



SERIOUS FRAUD OFFICE

STATEMENT OF INTENT

for the year ending 30 June 2005

*Presented to the House of Representatives Pursuant to Section 34 of
the Public Finance Act 1989*

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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.

Strategic Issues for 2004/2005

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.

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.

During the previous financial year the Office completed its initial work on an “electronic courtroom” and utilised the facility in a number of cases. The system allows for all of the documents in a trial to be produced electronically for the Judge, Counsel, the jury and witnesses. The system has been designed specifically for Serious Fraud Office trials but should serve as a good indicator of what might be possible for the future in other trials. The system is expected to reduce the length of trials considerably whilst at the same time improving the presentation of complex cases to the jury. One obstacle to the wider use of the system is the physical lay-out of the Courts. The Office had to make modifications to a jury box in a Courtroom in Auckland to accommodate the system. It is expected that similar modifications may have to be made in other Courtrooms to enable the system to be fully utilised outside of Auckland. The office will continue to develop this system during the next year to ensure that it maximises the benefits to be obtained from modern technology.

(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. Whilst the number of complaints has been steady over recent years, the number of investigations resulting in prosecutions has been on the increase. The result of this is that the Office now has almost twice as many live prosecutions compared to a few years ago. One of the strengths of the prosecutions taken by the Serious Fraud Office is that the investigating team remains with the case to support the senior Counsel for the duration of the prosecution. The increase in the number of prosecutions places additional demands on 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.

FINANCIAL STATEMENTS

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

STATEMENT OF RESPONSIBILITY

The forecast financial statements contained in this report for the Serious Fraud Office for the year ending 30 June 2005 have been prepared in accordance with section 34A of the Public Finance Act 1989.

The Chief Executive of the Serious Fraud Office acknowledges, in signing this statement, that he is responsible for the forecast financial statements contained in this report.

The financial performance forecast to be achieved by the department for the year ending 30 June 2005 that is specified in the statement of objectives is as agreed with the Attorney-General who is the Minister responsible for the financial performance of the Serious Fraud Office.

The output class performance forecast to be achieved by the department for the year ending 30 June 2005, that is specified in the statement of objectives, is as agreed with the Attorney-General who is responsible for the Vote administered by the Serious Fraud Office.

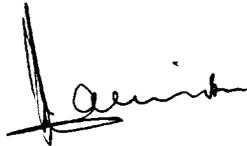
We certify that the information contained in this report is consistent with the appropriations contained in the Estimates for the year ending 30 June 2005 that are being laid before the House of Representatives under section 9 of the Public Finance Act 1989.

Signed



D. J. Bradshaw
Director

Countersigned:



N. Macindoe
Chief Financial Officer

INTRODUCTION AND HIGHLIGHTS

Summary of Appropriations for 2004/2005

The appropriation sought for Vote Serious Fraud in 2004/2005 totals \$5.365 million (including GST). This incorporates the third instalment of an increase, spread over 3 years, approved in the 2002/2003 Budget.

In 2004/2005 the Serious Fraud Office expects \$5.365 million to be provided by Crown 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	2003/04		2004/05
	Budgeted	Estimated Actual	Budgeted
	\$000	\$000	\$000
Revenue Crown	4,699	4,699	4,760
Revenue other	9	49	9
Output expenses	4,708	4,748	4,769
Net surplus	-	-	-
Taxpayers' funds	388	388	388
Net cash flows from operating and investing activities	-	(27)	-

FORECAST FINANCIAL STATEMENTS

**Statement of Prospective Financial Performance
for the Year Ending 30 June 2005**

	2003/04		2004/05
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
Revenue			
Crown	4,699	4,699	4,760
Departments	-	-	-
Other	9	49	9
Interest	-	-	-
Total revenue	4,708	4,748	4,769
Expenses			
<i>Output expenses:</i>			
Personnel	3,009	3,019	3,030
Operating	1,516	1,543	1,558
Depreciation	150	153	150
<i>Other output expenses:</i>			
Capital charge	33	33	31
Total expenses	4,708	4,748	4,769
Surplus/(deficit) from operations	-	-	-
Profit on sale of physical assets	-	-	-
Net surplus	-	-	-

**Statement of Estimated Financial Position as at 30 June 2004
and Prospective Financial Position as at 30 June 2005**

	Actual Position as at 30 June 2003 \$000	Estimated Actual Position as at 30 June 2004 \$000	Forecast Position as at 30 June 2005 \$000
Assets			
<i>Current assets</i>			
Cash and bank balances	574	492	492
Receivables	-	-	-
Prepayments	14	25	25
Total current assets	588	517	517
<i>Non-current assets</i>			
Physical assets	288	315	315
Total non-current assets	288	315	315
Total assets	876	832	832
Liabilities			
<i>Current liabilities</i>			
Payables and provisions	330	341	341
Provision for payment of surplus	55	-	-
Provision for employee entitlements	103	103	103
Total current liabilities	488	444	444
<i>Term liabilities</i>			
Payables and provisions	-	-	-
Total term liabilities	-	-	-
Total liabilities	488	444	444
Taxpayers' funds			
General funds	388	388	388
Total taxpayers' funds	388	388	388
Total liabilities and taxpayers' funds	876	832	832

**Statement of Prospective Cash Flows for the
Year Ending 30 June 2005**

	2003/04		2004/05
	Budgeted \$000	Estimated Actual \$000	Forecast \$000
Cash flows from operating activities			
Cash provided from:			
Supply of outputs to: Crown	4,699	4,699	4,760
Departments	-	-	-
Other	9	49	9
Interest			
Cash disbursed to:			
Cost of producing outputs: output expenses			
Personnel	(3,009)	(3,019)	(3,030)
Operating	(1,516)	(1,543)	(1,558)
Capital charge	(33)	(33)	(31)
Net cash flows from operating activities	150	153	150
Cash flows from investing activities			
Cash provided from:			
Sale of physical assets	-	-	-
Cash disbursed to:			
Purchase of physical assets	(150)	(180)	(150)
Net cash flows from investing activities	(150)	(180)	(150)
Cash flows from financing activities			
Cash disbursed to:			
Payment of surplus to Crown	(2)	(55)	-
Net cash flows from financing activities	(2)	(55)	-
Net increase/(decrease) in cash held	(2)	(82)	-
Opening total cash balance at 1 July	411	574	492
Forecast closing total cash balances at 30 June	409	492	492

**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 2005**

	2003/04		2004/05
	Budgeted	Estimated Actual	Forecast
	\$000	\$000	\$000
Surplus from the Statement of Prospective Financial Performance	-	-	-
<i>Non-cash items</i>			
Depreciation	150	153	150
<i>Movements in working capital items</i>			
(Increase)/decrease in prepayments	-	(30)	-
Increase/(decrease) in payables and provisions	-	30	-
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	150	153	150

**Statement of Prospective Movements in Taxpayers' Funds (Equity)
as at 30 June 2004**

	2003/04	2004/05
	Estimated Position as at 30 June 2004 \$000	Forecast Position as at 30 June 2005 \$000
Taxpayers' funds at start of period	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

**Forecast Details of Fixed Assets By Category
as at 30 June 2005**

	30 June 2004	30 June 2005 Forecast Position		
	Estimated Actual Position \$000	Cost \$000	Accumulate d Depreciation \$000	Net Book Value \$000
Furniture & fittings	60	535	470	65
Computer equipment (plant and equipment)	207	1,185	970	215
Motor vehicles	48	85	50	35
Totals	315	1,805	1,490	315

GST Status of Departmental Output Classes

Departmental Output Classes	GST - Exclusive (SOD) \$000	GST \$000	GST - Inclusive (Vote) \$000
D1 Investigation and Prosecution of Serious Fraud	4,769	596	5,365

Explanatory Notes: The forecast financial statements in this report present expenses (and revenue) exclusive of GST, in accordance with generally accepted accounting practice. When appropriated by Parliament, these expenses are inclusive of GST, in accordance with legislation.

Thus:

- the GST exclusive amount for the departmental output class corresponds to "total expenses" for 2004/2005 appearing in the Output Operating Statement page 20.
- the GST inclusive amount for the departmental output class corresponds to the bolded annual appropriation for 2004/2005 appearing in Part B1 of Vote Serious Fraud.

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 agreement with the Attorney-General at the time the statements were finalised.

The Serious Fraud Office's financial statements have been prepared in accordance with section 34A 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 OBJECTIVES

The Serious Fraud Office has agreed to provide an output class in 2004/2005 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 2004/2005 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 2004/2005 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 preparation and the presentation of cases in Court are maintained.
- * that the outputs are provided within the appropriated sum of \$4.769 million (excl GST).

**Statement of Objectives - Forecast Financial
Performance
Performance Indicators: 2003/04 and 2004/05**

	Unit	2003/04		2004/05
		Budgeted	Estimated Actual	Forecast
		\$000	\$000	\$000
Operating results				
Revenue: Other	\$000	9	49	9
Revenue: interest	\$000	-	-	-
Output expenses	\$000	4,708	4,748	4,769
Operating surplus before capital charge	\$000	33	33	31
Net surplus	\$000	-	-	-
Resource utilisation				
Physical assets:				
Total physical assets at year end	\$000	288	315	315
Additions	\$000	150	180	150
Additions as % of physical assets	%	52	57	48
Accommodation cost per employee	\$000	10.0	9.8	10.0
Forecast net cash flows				
Surplus/(deficit) on operating activities	\$000	150	153	150
Surplus/(deficit) on investing activities	\$000	(150)	(180)	(150)
Surplus/(deficit) on financing activities	\$000	(2)	(55)	-
Net increase/(decrease) in cash held	\$000	(2)	(82)	-
Human resources				
Staff turnover	%	10	11	10
Average length of service	years	6	5.5	6
Total staff	No.	36	36	36

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>	<i>Vote (incl GST)</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	
Investigation and Prosecution of Complex or Serious Fraud	4,760	-	9	4,769	-	5,365