

Financial statements



Statement of comprehensive revenue and expense

for the year ended 30 June 2018

Actual 2017 \$000		Notes	Actual 2018 \$000	Unaudited Budget 2018 \$000	Unaudited Forecast 2019 \$000
Revenue					
9,280	Revenue Crown		10,142	9,935	9,529
456	Other revenue		282	85	85
9,736	Total revenue	2	10,424	10,020	9,614
Expenses					
6,439	Personnel costs	3	6,126	6,398	6,398
2,803	Other expenses	5	3,734	3,439	2,902
148	Depreciation and amortisation expense	7, 8	202	156	298
28	Capital charge	4	37	27	16
9,418	Total expenses		10,099	10,020	9,614
318	Surplus/(deficit)		325	0	0
0	Other comprehensive revenue and expense		0	0	0
318	Total comprehensive revenue and expense		325	0	0

Explanations of major variances against the original 2017/18 budget are provided in note 17.

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2018

Actual 2017 \$000		Notes	Actual 2018 \$000	Unaudited Budget 2018 \$000	Unaudited Forecast 2019 \$000
Assets					
Current assets					
1,583	Cash and cash equivalents	18	1,912	1,347	1,467
41	Receivables	6	44	0	75
72	Prepayments		86	77	77
1,696	Total current assets		2,042	1,424	1,619
Non-current assets					
474	Property, plant and equipment	7	429	393	383
3	Intangible assets	8	662	909	552
477	Total non-current assets		1,091	1,302	935
2,173	Total assets		3,133	2,726	2,554
Liabilities					
Current liabilities					
910	Payables	9	1,176	993	835
318	Return of operating surplus	10	325	0	0
374	Employee entitlements	12	363	326	467
1,602	Total current liabilities		1,864	1,319	1,302
Non-current liabilities					
5	Employee entitlements	12	43	6	20
114	Provisions	11	114	109	120
119	Total non-current liabilities		157	115	140
1,721	Total liabilities		2,021	1,434	1,442
452	Net assets		1,112	1,292	1,112
Equity					
452	Taxpayers' funds	13	1,112	1,292	1,112
452	Total equity		1,112	1,292	1,112

Explanations of major variances against the original 2017/18 budget are provided in note 17.

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2018

Actual 2017 \$000		Notes	Actual 2018 \$000	Unaudited Budget 2018 \$000	Unaudited Forecast 2019 \$000
452	Balance at 1 July		452	452	1,112
318	Total comprehensive revenue and expense		325	0	0
	Owner transactions				
0	Capital injection		660	840	0
(318)	Return of operating surplus to the Crown	10	(325)	0	0
452	Balance at 30 June	13	1,112	1,292	1,112

Explanations of major variances against original the 2017/18 budget are provided in note 17.

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2018

Actual 2017 \$000		Actual 2018 \$000	Unaudited Budget 2018 \$000	Unaudited Forecast 2019 \$000
Cash flows from operating activities				
9,251	Receipts from Revenue Crown	10,127	9,935	9,529
456	Receipts from other revenue	294	85	85
(3,538)	Payments to suppliers	(3,787)	(3,577)	(3,185)
(6,012)	Payments to employees	(5,848)	(6,436)	(6,115)
(36)	Payments for capital charge	(37)	(27)	(16)
55	Goods and services tax (net)	(4)	59	0
176	Net cash flow from operating activities	745	39	298
Cash flows from investing activities				
(122)	Purchase of property, plant and equipment	(86)	(50)	(130)
0	Purchase of intangible assets	(673)	(890)	(10)
(122)	Net cash flow from investing activities	(759)	(940)	(140)
Cash flows from financing activities				
0	Capital Injections	660	840	0
(683)	Return of operating surplus	(318)	0	0
(683)	Net cash flow from financing activities	342	840	0
(630)	Net (decrease)/increase in cash	329	(61)	158
2,213	Cash at the beginning of the year	1,583	1,408	1,309
1,583	Cash at the end of the year	1,912	1,347	1,467

The SFO does not hold any finance leases (2017: nil).

Explanations of major variances against original 2017/18 budget are provided in note 17.

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2018 (continued)

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

Actual 2017 \$000		Actual 2018 \$000
318	Net surplus/(deficit)	325
	Add/(less) non-cash items:	
148	Depreciation and amortisation expense	202
148	Total non-cash items	202
	Add/(less) items classified as investing or financing activities:	
0	(Gains)/losses on disposal of property, plant and equipment	(5)
0	Total items classified as investing or financing activities	(5)
	Add/(less) movements in statement of financial position items:	
(30)	(Inc)/dec in receivables	(3)
24	(Inc)/dec in prepayments	(14)
(360)	Inc/(dec) in payables and deferred revenue ¹	213
69	Inc/(dec) in employee entitlements	28
5	Inc/(dec) in provisions	0
(290)	Net movement in working capital items	224
176	Net cash flow from operating activities	745

The accompanying notes form part of these financial statements.

¹Excludes outstanding payables of \$52,618 for intangible asset purchases (2017: \$nil).

Statement of commitments

as at 30 June 2018

Capital commitments

The SFO has no capital commitments as at 30 June 2018 (2017: \$nil).

Non-cancellable operating lease commitments

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

The SFO leases property in the normal course of its business operation. The financial impact of this lease, which relates to the current office accommodation on Level 6 at 21 Queen Street in Auckland, is in the form of a non-cancellable operating lease that expires 3 March 2023, with no restrictions.

Actual 2017 \$000		Actual 2018 \$000
Operating lease as lessee		
The future aggregate minimum lease payments to be paid under this non-cancellable operating lease is as follows:		
511	Not later than one year	516
2,045	Later than one year and not later than five years	1,893
341	Later than five years	0
2,897	Total non-cancellable operating lease commitments	2,409

Sublease arrangement

During 2015/16, the SFO entered into a co-location agreement whereby office space on Level 6, 21 Queen Street, Auckland was allocated to Crown Law for their sole use, the terms and conditions of which are recorded in a Memorandum of Understanding. The Memorandum of Understanding is deemed to contain a lease. The Agreement expires on 3 March 2023, however it can be terminated on giving 12 months' notice.

Actual 2017 \$000		Actual 2018 \$000
Operating sub-lease as lessor		
The future aggregate forecasted sub-lease payments to be received under this cancellable operating sub-lease is as follows:		
85	Not later than one year	85
340	Later than one year and not later than five years	312
57	Later than five years	0
482	Total forecasted operating sub-lease income	397

The accompanying notes form part of these financial statements.

Statement of contingent liabilities and contingent assets

as at 30 June 2018

Contingent liabilities

The SFO has no quantifiable or unquantifiable contingent liabilities as at 30 June 2018 (2017: \$nil).

Contingent assets

The SFO has no contingent assets as at 30 June 2018 (2017: \$nil).

The accompanying notes form part of these financial statements.

Notes to financial statements

1. Statement of accounting policies

Reporting entity

The SFO is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled and operates in New Zealand. The relevant legislation governing the SFO's operations includes the Serious Fraud Office Act 1990, Public Finance Act 1989 and the State Sector Act 1988.

The SFO's ultimate parent is the New Zealand Crown.

The SFO's primary objective is to provide services to the New Zealand public. The SFO does not operate to make a financial return.

The SFO has designated itself as a public benefit entity (PBE) for financial reporting purposes of complying with generally accepted accounting practice.

The financial statements of the SFO are for the year ended 30 June 2018, and were approved for issue by the Chief Executive and Director on 26 September 2018.

Basis of preparation

The financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the year.

Statement of compliance

The financial statements of the SFO have been prepared in accordance with the requirements of the Public Finance Act 1989, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and Treasury instructions.

These financial statements have been prepared in accordance with and comply with PBE Tier 2 Standards Reduced Disclosure Regime (RDR) concessions applied on the basis that expenditure exceeds \$2 million but is less than \$30 million.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

Changes in accounting policies

Management has revised the following change in applying accounting policies:

- Employee Entitlements: Long service leave - see note 12.

Standards issued and not yet effective and not early adopted

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

Financial instruments

In January 2017, the External Reporting Board issued PBE IFRS 9 Financial Instruments. This replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost
- a new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses
- revised hedge accounting requirements to better reflect the management of risks.

Statement of accounting policies (continued)

The timing of the SFO adopting PBE IFRS 9 will be guided by the Treasury's decision on when the Financial Statements of Government will adopt PBE IFRS 9. The SFO has not yet assessed the effects of the new standard.

Summary of significant accounting policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note are outlined below.

Foreign currency transactions

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into New Zealand Dollars (the functional currency) using the spot exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Goods and services tax

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

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

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

Income tax

The SFO is a public authority and consequently is exempt from income tax. Accordingly, no provision has been made for income tax.

Critical accounting estimates and assumptions

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are in respect of:

- Assessing the useful lives of software – see note 8
- Measuring long service leave – see note 12

Critical judgements in applying accounting policies

Management did not require any critical judgement in applying accounting policies.

Budget and forecast figures

Basis of the budget and forecast figures

The 2018 budget figures are for the year ended 30 June 2018 and were published in the Annual Report 2017. They are consistent with the SFO's best estimate financial forecast information submitted to the Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 2017/18.

The 2019 forecast figures are for the year ending 30 June 2019, which are consistent with the best estimate financial forecast information submitted to the Treasury for the BEFU for the year ending 2018/19.

The forecast financial statements have been prepared as required by the Public Finance Act 1989 to communicate forecast financial information for accountability purposes.

The budget and forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

The 30 June 2019 forecast figures have been prepared in accordance with and comply with PBE FRS 42 Prospective Financial Statements.

The forecast financial statements were approved for issue by the Chief Executive on 5 April 2018.

The Chief Executive is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

While the SFO regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2019 will not be published.

Significant assumptions used in preparing the forecast financial information

The forecast figures contained in these financial statements reflect the SFO's purpose and activities and are based on a number of assumptions on what may occur during the 2018/19 year. The forecast figures have been compiled on the basis of existing government policies and ministerial expectations at the time the Main Estimates were finalised. The main assumptions, which were adopted as at 5 April 2018, were as follows:

- The SFO's activities and output expectations will remain substantially the same as the previous year focusing on the government's priorities.
- Personnel costs were based on 53 full-time equivalent employees, which takes into account employee turnover.
- Operating costs were based on historical experience and other factors that are believed to be reasonable in the circumstances and are the SFO's best estimate of future costs that will be incurred.
- Remuneration rates are based on current wages and salary costs, adjusted for anticipated remuneration changes.
- Estimated year-end information for 2017/18 was used as the opening position for the 2018/19 forecasts.

The actual financial results achieved for 30 June 2019 are likely to vary from the forecast information presented, and the variations may be material.

Since the approval of the forecasts there have been no significant changes or events that would have a material impact on the forecasts.

2. Revenue

Accounting policy

The specific accounting policies for significant revenue items are explained below:

Revenue Crown

Revenue from the Crown is measured based on the SFO's funding entitlement for the reporting period. The funding entitlement is established by parliament when it passes the appropriations act for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date.

There are no conditions attached to the funding from the Crown. However, the SFO can incur expenses only within the scope and limits of its appropriations.

The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement.

Rental revenue

Rental revenue under an operating sublease is recognised as revenue on a straight line basis over the lease period.

Recovery for employees on secondment

Recovery of cost from the host agency for seconded SFO employees, whose salary is paid by the SFO, is recorded as revenue in the month that the services are provided.

Conference fees

Conference fee revenue is recognised in the year that the conference is held.

Breakdown of other revenue and further information

Actual 2017 \$000		Actual 2018 \$000
84	Rental revenue from subleases	88
248	Recovery for employees on secondment	189
89	Attendance fees received for the Fraud and Corruption Conference	0
0	Gain on disposal of property, plant and equipment	5
35	Other	0
456	Total other revenue	282

Recovery for employees on secondment

During 2017/18 there were four outward secondment arrangements in place (2017: three). The Department of Internal Affairs, the Commerce Commission, New Zealand Police and the Financial Markets Authority each seconded SFO employees for a period of time, with each funded by the host agency. All secondments were on normal terms and conditions.

Asset disposals

During the year, the SFO disposed of assets to the value of \$8,376. The net gain on disposals was \$5,439 (2017: \$nil).

3. Personnel costs

Accounting policy

Salaries and wages

Salaries and wages are recognised as an expense as employees provide services.

Superannuation Schemes

Defined contribution schemes

Employee contribution to the State Sector Retirement Savings Scheme, KiwiSaver and the Government Superannuation Fund are accounted for as defined contribution superannuation schemes and are expensed in the surplus or deficit as incurred.

Defined benefit schemes

The SFO does not contribute to any defined benefit schemes.

Breakdown of personnel costs

Actual 2017 \$000		Actual 2018 \$000
6,111	Salaries and wages	5,830
1	Defined contribution plan employer contributions	3
63	Increase/(decrease) in employee entitlements	33
174	Employee training and development	133
90	Other	127
6,439	Total personnel costs	6,126

4. Capital charge

Accounting policy

The capital charge is recognised as an expense in the financial year to which the charge relates.

Further information

The SFO pays a capital charge to the Crown on its equity (adjusted for memorandum accounts) at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2018 was 6%. (2017: 6%).

5. Other expenses

Accounting policy

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of the asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease. Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the term of the lease.

Other expenses

Other expenses are recognised as goods and services when they are received.

Breakdown of other expenses and further information

Actual 2017		Actual 2018	Unaudited Budget 2018	Unaudited Forecast 2019
\$000		\$000	\$000	\$000
42	Fees to auditors: fees to Audit New Zealand for audit of financial statements	45	45	45
415	Rental and operating leases	422	427	422
80	Other occupancy expenses	48	112	52
159	Legal fees on panel prosecutions	93	96	125
308	Consultancy	97	628	160
357	Travel	328	355	376
706	IT and telecommunications	1,910	745	1,152
39	Professional services	49	35	52
266	Specialist advice – case related	450	342	257
431	Other expenses	292	654	261
2,803		3,734	3,439	2,902

6. Receivables

Accounting policy

Short-term receivables are recorded at the amount due, less any provision for uncollectability.

A receivable is considered to be uncollectable when there is evidence that the amount will not be fully collectable. The amount that is uncollectable is the difference between the carrying amount due and the present value of the amount expected to be collected.

Breakdown of receivables and further information

Actual 2017 \$000		Actual 2018 \$000
41	Debtors (gross)	44
0	Less provision for uncollectability	0
41	Net debtors	44
<hr/>		
Total receivables		
Total receivables comprise		
12	Receivables from supplier refunds (exchange transactions)	0
29	Receivables from the Crown	44

All receivables are considered current.

7. Property, plant and equipment

Accounting policy

Property, plant and equipment consists of the following asset classes: office furniture, fixtures and fittings (includes leasehold improvements), office equipment, computer equipment and motor vehicles. The SFO does not own any land or buildings.

Individual assets, or groups of assets, are capitalised if their cost is greater than \$2,000 (excluding GST). The value of an individual asset that is less than \$2,000 (excluding GST) and is part of a group of similar assets may be capitalised.

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that the future economic benefits or service potential associated with the item will flow to the SFO and the cost of the item can be measured reliably.

Work-in-progress is recognised at cost less impairment and is not depreciated.

In most instances, an item of property, plant and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When a revalued asset is sold, the amount included in the property revaluations reserve in respect of the disposed asset is transferred to taxpayers’ funds.

Subsequent costs

Costs incurred subsequent to the initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the SFO and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

Depreciation

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

	Useful life	Depreciation rate
Computer equipment	3 years	33%
Office furniture, fixtures and fittings, office equipment	3 -5 years	20% - 33%
Motor vehicles	6 years	17%

Leasehold improvements are depreciated over the shorter of the unexpired period of the lease or the estimated remaining useful lives of the improvements.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each balance date.

Impairment

The SFO does not hold any cash-generating assets. Assets are considered cash generating where their primary objective is to generate a commercial return.

Non-cash-generating assets

Property, plant and equipment held at cost have a finite useful life are reviewed for impairment at each balance date whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and its value in use.

Value in use is determined using an approach based on either a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

If an asset's carrying amount exceeds its recoverable service amount, the asset is considered to be impaired and the carrying amount is written-down to the recoverable service amount. The total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss is recognised in the surplus or deficit.

Breakdown of property, plant and equipment and further information

	Office furniture, fixtures and fitting	Office equipment	Computer equipment	Motor vehicles	Total
	\$000s	\$000	\$000	\$000	\$000
Cost					
Balance at 1 July 2016	688	183	623	41	1,535
Additions	79	18	25	0	122
Disposals	(45)	(90)	(113)	0	(248)
Balance at 30 June 2017	722	111	535	41	1,409
Balance at 1 July 2017					
Additions	2	12	37	48	99
Disposals	0	0	(8)	(41)	(49)
Balance at 30 June 2018	724	123	564	48	1,459
Accumulated depreciation and impairment losses					
Balance at 1 July 2016	322	175	519	20	1,036
Depreciation expense	76	8	56	6	146
Eliminate on disposal	(45)	(90)	(113)	0	(248)
Balance at 30 June 2017	353	93	462	26	934
Balance at 1 July 2017					

	Office furniture, fixtures and fitting	Office equipment	Computer equipment	Motor vehicles	Total
	\$000s	\$000	\$000	\$000	\$000
Depreciation expense	71	6	51	7	135
Eliminate on disposal	0	0	(7)	(33)	(40)
Balance at 30 June 2018	424	99	506	0	1,029
Carrying amounts					
At 1 July 2016	366	8	104	21	499
At 30 June and 1 July 2017	369	18	73	15	475
At 30 June 2018	300	24	58	48	430

Restrictions: There are no restrictions over the title of the SFO's property, plant and equipment, nor are any property, plant and equipment pledged as securities for liabilities. (\$nil: 2017)

8. Intangible assets

Accounting policy

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Software is capitalised if its cost is \$2,000 (excluding GST) or more.

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

Employee training costs are recognised as an expense when incurred.

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

Costs of software updates or upgrades are capitalised only when they increase the usefulness or value of the software.

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

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit.

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

	Useful life	Depreciation rate
Acquired computer software	3-6 years	17%-33%
Developed computer software	3 years	33%

Critical accounting estimates and assumptions

Useful life of software

The useful life of software is determined at the time the software is acquired and brought into use and is reviewed at each reporting date for appropriateness. For computer software licenses, the useful life represents management's view of the expected period over which the SFO will receive benefits from the software, but not exceeding the license term. For internally generated software developed by the SFO, the useful life is based on historical experience with similar systems as well as anticipation of future events that may impact the useful life, such as changes in technology.

Breakdown of Intangible Assets and further information

	Acquired software \$000
Cost	
Balance at 1 July 2016	163
Additions	0
Disposals	(12)
Balance at 30 June 2017	151
Balance at 1 July 2017	151
Additions	673
Disposals	0
Balance at 30 June 2018	824
Accumulated amortisation and impairment losses	
Balance at 1 July 2016	158
Amortisation expense	2
Eliminate on Disposal	(12)
Balance at 30 June 2017	148
Balance at 1 July 2017	148
Amortisation expense	67
Eliminate on disposal	0
Balance at 30 June 2018	215
Carrying amounts	
At 1 July 2016	5
At 30 June and 1 July 2017	3
At 30 June 2018	609

Work in progress: The total amount of intangibles in the course of development as at 30 June 2018 was \$52,618 (2017: \$nil).

Restrictions: There are no restrictions over the title of the SFO's intangible assets, nor are any intangible assets pledged as securities for liabilities. (\$nil: 2017)

9. Payables and deferred revenue

Accounting policy

Short-term payables are recorded at the amount payable.

Breakdown of payables and deferred revenue and further information

Actual 2017 \$000		Actual 2018 \$000
Payable and deferred revenue under exchange transactions		
161	Creditors	355
136	Accrued expenses	308
546	Accrued rent payable	450
843	Total payables and deferred revenue under exchange transactions	1,113
Payables and deferred revenue under non-exchange transactions		
67	Taxes payable (GST)	63
910	Total payables and deferred revenue	1,176

10. Return of operating surplus

Actual 2017 \$000		Actual 2018 \$000
318	Net surplus/ (deficit)	325
318	Total return of operating surplus	325

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

11. Provisions

Accounting policy

A provision is recognised for future expenditure of uncertain amount or timing when:

- there is a present obligation (legal or constructive) as a result of a past event
- it is probable that an outflow of resources embodying economic benefits or service will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for net deficits from future operating activities.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate based on market yields on government bonds at balance date with terms of maturity that match, as closely as possible, the estimated timing of the future cash outflows. The increase in the provision due to the passage of time is recognized as an interest expense and is included in the “finance costs”. The SFO has not incurred any finance costs in 2018 (2017: \$nil)

Lease make-good provision

In respect of 21 Queen Street leased premises, the SFO is required at the expiry of the lease term to make-good any damage caused to the premises and to remove any fixtures or fittings installed by the SFO.

The Queen Street lease expires on 3 March 2023. The make-good provision for Queen Street was revalued during the year following an external review of its adequacy to meet obligations when the lease expires. As there is no right of renewal on the lease, it is expected that the timing of the expected cash outflow to make-good will occur at the expiry of the lease.

Breakdown of provisions and further information

Actual 2017 \$000		Actual 2018 \$000
	Non-current portion	
114	Lease make-good	114
114	Total non-current portion	114
114	Total provisions	114

Movements for each class of provision are as follows:

	Lease make-good \$000	Total \$000
Balance 1 July 2016	109	109
Additional provisions made	5	5
Balance 30 June 2017	114	114
Balance 1 July 2017		
Additional provisions made	0	0
Balance at 30 June 2018	114	114

12. Employee entitlements

Accounting policy

Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the period in which the employees renders the related service are measures based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual and long service leave earned but not yet taken at balance date, and sick leave. A liability is recognised for bonuses where the SFO has a contractual obligation or where there is a past practice that has created a constructive obligation and a reasonable estimate of the obligation can be made.

Long-term employee entitlements

The long service leave liability calculation uses a revised methodology that employs a number of factors that are determined on an actuarial basis using a number of assumptions (financial impact: \$20,000). In addition, the calculation includes recent changes to the SFO Holidays and Leave Policy. Continuous public sector service prior to becoming an SFO employee is now taken into account (financial impact: \$26,000).

Presentation of employee entitlements

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

Critical accounting estimates and assumptions

Long service leave and retirement gratuities

Measurement of the long service obligation was based on assessment of 44 employees as at 30 June 2018 (2017: 55).

The SFO has no retirement gratuities obligations.

Actual 2017 \$000		Actual 2018 \$000
	Current portion	
45	Accrued salaries and wages	39
318	Annual leave	305
11	Long service leave and retirement gratuities	19
374	Total current portion	363
	Non-current portion	
5	Long service leave and retirement gratuities	43
379	Total employee entitlements	406

13. Equity

Accounting policy

Equity is the Crown’s investment in the SFO and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers’ funds, memorandum accounts and property revaluation reserves. Memorandum accounts and property revaluation reserves do not apply to the SFO.

Breakdown of equity and further information

Actual 2017 \$000		Actual 2018 \$000
	Taxpayers’ funds	
452	Balance at 1 July	452
318	Surplus/(deficit)	325
0	Capital injections	660
(318)	Return of operating surplus to the Crown	(325)
452	Balance at 30 June	1,112
452	Total equity	1,112

Capital management

The SFO’s capital is its equity, which comprises of taxpayers’ fund. Equity is represented by net assets.

The SFO manages its revenues, expenses, assets, liabilities, and general financial dealings prudently. The SFO’s equity is largely managed as a by-product of managing revenue, expenses, assets, liabilities, and compliance with the government budget processes, Treasury Instructions and the Public Finance Act 1989.

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

14. Related party transactions

Accounting policy

The SFO is a wholly owned entity of the Crown.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the SFO would have adopted if dealing with an entity at arms-length, in the same circumstances. Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Related party transactions required to be disclosed

The SFO has no related party transactions it is required to disclose in 2018 (2017: nil).

Key management personnel compensation

Actual 2017 \$000		Actual 2018 \$000
Leadership Team, including the Chief Executive		
1,309	Remuneration	1,217
5.6 ²	Full time equivalent employees	4.7 ³

Key management personnel of the SFO comprised of the Chief Executive / Director and the five members of the senior leadership team, namely a General Manager Evaluation and Intelligence, two General Managers Investigations, a General Manager Business Services and a General Counsel.

One General Manager Investigations was seconded to the Department of Internal Affairs for the month of July 2017. (2016/17: One General Manager Investigations was seconded to the Department of Internal Affairs).

The above key management personnel disclosure excludes the Minister responsible for the SFO. The Minister's remuneration and other benefits are not received only for his role as a member of key management personnel of the SFO. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Members of Parliament (Remuneration and Services) Act 2013 are paid under Permanent Legislative Authority, and not paid by the SFO.

Related party transactions involving key management personnel (or their close family members)

- a. There were no close family members of key management personnel employed by the SFO (2017: nil).
- b. There were no related party transactions involving key management personnel or their close family members in 2018 (2017: nil).

15. Events after the balance date

There are no significant events after the balance date.

16. Financial instruments

16A. Financial instrument categories

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

²Includes the role General Counsel who joined the Serious Fraud Office during the year.

³One General Manager Investigations was employed for one month only and the Business Services Manager for seven months only during the financial year.

Actual 2017 \$000		Actual 2018 \$000
Loans and receivables		
1,583	Cash and cash equivalents	1,912
41	Receivables	44
2,224	Total loans and receivables	1,956
Financial liabilities measured at amortised cost		
910	Payables (excluding income in advance)	1,176

16B. Financial instrument risks

Credit risk

Credit risk is the risk that a third party will default on its obligation to the SFO, causing the SFO to incur a loss. In the normal course of its business, credit risk arises from receivables, deposits with banks and derivative financial instrument assets.

The SFO is permitted to deposit funds only with Westpac (Standard and Poor's credit rating of AA-), a registered bank, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office (Standard and Poor's credit rating of AA). These entities have high credit ratings. For its other financial instruments, the SFO does not have significant concentrations of credit risk.

The SFO's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

The SFO has a letter of credit facility with Westpac of \$175,000 in 2018 (2017: \$175,000) to allow for the payment of employee salaries by direct credit.

Liquidity risk

Management of liquidity risk

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

Contractual maturity analysis of financial liabilities

The table below analyses the SFO's financial liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date.

The amounts disclosed are the contractual undiscounted cash flows. The SFO has no committed finance leases (2017: nil).

	Carrying amount \$000	Contractual cashflows \$000	Less than 6 months \$000	6 months – 1 year \$000	1-5 years \$000	More than 5 years \$000
2018						
Payables	1,176	1,176	1,176	0	0	0
2017						
Payables	910	910	910	0	0	0

17. Explanation of major variances against budget

Explanations for major variances from the SFO's original 2017/18 budget figures are as follows:

Statement of comprehensive revenue and expense

Revenue Crown

Revenue Crown was greater than budget by \$207,000. This was largely due to an increase in appropriation in 2017/18 of \$175,000 for new case and evidence management systems. An additional \$32,000 relates to budget transferred from 2016/17 to cover the New Zealand contribution to the International Anti-corruption Co-ordination Centre (IACCC).

Revenue other

Revenue other was greater than budget by \$197,000. This includes secondee recovery income of \$189,000.

Personnel costs

Personnel costs were less than budget by \$272,000. This reflects savings from vacancies due to higher than usual staff turnover, including two senior management positions.

Other expenses (including depreciation, amortisation and capital charge)

Other expenses were greater than budget by \$351,000. This was due to additional investment into the development and support of new case and evidence management systems.

Statement of financial position

Assets

The value of assets was greater than budget by \$407,000. Additional cash included the operating surplus \$325,000 plus timing of payments \$183,000. The value of intangible assets was \$248,000 lower than expected due to the new case and evidence management system assets costing less than budget.

Liabilities

The value of liabilities was greater than budget by \$587,000. This included operating surplus payable back to the Crown \$325,000 and accounts payable of \$183,000. Long service leave liability was higher than budget by \$47,000 due to the change in the SFO Holidays and Leave Policy to allow the recognition of previous public service and a change in the methodology used for calculating long service leave (refer note 12).

Equity

The lower value of equity was due to \$180,000 less capital drawn down from the Crown for the new case and evidence management systems.

Statement of cash flows

Additional net cash flow of \$727,000 was received from operating activities. This included more revenue from the Crown of \$175,000 in support of the new case and evidence management systems going live. In addition \$211,000 was received as a recovery of costs for SFO staff seconded to external government agencies. Reduced payments to employees of \$618,000 is vacancy savings over the year. This impact is partially offset with less payments to suppliers and Inland Revenue for GST.

Less net cash flow from investing activities was due to the new case and evidence systems costing less.

Less net cash flow from financing activities was due to less capital being received from the Crown for the new case and evidence management system asset.

Appropriation Statements

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by the SFO for the year ended 30 June 2018. They are prepared on a GST exclusive basis.

Statement of cost accounting policies

The SFO has a single appropriation for all its activities and therefore no cost allocation methodology is required.

There have been no changes in cost accounting policies, since the date of the last audited financial statements.

18. Cash and cash equivalents

Accounting policy

Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

The SFO is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

Statement of budgeted and actual expenses and capital expenditure

Statement of budgeted and actual expenses and capital expenditure incurred against appropriations

for the year ended 30 June 2018

Annual and permanent appropriations for Vote Serious Fraud

Expenditure after remeasurements 2017 \$000	Appropriation title	Expenditure after remeasurements 2018 \$000	Approved appropriation 2018* \$000	Location of end-of- year performance information**
	Departmental output expenses			
9,418	Investigation and prosecution of serious financial crime	10,099	10,396	Pages 16-23 on print version of Annual Report
9,418	Total departmental output expenses	10,099	10,396	
	Departmental capital expenditure			
122	Serious Fraud Office—Permanent Legislative Authority under section 24(1) of the PFA	825	865	Page 23 on print version of Annual Report

There were no remeasurements of expenditure during the year (2017: nil).

*These are the appropriations from the Supplementary Estimates, adjusted for any transfers under section 26A of the Public finance Act 1989.

**The numbers in this column represent where the end-of-year performance information has been reported for each appropriation administered by the SFO in this Annual Report on these specific pages.

Statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority

for the year ended 30 June 2018

Expenses and capital expenditure approved under section 26B of the PFA

\$nil (2017: \$nil)

Expenses and capital expenditure incurred in excess of appropriation

\$nil (2017: \$nil)

Expenses and capital expenditure incurred without appropriation outside the scope or period of appropriation

\$nil (2017: \$nil)

Statement of departmental capital injections

for the year ended 30 June 2018

Actual Capital injections 2017 \$000	Vote Serious Fraud	Actual Capital injections 2018 \$000	Approved appropriation 2018 \$000
0	Serious Fraud Office – Capital injections	660	840

Statement of departmental capital injections without, or in excess of, authority

for the year ended 30 June 2018

The SFO has not received any capital injections during the year without, or in excess of, authority (2017:\$nil).