in 2016/2017 and look forward to seeing what we can achieve together in the year ahead.



Julie Read

Chief Executive and Director

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*The SFO has had a strategic year, implementing innovative projects that future-proof the agency to investigate and prosecute tomorrow's perpetrators of financial crime.*

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## Vision

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

## 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 role

### Who we are

The SFO is the lead law enforcement agency for investigating and prosecuting serious financial crime. In particular, we are the lead agency for bribery and corruption investigations.

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. A specialist agency such as the SFO is considered internationally as the gold standard for responding to complex financial crime.

The agency's highly experienced team of 54 employees is based in Auckland. Most are frontline financial crime investigation specialists who examine possible instances of offending and, where appropriate, prosecute to hold the offenders to account. The Senior Leadership Team develops our strategic direction and key relationships.



*Serious Fraud Office Senior Leadership Team. From left: Nick Paterson, Graham Gill, Carol Palmer, Julie Read, Rebecca Rolls, Paul O'Neil*

### How we determine cases to investigate

The SFO has statutory independence; operational decisions are made without ministerial direction, 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 to 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 about the impact of complex financial crime, both on immediate victims and the wider public and private sectors.

## Who we partner with

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 (Police)
- Ministry of Justice (MoJ)
- Crown Law Office (CLO)
- New Zealand Customs Service (Customs)
- Department of Internal Affairs (DIA)
- Organised and Financial Crime Agency of New Zealand (OFCANZ)
- Office of the Auditor-General (OAG)
- Ministry of Business, Innovation and Employment (MBIE)
- Inland Revenue Department (Inland Revenue)
- Commerce Commission (ComCom)
- Financial Markets Authority (FMA).

We also maintain strategic partnerships with relevant private sector interests, such as accounting firms and insolvency practitioners.

Our international counterparts include:

- UK Serious Fraud Office (UK SFO)
- International Anti-Corruption Coordination Centre (IACCC)
- Federal Bureau of Investigation (FBI)
- Independent Commission Against Corruption (ICAC) Hong Kong
- Corrupt Practices Investigation Bureau (CPIB) Singapore
- Australian Federal Police (AFP)
- European Anti-Fraud Agency (OLAF).

The international fora we are actively involved with are:

- APEC's Anti-Corruption and Transparency Working Group (ACTWG)
- OECD Working Group on Bribery
- United Nations Convention Against Corruption (UNCAC)
- Economic Crime Agencies Network (ECAN).

## 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; and the six key areas in the Business Growth Agenda
- the Criminal Justice Sector's four-year mission of a more agile criminal justice system that delivers fair and proportionate criminal justice services when and where they are most required to meet the needs of New Zealanders
- Better Public Service (BPS) result area 7 of reducing serious crime.

As a stand-alone agency whose core business is investigating and prosecuting white-collar crime, we have limited ability to contribute to the current Justice Sector targeted areas for reducing serious crime, i.e. family and sexual violence, gangs, and Maori re-offending rates. By focusing on the most complex and time-consuming cases of financial crime, the SFO frees other Justice Sector agencies to focus their efforts on these more vulnerable areas of society.

In prosecuting investment and mortgage fraud, we do provide justice for many vulnerable victims who get caught up in such scams, although we do not have control over sentences handed out for the crimes we successfully prosecute. That responsibility rests with the courts.

Aside from BPS 7, the Justice Sector strategic priorities to which we directly contribute are:

- reduce pressure across the Justice pipeline – by ensuring operational processes are efficient and effective
- improve how we work together to achieve our shared goals – an investment approach to justice through improving our use of data, increasing sector-wide collaboration and strengthening our framework and responses to combat corruption.

In 2016/2017, the SFO engaged in a significant and innovative project to develop an Integrated Statement of Strategic Intent (ISSI) 2016-2020 that merges two key planning documents: our Statement of Intent and Four-year Business Plan.

The nine key interventions in the SFO's Strategic Plan 2020 (see page 11) have underpinned the development of new ISSI performance measures for the next four years. The outcome tables below combine the new measures in the ISSI that we have chosen to include in this Annual Report, with explanations of where the wording varies from the Statement of Intent (SOI) 2016/2017 (although the trend results are continuous); and the measures for 2016/17 that we are required to report on, which have been discontinued or amended in the ISSI (these are grey). Note: new measures were not previously audited.



## Outcome 1: A confident business environment that is largely free of serious financial crime

Impacts	Indicators	Measures	Trend Results
New Zealand is a safe place to invest and do business*	Businesses 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)	2016/17: 7.7 2014/15: 7.3 2012/13: 7.7 2010/11: 7.1
	and The public have trust and confidence that financial criminals will be prosecuted and sentenced	and Biennial Public Survey Public feel that “New Zealand is a safe place to invest”	2015/16: 63%*** baseline
Our reputation for low levels of financial crime, bribery and corruption provides a global competitive advantage to New Zealand businesses****	New Zealand’s ranking of corruption-free nations	Transparency International Corruption Perception Index  Achieve ranking within the top three	2016: 1 <sup>st</sup> equal Denmark 2015: 4th 2014: 2nd 2013: 1st equal Denmark 2012: 1st equal Finland, Denmark 2011: 1st
<p>*The measures and trend results remain the same as the SOI 2016/2017, however the wording of the impact and indicator statement have been altered in the ISSI to align with the outcomes in the SFO’s Strategic Plan 2016-2020. Previously wording read: Business and investor confidence in the integrity of our financial and commercial markets is maintained or increased. And, “Those who say that law enforcement action is maintaining or improving the integrity of our financial and commercial markets.” The biennial public survey result is a new measure for this impact.</p> <p>**The 2017 independent survey requested the participation of 55 key SFO stakeholders in New Zealand. Of these, 39 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 2019.</p> <p>***The new measures were not previously audited.</p> <p>****Now in Outcome 1 rather than Outcome 2 to reflect the increased focus on the business sector in the SFO’s Strategic Plan 2016-2020. The wording of the impact statement has also changed to align with the outcomes in the SFO’s Strategic Plan 2016-2020. In the SOI 2016/2017 it read: “New Zealand maintains its international reputation for very low levels of bribery and corruption.”</p>			

## Outcome 2: A just society that is largely free of fraud, bribery and corruption

Impacts	Indicators	Measures	Trend Results
Increase cross-agency capability to achieve Justice Sector shared goals	Collaboration across the Justice Sector and other agencies	Number of joint investigations	2016/17: 2* baseline
	Educate and interact with the community	Biennial Public Survey Public agree the SFO: "does a good job in demonstrating the consequences of serious financial crime"	2015/16: 53%*
Confidence increases that the main defendant in financial crime cases is held to account	Frequency of custodial sentences being ordered where a conviction against the main defendant was obtained	Annual analysis, including trends compiled by the SFO: Maintain or increase from 75% of cases	2016/17: 100%* baseline
* The new measures were not previously audited.			
<b>Statement of Intent measures for 2016/2017 (discontinued or amended in ISSI)</b>			
Public and victims' confidence that those who commit financial crime are held to account is increased (amended wording in ISSI)	Frequency of custodial sentences being ordered where a conviction was obtained (amended wording in ISSI)	Annual analysis, including trends compiled by the SFO: Maintain or increase from 75% of cases	2016/17: not measured* 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	2016/17: not measured** 2015/16: Survey discontinued** 2013/14: 38% 2011/12: 65%
* Results no longer directly comparable as the method of calculation changed in 2015/16 to include home detention. Although not a term of imprisonment, home detention is a custodial sentence. This measure has been amended to pertain only to conviction of the main defendant. Note that the SFO's role is to put the appropriate cases before the Courts, not to determine sentences.			
**The Complainants and Victims' Survey was 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 perform our role can be influenced by these measures, which we have no control over.			



# Strategic Plan 2016-2020



**Our vision is ...**

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

**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

**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

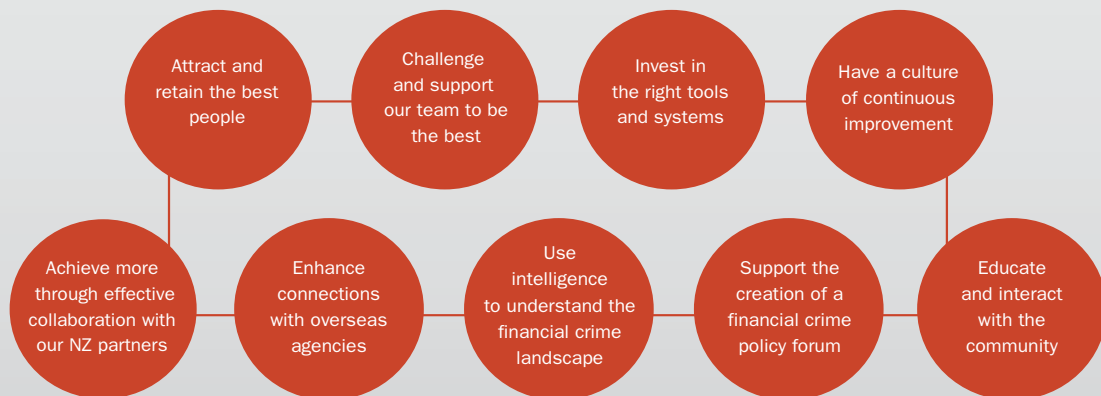
Lead the understanding of financial crime, bribery and corruption in the private and public sectors

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

**To do this we need to:**



## Key investigation results

The SFO typically has 50-55 cases under investigation or prosecution at any one time. Over half of all cases (58%) extend beyond 12 months. From 2014 through 2016, the total value of fraud for cases prosecuted by the SFO exceeded \$150 million – with an average fraud value per prosecuted case of over \$8 million.

In 2016/2017, we received 831 complaints, the highest-ever number (600 is average). Of these, 25 became Part 1 enquiries, to determine whether allegations of fraud should progress to a full investigation. Eight progressed directly to a full investigation. We commenced 10 prosecutions, the same number as in 2015/2016 but a 67 percent increase on 2014/2015.

Where appropriate, we refer complaints which are not investigated by the SFO to relevant agencies.

For results in detail, see our Output expense on page 28.

## Public sector bribery and corruption

New Zealand's return to first equal placing with Denmark, scoring 90, on the Transparency International (TI) Corruption Perceptions Index (CPI) for perceived levels of public sector corruption ran counter to the general trend of results for 2016. More countries declined than improved, and the global average score of 43 is an indicator of endemic corruption in a country's public sector. Nineteen out of 30 Asia Pacific countries scored 40 or less.

The SFO has been working with TI to achieve better mutual understanding of the complex index methodology, which will ensure we advocate for appropriate policy and legislative reforms and take the right actions to retain this high ranking.

Despite the low levels of corruption in New Zealand there is now greater awareness of its existence and a willingness to address the offending when it occurs. This year has seen an uplift in corruption-related complaints, including allegations within government departments. The increase is partly due to the education and awareness work we do with stakeholder agencies and the public, positioning ourselves as the lead agency for corruption matters. The high-profile Auckland Transport case that was concluded in February 2017 with jail sentences imposed has also raised awareness.

### Auckland Transport

In February 2017, Stephen Borlase was sentenced to five years six months' imprisonment and Murray Noone to five years' imprisonment for corruption and bribery offences totalling \$1.2 million. The verdict and sentencing followed a seven-week trial in Auckland. It was New Zealand's largest bribery case.

Barrie George had earlier been sentenced in 2016 to 10 months of home detention for a lesser role in the same offending.

The offending took place between 2006 and 2013 at the former Rodney District Council and Auckland Transport. Over the seven years, Mr Noone had, concurrent with senior management roles in road maintenance, regularly invoiced engineering consulting company Projenz over \$1 million for consultancy services there was no documentary evidence he had ever provided. He had also taken inappropriate gifts. The payments and gifts were undisclosed. Projenz had been set up by Mr Borlase. It had obtained numerous council road maintenance supply contracts during the seven years.

### Ministry of Transport

Joanne Harrison, former General Manager of Organisational Development at the Ministry of Transport, was also imprisoned in February, for three years' seven months. Ms Harrison had fraudulently obtained approximately \$726,000 from her employer by creating invoices to

pay three entities linked to the offending. The money was used to pay off personal credit cards and the mortgage on a property she had purchased in 2008.

Ms Harrison left the country in 2016 after the fraudulent invoices were discovered and transferred the ownership of the property in its entirety to her husband. She returned from Canada to face charges.

## Other high-profile case results for 2017

### The law applies to everyone

Sir Ralph Ngatata Love was jailed for two years' six months in October 2016. The retired professor emeritus, Maori leader and Treaty of Waitangi negotiator was prosecuted for his role in fraud related to a significant commercial property development in Wellington. The land was owned by the Wellington Tenth Trust, of which Sir Ngatata Love was the Chair. It administers Maori reserve land largely in the urban Wellington area.

Sir Ngatata Love arranged for a total of \$1,687,500 to be paid into his partner Lorraine Skiffington's account, for the pair's benefit. The payments were part of a premium the developers were willing to pay for leasehold rights on the land. They were not disclosed to the remaining trustees. The money was used to pay down the mortgage on a large home in Plimmerton the pair had bought months earlier.

The offending was uncovered only after Inland Revenue began investigating Ms Skiffington's accountants. Ms Skiffington, a lawyer who had held senior advisory roles within central government, had her charges permanently stayed in August 2015 due to ill-health. Sir Ngatata Love's son, Matene Love, pleaded guilty to a charge under the Secret Commissions Act and was sentenced to six months of home detention in October 2015.

### Operation Chestnut uncovered gaming machine fraud

Three men were found guilty in June 2017 of multiple charges in relation to a multi-million-dollar gaming machine fraud. The case is New Zealand's largest in the Class 4 gambling sector and one of the most extensive inter-agency investigations. It was prosecuted by the SFO following a joint investigation with the Department of Internal Affairs (DIA) and the Organised and Financial Crime Agency of New Zealand (OFCANZ).

The investigation began in 2012, examining grants made by Bluegrass Trust dating back to 2006. Blenheim racing personality Michael O'Brien had been running an 'invoices for grants' scheme with racing clubs, using hospitality consultant Paul Max as his cover to obtain gambling operator licences for Bluegrass Trust and its venues from the DIA. The trust distributed over \$11.8 million of charitable grants from gaming machine profits, influenced by Mr O'Brien who earned over \$1 million a year from his lobbying actions.

Mr O'Brien was found guilty of five charges of deceiving DIA, dating from 2009 to 2013, two for Bluegrass Trust and three relating to gaming machine venues, and was sentenced to four years six months' imprisonment. Max was found guilty of three charges of fraudulently obtaining gambling licences for three venues and was sentenced to 12 months of home detention. Kevin Coffey was found guilty of one charge of making false representations to deceive DIA and was sentenced to 12 months of home detention. Mr O'Brien's father Patrick O'Brien had also been charged in relation to the case but the former Harness New Zealand chairman was taken out of the trial due to ill health.

## International cooperation

**Intervention:** Enhance connections with overseas agencies

The SFO plays a role in responding to international expectations in relation to corruption – from bodies such as the OECD, the UN and APEC. New Zealand ratified the United Nations Convention Against Corruption (UNCAC) in December 2015. In February this year, the Phase 1 review of our compliance with the UNCAC principles took place. The two-day review process involving the SFO, Crown Law Office, Police and Ministry of Justice officials meeting with reviewers from Turkey and Cameroon has resulted in a favourable report and recommendations for further action.

In turn, the SFO assisted this year with the review process of the OECD Anti-Bribery Convention and attended the second OECD Global Network of Law Enforcement Practitioners against Corruption, in Paris in December 2016.

We attended the third meeting of APEC's sub-fora ACT-NET in Peru in August 2016. The Anti-Corruption Authorities and Law Enforcement Agencies Network is the operational arm of the strategic Anti-Corruption and Transparency Working Group (ACTWG). ACT-NET aims to establish and develop an inter-economy network of anti-corruption and law enforcement officers to enhance informal cooperation across jurisdictions on investigations into bribery, corruption and money laundering.

This aim has been further strengthened by the establishment of the International Anti-Corruption Coordination Centre (IACCC) in London, following the 2016 Anti-Corruption Summit.

New Zealand now has representation at the centre and the SFO Director sits on the governance group. The SFO is also participating in a summit commitment to establish an accessible and central database of companies with final convictions for bribery and corruption offences, by supporting the New Zealand public central register of company beneficial ownership.

One of our General Managers attended the Economic Crime Agencies Network (ECAN) meeting in London in March 2017. As a result, we have been approached by an Asian agency to enter into a memorandum of understanding to assist with capacity building and information sharing.

## Support we provide others

**Intervention:** Enhance connections with overseas agencies; Educate and interact with the community

### - The Pacific Islands

The SFO completed a three-year case with the Cook Islands Police against former opposition leader Teina Bishop, involving a loan obtained by Mr Bishop from a subsidiary of a foreign fishing company and the subsequent granting of fishing licences. This was the first time a sentence of imprisonment was handed down to a Cook Islander for corrupt activities while serving as a Minister of the Crown. The sentence was appealed and subsequently reduced.

In Tonga, we assisted the Police with forensic accounting during an investigation into passport fraud by multiple offenders. This case is ongoing.

**Intervention:** Achieve more through effective collaboration with our NZ partners

### - New Zealand Police

In June 2017, Nimesh Kumar Amin was sentenced to three years' two months imprisonment plus \$105,000 reparation, following a joint 18-month investigation into alleged credit card fraud while he was the owner of a travel agency in Mangere trading as Panworld Travel. Mr Amin defrauded airlines, event organisers and individuals of almost \$1 million of flight-related travel. Police led the enquiry, while the SFO participated in the search warrant process and assisted with forensic accounting.

The SFO also assisted Police with an AA driver licensing corruption investigation, providing forensic accounting and assistance from our Electronic Forensics Unit.

### Preventing financial crime through education and advice

**Intervention:** Educate and interact with the community

The SFO held another targeted event for a select list of invitees from the utilities sector in October 2016. Energy, water and council representatives met with the senior leadership team to discuss the importance of an agency such as the SFO, which is dedicated to fighting white collar crime and how we can build relationships with the private sector. It was an opportunity to discuss face to face how we can work together to achieve our goals and to share some insight and advice related to that particular industry. These events are well received and will continue throughout 2017.

Our website [www.sfo.govt.nz](http://www.sfo.govt.nz) provides online advice for both private and public sector organisations on how to detect and prevent financial fraud. Our advice section links to comprehensive anti-corruption online training designed by leading experts in the field.

### Fraud conference and film festival

The SFO was proud to host our second Fraud and Corruption Conference at the Sky City Conference Centre in February 2017 in Auckland.

Staying one step ahead of financial crime requires a collective response. While the SFO is the lead law enforcement agency for investigating and prosecuting serious or complex financial crime, including bribery and corruption, we can't achieve excellent results and protect New Zealand's reputation by working alone.

The SFO's strategic plan focuses on:

- understanding financial crime, bribery and corruption in the private and public sectors
- prevention through education and advice
- continued improvements in our tools, systems and intelligence
- enhancing our connections with New Zealand and overseas agencies.

Holding the Fraud and Corruption Conference was a way of sharing this focus with the communities we interact with in our work. We want to encourage those communities to stay one step ahead. People from all areas of our stakeholder community attended the day, illustrating that there is undeniable interest in aligning with the SFO's goals and creating an environment of integrity so that business can prosper. This year, we offered a full day of international speakers to discuss the new threats that come into play as our cultural, social and financial landscape changes.

#### 1. Hon Chris Finlayson – government policy setting

We were privileged to have the Attorney-General open our conference. He began by reminding the audience of New Zealand's hard-earned reputation as one of the least corrupt countries in the world. The topic of corruption has been a recent focus for the SFO for reasons that the Attorney-General emphasised; it undermines the rule of law, erodes justice, it's bad for business, it introduces uncertainty and in the public sector in particular, it diverts resources away from priorities.

#### 2. Margot Gatland and Andrew Barnard – Auckland Transport

Margot is a senior lawyer with the SFO and Andrew is a senior investigator. They were part of the team that successfully prosecuted the Auckland Transport case which concluded in February 2017.

**3. Nick McKenzie – a journalist’s experience**

Nick is an informed and enlightening Australian investigative newspaper and broadcast journalist. He has a thorough knowledge of covering corruption and integrity issues in public sector and policing agencies, the criminal justice system, corporate corruption and international bribery by large multinationals. Nick spoke about the ways his work has uncovered fraud in areas from reserve bank currency printing to the global oil industry.

**4. Steve van Aperen – truth or lies: the eyes have it**

A former Australian Police detective, Steve is also known as the Human Lie Detector. He shared all sorts of tips and tricks with the audience on how to spot a liar. He also shared some insight into how hard it actually is for a person to lie. It takes a lot of mental processing and the lies need other lies to back them up.

**5. David Green – Deferred Prosecution Agreements**

The Director of the UK Serious Fraud Office also joined us at the conference. The New Zealand SFO was based on the same platform as the UK when it was created – the Roskill model. Something which has differentiated the UK office from here in New Zealand is that in 2014 a concept called Deferred Prosecution Agreements (DPAs) became available to the UK SFO.

**6. Alexandra Wrage – bribery and corruption**

Alexandra is a passionate campaigner in the fight against bribery and corruption. She is the founder of TRACE International who advocate for commercial transparency worldwide. She spoke of her belief that the public and the private sector are natural allies in the fight against bribery and corruption.

**7. Paul O’Neil – changes to New Zealand’s legislation**

As General Counsel for the SFO since December 2016, Paul presented on the suite of legislative changes that have recently been introduced in New Zealand to combat fraud and corruption.

**8. Kera Langlois – US Navy case studies**

Kera is a Special Agent with the United States Naval Criminal Investigative Service (NCIS) based in Singapore. They are a small organisation but with a large footprint given the US naval presence around the world. Kera’s presentation focused on various case studies.

**9. Michael P Kelly – business email compromises (cyber scams)**

Michael is an FBI Supervisory Special Agent from Boston. He spoke about the biggest type of financial fraud the USA is experiencing: business email compromises. He described these frauds as ravaging the country, scary, challenging, and of high dollar value and high volume.

For an expanded description of each speaker’s content, see our online annual report at [www.sfo.govt.nz](http://www.sfo.govt.nz)



## Auckland Fraud Film Festival

Coinciding with International Fraud Awareness Week in November 2016, the International Fraud Film Festival was held at Auckland's Q Theatre. Launched by the then Minister of the SFO Hon Judith Collins, the two-day festival featured international films tackling issues of cybercrime and corruption, and panel discussions. It aimed to foster cross-industry collaboration in the fight against fraud.

The SFO is a co-partner in the film festival, with membership on the Festival Board and Steering Committee. Planning for the 2017 festival is well under way.

## Developing a system-wide approach to financial crime and corruption

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

Discussions this year with partner agencies have led to agreement on the need for an overarching financial crime and corruption strategy. A series of workshops were held with key agencies which produced some scenarios of what such an all-of-government strategy might look like. The progression of this work has temporarily been delayed to allow us to focus more closely on corruption matters. As part of a broader consideration of the risks which may be posed to New Zealand by corruption, the SFO is leading a project to develop a work plan to respond to potential corruption risks with the support of our partners in central and local government, including the State Services Commission, Police, the Department of Prime Minister and Cabinet, the Ministry of Justice and the Ministry of Business, Innovation and Employment. The initial report back is scheduled for mid-November 2017.

## Being fit for the future

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

Being intelligence led means doing more than simply reacting to cases that come through our doors. It means accurately predicting how changes in technology and society will impact on the financial crime space, sharing that knowledge with partner agencies and developing strategies to respond rapidly, collectively and effectively. We employ specialists to map this territory.

## Rob Vaudrey Senior Intelligence Analyst

Rob Vaudrey joined the SFO in late 2015, relocating from the UK after 14 years working for Revenue and Customs in London.

In his work in the UK, Rob had become an expert analyst of the risks posed by money laundering, participating in a cross-law enforcement group in the UK to navigate that landscape and promote joined-up responses. That was exactly what we hired him to do at the SFO; lead the development of an SFO financial crime intelligence strategy to drive the business, to ensure we understand the source of risks in this fast-paced environment, and to map a strategic pathway for a whole-of-government response to financial crime.

Although some of the details of the New Zealand context diverge from his UK experience, the environment he discovered on arrival mirrored that of the UK, where a more integrated response would prevent criminals exploiting the interstices between agencies and eliminate duplication of knowledge and services.

Rob's role in tactical and strategic intelligence support for our investigation and prosecution teams is an unusual occupation. When asked what he does, Rob tends to reduce the interrogations by saying he's a consultant.

## Shane Mannix Principal Electronic Forensics Investigator

Shane Mannix came to the SFO on secondment from the Police and was such a valued asset that he stayed for 22 months and was then hired.

Shane has since trained as a Certified Forensic Computer Examiner through the International Association of Computer Investigative Specialists (IACIS) and now heads our Electronic Forensics Unit (EFU).

Digital evidence is an inescapable reality for financial crime investigators. The proportion of digital to paper evidence is rapidly growing. The equivalent of a truck full of paper evidence can now arrive in our office on a tiny USB stick.

“As cloud computing becomes the norm, information is increasingly being held offsite in data centres rather than on a local computer”, he says. “Encryption is a real issue for us. Providers are rightly concerned about protecting their customers’ data and are increasingly storing it in encrypted form that even they can’t access. Many computer drives are also encrypted now.”

Expert electronic forensics investigators have the skills to unlock devices and access hidden or deleted files. They have available specialist tools such as password-breaking software that is capable of guessing hundreds of thousands of passwords per second.

Digital evidence from small devices such as phones is also fragile and can be erased or destroyed if not seized in time. Shane adds value to investigations by helping teams at the early stage of a case to understand the risks with digital evidence gathering, and to put a plan in place. His knowledge assists our teams to be smart and targeted about how they deal with electronic evidence.

Shane has the freedom to innovate in his role and create a centre of excellence for the unit. He is developing e-training for our investigators and also collaborates with other New Zealand law enforcement agencies, along with being an active member of the IACIS portal, where forensic investigators share problems, knowledge and skills.

## Our systems, processes and technology

**Intervention:** Invest in the right tools and systems

The SFO's focus for its systems transformation project has four overarching priorities: secure, digital, stable and mobile. These priorities are guiding the transition from now-dated tools to fully integrated systems that will increase the speed, accuracy and efficiency of our operations.

### Case and evidence management systems

Modern case and evidence management tools are needed to manage and analyse the increasing volumes and complexity of evidentiary documents and data, and to stay ahead of the exploitation of technology to facilitate crime.

Case and evidence management are the major drivers of the SFO's core business functions. Current capital expenditure limits are sufficient only for the maintenance of existing systems, so a business case was submitted this year for additional investment in the new systems. On this basis, \$2.28 million over four years has been approved in Budget 2017, and the SFO is now in a position for the 2017/2018 year to implement the systems, which are expected to be rolled out in December 2017.

### Aligning organisation design and new systems

As a small, agile government agency, the SFO is well-positioned to make continuous improvements to organisational design, and to innovate. From 1 May 2017, we instigated operational changes:

- changed reporting lines for evidence management (Investigation Support and the Electronic Forensics Unit)
- trialling combining two investigation teams into one.

These improvements are designed to provide a more consistent approach to case management, and to align with the forthcoming system changes for evidence and case management. For an insight into the work of the EFU, see the profile on our EFU Principal.

This year, the Corporate Services team was restructured with new roles responding to strategic shifts in business practice. Three out of four new roles have been recruited: Finance Business Partner, Human Resources Business Advisor and Office Coordinator. The Business Advisor role was not filled as at 30 June.

Our HR Business Partner provides specialist support and advice to the senior leadership team and supports the delivery of the HR work programme for employees. Our Finance Business Partner is leveraging the new cloud-based accounting solution to provide strategic advice to the business on finance-related matters.

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*“The SFO has been willing to break new ground, taking up the challenge of piloting cloud-based accounting. It’s been a learning journey for all of us, taking the time to ensure we do it right with regard to important issues like security and privacy. When we take other Central Agencies Shared Services clients on that journey they will reap the benefits of the patience and cooperative spirit that the SFO has brought to a project that ticks all the right boxes, especially the government’s Cloud First policy.”*

*Glenn McStay Chief Financial Officer, The Treasury*

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## Innovations in public service best practice

Last year we were the first government agency to introduce a cloud-based engagement survey tool called Ask Your Team. This year, the agency achieved a range of ‘firsts’ and best practice:

<b>Project</b>	<b>Benefits</b>
First public service department to migrate to a cloud-based accounting solution, supported by Central Agencies Shared Services	Sophisticated and real-time information – available on any device and beyond just the core finance team – is introducing more meaningful information on which to base live budgetary and other financial planning decisions
First government agency to publish an Integrated Statement of Strategic Intent	Merges two statutory planning documents – Statement of Intent and Four-year Business Plan – creating cost efficiency and more public transparency and accountability for use of public money. More meaningful planning document for the senior leadership team
First government agency to produce an online Annual Report 2017	Enables the SFO to gather more meaningful data on reach and how the Annual Report is being viewed, and reduces print costs. More engaging for the viewer

## New website feedback

The SFO’s 2016 revision of the website provides a better experience for our stakeholders.

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*“What an amazing job on the new website! It’s so user friendly, relevant and written in plain English!!”*

*Stacy Smith, Quality Assurance Manager, Service Centre MBIE*

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## Our people

**Interventions:** 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, 85 per cent of whom perform frontline activities. An inspiring 2020 Strategic Plan and meaningful principles continue to be at the heart of the SFO's work.

### Employee engagement

The Ask Your Team (AYT) survey introduced in 2015/16 offers a strong across-the-business view. The AYT measure for leadership and culture has an aspirational three percent annual improvement on our baseline score. This year's positive shift shows we are making excellent progress. Feedback from employees about issues with systems reinforces the direction we are taking in investing in new, more efficient systems.

### Diversity and inclusion

New Zealand is the fifth most ethnically diverse country in the OECD, and the public service needs to represent contemporary New Zealand if it is to retain public confidence.

Given that 40 percent of Auckland residents were born overseas, the SFO is ideally located to access a diverse talent pool and increase its understanding of ethnic diversity. Differing business cultures pose a challenge for the work of the agency. The issue is how best to communicate and respond to cultures whose approaches to corruption and governance are at variance to that of New Zealand. The SFO works to create an environment where employees can use their cultural backgrounds to enable us to be most effective. The agency's annual employee conference also promotes a focus on diversity. Our diversity profile is shown below. We will continue to consider ethnic diversity in our recruitment processes.

Work is still required to address the structural and systemic issues that prevent women reaching their potential. On average, women in New Zealand earn 14 percent less than men and the gender pay gap in some public sector agencies is as high as 39 percent. Monitoring of the SFO gender pay gap shows the gap has been consistently lower than the national average, presently sitting at 7.2 percent. One of the SFO's general managers is a member of the Government Women's Network (GWN) governance group. The GWN is a professional employee-led network working to create a step change for women in public service. We sent six women employees to the second Women in the Public Sector Summit in Wellington in April 2017.

This year's static result is not due to gender bias but is a result of the banding pay system that takes into account experience, seniority and competencies. Our five-year goal is to continually reduce the gap. This year, we submitted to the State Services Commission an Agency Action Plan detailing the pathway to attaining this goal, including:

- comprehensive individual development plans
- equal opportunities to develop through mentoring, secondments, promotions and project group involvement.

### Training opportunities

Given the nature of our fast-evolving and specialist role, training is essential to maintaining our edge. Secondments and vacant roles have given three employees the opportunity this year to gain experience acting in General Manager and senior accounting roles. One of our Investigations General Managers was seconded into the Department of Internal Affairs for 12 months, three employees were seconded to Police and one will go to the Commerce Commission in early 2017/2018.

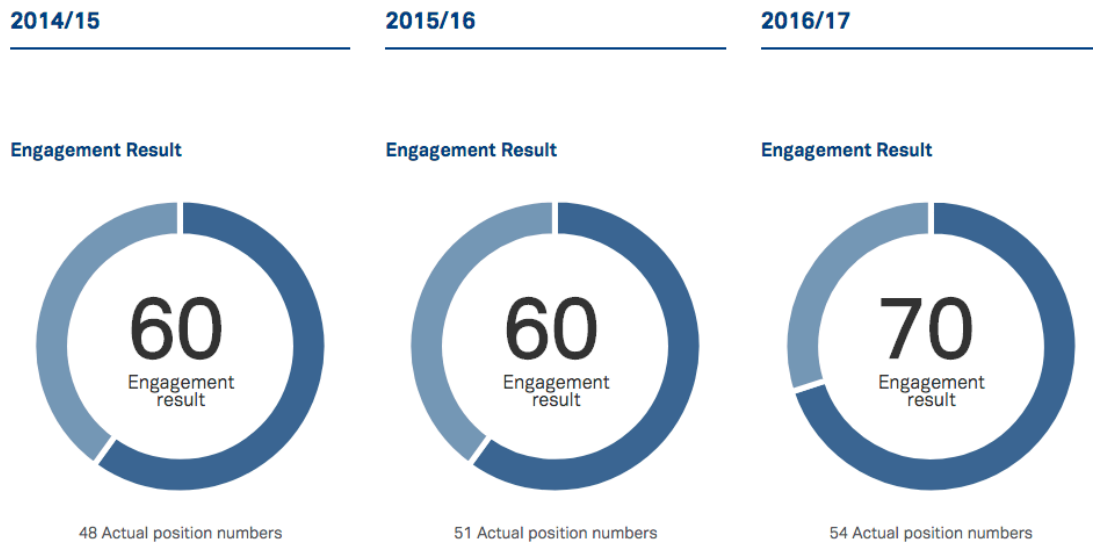
This year, a number of employees participated in international training opportunities in specialised areas:




- One of our principal lawyers attended the International Convention Against Corruption (ICAC) National Investigations Symposium in Sydney November 2016. This biennial symposium invited public sector investigators and complaint handlers to increase their investigative knowledge, skills and techniques.
- One of our principal investigators participated in a four-week Chief Investigators Command Course run by ICAC. The annual Hong Kong-based course was held in November 2016 and develops case-related leadership and management skills.
- One of our prosecutors attended the First Specialisation Course for Junior Prosecutors on international criminal law and cooperation in penal matters. The course was held in July 2016 in Italy and attracted 50 prosecutors from 34 countries. It provided valuable insights into the hurdles all jurisdictions face under different countries' mutual assistance regimes and strategies to mitigate these difficulties.
- One investigator and one lawyer attended an ICAC International Seminar on Financial Investigation in Hong Kong in June 2017. Themed 'Cutting the financial vein of the corrupt', the two-day seminar focused on asset recovery and enhanced cooperation.
- Two employees attended the 28th Annual Association of Certified Fraud Examiners (ACFE) Global Fraud Conference in June 2017 in Nashville, USA. The conference covered subjects such as using social media to give an edge in investigations, and detecting deception.

Our operations team attended a two-day workshop in Auckland on detecting lies and deception, run by one of the SFO Fraud and Corruption Conference international experts.

## A snapshot of people performance

This overview shows workforce data trending in a positive direction across a range of indicators. We are now almost at a full workforce of 55, having promoted specialist skills in electronic forensics and intelligence analysts. A Data Analyst position and the Business Advisor role are still outstanding. This year's turnover result has been impacted by one extended sick leave and the Corporate Services restructure.



2014/15	2015/16	2016/17
<b>Male/female employee ratio</b>	<b>Male/female employee ratio</b>	<b>Male/female employee ratio</b>
		
<b>Gender pay gap</b> 11.3%	<b>Gender pay gap</b> 7.2%	<b>Gender pay gap</b> 7.2%
<b>Ethnic diversity*</b>	<b>Ethnic diversity*</b>	<b>Ethnic diversity*</b>
European 90% Maori/Pacific 6% Asian 4%	European 81.3% Maori 2.1% Pacific 2.1% Asian 4.2%	NZ European 61.1% Asian 3.8% Other 1.8% Not declared 33.3%
<b>Average age</b> 43.8	<b>Average age</b> 44.6	<b>Average age</b> 44.2
<b>Average days' sick leave</b> 4.8	<b>Average days' sick leave</b> 6.5	<b>Average days' sick leave</b> 5.7
<b>Workplace accidents /injury lost time</b>	<b>Workplace accidents /injury lost time</b>	<b>Workplace accidents /injury lost time</b>
		1 0 baseline
<b>Unplanned turnover</b> 19.3%	<b>Unplanned turnover</b> 5.9%	<b>Unplanned turnover</b> 16.98%
<b>Percentage of appropriation spend on training</b>	<b>Percentage of appropriation spend on training</b>	<b>Percentage of appropriation spend on training</b>
		2% baseline

\*Ethnicity is self-declared

## Key capabilities

The table below lists the indicators and associated measures that we use to check our progress on achieving the Integrated Statement of Strategic Intent (ISSI).

Capability	Indicators	Measure and Target	Trend Results
Leadership and organisational culture	Have a culture of continuous improvement	Ask Your Team Level of engagement	2016/17: 70% 2015/16: 60% baseline
	Attract and retain the best people	Unplanned turnover	2016/17: 16.98% 2015/16: 5.9% 2014/15: 19.3%
	Challenge and support our team to be the best	Ask Your Team A 3% annual improvement in leadership and culture baseline score	2016/17: 71% culture, 68% leadership 2015/16: 63% culture, 53% leadership baseline
Technology, systems and processes	Invest in the right tools and systems	Ask Your Team “We have the technology to support our business”	2016/17: 58%* 2015/16: 66% baseline
Relationships and partnerships	Partner agencies indicate satisfaction with their relationship with SFO to demonstrate effective communication and collaboration	Biennial SFO Stakeholder Survey Rating is eight out of 10 or higher	2016/17: 7.9 2014/15 8.3 2012/13: 7.2
* This result reflects the need for the systems transformation project now under way, and it is expected that this, along with the new cloud-based accounting solution implemented in 2016/2017 will positively impact next year’s result.			



## Capability measures discontinued

The following measures in the SFO 2014-2018 Statement of Intent have been discontinued or are no longer relevant to the 2020 Strategy.

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	2016/17: Discontinued 2015/16: 0% performance agreements* 96% Appraisals 2014/15: Not completed
	Employees' engagement in their organisation	Employee Engagement Survey  'My Job' response is 66% or higher	2015/16: Discontinued** 2014/15: Not conducted
Communication	Communication to complainants, victims and witnesses is effective	SFO Complainants and Victims' Survey  "My concerns were understood and considered by SFO"  Response is 89% or higher	2014/15: Discontinued***
<p>*The performance management system was redesigned in 2015, which delayed completion of the performance agreements. These were 100 percent completed by December 2015. This measure was discontinued in 2016/17, as it was deemed not useful.</p> <p>** The SFO Employee Engagement Survey was discontinued in 2014/15 and replaced by a 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.</p> <p>*** 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.</p>			

# Financial Statements

## Statement of responsibility

As Chief Executive and Director of the Serious Fraud Office, I am responsible for:

- 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 2017 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 2018 and its operations for the year ending on that date.



Julie Read

Chief Executive and Director

27 September 2017

## Statement of performance

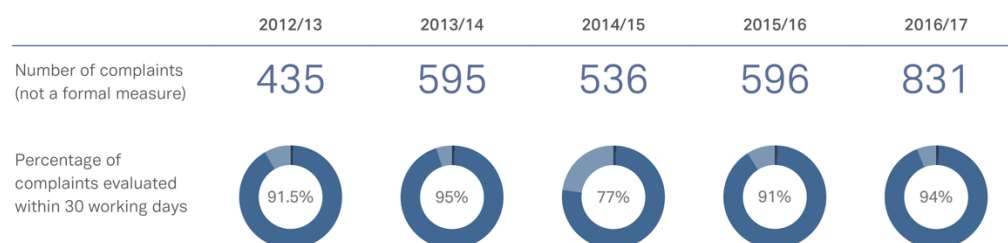
### Statistical trends

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

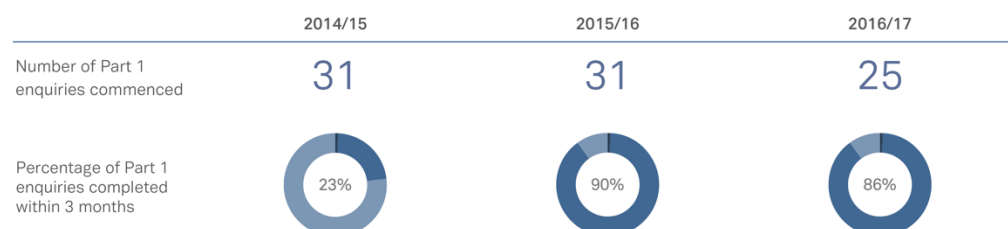
- a confident business environment that is largely free of serious financial crime
- a just society that is largely free of fraud, bribery and corruption.

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. This page provides a snapshot of our performance. The measures for Part 1 enquiries were instigated in 2015/16 so the 2014/15 results have no direct comparison. Investigations commenced refers only to Part 2 investigations. Prior to 2014/15 results included what 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.

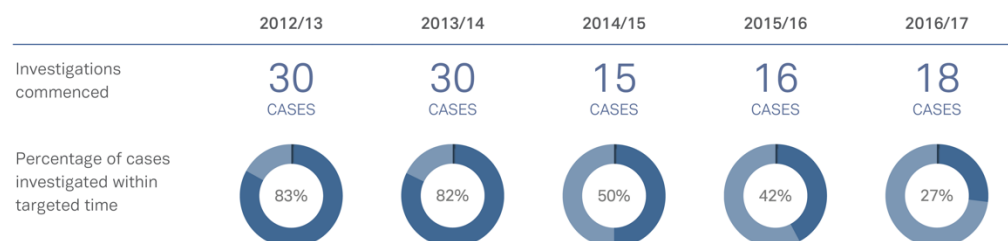
#### COMPLAINTS: Statistical trends



#### PART 1 ENQUIRIES: Statistical trends



#### PART 2 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. The number of complaints is not a performance target.

Actual 2015/16	Performance Measure	Budget Standard 2016/17	Actual 2016/17
15	<b>Quantity</b> Number of evaluations initiated by the SFO commenced	15	15
91%	<b>Timeliness</b> Percentage of complaints evaluated within 30 working days*	80%	94%

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

### Actual performance: Complaints

This year, the SFO received 831 complaints, the highest-ever number of complaints. The SFO has lifted its public profile, raising public awareness of the work of the SFO and the impact of serious financial crime. Despite the 40 percent increase in complaints over 2015/16, the number of Part 1 enquiries that resulted has not changed. The SFO exceeded its standard for timeliness in evaluating complaints. Those which did not meet the SFO's mandate are referred to the most appropriate agency to assist the complainant.

### Part 1 enquiries

In 2015/16, we introduced a Part 1 enquiries target 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 enquiry into the affairs of any person where the Director suspects that the investigation may disclose serious or complex fraud.

The Part 1 enquiries target enables the SFO to better determine whether allegations of fraud should progress to a full investigation and the scope of that investigation. Distinct Part 1 enquiries and Part 2 investigations targets also provide greater transparency and separation between the two, reflecting our updated operational practices.

Actual 2015/16	Performance Measure	Budget Standard 2016/17	Actual 2016/17
31	<b>Part 1 enquiries Quantity</b> Number of Part 1 enquiries commenced	30-40	25
90%	<b>Timeliness</b> Percentage of Part 1 enquiries completed within 3 months*	80%	86%

\*Does not include open Part 1 enquiries at the end of the financial year which may still have met the three months' measure.

### Actual performance: Part 1 enquiries

During the year, eight evaluated complaints that would ordinarily have become Part 1 enquiries were directed straight to Part 2 investigations. These cases were fast-tracked either due to the urgency of the issue or the quality of evidence provided. Had this not occurred, the SFO would have met the quantity standard for this measure (reaching 33 enquiries).

### 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 Part 1 enquiry meets the criteria, the formal investigation is undertaken by an investigation team.

Actual 2015/16	Performance Measure	Budget Standard 2016/17	Actual 2016/17
16	<b>Quantity</b> Number of investigations formally commenced	20-25	18
42%	<b>Timeliness</b> Percentage of cases investigated within targeted time	60% within 12 months	27%
100%	Percentage of formal post-investigation reviews that meet the SFO quality criteria (Note 1)	90%	71%

\*Does not include open investigations at the end of the financial year which may still have met the 60% measure.

### Actual performance: Investigations

The SFO opened 18 formal investigations this year, the highest number for the past three years. This result was primarily due to receiving more cases that met the criteria for formal investigation.

The Part 2 investigations measure for quantity has been revised for 2017/18. The target, when implemented in 2015/16 to reflect updated operational practices, was a stretch target but has proven to be unachievable. Additionally, the measure for opening new Part 2 investigations impacts negatively on the achievement of the timeliness standard, given the limited investigative resources.

The timeliness target is being revised for 2017/18, as it was not updated in 2015/16. The new measure will create two categories of cases (A and B). Category A cases will be those assessed as being of a highly complex nature and accordingly take more time to complete. Category B cases will be those that, while assessed as less complex, are still important.

The SFO also expects to achieve increased efficiencies from the new case and evidence management systems being implemented in 2017/18.

## 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.

<b>Actual 2015/16</b>	<b>Performance Measure</b>	<b>Budget Standard 2016/17</b>	<b>Actual 2016/17</b>
10	<b>Quantity</b> Number of cases brought to prosecution	10-12	10
91%	<b>Quality</b> Percentage of formal post-prosecution reviews that meet the SFO quality criteria (Note 1)	90%	100%

### Actual performance: Prosecutions

This year's performance is in line with the standard and with the 2015/16 result. The sustained 67 percent improvement in the past two years is explained by the impact of two new business practices. Firstly, the introduction of Part 1 enquiries, which provides better scoping of the investigations, particularly those that can be expedited quickly. Secondly, the implementation of regular prioritisation meetings that result in more focussed application of resources.

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 2016	Performance Measure	Budget Standard 2017	Actual 2017
Completed 1 July 2015	The capital plan is developed and managed throughout the year	Capital plan for implementation 1 July 2016	Completed 1 July 2016

## Financial performance

	2016 Actual \$000	2017 Main estimates \$000	2017 Supp estimates \$000	2017 Actual \$000	2018 Main estimates \$000
<b>Revenue</b>					
Crown	9,255	9,255	9,280	9,280	9,935
Other	281	85	235	456	85
<b>Total revenue</b>	<b>9,536</b>	<b>9,340</b>	<b>9,515</b>	<b>9,736</b>	<b>10,020</b>
<b>Expenditure</b>	<b>8,853</b>	<b>9,340</b>	<b>9,515</b>	<b>9,418</b>	<b>10,020</b>
<b>Net surplus</b>	<b>683</b>	<b>0</b>	<b>0</b>	<b>318</b>	<b>0</b>

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 2017

Actual 2016 \$000		Notes	Actual 2017 \$000	Unaudited Budget 2017 \$000	Unaudited Forecast 2018 \$000
<b>Revenue</b>					
9,255	Revenue Crown	2	9,280	9,255	9,935
281	Other revenue	2	456	85	85
9,536	Total revenue		9,736	9,340	10,020
<b>Expenses</b>					
5,985	Personnel costs	3	6,439	6,262	6,398
2,634	Other expenses	6	2,803	2,889	3,439
197	Depreciation and amortisation expense	8, 9	148	153	156
36	Capital charge	4	28	36	27
1	Finance costs	5	0	0	0
8,853	Total expenses		9,418	9,340	10,020
<b>683</b>	<b>Surplus/(deficit)</b>		<b>318</b>	<b>0</b>	<b>0</b>
0	Other comprehensive revenue and expense		0	0	0
<b>683</b>	<b>Total comprehensive revenue and expense</b>		<b>318</b>	<b>0</b>	<b>0</b>

The accompanying notes form part of these financial statements.

Explanations of major variances against the original 2016/17 budget are provided in note 18.



## Statement of financial position

as at 30 June 2017

	Actual 2016 \$000	Notes	Actual 2017 \$000	Unaudited Budget 2017 \$000	Unaudited Forecast 2018 \$000
<b>Assets</b>					
<b>Current assets</b>					
2,213	Cash and cash equivalents		1,583	1,665	1,347
11	Receivables	7	41	0	0
96	Prepayments		72	48	77
2,320	<b>Total current assets</b>		<b>1,696</b>	<b>1,713</b>	<b>1,424</b>
<b>Non-current assets</b>					
499	Property, plant and equipment	8	474	415	393
5	Intangible assets	9	3	43	909
504	<b>Total non-current assets</b>		<b>477</b>	<b>458</b>	<b>1,302</b>
2,824	<b>Total assets</b>		<b>2,173</b>	<b>2,171</b>	<b>2,726</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
1,270	Payables	10	910	1,348	993
683	Return of operating surplus	11	318	0	0
305	Employee entitlements	13	374	290	326
0	Provisions	12	0	0	0
2,258	<b>Total current liabilities</b>		<b>1,602</b>	<b>1,638</b>	<b>1,319</b>
<b>Non-current liabilities</b>					
5	Employee entitlements	13	5	6	6
109	Provisions	12	114	75	109
114	<b>Total non-current liabilities</b>		<b>119</b>	<b>81</b>	<b>115</b>
2,372	<b>Total liabilities</b>		<b>1,721</b>	<b>1,719</b>	<b>1,434</b>
452	<b>Net assets</b>		<b>452</b>	<b>452</b>	<b>1,292</b>
<b>Equity</b>					
452	Taxpayers' funds	14	452	452	1,292
452	<b>Total equity</b>		<b>452</b>	<b>452</b>	<b>1,292</b>

The accompanying notes form part of these financial statements. Explanations of major variances against the original 2016/17 budget are provided in note 18.

## Statement of changes in equity

for the year ended 30 June 2017

Actual 2016 \$000	Notes	Actual 2017 \$000	Unaudited Budget 2017 \$000	Unaudited Forecast 2018 \$000
452	<b>Balance at 1 July</b>	452	452	452
683	Total comprehensive revenue and expense	318	0	0
	<b>Owner transactions</b>			
0	Capital injection	0	0	840
(683)	Return of operating surplus to the Crown	(318)	0	0
452	<b>Balance at 30 June</b>	452	452	1,292

The accompanying notes form part of these financial statements.

Explanations of major variances against original the 2016/17 budget are provided in note 18.

## Statement of cash flows

for the year ended 30 June 2017

Actual 2016 \$000	Notes	Actual 2017 \$000	Unaudited Budget 2017 \$000	Unaudited Forecast 2018 \$000
<b>Cash flows from operating activities</b>				
9,255	Receipts from Revenue Crown	9,251	9,255	9,935
281	Receipts from other revenue	456	85	85
(3,389)	Payments to suppliers	(3,538)	(2,979)	(3,577)
(5,649)	Payments to employees	(6,012)	(6,262)	(6,436)
(36)	Payments for capital charge	(36)	(36)	(27)
(21)	Goods and services tax (net)	55	53	59
441	<b>Net cash flow from operating activities</b>	176	116	39
<b>Cash flows from investing activities</b>				
(199)	Purchase of property, plant and equipment	(122)	(65)	(50)
(5)	Purchase of intangible assets	0	(35)	(890)
(204)	<b>Net cash flow from investing activities</b>	(122)	(100)	(940)
<b>Cash flows from financing activities</b>				
0	Capital Injections	0	0	840
(153)	Return of operating surplus	(683)	0	0
(153)	<b>Net cash flow from financing activities</b>	(683)	0	840
84	<b>Net (decrease)/increase in cash</b>	(630)	16	(61)
2,129	Cash at the beginning of the year	2,213	1,649	1,408
2,213	<b>Cash at the end of the year</b>	1,583	1,665	1,347

The accompanying notes form part of these financial statements.

Explanations of major variances against original 2016/17 budget are provided in note 18.

## Statement of cash flows

for the year ended 30 June 2017 (Continued)

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

Actual 2016 \$000		Notes	Actual 2017 \$000
683	<b>Net surplus/(deficit)</b>		318
	<b>Add/(less) non-cash items:</b>		
197	Depreciation and amortisation expense	8,9	148
197	<b>Total non-cash items</b>		148
	<b>Add/(less) items classified as investing or financing activities:</b>		
3	(Gains)/losses on disposal of property, plant and equipment		0
3	<b>Total items classified as investing or financing activities</b>		
	<b>Add/(less) movements in statement of financial position items:</b>		
(6)	(Inc)/dec in receivables	7	(30)
(29)	(Inc)/dec in prepayments		24
42	Inc/(dec) in payables and deferred revenue	10	(360)
17	Inc/(dec) in employee entitlements	13	69
(466)	Inc/(dec) in provisions	12	5
(442)	<b>Net movement in working capital items</b>		(290)
<b>441</b>	<b>Net cash flow from operating activities</b>		<b>176</b>

The accompanying notes form part of these financial statements.

Explanations of major variances against the original 2016/17 budget are provided in note 18.

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

## Statement of commitments

as at 30 June 2017

### Capital commitments

The Serious Fraud Office has no capital commitments as at 30 June 2017 (2016: \$nil).

### Operating leases as lessee

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.

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 future aggregate minimum lease payments to be paid under this non-cancellable operating lease is as follows:

Actual 2016*		Actual 2017
\$000		\$000
511	Not later than one year	511
2,045	Later than one year and not later than five years	2,045
855	Later than five years	341
3,411	<b>Total non-cancellable operating lease commitments</b>	<b>2,897</b>

During 2015/16, the Serious Fraud Office entered into a co-location agreement whereby office space on Level 6, 21 Queen Street, Auckland was allocated to Crown Law for their sole use, the terms and conditions of which are recorded in a Memorandum of Understanding. The Memorandum of Understanding is deemed to contain a lease. The Agreement expires on 3 March 2023, however can be terminated on giving 12 months' notice. The minimum future lease payment of one year has an estimated value of \$85,000. The minimum value of payments to be received over the full term of the co-location agreement with Crown Law at 30 June 2017 is estimated to be \$336,000 (2016: \$365,000).

## Statement of contingent liabilities and contingent assets

as at 30 June 2017

### Contingent liabilities

The Serious Fraud Office has no quantifiable or unquantifiable contingent liabilities as at 30 June 2017 (2016: \$nil).

### Contingent assets

The Serious Fraud Office has no contingent assets as at 30 June 2017 (2016: \$50,000).

The prior year contingent asset concerned a make-good obligation regarding a sublease at 120 Mayoral Drive, Auckland which expired in February 2016 that was disputed by the tenant. This matter was resolved in March 2017 and the contingent asset removed.

The accompanying notes form part of these financial statements.

## Notes to financial statements

### 1 Statement of accounting policies

#### 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 of complying with generally accepted accounting practice.

The financial statements of the Serious Fraud Office are for the year ended 30 June 2017, and were approved for issue by the Chief Executive and Director on 27 September 2017.

#### Basis of preparation

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

#### Statement of compliance

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

These financial statements have been prepared in accordance with and comply with PBE Standards Reduced Disclosure Regime (RDR) concessions applied on the basis that expenditure exceeds \$2 million but is less than \$30 million.

#### Presentation currency and rounding

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

#### Changes in accounting policies

There have been no changes in the Serious Fraud Office's accounting policies since the date of the last audited financial statements.

#### 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.

## Statement of accounting policies (continued)

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.

## Standards issued and not yet effective and not early adopted

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

### Financial instruments

In January 2017, the External Reporting Board issued PBE IFRS 9 Financial Instruments. This replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost
- a new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses
- revised hedge accounting requirements to better reflect the management of risks.

The timing of the Serious Fraud Office adopting PBE IFRS 9 will be guided by the Treasury's decision on when the Financial Statements of Government will adopt PBE IFRS 9. The Serious Fraud Office has not yet assessed the effects of the new standard.

## Summary of significant accounting policies

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

### Foreign currency transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZ\$ (the functional currency) using the spot exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

### 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.



### Goods and services tax

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

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

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

### Income tax

The Serious Fraud Office is a public authority and consequently is exempt from 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 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 estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are in respect of:

- assessing the useful lives of software – see note 9.
- measuring long service leave – see note 13.

### Critical judgements in applying accounting policies

Management has exercised the following critical judgement in applying accounting policies for the year ended 30 June 2017. In note 12 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 2017 budget figures are for the year ended 30 June 2017 and were published in the Annual Report 2016. They are consistent with the Serious Fraud Office's best estimate financial forecast information submitted to the Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 2016/17.

The 2018 forecast figures are for the year ending 30 June 2018, which are consistent with the best estimate financial forecast information submitted to the Treasury for the BEFU for the year ending 2017/18.

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 2018 forecast figures have been prepared in accordance with and comply with PBE FRS 42 Prospective Financial Statements.

The forecast financial statements were approved for issue by the Chief Executive on 19 April 2017.

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 2018 will not be published.

### Significant assumptions used in preparing the forecast financial information

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 2017/18 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 19 April 2017, 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 2016/17 was used as the opening position for the 2017/18 forecasts.

The actual financial results achieved for 30 June 2018 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 Revenue

### Revenue

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

#### – Revenue Crown

The Serious Fraud Office is primarily funded from the Crown. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act 2017 for the year and certain other unconditional funding adjustments formally approved prior to balance date. There are no conditions attached to the funding from the Crown other than associated expenses can be incurred only within the scope and limits of the Serious Fraud Office's founding legislation, the Serious Fraud Act 1990. The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

### – Other revenue

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

Actual 2016 \$000		Actual 2017 \$000
281	Rental revenue from subleases	84
0	Recovery for employees on secondment	248
0	Attendance fees received for the Fraud and Corruption Conference	89
0	Other	35
<b>281</b>	<b>Total other revenue</b>	<b>456</b>

### 3 Personnel costs

Actual 2016 \$000		Actual 2017 \$000
5,670	Salaries and wages	6,111
1	Defined contribution plan employer contributions	1
17	Increase/(decrease) in employee entitlements	63
226	Employee training and development	174
71	Other	90
<b>5,985</b>	<b>Total personnel costs</b>	<b>6,439</b>

Employer contributions to defined contribution plans include contributions to the State Sector Retirement Saving Scheme and KiwiSaver that are expensed in surplus or deficit as incurred.

### 4 Capital charge

The capital charge is recognised as an expense in the period to which the charge relates. 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 2017 was 7% to December 2016 then 6% to 30 June 2017 (2016: 8%).

### 5 Finance costs

Actual 2016 \$000		Actual 2017 \$000
1	Discount unwind on provisions (note 12)	0
<b>1</b>	<b>Total finance costs</b>	<b>0</b>

## 6 Other expenses

Actual 2016 \$000	Actual 2017 \$000	Unaudited Budget 2017 \$000	Unaudited Forecast 2018 \$000
41 Fees to auditor fees to Audit New Zealand for audit of financial statements	42	42	45
478 Rental and operating lease expense	415	415	427
34 Lease make-good provision	0	0	0
(98) Onerous contracts	0	0	0
108 Other occupancy expenses	80	90	112
91 Legal fees on panel of prosecutors	159	140	96
268 Consultancy	308	200	628
277 Travel	357	372	355
742 IT and telecommunications	706	860	745
3 Net loss on disposal of property, plant and equipment	0	0	0
12 Professional services	39	15	35
371 Specialist advice – case related	266	442	342
307 Other expenses	431	313	654
<b>2,634 Total other expenses</b>	<b>2,803</b>	<b>2,889</b>	<b>3,439</b>

## 7 Receivables

Short-term receivables are recorded at the amount due.

Actual 2016 \$000	Actual 2017 \$000
11 Debtors (gross)	41
0 Less: provision for impairment	0
11 Net debtors	41
<b>Total receivables</b>	
Total receivables comprise:	
11 Receivables from supplier refunds (exchange transactions)	12
0 Receivables (non-exchange transactions)	29

All receivables are considered current.

## 8 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.

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

	Useful life	Depreciation rate
Computer equipment	3 years	33%
Furniture and office equipment	3-5 years	20%-33%
Motor vehicles	6-7 years	15%

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

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

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 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>
Balance at 1 July 2016					
Additions	79	18	25	0	122
Disposals	(45)	(90)	(113)	0	(248)
<b>Balance at 30 June 2017</b>	<b>722</b>	<b>111</b>	<b>535</b>	<b>41</b>	<b>1,409</b>
<b>Accumulated depreciation and impairment losses</b>					
Balance at 1 July 2015	401	178	513	14	1,106
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>
Balance at 1 July 2016					
Depreciation expense	76	8	56	6	146
Eliminate on disposal	(45)	(90)	(113)	0	(248)
<b>Balance at 30 June 2017</b>	<b>353</b>	<b>93</b>	<b>462</b>	<b>26</b>	<b>934</b>
<b>Carrying amounts</b>					
At 1 July 2015	349	21	102	27	499
At 30 June and 1 July 2016	366	8	104	21	499
<b>At 30 June 2017</b>	<b>369</b>	<b>18</b>	<b>73</b>	<b>15</b>	<b>475</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

### 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%

#### Useful lives of software

The useful life of software is determined at the time the software is acquired and brought into use and is reviewed at each reporting date for appropriateness. For computer software licenses, the useful life represents management's view of the expected period over which the Serious Fraud Office will receive benefits from the software, but not exceeding the license term. For internally generated software developed by the Serious Fraud Office, the useful life is based on historical experience with similar systems as well as anticipation of future events that may impact the useful life, such as changes in technology.

**Acquired software  
\$000**

**Cost**

Balance at 1 July 2015	158
Additions	5
Disposals	0

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**Balance at 30 June 2016** 163

Balance at 1 July 2016	163
Additions	0
Disposals	(12)

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**Balance at 30 June 2017** 151

**Accumulated amortisation and impairment losses**

Balance at 1 July 2015	155
Amortisation expense	3
Eliminate on Disposal	0

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**Balance at 30 June 2016** 158

Balance at 1 July 2016	158
Amortisation expense	2
Eliminate on disposal	(12)

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**Balance at 30 June 2017** 148

**Carrying amounts**

At 1 July 2015	3
At 30 June and 1 July 2016	5
<b>At 30 June 2017</b>	<b>3</b>

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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

Short-term payables are recorded at the amount payable.

Actual 2016 \$000		Actual 2017 \$000
<b>Payables</b>		
428	Creditors	161
123	Accrued expenses	136
641	Accrued rent payable	546
1,192	<b>Total payables</b>	843
<b>Payables and deferred revenue under non-exchange transactions</b>		
78	Taxes payable (e.g. GST and rates)	67
1,270	<b>Total payables</b>	910

## 11 Return of operating surplus

Actual 2016 \$000		Actual 2017 \$000
683	Net surplus	318
683	<b>Total return of operating surplus</b>	318

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

## 12 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 expected to be required to settle the obligation using a pre-tax discount rate based on 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.

Actual 2016 \$000		Actual 2017 \$000
	<b>Current portion</b>	
0	Onerous contracts	0
0	Lease make-good	0
0	<b>Total current portion</b>	0
	<b>Non-current portion</b>	
109	Lease make-good	114
0	Onerous contracts	0
109	<b>Total non-current portion</b>	114
<b>109</b>	<b>Total provisions</b>	<b>114</b>

Movements for each class of provision are as follows:

	Lease make-good \$000	Onerous contracts \$000	Total \$000
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)	(1)	(259)
<b>Balance 30 June 2016</b>	<b>109</b>	<b>0</b>	<b>109</b>
Balance 1 July 2016	109	0	109
Additional provisions made	5	0	5
<b>Balance at 30 June 2017</b>	<b>114</b>	<b>0</b>	<b>114</b>

### Lease make-good

In respect of 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 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 Serious Fraud Office has no onerous contracts at 30 June 2017 (2016: \$nil).

## 13 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 employees renders the related service are measures based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual and long service leave earned but not yet taken at balance date, and sick leave. A liability 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 reasonable 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 service, such as long service leave, have been calculated based on their current accrued value. The current accrued value is the present value, based on a straight-line basis, spread over the period of time until the entitlement becomes available.

Annual leave, vested long service leave and non-vested long service leave that are 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

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.

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

Actual 2016 \$000		Actual 2017 \$000
<b>Current portion</b>		
21	Accrued salaries and wages	45
284	Annual leave	318
0	Long service leave and retirement gratuities	11
305	<b>Total current portion</b>	374
<b>Non-current portion</b>		
5	Long service leave and retirement gratuities	5
310	<b>Total employee entitlements</b>	379

## Measuring retirement and long service leave obligations

The measurement of the long service obligation was based on assessment of 54 (2016: 50) employees as at 30 June 2017. Five employees had a long service leave entitlement of which none was taken during the year.

## 14 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

Actual 2016 \$000		Actual 2017 \$000
<b>Taxpayers' funds</b>		
452	Balance at 1 July	452
683	Surplus/(deficit)	318
(683)	Return of operating surplus to the Crown	(318)
452	<b>Balance at 30 June</b>	452
452	<b>Total equity</b>	452

## 15 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 2017 (2016: nil).

### Key management personnel compensation

Key management personnel of the Serious Fraud Office comprised of the Chief Executive and Director and the five members of the senior leadership team. These leadership positions are the General Manager Evaluation and Intelligence, General Manager Investigations (x2), General Manager Corporate Services and General Counsel.

One General Manager Investigations was seconded to the Department of Internal Affairs. Remuneration was recovered as an expense recovery.

### 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 (2016: nil).
- There were no related party transactions involving key management personnel or their close family members in 2017 (2016: 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 2016/17 a number of secondment arrangements were in place. Two Serious Fraud Office FTEs were seconded out to the New Zealand Police to undertake investigative services, funded by the New Zealand Police. One FTE was seconded to and funded by the Department of Internal Affairs. All secondments were on normal terms and conditions.

Actual 2016 \$000		Actual 2017 \$000
<b>Senior Leadership Team, including the Chief Executive</b>		
1,306,000	Remuneration	1,309,000
6 FTEs	Full time equivalent members	6 FTEs <sup>1</sup>

<sup>1</sup> This number includes one employee who joined the SFO during the year.

## 16 Events after the balance date

There are no significant events after the balance date.

## 17 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 2016 \$000		Actual 2017 \$000
<b>Loans and receivables</b>		
2,213	Cash and cash equivalents	1,583
11	Receivables	41
2,224	<b>Total loans and receivables</b>	1,624
<b>Financial liabilities measured</b>		
1,270	Payables (excluding revenue in advance)	910

The Serious Fraud Office has a letter of credit facility with Westpac of \$175,000 in 2017 (2016: \$175,000) to allow for the payment of employee salaries by direct credit.

## 18 Explanation of major variances against budget

Explanations for major variances from the Serious Fraud Office's original 2016/17 budget figures are as follows:

### Statement of comprehensive revenue and expenses

#### Revenue Crown

Revenue Crown revenue was \$25,000 more than budget. This is due to an additional \$32,000 to fund the New Zealand contribution to the International Anti-corruption Co-ordination Centre (IACCC). Also, the capital charge expense was reduced by \$7,000 following a rate reduction of two percentage points.

#### Other revenue

Includes unbudgeted income of:

- \$248,000 for the recovery of costs for employees who were seconded to other government departments
- \$88,000 for fees received to attend the Fraud and Corruption Conference held by the SFO in February 2017.

## – Expenses

### Personnel costs

increased expenditure of \$177,000 reflects additional resource required to cover employees on secondment with the Department of Internal Affairs and New Zealand Police.

### Other expenses

The overall favourable variance of \$86,000 is primarily due to:

- reduced specialist advice utilised on cases of \$176,000, in particular lower utilisation of document management services \$41,000 and external case-related contractors of \$64,000 as a result of the variable case lifecycle mix during any given period in time
- unbudgeted cost of \$101,000 of the Fraud and Corruption Conference held in Auckland in May 2017. The budget was increased in the Supplementary Estimates with the cost funded from other revenue.

### Statement of financial position

#### – Current liabilities

Current liabilities were \$36,000 less than budget. This was due to a combination of less payables (inclusive of operating surplus) of \$120,000, and an increase in employee entitlements of \$84,000 due to an increased salary accrual and employee leave provisions.

### Statement of cash flows

Additional other revenue of \$371,000 from a) recovery of costs of \$248,000 for employees on secondment, and b) unbudgeted sales of \$88,000 for the Fraud and Corruption Conference in February 2017. Payments to suppliers and employees were \$309,000 more than budget due to additional resource required to cover employees on secondment. In addition, there were cash outflows in excess of budget for asset purchases of \$22,000 and repayment to the Crown of the 2015/16 surplus of \$683,000.

## 19 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 appropriation

for the year ended 30 June 2017

#### Annual and permanent appropriations for Vote Serious Fraud

Expenditure after remeasurements 2016 \$000	Appropriation title	Expenditure after remeasurements 2017 \$000	Approved appropriation 2017* \$000	Location of end-of- year performance information**
<b>Departmental output expenses</b>				
8,853	Investigation and prosecution of serious financial crime	9,418	9,515	Pages 27 to 31
8,853	Total departmental output expense	9,418	9,515	
<b>Departmental capital expenditure</b>				
201	Serious Fraud Office – Permanent Legislative Authority under section 24(1) of the PFA	122	130	Page 31

\* 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 2017

\$nil (2016: \$nil)

Expenses and capital expenditure incurred in excess of appropriation

\$nil (2016: \$nil)

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

\$nil (2016: \$nil)

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

for the year ended 30 June 2017

The Serious Fraud Office has not received any capital injections during the year without, or in excess of, authority (2016:nil).



## Independent Auditor's Report

To the readers of the Serious Fraud Office's annual report for the year ended 30 June 2017

The Auditor-General is the auditor of the Serious Fraud Office. The Auditor-General has appointed me, JR Smaill, using the staff and resources of Audit New Zealand, to carry out, on his behalf, the audit of:

- the financial statements of the Serious Fraud Office on pages 32 to 55 and, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2017, 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 Serious Fraud Office for the year ended 30 June 2017 on pages 8 to 10 and 27 to 31; and
- the statements of expenses and capital expenditure of the Serious Fraud Office for the year ended 30 June 2017 on page 56.

### Opinion

In our opinion:

- the financial statements of the Serious Fraud Office on pages 32 to 55:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year ended on that date; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards;
- the performance information of the Serious Fraud Office on pages 8 to 10 and 27 to 31:
  - presents fairly, in all material respects, for the year ended 30 June 2017:
    - 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; and
  - complies with generally accepted accounting practice in New Zealand; and
- the statements of expenses and capital expenditure of the Serious Fraud Office on page 56 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 27 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

### Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Responsibilities of the Chief Executive for the information to be audited

The Chief Executive is responsible on behalf of the Serious Fraud Office for preparing:

- financial statements that present fairly the Serious Fraud Office's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand;
- 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 Serious Fraud Office, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.

The Chief Executive is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Chief Executive is responsible on behalf of the Serious Fraud Office for assessing the Serious Fraud Office's ability to continue as a going concern. The Chief Executive is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Serious Fraud Office, or there is no realistic alternative but to do so.

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

## Responsibilities of the auditor for the information to be audited

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the 2014/18 statement of intent and relevant Estimates and Supplementary Estimates of Appropriations 201 6/1 7, and the 201 6/1 7 forecast financial figures included in the Serious Fraud Office's 2015/16 Annual Report.

We did not evaluate the security and controls over the electronic publication of the information we audited.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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 Serious Fraud Office's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive.
- We evaluate the appropriateness of the reported performance information within the Serious Fraud Office's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Chief Executive and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Serious Fraud Office's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Serious Fraud Office to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Chief Executive regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

### Other information

The Chief Executive is responsible for the other information. The other information comprises the information included on pages 4 to 7 and pages 11 to 26, but does not include the information we audited, and our auditor's report thereon.

Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with the information to be audited, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Independence

We are independent of the Serious Fraud Office in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Serious Fraud Office.



JR Smail

Audit New Zealand

On behalf of the Auditor-General

Auckland, New Zealand

## Appendix 1 – Use of statutory powers

### 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	2016/17	2015/16	2014/15	2013/14	2012/13
s5(1) (a)	Requiring documents	36	63	56	147	108
s5(1) (b)	Supply information	1	3	1	13	25
s 6	Search warrant obtained	0	0	2	0	0
Total		37	66	59	160	133

Section	Part 2 of Act	2016/17	2015/16	2014/15	2013/14	2012/13
s 9c (1) (c)	Attend	65	71	32	63	66
s9(1) (d)	Requiring answers to questions	68	72	32	64	73
s9(1) (e)	Requiring information	386	480	88	128	216
s9(1) (f)	Requiring documents	136	177	341	361	620
s 10	Search warrant obtained	7	13	42	33	33
s36(2)		34	30	0	0	36
Total		696	843	535	903	1,044

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