



Report of the

# **SERIOUS FRAUD OFFICE**

for the year ended 30 June 2010

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Presented to the House of Representatives pursuant to section 44(1) of the Public Finance Act 1989

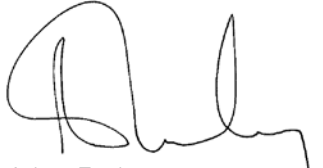


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# FORWARD

In accordance with section 44 (1) of the Public Finance Act 1989, I submit the following report on the operations of the Serious Fraud Office for the period 1 July 2009 to 30 June 2010. This includes the audited financial statements in Part 3 of this report.



Adam Feeley  
Director and Chief Executive

## ***Role of the Serious Fraud Office***

The Serious Fraud Office (the Office) is an operational department whose purpose, through the Serious Fraud Act 1990 (the Act) is to detect and investigate cases of complex or serious fraud offending and expeditiously prosecute offenders. In this work, the Office also contributes to the wider work of the Justice sector in building safer communities within which there is reduced crime.

The Serious Fraud Office administers Vote: Serious Fraud, and the Minister responsible for the Serious Fraud Office is responsible for the financial performance.

## **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 complex or serious fraud.

It is essential that the 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 significant. 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 an essential investigative tool if the Office is to be effective in detecting and prosecuting fraud.

## **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 Act 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 Director shall not be responsible to the [responsible Minister], but shall act independently”*.

# CHIEF EXECUTIVE'S OVERVIEW

## ***A year of change***

The past year has seen as much change within the Serious Fraud Office as at any other time in its 20 year history. During the year the Minister responsible for the Serious Fraud Office, Hon Judith Collins, stated that the Office had been neglected and that it was time to rebuild capability within the Office. I have responded to that challenge. The process of rebuilding has necessarily involved considerable change, including structures, staff and operational processes within the Office.

Impetus for that change came from a 'stock-take' of the Office's external relationships commissioned by my predecessor, Grant Liddell. The exercise sought views from a range of parties, including government regulators, law enforcement agencies, professional services firms and the Office's Prosecution Panel. It was apparent that, although there was considerable goodwill and support for the work of the Office, we had become isolated from many of those on whom we depend to do our job.

Accordingly, at the start of 2010, I commenced an organisational review of the Office which involved both staff and external stakeholders. A particular feature of the review was the input we received from our counterparts in the United Kingdom. The UK SFO was established for similar reasons and at much the same time as the New Zealand Office in 1990. Under Richard Alderman, the Director for the past two years, they have embarked on an exercise to transform the way they operate.

We have not adopted a wholesale and uncritical acceptance of the UK SFO changes. We have, however, found enormous common ground with regard to the problems they have faced and the solutions implemented by way of response. In common with them, we have focused on:

- being more responsive to investigating fraud;
- getting cases resolved quickly and in a manner that is both pragmatic and defensible;
- bringing new talent into the organisation; and
- putting victims at the heart of everything we do.

In implementing the changes in the second half of this year, I would like to record our thanks to Richard Alderman and his team for their willingness to share their ideas and experiences in reshaping the work of a fraud law enforcement agency.

## ***Operations***

In the past year the Office has dealt with over 200 inquiries and over 100 cases which underwent substantive assessment, investigation or prosecution. For an agency which has had fewer than 30 operational staff for most of the year, this is an impressive workload.

Ultimately though, this is not a workload which is sustainable. There is inevitably a correlation between staff numbers, cases numbers and timeframes. In the past we have managed a high number of investigations and prosecutions, but this has resulted in there being four to five years between the commencement of an investigation and the conclusion of a prosecution. Last year, as part of a strategy of speedier justice, we have actively sought to conclude as many cases as possible. As a consequence, we have reduced the active cases from 69 to 47.

Notwithstanding the reduction of caseload, the ratio of staff to cases for the Office remains problematic. A comparison with the UK SFO in the following table highlights our challenge.

	<b>Staff</b>	<b>Budget NZ 000's</b>	<b>Active cases</b>	<b>Prosecutions per year</b>	<b>Cost/case NZ 000's</b>	<b>Staff/case</b>
NZ <sup>1</sup>	32	\$7,470	47	13	\$157	0.68
UK <sup>2</sup>	300	\$110,000	84	18	\$1,300	3.57

Statistics alone, however, do not present the whole picture. The quality of cases brought by the Office is equally important. In the realm of serious and/or complex fraud, quality can be a subjective term. Our first step towards ensuring both quicker outcomes and better quality cases has been to focus on cases which involve greater losses and a greater number of victims. As can be seen from the table below, the Office is already delivering greater value for money in terms of the number of victims and the losses per case investigated.

	<b>Investigations</b>	<b>Estimated losses \$M</b>	<b>\$/case \$000</b>	<b>Approx. number of victims</b>	<b>Victims/case</b>
1 July 2009	39	\$690	\$17,711	35,000	900
30 June 2010	16	\$629	\$39,363	25,000	1,600

### ***Key external relationships***

An important feature of the past year has been a significant shift in the nature of our external relationships with both government agencies and the private sector. Like a number of other agencies, the Office has some strict confidentiality provisions in the legislation under which we operate. In the past, there has been a tendency to let the secrecy provisions dominate, to the detriment of developing more effective working relationships. The decision by my predecessor to undertake a survey of key external stakeholders was instrumental in identifying and responding to the relationship challenges facing the Office. Three particular practices have been adopted as a result of this stakeholder stock-take:

#### *(i) Co-investigations with other agencies*

There are numerous statutory powers of investigation which may be exercised by government agencies for a variety of purposes. In the course of the year, we have endeavoured to take a pragmatic view that these powers can be most effectively used by taking joint agency investigations where there is a common interest in a matter, and where separate investigations may either undermine the effectiveness of an investigation or cause unnecessary duplication of time and resources. This approach has not only enabled there to be a more rapid and united response to matters of public concern, it has also helped develop a better mutual appreciation of the issues and priorities within each government agency.

#### *(ii) Delegation of Serious Fraud Office powers*

The Serious Fraud Act 1990 recognises that, on occasions, it may be reasonable and appropriate for other persons to assist with an investigation by providing the Director with the ability to authorise the use of statutory powers by non-Serious Fraud Office persons. This enables the Office to add specific expertise to an investigation particularly where the resources of the Office may be stretched in a manner which would otherwise cause undesirable delay to an investigation. Despite having this ability, the Office has not used its right of authorisation in its previous 20 years of operation. This year we have adopted a different approach by engaging external investigative resources under the Act. In so doing we have been able to more effectively manage our caseload, build more effective relationships with the private sector and promote a better understanding of the work of the Office.

1 As at 30 June 2010.

2 2009 Annual Report UK Serious Fraud Office.

### *(iii) Disclosure of Serious Fraud Office information*

This year we have made occasional and judicious use of the disclosure provisions under s.36(2) of the Act which provides that, notwithstanding the general secrecy of the Office's information, the Director may disclose information to a person who he is satisfied has a proper interest in receiving such information. These disclosures are typically authorised to assist other criminal or civil proceedings which are related to the Office's investigations. Appropriate use of this power has helped foster greater cooperation from both private and public sector organisations in alerting the Office to possible incidences of serious fraud.

### **Public profile**

Historically, the Serious Fraud Office has had a very low media profile, and it is common for a government department not to invite unnecessary media attention. However, our work demands public awareness to meet our outcome of increased public confidence in the rule of law. The Police are in the media every day. Their presence on TV, radio and newspapers gives the public confidence that crime is being addressed. Media coverage of their work is part of upholding the principle of open justice.

Media comment must necessarily be judicious, temperate and respect certain rights of individuals under investigation or prosecution. At the same time if the investing public are to have confidence in our financial markets, then they need to know that we will be responsive to complaints of fraud and quick to prosecute where the evidence supports these complaints.

Under Grant Liddell, the Office made significant steps towards being more visible. This year I have accelerated this through the development of a new communications strategy, which includes being more open with, and accessible to, the media. In so doing, I aim to not only keep the public appropriately informed, but to do so in a manner which is balanced, informative and free from sensationalism or speculation.

### **Reform**

In reflecting on the operational changes of the past year, it is also timely to consider how effective these changes will be. The report of the Capital Markets Development Taskforce released in December 2009, has now been progressed by Government with decisions to establish a Financial Markets Authority (FMA) and to make a number of substantial changes to current corporate and securities legislation. Both the policy changes and the FMA will have a significant impact on our work. Initial discussions between myself and the FMA's Establishment Board have been very positive and highlight the potential for more timely and effective law enforcement.

There is considerable work to be done in the coming year to ensure that there is a seamless operation between both regulatory and law enforcement agencies when it comes to following up on investor and public concerns within New Zealand's financial markets. There is a small pool of the specialised skills needed to investigate financial crime in New Zealand. Moreover, the budgetary resources for this work are limited. Consequently, if there is to be an effective response to the legitimate concerns raised by the Capital Markets Development Taskforce regarding enforcement, skills and budgets within the public sector will need to be aggregated in the most operationally and cost-effective manner possible.

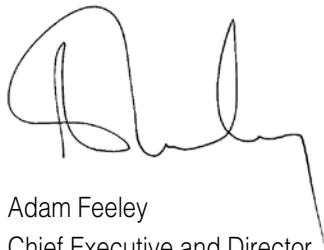
## **Conclusion**

In taking up the role of Chief Executive, I would like to acknowledge the work of the previous Director, Grant Liddell who left the Office in November 2009. Grant took up the role when the Office was to be merged with New Zealand Police, and therefore took the Office through two transitions – disestablishment and re-establishment. He had an extraordinarily difficult task, and during his time he initiated some change through a review of the Office’s corporate service. The work Grant began to re-position the Office was an essential precursor to the changes I have initiated in the second half of this year.

Organisational change is never easy. Nevertheless, I am confident that the fundamentals underpinning the reasons for these changes – a more responsive organisation with greater public visibility, greater accountability and stronger external relationships – are the right ones for the future of the Office.

An unusual feature of the organisational changes this year has been the return of several former staff. I am hugely encouraged that the optimism for the future of the Office has been demonstrated in such a tangible manner. I am also grateful to the many staff members who have not only stayed through these changes, but have been enthusiastic proponents of them.

With internal and external support for the Serious Fraud Office, the future is indeed bright.



Adam Feeley  
Chief Executive and Director



# PART 1: STRATEGIC CONTEXT AND KEY ACHIEVEMENTS

## *Strategic context*

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.

The strategic framework has identified two specific outcomes where the work of the Office can impact positively. These being:

- **Maintenance of trust in New Zealand as an honest capital market**

*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 maintains New Zealand's reputation for honest capital markets, enhances investor confidence and encourages savings and investment in New Zealand.*

- **Increased public confidence in the rule of law**

*By maintaining an effective 'white collar' law enforcement capacity, the Serious Fraud Office is contributing towards building safer communities where individuals feel secure and that they live in a society where civil and democratic rights and obligations are upheld.*

In 2009/10, we demonstrated our progress towards these outcomes through our resulting impact measurements.

<b>Impact measurement</b>	<b>Achievement</b>
Cases getting an early guilty plea, thus saving court time, and reducing the impact on victims (target 50%).	69.2%
Cases in which an indictment is filed and succeeds (target 90%).	87.5%

At the start of the year, our activities were to investigate and prosecute complex or serious fraud and investigating and where appropriate, restraining and/or forfeiting assets derived from criminal activity. In December 2009, Cabinet decided that the civil forfeiture activity would be transferred to New Zealand Police allowing us to refocus our operations on investigation and prosecution of high impact and high dollar value fraud cases. The review by the Office conducted in the latter part of 2010 has resulted in a more streamlined approach to dealing with investigations and prosecutions, and an improved organisation structure to support that.

Supporting these achievements was the new communications strategy. This strategy aimed at raising the public profile of the Office's work by being more accessible to media. By allowing the public to see the Office's responsiveness on potential fraud and the results of cases prosecuted, they will gain a greater level of confidence in the financial markets. They will also learn that when significant fraud is detected, it will be dealt with expeditiously. This focus on open accountability and sharing of information with other key agencies are strategic actions for 2010/11 and contributed towards the outcomes as defined above.

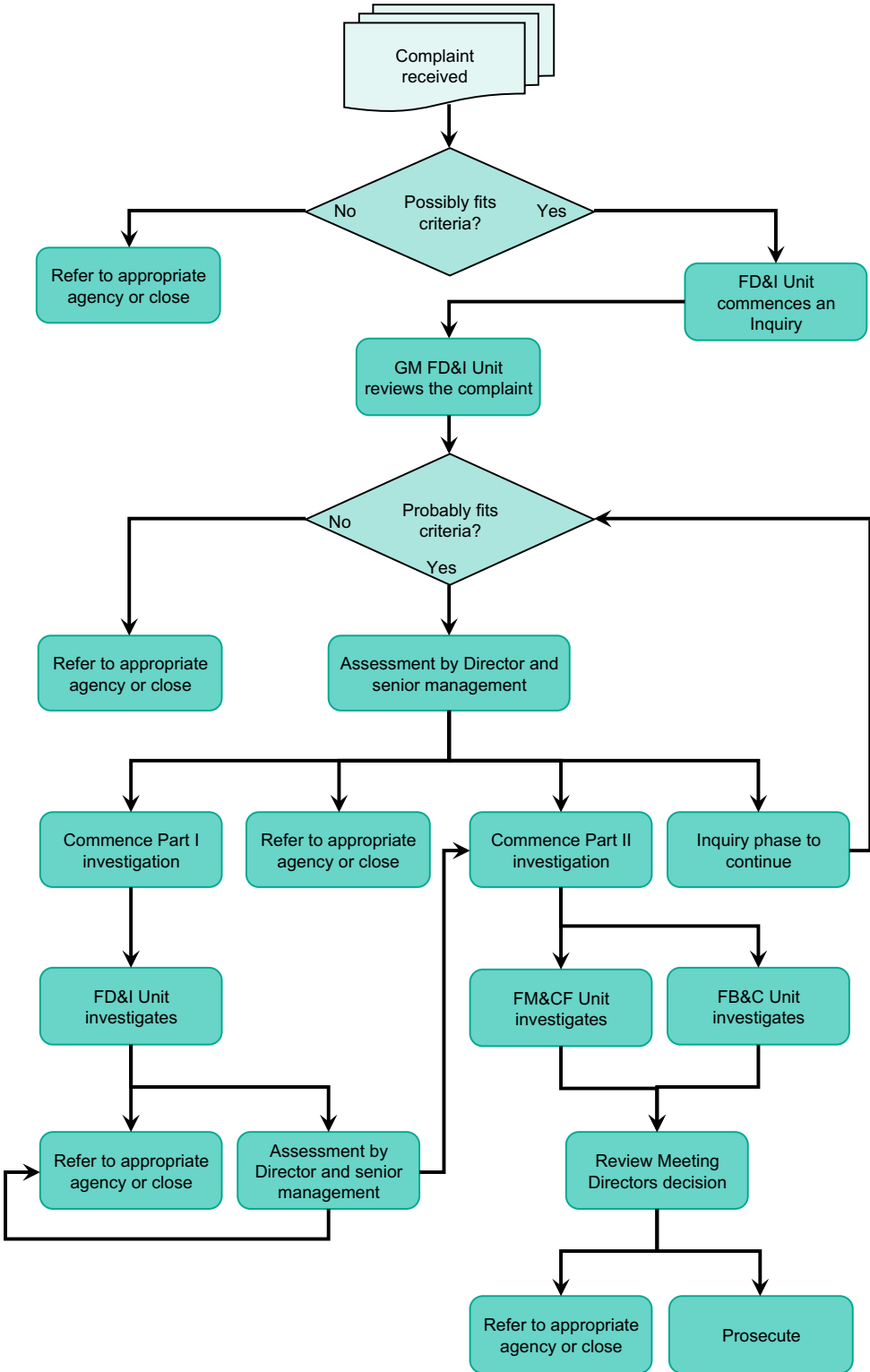
This section describes the key activities of investigations and prosecutions; how these activities are conducted; the criteria used for assessment; key annual statistics and five year trending. The organisational structure is summarised in Part 2 of this report. Performance measurement is covered under Part 3 – Statement of Service Performance. Finally, this section will highlight the key achievements for the year within these activities.

# Progress against outcomes and key achievements

## Investigations

**Intervention:** Take on appropriate cases, investigate them, and bring them to a successful conclusion as quickly as circumstances allow.

The following diagram illustrates the processes that make up this intervention.



## **Selection of cases for investigation**

Under the Act, the Director has discretion in the selection of cases. In determining whether an offence involves serious and/or complex fraud, 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; and/ or
- any relevant public interest consideration.

In recent years, the Office has taken an increasing percentage of cases with a relatively low dollar value. In some instances, the losses involved were less than \$500,000. While the quantum of the loss is not the only consideration, such cases cannot be given high priority when billions of dollars have been lost in finance companies, with legitimate concerns having been identified with a number of these companies. Consequently, at the end of the financial year the Office amended the criteria for undertaking investigations with the following circumstances:

- fraud losses of over \$2 million and/or multiple victims;
- particular priority will be those involving fraud losses over \$10 million and/or 100+ victims;
- financial fraud of a complexity or scale that is likely to be beyond the forensic accounting or investigative resources of other law enforcement agencies; or
- bribery and/or corruption involving public officials or otherwise undermine confidence in the administration of justice.

## **Referral of cases**

The Fraud, Detection and Intelligence Unit (FD&I) is the first point of contact for complaints regarding alleged serious or complex fraud. Complaints may come direct from the public or as referrals from government departments, liquidators, receivers, statutory managers or professional services firms. The Office is also increasingly proactive in the development of self-initiated inquiries.

The Office is alert to the need to intervene early in cases of serious fraud in order to mitigate any losses which may arise. It therefore encourages contact at an early stage. If the Office is not the correct agency to deal with a complaint, the Unit will ensure that the matter is referred to the relevant agency for further action.

## **Assessment of complaints**

Complaints are first assessed by the FD&I Unit to determine whether or not they may fit the criteria set for investigations by the Office. The General Manager reviews all incoming complaints of significance to determine whether the complaint will be accepted for further inquiry or investigation. If it is a matter that falls within the mandate of the Office, the complaint moves to the inquiry phase. If not, the complaint is either referred to the appropriate agency, or closed. The initiator of a complaint is then notified of the status.

### *Inquiry phase*

During the inquiry phase, the FD&I Unit gathers sufficient evidence (without the use of statutory powers) to allow the Director to determine whether or not the matter warrants further investigation using the powers provided under Part I or Part II of the Act.

Each week (and more frequently in the case of urgent complaints) the FD&I Unit meets with the Director and other senior managers to assess complaints that may meet the criteria for elevation to an investigation under the Act. The Director then determines to deal with the matter in one of the following ways:

- commence an investigation under Part I of the Act;
- commence an investigation under Part II of the Act;
- refer the matter to another government or private sector agency;
- leave the file in the inquiry phase pending further investigation; or
- close the file without further investigation.

The Director signs all notices requiring persons to attend to answer questions. 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

Search warrants are issued on written application to a District Court judge. The Director must be notified in advance of any request for a search warrant. There were three warrants sought in the period to 30 June 2010.

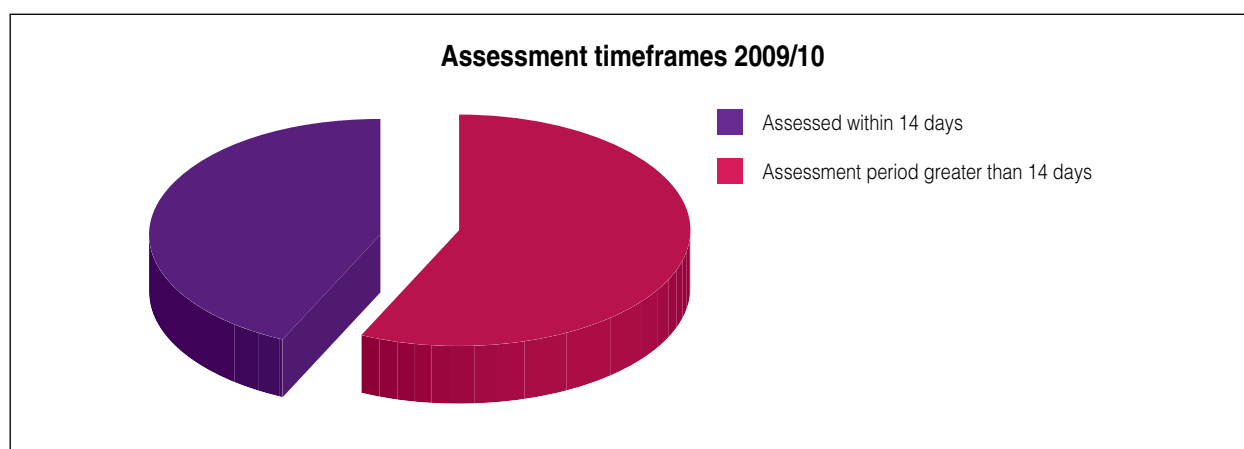
### Key statistics

Assessed cases	Total	Closed to NFA <sup>3</sup>	Open for investigation	OFCANZ <sup>4</sup> assistance	Cases remaining in assessment
Cases	47	25	15	0	7
% to total	100%	53.2%	31.9%	n/a	14.9%

Trends	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05
Assessments	47	59	45	65	75	67

### Timeliness

	Received	Assessed within 14 days	Average age of assessed cases
Cases assessed	47	43.1%	29 days



3 NFA- No Further Action.

4 OFCANZ- Organised and Financial Crime Agency of New Zealand (an operational unit of the Police).

## Investigation under Part I of the Act

When investigations are commenced under Part I of the Act, the FD&I Unit is responsible for investigating the matter using the powers provided under that part of the Act. The aim of the Unit is to find sufficient evidence to provide the Director with reasonable grounds for believing that an offence involving serious or complex fraud may have been committed, or to alternatively determine that the complaint was unfounded and recommend closure of the file.

Once the FD&I Unit has developed the investigation to the required stage, the matter is referred back to the Director for re-assessment. The Director may then apply any of the decisions listed previously.

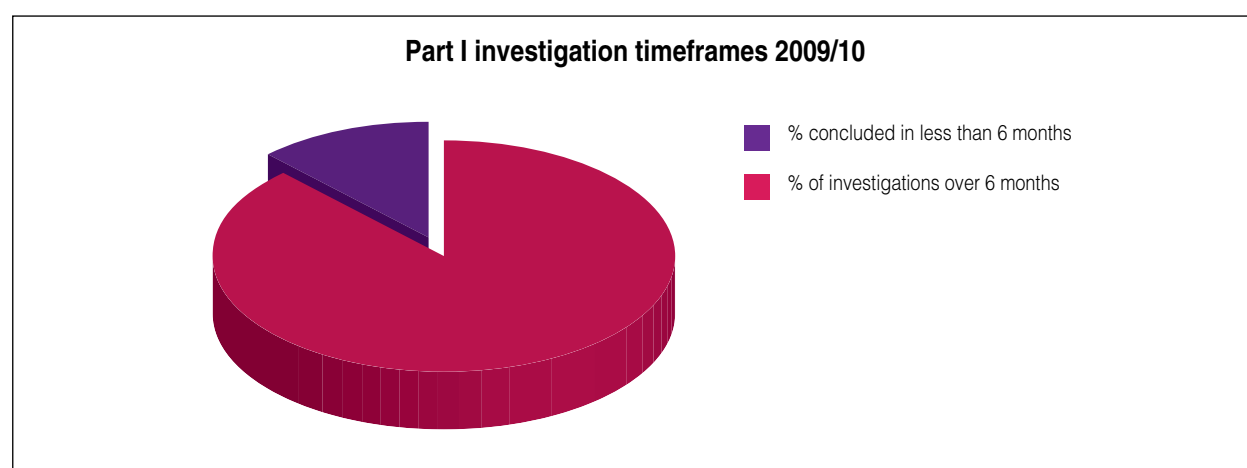
### Key statistics

Investigations – Part I	Total	Closed to NFA	Closed and referred to other agency	Referred to Part II
Cases	8	3	2	3
% to total		37.5%	25.0%	37.5%

Trends	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05
Investigations – Part I	8	13	10	4	5	10

### Timeliness

Concluded	Total concluded	Concluded < 6 months	% concluded < 6 months
Investigations – Part I	8	1	12.5%
Age of investigations	At 1 July 2009	At 30 June 2010	% change
Total investigations	0	7	n/a
Average age	n/a	269 days	n/a



## Investigation under Part II of the Act

When investigations are commenced under Part II of the Act, the investigation file is passed to one of two investigation units within the Office:

- Financial Markets and Corporate Fraud (FM&CF)
- Fraud, Bribery and Corruption (FB&C)

Each of these Units is made up of experienced financial investigators, forensic accountants and investigating lawyers, under the guidance of a General Manager. Case Managers are responsible for ensuring that sufficient resources exist to progress each case with sound investigative disciplines being observed and performance measures being met. The staff assigned to each investigation will vary from case to case, as appropriate, but will usually involve at least one member from each of the three professional disciplines.

An external prosecutor from the Serious Fraud Office's Prosecution Panel (refer page 51 for panel list as at 30 June 2010) is assigned to each investigation at an early stage and provides input into the investigation plan throughout the investigation. This plan is monitored and updated regularly under the guidance of the Case Manager and direction of the General Manager.

### Key statistics

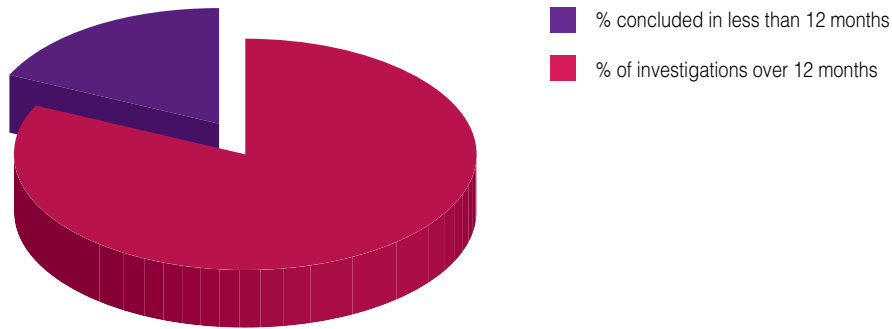
Investigations – Part II	Total	Closed to NFA	Closed and referred to other agency	Referred to Prosecution
Cases	33	12	7	14
% to total		36.4%	21.2%	42.4%

Trends	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05
Investigations – Part II	49	48	46	56	44	45

### Timeliness

Concluded	Total concluded	Concluded < 12 months	% concluded < 12 months
Investigations – Part II	33	6	18%
Age of investigations	At 1 July 2009	At 30 June 2010	% change
Total investigations	32	16	50%
Average age	455 days	278.5 days	40%
Open investigations <12 months old	16	12	75%

**Part II investigation timeframes 2009/10**



**Investigation completed with recommendation**

On completion of the investigation, a report is prepared for the Director and an external counsel appointed from the Office’s Prosecution Panel. The case is reviewed to determine whether or not it is appropriate to bring charges against anyone in respect of the investigation and, if so, what those charges should be.

If charges are laid, the external counsel is then instructed to lead the prosecution through Court with the assistance of the investigation unit, who prepare the prosecution file.

**Refer the matter to another government or private sector agency**

Where the evidence obtained does not warrant investigation or prosecution by the Office, but there is evidence to suggest criminal behaviour or regulatory breaches outside our mandate, we may refer the matter to the appropriate government agency. Over the past year, the Office has made such referrals to Police, Inland Revenue Department, Department of Internal Affairs, Securities Commission and the National Enforcement Unit of the Ministry of Economic Development.

From time to time referrals are also made to private sector agencies such as the NZ Law Society, or the NZ Institute of Chartered Accountants for action to be taken under the rules of their organisations. Likewise, the Office may come across information during the course of an investigation that may be relevant to a liquidator or receiver. The Director may exercise his statutory discretion to release such information if he is satisfied that such a person has a ‘proper interest’ in receiving it.

## Prosecutions

**Intervention:** *When the decision to prosecute is made, it is consistent with the Solicitor-General's Prosecution Guidelines; i.e. meets the requirements of evidential sufficiency and is in the public interest.*

There is no obligation on the Director to take proceedings in any particular case and the decision to prosecute is made on a case by case basis. A decision on whether or not to commence a prosecution is made by applying the test set out in the Prosecution Guidelines issued by the Solicitor-General. This is a two stage test which is met if:

- the evidence which can be adduced in Court is sufficient to provide a reasonable prospect of conviction – “the evidential test”; and
- prosecution is required in the public interest – “the public interest test.”

The Public Interest Test includes assessment of whether conviction is likely to result in a significant penalty, whether the defendant was in a position of trust, the level of financial loss to any victims and whether there was an element of corruption. These elements are often found in cases of serious or complex fraud.

The decision is also assisted by the advice of the Prosecution Panel counsel assigned to the particular investigation. The Panel member provides the Director with their opinion on the proposed prosecution and reviews the proposed charges.

### Key statistics

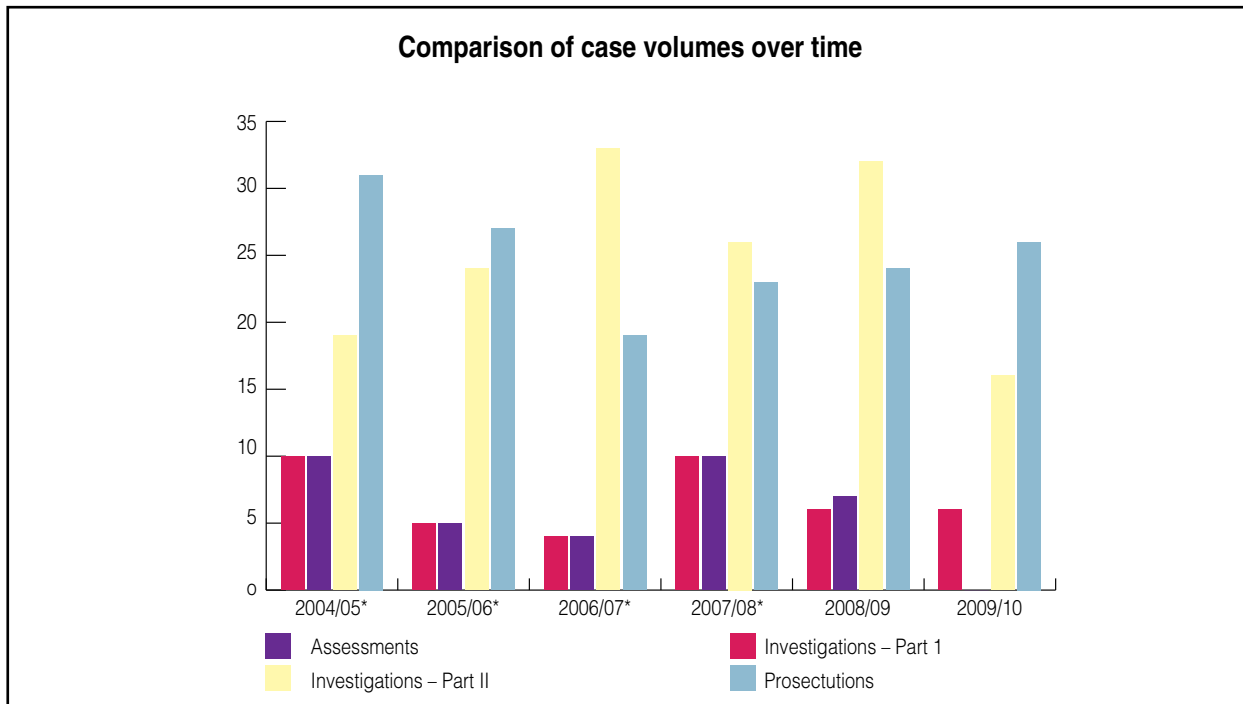
<b>Prosecutions</b>	<b>Total</b>	<b>Convictions</b>	<b>Acquittals</b>	<b>Notes</b>
Cases	16	14*	2	*One case was convicted in 2008/09 and sentenced in 2009/10
% to total		87.5%	12.5%	
<b>Convictions</b>	<b>Total</b>	<b>Custodial sentence</b>	<b>Non-custodial sentence</b>	<b>Other</b>
Number of convictions	14	9	4	1 (awaiting sentence)
% to total		64.3%	28.6%	7.1%

<b>Trends</b>	<b>2009/10</b>	<b>2008/09</b>	<b>2007/08</b>	<b>2006/07</b>	<b>2005/06</b>	<b>2004/05</b>
Prosecutions-during the year	39	37	33	38	43	45
Prosecutions-as at 30 June	26	24	23	19	27	31

### Timeliness

<b>Concluded and age</b>	<b>Total</b>	<b>Open as at 30 June 2010</b>	<b>Average age of open files</b>	<b>Closed in 2009/10</b>	<b>Average age when closed</b>
Prosecutions	39	26	498.4 days	13	663.6 days





\* Assessments and Part I investigation were not reported on separately in these Annual Reports hence the same number has been attributed to both categories.

## Highlights of the year

This has been an extremely demanding year for the Office and its staff. In order to get improved results, we have had to adopt a very narrow focus on repositioning the Office in a manner that would ensure we can better address the critical strategic issues facing us.

The dominant task for the year has been the review and restructuring of the Office. It involved not only extensive input from all staff within the Office, but also contribution of ideas from a variety of stakeholders in New Zealand and abroad. We have taken a lead from the UK SFO who conducted a similar exercise recently, and are confident that the resulting structure is one that has us well placed to respond to Government and public expectations for effective law enforcement against those who commit serious financial crimes. Particular features of importance in the new structure are:

- a dedicated Unit responsible for not only more effectively detecting possible incidences of serious fraud, but also for developing improved fraud intelligence networks with government agencies;
- a new Unit to deal with matters concerning possible bribery and corruption; and
- establishing a new role of General Counsel to oversee and advise on all aspects of the exercising of the Director’s statutory powers.

At an operational level, our priority has been to clear a growing backlog of investigations arising from the large number of finance company failures, and the instability of the Office during its proposed merger with OFCANZ. Through a more robust and results-focused assessment process, 41 investigations were completed during the year. Given the scale and complexity of many of these cases, this is an impressive result.

At the end of the financial year, we have 16 cases under investigation, compared to 29-39 over the past five years. This may seem a small number, but it is appropriate relative to the size of the Office and the need to expedite investigations

in a more timely manner. By managing a smaller caseload, we are not only able to carry out investigations more quickly, we are better able to respond rapidly to new cases as they arise.

The outcome of the new review process has been telling. At the end of the year the average age of investigations has been reduced by 40% (from 455 days to 278 days). This compares very favourably with comparable international agencies.

Particular case highlights for the year include:

- the first successful prosecution of one of the many failed finance companies, Waipawa Finance Company Limited (and associated company Waipawa Holdings Limited);
- charges laid in respect of two other failed finance companies – National Finance and Bridgecorp;
- a successful investigation and prosecution into New Zealand's largest ever case of employee fraud – the \$17,763,110 Ponzi scheme operated by former bank employee Stephen Versalko. Mr Versalko subsequently received a six year imprisonment sentence for his offending.

These highlighted achievements and improved public visibility through media has demonstrated our contribution this year towards the longer term outcomes of *'trust in New Zealand as an honest capital market'* and *'public confidence in the rule of law'*.

## Legal responsibilities

The Office has met all its requirements of the Serious Fraud Act 1990. An analysis of the 'Use of Statutory Powers' as notices issued under the Act is summarised in the table below.

Section	Part I of Act	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05
s 5(1)(a)	Requiring documents	50	209	56	91	44	118
s 5(1)(b)	Requiring answers to questions	Nil	1	5	4	16	13
s 6	Search warrant obtained	Nil	Nil	Nil	Nil	1	Nil
	<b>TOTAL</b>	50	210	61	95	61	131

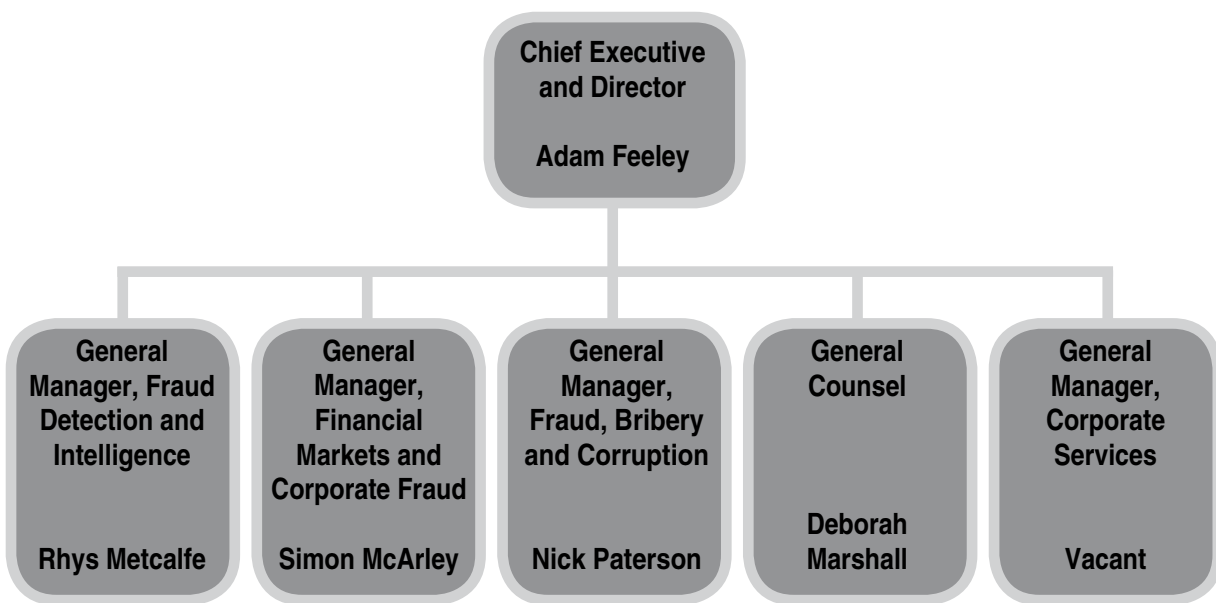
Section	Part II of Act	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05
s 9(1)(d)	Requiring answers to questions	39	36	84	258	123	101
s 9(1)(e)	Requiring information	82	103	82	113	129	69
s 9(1)(f)	Requiring documents	419	412	409	669	547	560
s 10	Search warrant obtained	3	Nil	Nil	7	4	5
	<b>TOTAL</b>	543	551	575	1,047	803	735

# PART 2: ORGANISATIONAL CAPABILITY AND HEALTH

The 2009/10 year has been one of substantial change for the staff of the Office as noted earlier in this document. In the past, our role has been more as a reactive investigation agency, rather than one which actively went in search of fraud and developed networks to ensure there was earlier intervention. Our new strategy is undertaking a more proactive approach. In order to implement this strategy, we have restructured the way we identify, manage and report our work. This restructure has included revised processes, team structures and performance measurement processes.

## Organisational structure

The most immediate and significant change has been a new structure which was established on 1 June 2010.



### Fraud Detection and Intelligence

The Fraud Detection and Intelligence Unit is responsible for the assessment of complaints and referral to other agencies as appropriate. This Unit is led by Rhys Metcalfe, whose 13 years as an investigator with the Office and prior seven years experience with the New Zealand Police make him aptly suited for the role.

### Financial Markets and Corporate Fraud

The Financial Markets and Corporate Fraud Unit is responsible for focusing on fraud committed in financial markets and large corporations. It recognises that the Office was originally established to address large scale corporate fraud arising from the stock market collapse of the 1980s. The Unit is led by Simon McArley, whose previous roles in the NZ Stock Exchange and Securities Commission, make him ideally qualified to develop our work in financial markets.

### Fraud, Bribery and Corruption

The newly established Fraud, Bribery and Corruption Unit acknowledges the co-responsibility that we have with the New Zealand Police. This Unit is led by Nick Paterson who has fraud experience with chartered accountancy firms in both the United Kingdom and New Zealand, and in a regulatory capacity with the UK Financial Services Agency.

## **General Counsel**

This role is a new position and is responsible for providing advice to the Director. As both a former investigator with the Office, and former Crown Prosecutor and partner with Meredith Connell, Deborah Marshall brings a unique perspective to all aspects of the General Counsel's work.

## **Corporate Services**

The Corporate Services team is responsible for managing activities relating to strategic planning, accountability reporting, financial management, human resources, IT systems, operational policies and general administration. This team will be led by a General Manager Corporate Services and is currently vacant.

## ***Investing in our people***

### **Being a good employer**

As we have moved through this reorganisation phase, we have worked to comply with the principles of being a good employer in all aspects of our human resource management. As our new business strategy was implemented, policies were reviewed, updated and communicated with staff. This work will continue in 2010/11 and will align with the new strategic direction, organisational structure and desired culture of the Office, providing staff with a clear road map for the future

We have demonstrated our commitment to being a good employer through achievements in the following key areas.

### ***Performance planning and appraisals***

All staff had performance plans in place which were monitored and reviewed. Following the review, a revised performance planning process has been introduced for 2010/11. Staff plans for 2010/11 include direct linkages to the stated performance measures which the Office is accountable to as stated in the Budget 2010 Main Estimates. General Managers will be reporting monthly against these measures, and staff will have their part to play in these achievements.

### ***Remuneration***

Financial remuneration reviews are conducted annually, incorporating staff performance against job expectations and work objectives achieved, with updated market rates for job roles. This policy will be reviewed annually.

### ***Recruitment, selection and induction***

Given the changing nature of the Office, in 2009/10 recruitment assistance and advice was provided by an external agency. Government guidelines were followed with a comprehensive recruitment policy implemented for 2010/11.

From July 2009 – April 2010, four permanent staff were recruited, of which three were fixed term contracts, reflecting the changing nature of the Office during the year. The new structure was implemented on 1 June 2010, with five staff recruited by 30 June 2010. Of these new staff, four were members of the senior management team.

### ***Exit***

When a staff member leaves the organisation where possible we conducted an informal exit interview. These interviews were shared with the senior management team as a development tool for improving the Office. There were five resignations (including one retirement) during the year due to a combination of personal reasons and career development opportunities. In addition seven staff elected to take redundancy following the organisational review.

## **Health and Safety Environment**

We were committed to providing and maintaining a safe and secure environment for our staff. We began work on a more focused and effective Induction Manual for all staff, which includes an updated policy on Health and Safety. We had no recorded work-related accidents or injuries during 2009/10.

## **Family-friendly policies and flexible work arrangements**

Where operationally feasible, we adopt a more flexible approach to work arrangements with some staff working part-time or shorter weeks.

## **Protection against harassment and bullying**

The safety of our staff is paramount. This includes staff being free from all forms of harassment and bullying. Addressing harassment is covered by our Responding to Unacceptable Behaviours Policy.

## **Our staff**

As at 30 June 2010, we had a core team of 24 full-time equivalent staff, or 26 employees against a budget of 40 FTE. This level of staff reflects the transitional state the Office was still in as at 30 June.

## **Demographic make-up of staff**

	Staff numbers		Percentage	
	2010	2009	2010	2009
Male	14	17	54%	57%
Female	12	13	46%	43%
Māori/Pacific	-	1	0%	3%
Asian	1	-	3%	-
European	25	29	96%	97%
Part-time	2	2	8%	7%
Full-time	24	28	92%	93%
<b>Total staff</b>	<b>26</b>	<b>30</b>	<b>100%</b>	<b>100%</b>

## **Management and non-management diversity in 2009/10**

	Total	FT	PT	Total	Māori/Pacific	Asian	European
<b>Female</b>							
Management	1	-	1	1	-	-	1
Non-management	11	10	1	11	-	1	10
<b>Total female</b>	<b>12</b>	<b>10</b>	<b>2</b>	<b>12</b>	<b>-</b>	<b>1</b>	<b>11</b>
<b>Male</b>							
Management	1	1	-	1	-	-	1
Non-management	13	13	-	13	-	-	13
<b>Total male</b>	<b>14</b>	<b>14</b>	<b>-</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>14</b>
<b>Total staff</b>							
Total staff	26	24	2	26	-	1	25

## **Reputation and integrity**

It is essential people have confidence in our organisation. Our integrity, work quality and maintenance of confidentiality are managed through the following key areas.

## **Confidentiality of information**

New staff sign a confidentiality agreement when they join the Office and the induction process further reinforces the need for confidentiality. The IT system and file security of the Office is robust and effective due to quality assurance measures in place. In addition, the Office has an extensive security system within its physical premises.

## **Accessible knowledge**

Our document management and records system make institutional knowledge available to all staff. Our new team structure also encourages regular and effective knowledge sharing.

## ***Managing risk***

We have a risk management framework that identifies key areas of capability and associated risks that allows us to continually anticipate and manage risk. With ongoing economic challenges and Government priorities, there have been several external risks identified during the year which were also applicable to future investigations. These included:

- failure to respond quickly to a major incidence of fraud;
- failure to align our investigative priorities with the wider enforcement priorities of the wider Justice sector and Government; and
- failure to address cases that will have the biggest impacts.

In addition, internal operational risks were identified and mechanisms to address them implemented. These included:

- delays in implementing recommendations arising from the new structure;
- loss of key staff during this transitional phase;
- failure of internal management systems;
- failure of information technology systems; and
- staff breaching standards of probity.

To address these risks, the senior management team has taken a collective responsibility towards implementing the Office's new strategy. Work began in May 2010 and continues in the following areas:

- work priorities being continually referenced to both the new strategic direction and performance measures;
- new quality assurance processes implemented within the operational work of the Office;
- comprehensive and regular reporting to our Minister on organisational and operational priorities; and
- regular exchanges of information within the Justice sector through the Justice Sector Chief Executives Forum.

## PART 3: STATEMENT OF SERVICE PERFORMANCE

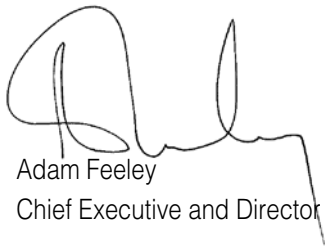
### *Statement of responsibility*

In accordance with sections 35 and 45C of the Public Finance Act 1989, I am responsible as, Chief Executive and Director of the Serious Fraud Office, for the preparation of the financial statements and statement of service performance, and the judgements made in the process of producing those statements.

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

In my opinion, the financial statements and statement of service performance fairly reflect the financial position and operations of the Serious Fraud Office for the year ended 30 June 2010.

Signed:



Adam Feeley  
Chief Executive and Director

28 September 2010

Counter signed by:



Diane Imus  
Acting Chief Financial Officer

28 September 2010

## **Audit Report**

***To the readers of the  
Serious Fraud Office's  
financial statements and statement of service performance  
for the year ended 30 June 2010***

The Auditor-General is the auditor of 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 her 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 2010.

### **Unqualified opinion**

In our opinion:

The financial statements of the Office on pages 31 to 51:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Office's financial position as at 30 June 2010;
  - the results of its operations and cash flows for the year ended on that date;
  - its expenses and capital expenditure incurred against each appropriation administered by the Office and each class of outputs included in each output expense appropriation for the year ended 30 June 2010; and
  - its unappropriated expenses and capital expenditure for the year ended 30 June 2010.

The statement of service performance of the Office on pages 29 to 30:

- 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 included 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 included in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 28 September 2010, 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 Chief Executive 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 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 Chief Executive;
- 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 and 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 Chief Executive and the Auditor**

The Chief Executive is responsible for preparing the financial statements and 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 2010 and the results of its operations and cash flows for the year ended on that date.

The financial statements must also fairly reflect the expenses and capital expenditure incurred against each appropriation administered by the Office and each class of outputs included in each output expense appropriation for the year ended 30 June 2010. The financial statements must also fairly reflect the Office's unappropriated expenses and capital expenditure 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 Chief Executive'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 New Zealand Institute of Chartered Accountants.

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



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

### **Matters relating to the electronic presentation of the audited financial statements**

This audit report relates to the financial statements of the Serious Fraud Office for the year ended 30 June 2010 included on the Serious Fraud Office's web site. The Chief Executive is responsible for the maintenance and integrity of the Serious Fraud Office's web site. We have not been engaged to report on the integrity of the Serious Fraud Office's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 28 September 2010 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Statement of service performance

### Output class: Civil Forfeiture of Criminal Assets

#### Description

This output expense provided for services of investigating and where appropriate restraining and/ or forfeiting assets derived from criminal activity under the civil forfeiture provisions of relevant legislation in relation to:

- reducing the occurrence, impact and harm of serious financial crime
- increasing public confidence in the delivery of justice and the rule of law
- increasing trust in New Zealand as an honest capital market and a safe place to do business.

#### Performance measures and standards

In December 2009, a Cabinet decision transferred the functions of investigating and where appropriate restraining and/ or forfeiting assets derived from criminal activity under the civil forfeiture provisions of relevant legislation (departmental output expense Civil Forfeiture of Criminal Assets) to New Zealand Police. No appropriation was transferred to Vote Police. As no services within this output were provided for in 2009/10, no performance measures are reported in this section.

#### Statement of cost of services

	Actual 2010 \$000	Main estimates 2010 \$000	Supp estimates 2010 \$000	Actual 2009 \$000
<b>Revenue</b>				
Crown	0	1,890	788	2
Departments	0	0	0	0
Other	0	0	0	0
Total income	0	1,890	788	2
Expenditure	0	1,890	788	2
Net surplus/ (deficit)	0	0	0	0

As part of the above decision, \$1.102 million in 2009/10 and \$1.890 million in 2010/11 and outyears, was transferred from this output expense to the output expense Investigation and Prosecution of Complex or Serious Fraud. This left \$0.788 million remaining in 2009/10 to be utilised by Ministers within the Justice sector.

For the purposes of financial reporting, \$0.788 million remained in the Budget, but no cash funding was paid to the Serious Fraud Office and therefore no surplus to the Crown resulted.

### Output class: Investigation and Prosecution of Complex or Serious Fraud

#### Description

This output expense provided for services of detection, investigation and prosecution of cases of suspected serious fraud offending brought to the attention of, or detected by, the Serious Fraud Office in relation to:

- reducing the occurrence, impact and harm of serious financial crime
- increasing public confidence in the delivery of justice and the rule of law
- increasing trust in New Zealand as an honest capital market and a safe place to do business.

## **Performance measures and standards**

The Office has had a number of differing performance standards over the past 10 years. However, there has been one constant standard which best reflects the key investigative functions of the Office. That is, to carry out timely investigations, which has been measured as 80% of investigations being concluded inside 12 months.

In the past 10 years, this standard has been met only twice, with the performance ranging from 37% to 88%. There are a variety of reasons for this, ranging from poor case management processes and lack of clear accountabilities through to taking on excessive cases relative to the capacity of the organisation (and thus comprising performance). However, by any standards, these results are unacceptable.

During the course of the year, the Office fundamentally overhauled both its measurement processes and performance standards which will take effect from 1 July 2010. The results for this financial year are a reflection of the legacy which the new management team inherited.

In addition, this year, there was a concerted effort to clear the backlog of 'stale' cases. This has significantly lowered the overall performance for this year, but has left the Office with a much more current caseload for the coming financial year. In so doing, we have also lowered the average age of an investigation by approximately 40% (from approximately 455 days to 275 days).

### *Quantity*

<b>Performance Measure</b>	<b>Standard</b>	<b>Actual</b>	<b>Comment</b>
Number of full investigations completed to the point where the Director decides whether or not criminal charges should be laid.	15-25	33	The greater than anticipated number of cases reflects a concerted effort in the second half of the year to reduce the work of the Office to a sustainable level relative to performance standards.
Number of prosecution cases concluded.	15-20	13	Delays in concluding investigations have created a consequential drop in prosecutions. The increase in concluded investigations this financial year will have a corresponding 'knock on' effect in 2010/11.

### *Timeliness*

<b>Performance Measure</b>	<b>Standard</b>	<b>Actual</b>	<b>Comment</b>
Percentage of complaints assessed within 14 days to determine whether they meet the criteria of the Serious Fraud Office Act 1990.	90%	43.1%	Increased case volumes, reduced staff numbers and historically poor case management practices have resulted in lower performance results.
Percentage of cases assessed within six months to determine whether to proceed to a full investigation.	90%	12.5%	Increased case volumes, reduced staff numbers and historically poor case management practices have resulted in lower performance results.
Percentage of cases investigated to enable the Director of Serious Fraud to decide whether to prosecute the alleged offender(s) completed within 12 months.	80%	18%	Increased case volumes, reduced staff numbers and historically poor case management practices have resulted in lower performance results.

## Quality

Performance Measure	Standard	Actual	Comment
Progress of all cases is reviewed at least monthly by the Director.	100%	100%	Met
Maintain percentage of early guilty pleas.	Above 50%	69.2%	Met
Percentage of cases going to committal.	100%	100%	Met
Maintain conviction rate.	90%	87.5%	Substantively met
Percentage of the time victims are treated with courtesy and compassion, and their dignity and privacy is respected.	100%	100%	Met

## Statement of cost of services

	Actual 2010 \$000	Main estimates 2010 \$000	Supp estimates 2010 \$000	Actual 2009 \$000
<b>Revenue</b>				
Crown	6,571	5,360	6,572	5,560
Departments	100	119	110	101
Other	6	0	0	6
Total income	6,677	5,479	6,682	5,667
Expenditure	7,302	5,479	6,682	5,649
<b>Net surplus/ (deficit)</b>	<b>(625)</b>	<b>0</b>	<b>0</b>	<b>18</b>

## Financial statements

### Statement of comprehensive income for the year ended 30 June 2010

	Note	Actual 2010 \$000	Main estimates 2010 \$000	Supp estimates 2010 \$000	Actual 2009 \$000
<b>Income</b>					
Crown		6,571	7,250	7,360	5562
Other	2	100	119	110	101
Gains	3	6	0	0	6
<i>Total Income</i>		<i>6,677</i>	<i>7,369</i>	<i>7,470</i>	<i>5,669</i>
<b>Expenditure</b>					
Personnel costs	4	4,305	4,131	3,770	3,732
Depreciation/ amortisation expense	8,9	197	241	149	167
Capital charge	5	76	81	81	29
Other operating expenses	6	2,724	2,916	2,682	1,723
<i>Total expenditure</i>		<i>7,302</i>	<i>7,369</i>	<i>6,682</i>	<i>5,651</i>
Net surplus/ (deficit)		(625)	0	788	18
<b>Total comprehensive income</b>		<b>(625)</b>	<b>0</b>	<b>788</b>	<b>18</b>

The accompanying notes form part of these financial statements.

## Statement of financial position as at 30 June 2010

	Note	Actual 2010 \$000	Main estimates 2010 \$000	Supp estimates 2010 \$000	Actual 2009 \$000
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents		1,289	418	1,889	855
Debtors and other receivables	7	79	25	28	53
Prepayments		12	18	20	53
<i>Total current assets</i>		<i>1,380</i>	<i>461</i>	<i>1,937</i>	<i>961</i>
<b>Non-current assets</b>					
Property, plant and equipment	8	642	1,013	692	792
Intangible assets	9	7	7	9	2
<i>Total non-current assets</i>		<i>649</i>	<i>1,020</i>	<i>701</i>	<i>794</i>
<b>Total Assets</b>		<b>2,029</b>	<b>1,481</b>	<b>2,638</b>	<b>1,755</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Creditors and other payables	10	615	233	484	359
Return of operating surplus	11	0	0	788	18
Provisions	12	94	0	0	0
Employee entitlements	13	238	171	285	297
<i>Total current liabilities</i>		<i>947</i>	<i>404</i>	<i>1,557</i>	<i>674</i>
<b>Non-current liabilities</b>					
Provisions	12	625	0	0	0
Employee entitlements	13	5	0	4	4
<i>Total non-current liabilities</i>		<i>630</i>	<i>0</i>	<i>4</i>	<i>4</i>
<b>Total liabilities</b>		<b>1,577</b>	<b>404</b>	<b>1,561</b>	<b>678</b>
<b>Net Assets</b>		<b>452</b>	<b>1,077</b>	<b>1,077</b>	<b>1,077</b>
<b>Taxpayers' funds</b>					
General funds	14	452	1,077	1,077	1,077
<b>Total taxpayers' funds</b>		<b>452</b>	<b>1,077</b>	<b>1,077</b>	<b>1,077</b>

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

The accompanying notes form part of these financial statements.

### Statement of changes in taxpayers' funds for the year ended 30 June 2010

	Note	Actual 2010 \$000	Main estimates 2010 \$000	Supp estimates 2010 \$000	Actual 2009 \$000
<b>Balance as at July</b>		<b>1,077</b>	<b>1,077</b>	<b>1,077</b>	<b>387</b>
Total comprehensive income		(625)	0	0	18
Return of operating surplus	11	0	0	0	(18)
Capital injections		0	0	0	690
<b>Balance at 30 June</b>	<b>14</b>	<b>452</b>	<b>1,077</b>	<b>1,077</b>	<b>1,077</b>

### Statement of cash flows for the year ended 30 June 2010

	Note	Actual 2010 \$000	Main estimates 2010 \$000	Supp estimates 2010 \$000	Actual 2009 \$000
<b>Cash flow from operating activities</b>					
Receipts from Crown		6,571	7,250	7,360	5,563
Receipts from revenue other		81	119	101	71
Payments to suppliers		(2,202)	(2,956)	(2,607)	(1,694)
Payments to employees		(3,921)	(4,088)	(3,680)	(3,554)
Payments for capital charge		(76)	(81)	(81)	(29)
Goods and services tax (net)		55	0	0	(22)
<i>Net cash from operating activities</i>	15	508	244	1,093	335
<b>Cash flows from investing activities</b>					
Receipts from sale of property, plant and equipment		12	0	9	31
Purchase of property, plant and equipment		(59)	(510)	(45)	(678)
Purchase of intangible assets		(9)	(10)	(5)	0
<i>Net cash from investing activities</i>		(56)	(520)	(41)	(647)
<b>Cash flows from financing activities</b>					
Capital contributions		0	0	0	690
Return of operating surplus		(18)	(6)	(18)	(204)
<i>Net cash flows from financing activities</i>		(18)	(6)	(18)	486
<b>Net increase/(decrease) in cash</b>		<b>434</b>	<b>(282)</b>	<b>1,034</b>	<b>174</b>
Cash at beginning of the year		855	700	855	681
<b>Cash at the end of the year</b>		<b>1,289</b>	<b>418</b>	<b>1,889</b>	<b>855</b>

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for the financial statement purposes. During the period, the Serious Fraud Office has in 2010 acquired nil property, plant and equipment (2009: \$nil) by means of any finance lease.

*The accompanying notes form part of these financial statements.*



## Statement of commitments as at 30 June 2010

### Non-cancellable operating lease commitments

The Serious Fraud Office leases property, plant and equipment in the normal course of its business. The primary lease relates to office accommodation in Auckland, which expires on 29 February 2016, with no rights of renewal. In addition the Office leases carparks, with a rent review on 1 March 2014. Operating expenses and rates are also included, with an annual inflation rate of 2.5% applied.

	<b>Actual 2010 \$000</b>	<b>Actual 2009 \$000</b>
<b>Non-cancellable operating lease commitments</b>		
Not later than one year	580	554
Later than one year and not later than five years	2,361	2,215
Later than five years	401	923
<i>Total non-cancellable operating lease commitments</i>	<i>3,342</i>	<i>3,692</i>
<b>Other non-cancellable commitments</b>		
Not later than one year	15	0
Later than one year and not later than five years	0	0
Later than five years	0	0
<i>Total non-cancellable other commitments</i>	<i>15</i>	<i>0</i>
<b>Total commitments</b>	<b>3,357</b>	<b>3,692</b>

## Statement of contingent liabilities and contingent assets as at 30 June 2010

The Serious Fraud Office had no contingent liabilities or contingent assets as at 30 June 2010 (2009: Nil).

## Statement of departmental expenses and capital expenditure against appropriations for the year ended 30 June 2010

	<b>Actual 2010 \$000</b>	<b>Appropriation Voted 2010 \$000</b>	<b>Actual 2009 \$000</b>
<b>Vote Serious Fraud</b>			
<b>Appropriation for output expenses</b>			
Civil Forfeiture of Criminal Assets	0	788	2
Investigation and Prosecution of Complex or Serious Fraud	7,302	6,682	5,649
<i>Total appropriations for outputs expenses</i>	<i>7,302</i>	<i>7,470</i>	<i>5,651</i>
<b>Departmental capital expenditure</b>			
Serious Fraud Office – Capital Expenditure (PLA)	68	233	745
<i>Total appropriation for capital expenditure</i>	<i>68</i>	<i>233</i>	<i>745</i>
<b>Total</b>	<b>7,370</b>	<b>7,703</b>	<b>6,396</b>

The accompanying notes form part of these financial statements.

**Statement of departmental unappropriated expenditure and capital for the year ended 30 June 2010**

	<b>Actual Expenditure 2010 \$000</b>	<b>Appropriation Voted 2010 \$000</b>	<b>Unappropriated expenditure 2010 \$000</b>	<b>Unappropriated expenditure 2009 \$000</b>
<b>Vote Serious Fraud</b>				
Civil Forfeiture of Criminal Assets	0	788	0	0
Investigation and Prosecution of Complex or Serious Fraud	7,302	6,682	620	0
<b>Total appropriations for outputs expenses</b>	<b>7,302</b>	<b>7,470</b>	<b>620</b>	<b>0</b>

The Serious Fraud Office did not incur any capital expenditure in excess of appropriation, nor breach its departmental net asset schedule during the year.

**Expenses incurred in excess of appropriation**

***Output expense: Investigation and Prosecution of Complex or Serious Fraud***

In December 2009, Cabinet agreed [CAB Min (09) 45/6] to transfer the functions of civil forfeiture of criminal assets to the New Zealand Police, which impacted on the level of staff and office space required by the Office. Therefore the Office identified unused floor space, for which the cost needed to be recognised over the life of the lease in 2009/10. In addition a make good provision was recognised, to be realised in February 2016 at the end of the lease period. This unappropriated expenditure is within the scope of the appropriation.

The Serious Fraud Office has applied to the Minister of Finance for section 26C of the Public Finance Act 1989 approval for the unappropriated expenditure.

*The accompanying notes form part of these financial statements.*

# Notes to financial statements

## 1 Statement of accounting policies for the year ended 30 June 2010

### Reporting entity

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

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

The financial statements of the Serious Fraud Office are for the year ended 30 June 2010. The financial statements were authorised for issue by the Chief Executive of the Serious Fraud Office on 28 September 2010.

### Basis of preparation

#### *Statement of compliance*

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

These financial statements have been prepared in accordance with, and comply with, NZ IFRS as appropriate for public benefit entities.

#### *Measurement base*

The financial statements have been prepared on a historical cost basis, except where modified by the revaluation of certain items of property, plant and equipment, and the measurement of equity investments and derivative financial instruments at fair value.

#### *Functional and presentation currency*

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

#### *Changes in accounting policies*

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

The Serious Fraud Office has adopted the following revisions to accounting standards during the financial year, which have had only a presentational or disclosure effect:

- NZ IAS 1 *Presentation of Financial Statements (Revised 2007)* replaces NZ IAS 1 *Presentation of Financial Statements (Issued 2004)*. The revised standard requires information in financial statements to be aggregated and on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non-owner Changes separately from transactions with owners. The Serious Fraud Office has decided to prepare a single statement of

comprehensive income for the year ended 30 June 2010 under the revised standard. Financial statement information for the year ended 30 June 2009 has been restated accordingly. Items of other comprehensive income presented in the statement of comprehensive income were previously recognised directly in the statement of changes in equity.

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

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

- NZ IAS 24 *Related Party Disclosures (Revised 2009)* replaces NZ IAS 24 *Related Party Disclosures (Issued 2004)* and is effective for reporting periods commencing on or after 1 January 2011. The revised standard:
  - i Removes the previous disclosure concessions applied by the Serious Fraud Office for arms-length transactions between the Serious Fraud Office and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between the Serious Fraud Office and entities controlled or significantly influenced by the Crown.
  - ii Provides clarity on the disclosure of related party transactions with Ministers of the Crown. Further, with the exception of the Minister of Accountability, the Serious Fraud Office will be provided with an exemption from certain disclosure requirements relating to transactions with other Ministers of the Crown. The clarification could result in additional disclosures should there be any related party transactions with Ministers of the Crown.
  - iii Clarifies that related party transactions include commitments with related parties.
- NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The Serious Fraud Office has not yet assessed the effect of the new standard and expects it will not be early adopted.

### **Significant accounting policies**

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

#### **Revenue**

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

##### *> Revenue from the Crown*

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned. It is restricted in its use for the purpose of the Serious Fraud Office meeting its objectives as specified in the Statement of Intent and Main Estimates of Appropriations.

##### *> Other income*

Revenue earned as funding received from the State Services Commission (as agent for the Crown) for the recovery of State Sector Retirement Savings Scheme and KiwiSaver employer contributions. In addition, any other revenue received from other organisations is recognised as revenue upon entitlement.

##### *> Vested asset*

Where a physical asset is gifted to or acquired by the Serious Fraud Office for nil or nominal costs, the fair value of the assets received is recognised as income. Such assets are recognised as income when control of the asset is obtained.

## **Capital charge**

The capital charge is a levy on the Crown's investment in the Serious Fraud Office and is recognised as an expense in the period to which the charge relates. The capital charge is not a borrowing cost in accordance with NZ IAS 23.

## **Leases**

### *> Finance leases*

The Serious Fraud Office does not enter into finance leases.

### *> Operating leases*

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the Serious Fraud Office are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease in the statement of comprehensive income. Lease incentives received are recognised in the statement of comprehensive income over the lease term as an integral part of the total lease expense.

## **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand and funds on deposit with banks with original maturities of three months or less and is measured at its face value.

## **Debtors and other receivables**

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less impairment charges.

## **Property, plant and equipment**

Property, plant and equipment asset classes consist of leasehold improvements, computer equipment, office furniture, fixtures and fittings, office equipment and motor vehicles. Property, plant and equipment are shown at cost or valuation, less accumulated depreciation and impairment losses.

Individual assets, or groups of assets, are capitalised if their costs are greater than \$1,000 (excluding GST). The value of an individual asset that is less than \$1,000 (excluding GST) and is part of a group of similar assets, is capitalised. All are recorded at historical cost.

Initial cost includes the purchase price and any costs directly attributable to bringing the asset to the location and condition required for its intended use.

Fixed assets are written down immediately if any impairment in the value of the asset causes its recoverable amount to fall below its carrying value.

### *> Additions*

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that the future economic benefits or service potential associated with the item will flow to the Serious Fraud Office and the cost of the item can be measured reliably. Where an asset is acquired at no cost, or for a nominal cost, it is recognised as income at fair value when control over the asset is obtained.

### > Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the statement of comprehensive income. The Serious Fraud Office does not hold assets which are revaluable in nature.

### > Subsequent costs

Costs incurred subsequent to the initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Serious Fraud Office and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as they are incurred.

### > Depreciation

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

	<b>Useful life</b>	<b>Depreciation rate</b>
Computer equipment	3 years	33%
Office furniture and equipment	5 years	20%
Motor vehicles	6-7 years	15%

Leasehold improvements (included within office furniture, fixtures and fittings category) are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter.

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

## **Intangible assets**

### > Software acquisition and development

Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. Software is capitalised if its cost is \$1,000 (excluding GST) or greater.

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

Staff training costs are recognised as an expense when incurred.

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

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

### > Amortisation

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

Amortisation begins when the asset is available for use, and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the statement of comprehensive income.

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

	<b>Useful life</b>	<b>Amortisation rate</b>
Acquired computer software	3 years	33%
Developed computer software	3 years	33%

### **Impairment of property, plant equipment and intangible assets**

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

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

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the Serious Fraud Office would, if deprived of the asset, replace its remaining future economic benefits or service potential.

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

### **Creditors and other payables**

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using effective interest method.

### **Employee entitlements**

#### *> Short-term employee entitlements*

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

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

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

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

#### *> Long-term employee entitlements*

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

- likely future entitlement accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and

- the present value of the estimated future cash flows.

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

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

## **Superannuation schemes**

### *> Defined contribution schemes*

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

## **Provisions**

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

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

## **Taxpayers' funds**

Taxpayers' funds are the Crown's investment in the Serious Fraud Office and is measured as the difference between total assets and total liabilities.

## **Commitments**

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

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

## **Goods and services tax (GST)**

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

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



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

Commitments and contingencies are disclosed exclusive of GST.

## **Income tax**

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

## **Budget figures**

The budget figures are those included in the Information Supporting the Estimates of Appropriation for the Government of New Zealand for the year ending 30 June 2010, which are consistent with the financial information in the Main Estimates. In addition, the financial statements also present the updated budget information from the Supplementary Estimates. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

## **Statement of cost accounting policies**

By 30 June 2010, the Serious Fraud Office had only one department output expense, Investigation and Prosecution of Complex or Serious Fraud, and therefore no cost allocation was applied in 2009/10. In 2010/11 and outyears, the Serious Fraud Office will have only one output expense and therefore no cost allocation will apply.

## **Critical accounting estimates and assumptions**

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

## **Critical judgements in applying accounting policies**

Management has exercised the following critical judgments in applying accounting policies for the year ended 30 June 2010:

*Provisions* – In note 12, the Office has exercised its judgment in application of determining the level of unutilised space in order to calculate an onerous lease provision and level of make good provision.

## 2 Revenue other

	<b>Actual 2010 \$000</b>	<b>Actual 2009 \$000</b>
State Sector Retirement Savings scheme recovery	98	101
Other	2	0
<b>Total revenue other</b>	<b>100</b>	<b>101</b>

## 3 Gains

	<b>Actual 2010 \$000</b>	<b>Actual 2009 \$000</b>
Net gain on disposal of property, plant and equipment	6	6
<b>Total gains</b>	<b>6</b>	<b>6</b>

The net gain resulted from the insurance claim received which exceeded the net book value of assets stolen.

## 4 Personnel costs

	<b>Actual 2010 \$000</b>	<b>Actual 2009 \$000</b>
Salaries and wages	3,993	3,432
Employer contributions to defined contribution plans	99	102
Increase/(decrease) in employee entitlements	(73)	107
Staff training and development	69	41
Fringe Benefit Tax	5	6
Other personnel costs	212	44
<b>Total personnel costs</b>	<b>4,305</b>	<b>3,732</b>

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

During the year ended 30 June 2010, seven staff (2009: nil) received compensation and other benefits in relation to cessation, totalling \$326,542 (2009: \$nil).

## 5 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 rate was 7.5% in 2009/10 (2009: 7.5%).

## 6 Other operating expenses

	<b>Actual 2010 \$000</b>	<b>Actual 2009 \$000</b>
Fees to auditor for financial statement audit	48	32
Rental and operating leasing expense	467	495
Onerous lease and make good provision	719	0
Other occupancy costs	74	75
Legal fees	207	185
Consultancy	68	35
Organisational review	197	0
Travel expenses	218	294
IT and telecommunications costs	329	358
Net loss on disposal of property, plant and equipment	1	0
Other operating expenses	396	249
<b>Total other operating expenses</b>	<b>2,724</b>	<b>1,723</b>

Onerous lease and a make good provision is a one-off expense in 2009/10.

## 7 Debtors and other receivables

	<b>Actual 2010 \$000</b>	<b>Actual 2009 \$000</b>
Other receivables	79	53
<b>Total debtors and other receivables</b>	<b>79</b>	<b>53</b>

The carrying value of debtors and other receivables approximates their fair value. As at 30 June 2010 and 30 June 2009, the debtors and other receivables are current.

## 8 Property, Plant and Equipment

	Office furniture, fixtures and fittings \$000	Office equipment \$000	Computer equipment \$000	Motor vehicles \$000	Total \$000
<b>Cost</b>					
Balance at 1 July 2008	735	436	400	60	1,631
Additions	601	98	9	37	745
Disposals	(112)	(72)	(4)	(24)	(212)
<b>Balance at 30 June 2009</b>	<b>1,224</b>	<b>462</b>	<b>405</b>	<b>73</b>	<b>2,164</b>
Balance at 1 July 2009	1,224	462	405	73	2,164
Additions	1	14	44	0	59
Disposals	0	0	(7)	(37)	(44)
<b>Balance at 30 June 2010</b>	<b>1,225</b>	<b>476</b>	<b>442</b>	<b>36</b>	<b>2,179</b>
<b>Accumulated depreciation and impairment losses</b>					
Balance at 1 July 2008	664	364	333	34	1,395
Depreciation expense	83	37	33	11	164
Eliminate on disposal	(112)	(50)	(4)	(21)	(187)
<b>Balance at 30 June 2009</b>	<b>635</b>	<b>351</b>	<b>362</b>	<b>24</b>	<b>1,372</b>
Balance at 1 July 2009	635	351	362	24	1,372
Depreciation expense	113	34	37	9	193
Eliminate on disposal	0	0	(5)	(23)	(28)
<b>Balance at 30 June 2010</b>	<b>748</b>	<b>385</b>	<b>394</b>	<b>10</b>	<b>1,537</b>
<b>Carrying amounts</b>					
At 1 July 2008	71	72	67	26	236
At 30 June and 1 July 2009	589	111	43	49	792
At 30 June 2010	477	91	48	26	642

The Serious Fraud Office does not own land or buildings.

The total amount of property, plant and equipment in the course of construction is nil in 2010 (2009: nil).

## 9 Intangible assets

	Acquired software \$000
<b>Cost</b>	
Balance at 1 July 2008	131
Additions	0
<b>Balance at 30 June 2009</b>	<b>131</b>
Balance at 1 July 2009	131
Additions	9
<b>Balance at 30 June 2010</b>	<b>140</b>
<b>Accumulated amortisation and impairment losses</b>	
Balance at 1 July 2008	126
Amortisation expense	3
<b>Balance at 30 June 2009</b>	<b>129</b>
Balance at 1 July 2009	129
Amortisation expense	4
<b>Balance at 30 June 2010</b>	<b>133</b>
<b>Carrying amounts</b>	
At 1 July 2008	5
At 30 June and 1 July 2009	2
At 30 June 2010	7

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

## 10 Creditors and other payables

	Actual 2010 \$000	Actual 2009 \$000
Creditors	(4)	131
Accrued expenses	469	161
GST Payable	94	12
Other payables	56	55
<b>Total creditors and other payables</b>	<b>615</b>	<b>359</b>

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

## 11 Return of operating surplus

	Actual 2010 \$000	Actual 2009 \$000
Net surplus/(deficit)	(625)	18
<b>Total return of operating surplus</b>	<b>0</b>	<b>18</b>

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

## 12 Provisions

	<b>Actual 2010 \$000</b>	<b>Actual 2009 \$000</b>
<b>Current portion</b>		
Lease make good	0	0
Onerous contracts	94	0
<i>Total current portion</i>	<i>94</i>	<i>0</i>
<b>Non-current portion</b>		
Lease make good	250	0
Onerous contracts	375	0
<i>Total non-current portion</i>	<i>625</i>	<i>0</i>
<b>Total provisions</b>	<b>719</b>	<b>0</b>

	<b>Lease make good \$000</b>	<b>Onerous contracts \$000</b>	<b>Total \$000</b>
Balance 1 July 2009	0	0	0
Provisions made	250	469	719
Amounts used	0	0	0
Unused amounts reversed	0	0	0
<b>Balance at 30 June 2010</b>	<b>250</b>	<b>469</b>	<b>719</b>

### *Lease make good*

In respect of its leased premises, the Serious Fraud Office is required at the expiry of the lease term to make good any damage caused to the premises and to remove any fixtures or fittings installed by the Office. The lease expires on 29 February 2016 and therefore the timing of the expected cash outflow to make good the premises will be made at this time.

### *Onerous contracts*

The provision for onerous contracts arises from a non-cancellable lease where the unavoidable costs of meeting the lease contract exceed the economic benefits to be received from it. In 2009/10 certain activities were transferred to the New Zealand Police on a permanent basis which resulted in the Serious Fraud Office reviewing its accommodation requirements. A percentage of the floor space was identified as unutilised and an onerous provision made. At balance date, the Office has five years and eight months remaining on the lease.

## 13 Employee entitlements

	<b>Actual 2010 \$000</b>	<b>Actual 2009 \$000</b>
<b>Current portion</b>		
Accrued salaries, performance pay, FBT and contributions to defined contribution plans	164	149
Annual leave	70	131
Sick leave	0	10
Long service leave	4	7
<i>Total current portion</i>	<i>238</i>	<i>297</i>
<b>Non-current portion</b>		
Long service leave	5	4
<i>Total non-current portion</i>	<i>5</i>	<i>4</i>
<b>Total employee entitlements</b>	<b>243</b>	<b>301</b>

The measurement of the long service obligation was based on a number of assumptions. An assessment of 20 staff employed as at 30 June 2010 was undertaken as to which staff would reach the long service criteria, given the recent restructure and the average turn over rate within the profession. Two staff had earned a portion of long service leave and this is reflected as the current portion. The non-current portion reflects the assessment that 15 staff had the probability of earning long service leave in the future. Due to materiality of the number of staff affected, discount rate and salary inflation factor were not incorporated into the calculation.

## 14 Taxpayers' funds

	<b>Actual 2010 \$000</b>	<b>Actual 2009 \$000</b>
<b>General funds</b>		
Balance at 1 July	1,077	387
Total comprehensive income	(625)	18
Capital contribution from the Crown	0	690
Return of operating surplus	0	(18)
Balance at 30 June	452	1,077
<b>Total taxpayer' funds</b>	<b>452</b>	<b>1,077</b>

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

	Actual 2010 \$000	Actual 2009 \$000
<b>Net surplus/(deficit)</b>	<b>(625)</b>	<b>18</b>
<b>Add/(less) non-cash items:</b>		
Depreciation and amortisation expense	197	167
Total non-cash items	197	167
<b>Add/(less)( items classified as investing or financing activities:</b>		
(Gains)/losses on disposal of property, plant and equipment	(6)	(6)
<b>Add/(less) movements in working capital items:</b>		
(Inc)/dec in debtors and other receivables	(26)	(24)
(Inc)/dec in prepayments	41	(35)
Inc/(dec) in creditors and other payables	266	108
Inc/(dec) in employee entitlements	(58)	107
Inc/(dec) in provisions	719	0
<i>Net movement in working capital items</i>	<i>942</i>	<i>156</i>
<b>Net cash from operating activities</b>	<b>508</b>	<b>335</b>

## 16 Related party transactions and key management personnel

### Related party transactions

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

The Office enters into transactions with other government departments, Crown entities, and state-owned enterprises on an arm's length basis. Those transactions that occur within a normal supplier or client relationship on terms and conditions no more or less favourable than those which it is reasonable to expect that the Office would have adopted if dealing with that entity at arm's length in the same circumstances, are not disclosed.

Apart from the transactions described above the Serious Fraud Office has not entered into any related party transactions in 2010 (2009: Nil).

### Key management personnel compensation

	Actual 2010 \$000	Actual 2009 \$000
Salaries and other short-term employee benefits	776	787
Post-employment benefits	14	0
Termination benefits	180	0
<b>Total key management personnel compensation</b>	<b>970</b>	<b>787</b>

Key management personnel include the Serious Fraud Office's Chief Executive and five members of the Senior Management Team (2009: three members). From July 2009 to May 2010, these positions were: Assistant Director, Chief Prosecutor, Corporate Services Manager. In April 2010 a new management structure was announced and put into effect on 1 June 2010. These positions are General Manager Fraud Detection and Intelligence, General Manager Fraud and Corruption, General Manager Financial Markets and Corporate Fraud, General Counsel and General



Manager Corporate Services. Of these five positions, two commenced in June 2010 and are included in this note. These positions were General Counsel and General Manager Fraud Detection and Intelligence.

## 17 Events after the balance date

There are no significant events after the balance date.

## 18 Financial instruments

### 18A Financial instrument categories

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

	<b>Actual 2010 \$000</b>	<b>Actual 2009 \$000</b>
<b>Loans and receivables</b>		
Cash and cash equivalents	1,289	855
Debtors and other receivables (note 7)	79	53
Total loans and receivables	1,368	908
<b>Financial liabilities measured at amortised cost</b>		
Creditors and other payables (note 10)	615	359

The Serious Fraud Office has a letter of credit facility with Westpac of \$85,000 in 2010 (2009: \$85,000) to allow for the payment of employee salaries by direct credit.

### 18B Financial instrument risks

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

#### Market risk

##### *Currency risk*

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

##### *Interest rate risk*

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

#### Credit risk

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

## Liquidity risk

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

The Office has a credit card facility of \$36,500 as at 30 June 2010 (2009: \$40,500).

The table below shows the Office's financial liabilities that will be settled based on the remaining period at balance date to contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. The liability for the repayment of surplus to the Crown is not a financial liability as defined by NZ IAS 32, as the obligation arises from statute.

	<b>Less than 6 months \$000</b>	<b>Between 6 months and 1 year \$000</b>
<b>2009</b>		
Creditors and other payables (note 10)	359	0
<b>2010</b>		
Creditors and other payables (note 10)	615	0

## 19 Capital management

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

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

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

## 20 Explanation of major variances against budget

### Statement of comprehensive income

#### *Personnel costs*

Expenses exceeded the budget primarily as a result of redundancies incurred for seven staff as a result of an organisational review concluded in April 2010.

### Statement of financial position and Statement of cash flows

#### *Cash and cash equivalents*

The variance from budget is a result of an assumption that \$0.788 million within the civil forfeiture departmental output expense would be paid to the Office and then in turn paid to the Crown as an operating surplus in October 2010. This did not occur, resulting in a lower cash balance.

# SERIOUS FRAUD OFFICE PANEL OF PROSECUTORS AS AT 30 JUNE 2010

Under section 48 of the Serious Fraud Office Act 1990 the Solicitor General is required to appoint a panel of prosecutors for the prosecution of cases of serious or complex fraud brought by the Office. Members of the panel are appointed for three year terms. Appointments to the panel are made by the Solicitor-General after consultation with the Director of the Serious Fraud Office.

<b>Auckland</b>	Ross Burns John Billington, QC Brian Dickey John Dixon Alan Galbraith QC Christine Gordon SC Mike Heron Simon Moore SC, Crown Solicitor Mike Ruffin Kit (Christopher) Toogood QC Mark Woolford
<b>Rotorua</b>	Fletcher Pilditch, Crown Solicitor
<b>Hamilton</b>	Phil Morgan QC
<b>Wellington</b>	Grant Burston, Crown Solicitor Dale Le Hood Kristy McDonald QC Bruce Squire QC John Upton QC
<b>Christchurch</b>	Nick Davidson QC Brent Stanaway, Crown Solicitor Nicholas Till QC Mark Zarifeh
<b>Dunedin</b>	Robin Bates, Crown Solicitor Marie Grills Bill Wright

**Location:** Level 2, Duthie Whyte Building  
120 Mayoral Drive (Cnr Wakefield Street)  
Auckland 1010

**Postal Address:** PO Box 7124, Wellesley Street, Auckland, 1141

**Telephone:** (09) 303 0121

**Fax:** (09) 303 0142

**Website:** [www.sfo.govt.nz](http://www.sfo.govt.nz)

**Email:** [sfo@sfo.govt.nz](mailto:sfo@sfo.govt.nz)

**Complaints:** [complaints@sfo.govt.nz](mailto:complaints@sfo.govt.nz)  
0800 109 800