



NEW ZEALAND SECURITY INTELLIGENCE SERVICE
TE PĀ WHAKAMARUMARU

Annual Report 2018

Preface

This is the unclassified version of the Annual Report of the New Zealand Security Intelligence Service (NZSIS) for the year ended 30 June 2018. This version will be tabled in Parliament and made available to the public on the NZSIS website (www.nzsis.govt.nz).

The detailed work of the NZSIS has been omitted from the unclassified version of the report for security reasons. This is necessary to protect the ongoing ability of the NZSIS to be effective in its role as prescribed in the Intelligence and Security Act 2017.

Presented to the House of Representatives pursuant to section 221(4) of the Intelligence and Security Act 2017.

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Introduction to NZSIS

The New Zealand Security Intelligence Service is a public agency which contributes to the safety and security of New Zealand and New Zealanders. The NZSIS was officially established in 1956. Prior to this, issues of national security concern were handled by the Special Branch of the New Zealand Police.

On its fiftieth anniversary, the Māori name for the NZSIS, Te Pā Whakamarumarū, which translates to *The Sheltering Citadel*, was adopted as part of its official emblem.

The NZSIS head office is based in Pipitea House on Pipitea Street in Wellington. The NZSIS has regional offices in Auckland and Christchurch, as well as overseas liaison offices. As of 30 June 2018 the NZSIS had 335¹ full time equivalent staff.

This Annual Report identifies some of the work undertaken by the NZSIS to meet Government expectations over the period 1 July 2017 to 30 June 2018.

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

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Overview of
the year

Minister's Foreword



New Zealanders enjoy an enviable way of life. The values we hold dear, such as democratic government, the rule of law, and freedom of speech, define our character as a nation and underpin our economic and social wellbeing. The development of new technologies provides countries with real opportunities and greater connectivity but even so—and to some extent because of this—the world is becoming increasingly challenging and uncertain. The New Zealand Intelligence Community must be agile to adapt to this changing environment.

We must be alert to the risk of interference in New Zealand's domestic affairs by hostile states inappropriately influencing New Zealand communities or seeking to access sensitive information and intellectual property for their own purposes. At the same time the threat posed by terrorism has not reduced and continues to evolve. Lone actors are being influenced by radical and violent ideologies online and may be mobilised to act, as we have seen in other countries.

Resilience and resistance to security threats within New Zealand communities and institutions require robust protection and detection measures. Understanding the forces at play in our region is also important. The collection, assessment, and reporting of intelligence by the New Zealand Security Intelligence Service (NZSIS) is critical to these efforts and informs the actions of relevant decision makers and government agencies. Over the past year the NZSIS has put a lot of effort into ensuring that its intelligence reporting is timely and relevant for customers.

Another area where there has been an increased focus on service delivery for customers is the NZSIS's protective security services. An effective security clearance service, which ensures that only trustworthy people have access to sensitive information and assets, is a core part of keeping New Zealand institutions safe. It is pleasing to see significant improvements have been made to security clearance processes and systems over the past year.

At the same time, the NZSIS has revamped its Protective Security Requirements website to deliver fit-for-purpose, bespoke protective security advice. This has been well received by government agencies and an increasing number of organisations in the private sector.

Over the past year, I have seen the proactive efforts of the Directors-General of both the NZSIS and the Government Communications Security Bureau (GCSB) to increase public awareness about the work done by the intelligence organisations and the role they play in safeguarding our country and institutions. Sharing what they can is an important part of building and maintaining the trust and confidence of the New Zealand public and this is something we will continue to see.

New Zealand should be confident the work the New Zealand Intelligence Community undertakes to understand, mitigate and manage threats will continue to keep New Zealand and New Zealanders safe and secure.

Andrew Little
Minister Responsible for the New Zealand
Security Intelligence Service

Director-General's Overview



The New Zealand Security and Intelligence Service strives to provide crucial security and intelligence services to protect the wellbeing of New Zealand and New Zealanders and ensure decision makers are well informed. It is essential that our work is underpinned by a high level of public confidence and trust. New Zealanders should feel safe to go about their daily lives knowing that our institutions, infrastructure, and information assets are protected, and that we are positive contributors to both regional stability and global security.

Every year brings with it new possibilities as well as its own challenges. Three events converged last financial year. We had new legislation to implement, a number of ministerial briefings to deliver and security clearances to process for the new Government, and we underwent major organisational change.

The threat environment we operate in is changing and we need to remain agile and capable to respond to, and counter, the challenges ahead of us. One of our main priorities is to counter foreign actors seeking to advance their own interests to New Zealand's detriment. Some types of foreign interference that other countries are experiencing are also being detected in New Zealand, and we need to safeguard against such undue interference.

On the terrorism front, in spite of the Islamic State of Iraq and the Levant (ISIL) losing most of its physical territory, the influence of terrorism and radical ideologies remains persistent in the online sphere where it is easily accessible to anyone. A small but concerning number of New Zealanders continue to engage with this often violent online content and radical ideology, which presents a risk to others.

The intelligence the NZSIS gathers on counter-terrorism and foreign interference is an important part of keeping New Zealanders safe. It provides key decision makers with insight into situations they would not otherwise have, so they can take the appropriate action. The NZSIS works closely with the Government Communications Security Bureau, the wider New Zealand Intelligence Community, and law enforcement agencies to address threats to New Zealand's national security.

In order for the NZSIS to deliver positive security outcomes for New Zealand, we have committed to keep investing in our people, and improving the processes and systems we have in place. Vetting is an important measure to ensure classified information is handled by the right people. The significant progress made in the system to assess people for security clearances is one that I am particularly proud of. Over 2017/18, the average time taken to complete all security clearance applications was reduced by 51 per cent, to 77 working days while the process is thorough, we can make it easier for people. The team has put a lot of effort into improving the customer experience.

The Protective Security Requirements team also has a strong outreach and customer focus. Our work with public sector agencies helps to ensure they are employing best practice when it comes to security standards for managing personnel, physical, and information security. It is good to see interest from the private sector is growing in this space too. We have significant expertise in this area, and educating others on how to stay safe and secure is a responsibility we take seriously.

I continue to be extremely proud of the staff who choose to work for us and their unwavering commitment to protecting the security of our country, and the safety of their fellow New Zealanders. It is my pleasure to share the achievements of the New Zealand Security Intelligence Service over the 2017/18 financial year and the ways in which we have positively contributed to the ongoing security and wellbeing of New Zealand and New Zealanders.



Rebecca Kitteridge
Director-General of Security

The threat environment we operate in is changing and we need to remain agile and capable to respond to, and counter, the challenges ahead of us.



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Our work
in detail

New Zealand's Intelligence Community

Purpose

The NZIC exists to protect New Zealand as a free, open, and democratic society. The bespoke intelligence-based insights and advice this community provides to the Government enable decisions to be made which sustain and enhance New Zealand's security and wellbeing. The NZIC contributes to the following policy outcomes:

- Keeping New Zealand and New Zealanders safe by giving the Government the ability to identify, investigate (including through covert collection), and respond to, significant national security threats.
- Helping the 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.

Agencies

The core NZIC includes:



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

National Intelligence Priorities

The activities of the NZIC are guided by the National Intelligence Priorities (NIPs). These priorities are set by the Government and drive intelligence collection, assessments and reporting activities.

The successful delivery of the NIPs requires cross-sector intelligence work and involves other New Zealand agencies such as the New Zealand Defence Force (NZDF), New Zealand Police (Police), New Zealand Customs Service (Customs), the Ministry of Business, Innovation and Employment (MBIE), and the Ministry of Foreign Affairs and Trade (MFAT).

The NZSIS seeks to achieve three primary outcomes for New Zealand and New Zealanders.

Objectives of the NZSIS

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 New Zealand Intelligence Community (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.

The Threat Landscape

Foreign Interference

Recent world events have brought espionage and foreign interference into public consciousness. The poisoning of Sergei and Yulia Skripal and two British citizens in the UK, along with allegations of foreign interference in other countries' democratic processes, has sparked public interest and debate. Many states promote a positive image and cultivate influence abroad to enhance their national advantage. However, many nations are seeing more covert interference from foreign state actors.

We know New Zealand is a target of espionage and foreign interference activity. The threat of espionage towards New Zealand remains, as foreign actors attempt to gain access to sensitive government and commercial information, and valuable intellectual property.

In the past year we have continued to see evidence of foreign efforts to covertly influence New Zealanders and New Zealand's institutions. These efforts have attempted to influence decision makers, control migrant communities, and acquire intellectual property.

The methods, technology, and tools used to carry out and obscure espionage and foreign interference activities have continued to evolve. Hostile cyber activities, in particular, are a key tool for foreign states to project their influence abroad, including into New Zealand.

Terrorism and Violent Extremism

New Zealand's threat environment is complex and dynamic. Currently, the national threat level is set at 'low'; an attack is assessed as possible but not expected. It should be noted that low does not mean that there is no threat. The threat level is continually under review and could change if the threat is assessed as increasing or decreasing.

Attacks perpetrated by self-radicalised individuals and small groups using readily available items, such as vehicles and knives, as weapons have gained international attention over the past year. In October 2017, there was a vehicle attack in New York claimed by the Islamic State of Iraq and the Levant (ISIL). In Australia, in February 2018, a man was stabbed in his home in an ISIL-inspired attack. These attacks have been carried out in a number of countries with similar outlooks and democratic ideals as New Zealand, including Canada, Australia, the United Kingdom (UK), France, and the United States of America (USA).

The main global terrorist actor continues to be ISIL. Although ISIL's territorial holdings have significantly diminished, intelligence shows that ISIL continues to exert itself online and encourage attacks in the West.

We know online consumption of extremist material is occurring in New Zealand. Several individuals have been charged and convicted with offences relating to objectionable extremist material.

At any one time, around 30 people are of particular interest to the NZSIS. This number is not static. As investigations into individuals of interest are resolved or their activities of concern diminish, other individuals of interest emerge.

As a result the number fluctuates over time, however during the reporting period the number of people of serious concern remained steady.

Overseas experience shows that it is possible for someone who is not known to security and intelligence agencies to move from radicalised to undertaking a terrorist attack or other action in a short timeframe, often with minimal forewarning. While the NZSIS and law enforcement counterparts work hard to identify and mitigate threats, it is possible that an isolated individual, unknown to these agencies, could be inspired to carry out a terrorist act in New Zealand.

New Zealanders are Safer

Emerging Terrorism Threats

The New Zealand Government and public have zero tolerance for terrorism. Not only do we want New Zealand to be protected from it but we're committed to making sure no New Zealanders at home or abroad contribute to it.

The NZSIS aims to stay ahead of emerging terrorism threats. The threat environment we are operating in now developed as a result of a complicated set of global and local circumstances, including the convergence of events, sentiments and ideology. To effectively protect New Zealand, it is important to know what we are up against and be prepared for the threats we will face now, and five to ten years into the future.

The NZSIS analyses global trends relating to violent extremism to understand how these may translate to activity in New Zealand. This enables the NZSIS to assess whether existing threats are increasing or diminishing, and whether new threats are emerging. The NZSIS provides decision makers with intelligence reporting to mitigate potential threats early, as well as advice to shape New Zealand's response to these threats. Where appropriate, other agencies and international partners are provided with information about these threats.

Within the wider geographic region, Islamist extremist groups remain influential in South East Asia. There is an ongoing threat to travellers and Western interests in the region, particularly in major cities and in some tourist destinations. In the southern Philippines, ISIL-aligned groups continue to challenge the government as they seek to control and influence ungoverned spaces. ISIL-affiliated networks in Indonesia have recently demonstrated their intent and capability to conduct attacks and will likely continue to target local security and government personnel. While Malaysia has not suffered a terrorist attack in the last year, regular arrests by Malaysian authorities of ISIL-aligned individuals demonstrates the ongoing presence of extremists in Malaysia.

Proliferation of Extremist Material Online

One trend that continues to be prevalent is the online proliferation of extremist content and ideologies. Despite ISIL's territorial losses, its online influence remains and terrorist propaganda is readily accessible. Individuals can be exposed to graphic content and extremist ideology in their own homes with little, if any, moderating influence. Over time, this can lead to self-radicalisation and may also lead individuals to mobilise and undertake activity in support of an extremist ideology.

Case Study

During the reporting period, the NZSIS was alerted to an individual who was engaging with extremist ideology online. The activity initially indicated that the individual was supportive of ISIL and aspired to travel off shore to join the group in Syria.

The investigation determined the individual's ISIL-related activities and aspirations were driven by an interest in extremist groups and the excitement of engaging with ISIL affiliates online. Since the NZSIS engaged with the individual, activities of security concern have ceased.

The NZSIS continues to be concerned by the ease with which associations of security concern can be formed online.

Active Counter-terrorism Investigations

The NZSIS investigates possible domestic and international violent extremism threats. Lead information comes from a wide range of sources, including members of the public, and reporting from international and domestic liaison partners.

The majority of leads identified during 2017/2018 were linked to ISIL. Most related to individuals allegedly viewing violent or objectionable extremist propaganda, supporting or seeking to support the activities of ISIL, or seeking to travel offshore in order to associate with extremist groups or terrorist entities. Upon receiving lead information, the NZSIS considers whether a national security threat exists and if the threat meets the threshold to trigger an investigation or a wider government response. With partners such as the Police, Customs, and Immigration New Zealand, the NZSIS works to ensure threats do not escalate to acts of violence and that New Zealanders do not become the perpetrators or victims of terrorism.

Online consumption of extremist material was a consistent feature of many investigations. Several individuals had previously been convicted of offences relating to objectionable extremist material.

Terrorist groups use the internet to influence and enable others to support their ideology. This continues to present challenges for counter-terrorism investigations and is a significant concern for security and law enforcement agencies. There may be individuals in New Zealand whose radicalisation may not be known to law enforcement who could mobilise to violence with little or no forewarning.

A small number of New Zealanders are believed to remain in Syria or Iraq alongside ISIL or other extremist groups. The NZSIS is not aware of any terrorist foreign fighters who have returned to New Zealand from Syria or Iraq, nor is the NZSIS aware of any ISIL-aligned New Zealand citizens (or individuals with shared nationality) in Syria or Iraq imminently planning to travel to New Zealand. It is possible that New Zealand citizens in the area may return to New Zealand as the situation with the physical caliphate in Syria changes.

The National Threat Level and CTAG

The Combined Threat Assessment Group (CTAG) is an interagency group which provides independent assessment to inform the National Security System and wider government agencies of the threat posed by terrorism to New Zealanders and New Zealand interests. CTAG issues terrorism threat assessments on a wide range of issues and topics. One of CTAG's key functions is to set and continually review New Zealand's national terrorism threat level.

CTAG works closely with other government agencies to ensure that the national terrorism threat level is appropriately calibrated. The purpose of the national terrorism threat level and associated threat assessment narrative is to inform national security risk management and decision making processes.

CTAG is hosted by the NZSIS and includes representatives of the NZSIS, GCSB, NZDF, Police, and the Civil Aviation Authority.

Security Screening

The NZSIS supports border security agencies to maintain the integrity of New Zealand's border. The details of thousands of individuals are checked each year before they enter New Zealand. The screening process identifies and monitors travellers with links to international extremist groups, espionage activities, or the proliferation of Weapons of Mass Destruction technology.

As mandated by the Citizenship Act 1977 and the Civil Aviation Act 1990, the NZSIS provides security screening of individuals applying for citizenship, some permanent residence applications and those seeking to have access to secure airport environments.

Events and Deployments

A large number of New Zealanders live, travel, or work overseas. New Zealanders living or travelling abroad potentially face a greater threat of being affected by a terrorist event. Overseas postings and events can also expose New Zealanders to espionage. The NZSIS has provided support to ensure New Zealanders are safe in such situations.

The NZSIS helps to protect Government representatives and officials posted overseas or attending international events and conferences. The NZSIS may, for example, deploy to an event beforehand, liaise with other agencies, or provide security briefings before and after individuals depart.

Security and Management of Major Events

The primary role of the NZSIS in major events is security planning. This involves working closely with other New Zealand agencies and foreign liaison partners to ensure New Zealand's interests are safeguarded. The NZSIS has continued to provide protective security support for a number of events both in New Zealand and overseas to keep New Zealanders safe.

CTAG monitors global terrorist threats and contributes advice to MFAT's Safe Travel Service when there is a possibility New Zealanders or New Zealand's interests could be affected. During the reporting period, CTAG's assessments supported major events at home and abroad including World War One commemorations in Western Europe and Israel, ANZAC Commemorations at Gallipoli, and the Gold Coast Commonwealth Games.

Support to Military Operations

The NZSIS continued to provide support to NZDF operations throughout the year.

New Zealand Institutions are Protected

Espionage and Hostile Foreign Intelligence Threats

New Zealand is not immune to acts of espionage or covert interference and the NZSIS has a strong focus on detecting and addressing this activity. Foreign intelligence services have the intent and capability to target our nation's interests both in New Zealand and offshore.

What is Foreign Interference?

Depending on the source, the terms 'foreign influence' and 'foreign interference' are used synonymously to describe any effort by foreign state actors to affect the domestic environment. The NZSIS has taken the following approach:

- Foreign influence describes the full spectrum of activities aimed at shaping decision making and affecting domestic affairs in a target country, which might range from political advocacy or diplomacy to clandestine intelligence activities.
- Foreign interference describes foreign state activities which are purposely misleading, deceptive, covert, or clandestine. These activities present a greater risk to New Zealand's democratic and economic institutions and values as they are designed to undermine or subvert them, to mislead decision makers, and to circumvent the norms of international engagement.

The legality of activity is not a useful litmus test of risk to the integrity of New Zealand's institutions and values. Not all concerning activities are illegal, and not all illegal activities by foreign state actors undermine our economic and democratic systems.

Investigative Activities

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. With the help of domestic and foreign intelligence partners, the NZSIS works to detect, defend, and counter the threats posed by foreign intelligence services to New Zealand and New Zealanders.

Counter-proliferation

The proliferation of Weapons of Mass Destruction (WMD), including nuclear, chemical and biological weapons, is a significant threat globally. New Zealand is party to international treaties and initiatives to prevent the development and manufacture of weapons of mass destruction and their means of delivery. This includes the export of knowledge or expertise as well as dual-use goods.

New Zealand has no industry directly related to the production of WMD but we are technologically capable in a number of areas with dual-use potential. Some examples include the development of our space industry, biotechnology research, and drone technology. The technology being developed may be attractive to those seeking to acquire it for unethical purposes.

To ensure that New Zealand meets its domestic and international obligations, the NZSIS continues to contribute to New Zealand's efforts to counter the proliferation of WMD. The NZSIS provides advice to Immigration New Zealand in relation to the transfer of knowledge or expertise which could be used in WMD programmes. Individuals meeting certain criteria are subject to national security screening by the NZSIS.

Space and High-altitude Activities

Space is an exciting and fast-evolving industry for New Zealand, spurred by Rocket Lab's launch activities from Mahia Peninsula. The space industry provides economic opportunities for New Zealand.

The Outer Space and High-altitude Activities Act (OSHAA) 2017 came into effect on 21 December 2017. An important purpose of OSHAA is to manage risks to New Zealand's national security and national interests. The Act provides for the identification and management of the security risks associated with space launch activities and space operations from New Zealand, through consultation between the Minister Responsible for OSHAA (the Minister for Economic Development) and the Minister Responsible for the NZSIS and the GCSB.

The NZSIS and the GCSB conduct national security risk assessments for all activities licensed or permitted under OSHAA, and provide national security advice on outer space and high-altitude activities to the Minister for NZSIS and GCSB. For activities governed by the Act, these national security risk assessments inform the Ministerial-level consultation required by the Act.

Between 1 July 2017 and 30 June 2018, the NZSIS and the GCSB conducted 24 assessments on space-related activities from New Zealand. These assessments covered multiple launches, space payloads, and high-altitude vehicles.

Protective Security Services

In addition to our intelligence functions, the NZSIS has a legislative responsibility to provide protective security services, advice and assistance.

The NZSIS provides the Protective Security Requirements (PSR) framework, which increases awareness of insider threats, and also lifts the overall security culture and capability across government. Security clearance vetting is another important function for the NZSIS.

The NZSIS works with the GCSB to ensure the NZIC's protective security measures are an exemplar of both national and international standards. These efforts ensure New Zealand's most sensitive information, facilities, and assets are adequately protected.

Access to highly classified information comes with a significant degree of responsibility and trust. Misuse, mishandling, or the unauthorised disclosure of classified information could have major consequences for the Government, international partners, and the work of the NZIC.

The Risk of Insider Threats

An insider threat, or insider, is any person who exploits or intends to exploit, their access to an agency's assets to harm the security of their agency or New Zealand. This can occur both knowingly or unknowingly, through espionage, terrorism, or the unauthorised disclosure of information.

The NZSIS provides leadership on counter-intelligence and personnel security functions across government, including working to prevent, detect, and respond to insider threats. The agency delivers advice and assurance to government departments and private sector organisations.

Protective Security Requirements

Protective security is a critical function of the NZSIS, helping the public sector keep information, assets, and people safe. Managing security risks under the Protective Security Requirements are mandatory for 36 public sector agencies.

The PSR Framework and PSR Engagement team provide information, tools, and guidance for government agencies to ensure they have protective security measures which mitigate security risk. Since the programme began in 2014 there has been a visible increase in the mandated agencies' capabilities, and a positive shift in their risk understanding and security culture.

In recent times, there has been increasing interest from private sector agencies looking to improve their protective security. This is an area that is likely to require more assistance in the future, particularly for firms that provide critical infrastructure for New Zealand.

The PSR website and content was refreshed during 2017/18 and will be further developed in 2019. The PSR team is continually reviewing and updating the framework and support mechanisms to ensure it remains best practice, as per Cabinet's direction.

Security Clearance Vetting

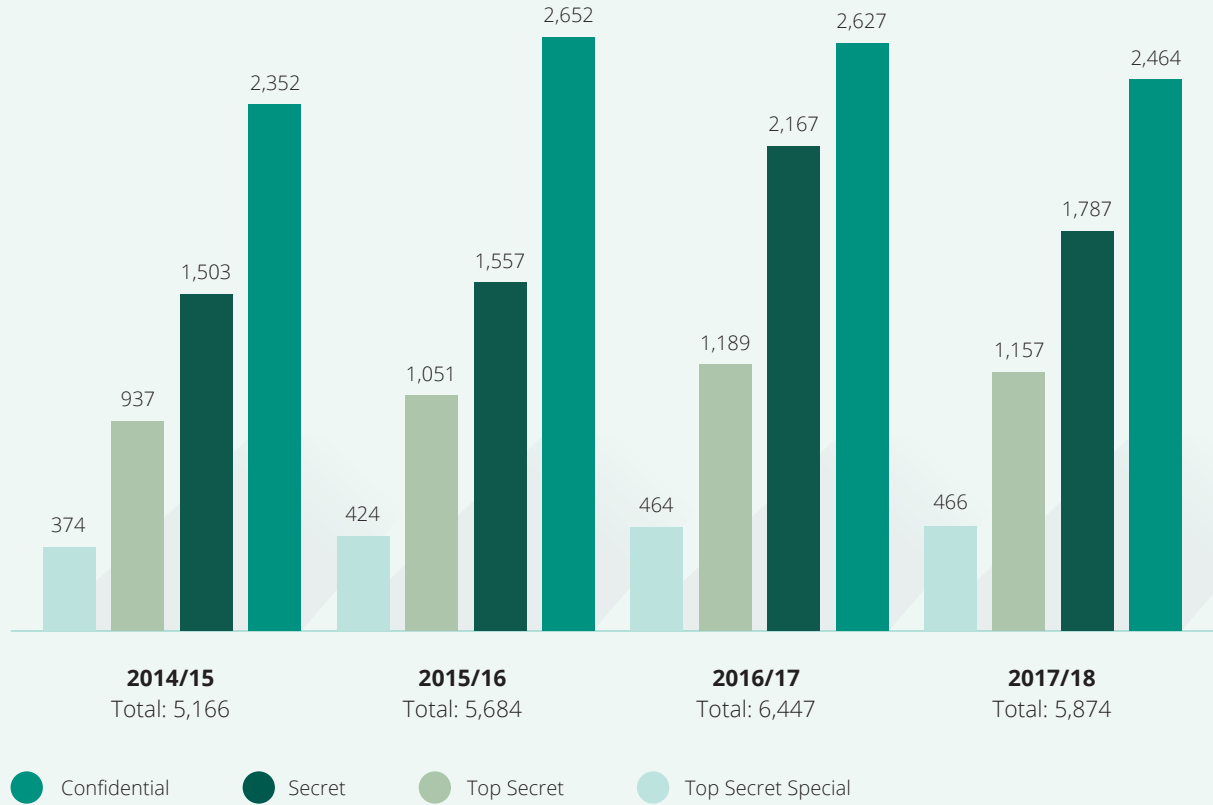
Individuals must undergo a vetting process to be granted a security clearance before they can access classified information. The NZSIS Security Vetting team assesses candidates and makes a recommendation about an individual's suitability to hold a clearance. The decision to grant an individual access to classified information is made by the employing Chief Executive.

Significant improvement has been made in the delivery of security vetting services over the 2017/18 year. Historically, the inability to process the total number of security clearance applications received each year has resulted in a backlog. That backlog is being systematically reduced over time. In the last year, a total of 5,874 security clearance applications were received from government agencies, including 1,500 priority applications for ministerial staff after the 2017 elections and overseas deployments for NZDF and MFAT. A total of 6,150 security clearance applications were completed which has resulted in a 38 per cent reduction in the total hours of work remaining in-queue.

The time taken to complete a security clearance application has also greatly improved. In July 2017 the average time to process a security clearance application was 157 working days; by June 2018, this reduced by 51 per cent to 77 working days. The greatest progress has been in the Top Secret and Top Secret Special applications where the time taken to complete an application was reduced by 63 per cent and 67 per cent respectively.

These improvements are the result of internal business process efficiencies, introduction of new processes including the audio recording of vetting interviews, and uplift in staff capability as a result of training and development. While we have not yet achieved our performance targets, the progress made demonstrates we can meet them, and we will continue to strive towards this goal.

Vetting applications received

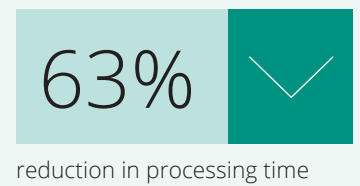


Time taken to complete vetting applications

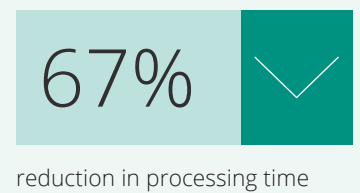
Security clearance applications



Top Secret applications



Top Secret Special applications



New Zealand's Advantage is Promoted

Enhanced Security in the Pacific

New Zealand continues to promote and enhance stability in the Pacific by working with Pacific partners to help mitigate regional security issues. The NZSIS informs the wider New Zealand Government's efforts to keep the region safe and secure. When working in the Pacific, the NZSIS liaises closely with other New Zealand agencies.

Pacific Liaison Programme

The NZSIS continues to operate a Pacific liaison programme with Pacific Island intelligence and security counterparts. This programme is geared towards promoting regional security and stability by building partners' protective security and security capability.

Contributions to International Security


The international security environment directly affects the domestic and international threats faced by New Zealand and New Zealanders. The New Zealand Government, the NZSIS, and the wider NZIC all take an active role in contributing to the global security effort through individual and co-operative activities. It is in the interests of New Zealand and New Zealanders that the NZSIS proactively mitigates security threats before they materialise in New Zealand or offshore.

CTAG is closely associated with comparable threat assessment centres in partner countries. These partnerships mean that CTAG can use a range of sources and expertise in judging domestic and international threats to New Zealand and New Zealanders, beyond those provided by the NZIC alone. 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 staff undertaking international liaison roles. These posts reflect the need to have global representation to effectively mitigate national security threats to New Zealand and New Zealanders, both domestically and offshore.

The liaison roles are a central point of contact for the collection and distribution of information from liaison partners through developing, enhancing and maintaining strong relationships. While liaison staff are not focused on intelligence collection, they play an important role in helping advance operational initiatives.



In the interconnected world in which we live, matters of national security extend beyond geographical borders to encompass international security.

The international and domestic partnerships we have help to manage complex threats and deliver the intelligence and security objectives set by Government.

3

Organisational health and capability

Outstanding People

The Intelligence Community Shared Services (ICSS) team supports the success of the intelligence community through the delivery of shared corporate functions. The services provided by ICSS across human resources, finance, property, training and development, and procurement (among others) contribute to a customer-focused NZIC that supports the Government's priorities.

The NZSIS can deliver positive security and intelligence results for New Zealanders because of the outstanding people who use their skills, innovation, and drive to ensure New Zealand and New Zealanders remain safe and secure. Attracting and retaining a high calibre workforce through recruitment and ongoing professional development remains crucial to its success.

During the reporting period, work programmes have been initiated to cultivate a more inclusive and diverse workplace, reflecting the changing landscape of the environment we operate in. The NZSIS continues to grow and develop staff through the career pathways framework.

Match-fit Leadership

Equipping and developing leaders as the organisation grows and evolves remains a priority for the NZSIS. In the last financial year, the NZSIS revised and updated the leadership competency framework to align with the State Services Commission's framework. The core competencies expected of leaders have been included within their regular performance and development reviews.

A leadership training and development prospectus was created to outline development and training opportunities available to staff. A mentoring framework for leaders is also in the early stages of implementation.

To support and inspire the careers of women in the wider intelligence community, a women's mentoring programme was established in June 2018. The programme comes under DPMC's National Security Workforce programme to create new pathways, and is part of our work to retain and develop women working in the security sector.

Workforce Planning

The skillset needed in the NZSIS has changed over the years. This is continually assessed to make sure we have the right capability in place. Over the past year, we have focused on establishing a robust approach to workforce and resource planning to ensure all recruitment activity is aligned with strategic objectives.

Learning and Development

The NZSIS supports staff to develop and maintain the most up-to-date skills, knowledge and capabilities so they can deliver on their complex and technically challenging work.

This year, work was done to increase the number and quality of internal and external professional development courses. Key relationships were formed and strengthened with universities, Police, NZDF, and several independent training providers to develop learning opportunities that are especially relevant to the intelligence community.

The NZSIS's e-learning system has been a key tool when introducing the ISA 2017, with the majority of training on the new Act delivered through e-learning modules. Staff have also been able to access and book professional development opportunities through the system, which captures all training and development undertaken by staff.

Turnover

Retaining top talent is vital, particularly in light of the unique and challenging environment we operate in. Providing staff with a clear view of career pathways within the intelligence and security sector has been a positive way to retain skills in the sector and foster career progression.

The following table indicates staff turnover decreased slightly in the last year.

NZSIS Annual Staff Core Turnover

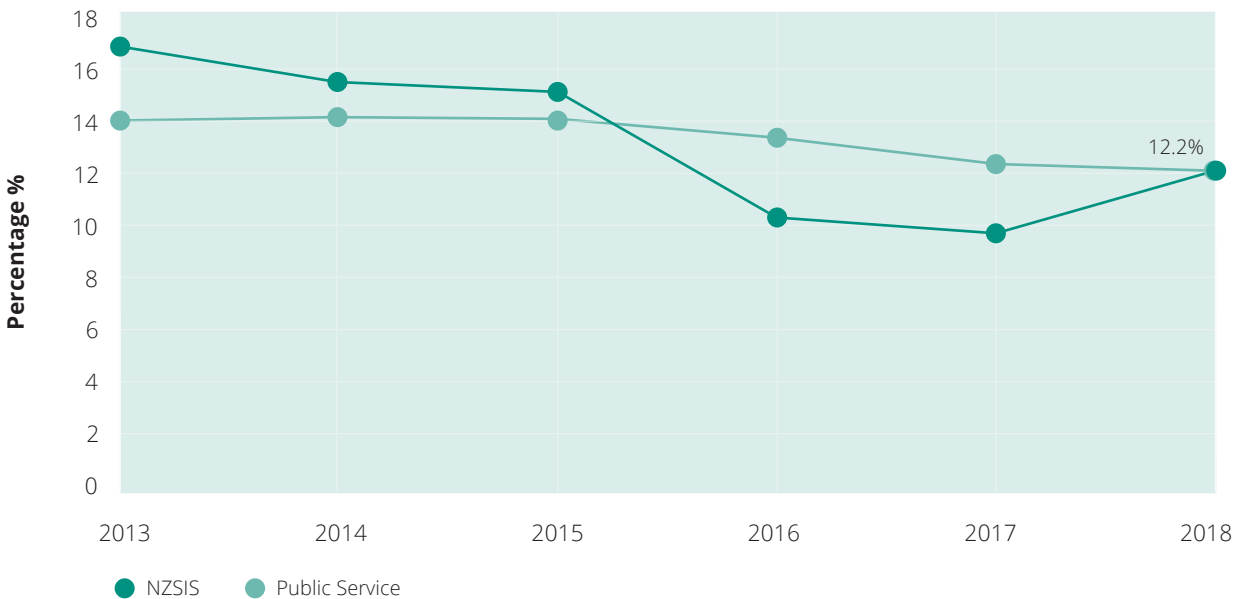
	2014/15	2015/16	2016/17	2017/18
NZSIS	10.1%	9.6%	11.5%	10.3%
Public Service	10.9%	11.1%	11.5%	12.1%

Closing the Gender Pay Gap

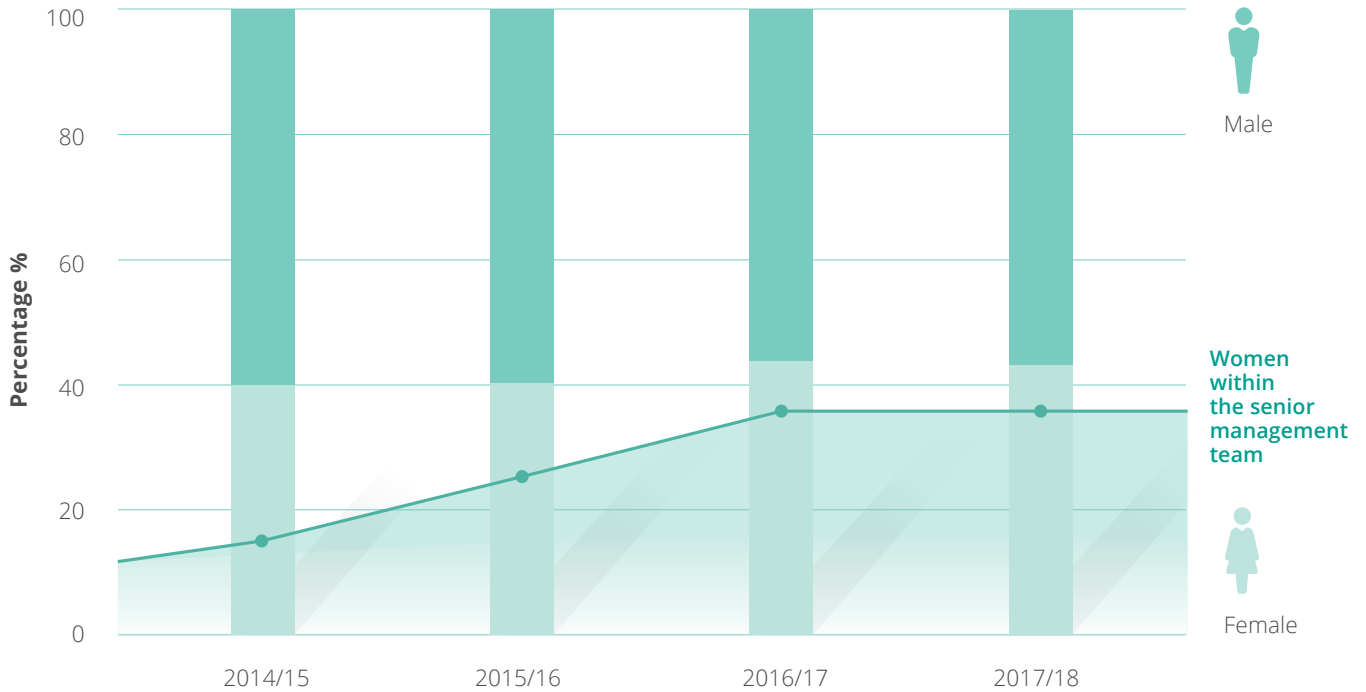
Closing the gender pay gap has been another focus for the NZSIS with a target of reducing the gap to a maximum of 5 per cent by 2021. At the end of the financial year, the gender pay gap in the NZSIS was 12.2 per cent. This is in part due to a number of men being employed in highly paid roles and at the same time, women being employed into a variety of entry-level operational roles. This has been a deliberate strategy of employing women to our operational roles, which have historically been dominated by men. Over time, as these women progress in their careers, the gender pay gap will decrease but in the short term we have experienced an increase in our gender pay gap. The NZSIS remains committed to reducing the gender pay gap by 2021.

To better protect and advance New Zealand’s interest, our workforce must reflect the diverse local and global community that we serve and we are continuing on our journey to achieve this.

Gender Pay Gap



Gender Diversity within the NZSIS



Diversity and Inclusion Strategy

To better protect and advance New Zealand’s interest, our workforce must reflect the diverse local and global community that we serve. The NZSIS and wider NZIC are committed to developing a dynamic and agile workforce to harness the benefits of different ideas, perspectives, and cultural experiences.

The Diversity and Inclusion Strategy for the NZSIS and the GCSB was launched in March 2018 and provided a roadmap of the steps the organisations are committed to take.

The strategy defines four goals around workforce diversity: diversity through workforce, leadership diversity, workforce inclusion, and sustainability and accountability. There is also an opportunity for us to make significant inroads with increased representation from those who identify as Māori or Pasifika. By 2021, the NZSIS aims to be recognised as an inclusive, diverse, and progressive organisation which maximises capability through its workforce.

Ethnic Diversity within the NZSIS²

	2014/15	2015/16	2016/17	2017/18
New Zealand European and European	58.2%	59.6%	65.1%	65.0%
New Zealander	–	–	–	28.4% ³
Māori	5.5%	6.9%	6.7%	6.5%
Asian	3.5%	4.6%	5.1%	6.5%
Pacific Island	1%	1.5%	1.9%	2.6%
Middle Eastern, Latin American and African	–	–	1.1%	2.0%
Other	–	–	0.4%	0.3%

2. Methodology changed to be in line with SSC guidelines.

3. A ‘total response’ method has been used when calculating the ethnicity distribution, counting employees who identify with multiple ethnicities, once for each ethnicity declared. In earlier years, not every ethnicity identity was reported on.

Organisational Change

The Director-General of the NZSIS recognised the need for agency structures to reflect new operating realities including a closer working relationship with GCSB. In 2017, the NZSIS underwent a significant review of its capabilities and functions to best organise and position itself for future growth and success. This resulted in the redesign of the organisation and its management structure. Over the course of the last financial year, these changes were implemented and we are expecting to see the benefits in the next 12–18 months.

The Technology Directorate

As a result of an NZIC Information Communication Technology review in 2017, a shared NZSIS and GCSB Technology Directorate has recently been established.

The need to revise the structure was driven by two main objectives—the need to share resources and reduce duplication between the NZSIS and the GCSB, and to ensure we are prepared for sector-wide implementation of the New Zealand Top Secret Network programme. It is also envisaged that this group will lead technical innovation and development across the NZIC.

The Joint Directors'-General Office (JDGO)

The JDGO has now been in place for one year. The core role of the JDGO is to support the Directors-General to perform their roles as agency heads and public sector Chief Executives, and to support the provision of advice from the NZIC to the Minister Responsible for the NZSIS and the GCSB.

Over the course of this year the JDGO has been focused on improving alignment between the NZSIS and the GCSB and supporting the NZIC to be more influential across the public sector. The JDGO has played a critical role in representing the views of the NZIC during the development of policy.

The NZSIS Capability Directorate

The Capability Directorate coordinates the development of critical capabilities that the NZSIS needs to operate effectively, now and in the future. It aligns our critical capabilities and our strategic goals, human capital, business planning cycles, and long-term investment strategies.

Over the past year, the Capability Directorate has been working on projects to establish robust training and project management capabilities, and an internal methodology for managing capability development across the NZIC.

Systems that Enable

Legislative Implementation

The NZSIS has worked to successfully implement the ISA 2017 which came into force during the reporting period. The new legislation provides clarity about the roles and responsibilities of each agency and supports greater collaboration between the NZSIS and the GCSB. The Act is supported by 11 Ministerial Policy Statements (MPS) which set out the Minister's expectations and guidance for the agencies on how certain lawful activities should be conducted.

Establishing the systems, policies and processes that support staff to undertake their roles and be compliant with the new legislation and MPS has been a major undertaking. The NZSIS and the GCSB ran a joint programme to transition to the new legislation. The intelligence and security agencies have regularly engaged with the Inspector-General of Intelligence and Security on issues arising from interpreting the Intelligence and Security Act 2017 and carefully considered her recommendations and observations in developing new policies and processes under the new legislation.

As with any new legislation, there is no existing case law which means extra care is required when establishing a working understanding of the law. When there is a lack of clarity about the correct interpretation of the law, as with any government department, the intelligence and security agencies turn to Crown Law for a definitive view.

Since September 2017, both agencies have updated operational policies and procedures to reflect ISA requirements. The NZSIS and the GCSB worked together to improve co-operation and consistency where possible and established a number of joint policies, including the new Human Rights Risk Management Joint Policy Statement.

Oversight

The activities the NZSIS undertakes to effectively protect national security and obtain intelligence insights require a high degree of secrecy. We try to strike the right balance of being transparent about what we do without divulging capabilities. The robust external oversight of the NZSIS from independent agencies is an essential part of how we provide confidence to the New Zealand public and Government that the agency operates within our jurisdiction and that everything we do is within our legal authority.

The Intelligence and Security Committee

The Intelligence and Security Committee (ISC) has parliamentary oversight of the NZSIS and the GCSB. It looks at the intelligence and security agencies and examines the policy, administration and expenditure of each organisation. The current ISC is comprised 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.

Office of the Inspector-General of Intelligence and Security

The Office of the Inspector-General of Intelligence and Security is the key oversight body of the NZIC which ensures that the agencies act with propriety and operate effectively within the law. The Inspector-General also independently investigates complaints relating to the activities of the NZSIS made by members of the public.

The NZSIS has ongoing engagement with staff from the Office of the Inspector-General (at varying levels) to discuss matters of interest, and also provides information and resources in support of Inspector-General investigations and queries.

Ombudsman and Privacy Commissioner

The Office of the Ombudsman and the Office of the Privacy Commission also provide important oversight of NZSIS activities. This financial year, one complaint was made against the NZSIS to the Office of the Ombudsman, and resulted in a favourable outcome towards the NZSIS.

Information Requests

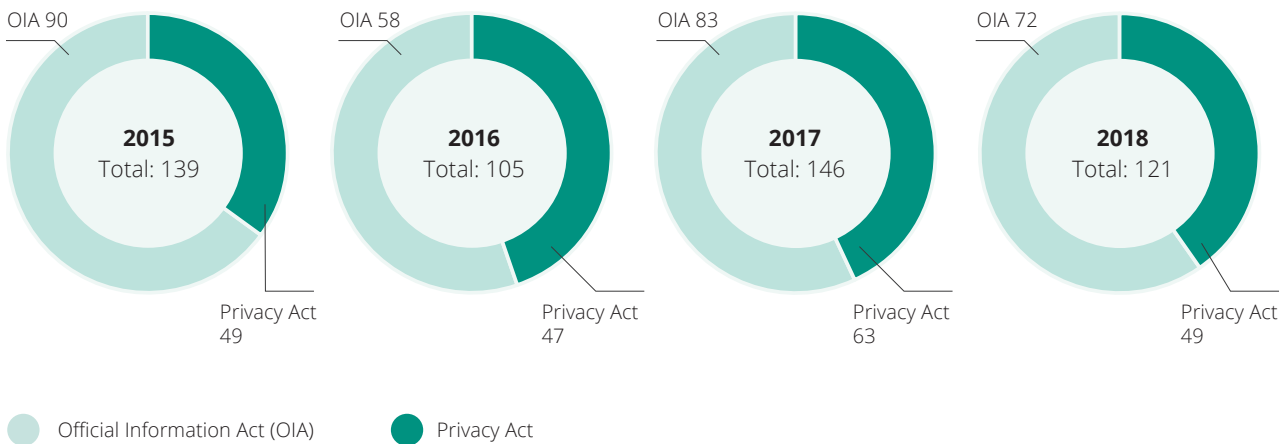
Each year, the NZSIS receives a number of information requests under the Official Information Act 1982 (OIA) and Privacy Act 1993. We try to be as helpful as possible when it comes to responding to official information requests. There are times when we cannot provide information due to security or privacy concerns; in such cases 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.

Of the 121 requests received during the reporting period, all were completed within the statutory deadline.

Compliance Systems

The NZSIS has now fully implemented its compliance framework and has run a regular programme of audits and reviews to provide assurance that staff are compliant with the ISA as they go about their work. Over 2017/18, the Compliance team led the work to develop policies and processes to support the MPS and developed training to ensure that NZSIS staff understand and can carry out their responsibilities under the new ISA.

Number of information requests completed, 2015–2018



Delivery Excellence

The NZSIS aims to deliver high quality intelligence and security products and advice to inform enable decision makers to make the best decisions possible.

Provisions in the ISA 2017 have enabled the NZSIS to work more closely with domestic law enforcement agencies. The NZSIS provides assistance and advice to these agencies in matters relating to national security and assists with the protection of New Zealanders overseas. Among others, the NZSIS provides assistance and advice to NZDF, Police, border agencies, and the GCSB.

In the 2017/18 year, the NZSIS supplied a number of intelligence reports to government agencies. These reports contributed to ensuring the safety of New Zealand and New Zealanders and, promoted our national advantage. These intelligence products were generated through the NZSIS's collection operations and reporting, including that from partners.

The NZSIS continues to work with our customers to ensure that the intelligence provided to them is impactful, meets their requirements and is delivered in a timely manner. We are constantly looking at our processes to see what can be done to improve the overall customer experience.

Customer Engagement

Since early 2017, the NZSIS has been working with the GCSB and DPMC's National Assessments Bureau (NAB) to improve alignment between our outputs and our customers' requirements, including agencies, Ministers and decision makers. 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 initiative is focused on customer engagement and has identified opportunities for improving the way intelligence is currently tailored, delivered and used by customers. The 'Better Every Day' method is being used to drive continuous improvement in how the NZIC ensures customers are getting as much value as possible from the intelligence community.

The NZIC has begun trials with several key agencies to test changes to the process and information that we produce.

Investing in our Capability

Over the past four years, a number of initiatives have been underway to strengthen and build our capabilities. These initiatives were a result of the NZIC Performance Improvement Framework in 2014, the Independent Review of Intelligence and Security in 2015, the Strategy, Capability and Resourcing Review (SCRR) and subsequent Budget 2016 decisions, and the implementation of the ISA in 2017. Change has been necessary to ensure we are fit for purpose and significant resources have been devoted to improving our systems, policies, processes and organisational structures.

Last year the NZSIS continued to focus on building strong foundations for future growth. We have completed the second year of our four-year growth path and are now focused on lifting the operational outcomes and impacts delivered by the agencies.

Powerful Profile

The NZSIS's domestic and international partnerships help to manage complex threats and deliver the intelligence and security objectives set by Government. Maintaining a powerful domestic and international profile will help ensure:

- Customers value the NZSIS's 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.

Our Domestic Partnerships

Having the respect and assistance of our domestic partners is critical to ensuring that the NZSIS can achieve its objectives. The NZSIS works with other Government departments and law enforcement agencies by contributing to relevant cross-agency Cabinet decisions, conducting joint operational work, sharing specialist capabilities to ensure partners can perform their roles and functions, and undertaking joint operational training initiatives.

Our International Partnerships

International partners provide valuable intelligence, capability, and training to the NZSIS and the NZIC. New Zealand is part of a global intelligence community—the Five Eyes network. Through these relationships we are able to share intelligence, stay informed of global security issues, ensure the safety of New Zealanders located offshore, and where required, draw on the knowledge and capabilities of partners.

Having strong relationships with partners outside of the Five Eyes is also important. Our relationships with security and intelligence partners in Europe, Asia, and the Pacific are becoming increasingly important to the NZIC and New Zealand, and will continue to grow in importance.

External Engagement

The most important enabler for success is the trust of the New Zealand public. The NZSIS relies on the trust and confidence of New Zealanders to work with them to help build a safe and secure New Zealander together. Each year we continue to take considerable steps to increase the transparency of the NZSIS with the public.

Engagement with stakeholder groups and the public is an important part of the NZSIS being as transparent and open as possible about the important work it does to keep New Zealand and New Zealanders safe. Openness, transparency and trust are important to stakeholders, customers, decision makers and the wider public, in 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 speaking at conferences and public events on a range of topics.

Retention and Disposal Schedule

In this past year, the NZSIS has also taken the opportunity to work with NZIC colleagues in the GCSB and DPMC to update and extend its retention and disposal coverage under the Public Records Act. This updated framework will govern the full extent of information created by the NZSIS and will provide for the future retention and preservation of records likely to be of high public interest.

Working with Archives

Archives held by the NZSIS include 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 (1919–1957) and the Security Intelligence Bureau (1940–1945).

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

During the past year the NZSIS has assisted a number of academics and media with their historical research. This assistance included the declassification and release of documents, and facilitating interviews of retired NZSIS staff.

Statement on Warrants

During this reporting period the Intelligence and Security Act 2017 came into full effect on 28 September 2017. This statement is split into two parts; warrants issued under the New Zealand Security Intelligence Service Act 1969 which covers the period 1 July – 27 September 2017, and the Intelligence and Security Act 2017 which covers the period 28 September 2017 – 30 June 2018.

New Zealand Security Intelligence Service Act 1969

In accordance with sections 4K, 4IC(1)(h), and 4IE(12) of the New Zealand Security Intelligence Service Act 1969, I submit the following statement on warrants and authorisations for the period 1 July 2017 to 27 September 2017. 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 4IB(1) and 4IB(2), removal warrants issued under section 4I, and authorisations issued under section 4ID of the Act and in force at any time during the reporting period.

Domestic Intelligence Warrants

- a. Twenty-nine domestic intelligence warrants were in force. Of those, nine were issued during the reporting period, and 20 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 175 days (rounded to the nearest day).
- c. There were two 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

- a. Nine foreign intelligence warrants were in force. Of those, two were issued during the reporting period, and seven 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 154 days.
- c. There were four 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.

Domestic Visual Surveillance Warrants

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

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.

Intelligence and Security Act 2017

In accordance with section 221(2) of the Intelligence and Security Act 2017, I submit the following statement on warrants and authorisations for the period 28 September 2017 to 30 June 2018.

Co-operation

In accordance with section 221 (2)(a) – (b) of the Intelligence and Security Act 2017, I submit the following statement on the number of occasions the New Zealand Security Intelligence Service provided assistance under section 13(1)(b) and s 14.

Co-operation s 13(1)(b)

In accordance with section 221(2)(a) of the Intelligence and Security Act 2017, there were no occasions on which the New Zealand Security Intelligence Service provided assistance under section 13(1)(b).

Co-operation s 14

In accordance with section 221(2)(b) of the Intelligence and Security Act 2017, there were no occasions on which the New Zealand Security Intelligence Service provided assistance under section 14.

Intelligence Warrants

In accordance with section 221(2)(c)(i)-(vi) of the Intelligence and Security Act 2017, I submit the following statement on warrants and authorisations for the period 28 September 2017 – 30 June 2018. This report includes information on Type 1 intelligence warrants issued under sections 58 and 59, Type 2 intelligence warrants issued under section 60, urgent issue of Type 1 intelligence warrants issued under section 71, urgent issue of Type 2 intelligence warrants issued under 72, joint Type 1 and Type 2 warrants issued under section 56, authorisations issued under section 78 and in force at any time during the period 28 September 2017 – 30 June 2018.

Type 1 Intelligence Warrants

- a. Twelve Type 1 intelligence warrants were issued under sections 58 and 59.
- b. There were no urgent Type 1 intelligence warrants issued under section 71.
- c. There were no joint Type 1 warrants issued under section 56.

Type 2 Intelligence Warrants

- a. Six Type 2 warrants were issued under section 60.
- b. There were no urgent Type 2 intelligence warrants issued under section 72.
- c. There were no joint Type 2 warrants issued under section 56.

In accordance with section 221(2)(d) of the Intelligence and Security Act 2017 there were no occasions that an application was declined.

In accordance with section 221(2)(e) of the Intelligence and Security Act 2017 there were no urgent authorisations given by the Director-General under section 78.

In accordance with section 221(2)(f) of the Intelligence and Security Act 2017 there were no applications for permission to access restricted information under section 136.

In accordance with section 221(2)(h) of the Intelligence and Security Act 2017 eighty-three business records directions were issued during the reporting period 28 September 2017 – 30 June 2018.

Rebecca Kitteridge

Rebecca Kitteridge

Director-General of Security

DATED: 28 September 2018

I have reviewed all warrants and authorisations in force during the period beginning 1 July 2017 and ending 30 June 2018 and certify that the information set out in the above Statement on Warrants is correct.

Andrew Little

Hon Andrew Little

Minister Responsible for the
New Zealand Security Intelligence Service

DATED: 8 October 2018

4

Review of output performance

Output Performance

This section reports on the NZSIS's output performance as set out in the 2017/18 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. This is achieved 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 to Government agencies and public authorities within New Zealand, of protective security advice relating to personnel, physical and information security.
- d. Liaison with overseas security and intelligence organisations and public authorities.

The four outputs the NZSIS delivered for 2017/18 were:



Threat Management and Security Intelligence.



Foreign Intelligence and International Contribution.



Protective Security.



Strategy, Capability, and Resourcing Review (SCRR) Implementation.

5

Financial statements

Statement of Responsibility

I am responsible, as the Director-General of Security and Chief Executive of the New Zealand Security Intelligence Service (NZSIS), for:

- The preparation of the NZSIS's financial statements, and the statement of expenses and capital expenditure, and for the judgements expressed 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; and
- 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 2018 and its operations for the year ended on that date.



Rebecca Kitteridge

Director-General of Security

28 September 2018

Independent Auditor's Report

To the readers of the New Zealand Security Intelligence Service's financial statements for the year ended 30 June 2018

The Auditor-General is the auditor of the New Zealand Security Intelligence Service (the NZSIS). 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 NZSIS for the year ended 30 June 2018, which is made up of the statement of expenses and capital expenditure on page 41.

Opinion

In our opinion the statement of expenses and capital expenditure of the NZSIS on page 41 is presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989 and section 221(4)(a) of the Intelligence and Security Act 2017.

Our audit was completed on 28 September 2018. 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 NZSIS for preparing the financial statements, which are made up of the statement of expenses and capital expenditure of the NZSIS, 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 NZSIS for assessing the NZSIS'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 NZSIS, 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.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

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, 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 NZSIS's Estimates of Appropriations 2017/18 for Vote Security Intelligence, and the 2017/18 forecast financial figures included in the NZSIS's 2016/17 financial statements.

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 NZSIS'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 NZSIS'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 NZSIS 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 3 and to 6 to 37, 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 NZSIS 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 NZSIS.



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 2018.

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

	\$000
Total Appropriation	\$82,843
Actual Expenditure	\$66,832

The "Total Appropriation" in the table above 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.



New Zealand
Security Intelligence
Service
Te Pā Whakamarumarū

New Zealand Government