



**New Zealand
Security Intelligence Service**
Te Pā Whakamarumarū

ANNUAL REPORT

For the year ended 30 June 2010

PREFACE

This is the unclassified version of the Annual Report of the New Zealand Security Intelligence Service (NZSIS), for the year ended 30 June 2010. This version will be tabled in Parliament, and made available to the public via the NZSIS internet website (www.nzsis.govt.nz).

Much of the detail of the work undertaken by the NZSIS has been omitted from this unclassified version of the report for reasons of security. This is necessary in order to protect the ongoing ability of the NZSIS to be effective in its role as prescribed in the New Zealand Security Intelligence Service Act 1969.

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PART ONE

INTRODUCTION

DIRECTOR'S REPORT

I am pleased to present the 2009/10 Annual Report of the New Zealand Security Intelligence Service (NZSIS).

The 2009/10 financial year has seen many changes in the security and intelligence sector. October 2009 saw the completion of Simon Murdoch's "Intelligence Agencies' Review" for the State Services Commissioner in response to the Prime Minister's request. Recommendations arising from this report were approved by Cabinet in February, and will have a profound effect on the New Zealand Intelligence Community (NZIC). In summary, the report resulting from the Murdoch review proposed a range of adjustments to improve the effectiveness and cohesiveness of the NZIC as a whole. Key points include:

- strengthening of the Centre with the establishment of the Officials Committee for Domestic & External Security Co-ordination (Governance) (ODESC(G)), and the position of Director of Intelligence Co-ordination within the Department of the Prime Minister and Cabinet (DPMC);
- a requirement to progress the development of an integrated national intelligence and security framework; and
- aligning the efforts of NZSIS, Government Communications Security Bureau (GCSB) and the External Assessments Bureau (with a broadened mandate and renamed as the National Assessments Bureau (NAB)).

Of particular significance for NZSIS is the explicit recognition of the role that agencies such as the New Zealand Police, New Zealand Customs Service (NZCS), and Immigration New Zealand (INZ) contribute to New Zealand's security. NZSIS will build on its already strong relationships with these agencies as it seeks to further develop collaborative partnerships with them.

Along with these changes to improve the systemic governance and co-ordination of the NZIC as a whole, it is worth noting that the Murdoch report explicitly stated that "the contemporary national security agenda is now wider and more complex than previously, and it is more risk-laden and demanding".

Turning now to the NZSIS itself, there have been a number of highlights during the 2009/10 financial year:

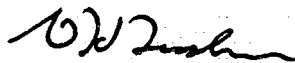
- in September 2009, the United States announced that it had removed all remaining intelligence-sharing restrictions placed on New Zealand;
- in June 2010, the Prime Minister released a follow-up report from the Inspector-General of Intelligence and Security about personal files and other records held by NZSIS. The report advised that we had addressed all the recommendations from his report of the previous year, and that we have good current practices and systems in place, and are working on further protocols for dealing with information. Most of the report deals with NZSIS practices around the collection, retention and destruction of records, and the Inspector-General is satisfied with current and proposed practices;
- in July 2009, the Counter Proliferation Joint Section (CPJS) was reinvigorated;
- throughout the year NZSIS continued to focus on rebuilding and refreshing our core operational capability through a tightly targeted organisational modernisation and development programme, and to seek improved effectiveness and efficiency gains,

including through new and innovative collaborative working with counterpart agencies across the wider NZIC and our overseas partners; and

- the NZSIS outreach programme aimed at raising awareness of security risks is growing rapidly and starting to deliver benefits to both government agencies and the wider academic, research, and science and technology communities, as well as to a number of New Zealand companies and providers of our critical national infrastructure. This work links directly to a core plank of the Government's strategic priorities – science, innovation and trade.

That NZSIS has a commitment to developing closer working relationships with GCSB, DPMC and other members of the NZIC is demonstrated in this report, and will continue into the future. The strengthening of the Centre together with moves to achieve a more cohesive and joined-up intelligence community, and the NZSIS capability modernisation and development programme, are all advancing the goal of a safer New Zealand.

This Annual Report highlights our performance against the plans we made in the NZSIS Statement of Intent 2009-14 and the Information Supporting the Estimates – Budget 2009. It spells out the work we do to “Protect and Advance our New Zealand”.



Dr Warren Tucker
Director of Security

NZSIS OVERVIEW

The Role of the New Zealand Security Intelligence Service

The NZSIS gathers intelligence related to New Zealand's security, assesses its significance, and gives advice to the appropriate stakeholders.

The NZSIS functions include:

- obtaining, correlating and evaluating intelligence relevant to security;
- communicating intelligence to those who the Director considers should be aware, in the interests of security;
- advising the Government about matters relevant to security;
- co-operating with other organisations in New Zealand and abroad that can assist the NZSIS to carry out its job;
- making recommendations relevant to security relating to immigration and citizenship matters;
- conducting enquiries into whether particular individuals should be granted security clearances, and making recommendations based on those enquiries; and
- giving advice on protective security.

Over the years, our specific tasks have changed due to the constantly changing environment in which we work. As both the national and international environments continue to evolve, so will requirements upon the NZSIS. This is reflected in our Vision and Mission statements.

Our Vision

We are a dynamic professional intelligence service, focused on the requirements of our core customers and stakeholders in government, working collaboratively at home and abroad and striving to achieve a safe and prosperous New Zealand.

Our Mission

We make the difference by providing comprehensive, high quality security services and advice in conjunction with relevant, timely, critical intelligence that enhances and protects the interests of New Zealand and New Zealanders.

Responsible Minister

The Director of Security is responsible directly to the Prime Minister, as Minister in Charge of the New Zealand Security Intelligence Service, for the performance of the NZSIS.

The function of the NZSIS is governed by the New Zealand Security Intelligence Service Act 1969 and subsequent amendments.

ORGANISATIONAL INFORMATION

The NZSIS head office is in Defence House, 2 Aitken Street, Wellington. There are regional offices in Auckland, Wellington and Christchurch and two overseas liaison offices.

All the offices collect information and undertake vetting duties. Research, analysis and assessment are head office responsibilities. Major administrative functions such as finance, human resources, and liaison with other government departments/agencies and Ministers, are also handled by the NZSIS head office.

The Corporate governance is overseen at three levels:

NZSIS Executive Group as at 30 June 2010

The Director and Deputy Directors form the Executive Group, which is the NZSIS senior leadership team and governance group:

Director of Security
Deputy Director Corporate
Deputy Director Intelligence
Deputy Director Relationships, Outputs and Communications
Deputy Director Operational Enablement
Deputy Director Protective and Operational Security

NZSIS Audit and Risk Committee

The Audit and Risk Committee advises the Director of Security in the areas of:

- the integrity of financial management and reporting systems and processes;
- the adequacy, efficiency and effectiveness of the NZSIS management systems; and
- the effectiveness of the NZSIS risk management framework, including legislative and regulatory compliance.

Information Management Committee

The NZSIS Information Management Committee is appointed by the Director; its function is to:

- ensure that NZSIS information strategies are aligned with its business strategies;
- advise on information technology developments;
- provide governance for the application of information technology within the NZSIS; and
- ensure that information management projects are resourced and managed appropriately.

PART TWO

THE YEAR IN REVIEW

Organisational Health and Capability

The NZSIS is a human intelligence (HUMINT) organisation, with our people and their expertise being our primary assets. In addition to working to meet New Zealand's national requirements of the NZSIS, we also contribute to the international effort against terrorism and proliferation, and to the provision of foreign intelligence concerning our region and beyond.

We started the financial year with 219 FTEs and finished with 219.8 FTEs as at 30 June 2010. Focus on improving the capability of the NZSIS has continued through a variety of initiatives. These include specialist training and tailored secondments of selected staff. Other work to improve overall effectiveness and efficiency is continuing.

The NZSIS measures its ongoing progress in relation to Organisational Health and Capability through our quarterly Balanced Scorecard reporting.

Staff Capability and Capacity

During the 2009/10 FY, staff turnover was 9%.

In the 2009/10 year the NZSIS provided a broad range of capability training totalling 1382.5 days.

Health and Safety – Staff Wellbeing

- The NZSIS had one day of absence due to work related injury.
- 1057.5 days of sick leave were used during 2009/10; this is approximately 4.8 days per person.

Equal Employment Opportunities

The NZSIS commenced its implementation of a formal EEO programme on 1 December 2008 with the release of our Equality and Diversity Policy, and the Equality and Diversity Plan for 2008-10. These documents were made available to all staff on the internal (secure) intranet.

Women currently comprise just fewer than 45% of the organisation, filling roles from senior management to support staff. While there is currently a higher representation of males at tiers two and three, further capability development will see more females at this level particularly in tier three (currently 30.5%).

The NZSIS evaluates all roles using the HAY system, which is considered equitable and gender neutral.

Development Initiatives

NZSIS, GCSB and DPMC - Working Together

This is a new area of development that arose from decisions by Ministers following Simon Murdoch's "Intelligence Agencies' Review" report to the State Services Commissioner. During 2009/10 we have commenced implementing those decisions that directly affect NZSIS and our fellow intelligence agencies.

Management Development

The NZSIS delivered targeted training to new and existing managers to develop their core management skills for financial and human resources management, and business planning and reporting.

Developing Our Business Support Systems

During 2009/10 enhancements to support managers were implemented into the NZSIS Human Resource Information System. The changes enable managers to report on a variety of staff management information from their desktops, including salary information, leave and sick leave, and individual employee information.

Information and Communications Systems

During 2009/10, NZSIS implemented a number of initiatives from the Information Systems Strategic Plan (ISSP).

Rugby World Cup 2011

During 2009/10 NZSIS undertook planning and prioritising to meet the requirements for security for the RWC. We are working closely with other parts of government to ensure a well co-ordinated effort.

Information Management

Significant advances have continued across the NZSIS information management stream in terms of new ways of working and supporting business development. This is important as information and communication are the life-blood of any intelligence and security organisation.

NZSIS has continued to promote and develop an organisation-wide approach to information and the need for a cohesive approach that spans the complete life-cycle (collection, investigation, analysis and archives).

Throughout the year the NZSIS has enjoyed a high level of operational effectiveness with:

- reliable international networks;
- high availability of systems; and
- fast resolution of help desk calls.

Capital Intentions

NZSIS has a work programme underway to more completely understand our asset inventory, evaluate it against business needs, and develop a sustainable upgrade and replacement programme.

The Information Systems Strategy and the Information Technology Tactical Plan, which outlines the asset management of the NZSIS Information and Communication Technology, have been developed as part of this work programme.

Archives

The NZSIS holds security-related files dating back to 1919. In 2008, recognising the public interest in these archives, we began a programme to make historic records available to the

public where this could be done without compromising important on-going intelligence sources and methods, or the privacy of individuals. Once files are declassified, they are transferred to Archives New Zealand.

In 2009/10, responding to Privacy Act and Official Information Act (OIA) requests has limited our archivists' work on declassification and transfer, but a group of files relating to the anti-conscription movement during the Second World War era has been prepared for transfer to Archives, and the NZSIS remains committed to the programme.

Official Information Act and Privacy Requests

In the period under review a total of 273 requests from members of the public for information were received, with 42 being considered under the OIA 1982 and 231 under the Privacy Act 1993.

The number of requests - although fewer than the record 378 received the previous year - again necessitated extending the time for reply, by up to 140 working days in some instances. Prompted by publicity surrounding the release of NZSIS information, requests were received from numerous individuals unknown to the NZSIS, and others with unconventional perceptions about our areas of interest.

Security and privacy considerations sometimes preclude the public release of information (or even acknowledging the existence of information). The NZSIS official website carries explanatory material about the application of the OIA and the Privacy Act, the responses that may be used and why, and an indication of what information might be disclosed or not as the case may be. Where requests are refused, those seeking the information have the right, under the respective Acts, to complain to the Ombudsmen or the Privacy Commissioner.

In the review period two complaints were made to the Ombudsmen. One was decided in favour of the NZSIS (as was a complaint carried over from the previous year), and the other was resolved with the release of further information.

Twenty-six people complained to the Privacy Commissioner. Four complaints await resolution, and the remainder (together with a small number carried over from the previous year) were decided in favour of the NZSIS.

Another channel for those seeking redress is the Inspector-General of Intelligence and Security who, in the review period, considered, and declined to uphold, one complaint of this nature.

Parliamentary Questions

Twenty-three questions for written answer were addressed to the Minister in Charge of the NZSIS during the 2009/10 period. These were all generic questions for the Minister or in relation to departments and agencies the Minister was responsible for.

Legal Matters

The NZSIS legal team provides advice on legal and statutory matters.

During the year the team provided advice on the application and interpretation of the New Zealand Security Intelligence Service Act 1969 and other relevant legislation.

Legislation and Treaties

There have been no amendments to the New Zealand Security Intelligence Service Act 1969 in the 2009/10 year. The NZSIS completed a comprehensive internal review of the New Zealand Security Intelligence Service Act 1969 during the year.

The NZSIS was consulted on a number of proposed amendments to other legislation, where relevant to security. They included:

- the Anti-Money Laundering and Countering Financing Of Terrorism Bill; and
- the Electronic Identity Verification Bill.

A number of Acts that impact on NZSIS operations have been enacted during the reporting year. These include the Immigration Act 2009, which provides for the use of classified information in immigration proceedings, and the Anti-Money Laundering and Countering Financing Of Terrorism Act 2009.

Policy Contribution

The NZSIS has been involved in a range of policy forums relating to security. In particular, we have been consulted by the Law Commission on the review of the law of privacy and official information.

Oversight and Review

The NZSIS operates within an oversight and accountability framework which includes the Executive Group, Parliament, and independent authorities such as the Inspector-General of Intelligence and Security, the Commissioner of Security Warrants, and the Offices of the Privacy Commissioner and the Ombudsmen. This multi-layered approach to oversight provides an assurance that the NZSIS operates appropriately, proportionately and within the appropriate legislation.

Intelligence and Security Committee of Parliament

The Intelligence and Security Committee (ISC) is a statutory committee of Parliamentarians established by the Intelligence and Security Committee Act 1996. The functions of the Committee include examining the policy, administration, and expenditure of the NZSIS and the GCSB, receiving any bill or other matter referred to them by the House of Representatives in relation to the NZSIS or GCSB, and receiving and considering the Statements of Intent and Annual Reports of the NZSIS and GCSB. The current members of the Committee are:

The Rt Hon John Key (Prime Minister)

Hon Phil Goff (Leader of the Opposition)

Hon Tariana Turia (Co-leader of the Māori Party - nominee of the Prime Minister)

Hon Rodney Hide (Leader of the ACT Party - nominee of the Prime Minister)

Dr Russel Norman (Co-leader of the Green Party - nominee of the Leader of the Opposition)

In the past year, the Director of Security has appeared before the Committee in respect of the NZSIS Annual Report, budgetary estimates, and Statement of Intent.

Inspector-General of Intelligence and Security

The NZSIS is subject to oversight by the Inspector-General of Intelligence and Security, who by law is a retired High Court Judge. The present Inspector-General is The Hon Paul Neazor CMNZ. The Inspector-General is responsible for the oversight and review of the

NZSIS, including compliance with the law and the propriety of our actions. He also has jurisdiction to investigate complaints about the NZSIS.

The Inspector-General has continued his work programme, approved by the Minister in Charge of the NZSIS, covering such matters as:

- reviewing the interception warrants to ensure they met the statutory requirements for issue;
- checking compliance with the statutory duty to minimise irrelevant interception;
- checking compliance with the duty to destroy irrelevant material obtained under warrant;
- checking the way in which any communication with NZ Police and other persons is handled, in particular the requirements in relation to serious crime; and
- reviewing the NZSIS rules for the retention and disposal of information.

This programme has involved the Inspector-General making written enquiries of the NZSIS, carrying out reviews of files and other material held by the NZSIS, and interviewing a wide range of NZSIS personnel. The Inspector-General has suggested some procedural improvements which have been, or are being, implemented.

In the past year, the Inspector-General investigated 16 complaints from individuals. These complaints related to vetting issues (11 complaints), employment issues (two complaints), and individuals concerned about actions and policies of the NZSIS (three complaints). The Inspector-General found no basis for six of these complaints, upheld one, resolved three, and is still considering the remaining six.

Cost Effectiveness

Section 40(d) of the Public Finance Act requires that the NZSIS comment on the cost-effectiveness of the interventions that we deliver. As this Annual Report demonstrates, NZSIS is continually seeking, and finding, ways to carry out its business more effectively and efficiently, with initiatives including:

- continued use of a Balanced Scorecard for management information and tracking of performance. Ongoing improvements to financial management and reporting have enabled improved management of resources;
- utilisation of the investigative operational framework and standardised terminology (developed during 2008/09) to develop and implement a monthly workflow process to capture operational activity information. This tool will assist management with measuring and assessing productivity and effectiveness, directing organisational performance and assisting with our external reporting responsibilities;
- working with GCSB and DPMC to improve effectiveness and efficiency through the application of shared services;
- improved information technology solutions; and
- leveraging off our international partners where practicable, particularly in the training and information technology arenas.

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 2010, 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 twenty-seven (27) domestic interception warrants were in force. Of those, seventeen (17) were issued during the year under review, and ten (10) 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 157 days. There were five amendments under section 4D of the Act. The methods of interception and seizure used were telecommunications interception, installation of interception devices, including listening devices, and the taking and copying of documents and items.

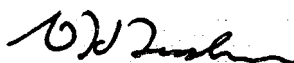
The information obtained materially contributed to the detection of activities prejudicial to security, or produced foreign intelligence essential to security, that was not likely to have been obtained by other means.

Removal

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

Foreign

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



Dr Warren Tucker
Director of Security

DATED at Wellington this 8th day of September 2010

I have reviewed all warrants in force during the period beginning 1 July 2009 and ending 30 June 2010 and certify that the information set out in the above Statement on Warrants is correct.



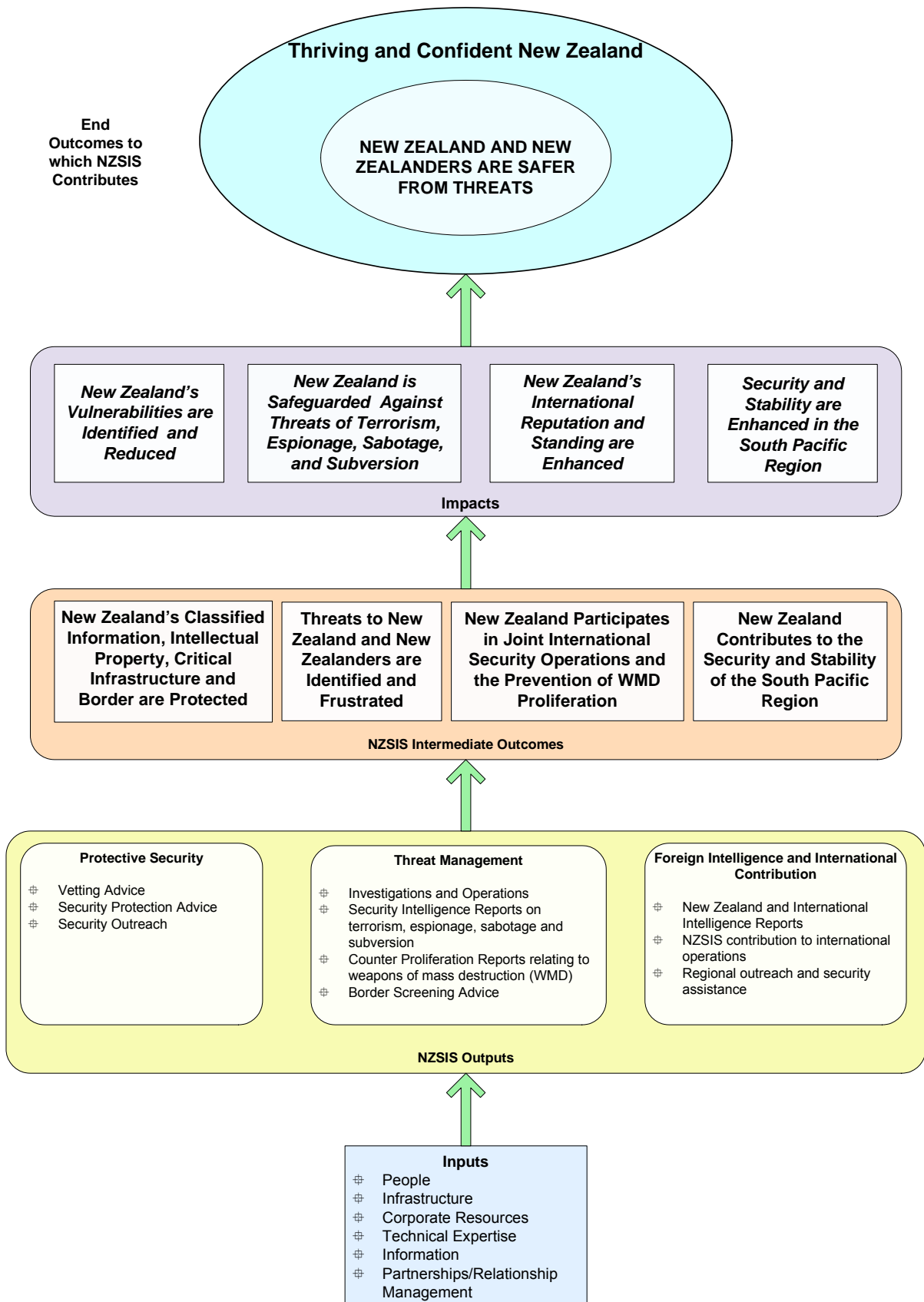
Rt Hon John Key
Minister in Charge of the
New Zealand Security Intelligence Service

DATED at Wellington this 8th day of September 2010

PART THREE

REVIEW OF OUTCOMES & IMPACTS

NZSIS Outcomes Framework



IMPACT STATEMENTS

Outcomes and Impacts

The Sector Outcome to which the NZSIS primarily contributes is “New Zealand and New Zealanders are Safer from Threats”. This Outcome is a subset of the much larger “Thriving and Confident New Zealand” - a state of being in which New Zealanders are safe, positive in outlook, and confident to go about their business and move around free from threats and instability. While much of the focus of NZSIS effort is on identifying and frustrating a range of threats to our national security, we also provide a range of foreign intelligence which contributes to advancing New Zealand’s wider interests.

The NZSIS is not the sole contributor to these Outcomes. There are a number of other departments and agencies, from the Defence and Security sector and beyond, that also contribute to them, or another subset of them.

The NZSIS has four Intermediate Outcomes:

- New Zealand’s Classified Information, Intellectual Property, Critical Infrastructure and Border are Protected;
- Threats to New Zealand and New Zealanders are Identified and Frustrated;
- New Zealand Participates in Joint International Security Operations and the Prevention of WMD Proliferation; and
- New Zealand Contributes to the Security of the South Pacific Region,

which result in the key impacts:

1. New Zealand’s Vulnerabilities are Identified and Reduced;
2. New Zealand is Safeguarded Against Threats of Terrorism, Espionage, Sabotage, and Subversion;
3. New Zealand’s International Reputation and Standing are Enhanced; and
4. Security and Stability is Enhanced in the South Pacific Region.

These impacts directly reflect the relationship between our Intermediate Outcomes and the End Outcomes, to which NZSIS contributes. There is a “one to many” relationship between our Intermediate Outcomes and the associated impacts, i.e. each Intermediate Outcome contributes to more than one impact.

Impact 1: New Zealand’s Vulnerabilities are Identified and Reduced

The measures for progress towards these impacts that NZSIS was aiming to achieve during 2009/10 were:

- secure classified information and intellectual property are protected;
- New Zealand’s critical infrastructure is protected; and
- New Zealand’s border is secure.

Secure Classified Information and Intellectual Property are Protected

New Zealand’s intellectual property and classified information continues to be at risk from international attack, inadvertent disclosure and disaffected insiders. NZSIS advises government agencies on the suitability of persons to have access to classified information and on the procedures by which classified information must be managed.

Security clearances are required by all those who access government information classified as “Confidential” or higher. The vetting process examines a number of indicators to establish whether an individual has any security vulnerabilities and then makes a recommendation as to whether a security clearance should be granted or not.

These recommendations are the basis upon which State employers ensure that people who require access to classified information are suitable for a security clearance at a level commensurate with the classification of that information. The majority of individuals do reach these levels of trustworthiness, however, a number are found to have vulnerabilities that could be exploited. These people are given adverse or qualified recommendations, and the employers are advised on how to mitigate the risk.

During 2008/09 NZSIS commenced development of the Online Vetting Requests (OVR) system which was live to government agencies for Confidential and Secret level clearances in September 2009. OVR replaces the paper-based vetting system that struggled to meet customer expectations; has increased the level of assurance for people allowed access to classified information, and improved efficiency with faster processing.

The OVR system was not fully functional until June 2010 due to security implications and, while the implementation of this new system spans two financial years, it demonstrates significant progress towards fulfilling our short and medium term goals for ensuring secure classified information and intellectual property.

During the year ended 30 June 2010, NZSIS delivered just over 5,100 security clearance vetting recommendations.

New Zealand’s Critical Infrastructure is Protected

New Zealand’s classified information, intellectual property, and critical infrastructure are safeguarded by the provision of security and risk management advice. Security and risk advice is provided to government agencies so that they can actively manage their risks in relation to processes, equipment and premises, nationally and internationally. This is done by way of advice, frameworks, tools and oversight.

In the 2009/10 year, NZSIS ran five Departmental Security Officer (DSO) forums attended by staff from other government departments, which included the following topics:

- “vetting difficulties caused by candidates having uncheckable backgrounds”, which was extended to departmental human resources staff. The demand for information on this topic was so high that the forum was repeated in February 2010 for an additional 47 attendees; and
- a forum on cyber threat was also over-subscribed and was repeated in June 2010. A total of 47 people attended those two briefings on the potential vulnerabilities of government agencies.

NZSIS met with the Parliamentary Service security office to brief them on a range of security issues.

Government policy, in regards to the protection of official information, is set out in the document Security in the Government Sector (SIGS) issued by the Interdepartmental Committee on Security. The Protective Security Manual (PSM), a document to which the NZSIS made significant contributions, provides specific detail on the requirements for secure handling of classified information and the standards for security clearance vettings. Considerable discussion has gone on during the year to determine the future of this group of documents that establish New Zealand’s security policy and standards. This work is on-going and will determine a new way of stating New Zealand’s security policy framework.

New Zealand's Border is Secure

The NZSIS contributes to the management of New Zealand's border to help ensure that persons who pose a security risk are identified, appropriately investigated and, potentially, denied entry. During 2009/10 we worked closely with border control agencies to ensure that persons with international terrorist or WMD proliferation linkages were identified and monitored, with advice being given to INZ as to the proliferation risk posed by the visa applicant entering New Zealand. To achieve this NZSIS accessed available records and provided screening advice to New Zealand's border control agencies in respect of individuals wishing to enter New Zealand.

Visa and Residency applications from individuals in 'at-risk' countries were submitted to the NZSIS in relation to entry and citizenship. These were checked against the available data and advice was provided accordingly.

Impact 2: New Zealand is Safeguarded Against Threats of Terrorism, Espionage, Sabotage, and Subversion

A key function mandated by the NZSIS Act is to identify and safeguard New Zealand against threats from terrorism, espionage, sabotage and subversion.

The NZSIS works closely with other government agencies and international partners to identify, investigate, disrupt potential threats to these areas of our national security, and provide advice to government. Advice to government is a high priority as it enables the Government and its agencies to manage security risks to New Zealand effectively and to take action, where appropriate, to disrupt actions prejudicial to New Zealand's national security.

The measures for progress towards these impacts that NZSIS was aiming to achieve during 2009/10 were:

- threats are identified and frustrated;
- intelligence and advice provided to government, including through outreach to other government agencies and beyond; and
- informed public.

Threats are Identified and Frustrated

NZSIS has continued to develop its staff through an ongoing targeted programme of training in a variety of skills and tradecraft to enable optimal performance. During 2009/10 the focus was on analytical skills, operational tradecraft, operational risk assessment methodologies, and behavioural science techniques. These courses continued to strengthen our skills in the areas of advanced tradecraft necessary to collect high priority intelligence of interest to policy makers.

Counter Terrorism

The aim of our counter terrorism effort is to ensure New Zealand is neither the victim, nor the source, of an act of terrorism, and to play an appropriate role in international efforts to combat terrorism.

In respect of counter terrorism, NZSIS works closely with other government departments who provide information and assistance in mitigating threats. Over this period we continued to work in particular with NZCS, INZ, GCSB, NZ Police, MFAT and the Department of Internal Affairs (DIA).

In the lead up to RWC, NZSIS has participated in exercises also involving members of both GCSB and NZ Police.

Counter Espionage

The counter espionage effort identifies and frustrates acts of espionage against New Zealand or New Zealanders. We give advice to internal and external stakeholders and disrupt, where appropriate, espionage activities prejudicial to New Zealand's national security. A number of intelligence services whose interests we assess as inimical to New Zealand's national security continue to operate in and against this country.

During the 2009/10 financial year, investigations were undertaken in a wide variety of contexts.

Cyber Threat

A key new facet of national security work is dealing with cyber issues. Cyber techniques enable espionage to be conducted remotely and seek to exploit vulnerabilities in our systems that would be open not only to intelligence collection but also to other forms of attack. Instances have been detected of eA (electronic attack) against New Zealand's public and private sectors. NZSIS works closely in partnership with GCSB as we seek to better understand this range of threats and risks.

Combined Threat Assessment Group (CTAG)

The CTAG is hosted by the NZSIS. It is a multi-agency group that comprises staff seconded from the NZSIS, NZ Police, NZDF, GCSB, NZCS and MFAT. The 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.

The CTAG continues to monitor the domestic and international threat environments and will report any changes detected.

Intelligence and Advice to Government

NZSIS is establishing processes for the recipients of intelligence reporting to provide feedback on the quality of its reporting, to ensure the New Zealand Government, and its agencies, are receiving the information that they need and that it is of the required quality.

During the 2009/10 financial year NZSIS has strengthened its outreach capabilities.

Late in 2009, NZSIS undertook a WMD counter proliferation pamphlet mail-out to universities, aimed at Deans and Heads of Schools in areas with potential applications in WMD programmes. This has been a proactive way to inform academics of WMD concerns.

Informed Public

The role of NZSIS is to provide the New Zealand Government, and its agencies, with timely and accurate intelligence. We are also now starting to share our message more broadly and include organisations outside of government, for whom this is particularly relevant, such as industries based on science and technology, large importers/exporters, and infrastructure providers.

The NZSIS is committed to raising the level of public interaction, and is actively looking for other opportunities to meet our public stakeholders' expectations. A booklet, that will be available to both government and the public, explaining our function and activity is under development and will be printed early in the new financial year.

Impact 3: New Zealand's International Reputation and Standing are Enhanced

One of New Zealand's key international undertakings is the frustration of the proliferation of WMD, materials, technology and/or expertise. It is a high priority to act against and frustrate these threats with proportionate interventions.

New Zealand's Intelligence Contribution to the International Effort against the Proliferation of WMD

The Counter Proliferation Joint Section (CPJS) is a multi-agency group embedded within NZSIS, staffed by Officers from GCSB, NZCS, INZ and the NZSIS. This group was formed to detect, investigate and frustrate WMD proliferation (witting or unwitting) from New Zealand or by New Zealanders overseas.

The CPJS issues cautionary advice to INZ for applicants who pose medium or high levels of proliferation risk via the intangible transfer of technology. INZ separately undertakes its own risk assessment process and comes to an independent decision on whether to approve or deny an application based on the level of reputational risk. The CPJS performs a similar security comment function with regard to applications for New Zealand citizenship.

The CPJS continued to play an active role in identifying and progressing changes to the multi-agency counter proliferation screening process. Further group discussions with INZ, the Intelligence Co-ordinator, and technical experts from the NAB and the Defence Technology Agency, helped to maintain momentum on implementing changes.

Impact 4: Security and Stability are Enhanced in the South Pacific Region

The NZSIS provides foreign intelligence reports to our key stakeholders in the New Zealand Government. Our key stakeholders in the New Zealand intelligence community are: NAB, GCSB, MFAT, Ministry of Defence (MoD), NZDF and its Directorate of Defence Intelligence and Security (DDIS) and New Zealand Police, as well as other government agencies.

During 2009/10 NZSIS was aiming to achieve:

- comprehensive coverage of regional and international issues;
- better informed users of the foreign intelligence product; and
- extended support to South Pacific governments to advance their security interests.

PART FOUR

REVIEW OF OUTPUT PERFORMANCE

REVIEW OF OUTPUT PERFORMANCE

This section reports on the NZSIS output performance as set out in the 2009-14 Statement of Intent.

Output Class Summary

The NZSIS aims to achieve its outcomes through the delivery of three outputs contained within a single output class.

Output Class: Security Intelligence

The objective of the New Zealand Security Intelligence Service is to provide the Vote Minister with timely and reliable intelligence assessments and protective security advice through:

- a. the collection, collation and evaluation of information relevant to national security;
- b. the dissemination of intelligence and advice to Ministers of the Crown and Government agencies;
- c. the provision, on request, to Government agencies and public authorities within New Zealand, of protective security advice relating to personnel, physical, technical, document and building security; and
- d. liaison with overseas security and intelligence organisations and public authorities.

The three outputs the NZSIS delivers are:

- Protective Security
- Threat Management
- Foreign Intelligence and International Contribution

Detailed reporting is omitted from this unclassified version of the NZSIS Annual Report, for reasons of national security.

PART FIVE

FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITY

In terms of the New Zealand Security Intelligence Service Act 1969 section 4J (1), I am responsible as Director of Security of the New Zealand Security Intelligence Service, for delivering to the Minister a report on the activities of the NZSIS during the year ended 30 June 2010, as if it were an annual report under the Public Finance Act 1989.

I am responsible for the preparation of the 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 provides reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, these financial statements fairly reflect the financial position and operations of the NZSIS for the year ended 30 June 2010.

STATEMENT OF EXPENDITURE AND APPROPRIATION

In accordance with the Public Finance Act 1989 Section 45E, I report as follows:

	\$000
Total Appropriation	38,115
Actual Expenditure	37,888

The financial statements are audited by the Auditor-General and their report is attached.



Dr W H Tucker
Director of Security

30 September 2010

Audit Report
To the readers of
the New Zealand Security Intelligence Service's
statement of expenditure and appropriation
for the year ended 30 June 2010

The Auditor-General is the auditor of the New Zealand Security Intelligence Service. The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit on her behalf. The audit covers the statement of expenditure and appropriation included in the annual report of the New Zealand Security Intelligence Service for the year ended 30 June 2010.

Unqualified Opinion

In our opinion the statement of expenditure and appropriation of the New Zealand Security Intelligence Service on page 26 fairly reflects the expenses and capital expenditure incurred for the financial year ended 30 June 2010 against the New Zealand Security Intelligence Service's appropriation for that financial year.

The audit was completed on 30 September 2010, 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 Director of Security 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 statement of expenditure and appropriation 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 statement of expenditure and appropriation. 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 statement of expenditure and appropriation. 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 Director of Security;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all the statement of expenditure and appropriation disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the statement of expenditure and appropriation.

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

Responsibilities of the Director of Security and the Auditor

The Director of Security is responsible for preparing a statement of expenditure and appropriation that provides a record of the actual expenses and capital expenditure incurred for the financial year ended 30 June 2010 against the New Zealand Security Intelligence Service's appropriation for that financial year.

The Director of Security's responsibilities arise from sections 45B and 45E of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the statement of expenditure and appropriation and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45D(2) of 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 New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the New Zealand Security Intelligence Service.



S B Lucy
 Audit New Zealand
 On behalf of the Auditor-General
 Wellington, New Zealand

Matters relating to the electronic presentation of the audited statement of expenditure and appropriation

This audit report relates to the statement of expenditure and appropriation of the New Zealand Security Intelligence Service for the year ended 30 June 2010 included on the New Zealand Security Intelligence Service's website. The Director of Security is responsible for the maintenance and integrity of the New Zealand Security Intelligence Service's website. We have not been engaged to report on the integrity of the New Zealand Security Intelligence Service's website. We accept no responsibility for any changes that may have occurred to the statement of expenditure and appropriation since it was initially presented on the website.

The audit report refers only to the statement of expenditure and appropriation named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the statement of expenditure and appropriation. 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 statement of expenditure and appropriation and related audit report dated 30 September 2010 to confirm the information included in the audited statement of expenditure and appropriation presented on this website.

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