



SERIOUS FRAUD OFFICE

STATEMENT OF INTENT

for the year ending 30 June 2008

*Presented to the House of Representatives Pursuant to Section 39 of
the Public Finance Act 1989*

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PROSPECTIVE FINANCIAL STATEMENTS & STATEMENT OF PROSPECTIVE SERVICE PERFORMANCE

The Attorney-General is the Responsible Minister for the Serious Fraud Office.

STATEMENT OF RESPONSIBILITY

The information contained in this *Statement of Intent* for the Serious Fraud Office has been prepared in accordance with section 38 of the Public Finance Act 1989.

The Director, as chief executive of the Serious Fraud Office, acknowledges, in signing this statement, his responsibility for the information contained in this *Statement of Intent*.

The performance forecasts for each class of outputs in the statement of prospective service performance is as agreed with the Attorney-General who is the Minister responsible for Vote: Serious Fraud administered by the Serious Fraud Office.

The financial performance forecast for the Serious Fraud Office in the prospective financial statements, and the statement of prospective service performance, are as agreed with the Attorney-General who is the Minister responsible for the financial performance of the Serious Fraud Office.

The information contained in this *Statement of Intent* is consistent with existing appropriations, and with the appropriations set out in the Appropriation (2007/08 Estimates) Bill.



D J Bradshaw
Director
17 April 2007



Anne Smith
Chief Financial Officer
17 April 2007

DECLARATION OF THE RESPONSIBLE MINISTER

The information contained in this *Statement of Intent* is consistent with the policies and performance expectations of the Government.



Dr Michael Cullen
Attorney General

THE SERIOUS FRAUD OFFICE

The Serious Fraud Office is an operational department whose role to date has been to detect and investigate cases of serious or complex fraud offending and expeditiously prosecute offenders. That role is to be expanded, possibly during the 2007/08 financial year, to include the investigation and where appropriate forfeiture of assets or profits derived from criminal activity whether or not there has been a conviction in relation to the criminal activity in question. The new role is dependent upon the passing of the Criminal Proceeds (Recovery) Bill.

It is expected that the role of the Serious Fraud Office will remain similar over the next 3 to 5 years.

(a) Serious or Complex Fraud

The Director of the Serious Fraud Office has special powers under the Serious Fraud Office Act 1990 designed to ensure that the Serious Fraud Office is well placed to carry out its task of detecting, investigating and prosecuting serious or complex frauds.

The Office also has the objective of deterring serious or complex fraud offending by effective investigations and prosecutions, and by liaising with other agencies investigating fraudulent conduct to ensure the best available expertise in each enquiry.

The effective investigation and prosecution of serious or complex fraud contributes to the Government's theme of economic transformation and to its theme of families young and old.

The work of the Serious Fraud Office will contribute to the Government theme of economic transformation by:

- reducing and deterring the incidence of "white collar" fraud offending;
- improving the quality of the regulatory environment;
- encouraging economic growth and development with an honest capital market conducive to the fair and efficient conduct of business;
- encouraging savings and investment within a stable and neutral investment environment.

The work of the Serious Fraud Office has an impact on the economic well-being of the country. Honest capital markets are crucial to maintaining a strong and internationally competitive economy. Fraud undermines investor confidence in the commercial marketplace. An effective investigatory and prosecutory department is an important factor in encouraging investment.

The work of the Serious Fraud Office plays a part in developing strong and safe communities which are an integral part in the development of families young and old. In a strong and safe community offenders will be held to account, crime will be reduced, and people's interactions will be underpinned by trust in each other, the rule of law and a justice system that is equitable, credible and accessible.

The work of the Serious Fraud Office not only deals effectively with white-collar crime offenders but through appropriate enforcement action acts as a deterrent to other offenders. The ramifications of serious fraud offending undoubtedly shatter social cohesion, affecting, as

they do, entire social networks, individual relationships and the performance of public, private and social institutions. Serious and complex fraud severely damages the trust that people must be able to place in each other and in institutions within the community. An effective investigatory and prosecutory department is an essential component of white-collar crime prevention, and has an important role to play in the building of trust in the fabric of society and in ensuring a safer community.

(b) Civil Forfeiture of Criminal Assets

The Government has announced a new policy on the recovery of proceeds of crime. The current legislation limits any forfeiture orders to those assets or profits that can be linked to a conviction for criminal offending. Such an approach fails to deal with those persons who are involved with, or benefit from, criminal activity but who succeed in distancing themselves from the actual commission of any specific offences. The Criminal Proceeds (Recovery) Bill, once passed, will enable forfeiture orders to be obtained against criminal assets or profits without the requirement of a conviction. This approach has proved to be a successful initiative in several overseas countries in the fight against serious criminal offending.

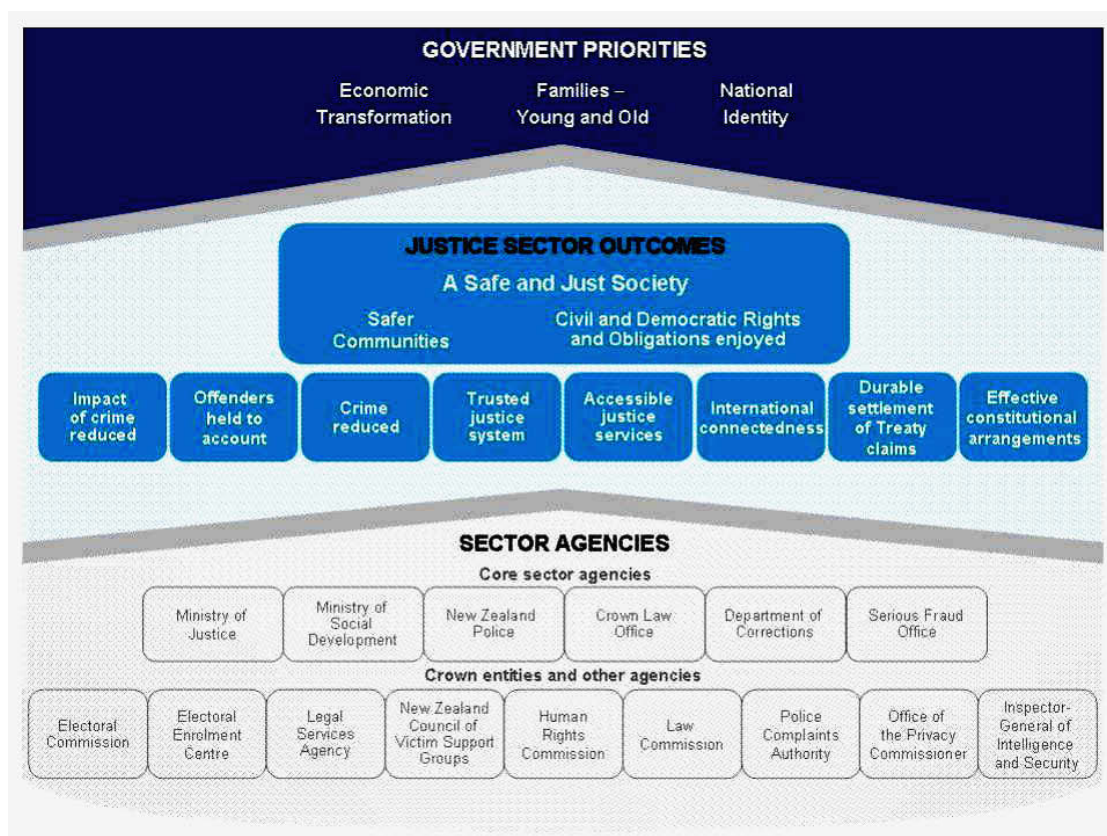
The non-conviction based forfeiture of criminal assets and profits will contribute to the justice sector outcomes of building safer communities and developing a fairer, more credible and more effective justice system by:

- reducing the rewards from crime for the individual;
- reducing the attraction of crime for potential offenders;
- reducing the resources that could potentially be used to engage in further criminal activity.

The Criminal Proceeds (Recovery) Bill which replaces the Criminal Proceeds and Instruments Bill that was withdrawn from the Order Paper in mid 2006 sets out the parameters of the new policy. Whilst the responsibility for recovery action will rest with the Serious Fraud Office, the successful implementation of the new policy will require the combined efforts of several agencies. The Serious Fraud Office will be working closely with the Police and the Official Assignee in particular to ensure that the legislation, once passed, is implemented to its fullest. It is expected that it will take 2 – 3 years before the full potential of the legislation is realised.

THE JUSTICE SECTOR OUTCOMES: **THE SERIOUS FRAUD OFFICE CONTRIBUTION**

The Serious Fraud Office is an integral part of the Justice sector. The following diagram provides an overview of the different departments and agencies comprising the Justice sector and how the sector contributes to the priorities of the Government.



The role of the Serious Fraud Office is relatively straight-forward. With the exception of the addition of the new role in relation to civil forfeiture the work of the Serious Fraud Office has not changed over the past 17 years. Nor is it likely to change significantly in the foreseeable future. There is thus unlikely to be any real difference between the one year and the three year focus in relation to the outcomes the Office seeks to achieve or to contribute to, the tasks it has to perform, or in the measures or standards to be used to assess the performance of the Office.

For the purposes of section 40 of the Public Finance Act the following table details the relationship between the Serious Fraud Office activities and the outcomes it is seeking to achieve, and how these can be measured.

Outcome (from diagram on previous page)	How the SFO will Contribute to Achieving this Outcome	Standards of Performance (i.e. measures to show that the SFO is contributing to the Outcome.)
The Impact of Crime is Reduced.	<ul style="list-style-type: none"> • By the detection, investigation and prosecution of serious or complex fraud. • By the recovery of proceeds of crime under the civil forfeiture provisions of the Criminal Proceeds (Recovery) Act once passed. 	<p>Approximately 25 full investigations are completed each year.</p> <p>Around 15 prosecution cases are conducted each year.</p> <p>The quantity of civil forfeiture cases has yet to be determined.</p> <p>The quality and timeliness measures in the Statement of Service Performance are met for both outputs.</p>
Offenders are Held to Account.	<ul style="list-style-type: none"> • By the detection, investigation and prosecution of serious or complex fraud • By the recovery of proceeds of crime under the civil forfeiture provisions of the Criminal Proceeds (Recovery) Act once passed. 	<p>Approximately 25 full investigations are completed each year.</p> <p>Around 15 prosecution cases are conducted each year.</p> <p>The quantity of civil forfeiture cases has yet to be determined.</p> <p>The quality and timeliness measures in the Statement of Service Performance are met for both outputs.</p>
Crime is Reduced.	<ul style="list-style-type: none"> • By the detection, investigation and prosecution of serious or complex fraud. • By the recovery of proceeds of crime under the civil forfeiture provisions of the Criminal Proceeds (Recovery) Act once passed. 	<p>Approximately 25 full investigations are completed each year.</p> <p>Around 15 prosecution cases are conducted each year.</p> <p>The quantity of civil forfeiture cases has yet to be determined.</p>

	<ul style="list-style-type: none"> • By participating in public education campaigns. 	<p>The quality and timeliness measures in the Statement of Service Performance are met for both outputs.</p> <p>The SFO participates in public education on serious or complex fraud.</p>
We have a Trusted Justice System.	The SFO will at all times ensure that its dealings with suspects, witnesses and victims are fair and are within the law.	There are no significant complaints regarding the activities of the Serious Fraud Office
Accessible Justice Services.	The Serious Fraud Office will have a transparent complaints system for the public to raise complaints of serious or complex fraud with the Office.	<p>Complainants have ready access to the Complaints Officer at the SFO.</p> <p>Minimal adverse comments/delays in relation to complaints.</p>
International Connectedness.	The SFO will maintain contacts with overseas agencies both to give and receive relevant information and assistance.	<p>Cases with an overseas component are able to be advanced expeditiously both in New Zealand and overseas.</p> <p>The SFO is recognised internationally for its expertise in serious and complex fraud cases.</p>
Durable Settlement of Treaty Claims.	N/A	N/A
Effective Constitutional Arrangements.	N/A	N/A

STRATEGIC ISSUES FOR THE MEDIUM TERM

The strategic issues for the Serious Fraud Office for next few years can be described under several separate but overlapping headings, namely:

- managing the capability of the Serious Fraud Office;
- implementing the new policy on the recovery of proceeds of crime;
- managing the workload of the Serious Fraud Office;
- contributing to relevant policy debates in the justice and criminal sectors.

Managing the Capability of the Office

(i) Staffing

The retention of key staff and ensuring that all staff receive appropriate training for the tasks asked of them are critical on-going strategic issues for the Office. The small size of the Office means that the loss of just one or two experienced staff affects our capability. It is essential that the Office is able to offer its staff good working conditions, up to date equipment and appropriate training to ensure that the Office remains at the forefront of the fight against crime.

Staff turnover has averaged 3-4 persons leaving the Office each year over recent years. This is a manageable turnover level. The Office has no difficulty in attracting quality applicants for vacancies. The Office has a strong emphasis on a learning culture drawing on both internal and external sources of expertise for training sessions. The expectation is that after a period with the Office the professional staff will be considered to be leaders within New Zealand in their field of expertise. The emphasis on the quality of the work of the Serious Fraud Office is critical to retaining staff and maintaining a good success rate before the Courts.

The introduction of the new policy on civil forfeiture of criminal assets and profits will require the Office to extend its current capability. Over the next 3 years it is anticipated that around 18 additional staff will be required. These will primarily be in the disciplines of forensic accounting and financial investigations. The Office is also expecting to be the host to a number of secondees from other agencies such as the Police and the Inland Revenue Department.

New policies and procedures will need to be developed for civil forfeiture cases. The Office will look to learn from several overseas countries which already have civil forfeiture legislation in place. There will be a special emphasis on civil forfeiture matters in our staff training over the next few years.

Wherever possible, staff within the Office will be trained to handle both serious or complex fraud cases and civil forfeiture cases. This will ensure the most effective use of the highly skilled staff within the Office, and enhance job satisfaction and thereby reduce staff turnover.

(ii) Technology

For the Serious Fraud Office to be effective in the investigation and prosecution of serious or complex fraud offending within the financial resources available to it, it must make full use of technology. Over the past 5-10 years the Office has sought to ensure that the staff have the technology required to enable them to do their jobs in the most effective manner. Developments in previous years have involved moving to an electronic document management system, and introducing the concept of a portable 'electronic courtroom' whereby the Office can place monitors in a Court and present to the Court electronically the many documents that would otherwise require thousands of pages of paper to be copied. The document management system is kept under continuous review. By around June-July 2007 it is intended that all investigative and prosecutorial staff will have slightly larger than usual monitors that will enable them to simultaneously look at two documents side by side whilst maintaining a good level of clarity.

During the next financial year a joint Serious Fraud Office/Customs Service technology initiative will become fully operational. This is the development of a special computer forensics unit which will meet the computer forensics needs of both departments. Computer forensic skills are becoming increasingly important not just in law enforcement but in many other areas of the law. It is important that the Crown retains an independent capacity and does not become reliant on the private sector for this critical but scarce resource. Other than in the most significant cases, the Police electronic crime laboratory has not been able to give priority to the work of other law enforcement agencies like the Serious Fraud Office and the Customs Service. It is hoped that over time other agencies with intermittent requirements for computer forensic skills (e.g. Securities Commission) will join this joint initiative.

(iii) External Relationships

The Serious Fraud Office is reliant on the support of other agencies in a few areas of its work. This reliance will increase with the introduction of civil forfeiture cases. The Office has a close working relationship with the Police not only to ensure that no fraud offending falls between the agencies, but also to avoid unnecessary duplication of resources. Thus, for example, the Office does not have its own document examiners but rather uses the experts employed by the Police. On the other hand, the forensic accounting expertise of the Serious Fraud Office is available to the Police (and also other government agencies.)

The existing close working relationship with the Police will become even more significant as the Office begins to work on civil forfeiture cases. Discussions have already begun on a special protocol to maximise the benefits that can be obtained under the Criminal Proceeds (Recovery) Bill. Similar protocols may also prove to be necessary with other enforcement agencies such as Customs.

The Office uses the Crown Law Office for formal requests overseas under the Mutual Assistance in Criminal Matters Act.

The Office relies on the Court system operating efficiently and effectively. Lengthy delays in getting a case to trial, or last minute changes to trial dates, create significant problems for the Office and for the many witnesses who may have to give evidence at a trial. The Office has only a limited ability to influence the decisions taken by the Courts on matters such as case management and resource allocation within the Court system.

The maintaining of key relationships with regulatory/enforcement agencies both within New Zealand and overseas is important to ensure that the Office keeps abreast of trends that may be developing in the nature of fraudulent offending, and of improved methods for investigating and prosecuting such offending. These relationships have proved to be invaluable where an investigation may be required to be undertaken in several different countries. The Office has already begun developing a similar network of overseas contacts on civil forfeiture matters.

Maintaining public confidence in the Office is important to the effectiveness of its investigations and prosecutions. The integrity and professionalism of the staff plays an important part in this. A good understanding of the values and ethics associated with performing a law enforcement role is essential, especially when exercising the special powers of the Office.

The Office is also conscious of the benefits of raising the public awareness about the different types of fraud that are being perpetrated on the public at any particular time, and the steps that can be taken to minimise the risk of becoming a victim of fraud. To this end the Office accepts numerous speaking engagements from various groups around New Zealand. The Office also disseminates information on its website, in several pamphlets available to community groups, and by the occasional specific public education campaign. The Office will continue to utilise any opportunity to better educate the public on issues surrounding serious fraud.

Implementing the New Policy on the Recovery of Proceeds of Crime

It will take a number of years before the new policy on the recovery of the proceeds of crime is fully implemented in New Zealand. The first step will be the Parliamentary consideration of the Criminal Proceeds (Recovery) Bill. The Serious Fraud Office will be assisting the Ministry of Justice in supporting Ministers and the Select Committee at all stages of the Bill.

The Government has previously announced that the Serious Fraud Office will be responsible for implementing the civil forfeiture provisions of the Criminal Proceeds (Recovery) Bill. Planning to incorporate this function within the Serious Fraud Office is now well advanced.

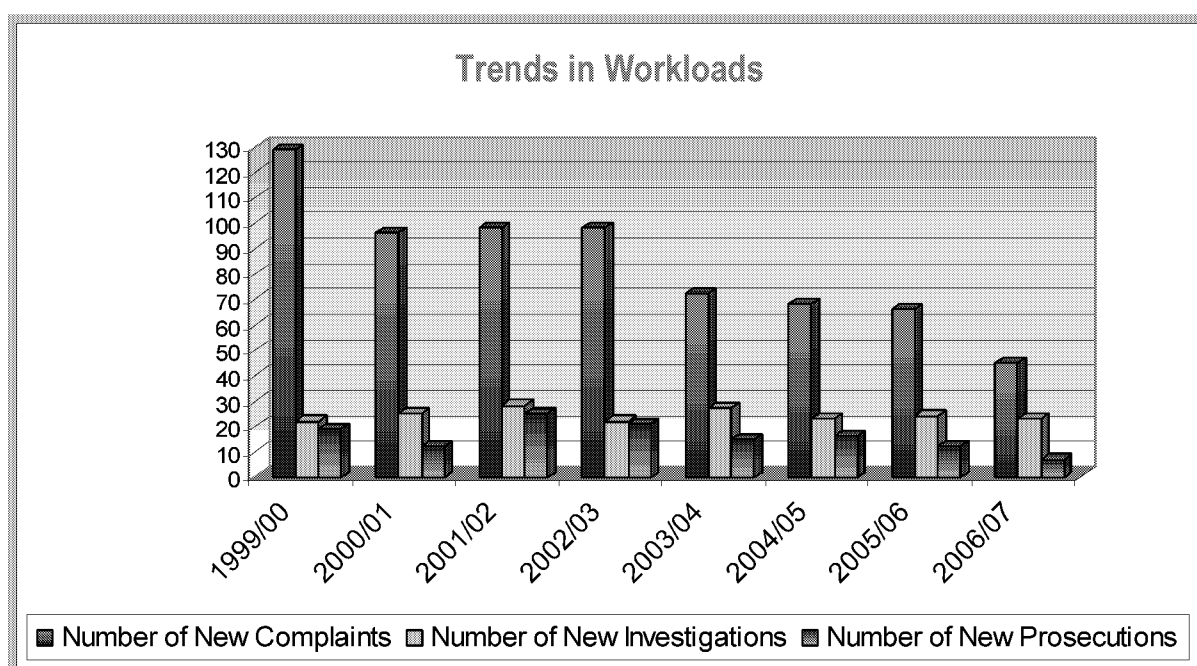
The Serious Fraud Office anticipates a gradual increase in the number of Serious Fraud Office staff over the first three years of operating under the new policy. Current planning is for 7 additional staff in the first year rising to 18 additional staff after 3 years. It is also expected that there will be a number of persons seconded to work in the Serious Fraud Office from other agencies such as the Police. Accommodation, computer equipment, and other support services will be required for the additional staff.

Contacts have already been established with several key overseas agencies operating similar proceeds of crime policies. Staff from the Serious Fraud Office have visited a number of these overseas agencies in order to understand the practices that have contributed to the success of the policies overseas, and to assess how these practices might apply in a New Zealand setting.

The Director of the Serious Fraud Office proposes to convene a regular meeting of the chief executives of those agencies who are involved with civil forfeiture to address the strategic issues.

Managing the Workload

The work of the Serious Fraud Office is essentially demand driven. The number of formal complaints of serious or complex fraud received has, over the past 2 years, dropped slightly to around 70-75 per annum. It is anticipated that the number of new complaints of serious and complex fraud for the coming year will again be around 70-75. This decrease in the number of complaints is possibly the result of the Complaints Officer making an earlier assessment than previously of those matters that would be better addressed by another agency. Such a matter would not be registered as a formal complaint to the Serious Fraud Office. The number of investigations and the number of prosecutions, however, have remained constant giving the Office a full but manageable workload. This is not expected to change in the 2007/08 financial year.



(The 2006/07 figures are for the past year to 13 April 2007.)

There are no obvious trends in the type of offending being investigated by the Office. The cases coming before the Serious Fraud Office continue to cover a wide range of fraudulent offending. It is hoped that the successful prosecution of a number of people involved with the promotion of high yielding investment schemes in the last few years will reduce the extent to which people in New Zealand “invest” monies overseas with the expectation of unrealistic returns. The Office will continue to be vigilant in this area.

It is too early to be commenting on likely trends with non-conviction based forfeiture cases. The proposed Criminal Proceeds (Recovery) Act is unlikely to come into effect until the beginning of 2008 at the earliest. It is anticipated that the Office would begin work on 10-15 cases during the 2007/08 financial year if the legislation was to come into effect on 1 January 2008.

Once the civil forfeiture work of the Office is fully implemented it is expected that the Office will have around 50 forfeiture cases at various stages of completion at any one time. It is expected that it will take around 3 years to reach this case level, hence the graduated recruitment of additional staff. One unknown in relation to civil forfeiture which could have an impact on managing the workloads is the extent to which defendants in New Zealand will mirror the approach of defendants in a number of overseas jurisdictions and seek to reach a settlement with

the Serious Fraud Office on the question of any assets or profits derived from criminal activity rather than contesting the Serious Fraud Office assessment in a full Court hearing. Another significant factor will be the clarity of the legislation and the scope for extensive legal challenges.

It will be important to ensure that the workload does not undermine one of the strengths of the prosecutions taken by the Serious Fraud Office, namely that the investigating team remains with the case to support the senior Counsel for the duration of the prosecution. This will apply equally to civil forfeiture proceedings. The increase over the past years in the number of prosecutions has placed additional demands on the management of staff who would otherwise be investigating new cases. The Serious Fraud Office does not always have a say in the timetable set by the Court for any particular prosecution. As a matter of policy the Office seeks to ensure that none of its actions contribute to any delay in bringing a case to a hearing. Equally the Office is committed to completing investigations in an expeditious manner. Managing the allocation of staff between prosecutions and investigations is a complex but not impossible task. Staffing levels, and the mix of skills, are constantly kept under review. The good reputation of the Office means that recruitment of high calibre staff has not been a problem over the past few years.

Contributing to Relevant Policy Debates

There are a number of reforms under consideration in areas that will affect the work of the Serious Fraud Office. The Serious Fraud Office contributes a practical dimension to the debate on these matters. Perhaps more importantly, however, the Serious Fraud Office being an operational department has an important role in seeing that it implements new policies in a way that best achieves the intended purposes of the reforms. For example the intention to change the format of preliminary hearings in the Courts is likely to significantly impact on the work of the Office, how it prepares a case for prosecution and the approach that it will take to applications by defence counsel to the Court for preliminary hearings to be held.

COST EFFECTIVENESS MEASURES

The detection, investigation and prosecution of serious or complex fraud is undertaken in accordance with the requirements of the Serious Fraud Office Act 1990. The work is largely demand-driven and does not readily lend itself to cost-effectiveness measures. Ironically there is the very real risk that by seeking to create arbitrary measures the Office will become less efficient as it diverts scarce resources to measures factors that may have little or no bearing on the effectiveness of the fight against serious or complex fraud.

It is difficult to assess the deterrent value of having an effective prosecution agency dealing with white collar crime. Nor can the impact on the markets be gauged with any certainty as there are many other inter-related factors. What is clear is that serious or complex fraud exists in our society and almost certainly has an adverse impact on the levels of trust that people and businesses can place in each other within our community. That impact will be lessened to the extent that individuals committing fraud are brought to account.

In the field of serious or complex fraud care needs to be taken to ensure that cost-effectiveness measures do not inadvertently create perverse incentives. For example, if the quantum of the offending alone was to be the measurement then a financial scam that lured over \$25 million from investors would rate highly. But how is that to be measured against a conviction of a lawyer for abuse of the trust placed in the lawyer by the client. The monetary amount involved may not be great but the impact on society of the loss of trust in lawyers is possibly greater than a one-off financial scam. A cost-effectiveness measurement based on the magnitude of the offending alone could leave uninvestigated those serious frauds that whilst not large in dollar figures have a significant adverse impact on our society.

A cost effectiveness measure based on the amount spent investigating and/or prosecuting individual cases again fails to reflect that not all cases are alike. Nor is it always the most significant case that takes the most time to investigate. A very real risk of seeking to place a dollar amount on an investigation is that it will encourage less than full investigations. Perhaps the most telling factor would be the number of cases of serious fraud that the Director feels unable to investigate or prosecute due to limited resources. There have been no such cases over the past 10 years notwithstanding an increasing number of investigations and prosecutions during that period.

New Zealand currently spends just over \$5 million on the investigation and prosecution of serious and complex fraud. This can be contrasted with the UK Serious Fraud Office which has a budget equivalent to around \$100 million but which over the past few years has dealt with a similar number of investigations and prosecutions. Case numbers alone, however, are not a sound basis for a comparison of workloads or for cost effectiveness measures in the field of serious or complex fraud as no two cases are alike.

The Office is acutely aware that it must make the most effective use of the scarce resources available to it. To this end the management of the Office carefully monitors the progress of each case to ensure that the Serious Fraud Office effort is well targeted. Every case has a supervisor assigned to it who is responsible for the day-to-day supervision of the work of the investigation team. The Director, in association with the two Assistant Directors, meets with the supervisors to review all cases at least once a month to ensure that every investigation/prosecution is progressing satisfactorily. The Assistant Directors will call for reports on specific cases within the month if there are any particular matters that require closer monitoring.

The Serious Fraud Office is continually seeking better, more efficient ways to investigate and prosecute serious and complex offending. In previous years it has moved to an electronic document management system, and has introduced the use of a portable electronic Court whereby the many thousands of exhibits can be produced electronically with considerable savings in paper and in Court time. Currently the Serious Fraud Office is looking to take its electronic document management system one step further by enabling investigative staff to peruse electronically several different documents at the same time. This should produce further savings in both time and paper.

The cost effectiveness of the civil forfeiture work will, in due course, be able to be measured in part by the number and quantum of forfeiture orders obtained. It will take several years however to develop these cost-effectiveness measures in a way that does not create perverse incentives. The focus in the immediate future will be on getting the new policy implemented. The overall policy is due to be reviewed by the Ministry of Justice after it has been in effect for several years.

Performance indicators for both output expenses can be found in the Statement of Financial Service Performance later in this *Statement of Intent*.

SUMMARY OF APPROPRIATIONS FOR 2007/08

The appropriations sought for Vote Serious Fraud in 2007/08 total \$6.694 million.

In 2007/08 the Serious Fraud Office expects \$6.535 million to be provided by Crown revenue and \$0.159 million third party revenue for services it will supply under the two Output Expenses detailed below.

The first Output Expense, for \$5.219 million, is concerned with the detection, investigation and prosecution of cases of suspected serious or complex fraud offending brought to the attention of, or detected by, the Serious Fraud Office. The output includes the completion of sufficient investigative work to enable the Director to determine in each case whether or not to prosecute the alleged offender(s) and where criminal charges are to proceed, the subsequent preparation of a well-researched and documented prosecution case.

The second Output Expense, for \$1.475 million, provides funding for the Serious Fraud Office to operate the non-conviction based forfeiture provisions of the proposed Criminal Proceeds (Recovery) Bill due to be passed in 2007. This will see the Office investigating and where appropriate seeking the forfeiture of assets or profits obtained directly or indirectly from criminal activity pursuant to the civil forfeiture provisions of the Criminal Proceeds (Recovery) Act whether or not there has been an actual conviction in relation to that criminal activity.

FINANCIAL HIGHLIGHTS

All GST exclusive	2006/07		2007/08
	Budgeted	Estimated	Budgeted
	\$000	Actual \$000	\$000
Revenue Crown	5,395	5,395	6,535
Revenue third party	79	124	159
Output expenses	5,474	5,519	6,694
Net surplus	-	-	-
Taxpayers' funds	678	388	677
Net cash flows from operating and investing activities	(188)	156	(64)

PROSPECTIVE FINANCIAL STATEMENTS

Statement of Prospective Financial Performance for the Year Ending 30 June 2008

	2006/07		2007/08
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
Revenue			
Crown	5,395	5,395	6,535
Departments	70	115	150
Other	9	9	9
Total revenue	5,474	5,519	6,694
Expenses			
Personnel	3,655	3,695	4,470
Operating	1,545	1,617	1,950
Depreciation and amortisation	235	176	235
Capital charge	39	31	39
Total expenses	5,474	5,519	6,694
Net surplus/(deficit)	-	-	-

**Statement of Estimated Financial Position as at 30 June 2007
and Prospective Financial Position as at 30 June 2008**

	Actual Position as at 30 June 2006 \$000	Budgeted Position as at 30 June 2007 \$000	Estimated Actual Position as at 30 June 2007 \$000	Forecast Position as at 30 June 2008 \$000
Assets				
<i>Current assets</i>				
Cash and bank balances	418	566	561	787
Receivables	12	10	23	19
Prepayments	7	19	7	7
Total current assets	437	595	591	813
<i>Non-current assets</i>				
Property, plant and equipment	365	696	400	551
Intangible assets	-	-	-	1
Total non-current assets	365	696	400	552
Total assets	802	1,291	991	1,365
Liabilities				
<i>Current liabilities</i>				
Payables and provisions	311	508	513	597
Provision for payment of surplus	13	-	-	-
Provision for employee entitlements	90	105	90	91
Total current liabilities	414	613	603	688
<i>Term liabilities</i>				
Payables and provisions	-	-	-	-
Total term liabilities	-	-	-	-
Total liabilities	414	613	603	688
Taxpayers' funds				
General funds	388	678	388	677
Total taxpayers' funds	388	678	388	677
Total liabilities and taxpayers' funds	802	1,291	991	1,365

**Statement of Prospective Cash Flows
for the Year Ending 30 June 2008**

	2006/07		2007/08
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
Cash flows from operating activities			
Cash provided from:			
Supply of outputs to: Crown	5,395	5,395	6,535
Departments	74	114	146
Other	17	(1)	17
Cash disbursed to:			
Cost of producing outputs: output expenses			
Personnel	(3,668)	(3,667)	(4,447)
Operating	(1,527)	(1,443)	(1,889)
Capital charge	(39)	(31)	(39)
Net cash flows from operating activities	252	367	323
Cash flows from investing activities			
Cash provided from:			
Sale of non-current assets	-	11	-
Cash disbursed to:			
Purchase of non-current assets	(440)	(222)	(387)
Net cash flows from investing activities	(440)	(211)	(387)
Cash flows from financing activities			
Cash provided from:			
Capital contribution	290	-	290
Cash disbursed to:			
Payment of surplus to Crown	-	(13)	-
Net cash flows from financing activities	290	(13)	290
Net increase/(decrease) in cash held	102	143	226
Opening total cash balance at 1 July	464	418	561
Forecast closing total cash balances at 30 June	566	561	787

**Reconciliation of Prospective Net Cash Flows from Operating Activities
to Net Surplus in the Statement of Prospective Financial Position
for the Year Ending 30 June 2008**

	2006/07		2007/08
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
Surplus from the Statement of Prospective Financial Performance			
<i>Non-cash items</i>			
Depreciation and amortisation	235	176	235
<i>Movements in working capital items</i>			
(Increase)/decrease in receivables	12	(11)	4
(Increase)/decrease in prepayments	-	-	-
Increase/(decrease) in payables and provisions	5	202	84
Increase/(decrease) in employee entitlements	-	-	-
Working capital movements	17	191	88
<i>Add/(deduct) items classified as investing activities</i>			-
Net loss/(gain) on disposal of non- current assets	-	-	-
Net cash flows from operating activities	252	367	323

Statement of Prospective Movements in Taxpayers' Funds (Equity)
as at 30 June 2008

	2006/07	2006/07	2007/08
	Budgeted Position for the year ending 30 June 2007 \$000	Estimated Position for the year ending 30 June 2007 \$000	Forecast Position for the year ending 30 June 2008 \$000
Taxpayers' funds at start of period	388	388	387
<i>Movements during the year (other than flows to and from the Crown)</i>			
Total recognised revenues and expenses for the period	-	-	-
<i>Adjustment for flows to and from the Crown</i>			
Capital contribution	290	-	290
Provision for payment of surplus to the Crown	-	-	-
Taxpayers' funds at end of the period	678	388	677

**Prospective Details of Non-Current Assets By
Category
as at 30 June 2008**

	30 June 2007	30 June 2007	30 June 2008 Forecast Position		
	Budgeted Position	Estimated Actual Position	Cost	Accumulated Depreciation	Net Book Value
	\$000	\$000	\$000	\$000	\$000
Furniture, fixtures and fittings	399	121	1,025	712	313
Office and computer equipment	204	187	1,044	875	169
Motor vehicles	93	92	110	41	69
Intangible assets (Computer software)	-	-	130	129	1
Totals	696	400	2,309	1,757	552

Prospective Capital Expenditure
(to be incurred in accordance with section 24 of the Public Finance Act 1989)

Departmental Capital Expenditure (\$000)	Forecast 2007/08	Estimated Actual 2006/07	Budget 2006/07	Actual 2005/06	Actual 2004/05	Actual 2003/04	Actual 2002/03
Furniture, fixtures and fittings	290	-	290	-	241	6	-
Office equipment and computer equipment and software	97	182	110	-	119	129	107
Motor vehicles	-	40	40	36	38	-	-
Totals	387	222	440	36	398	135	107

The prospective capital expenditure for the 2007/08 financial year relates primarily to the new output expense for the implementation of the civil forfeiture provisions of the proposed Criminal Proceeds (Recovery) Act.

Prospective Financial Performance
Performance Indicators: 2006/07 and 2007/08

	Unit	2006/07		2007/08
		Budgeted \$000	Estimated Actual \$000	Forecast \$000
Operating results				
Revenue third party	\$000	79	9	9
Output expenses	\$000	5,474	5,519	6,694
Operating surplus before capital charge	\$000	39	31	39
Net surplus	\$000	-	-	-
Resource utilisation				
Non-current assets:				
Total non-current assets at year end	\$000	696	400	552
Additions	\$000	440	222	387
Additions as % of non-current assets	%	63%	56%	70%
Accommodation cost per employee	\$000	9.2	10	9.2
Forecast net cash flows				
Surplus/(deficit) on operating activities	\$000	252	367	323
Surplus/(deficit) on investing activities	\$000	(440)	(211)	(387)
Surplus/(deficit) on financing activities	\$000	290	(13)	290
Net increase/(decrease) in cash held	\$000	102	143	226
Human resources				
Staff turnover	%	10%	10%	10%
Average length of service	years	5.75	6.9	5.75
Total staff	No.	42	35	42

SUPPORTING STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

Statement of Significant Underlying Assumptions underlying the Prospective Financial Statements

These statements have been compiled on the basis of Government policies and the Serious Fraud Office (SFO)'s Output plan with the Attorney-General.

The SFO is a government department as defined by section 2 of the Public Finance Act 1989. Full adoption of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) by government departments occurs in the 2007/08 financial year. Therefore the prospective financial statements in the 2007/08 SOI have been produced under NZ IFRS and comply with FRS-42: *Prospective Financial Statements* requirements. Comparative figures for 2006/07 and 2005/06 financial years have been reported under current generally accepted accounting practice (GAAP). The effect on transition of the 30 June 2007 financial position to the opening 1 July 2007 financial position was to:

- reclassify computer software as an intangible asset (net book value \$4,000)
- recognise a current liability for sick leave (valuation \$1,000) under the provision for employee entitlements, with offsetting reduction to Taxpayers' Funds.

The primary objective of the SFO is to provide goods or services for the community or social benefit rather than making a financial return. Accordingly, the SFO has designated itself as a public benefit entity for the purposes of NZ IFRS.

The SFO's prospective financial statements and statement of prospective service performance have been prepared in accordance with section 41(1) of the Public Finance Act 1989 for the purpose of providing information on SFO's future operating intentions (financial and non-financial) and financial position, against which the department must report and be formally audited at the end of that financial year. This along with other information in the Statement of Intent supports the appropriation requests in the Estimates. The information in these statements may not be appropriate for purposes other than those described.

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 SFO is New Zealand dollars.

The following general accounting policies have been adopted in the preparation of these financial statements:

- The SFO is assumed to be a going concern.
- The SFO has accepted historical cost as a measurement base.
- Revenue earned and expenses incurred are matched using the principles of accrual accounting.

Specific Accounting Policies

Revenue

The SFO derives revenue primarily through the provision of outputs to the Crown. Such revenue is measured at the fair value of consideration received.

Income Tax

Government departments are exempt from the payment of income tax in terms of the Income Tax Act 1994. Accordingly, no charge for income tax has been provided for.

Receivables

Receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Any impairment losses are recognised in the Statement of Financial Performance.

Non-Current Assets

Non-current assets are recorded at cost less accumulated depreciation/amortisation and impairment losses.

Depreciation/Amortisation

Depreciation/Amortisation of non-current assets is provided on a straight line basis so as to allocate the cost of the assets, less any estimated residual value, over their useful lives. The estimated economic useful lives are:

Furniture, fixtures, and fittings	5 years
Office equipment	5 years
Motor vehicles	6 years
Computer equipment	3 years
Computer software	3 years

Asset capitalisation threshold

All individual non-current assets, or groups of assets purchased at a cost of \$1,000 (excluding GST) or greater are capitalised.

Employee benefits

Employee benefits that the SFO expects 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 to, but not yet taken at balance date and sick leave.

The SFO recognises 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 the SFO anticipates it will be used by staff to cover those future absences. In terms of employees' contracts, there is no provision for retirement or long service leave entitlements.

Provisions

The SFO recognises a provision 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 expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Goods and Services Tax (GST)

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

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

Cost allocation

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

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

Direct costs are charged directly to outputs. Personnel costs are charged by recording the time spent on each output. Indirect costs are allocated to outputs according to the proportion of time spent on each output.

Taxpayers' Funds

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

Capital charge

This is a levy on the Crown's net investment in the SFO.

Accounting estimates and assumptions

In preparing these financial statements the SFO has made estimates and assumptions concerning the future.

These estimates and assumptions may differ from the subsequent actual results.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

Changes in Accounting Policies

No changes in accounting policies are expected to be made during the period.

STATEMENT OF PROSPECTIVE SERVICE PERFORMANCE

The Serious Fraud Office has two Output Expenses in 2007/08 for which it has agreed to meet the requirements of the Attorney General (the Vote Minister) in terms of their nature, outcome, emphasis, timeliness, quality and quantity specifications, and cost.

Service Performance Objectives

1. Investigation and Prosecution of Serious or Complex Fraud

Description

This output expense covers the investigation and prosecution of cases of serious or complex fraud brought to the attention of, or detected by, the Serious Fraud Office. It includes the briefing of the outside counsel engaged for trials, the giving of evidence at trials and the provision of expert advice throughout the course of trials.

Quantity

It is difficult to forecast accurately the level of activity for any given year, as the Office cannot control the number of complaints received, the magnitude, and complexity of the cases, the number of prosecutions on hand, and the ability of the courts to allocate hearing dates.

There is some fluctuation in the number of new complaints received each year but this statistic alone is not a sound measure of workload as the nature of individual complaints can vary significantly. Some complaints fall outside the “serious or complex” category and are more properly referred immediately to other agencies.

Based on an analysis of the trends over the last 5 years, the work on hand and the environmental conditions both in New Zealand and overseas, the Office forecasts no lessening in activity. During 2007/08 approximately 25 full investigations are expected to be completed to the point where the Director decides whether or not criminal charges should be laid.

Considering the number of cases on hand, and the anticipated new cases, it is expected that at least 15 prosecution cases will be concluded in the financial year.

Quality and Timeliness

The performance indicators will be:

- within 14 days of receipt of a complaint, a preliminary assessment will be completed to determine whether it meets the criteria of the Serious Fraud Office Act;
- within 6 months of receipt of a complaint, sufficient work will have been completed to enable a decision to be taken by the Director, either to close the case or to proceed to a full investigation;

- within 12 months sufficient investigative work will have been completed in 80% of the cases to enable the Director to decide whether to prosecute the alleged offender(s);
- the progress of all cases will be reviewed at least monthly by the Director;
- that the quality of the investigative work stands the test of scrutiny during the prosecution process;
- that timely advice and evidence of the highest quality is provided to meet the requirements of the counsel leading the prosecution;
- that court hearing dates are adhered to;
- that external criticism of case investigations, prosecutions and the presentation of cases in Court is minimal.
- that the output is provided within the appropriated sum of \$5.219 million.

The time periods specified in these performance indicators have been determined having regard to a number of factors. There is the need to advise the complainant of any likely action at the earliest possible time. Hence 14 days is the target period for advising a complainant whether or not the Director has decided to take his or her complaint any further. If a complaint is taken further, time is required to gather all the evidence and to analyse it. This will often entail asking Banks and other institutions to provide a considerable amount of documentary material sometimes going back over several years. A reasonable period is required to ensure that the demands of the Serious Fraud Office are not too onerous on the commercial sector.

Not all cases are able to be completed within the 6 month or the 12 month time period. The reasons for delays are varied but most often involve overseas inquiries, legal challenges to the investigation, or the magnitude or complexity of the case. Experience has shown, however, that for the majority of cases the 6 month and the 12 month timelines are reasonable. (Details of cases falling outside of these periods and the reasons for the delay can be found in the past Serious Fraud Office Annual Reports).

2. Civil Forfeiture of Criminal Assets

Description

This output expense covers the investigation and obtaining of the appropriate forfeiture orders by the Serious Fraud Office for the forfeiture of assets obtained directly or indirectly from criminal activity whether or not there has been a conviction in relation to that criminal activity.

It will cover the implementation costs of the new policy, and all aspects of the investigative process and all preliminary and substantive Court appearances including the briefing of outside counsel engaged to argue forfeiture applications before the High Court.

Quantity

The Office will complete all of the necessary administrative arrangements associated with the implementation of the civil forfeiture policy prior to the proposed Criminal Proceeds (Recovery) Act coming into effect.

On the basis that the proposed Criminal Proceeds (Recovery) Act comes into effect in January 2008 the Office expects to begin investigating 10-15 cases in the 2007/08 financial year.

Quality and Timeliness

The performance indicators for civil forfeiture cases will be:

- within 12 months sufficient investigative work will have been completed in 80% of the cases to enable the Director to make a final decision on forfeiture orders; (This time period has been based on experience with cases of serious or complex fraud and will need to be verified as precedents are developed under this Output).
- the progress of all cases will be reviewed at least monthly by the Director;
- that the quality of the investigative work stands the test of scrutiny during all Court proceedings;
- that timely advice and evidence of the highest quality is provided to meet the requirements of outside counsel representing the Office in forfeiture cases;
- that court hearing dates are adhered to;
- that external criticism of case investigations, prosecutions and the presentation of cases in Court is minimal.
- that the output is provided within the appropriated sum of \$1.475 million.

(Given the uncertainty as to the commencement date of the proposed Criminal Proceeds (Recovery) Act, and the fact that it is most unlikely to be in effect before January 2008 at the earliest no monetary performance measures for amounts forfeited have been included for the 2007/08 financial year.)

3. Output Operating Statements

A summary of the agreed departmental output expenses to be delivered by the Serious Fraud Office, and the associated expenses are as follows:

Departmental Output Expense	Revenue Crown	Revenue Departments	Revenue Other	Total Expenses	Surplus/ (Deficit)
	\$000	\$000	\$000	\$000	\$000
Investigation and Prosecution of Complex or Serious Fraud	5,060	150	9	5,219	-

Departmental Output Expense	Revenue Crown	Revenue Departments	Revenue Other	Total Expenses	Surplus/ (Deficit)
	\$000	\$000	\$000	\$000	\$000
Civil Forfeiture of Criminal Assets	1,475	-	-	1,475	-