



NEW ZEALAND SECURITY INTELLIGENCE SERVICE

ANNUAL REPORT

for the year ended 30 June 2007

*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

Introduction

The 2006/07 financial year has been one of many changes for both the New Zealand Security Intelligence Service (the Service) and its staff. Richard Woods retired as Director of Security at the end of October 2006. I was appointed to succeed him and joined the Service on 1 November 2006.

During 2006/07 the Service drafted and instituted a new Mission, Vision and Values. To support these, the Service commenced creating a strategic framework and undertaking a fundamental structural realignment, to enable a firm footing for the next decade and beyond.

We were fortunate to have the services of an international strategic expert, from within the security community, to assist the Service undertake a range of initiatives to support ongoing organisational development.

50th Anniversary

On 28 November 2006 the Service celebrated its 50th Anniversary. I would like to acknowledge the extensive work and planning carried out by Richard Woods and his team to prepare for these celebrations. This important milestone was marked appropriately by staff, past and present, together with the Service's domestic and international intelligence partners and other invited guests.

Overview

The Service continues to operate in a much more security focussed world than ever before. The Service's key role is encapsulated in its Government Goal:

"A key responsibility of Government is the maintenance of national security – a state of being in which both the New Zealand Government and individual New Zealanders can pursue their objectives untroubled by fear or danger".

Around the world acts of terrorism continue to occur, often affecting innocent bystanders. We continue to see items on the television news and headlines in the newspapers of bombs, either having been discovered or having gone off, kidnappings and slayings.

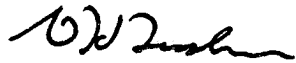
While most of these accounts discuss situations on the other side of the world, the Service must not relax its vigilance and, in the past year, has investigated:

- activities of individuals in New Zealand assessed as being, or being associates of, Islamic extremists;
- links between individuals in New Zealand and international extremist organisations, both as members and fund raisers;
- individuals who have been assessed as putting New Zealanders' security at risk;
- covert activity in New Zealand on the part of foreign intelligence services; and
- activities and links in support of weapons of mass destruction programmes abroad.

The world is changing; methods of communication and use of the internet, both as an educator and a means of influence, have become more sophisticated and made the world "a smaller place". The Service must continue to work with its fellow intelligence community counterparts to develop the expertise necessary to operate within this changing environment.

Conclusion

My first eight months in this role have been extremely busy and rewarding. I would like to take this opportunity to thank the staff for their dedication and professionalism, and for continuing to deliver to a very high standard during these times of change.

A handwritten signature in black ink, appearing to read 'Dr Warren Tucker', with a stylized, cursive script.

Dr Warren Tucker
Director of Security

NZSIS OVERVIEW

During the 2006/07 financial year the Service reviewed its Vision and Mission statements, and the revised Vision and Mission are presented below.

Our Vision

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

Our Mission

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

The Role of the New Zealand Security Intelligence Service

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

The Service's functions include:

- obtaining, correlating and evaluating intelligence relevant to security;
- communicating intelligence to those that 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 Service 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, the specific tasks of the Service 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 Service. This is reflected in the Service's Vision and Mission statements.

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 Service.

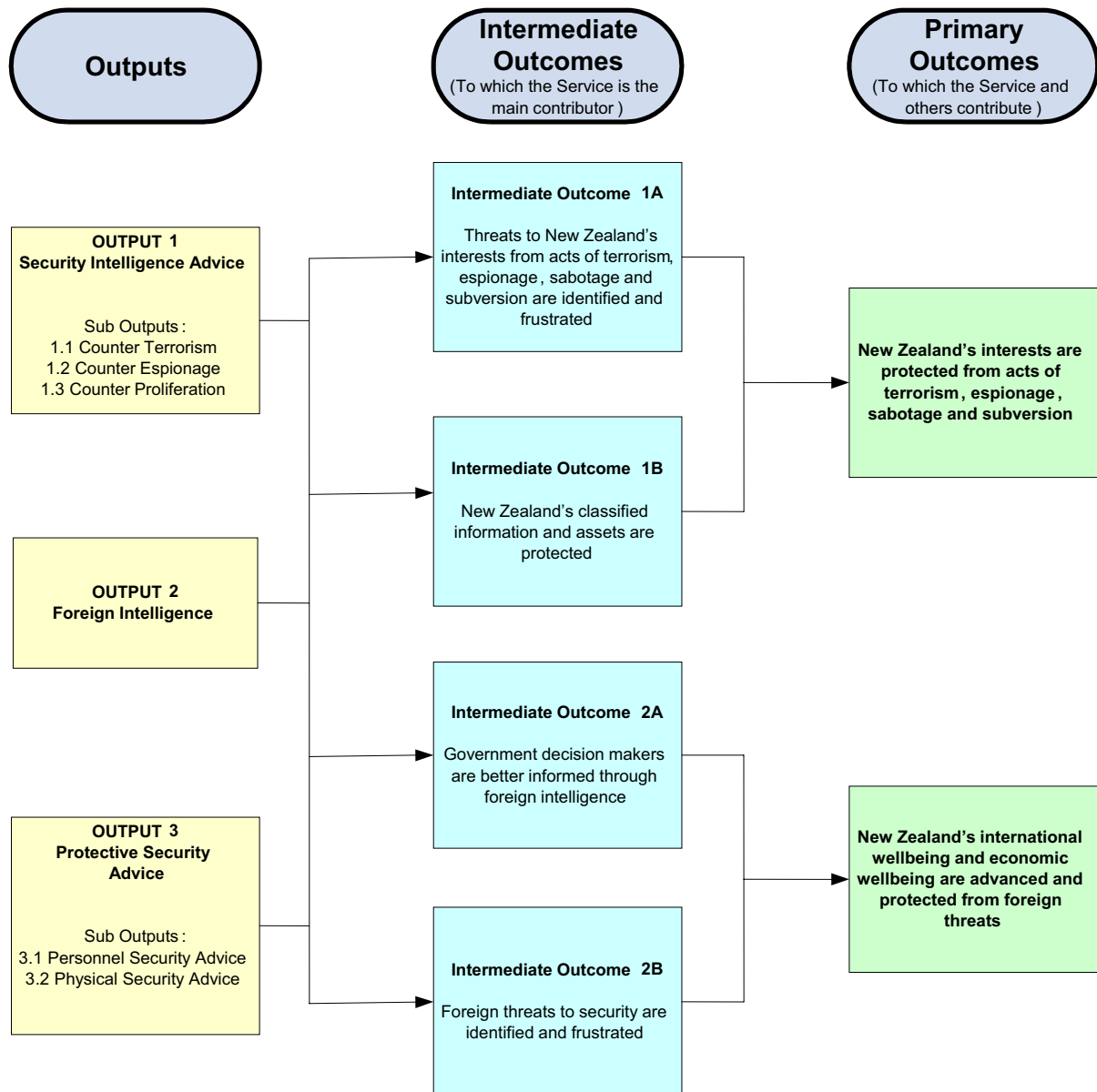
The Service's function is governed by the New Zealand Security Intelligence Security Act 1969 and subsequent amendments.

PART TWO

THE YEAR IN REVIEW

NZSIS OUTCOMES FRAMEWORK

Linking Outputs to Primary Outcomes



OUTCOME STATEMENTS

Primary Outcomes

The Service has two primary Outcomes:

- **New Zealand's interests are protected from acts of terrorism, espionage, sabotage and subversion;**
- and
- **New Zealand's international wellbeing and economic wellbeing are advanced and protected from foreign threats.**

The following Intermediate Outcomes contribute to the Service's achievement of the two Primary Outcomes.

Intermediate Outcome 1A:

Threats to New Zealand Interests from acts of terrorism, espionage, sabotage and subversion are identified and frustrated.

Counter Terrorism

The aim of the Service's counter terrorism effort is that New Zealand is neither the victim nor the source of an act of terrorism, and plays an appropriate role in international efforts to combat terrorism. The Service does this by monitoring - focussing on the analysis, assessment, targeting, collection and intelligence dissemination - both the environment and individuals with links to terrorists and/or terrorist organisations and their activities. The Service also investigates the process of radicalisation.

Counter Espionage

The Service is the only organisation in New Zealand undertaking counter espionage work and attempting to disrupt the work of hostile foreign intelligence services. Work undertaken by the Service during this year has resulted in advice to Government on espionage threats to New Zealand posed by hostile intelligence services, and disruption of these threats.

Combined Threat Assessment Group (CTAG)

The Combined Threat Assessment Group (CTAG) is hosted by the Service. The group comprises staff seconded from the Service, New Zealand Police, New Zealand Defence Force (NZDF), Government Communications Security Bureau (GCSB), New Zealand Customs and Maritime New Zealand. CTAG is tasked with providing assessments on terrorist or criminal threats of physical harm to New Zealand and New Zealand interests at home or overseas, based on all sources of information and intelligence available to the New

Zealand Government. During the year CTAG produced 212 reports on a variety of threat related issues. CTAG continues to monitor the domestic and international threat environments and reports any changes detected.

Intermediate Outcome 1B:

New Zealand's classified information and assets are protected

Personnel Security Advice (Vetting)

The aim of the Service's personnel security advice (vetting) is to help protect the Government's classified information and assets by providing recommendations on candidates' security trustworthiness. It does this by ensuring through a rigorous vetting process that the Chief Executives of government agencies may make informed decisions about the suitability of a candidate for a security clearance.

Physical Security Advice

The Service provides physical security advice to government departments and agencies on measures required for the protection of classified material, personnel and physical assets.

The aim of this group is to help protect the Government's classified information and assets, national economic wellbeing and national infrastructure by developing an awareness of protective security and its application, amongst government agencies and, where appropriate, other public and private organisations.

Intermediate Outcome 2A:

Government decision makers are better informed through foreign intelligence

Foreign Intelligence

Since the last Annual Report, the Service has been working to build its capacity and capability to deliver timely and actionable Foreign Intelligence reports to the New Zealand Government, customers and stakeholders in the wider New Zealand Intelligence Community (NZIC), as well as other government entities and agencies.

Intermediate Outcome 2B:

Foreign threats to security are identified and frustrated

Counter Proliferation

The Counter Proliferation Joint Section (CPJS) continues to be the vehicle for development of counter proliferation (CP) policy, coordination and operations. The Service has initiated, and managed, a range of significant operational work relating to CP activities in New

Zealand and internationally. This operational work, as well as the Counter Proliferation Reports (CPRs) provided to Government, outreach activities, and involvement in policy activity with other government departments, contributes directly to advancing New Zealand's awareness of proliferation.

CORPORATE

Finance and Planning

Financial Management

A project is underway to purchase a modern integrated financial management system. This system will not arrive until the new financial year, but will make a significant difference to the Service's ability to carry out quality financial management and monitoring.

Facilities

Accommodation

Work was completed on the new purpose built Defence House on Aitken Street in March 2007, with staff moving in on 10 March 2007.

Human Resources

Service Structure and Staffing

Over the year, the Service's staffing increased from 150 to 183 as at 30 June 2007.

As the Service has expanded better Human Resource processes have been achieved by recruiting an organisational capability specialist. In addition, increased emphasis is being placed on more professional training of staff.

Staff recruitment continues to be an issue in a tight labour market however this is offset, in part, by low attrition rates.

Organisational Change

The Service is currently engaged in a major organisation development process. Senior managers have redefined the Mission and Vision and, using achievement of these as the goal, have set about realigning the Service functions to better reflect business requirements.

The need to realign the organisation has been apparent for some time as rapid growth has seen the Service move from being a small organisation to one that is now medium sized. This realignment seeks to improve lines of accountability, build in resilience (making for a more flexible organisation) and sharpen processes to better enable the provision of information to Government.

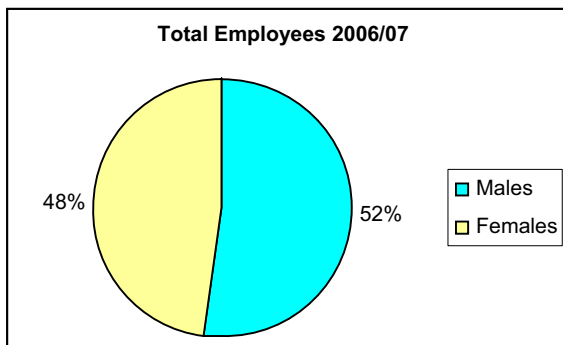
Recruitment and Capability

The Service is building its capability and this includes additional IT capability. The Service will also be recruiting for a number of senior appointments to increase the strength of the executive team.

Equal Employment Opportunities

The Service demonstrates its commitment to being an equal opportunity employer through several avenues:

Staff ratio



- a very close ratio between male and female employees;
- two of the Service's top four positions were filled by women as at 30 June 07; and
- applications for positions in the Service are open to any New Zealand citizen who can satisfy the security clearance requirements.

Information Management

Information Technology

The Service planning is taking account of the exponential growth in the amount of electronic information being gathered by the global intelligence community, and the higher expectations placed on intelligence agencies.

Upgrading of the infrastructure and network equipment has continued to improve the speed of response and the range of applications, while maintaining appropriate levels of security for accreditation purposes.

Open Source Centre

The move to the new building has enabled the Service Library to again operate from a single site, and be reconfigured as an "Open Source" information centre. This recognises the value of unclassified sources of information and is designed to meet current research and analysis needs. This development has required significant investment in electronic resources including database, news-wire and periodical subscriptions, and the electronic delivery of information.

Archives

The Service is committed to the declassification and transfer to Archives New Zealand of early records that are of no administrative value and are no longer sensitive for reasons of security or privacy. A declassification specialist has recently been recruited to aid this

process, and the first group of declassified documents is about to be transferred to Archives New Zealand.

The Service consults fully with Archives New Zealand on records matters, and continues its participation in a joint panel which is examining historical prime ministerial papers to ensure they are declassified before public release.

Legal Matters

The Service's legal team provides advice on legal and statutory matters.

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

Official Information Act and Privacy Requests

In the period under review 15 applications for information were considered under either the Official Information Act 1982 (five requests) or the Privacy Act 1993 (ten requests). Because the Service is obliged to safeguard security and have regard for privacy, it is not always possible to meet such requests. Those denied access to information have the right to appeal to the Ombudsmen or the Privacy Commissioner.

In one case an Official Information Act request for biographical information could not be met. All the other requests were able to be met either by the release of information or, in a few instances, referral to a more appropriate agency. No complaints were made to the Ombudsmen or Privacy Commissioner in the review period. One outstanding complaint to the Privacy Commissioner was resolved with the release by the Service of a brief account of the information held, and its significance.

An outstanding complaint with the Office of the Ombudsmen concerns Service records relating to Dr W B Sutch. The question of releasing those records has been the subject of discussions with the Office of the Ombudsmen and the Privacy Commissioner. Interest in the Sutch case was revived by the publication in 2006 of a book on the subject. This was written, against the express wishes of the Service, by a former staff member who received no official assistance with his research and was not given access to any restricted Service information.

Parliamentary Questions

Thirty Parliamentary Questions were addressed to the Minister in Charge of the Service, with most relating to the Zaoui hearing. A further twelve Parliamentary Questions were addressed to the Minister in Charge of the Service, including a number that were generic questions of all Ministries, related to the administrative functioning of the Service.

Legislation and Treaties

There have been no amendments to the New Zealand Security Intelligence Service Act 1969 in the current year. Nor have there been any consequential amendments made by amendments to other Acts. There have been no other significant legislative amendments during the past year that have the potential to affect the Service.

The Service was consulted on a number of proposed amendments to Acts, where this was relevant to security. These included proposed amendments to the Civil Aviation Act 1990, the Births, Deaths and Marriages Registration Act 1995, the Terrorism Suppression Act 2002, the Transport (Vehicle and Driver Registration and Licensing) Act 1986, the Protected Disclosures Act 2000, and the Immigration Act 1987.

Oversight and Review

Intelligence and Security Committee of Parliament (ISC)

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 examination of the policy, administration, and expenditure of the Service and GCSB, to receive any bill or other matter referred to them by the House of Representatives in relation to the Service or GCSB, and to receive and consider the annual reports of the Service and GCSB.

The Director of Security appeared before the Committee as part of consideration of the Service's Annual Report, budgetary estimates, and the Statement of Intent.

Inspector-General of Intelligence and Security

The Service (in common with the GCSB) is subject to oversight by a retired High Court Judge, the Inspector-General of Intelligence and Security. The present Inspector-General is the Hon. Paul Neazor. The Inspector-General is responsible for the oversight and review of the Service, including ensuring that the Service actions comply with the law. He also investigates complaints about the Service.

The Service has continued to be involved in the Review of the Security Risk Certificate about Mr Ahmed Zaoui by the Inspector-General.

Apart from Zaoui related matters the Inspector-General carried out enquiries with the Service on six matters. Three of the matters related to vetting issues; and the Inspector-General recommended no alteration to the Service's original response. Three other matters related to individuals who were unknown to the Service or were known only through their own approaches to the Service.

ORGANISATIONAL INFORMATION

The Service's head office is in Defence House, 2 Aitken Street, Wellington. There are regional offices in Auckland, Wellington and Christchurch.

All the offices collect information and undertake vetting duties. Research and analysis is a head office responsibility. Major administrative matters such as finance, staffing, and liaison with other government departments and agencies and Ministers are also handled by the Service's head office.

The Corporate governance is overseen at five levels:

- Executive Group;
- Leadership Team;
- The Audit and Evaluation Committee;
- Information Management Committee; and
- The Staff Consultative Committee.

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 2007, 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 (20) domestic interception warrants were in force. Of those, twelve (12) were issued during the year under review, and eight (8) were issued during the previous year but remained in force for some part of the year under review. Action was taken under all domestic warrants during the year under review. The average length of time for which those warrants were in force during the year under review was 142 days. There were no amendments under section 4D of the Act. The methods of interception and seizure used were listening devices and the copying of documents.

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

Removal

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

Foreign

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



Dr Warren Tucker
Director of Security

DATED at Wellington this 6th day of September 2007

I have reviewed all warrants in force during the period beginning 1 July 2006 and ending 30 June 2007 and certify that the information set out in the above Statement on Warrants is correct.



Rt Hon Helen Clark
Minister in Charge of the
New Zealand Security Intelligence Service

DATED at Wellington this 6th day of September 2007

PART THREE

REVIEW OF OUTPUT PERFORMANCE

REVIEW OF OUTPUT PERFORMANCE

This section defines the Service's outputs as set out in the 2006/07 Statement of Intent.

Output Class Summary

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

Output Class 1:

The objective of the New Zealand Security Intelligence Service is to provide its 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 to the Vote Minister and, as applicable, to the Leader of the Opposition and departments of State;
- c. the provision, on request, to other government departments and public authorities within New Zealand, of protective security advice relating to physical, technical, document and building security; and
- d. liaison with overseas security and intelligence organisations and public authorities.

The New Zealand Government purchased the following Outputs from the Service:

Output 1: Security Intelligence

Output 2: Foreign Intelligence

Output 3: Protective Security Advice

PART FOUR

FINANCIAL REPORTING

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 Service during the year ended 30 June 2007, as if it were an annual report under the Public Finance Act 1989.

I am responsible for 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.

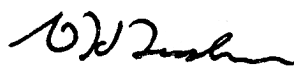
In my opinion, these financial statements fairly reflect the financial position and operations of the Service for the year ended 30 June 2007.

STATEMENT OF EXPENDITURE AND APPROPRIATION

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

	\$000
Total Appropriation	43,499
Actual Expenditure	41,239

The financial statements are audited by the Audit Office and their report is attached.



Dr W H Tucker
Director of Security

18 September 2007

AUDIT REPORT**TO THE READERS OF
NEW ZEALAND SECURITY INTELLIGENCE SERVICE'S
STATEMENT OF EXPENDITURE AND APPROPRIATION
FOR THE YEAR ENDED 30 JUNE 2007**

The Auditor-General is the auditor of the New Zealand Security Intelligence Service (the 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 (the statement) of the Service, on his behalf for the year ended 30 June 2007.

Unqualified opinion

In our opinion the statement of the Service on page 20 fairly reflects the actual expenses and capital expenditure against the Service's appropriation for the year ended 30 June 2007.

The audit was completed on 18 September 2007, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the statement did not have material misstatements, whether caused by fraud or error.

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

The audit involved performing procedures to test the information presented in the statement. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;

- reviewing significant estimates and judgements made by the Chief Executive;
- confirming year-end balances;

- determining whether accounting policies are appropriate and consistently applied; and

- determining whether all disclosures are adequate.

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

We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Chief Executive and the Auditor

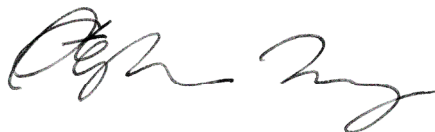
The Chief Executive is responsible for preparing a statement that provides a record of the total of actual expenses and capital expenditure incurred for the financial year against the Service's appropriation for that financial year. The Chief Executive's responsibilities arise from section 45E of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the statement and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45D(2) of the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand. In addition to the audit we have carried out an independent review over costings for implementing a telecommunications solution relating to the Telecommunications (Interception Capability) Act 2004, which was compatible with those independence requirements.

Other than the audit and this assignment, we have no relationship with or interests in the 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 (the Service) for the year ended 30 June 2007 included on the Service's website. The Service's Chief Executive is responsible for the maintenance and security of the Service's website. We have not been engaged to report on the integrity of the Service's website. We accept no responsibility for any change that may have occurred to the statement since it was initially presented on the website.

The audit report refers only to the statement named above. It does not provide an opinion on any other information which may have been hyperlinked to/from this statement. 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 and related audit report dated 18 September 2007 to confirm the information included in the audited statement presented on this website.

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