

SFO



SERIOUS FRAUD OFFICE
Te Tari Hara Taware

ANNUAL REPORT

2018



Highlights of 2018

\$188 million in alleged fraud value
for prosecutions brought by the SFO

100% custodial sentences handed down
for convictions achieved

New case and evidence manage systems
SFO installs two new software applications to improve efficiency of investigations

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

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Director's overview



The Serious Fraud Office (SFO) has had another very good year with the investigation and prosecution of a number of important cases coming to a successful conclusion. Forty-three defendants appeared before the Courts in 2017/18 in prosecutions brought by the SFO, including appeals, with a total of \$188 million in alleged fraud value. Seven cases concluded with guilty pleas and three matters were finalised with convictions following trials. In all matters concluded, guilty verdicts or pleas were secured and convictions upheld. Further details about our cases can be found later in this report.

Managing an increasing digital workload

As the country's lead law enforcement agency for investigating and prosecuting serious and complex financial crime, it is critical that the SFO keeps abreast of advances in technology. We not only need to understand the new ways computer-facilitated crime is being conducted, but we must ensure that our systems can manage an ever increasing digital workload.

The cases we investigate generally contain hundreds of thousands of documents or, in our more complex cases, millions. In a recently-concluded mortgage fraud case the SFO processed more than 50 terabytes of raw data, which is the equivalent of 13 billion pages printed on both sides.

To fundamentally improve our ability to process the growing volume and digital complexity of evidentiary material, the SFO has invested \$2.28 million in two new software applications. The new systems provide increased flexibility and automation, and help us to better manage the growing volume of evidence.

Expanding our electronic investigative capacity

Strengthening our Electronic Forensic Unit (EFU) has also helped boost the SFO's digital capabilities. We have recruited a second full-time electronic forensic investigator and established a club-funded electronic forensics position, which is supported by the SFO and New Zealand Customs Service, and funded by Immigration New Zealand, the Financial Markets Authority, the Commerce Commission and the SFO. The investigator will be based at the Customs forensic lab in Auckland and will work across the agencies on projects to counter computer-facilitated crime.

This expansion of the EFU comes after more than a decade of significant growth in electronic evidence, particularly in terms of the diversity of electronic material we process. Having investigators who can search for and extract hidden or deleted electronic files, break passwords, unlock digital devices, and analyse metadata has become absolutely critical to the success of our operations.

Our electronic forensic investigators played a key role in a recent SFO trial of three associates involved in a scheme that fraudulently obtained \$54 million of bank lending. They showed that one of the defendants was the 'second-in-command' of her husband's fraudulent enterprise, rather than innocently carrying out orders as she claimed. Justice Katz, in reaching her verdict, relied on SFO evidence that forensically linked the defendant with false Chinese bank statements and other documents used to obtain the lending. The evidence revealed that digital spreadsheets found on electronic devices in the defendant's office were the source of the false statements.

Preventing corruption from taking root

New Zealand has made valuable progress to combat bribery and corruption in recent years but as a country we cannot afford to be complacent. Large-scale offending can still take place if we do not remain vigilant. Increased spending on public infrastructure and government procurement as well as expanding social and business links to jurisdictions with high instances of corruption amplify the risks.

To strengthen New Zealand's ability to fight corruption, the SFO together with the Ministry of Justice is leading an Anti-Corruption Work Programme. With the support of a wide group of stakeholders drawn from the public sector, academia and local government, the programme aims to prevent and deter corruption. The Cabinet-endorsed initiative seeks to proactively respond to, and reduce the risks of fraudulent and corrupt behaviours becoming embedded in New Zealand.

Punching above our weight

I would like to take this opportunity to thank the SFO staff for the tremendous work they do to ensure that we are successful in the investigation and prosecution of cases. Their expertise is unparalleled, and their work underpins the good progress we are making with our strategic aims to prevent fraud and corruption. They all go above and beyond the call of duty, working long hours and weekends when required. Having some familiarity with the agencies working in this space overseas, I have no hesitation in saying that I consider the SFO to be another example of New Zealand punching well above its weight and leading the way. I am very grateful for the opportunity to work with such a talented and dedicated group of people.



Julie Read

Chief Executive and Director

The SFO has had a transformative year that has seen the implementation of new case and evidence management systems

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, including bribery and corruption.

The presence of an agency dedicated to white collar crime is integral to New Zealand’s reputation for transparency, integrity, fair-mindedness and low levels of corruption. A specialist agency that uses multi-disciplinary teams such as the SFO is considered internationally as the gold standard for responding to complex financial crime.

The agency’s highly experienced team of 53 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.

While our core business remains the detection, investigation and prosecution of serious and complex financial crime including corruption, the SFO is also committed to preventing these crimes. We are an organisation that learns and develops from experience to ensure our specialist skills are kept relevant to protect the social and economic wellbeing of New Zealand.



SFO Senior Leadership Team, from left: Rebecca Rolls, Paul O’Neil, Julie Read, Graham Gill

How we determine cases to investigate

The SFO has statutory independence. Operational decisions are made without Ministerial direction. Like some other government agencies, the SFO has the power to compel the production of documents and the answering of questions.

As a government agency with limited resources, our focus is on cases that could 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 address 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 sufficiency of 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.

Key investigation results

Forty-three defendants appeared before the Courts last year in prosecutions brought by the SFO, including appeals. The combined total of fraud alleged in the cases was \$188 million. Seven cases concluded with guilty pleas and three matters were finalised with convictions following trials. During the year we had a 100 percent conviction rate.

We received the highest ever number of complaints of 1060, a 28 percent increase on the previous year. Of these, 29 became Part 1 enquiries, to determine whether the allegation should progress to a full investigation. A total of 18 enquiries subsequently advanced to a full Part 2 investigation, the same as the previous year. Nine prosecutions commenced last year, down from 10 in 2016/2017.

High profile cases

Large-scale mortgage fraud

Two long SFO trials commenced at the High Court in Auckland in the second half of the year. In total the cases involved nearly \$100 million of fraudulently-obtained lending. After running for 12 and eight weeks respectively, both trials concluded with guilty verdicts for all the defendants.

Key players who were corrupting the banking system from the inside were brought to justice. Such prosecutions of large-scale and complex fraud protect the integrity of New Zealand's financial market place.

Kang Huang and Others

The trial of three associates of Kang (Thomas) Huang commenced after Mr Huang, who was the mastermind of the overall offending, pleaded guilty and was sentenced to four years and seven months' imprisonment.

As head of a group of companies that traded as LV Park, Mr Huang worked with his wife, Kang Xu, two bank employees and a lawyer to illegally gain \$54 million of residential home loans. Bribes were paid to the bankers and fake documents were used to obtain the loans. The scheme, which involved 110 separate property transactions in Auckland and Hamilton, was designed to secure finance at a significantly lower rate than would otherwise have been available to commercial developers.

Gang (Richard) Chen, who acted as a solicitor in the sale and purchase agreements and facilitated the payment of bribes to bank employees, was sentenced to six years' imprisonment.

Zongliang (Charly) Jiang, a bank employee who facilitated the loans in return for bribes, was sentenced to four years and nine months' imprisonment. Another bank employee was involved in the scheme but left the country in 2015.

Kang Xu was sentenced to 12 months' home detention.

Emily Projects Limited

A trial of a property developer and a company director ended in a jury finding both men guilty of defrauding a bank of \$41 million to develop an Auckland inner-city apartment block. Leonard John Ross and Michael James Wehipeihana were found guilty for making false statements and using forged documents to obtain a credit facility to allow their company, Emily Projects Limited, to develop the Waldorf Celestion Apartment Hotel. Mr Ross and Mr Wehipeihana had not been sentenced before the publication of this report.

Two other men involved in the fraudulent scheme pleaded guilty before the eight week trial and were each sentenced to 10 months of home detention.

Post-Christchurch earthquake Ponzi schemes

Two prosecutions of Ponzi scheme operators who targeted Christchurch residents concluded with the defendants pleading guilty and the imposition of lengthy jail sentences. In total, the schemes defrauded investors of more than \$25 million. The fraudsters cynically manipulated people, many of whom had suffered considerable stress as a result of the earthquakes. Some of the money invested in the schemes came from Earthquake Commission payouts.

Hansa

Paul Clifford Hibbs who defrauded his clients of at least \$17.5 million was sentenced to eight years' imprisonment. Mr Hibbs owned and operated Hansa Limited and Cameron Gladstone Investments Limited. Through these entities he provided clients with false investment reports and used their funds for unauthorised activities, which included using the proceeds from sales of clients' investments to pay other investors. Mr Hibbs also dishonestly used client money for business expenses, including paying dividends and for personal purposes.

BlackfortFX (Arena Capital)

Lance Jack Ryan used a foreign exchange platform as a façade to encourage more than 900 investors, who were mostly from the Christchurch region, to invest about \$8.3 million in total in a Ponzi scheme. Mr Ryan, also known as Lance Jared Thompson, worked with Jimmie Kevin McNicholl to run the scheme. As the sole shareholder and director of BlackfortFX, Mr McNicholl was the public face of the forex brokerage.

Mr Ryan, who already had a number of dishonesty convictions, was sentenced to seven years and six months' imprisonment. Mr McNicholl was sentenced to 11 months of home detention and ordered to pay \$50,000 in reparation for obtaining registration as a financial services provider by deception.

Public funds / charities theft

A number of our prosecutions over the last year involved charitable trusts that were responsible for looking after vulnerable people or sensitive assets. Most of them were taxpayer funded. When considering whether to take on a case, the SFO considers the scale of the alleged crime and its impact on victims, complexity and public interest. We assess too whether the alleged offending has detrimentally affected disadvantaged or vulnerable people.

Alpha Support Centre Trust

The SFO prosecuted a Christchurch couple that defrauded a government-funded disability trust of nearly \$500,000. Alpha Support Centre received funding from both the Ministry of Health and the Ministry of Social Development as well as from other sources.

Cecilia Ann Ellenbroek and Alfonsus Jozef Maria Ellenbroek admitted spending trust funds on their personal expenses, including extensive international travel and accommodation, jewellery and household appliances. The Ellenbroeks' offending took place over a sustained period, was premeditated and the amount of public funds stolen was significant.

Mr and Mrs Ellenbroek had not been sentenced before the publication of this report.

Raukura Waikato Social Services Trust

Hemo Kerewai Thompson stole about \$175,000 from a Hamilton-based social services provider that received government funding. She was sentenced to two years and five months' imprisonment.

Ms Thompson committed the fraud while she was the finance manager for Raukura Waikato Social Services Trust. Her offending came at a cost to people who received the trust's support and the entity itself, which was placed into liquidation in March 2016.

Raukura had provided a range of social services to the Waikato community including residential care for children and education programmes for young people. It also assisted prisoners to reconnect with their whanau and helped them gain employment and training and to find accommodation on release.

Saul Roberts and Atish Narayan

Saul Brendon Roberts received kickbacks of more than \$200,000 in relation to positions he held at two charitable trusts. He pleaded guilty and was sentenced to eight months' home detention on corruption charges under the Secret Commissions Act. He was also ordered to pay \$164,929 in reparation.

Mr Roberts received \$45,000 in kickbacks for withdrawing objections he lodged in opposition to a proposed change to a district plan. The objections were purportedly lodged on behalf of Te Kawerau Iwi Tribal Authority but were in fact lodged and withdrawn without the authority's knowledge. Mr Roberts was a trustee and salaried employee of Te Kawerau.

The majority of the kickbacks Mr Roberts received were through his work at Te Roopu Taurima O Manukau Trust - a provider of healthcare for people with intellectual disabilities. As its asset manager, Mr Roberts did not inform the trust that suppliers were handing him cash to obtain its business. Te Roopu received funding from various government organisations including the Ministry of Health and Accident Compensation Corporation.

Saul Robert's co-defendant, Atish Narayan, made undisclosed payments to Mr Roberts, in return for Mr Roberts arranging for vehicles owned by Te Roopu to be serviced or repaired at his businesses. Mr Narayan was sentenced to six months' home detention and ordered to pay \$14,000 in reparation in October 2017.

Parengarenga 3G Trust

An SFO prosecution of two former trustees who allegedly worked together to defraud a Far North Māori trust of more than \$900,000 is progressing. Margaret Janene Dixon has pleaded guilty to theft charges. She was sentenced to 12 months of home detention and ordered to pay \$5000 in reparation.

Stephen James Henare has pleaded not guilty to six theft charges. His trial is set down for May 2019. In addition to the charges that were laid against Ms Dixon, Mr Henare is charged with the theft of \$149,627 from the trust.

Strategic plan and objectives

What we report against

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

2020 Strategic Plan

The SFO has developed a Strategic Plan to 2020 that guides our strategic delivery. It identifies how the agency seeks to position itself to make a strong contribution to improving New Zealand’s wellbeing and to become a stronger, more capable agency, well positioned for the future.



SFO
SERIOUS FRAUD OFFICE
Te Kaitiaki Takekōwhiri

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 between agencies to identify and prevent threats	Contribute to financial crime law reform and policy	Prevent financial crime through education and advice
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To do this we need to:



- Attract and retain the best people
- Challenge and support our team to be the best
- Invest in the right tools and systems
- Have a culture of continuous improvement
- Achieve more through effective collaboration with our NZ partners
- Enhance connections with overseas agencies
- Use intelligence to understand the financial crime landscape
- Support the creation of a financial crime policy forum
- Educate and interact with the community



Achieving our goals

Contribute to financial crime law reform and policy

Strategic goals: Support the creation of a financial crime policy forum; Use intelligence to understand the financial crime landscape

Corruption poses a serious threat to the wellbeing of New Zealanders and the country's reputation as being a place that is safe, prosperous and fair. While New Zealand has a strong culture of integrity and our institutions remain largely free from systemic corruption, the risk of corruption is increasing and may be more pervasive than is generally acknowledged. There have been significant cases recently involving bribes paid to officials, corrupt payments made within the private sector and inappropriate treatment of official information. The number of reported cases remains low overall in New Zealand, but the number of bribery and corruption-related complaints and investigations has risen over the last decade.

To understand and address the conditions that allow corruption to take root across public, private, not-for-profit and international environments, we have established an Anti-Corruption Work Programme (ACWP) in collaboration with other government agencies. The SFO together with the Ministry of Justice have worked alongside several other key partners, including New Zealand Police, the Department of the Prime Minister and Cabinet, the Ministry of Business Innovation and Employment, and the State Services Commission, to plan and design the programme.

The strategic objectives of the ACWP are:

- Understand New Zealand's corruption landscape and vulnerabilities
- Enhance New Zealand's capability to prevent corruption
- Proactively detect, disrupt and enforce law against corrupt conduct
- Reform New Zealand's corruption offence framework.

Taking a system-wide approach to build a framework for national anti-corruption efforts will provide a comprehensive view of New Zealand's corruption threats. The initial planning phase of the ACWP involved engaging with public sector stakeholders to understand where risks of corruption are greatest. The programme has been endorsed by Cabinet.

The ACWP will enhance New Zealand's compliance with its international obligations under the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the UN Convention Against Corruption, and ensure that New Zealand is ready to respond to emerging threats.

Conduct investigations and prosecutions of the highest quality and effectiveness

Strategic goals: Invest in the right tools and systems; Have a culture of continuous improvement

The SFO has successfully implemented new case and evidence management systems to manage and analyse the increasing volumes and complexity of evidentiary documents and data. After a rigorous selection process, we selected ServiceNow as our case management system and Relativity, an international standard e-discovery platform, for evidence management. An additional \$2.28 million for the technology was approved in Budget 2017 for the project. The funding covered the capital and operating costs, including ongoing support and licensing costs. The project was delivered on time in December 2017 and within budget.

The new systems have streamlined and standardised processes, reduced risk by eliminating possible points of failure, and provide greater case and resource visibility to management. Evidentiary documents and data can now be interrogated more effectively using data analytics.

Our evidence management function was restructured during the year. A systems administrator and a second full-time electronic forensic investigator have been recruited to support the new systems and undertake forensic evidence analysis. Additionally a new club-funded electronic forensics position has been established, which is supported by the SFO and New Zealand Customs Service and funded by Immigration New Zealand, the Financial Markets Authority, the Commerce Commission and the SFO. The investigator will be based at the Customs forensic lab in downtown Auckland and will work on projects across the agencies to increase their capacity to investigate computer-facilitated crime.

The SFO developed a new Human Resources Information System (HRIS) in 2018, which will significantly improve our capacity to manage human resources and other business services information. The HRIS and case management modules use the same ServiceNow platform, providing efficiencies in both usability and system administration.

Align our role, objectives, functions and activities with those of our key stakeholders

Strategic goals: Achieve more through effective collaboration with our NZ partners; Enhance connections with overseas agencies

To provide an all-of-government response to financial crime, we collaborate with other law enforcement and regulatory agencies at both an operational and strategic level. Our main partners are:

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

Operational highlights of inter-agency cooperation include continued support to New Zealand Police in countering the threat of organised crime in New Zealand and the successful prosecution of Paul Clifford Hibbs, a matter referred to us by the Financial Markets Authority. We are also leading a joint operation with Customs to investigate an entity that is alleged to have created false invoices to avoid import duties.

The SFO has assisted other agencies with the investigation of cases we referred to them that they went on to successfully prosecute. For example, we referred a matter to the Commerce Commission that resulted in that agency prosecuting a farmer who allegedly sold millions of caged eggs that he had labelled as free range.

We have run a number of stakeholder events to develop our Anti-Corruption Work Programme, which were well attended by public sector partners, academia and representatives from local government.

We established a Forensic Accounting Combined Law Agency Group in the last year. We also assisted other agencies by sharing our electronic forensic resources with them, and shared our Systems Transformation Project and Investigation Management Framework knowledge with other agencies. We had secondments to the Commerce Commission and to the Financial Markets Authority.

We maintained strategic partnerships with private sector stakeholders such as accounting firms and insolvency practitioners, and notably, worked with one of the major consulting firms to organise the Fraud Film Festival in March 2018.

Overseas collaboration is important. It ensures that New Zealand remains productive and prosperous. A number of offenders and matters involve third country infrastructure or nationals. In order to effectively investigate such cases, the SFO maintains a number of key overseas relationships. We provide and receive operational support and international partnerships to maintain the SFO's awareness of international trends in financial crime. The SFO continues to fund a post at the International Anti-Corruption Coordination Centre in London. This ensures that both the SFO and New Zealand Police are appropriately engaged on matters relating to international corruption.

Our overseas partners include:

- International Anti-Corruption Coordination Centre
- Independent Commission Against Corruption Hong Kong
- Corrupt Practices Investigation Bureau Singapore
- UK Serious Fraud Office
- Australian Federal Police
- Indonesian Corruption Eradication Commission
- Federal Bureau of Investigation.

The SFO represents New Zealand at a variety of international fora in order to help the country meet its international obligations, these include:

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

The SFO had a staff member seconded to the World Bank to work in Sri Lanka investigating corruption, and participated in a number of international events designed to raise awareness of fraud and corruption threats and identify opportunities to counter these.

We supported the Cook Islands on a complex fraud investigation that required electronic forensic assistance. We helped the Tongan Police on a passport corruption investigation.

The SFO is able to share expertise across government, providing support to other agencies' investigations and prosecutions, both within New Zealand and the Pacific region. Assistance can include electronic forensic and forensic accounting expertise in response to agency requests.

Preventing financial crime and corruption through education and advice

Strategic goal: Educate and interact with the community

We have continued to engage in prevention activity through the year. The SFO has presented at a number of public events, participated in organised crime workshops and contributed to other government departments' integrity work. We presented on insider threats to Inland Revenue and assisted the Department of Internal Affairs to produce anti-corruption training.

The SFO has held stakeholder events around the country, including in Wellington and Christchurch, and presented to specific sector groups, such as the New Zealand Bankers' Association. Key messages delivered used recent case examples, including the Joanne Harrison and Auckland Transport cases. We also presented to partners from overseas jurisdictions, including representatives from Australia, Vietnam and Malaysia.

Participation in the UK Public Sector fraud forum and similar events has assisted the development of the Anti-Corruption Work Programme. The SFO Director, Julie Read, presented at the International Association of Prosecutors in Beijing during the year, reflecting on the perception of New Zealand's top rank in the annual Transparency International Corruption Perceptions Index.

Fraud Film Festival

Launched by the Minister of Justice, the Hon Andrew Little, the two-day film festival was held in March 2018 to promote awareness and stimulate debate about fraud and corruption as well as foster cross-sector collaboration in the fight against these crimes. Only by the public and private sector organisations, along with law enforcement agencies, working together can serious financial crime be effectively combatted.

People from all areas of our stakeholder community attended the two-day event which had a technology focus - with films on cybercrime and bitcoin. A resounding message and talking point was that New Zealand's relative geographic isolation, which has been a barrier to much crime and other insidious influences in the past, offers little protection these days in our highly connected world.

The event was co-hosted by the SFO. Other festival partners included Meredith Connell, Deloitte, NZI, Transparency International, ACC and the Financial Markets Authority.

Corruption-free reputation

Transparency International ranked New Zealand's public sector again as the least-corrupt in the world. New Zealand scored 89, edging ahead of Denmark in the Corruption Perceptions Index 2017 after both countries shared the first position the previous year.

The result indicates that people have a high degree of confidence in New Zealand's public sector, and also supports the country's reputation as being a safe place to invest and do business. There is still room to increase the score by continuing to be proactive in preventing corruption and using the data behind the index to identify opportunities to raise standards and ensure that the country's institutions keep up with international best practice.

The index is compiled by Transparency International, a non-government organisation, and ranks countries annually by their perceived levels of public sector corruption. The Corruption Perceptions Index captures the views of analysts, businesspeople and experts in countries around the world. It is a composite index of different international surveys and assessments of corruption, collected by a variety of institutions.

Our people

Strategic goals: Attract and retain the best people; Challenge and support our team to be the best; Have a culture of continuous improvement

An inspiring 2020 Strategic Plan and meaningful principles continue to be at the heart of the SFO's work. Our success in achieving priorities within a limited budget and delivering our Strategic Plan relies in large part on retaining and continually enhancing the capabilities of our small, streamlined workforce, 88 percent of whom perform frontline activities. Over the last year we have focused on expanding our electronic forensic capabilities. Having investigators who understand the digital landscape is critical to the success of our operations.

Employee engagement

The Ask Your Team (AYT) survey that was introduced in 2015 offers a strong across-the-business view. AYT is able to provide a comparison with other agencies who use this tool across the public sector. Our results for leadership and culture have improved since the tool was introduced three years ago, indicating we are making good progress. Our responsiveness to feedback from employees about issues with systems reinforced the need to invest in new, more efficient systems to better manage information on our cases.

Training and Development opportunities

Given the nature of our fast-evolving and specialist roles, training is essential to maintaining our edge. We have done this by offering two opportunities to employees to act in more senior roles, five advancements (of high performers) to senior roles and two external secondments - one to the Financial Markets Authority and the other to the Commerce Commission. We have also recruited internally for five positions.

Other development opportunities have included leadership development and coaching for individuals showing potential to develop into future leaders and cultural competency and awareness training, available to all staff to ensure capability and integrity in the environment we operate within.

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

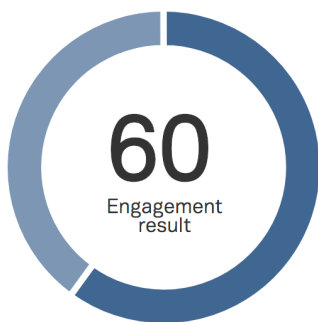
- An electronic forensic investigator attended the Enfuse Conference (Security and Digital Investigations), May 2018, USA. Enfuse is the biggest digital investigations, e-discovery and endpoint security conference of its kind. Delegates from more than 50 countries attended. Enfuse has been held annually for 15 years. The conference offers lectures and hands-on labs delivered by industry experts, giving attendees the opportunity to test drive the latest techniques, methodologies and technology.
- Two investigators attended the Association of Certified Fraud Examiners (ACFE) Global Fraud Conference, June 2018, USA. ACFE is the world's largest anti-fraud organisation. There are over 85,000 members worldwide and its mission is to reduce the incidence of fraud and white-collar crime throughout the world. Over 60 countries were represented at the conference.
- A principal investigating lawyer attended the annual Chief Investigators' Command Course hosted by the Independent Commission Against Corruption (ICAC) of Hong Kong in October 2017. The course is an international training forum that fosters closer collaboration between law enforcement agencies from around the world. Aside from participants from Hong Kong and mainland China, law enforcement agencies from 11 other countries were represented at the event.

A snapshot of people performance

This overview shows workforce data trending in a positive direction across a range of indicators. As at 30 June 2018, our workforce was 53 full-time employees. We expect to be almost at full capacity early in 2018/19 after recruiting specialist skills in electronic forensics and filling vacancies that arose from departures in the operational teams. The turnover result of financial year 2017/18 was due to employees finding career opportunities outside the SFO.

2015/16

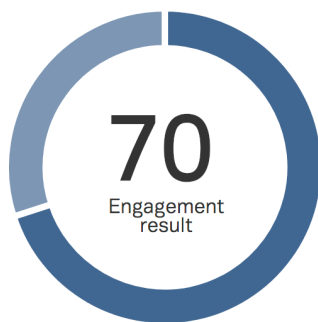
Engagement Result



51 Actual position numbers

2016/17

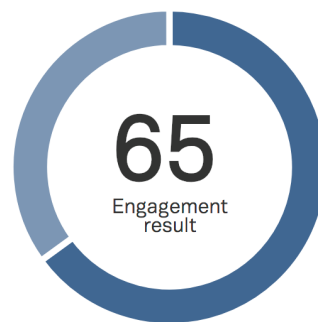
Engagement Result



54 Actual position numbers

2017/18

Engagement Result



53 Actual position numbers

2015/16

Male/female employee ratio



Ethnic diversity*

European 81.3%
Maori 2.1%
Pacific 2.1%
Asian 4.2%

Average age 44.6

Average days' sick leave 6.5

Workplace accidents /injury lost time

Unplanned turnover 5.9%

Percentage of appropriation spend on training

2016/17

Male/female employee ratio



Ethnic diversity*

NZ European 61.1%
Asian 3.8%
Other 1.8%
Not declared 33.3%

Average age 44.2

Average days' sick leave 5.7

Workplace accidents /injury lost time 1 0 baseline

Unplanned turnover 16.98%

Percentage of appropriation spend on training 2% baseline

2017/18

Male/female employee ratio



Ethnic diversity*

European 83%
Asian 7%
Other 9%
Not declared 0%

Average age 42.3

Average days' sick leave 3

Workplace accidents /injury lost time 0 0

Unplanned turnover 22.6%

Percentage of appropriation spend on training 1.28%

*Ethnicity is self-declared

Key capabilities

The table below lists the indicators and associated measures that we use to check our progress on achieving our 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	2017/18: 65% 2016/17: 70% 2015/16: 60% baseline
	Attract and retain the best people	Unplanned turnover	2017/18: 22.6% 2016/17: 16.98% 2015/16: 5.9% 2014/15: 19.3%
	Challenge and support our team to be the best	Ask Your Team Culture and leadership	2017/18: 65% 2016/17: 71% 2015/16: 63% baseline
Technology, systems and processes	Invest in the right tools and systems	Ask Your Team “We have the technology to support our business”	2017/18: 63% 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

Statement of responsibility

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

- the preparation of the SFO'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 SFO 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 2018 and its operations for the year ended on that date
- the forecast financial statements fairly reflect the forecast financial position of the Serious Fraud Office as at 30 June 2019 and its operations for the year ending on that date.



Julie Read

Chief Executive and Director

26 September 2018

Statement of performance

The SFO provided services within Vote Serious Fraud in order support 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.

Strategic measures and results

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

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**	2016/17: 7.7 2014/15: 7.3 2012/13: 7.7 2010/11: 7.1
		“How effective have SFO investigations and prosecutions been?”	
		Maintain or improve on 7.1 (scale of 10)	
	The public have trust and confidence that financial criminals will be prosecuted	Biennial Public Survey*** Public feel that “New Zealand is a safe place to invest”	2017/18: 67% 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	Corruption Perception Index	2017: 1st 2016: 1st equal Denmark
		Achieve ranking within the top three	2015: 1st equal Denmark 2014: 2nd 2013: 1st equal Denmark

*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.

**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.

***MMResearch manage this Public Trust and Confidence survey. The survey is conducted every second year and in accordance with the Code of Practice established by the Research Association of New Zealand. A nationwide sample of New Zealand citizens/residents, who are at least 18 years old, are randomly selected. In 2018, initially 1,277 people were contacted to achieve a sample of 613 people who were aware of the SFO. The agreed minimum sample for this survey is 600. The survey has a margin of error of ± 4.0%. The research was conducted in good faith and with due regard to standards set by the Market Research Association of New Zealand.

****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.”

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

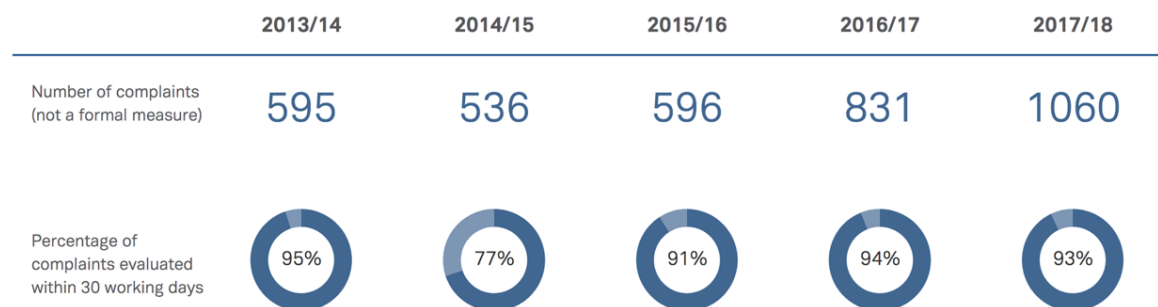
Impacts	Indicators	Measures	Trend Results
Increase cross-agency capability to achieve Justice Sector shared goals	Collaboration across the Justice Sector and other agencies Educate and interact	Number of joint investigations initiated	2017/18: 2 2016/17: 2* baseline
		Biennial Public Survey	
		Public agree the SFO: “does a good job in demonstrating the consequences of serious financial crime”	2017/18: 61% 2015/16: 53%*
Confidence increases that the main defendant in financial crimes 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	2017/18: 100% 2016/17: 100%* baseline
		Maintain or increase from 75% of cases	
<p>*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.</p>			

Operational performance measures and results

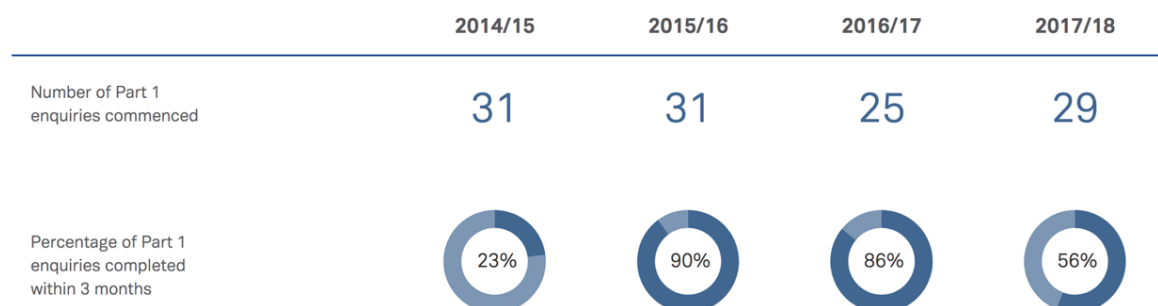
Statistical trends

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. 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 which took less time to complete.

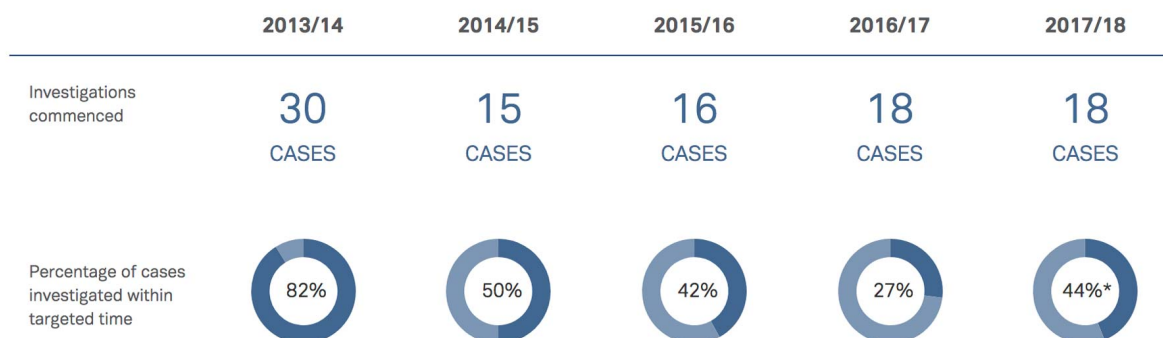
COMPLAINTS: Statistical trends



PART 1 ENQUIRIES: Statistical trends



PART 2 INVESTIGATIONS: Statistical trends



*Complex investigations completed within 18 months

PROSECUTIONS: Statistical trends

	2013/14	2014/15	2015/16	2016/17	2017/18
Number of cases brought to prosecution	8	6	10	10	9
	CASES	CASES	CASES	CASES	CASES

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 2016/17	Performance Measure	Budget Standard 2017/18	Actual 2017/18
94%	Timeliness Percentage of complaints evaluated within 30 working days*	80%	93%

*Does not include complaints open at the end of 2017/18.

Actual performance

The SFO received 1060 complaints in 2017/18. Despite the 78 percent increase in complaints over two years, the number of Part 1 enquiries that resulted has remained consistent. The SFO exceeded its standard for timeliness in evaluating complaints. Those which do not meet the SFO’s mandate are referred to the most appropriate agency to assist the complainant.

Part 1 enquiries

Part 1 enquiries align with Part 1 of the Serious Fraud Office Act 1990, 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 enable the SFO to better determine whether allegations of fraud should progress to a full investigation and the scope of that investigation.

Actual 2016/17	Performance Measure	Budget Standard 2017/18	Actual 2017/18
25	Part 1 enquiries Quantity Number of Part 1 enquiries commenced	30-40	29
86%	Timeliness Percentage of Part 1 enquiries completed within 3 months*	80%	56%

*Does not include Part 1 enquiries open at the end of 2017/18.

Actual performance

During the year, two evaluated complaints that would ordinarily have become Part 1 enquiries were directed straight to Part 2 investigations. These cases were fast-tracked due to either 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 (31 enquiries).

The methodology for measuring the timeliness of Part 1 enquiries has changed for 2017/18. We have improved the accuracy of our data extraction with a more accurate cut-off at three months and the reported result now captures Part 1 enquiries opened in the previous year and still open at the start of the current reporting year. Had this methodology been used in 2016/17, the actual timeliness achieved would have been 58 percent.

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 2016/17	Performance Measure	Budget Standard 2017/18	Actual 2017/18
18	Quantity Number of Part 2 investigations commenced*	14-16	18
27%	Timeliness Percentage of Part 2 investigations completed within targeted time**	Category A: (50% within 18 months)	44%
		Category B: (60% within 12 months)	40%
71%	Percentage of formal post-investigation reviews that meet the SFO quality criteria***	90%	100%

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

**Category A cases are highly complex. They may contain one or all of the following: a significant number of victims, large-scale loss or a long period of alleged offending; multiple alleged suspects; inter-agency cooperation; international assistance; legal complexity.

***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.

Actual performance

The SFO opened 18 investigations this year, exceeding the target of 14-16 investigations. This result was primarily due to receiving more cases that met the criteria for formal investigation. This indicates that decisions about opening Part 1 enquiries were appropriate.

The timeliness targets were new in 2017/18 and while the Part 2 timeliness target has not been met for either complex or non-complex investigations, this in part reflects the existing workload of cases on hand at the start of 2017/18 and delays due to transition to new systems.

Given the size of the SFO's caseload and its limited investigative resources, in any given year, a handful of large or complex cases can have a disproportionate impact on timeliness across all cases. Analysis of case completion over the last four years shows that the SFO has on average achieved its new complex investigations timeliness target. Evaluation of timeliness targets over a longer timeframe would arguably more accurately reflect the nature of the SFO's work and caseloads.

While some case timeliness targets were impacted by the embedding of the new case and evidence management system, the anticipated benefits are expected to improve the efficiency of our operations and flow through in to case completion times over the next few years.

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 investigation. The Panel member provides the Director with their opinion on the proposed prosecution and reviews proposed charges.

Actual 2016/17	Performance Measure	Budget Standard 2017/18	Actual 2017/18
10	Quantity Number of cases brought to prosecution	10-12	9
New measure	Quality Percentage of defendants convicted	80%	100%
100%	Quality Percentage of formal post-prosecution reviews that meet the SFO quality criteria (Note 1)	90%	100%

Actual performance

This year’s performance, while below the target by one, is in line with the previous two years.

The consistency in our results reflect three recent changes: the introduction of an improved structure for Part 1 enquiries, implementation of a new Investigation Management Framework and regular prioritisation meetings. The new Part 1 enquiry model provides more effective scoping of investigations, particularly those that can be expedited quickly. The implementation of regular prioritisation meetings has resulted in a more focused application of resources to priority cases including those likely to result in prosecution. The Investigation Management Framework informed the functionality of the new systems. It consists of a series of mandatory steps in the investigation process to ensure consistency of information recording, review of risks and issues, scope consideration, tasking and time captured functionality and a lessons learned phase.

Capital performance

Actual 2017	Performance Measure	Budget Standard 2018	Actual 2018
Completed 1 July 2016	The capital plan is developed and managed throughout the year	Capital plan for implementation 1 July 2017	Completed 1 July 2017

Financial performance

	2017 Actual \$000	2018 Main estimates \$000	2018 Supp estimates \$000	2018 Actual \$000	2019 Main estimates \$000
Revenue					
Crown	9,280	9,935	10,142	10,142	9,529
Other	456	85	254	282	85
Total revenue	9,736	10,020	10,396	10,424	9,614
Expenditure	9,418	10,020	10,396	10,099	9,614
Net surplus	318	0	0	325	0

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

Financial statements



Statement of comprehensive revenue and expense

for the year ended 30 June 2018

Actual 2017 \$000		Notes	Actual 2018 \$000	Unaudited Budget 2018 \$000	Unaudited Forecast 2019 \$000
Revenue					
9,280	Revenue Crown		10,142	9,935	9,529
456	Other revenue		282	85	85
9,736	Total revenue	2	10,424	10,020	9,614
Expenses					
6,439	Personnel costs	3	6,126	6,398	6,398
2,803	Other expenses	5	3,734	3,439	2,902
148	Depreciation and amortisation expense	7, 8	202	156	298
28	Capital charge	4	37	27	16
9,418	Total expenses		10,099	10,020	9,614
318	Surplus/(deficit)		325	0	0
0	Other comprehensive revenue and expense		0	0	0
318	Total comprehensive revenue and expense		325	0	0

Explanations of major variances against the original 2017/18 budget are provided in note 17.

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2018

Actual 2017 \$000		Notes	Actual 2018 \$000	Unaudited Budget 2018 \$000	Unaudited Forecast 2019 \$000
	Assets				
	Current assets				
1,583	Cash and cash equivalents	18	1,912	1,347	1,467
41	Receivables	6	44	0	75
72	Prepayments		86	77	77
1,696	Total current assets		2,042	1,424	1,619
	Non-current assets				
474	Property, plant and equipment	7	429	393	383
3	Intangible assets	8	662	909	552
477	Total non-current assets		1,091	1,302	935
2,173	Total assets		3,133	2,726	2,554
	Liabilities				
	Current liabilities				
910	Payables	9	1,176	993	835
318	Return of operating surplus	10	325	0	0
374	Employee entitlements	12	363	326	467
1,602	Total current liabilities		1,864	1,319	1,302
	Non-current liabilities				
5	Employee entitlements	12	43	6	20
114	Provisions	11	114	109	120
119	Total non-current liabilities		157	115	140
1,721	Total liabilities		2,021	1,434	1,442
452	Net assets		1,112	1,292	1,112
	Equity				
452	Taxpayers' funds	13	1,112	1,292	1,112
452	Total equity		1,112	1,292	1,112

Explanations of major variances against the original 2017/18 budget are provided in note 17.

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2018

Actual 2017 \$000		Notes	Actual 2018 \$000	Unaudited Budget 2018 \$000	Unaudited Forecast 2019 \$000
452	Balance at 1 July		452	452	1,112
318	Total comprehensive revenue and expense		325	0	0
	Owner transactions				
0	Capital injection		660	840	0
(318)	Return of operating surplus to the Crown	10	(325)	0	0
452	Balance at 30 June	13	1,112	1,292	1,112

Explanations of major variances against original the 2017/18 budget are provided in note 17.

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2018

Actual 2017 \$000		Actual 2018 \$000	Unaudited Budget 2018 \$000	Unaudited Forecast 2019 \$000
Cash flows from operating activities				
9,251	Receipts from Revenue Crown	10,127	9,935	9,529
456	Receipts from other revenue	294	85	85
(3,538)	Payments to suppliers	(3,787)	(3,577)	(3,185)
(6,012)	Payments to employees	(5,848)	(6,436)	(6,115)
(36)	Payments for capital charge	(37)	(27)	(16)
55	Goods and services tax (net)	(4)	59	0
176	Net cash flow from operating activities	745	39	298
Cash flows from investing activities				
(122)	Purchase of property, plant and equipment	(86)	(50)	(130)
0	Purchase of intangible assets	(673)	(890)	(10)
(122)	Net cash flow from investing activities	(759)	(940)	(140)
Cash flows from financing activities				
0	Capital Injections	660	840	0
(683)	Return of operating surplus	(318)	0	0
(683)	Net cash flow from financing activities	342	840	0
(630)	Net (decrease)/increase in cash	329	(61)	158
2,213	Cash at the beginning of the year	1,583	1,408	1,309
1,583	Cash at the end of the year	1,912	1,347	1,467

The SFO does not hold any finance leases (2017: nil).

Explanations of major variances against original 2017/18 budget are provided in note 17.

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2018 (continued)

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

Actual 2017 \$000		Actual 2018 \$000
318	Net surplus/(deficit)	325
	Add/(less) non-cash items:	
148	Depreciation and amortisation expense	202
148	Total non-cash items	202
	Add/(less) items classified as investing or financing activities:	
0	(Gains)/losses on disposal of property, plant and equipment	(5)
0	Total items classified as investing or financing activities	(5)
	Add/(less) movements in statement of financial position items:	
(30)	(Inc)/dec in receivables	(3)
24	(Inc)/dec in prepayments	(14)
(360)	Inc/(dec) in payables and deferred revenue. ¹	213
69	Inc/(dec) in employee entitlements	28
5	Inc/(dec) in provisions	0
(290)	Net movement in working capital items	224
176	Net cash flow from operating activities	745

The accompanying notes form part of these financial statements.

¹Excludes outstanding payables of \$52,618 for intangible asset purchases (2017: \$nil).

Statement of commitments

as at 30 June 2018

Capital commitments

The SFO has no capital commitments as at 30 June 2018 (2017: \$nil).

Non-cancellable operating lease commitments

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 SFO leases property in the normal course of its business operation. The financial impact of this lease, which relates to the current office accommodation on Level 6 at 21 Queen Street in Auckland, is in the form of a non-cancellable operating lease that expires 3 March 2023, with no restrictions.

Actual 2017 \$000		Actual 2018 \$000
Operating lease as lessee		
The future aggregate minimum lease payments to be paid under this non-cancellable operating lease is as follows:		
511	Not later than one year	516
2,045	Later than one year and not later than five years	1,893
341	Later than five years	0
2,897	Total non-cancellable operating lease commitments	2,409

Sublease arrangement

During 2015/16, the SFO 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 it can be terminated on giving 12 months' notice.

Actual 2017 \$000		Actual 2018 \$000
Operating sub-lease as lessor		
The future aggregate forecasted sub-lease payments to be received under this cancellable operating sub-lease is as follows:		
85	Not later than one year	85
340	Later than one year and not later than five years	312
57	Late than five years	0
482	Total forecasted operating sub-lease income	397

The accompanying notes form part of these financial statements.

Statement of contingent liabilities and contingent assets

as at 30 June 2018

Contingent liabilities

The SFO has no quantifiable or unquantifiable contingent liabilities as at 30 June 2018 (2017: \$nil).

Contingent assets

The SFO has no contingent assets as at 30 June 2018 (2017: \$nil).

The accompanying notes form part of these financial statements.

Notes to financial statements

1. Statement of accounting policies

Reporting entity

The SFO 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 SFO's operations includes the Serious Fraud Office Act 1990, Public Finance Act 1989 and the State Sector Act 1988.

The SFO's ultimate parent is the New Zealand Crown.

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

The SFO 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 SFO are for the year ended 30 June 2018, and were approved for issue by the Chief Executive and Director on 26 September 2018.

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 SFO 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 Tier 2 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

Management has revised the following change in applying accounting policies:

- Employee Entitlements: Long service leave - see note 12.

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.

Statement of accounting policies (continued)

The timing of the SFO 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 SFO 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 New Zealand Dollars (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.

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 (IRD) is included as part of receivables or payables in the statement of financial position.

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

Income tax

The SFO is a public authority and consequently is exempt from income tax. Accordingly, no provision has been made for income tax.

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 8
- Measuring long service leave – see note 12

Critical judgements in applying accounting policies

Management did not require any critical judgement in applying accounting policies.

Budget and forecast figures

Basis of the budget and forecast figures

The 2018 budget figures are for the year ended 30 June 2018 and were published in the Annual Report 2017. They are consistent with the SFO's best estimate financial forecast information submitted to the Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 2017/18.

The 2019 forecast figures are for the year ending 30 June 2019, which are consistent with the best estimate financial forecast information submitted to the Treasury for the BEFU for the year ending 2018/19.

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 2019 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 5 April 2018.

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 SFO regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2019 will not be published.

Significant assumptions used in preparing the forecast financial information

The forecast figures contained in these financial statements reflect the SFO's purpose and activities and are based on a number of assumptions on what may occur during the 2018/19 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 5 April 2018, were as follows:

- The SFO'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 53 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 SFO'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 2017/18 was used as the opening position for the 2018/19 forecasts.

The actual financial results achieved for 30 June 2019 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

Accounting policy

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

Revenue Crown

Revenue from the Crown is measured based on the SFO's funding entitlement for the reporting period. The funding entitlement is established by parliament when it passes the appropriations act for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act 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. However, the SFO can incur expenses only within the scope and limits of its appropriations.

The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement.

Rental revenue

Rental revenue under an operating sublease is recognised as revenue on a straight line basis over the lease period.

Recovery for employees on secondment

Recovery of cost from the host agency for seconded SFO employees, whose salary is paid by the SFO, is recorded as revenue in the month that the services are provided.

Conference fees

Conference fee revenue is recognised in the year that the conference is held.

Breakdown of other revenue and further information

Actual 2017 \$000		Actual 2018 \$000
84	Rental revenue from subleases	88
248	Recovery for employees on secondment	189
89	Attendance fees received for the Fraud and Corruption Conference	0
0	Gain on disposal of property, plant and equipment	5
35	Other	0
456	Total other revenue	282

Recovery for employees on secondment

During 2017/18 there were four outward secondment arrangements in place (2017: three). The Department of Internal Affairs, the Commerce Commission, New Zealand Police and the Financial Markets Authority each seconded SFO employees for a period of time, with each funded by the host agency. All secondments were on normal terms and conditions.

Asset disposals

During the year, the SFO disposed of assets to the value of \$8,376. The net gain on disposals was \$5,439 (2017: \$nil).

3. Personnel costs

Accounting policy

Salaries and wages

Salaries and wages are recognised as an expense as employees provide services.

Superannuation Schemes

Defined contribution schemes

Employee contribution to the State Sector Retirement Savings Scheme, KiwiSaver and the Government Superannuation Fund are accounted for as defined contribution superannuation schemes and are expensed in the surplus or deficit as incurred.

Defined benefit schemes

The SFO does not contribute to any defined benefit schemes.

Breakdown of personnel costs

Actual 2017 \$000		Actual 2018 \$000
6,111	Salaries and wages	5,830
1	Defined contribution plan employer contributions	3
63	Increase/(decrease) in employee entitlements	33
174	Employee training and development	133
90	Other	127
6,439	Total personnel costs	6,126

4. Capital charge

Accounting policy

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

Further information

The SFO pays a capital charge to the Crown on its equity (adjusted for memorandum accounts) at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2018 was 6%. (2017: 6%).

5. Other expenses

Accounting policy

Operating leases

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

Other expenses

Other expenses are recognised as goods and services when they are received.

Breakdown of other expenses and further information

Actual 2017	Actual 2018	Unaudited Budget 2018	Unaudited Forecast 2019
\$000	\$000	\$000	\$000
42 Fees to auditors: fees to Audit New Zealand for audit of financial statements	45	45	45
415 Rental and operating leases	422	427	422
80 Other occupancy expenses	48	112	52
159 Legal fees on panel prosecutions	93	96	125
308 Consultancy	97	628	160
357 Travel	328	355	376
706 IT and telecommunications	1,910	745	1,152
39 Professional services	49	35	52
266 Specialist advice – case related	450	342	257
431 Other expenses	292	654	261
2,803	3,734	3,439	2,902

6. Receivables

Accounting policy

Short-term receivables are recorded at the amount due, less any provision for uncollectability.

A receivable is considered to be uncollectable when there is evidence that the amount will not be fully collectable. The amount that is uncollectable is the difference between the carrying amount due and the present value of the amount expected to be collected.

Breakdown of receivables and further information

Actual 2017 \$000		Actual 2018 \$000
41	Debtors (gross)	44
0	Less provision for uncollectability	0
41	Net debtors	44
Total receivables		
Total receivables comprise		
12	Receivables from supplier refunds (exchange transactions)	0
29	Receivables from the Crown	44

All receivables are considered current.

7. Property, plant and equipment

Accounting policy

Property, plant and equipment consists of the following asset classes: office furniture, fixtures and fittings (includes leasehold improvements), office equipment, computer equipment and motor vehicles. The SFO 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 may be 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 SFO and the cost of the item can be measured reliably.

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

In most instances, an item of property, plant and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When a revalued asset is sold, the amount included in the property revaluations reserve in respect of the disposed asset is transferred to taxpayers' funds.

Subsequent costs

Costs incurred subsequent to the initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the SFO 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%
Office furniture, fixtures and fittings, office equipment	3 -5 years	20% - 33%
Motor vehicles	6 years	17%

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

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each balance date.

Impairment

The SFO 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

Property, plant and equipment held at cost have a finite useful life are reviewed for impairment at each balance date 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 its value in use.

Value in use is determined using an approach based on either a depreciated replacement cost approach, a 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 considered to be impaired and the carrying amount is written-down to the recoverable service 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.

Breakdown of property, plant and equipment and further information

	Office furniture, fixtures and fitting \$000s	Office equipment \$000	Computer equipment \$000	Motor vehicles \$000	Total \$000
Cost					
Balance at 1 July 2016	688	183	623	41	1,535
Additions	79	18	25	0	122
Disposals	(45)	(90)	(113)	0	(248)
Balance at 30 June 2017	722	111	535	41	1,409
Balance at 1 July 2017					
Additions	2	12	37	48	99
Disposals	0	0	(8)	(41)	(49)
Balance at 30 June 2018	724	123	564	48	1,459
Accumulated depreciation and impairment losses					
Balance at 1 July 2016	322	175	519	20	1,036
Depreciation expense	76	8	56	6	146
Eliminate on disposal	(45)	(90)	(113)	0	(248)
Balance at 30 June 2017	353	93	462	26	934
Balance at 1 July 2017					

	Office furniture, fixtures and fitting	Office equipment	Computer equipment	Motor vehicles	Total
	\$000s	\$000	\$000	\$000	\$000
Depreciation expense	71	6	51	7	135
Eliminate on disposal	0	0	(7)	(33)	(40)
Balance at 30 June 2018	424	99	506	0	1,029
Carrying amounts					
At 1 July 2016	366	8	104	21	499
At 30 June and 1 July 2017	369	18	73	15	475
At 30 June 2018	300	24	58	48	430

Restrictions: There are no restrictions over the title of the SFO’s property, plant and equipment, nor are any property, plant and equipment pledged as securities for liabilities. (\$nil: 2017)

8. Intangible assets

Accounting policy

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 SFO are recognised as an intangible asset. Direct costs include the cost of services, software development employee costs and an appropriate portion of relevant overheads.

Employee training costs are recognised as an expense when incurred.

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

Costs of software updates or upgrades are capitalised only when they increase the usefulness or value of the software.

Costs associated with the development and maintenance of the SFO’s website are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each 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	3-6 years	17%-33%
Developed computer software	3 years	33%

Critical accounting estimates and assumptions

Useful life 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 SFO will receive benefits from the software, but not exceeding the license term. For internally generated software developed by the SFO, 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.

Breakdown of Intangible Assets and further information

	Acquired software \$000
Cost	
Balance at 1 July 2016	163
Additions	0
Disposals	(12)
Balance at 30 June 2017	151
Balance at 1 July 2017	151
Additions	673
Disposals	0
Balance at 30 June 2018	824
Accumulated amortisation and impairment losses	
Balance at 1 July 2016	158
Amortisation expense	2
Eliminate on Disposal	(12)
Balance at 30 June 2017	148
Balance at 1 July 2017	148
Amortisation expense	67
Eliminate on disposal	0
Balance at 30 June 2018	215
Carrying amounts	
At 1 July 2016	5
At 30 June and 1 July 2017	3
At 30 June 2018	609

Work in progress: The total amount of intangibles in the course of development as at 30 June 2018 was \$52,618 (2017: \$nil).

Restrictions: There are no restrictions over the title of the SFO's intangible assets, nor are any intangible assets pledged as securities for liabilities. (\$nil: 2017)

9. Payables and deferred revenue

Accounting policy

Short-term payables are recorded at the amount payable.

Breakdown of payables and deferred revenue and further information

Actual 2017 \$000		Actual 2018 \$000
Payable and deferred revenue under exchange transactions		
161	Creditors	355
136	Accrued expenses	308
546	Accrued rent payable	450
843	Total payables and deferred revenue under exchange transactions	1,113
Payables and deferred revenue under non-exchange transactions		
67	Taxes payable (GST)	63
910	Total payables and deferred revenue	1,176

10. Return of operating surplus

Actual 2017 \$000		Actual 2018 \$000
318	Net surplus/ (deficit)	325
318	Total return of operating surplus	325

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

11. Provisions

Accounting policy

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. The increase in the provision due to the passage of time is recognized as an interest expense and is included in the "finance costs". The SFO has not incurred any finance costs in 2018 (2017: \$nil)

Lease make-good provision

In respect of 21 Queen Street leased premises, the SFO 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 SFO.

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.

Breakdown of provisions and further information

Actual 2017 \$000		Actual 2018 \$000
	Non-current portion	
114	Lease make-good	114
114	Total non-current portion	114
114	Total provisions	114

Movements for each class of provision are as follows:

	Lease make-good \$000	Total \$000
Balance 1 July 2016	109	109
Additional provisions made	5	5
Balance 30 June 2017	114	114
Balance 1 July 2017		
Additional provisions made	0	0
Balance at 30 June 2018	114	114

12. Employee entitlements

Accounting policy

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 SFO 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

The long service leave liability calculation uses a revised methodology that employs a number of factors that are determined on an actuarial basis using a number of assumptions (financial impact: \$20,000). In addition, the calculation includes recent changes to the SFO Holidays and Leave Policy. Continuous public sector service prior to becoming an SFO employee is now taken into account (financial impact: \$26,000).

Presentation of employee entitlements

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

Critical accounting estimates and assumptions

Long service leave and retirement gratuities

Measurement of the long service obligation was based on assessment of 44 employees as at 30 June 2018 (2017: 55).

The SFO has no retirement gratuities obligations.

Actual 2017 \$000		Actual 2018 \$000
	Current portion	
45	Accrued salaries and wages	39
318	Annual leave	305
11	Long service leave and retirement gratuities	19
374	Total current portion	363
	Non-current portion	
5	Long service leave and retirement gratuities	43
379	Total employee entitlements	406

13. Equity

Accounting policy

Equity is the Crown's investment in the SFO 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 SFO.

Breakdown of equity and further information

Actual 2017 \$000		Actual 2018 \$000
	Taxpayers' funds	
452	Balance at 1 July	452
318	Surplus/(deficit)	325
0	Capital injections	660
(318)	Return of operating surplus to the Crown	(325)
452	Balance at 30 June	1,112
452	Total equity	1,112

Capital management

The SFO's capital is its equity, which comprises of taxpayers' fund. Equity is represented by net assets.

The SFO manages its revenues, expenses, assets, liabilities, and general financial dealings prudently. The SFO's equity is largely managed as a by-product of managing revenue, expenses, assets, liabilities, and compliance with the government budget processes, Treasury Instructions and the Public Finance Act 1989.

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

14. Related party transactions

Accounting policy

The SFO 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 SFO 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 SFO has no related party transactions it is required to disclose in 2018 (2017: nil).

Key management personnel compensation

Actual 2017 \$000		Actual 2018 \$000
Leadership Team, including the Chief Executive		
1,309	Remuneration	1,217
5.6 ²	Full time equivalent employees	4.7 ³

Key management personnel of the SFO comprised of the Chief Executive / Director and the five members of the senior leadership team, namely a General Manager Evaluation and Intelligence, two General Managers Investigations, a General Manager Business Services and a General Counsel.

One General Manager Investigations was seconded to the Department of Internal Affairs for the month of July 2017. (2016/17: One General Manager Investigations was seconded to the Department of Internal Affairs).

The above key management personnel disclosure excludes the Minister responsible for the SFO. The Minister's remuneration and other benefits are not received only for his role as a member of key management personnel of the SFO. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Members of Parliament (Remuneration and Services) Act 2013 are paid under Permanent Legislative Authority, and not paid by the SFO.

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

- a. There were no close family members of key management personnel employed by the SFO (2017: nil).
- b. There were no related party transactions involving key management personnel or their close family members in 2018 (2017: nil).

15. Events after the balance date

There are no significant events after the balance date.

16. Financial instruments

16A. Financial instrument categories

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

²Includes the role General Counsel who joined the Serious Fraud Office during the year.

³One General Manager Investigations was employed for one month only and the Business Services Manager for seven months only during the financial year.

Actual 2017 \$000		Actual 2018 \$000
Loans and receivables		
1,583	Cash and cash equivalents	1,912
41	Receivables	44
2,224	Total loans and receivables	1,956
Financial liabilities measured at amortised cost		
910	Payables (excluding income in advance)	1,176

16B. Financial instrument risks

Credit risk

Credit risk is the risk that a third party will default on its obligation to the SFO, causing the SFO to incur a loss. In the normal course of its business, credit risk arises from receivables, deposits with banks and derivative financial instrument assets.

The SFO is permitted to deposit funds only with Westpac (Standard and Poor's credit rating of AA-), a registered bank, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office (Standard and Poor's credit rating of AA). These entities have high credit ratings. For its other financial instruments, the SFO does not have significant concentrations of credit risk.

The SFO's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

The SFO has a letter of credit facility with Westpac of \$175,000 in 2018 (2017: \$175,000) to allow for the payment of employee salaries by direct credit.

Liquidity risk

Management of liquidity risk

Liquidity risk is the risk that the SFO will encounter difficulty raising liquid funds to meet commitments as they fall due. As part of meeting its liquidity requirements, the SFO closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. The SFO maintains a target level of available cash to meet liquidity requirements.

Contractual maturity analysis of financial liabilities

The table below analyses the SFO's financial liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date.

The amounts disclosed are the contractual undiscounted cash flows. The SFO has no committed finance leases (2017: nil).

	Carrying amount \$000	Contractual cashflows \$000	Less than 6 months \$000	6 months – 1 year \$000	1-5 years \$000	More than 5 years \$000
2018						
Payables	1,176	1,176	1,176	0	0	0
2017						
Payables	910	910	910	0	0	0

17. Explanation of major variances against budget

Explanations for major variances from the SFO's original 2017/18 budget figures are as follows:

Statement of comprehensive revenue and expense

Revenue Crown

Revenue Crown was greater than budget by \$207,000. This was largely due to an increase in appropriation in 2017/18 of \$175,000 for new case and evidence management systems. An additional \$32,000 relates to budget transferred from 2016/17 to cover the New Zealand contribution to the International Anti-corruption Co-ordination Centre (IACCC).

Revenue other

Revenue other was greater than budget by \$197,000. This includes secondee recovery income of \$189,000.

Personnel costs

Personnel costs were less than budget by \$272,000. This reflects savings from vacancies due to higher than usual staff turnover, including two senior management positions.

Other expenses (including depreciation, amortisation and capital charge)

Other expenses were greater than budget by \$351,000. This was due to additional investment into the development and support of new case and evidence management systems.

Statement of financial position

Assets

The value of assets was greater than budget by \$407,000. Additional cash included the operating surplus \$325,000 plus timing of payments \$183,000. The value of intangible assets was \$248,000 lower than expected due to the new case and evidence management system assets costing less than budget.

Liabilities

The value of liabilities was greater than budget by \$587,000. This included operating surplus payable back to the Crown \$325,000 and accounts payable of \$183,000. Long service leave liability was higher than budget by \$47,000 due to the change in the SFO Holidays and Leave Policy to allow the recognition of previous public service and a change in the methodology used for calculating long service leave (refer note 12).

Equity

The lower value of equity was due to \$180,000 less capital drawn down from the Crown for the new case and evidence management systems.

Statement of cash flows

Additional net cash flow of \$727,000 was received from operating activities. This included more revenue from the Crown of \$175,000 in support of the new case and evidence management systems going live. In addition \$211,000 was received as a recovery of costs for SFO staff seconded to external government agencies. Reduced payments to employees of \$618,000 is vacancy savings over the year. This impact is partially offset with less payments to suppliers and Inland Revenue for GST.

Less net cash flow from investing activities was due to the new case and evidence systems costing less.

Less net cash flow from financing activities was due to less capital being received from the Crown for the new case and evidence management system asset.

Appropriation Statements

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by the SFO for the year ended 30 June 2018. They are prepared on a GST exclusive basis.

Statement of cost accounting policies

The SFO has a single appropriation for all its activities and therefore no cost allocation methodology is required.

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

18. Cash and cash equivalents

Accounting policy

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 SFO is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

Statement of budgeted and actual expenses and capital expenditure

Statement of budgeted and actual expenses and capital expenditure incurred against appropriations

for the year ended 30 June 2018

Annual and permanent appropriations for Vote Serious Fraud

Expenditure after remeasurements 2017 \$000	Appropriation title	Expenditure after remeasurements 2018 \$000	Approved appropriation 2018* \$000	Location of end-of- year performance information**
	Departmental output expenses			
9,418	Investigation and prosecution of serious financial crime	10,099	10,396	Pages 16-23
9,418	Total departmental output expenses	10,099	10,396	
	Departmental capital expenditure			
122	Serious Fraud Office – Permanent Legislative Authority under section 24(1) of the PFA	825	865	Page 23

There were no remeasurements of expenditure during the year (2017: nil).

*These are the appropriations from the Supplementary Estimates, adjusted for any transfers under section 26A of the Public finance Act 1989.

**The numbers in this column represent where the end-of-year performance information has been reported for each appropriation administered by the SFO 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 2018

Expenses and capital expenditure approved under section 26B of the PFA
\$nil (2017: \$nil)

Expenses and capital expenditure incurred in excess of appropriation
\$nil (2017: \$nil)

Expenses and capital expenditure incurred without appropriation outside the scope or period of appropriation
\$nil (2017: \$nil)

Statement of departmental capital injections

for the year ended 30 June 2018

Actual Capital injections 2017 \$000	Actual Capital injections 2018 \$000	Approved appropriation 2018 \$000
	Vote Serious Fraud	
0	Serious Fraud Office – Capital injections	660
		840

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

for the year ended 30 June 2018

The SFO has not received any capital injections during the year without, or in excess of, authority (2017:\$nil).

Independent Auditor's Report

To the readers of the Serious Fraud Office's annual report for the year ended 30 June 2018

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 25 to 46, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2018, 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 2018 on pages 16 to 23; and
- the statement of budgeted and actual expenses and capital expenditure of the Serious Fraud Office for the year ended 30 June 2018 on page 47.

Opinion

In our opinion:

- the financial statements of the Serious Fraud Office on pages 25 to 46:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2018; 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 PBE Standards Reduced Disclosure Regime;
- the performance information of the Serious Fraud Office on pages 16 to 23:
 - presents fairly, in all material respects, for the year ended 30 June 2018:
 - 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 statement of budgeted and actual expenses and capital expenditure of the Serious Fraud Office on page 47 is 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 26 September 2018. 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 Serious Fraud Office's Integrated Statement of Strategic Intent 2016-2020, Estimates and Supplementary Estimates 2017/18 for Vote Serious Fraud, and the 2017/18 forecast financial figures included in the Serious Fraud Office's 2016/17 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 1 to 15, 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.

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 Smaill
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand

Serious Fraud Office

PO Box 7124, Wellesley Street, Auckland 1141

Level 6, 21 Queen Street, Auckland 1010

Phone 09 303 0121

Fax 09 303 0142

Email: sfo@sfo.govt.nz

sfo.govt.nz

Complaints

Email: complaints@sfo.govt.nz

Freephone: 0800 109 800



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