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Report of the

# SERIOUS FRAUD OFFICE

TE TARI HARA TÂWARE

for the year ended  
30 June 2007

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Hon. Dr Michael Cullen  
Attorney-General

In accordance with the Public Finance Act 1989 I submit the following report on the operations and financial performance of the Serious Fraud Office for the year ending 30 June 2007.

A handwritten signature in black ink, appearing to read 'DJ Bradshaw', written in a cursive style.

DJ Bradshaw  
Director



**CONTENTS**

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	PAGE
Statement of Purpose	4
Directory	4
DEPARTMENTAL SCENE SETTING	5
Chief Executive's Overview	5
Statement of Responsibility	11
Report of the Audit Office	12
PERFORMANCE INFORMATION	15
Summary of Total Cases	15
Output Measures	16
Use of Statutory Powers	22
Prosecutions Completed	24
Statement of Objectives and Service Performance	29
Statement of Accounting Policies	30
Statement of Financial Performance	33
Statement of Movements in Taxpayers' Funds	34
Statement of Financial Position	35
Statement of Cash Flows	36
Statement of Commitments	37
Statement of Contingent Liabilities	37
Statement of Department Expenditure and Appropriations	38
Statement of Unappropriated Expenditure	38
Notes to Financial Statements	39
MANAGEMENT PERFORMANCE INFORMATION	44
Corporate and Collective Interest Management Report	44
INFORMATION ABOUT THE DEPARTMENT	48
Policy on Acceptance of Cases	48
Management and Structure	51
Serious Fraud Office Act – Panel of Prosecutors	52
Public Relations	53

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## STATEMENT OF PURPOSE

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The Serious Fraud Office (SFO) is an operational department whose purpose is to detect and investigate cases of serious or complex fraud offending (in terms of the Serious Fraud Office Act 1990) and expeditiously prosecute offenders.

The services provided by the Serious Fraud Office contribute to the Government's strategic objectives, principally in the areas of encouraging a strongly growing, internationally competitive enterprise economy and building an economically strong and cohesive New Zealand.

Honest capital markets are crucial to achieving the objective of maintaining a strong and internationally competitive economy. Successful investigation and prosecution of "white collar" crime sustains New Zealand's reputation for honest capital markets, as well as deterring potential offenders.

By maintaining an effective "white collar" law enforcement capacity, the Serious Fraud Office is contributing towards enhancing investor confidence and encouraging savings and investment in New Zealand.

The Serious Fraud Office also contributes to the wider work of the Justice sector in building safer communities being communities in which there is reduced crime.

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## DIRECTORY

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Location:	Level 2, Duthie Whyte Building Cnr Mayoral Drive and Wakefield Street Auckland City
Postal Address:	PO Box 7124, Wellesley Street, Auckland
Telephone:	(09) 3030 121
Freephone:	0800 109 800
Fax:	(09) 3030 142
Website:	<a href="http://www.sfo.govt.nz">www.sfo.govt.nz</a>
Email:	<a href="mailto:sfo@sfo.govt.nz">sfo@sfo.govt.nz</a>
Auditor:	Audit New Zealand on behalf of the Controller and Auditor-General
Bankers:	Westpac, Government Branch, Wellington

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# *Departmental Scene Setting*

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## CHIEF EXECUTIVE'S OVERVIEW

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This will be my 10<sup>th</sup> and final Overview for the Serious Fraud Office Annual Report. Traditionally I have sought to do more in the Overview than simply comment on the performance of the Office during the year. Elsewhere in this Annual Report you can find the facts and figures detailing the performance of the Office for the 2006/07 financial year. It has been another productive year for the Office. This year I intend to provide an overview of the contribution that the Serious Fraud Office has made in the fight against serious and complex fraud, the advantages of having a Serious Fraud Office, and the threats and challenges for the Office and for the fight against white collar crime for the future.

### Establishing the Serious Fraud Office

Twenty years ago serious fraud was not a crime that was a priority for the Police. Basic fraud offending would be investigated and prosecuted but there was neither the expertise nor the commitment to address serious white collar crime. This was common to policing around the world. The skills, resources, and commitment required to address serious and complex fraud were not generally available within traditional policing agencies. Several factors, including the share-market crash, saw changes occur around the world. Specialised agencies, often with special powers, were established to combat serious and complex fraud. The New Zealand Serious Fraud Office was one such agency. It adopted a totally different technique to the policing of serious and complex fraud from the standard investigation of offences by the Police. With the special powers that were recognised as being essential to get behind serious and complex fraud, and the commitment of a dedicated group of investigators, forensic accountants and prosecutors, the Serious Fraud Office has become one of the most effective crime fighting agencies within New Zealand.

Unlike ordinary policing the Serious Fraud Office does not seek a high profile with the public. Nor does it require vast numbers of staff located throughout New Zealand. Dealing with serious and complex fraud requires the Office to look for smarter ways to investigate white collar crime. The Serious Fraud Office relies on documents and forensic accounting work to prove its cases much more than any statements or observations from the general public. It does not seek to, or need to, publicise the matters it is investigating. It gets on with its work in a quiet but extremely competent manner. Many ordinary citizens will never have any direct involvement with the Serious Fraud Office in a lifetime, but they will benefit from a community where serious fraud gets addressed in an effective manner.

### The Face of Fraud in New Zealand

In the initial years after its establishment the Serious Fraud Office was required to look into several matters that fell out of the excesses of the 1980's. The Equiticorp prosecution represented the high point for the Office in those matters. But it would be misleading to believe that the Equiticorp prosecution was representative of serious and complex fraud offending in New Zealand either then or now.

Serious and complex fraud offending in New Zealand covers a much wider spectrum than just the abuses arising from share market dealings of the 1980's. New Zealanders are no different from the many people around the world who fall victim to various fraudulent schemes. Some unscrupulous New Zealanders are only too willing to take advantage of gullible members of the public to separate them

from their money. New Zealanders today are also at risk of losing their hard earned money to financial scams emanating from overseas.

We do not have large-scale corporate collapses in New Zealand today, although there are some disturbing trends in the financial sector at the present time. It is also doubtful that we would ever have an Enron case in New Zealand. But we do have frauds that are extremely complex to investigate and prosecute and every bit as serious for individual New Zealanders often taking most of the life-savings of the victims.

A review of the Serious Fraud Office Annual Reports over the past decade will reveal that the Office has investigated and prosecuted a wide range of cases, in each case there being New Zealanders who will have been defrauded often of millions of dollars. There have been the elaborate financial scams, the corrupt lawyers and accountants, sophisticated GST and tax frauds, secret commissions, bribery, mortgage frauds, complex share dealings and various other types of fraud. The range and background of offenders is extensive, the categories of victims is even wider.

Today the Office has as many investigations under action as it had a decade ago and the range continues to be as diverse and as complex as ever, and many millions of dollars are involved.

Over recent years fraud has become much more topical. New terminology has been introduced often to describe in a more sensational way crimes that have been happening for years. Over recent years serious and complex fraud has been in the headlines with such new terminology as money laundering, identity theft, organised crime, and terrorist funding. Thus, a simple credit card stolen a few years ago would have been treated as theft of a credit card; today it is just as likely to be described as a case of "identity fraud". Seminars devoted almost entirely to 'fraud' are now routine. Similarly private accounting firms have deliberately targeted the fraud market conducting fraud surveys and offering consultancy services to combat fraud.

There is no question but that serious and complex fraud remains an issue for law enforcement in New Zealand. There is a growing complexity about the cases and an ever increasing number of investigations requiring inquiries to be made overseas.

### Effectively Combating Serious and Complex Fraud in New Zealand

The Serious Fraud Office provides a very measured and effective response to serious and complex fraud in New Zealand. The combination of the additional powers, and the skills and techniques acquired over many years ensures that the New Zealand Serious Fraud Office is the equal of any agency around the world in dealing with white collar crime.

In 1990 Parliament passed two pieces of legislation within a month of each other – the Serious Fraud Office Act and the New Zealand Bill of Rights Act. In the Serious Fraud Office Act the Director was given special powers to obtain information and most notably to require persons to attend before the Director and to answer the questions of the Director. There was no right to silence or right not to incriminate oneself at such an interview. The protection for the individual was an entitlement to have a lawyer present at the interview and that any self-incriminating answers given at a compulsory interview could not be used directly in evidence against that individual. These special powers are only available to be used by the Director after the Director has first been satisfied that a particular threshold of suspicion has been reached. The Director has lesser powers where the level of suspicion of offending is lower. Parliament by removing the right to silence in an investigation into serious or complex fraud placed the importance of having the investigative body able to make the fullest of enquiries ahead of the

traditional right to silence. Furthermore it entrusted the Director to issue Notices for the production of documents and for the attendance of persons at compulsory interviews. It did not see a need for such Notices to be put before a Judge for judicial sanction. These were, and perhaps surprisingly are still today, radical departures from the accepted legal tenets of our criminal justice system. They were considered "draconian" by some people especially in the legal fraternity. Opponents of the legislation saw such provisions as representing a totally unacceptable placement of power in the hands of the Director. But after 17 years they have proved to be most effective tools in the fight against serious and complex fraud and have operated without any abuses and without any significant challenges. In many ways the changes to the criminal justice system in New Zealand brought about by the Serious Fraud Office Act have perhaps been the most far-reaching changes made to the criminal justice system over several decades. They established that carefully designed changes can be made even to matters considered sacrosanct in our criminal justice system without the system collapsing or falling into serious abuse. And they have proven, if it needs proving, that a law enforcement agency can be trusted to exercise such powers responsibly. Getting to the truth of the matter in hand, even if it meant altering some centuries old traditions of the legal system, was seen as being in the wider public interest.

Only a month later the New Zealand Bill of Rights Act was passed. It enshrines individual rights and liberties including the right to refrain from making any statement in relation to any suspected offending and the right to be secure against unreasonable search or seizure. In complete contrast to the provisions of the Serious Fraud Office Act the provisions of the New Zealand Bill of Rights Act have been used to a large part by offenders to seek to avoid accountability for their actions and to prevent law enforcement agencies getting to the truth of a matter by claiming that somewhere during the course of an investigation there was a failure to comply with one of the provisions of the New Zealand Bill of Rights Act. The New Zealand Bill of Rights Act became known in some quarters as "the rogue's charter". Whenever the Court determines that an action may have offended against a provision in the New Zealand Bill of Rights Act the presumption is that any evidence arising from that breach should be excluded from any investigation and/or trial. The Courts have introduced a "balancing regime" in an attempt to reflect the public interest in not having serious criminal prosecutions ended due to critical evidence being omitted, but the presumption to exclude the evidence remains as the first and only remedy that is considered.

The contrast between the provisions of these two pieces of legislation is stark. The Serious Fraud Office Act places emphasis on ensuring that the investigation gets to the heart of the matter; the New Zealand Bill of Rights Act places emphasis on the rights of the defendant not to have any evidence against him or her produced if it has not been obtained in full compliance with the provisions of the New Zealand Bill of Rights Act.

There is a strong public interest in ensuring that to the greatest extent possible serious criminal offending is prosecuted and that miscarriages of justice are kept to the absolute minimum. Victoria University has recently announced an "innocence project" aimed at ensuring that serious miscarriages of justice do not occur. As Director I do all that I can to ensure that no person is prosecuted by the Serious Fraud Office without there being a strong case to answer. The Solicitor-General's guidelines on prosecutions require no less. Decisions have to be made on the available admissible evidence, not on what decisions will be the most popular. It will be interesting to see whether the brief for the innocence project includes a mandate to look at the investigation side of a case as well as what happens after a person has been charged. It may well be that the truth is easier to ascertain before any individual has been charged and before there has been all the emotion and publicity surrounding a full trial. It is certainly preferable for the decision-maker to know as many facts as possible before determining whether or not to commence a prosecution. The laying of a charge, in itself, can have an adverse effect on an individual even if that individual can later establish his or her innocence.

One of the on-going issues in relation to fraud is the gap between the capability of the Serious Fraud Office to investigate and prosecute serious and complex fraud, and that of the Police to deal with lesser frauds falling close to, but beneath, the threshold of a Serious Fraud Office investigation. I have any number of cases each year that do not meet my statutory threshold but which I know will not rate as a priority for the Police. There is a growing trend for people to look elsewhere to get those frauds addressed. In Australia there has been a trend over a number of years now for the private sector rather than the police to do much of the investigative work on frauds before handing a file to the Police to prosecute. That is also happening in New Zealand. It is not a trend that I support. The enforcement of the criminal law should properly be the role of the State. It should not depend on the financial ability of a victim to fund a private investigation. Nor would I support a down-grading of the threshold for investigations by the Serious Fraud Office with its special powers. It is not for me, however, to dictate to the Police where their priorities should lie. The Serious Fraud Office for its part has always been more than willing to do whatever it can to assist in the training of the Police in the basics of fraud investigation. The Office will also, for example, lend the Police a forensic accountant to deal with a particular financial matter that the Police are struggling to understand.

The impact that the Serious Fraud Office has had on our criminal justice system, however, goes well beyond simply investigating and prosecuting serious and complex fraud. In recent years the skills and expertise within the Serious Fraud Office has seen the Office lead the way on the development of a document management system for document intensive investigations and prosecutions, and in the presentation of evidence electronically in fraud trials. The Office has a document management system that provides a seamless system from the initial receipt of a document into the Office through to the trial of a case. At any time the Office can locate almost instantaneously any one of thousands of documents in any particular case. Our "electronic court" is able to be used anywhere in New Zealand and is well ahead of any developments in the Courts. The staff of the Office are often in demand to conduct seminars on serious fraud. Currently the Serious Fraud Office has a joint initiative with the Customs Service to improve the computer forensics capability for the investigation of white collar offending. A new computer forensics unit has been established in Auckland staffed by Customs and the Serious Fraud Office. The Office is also working with the Securities Commission to establish the best procedures for dealing with the new insider-trading laws.

### The Future Challenges and Threats

Perhaps it is time for New Zealanders to take a much closer look at some of the basic provisions of our criminal justice system. We need to ask ourselves whether some of the rules put in place centuries ago in a completely different environment are still appropriate today. We also need to ask whether the emphasis on the individual rights of the defendant is today serving society in the way intended. The concept that my home is my castle evolved around an individual being able to protect his or her property from intrusion by the King. Thirty years ago in New Zealand I didn't lock the doors to my house and car. I had no fear then of the State or anyone else intruding upon my privacy. Today I not only lock them but also have my house and car alarmed. This is not because of any changes in the balance of power between me and the State. Rather it is a result of an increase in crime as it affects ordinary New Zealanders.

In 1990 the legislators in passing the Serious Fraud Office Act took a bold step forward with the powers given to the Director. The legislators implicitly recognised that the risk of law-abiding citizens being harmed by the special powers given to the Director was virtually nil. The Director could be trusted to exercise the powers responsibly. Only persons who had something to hide from the Director would be concerned at the powers of compulsion given to the Director. Victims in most communities are usually willing to talk with law enforcement authorities except in those instances where the fear of reprisals from

the persons under investigation is greater than the desire to do the proper thing. Thus, for example, in some financial scams victims are told that if they talk to the Serious Fraud Office their "investment" will be forfeited. In reality the "investment" had long since disappeared. The power of compulsion assists the Serious Fraud Office to obtain information from those parties who require or appreciate the protection afforded to them if they provide information in response to a formal demand rather than voluntarily.

The power of compulsion in the hands of a highly skilled financial investigator is an invaluable tool for unravelling sophisticated financial arrangements. It is also probably the most misunderstood tool in law enforcement. That misunderstanding arises primarily from the very intricate nature of a Serious Fraud Office investigation which has to deal with some highly intelligent and skilled suspects.

The power of compulsion is used not only to get an explanation from the suspect but more importantly from advisers close to the suspect. Many of these advisers would not co-operate voluntarily for any number of legitimate (usually commercial) reasons. Obtaining such an explanation is often important to understanding a complex financial transaction and why certain steps were taken. On occasions the explanations obtained may put a number of other matters into context and result in the file being closed without any further action. There is a common fallacy that the compulsory interview is used by the Serious Fraud Office to extract confessions from suspects. Nothing could be further from the truth. The Office only very rarely gets a confession during a compulsory interview. The person who is going to confess normally does so at a voluntary interview.

Today, notwithstanding the effectiveness of these powers and the absence of any abuse over the past 17 years, the powers of the Director are under threat, this time from the Law Commission which believes that such powers should at the very least have judicial sanction. The argument by the Law Commission is that the existence of these powers makes the community feel that it is living in a police state notwithstanding no significant complaints about these powers from any members of the public. To the contrary, I believe that a survey of the many victims of the over 300 fraudsters convicted following prosecution by the Serious Fraud Office would strongly support the powers of the Office which in many cases were critical to a successful prosecution.

Most New Zealanders have not lived in fear of the coercive powers of the Serious Fraud Office for the past 17 years. Nor have they feared having to supply information to the Serious Fraud Office as it seeks to address serious and complex fraud. These are not the people who will ever receive a Notice from the Director for a compulsory interview. But they are the people who are most likely to be affected as victims of serious fraud and who would, I believe, expect to see law enforcement agencies having the appropriate tools to solve such crimes.

The rule of law must remain paramount in New Zealand. In 10 years as the Director of the Serious Fraud Office I have not had any occasion where anyone in the Office has deliberately ignored either the letter or even the spirit of the law. But that rule of law needs to reflect the changing nature of the community that it serves today.

In the field of financial and economic crime a sentence of imprisonment may reflect the immediate repulsion of the activities of a serious fraudster. But a requirement to repay the monies stolen and the costs of the investigation and prosecution, no matter how long that repayment takes, may ultimately be a more effective penalty and a better outcome for society. If our system can track the repayment of student loans from future earnings why can we not do the same for fraudsters many of whom use their ill-gotten gains for a better lifestyle at the expense of their victims? The new civil forfeiture policy goes

some way towards achieving the goal of looking to ensure that crime does not pay, but we could do more. Economic sentences for economic crime may make more sense than longer prison sentences.

Any penalties, however, are only ever going to be of relevance if the risk of being held to account for criminal conduct is high. To this end there is a very real need to ensure that law enforcement agencies are given the tools that are necessary to greatly increase the chances of offenders being detected and successfully prosecuted. The more complex the arrangements put in place by legislation or by the Courts the greater the scope for the serious criminal to successfully mount a legal challenge to the action of a law enforcement agency. And the more serious the offence the more likely it is that such a challenge will be mounted.

In my 10 years as Director the most serious threat to the fundamental rights of the individual New Zealanders to live their lives with a sense of independence and security has come from the risk of becoming a victim of crime. Yet we continue to promote protections in our laws that are only ever going to be availed of by offenders. The powers given to the Director in the Serious Fraud Office Act stand as a beacon in a sea of legislation that is of little or no comfort to the many victims of crime in our society.

### Signing Off

It has been a real honour and a very humbling experience to be the Director of the Serious Fraud Office for the past 10 years. I must pay testament to the commitment, professionalism, and outstanding skills of all of the staff at the Office over those 10 years. Without exception they have contributed to making the New Zealand Serious Fraud Office a world leader in the fight against economic and financial crime. I was also ably supported by the members of the legal profession who have served on the Serious Fraud Office panel of prosecutors. That arrangement is one that works extremely well and ensures that there is an independent view brought to the work of the Office by some extremely capable legal minds.

I am confident that I leave the Office in good heart and well placed to meet future challenges. There is still much to be done, especially with the implementation of civil forfeiture. I know that the incoming Director will receive the same level of support that I have received from all of the staff and our other law enforcement colleagues in other agencies.

A handwritten signature in black ink, appearing to be 'DJ Bradshaw', written in a cursive style.

DJ Bradshaw  
Director

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**STATEMENT OF RESPONSIBILITY FOR THE YEAR ENDED 30 JUNE 2007**

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In terms of the Public Finance Act 1989, I am responsible, as Chief Executive of the Serious Fraud Office, for the preparation of the Department's financial statements and the judgements made in the process of producing those statements.

I have the responsibility of establishing and maintaining, and I have established and maintained, a system of internal control procedures that provide reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, these financial statements fairly reflect the financial position and operations of the Department for the year ended 30 June 2007.



DJ Bradshaw  
Director  
14 September 2007



Anne Smith  
Chief Financial Officer  
14 September 2007

## AUDIT REPORT

### TO THE READERS OF THE SERIOUS FRAUD OFFICE'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2007

The Auditor-General is the auditor of the Serious Fraud Office (the Office). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Office for the year ended 30 June 2007.

#### **Unqualified opinion**

In our opinion:

The financial statements of the Office on pages 30 to 43:

comply with generally accepted accounting practice in New Zealand; and

fairly reflect:

the Office's financial position as at 30 June 2007; and

the results of its operations and cash flows for the year ended on that date.

The statement of service performance of the Office on pages 15 to 21:

complies with generally accepted accounting practice in New Zealand; and

fairly reflects for each class of outputs:

its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and

its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 17 September 2007, and 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 Director and the Auditor, and explain our independence.

#### **Basis of opinion**

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and the statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;

verifying samples of transactions and account balances;

performing analyses to identify anomalies in the reported data;

reviewing significant estimates and judgements made by the Director;

confirming year-end balances;

determining whether accounting policies are appropriate and consistently applied; and

determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements or statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

### **Responsibilities of the Director and the Auditor**

The Director is responsible for preparing financial statements and a statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Office as at 30 June 2007 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Office's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Director's responsibilities arise from sections 45A and 45B of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45D(2) of 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 Institute of Chartered Accountants of New Zealand.

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

A handwritten signature in black ink that reads "John O'Connell". The signature is written in a cursive style with a long, sweeping underline.

John O'Connell  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

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# *Performance Information*

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## SERVICE PERFORMANCE

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### 1. SUMMARY OF TOTAL CASES FOR THE YEAR ENDED 30 JUNE 2007

A total of 56 cases were on hand at the beginning of the year at assessment/detection, full investigation or prosecution stage. During the year a further 65 new cases were assessed and 1 case was reinstated. This gave the Office an overall caseload of 122 files. At the end of the financial year there were 56 cases on hand – 4 at assessment/detection, 33 at full investigation and 19 prosecutions.

**Note:**

Assessment	complaints undergo an initial assessment to determine whether the matter has reached the statutory threshold for further consideration under either the Detection or Investigation provisions of the Serious Fraud Office Act 1990
Detection	some complaints require further consideration of all the documentary material to determine whether the complaint should proceed to a full investigation
Investigation	involves obtaining and analysing documents, researching financial transactions and interviewing potential witnesses and suspects to determine whether charges are to be laid
Prosecution	involves preparing the prosecution files, briefing evidence and conducting the prosecution. Prosecution cases do not include cases where appeals have been lodged. Nor do they include related Court proceedings such as judicial reviews or costs applications.

## 2. OUTPUT MEASURES

### **Class of Output: Investigation and Prosecution of Serious or Complex Fraud**

#### *Description*

The output class involves the investigation of suspected cases of serious or complex fraud brought to the attention of, or detected by, the Serious Fraud Office, and the prosecution of those cases where the Director is satisfied that a prosecution should be commenced.

Following investigation, the Director makes a decision on whether or not any criminal charges should be laid.

The prosecution of the case requires the preparation of a well-researched and documented prosecution case. This encompasses the filing of all court documents, the preparation, researching and collating of all documentary and oral evidence; and appearing as Counsel at all preliminary court hearings and as Junior Counsel at trial.

This output class includes the briefing of the outside Counsel engaged for the trials, the giving of evidence at trials and the provision of expert advice throughout the course of trials.

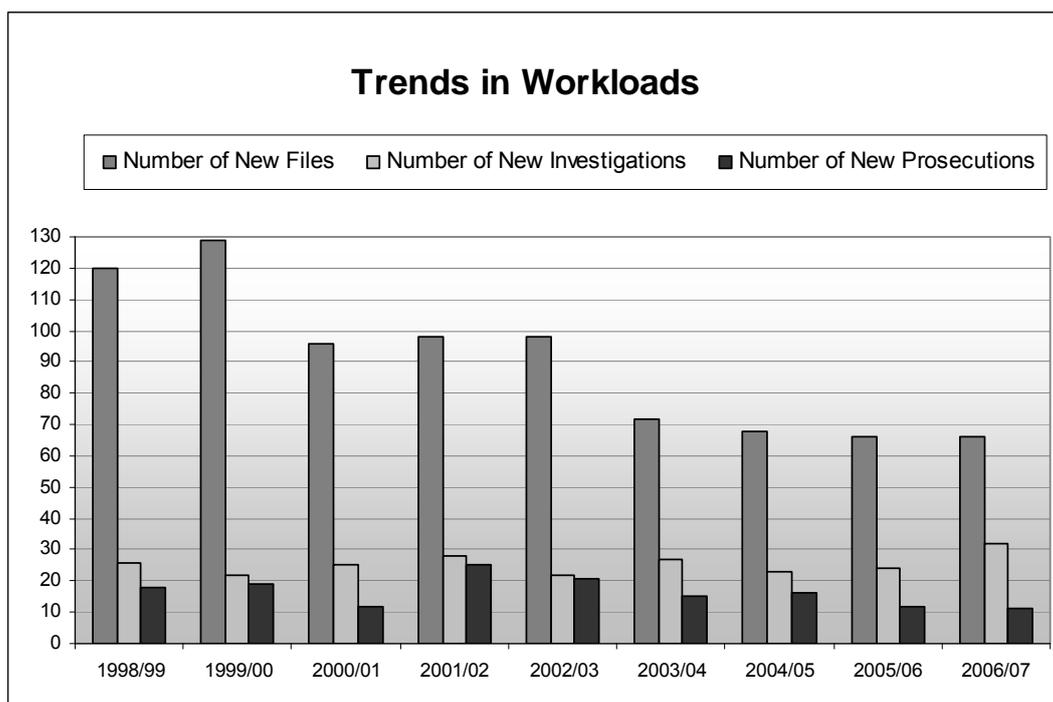
#### *Outcome*

To combat serious and/or complex fraud offending.

#### *Details of Complaints and Investigations*

As the trend in the diagram on the following page indicates, the number of new complaints considered by the Director over the past few years has been relatively stable at around 65-70 complaints per year. This reflects a downward trend from the period 2000-2003. The number of new complaints, however, is not a sound measure of workload as the nature of each complaint can vary significantly.

Over the past few years a higher proportion of the complaints considered have met the threshold for a full investigation. Between 25% and 30% of new complaints in the past four years have resulted in a full investigation compared to around 18% to 20% in the period 2000-2003. In the past 12 months out of 65 complaints 28 were assessed as warranting a full investigation from the outset (43%) and a further 2 complaints went initially to the Detection stage but later when more information was available became full investigations. Some complaints fall outside the "serious or complex" category and are more properly referred to other agencies. Where that decision is able to be made by the Complaints Officer at the outset, the matter will not be formally recorded as a matter assessed by the Director. Only those matters placed before the Director to determine whether or not the case meets the statutory threshold are recorded as complaints for statistical purposes.



During the reporting period;

- 11 investigations were completed and proceeded to prosecution;
- 12 investigations were completed but did not proceed to prosecution;
- 13 cases were referred to other more appropriate agencies, namely:
  - 1 to the New Zealand Police
  - 2 to the Commerce Commission
  - 1 to the Inland Revenue Department
  - 2 to the New Zealand Immigration Service
  - 1 to the Securities Commission
  - 2 to the Ministry of Education
  - 2 to the Department of Internal Affairs
  - 1 to the Law Society
  - 1 to the Australian Securities and Investments Commission
- 28 cases were closed following consideration and assessment as they were found not to justify further action;
- 4 cases remain at the assessment or detection stage;
- 33 cases remain at the full investigation stage;
- 19 cases remain at the prosecution stage.

The Management Team formally reviewed all the cases on hand at least monthly to ensure that the desired level of momentum was sustained and that the investigations were focusing on the key issues.

## Performance Targets

### Assessment of Complaints

- ***Within 14 Days of receipt of a complaint a preliminary assessment will be completed to determine whether it meets the criteria of the Serious Fraud Office Act 1990.***

The Complaints Officer receives all complaints that are lodged with the Office. Many matters raised with the Complaints Officer are clearly not matters falling within the jurisdiction of the Office but are more properly addressed in a different manner or place. The complainants are advised of this virtually immediately.

Some complainants will not realise that, unlike a complaint to the Police, a complaint to the Serious Fraud Office must reach a certain evidential threshold before the Director can open a case. Thus, the Complaints Officer may have to seek further information. The preliminary assessment can only be made once that further information has been received in the Office.

Almost all complaints received a preliminary assessment within 14 days of being received in the Office. A small number of complaints (8) fell outside of the 14 days. Most by just a few days. Three cases took 31-32 days. It is essential that complaints receive adequate scrutiny at the outset to ensure that the decision made by the Director is well-founded given the consequences that can flow from a decision to open an investigation into a matter.

- ***To focus the assessment and/or detection stage and decide within six months whether to abandon preliminary work or to proceed to a full investigation.***

- 71 Cases at the Assessment/Detection stage during the year
- 4 Cases at Assessment/Detection Stage at 30th June 2007
- 1 Case exceeding 6 months at the Assessment/Detection stage.

The performance target was met in all but one case with the decision point being reached well within the timeframe, usually within two – four weeks depending on the level of detail that accompanied the initial complaint (refer to comments immediately above). The one case that exceeded six months was delayed due to difficulties in accessing information held on a computer.

### Investigations

- ***That in 80% of the cases sufficient work will have been completed within 12 months to reach the prosecution decision point.***

During the reporting period a total of 56 cases were at the investigation stage and of these:

- 12 were completed but did not proceed to prosecution
- 11 resulted in prosecution
- 33 remain under investigation.

It was anticipated that the Office would complete approximately 25 investigations during the year.

In the 11 cases where the investigations were concluded and proceeded to a prosecution, the average length of time from the receipt of the complaint to the prosecution commencing was around 12 months. Six investigations fell outside of the 12-month period.

These 6 cases all involved complex multiple financial transactions that needed to be carefully considered to determine if any offending had occurred, and if so, the extent of that offending. The six cases took 12½, 14, 15, 16½, 16½, and 20 months to reach the stage where a prosecution was commenced. Thus, most of these investigations did not extend much beyond the guideline of 12 months.

Of the 12 investigations that were completed but did not result in a prosecution five cases exceeded the 12-month period.

Three of these cases involved complex transactions where additional investigative and analytical work was required in order to be satisfied that the Office fully understood the arrangements. One case involved a complex tax transaction that was the subject of prolonged litigation under the tax legislation which delayed the investigation, and one case involved an on-going investigation in Fiji where the investigation was divided up into several parts – the earlier parts having already been successfully prosecuted.

Of the 33 cases on hand at the investigation stage, six cases have been under action for more than 12 months. Five of the six cases have been delayed due to work required to be undertaken overseas. In all but one of those cases involving an overseas component, an overseas agency has been asked to undertake some work in relation to the matter under investigation; the other case was delayed due to difficulties in arranging an interview with a person who was living overseas. The sixth case was delayed considerably by Court action challenging certain steps taken by the Serious Fraud Office. The investigation is now continuing.

Overall, 17 cases out of the total of 56 cases (30%) exceeded the 12-month target. One third of these cases were completed within a further 6 months. Whilst it is useful to have a guideline for the timely completion of investigations that target must never be allowed to replace properly considered decisions based on sound evidence and a careful assessment of the law. Where information is required from overseas and has to be sought under the Mutual Assistance legislation delays in the investigation are almost inevitable. All applications from the Serious Fraud Office have to first be vetted by the Crown Law Office. If approved, they will then be passed to the Ministry of Foreign Affairs and Trade (MFAT) for onward transmission to the central authority in the country in question. That central authority will then pass on the request to the appropriate law enforcement agency to do the work to obtain the information requested. The reply will be routed back through MFAT and the Crown Law Office.

## Prosecutions

It was anticipated that the Office would complete around 15 prosecution cases in the financial year.

During the year ended 30 June 2007, 11 new prosecutions were commenced in addition to the 27 prosecutions that were under action at the beginning of the year. Nineteen prosecutions were concluded during the year. Several of these cases involved a number of defendants. Convictions were obtained in 16 of the 19 cases. One prosecution case was stayed after two jury trials failed to produce a verdict.

During the year four appeals against conviction and sentence, and three appeals against sentence only, were heard. All the appeals except one were dismissed. The one exception was an appeal against sentence where the original sentence was reduced from 3½ years to 3 years.

At the end of the reporting period there were 19 prosecution cases under action.

For the period from the inception of the Office to 30 June 2007 the Office has a 90.13% success rate with prosecution cases, and an 81.94% success rate in relation to individuals prosecuted by the Office.

- *To meet the dates set by Courts.*

On all occasions dates set by the Courts have been met. The Office works closely with the Courts in an attempt to ensure the smooth running of the prosecution process.

## General

- *To maintain the highest quality of investigative work, case preparation and case presentation.*

The Office continues to receive favourable comments about the high quality of investigative work, case preparation and case presentation. The overall professionalism of the case investigation, preparation and presentation by the Office is a factor in the successful determination of the cases. Assessment will continue to be carried out by observation by the Director, peer review and judicial comment. Where appropriate prosecution cases are debriefed as a part of ensuring that the Office maintains the highest standards in its prosecutions.

There were no adverse comments from the judiciary or panel counsel during the year in relation to any of the investigative work or case preparation undertaken by the Office.

The progress of each case was reviewed at least monthly by the Director and the Assistant Directors to ensure the timeliness and thoroughness of all investigations and prosecutions.

## Civil Forfeiture

The Office did not undertake any cases under this heading during the year as the legislation had not been enacted.

Some preparatory work was undertaken primarily in securing accommodation for the new function.

An amount of \$12,000 was spent on this output class for the accommodation.

- *That the outputs are provided within the appropriated sum.*

Statement of Cost of Services (GST exclusive)	2006/07 Main Estimates (\$000)	2006/07 Final Estimates (\$000)	2006/07 Actual (\$000)	2005/06 Actual (\$000)
<b>Output class: Investigation and Prosecution of Complex or Serious Fraud</b>				
Revenue - Crown	4,760	4,760	4,760	4,760
Revenue - Departments	70	115	142	45
Revenue - Other	9	9	-	-
Profit on sale of fixed assets	-	-	-	3
<b>Total Revenue</b>	<b>4,839</b>	<b>4,884</b>	<b>4,902</b>	<b>4,808</b>
Expenses	4,839	4,884	4,868	4,795
<b>Net surplus/(deficit)</b>	<b>-</b>	<b>-</b>	<b>34</b>	<b>13</b>
<b>Output class: Civil Forfeiture of Criminal Assets</b>				
Revenue - Crown	635	635	-	-
Revenue - Departments	-	-	-	-
Revenue - Other	-	-	-	-
Profit on sale of fixed assets	-	-	-	-
<b>Total Revenue</b>	<b>635</b>	<b>635</b>	<b>-</b>	<b>-</b>
Expenses	-	-	12	-
<b>Net surplus/(deficit)</b>	<b>-</b>	<b>-</b>	<b>(12)</b>	<b>-</b>
<b>For both Output classes</b>				
Revenue - Crown	5,395	5,395	4,760	4,760
Revenue - Departments	70	115	142	45
Revenue - Other	9	9	-	-
Profit on Sale of Assets	-	-	-	3
<b>Total revenue</b>	<b>5,474</b>	<b>5,519</b>	<b>4,902</b>	<b>4,808</b>
Expenses	5,474	5,519	4,880	4,795
<b>Net surplus/(deficit)</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>13</b>

### 3. USE OF STATUTORY POWERS

#### Target

- To report on all instances where the Director has exercised his powers in accordance with the Serious Fraud Office Act 1990.

#### Delivery

- In the 12 months to 30 June 2007, effective use of the Office's powers has continued.
- In total, 1135 Notices (859 in 2005/06 and 861 in 2004/05) were issued requiring people to give information and/or produce documents.
- Seven (five in 2005/06) search warrants were executed.

The breakdown of the use of the statutory powers during the year was as follows:

#### SFO Act, Part I

##### Detection of Serious or Complex Fraud

		2006/07	2005/06	2004/05
S5A	Requiring documents	91	44	118
S5(b)	Requiring answers to questions	4	16	13
S6	Search warrant obtained	Nil	1	Nil

#### SFO Act, Part II

##### Investigation of Suspected Offences Involving Serious or Complex Fraud

		2006/07	2005/06	2004/05
S9(d)	Requiring answers to questions	258	123	101
S9(e)	Requiring information	113	129	69
S9(f)	Requiring documents	669	547	560
S10	Search warrant obtained	7	4	5

#### Performance

The Director (or an Assistant Director in the Director's absence) personally signs all Notices requiring persons to attend to answer questions. An Assistant Director or a Supervising Senior staff member acting under delegated authority from the Director signs notices requiring the production of documents. To ensure that requisite grounds exist for the exercise of these powers an internal control procedure is followed before the Notices are referred for signature.

Search Warrants are issued on written application to a District Court Judge. The Director, or an Assistant Director, must be notified in advance of any request for a search warrant.

There is, therefore, an audit process in place in all instances of the exercise of these statutory powers to ensure that the provisions of the Serious Fraud Office Act 1990 are met.

## Enforcement of Statutory Powers

Just occasionally the Office is challenged as to the exercise of its statutory powers. In most instances these challenges are turned away by a quiet word to the lawyer in question who may not have fully understood the powers of the Director, or by the Director being prepared to allow additional time for information to be provided or to rearrange the date of a compulsory interview. Where an individual is believed to be deliberately seeking to frustrate an investigation the Serious Fraud Office Act 1990 allows for a prosecution to be taken against that individual. Each situation has to be addressed on its merits, but ultimately the law must be upheld.

During the last financial year the Office commenced one prosecution against an individual for failing to comply with the requirements of the Serious Fraud Office Act. In that case the individual deliberately sought to avoid providing any information to the Office about a number of people who are currently facing serious charges relating to a mortgage fraud scheme. This prosecution has yet to be determined.

## 4. PROSECUTIONS COMPLETED

### Case 1

#### **Ronald Alexander Bellamy**

Ronald Bellamy committed an advanced fee fraud. He was convicted of misappropriating proceeds held under a direction (section 224 Crimes Act 1961) and uttering forged documents (section 266 Crimes Act). Bellamy was sentenced to 3 years imprisonment for the misappropriation of funds and 3½ years imprisonment on the forgery charges concurrently. Bellamy appealed his sentence which was reduced by 6 months on the forgery charges.

### Case 2

#### **Ivy Milly Bennett and Michael Timothy Tolich**

Ivy Bennett was convicted of improperly using gaming monies that belonged to a Trust (section 229A Crimes Act 1961 Use of a document). She was fined and ordered to pay costs, the total extent of both being \$25,000.

Michael Tolich admitted forging false invoices to support cash payments made by the Waipareira Trust and to paying Mrs Bennett kick-backs in return for receiving gaming machine grants. Following medical evidence the Judge decided to discharge Mr Tolich without conviction.

### Case 3

#### **Frana Botica**

Frana Botica stole monies from her employer and from a Trust by altering payroll details and falsifying bank accounts. She pleaded guilty to charges of altering a document (section 266A Crimes Act 1961) and was sentenced to 2 years imprisonment with leave to apply for home detention.

### Case 4

#### **Tuariki Delamere**

Tuariki Delamere was charged with using a document with intent to defraud (sections 228 & 229A Crimes Act 1961) and forgery (section 266 Crimes Act 1961) in relation to a series of transactions under the Business investor migrant scheme for immigration into New Zealand. The Judge withdrew the forgery charges from the jury. Delamere was acquitted of the other charges.

### Case 5

#### **Anthony Dodd**

Anthony Dodd was convicted of paying secret commissions to two other persons in relation to a car parking business (section 3 Secret Commissions Act 1910). He was sentenced to 6 months imprisonment with leave to apply for home detention.

### Case 6

#### **Name suppressed.**

The defendant whose name was permanently suppressed was acquitted on charges of use of a document, contrary to s 229A Crimes Act 1961, arising out of an investment scheme.

### Case 7

#### **Richard Albert Essex**

Richard Essex was convicted in relation to various mortgage frauds involving properties that were subject to "sell and buy-back" agreements (section 229A Crimes Act 1961, use of a document to defraud). He was sentenced to 2½ years imprisonment.

### Case 8

#### **Roderick Bernard Harrison and Alan Victor Jones**

Roderick Harrison and Alan Jones operated an investment scheme that offered significant returns to investors. This was a 'ponzi' scheme with some of the funds received from later investors being used to satisfy earlier investors of the authenticity of the investment scheme. Many of the representations were false. The bulk of the investment funds received were used by the defendants for their own personal expenditure.

Both defendants were convicted of Conspiracy to defraud (section 257 Crimes Act 1961) and Use of a document to defraud (section 229A Crimes Act 1961). They were each sentenced to 6½ years imprisonment. Their appeals against sentence were dismissed.

### Case 9

#### **Adrian Hood**

Adrian Hood was found guilty of paying secret commissions in order to obtain favours relating to a Customer Loyalty Rewards Programme (section 3 Secret Commissions Act 1910). The recipient of the secret commissions had earlier pleaded guilty to mirror charges under the Secret Commissions Act.

Adrian Hood was sentenced to 2 years imprisonment with leave to apply for home detention.

### Case 10

#### **Patrick David Jackson**

Patrick Jackson stole money from his employer and created false accounts to hide the theft. He pleaded guilty to charges of false accounting and fraudulent use of documents (sections 260(a), 229A, & 228 Crimes Act 1961). He was sentenced to 3 years 9 months imprisonment.

Case 11**John Charles Liddy**

John Liddy defrauded trust and corporate victims of a significant sum of money over a period of years. He pleaded guilty to charges of dishonestly using documents (sections 229A and 228 Crimes Act 1961). Liddy was sentenced to 4½ years imprisonment.

Case 12**Robert Guy Morris**

Robert Morris dishonestly obtained money from victims through various kinds of transactions involving motor vehicles. He pleaded guilty to charges of obtaining by deception, forgery, and theft by a person required to account (sections 222, 240, 241 and 265 Crimes Act 1961).

Morris was sentenced to 3½ years imprisonment.

Case 13**Rita Chan See**

Rita Chan See over a period of years stole monies from the School in which she was employed. She was charged with theft and using forged documents, contrary to sections 219, 220, 240, 257, & 266 Crimes Act 1961.

See was sentenced to 2 years imprisonment with leave to apply for home detention.

Case 14**James Keith Smart**

James Smart pleaded guilty to stealing from his employer by the dishonest use of company cheques and the unauthorised use of company travel cards. He was charged with dishonestly using documents (sections 229A and 228 Crimes Act 1961) and sentenced to 4 years imprisonment.

Case 15**SPD (Sean Miller)**

Sean Miller was the only defendant in the "Powdergate" case who pleaded not guilty to filing false Customs declarations (as reported in last years Annual Report.)

After an unsuccessful section 347 application to have the charges dismissed Miller entered guilty pleas on all counts. He sought and obtained from the Court a discharge without conviction based primarily on the disproportionate impact of the convictions on his career as an Accountant.

Case 16**Doreen Suttie**

Doreen Suttie was the guardian for a number of overseas students studying in New Zealand. She was charged with the theft of monies sent to her by overseas families to be used to meet the expenses of the students. Suttie pleaded guilty to charges of using a document and theft (sections 229A & 224 Crimes Act 1961). She was sentenced to 2½ years imprisonment. That sentence was upheld on appeal.

Case 17**Ian Taylor**

Ian Taylor pleaded guilty to accepting secret commissions (section 3 Secret Commissions Act 1910) and to using documents with intent to defraud (section 229A Crimes Act 1961). He was sentenced to 1½ years imprisonment on the Secret Commission Act charges and 2 years imprisonment on the Crimes Act charges – the sentences to be served concurrently. He was granted leave to apply for home detention.

Case 18**Daryl Frederick de Lautour and Christine Marilyn Mason**

The defendants faced a second trial in relation to an illegal mortgage fraud affecting a number of properties. (Refer to Partially completed Cases in the Annual Report for the year ending June 2006.) The jury was unable to agree upon a verdict. The Solicitor-General stayed any further prosecution of these charges.

Case 19**Douglas Joseph Whipp and Dororthy Mary Patricia Panalluriack**

The defendants faced charges of misappropriating the house and money of a senile dementia sufferer. They were both found guilty, and each sentenced to 2½ years imprisonment.

## Partly Completed Cases

(i.e. Where the charges against one or more defendants in the same case have still to be determined.)

### **Jiayi Wang and Yun Chen**

Wang faced charges of theft by misappropriation of funds given to him for investment, and for using documents with intent to defraud (Sections 224 and 227A Crimes Act 1961). Chen was charged as a party.

Chen was acquitted but the jury was unable to agree on a verdict in relation to Wang. A retrial of Wang was ordered and is set down for September 2007.

## Appeals

### **1. William Raymond Harris and Murray Athol Osmond**

Appeals against both conviction and sentence were dismissed (Refer Case No 5 in the Annual Report for the Year Ending 30 June 2006)

### **2. Margarite Huia Papple and Tina Marie West**

Appeals against both conviction and sentence were dismissed (Refer Partially Completed Cases in the Annual Report for the Year Ending 30 June 2005)

### **3. Donna Awatere Huata and Wi Te Tau Huata**

Appeals against both conviction and sentence were dismissed (Refer Case No 6 in the Annual Report for the Year Ending 30 June 2006)

### **4. Patricia Lenine Mabel Walsh**

Mrs Walsh was granted leave to appeal both her conviction for forgery and sentence to the Supreme Court. The main point of the appeal focussed on whether the facsimile copy of a forged document created overseas and faxed from overseas amounted to a forgery in New Zealand. The Court held that the facsimile copy was a true copy of the document fed in to the machine at the other end and thus the copy arriving in New Zealand was not a forgery. The Supreme Court amended the counts of forgery and substituted a conviction for uttering a forged document. The appeal against sentence was dismissed. (Refer to Case No 14 in the Annual Report from the year ending June 2005).

**Note:** See also results of appeal in Cases 1, 8, and 16.

**FINANCIAL PERFORMANCE**

**STATEMENT OF OBJECTIVES AND SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2007**

	2006/07 Budget (\$000)	2006/07 Actual (\$000)	2005/06 Actual (\$000)	2004/05 Actual (\$000)	2003/04 Actual (\$000)
<b>Output</b>					
Investigation and Prosecution of Complex or Serious Fraud	4,884	4,868	4,795	4,607	4,747
Civil Forfeiture of Criminal Assets	635	12	-	-	-
<b>Total (excluding GST)</b>	<b>5,519</b>	<b>4,880</b>	<b>4,795</b>	<b>4,607</b>	<b>4,747</b>

The accompanying accounting policies and notes form part of these financial statements

## STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2007

### *Reporting Entity*

The Serious Fraud Office is a government department as defined by the Public Finance Act 1989.

The Serious Fraud Office's financial statements have been prepared in accordance with the Public Finance Act 1989. The Serious Fraud Office does not administer any Crown activities or trust monies.

### *Measurement System*

These financial statements have been prepared on the basis of modified historical cost except for certain items with specific accounting policies outlined below.

### Accounting Policies

#### *Budget Figures*

Main Estimates refers to the figures presented in the 2006/07 Main Estimates of Appropriations.

Supplementary Estimates ("Supp. Estimates") refers to the figures presented in the 2006/07 Supplementary Estimates of Appropriations, and any transfers made by Order in Council under section 26A of the Public Finance Act 1989.

#### *Revenue*

The Serious Fraud Office derives revenue through the provision of outputs to the Crown. Such revenue is recognised when earned and is reported in the financial period to which it relates.

#### *Cost Allocation*

The Office has derived the costs of outputs shown in these statements using a cost allocation system which is outlined below.

#### *Cost Allocation Policy*

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities based on cost drivers and related activity/usage information.

#### *Criteria for Direct and Indirect Costs*

"Direct Costs" are those costs directly attributed to an output. "Indirect Costs" are those costs that cannot be identified in an economically feasible manner, with a specific output.

#### *Direct Costs Assigned to Output*

Direct costs are charged directly to outputs. Personnel costs are charged by recording the time spent on each output.

***Basis for Assigning Indirect Corporate Costs to Outputs***

Indirect costs are allocated to outputs according to the proportion of time spent on each output.

***Receivables***

Receivables are recorded at estimated realisable value, after providing for doubtful and uncollectable debts.

***Operating Leases***

The Serious Fraud Office leases office premises. As the lessor retains all the risks and benefits of ownership, these leases are classified as operating leases. Operating lease costs are expensed in the period in which they are incurred.

***Fixed Assets***

The initial cost of a fixed asset is the value of the consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use.

Fixed assets, or groups of assets forming a network or which are material in aggregate, costing more than \$1,000 are capitalised and recorded at historical cost.

***Depreciation***

Depreciation of fixed assets is provided on a straight line basis so as to allocate the cost of assets, less any estimated residual value, over their useful lives.

The useful lives and associated depreciation rates for major classes of assets are:

Furniture, fixtures and fittings	5 years	20%
Office equipment	5 years	20%
Motor vehicles	6 years	15%
Computer equipment and software	3 years	33.3%

The cost of leasehold improvements is capitalised and amortised over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter.

***Provision of Employee Entitlements***

Provision is made in respect of the Serious Fraud Office's liability for annual leave entitlements. The provision has been calculated on an actual entitlement basis at current rates of pay. In terms of employees' contracts, there is no provision for retirement or long service entitlements.

***Statement of Cash Flows***

*Cash* means cash balances on hand and held in bank accounts.

*Operating activities* include cash received from all income sources of the Serious Fraud Office and record cash payments made for the supply of goods and services and personal costs.

*Investing activities* are those activities relating to the acquisition and disposal of fixed assets.

*Financing activities* comprise capital injections by, or repayment of capital to the Crown.

### ***Financial Instruments***

The Office is party to financial instruments as part of its normal operations. These financial instruments include instruments such as bank balances, accounts receivable and accounts payable. All financial instruments are recognised in the Statement of Financial Position and revenues and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

All financial instruments are shown at their estimated fair value.

### ***Goods and Services Tax (GST)***

The Statement of Financial Position is exclusive of GST, except for Creditors and Payables and Receivables which are GST inclusive. All other statements are GST exclusive.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in Payables or Receivables (as appropriate).

### ***Taxation***

Government departments are exempt from the payment of income tax in terms of the Income Tax Act 2004. Accordingly, no charge for income tax has been provided for.

### ***Commitments***

Future payments are disclosed as commitments at the point a contractual obligation arises, to the extent that there are equally unperformed obligations.

### ***Contingent Liabilities***

Contingent liabilities are disclosed at the point at which the contingency is evident.

### ***Taxpayers' Funds***

This is the Crown's net investment in the Office.

### ***Changes in Accounting Policies***

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

All policies have been applied on a basis consistent with last year.

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2007

	Note	30/06/07 Actual (\$000)	30/06/07 Main Estimates (\$000)	30/06/07 Supp. Estimates (\$000)	30/06/06 Actual (\$000)
<b>Revenue</b>					
Crown		4,760	5,395	5,395	4,760
Other	1	142	79	124	48
<b>Total revenue</b>		<b>4,902</b>	<b>5,474</b>	<b>5,519</b>	<b>4,808</b>
<b>Expenditure</b>					
Personnel costs		3,289	3,655	3,708	3,194
Operating costs		1,013	1,135	1,230	1,030
Depreciation	2	167	235	176	166
Audit fees – Annual Audit		19	20	19	19
Audit fees – NZ IFRS transition	13	5	5	5	-
Rental and leasing costs		358	385	350	355
Capital charge	3	29	39	31	31
<b>Total expenditure</b>		<b>4,880</b>	<b>5,474</b>	<b>5,519</b>	<b>4,795</b>
<b>Net surplus</b>		<b>22</b>	<b>-</b>	<b>-</b>	<b>13</b>

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF MOVEMENTS IN TAXPAYERS' FUNDS FOR THE YEAR ENDED 30 JUNE 2007

	Note	30/06/07 Actual (\$000)	30/06/07 Main Estimates (\$000)	30/06/07 Supp. Estimates (\$000)	30/06/06 Actual (\$000)
Taxpayers' funds as at 1 July		388	388	388	388
Net surplus		22	-	-	13
<b>Net surplus/total recognised revenues and expenses for the period</b>		<b>22</b>	<b>-</b>	<b>-</b>	<b>13</b>
Capital injection		-	290	-	-
Provision for repayment of surplus to the Crown	5	(22)	-	-	(13)
<b>Taxpayers' funds as at 30 June</b>		<b>388</b>	<b>678</b>	<b>388</b>	<b>388</b>

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2007

	Note	30/06/07 Actual (\$000)	30/06/07 Main Estimates (\$000)	30/06/07 Supp. Estimates (\$000)	30/06/06 Actual (\$000)
<b>Taxpayers' funds</b>		<b>388</b>	<b>678</b>	<b>388</b>	<b>388</b>
Represented by:					
<b>Current assets</b>					
Cash and bank balances		356	566	561	418
Receivables		48	10	23	12
Prepayments		3	19	7	7
<b>Total current assets</b>		<b>407</b>	<b>595</b>	<b>591</b>	<b>437</b>
<b>Non-current assets</b>					
Fixed assets	4	375	696	400	365
<b>Total non-current assets</b>		<b>375</b>	<b>696</b>	<b>400</b>	<b>365</b>
<b>Total assets</b>		<b>782</b>	<b>1,291</b>	<b>991</b>	<b>802</b>
<b>Current liabilities</b>					
Payables and provisions		255	508	513	311
Provision for repayment of surplus to the Crown	5	22	-	-	13
Provision for employee entitlements	6	117	105	90	90
<b>Total current liabilities</b>		<b>394</b>	<b>613</b>	<b>603</b>	<b>414</b>
<b>Net assets</b>		<b>388</b>	<b>678</b>	<b>388</b>	<b>388</b>



DJ Bradshaw  
Director  
14 September 2007



Anne Smith  
Chief Financial Officer  
14 September 2007

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2007

	Note	30/06/07 Actual (\$000)	30/06/07 Main Estimates (\$000)	30/06/07 Supp. Estimates (\$000)	30/06/06 Actual (\$000)
<b>Cash flows – operating activities</b>					
Cash was provided from:					
Supply of outputs to					
- Crown		4,760	5,395	5,395	4,760
- Departments		110	74	114	48
- Other		(4)	17	(1)	-
		4,866	5,486	5,508	4,808
Cash was applied to:					
Produce outputs					
- Personnel		(3,262)	(3,668)	(3,667)	(3,085)
- Operating		(1,455)	(1,520)	(1,427)	(1,448)
- Net GST paid		(6)	(7)	(16)	(22)
- Capital charge		(29)	(39)	(31)	(31)
		(4,752)	(5,234)	(5,141)	(4,586)
<b>Net cash inflow from operating activities</b>	<b>7</b>	<b>114</b>	<b>252</b>	<b>367</b>	<b>222</b>
<b>Cash flows – investing activities</b>					
Cash provided from:					
Sale of fixed assets		-	-	11	11
Cash disbursed for:					
Purchase of fixed assets		(163)	(440)	(222)	(36)
<b>Net cash outflow from investing activities</b>		<b>(163)</b>	<b>(440)</b>	<b>(211)</b>	<b>(25)</b>
<b>Cash flows – financing activities</b>					
<b>Capital provided from:</b>					
Capital contributions		-	290	-	
<b>Cash disbursed for:</b>					
Payment of surplus to Crown		(13)	-	(13)	(172)
<b>Net cash outflow from financing activities</b>		<b>(13)</b>	<b>290</b>	<b>(13)</b>	<b>(172)</b>
Net increase/(decrease) in cash held		(62)	102	143	25
Add opening total cash balance		418	464	418	393
<b>Closing cash balance</b>		<b>356</b>	<b>566</b>	<b>561</b>	<b>418</b>

The accompanying accounting policies and notes form part of these financial statements.

### STATEMENT OF COMMITMENTS AS AT 30 JUNE 2007

At balance date, the Serious Fraud Office has operating lease commitments in respect of premises in Auckland. The amounts disclosed below as future commitments are based on the current rental rates.

	30/06/07 Actual (\$000)	30/06/06 Actual (\$000)
<b>Operating lease commitments</b>		
Less than one year	318	336
One to two years	-	224
Two to five years	-	-
More than five years	-	-
<b>Total commitments</b>	<b>318</b>	<b>560</b>

### STATEMENT OF CONTINGENT LIABILITIES AS AT 30 JUNE 2007

The Serious Fraud Office had no contingent liabilities as at 30 June 2007 (2006: \$90,000 which related to matters concerning continuing court cases).

The accompanying accounting policies and notes form part of these financial statements.

**STATEMENT OF DEPARTMENTAL EXPENDITURE AND APPROPRIATION  
FOR THE YEAR ENDED 30 JUNE 2007**

	30/06/07 Expenditure Actual (\$000)	30/06/07 Appropriation Voted* (\$000)
<b>Classes of outputs to be supplied by the department</b>		
Investigation and prosecution of complex or serious fraud	4,868	4,884
Civil Forfeiture of Criminal Assets	12	635
<b>Total appropriation</b>	<b>4,880</b>	<b>5,519</b>

\* This includes adjustments made in the Supplementary Estimates and any transfers made under Order in Council under section 26A of the Public Finance Act 1989.

**STATEMENT OF UNAPPROPRIATED EXPENDITURE**

There was no unappropriated expenditure for the year ended 30 June 2007 (2006: Nil).

The accompanying accounting policies and notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

*Note 1: Other revenue*

	Note	30/06/07 Actual (\$000)	30/06/07 Main Estimates (\$000)	30/06/07 Supp. Estimates (\$000)	30/06/06 Actual (\$000)
Departments (funding for contributions to the State Sector Retirement Savings Scheme)		142	70	115	45
Net gain on sale of fixed assets	8	-	-	-	3
Other		-	9	9	-
<b>Total other and departmental revenue</b>		<b>142</b>	<b>79</b>	<b>124</b>	<b>48</b>

*Note 2: Depreciation*

	30/06/07 Actual (\$000)	30/06/07 Main Estimates (\$000)	30/06/07 Supp. Estimates (\$000)	30/06/06 Actual (\$000)
Furniture and fittings	56	98	56	58
Office equipment	30	28	31	29
Computer hardware	44	68	49	43
Computer software	23	18	25	24
Motor vehicles	14	23	15	12
<b>Total depreciation</b>	<b>167</b>	<b>235</b>	<b>176</b>	<b>166</b>

*Note 3: Capital charge*

A capital charge is paid to the Crown based on Taxpayers' Funds at 30 June and 31 December each year. The capital charge was 7.5% for the 2006/07 financial year (2005/06: 8.0%).

**Note 4: Fixed assets**

	30/06/07 Actual (\$000)	30/06/06 Actual (\$000)
<b>Furniture and fittings</b>		
At cost	735	735
Accumulated depreciation	(613)	(558)
<b>Net book value</b>	<b>122</b>	<b>177</b>
<b>Office equipment</b>		
At cost	436	355
Accumulated depreciation	(332)	(302)
<b>Net book value</b>	<b>104</b>	<b>53</b>
<b>Computer hardware</b>		
At cost	502	414
Accumulated depreciation	(422)	(380)
<b>Net book value</b>	<b>80</b>	<b>34</b>
<b>Computer software</b>		
At cost	134	126
Accumulated depreciation	(126)	(103)
<b>Net book value</b>	<b>8</b>	<b>23</b>
<b>Motor vehicles</b>		
At cost	98	98
Accumulated depreciation	(37)	(20)
<b>Net book value</b>	<b>61</b>	<b>78</b>
<b>Total fixed assets</b>		
At cost	1,905	1,728
Accumulated depreciation	(1,530)	(1,363)
<b>Total carrying amount of fixed assets</b>	<b>375</b>	<b>365</b>

**Note 5: Provision for repayment of surplus to the Crown**

	30/06/07 Actual (\$000)	30/06/06 Actual (\$000)
Net surplus	22	13
<b>Total provision for repayment of surplus</b>	<b>22</b>	<b>13</b>

**Note 6: Provision for employee entitlements**

	30/06/07 Actual (\$000)	30/06/06 Actual (\$000)
<b>Current liabilities</b>		
Annual leave	117	90
<b>Total provision for employee entitlements</b>	<b>117</b>	<b>90</b>

**Note 7: Reconciliation of net surplus to net cash flows from operating activities for the year ended 30 June 2007**

	30/06/07 Actual (\$000)	30/06/07 Main Estimates (\$000)	30/06/07 Supp. Estimates (\$000)	30/06/06 Actual (\$000)
<b>Net operating surplus</b>	22	-	-	13
<i>Non-cash items</i>				
Depreciation	167	235	176	166
<b>Total non-cash items</b>	<b>189</b>	<b>235</b>	<b>176</b>	<b>179</b>
<b>Movements in working capital items</b>				
(Increase)/decrease in receivables	(36)	12	(11)	(10)
(Increase)/decrease in prepayments	4	-	-	12
(Increase)/decrease in payables and provisions	(70)	5	202	59
(Increase)/decrease in employee entitlements	27	-	-	(15)
<b>Working capital movements</b>	<b>(75)</b>	<b>17</b>	<b>191</b>	<b>46</b>
<b>Movement in investment activities</b>				
Net gain on sale of fixed assets	-	-	-	(3)
<b>Net cash flow from operating activities</b>	<b>114</b>	<b>252</b>	<b>367</b>	<b>222</b>

**Note 8: Net gain/ (loss) on sale of fixed assets**

	30/06/07 Actual (\$000)	30/06/07 Main Estimates (\$000)	30/06/07 Supp. Estimates (\$000)	30/06/06 Actual (\$000)
Motor vehicles	-	-	-	3
<b>Net gain/(loss) on sale of fixed assets</b>	-	-	-	<b>3</b>

**Note 9: Financial Instruments**

The Serious Fraud Office is party to financial instrument arrangements as part of its everyday operations. These financial instruments include instruments such as bank balances, and accounts receivable.

The Serious Fraud Office has a letter of credit facility of \$85,000 to allow for the payment of employee salaries by direct credit.

*Credit Risk*

In the normal course of its business the Serious Fraud Office incurs credit risk from trade debtors, and transactions with financial institutions.

The Serious Fraud Office does not require any collateral or security to support financial instruments with financial institutions the Serious Fraud Office deals with as these entities have high credit ratings. For its other financial instruments the Serious Fraud Office does not have significant concentrations of credit risk.

*Fair Value*

The fair value of financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

*Currency and Interest Rate Risk*

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

Under section 46 of the Public Finance Act 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.

**Note 10: Contingencies**

The Serious Fraud Office does not have any contingent assets as at 30 June 2007 (30 June 2006: Nil).

Contingent liabilities are separately disclosed in the statement of Contingent Liabilities.

**Note 11: Related Party Transactions**

The Serious Fraud Office is wholly owned by the Crown, which is also its source of revenue.

If the Serious Fraud Office enters into transactions with other Government departments, Crown entities and State-owned enterprises, these transactions are carried out on an arm's length basis. They are not considered to be related party transactions.

**Note 12: Major Budget Variances**

There is one major variance in the financial statements compared to the Main Estimates. The implementation of the Civil Forfeiture of Criminal Assets output class is subject to the passage of the Criminal Proceeds (Recovery) Bill which replaced the Criminal Proceeds and Instruments Bill that was withdrawn from the Order Paper in Mid 2006. Consequently only \$12,000 operating expenditure was incurred against the \$635,000 output expense appropriation and the \$290,000 capital funding has been transferred to 2007/08.

**Note 13: Transition to New Zealand Equivalentents to International Financial Reporting Standards**

Full adoption of New Zealand equivalentents to International Financial Reporting Standards (NZ IFRS) by government departments occurs in the 2007/08 financial year. The effect on transition of the 30 June 2007 financial position to the opening 1 July 2007 financial position is to:

- reclassify computer software as an intangible asset (net book value \$8,000); and
- recognise a current liability for sick leave (valuation \$1,000) under the provision for employee entitlements, with offsetting reduction to Taxpayers' Funds.

**Note 14: Going Concern**

On 3 September 2007, Cabinet [CAB Min (07) 32/5 refers] agreed that the Serious Fraud Office be disestablished and its functions relating to the detection, investigation and prosecution of serious fraud be subsumed under a new Organised Crime Agency hosted within New Zealand Police.

The detailed planning to incorporate the Serious Fraud Office into a new Organised Crime Agency has not commenced and the necessary legislative changes to give effect to the Government's intentions has not been drafted.

As no progress has been made towards implementation of the Government's intentions these financial statements have been prepared on a going concern basis.

**Note 15: Post Balance Date Events**

Subsequent to balance date and before the time of completion of the financial statements, the government announced its intention to disestablish the Serious Fraud Office. Further information relating to this decision is provided under Note 14 (above). An estimate of the financial effect of this decision cannot be made at this early stage.

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# *Management Performance Information*

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## CORPORATE AND COLLECTIVE INTEREST MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2007

### **Integrity of the Public Service**

Staff of the Serious Fraud Office are aware of and observe the standards of behaviour required of them as public servants. A very high standard of professional conduct is "a must" for staff, who are also required to observe the secrecy provisions of the Serious Fraud Office Act 1990.

### **Inter-departmental Liaison**

The Office places considerable emphasis on maintaining sound working relationships with other law enforcement and regulatory agencies both within New Zealand and overseas. Senior staff have been allocated specific responsibilities for liaising with the appropriate agencies within New Zealand. Formal operating protocols have been developed with a number of key agencies such as the Police, Inland Revenue Department, the Customs Service and the Securities Commission.

Of particular note during the year was the development with the Customs Service of a joint Computer Forensics Unit in Auckland. Computer forensics is an integral part of the work of the Serious Fraud Office today. It is also an important component of the work of the Customs Service. Neither department, however, had sufficient demand on its own to justify a full computer forensics unit, nor would either department have been able to recruit and retain staff of the calibre required if it could only offer a narrow field of work.

Both the Customs Service and the Serious Fraud Office need to have available the skills of computer forensic experts not just for investigative purposes but also to be able to give evidence in Court at significant trials. The heavy demands that the Police place on their Electronic Crime Laboratory had previously created problems in getting the necessary priority for work on Serious Fraud Office cases. This is not considered to be a task that can properly be contracted out to the private sector notwithstanding the desire of several private sector organisations to move into the law enforcement market on computer forensics.

The new Computer Forensics Unit has been established in the Customhouse at Auckland. Over time it is hoped that other Crown agencies such as the Securities Commission might look to make use of this computer forensic unit as and when they have cases that require such services.

The Office continues to have a close association with many overseas agencies. There were a number of occasions during the year when the Serious Fraud Office responded to requests for assistance from overseas law enforcement officials. There were also a number of occasions when the Serious Fraud Office sought the assistance of its counterparts overseas. The importance of these relationships with overseas law enforcement agencies can not be stressed too strongly.

Earlier in the year it looked likely that the legislation governing civil forfeiture might have been passed during the financial year. With that in mind the Serious Fraud Office had several of its senior employees spend time with asset recovery bodies overseas looking to learn the best practices in this field. The operations of the recovery agencies in the United Kingdom, Ireland and several States in Australia were studied very closely. That information has formed the basis of the planning within the Serious Fraud Office for civil forfeiture cases. The in-depth study of the operations of the overseas agencies reinforced the critical importance of the financial aspect of the investigations and the value of skilled forensic accountants. The contacts made during this time will also be of importance to the Office during the implementation of the new policy on proceeds of crime.

A prosecutor from the Serious Fraud Office spent 7 weeks on assignment with the Crown Prosecution Service in the United Kingdom. Again both the experience gained and the contacts made will be invaluable to the on-going work of the Serious Fraud Office.

The Office has been pro-active over the past few years in providing assistance to Police and other agencies in the South Pacific who often do not have the resources to fully investigate and prosecute serious or complex fraud. The Office continued to assist the Police in the Cook Islands with an investigation. The Office has also continued to assist the Director of Public Prosecutions in Fiji with the investigation of a significant fraud, and the preparations for the trial of several of the key offenders.

The Office assisted the Papua New Guinea Ombudsmen with the training of two of its financial Investigative Officers. They both spent several weeks in the Serious Fraud Office learning about financial investigations.

### **Accommodation**

The Office is located only in Auckland and occupies 1272 square metres spread over two floors of the Duthie Whyte Building at 120 Mayoral Drive, Auckland City. There is no vacant space as at 30 June 2007.

During the latter part of the financial year the Office took possession of a further 190 square metres on the third floor in the Duthie Whyte Building. This accommodation will be required to house the additional staff once the new civil forfeiture regime is in place. The Office was fortunate that space became available in the Duthie Whyte Building at this time. That will ensure that the Office maintains the maximum flexibility in the allocation of staff to particular cases, the maximum benefit from the sharing of corporate services, and a minimum of additional expenses in relation to security.

The rental costs for the year (excluding the additional space obtained towards the end of the financial year) were \$346,380 (\$354,771 in 2005/06) including landlord operating expenses but excluding other utility costs such as cleaning and energy costs which were:

	2006/07	2005/06	2004/05
<b>Energy Usage and Costs</b> <i>(excluding those included in the operating costs above)</i>			
Units Used (Kwh)	164,784	178,364	188,603
Cost	\$24,500	\$26,800	\$20,000
<b>Fuel Usage and Costs</b>			
Units Used (Km)	20,377	20,405	17,731
Cost	\$2,500	\$3,200	\$2,140
<b>Telecommunication Costs</b>	\$43,900	\$50,200	\$59,000
<b>Cleaning and Maintenance Costs</b>	\$22,500	\$30,600	\$20,000

There was an additional \$11,635 rental and landlord operating expenses paid in relation to the additional space acquired.

### Management of Information

The operational information held by the Serious Fraud Office relates to the investigation and prosecution of cases and, as it is "protected" in terms of the Serious Fraud Office Act 1990, very stringent security provisions apply.

Information is shared with other agencies only in very limited circumstances as permitted by the legislation and as required for the proper enforcement of the law, both in New Zealand and overseas. The over-riding consideration for the Office in all cases is to ensure that all information is accorded the level of confidentiality required by the Serious Fraud Office Act 1990. There is no "online" or similar access to any Serious Fraud Office operational information.

### Management of Human Resources

The enhancing of investigative skills and techniques continued to be a priority for the Management Team to ensure that the Office keeps abreast of developments in relation to serious fraud offending and the investigative skills and tools needed to combat such crime.

The Office conducts regular in-house training seminars on a range of topics. Presenters come from both within the Office and from outside of the Office. Staff also attend courses and seminars on relevant topics conducted outside of the Office.

Professional training for the lawyers and the accountants in the Office continued and the Office continued its policy to support staff with part time relevant tertiary studies.

Prosecutors have the opportunity to obtain additional Courtroom experience through an arrangement with the Crown Solicitor in Auckland.

The pace of change and development, particularly in technology, is rapid and provides new fraud opportunities. The Office continues to keep abreast of international developments by maintaining close relationships with our counterpart overseas agencies and also by participation in inter-departmental working parties where appropriate.

Five full-time staff left the Office during the year. Whenever a vacancy arises in the Office the management team looks closely at the immediate and future staffing requirements. This is particularly significant at the present time as the Office prepares for the new role with civil forfeiture. The Office does not have any difficulty in attracting high calibre applicants for its vacancies.

### **Equal Opportunities**

We are committed to equal opportunities for all our staff and to ensuring that the employment policies and practices support the recruitment and retention of the widest possible range of skills.

As a small, highly specialised department it is difficult to achieve a wide "mix" of ages, genders and cultural diversity. Furthermore there are relatively few vacancies occurring each year.

Including the Director, the staff complement as at 30 June 2007 is 34 – 16 women and 18 men.

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## *Information about the Department*

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The Office is committed to the maintenance of high professional standards in the attainment of its objectives.

### **Policy on Acceptance of Cases**

#### *Selection*

For the purposes of determining whether an offence involves serious and/or complex fraud, the Serious Fraud Office Act 1990 provides that the Director, among other things, may have regard to the following four factors:

- the suspected nature and consequences of the fraud;
- the suspected scale of the fraud;
- the legal, factual and evidential complexity of the matter;
- any relevant public interest consideration.

It is not possible to be specific as to the cases that will be investigated and prosecuted by the Serious Fraud Office. However, the following criteria are generally considered:

- all fraud involving over \$500,000;
- all fraud perpetrated by complex means;
- any other complaint of fraudulent offending which is, or is likely to be, of major public interest or concern.

The Director has complete discretion in the selection of cases.

#### *Referral of Cases*

The Complaints Officer is available to be contacted by the public in the first instance. Complaints, and referral of cases, come from Government Departments, liquidators, receivers, statutory managers, professional associations and the general public. On occasions the Office is also pro-active in undertaking enquiries.

The Serious Fraud Office emphasises the need for expedition in enquiries relating to fraud and therefore encourages such contact at an early stage.

Where complaints are considered inappropriate for the Office, every endeavour is made to refer them to the relevant enforcement and/or regulatory body for further action.

### *Independence of Director*

It is an important constitutional principle in New Zealand that decisions by law enforcement agencies on the investigation and prosecution of individuals should not be subject to political control or direction.

The Serious Fraud Office Act 1990 provides that, *"in any matter relating to any decision to investigate any suspected case of serious or complex fraud, or to take proceedings relating to any such case or any offence against this Act (the Serious Fraud Office Act 1990), the Director shall not be responsible to the Attorney-General, but shall act independently"*.

### *Handling of Cases*

Every complaint received undergoes an initial assessment to determine whether it is a matter for the Serious Fraud Office. After this assessment, if the Director decides to act on a complaint, the first step is often a further consideration of all the documentary material – referred to as *"the detection stage"*.

At the completion of the detection stage the Director, after consultation with senior management, will then decide the next step. Some cases will be closed at this stage, others upgraded to a full investigation.

Some cases will move to the full investigation stage immediately after assessment, where the available evidence supports that step.

Experienced investigators and forensic accountants work together on investigations, under the overall supervision of the senior management team. Typically, potential witnesses and suspects are interviewed, documents obtained and analysed, and financial transactions researched. Investigation teams regularly exchange information and share experiences and expertise in order to maintain consistency.

Prosecutors are assigned to each investigation. They advise on legal issues, including the exercise of the powers of the Office.

Appraisal meetings are held regularly (usually monthly) to ensure that for each investigation and prosecution an appropriate level of resources is being applied, professional standards and disciplines are being adhered to, and proper progress and direction is being maintained. All current files being worked on are considered at these appraisal meetings.

On the completion of a full investigation the Director holds a review of that case attended by the investigation team and senior management. At the conclusion of the review, the Director determines whether a prosecution is appropriate.

The Serious Fraud Office Act 1990 provides for a panel of experienced barristers to conduct all prosecutions. The Director instructs a member of this panel to conduct a particular prosecution. The Office staff prepare the prosecution file, brief evidence and assist in the conduct of the prosecution.

### ***Powers of the Serious Fraud Office***

The powers of the Office are prescribed in the Serious Fraud Office Act 1990. The Director has wide powers to undertake the detection and investigation of serious or complex fraud.

It is essential that the Serious Fraud Office obtains the necessary information to assess a complaint, carry out detection and decide whether an investigation should be commenced.

The powers for detection and investigation are far-reaching; it is not only persons suspected of offences that must provide information to the Director, but also anyone holding information which the Director considers may be relevant to an investigation. These powers of compulsion are a vital investigative tool in the area of serious fraud offending.

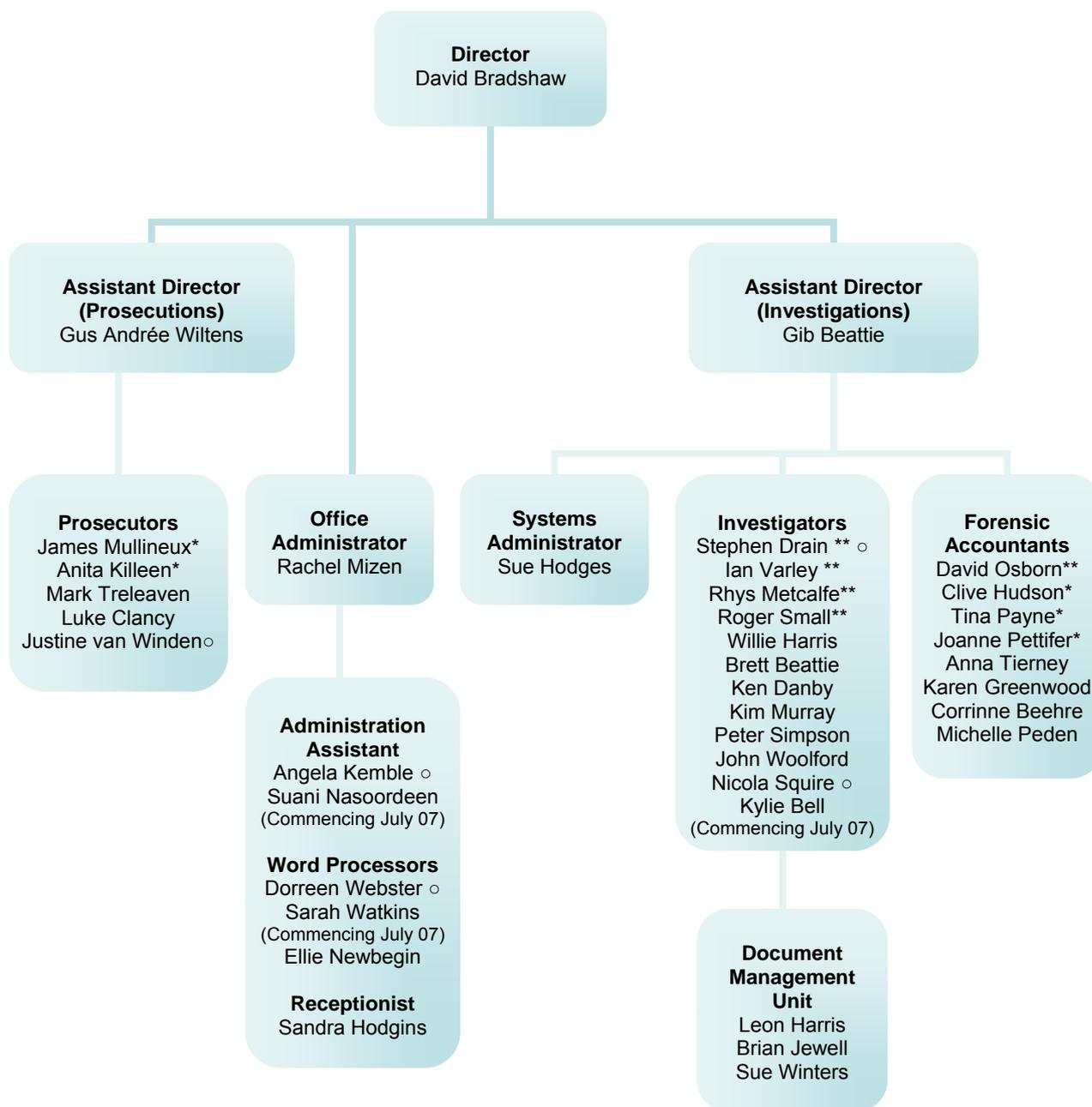
### ***Legal Responsibilities***

The Serious Fraud Office operates under the Serious Fraud Office Act 1990. All requirements of that Act have been met. In this Report under 'Use of Statutory Powers' (pages 22-23) there is an analysis of the Notices issued in terms of the provisions of the Act.

**MANAGEMENT AND STRUCTURE**

Four appointments were made during the year and five staff resigned. Changes in work requirements have meant that the number of word processor operators on the permanent staff has been reduced. As at 30 June 2007 the staffing level is 34.

**Organisational Structure**



\*\* Supervising Senior  
 \* Senior  
 ○ Resigned during the year

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**SERIOUS FRAUD OFFICE ACT PANEL OF PROSECUTORS AS AT 30 JUNE 2007**

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<b>Auckland</b>	A P Duffy QC J A Farmer QC J C Gordon M R Heron D P H Jones QC S J E Moore M J Ruffin M A Woolford
<b>Christchurch</b>	N R W Davidson QC B M Stanaway Nicholas Till QC Tom Weston QC M N Zarifeh
<b>Dunedin</b>	R J Bates Marie Grills
<b>Hamilton</b>	P J Morgan QC
<b>Wellington</b>	R M Lithgow QC K P McDonald QC R B Squire QC K G Stone J O Upton QC
<b>Whangarei</b>	P J Smith

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## PUBLIC RELATIONS

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The goal of the Office in relation to public relations over the past few years or so has been to demystify the Serious Fraud Office without sensationalising the work of the Office. Information about the Office has been conveyed in a low-key manner whenever an appropriate opportunity has arisen.

The Office does not routinely provide media releases about cases that it has under investigation nor cases that it is prosecuting in the Courts. The general policy of the Office is to neither confirm nor deny whether the Office is investigating any matter, except where there is an over-riding public interest. Such an approach protects the integrity of the investigation and limits the potential harm, either commercial or personal, that can be done to an individual or an organisation if the Serious Fraud Office was to publicly announce that it was investigating their affairs.

Similarly with prosecutions, the Office does not generally regard it as its role to be making press releases about every prosecution. It will, however, assist the media in its coverage of Serious Fraud Office prosecutions by confirming the dates of Court appearances or details of charges, if requested. This information is available on the Serious Fraud Office website. In some cases name suppression affects the extent of the media coverage given to prosecutions brought by the Serious Fraud Office.

From time to time the Director may determine that there is a need to alert the public to a particular fraud or scam that is known to be affecting New Zealanders. The Office regularly responds to media enquiries concerning such matters as Nigerian letters and prime bank instrument scams during the year.

The Office's website provides details of not only how the Office operates but also a brief overview of pending prosecutions and outcomes. This is updated monthly.