

Vote Serious Fraud

Baseline Alignment Proposal

Final Version

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Submitted by:

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Section 1: Alignment to Government Priorities

The Serious Fraud Office (SFO) is emerging from two years of uncertainty regarding its role and organisational structure. The SFO now needs to strategically re-position itself over the next 3-5 years as the lead law enforcement agency for investigating and prosecuting serious and complex financial crime, with a particular emphasis on capital markets crime. As part of this process, it will better align itself with the operations of other law enforcement and regulatory agencies, as well as Government priorities.

There is little empirical data in New Zealand regarding the scope and economic impact of white collar crime in New Zealand. However, overseas data illustrates how pervasive and damaging fraud is to an economy. In the UK the annual cost of fraud is estimated at £20-30B. Rates of recidivism are estimated as being as high as 60%.

Because of the economic impacts of fraud, the work of the SFO is linked to both the Governments economic development and justice goals. The SFO seeks to:

1. Help develop dynamic and trusted markets through early detection and prosecution of corporate fraud which helps:
 - a. Restore and increase confidence in the financial markets; and
 - b. Protects consumers and investors.
2. Contribute to a safe and just society where:
 - a. Crime and its impacts are reduced;
 - b. Offenders are held to accounts; and
 - c. The justice system is trusted.

In order to contribute to these outcomes goals, in the next 3 years, the SFO will focus on a number of priority areas:

1. **Improved operations efficiencies:** With constrained resources, the SFO needs to ensure that investigations are conducted in the most time and outcome efficient manner possible. This will require the SFO to not only improve its workflow processes, but develop its use of technology as an investigative tool.
2. **Better targeted fraud investigations:** The volume of white collar crime relative to current resources is such that in order to maximise its impact, the SFO will target those cases which will have the greatest possible impact. Primarily, this will be cases involving large sums and multiple victims.
3. **Better integration with law enforcement agencies:** Because of its scale, the SFO will work more closely with other agencies and in a collaborative manner with the Organised Financial Crime Agency New Zealand (OFCANZ), and share both resources and regulatory powers to maximise both the speed and outcome of a fraud

investigation. In particular, the SFO will seek to develop a seamless operational network with the Police in the operation of

- (i) Proceeds of crime recoveries;
 - (ii) Forensic investigation of financial crimes arising from OFCANZ work; and
 - (iii) Joint investigations into bribery and corruption cases.
4. **Improved fraud intelligence:** Information is at the heart of fraud investigations. The SFO, in collaboration with domestic and international agencies and relevant parts of the private sector (e.g. insolvency practitioners) will look to develop improved networks and databases for aggregating information and sharing with appropriate agencies.
5. **Enhanced organisational capability:** As an initial prerequisite to achieving the foregoing priorities, the SFO will undertake a comprehensive organisational review. The outcome of the review will be an improved organisational structure to undertake the planned work programme

In December 2009, Cabinet [CAB Min (09) 45/6] noted that the functions related to civil forfeiture of criminal assets could be funded from within existing baselines of Vote Police and agreed that within Vote Serious Fraud \$1.102 m in 2009/10 and \$1.89m in 2010/11 and outyears to be transferred from departmental output expense: Civil Forfeiture of Criminal Assets to departmental output expense: Investigation and Prosecution of Complex or Serious Fraud. The particular areas of operational focus which will achieve the SFO's goals above will be:

- the establishment of a dedicated investigative team to address the Police work identified above;
- ongoing development of forensic accounting and investigative skills; and
- Development of improved case management systems and databases.

This work will be funded from within existing baselines of Vote Serious Fraud. As the organisational review is currently underway, there may be some timing issues on expenditure of redundancies and capital between 2009/10 and 2010/11, which have been addressed in the February Baseline Update process. These include an in-principle expense transfer of \$0.400 m. In 2008/09 the SFO received a \$0.690 capital injection which was not fully spent. The SFO plans on spending \$0.950 m on capital for an integrated IT system with effective case management tools and an accommodation fit-out.

Section 2: Reprioritisation

The shift in operational focus of the SFO in the coming years can be summarised as follows:

1. **Reduction in the average time to complete a fraud investigation:** This will enable existing operational resources to be applied to either:
 - (a) A greater number of comparable cases: and/or

- (b) Manage more complex (and therefore more time-consuming) fraud cases;
2. **Raising the threshold for what constitutes “serious and complex fraud”:** The SFO does not currently have a clearly articulated definition of “serious and complex fraud.” This sometimes results in major cases being delayed due to contemporaneous work being undertaken on relatively minor fraud – which runs counter to the reason for SFO’s establishment.
 3. **Dedicated investigative teams being established to focus on priority cases:** The organisation review will seek to ensure that there is adequate operational resource to focus on capital markets crime and with assisting with Police work relating to organised financial crime, and bribery and corruption matters.
 4. **New performance standards:** The SFO currently operates to a single timeline for investigations whereby 80% of cases will be completed within 12 months. This does not allow for the varying time-intensity of different cases. Accordingly, a differentiated category of cases will be established with new timeliness performance measures for each. This will ensure more straightforward cases are dealt with expeditiously, while allowing the most complex cases to be investigated with the required degree of thoroughness.

Section 3: Summary of Financial Movements

This section details the changes to appropriations which are required to deliver the reprioritisation set out in section 2.

The changes to appropriations resulting from reprioritisation do not have an overall *net* fiscal cost.

Baseline Alignment Proposal - Financial Summary Report					
Vote: Serious Fraud	2009/10	2010/11	2011/12	2012/13	2013/14
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Baseline (2009/10 FBU)	7,470	7,470	7,470	7,470	7,470
Share Allocation	0	0	0	0	0
Centralised Saving	0	0	0	0	0
Reprioritisation					
Total Reprioritisation	0	0	0	0	0
Transfers Outside Vote					
Total Transfers Outside Vote	0	0	0	0	0
Total Changes	0	0	0	0	0
Total Proposed Baseline	7,470	7,470	7,470	7,470	7,470