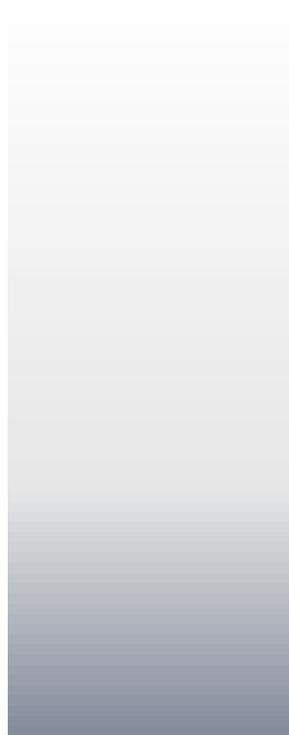




## **2016 Four-year Plan**

**December 9 2015**





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## Highlights

The SFO is the lead law enforcement agency for investigating and prosecuting serious or complex financial crime, including bribery and corruption. Our greatest assets are our people and reputation as an agency to be feared.

In the financial crime landscape, key challenges are rapid demographic changes, sophisticated cross-border crime, environmental risks and the fragmented nature of the response to financial crime.

This four-year plan sees an annual baseline budget confirmed at \$9.34 million, which enables us to fill roles left vacant during a period of budgetary uncertainty and meet increased responsibilities related to bribery and corruption. Cost pressures will be offset by efficiency and productivity gains resulting from a process of continuous improvement. Funding levels do not allow for significant surges in demand for services such as those experienced during the global financial crisis.

Key strategies through to 2020 are to support government priorities and:

- grow workforce capacity, capability and performance, and utilise more diverse expertise through recruitment or contractors
- review business needs and adopt updated technology solutions where required
- enhance working relationships with the private and public sectors and maintain our profile as a lead agency for serious financial crime
- add value to financial crime law reform and policy
- contribute to consideration of opportunities to establish a comprehensive financial crime intelligence system.

The SFO has identified its risks in relation to this four-year plan, and is confident it has mitigation controls in place.

# 1. About the Serious Fraud Office

## 1.1 Core principles

**Excellence:** We strive to be a world-class financial crime and corruption agency.

**Pride:** In the work we do and our contribution to New Zealand.

**Connect:** Recognising our own strengths and opportunities, and those arising from close collaboration with and connections across agencies and sectors.

## 1.2 Our Mission

To protect New Zealand from financial crime, bribery and corruption.

## 1.3 Operating environment

The SFO is the lead law enforcement agency for investigating and prosecuting serious or complex financial crime, including bribery and corruption. The presence of an agency dedicated to white collar crime is integral to New Zealand's reputation for transparency, integrity, fair-mindedness and lack of corruption. This reputation delivers the economy a competitive advantage, through business confidence and the real and perceived cost of doing business here is lower than for many of our trading partners and competitors.

New Zealand's cultural, social and financial landscape is rapidly changing as strong migration, free trade deals and investment in New Zealand continues. These pose a potential threat as divergent norms come into play. Continued economic growth and security relies on public and investor confidence in the integrity of New Zealand's financial and commercial markets and the administration of the justice system, so we must continue to be vigilant in detecting, investigating and prosecuting serious financial crime to demonstrate commitment to brand New Zealand.

The SFO operates in an ever-changing environment, with sophisticated cross-border crime on the increase, ever-larger volumes of complex evidence, use of technology to commit financial crime, and the risks inherent in major infrastructure construction in Auckland and Christchurch. In the financial crime landscape we continue to see allegations of various forms of corruption, online scams using New Zealand shelf companies and financial crime involving a lack of proper governance. We are also seeing an increase in referrals from other government departments as they take a more stringent approach to auditing service providers.

The lack of a system-wide approach to financial crime creates the opportunity for criminals to exploit the interstices between agencies. We place a high priority upon linking with fellow agencies with responsibilities in this area to prevent damage to brand New Zealand.

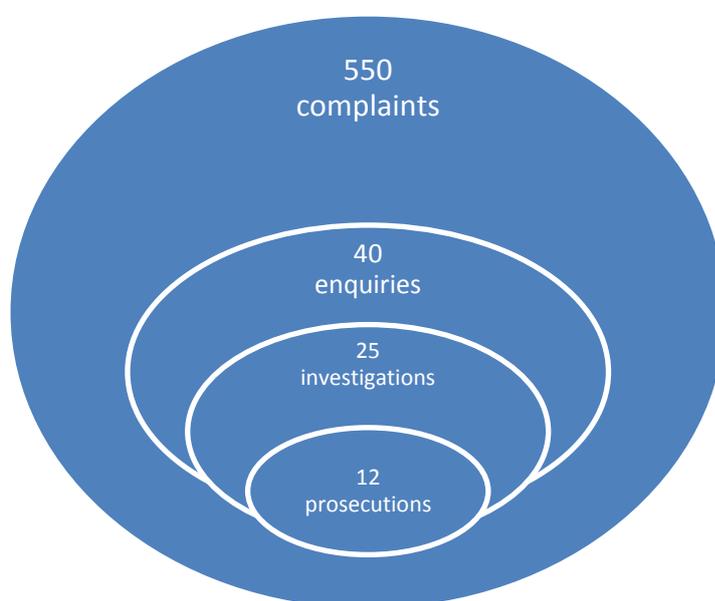
The baseline at \$9.34million incorporates policy cost pressures from all-of-government requirements and increased responsibilities flowing on from the greater international focus on bribery and corruption. Above all, it enables us to manage caseloads and meet our targets by filling roles left vacant during a period of budgetary uncertainty occurring during our expenditure review, and by contracting other specialist expertise. The cost pressures inherent in workforce recruitment, salaries and training will be offset by introducing further efficiencies in business systems, processes and job roles.

## 1.4 Scale of operations

We investigate cases that have significant impact on the New Zealand economy and society. Cases are selected based on the suspected scale of the matter, the nature of the consequences of the financial crime, the complexity of the matter and any relevant public interest considerations.

The SFO typically has around 50-55 cases under investigation or prosecution at any one time. The combined duration of an investigation and prosecution is dependent on the complexity and scale of issues and can potentially take years from receiving a complaint to completion in the court system. Hence, these 50-55 cases are built up over time.

Annually, there is an initial triage of up to 550 complaints, with approximately 30 initial enquiries under Part 1, 25 substantive investigations under Part 2 and 12 prosecutions being taken on each year.



**Figure 1: Scale of operations from complaint through to prosecution**

## 2. Contributing to government priorities

The SFO contributes to:

- the Government's priority of building a more competitive and productive economy
- the Justice Sector's Safe and Just Society priority and Better Public Services targets of reducing rates of total crime and reoffending – conviction rates and custodial sentences in white collar crime have a deterrent effect that builds public, business and investor confidence.

The tables below summarise the outcomes we aim to achieve and how we measure our performance.

## 2.1. A confident business environment that is largely free of serious financial crime

Impacts	Indicators	Measures	Trend results
Business and investor confidence in the integrity of our financial markets is increased	Those who say that law enforcement action is maintaining or improving the integrity of our financial and commercial markets	Biennial SFO Stakeholder Survey “How effective have SFO investigations and prosecutions been?”  Maintain or improve on 7.1 (scale of 10)	2015:7.3 2013: 7.7 2011: 7.1

Serious financial crime has both direct impacts, in terms of the monetary losses suffered by its victims, and indirect impacts, in terms of the public costs of detection, investigation and prosecution and the loss of investor confidence. A lack of confidence acts as a barrier to investment in financial and commercial markets. In order to support the economy, New Zealand needs to be recognised as having markets that are largely free of financial crime and an environment that makes it possible to readily detect, investigate and prosecute these crimes when they occur.

Our priority will be investigations where there is a potentially significant impact on public confidence in New Zealand as a safe place to invest, or on the integrity of our financial and commercial markets.

The focus of our work will be on:

- conducting high-quality investigations within cost-effective timeframes
- contributing to the investigation of opportunities to develop an inter-agency financial crime intelligence system
- working with key stakeholders to develop an integrated, system-wide approach to financial crime
- working with the government on issues of law reform where our expertise adds value.

This will result in:

- investigation resources being focused on the right priorities
- earlier detection, allowing us to prioritise the most serious matters
- investigation and prosecution in an expeditious manner
- sharing of specialist skills across relevant public sector agencies to create improved efficiencies.

## 2.2. A just society that is largely free of fraud, bribery and corruption

Impacts	Indicators	Measures	Trend results

Public and victims' confidence that those who commit financial crime are held to account is increased	Frequency of custodial sentences being ordered where a conviction was obtained	Annual analysis, including trends compiled by the SFO:  Maintain or increase from 75% of cases	2014/15: 69% 2013/14: 89% 2012/13: 84% 2011/12: 95%
New Zealand maintains its international reputation for very low levels of bribery and corruption	New Zealand's ranking of corruption-free nations	Transparency International Corruption Perception Index.  Maintain rank within the top three for least corrupt	2014/15: 2nd 2013/14: 1st equal Denmark 2012/13: 1st equal Finland, Denmark 2011/12: 1st

### 2.3 Public and victims' confidence that those who commit financial crime are held to account is increased

A major contributing factor to a 'just society' is that individuals who commit financial crime are apprehended and held to account. The public want to know that New Zealand's public and private sectors are free from corruption and that the rule of law will be applied impartially to all forms of serious financial crime, bribery or corruption. This will give them confidence that their financial assets are safe and, if serious financial crime occurs, the perpetrators are held to account so their actions are not repeated elsewhere.

We have discontinued the complainants and victims' survey as victims' responses can be influenced by factors over which we have no control, e.g. court decisions on penalties and recovery of losses. The core role of the SFO does not include education and prevention, however, we aim to contribute our expertise where possible on these subjects. As opportunities and capacity arise, we aim to contribute to the work of other agencies in improving public awareness of the risks and impact of financial crime. We do this so that individuals, the business community, non-government organisations, charities and government agencies can act to prevent financial crime affecting them.

We also take advantage of opportunities to speak at and attend relevant forums to improve public awareness and foster cooperation with our fellow agencies here and overseas, and with the private sector.

The focus of our work will be on:

- ensuring that when serious or complex financial crime is detected, it is investigated and prosecuted in an expeditious manner
- ensuring that complainants, victims and witnesses are given appropriate information and support
- strengthening our relationship with the New Zealand Police Asset Recovery Unit.

This will result in:

- conviction rates and sentencing levels which deter future offending
- increased public awareness of the impact of serious financial crime on society
- improved recovery of the proceeds of financial crimes.

## **2.4 New Zealand maintains its international reputation for low levels of bribery and corruption**

Bribery and corruption significantly disrupts economic growth. Potential investors, foreign or domestic, see it as adding cost, risk and uncertainty to their business and investment decisions. Advantages of perceived low levels of bribery and corruption include lower cost of capital, lower cost of doing business and easier access to international markets.

Investigating and prosecuting corruption cases can be time consuming and costly as they may involve significant investigation overseas including the need for formal cooperation with overseas authorities. The SFO is also one of the New Zealand agencies with a role to play in responding to international expectations in relation to corruption (on the part of bodies such as the OECD, the UN and APEC) and in maintaining links with overseas counterparts, which underpins our cooperation efforts and provides opportunities for training.

The international community is very active in this area as witnessed by the fact that there have been three phases of review of each signatory's implementation of the OECD treaty on foreign bribery and the fourth is in the planning stage. Foreign bribery and corruption is also a focus of APEC with the recent establishment of the Anti-Corruption and Transparency Working Group. China is particularly active in this area and our continued status as a favoured trading partner will be supported by New Zealand's engagement with this work.

As New Zealand has now ratified the United Nations Convention against Corruption, the SFO expects that it may be called upon to assist with reviews of our implementation of that convention.

Therefore, there is significant economic advantage in the New Zealand business environment and public institutions continuing to be seen as having high levels of transparency and integrity.

The focus of our work will be on:

- conducting swift and effective investigations into instances of bribery and corruption, to maintain public confidence in the integrity of the public and private sectors.

This will contribute to:

- fostering an honest and transparent environment for the conduct of business in New Zealand
- the maintenance of efficient and effective markets
- benefits to New Zealand businesses in leveraging New Zealand's reputation for low levels of corruption.

## 3. Agency strategies

The Serious Fraud Office aims to be world-class in protecting New Zealand from serious financial crime, including bribery and corruption. The agency's Strategic Direction seeks to maintain the country's status as one of the least corrupt nations in the world, and to enhance our reputation internationally. This section discusses the strategies that underpin this mission.

### 3.1 Delivering results and adapting to change

The SFO operates in an ever-changing environment, as described in 1.3. This section outlines our response to these challenges.

#### 3.1.1 The SFO invests in leading-edge technology and its workforce

##### **Specialised technology and efficient processes**

Successful investigation of serious and complex financial crime depends on being able to quickly recover and search digital records. This requires significant and ongoing investment in new and emerging specialised technology in the area of computer forensics and document management.

The SFO is aligning with the central government IT strategy and we are reviewing our business systems needs and information and technology solutions in areas of case management, and finance, time and cost reporting.

Following on from a PIF and Expenditure Review in 2014, the SFO implemented key recommendations to improve the efficiency of investigations. These include outsourcing the scanning phase of document management to provide a faster, more robust evidence management process using electronic numbering, and introducing a two-part complaint evaluation process that places our most experienced employees (Principals) at the start of the process to ensure that we choose the right matters to progress. These new processes will be monitored and measured throughout the period of this plan.

We will also look to improve our understanding of our operational resource and cost requirements as part of the systems review.

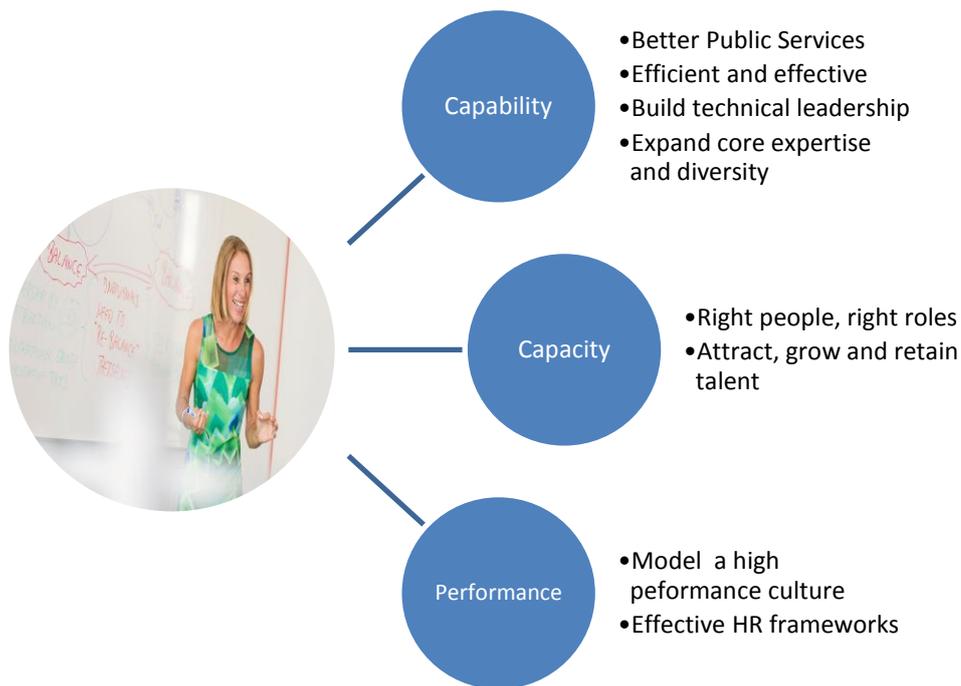
##### **Workforce capability, capacity and performance**

We intend to be operating with a workforce of 55 FTE's by June 2016, largely senior specialist practitioners with a relatively small number of less experienced employees. This small team of experts is a key strength for the agency and is critical to the delivery of our mission. With 90 percent in frontline jobs, everything we do is core business.

As required, in-house resources are supplemented by external experts and by collaborative resources including secondments. We have an increased need for more diverse expertise, primarily in data analysis and intelligence.

Auckland has a point of difference from the rest of New Zealand in its ethnic diversity. At 23 percent, our Asian population is twice that of the rest of the country, and predominantly Chinese. We have twice as many Pacific peoples but proportionally fewer European and Māori than other places. The SFO is conscious that our workforce should reflect this unique diversity.

The SFO will focus its workforce strategy on the strategic priorities in figure 2:



**Figure 2: Workforce strategic priorities**

In June 2015 we introduced best-in-class performance management and talent management frameworks that will be embedded throughout the first year of this four-year plan. The performance management framework will see a rigorous approach to performance and development reviews. It identifies talent, learning and development opportunities and succession plans, and has a clear link to remuneration. The talent management framework aligns to the State Services Commission’s model but links the identification phase to a bespoke strategy to ensure the SFO attracts, engages, develops and retains its capability. These frameworks transparently link employee performance and rewards to the SFO’s core principles and outcomes. A remuneration framework will see adjustments to salaries within the level of government expectations and agency affordability.

## **3.2 Growing partnerships and leadership**

### **3.2.1 The SFO is recognised and trusted as the lead New Zealand law enforcement agency for serious financial crime**

#### **Enhance working relationships with the public and private sectors**

The strength and depth of the SFO’s connections with the government and the private sector are important to our ongoing success and capacity to contribute to whole-of-government priorities such as Better Public Services. We also aim to develop a stakeholder model that allows the Director to lead the agency and attend to statutory duties. We will closely examine our stakeholder relationships to identify opportunities to create multi-party strategic alliances that contribute to a system-wide approach to financial crime. The steps taken to connect with our partners will include:

- taking advantage of existing opportunities to connect with government sector chief executives and senior staff, as well as forming stronger bonds with strategically important partners from the government sector
- consolidating our sector relationships at the general manager level to create strategic groupings and enhance connections with peers in law enforcement
- establishing a private sector advisory panel to assist with strategic outlook and offer insights into our performance with investigations and prosecutions
- keeping connected with alumni and building relationships with other agencies with an investigative capacity to enhance our response to new 'waves' of financial crime.

### **Take a system-wide approach**

Currently there is no system-wide approach to financial crime intelligence. Ad hoc and largely unilateral development by the many organisations with an interest in detecting and preventing financial crime has resulted in less than optimal sharing of data or analysis. Efforts to deter and reduce financial crime and deal with its impacts may not be as effective as they could be.

We are currently developing an indicative business case to examine the opportunities for a comprehensive financial crime intelligence system. This will assist all concerned to assess the serious financial crime landscape and be alert to emerging risks. In the interim we will be focused on:

- providing better and more sophisticated information to courts on the impact of financial crime both generally and in relation to the matter before the court to support the sentencing process (where appropriate)
- assisting the preventative measures taken by other agencies by sharing the lessons we learn from our investigations and prosecutions about the reasons for financial crime
- identifying other avenues to support the preventative programmes established by partner agencies, such as sharing financial crime intelligence.

### **Take a lead role**

Our Strategic Direction requires us to take a stronger lead role in working collaboratively across the public sector and with the business community. We also need to respond to international expectations in the corruption area. While we are not the lead agency in the policy area, we make a contribution including commenting on legislative proposals, attending overseas meetings relating to financial crime, such as APEC and those with an operational element, and responding to operational and policy matters such as the OECD assessments of New Zealand's implementation of the foreign bribery convention. The SFO also attends relevant financial crime and corruption agency forums, such as those run triennially by the Hong Kong Independent Commission Against Corruption.

In 2012 we took the lead in developing the Economic Crime Agency Network (ECAN), which is now a consolidated and evolving cohort of financial crime enforcement agencies from our overseas partners. This group collaborates at an annual meeting and readily consults on operational matters. ECAN, along with the APEC working group involvement, has proven its worth on a number of case-related matters which involve other jurisdictions such as Hong Kong, the USA, Singapore, Malaysia and Taiwan. We also provide expertise to our Pacific partners and are currently assisting the Cook Islands Police Service on a prosecution.

## 4. Financial overview

Within the four-year plan period, the biggest cost pressure arises from budgeted remuneration increases. This cost pressure will need to be off-set by savings from continuous improvement efficiencies and productivity gains in the short term. However, it is anticipated the remuneration pressure may not be able to be absorbed or managed through efficiency gains in the out-years. Confirmed levels of funding at \$9.34 million may not allow us to manage a significant surge in demand for services such as that which occurred during the global financial crisis.

A balanced four-year plan budget is given below.

### 4.1 Financial summary

	2015/16 \$0.000m	2016/17 \$0.000m	2017/18 \$0.000m	2018/19 \$0.000m	2019/20 \$0.000m
Current operating expenditure baseline	9.548	9.340	9.340	9.340	9.345
Financial movements					
Add total cost pressures (workforce employment)	0.000	0.050	0.113	0.177	0.306
Subtract significant changes that will generate savings	0.000	0.050	0.113	0.177	0.306
Equals total funding level for planning purposes	9.548	9.340	9.340	9.340	9.345

### Capital expenditure — departmental

	2015/16 \$0.000	2016/17 \$0.000m	2017/18 \$0.000m	2018/19 \$0.000m	2019/20 \$0.000m
Operating balance funding available	0.044	0.043	0.096	0.151	0.202
Add depreciation funding received	0.224	0.153	0.154	0.151	0.156
Equals total baseline funding available	0.268	0.196	0.251	0.302	0.358
Subtract capital investments funded from baselines	0.225	0.100	0.100	0.100	0.100
Equals closing baseline funding available	0.043	0.096	0.151	0.202	0.258

Note: The SFO has fixed assets (property, plant and equipment plus intangible/software assets), which cost \$1.763 million with a (depreciated) net book value of \$502,000. In 2014/15 we refreshed our IT hardware requirements. Requirements may be reconsidered at the 2015/16 half-year baseline review, as a result of the systems review.

## 4.2 Workforce capacity

As at 30 June 2015 the SFO had a reduced workforce of 47, as employees who left were not replaced until new funding levels were confirmed following our expenditure review. A four-year baseline of \$9.34 million to 2018/2019 and \$9.345 in 2019/2020 allows the SFO to recruit seven additional employees by June 2016 and then maintain workforce levels at 55 FTE. Successful recruitment will depend on filling a number of roles where resources are scarce, due to the specialist nature of skills required.

### Recruitment

<p><b>Difficult to fill roles over the next 12 months</b></p> <p>Electronic forensic investigators, strategic intelligence analysts, senior forensic accounts</p>	<p><b>Strategy to manage this</b></p> <p>Grow these skills internally, retain the people we have, and ensure strong networks to target potential candidates with these skills</p>
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<p><b>Difficult to fill roles over the next four years</b></p> <p>Electronic forensic investigators, strategic intelligence analysts, senior forensic accounts</p>	<p><b>Strategy to manage this</b></p> <p>Grow these skills internally, retain the people we have, and ensure strong networks to target potential candidates with these skills</p>
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### Forecast position numbers

	30 June 2015	31 Dec 2015	30 June 2016	30 June 2017	30 June 2018	30 June 2019
<b>Position numbers – departmental</b>	47	52	55	55	55	55
<b>Position numbers – non-departmental</b>	0	0	0	0	0	0



## 5. Key assumptions and resilience

### 5.1 Risk to the assumptions underpinning the four-year plan

Key assumptions in 4YPs	Risk	Consequence	Likelihood	Mitigation
Personnel wages grow at 2% over the period of this plan	Economy picks up/key competitors increase wages above 2%	The SFO has difficulty attracting, engaging and retaining key employees	High – despite high levels of engagement SFO employees are attractive to the private sector who pay significantly higher salaries and this generates a higher than usual turnover	Retain market relativity (and continue investment in professional development to ensure that the SFO retains its reputation as a good place to work and develop valuable skills)
Complaint numbers stay at roughly 2015 levels	Complaint numbers rise significantly above 2015 levels	The SFO has to spend a longer amount of time triaging complaints and referring complaints to other agencies	Low – the number of complaints has been consistent over the last few years.	Sufficient resources are directed to complaint management to mitigate any significant increase. Phone complaint management is outsourced to MBIE
Head lease 120 Mayoral Drive – termination expenses (make good) on termination are within budget	Mayoral Drive property needs significant (unbudgeted) expenditure to bring it up to standard required for termination of lease	Actual make good costs in excess of provision will need to be realised	Low – the provision was independently revalued in June 2015 in anticipation of the lease terminating in February 2016	The SFO is well provisioned for termination expenses
Sublease at 120 Mayoral Drive	Subtenant defaults on rent payments	Shortfall in revenue of \$0.092 million (total rent receivable to lease termination)	Low – reputable organisation, no history of late or non-payment  Sublease at expires February 2016	The SFO carries insurance against the loss of rents receivable associated with this sublease

			No change in tenant to the end of the sublease term	
Co-location agreement with Crown Law Office at Queen Street continues for the budget period	CLO fails to pay the agreed costs	Shortfall in revenue of \$0.085 million per annum	Low – CLO is a Government Department and a formal arrangement is in place	A formal MOU with CLO
Stable workforce at the level of 55	Loss of direct employees and associated cost of recruitment and replacement	Significant impact on case completion and capacity to take on new work	Medium to high	We will need to source and engage contractors and use secondments as required
Current laws are adaptable to future forms of crime, in particular, cyber crime	Gaps in the law relating to financial crime and corporate liability	The SFO unable to lay charges. Financial impact on victims and reputational impact on SFO	Medium to High	Work with the government on law reform
Central government levies do not apply automatically	Additional cost to the SFO (and disproportionate cost/benefit) from all-of-government requirements	The SFO has to find additional funding or not undertake core work	Medium	Submissions will be made to exempt the SFO from levies where those levies are to fund work unlikely to benefit the SFO
Expanding jurisdiction in relation to corruption and increased role in coordinating international crime	Additional cost to the SFO	Senior employees taken away from core business to attend international fora	Medium	Careful consideration will be given to the most appropriate fora to attend

## 5.2 Resilience

The SFO as a small agency with approximately 55 employees, a small budget and relatively little control over its workload has very limited resilience:

### **Workforce**

As noted in the SFO Expenditure Review, despite the completion of the finance company cases, our work load has remained constant and consultation with stakeholders for the purposes of our PIF and Expenditure Review demonstrated that there is no perception that the SFO is taking on inappropriate matters. We consider this perception to be correct. With an expert workforce who are attractive to both state and private sectors we have a high turnover relative to our level of employee engagement and will always struggle to some degree to compete with salaries offered both by Crown Entities and the private sector. Given that our mandate is to deal with serious financial crime, we need a cohort of highly experienced employees to effectively investigate and prosecute our cases. The loss of employees to other employers and the difficulty of obtaining employees with all the relevant skills make replacement and augmentation for large matters very difficult.

### **Training**

SFO employees, particularly our most senior ones, require cutting-edge skills in a range of areas where training opportunities are limited, often expensive and not available in New Zealand. Providing expert-level training is critical to our ability to keep pace with the increasing electronic complexity and sophistication of financial crime. Training opportunities also enhance our capacity to recruit and retain employees with sufficient expertise for the work.

### **System-wide contribution**

We have also identified a range of ad hoc opportunities to make a system-wide contribution using our expertise – for example, providing forensic accountants to Police financial crime units on secondment or for specific case-related assistance. However, as an agency based in Auckland there is an additional cost of maintaining our participation in and support of wider public sector initiatives.

### **Large cases**

One consequence of our small size is a lack of elasticity to deal with unexpected expenses of any kind. One additional large case can place significant stress on our capacity to adequately staff our cases and to progress them. Delay in investigation causes other significant problems including loss of access to relevant evidential material (given the obligation on institutions such as banks to only retain records for seven years) and impacts upon the availability, cooperation and memories of witnesses. Delay in prosecuting matters will also lead to a reduction in sentences and therefore in the deterrence upon other potential offenders.

### **Small cases**

The SFO takes on a number of small cases which, while small in terms of quantum, can have a comparatively high public interest factor – such as small bribes paid to public servants. There is public interest in pursuing cases of this nature as failure to pursue such matters means these cases

would fall through the cracks or be referred to other agencies placing an additional burden on other parts of the system.

**All of government costs**

The SFO participates in all-of-government initiatives but given our limited requirements in many areas, we need to weigh up the costs of doing which may be greater than independent procurement of the same services.