

ANNUAL REPORT 2017

NEW ZEALAND SECURITY INTELLIGENCE SERVICE
TE PĀ WHAKAMARUMARU



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Preface

This is the unclassified version of the annual report of the New Zealand Security Intelligence Service (NZSIS) for the year ended 30 June 2017. This version will be tabled in Parliament and made available to the public on the NZSIS internet site (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 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.

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

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AN INTRODUCTION TO THE NZSIS

The NZSIS head office is based in Pipitea House on Pipitea in Wellington. The NZSIS has regional offices in Auckland and Christchurch, as well as overseas liaison offices. As at 30 June 2017 the NZSIS had 290¹ full time equivalent staff.

This annual report identifies some of the work the NZSIS has undertaken to meet government expectations over the period 1 July 2016 to 30 June 2017.



¹ This figure includes individuals on parental leave and individuals seconded to the NZSIS that the agency is funding.

01

**OVERVIEW
OF THE YEAR**

MINISTER'S FOREWORD



Andrew Little

Andrew Little
Minister Responsible for
the New Zealand Security
Intelligence Service

New Zealanders' safety and prosperity benefit from having a strong and effective intelligence and security sector. We continually see traditional and non-traditional threat actors acting in ways that can negatively impact New Zealand and the lives of New Zealanders. Strong, timely and robust intelligence and advice enables the Government to make informed decisions and set appropriate policy. This ensures New Zealanders are safe, here and abroad, and contributes to the economic wellbeing of the country.

For example, in 2016/17, the New Zealand Security and Intelligence Service (NZSIS) and the Government Communications Security Bureau (GCSB) have supported decision makers to respond to violent extremism incidents abroad, espionage activity that has negatively affected New Zealand's interests, and the 'Wannacry' ransomware attack.

The wider New Zealand Intelligence Community (NZIC) has also continued to play a critical role in raising protective security standards across the New Zealand public sector. By providing expert advice, the NZSIS has supported the 35 mandated government agencies implementation of the Protective Security Requirements (PSR).

Over the last few years, significant effort has gone into strengthening the core capabilities and effectiveness of New Zealand's intelligence and security agencies. This work, in conjunction with the first independent review of intelligence and security conducted by Dame Patsy Reddy and Sir Michael Cullen and the subsequent enactment of the Intelligence and Security Act 2017 (ISA), will enable the security and intelligence agencies to reduce New Zealand's exposure to national security threats.

New Zealanders should feel confident the NZSIS and GCSB are working to ensure they fully comply with and gain the full benefit of the new legislation. This will serve to increase clarity around the purpose of each agency, enhance transparency around their activities and ensure they have robust policies and processes in place to support implementation of the legislation.

It is anticipated these changes will take several years to fully develop and embed. However, I am pleased at the initial progress the agencies have made. Looking ahead, I am confident this investment, and the agencies' efforts to leverage it effectively, means the NZSIS and GCSB will be ready to face an increasingly challenging security environment.

DIRECTOR-GENERAL'S OVERVIEW



Rebecca Kitteridge

Rebecca Kitteridge
Director-General of Security

I am pleased to present the 2016/17 annual report for the New Zealand Security and Intelligence Service (NZSIS).

The past 12 months have been significant for the NZSIS. The new Intelligence and Security Act 2017 was passed, the New Zealand Intelligence Community (NZIC) agencies had their first full year of increased funding as a result of Budget 2016 decisions and we initiated a structural review of the NZSIS. All the while we relentlessly sought to improve the quality of the security and intelligence advice the NZSIS provides.

The funding increase is enabling the NZSIS to grow our capability and capacity to monitor and address the security threats facing New Zealand and New Zealanders. Our focus on achieving ambitious growth also brings a number of organisational challenges, for example, balancing an increased operational tempo, while also managing the training and development requirements of new staff.

The ISA was given Royal Assent on 28 March 2017. The first provisions of the new Act came into force on 1 April, with the remaining provisions, including the NZSIS becoming a Public Service department, coming into force on 28 September 2017.

A key objective of the legislation, and the Cullen-Reddy review on which it was based, is ensuring the public is better informed about the intelligence and security agencies' work and the legal parameters under which we operate. It is important the NZSIS and Government Communications Security Bureau (GCSB) operate within a clear and modern legislative framework and we welcome the increased transparency the new legislation will bring.

Following the implementation of a new operational strategy last year, and the increased funding provided in Budget 2016, we completed a review of our organisational structure. The review's purpose was to ensure the NZSIS is well placed to take full advantage of increased investment over the next three years and to bring life to our operational strategy.

Our focus is now firmly on realising the benefits of the changes we have made as we continue to grow in line with our Four-Year Plan and the Intelligence Community Workforce Strategy – all with the aim of keeping New Zealand and New Zealanders safe. I was happy to receive feedback from the State Services Commission and The Treasury on the high quality of the 2017 NZIC Four-Year Plan.

We have also made considerable progress in a number of supporting areas. For instance, in 2016/17, we completed the implementation of all 45 recommendations made in our 2015 Internal Compliance Review. That is something I am extremely pleased about.

Our development and success as an organisation is in part based on our ability to collaborate effectively as part of the wider NZIC. To work well, national security requires a community approach. The NZIC has evolved over the past three years into a highly co-ordinated and coherent sector. Our approach to sharing and co-locating resources is showing real benefits and reducing risks across the community.

In addition to the work we do with domestic partners, we also work closely with a number of international partners. Their support and assistance enables us to more effectively and efficiently deliver positive security and intelligence outcomes for New Zealanders.

We also benefit greatly from the dedication, talent and professionalism of the NZSIS staff. The work they do is demanding and I am incredibly proud of their ability to consistently rise to the challenge.

Ahead of the curve: providing indispensable security and intelligence services underpinned by high public confidence and trust.



NATURE AND SCOPE OF FUNCTIONS

The NZSIS has three primary outcomes it seeks to achieve on behalf of New Zealand and New Zealanders.





NEW ZEALANDERS ARE SAFE

- The NZSIS has established an effective baseline picture of emerging terrorism threats.
- The NZSIS has successfully mitigated domestic terrorism threats.
- The NZSIS has provided effective and sustainable support for a significant overseas deployment.



NEW ZEALAND'S KEY INSTITUTIONS ARE PROTECTED

- The NZIC is a protective security exemplar.
- The NZSIS has assisted key institutions to mitigate their insider threat risks.
- The NZSIS has mitigated espionage and hostile foreign intelligence threats.



NEW ZEALAND'S NATIONAL ADVANTAGE IS PROMOTED

- The NZSIS has enabled better policy and geopolitical decision-making.
- The NZSIS has meaningfully contributed to international security.
- The NZSIS has enhanced security in the Pacific.

02

**OUR WORK
IN DETAIL**

THE NEW ZEALAND INTELLIGENCE COMMUNITY JOINT STRATEGIC FRAMEWORK

An agile, coordinated and customer focused
community that can sustainably meet the
Government's security and intelligence priorities.



AGENCIES

The NZIC is made up of the:



**New Zealand
Security Intelligence
Service**

Te Pā Whakamarumarū



**GOVERNMENT
COMMUNICATIONS
SECURITY BUREAU**

TE TIRA TIAKI



**DEPARTMENT OF THE
PRIME MINISTER AND CABINET**
TE TARI O TE PIRIMIA ME TE KOMITI MATUA

PURPOSE

The NZIC protects New Zealand as a free, open and democratic society by providing unique insights and capabilities that contribute to the following three policy outcomes:

- Keeping New Zealand and New Zealanders' safe by giving the New Zealand Government the ability to identify, investigate (including through covert collection) and respond to significant national security threats and risks.
- Protecting and growing the economy by helping the New Zealand Government and key economic entities to protect their information, assets and people.
- Advancing New Zealand's interests internationally through the collection and assessment of foreign intelligence pursuant to New Zealand's foreign policy goals.

A COMMUNITY APPROACH

The NZIC takes a community approach to ensure the agencies meet the Government's intelligence and security objectives. This recognises the often complex and multi-faceted nature of the threats the NZIC manages and the opportunities it is seeking to capitalise on. Successfully achieving national security outcomes in today's operating environment requires this team approach – no one agency can do it all.

To meet the security and intelligence challenges facing New Zealand, the NZIC is working hard to coordinate the efforts of its member agencies. To ensure the agencies can work together as an integrated sector, NZIC agencies are guided by three documents. The documents are the *NZIC Statement of Strategic Intentions*, the *NZIC Four Year Plan* and the *New Zealand National Intelligence Priorities*. These documents set out how the NZIC will deliver on its vision of building a safer and more prosperous New Zealand.

The Statement of Strategic Intentions outlines how, over the next four years, the NZIC will deliver on the Government's requirements and align with the work of other agencies such as the New Zealand Police, the New Zealand Customs Service, the New Zealand Defence Force and the Ministry of Foreign Affairs and Trade. In contrast, the NZIC Four Year Plan provides a detailed growth and development plan for the NZIC.

The Cabinet National Security Committee, supported by the Department of the Prime Minister and Cabinet (DPMC), reviews and agrees a set of Government National Intelligence Priorities every 12 to 24 months. These National Intelligence Priorities drive the intelligence collection, assessment and reporting activities of the wider New Zealand system, not only the core NZIC agencies. Agencies such as the New Zealand Customs Service, Maritime New Zealand, New Zealand Police, New Zealand Defence Force and the Ministry of Business, Innovation and Employment actively participate in delivering to the priorities.

For an in depth overview of the security system, refer to the National Security System Handbook².

² Available from www.dpmc.govt.nz

STRATEGIC OPERATING ENVIRONMENT

VIOLENT EXTREMISM

The global terrorism environment continues to be dominated by the influence of the Islamic State of Iraq and the Levant (ISIL). Coalition military operations in Iraq and Syria have considerably degraded ISIL's capability and territorial possession in the past 12 months. Despite battlefield losses, ISIL continues to attract and inspire followers around the world and this is likely to continue well beyond their almost certain military defeat.

As ISIL cedes territory, terrorist attacks have continued, especially in Europe. These have been both sophisticated and rudimentary, often targeting places of mass gathering and busy city streets, using weapons that are easily acquired. It is likely ISIL-inspired attacks of this nature will continue in the foreseeable future.

Internationally, the number of individuals travelling to support ISIL in the Middle East conflict zone is believed to have decreased significantly. It is possible foreign terrorist fighters in Iraq and Syria may seek to leave, either returning to their country of origin or to other countries. This presents a risk that ISIL will seek to exploit ungoverned spaces in other regions where they can regroup, reorganise and continue to pursue their tactical and strategic objectives.

Domestically, the NZSIS continues to investigate the extent of ISIL's influence. Violent extremist ideology and messaging, primarily accessed through online content and social media platforms, continues to resonate with a small number of individuals in New Zealand. These individuals are assessed as representing an actual or potential terrorist threat. Offshore, a very small number of New Zealanders are thought to remain alongside ISIL in Syria or Iraq.

Recent events in the southern Philippines city of Marawi have given rise to concerns of ISIL strengthening its footprint in South East Asia. Foreign terrorist fighters returning to South East Asia could seek out remote areas in the region and establish a presence. This could see ISIL align with existing terrorist or separatist groups already present in South East Asia or seek to establish its own strongholds.

ESPIONAGE AND FOREIGN INTERFERENCE ACTIVITY

New Zealand is not immune to the threat of espionage by foreign states, nor to foreign efforts to interfere with the normal functioning of government or the rights of New Zealanders. Such activities in New Zealand over the past year have included attempts to access sensitive government and private-sector information and attempts to unduly influence expatriate communities.

Espionage will almost certainly remain a key aspect of statecraft for many countries – particularly around international flashpoint issues. The methods, technologies and defences used will likely change with countries' evolving intelligence priorities. Hostile cyber activities are increasingly becoming a key tool for foreign-states to undertake espionage and interference activities.

NEW ZEALANDERS ARE SAFER

GAINED A PICTURE OF EMERGING TERRORISM THREATS

The NZSIS aims to provide ahead-of-the-curve reporting to decision makers on emerging terrorism threats so potential issues can be mitigated early. The NZSIS assesses trends and new developments relating to violent extremism in New Zealand and provides advice to other agencies and (where appropriate) international partners about these trends. This understanding of emerging threat vectors enables the NZSIS to assess whether existing threats are increasing or diminishing and whether new threats are emerging.

What we do

Investigative Activities

The NZSIS continues to investigate lead information about possible domestic and international violent extremism threats. Lead information originates from a wide range of sources, including members of the public, reporting from international and domestic liaison partners and NZSIS' own internally generated lead information.

As in recent years, the majority of leads during 2016/17 related to extremism linked to Islamic State of Iraq and the Levant (ISIL) and primarily related to individuals allegedly espousing extremist rhetoric, tipoffs about suspicious behaviour and potential national security-related risks to the border.

The NZSIS applies knowledge of the wider counter-terrorism environment and its investigative capability to produce comprehensive assessments of lead information. The NZSIS assesses whether a national security threat exists, if the threat meets the threshold to trigger an ongoing investigation, or if other action is required.

MITIGATED DOMESTIC TERRORISM THREATS

Terrorism is ideologically, politically or religiously motivated violence intended to induce terror in a population and/or coerce a government or other authority. The potential impacts of terrorism are broad and extend beyond immediate loss of life and threats to public safety, to include long term social, economic and political impacts for New Zealand and New Zealanders.

The terrorism threat level in New Zealand remains at 'low' – a terrorist attack is assessed as possible but not expected. New Zealand is a small and geographically-isolated country with a broadly tolerant and inclusive society, which helps to mitigate some of the precursors for violent extremism found overseas.

In 2017, there have been several attacks in Europe against targets that used simple and readily accessible weaponry such as vehicles and knives. Attacks of this nature are increasingly perpetrated by self-radicalised individuals and small groups, often with little or no external coordination or direction from entities like ISIL.

CASE STUDY

This presents a challenge to security and law enforcement agencies, as perpetrators may have been of peripheral or former security interest or not previously identified.

Together with partners such as the New Zealand Police, the New Zealand Customs Service and Immigration New Zealand, the NZSIS works to ensure these threats do not escalate to acts of violence and that New Zealanders do not become the perpetrators or victims of terrorism.

What we do

Investigative Activities

Between 30 and 40 people were listed on the counter-terrorism risk register at any one time in the reporting period. The counter-terrorism landscape remains dynamic and this number reflects both new and continuing investigations. The total number of individuals on the risk register, and those who were the subject of lead reporting, is expected to vary over time.

Individuals on the risk register are determined to represent an actual or potential threat to New Zealand related to terrorism, for example, foreign terrorist fighters or individuals providing them with financial or facilitation support. The NZSIS continues to refine its processes for assessing security risk factors to ensure it prioritises activity as effectively as possible.

The ubiquity of ISIL's messaging is such that the vast majority of the NZSIS's current counter-terrorism investigations concern ISIL-linked extremism and, as a result, it continues to investigate individuals for supporting or attempting to join ISIL. There continues to be a small number of New Zealanders overseas who are assessed as being involved with designated terrorist groups. Should they return to New Zealand, these individuals could possess the requisite skills and experience to use weapons and explosives or have the ability to motivate and/or facilitate others to fight with extremist militant groups.

An individual known to the NZSIS for displaying indicators of radicalisation began to escalate his activities of security concern over the reporting period. The NZSIS reported intelligence to relevant agencies, enabling engagement with the individual to mitigate risk through providing positive assistance and support services.

Analytical Assessment Activities

The Analysis Branch of the NZSIS works closely with domestic and international partners to provide threat assessment and strategic analysis to a range of decision makers. This branch provides time sensitive domestic threat reporting and assessment through the Combined Threat Assessment Group (CTAG)³. It also covers a range of strategic and thematic topic areas relating to counter-terrorism and espionage, providing wide-ranging analysis of these topics. The NZSIS's analytical work programme is driven by, and aligned to, New Zealand's National Intelligence Priorities.

CTAG has produced a broad range of reporting on domestic and international threats. During the reporting period CTAG's assessments supported whole-of-government planning for major events at home and abroad, for example, the annual ANZAC commemorations in Gallipoli. CTAG reporting also supports government activities relating to travel by internationally-protected persons such as foreign dignitaries visiting New Zealand.

New Zealanders are prolific travellers. New Zealanders living and/or travelling abroad potentially face a much greater threat of being affected by a violent extremism event. CTAG monitors terrorist threats globally and contributes threat advice to the Ministry of Foreign Affairs and Trade's Safe Travel service when there is a possibility New Zealand interests could be impacted.

Security Screening Activities

The NZSIS contributes to the management of New Zealand's border by identifying and investigating security risks in support of New Zealand's border security agencies and of immigration decision making.

To support Immigration New Zealand's decisions, the NZSIS provides security advice about persons who attempt to enter New Zealand or who apply for residency status and who might represent a threat to national security. The NZSIS checks the details of tens of thousands of individuals each year before they enter New Zealand and advises Immigration New Zealand of potential risks. Between Immigration New Zealand and the NZSIS, the organisations identify and monitor travellers with links to identified international extremist groups, espionage activities or the proliferation of weapons of mass destruction technology.

The NZSIS also undertakes security screening of individuals applying for citizenship in accordance with the Citizenship Act 1977 and provides security screening checks and advice relating to individuals seeking to have access to secure airport environments in accordance with the Civil Aviation Act 1990.

The NZSIS also collects information from a range of sources about illegal migration and provides reporting to the New Zealand Government's Mass Arrivals Joint Intelligence Group. In the event of a mass arrival in New Zealand, the NZSIS would assist other agencies by screening asylum seekers to identify anyone who may pose a threat to national security.

In 2016/17, the NZSIS Screening Team initiated a States Services Commission-sponsored programme to continuously improve the ways in which it works with other agencies to contribute to border security. The NZSIS has improved its ability to deliver to partner agencies and the continuous improvement framework has been embedded into business practice.

³ CTAG is hosted by the NZSIS and comprises representatives of the NZSIS, Government Communications Security Bureau, New Zealand Defence Force, New Zealand Police, New Zealand Customs Service and Aviation Security Service.

CASE STUDY

PROVIDED SUPPORT FOR DEPLOYMENTS AND EVENTS

The NZSIS helps protect New Zealand Government representatives and officials posted overseas or attending international events and conferences. Such postings and events can expose New Zealanders to security threats such as violent extremism motivated attacks or more traditional espionage.

Part of the NZSIS's role is helping ensure New Zealanders are kept safe in such situations. NZSIS may, for example, deploy to an event beforehand, liaise with other agencies and/or provide security briefings before individuals depart.

What we do

Support to Military Operations

The NZSIS provided support to New Zealand Defence Force operations during the reporting period. The majority of the NZSIS efforts in this area relate to force protection activities and keeping deployed New Zealanders safe and secure offshore.

Security and Management of Major Events

The NZSIS has provided support to a variety of New Zealand-hosted events overseas, including the 2017 ANZAC Day Commemorations in Gallipoli and a number of World War One centenary commemorations throughout Europe.

The role of the NZSIS in these major events varies depending on the level of support needed, as determined by the Major Events Security Committee (MESC) and governing bodies such as the Officials' Domestic and External Security Committee (ODESC).

The NZSIS often deploys officers to support other agencies that make up New Zealand contingents by way of intelligence updates and liaison duties. The CTAG also provides pre-event and ongoing threat assessments in support of such activities upon request from the MESC and/or other stakeholders.

During the reporting period, the NZSIS identified a New Zealand-based individual who planned to travel offshore for the purpose of conducting militant jihad. The individual was observed practising security measures to conceal his activities from authorities. This example illustrates the persistent influence and resonance ISIL has with supporters in the West despite its declining capabilities in Syria and Iraq.

NEW ZEALAND INSTITUTIONS ARE PROTECTED

MITIGATED ESPIONAGE AND HOSTILE FOREIGN INTELLIGENCE THREATS

New Zealand is an open and democratic country that adheres to the rule of law. If left unchecked, acts of espionage, covert interference and influence can undermine the foundations on which New Zealand is built and negatively impact the freedoms enjoyed by New Zealanders.

Acts of espionage against New Zealand may be carried out, directed and/or sponsored by foreign states or by non-state actors, both within New Zealand and offshore. Non-state actors are more diverse and have a range of motivations including financial gain, self preservation and personal ideologies. They may be private individuals, groups, corporate enterprises or insiders⁴ acting alone. The methods used can vary greatly.

What we do

Investigative Activities

The NZSIS helps detect, defend and counter threats posed by foreign intelligence services to New Zealand and New Zealanders. Countering these threats requires a multi-disciplinary approach. As such, the NZSIS works closely with domestic and foreign intelligence partners, the most significant being the GCSB.

The NZSIS continues to see foreign powers conduct espionage activity and other hostile state-sponsored activities (including foreign interference) against New Zealand and New Zealanders. Foreign intelligence services pursue information, both classified and publicly available, to support the objectives of their respective governments.

NZSIS's Cyber Security Role

The majority of New Zealand's cyber security response is geared towards computer network defence. The NZSIS, together with the GCSB and the National Computer Emergency Response Team (CERT) hosted by the Ministry of Business, Innovation and Employment, are responsible for identifying and mitigating the harm caused by cyber attacks on New Zealand and New Zealanders.

The NZSIS specialises in identifying and countering state-sponsored Computer Network Exploitation (CNE) activity. From the NZSIS's perspective, CNE is simply another mechanism state actors use to steal information (classified, official or commercial) or to disrupt and/or influence legitimate systems and processes within New Zealand. The NZSIS aims to provide niche insights into the cyber problem. For example, NZSIS looks into what information is being sought, who is responsible for the activity and the potential harm to New Zealand and New Zealanders.

⁴An insider threat, or insider, is any person who exploits, or intends to exploit, their legitimate access to an organisation's assets to harm the security of their organisation or New Zealand, either wittingly or unwittingly, through espionage, terrorism, unauthorised disclosure of information, or loss or degradation of a resource or capability.

CASE STUDY

NZSIS's Counter Proliferation Role

New Zealand is party to a number of treaties and initiatives that support global efforts to counter the spread of nuclear, chemical and biological weapons of mass destruction. The NZSIS, with support from other agencies like Immigration New Zealand and the New Zealand Customs Service, gathers intelligence and provides agencies with advice about activities linked to the proliferation of technology or information related to weapons of mass destruction.

The NZSIS continues to have lead responsibility for identifying proliferation threats and coordinating appropriate responses with other government departments to ensure New Zealand meets its domestic and international obligations.

PROTECTIVE SECURITY SERVICES

Having access to highly-classified information allows the NZIC and the NZSIS to provide unique advice to decision makers. This access also comes with a significant degree of responsibility and trust. Misuse, mishandling or the unauthorised disclosure of classified information could have significant consequences for the New Zealand Government, the government's international partners and the work of the NZIC. People and other organisations place a lot of trust in NZIC agencies to protect and respect their information.

What we do

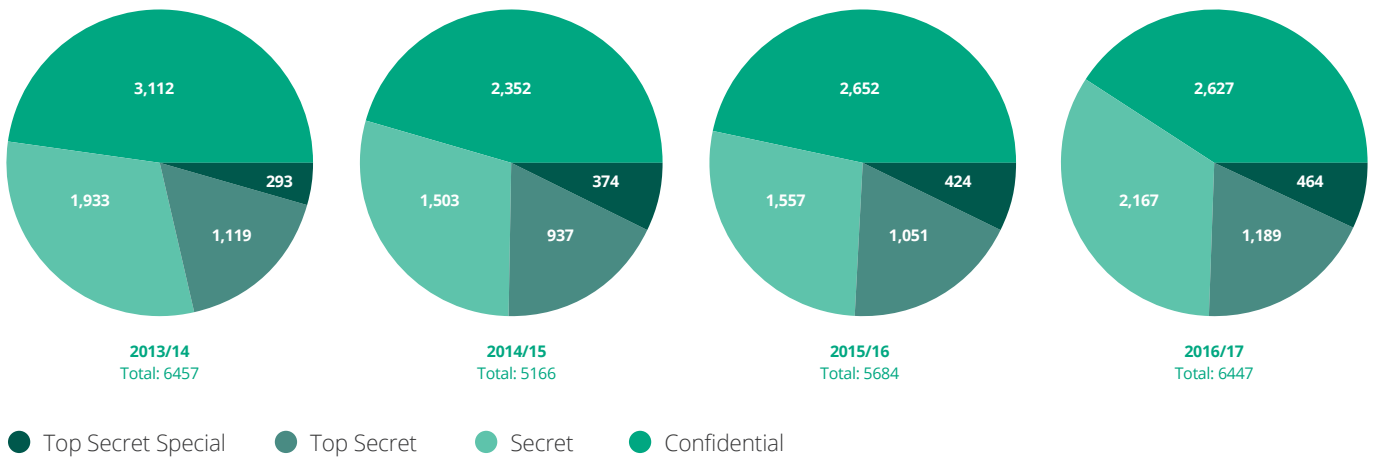
Protecting People, Information and Assets

One of the NZSIS's functions is to support the safety and security of the NZIC. In cooperation with the GCSB, the NZSIS helps ensure the NZIC's protective security measures meet national and international standards. These efforts ensure New Zealand's most sensitive information, people, facilities and assets are protected.

The NZIC's Combined Security Team (CST) is now fully functional and highly visible within the community. Hosted by the NZSIS, the CST leads the ongoing enhancement of internal security practices and communications across the NZIC.

In January 2017 the Combined Security Team hosted a one-day table-top exercise to test the effectiveness of its planning to deal with an insider incident. The exercise was attended by representatives from the GCSB, the Office of the Minister in Charge of the NZSIS, the Office of the Inspector-General of Intelligence and Security, the New Zealand Police, the New Zealand Defence Force, the Ministry of Foreign Affairs and Trade, the Ministry of Business, Innovation and Employment, and the Ministry for Primary Industries.

VETTING APPLICATIONS RECEIVED



ASSISTING KEY INSTITUTIONS TO MITIGATE THE RISK OF INSIDER THREATS

The NZSIS provides leadership on counter-intelligence and personnel security functions across government, including working to prevent, detect and respond to insider threats. As part of this work, the NZSIS provides advice and assurance to government agencies and private sector organisations.

What we do

Security Clearance Vetting

Any individual who has access to classified government information must hold a security clearance. NZSIS vetting officers undertake a range of duties, including interviewing candidates and referees, to make an assessment about an individual's suitability to hold a clearance. A recommendation is then provided to the chief executive of the relevant sponsoring agency. NZSIS vetting recommendations form the basis for state sector agencies to grant personnel access to classified information.

There was a year-on-year increase of 13 per cent in total vetting applications received by the NZSIS during 2016/17 (5,684 in 2015/16 compared with 6,447 in 2016/17). The largest increases were seen in Secret and Top Secret applications, increasing 39 per cent and 13 per cent respectively. This increase, coupled with the impacts of the November 2016 earthquake, affected our ability to meet our vetting performance targets over the last 12 months.

Prior to the November 2016 earthquake, the Security Vetting team was making positive progress towards achieving its key performance goal of processing 75 per cent of Confidential applications within 22 working days and 75 per cent of Secret applications within 38 working days. The earthquake severely impacted vetting performance for the following three to four months. From March 2017 onwards, the Security Vetting team has reversed that trend and is improving the timeliness of vetting processes.

The establishment of the Security Clearance Enhancement team in December 2015 has seen a lift in engagement with, and support for, vetting agency customers and candidates. The January 2016 vetting customer satisfaction survey established baseline data regarding the perceptions of vetting service delivery. Survey results in June 2017 indicate a positive increase in people's perception of vetting services.

This success is accredited to moving to a portfolio management approach for vetting customers (allowing a more customer centric approach), the hosting of an inter-agency vetting forum (the first for a number of years) and the production of a monthly vetting newsletter. Building on these initiatives, work is also underway to develop a new guide for vetting candidates that provides a simple explanation of the vetting process. This guide will provide more clarity to agencies and a candidate about what is involved when sponsoring or applying for a security clearance.

There was a year-on-year increase of 13% in total vetting applications received by the NZSIS during 2016/17. The largest increases were seen in Secret and Top Secret applications, increasing 39% and 13% respectively.



Inspector-General of Intelligence and Security Reports on Vetting Systems

In May 2017, the Inspector General of Intelligence and Security released part two of her report into vetting, the Review of NZSIS holding and use of, and access to, information collected for security vetting purposes. Parts one and two of the report included a total of 22 recommendations. The NZSIS has completed the implementation of 17 recommendations, with a further four currently under action. The remaining recommendation has been added to the vetting work programme for 2017/18.

Non-NZIC Protective Security Activities

The Protective Security Requirements (PSR) framework includes 29 mandatory requirements for agencies that span security governance and personnel, information and physical security. The PSR framework and PSR support team provide authoritative information, tools and guidance for government agencies to ensure they are operating protective security measures that fit their risk profile and needs. The PSR team is experiencing increasing interest from private sector agencies looking to improve their protective security postures.

Government agencies are responding positively to the PSR team's 'trusted, critical friend' approach. The number of agencies the PSR team engages with has grown markedly beyond the 35 mandated agencies to include 70 others.

The PSR website and content will be refreshed during 2017/18 to further support the achievement of the PSR framework objectives. 'PSR 2.0' will ensure the framework stays 'ahead of the curve' and capitalises on momentum

generated through a review of personnel security requirements, work led by the State Services Commission on agency physical security measures and the ongoing focus on information security across government.

The PSR team also manages the annual reporting process that government agencies use to report on their progress in implementing the PSR standards. This reporting regime provides assurance about the PSR mandated agencies ability to transact with the public safely and securely.

The 2016/17 reporting showed positive progress has been made in the mandated agencies protective security capability over the last 12 months. Agencies have lifted their average capability across all 12 of the protective security components and the gap between current and target capability is reducing. Agencies have programmes in place to ensure they make further capability improvements. Based on these programmes, the NZSIS believes the agencies are on track to reach their target capability levels in the medium term.

NEW ZEALAND'S NATIONAL ADVANTAGE IS PROMOTED

ENHANCED SECURITY IN THE PACIFIC

New Zealand promotes stability in the Pacific by helping mitigate regional security issues with its Pacific partners. The insights the NZSIS gains on the Pacific inform the wider New Zealand Government's efforts to keep the region safe and secure. When working in the Pacific, the NZSIS cooperates closely with other New Zealand agencies.

What we do

Pacific Liaison Programme

The NZSIS continues to operate a Pacific liaison programme with Pacific Island intelligence and security counterparts. This programme is geared towards building partner capability and promoting regional security and stability, while also promoting partners' respect of democratic principles, the rule of law and human rights.

MEANINGFULLY CONTRIBUTED TO INTERNATIONAL SECURITY

The international security environment directly impacts on the domestic and international threats New Zealand and New Zealanders face. The New Zealand Government, the NZIC and the NZSIS all take an active role in contributing to the global security effort through individual activities and by working together. It is in New Zealand's and New Zealanders' interests that the NZSIS proactively mitigates security threats before they materialise in New Zealand or offshore where New Zealanders may be present.

What we do

Analytical Assessment Activities

The CTAG is closely associated with comparable threat assessment centres in partner countries. The strength of these partnerships means CTAG can bring to bear a range of sources and expertise in judging domestic and international threats to New Zealand and New Zealanders. Similarly, CTAG provides several niche areas of assessment back to our partners. These relationships are particularly useful in assessing and managing threats to major events in New Zealand or offshore where New Zealanders have a substantial interest or presence.

International Liaison

The NZSIS has a number of personnel deployed in offshore liaison roles. These roles reflect the need to have global representation to effectively and efficiently mitigate national security threats to New Zealand and New Zealanders domestically and offshore.

The primary purpose of these liaison roles is to act as a nexus for the collection and distribution of information from liaison partners through developing, enhancing and maintaining strong relationships. While these liaison personnel are not focused on intelligence collection, they can play an important role in helping advance operational initiatives.

ENABLED BETTER POLICY AND DECISION MAKING

Ultimately, the security and intelligence advice the NZSIS provides to the New Zealand Government is about allowing decision makers across the system to make well informed decisions and achieve the best possible outcomes for New Zealand and New Zealanders. The NZSIS provides security advice across a wide range of topics which can influence policy and geopolitical decision making.

What we do

Analytical Assessment Activities

The NZSIS works closely with domestic and international partner agencies to provide timely and accurate assessments of threats to New Zealanders and New Zealand's interests. In turn, these threat assessments inform risk assessments, decision making and, in some cases, policy settings. For example, CTAG is a regular contributor to the Officials' Domestic and External Security Committee (ODESC) system for managing threats and risks to New Zealand from a particular area or country, a terrorist group or attack methodology, a major event or a specific theme.

Policy Advice Activities

The NZSIS also provides more general policy input to a broad range of public sector agencies to ensure national security considerations are incorporated into policy development and decision making processes. This advice includes contributing to the development of Cabinet papers, participating in cross-agency working groups and briefing Ministers about the impact policy changes may have on New Zealand's national security.

03

**ORGANISATIONAL
HEALTH AND
CAPABILITY**

MATCH-FIT LEADERSHIP

Successful organisations need strong and effective leadership at all levels, recognising leadership is not just the responsibility of senior managers. The NZSIS expects all staff to take a leadership role in ensuring the NZSIS is productive, effective and efficient in delivering positive security outcomes to New Zealand and New Zealanders.

LEADERSHIP DEVELOPMENT

Over the past year, the NZSIS has focused on improving management and leadership across all levels of the organisation from the Senior Leadership Team through to Branch, Section and Team Leaders.

This year, the majority of second-tier managers and some third-tier managers completed the State Service Commission's (SSC) Leadership Insight Programme. The remainder will be invited to participate in 2017/18. NZSIS staff are also actively involved in other leadership and management development programmes hosted by external education providers and other State sector agencies.

The NZSIS has introduced a leadership framework, which draws on the wider government approach to leadership and talent development. It forms a key part of the NZIC competency framework and provides a common structure for identifying and developing NZIC leaders.

Over the next year, NZSIS will continue to focus on building strong management and leadership capability within the NZSIS. It will continue to work across the security sector to maximise training investment, improve relationships and develop sector-wide career pathways.

OUTSTANDING PEOPLE

Recruiting, developing, and retaining outstanding people is a critical aspect of the NZSIS and NZIC workforce development planning. Having high quality people is always critical to any organisation's success. NZSIS staff provide the skills, innovation and drive necessary to ensure it keeps New Zealand and New Zealanders safe and secure – often in very challenging and complex situations.

Human resource services are provided to the NZSIS and GCSB through the Intelligence Community Shared Services (ICSS). Over the reporting period, the ICSS has completed a number of projects contributing to the NZSIS's work to develop outstanding people.

WORKFORCE PLANNING

During the reporting period, the NZIC completed a comprehensive review of its workforce needs and has developed workforce plans out to 2019/20 to ensure it has the right people capability to deliver the security and intelligence outcomes expected by the Government. The workforce plan is based on the funding allocated to the NZIC in Budget 2016 and the community's growth and development pathway detailed in the NZIC Four Year Plan. A considerable amount of work has gone into ensuring workforce plans provide as accurate a projection of future workforce needs as possible.

CAREER PATHWAYS

In 2015/16, a Career Pathways and Career Board system was introduced within the NZSIS and GCSB. This is a joint framework that illustrates the range of careers available within the NZIC, along with their progression requirements. It provides a robust and consistent competency-based framework against which staff can be assessed and promoted. It is a core part of the plan to develop more capability internally to help address market supply issues. Since its introduction, 52 NZSIS staff have applied for progression through the Career Boards, with 24 of these applications being successful.

BEYOND ORDINARY CAREERS

During 2016/17, a new employment brand, 'Beyond Ordinary', was launched to strengthen NZSIS and GCSB's ability to attract top talent. As a result of this work, there was a significant increase in the volume and quality of people recruited into the NZIC during the reporting year.

Work is underway to refocus the 'Beyond Ordinary' brand towards advertising the career pathway opportunities that the NZIC provides – rather than just focusing on advertising vacancies.

2016 CLIMATE SURVEY RESULTS

In 2016/17, the NZSIS conducted a climate and engagement survey to provide the NZSIS Senior Leadership Team with insights into staff engagement levels. The NZSIS was on par or above the public sector benchmark in 47 of the 62 items assessed in the survey and meaningfully above the benchmark in a further 13 items. Overall the survey results revealed staff had an 'engagement level' of 74 per cent, which is higher than the wider public sector benchmark of 69 per cent.

The Senior Leadership Team was particularly pleased to see the survey showed staff:

- Felt both highly connected to the NZSIS's mission of keeping New Zealand and New Zealanders safe and secure and that they are actively contributing to this outcome;
- Had high levels of confidence in the Senior Leadership Team; and
- Believed that as an organisation NZSIS was making the right changes for future success.

The NZSIS has identified areas for improvement relating to enablement, performance management and inter-team cooperation. The Senior Leadership Team, with input from staff, is in the process of identifying initiatives to address these areas while continuing to build on the positive result.

STAFF RETENTION

Staff retention is a critical factor for the NZSIS, particularly in light of the often unique and demanding environment in which staff operate and the time involved in recruiting, vetting and training suitable personnel. The ICSS continues to monitor attrition figures and exit interview information to identify reasons why staff exit and to reduce attrition. The following table indicates staff turnover increased slightly in the last year, though it remains on par with the Public Service (see next page for table).

DIVERSITY IN THE WORKFORCE

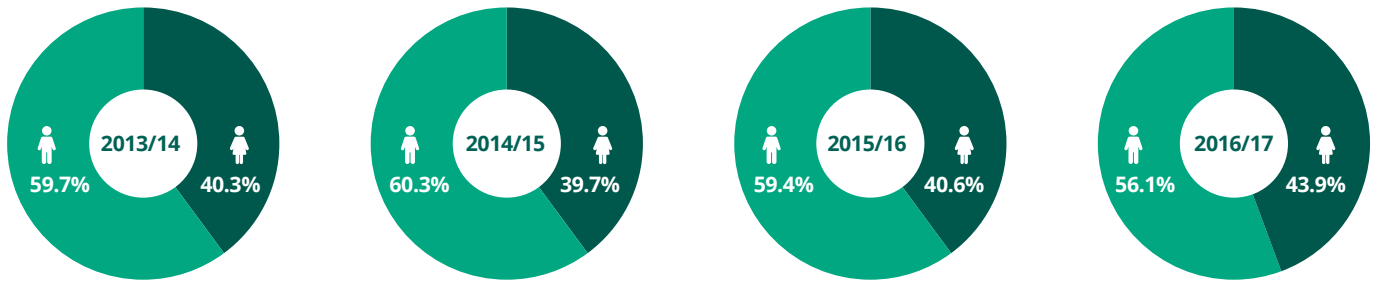
The NZSIS seeks to ensure it reflects the diverse population it serves. The NZIC workforce is generally less ethnically diverse than the wider Public Service because it is more difficult to confirm the personal information of people who have not been resident in New Zealand for a long period of time (a requirement of the vetting process). The NZIC recognises this as an issue and is seeking to mitigate negative implications for current and future staff and for the NZIC.

Training and education, a review of NZSIS and NZIC recruitment processes, and the influence of the NZIC Women's Network have all helped promote diversity and inclusion. However, the NZIC and the NZSIS are confident the organisations can do better. In the next financial year, they will develop a diversity and inclusion action plan setting out focus areas and specific work programmes.

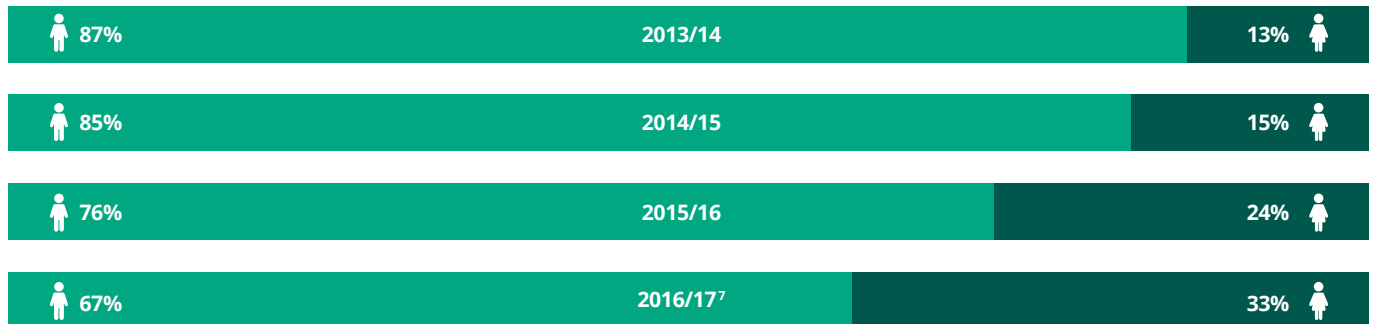
NZSIS ANNUAL STAFF CORE UNPLANNED TURNOVER⁵

	2013/14	2014/15	2015/16	2016/17
NZSIS	10.2%	10.1%	9.6%	11.5%
Public Service	10.7%	10.9%	11.1%	11.5%

GENDER DIVERSITY WITHIN THE NZSIS



GENDER DIVERSITY WITHIN THE SENIOR MANAGEMENT TEAM⁶



ETHNIC DIVERSITY WITHIN THE NZSIS

	2013/14	2014/15	2015/16	2016/17 ⁷
New Zealand European and European	58.9%	58.2%	59.6%	65.1%
Māori	5.9%	5.5%	6.9%	6.7%
Asian	4.9%	3.5%	4.6%	5.1%
Pacific Island	1.6%	1%	1.5%	1.9%
Middle Eastern, Latin American and African	-	-	-	1.1%
Other	-	-	-	0.4%

⁵ Some NZSIS staff were transferred into ICSS so have been excluded them from these figures.

⁶ Senior Management figures include Tier 2 and Tier 3 Managers.

⁷ The 2016/17 figures follow a new methodology and are not directly comparable to previous years.

SYSTEMS THAT ENABLE

Strong and effective systems support people to deliver high quality security and intelligence outcomes for New Zealand and New Zealanders. They are the enablers allowing the NZSIS to provide 'ahead of the curve' intelligence products and advice to decision makers. Strong systems also ensure NZSIS's activities adhere to strict oversight and accountability responsibilities.

LEGISLATIVE IMPLEMENTATION

In March 2016, Sir Michael Cullen and Dame Patsy Reddy presented the findings of their Independent Review of Intelligence and Security in New Zealand. The reviewers recommended significant changes to the legislation governing the NZSIS and GCSB and to oversight frameworks. On 28 March 2017 the new Intelligence and Security Act 2017 (ISA) gained Royal Assent – an important milestone for the NZSIS, GCSB and the wider intelligence community. The NZSIS and GCSB established a joint change programme which successfully implemented the initial provisions of the ISA (which came into force on 1 April 2017) and is now focused on the elements which will come into effect on 28 September 2017. An important workstream in the legislation implementation process relates to staff employment arrangements. Under the new legislation, on 28 September 2017 the NZSIS will become a public service department and staff will be covered under the State Sector Act 1998 and the Employment Relations Act 2000. Substantial work has been undertaken to ensure the NZSIS is operating new arrangements and meeting its obligations when they come into force. Education sessions on the implications of changes will be run for managers and staff.

GOVERNANCE AND OVERSIGHT

By necessity most of the NZSIS's activities are classified and as a consequence staff are unable to talk publicly about much of the work they do. Accordingly, effective oversight of the NZSIS's activities is essential to provide confidence to New Zealanders and the Government that the NZSIS adheres to the democratic principles of the society it seeks to serve.

The Intelligence and Security Committee

The Intelligence and Security Committee (ISC) is the parliamentary oversight mechanism for intelligence agencies, examining issues of efficacy and efficiency, budgetary matters and policy settings. The ISC was made up of the Prime Minister, two Members of Parliament nominated by the Prime Minister, the Leader of the Opposition, and one Member of Parliament nominated by the Leader of the Opposition. Selection criteria and composition changed when the ISA came into full force on 28 September 2017.

Office of the Inspector-General of Intelligence and Security

The Inspector-General of Intelligence and Security (IGIS) and her office is the key oversight body of the NZIC. The IGIS provides a way for the public to have confidence the NZSIS complies with the law. The IGIS also acts as a mechanism to investigate complaints against the activities of the NZSIS by the public.

The NZSIS regularly meets with staff from the Office of the IGIS (at varying levels) to discuss matters of interest. The NZSIS also provides information and resources in support of IGIS investigations and queries.

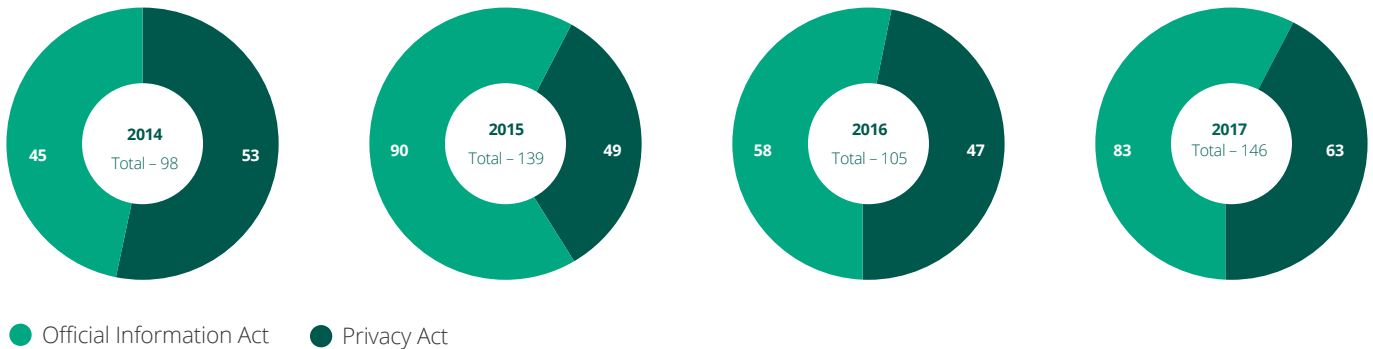
Ombudsman and Privacy Commissioner

The Office of the Ombudsman (OOTO) and the Office of the Privacy Commission (OPC) also provide important oversight of NZSIS activities. This financial year, 15 complaints were made against the NZSIS to the OOTO or OPC, resulting in the following outcomes.

- Nine complaints were considered by the OOTO, with eight decided in favour of the NZSIS and one awaiting a final decision.
- Six complaints were considered by the OPC, with all being decided in favour of the NZSIS (one was settled through the release of further information).

In all cases, the NZSIS worked proactively with the OOTO and the OPC to resolve complaints in a timely fashion and explain the reasons behind its decisions. Increased funding to the OOTO has enabled a prompt resolution service that is favourable both to the NZSIS and individuals who have lodged complaints. The NZSIS has worked with both the OOTO and OPC to develop wording that clearly explains how the NZSIS reached its decisions while also balancing security and privacy concerns. The NZSIS continues to engage with the OOTO and OPC to provide insights into the types of information requests received and how to approach responses.

OFFICIAL INFORMATION ACT AND PRIVACY ACT REQUESTS



Information Requests

When responding to information requests where the NZSIS cannot provide information due to security or privacy concerns, the NZSIS tries to provide as much information as possible about how staff have reached this decision. The NZSIS only relies on “neither confirm nor deny” statements (in accordance with Section 10 of the Official Information Act 1982 or Section 32 of the Privacy Act 1993) where necessary.

In 2016/17, the NZSIS worked with the OPC to develop a publicly available case note⁸ to explain its approach to Section 32 of the Privacy Act 1993 and “neither confirm nor deny” responses. The NZSIS advised the OPC the agency generally discloses personal information unless there is good reason to refuse to do so or to give a notice neither confirming nor denying the existence or non-existence of the information requested. Ultimately, the decision as to what, if any, information is provided will be determined based on the security implications involved in each specific instance. There is no general or ‘one size fits all’ approach.

The above graphic sets out the total number of information requests received during the year to 30 June 2017 and provides a comparison to past years. The following notable Official Information Act requests were made to NZSIS for historic information this period: information on the Progressive Youth Movement; the Socialist Labour League; the Yugoslav Branch of the Communist Party of New Zealand; and the “No Māori, no tour” protests. Information on the Rainbow Warrior bombing was released for the first time. The NZSIS also released information from 11 closed historic personal files over the financial period.

The NZSIS continues to train staff on the obligations and requirement of the Official Information Act 1982 and Privacy Act 1993. In the year to 30 June 2017, 14 sessions were delivered to staff.

Compliance Systems

During the reporting period, the NZSIS responded to all 45 of the recommendations made in the 2015 Internal Review of Compliance⁹. The NZSIS has transitioned from designing and building a compliance framework to monitoring and continuously improving the robustness of the systems that underpin it. By better enabling staff to do their jobs, these systems have driven an increased compliance culture across the NZSIS.

Key developments during the year included:

- Establishing an accessible ‘single source of truth’ database of operational policies, standard operating procedures, and memoranda of understanding.
- Publishing new or refreshed existing guidance for all operational teams and providing support to vetting teams to develop guidelines to support new business processes.
- Senior managers completing a survey to assess the systems supporting compliance with legislation.
- Launching a compliance audit programme through to June 2018 and completing activity audits for individual business units.
- Implementing regular reporting on all aspects of the compliance programme to the Senior Leadership Team and the Inspector-General of Intelligence and Security.

During 2017/18, the compliance team will continue to support compliant behaviour through an ongoing programme of auditing, training and refreshing operational procedures. The team will also contribute to drafting Ministerial Policy Statements and the development of supporting systems as required by the ISA.

⁸ This can be found at www.privacy.org.nz/news-and-publications/-/case-notes-and-court-decisions

⁹ The 2015 Internal Compliance Review is available at NZSIS.govt.nz

DELIVERY EXCELLENCE

The NZSIS always aims to deliver high quality intelligence and security products and advice to inform decision-making. This not only enables decision makers to make the best decisions possible, it also builds trust and confidence in the NZSIS and the underlying systems and processes used to generate intelligence products and advice.

OPERATIONAL STRATEGY AND CAPABILITY DEVELOPMENT

The NZSIS continues to build its medium and long term strategic planning and investment around its new ten-year operational strategy and the additional funding made available to the NZSIS through Budget 2016. The primary focus of this year's work was further embedding the operational strategy into business planning models and setting strong foundations for future growth over the next three years.

Overall, the NZSIS is pleased with progress to date. The organisation expects to see an acceleration in the achievement of strategic and operation outcomes as it aligns and develops systems for the NZSIS, GCSB and NZIC.

A NEW WAY OF DOING BUSINESS

The NZSIS commenced an organisational review during 2016/17 to ensure it has the capacity, capability and resilience to deliver on the significant work streams arising from the recent investment in the NZIC, *the NZIC 2017 Four-Year Plan* objectives and the impacts of the new ISA. The resulting organisational changes will ensure the NZSIS is well placed to grow our functions and capabilities in a considered and controlled fashion.

BETTER EVERY DAY CUSTOMER ENGAGEMENT INITIATIVE

In February 2017, the NZSIS, GCSB and the DPMC's National Assessments Bureau (NAB) launched a new customer engagement initiative. This is the intelligence community's most ambitious programme to date for better understanding customers and increasing the value intelligence provides to them. The three agencies – with support from State Services Commission 'Better Every

Day' continuous improvement business coaches – are working to identify where the intelligence system works well for customers and where there are obstacles.

The engagement initiative has identified opportunities for improving the way intelligence is currently tailored, delivered and used by customers. The next stage of the process is to trial improvements in each of these areas. The lessons learned will then be evaluated and, as appropriate, applied more broadly and made sustainable across the NZSIS, GCSB and NAB.

'Better Every Day' methods will continue to be used in future months and years to ensure the NZSIS and other NZIC agencies continuously improve the way they work with customers to ensure they derive maximum value from the intelligence community.

POWERFUL PROFILE

Having the respect and assistance of our domestic and international partners is critical to ensuring that the NZSIS can achieve its objectives. Domestic and international partners provide valuable intelligence, capability and training to the NZSIS and the NZIC. But the most important enabler for success is the New Zealand public. The agencies rely on the trust and confidence of New Zealanders to work with them to help build a safe and secure New Zealander together.

Maintaining a powerful domestic and international profile will help ensure:

- Customers value NZSIS advice and expertise.
- The public are aware of the work of the NZSIS and the value we add.
- International partners recognise the value the NZSIS adds to international security.
- The NZIC's collaborative approach is seen as an exemplar in government.
- The NZSIS is seen as responsive to media requests.
- The NZIC is seen as a desirable place to work, attracting skilled and talented staff.

DOMESTIC AGENCIES

As an advisory agency, the NZSIS works closely with a large number of government agencies and private companies. This work includes providing high level advice to ministers and chief executives, as well as contributing to tactical decision making within other government agencies such as the New Zealand Police and Immigration New Zealand. It also engages with a range of private companies to help them understand how they can better protect their people, information and assets. Having a powerful domestic profile ensures that the NZSIS is consulted on relevant policy decisions and the advice it provides is valued by decision makers.

EXTERNAL ENGAGEMENT

Engaging with stakeholder groups and the public is an important part of the NZSIS being as transparent and open as possible about the important work we do to keep New Zealand and New Zealanders safe. Openness, transparency and trust are important to stakeholders, customers, decision-makers and the wider public understanding and supporting the NZSIS's work.

Over the past 12 months, the Director-General of Security has continued engaging in interviews and briefings with the media and presenting at conferences and events on a range of security-related topics. Such events have ranged from delivering speeches to high school students through to speaking at community forums and conferences for emerging leaders.

ACADEMIC INSTITUTIONS

Building on the NZSIS's work in 2015/16, over the past year the NZSIS has engaged with a number of New Zealand Universities. This has included the Director-General of Security giving a guest lecture at Auckland University and providing protective security advice to relevant universities.

ARCHIVES NEW ZEALAND

Archives held by the NZSIS comprise records created since its formation as the New Zealand Security Service in 1956, as well as the security-related files of the New Zealand Police Special Branch (1919 to 1957) and the Security Intelligence Bureau (1940 to 1945).

The NZSIS has long recognised the historic value of these unique records and ensured their preservation. Since 2008, a declassification programme has seen the selective public release of records where this can be done without compromising important ongoing intelligence sources and methods or the privacy of individuals.

Since 2013, NZSIS records assessed as being of high public interest have been transferred to Archives New Zealand. This process accords with the Public Records Act 2005 and allows members of the public access to historical documents. In the year under review, the NZSIS has prepared for transfer to Archives New Zealand seven volumes of Communist Party of New Zealand files covering the party's history and structure (1919 to 1957), secretariat and national office (1921 to 1956) and national conferences (1926 to 1954).

In the past year, the NZSIS has also provided significant assistance to historians researching specific topics.

The agencies rely on the trust and confidence of New Zealanders to work with them to help build a safe and secure New Zealand together.



STATEMENT ON WARRANTS

In accordance with sections 4K, 4I(1)(h), and 4I(12) of the New Zealand Security Intelligence Service Act 1969 (the Act), I submit the following statement on warrants and authorisations for the year 1 July 2016 to 30 June 2017 (the reporting period).

This report includes information on domestic and foreign intelligence warrants issued under sections 4A(1) and 4A(2), domestic and foreign visual surveillance warrants issued under sections 4I(1) and 4I(2), removal warrants issued under section 4I and authorisations issued under section 4I(1) of the Act and in force at any time during the reporting period.

DOMESTIC INTELLIGENCE WARRANTS

During the reporting period:

- a. 53 domestic intelligence warrants were in force. Of those, 28¹⁰ were issued during the reporting period and 25 were issued during the previous year but remained in force for some part of the reporting period.
- b. The average length for which those warrants were in force during the reporting period was 172 days (rounded to the nearest day).
- c. There were four domestic intelligence warrants under which no action was taken during the reporting period.
- d. There was one amendment to a domestic intelligence warrant.
- e. 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.
- f. The information obtained materially contributed to the detection of activities prejudicial to security or produced foreign intelligence information essential to security that was not likely to have been obtained by other means.

FOREIGN INTELLIGENCE WARRANTS

During the reporting period:

- a. 22 foreign intelligence warrants were in force. Of those, 12 were issued during the reporting period and 10 were issued during the previous year but remained in force for some part of the reporting period.
- b. The average length for which those warrants were in force during the reporting period was 153 days.
- c. There were five foreign intelligence warrants under which no action was taken during the reporting period.
- d. There were no amendments made to any foreign intelligence warrants.
- e. 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.
- f. The information obtained materially contributed to the detection of activities prejudicial to security or produced foreign intelligence information essential to security that was not likely to have been obtained by other means.

¹⁰ This figure does not include the one domestic visual surveillance warrant and the one authorisation which are reported separately on the next page.

DOMESTIC VISUAL SURVEILLANCE WARRANTS

During the reporting period:

- a. One domestic visual surveillance warrant was issued during the reporting period. No visual surveillance warrants were issued during the previous year which remained in force for any part of the reporting period.
- b. The average length for which the warrant was in force during the reporting period was 184 days (rounded to the nearest day).
- c. The single domestic visual surveillance warrant issued had no action taken during the reporting period.
- d. There were no amendments made to the domestic visual surveillance warrant.

Foreign Visual Surveillance Warrants

There were no foreign visual surveillance warrants in force during the reporting period.

REMOVAL WARRANTS

There were no removal warrants in force during the reporting period.

AUTHORISATIONS

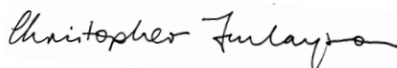
There were no authorisations in force during the reporting period.



Rebecca Kitteridge
Director-General of Security

DATED: 15 August 2017.

I have reviewed all warrants and authorisations in force during the period beginning 1 July 2016 and ending 30 June 2017 and certify that the information set out in the above Statement on Warrants is correct.



Hon. Christopher Finlayson
Minister in Charge of the New Zealand Security Intelligence Service

DATED: 21 August 2017.

04

**REVIEW OF
OUTPUT
PERFORMANCE**

This section reports on the NZSIS's output performance as set out in the 2016/17 Vote Security Intelligence Estimates of Appropriation.

The NZSIS has a single appropriation, Security Intelligence, and aims to achieve its outcomes through the delivery of four outputs contained within this single appropriation.

The objective of the NZSIS is to provide 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
- d. Liaison with overseas security and intelligence organisations and public authorities.

THE FOUR OUTPUTS THE NZSIS DELIVERED FOR 16/17 ARE:



Threat Management and Security Intelligence;



Foreign Intelligence and International Contribution;



Protective Security; and



Delivering the Strategy, Capability, and Resourcing Review.

05

**FINANCIAL
STATEMENTS**

STATEMENT OF RESPONSIBILITY

I am responsible as Director-General of Security of the New Zealand Security Intelligence Service (NZSIS) for the following.

- The preparation of NZSIS's financial statements, and the statement of expenses and capital expenditure, and for the judgements made in them.
- Having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
- Ensuring that end of year performance information on each appropriation administered by the NZSIS is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report.
- The accuracy of any end of year performance information prepared by the NZSIS, whether or not that information is included in the annual report.

In my opinion:

- The financial statements fairly reflect the financial position of the NZSIS as at 30 June 2017 and its operations for the year ended on that date.

Rebecca Kitteridge

Rebecca Kitteridge
Director-General of Security

29 September 2017

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT

To the readers of the New Zealand Security Intelligence Service's financial statements for the year ended 30 June 2017.

The Auditor-General is the auditor of the New Zealand Security Intelligence Service (the Service). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out, on his behalf, the audit of the financial statements of the Service for the year ended 30 June 2017, which is made up of the statement of expenses and capital expenditure against appropriation on page 43.

OPINION

In our opinion the statement of expenses and capital expenditure against appropriation of the Service on page 43 is presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.

Our audit was completed on 29 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Director-General of Security and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

RESPONSIBILITIES OF THE DIRECTOR-GENERAL OF SECURITY FOR THE FINANCIAL STATEMENTS

The Director-General of Security is responsible on behalf of the Service for preparing the financial statements, which are made up of the statement of expenses against appropriation and capital expenditure of the Service, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989 and the Intelligence and Security Act 2017.

The Director-General of Security is responsible for such internal control as is determined is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director-General of Security is responsible on behalf of the Service for assessing the Service's ability to continue as a going concern. The Director-General of Security is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Service, or there is no realistic alternative but to do so.

The Director-General of Security's responsibilities arise from the Public Finance Act 1989 and the Intelligence and Security Act 2017.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole, which are made up of the statement of expenses and capital expenditure against appropriation, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the financial statements.

For the budget information reported in the financial statements, our procedures were limited to checking that the information agreed to the Service's Estimates and Supplementary Estimates of Appropriations 2016/17 for Vote Security Intelligence.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Service's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Director-General of Security.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Director-General of Security and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Service's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Service to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Director-General of Security regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Director-General of Security is responsible for the other information. The other information comprises the information included on pages 4 - 38, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

We are independent of the Service in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Service.



Kelly Rushton

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

STATEMENT OF EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATION

For the year ended 30 June 2017.

In accordance with section 45E of the Public Finance Act 1989 (PFA),
I report as follows:

The 'total appropriation' in the table below incorporates both operating expenses
and capital expenditure forecast for the year. The 'actual expenditure' includes the
actual operating expenses and the actual capital expenditure incurred.

TOTAL APPROPRIATION AND ACTUAL EXPENDITURE FOR 2016/17 (\$000)

	\$000
Total Appropriation	\$61,934
Actual Expenditure	\$57,143



New Zealand
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