



Report of the

NEW ZEALAND SECURITY INTELLIGENCE SERVICE

Report to the House of Representatives
for the year ended 30 June 2005

*Presented to the House of Representatives pursuant to
Section 4J of the New Zealand Security Intelligence Service Act 1969.*

TABLE OF CONTENTS

	<i>Page</i>
Mission Statement	3
Functions of the New Zealand Security Intelligence Service	4
Accountability	5
Overview by the Director of Security	6
PART 1: OUTPUT REVIEW	8
Statement of Expenditure	9
Outputs	10
Corporate Issues	16
PART 2: STATEMENT ON WARRANTS	21
Statement on Warrants	22
PART 3: FINANCIAL REPORTING	24
Introduction	25
Report of the Audit Office	26

**DELETIONS FROM THIS REPORT HAVE BEEN MADE IN
 ACCORDANCE WITH SECTION 4J(4)
 OF THE NZSIS ACT 1969 AS AMENDED 1999**

MISSION STATEMENT

*The New Zealand Security Intelligence Service
provides the Government with timely and accurate
intelligence and advice on national security issues within
the terms of the NZSIS Act 1969 and its amendments.*

FUNCTIONS OF THE NEW ZEALAND SECURITY INTELLIGENCE SERVICE

1. Subject to the control of the Minister, the functions of the New Zealand Security Intelligence Service shall be –
 - To obtain, correlate, and evaluate intelligence relevant to security, and to communicate any such intelligence to such persons, and in such manner, as the Director considers to be in the interest of security:
 - To advise Ministers of the Crown, where the Director is satisfied that it is necessary or desirable to do so, in respect of matters relevant to security, so far as those matters relate to Departments or branches of the State Services of which they are in charge:
 - To advise any of the following persons on protective measures that are directly or indirectly relevant to security:
 - i Ministers of the Crown or Government departments:
 - ii Public authorities:
 - iii Any person who, in the opinion of the Director, should receive the advice:
 - To conduct inquiries into whether particular individuals should be granted security clearances, and to make appropriate recommendations based on those inquiries:
 - To make recommendations in respect of matters to be decided under the Citizenship Act 1977 or the Immigration Act 1987, to the extent that those matters are relevant to security:
 - To co-operate as far as practicable and necessary with such State Services and other public authorities in New Zealand and abroad as are capable of assisting the Security Intelligence Service in the performance of its functions:
 - To inform the Officials Committee for Domestic and External Security Co-ordination of any new area of potential relevance to security in respect of which the Director has considered it necessary to institute surveillance.
2. It is not a function of the Security Intelligence Service to enforce measures for security.

NZSIS Act 1969 as amended 1999

ACCOUNTABILITY

The Director of Security is responsible to the Minister in Charge for the efficient and proper working of the Security Intelligence Service.

OVERVIEW BY THE DIRECTOR OF SECURITY



As in recent years, and in common with its counterparts in other western countries, the Service's main focus during 2004/05 remained countering International Terrorism. The need for this was again emphasised just after the end of the year with the attacks in London on 7 July 2005 which resulted in 56 deaths (including one New Zealander) and over 700 injured. Officials had stated publicly that an international terrorist attack in London was inevitable; that did not make it any less shocking when it occurred.

These attacks – carried out by three individuals who were British citizens by birth and one who had immigrated in childhood – demonstrated the change in approach by Al Qaida since 2002. Whereas terrorist acts were previously directed by the Al Qaida core, that core has now been largely disrupted, and its role has become more inspirational rather than managerial. Local groups now act independently, but still with devastating results.

Another disturbing factor in the London bombings was that the individual perpetrators had not been previously regarded as of significant security concern. Somewhere and at some stage they had been radicalised to the point of becoming suicide bombers. That raises the question of who had succeeded in radicalising them and how.

Both these points have implications for New Zealand. Although the Service is not aware of a specific terrorist threat against New Zealand, we cannot afford to be complacent. Increasing vigilance is required in order to continue to achieve the Government's goal: that New Zealand should be neither the victim nor the source of an act of terrorism. Support and information from members of the public is a vital element in that vigilance. But no one can guarantee that that goal will always be achieved.

Service expenditure in 2004/05, at \$19,944,000 exclusive of GST, was 99.7% of the budget of \$20 million. Staff numbered 144 at 30 June 2005, the same as a year earlier; 14 staff were recruited or returned from leave without pay but this was exactly matched by resignations, retirements, parental leave and the end of short-term contracts.

Expenditure on the Service's main output, Security Intelligence Advice, was 71% of the total, more than the planned 68%. Within that output the unplanned increase was in Counter-Intelligence, but Counter-Terrorism remained the largest single component, taking over 40% of total expenditure. Counter-Proliferation was the other element, work against Illegal Immigration having been suspended for the time being to allow resources to be allocated to higher priority activities.

The additional resource for that output came from slightly lower than planned expenditure on the Service's two other outputs – 13% instead of 15% on Foreign Intelligence and 16% rather than 17% on Protective Security Advice.

During the year a substantial Review of the Service's capabilities and resourcing was carried out by Michael Wintringham, the former State Services Commissioner; he identified a need for additional resources. Follow-up work by him, the Department of Prime Minister and Cabinet (DPMC) and Treasury, with input from other agencies as appropriate, confirmed the need and added precision. At 30 June reports on this work were ready for consideration by the Officials Domestic and External Security Coordination Committee (ODESC).

During the year work continued on the Service's Business Process Improvement Project, due to be implemented during 2005/06, and on preparations for the new building to which the Defence Force, the Ministry of Defence and the Service are due to move early in 2007. Both of these are substantial projects which will determine the way the Service operates for many years; they therefore justify the substantial commitment of time and effort Service staff are giving them.

In general the Service attracted less public attention in 2004/05 than in the previous year. The main exception was the allegations, published on a website and in a Sunday newspaper, that the Service was improperly bugging Maori individuals and organisations for political purposes. I advised the Prime Minister that the allegations were a work of fiction. The Inspector-General of Intelligence and Security, during a four-month enquiry, succeeded in identifying the sources of the allegations; he decided that they were not credit worthy and that the allegations were indeed a work of fiction.

The Service is fortunate to have, in all areas of its work, a strong combination of long-serving and experienced staff, some of whom have been with us for decades, and bright new talent, the product of post 9/11 expansion and the more open recruiting of recent years. With a wide variety of backgrounds and skills, all members of the staff contribute competence and dedication, and work together in a friendly, stimulating and mutually supportive environment. That environment, and the fact that the job of promoting and protecting the country's security is both interesting and worthwhile, make the Service a great place to work. It continues to be a privilege to lead such a fine group.

A handwritten signature in black ink, appearing to read 'E R Woods', with a horizontal line underneath the name.

E R Woods
Director of Security

PART 1

Output Review

STATEMENT OF EXPENDITURE

The projected activities and internal allocation of funds for the 2003/2004 Financial Year provided for the discharge of the NZSIS's designated functions, as defined in the NZSIS Act 1969 and its amendments.

The Service had a single Output class: The provision of Security and Intelligence advice. There were three outputs within that class:

Output 1: Security Intelligence Advice

Output 2: Foreign Intelligence

Output 3: Protective Security Advice

Financial resources were expended as follows

Output 1:	Security Intelligence Advice	71 per cent
Output 2:	Foreign Intelligence	13 per cent
Output 3:	Protective Security Advice	16 per cent

OUTPUTS

OUTPUT 1 : SECURITY INTELLIGENCE ADVICE

Security Intelligence Advice accounted for 71% of the Service's expenditure in 2004/05, more than the planned 68%. The increase was in Counter-Intelligence, but the biggest single component was Counter-Terrorism. Counter-Proliferation was the third component.

Activities

Issues which have been investigated over the past year have included:

- activities in New Zealand of a foreign national assessed to be a close associate of Islamic extremists in a foreign country;
- apparent links between individuals in or from New Zealand and international terrorist activities;
- activities of individuals within New Zealand assessed as being Islamic extremists;
- individuals in New Zealand seeking to raise funds for terrorist organisations;
- links in New Zealand to the procurement of dual-use technology (goods) and the intangible transfer of technology (services) in support of weapons of mass destruction programmes overseas;
- foreign intelligence organisations conducting covert activity in New Zealand.

Counter-Terrorism continues to be the biggest single component of the Service's activities.

Recent years' annual reports have highlighted the international effort against terrorism and the ongoing threat to Western (including New Zealand) interests from Islamic terrorists in particular. Islamic terrorism continues and is likely to do so for the foreseeable future. Globally there have been some significant successes against terrorism; important terrorist planners and facilitators have been arrested. But Islamic terrorist groups are very resilient and are flexible in their operations and structure; this allows them to continue to launch terrorist attacks.

In 2002 Al Qaida changed its strategy; it expanded the number of countries targeted for attacks and, most importantly, encouraged the emerging concept of self-guided jihad. The bombings in Madrid in March 2004 and London in July 2005 are clear examples of this new tactic. Both attacks were perpetrated by individuals who were inspired by Al Qaida rather than directed by it, who were citizens or permanent residents of the countries in question, and who were not previously regarded as of major security concern.

Domestic Islamic extremism does not grow in a vacuum. It needs leaders and instigators who attempt to radicalise people; organisers who play a key role in the development of operational cells (but who may themselves not become involved in terrorist operations); and lastly, a committed cadre of extremists who are willing to engage in violent jihad. There can of course be overlap between the various groups.

The prime targets for Islamic terrorism continue to be the United States, Israel and the United Kingdom. Australia has also been mentioned by Al Qaida on a number of occasions and, as the attack against the Australian embassy in Jakarta in September 2004 demonstrated, Australia is one of the primary targets of the South East Asian based Al Qaida affiliate, Jemaah Islamiyah (JI).

The New Zealand Government's objective is that New Zealand should be neither the victim nor the source of an act of terrorism. In light of the new Al Qaida tactics the Service has reviewed the threat to continuing achievement of the Government's objective. The inspirational approach means that the threat could come from individuals who are already living here. Overseas experience has shown that terrorist threats in any country can develop quickly.

The Service devotes significant time and resources to monitoring the situation here and developments overseas that could impact on the level of threat. There are individuals in New Zealand who are sympathetic to Al Qaida, have strongly anti-western views and have links to extremists living overseas. There are individuals who have participated in jihad in places like Bosnia. The Service has also found that here, as in other countries, there is a complex and symbiotic relationship between criminals and Islamic extremists. It takes a great deal of work to try to determine if a particular individual is a criminal, an extremist or both. The Service works closely with other relevant New Zealand agencies and overseas partners in these investigations.

That said, in the Service's view the vast majority of Muslims in this country (whether immigrant or born here) are law-abiding members of the community who are of no security concern. That is also true of immigrants in general. Moderate members of the Islamic community in New Zealand have at times moved to check the activities of more radical Muslims. Such vigilance is a positive contribution to this country's security.

The Service is not aware of any specific terrorist threat to New Zealand. Currently the Service continues to assess the possibility of a terrorist attack occurring in New Zealand as low. But Al Qaida's inspirational approach and the results of the Service's own investigations confirm the need for increased vigilance if New Zealand is to continue to be neither the victim nor the source of an act of terrorism.

Many (but not all) of the cases investigated over the last year came to the Service's attention from leads passed by overseas liaison partners. Currently a number of cases are being investigated as quickly as resources permit. Some will require more in depth

investigation. Some have been resolved quite quickly but others are more complicated and will take some time to bring to a conclusion. The Service carefully prioritises its work to ensure that its limited resources are concentrated on cases that present the most significant threat to security.

The Combined Threat Assessment Group (CTAG), approved by Cabinet in February 2004, commenced operations on schedule in July 2004. CTAG is hosted by NZSIS. The group initially comprised staff seconded from NZSIS, NZ Police, NZ Defence Force and GCSB. In early 2005 it expanded to include staff from NZ Customs and Maritime NZ. CTAG is tasked with providing assessments on terrorist or criminal threats of physical harm to New Zealand and New Zealand interests at home or overseas, based on all sources of information and intelligence available to the New Zealand Government. During its first year CTAG produced 206 reports.

The Service continues to work proactively on issues of proliferation concern, in cooperation with other New Zealand entities and foreign liaison partners.

Counter-Proliferation is a “cross-cutting” issue which impacts upon a range of Government departments beyond those (GCSB, Customs and NZSIS) who contribute directly to the Counter-Proliferation Joint Section (CPJS). The CPJS, which has now been operating for two years, continues to serve as a vehicle to promote closer dialogue and understanding across government agencies, with a view to generating a coordinated whole of government approach to countering proliferation.

The issuing of Counter Proliferation Reports by the CPJS has served as a useful tool in highlighting areas of vulnerability in New Zealand and identifying policy gaps/initiatives that might enable the government to more effectively counter proliferation.

The Service has an ongoing interest in the activities of foreign intelligence organisations in New Zealand.

OUTPUT 2 : FOREIGN INTELLIGENCE

Introduction

The Service gathers foreign intelligence in response to national requirements set by the interdepartmental Foreign Intelligence Requirements Committee (FIRC). The work that the Service undertakes against this output relates to part (b) of the definition of security in the NZSIS Act and its amendments:

the identification of foreign capabilities, intentions or activities within or relating to New Zealand that impact on New Zealand's international well-being or economic well-being.

In 2004/05 expenditure on the Foreign Intelligence output amounted to 13% of total Service expenditure, against a forecast figure of 15%.

OUTPUT 3 : PROTECTIVE SECURITY ADVICE

The Service provides advice to Government departments and agencies on measures required for the protection of classified information and assets. In this review period 16% (slightly less than the planned 17%) of the Service budget was expended on the Protective Security Advice Output in the main areas:

Personnel Security (10%)

- Assessments of the security trustworthiness of individuals required to have access to classified information (“Vetting”) and the provision of advice to Chief Executives about the issue of security clearances.

Physical Security and Security Education (6%)

- inspections of sites and areas in which classified information is stored or handled, and the provision of inspection reports and other general physical security advice to Chief Executives;
- the development and delivery of security awareness briefings and programmes to individuals and groups in response to specific requests or according to standing arrangements.

No charge is made for protective security advice provided by the Service.

Protective Security Manual

The Protective Security Manual published by the Service in October 2002 to complement the policy material contained in Security in the Government Sector – a manual issued by the Interdepartmental Committee on Security – continues to be made available to those within the State Sector who require security guidance.

Personnel Security Assessments (Vetting)

The NZSIS is responsible for undertaking investigations and making assessments of the security trustworthiness of people needing access to classified national security information. These vetting investigations are requested by chief executives of most Government agencies, and are undertaken with the knowledge and cooperation of the person concerned.

The Protective Security Manual provides guidelines for both the Service and departments in assessing candidates for security trustworthiness. The criteria for loyalty, financial management, personal behaviour, and the potential influence of close associates (family and others) are examined closely and a high quality assessment is made. The Service has an ongoing commitment to the enhancement of the vetting and risk assessment process.

A comparison of this year's vetting total with those of the preceding 11 years shows a rise from 3,445 in FY 1993–94 to 5,406 this year, with a higher spike in 2001/02. On this basis and given the cyclical nature of 5 yearly security clearance reviews, it is reasonable to expect that the incremental trend will continue.

Physical Security Inspections and Advice

Specialist technical advice was provided to other departments on a range of physical security and risk management issues. At the request of state entities, 27 formal site-inspections were conducted (compared with nine in the previous reporting period). Reports were prepared and recommendations made.

During the reporting period a Service officer (in conjunction with MFAT staff) conducted security assessments of New Zealand diplomatic missions. In addition, residences occupied by New Zealand seconded staff were surveyed.

A Service officer (in conjunction with MFAT staff) visited New Zealand diplomatic missions to audit the manner and effectiveness of the implementation of recommendations made during the initial visits.

Continuing support on routine matters was also given to MFAT, including physical security advice relating to a proposed new diplomatic mission premises as well as existing missions.

Security Awareness Education

The Security Education position remained vacant throughout the reporting period. However, a suitable applicant for the position had been identified by the end of the period and the position filled.

Throughout this reporting period the work of the Security Education Officer has been undertaken on a modest scale by the Head of the Physical Security Section. Advice has been offered to 13 Government departments (in addition to the Ministry of Foreign Affairs and Trade) or other members of the state sector. During the reporting period briefings have been delivered to 76 public servants about to take up overseas postings.

CORPORATE ISSUES

Financial Management

The Service budget for the 2004/05 Financial Year was \$20 million excluding GST. Expenditure at \$19,944,000 was 99.7% of budget.

The Service Accounts are audited by the Auditor-General, assisted by a former Service officer who undertakes the functions of an Internal Auditor. The shortcomings revealed by the audit were minor, and did not suggest any impropriety, misuse of funds or extravagance. The Report of the Auditor-General follows in Part 3.

Service Structure and Staffing

The Service began the year with 144 staff; by 30 June 2005, although the Service had authority and funding to grow to around 150, there were still 144. Fourteen people were recruited during the year (9 permanent, 3 on short-term contract and 2 returning from leave without pay) but 14 departures (retirements, resignations, parental leave or the completion of short-term contracts) prevented net growth overall. (150 was reached in July 2005.)

Staff gender balance is roughly equal, with 74 men and 70 women.

A recruitment campaign to attract career intelligence officers was initiated in May 2004. By the time it was completed later that year, sufficient high quality candidates had come through the process to provide for two training intakes. One of those commenced in January 2005, with the second due to commence in July 2005.

Accommodation

Pressure on space within the Stout Street headquarters building continued.

Work preparing for the move to the new Defence building, scheduled for early 2007, proceeded apace. This work is time-consuming and demanding, but vital for the Service's long-term future.

Service Staff Association

Good relations continue between the Association and Service management with engagement on a number of issues through the year.

Training

During this Financial Year two intakes of career intelligence officers were trained, and other staff participated in advanced training.

Review of Capability and Resourcing

The 2003/04 Annual Report noted that Ministers had agreed that there should be a Review of the Service Baseline to inform the 2005 Budget Round. Former State Services Commissioner Michael Wintringham undertook the Review, between June and November 2004. His report was presented to ODESC(I) in December 2004. It concluded that the Service was not adequately resourced for the functions it is required to perform. ODESC(I) requested some additional scoping work be undertaken. Three interdepartmental working groups were set up to do this; their reports were due to be considered by ODESC(I) early in the new financial year.

Relationships With Other Agencies

The Service continues to cooperate closely with other government departments and agencies. There are working level links with, among others, the Ministry of Foreign Affairs and Trade, the External Assessments Bureau, the Government Communications Security Bureau, the Department of Prime Minister and Cabinet, the Police, the Ministry of Defence and New Zealand Defence Force, the Immigration Service, the Department of Internal Affairs, the Ministry of Agriculture and Forestry and Crown Law.

The Service participated in interdepartmental committees and watch groups.

Information Management

During the previous reporting period it was decided to bring information management functions together. This change has seen the consolidation of services into a cohesive Information Branch with a focus on the demands of internal customers.

Information Technology

The requirement for IT services continues to increase in both volume and complexity. This has resulted in pressures on staff. The requirements and expectations of internal customers are, however, continuing to be met.

The Business Process Improvement Project, begun in the 2002/03 reporting period, continued to progress satisfactorily. Contracts and agreements for the procurement of the core information management system were signed.

Records Management

Service information held on hard copy files and that held electronically is managed to ensure appropriate record keeping standards are properly met and maintained.

Library

Recognising the value of unclassified sources of information, and responding to changing research and analysis needs, the Library made a significant investment in new electronic database subscriptions. On-line access to news wires and periodicals also increased. At the same time, book purchases maintained the Service's unique specialist library.

Archival Matters

In the year under review, 909 files were purged under an Archives New Zealand authority to dispose of records. The Service is authorised to dispose of some routine housekeeping records but no other records were deleted.

The Service continues to consult closely with Archives New Zealand, and in June reached agreement on the issue of a certificate deferring the deposit of records (for a period of five years in respect of material over fifty years old, and ten years for more recent material). The Service is committed to transferring the early records to Archives New Zealand as resources permit.

Infrastructure Planning

The preparation of technical specifications and drawings for the installation of infrastructure was coordinated by staff as part of project planning for the Service's tenancy in the new building. The new building project will continue through to occupancy scheduled for early 2007.

Legal Matters

Official Information Act and Privacy Requests

In the period under review thirty-one applications for information were considered under the Official Information Act 1982 (eighteen requests) or the Privacy Act 1993 (thirteen). It is not always possible to meet such requests since the Service is obliged to safeguard security and have regard for privacy. Further, the attempts by some recipients of declassified material to identify what information has been withheld has inhibited release.

Eleven of the Official Information Act requests resulted in the release of information, mostly to professional or family historians. Of the Privacy Act requests, seven were able to be met. Three complaints were made to the Ombudsmen in relation to the Service's responses. Two remain under investigation and the third is not being pursued as the complainant has left the country. Of four complaints to the Privacy Commissioner, one

has been resolved in favour of the Service; the remainder and two earlier cases await conclusion.

Parliamentary Questions

Thirty-one Parliamentary Questions were addressed to the Minister in Charge of the Service or the Prime Minister in respect of the Service. Of these, 14 were addressed to Ministers generally and related to matters common to government agencies. Those specific to the Service concerned mainly the Combined Threat Assessment Group and matters concerning the screening of visa applications by the Service.

Legislation and Treaties

The New Zealand Security Intelligence Service Act 1969 was amended from 25 January 2005 by the State Sector Amendment Act (No 2) 2004. The amendment removed provisions relating to the grading of officers and the requirement for the terms and conditions of Service employees to be determined with the concurrence of the Chairman of the State Services Commission. In addition, consequential amendments were made to the annual report provisions of the New Zealand Security Intelligence Service Act 1969 by the Public Finance Amendment Act 2004.

Other legislative amendments during the past year that have potential to affect the Service include measures to improve border control. The Passports Amendment Act 2005, effective from 20 April 2005, enables travel documents to be refused or cancelled on grounds of national security. This applies to New Zealand passports, certificates of identity, emergency travel documents and refugee travel documents. The amendment includes an appeal procedure and special processes for cases where classified security information is relied on.

The Citizenship Amendment Act 2005 amends the criteria for grant of citizenship and includes a requirement that the applicant has had permanent resident status in New Zealand for 5 years (rather than the previous requirement of 3 years).

Annual Report

The 2003/04 Annual Report was tabled in the House of Representatives and posted on the Service website.

Scrutiny

Intelligence and Security Committee of Parliament (ISC)

The Director of Security appeared before the Committee to present the 2003/04 Annual Report and the 2005/06 Statement of Intent.

Inspector-General

During the year under review the Inspector-General made enquiries into nine complaints about the Service. Four were vetting matters, in none of which the Inspector-General found that the Service failed to make proper enquiries or made wrong judgements on the information available to it, but he did suggest review of two aspects of the Service's practice. Three related to employment matters; two of those were settled in accordance with the Inspector-General's recommendations, while the third required no action by the Service. One related to the non-production of documents related to a refugee status claim; the Inspector-General decided that it was an official information matter within the Ombudsman's jurisdiction. The remaining enquiry was into allegations by the Sunday Star-times and Scoop of improper conduct by the Service; the Inspector-General, having identified the sources of the allegations, concluded that they were not credit worthy and that the allegations were not true.

In addition, the Inspector-General examined interception warrants issued during the year and was satisfied with the process and procedures. He also considered aspects of the Zaoui security risk certificate matter, and engaged a Queen's Counsel to be briefed to act as a "special advocate" to make independent submissions on behalf of Mr Zaoui particularly in respect of the classified material used in making the certificate.

PART 2***STATEMENT ON WARRANTS***

STATEMENT ON WARRANTS

In accordance with section 4K of the New Zealand Security Intelligence Service Act 1969 ("the Act"), I submit the following statement on warrants for the year ending 30 June 2005, the year under review.

This report includes information on domestic and foreign interception warrants issued under subsections (1) and (2) of section 4A and in force at any time during the year under review.

Domestic

During the year under review nineteen (19) domestic interception warrants were in force. Of those, eleven (11) were issued during the year under review, and eight (8) were issued during the previous year but remained in force for some part of the year under review. Action was taken under all domestic warrants during the year under review. The average length of time for which those warrants were in force during the year under review was 158 days. There were no amendments under section 4D of the Act. The methods of interception and seizure used were listening devices and the copying of documents.

The information so obtained has materially contributed to the detection of activities prejudicial to security, or has produced foreign intelligence essential to security, that was not likely to have been obtained by other means.

Removal

No removal warrants were in force during the year under review.

Foreign

Foreign interception warrants were in force during the year under review.



E R Woods
Director of Security

DATED at Wellington this twenty eighth day of September 2005.

I have reviewed all warrants in force during the period beginning 1 July 2004 and ending 30 June 2005 and certify that the information set out in the above Statement on Warrants is correct.



Rt Hon Helen Clark
Minister in Charge of the New Zealand Security Intelligence Service

DATED at Wellington this twenty second day of November 2005.

PART 3

FINANCIAL REPORTING

INTRODUCTION

The Service prepares annual financial statements in accordance with generally accepted accounting practice which fairly reflect the financial operations of the Service and the Service's financial position at the end of the financial year.

The financial statements are presented to the Intelligence and Security Committee of Parliament.

In terms of sections 35 and 37 of the Public Finance Act 1989, I am responsible, as the Director of Security, for the preparation of the New Zealand Security Intelligence Service's financial statements and the judgements made in the process of producing those statements.

I have the responsibility of establishing and maintaining, and I have established and maintained, a system of internal control procedures that provide reasonable assurance as to the integrity and reliability of financial reporting.

In accordance with section 70I of the Public Finance Act 1989 I report as follows:

	GST excl \$000
Total appropriation	20,000
Actual expenditure	19,944

The financial statements are audited by the Audit Office and their report is attached.



E R Woods
Director of Security



Audit New Zealand

AUDIT REPORT

TO THE READERS OF THE NEW ZEALAND SECURITY INTELLIGENCE SERVICE'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

The Auditor-General is the auditor of the New Zealand Security Intelligence Service (the Service). The Auditor-General has appointed me, Terry McLaughlin, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Service, on his behalf, for the year ended 30 June 2005.

Unqualified opinion

In our opinion the financial statements of the Service on page 25:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Service's financial position as at 30 June 2005;
 - the results of its operations and cash flows for the year ended on that date.

The audit was completed on 28 September 2005, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Chief Executive
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Chief Executive and the auditor

The Chief Executive is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Service as at 30 June 2005. They must also fairly reflect the results of its operations and cash flows for the year ended on that date. The Chief Executive's responsibilities arise from the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Service.



Terry McLaughlin
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the New Zealand Security Intelligence Service (the Service) for the year ended 30 June 2005 included on the Service's web-site. The Service's chief executive is responsible for the maintenance and integrity of the Service's web site. We have not been engaged to report on the integrity of the Services's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 28 September 2005 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.