



SERIOUS FRAUD OFFICE

REVISED STATEMENT OF INTENT

for the year ending 30 June 2006

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

TABLE OF CONTENTS

STATEMENT OF RESPONSIBILITY 3

DECLARATION OF THE RESPONSIBLE MINISTER 3

INTRODUCTION 4

INTRODUCTION AND HIGHLIGHTS 7

FORECAST FINANCIAL STATEMENTS 9

SUPPORTING STATEMENTS 17

STATEMENTS OF FORECAST SERVICE PERFORMANCE 18

FORECAST FINANCIAL STATEMENTS & STATEMENT OF FORECAST 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*.

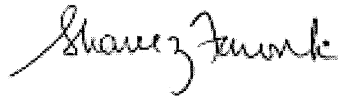
The performance forecast for the output class in the statement of forecast service performance is as agreed with the Minister responsible for Vote: Serious Fraud administered by the Serious Fraud Office.

The financial performance forecast for the Serious Fraud Office in the forecast financial statements, and the statement of forecast 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 (2005/06 Estimates) Bill.



D J Bradshaw
Director
6 May 2005



Shareez Farouk
Chief Financial Officer
6 May 2005

DECLARATION OF THE RESPONSIBLE MINISTER

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



Hon Dr Michael Cullen
Attorney General

INTRODUCTION

Role Of The Serious Fraud Office

The Serious Fraud Office is an operational department whose purpose is to detect and investigate cases of serious or complex fraud offending and expeditiously prosecute offenders.

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

The effective investigation and prosecution of serious fraud will contribute to the various economic and social policies of the Government 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.

As a part of the wider Justice sector the Serious Fraud Office contributes to the Justice sectoral outcomes of having safer communities (being communities in which there is reduced crime and in which safety and well-being is enhanced through partnerships) and of having a fairer, more credible and more effective justice system (being a system in which people’s interactions are underpinned by the rule of law and justice services are more 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. 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.

The work of the Serious Fraud Office also 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 government has announced a new policy on the recovery of proceeds of crime. The Serious Fraud Office will have the responsibility for implementing this new policy once the necessary legislation is in place. Depending upon the timing of the legislation some administrative steps may need to be put in place during the 2005/06 financial year.

Strategic Issues for 2005/2006

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

- Maintaining the capability of the Serious Fraud Office to investigate and prosecute serious and complex fraud.
- Managing the workload of the Serious Fraud Office.
- Contributing to relevant policy debates in the Justice and Criminal sectors.
- Implementing the new policy on the recovery of proceeds of crime.

Maintaining the Capability of the Office

This heading can be split between managing the internal resources of the Office, and managing external relationships.

(a) Internal

The retention of key staff and ensuring that all staff receive appropriate training for the tasks asked of them are critical strategic issues for the Office now and for the foreseeable future. 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 serious and complex fraud.

(b) External

There is a small part of the work of the Serious Fraud Office where the Office is reliant on the support of other agencies. 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. 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 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.

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 especially when exercising the special powers of the Office is essential.

Managing the Workload

The work of the Serious Fraud Office is essentially demand driven. The number of formal complaints received has dropped slightly over the past two years. This 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, however, and the number of prosecutions have remained constant giving the Office a full but manageable workload.

It has been 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. 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 SFO 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.

Implementing the New Policy on Proceeds of Crime

The government has announced a new policy for the recovery of proceeds of crime. The Serious Fraud Office will have the responsibility for implementing this new policy once the necessary legislation is in place. Depending upon the timing of the legislation some administrative arrangements may need to be put into place during the 2005/2006 financial year.

These arrangements would include additional accommodation, several new appointments and perhaps most importantly, discussions with several of the overseas agencies operating similar proceeds of crime policies. Staffing for this new policy is likely to include a mix of permanent Serious Fraud Office staff and persons seconded from other agencies such as the Police.

INTRODUCTION AND HIGHLIGHTS

Summary of Appropriations for 2005/2006

The appropriation sought for Vote Serious Fraud in 2005/2006 totals \$4.874 million.

In 2005/2006 the Serious Fraud Office expects \$4.760 million to be provided by Crown revenue and \$0.114 million third party revenue for services it will supply under the output class detailed below.

The appropriation will be spent on the investigation and prosecution of cases of suspected serious or complex fraud offending brought to the attention of, or detected by, the Serious Fraud Office.

It 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.

Financial Highlights

All GST exclusive	2004/05		2005/06
	Budgeted	Estimated Actual	Budgeted
	\$000	\$000	\$000
Revenue Crown	4,760	4,760	4,760
Revenue other	60	60	114
Output expenses	4,820	4,820	4,874
Net surplus	-	-	-
Taxpayers' funds	388	388	388
Net cash flows from operating and investing activities	(185)	(185)	100

FORECAST FINANCIAL STATEMENTS

Statement of Prospective Financial Performance for the Year Ending 30 June 2006

	2004/05		2005/06
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
Revenue			
Crown	4,760	4,760	4,760
Departments	51	51	105
Other	9	9	9
Interest	-	-	-
Total revenue	4,820	4,820	4,874
Expenses			
<i>Output expenses:</i>			
Personnel	3,078	3,078	3,150
Operating	1,555	1,555	1,537
Depreciation	156	156	156
<i>Other output expenses:</i>			
Capital charge	31	31	31
Total expenses	4,820	4,820	4,874
Surplus/(deficit) from operations	-	-	-
Profit on sale of physical assets	-	-	-
Net surplus	-	-	-

**Statement of Estimated Financial Position as at 30 June 2005
and Prospective Financial Position as at 30 June 2006**

	Actual Position as at 30 June 2004 \$000	Budgeted Position as at 30 June 2005 \$000	Estimated Actual Position as at 30 June 2005 \$000	Forecast Position as at 30 June 2006 \$000
Assets				
<i>Current assets</i>				
Cash and bank balances	525	326	326	426
Receivables	33	-	-	-
Prepayments	5	25	25	25
Total current assets	563	351	351	451
<i>Non-current assets</i>				
Physical assets	275	460	460	360
Total non-current assets	275	460	460	360
Total assets	838	811	811	811
Liabilities				
<i>Current liabilities</i>				
Payables and provisions	329	317	317	317
Provision for payment of surplus	15	-	-	-
Provision for employee entitlements	106	106	106	106
Total current liabilities	450	423	423	423
<i>Term liabilities</i>				
Payables and provisions	-	-	-	-
Total term liabilities	-	-	-	-
Total liabilities	450	423	423	423
Taxpayers' funds				
General funds	388	388	388	388
Total taxpayers' funds	388	388	388	388
Total liabilities and taxpayers' funds	838	811	811	811

**Statement of Prospective Cash Flows
for the Year Ending 30 June 2006**

	2004/05		2005/06
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
Cash flows from operating activities			
Cash provided from:			
Supply of outputs to: Crown	4,760	4,760	4,760
Departments	51	51	105
Other	9	9	9
Interest			
Cash disbursed to:			
Cost of producing outputs: output expenses			
Personnel	(3,065)	(3,065)	(3,137)
Operating	(1,568)	(1,568)	(1,550)
Capital charge	(31)	(31)	(31)
Net cash flows from operating activities	156	156	156
Cash flows from investing activities			
Cash provided from:			
Sale of physical assets	12	12	-
Cash disbursed to:			
Purchase of physical assets	(353)	(353)	(56)
Net cash flows from investing activities	(341)	(341)	(56)
Cash flows from financing activities			
Cash disbursed to:			
Payment of surplus to Crown	(15)	(15)	-
Net cash flows from financing activities	(15)	(15)	-
Net increase/(decrease) in cash held	(200)	(200)	100
Opening total cash balance at 1 July	526	526	326
Forecast closing total cash balances at 30 June	326	326	426

**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 2006**

	2004/05		2005/06
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
Surplus from the Statement of Prospective Financial Performance	-	-	-
<i>Non-cash items</i>			
Depreciation	156	156	156
<i>Movements in working capital items</i>			
(Increase)/decrease in Receivables and advances	32	32	-
(Increase)/decrease in prepayments	(20)	(20)	-
Increase/(decrease) in payables and provisions	(12)	(12)	-
Increase/(decrease) in employee entitlements	-	-	-
Working capital movements	-	-	-
<i>Less investing activities</i>			
Loss/(gain) on disposal of fixed assets	-	-	-
Net cash flows from operating activities	156	156	156

Statement of Prospective Movements in Taxpayers' Funds (Equity)
as at 30 June 2006

	2004/05	2004/05	2005/06
	Budgeted Position for the year ending 30 June 2005 \$000	Estimated Position for the year ending 30 June 2005 \$000	Forecast Position for the year ending 30 June 2006 \$000
Taxpayers' funds at start of period	388	388	388
<i>Movements during the year (other than flows to and from the Crown)</i>			
Net surplus/total recognised revenues and expenses for the period	-	-	-
<i>Adjustment for flows to and from the Crown</i>			
Provision for payment of surplus to the Crown	-	-	-
Taxpayers' funds at end of the period	388	388	388

Forecast Details of Fixed Assets By Category
as at 30 June 2006

	30 June 2005	30 June 2005	30 June 2006 Forecast Position		
	Budgeted Position	Estimated Actual Position	Cost	Accumulated Depreciation	Net Book Value
	\$000	\$000	\$000	\$000	\$000
Furniture & fittings	220	220	715	534	181
Computer equipment (plant and equipment)	186	186	931	793	138
Motor vehicles	54	54	85	44	41
Totals	460	460	1,731	1,371	360

Departmental Capital Expenditure

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

Departmental Capital Expenditure (\$000)	Forecast 2005/06	Estimated Actual 2004/05	Budget 2004/05	Actual 2003/04	Actual 2002/03	Actual 2001/02	Actual 2000/01
Furniture & fittings	-	207	207	6	-	-	-
Office plant and equipment	56	116	116	129	107	163	228
Motor vehicles	-	30	30	-	-	-	-
Totals	56	353	353	135	107	163	228

The forecast capital expenditure for the 2005/06 financial year is primarily routine replacement and upgrade of the department's information technology and office equipment, to help our staff deliver the services set out in this Statement of Intent.

Forecast Financial Performance
Performance Indicators: 2004/05 and 2005/06

	Unit	2004/05		2005/06
		Budgeted \$000	Estimated Actual \$000	Forecast \$000
Operating results				
Revenue: Other	\$000	60	60	114
Revenue: interest	\$000	-	-	-
Output expenses	\$000	4,820	4,820	4,874
Operating surplus before capital charge	\$000	31	31	31
Net surplus	\$000	-	-	-
Resource utilisation				
Physical assets:				
Total physical assets at year end	\$000	460	460	360
Additions	\$000	353	353	56
Additions as % of physical assets	%	77	77	16
Accommodation cost per employee	\$000	9.7	9.7	9.7
Forecast net cash flows				
Surplus/(deficit) on operating activities	\$000	156	156	156
Surplus/(deficit) on investing activities	\$000	(341)	(341)	(56)
Surplus/(deficit) on financing activities	\$000	(15)	(15)	-
Net increase/(decrease) in cash held	\$000	(200)	(200)	100
Human resources				
Staff turnover	%	10	11	10
Average length of service	years	6	5.5	6.5
Total staff	No.	35	35	35

SUPPORTING STATEMENTS

Statement of Accounting Policies

Statement of Significant Underlying Assumptions

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

The Serious Fraud Office's financial statements have been prepared in accordance with section 41(1) of the Public Finance Act 1989, and generally accepted accounting practices.

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

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

Specific Accounting Policies

Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation.

Depreciation

Depreciation of fixed 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	4 years
Computer equipment	3 years

Changes in Accounting Policies

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

STATEMENT OF FORECAST SERVICE PERFORMANCE

The Serious Fraud Office has agreed to provide an output class in 2005/2006 which meets the requirements of the Attorney General (the Vote Minister) in terms of its nature, outcome, emphasis, timeliness, quality and quantity specifications and cost.

Service Performance Objectives

Investigation and Prosecution of Serious or Complex Fraud

Description

The output class involves the investigation and prosecution of cases of serious or complex fraud brought to the attention of, or detected by, the Serious Fraud Office.

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

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

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

Quantity

It is difficult to forecast the level of activity for the 2005/2006 year, as the Office cannot control the number of investigations or prosecutions undertaken. This is affected by 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. Moreover, 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 2005/2006 approximately 25 full investigations are expected to be completed to the point where the Director decides whether or not criminal charges should be laid; and
- ❖ 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 the standards set by the Director for case investigation, case prosecution and the presentation of cases in Court are maintained.
- * that the outputs are provided within the appropriated sum of \$4.874 million.

Output Operating Statement

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

<i>Departmental Output Class</i>	<i>Revenue Crown</i>	<i>Revenue Departments</i>	<i>Revenue Other</i>	<i>Total expenses</i>	<i>Surplus/ (deficit)</i>
	\$000	\$000	\$000	\$000	\$000
Investigation and Prosecution of Complex or Serious Fraud	4,760	105	9	4,874	-