



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

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# ANNUAL REPORT

**For the year ended 30 June 2013**

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## PREFACE

This is the unclassified version of the Annual Report of the New Zealand Security Intelligence Service (NZSIS), for the year ended 30 June 2013. 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.

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

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# **PART ONE**

## **INTRODUCTION**

# DIRECTOR'S REPORT

I am pleased to present the 2012/13 Annual Report of the New Zealand Security Intelligence Service (NZSIS).

## *Overview*

This has been a busy and eventful year. The Service has continued to progress its modernisation programme, and to deepen its capabilities. There is an increasing emphasis on more structured workforce planning, on developing our staff (including through more challenging training programmes, and secondments), and on growing our future managers and leaders. At the same time we have maintained – even increased – the tempo and effectiveness of our operational and investigative work. There is sharper clarity around our three-fold mission set – collecting foreign intelligence, delivering our security service outcomes, and providing a range of protective security services. Customer engagement and more insightful and strategic intelligence reporting is a priority. Security clearance vetting is in much better shape, with business process improvements and increased vetting resources. The roll-out of new technology infrastructure and tools continues to deliver business improvement opportunities, in both the operational/investigative areas.

During this year we have also re-located our Headquarters, established with GCSB the Shared Services for the New Zealand Intelligence Community (NZIC), and prepared for our (NZSIS, GCSB and NZIC as a whole) Review under the SSC-led Performance Improvement Framework.

## *Operational Highlights*

Following a significant spike in New Zealand Defence Force casualties in August 2012, the Chief of Defence Force requested NZSIS intelligence support in Afghanistan as a result of the heightened threat environment. The initial scoping exercise was determined to be of substantial value, and NZSIS staff were accordingly reassigned from other priorities and deployed into Kabul and Bamyán in support of the PRT up until their scheduled withdrawal in April 2013. This would not have been possible without substantial NZDF assistance.

NZSIS continued to progress a programme of enhancements to strengthen and make fully “fit for purpose” the security clearance vetting system. This has involved changes to the vetting business model, improved case management and performance metrics, and the provision of additional vetting resources. We are almost at the point of clearing entirely the residual backlog of vettings which had built up as an unavoidable consequence of the additional demand in the lead up to the 2011 Rugby World Cup – during the year we completed more than 7,800 vettings which is an all-time high.

NZSIS has also taken the lead in establishing Project Zenith, a multi-agency programme to re-cast and strengthen New Zealand's protective security arrangements and behaviours. This programme ties in with the work being led by the Government's Chief Information Officer (GCIO) to strengthen the privacy protections across government, but focusses more widely on protecting the key elements of people, places and information of national security significance.

## *NZSIS's Move to Pipitea House on Pipitea*

The relocation of NZSIS Headquarters into Pipitea House with GCSB and other NZIC organisations in early 2013 was a significant milestone for NZSIS. The purpose of the move was to achieve deepened collaboration and an efficiency dividend for NZSIS and GCSB

through joint operations and combined support functions. The final stage of the relocation was completed in June 2013. I am expecting collaborative efforts to increase and our partnership to deepen over the next year as NZSIS and GCSB find new ways of doing business together – within the boundaries of each of our respective legislations - following the passing of the GCSB legislation and the associated strengthened oversight arrangements for the NZIC.

### ***Intelligence Community Shared Services***

The Intelligence Community Shared Services (ICSS) was established in April 2013 following a year of planning and preparation, and provides joint corporate services across the core NZIC. The ICSS programme will be delivered over a number of years and involves changes to people, culture, systems, processes, policies and work practices. The first phase of this programme saw the integration of human resources, finance, facilities and physical security functions. A major initiative now underway is the “One Workforce” strategy, dealing with recruitment, remuneration, and staff development across the NZIC, as well as other initiatives to better align a range of policies and practices – for example on travel and overseas deployments. A follow-on initiative to establish a single security capability, hubbed on NZSIS, is in prospect for the coming year.

### ***Performance Improvement Framework and Four-Year Excellence Horizon***

As the 2012/13 year drew to a close, agencies within the NZIC initiated preparation for the Performance Improvement Framework (PIF) review. The PIF review process was introduced a number of years ago by the State Services Commission as part of a wider drive to lift the performance of New Zealand’s public service. The PIF review is providing the NZSIS with an opportunity to reflect on its strategy and capability and how well it has identified and responded to current government priorities. The PIF review will be completed in late 2013, and will provide useful insights for my successor as he or she leads NZSIS in the next phase of the Service’s development.

### ***NZSIS Legislation Review***

The NZSIS undertook a comprehensive review of the New Zealand Security Intelligence Service Act 1969 (the Act) during the 2012/2013 year. The review provides a foundation for future work to modernise the Act.

### ***Additional resourcing for 2013/14***

It was particularly pleasing that NZSIS received an increase in funding for additional capability, including personnel, from 2013/14. This additional funding enables NZSIS to move ahead confidently as we seek to strengthen our core capabilities. In the present tight fiscal environment, I recognise that this is a strong endorsement of the value which NZSIS delivers to New Zealand. I’m pleased that the work to establish solid foundations for absorbing this additional resourcing and to build more capacity to deepen our capabilities and further enhance our effectiveness is well underway. But I’m conscious that much still remains to be done, and the lead-times involved in recruiting and training new staff, and building their experience, means that consistent focus and effort is required for some years before we will achieve the required levels of capability.

### ***Our operating environment***

The environment in which we operate is continuously changing. Threats are ever present, more diffuse, and arguably more complex to discern and address. The Middle East is considerably unstable, with significant potential implications stemming from the conflict in

Syria. Other areas of the Middle East and northern and eastern Africa also continue to give rise to concern. Of particular concern currently is the attraction for a small number of New Zealanders to join in these conflicts, and the potential impact on New Zealand's domestic security environment once these individuals return home. Closer to home, stability in the Pacific is an on-going issue. And new manifestations of traditional threats (espionage and, potentially, sabotage) through the medium of cyber continue to require focussed attention. It is in this context that the NZSIS will continue to work to build a safer and more prosperous New Zealand.

### ***Final Thoughts***

This will be my last Annual Report for the NZSIS. As I reflect on this past year and the previous six that I have been Director of Security, I am reminded of the substantial progress that the NZSIS has made as an organisation and of the tangible difference we have made. I feel very privileged to have had the opportunity to lead the NZSIS over a period of significant change, and proud of the way that our talented, highly motivated and professional staff perform their work. I know that I leave the NZSIS a much stronger and more capable organisation than when I arrived in 2006.



Dr Warren Tucker  
Director of Security

# NZSIS OVERVIEW

## The Roles of the New Zealand Security Intelligence Service

The New Zealand Security Intelligence Service Act 1969 states that the NZSIS has three main roles:

- As a security service using a wide variety of sources and methods to provide assurance of safety and security (including economic well-being) to New Zealand and New Zealanders at home and abroad;
- As a provider of protective security advice and security screening services; and
- As a foreign intelligence service collecting intelligence using human sources.

The threats and vectors of harm faced by New Zealand mostly have their origin and intent outside the country and manifest themselves in risks to New Zealand economic and security interests within the country and abroad.

It is important to recognise these separate roles, since different compliance regimes and attitudes to risk apply and different skill sets and capabilities are needed.

### ***Security Service/Intelligence role***

The ***security service*** or security intelligence role which consumes the greatest part of NZSIS resources is about threat reduction, identifying threats within and to New Zealand and its citizens overseas, and working to mitigate the risks arising. The outcome is reflected in the level of assurance provided about the safety, security and economic well-being of the country.

The NZSIS operates as both a collection agency, obtaining and disseminating intelligence as required; and as an assessment agency, analysing and reporting on intelligence that it has gathered. The best possible (but least gripping) headline is that nothing has happened to damage New Zealand security; that risks have been identified and averted. The degree of assurance is a function both of the threat environment (which is changing with the increase in cyber threat and which can also be volatile in the face of short term perturbations in world order) and of the effectiveness of the NZSIS.

### ***Protective Security role***

The security clearance model is broadly understood as a necessary vulnerability reduction measure and to provide confidence to Five Eyes partners. NZSIS provides a service to meet the demand for clearances from Departments, and support and advice in the management of problematic cases.

The approach to ***protective security*** (vulnerability reduction) needs to be systemic and apply across all three domains of people, physical and information/cyber security. This is the intention of work now being undertaken under the auspices of the Interdepartmental Committee on Security (ICS). NZSIS provides advice and support to Departments across the range of vulnerabilities and alongside the responsibilities of others (particularly in the information and cyber security space).

### ***Foreign Intelligence role***

There is a direct linkage between centrally-agreed requirements for intelligence and the foreign intelligence activities of NZSIS. Outputs are primarily in the form of reporting, but

may sometimes be very immediate (for example where NZSIS has worked alongside deployed New Zealand forces in Afghanistan).

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.

## **NZSIS contribution to the New Zealand Intelligence Community**

This report focuses on the events and challenges that have shaped the year for the NZSIS and will highlight the NZSIS contribution to the NZIC sector goals of:

- adjusting our focus to better reflect changes in the threat environment in which we operate. For example, moving from a predominant focus on terrorism, to investigating and disrupting cyber-based espionage and attack, in both the public and private sectors;
- continuing protection of New Zealanders deployed abroad on behalf of the Government (including supporting the New Zealand Defence Force in hazardous deployments overseas);
- providing accurate, reliable and timely foreign intelligence on areas of foreign and economic policy; and
- using intelligence effectively across government to achieve the best national security outcomes possible for New Zealand. For example, intelligence used to detect people smuggling, safeguard national borders and protect natural resources against illegal exploitation.

There are a number of areas important to New Zealand's security where the role of the intelligence agencies remains critical:

- identifying, investigating and mitigating espionage and foreign interference;
- 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 access to classified information; and
- ensuring a safe and secure environment for major events, including the U-20 FIFA World Cup and the Cricket World Cup both in 2015.

## **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 Pipitea House on Pipitea, Pipitea Street, Wellington. There are regional offices in Auckland and Wellington, and three overseas liaison offices.

All the offices collect information and undertake vetting duties, with liaison offices collecting information in concert with the host country. 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 new Intelligence Community Shared Service (ICSS) group in Pipitea House.

### Corporate Governance

The corporate governance is overseen at three levels:

#### ***NZSIS Executive Group***

The Director and Deputy Directors form the Executive Group (EG), which is the NZSIS senior leadership team and governance group.

NZSIS EG as at 30 June 2013:

Director – Dr Warren Tucker  
Chief of Staff  
Deputy Director Intelligence  
Deputy Director Operational Enablement  
Deputy Director Vetting and Screening  
Deputy Director Security Capability  
General Manager Shared Services

#### ***NZSIS Audit and Risk Committee***

The Audit and Risk Committee is an external advisory committee and advises the Director of Security directly 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.

#### ***Standing Governance Committees***

The NZSIS has three standing governance committees in support of the EG.

##### *Business Capability Development Committee*

The NZSIS Business Capability Development 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 and other business capability development projects are resourced and managed appropriately.

#### *Staffing Committee*

The NZSIS Staffing Committee is appointed by the Director. The Staffing Committee is a sub-committee of the Executive Group and acts as an advisory group to the Director and Executive Group, to ensure that:

- recommendations relating to recruitment, remuneration and career progression are in alignment with the NZSIS's strategy, priorities, values and policies;
- the NZSIS operates within the agreed Personnel budget; and
- any changes to the Establishment will be approved by the Director following endorsement by the Staffing Committee.

#### *Security Committee*

The NZSIS Security Committee is appointed by the Director. The Security Committee provides leadership and direction for security change in the NZSIS. It is a decision-making body, subordinate to EG, and has a corporate responsibility to EG for ensuring that:

- the risks to NZSIS staff, information and assets are effectively identified and assessed and there are arrangements in place or being developed to manage security risks effectively and proportionately. This covers the governance, policies, procedures, training and other necessary requirements for security; and
- security policies and practices are relevant, functional and proportionate.

## **PART TWO**

### **THE YEAR IN REVIEW**

## 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 2013, the year under review.

This report includes information on domestic and foreign intelligence warrants issued under section 4A(1) and (2) of the Act and removal warrants issued under section 4I(1) of the Act, which were in force at any time during the year under review.

### Domestic

During the year under review thirty-four (34) domestic intelligence warrants were in force. Of those, twenty-two (22) were issued during the year under review, and twelve (12) 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 173 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

No removal warrants were issued during the year under review.

### Foreign

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



Dr Warren Tucker  
Director of Security

DATED at Wellington this 1<sup>st</sup> day of October 2013

I have reviewed all Warrants in force during the period beginning 1 July 2012 and ending 30 June 2013 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 1<sup>st</sup> day of October 2013

## **NZSIS TOP PRIORITIES FOR 2012-17**

### **Cyber espionage**

During 2012/13, an update of the paper delivered by NZSIS and GCSB entitled “The Cyber Threat to New Zealand” was issued formally by the National Assessments Committee.

Key judgements are:

- Internationally the sophistication and scale of cyber intrusions are increasing, and our partner governments have escalated the cyber threat up the list of challenges they are facing.
- Exploitation of critical networks by state actors remains the most significant cyber threat to our national security and economic prosperity.
- Economic loss is very difficult to calculate, but it is assessed as being significant.
- A high level of cyber exploitation of both our state and private sectors will continue for the foreseeable future.

### **Security Clearance Vetting System is Fit for Purpose**

In 2010/11 year, the NZSIS commissioned an independent review of the security vetting system. The purpose was to provide assurance that NZSIS has suitable initiatives planned or progressing to deliver a security vetting system that is fit for purpose in the New Zealand context.

The NZSIS has continued to implement initiatives that came out of this work, to strengthen and streamline the vetting system.

During 2012/13 a number of initiatives were undertaken that have resulted in significant improvements in the vetting system. These initiatives included:

- development and implementation of a demand and resourcing modelling tool to empirically determine optimum staffing requirements to meet output demand;
- implemented the Sustainable Vetting project to ensure that the vetting system is robust and resilient while delivering outputs to agreed standards, and within agreed timelines;
- implemented Project Off Ramp, a limited-duration project to eliminate the queue and all other outstanding vetting requests received by NZSIS prior to 1 April 2013;
- we have continued to improve communication to customers through the use of our pamphlet entitled “Vetting for a Security Clearance” that provides information for candidates and referees;
- the delivery of Vetting Officer training;
- commencement of a programme to digitise all vetting files and vetting assessments; and
- minor interim refinements to our Online Vetting Request (OVR) system to make it more user friendly.

### **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.

### ***A co-located Intelligence Community***

The NZIC reached a significant milestone in 2012/13 with NZSIS's move to Pipitea House, and the core NZIC agencies are now co-located into a single premises. The purpose of the move was to achieve collaboration through aligning the operations and support functions of the NZSIS and GCSB.

The move was a significant exercise for NZSIS, relocating staff from Defence House to Pipitea House. The relocation was completed in June 2013.

### ***Intelligence Community Shared Services***

In parallel with co-location the Intelligence Community Shared Service (ICSS) was established. Following a consultation process with staff across both GCSB and NZSIS, the ICSS was established on 3 April 2013. The ICSS establishes a joint NZSIS/GCSB service across four functional areas: Financial Services; Organisation Development and Performance; Support Services and a Project Management Office. Staff in ICSS are employed by GCSB but all staff provide functional support to the whole NZIC. It is anticipated that in due course, ICSS will provide efficiencies in the delivery of support functions to each of these areas.

## **Modernising Capabilities**

In 2012/13, NZSIS continued its programme of building capability. 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 2012/13 year we:

- delivered an enterprise-wide knowledge management and information exploitation capability to the NZSIS; and
- undertook a comprehensive review of the New Zealand Security Intelligence Service Act 1969 (the Act). The review provides a foundation for future work to modernise the Act.

### ***Management Capability Development***

The NZSIS has continued to raise the capability and capacity of its third and fourth tier managers. NZSIS again ran "Management Matters", a comprehensive programme for fourth tier managers, and staff who aspire to be managers. The programme included a four-day intense workshop on basic management skills, followed by a one-day-per-month training session. These participants also had access to an outside management coach who worked with each programme participant on their individual management development. 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.

The initiatives established in 2011/12 continued, focusing 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 initiatives:

- provide an opportunity to focus on leadership, management, capabilities and expectations;
- enable 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;
- offer an opportunity to regularly put forward ideas for evaluation by peers and receive objective feedback. 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
- provide an opportunity to have a direct dialogue with the Director on leadership challenges.

### ***Staff Capability and Capacity***

In 2012/13 the NZSIS delivered a broad range of both internally-developed and specialist capability training that included a wide range of tradecraft and operational skills.

### ***Information and Communications Systems***

During 2012/13, NZSIS committed significant information technology resources to our programme to deliver the enterprise-wide knowledge management and information exploitation capability.

## 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 229 Full Time Equivalents (FTEs) and finished with 218 FTEs as at 30 June 2013. Seven staff transferred from the NZSIS to ICSS on 3 April 2013, with one subsequently transferring back to NZSIS in June. 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 2012/13, staff turnover was 20.2%. NZSIS staff took 1513.5 days of sick leave during 2012/13; this is approximately 5.5 days per person.

### Equal Employment Opportunities

The NZSIS is committed to providing on-going equal employment opportunities. Women currently comprise 39.9% 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 26.7%).

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

The NZSIS undertook a comprehensive review of the New Zealand Security Intelligence Service Act 1969 (the Act) during the 2012/2013 year. The review provides a foundation for future work to 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. These included the proposed amendments to the Government Communications Security Bureau Act 2003, the Inspector-General of Intelligence and Security Act 1996 and the Intelligence and Security Committee Act 1996.

## 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 and the Ombudsmen. 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 of Parliament*

The Intelligence and Security Committee (ISC) is a statutory committee of Parliament established by the Intelligence and Security Committee Act 1996. The functions of the ISC include examining the policy, administration, and expenditure of the NZSIS and the GCSB, receiving any bill or other matter referred to them by the House of Representatives in relation to the NZSIS or GCSB, and receiving and considering the annual reports of the NZSIS and GCSB. The members of the Committee as at 30 June 2013 were:

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 Tony Ryall (National 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 joint Statement of Intent.

### *Inspector-General of Intelligence and Security*

The NZSIS is subject to the oversight of the Inspector-General of Intelligence and Security. The Inspector-General for 2012/13 was 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 actions of 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 six complaints from individuals relating to the NZSIS. One of these complaints was a vetting-related complaint which was still under enquiry as at 30 June 2013.

In respect of the other five complaints investigated during the year under review:

- One related to an on-going employment matter. The Inspector-General found no evidential support for the complaint and terminated the enquiry.
- Four related to vetting matters. Of these two related to adverse recommendations by the NZSIS, neither of which were upheld by the Inspector-General. One related to a re-examination of a recommendation from an earlier year which subsequently enabled the complainant's employment to proceed. One related to the time taken in the vetting process, which the proposed employing department accepted ought reasonably to be shorter.

## Official Information Act and Privacy Requests

In the period under review 143 requests for information were received from members of the public, with 51 requests being considered under the Official Information Act 1982 (OIA) and 92 under the Privacy Act 1993. This is a slight increase on the number of requests made the previous year, but continues a decline from a record 378 requests received in 2008-09.

More Privacy Act requests than OIA requests have been processed, reversing the trend noted in last year's Annual Report. More contact from correspondents with unconventional perceptions has also been noted, with three dozen in this category.

Security and privacy considerations sometimes preclude the public release of information (or even acknowledging the existence of information). The NZSIS official website carries explanatory material about the application of the OIA and the Privacy Act, the responses 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 have the right, under the respective Acts, to complain to the Ombudsmen or the Privacy Commissioner.

In the review period three complaints were considered by the Ombudsmen. One was 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, was resolved by the NZSIS agreeing to assess a small number of files with a view to identifying material that could be released.

Thirteen complaints were considered by the Privacy Commissioner. Six were decided in favour of the NZSIS, two were settled with the release of further information, and five await resolution.

Another channel for those seeking redress is the Inspector-General of Intelligence and Security.

## Parliamentary Questions

A number of oral questions and questions for written answer were addressed to the Minister in Charge of the NZSIS during the 2012/13 period. Responses to these questions are reported through Hansard, and are publically available as part of the parliamentary record.

## 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).

These form a unique record, the historic value of which has long been recognised. A declassification programme, begun in 2008, has recently resumed following the appointment of an experienced archives officer. Selected early records are being transferred to Archives New Zealand where this can be done without compromising important on-going intelligence sources and methods, or the privacy of individuals.

## 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.

In 2012/13 initiatives included:

- the relocation of NZSIS to Pipitea House accommodation, with other members of the NZIC. This has improved efficiency by reducing the footprint of the NZIC, and effectiveness by co-locating staff from the individual agencies who undertake complementary work in the same fields;
- the introduction of the ICSS model across corporate services, incorporating Finance, Human Resources, Learning and Development, Procurement, Facilities and Physical Security. This has improved efficiency and effectiveness across the NZIC;
- 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; and
- implementing a secure information management system and associated tools that enable more effective use of the data held by the NZSIS. This programme has delivered an integrated operational information management system that has fundamentally changed 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 has been complemented by a Sharepoint DMS. Implementation of both of these systems collectively has enabled enhanced efficiency and effectiveness through more integrated security, management, storage and retrieval of information.

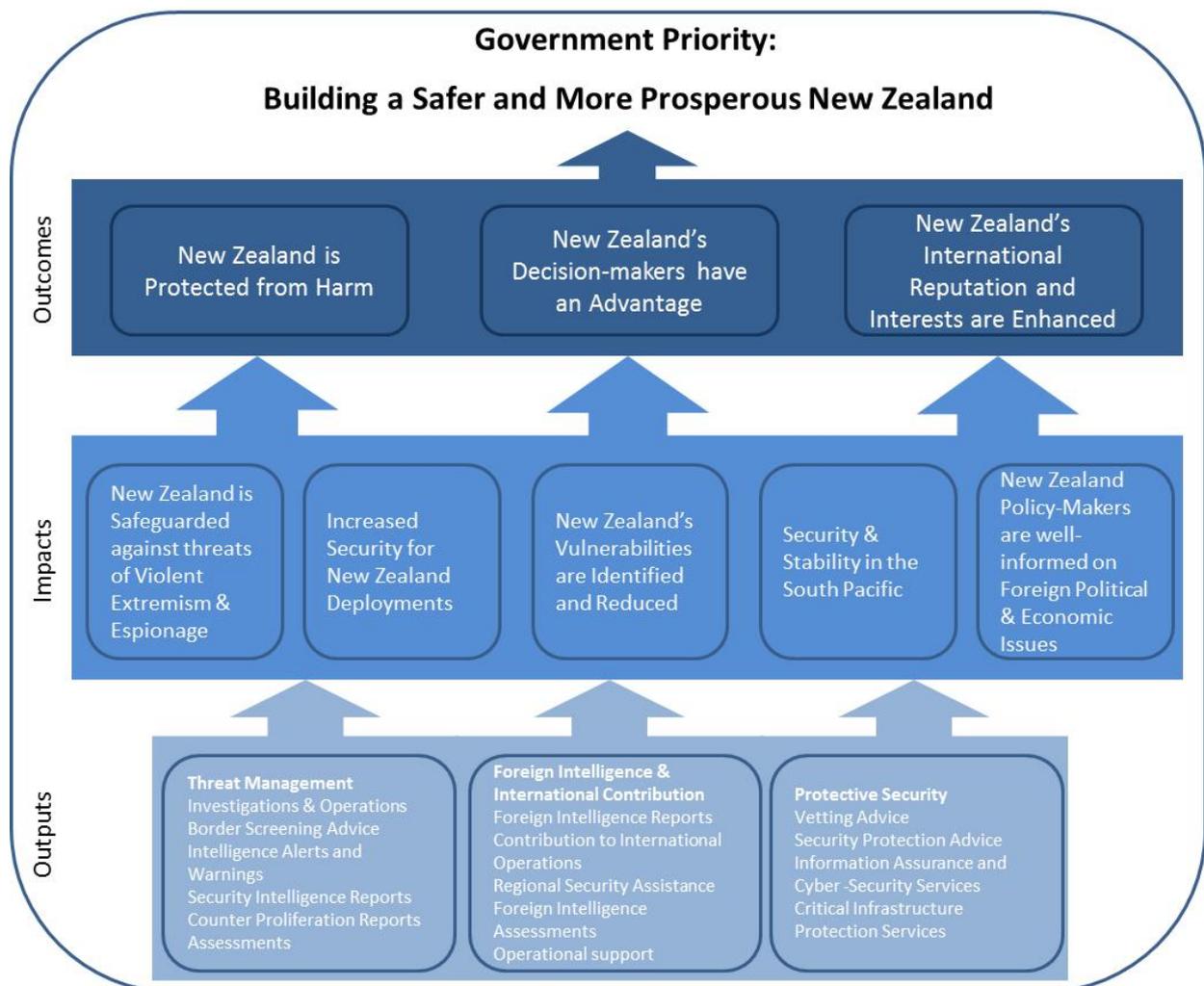
## Capital Intentions

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

## **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 2012-16.

Under its security intelligence mandate, NZSIS identifies and helps 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.

We have three long-term outcomes that we are seeking to achieve for New Zealanders:

- New Zealand is protected from harm
- New Zealand's decision-makers have an advantage
- New Zealand's international reputation and interests are enhanced

In this Annual Report our contribution to these outcomes is reported under each of our impacts.

# **NZIC Impact – NZ is safeguarded against threats of espionage and violent extremism**

## **Protecting New Zealand and New Zealand interests at home and abroad from terrorism**

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. The NZSIS works closely with other government agencies and 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 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.

The Combined Threat Assessment Group (CTAG) provides independent assessments on threats of physical harm to New Zealand and New Zealand interests. CTAG serves as part of the wider government intelligence assessment community. Global trends continue to show that despite the degradation of Al Qa'ida in Afghanistan, Pakistan and Yemen, it continues to grow in the Middle East and Africa such that we cannot be dismissive of the continued possibility of either transnational or home grown and self-radicalised individuals or groups emerging as a future threat.

In addition to the areas of operational focus, in the early part of 2012/13, NZSIS staff were deployed to London to support the security effort for the London 2012 Olympic and Paralympic Games.

### ***Agency Collaboration***

The NZSIS also continued a number of partnerships domestically and collaborated with international agencies. Domestically, NZSIS continued to hold regular meetings at the senior executive level with New Zealand Police, the New Zealand Defence Force and Immigration NZ.

## **Sabotage and Subversion**

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

Whilst we did not undertake any investigations into this area of potential harm during 2012/13, the threats identified in the 2011/12 paper entitled "The Threat to New Zealand from Sabotage and Subversion" remain relevant.

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 low probability of discovery and 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.

## Identifying, investigating and mitigating espionage and foreign interference

Espionage is a process whereby foreign governments seek to obtain sensitive or classified New Zealand information ('intelligence') that is not normally publically available. In the Crimes Act 1961, espionage is defined as a person, who owes allegiance to the Queen, and 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).

## NZIC Impact – Increased security for NZ deployments

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

#### Afghanistan

The NZSIS responded to a request in August 2012 from the Chief of Defence Force to return to Afghanistan to provide intelligence support to help reduce the risk to New Zealand troops deployed in Afghanistan.

NZSIS support remained in Afghanistan until the end of April 2013. Support focused on continued liaison with Afghan National Directorate of Security and Afghan National Security Forces, as well as other partners. This work materially reduced the threat to the NZDF PRT operating in Bamyán.

#### Other protective support

NZSIS provided pre-posting security briefings to officials being deployed at New Zealand diplomatic missions abroad.

NZSIS provided pre-travel briefings to officials in the Prime Minister's Office on threats that may be faced on official visits abroad, and offered mitigation solutions.

## **NZIC Impact – NZ’s vulnerabilities are identified and reduced**

### **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 2012/13 financial year, that the exploitation of critical networks by state actors represents the most significant cyber threat to New Zealand’s national security and economic prosperity.

The establishment of the National Cyber Security Centre (NCSC) within GCSB facilitated a strengthening of the operational and reporting relationship between the NZSIS and other members of the NZIC.

## **NZIC Impact – NZ policymakers are provided with unique insights on foreign political and economic, and national security issues**

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

NZSIS has three 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, and the ability to conduct joint operations when required.

## **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 in the latter case, the employers are advised on how to mitigate the risk.

## **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 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 applicants entering New Zealand. NZSIS also provides a range of protective security advice and related services to a range of government agencies.

NZSIS delivered:

- The Counter Proliferation Joint Section (CPJS) trialled a new process to support INZ to make visa application decisions in relation to applicants who may pose a risk to New Zealand due to their associations with entities of proliferation concern.
- 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). 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 key departments.
- a Security Toolbox project was initiated. The Security Toolbox 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 will assist us to promote security awareness and implementation across government. This will effectively deliver security material directly to the DSOs' desktops, and provides a secure community for DSOs to share and refine security related material. The Toolbox is the first collaborative online portal between the NZSIS and the GCSB and will also be the first online portal operating at a Restricted level of classification available in New Zealand. The Toolbox is currently undergoing final refinements and it is anticipated that it will be launched for use by DSOs in late 2013.
- Over the reporting period, NZSIS continued to contribute to the interagency Major Event Security Committee, chaired by DPMC, which meets regularly to address the security needs for upcoming major sporting events, commemorations and meetings.

## **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. 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. Currently CPJS is staffed by officers from Immigration New Zealand (INZ) and NZSIS, with the New Zealand Customs Service position vacant since January 2013 and GCSB not filling their position this year.

The CPJS issues advice to INZ for visa applicants who pose medium or high levels of proliferation risk.

## **PART FOUR**

# **REVIEW OF OUTPUT PERFORMANCE**

## REVIEW OF OUTPUT PERFORMANCE

This section reports on the NZSIS output performance as set out in the 2012-16 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 New Zealand Security Intelligence Service is to provide the Vote Minister with timely and reliable intelligence assessments and protective security advice through:

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

The three outputs the NZSIS delivers are:

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

## **PART FIVE**

# **FINANCIAL STATEMENTS**

# FINANCIAL STATEMENTS

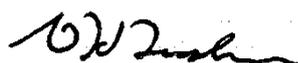
## STATEMENT OF RESPONSIBILITY

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 2013, 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 2013.



Dr Warren Tucker  
Director of Security  
30 September 2013

## STATEMENT OF EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATION FOR THE YEAR ENDED 30 JUNE 2013

Section 7(1)(g) of the Public Finance Act 1989 (PFA) requires a single line appropriation for the Intelligence Departments and incorporates both the operating expenses and the capital expenditure to be incurred.

In accordance with the PFA Section 45E, I report as follows:

|                     | <b>\$000</b> |
|---------------------|--------------|
| Total Appropriation | 34,329       |
| Actual Expenditure  | 37,506       |

The "Total Appropriation" in the table above incorporates both operating expenses and the agreed capital contributions forecast for the year. The "Actual Expenditure" includes the actual operating expenses and the actual capital expenditure incurred. Under the current legislation, section 24 of the PFA also allows departments to invest their working capital into the replacement of capital assets.

The Operating Expenses was within appropriation, and there was no unappropriated expenditure for the year ended 30 June 2013.

## **Independent Auditor's Report**

### **To the readers of New Zealand Security Information Service's financial statements for the year ended 30 June 2013**

The Auditor-General is the auditor of the New Zealand Security Information Service (the Service). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Service on her behalf.

We have audited:

- the financial statements of the Service on page 31, that comprise the statement of expenses and capital expenditure against appropriation for the year ended 30 June 2013.

### **Opinion**

In our opinion the statement of expenditure and appropriation of the Service on page 31 fairly reflects the Service's expenses and capital expenditure incurred for the financial year ended 30 June 2013 against the Service's appropriation for that financial year.

Our audit was completed on 30 September 2013. 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 financial statements are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Service's preparation of the financial statements 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 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 financial statements; and
- the overall presentation of the financial statements.

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

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 expenses and capital expenditure against appropriation that fairly reflects the Service's expenses and capital expenditure incurred for the financial year ended 30 June 2013 against the 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 financial statements that are free from material misstatement, whether due to fraud or error. The Director of Security is also responsible for the publication of the unclassified financial statements, whether in printed or electronic form.

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 financial statements 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 External Reporting Board.

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



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

### **Matters Relating to the Electronic Presentation of the Audited Financial Statements, and Statement of Service Performance**

This audit report relates to the financial statements and statement of service performance of the New Zealand Security Intelligence Service for the year ended 30 June 2013 included on the New Zealand Security Intelligence Service's website. The Chief Executive 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 financial statements and statement of service performance since they were initially present on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance and related audit report dated 30 September 2013 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

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



New Zealand Security  
Intelligence Service

Website: [www.nzsis.govt.nz](http://www.nzsis.govt.nz)

New Zealand Government