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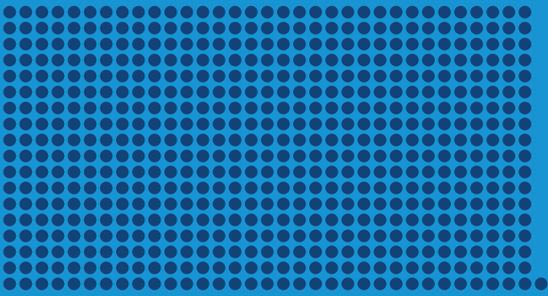
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Achievements at a glance



595 Complaints



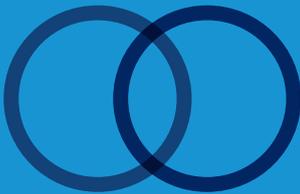
30 New investigations



19 Convictions



13 Guilty pleas



10 Investigations involving other agencies



8 Prosecutions commenced



8 Trials completed

4.4

Average imprisonment sentence (years)

Part A

Our achievements and outcomes



Director's overview

Our focus during 2013/14 has moved from the collapse of various finance companies during the Global Financial Crisis to new, emerging areas of fraud and the threat to our economy posed by bribery and corruption. Over the past year we have investigated, and continue to investigate, a number of cases representing new areas of concern and we have seen a rise in the number of bribery and corruption complaints and investigations. We have also progressed and completed the investigation of a wide range of cases in our more traditional areas: mortgage fraud, employee fraud, and addressing high profile confidence frauds.

We have made further steps toward improving the efficiency of our internal systems, progressing and refining our training programmes, and further refining our quality assurance processes and measures. Overall performance for the year has been good with most measures reporting above target. Our full suite of output and impact measures is contained in this report.

It is a pivotal time for the Serious Fraud Office (SFO) with the finalisation of a large tranche of work resulting from the collapse of various finance companies and a recent Performance Improvement Framework (PIF) review. It is therefore timely for us to take stock, refresh our strategy and ensure that we are well positioned to maintain high levels of performance in a changing and challenging operational environment.

This year we introduced three core principles that will guide the way we work – both within the office and with our wide range of partners and stakeholders. The first is Excellence – we strive to be a world class financial crime and corruption prevention agency. The second is Pride – in the work we do and our contribution to New Zealand. The final principle is Connect – recognising our own strengths and opportunities and those arising from close collaboration and connections within our office and across agencies and sectors. These principles have been developed and agreed with our employees and will provide a sound foundation on which to build our future.

We are currently working through the recommendations from the PIF review and we have also initiated an expenditure review to ensure that the SFO can operate as efficiently and effectively as possible. These pieces of work will assist in identifying the 'right size' for the SFO and how best to structure the organisation to meet future challenges. We will need to consider how best to leverage the effectiveness and flexibility of our multi-disciplinary investigation teams and how to keep up to date with advances in technology and new investigative techniques. Over the coming 12 months we will focus on:

1. determining the best **operating model** to respond to our future purpose and targets;
2. **connecting with partners**;
3. taking a **system-wide approach** to financial crime intelligence; and
4. developing a **strategic response** to financial crime.

While 2014/15 will be a transition year for the SFO, we have not lost sight of our goals of protecting New Zealand's integrity and our unique national brand through the detection, investigation and effective prosecution of serious or complex financial crime.



Julie Read

Chief Executive and Director

Our role

The SFO was established as an operational department by the Serious Fraud Office Act 1990 (SFO Act). Since inception the SFO has been a specialist law enforcement agency that detects, investigates and prosecutes New Zealand's most serious or complex financial crimes. With 24 years of experience, the SFO has built a solid understanding of the drivers of these types of crime. Given this depth of experience, our new strategic focus will include directing our resources and efforts to a greater use of intelligence and more extensive collaboration with other agencies investigating serious or complex financial crime. This will contribute to the wider economic outcome of increased confidence and participation in New Zealand's financial and commercial markets, as well as contributing to the Better Public Services outcomes for the Justice Sector.

The SFO administers Vote Serious Fraud and the Minister of Police is our responsible Minister. We work within the context of the Justice Sector, which is led by the Ministry of Justice. Our primary focus within the sector is on collaboration with New Zealand Police (NZ Police) and the Crown Law Office on operational matters to reduce crime and enhance public safety, and with the Ministry of Justice to provide modern, accessible and cost-effective services.

As a small agency we have the flexibility to change priorities quickly in order to investigate cases that are assessed as having a greater impact on the economy or have a significant public interest factor. As an operational agency we provide the Justice Sector with hands-on expertise in relation to serious or complex financial crime, which can assist in informing policy on future efforts to deter, prevent and detect serious or complex financial crime.

Our outcomes and impact

The SFO has two primary outcomes and works to minimise the impact of serious or complex financial crime, including bribery and corruption, on both the economy and the New Zealand public. Our 2013–2016 Statement of Intent (SOI) describes the intended outcomes and impacts of our activities as:

Outcome 1 – A confident business environment that is largely free of serious financial crime.

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

Outcome 2 – A just society that is largely free of fraud, bribery and corruption.

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

This Annual Report summarises how our work this past year has supported the strategic focus outlined in our 2013–2016 SOI and how we achieved the intended outcomes and impacts.

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

Impacts	Indicators	Measures	Trend Results
Business and investor confidence in the integrity of our financial markets is increased	The number of people who say that law enforcement action is maintaining or improving the integrity of financial markets	Survey of stakeholders commissioned by the SFO <i>“How effective have SFO investigations and prosecutions been”</i> Maintain or improve on 7.1 (scale of 10)	2012/13: 7.7 2011/12: 7.1 Survey now conducted biennially, next survey 2014/15
	New Zealand maintains or improves its position as an easy and safe place to invest	Opportunity Index: Access to Global Capital: Milken Institute Commitment to open up markets and enhance access to global capital	2013/14: Not available* 2012/13: Not available*

* New Zealand was not included in the 2012 and 2013 Opportunity Index: Access to Global Capital because there was insufficient data to make a full determination of the ranking. The lack of data was not only from the country, but from indices that the Institute uses from other organisations, like the World Bank. Though the index would provide a good benchmark to measure the impact on business confidence, it is not known if data collection will improve to ensure New Zealand's inclusion in the future. For this reason this measure was withdrawn from the 2014–2018 Statement of Intent.

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

Impacts	Indicators	Measures	Trend Results
Public and victims' confidence that those who commit financial crime are held to account is increased	Frequency of custodial sentences being ordered where a conviction was obtained	Annual analysis, including trends compiled by the SFO: Maintain or increase from 75% of cases	2013/14: 89% 2012/13: 84% 2011/12: 95% 2010/11: 89% 2009/10: 100%
	Victims of financial crime perceive that the actions of the SFO help to ensure that perpetrators of financial crime are held to account	Biennial survey of victims of financial crime cases commissioned by the SFO: <i>“The sentence imposed fairly reflects the offending that occurred.”</i> Maintain or increase from 65% of respondents	2013/14: 38%* 2011/12: 65%

* While our aim is that victims feel that justice has been served, the SFO do not have control over the sentences handed down by the Court. This result is reflective of the finance company cases that have played out over the past two years where we understand victims may have considered the sentences imposed did not adequately reflect the impact of the crime on them.

New Zealand maintains its international reputation for very low levels of bribery and corruption	New Zealand's ranking of corruption-free nations	Transparency International Corruption Perception Index Maintain rank within the top three	Least corrupt ranking 2013/14: 1 equal Denmark 2012/13: 1 equal Finland, Denmark 2011/12: 1 2010/11: 1 equal Singapore, Denmark 2009/10: 1 2008/09: 1 equal Denmark, Sweden
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Our activities

Through our work we aim to provide investors and the public with the confidence that New Zealand law enforcement agencies are alert to all forms of serious or complex financial crime. We do this by investigating possible instances of financial crime and, where evidence of offending is found, bringing about prosecutions to hold the offenders to account. We also seek to use our knowledge and experience to inform the wider business community and general public about financial crime and to assist those whose role it is to educate the community and prevent financial crime.

We focus on a relatively small number of cases that have a significant impact on the economy or the New Zealand public and we do not deal with less serious dishonesty offences, which are usually a matter for NZ Police or other public sector agencies to investigate. In the case of bribery or corruption matters, we investigate crimes that could undermine confidence in the public sector or which relate to matters of significant public interest.

We seek the imposition of custodial sentences where we obtain convictions, reflecting the serious nature of the crimes we investigate and prosecute. Further, while our role does not include seeking compensation for the losses suffered by victims, our work can provide a sense of justice to those defrauded. Our prosecutions also play an important role in ensuring cases involving significant financial crime are disclosed publicly thereby acting as a strong deterrent. High profile cases provide an opportunity to share messages about the impact of serious or complex financial crime on both immediate victims and the wider business community.

As a government agency we must deliver on our outcomes within our resources. We therefore prioritise cases according to whether they meet one or more of the following criteria:

- the nature and consequences of the alleged financial crime, such as whether a large number of people have been impacted by the alleged offending and if it has had a significant impact on those victims; and/or
- the scale of the alleged financial crime, including whether the alleged offending is likely to undermine public confidence in the integrity of New Zealand's commercial or financial markets; and/or
- the factual, financial or legal complexity of the alleged financial crime, including whether an investigation is beyond the resources of most other law enforcement agencies; and/or
- the nature of the public interest in the alleged financial crime.

To maximise efficiency of delivery, we also collaborate with other law enforcement and regulatory agencies to provide an all-of-government response to financial crime by pooling resources and minimising duplication. We consciously work to ensure that there is neither replication of investigative functions, nor matters 'falling between the gaps' of regulatory or law enforcement responsibilities.

We therefore have strong relationships with other Justice Sector agencies including the Crown Law Office, the Ministry of Justice and NZ Police, as well as other agencies with law enforcement responsibilities such as the Commerce Commission, the Department of Internal Affairs, the Financial Markets Authority (FMA), the Inland Revenue Department, the Ministry of Business, Innovation and Employment, the New Zealand Customs Service and the Office of the Auditor-General. We also maintain strategic partnerships with our international counterparts and with relevant private sector interests, such as accounting and legal firms.

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

By investigating and prosecuting instances of serious or complex financial crime we provide business and the public with confidence that fraud will be investigated and dealt with. This is enhanced by effective communication about our work with our stakeholders, including the business community. This engagement enables us to raise awareness of our role and to be identified as the channel for financial crime intelligence.

Mortgage fraud – Malcolm Mayer: This case was a \$47 million mortgage fraud where Mr Mayer used relatives' and associates' names to secure loan funds, using false sale and purchase agreements and false leases to support valuations. False statements were also made about the supposed applicant's deposit or contribution to the purchase. The six year sentence imposed should deter others from engaging in similar conduct. It also gives those seeking mortgage funding some confidence that criminals who use dishonest means in attempts to beat the system, the costs of which are passed on to honest borrowers, will be caught and held to account.

In 2013/14 we continued to refine our communications strategy to ensure complainants, victims and witnesses were kept informed of the progress of our investigations. Through our media communications and public comments we raised awareness of the personal

and economic losses while also demonstrating that perpetrators were being held to account.

While we do not have a prevention or education role under the SFO Act, we support the education and awareness-raising roles of others to enhance our detection activities and to encourage reporting of financial crime. This work has assisted in creating a level of increased confidence amongst business, investors and the general public.

During 2013/14 we made presentations to a wide range of groups about what the SFO does, trends in financial crime, good practice in corporate governance to prevent fraud, and what to do if fraud is discovered.

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

The SFO's work relates to fraud in its many serious or complex forms. This year has seen the culmination of our work in relation to the collapse of financial companies with the trials of all prosecutions now complete. We await a decision in the South Canterbury Finance matter but otherwise all finance company trials were concluded with convictions in each matter. A number of other investigations and prosecutions concerning various forms of fraud such as procurement fraud and Ponzi schemes were also carried out this year. Those matters that went to trial this year were also successfully concluded with convictions.

New Zealand's largest ever Ponzi – Ross Asset

Management: Mr Ross admitted running a Ponzi scheme that he disguised by falsely reporting clients' investments. Large portions of client portfolios shown as invested through a broker were fictitious, resulting in an overstatement of investment positions of more than \$385 million. The overall loss to investors was in excess of \$115 million. More than 1,200 client accounts were affected by Mr Ross' scheme so his offending has had a devastating impact on many lives. The financial losses are not only significant to those individuals but they will have a flow-on effect as the capacity of those investors to participate in the New Zealand economy is reduced. It is important that the SFO remains vigilant in fighting financial crime so we don't see a repetition of this sort of scheme. Mr Ross was sentenced to 10 years and 10 months' imprisonment.

E-Gas Limited: The SFO investigation showed that people in control of E-Gas deliberately under-reported the quantity of gas supplied by E-Gas to its retail customers and that they obtained a pecuniary advantage of at least \$9.75 million as a consequence. Those people (Mr Rosenberg and Mr Hunt) were sentenced to three years' imprisonment plus \$400,000 reparation, and three and a half years' imprisonment respectively. These sentences send a message that dishonesty, fraud and the manipulation of industry rules by people in positions of responsibility and trust will not be taken lightly, and penalties will be imposed upon those who abuse their authority.

The SFO is also the lead agency for the investigation and prosecution of bribery and corruption and is committed to working to maintain New Zealand's long standing reputation as one of the least corrupt countries in the world. During the last financial year the SFO investigated two cases of allegations of foreign bribery, gathering evidence from diverse domestic and international sources in order to address those matters. International co-operation is fundamental to the detection and investigation of this offence, and our relationships with similar international agencies continue to grow through the Economic Crime Agency Network (ECAN), which was established by the SFO in 2013. This group includes anti-corruption agencies from across Europe, Asia, North America, Africa and Australia.

We have regard to our international obligations under the United Nations and the Organisation for Economic Co-operation and Development (OECD) conventions. By focusing on bribery and corruption as an emerging area of financial crime and working to identify potential fraud we are ensuring that New Zealand maintains its international reputation and that the impact of financial crime on the economy and victims is minimised. The Transparency International¹ Corruption Perception Index (CPI) which measures the perceived level of public sector bribery and corruption provides an indicator of the success of our anti-corruption work and our ability to maintain New Zealand's image as a mostly corruption-free nation. The SFO and Transparency International collaborated to provide free on-line anti-corruption training. At a time when New Zealand businesses and public sector organisations are increasingly interacting with parts of the world where corruption is commonplace, this anti-corruption training module provides practical

¹ Transparency International is a non-partisan network, headquartered in Berlin, which aims to reduce global corruption through a variety of initiatives (see transparency.org/whoweare/organisation).

assistance in developing an understanding of avoiding bribery and corruption while doing business.

The Minister of Justice unveiled a range of law reforms to crack down on corruption, organised crime and bribery in New Zealand when she tabled the Organised Crime and Anti-corruption Legislation Bill in Parliament. The SFO had been consulted and provided advice on this legislation, which includes requirements for banks to report international transactions, new identity theft offences, and harsher penalties for private sector bribery and corruption offences. The changes will give law enforcement agencies more power to deal with organised crime and corruption and help New Zealand fulfil its international obligations.

The finance companies

The 2013/14 year marks the end of the SFO's intensive role over recent years investigating and prosecuting the high profile cases resulting from the collapse of various finance companies during the Global Financial Crisis. These cases are now complete, with the verdict in the South Canterbury matter to be announced on 14 October 2014. A number of other finance company trials were completed this year as set out in the table on page 10.

Belgrave Finance Limited: After completing this investigation, four individuals faced charges under the Crimes Act 1961. The first, Mr Hamilton, a former barrister and solicitor, was a legal adviser to the three other defendants, Messrs Smith, Buckley and Schofield. Mr Hamilton knowingly facilitated the defendants' fraudulent use of the funds held by Belgrave Finance Limited in his role as legal adviser, by providing advice and transferring monies relating to the fraudulent transactions through his firm's trust account. As a result, Mr Hamilton was sentenced to four years, nine months' imprisonment. This case demonstrates the seriousness with which the courts view misconduct on the part of professional advisers who should act as gatekeepers preventing crime rather than facilitating it. The other defendants were charged in relation to the making of substantive fraudulent representations and the fraudulent use of Belgrave investors' funds. Mr Smith pleaded guilty in June 2013 and was sentenced to four years' imprisonment. Mr Buckley also pleaded guilty and was sentenced to three years' imprisonment. Also charged was the alleged instigator of the offending and controller of Belgrave, Mr Schofield, who has been granted a stay of prosecution on the grounds of terminal illness.

This joint prosecution by the SFO and the FMA also demonstrated the efficiencies that can be achieved from the close working relationship between the two agencies.

Rockforte Finance Limited: Three directors were charged as a result of the Rockforte investigation, in which the defendants used a significant portion of investors' money as a source of funding for their own personal business interests. One of the directors, Mr O'Leary, was sentenced to four years' imprisonment, and the other two directors, Mr Simpson and Mr Gardner, were sentenced to 11 months' home detention and 200 hours' community work. This fraud had a significant impact on the Gisborne community resulting in the loss of financial investments and jobs.

Efficiency and effectiveness

During the year we underwent a PIF review and commenced work on an expenditure review. The purpose of this work was to define the SFO's excellence horizon for the next four years and to ensure that the SFO can deliver the best possible return on the taxpayers' investment. This will also enable us to maximise our contribution to Better Public Services targets.

One of the recommendations from the PIF was to develop a cross-agency, system-wide financial crime intelligence strategy. The SFO recognises the potential benefits of a system-wide approach to financial crime intelligence given the relatively narrow sector of financial crime with which we are involved.

In response to this recommendation and in recognition of the importance of intelligence to modern investigation strategies and techniques, we reviewed our approach to financial crime intelligence. Our revised strategy is intended to provide the SFO with four benefits:

- identifying potential financial crimes and emerging threats at the earliest opportunity;
- enabling the SFO (and the agencies we collaborate with) to focus resources in the right areas in order to have the greatest impact on serious financial crime in New Zealand;
- making better use of public sector resources and enabling investigations to be more efficient and cost-effective; and
- enabling the SFO to be better connected with financial crime stakeholders, primarily through intelligence activities.

Finance company overview

Finance Company	Opened	Closed	Accused	Outcome (sentence)
OPI Pacific Finance	01/07/10	29/09/10	N/A	Cased closed and referred to Securities Commission
Waipawa Finance	04/08/08	08/11/10	Pickett	5 years' imprisonment
Nathans Finance	08/12/08	26/11/10	N/A	Case closed
Kiwi Finance	26/10/10	05/04/11	N/A	Case closed and referred to FMA
Mutual Finance	20/12/10	30/05/11	N/A	Case closed and referred to FMA
Aorangi Securities	20/06/10	05/09/11	Hubbard	Stayed (deceased)
National Finance	17/06/06	22/11/11	Gray	1 year 6 months' imprisonment
			Ludlow	5 years 7 months' imprisonment
Bridgecorp Finance	01/05/08	21/08/12	Petricevic	4 months' imprisonment
			Roest	3 months' imprisonment
Hanover Finance	27/08/10	19/04/13	N/A	Case closed
Capital and Merchant Finance 1	11/02/10	03/05/13	Douglas	Acquitted
			Nicholls	Acquitted
Capital and Merchant Finance 2	25/11/10	03/05/13	Tallentire	5 years 7 months' imprisonment
			Douglas	7 years 6 months' imprisonment
			Nicholls	7 years 6 months' imprisonment
Dominion Finance	05/08/10	20/06/13	Cropp	2 years 7 months' imprisonment
			Whale	Acquitted
			(Name suppressed)	Acquitted
			Butler	Stayed (deceased)
Five Star Finance	07/01/08	30/09/13	Kirk	2 years 8 months' imprisonment
			Bowden	9 months' home detention and 100 hours' community work
			McDonald	2 years 3 months' imprisonment
			Williams	5 years' imprisonment
Rockforte Finance	14/09/10	19/12/13	O'Leary	4 years' imprisonment
			Gardner	11 months' home detention and 200 hours' community service
			Simpson	11 months' home detention and 200 hours' community service
Belgrave Finance	03/05/10	14/08/14	Buckley	3 years' imprisonment
			Schofield	Stayed (terminal illness)
			Smith	4 years' imprisonment
			Hamilton	4 years 9 months' imprisonment
South Canterbury Finance	31/08/10	Verdict due 14/10/14	Sullivan	Trial 12/03/2014 - 18/08/2014
			McLeod	Trial 12/03/2014 - 18/08/2014
			White	Trial 12/03/2014 - 18/08/2014

The strategy is based on a limited number of focus areas which we currently consider are most relevant to assessing the serious or complex financial crime threatscape. We expect these to evolve and change over time as we become better informed. This approach is designed to work with a cross-agency strategy should the PIF recommendation in that regard be adopted.

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

Our aim has been to participate in greater collaboration between agencies in addressing serious or complex financial crime. All agencies with an interest in financial crime need to work together to identify the gaps in their own jurisdictions as well as understanding how they impact across the economy. In 2013/14 we focused on finding opportunities to collaborate with other agencies, which has resulted in greater intelligence available across all relevant agencies and quicker conclusions to our investigations.

We continued to see the benefits from the Memorandums of Understanding with NZ Police and the FMA to ensure seamless operational collaboration between these agencies, including coordination of investigations, secondments and resources. Our collaborative work has included joint investigations and identifying opportunities for developing systems to gather financial crime intelligence and share information and experiences.

Two working groups initiated by the SFO, a Canterbury public sector working group and an insurance fraud working group, have led to a number of investigations and information sharing aimed at preventing fraud risks. As a result, there is a higher level of awareness of the risks of fraud and corruption in the Christchurch rebuild. Our approach has ensured that elements of both private and public sectors communicate regularly about the risk of fraud in the rebuild as it progresses. We consider that our approach to date has been effective but we are alert to the need to adapt this approach should circumstances change.

Our people

The Government's Better Public Services goals are designed to enable the public sector to deliver improved services in terms of efficiency and effectiveness on which New Zealanders can rely, within constrained budgets. We have worked to achieve this through our people, collaborative relationships and innovative use of systems and technology. Our aim has been to have an organisational culture that supports high performance, success, teamwork and individual development. To achieve this we provided our people with effective tools and systems, a safe working environment, and training opportunities to up-skill and increase knowledge.

During 2013/14 we developed three core principles that will guide our work. The first is Excellence – we strive to be a world class financial crime and corruption prevention agency. The second is Pride – in the work we do and our contribution to New Zealand. The final principle is Connect – recognising our own strengths and opportunities and those arising from close collaboration with and connections across agencies and sectors. These principles have been developed and agreed with our employees and will provide a sound foundation on which to build our strategy.

Leading our people

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

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

Employee development

We have continued our focus on providing and supporting career development paths within the SFO. We maintained our two-way secondment programme with NZ Police, which supported our strategy to provide development opportunities for our forensic accountants and investigators. In addition we focused on finding opportunities to work with other agencies including a joint training programme with the FMA.

Employee engagement

The level of engagement of our people is a key factor in the delivery by the SFO of very high quality services. The 2014 Employee Engagement Survey overall engagement index score was 76.2 percent. Pleasingly the proportion of engaged employees was 30.6 percent, up from 13.3 percent in 2012. The senior leadership team aims to continue to improve engagement levels through a focus on leadership development, training and internal communication. A number of workshops with our people are also planned to analyse and better understand our engagement results.

Being a good employer

We are committed to being a good employer and an employer of choice and have a number of policies to support our people. We have continually increased the skills and knowledge of our employees to improve case management and thereby enhance our role as an industry leader in the detection, investigation and prosecution of financial crime. During 2013/14 we continued to enhance our training and development programme, which included technical training and leadership development. In order to meet the challenges of a rapidly changing business and political environment, we have focused on developing an organisational culture that supported high performance, success, teamwork and individual development.

Maintaining a diverse workplace and an inclusive culture is important to the SFO. Appointments are based on merit and all managers and employees have a responsibility to promote a work culture in which all people – whatever their gender, ethnic or social background, sexual orientation or role – are valued, and treated equitably and with respect.

We have maintained a focus on the health and safety of our people with regular workplace assessments and promoting healthy lifestyle options and protecting our people from bullying and harassment through a code of conduct and policy. During 2013/14 we also undertook employee safety training and security briefings.

Our systems, processes and technology

Technology is an important aspect of continuous improvement in the management of our cases. During 2013/14 we commenced an upgrade of our intranet to provide enhanced access to information for our employees. We also introduced Wynyard Investigator software, a case management system that supports our existing systems and processes and will improve both the efficiency and effectiveness of our investigations and prosecutions. The software is also expected to streamline our reporting and monitoring processes and improve their effectiveness.

Key capabilities

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

Capability	Indicators	Measure and target	Trend results
People – effective performance management	Performance management processes are embedded	90% of performance agreements are completed by 30 September and 95% of appraisals are completed by 31 July of each year	2013/14: 97% Plans 98% Appraisals 2012/13: 95% Plans 95% Appraisals
Leadership and organisational culture	Employees' engagement in their organisation	SFO Employee Engagement survey: Employees engagement index is 75% or higher	2013/14: 76% 2012/13: 72%
Relationships and partnerships	Partner agencies indicate satisfaction with their relationship with SFO to demonstrate effective communication and collaboration	SFO Key Stakeholders survey: rating is 8 out of 10 or higher	2013/14: Not measured* 2012/13: 7.2 *Biennial survey
Technology, systems and processes	Effective resources made available to staff	SFO Employee Engagement survey: My Job ² response is 66% or higher	2013/14: 69% 2012/13: 66%
Communication	Communication to complainants, victims and witnesses is effective	Complainants survey: "My concerns were understood and considered by SFO": response is 89% or higher	2013/14: 94% 2012/13: 89%

² Question "I have the tools and resources I need to do my job effectively."

Employee demographics

As at 30 June 2014 we had a core team of 45.93 full-time equivalent employees (2012/13: 49.67), or 48 employees (2012/13: 51).

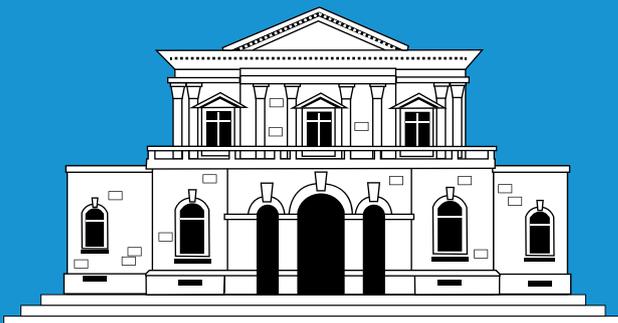
	Employee numbers		Percentage	
	2013/14	2012/13	2013/14	2012/13
Male	22	23	46%	45%
Female	26	28	54%	55%
Maori/Pacific	1	1	2%	2%
Asian	3	3	6%	6%
European	44	47	92%	92%
Part-time	5	5	10%	10%
Full-time	43	46	90%	90%
Total employees	48	51		

Management and non-management diversity

2013/14	Total	Full-time	Part-time	Maori/Pacific	Asian	European
Female						
Management	4	4	0	0	0	4
Non-management	22	17	5	0	2	20
Total female	26	21	5	0	2	24
Male						
Management	7	7	0	1	0	6
Non-management	15	15	0	0	1	14
Total male	22	22	0	1	1	20
Total employees	48	43	5	1	3	44

Part B

Statement of service performance and financial statements



Statement of Responsibility

As Chief Executive and Director of the Serious Fraud Office I am responsible, under the Public Finance Act 1989, for the preparation of the financial statements and statement of service performance, and the judgements made in the process of producing those statements.

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

In my opinion, the financial statements and statement of service performance fairly reflect the financial position and operations of the Serious Fraud Office for the year ended 30 June 2014. In my opinion the forecast financial statements also fairly reflect the forecast financial position and operations of the department for the period to which they relate.

Signed:



Julie Read
Chief Executive and Director
30 September 2014

Countersigned:



Carol Palmer
General Manager, Corporate Services
30 September 2014

Statement of service performance and financial statements

Statement of Service Performance

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

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

Performance measures and standards have been established to monitor the efficiency and effectiveness of managing the three key activities of complaints, investigations and prosecutions within the output expense.

Output expense: investigation and prosecution of serious financial crime

Description

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

Performance measures and standards

Complaints

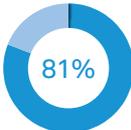
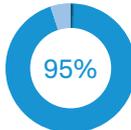
Complaints are first assessed by the Evaluation and Intelligence team to determine whether or not they fit the criteria set for investigations by the SFO. If the matter falls within the mandate of the SFO, the complaint moves to the inquiry phase. If not, the complaint is either referred to the appropriate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

Actual 2012/13	Performance Measure	Budget Standard 2013/14	Actual 2013/14
Quantity			
435	Number of complaints received	350–450	595
24	Number of evaluations initiated by the SFO commenced	20	22
Timeliness			
91.5%	Percentage of complaints evaluated within 30 working days ³	90%	95%

Actual performance

In 2013/14 recording of the number of complaints received has been refined to include complaints made on the phone which can be referred to other agencies. Measuring these oral complaints as official complaints allows us to quickly refer a matter to a more appropriate agency if required.

Statistical trends

	2010/11	2011/12	2012/13	2013/14
Number of complaints received	440	465	435	595
Complaints assessed within time-frames				

³ Does not include open complaints at end of financial year which may still have met the 30 working days measure.

Investigations

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

Actual 2012/13	Performance Measure	Budget Standard 2013/14	Actual 2013/14
Quantity			
30	Number of formally commenced investigations	30–40	30
Timeliness			
92%	Percentage of cases for which an investigation plan is established within 10 working days	90%	100%
96%	Percentage of cases for which an investigation plan is reviewed monthly	90%	100%
33%** 83%	Percentage of cases investigated within targeted time	30% of cases within six months* 80% of cases within 12 months*	45% 82%
Quality			
95%	Percentage of investigations on which a quality assurance review is conducted quarterly and recommendations addressed by senior management within two months of review	80%	100%
New measure	Percentage of quarterly quality assurance reviews that meet the SFO quality criteria	80%	96%
Revised measure	Percentage of formal post-investigation reviews that are conducted and recommendations addressed by senior management within two months of review	90%	100%
New measure	Percentage of formal post-investigation reviews that meet the SFO quality criteria	80%	100%
65%***	Victims of financial crime perceive that the actions of the SFO help ensure that perpetrators of financial crime are held to account	"The sentence imposed fairly reflects the offending that occurred." Maintain or increase from 65% of respondents	38%

*Cases closed this year

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

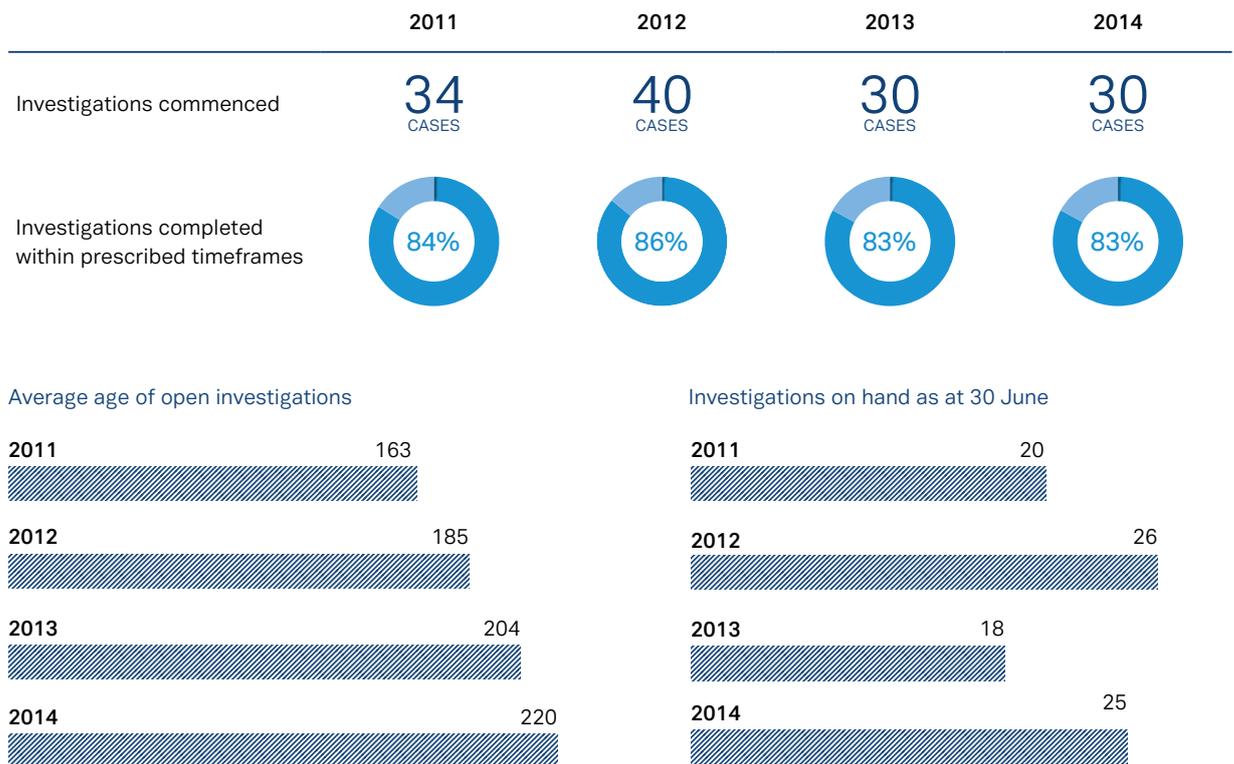
***65% is the 2011/2012 result as this is a biennial survey

Actual performance

The number of investigations formally commenced during the year reached the targeted range. During 2013/14 we continued to focus on investigations that were viewed as large, with significant impact, and high profile.

While our aim is that victims feel justice has been served, the SFO do not have control over the sentences handed down by the Court. This result for 'victims of financial crime perceive that the actions of the SFO help ensure that perpetrators of financial crime are held to account' is reflective of the finance company cases that have played out over the past two years where we understand victims may have considered the sentences imposed did not adequately reflect the impact of the crime on them.

Statistical trends



Prosecutions

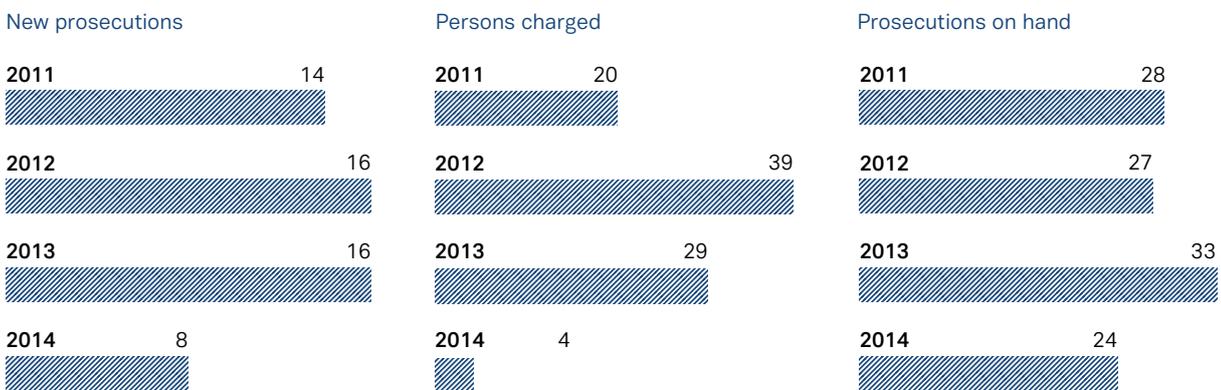
A decision on whether or not to commence a prosecution is made by applying the Prosecution Guidelines issued by the Solicitor-General. The decision is also assisted by the advice of the Prosecution Panel Counsel assigned to the particular investigation and the SFO’s internal prosecution guidelines. The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

Actual 2012/13	Performance Measure	Budget Standard 2013/14	Actual 2013/14
Quantity			
16	Number of cases brought to prosecution	15	8
Quality			
Revised measure	Percentage of formal post-prosecution reviews that are conducted and acted upon by senior management within two months of review	90%	100%
New measure	Percentage of formal post-prosecution reviews that meet the SFO quality criteria	80%	100%
100%	Percentage of prosecutions commenced where external Counsel agrees with the SFO decision to charge	100%	100%
65%*	Victims of financial crime perceive that the actions of the SFO help ensure that perpetrators of financial crime are held to account	“The sentence imposed fairly reflects the offending that occurred.” Maintain or increase from 65% of respondents	38%

Actual performance

The SFO is working on a number of highly complex and significant cases and, if appropriate, these will be brought to prosecution in the next financial year.

Statistical trends



*65% is the 2011/2012 result as this is a biennial survey

Financial performance

	2013 Actual \$000	2014 Main estimates \$000	2014 Supp estimates \$000	2014 Actual \$000	2015 Forecast** IPSAS (unaudited) \$000
Revenue					
Crown	9,740	9,515	9,040	9,040	7,240
Departments	5	10	10	10	0
Other	519	430	355	336	355
Total income	10,264	9,955	9,405	9,386	7,595
Expenditure	10,210	9,955	9,040	8,961	7,595
Net surplus	54	0	0	425	0

Output expense: policy advice

Policy advice

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

This appropriation was disestablished in 2013/14 as the SFO do not lead policy initiatives but contribute to processes led by other agencies that fall within the scope of investigation and prosecution of serious financial crime. The appropriation was therefore transferred to the investigation and prosecution of serious financial crime appropriation in 2013/14 and outyears.

** Financial Forecast figures are Budget and Economic Forecast Update (BEFU) forecasts which are not audited. There have been no material changes between New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Public Sector Accounting Standards (IPSAS).

Performance measures and standards

Actual 2012/13	Performance Measure	Budget Standard 2013/14	Actual 2013/14
Quantity			
Revised measure	The satisfaction of the Minister responsible for the Serious Fraud Office with the policy advice service, as per the common satisfaction survey	At least 70%	Not measured*
Cost			
New measure	The total cost per hour of producing outputs	At most \$180	Not measured*

Financial performance

	2013 Actual \$000	2014 Main estimates \$000	2014 Supp estimates \$000	2014 Actual \$000	2015 Forecast (unaudited) \$000
Revenue					
Crown	225	225	0	0	0
Other	0	0	0	0	0
Total income	225	225	0	0	0
Expenditure					
Expenditure	210	225	0	0	0
Net surplus	15	0	0	0	0

* Service performance was not measured for the output expense Policy Advice in 2013/14 as this was disestablished and collapsed into the Investigation and Prosecution of Serious Financial Crime output expense through the 2013 October Baseline Update. No expenditure was incurred under the Policy Advice appropriation.

Financial Statements



Statement of comprehensive income

for the year ended 30 June 2014

	Note	Actual 2013 \$000	Main estimates 2014 \$000	Supp estimates 2014 \$000	Actual 2014 \$000	Forecast* IPSAS (unaudited) 2015 \$000
Income						
Crown		9,740	9,740	9,040	9,040	7,240
Other	2	524	440	365	346	355
Total income		10,264	10,180	9,405	9,386	7,595
Expenditure						
Personnel costs	3	5,968	6,047	5,680	5,605	4,655
Other operating expenses	6	3,932	3,799	3,416	2,978	2,695
Depreciation and amortisation expense	8,9	265	294	267	332	203
Capital charge	4	36	36	36	36	36
Finance costs	5	9	4	6	10	6
Total expenditure		10,210	10,180	9,405	8,961	7,595
Net surplus		54	0	0	425	0
Other comprehensive income		0	0	0	0	0
Total comprehensive income		54	0	0	425	0

The accompanying notes form part of these financial statements.

Explanations of significant variances against budget are detailed in note 20.

* Financial Forecast figures are Budget and Economic Forecast Update (BEFU) forecasts which are not audited.

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

Statement of changes in equity

for the year ended 30 June 2014

	Note	Actual 2013 \$000	Main estimates 2014 \$000	Supp estimates 2014 \$000	Actual 2014 \$000	Forecast* IPSAS (unaudited) 2015 \$000
Balance as at 1 July		452	452	452	452	452
Comprehensive income						
Surplus for the year		54	0	0	425	0
Total comprehensive income		54	0	0	425	0
Return of operating surplus to the Crown	11	(54)	0	0	(425)	0
Balance at 30 June	14	452	452	452	452	452

The accompanying notes form part of these financial statements.

Explanations of significant variances against budget are detailed in note 20.

* Financial Forecast figures are BEFU forecasts which are not audited. There have been no material changes between NZ IFRS and IPSAS.

Statement of financial position

as at 30 June 2014

	Note	Actual 2013 \$000	Main estimates 2014 \$000	Supp estimates 2014 \$000	Actual 2014 \$000	Forecast* IPSAS (unaudited) 2015 \$000
Assets						
Current assets						
Cash and cash equivalents		2,255	1,551	2,465	2,476	2,368
Debtors and other receivables	7	23	0	12	45	10
Prepayments		59	1	4	45	1
Total current assets		2,337	1,552	2,481	2,566	2,379
Non-current assets						
Property, plant and equipment	8	680	459	489	401	389
Intangible assets	9	33	61	56	11	53
Total non-current assets		713	520	545	412	442
Total assets		3,050	2,072	3,026	2,978	2,821
Liabilities						
Current liabilities						
Creditors and other payables	10	1,325	805	1,612	1,156	1,637
Return of operating surplus	11	54	0	0	425	0
Provisions	12	122	107	122	141	122
Employee entitlements	13	476	304	341	375	259
Total current liabilities		1,977	1,216	2,075	2,097	2,018
Non-current liabilities						
Provisions	12	614	397	492	422	344
Employee entitlements	13	7	7	7	7	7
Total non-current liabilities		621	404	499	429	351
Total liabilities		2,598	1,620	2,574	2,526	2,369
Net assets		452	452	452	452	452
Equity						
Taxpayers' funds	14	452	452	452	452	452
Total equity		452	452	452	452	452

The accompanying notes form part of these financial statements.

Explanations of significant variances against budget are detailed in note 20.

* Financial Forecast figures are BEFU forecasts which are not audited. There have been no material changes between NZ IFRS and IPSAS.

Statement of cash flows

for the year ended 30 June 2014

	Note	Actual 2013 \$000	Main estimates 2014 \$000	Supp estimates 2014 \$000	Actual 2014 \$000	Forecast* IPSAS (Unaudited) 2015 \$000
Cash flows from operating activities						
Receipts from Crown		9,740	9,740	9,040	9,040	7,240
Receipts from other revenue		542	430	354	346	355
Payments to suppliers		(3,848)	(4,428)	(3,293)	(3,625)	(3,021)
Payments to employees		(5,448)	(5,552)	(5,704)	(5,405)	(4,655)
Payments for capital charge		(36)	(36)	(36)	(36)	(36)
Goods and services tax (net)		(10)	34	(51)	5	120
Net cash flow from operating activities	15	940	188	310	325	3
Cash flows from investing activities						
Receipts from sale of property, plant and equipment		33	0	0	0	0
Purchase of property, plant and equipment		(148)	(50)	(50)	(50)	(100)
Purchase of intangible assets		(17)	(50)	(50)	0	0
Net cash flow from investing activities		(132)	(100)	(100)	(50)	(100)
Cash flows from financing activities						
Return of operating surplus		(20)	0	0	(54)	0
Net cash flow from financing activities		(20)	0	0	(54)	0
Net (decrease)/increase in cash		788	88	210	221	97
Cash at the beginning of the year		1,467	1,463	2,255	2,255	2,465
Cash at the end of the year		2,255	1,551	2,465	2,476	2,368

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

The accompanying notes form part of these financial statements.

Explanations of significant variances against budget are detailed in note 20.

* Financial Forecast figures are BEFU forecasts which are not audited. There have been no material changes between NZ IFRS and IPSAS.

Statement of commitments

as at 30 June 2014

Capital commitments

The Serious Fraud Office has no capital commitments as at 30 June 2014 (2013: \$nil).

Non-cancellable operating lease commitments

The Serious Fraud Office leases property, plant and equipment in the normal course of its business. The primary lease agreements relate to the current office accommodation on two levels, 6 and 12, at 21 Queen Street, Auckland. In June 2014 a decision was made to rationalise the Queen Street accommodation. As a consequence level 12 was vacated in August 2014 with all personnel and functions being combined on level 6. The level 12 lease was surrendered on 31 August 2014, with no further rent or other obligation thereafter. The level 6 lease, which expires on 3 March 2023 with no right of renewal, will continue unaffected.

In addition, the Serious Fraud Office leases office accommodation and car parks at 120 Mayoral Drive, Auckland, which expires on 29 February 2016, with no right of renewal. These premises were vacated in March 2011 and subleased effective 29 August 2011. A provision for the onerous portion of the lease has been made as at 30 June 2014.

	Actual 2014 \$000	Actual 2013 \$000
Non-cancellable operating lease commitments		
Not later than one year	659	606
Later than one year and not later than five years	2,009	3,088
Later than five years	1,872	3,191
Total non-cancellable operating lease commitments	4,540	6,885
Total commitments	4,540	6,885

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

The total of minimum future sublease payments expected to be received under the non-cancellable sublease at 30 June 2014 is \$581,000 (2013: \$947,000).

Statement of contingent liabilities and contingent assets

as at 30 June 2014

Contingent liabilities

The Serious Fraud Office has no contingent liabilities as at 30 June 2014 (2013: \$nil).

Contingent assets

The Serious Fraud Office has no contingent assets (2013: \$nil).

Statement of departmental expenses and capital expenditure against appropriations

for the year ended 30 June 2014

	Actual 2013 \$000	Appropriation Voted ⁴ 2014 \$000	Actual 2014 \$000	2014/15 Estimates of Appropriation (Unaudited) \$000
Vote Serious Fraud				
Appropriation for output expenses				
Investigation and prosecution of serious financial crime	10,000	9,405	8,961	7,595
Policy advice	210	0	0	0
Total appropriation for output expenses and other expenses	10,210	9,405	8,961	7,595
Departmental capital expenditure				
Serious Fraud Office – Permanent Legislative Authority	144	100	31	100

Statement of departmental unappropriated expenditure and capital expenditure

for the year ended 30 June 2014

Expenses and capital expenditure in excess of appropriation

\$nil (2013: \$nil)

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

\$nil (2013: \$nil)

Breaches of projected departmental net asset schedules

\$nil (2013: \$nil)

The accompanying notes form part of these financial statements.

⁴ This includes adjustments made in the Supplementary Estimates.

Notes to financial statements

1 Statement of accounting policies for the year ended 30 June 2014

Reporting entity

The Serious Fraud Office is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled in New Zealand.

The primary objective of the Serious Fraud Office is to provide services to the public rather than making a financial return. Accordingly, the Serious Fraud Office has designated itself as a public benefit entity for the purposes of New Zealand International Financial Reporting Standard (NZ IFRS).

The financial statements of the Serious Fraud Office are for the year ended 30 June 2014. The financial statements were authorised for issue by the Chief Executive and Director on 30 September 2014.

Basis of preparation

Statement of compliance

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

The financial statements comprising the actual results for 30 June 2014 have been prepared in accordance with NZ GAAP as appropriate for public benefit entities and they comply with NZ IFRS.

The unaudited financial forecast figures have been prepared in accordance with New Zealand Public Benefit Entity (NZ PBE) IPSAS. While a detailed impact assessment has yet to be completed, no significant impact is expected on transition from NZ IFRS to IPSAS.

Measurement base

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

Functional and presentation currency

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

Changes in accounting policies

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

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

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

- The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under the Accounting Standards Framework, the Serious Fraud Office is classified as a Tier 2 reporting entity and is able to apply the Reduced Disclosures Regime (RDR). These standards are being developed by the XRB based on current international Public Sector Accounting Standards. The effective date for the new standards for public benefit entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the Serious Fraud Office expects to transition to the new standards in preparing its 30 June 2015 financial statements.
- Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities until the new Accounting Standards Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

Significant accounting policies

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

Revenue

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

– Revenue Crown

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

– Other income

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

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

Capital charge

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

Leases

– Finance leases

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

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

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

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

– Operating leases

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

Cash and cash equivalents

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

Debtors and other receivables

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

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

Property, plant and equipment

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

Individual assets, or groups of assets, are capitalised if their cost is greater than \$2,000 (excluding GST). The value of an individual asset that is less than \$2,000 (excluding GST) and is part of a group of similar assets is capitalised.

– Additions

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that the future economic benefits or service potential associated with the item will flow to the Serious Fraud Office and the cost of the item can be measured reliably.

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

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

– Disposals

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

– Subsequent costs

Costs incurred subsequent to the initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Serious Fraud Office and the cost of the item can be measured reliably.

– Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write-off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of property, plant and equipment have been estimated as follows:

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

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

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

Intangible assets

– Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. Software is capitalised if its cost is \$2,000 (excluding GST) or more.

Costs that are directly associated with the development of software for internal use by the Serious Fraud Office are recognised as an intangible asset. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

Employee training costs are recognised as an expense when incurred.

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

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

– Amortisation

The carrying value of an asset with a finite life is amortised on a straight-line basis over its useful life.

Amortisation begins when the asset is available for use, and ceases at the date that the asset is no longer recognised. The amortisation charge for each period is recognised in the statement of comprehensive income.

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

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

Impairment of property, plant and equipment and intangible assets

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

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the statement of comprehensive income.

The reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

Creditors and other payables

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

Employee entitlements

– Short-term employee entitlements

Employee entitlements expected to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retirement and long service leave entitlements expected to be settled within 12 months, and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it will be used by employees to cover those future absences.

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

– Long-term employee entitlements

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

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

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

– Presentation of employee entitlements

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

Superannuation schemes

– Defined contribution schemes

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

Provisions

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

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

Equity

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

Commitments

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the statement of commitments at the value of that penalty or exit cost.

Goods and services tax (GST)

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

The net amount of GST recoverable from, or payable to, IRD is included as part of receivables or payables in the statement of financial position.

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Budget figures and financial forecasts

The budget figures are those included in the Information Supporting the Estimates of Appropriation for the Government of New Zealand for the year ended 30 June 2014, which are consistent with the financial information in the Main Estimates. In addition, the financial statements also present the updated budget information from the Supplementary Estimates. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

The forecast financial statements for 2014/15 forming part of this Annual Report are the first set of prospective financial statements presented by the Serious Fraud Office under NZ PBE. They are compliant with PBE FRS-42 Prospective Financial Statements and are consistent with generally accepted accounting practice. The purpose of the forecast financial statements is to facilitate Parliament's consideration of the appropriations for, and planned performance of, the Serious Fraud Office. Use of this information for other purposes may not be appropriate. Readers are cautioned that actual results are likely to vary from the forecast

information presented and that the variations may be material.

The financial forecasts are based on Budget and Economic Forecast Update (BEFU) and have been prepared on the basis of assumptions as to future events that the Serious Fraud Office reasonably expects to occur, associated with the actions it reasonably expects to take, as at the date that the information was prepared. The forecast financial statements have been compiled on the basis of existing government policies and Ministerial expectations at the time the statements were finalised. There are no significant events or changes that would have a material impact on the BEFU forecast.

The Serious Fraud Office faces a \$2.5 million reduction in baseline funding from 2014/15, returning to 2009/10 levels. Significant assumptions upon which the forecast figures are based, therefore centre primarily on implications the reduced funding has on the level of investigations undertaken. The forecast has been prepared on this basis with the impact predominantly on personnel and operational capacity. Not included in the forecast figures, is a funding application of \$1.5 million to the Justice Sector Fund which has been endorsed by Ministers in June 2014. If approved at the Government's next budget update process expected in October 2014, the budget will increase accordingly, in personnel and operational expenses related to case investigations.

The forecast figures reported are those for the year ending 30 June 2015 included in BEFU 2014. These were authorised for issue on 27 March 2014 by the Chief Executive and Director who is responsible for the forecast financial statements as presented.

The preparation of these financial statements requires judgements, estimations, and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Statement of cost accounting policies

In the 2013 October Baseline Update, the Serious Fraud Office disestablished the department output expense, **Policy Advice** leaving only the departmental output expense, **Investigation and Prosecution of Serious Financial Crime**, therefore no cost allocation was required.

Critical accounting estimates and assumptions

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

Critical judgements in applying accounting policies

Management has exercised the following critical judgments in applying accounting policies for the year ended 30 June 2014: In Note 12, the Serious Fraud Office has exercised its judgement in application of determining the level of unutilised space in order to calculate an onerous lease provision and impairment of assets associated with the utilised office space.

2 Other revenue

	Actual 2014 \$000	Actual 2013 \$000
Rental income from subleases	346	429
Economic Crime Agencies Network conference	0	94
Interest	0	1
Total other revenue	346	524

3 Personnel costs

	Actual 2014 \$000	Actual 2013 \$000
Salaries and wages	5,465	5,622
Employer contributions to defined contribution plans	58	54
Increase/(decrease) in employee entitlements	(101)	35
Employee training and development	136	196
Fringe benefit tax	3	11
Other	44	50
Total personnel costs	5,605	5,968

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

During the year ended 30 June 2014, no employees (2013: one employee) received compensation and other benefits in relation to cessation.

4 Capital charge

The Serious Fraud Office pays a capital charge to the Crown on its equity at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2014 was 8% (2013: 8%).

5 Finance costs

	Actual 2014 \$000	Actual 2013 \$000
Discount unwind on provisions (note 12)	10	9
Total finance costs	10	9

6 Other operating expenses

	Actual 2014 \$000	Actual 2013 \$000	Main estimates 2014 \$000	Forecast* IPSAS (unaudited) 2015 \$000
Fees to Audit New Zealand for audit of financial statements	39	38	37	40
Rental and operating lease expense	919	1,137	1,117	918
Onerous lease provision	(183)	103	(85)	(141)
Other occupancy expenses	100	118	94	86
Legal fees on panel of prosecutors	296	275	440	239
Consultancy	151	63	38	68
Travel expense	418	367	410	370
IT and telecommunications	673	688	645	556
Net loss on disposal of property, plant and equipment	0	13	0	0
Professional services	31	141	165	23
Specialist advice – case related	120	320	452	221
Other operating expenses	414	669	486	315
Total other operating expenses	2,978	3,932	3,799	2,695

* Financial Forecast figures are BEFU forecasts which are not audited. There have been no material changes between NZ IFRS and IPSAS.

7 Debtors and other receivables

	Actual 2014 \$000	Actual 2013 \$000
Other receivables	45	23
Total debtors and other receivables	45	23

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

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

	2014			2013		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	33	0	33	23	0	23
Past due 1–30 days	12	0	12	0	0	0
Past due 31–60 days	0	0	0	0	0	0
Past due 61–90 days	0	0	0	0	0	0
Total	45	0	45	23	0	23

8 Property, plant and equipment

	Office furniture, fixtures and fittings \$000	Office equipment \$000	Computer equipment \$000	Motor vehicles \$000	Total \$000
Cost					
Balance at 1 July 2012	1,232	453	762	21	2,468
Additions	2	5	79	41	127
Disposals	0	(5)	(1)	(21)	(27)
Balance at 30 June 2013	1,234	453	840	41	2,568
Balance at 1 July 2013	1,234	453	840	41	2,568
Additions	0	0	31	0	31
Disposals	(660)	(260)	(331)	0	(1,251)
Balance at 30 June 2014	574	193	540	41	1,348
Accumulated depreciation and impairment losses					
Balance at 1 July 2012	748	386	513	5	1,652
Depreciation expense	92	22	126	4	244
Eliminate on disposal	0	(1)	0	(7)	(8)
Balance at 30 June 2013	840	407	639	2	1,888
Balance at 1 July 2013	840	407	639	2	1,888
Depreciation expense	160	16	128	6	310
Eliminate on disposal	(660)	(260)	(331)	0	(1,251)
Balance at 30 June 2014	340	163	436	8	947
Carrying amounts					
At 1 July 2012	484	67	249	16	816
At 30 June and 1 July 2013	394	46	201	39	680
At 30 June 2014	234	30	104	33	401

Work in progress

The total amount of property, plant and equipment in the course of construction as at 30 June 2014 is \$nil (2013: \$nil).

9 Intangible assets

	Acquired software \$000
Cost	
Balance at 1 July 2012	197
Additions	17
Balance at 30 June 2013	214
Balance at 1 July 2013	214
Additions	0
Disposals	(56)
Balance at 30 June 2014	158
Accumulated amortisation and impairment losses	
Balance at 1 July 2012	160
Amortisation expense	21
Balance at 30 June 2013	181
Balance at 1 July 2013	181
Amortisation expense	22
Eliminate on Disposal	(56)
Balance at 30 June 2014	147
Carrying amounts	
At 1 July 2012	37
At 30 June and 1 July 2013	33
At 30 June 2014	11

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

Work in progress

The total amount of intangible assets in the course of implementation as at 30 June 2014 is \$nil (2013: \$nil).

10 Creditors and other payables

	Actual 2014 \$000	Actual 2013 \$000
Creditors	245	461
Accrued expenses	108	86
Accrued rent payable	680	653
GST payable	30	25
Other payables	93	100
Total creditors and other payables	1,156	1,325

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms. Therefore, the carrying value of creditors and other payables approximates their fair value.

11 Return of operating surplus

	Actual 2014 \$000	Actual 2013 \$000
Net surplus	425	54
Total return of operating surplus	425	54

12 Provisions

	Actual 2014 \$000	Actual 2013 \$000
Current portion		
Onerous contracts	141	122
Total current portion	141	122
Non-current portion		
Lease make-good	325	325
Onerous contracts	97	289
Total non-current portion	422	614
Total provisions	563	736

Provisions (continued)

	Lease make good \$000	Onerous contracts \$000	Total \$000
Balance 1 July 2012	325	298	623
Additional provisions made	0	213	213
Amounts used	0	(109)	(109)
Discount unwind (note 5)	0	9	9
Balance 30 June 2013	325	411	736
Balance 1 July 2013	325	411	736
Additional provisions made	0	0	0
Amounts used	0	(122)	(122)
Discount unwind (note 5)	0	10	10
Unused amounts reversed	0	(61)	(61)
Balance at 30 June 2014	325	238	563

Lease make-good

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

Onerous contracts

The provision for onerous contracts arises from a non-cancellable lease where the unavoidable costs of meeting the lease contract exceed the economic benefits to be received from it. At 30 June 2014, the Serious Fraud Office has one year and eight months remaining on the lease.

On 7 March 2011, the Serious Fraud Office moved premises, vacating 120 Mayoral Drive, Auckland. The premises were sublet effective 29 August 2011. As at 30 June 2014, an onerous lease provision is in place reflecting the difference between the lease expense and sublease recovery for the premises.

The provision was reviewed at the end of the reporting year, 30 June 2014 and has been adjusted to reflect adjustments arising from a market rent review for 1 March 2014 and changes to present value and discount rates to reflect current market conditions.

13 Employee entitlements

	Actual 2014 \$000	Actual 2013 \$000
Current portion		
Accrued salaries and wages ⁵	153	245
Annual leave	222	230
Long service leave	0	1
Total current portion	375	476
Non-current portion		
Long service leave	7	7
Total non-current portion	7	7
Total employee entitlements	382	483

The measurement of the long service obligation was based on a number of assumptions. An assessment of 47⁶ employees employed as at 30 June 2014 was undertaken as to which employees would reach the long service criteria. One employee had earned and two employees took a portion of long service leave and the balance is reflected as the current portion. The non-current portion reflects the assessment of the probability of employees earning long service leave in the future. Due to the number of employees affected and relatively low length of service, discount rates and salary inflation factors were not incorporated into the calculation.

14 Equity

	Actual 2014 \$000	Actual 2013 \$000
Taxpayers' funds		
Balance at 1 July	452	452
Net surplus	425	54
Provision for return surplus	(425)	(54)
Balance at 30 June	452	452
Total equity	452	452

⁵ Includes performance pay, FBT and contributions to defined contribution plans

⁶ Excludes Chief Executive and casual employees

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

	Actual 2014 \$000	Actual 2013 \$000	Main estimates 2014 \$000	Forecast* IPSAS (unaudited) 2015 \$000
Net surplus	425	54	0	0
Add/(less) non-cash items:				
Depreciation and amortisation expense	332	265	294	203
Total non-cash items	332	265	294	203
Add/(less) items classified as investing or financing activities:				
(Gains)/losses on disposal of property, plant and equipment	0	12	0	0
Add/(less) movements in working capital items:				
(Inc)/dec in debtors and other receivables ⁷	(22)	0	0	2
(Inc)/dec in prepayments	14	(29)	0	3
Inc/(dec) in creditors and other payables ⁸	(150)	491	(116)	25
Inc/(dec) in employee entitlements	(101)	35	10	(82)
Inc/(dec) in provisions	(173)	112	0	(148)
Net movement in working capital items	(432)	609	(106)	(200)
Net cash from operating activities	325	940	188	3

⁷ Excludes outstanding receivables of \$nil for fixed asset sales (2013: \$nil)

⁸ Excludes outstanding payables of \$nil for fixed assets purchases (2013: \$19,000)

* Financial Forecast figures are BEFU forecasts which are not audited. There have been no material changes between NZ IFRS and IPSAS.

16 Related party transactions

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

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

Significant transactions with government-related entities

The Serious Fraud Office has received funding from the Crown of \$9.040 million to provide services to the public for the year ended 30 June 2014 (2013: \$9.740 million).

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

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

The Serious Fraud Office also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown.

Purchases from these government-related entities for the year ended 30 June 2014 totalled \$455,000 (2013: \$465,000). These purchases included the purchase of electricity from Mercury Energy, air travel from Air New Zealand, legal services and office rental from the Crown Law Office, archiving services from Crown Asset Management Limited, postal services from New Zealand Post, SEEmail from the Department of Internal Affairs, access to the electronic crime lab from New Zealand Customs Service, training from New Zealand Police, audit services from the Office of the Auditor-General, advice from the Parliamentary Counsel Office and financial systems support from the State Services Commission and the Treasury.

Amounts payable to entities controlled, significantly influenced, or jointly controlled by the Crown at 30 June 2014 totalled \$28,437 (2013: \$34,766).

In addition, during the year five FTEs were seconded and funded from the New Zealand Police and New Zealand Customs Services to undertake investigative services. In turn, two Serious Fraud Office FTEs were seconded to New Zealand Police and the Financial Markets Authority on short term secondments. These positions were funded by the Serious Fraud Office.

Transactions with key management personnel and their close family members

Key management personnel compensation

	Actual 2014 \$000	Actual 2013 \$000
Salaries and other short-term employee benefits	1,223	1,290
Post-employment benefits	14	12
Termination benefits	0	64
Total key management personnel compensation	1,237	1,366

Key management personnel of the Serious Fraud Office comprised the Chief Executive and Director and the five members of the senior leadership team (2013: five members). These management positions were the General Manager Evaluation and Intelligence, General Manager Fraud and Corruption, General Manager Financial Markets and Corporate Fraud, General Manager Corporate Services and General Counsel.

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

- There were no close family members of key management personnel employed by the Serious Fraud Office.
- There were no related party transactions involving key management personnel or their close family members in 2014 (2013: nil).

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

17 Events after the balance date

The Serious Fraud Office has entered into an Agreement to Surrender Lease for level 12, 21 Queen Street, the surrender date being 31 August 2014. By this date all level 12 personnel and functions will have been relocated to level 6. The effect of the lease surrender, in so far as it relates to the period before 30 June 2014 year end, has been included in the accounts for the 2013/14 year. Specifically commitments, depreciation on leasehold improvements and rent accruals, for level 12 have been adjusted accordingly.

There are no other significant events after the balance date.

18 Financial instruments

18A. Financial instrument categories

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

	Actual 2014 \$000	Actual 2013 \$000
Loans and receivables		
Cash and cash equivalents	2,476	2,255
Debtors and other receivables (note 7)	45	23
Total loans and receivables	2,521	2,278
Financial liabilities measured at amortised cost		
Creditors and other payables (note 10)	1,156	1,325

The Serious Fraud Office has a letter of credit facility with Westpac of \$175,000 in 2014 (2013: \$175,000) to allow for the payment of employee salaries by direct credit.

18B. Financial instrument risks

The Serious Fraud Office's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Serious Fraud Office has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

Market risk

– Currency risk

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

– Interest rate risk

Under section 46 of the Public Finance Act 1989 the Serious Fraud Office cannot raise a loan without Ministerial approval, and no such loans have been raised. Accordingly, there is no interest rate exposure for funds borrowed.

Credit risk

Credit risk is the risk that a third party will default on its obligations to the Serious Fraud Office causing the Serious Fraud Office to incur a loss. In the normal course of business the Serious Fraud Office incurs credit risk from debtors, and bank deposits. The Serious Fraud Office is only permitted to deposit funds with Westpac, a registered bank with a high credit rating. For its debtors, the Serious Fraud Office has no concentrations of credit risk. The Serious Fraud Office maximum credit exposure for its financial instruments is represented by the total carrying amount of cash and bank deposits and debtors. There is no collateral held as security against these financial instruments.

Liquidity risk

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

The Serious Fraud Office has a credit card facility of \$40,000 as at 30 June 2014 (2013: \$25,000).

– Contractual maturity analysis of financial liabilities, excluding derivatives

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

	Carrying amount \$000	Contractual cash flows \$000	Less than 6 months \$000	6 months– 1 year \$000	1–5 years \$000
2014					
Creditors and other payables	476	476	476	0	0
Accrued rent expense	680	680	97	164	419
2013					
Creditors and other payables	672	672	672	0	0
Accrued rent expense	653	653	150	144	359

19 Capital management

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

The Serious Fraud Office manages its revenues, expenses, assets, liabilities and general financial dealings prudently. The Serious Fraud Office's equity is largely a by-product of managing income, expenses, assets, liabilities and compliance with the Government Budget processes, Treasury Instructions and the Public Finance Act 1989.

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

20 Explanation of major variances against budget

For the purposes of this section major variances have been defined as variances of actual to the budgets provided in the Main Estimates 2014.

Statement of comprehensive income

– Revenue from the Crown

Revenue from the Crown was \$700,000 less than budget as a result of an underspend. This sum was transferred to the Justice Sector Fund. The underspend was attributable to general savings initiatives, gains in efficiencies and early case completions.

– Other revenue

Other revenue was \$94,000 less than budget, primarily due to a decrease in operating expenses receivable from sub-leased office space at 120 Mayoral Drive.

The sub-tenant, Auckland University of Technology has been granted statutory rates exemptions for the space it sub-leases, which reduces the operating expenses receivable. (It should be noted that there is a reciprocal reduction in operating expenses payable under the head lease).

– Personnel costs

Personnel costs were \$442,000 less than budget mainly due to natural attrition. Deferring recruitment to fill vacancies was a precautionary mechanism put in place to help manage future funding uncertainties.

– Other operating expenses

Other operating expenses were \$821,000 less than budget. This was predominantly a result of lower than budgeted case costs which amounted to \$522,000 and arose from savings, efficiencies and early completions. In addition savings resulted from the reversal of a \$108,000 rent accrual associated with the surrender of the level 12 Queen St lease, a \$61,000 reversal of portion of the onerous lease provision for Mayoral Drive not required, and a reduction of \$94,000 in operating expenses for the Mayoral Drive property.

Statement of financial position

– Non-current assets

Non-current assets were \$108,000 less than budgeted, primarily due to minimal asset purchases of \$31,000 against a budget of \$100,000, (asset acquisitions were postponed for re-evaluation of requirements on consolidating office accommodation) offset by related lower depreciation, plus the acceleration of depreciation on leasehold improvements associated with the early termination of the level 12 Queen Street lease in August 2014.

– **Current liabilities**

Current liabilities were \$881,000 more than budget. The main contributors to this were the repayment of year-end surplus, \$425,000 and creditors and other payables accounting for another \$351,000 with some unbudgeted June expenditure (the knock on impact of expenditure incurring in June is higher creditors/ payables balance at balance date) on cases (mainly the South Canterbury Finance trial), training and the expenditure review plus fairly substantial unbudgeted accruals relating mainly to the Performance Improvement Framework. In addition, there was a \$34,000 movement on the current portion of the onerous lease provision arising from a rent review and employee entitlements increased by \$71,000, made up of \$153,000 salaries accrual partially offset by reductions in performance pay and annual leave liabilities of \$82,000.

Statement of cash flows

Lower than budgeted expenditure and savings in personnel, as noted above account for an underspend of \$950,000. This was partially offset by a \$700,000 transfer of the underspend to the Justice Sector Fund and a slightly lower rental income received \$84,000. This together with the net GST and lower than budgeted asset purchases make up the difference in net cash increase of \$133,000 against budget.

Independent Auditor's report

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

To the readers of Serious Fraud Office's financial statements and non-financial performance information for the year ended 30 June 2014

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

We have audited:

- the financial statements of the SFO on pages 25 to 48, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2014, the statement of comprehensive income, statement of changes in taxpayers' funds, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenditure and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the SFO that comprises the statement of service performance on pages 16 to 22 and the report about outcomes on pages 5 and 6.

Opinion

In our opinion:

- the financial statements of the SFO on pages 25 to 48:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the SFO's:
 - financial position as at 30 June 2014;
 - financial performance and cash flows for the year ended on that date;
 - expenses and capital expenditure incurred against each appropriation administered by the SFO and each class of outputs included in each output expense appropriation for the year ended 30 June 2014; and
 - unappropriated expenses and capital expenditure for the year ended 30 June 2014.
- the non-financial performance information of the

SFO on pages 5 and 6 and 16 to 22:

- complies with generally accepted accounting practice in New Zealand; and
- fairly reflects the SFO's service performance and impacts for the year ended 30 June 2014, including for each class of outputs:
 - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 30 September 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and our responsibilities, and we explain our independence.

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the non-financial performance

information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the SFO's preparation of the financial statements and the non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the SFO's internal control.

An audit also involves evaluating:

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

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

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

Responsibilities of the Chief Executive

The Chief Executive is responsible for preparing:

- financial statements and non-financial performance information that:
 - comply with generally accepted account in practice in New Zealand;
 - fairly reflect the SFO's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
 - fairly reflect its service performance and impacts.

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

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

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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



Karen Young

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

Appendix 1

Use of Statutory Powers

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

Section	Part 1 of Act	2013/14	2012/13	2011/12	2010/11	2009/10
s 5(1)(a)	Requiring documents	147	108	72	136	50
s 5(1)(b)	Supply information	13	25	11	43	0
s 6	Search warrant obtained	0	0	1	0	0
Total		160	133	84	179	50

Section	Part 2 of Act	2013/14	2012/13	2011/12	2010/11	2009/10
s 9c (1) (c)	Attend	63	66	55	73	39
s 9(1)(d)	Requiring answers to questions	64	73	57	73	39
s 9(1)(e)	Requiring information	128	216	128	114	82
s 9(1)(f)	Requiring documents	361	620	647	521	419
s 10	Search warrant obtained	33	33	5	2	3
s 36(2)			36	21	0	9
Total		903	1,044	913	783	591

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