



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

ANNUAL REPORT

For the year ended 30 June 2012

PREFACE

This is the unclassified version of the Annual Report of the New Zealand Security Intelligence Service (NZSIS), for the year ended 30 June 2012. This version will be tabled in Parliament, and made available to the public via the NZSIS internet site.

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

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PART ONE

INTRODUCTION

DIRECTOR'S REPORT

I am pleased to present the 2011/12 Annual Report of the New Zealand Security Intelligence Service (NZSIS).

This is the first time that the NZSIS Annual Report is set explicitly against the Joint Statement of Intent, which represents the direction and goals of the New Zealand Intelligence Community (NZIC). This report focuses on the events and challenges that have shaped the year for NZSIS, within that context, and will highlight the NZSIS contribution to the NZIC sector goals of:

- ensuring a safe and secure environment for major events, including Rugby World Cup 2011, the FIFA U-20 World Cup 2015, and the Cricket World Cup 2015;
- protecting New Zealand and New Zealand interests at home and abroad from terrorist incidents;
- identifying, investigating and mitigating espionage and foreign interference;
- establishing an effective response to cyber attacks to protect official information, critical infrastructure, and the intellectual property of the private sector;
- supporting the Government's policies to counter the proliferation of nuclear, chemical and biological weapons;
- ensuring we have an effective system for vetting individuals entrusted with official information;
- using intelligence most effectively with agencies across government to achieve the best outcomes for New Zealand, for example in detecting people smuggling, combating organised crime, safeguarding national borders and protecting natural resources against illegal exploitation; and
- ensuring intelligence for policy-makers makes the greatest possible contribution on foreign policy issues key to New Zealand's interests.

2011/12 was a year of major change initiation for NZSIS, both as a statutory agency and as a member of the NZIC. This work grows on that commenced during the 2010/11 financial year, with the development of the sector's first joint NZIC Four Year Budget Plan and joint NZIC Statement of Intent.

A Better Connected NZIC

The NZSIS has continued its commitment to developing closer working relationships with other members of the NZIC. This was demonstrated by the development of a joint NZIC Statement of Intent for 2011-16, followed by a very well received joint NZIC Four Year Budget Plan, both of which present the future plans for NZSIS, Government Communications Security Bureau (GCSB), National Assessments Bureau (NAB) and the Intelligence Co-ordination Group (ICG) of the Department of the Prime Minister and Cabinet (DPMC).

Shared Services

A new initiative sees the establishment of the Intelligence Community Shared Services (ICSS), which will provide joint corporate services across the core NZIC. This programme of work will be delivered over a number of years and will involve changes to people, culture, systems, processes, policies and work practices. The first phase of this programme sees the integration of Human Resources (including Learning and Development), Finance (including risk and internal audit), Facilities and Physical Security. A new position (General Manager Intelligence Community Shared Services) has been established and filled to lead this programme. Delivery will commence early in the next financial year.

NZSIS Security Focus

The Security Capability team was established in February 2012 to refine and enhance the NZSIS's security arrangements while fostering a security environment that meets the key needs of protecting the staff, information and assets of the NZSIS and the wider NZIC, and enabling and advancing its intelligence and security role on behalf of New Zealand.

NZSIS Contribution to the Rugby World Cup

NZSIS expended significant effort in support to the New Zealand Police to deliver high quality security outcomes for the Rugby World Cup (RWC). This event passed without major security incident, resulting in a successful conclusion to the tournament. The RWC clearly demonstrated how effectively members of the law enforcement and intelligence agencies could work together in partnership. There are a range of enduring legacies from this work, which will provide a solid foundation for the security of future major events (such as in 2015).

Priorities for the New Zealand Intelligence Community

The National Assessments Committee (NAC) requested that the NZIC produce a number of strategic papers, one for each of the "vectors of harm" identified in last year's Wintringham Review of the NZIC. This work formed the basis of a Cabinet paper that informed decision-making on intelligence priorities and resourcing, and provided a framework for the mitigation of national security risks. The NZSIS led or co-led in this work (which discussed the threats from terrorism, sabotage and subversion, espionage, cyber and weapons of mass destruction), which was very well received by the wider NZIC.

NZSIS Legislation Modernisation

The NZSIS Amendment Bill progressed through the various stages of legislation development during the 2010/11 year and, following its third and final reading on 5 July 2011, was passed successfully in the vote by 107 to 10. Royal Assent was given on 12 July 2011. The amendment updated the NZSIS's warrant powers, provided powers of delegations, and consequentially amended the computer crimes offences in the Crimes Act 1961.

Significant work to develop proposals for a comprehensive modernisation of the NZSIS Act (which dates back to 1969) was progressed during the year.

This Annual Report highlights our performance against the plans we made in the NZSIS Statement of Intent 2011-16 and the Information Supporting the Estimates – Budget 2011. It articulates the contribution NZSIS makes to the Government priority of “building a safer and more prosperous New Zealand”.

A handwritten signature in black ink, appearing to read 'W. Tucker', with a stylized flourish at the end.

Dr Warren Tucker
Director of Security

NZSIS OVERVIEW

The Role of the New Zealand Security Intelligence Service

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

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

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

Responsible Minister

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

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

ORGANISATIONAL INFORMATION

The NZSIS head office is in Defence House, 2 Aitken Street, Wellington. There are regional offices in Auckland and Wellington, and two overseas liaison offices. The regional office in Christchurch was destroyed during the 22 February 2011 earthquake, and the temporary office subsequently established was later closed.

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

The Corporate governance is overseen at three levels:

NZSIS Executive Group as at 30 June 2012

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

Director of Security
Chief of Staff
Deputy Director Intelligence
Deputy Director Operational Enablement
Deputy Director Protective and Operational Security
Deputy Director Technology and Information
General Manager Shared Services

NZSIS Audit and Risk Committee

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

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

Information Management Committee

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

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

PART TWO

THE YEAR IN REVIEW

Organisational Health and Capability

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

We started the financial year with 215.3 Full Time Equivalents (FTEs) and finished with 221 FTEs as at 30 June 2012. NZSIS has continued to focus on developing and enhancing its capability through a variety of initiatives. These include specialist training and tailored secondments of selected staff. Other work to improve our overall effectiveness and efficiency is continuing.

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

During 2011/12, staff turnover was 13.1%. NZSIS staff took 1181.3 days of sick leave during 2011/12; this is approximately 5.3 days per person.

Equal Employment Opportunities

The NZSIS is committed to providing on-going equal employment opportunities. Women currently comprise 42.5% of the organisation, filling roles from senior management to support staff. While there is currently a higher representation of men at senior management tiers two and three, further capability development will see more women at this level, particularly in tier three (currently 35%).

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

Legal Matters

The NZSIS's legal team provides legal advice to all areas of the NZSIS.

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

Legislation and Policy

A number of amendments were made to the New Zealand Security Intelligence Service Act 1969 during the 2011/2012 year. These amendments related to guiding principles, warrant powers (which included a consequential amendment to the Crimes Act 1961), assistance requests and delegations. The amendments came into effect on 13 July 2011.

During the year, the NZSIS also progressed a comprehensive review of the NZSIS Act, with the aim of developing policy proposals to update and modernise the Act.

Throughout the year the NZSIS was consulted on a number of policy proposals and legislative amendments which could have an impact on the NZSIS. This included a review of the Telecommunications (Interceptions Capability) Act 2004 and the Privacy Act 1993, as

well as contributions to the work programme addressing organised crime being co-ordinated by the Ministry of Justice.

Oversight and Review

The NZSIS operates within an oversight and accountability framework which includes the Executive, Parliament, and independent authorities such as the Inspector-General of Intelligence and Security, the Commissioner of Security Warrants, and the Offices of the Privacy Commissioner, the Ombudsmen, and the Controller and Auditor-General. This multi-layered approach to oversight provides an assurance that the NZSIS's work is transparent at a number of levels.

Intelligence and Security Committee (ISC) of Parliament

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

Rt Hon John Key (Prime Minister)
David Shearer (Leader of the Opposition)
Hon John Banks (Leader of the Act Party - nominee of the Prime Minister)
Hon Peter Dunne (Leader of the United Future Party - nominee of the Prime Minister)
Dr Russel Norman (Co-leader Green Party - nominee of the Leader of the Opposition)

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

Inspector-General of Intelligence and Security

The NZSIS is subject to the oversight of a retired High Court Judge, the Inspector-General of Intelligence and Security. The present Inspector-General is the Hon Paul Neazor CNZM. The Inspector-General is responsible for the oversight and review of the NZSIS, including compliance with the law and the propriety of the NZSIS's actions. He also has jurisdiction to investigate complaints about the NZSIS. Further, he can initiate a review of his own motion.

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

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

This programme has involved the Inspector-General making enquiries of the NZSIS, both in writing and in person, carrying out reviews of files and other material held by the NZSIS, and meeting with a range of NZSIS personnel.

In the past year, the Inspector-General has investigated 12 complaints from individuals. One of these complaints was made in the previous reporting year but was incomplete as at 30 June 2011. This complaint related to a vetting recommendation, which was resolved in favour of the complainant during the 2011/2012 period.

In respect of the 11 complaints made during the year under review:

- six related to adverse vetting recommendations. Two of these complaints were discontinued, one was not upheld; and three were still under consideration as at 30 June 2012;
- one related to employment matters. This complaint was still under consideration as at 30 June 2012;
- two related to Official Information Act requests. Both of these complaints were not upheld;
- one related to a Privacy Act request. This was not upheld; and
- one related to surveillance activities. This complaint was not upheld.

Official Information Act and Privacy Requests

In the period under review 135 requests for information were received from members of the public, with 75 requests being considered under the Official Information Act 1982 (OIA) and 60 under the Privacy Act 1993. This continues a decline in the yearly total number of requests from a record 378 received in 2008/09.

A recent trend has been a greater proportion of OIA requests, including numerous requests from website “bloggers”. We have also noted more contact from correspondents with unconventional perceptions.

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

In the review period five complaints were considered by the Ombudsmen. Three were decided in favour of the NZSIS and one was resolved with the release of some further information. The final complaint, carried over from a previous year, awaits resolution.

Six complaints were considered by the Privacy Commissioner. Two were decided in favour of the NZSIS, and four await resolution.

Another channel for those seeking redress is the Inspector-General of Intelligence and Security who, in the review period, considered three complaints. One case resulted in a refinement of the NZSIS’s processing of OIA requests. The second complaint was dismissed. In the third case the Inspector-General concluded that the complaint could not be considered.

Parliamentary Questions

Twenty-three questions for written answer were addressed to the Minister in Charge of the NZSIS during the 2011/12 period.

Four of these were specific questions relating to the NZSIS, including:

- one question relating to the number of complaints made to the Inspector-General of Intelligence and Security; and
- three questions relating to Ministers' private email accounts.

Nineteen questions were generic questions relating to departments and agencies the Minister was responsible for, including:

- one question relating to rugby world cup gratuities;
- one question relating to gift registers;
- two questions relating to efficiency savings;
- two questions relating to meetings with government agencies;
- one question relating to the financial impact of retirement funding initiatives;
- three questions relating to communications with Simon Lusk;
- two questions relating to reference letters;
- one question relating to reports and advice provided by government agencies;
- one question relating to the Talley's Group;
- two questions relating to the use of chartered planes;
- two questions relating to Official Information Act requests; and
- one question relating to a Minister's private email account.

Two questions for oral answer were addressed to the Minister in Charge of the NZSIS during the 2011/2012 period. These related to cyber-security.

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 – 1956) and the Security Intelligence Bureau (1940 – 1945).

With the assistance of Archives New Zealand the NZSIS has obtained the final in a series of disposal authorities relating to paper records. It covers personal files on individuals, earlier disposal authorities having dealt with vetting records and subject files. These disposal authorities ensure the preservation of all significant records. In fact their historic value has long been recognised, and since 2008 a programme has been in place to declassify early files, with information being released where this can be done without compromising important on-going intelligence sources and methods, or the privacy of individuals.

Some high public interest records are designated for declassification and transfer to Archives New Zealand. Early in the year a group of files relating to the anti-conscription movement during the Second World War era was transferred, however, more recent releases of information have been in response to requests made under the Official Information Act 1982 and the Privacy Act 1993. It is our intention in FY 2012/13 to re-energise the programme of declassification of historical records for transfer to Archives New Zealand.

Cost Effectiveness

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

- the introduction of the Intelligence Community Shared Services model across corporate services, initially incorporating Finance, Human Resources, Learning and Development, Procurement, Facilities and Physical Security, will improve efficiency and effectiveness across the NZIC. Implementation of this programme of work will commence in the 2012/13 financial year;
- NZSIS has utilised its secure video teleconferencing capability to great effect. Use of this technology has greatly reduced the amount of travel required to attend meetings, and has enabled greater engagement by staff situated in offices away from HQ;
- the move to a rolling forecast model for financial management will enable the Executive Group to see the NZSIS's fiscal profile for 12 months out on a continual basis, allowing time for corrective action and priority setting to ensure expenditure is within current and the following year's appropriation and is aligned with the organisation's strategic objectives;
- continued use of a Balanced Scorecard for management information and tracking of our performance. The Balanced Scorecard is reviewed on an annual basis to ensure it reflects the NZSIS priorities and any organisational changes; and
- continuation of the staged implementation of secure information management systems and associated tools that enable more effective use of the data held by the NZSIS. Project Insight delivers an integrated operational information management system that will - literally - revolutionise the way that intelligence and vetting officers are able to access, use, develop and link relevant information from the high volumes of disparate fragmentary data available in the investigative environment. This will be complemented by a Document Management System. These projects are well underway and these systems collectively will enable enhanced efficiency and effectiveness through more integrated security, management, storage and retrieval of NZSIS's information.

Capital Intentions

The NZSIS continues to work through its programme of assessing its capital assets and capabilities, and to develop a sustainable upgrade and replacement programme.

STATEMENT ON WARRANTS

In accordance with section 4K of the New Zealand Security Intelligence Service Act 1969 ("the Act"), I submit the following statement on warrants for the year ending 30 June 2011, the year under review.

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

Domestic

During the year under review twenty-three (23) domestic interception Warrants were in force. Of those, sixteen (16) were issued during the year under review, and seven (7) were issued during the previous year but remained in force for some part of the year under review. The average length of time for which those warrants were in force during the year under review was 153 days. There were no amendments during the year under review. Action was taken under all domestic Warrants during the year under review. The methods of interception and seizure used were telecommunications interception, installation of interception devices, including listening devices, and the taking and copying of documents and items.

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

Removal

One removal Warrant was issued during the year under review. This warrant was in force for 92 days.

Foreign

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



Dr Warren Tucker
Director of Security

DATED at Wellington this 18th day of September 2012

I have reviewed all Warrants in force during the period beginning 1 July 2011 and ending 30 June 2012 and certify that the information set out in the above Statement on Warrants is correct.



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

DATED at Wellington this 18th day of September 2012

NZSIS TOP PRIORITIES FOR 2011-16

Security

In February 2012 the NZSIS established the Security Capability Team (SCT) within the Office of the Director. The purpose of this team is to refine and enhance our security arrangements and foster a security environment that meets the key needs of protecting the staff, information and assets of the NZSIS, while also enabling and advancing our intelligence and security role on behalf of New Zealand.

During the period March through June 2012, although much of the focus was on recruitment of the necessary staff, good progress was made towards SCT goals, which included:

- launching the SCT Intranet presence and a number of initiatives designed to enhance our security culture, in particular:
 - security breach monitoring; and
 - security education programmes;
- delivering 24 security briefings and inductions;
- commencing several security investigations both internally and within the wider Intelligence Community;
- conducting site surveys and providing advice for construction and alarm installation; and
- planning to reshape the future direction of security in the NZSIS, moving the emphasis away from a reactive approach to a programme of work streams targeting a range of specific areas across the organisation. This is intended to foster a stronger and more resilient security culture.

NZSIS, GCSB and DPMC - Working Together

In addition to its collaborative operational approach, the NZIC progressed its programme of working together from the corporate perspective. This resulted in the development of a second joint Four Year Budget Plan and joint Statement of Intent for the 2011/12 financial year. This increased corporate collaboration has progressed and is now entering the mature stage, where we are delivering:

- a more integrated NZIC Statement of Intent for the period 2012-16 that articulates priorities across the sector; and
- a joint NZIC Four Year Budget Plan, also for the 2012-16 period, that addresses complex financial issues from a combined-sector budget perspective. This document was considered to be of sufficient quality that the NZIC is not required to submit another Four Year Budget Plan before the 2015 financial year, and has been described by Treasury and SSC as an “exemplar” of the Better Public Services programme.

Develop and Modernise Capabilities

In 2011/12, NZSIS continued its programme of rebuilding and modernisation. We continued on our journey of increasing our full range of capabilities through training and tradecraft, strengthened business practices and processes, and enhancing our relationships and NZSIS culture.

During the 2011/12 year we:

- made significant progress on delivering an enterprise-wide knowledge management and information exploitation capability to the NZSIS. This programme of work is being implemented via a staged approach, ensuring that system delivers to requirements and performs appropriately. In addition to the technical work, the programme has addressed a number of information management governance, policy, and guideline gaps as well as

revising our information security model to meet changing NZSIS requirements and international standards. A large amount of work has also been completed to define what constitutes a “NZSIS record” and ensure systems and processes will be in place to properly capture and manage these. Detailed work has also started to map critical business processes and begin to implement these within the new systems as they are developed. Full implementation of this programme is due for completion by April/May 2013;

- continued to develop capability through delivery of the NZSIS Investigators/Foundation training programme that aims to give the skills and context essential to staff who wish to go on to become investigators. This course is structured to international standards, and culminates in either a pass or fail which ensures that the required standards are met for a candidate to proceed. We also conducted a substantially strengthened Case Officers Course. This was the most ambitious training course of this type ever conducted by NZSIS;
- prioritised and progressed NZSIS’s response to the recommendations in the report arising from the independent review of the vetting system, having consulted with representatives of our major customers. NZSIS also calibrated New Zealand’s vetting practices and policies against agencies with similar responsibilities. The agencies concerned generally considered that NZSIS was in a favourable position in this regard; and
- prepared to implement changes arising from amendments to the NZSIS Act (enacted on 13 July 2011), and progressed work for a fundamental review and modernisation of that Act.

Management Capability Development

The NZSIS has continued to raise the capability and capacity of its third and fourth tier managers. Once again the NZSIS ran “Management Matters”, a comprehensive programme for fourth tier managers, and staff who aspire to be managers, that included a four-day intense programme on basic management skills, followed by a one day per month training session on an aspect of management. These participants also had access to an outside management coach who worked with each programme participant on their individual management issues. Each fourth tier manager had a one half day coaching session each month, over a 12 month period. They also worked on a joint project and the outcome of that project was presented to the NZSIS Executive Group.

A new innovation which commenced at the beginning of the 2011/12 financial year was the introduction of the Branch Managers Forum, which focuses on improving organisational performance by enhancing both individual and team leadership effectiveness. This is achieved by encouraging the development of values-based leadership behaviours and skills suitable to the NZSIS’s specific corporate objectives.

The Branch Managers forum:

- provides an opportunity to focus on leadership, management, capabilities and expectations;
- enables awareness, dialogue and understanding of a range of issues which cut across divisional boundaries, and fosters a “whole of NZSIS, whole of Intelligence Community” perspective;
- offers an opportunity to regularly put forward ideas for evaluation by peers and receive objective feedback on the Managers’ thinking. By harnessing the collective wisdom of peers in identifying and focusing on critical aspects of key business challenges, members enhance the quality of their thinking; and
- provides an opportunity to have a direct dialogue with the Director on leadership challenges.

In June 2012, we instituted a similar forum targeted at fourth tier managers.

Staff Capability and Capacity

In the 2011/12 year the NZSIS delivered a broad range of both internally developed and specialist capability training that included a wide range of tradecraft and operational skills.

NZSIS staff have been invited to take advantage of specialist training offered by our partners. We have further benefited from the opportunity to consolidate that training through secondments, for some of those staff, into NZSIS partner agencies at the successful conclusion of their training. This has enabled staff to broaden and deepen their knowledge of our core business (intelligence) and to develop important networks and skills not readily available in New Zealand.

In early 2012, a senior manager from the NZSIS successfully participated in the Senior Executive Leadership Programme run by the Australian National Security College, which is part of the Australian National University. It is our intention to continue to participate in this programme over the coming years.

Information and Communications Systems

During 2011/12, NZSIS committed significant information technology resources to our programme to deliver the enterprise-wide knowledge management and information exploitation capability already outlined. In addition to this work, the NZSIS also delivered solutions to a range of requirements and new initiatives.

Cyber espionage

During 2011/12, the NZSIS contributed to an assessment on the cyber espionage threat to New Zealand which was agreed and issued formally by the National Assessments Committee. Key judgements included:

- New Zealand is subject to systematic cyber intrusion targeting both government and key economic and intellectual property generators. These intrusions pose significant threats to the country's national security, economic interests and international reputation;
- state-sponsored actors currently pose the greatest threat;
- the economic losses from cyber intrusions, including unrealised potential of stolen intellectual property, are currently unquantified but significant; and
- the cyber threat environment is rapidly evolving.

Security Clearance Vetting System is Fit for Purpose

NZSIS commissioned an independent review of the security vetting system by an international expert in security service work during the 2010/11 financial year. The purpose was to provide assurance that NZSIS has suitable initiatives planned or progressing to deliver a security vetting system fit for purpose in the New Zealand context, following three years of strengthening and streamlining initiatives (referred to as the Futurestate Initiatives). The reviewer concluded that the current vetting arrangements are sound, and the planned improvements are appropriate.

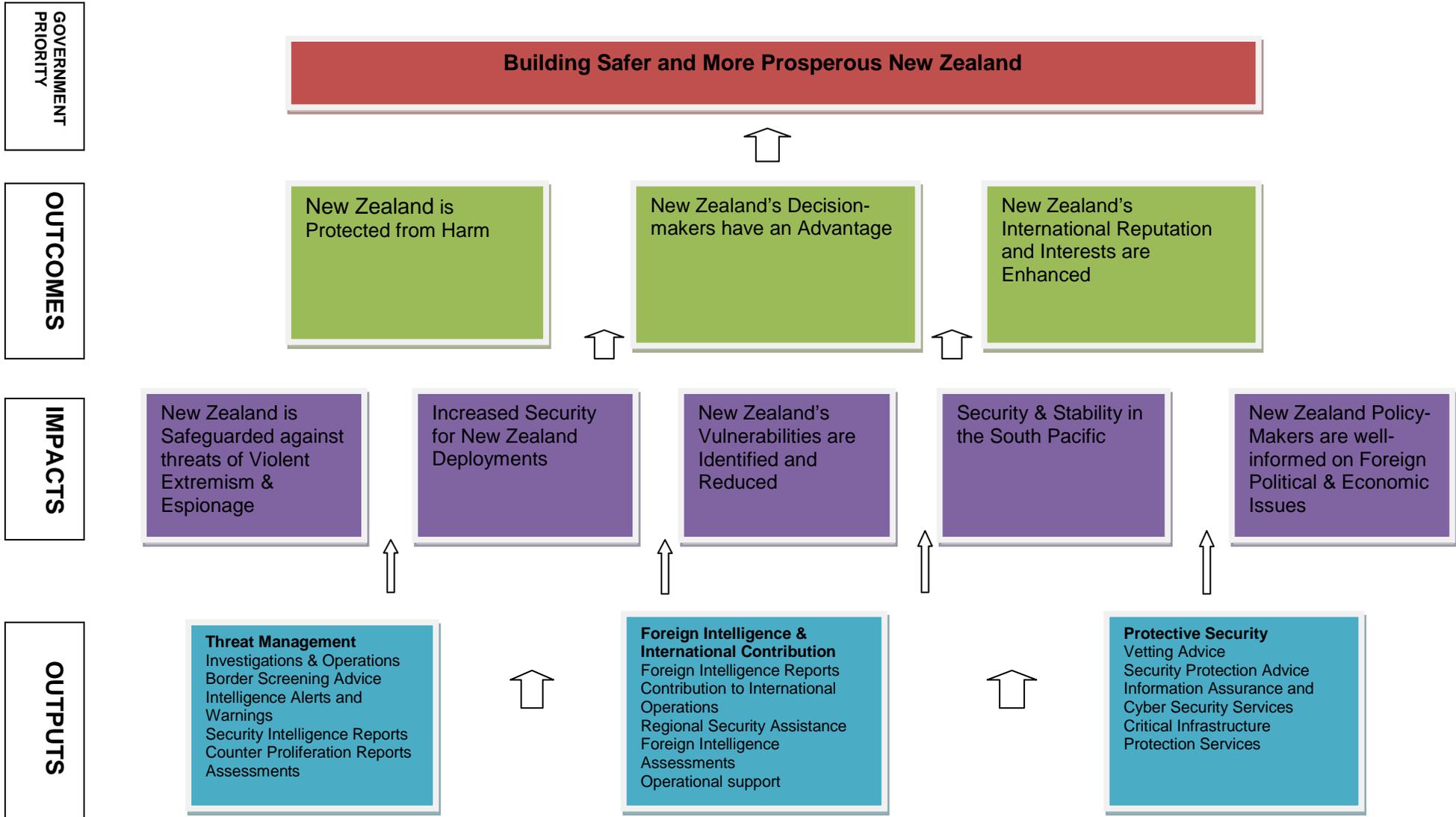
The NZSIS has commenced the next phase of the Futurestate Initiatives programme and started implementation of the recommendations arising from the independent review. During the 2011/12 financial year a number of these initiatives were undertaken to ensure improvement in the vetting system, including:

- implementing a number of enhancements to the existing Online Vetting Request system, resulting from the independent review;
- improving communication with the publication of a pamphlet entitled “Vetting for a Security Clearance” that provides information for candidates and referees;
- meetings with the Assistant Commissioner of the State Services Commission to progress the governance recommendations in the Report. Activity will be on-going in this area, with a view to implementing explicit security requirements in Chief Executive employment contracts;
- the delivery of Vetting Officer training; and
- commencing a detailed data collection project to gain a clear understanding of the metrics (and therefore the real cost to the NZSIS) of each level of vetting clearance. This process has also been designed to capture process inefficiencies, so that opportunities to further improve vetting output can be identified.

PART THREE

REVIEW OF NZSIS DELIVERY

NZIC Joint Strategic Framework



MEETING NZIC SECTOR CHALLENGES

This section demonstrates the NZSIS contribution to, and delivery against, the overarching NZIC sector challenges, as articulated in the joint Statement of Intent 2011-16.

As a security intelligence organisation, the NZSIS mandate is to identify and help safeguard New Zealand against threats from espionage, terrorism, sabotage and subversion. In addition to this traditional security service focus, NZSIS provides a range of foreign intelligence.

A major preoccupation during the 2011/12 financial year was the preparation, development and finalisation of the NZSIS contribution to the security of the Rugby World Cup 2011.

During 2011/12, NZSIS contributed to work commissioned by the National Assessments Committee. This work provided the basis for recommendations to Cabinet on overall intelligence collection and assessment priorities.

NZSIS also sought to provide more strategic and “value adding” intelligence reporting and contributed to the sector’s National Assessments Programme.

Ensuring a safe and secure environment for major events

Rugby World Cup

RWC 2011 was the largest international event to take place in New Zealand certainly since APEC 1999, probably surpassing that event. NZSIS worked with NZ Police and other members of the NZIC and law enforcement community, to ensure that wider Government clearly understood the issues involved in delivering an incident free RWC.

A terrorist or security incident at the RWC would have been the subject of intense scrutiny. To that end, NZSIS provided a comprehensive, accurate and auditable record of its preparations, management and execution of its role.

NZSIS’s critical success factors for the RWC were:

- prevention of a terrorist incident;
- a successful conclusion to the tournament; and
- the maintenance and enhancement of the reputation of NZ and the NZSIS.

From a NZSIS perspective, our response was deemed a success and we will be using the planning and lessons learned as the basis for future similar events.

Major Events and Response Management

The Major Events and Response Management (MERM) function within the NZSIS incorporates support to the NZ Inc. risk management approach to New Zealand participation in major events overseas (e.g. the London 2012 Olympic and Paralympic Games); and management of the response mechanism in accordance with the relevant plan.

Continuing protection of New Zealanders deployed abroad on behalf of the Government

NZSIS provided pre-posting security briefings to officials being deployed at New Zealand diplomatic missions abroad. Although the majority of the 39 briefings delivered during the year were for staff from the Ministry of Foreign Affairs and Trade, briefings were also provided to other departmental staff including New Zealand Trade and Enterprise and Immigration New Zealand.

NZSIS provided pre-travel briefings to officials on threats that may be faced on official visits abroad, and offered mitigation solutions.

Protecting New Zealand and New Zealand interests at home and abroad from terrorist incidents

The goal of NZSIS's counter terrorism effort is to ensure New Zealand is neither the victim, nor the source, of an act of terrorism, and to play an appropriate role in international efforts to counter terrorism (CT). The NZSIS works closely with other government agencies and our partners to identify, investigate, and disrupt a range of potential threats to our national security, and to provide advice to government. Advice to government is a high priority as it enables the NZ Government and its agencies to identify and manage security risks to New Zealand effectively and to take action, where appropriate, to disrupt actions prejudicial to New Zealand's national security.

During 2011/12, the NZSIS contributed to an assessment on the terrorism threat to New Zealand which was agreed and issued formally by the National Assessments Committee.

Key judgements included:

- overall, terrorism presents a relatively low threat to New Zealand, and New Zealanders are at greater risk of becoming inadvertent victims of terrorist attacks offshore than being directly targeted; and
- Islamist extremist terrorism is likely to continue to be a significant threat to Western interests, at least in the medium term.

The NZSIS contribution to the security of the RWC dominated the early part of the year as we undertook planned activity and responded to operational circumstances. Implementation of this programme involved establishing some major initiatives, including a joint management process with NZ Police for lead information, and appointing to the NZSIS liaison position with the NZ Customs Service's Integrated Targeting and Operations Centre (ITOC). Throughout the RWC, NZSIS continued providing assurance to government that known targets of security interest were not engaged in prejudicial activities that would impact on the RWC. The NZSIS officers seconded to the NZ Police National Intelligence Centre (NIC) proved the value of such collaboration.

Identifying, investigating and mitigating espionage and foreign interference

Espionage is a process whereby foreign governments utilise agents or technical means to obtain sensitive or classified New Zealand information ('intelligence') that is not normally publicly available. In the Crimes Act 1961, espionage is defined as a person, who owes allegiance to the Queen, communicates (or intends to communicate) information to a foreign power with the intent to prejudice the security of New Zealand.

The NZSIS also considers espionage to encompass certain activities that fall under the definition of security in the NZSIS Act 1969, namely clandestine or deceptive activity that is influenced by a foreign entity and impacts adversely on New Zealand's international or economic well-being. This can include seeking to covertly influence decision makers and opinion-formers to benefit the interest of a foreign power (political interference), or adversely interfering in the lives of New Zealand residents (foreign interference).

2011/12 has seen the NZSIS work more closely with its partners both in the NZIC and the wider international intelligence community.

During 2011/12, the NZSIS contributed to an assessment on the espionage threat to New Zealand which was agreed and issued formally by the National Assessments Committee. Key judgements included:

- foreign governments are increasingly seeking intelligence to support economic objectives, as well as to fulfil traditional political and military requirements. New Zealand offers unique opportunities in relation to science and technology, agriculture, food security, and access to partners' information;
- foreign intelligence services are increasingly using cyber intrusions to conduct espionage against New Zealand interests, targeting private sector companies alongside government entities; and
- espionage is causing real economic and reputational harm to New Zealand's interests, although this harm is often difficult to quantify. Espionage can also impair New Zealand's ability to carry out policy, frustrate its political and economic aims, and result in personal harm to its citizens.

Establishing an effective response to cyber attacks to protect official information, critical infrastructure, and the intellectual property of the private sector

NZIC has noted, during the 2011/12 financial year, that the incidence of cyber attack has increased. We are not certain whether this increase is due to actual increased activity or improvement in our knowledge and investigations.

The establishment of the National Cyber Security Centre (NCSC) within GCSB has facilitated a strengthening of the operational and reporting relationship between the NZSIS and other members of the NZIC. From October 2011, NZSIS has had staff partly embedded in the NCSC team. This has further enhanced relationships and facilitated joint operations. A full-time secondee from NZSIS has joined the NCSC team.

Ensuring intelligence for policy-makers makes the greatest possible contribution on foreign policy issues key to New Zealand's interests

NZSIS has two international liaison posts. The liaison officers, between them, manage the high-level day to day relationships with NZSIS's partner agencies. This networking facilitates collaborative partnerships that enable access to information, intelligence, technology and tradecraft.

Sabotage and Subversion

The NZSIS mandate includes combating sabotage and subversion, both of which remain relevant to the national security of New Zealand.

During 2011/12, the NZSIS contributed to an assessment on the sabotage and subversion threat to New Zealand which was agreed and issued formally by the National Assessments Committee. Key judgements included:

- although sabotage and subversion share little in substantive terms, both are poorly understood, with diverging societal and legislative definitions;
- issue motivated groups and acutely disaffected persons are the most likely actors to attempt sabotage in New Zealand, although the greatest potential sabotage threat is from “insiders” due to their capacity to inflict substantial damage. Alongside more established methods for causing damage, the increasing global reliance on the internet is increasing the potential for cyber-sabotage;

NZSIS did not undertake any investigations into this area of potential harm during the 2011/12 year.

Supporting the Government’s policies to counter the proliferation of nuclear, chemical and biological weapons

NZSIS hosts the Counter Proliferation Joint Section (CPJS), which is a multi-agency group embedded within NZSIS, staffed by Officers from Immigration New Zealand (INZ), New Zealand Customs Service (NZCS), GCSB and the NZSIS. This group was formed to detect, investigate and frustrate the proliferation of Weapons of Mass Destruction (WMD) (whether witting or unwitting) from New Zealand or by New Zealanders overseas.

During 2011/12, the NZSIS contributed to an assessment on the proliferation of weapons of mass destruction threat to New Zealand which was agreed and issued formally by the National Assessments Committee. Key judgements included:

- while WMD are highly unlikely to be directly used against New Zealand, the proliferation of WMD presents a range of direct and indirect threats to New Zealand’s national security, and to its interests globally;
- the threat to New Zealand from the proliferation of nuclear weapons and their means of delivery outweighs that from chemical and biological weapons;
- the proliferation of nuclear weapons threatens the international multilateral framework, on which New Zealand relies;
- New Zealand involvement, even if unwitting, in the proliferation of WMD-related goods and technology could cause economic and reputational harm to both the entities involved and New Zealand more generally;
- attempts to acquire controlled and dual-use technology from New Zealand present the greatest single proliferation-related threat to New Zealand, and will likely remain so for the next few years; and
- New Zealand will continue to be an attractive target for foreign WMD procurement companies, and could become increasingly targeted as a source of niche controlled and dual-use goods and technology, particularly if other countries continue to tighten their proliferation-related trade restrictions.

The CPJS issues advice to INZ for visa applicants who pose medium or high levels of proliferation risk via the intangible transfer of technology. INZ separately undertakes its own risk assessment process and comes to an independent decision on whether to approve or

deny a visa application based on the level of reputational risk. The CPJS performs a similar security comment function with regard to applications for New Zealand citizenship.

During 2011/12, NZSIS:

- made contact with companies and research institutes, the products of which include core technologies of proliferation concern. NZSIS will continue to engage with these organisations to monitor and disrupt any potential future proliferation-related activity;
- delivered a counter proliferation report outlining security concerns around relationships between New Zealand tertiary institutions and a number of entities. The potential reputational and intelligence risks were identified and, as a result, NZSIS is co-ordinating activities with MFAT, Immigration and DPMC (ICG) to determine how to mitigate the risk; and
- NZSIS provided advice to INZ on 17 visa applications of proliferation concern in 2011/12.

Using intelligence most effectively with agencies across the government to achieve the best outcomes for New Zealand, for example in detecting people smuggling, combating organised crime, safeguarding national borders and protecting natural resources against illegal exploitation

The NZSIS contributes to the management of New Zealand's border to help ensure that persons who pose a security risk are identified, appropriately investigated and, potentially, denied entry. This process involves the name checking of thousands of individuals before they enter New Zealand to ensure that persons with international terrorist or WMD proliferation linkages are identified and monitored, with advice being given to INZ as to the proliferation risk posed by the visa applicant entering New Zealand. NZSIS also provides a range of protective security advice and related services to a range of government agencies.

NZSIS delivered:

- the Protective Security Manual (PSM) update (which includes items that are approved by NZSIS for the secure storage of national security material classified "Confidential" or above) was reviewed and updated to prepare it for online publication through the Security Toolbox (see below). This project delivered an update of the PSM, not a re-write. All of the PSM supplements have been reviewed by the appropriate focus groups, changes have been submitted for quality assessment which is now complete and these were signed-off by a committee that includes NZSIS management, and representatives of our largest departmental partners;
- a Security Toolbox project was approved. This will deliver an online (web-based), centralised repository of security related information, tools and resources for Departmental Security Officers (DSOs) and a wider departmental audience, and assist us to promulgate security awareness and implementation across government. This will effectively deliver security material directly to the DSO's own personal desktop; and
- the Major Events and Response Management role within NZSIS, which was stood up in December 2011, part of the function of which is to prepare and co-ordinate the NZSIS response to a mass maritime arrival.

Ensuring we have an effective system for vetting individuals entrusted with official information

The first line of defence for classified information is to establish the trustworthiness of persons who handle or manage that information and the technology systems they run it on. NZSIS advises government agencies on the trustworthiness and reliability of persons who will have access to classified information, and on the procedures by which classified information must be managed.

Security clearances are required by all those who access government information classified as “Confidential” or higher. The vetting process undertaken by NZSIS makes enquiries and examines a number of indicators to establish whether an individual is trustworthy or has any security vulnerabilities, and then makes a risk-based recommendation as to whether a security clearance should be granted by the employing Chief Executive or not.

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

PART FOUR

REVIEW OF OUTPUT PERFORMANCE

REVIEW OF OUTPUT PERFORMANCE

This section reports on the NZSIS output performance as set out in the 2011-16 Statement of Intent.

Output Class Summary

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

Output Class: Security Intelligence

The objective of the NZSIS is to provide the Vote Minister with timely and reliable intelligence assessments and protective security advice through:

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

The three outputs the NZSIS delivers are:

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

PART FIVE

FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITY

In terms of the New Zealand Security Intelligence Service Act 1969 section 4J (1), I am responsible as Director of Security of the New Zealand Security Intelligence Service, for delivering to the Minister a report on the activities of the NZSIS during the year ended 30 June 2012, as if it were an annual report under the Public Finance Act 1989.

I am responsible for the preparation of the financial statements and the judgements made in the process of producing those statements.

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

In my opinion, these financial statements fairly reflect the financial position and operations of the NZSIS for the year ended 30 June 2012.

STATEMENT OF EXPENDITURE AND APPROPRIATION

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

	\$000
Total Appropriation	41,148
Actual Expenditure	40,645

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



Dr W H Tucker
Director of Security

28 September 2012

Independent Auditor's Report**To the readers of the
New Zealand Security Intelligence Service's
statement of expenditure and appropriation
for the year ended 30 June 2012**

The Auditor-General is the auditor of the New Zealand Security Intelligence Service. The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the statement of expenditure and appropriation of the New Zealand Security Intelligence Service on her behalf.

We have audited the statement of expenditure and appropriation of the New Zealand Security Intelligence Service on page 32.

Opinion

In our opinion the statement of expenditure and appropriation of the New Zealand Security Intelligence Service on page 32 fairly reflects the New Zealand Security Intelligence Service's expenses and capital expenditure incurred for the financial year ended 30 June 2012 against the New Zealand Security Intelligence Service's appropriation for that financial year.

Our audit was completed on 28 September 2012. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Director of Security and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the statement of expenditure and appropriation is free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the statement of expenditure and appropriation. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the statement of expenditure and appropriation, whether due to fraud

or error. In making those risk assessments, we consider internal control relevant to the New Zealand Security Intelligence Service's preparation of the statement of expenditure and appropriation that fairly reflect the matters to which they relate. We consider internal control 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 New Zealand Security Intelligence Service's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Director of Security;
- the adequacy of all disclosures in the statement of expenditure and appropriation; and
- the overall presentation of the statement of expenditure and appropriation.

We did not examine every transaction, nor do we guarantee complete accuracy of the statement of expenditure and appropriation. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Director of Security

The Director of Security is responsible for preparing a statement of expenditure and appropriation that fairly reflects the New Zealand Security Intelligence Service's expenses and capital expenditure incurred for the financial year ended 30 June 2012 against the New Zealand Security Intelligence Service's appropriation for that financial year.

The Director of Security is also responsible for such internal control as is determined is necessary to enable the preparation of a statement of expenditure and appropriation that is free from material misstatement, whether due to fraud or error.

The Director of Security's responsibilities arise from the Public Finance Act 1989.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the statement of expenditure and appropriation and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

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

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



S B Lucy

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

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

This audit report relates to the statement of expenditure and appropriation of the New Zealand Security Intelligence Service for the year ended 30 June 2012 included on the New Zealand Security Intelligence Service's website. The Director of Security is responsible for the maintenance and integrity of the New Zealand Security Intelligence Service's website. We have not been engaged to report on the integrity of the New Zealand Security Intelligence Service's website. We accept no responsibility for any changes that may have occurred to the statement of expenditure and appropriation since it was initially presented on the website.

The audit report refers only to the statement of expenditure and appropriation named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the statement of expenditure and appropriation. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited statement of expenditure and appropriation and related audit report dated 28 September 2012 to confirm the information included in the audited statement of expenditure and appropriation presented on this website.

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