



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

ANNUAL REPORT

For the year ended 30 June 2011

PREFACE

This is the unclassified version of the Annual Report of the New Zealand Security Intelligence Service (NZSIS), for the year ended 30 June 2011. 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 2010/11 Annual Report of the New Zealand Security Intelligence Service (NZSIS). This report focuses on the events and challenges that have shaped the year for NZSIS.

NZSIS Contribution to the Rugby World Cup

NZSIS continued to develop its plans and preparations for Rugby World Cup 2011 (RWC) during the 2010/11 financial year. The NZSIS RWC plan covers most areas of our work – including training, security screening and vetting, new intelligence leads, and counter-terrorism investigations. It also included the development of a human intelligence strategy to ensure that we are well placed to identify and investigate possible threats to the RWC and disrupt or prevent them, before they result in harm.

The RWC security screening programme has been underway since early in the year. The NZSIS objective is to help protect New Zealand and New Zealanders by preventing known threats (e.g. confirmed or suspected terrorists) from entering New Zealand, and also to identify, through screening, vetting, targeting and intelligence generation, possible threat issues within New Zealand.

Delivering on this plan involves an integrated two-fold approach comprising NZSIS and our partners, both:

- domestic - including Government Communications Security Bureau, New Zealand Police, New Zealand Customs, Immigration New Zealand and the Department of Internal Affairs, as well as Department of Prime Minister and Cabinet and Ministry of Economic Development (which have major tournament-related responsibilities) with whom we are working closely; and
- international counterparts.

NZSIS Amendment Bill

In December 2010 the Prime Minister introduced the NZSIS Amendment Bill, following a policy review of the New Zealand Security Intelligence Service Act 1969 during the 2009/10 year. The Bill contains five main changes to the NZSIS Act 1969 that will allow NZSIS to keep up with new technologies, and give New Zealanders confidence that the Government can continue to respond effectively to individuals or organisations which threaten the security of New Zealand. The Bill:

- adds a specific reference to electronic tracking in the warrants framework;
- amends the subject of warrants to include “cyber-identities”;
- removes the requirement to amend a warrant every time a new person is requested to assist under a warrant;
- provides a proper suite of delegation powers; and
- ensures sufficient protections are in place for those who carry out warrants.

Additional safeguards in the legislation were added after the Bill went through the select committee stage. These safeguards addressed:

- the principles underpinning the performance of functions – in particular ensuring proper oversight and officially recognising human rights;
- the requirement for destruction of irrelevant records;
- reporting delegations under warrant; and
- safeguarding against the surveillance of mistaken identities.

The Amendment Bill progressed through the various stages of legislation development during the 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.

Combined Threat Assessment Group (CTAG) Integration

The Murdoch Review (October 2009) had recommended that CTAG should be co-located with the National Assessments Bureau (NAB) to enable them to work more closely together. The co-location took place in April 2011, when both moved to the new Pipitea House on Pipitea. Around the same time, the Officials Committee for Domestic and External Security Co-ordination – Governance (ODESC(G)) agreed that CTAG should be fully integrated into the NZSIS. In addition to the benefits of working more closely with NAB, this will facilitate a closer working relationship for CTAG and NZSIS.

The Vetting and Security Clearance Process

In September 2010, it was alleged that Stephen Wilce, Director of the New Zealand Defence Technology Agency, had made misleading claims in his CV regarding his qualifications and experience. Mr Wilce had been granted a Top Secret security clearance by Defence following a recommendation from NZSIS in 2005. NZSIS' vetting processes were subsequently reviewed to determine the adequacy and fitness for purpose of the security clearance vetting systems.

The first review was undertaken by Neil Walter, who was engaged by the State Services Commission (SSC). Mr Walter found that:

“The NZSIS has strengthened the criteria and rigour of scrutiny applied to security clearances since 2005. Its current vetting approach accords with best overseas practice.

Since 2005 the NZSIS has made a number of improvements to its management systems to streamline the vetting process and enhance its ability to manage risks to our national security. These include a strengthened staffing structure, an online application system and new assessment and evaluation tools.

It has a little way to go still in terms of its linkages and communication with the intelligence community and user departments, however, and further bedding in and fine tuning of its new management systems are needed before it can be said to be fully ‘fit for purpose’.”

Following discussions with SSC, NZSIS accelerated its planned on-going programme of work to further enhance the effectiveness and efficiency of the security clearance vetting system. A sampling of 5% of the Top Secret vettings from 2005/06 was also undertaken. The results, which were reported to the Prime Minister, *“...did not find other problematic vettings around the time of the Wilce vetting. This finding suggests that the Wilce vetting was not symptomatic of a broader system failure.”*

In April/May 2011, NZSIS commissioned an independent review of the security vetting system by an international expert in security service work. 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 review highlighted the roles that both central and employing agencies play in the security vetting system. These roles and responsibilities are not well understood across the wider Public Service, and the reviewer suggested that the central agencies take a stronger lead.

There is a particular vulnerability around standards of pre-employment checks, and security-related aftercare is mostly weak – both of these areas are the responsibility of employing agencies.

The NZSIS is now moving into the next phase of the Futurestate Initiatives programme and, in the period 2012-15, will focus on implementing the recommendations arising from the independent review.


Christchurch Earthquake

The Christchurch Earthquake on 22 February 2011 devastated both the central business district and residential areas. The NZSIS regional office was one of the many damaged beyond repair and will, in due course, be demolished. Until a final decision is made around this situation, a temporary office in Christchurch is in place. Immediately following the earthquake, NZSIS deployed a team from Headquarters in response to a request to supplement NZ Police resources as they and other emergency services managed the initial recovery.

A Better Connected New Zealand Intelligence Community (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 Statement of Intent for 2011-16, which presents the future plans for NZSIS, Government Communications Security Bureau (GCSB), NAB and the Intelligence Co-ordination Group (ICG) of the Department of Prime Minister and Cabinet (DPMC).

This Annual Report highlights our performance against the plans we made in the NZSIS Statement of Intent 2010-15 and the Information Supporting the Estimates – Budget 2010. It articulates the work we do to protect and advance the interests of New Zealand and New Zealanders.



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.

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. This is reflected in our Vision and Mission statements.

Our Vision

We are a dynamic professional intelligence service, focused 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.

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 Headquarters is in Defence House, 2 Aitken Street, Wellington. There are regional offices in Auckland, Wellington and Christchurch and two overseas liaison offices.

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 2011

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

Director of Security
Deputy Director Resources and Capability
Deputy Director Intelligence
Deputy Director Relationships, Outputs and Communications
Deputy Director Operational Enablement
Deputy Director Protective and Operational Security
Deputy Director Technology and Information

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 219.8 FTEs and finished with 215.3 FTEs as at 30 June 2011. We have continued to focus on developing and enhancing the capability of the NZSIS 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.

Staff Capability and Capacity

During the 2010/11 FY, staff turnover was 10.6%.

In the 2010/11 year the NZSIS provided a broad range of capability training.

We have continued to enjoy valuable opportunities for staff to participate in secondments and specialist courses. This has enabled staff to broaden and deepen their knowledge of our core business (intelligence) and to develop important networks and skills.

Health and Safety – Staff Wellbeing

- 1226.7 days of sick leave were taken during 2010/11; this is approximately 5.7 days per person.

Equal Employment Opportunities

The NZSIS is committed to providing on-going equal employment opportunities. Women currently comprise 47% 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 embarked on a formal EEO programme on 1 December 2008 with the release of its Equality and Diversity Policy, and the Equality and Diversity Plan.

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

Development Initiatives

NZSIS Modernisation Progress

In 2010/11, NZSIS continued its programme of rebuilding and modernisation, which spans the full range of its capabilities. We made significant progress during this period across a broad

front spanning training and tradecraft, business practices and processes, and enhancing our relationships and NZSIS culture. Major strides in enabling technology were also achieved, and we worked to build a shared view across the NZIC and contributed to initiatives to improve secure communications.

NZSIS, GCSB and DPMC - Working Together

The NZIC commenced a programme of working more collaboratively during the 2009/10 financial year. We are now taking a broader view and implementation of this has continued during the 2010/11 financial year with the development of a Joint Statement of Intent 2011-16 which represented a new phase in the journey toward NZSIS, GCSB, NAB and ICG working more seamlessly together.

Management Development

The NZSIS has sought to broaden its capability and capacity over the last few years by increasing staff numbers, the range of skills required and, consequently, the activities required of managers. This improved focus has required the NZSIS to lift its management capability. The first step was to concentrate on the fourth tier managers by providing a comprehensive programme.

The programme has been successful and is now being run for the third time. It now includes individuals who may be first-line managers in the future. A similar programme is being developed for third tier managers.

One senior staff member is currently in their last year in the Advanced Leadership Programme run by the Leadership Development Centre. Two other staff members suspended their studies in this course while overseas and will be resuming in January 2012.

Information and Communications Systems

During 2010/11, NZSIS developed its Information Technology governance model to ensure delivery of an NZSIS-wide approach to 'Information' and the need for a cohesive approach that spans the complete life-cycle (collection, investigation, analysis and archives).

The NZSIS also delivered a number of new initiatives, some of which were deployed upon the infrastructure that was delivered during the 2009/2010 Communication Modernisation Programme (CMP).

Rugby World Cup

During 2010/11 NZSIS undertook planning and prioritising with the objective of being ready to play our part in ensuring the safety and security of the RWC. We are working closely with other parts of government to ensure a well co-ordinated effort.

NZSIS has prioritised the RWC at the expense of business as usual activities.

CAPITAL INTENTIONS

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

NZSIS has modernised its strategic communications capability and improved the organisation's effectiveness through better secure communication linkages between Head Office, regional offices and international offices.

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 records are of high historic value, and since 2008 a programme has been in place to declassify early files so they can be transferred to Archives New Zealand, with information being released where this can be done without compromising important on-going intelligence sources and methods, or the privacy of individuals.

A number of records of high public interest are designated for declassification and transfer to Archives New Zealand. In this category are a group of files relating to the anti-conscription movement during the Second World War era which will shortly be transferred. All recent releases of information have, however, been in response to specific requests made under the Official Information Act 1982 and the Privacy Act 1993.

OFFICIAL INFORMATION ACT AND PRIVACY REQUESTS

In the period under review, 176 requests for information were received from members of the public, with 53 requests being considered under the Official Information Act 1982 (OIA) and 123 under the Privacy Act 1993.

The past two years have seen a decline in the total number of requests – down from a record 378 received in 2008/09 – and a greater proportion of OIA requests. Requests have also been received from numerous individuals unknown to the NZSIS, and others with unconventional perceptions about our areas of interest.

Security and privacy considerations will often 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 are informed of their right, under the respective Acts, to complain to the Ombudsmen or the Privacy Commissioner.

In the review period four complaints were considered by the Ombudsmen. Two were decided in favour of the NZSIS, and two await resolution.

Eighteen complaints were considered by the Privacy Commissioner, including five carried over from the previous year. One of the latter was resolved with the placing on file of a statement by the complainant, and another was concluded with the release of a brief summary of file holdings. The remainder were decided in favour of the NZSIS.

Another channel for those seeking redress is the Inspector-General of Intelligence and Security who, in the review period, considered one complaint. This was resolved with the release of some pre-1956 information following approval of the originating authority.

PARLIAMENTARY QUESTIONS

Seventeen questions for written answer were addressed to the Minister in Charge of the NZSIS during the 2010/11 period.

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

- two questions relating to whether the disclosure of NZSIS targets could cause harm to New Zealand;
- two questions relating to checks made in relation to the employment of Stephen Wilce as Director of the Defence Technology Agency;
- one question relating to speeches made by the Prime Minister in his capacity as the Minister in Charge of the NZSIS; and
- one question relating to New Zealand's intelligence relationship with the United States.

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

- four questions about interactions with Telecom New Zealand;
- one question relating to the cost of contractors and consultants;
- two questions about non-tendered contracts valued at \$500,000 or more;
- one question about travel by Royal New Zealand Air Force aircraft;
- two questions about appointments to positions on boards, committees or other offices; and
- one question about trucking contracts.

LEGAL MATTERS

During the 2010/11 year the NZSIS legal 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 Treaties

A significant amendment to the New Zealand Security Intelligence Service Act 1969 was introduced and progressed during the 2010/11 year (in the form of the NZSIS Amendment Bill (2010)) to address urgent requirements prior to Rugby World Cup. As at 30 June 2011 this Bill had progressed through the various stages and final passage into law was imminent.

The NZSIS was consulted on a number of proposed amendments to other legislation and the implementation of new legislation relevant to the NZSIS. These included:

- The Land Transport (Road Safety and Other Matters) Bill;
- The Regulatory Standards Bill 2011; and
- The Criminal Procedure (Reform & Modernisation) Bill.

The Immigration Act 2009, which provides for the use of classified information in immigration proceedings, came into force during the year under review. The Land Transport (Road Safety and Other Matters) Act 2011, which amends the Land Transport Act 1998, also came into force during the year under review. This provides for the issuing of drivers licences to certain authorised persons, including NZSIS officers, under an assumed identity.

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, Controller and Auditor-General, and the Offices of the Privacy Commissioner and the Ombudsmen. This multi-layered approach to oversight provides an assurance that NZSIS 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 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 current members of the Committee are:

The Rt Hon John Key (Prime Minister)

The Hon Phil Goff (Leader of the Opposition)

The Hon Tariana Turia (Leader of the Māori Party - nominee of the Prime Minister)

The Hon Rodney Hide (Member of the ACT 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 Committee in respect of the NZSIS Amendment Bill, the NZSIS' Annual Report, budgetary estimates, and the Statement of Intent.

Foreign Affairs, Defence and Trade Select Committee

In the past year, the Director of Security appeared before the Foreign Affairs, Defence and Trade Select Committee in respect of the security clearance vetting in 2005 of the Defence Technology Agency Director, Mr Stephen Wilce.

Inspector-General of Intelligence and Security

The NZSIS is subject to intensive oversight by the Inspector-General of Intelligence and Security, a statutory position whose incumbent is required to be a retired High Court Judge. 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 NZSIS actions. He also has jurisdiction to investigate complaints about the NZSIS. He can also initiate a review of his own motion.

The Inspector-General has continued his work programme approved by the Minister in Charge, 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 is handled, in particular the requirements in relation to serious crime; and
- reviewing NZSIS 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 interviewing a wide range of NZSIS personnel. The Inspector-General has suggested some procedural improvements which have been or are being implemented.

In the past year, the Inspector-General has investigated 17 complaints from individuals. Six of these complaints were made in the previous reporting year but were incomplete as at 30 June 2010. In respect of the six outstanding complaints from the previous reporting year:

- four related to vetting issues. Two of these complaints were settled, one was not upheld and one is still under consideration;
- one related to an individual who was concerned about the actions and policies of the NZSIS. This complaint did not require further determination; and
- one related to an employment matter, which did not proceed.

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

- five related to adverse or qualified vetting recommendations. Two of these complaints were settled, two were not upheld and one is still under consideration;
- two related to employment matters. One of these complaints was not upheld and one is still under consideration;
- two related to complaints of harassment. Neither complaint was upheld; and
- two related to the release of information. One of these complaints was not upheld and one was upheld in part.

COST EFFECTIVENESS

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

- continued use of a Balanced Scorecard for management information and tracking of our performance. On-going improvements to financial management and reporting, which are provided to the Executive Group on a monthly basis, have enabled improved management of resources;
- a trial using Intelligence Impact Statements, with the aim being to evaluate how we are measuring and assessing the value of specific intelligence to an investigation. This is a tool that looks at value for money, the need for proportionality in respect of deploying resources, and a way of tracking our work streams and responsiveness in order to work more effectively and efficiently. For each investigation we examine the intelligence we have received and what impact this has had for the investigation;
- the development of new Information Requirements (IREQs) processes and prioritisation models for both counter espionage and Counter Proliferation Joint Section (CPJS), which will ensure better capture, meet external requirements and ensure that resources are applied against the highest priorities; and
- improved information management that enable more effective use of the data held by the NZSIS.

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-one (21) domestic interception warrants were in force. Of those, ten (10) were issued during the year under review, and eleven (11) 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 143 days. There were two 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 91 days.

Foreign

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



Dr Warren Tucker
Director of Security

DATED at Wellington this 13th day of September 2011

I have reviewed all warrants in force during the period beginning 1 July 2010 and ending 30 June 2011 and certify that the information set out in the above Statement on Warrants is correct.



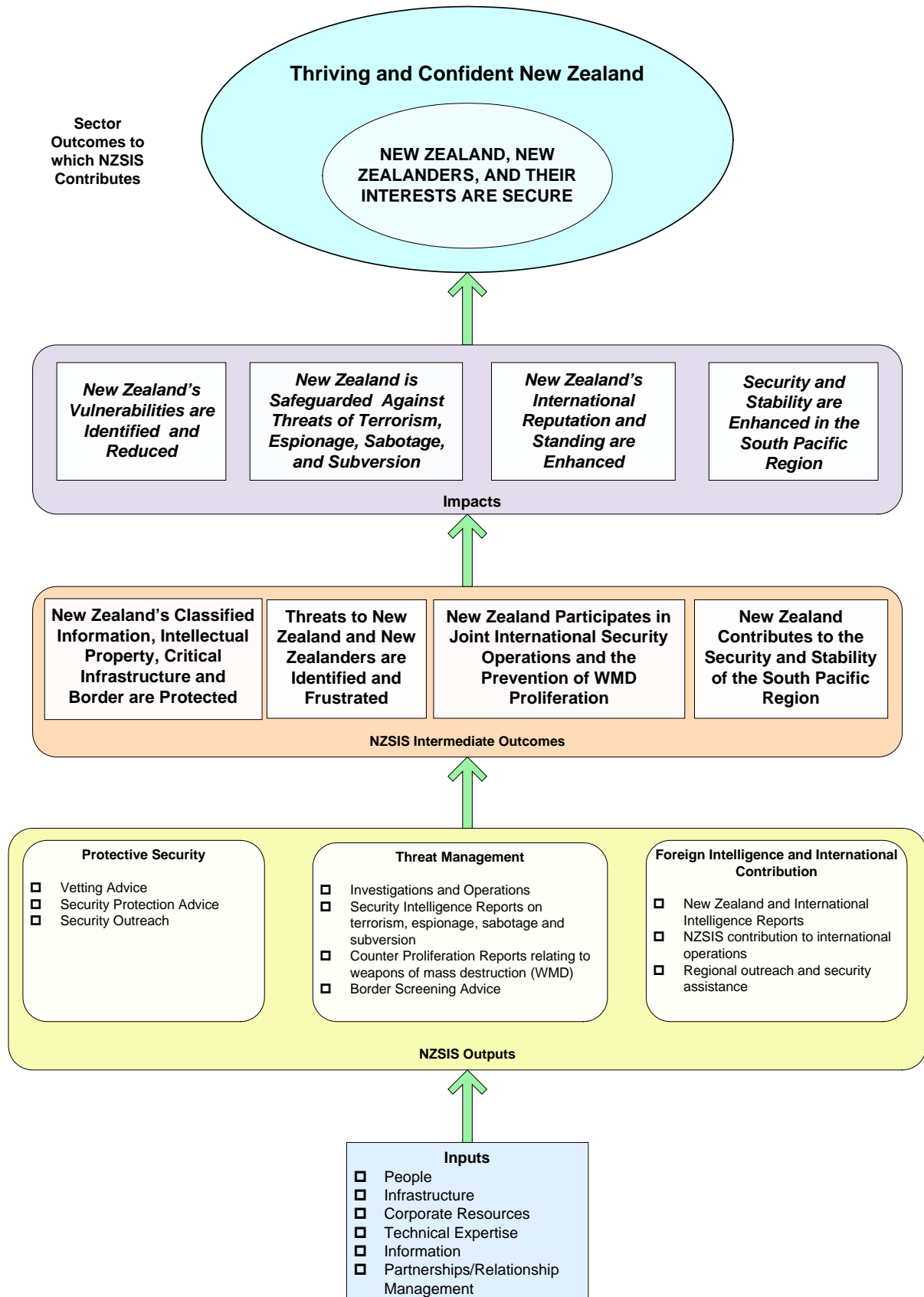
Rt Hon John Key
Minister in Charge of the
New Zealand Security Intelligence Service

DATED at Wellington this 13th day of September 2011

PART THREE

REVIEW OF OUTCOMES & IMPACTS

NZSIS STRATEGIC FRAMEWORK



IMPACT STATEMENTS

Outcomes and Impacts

The Sector Outcome to which the NZSIS primarily contributes is “New Zealand, New Zealanders and their Interests are Secure”. This Outcome is a subset of the much larger “Thriving and Confident New Zealand” - a state of being in which New Zealanders are safe, positive in outlook, and confident to go about their business and move around free from threats and instability. As well as identifying and frustrating a range of threats to our national security, NZSIS also provides a range of foreign intelligence – including from our Five Eyes partners – which contributes to advancing New Zealand’s wider interests.

The NZSIS is not the sole contributor to these Outcomes. There are a number of other departments and agencies, from the Defence and Security sector and beyond, that also contribute to them, or another subset of them.

The NZSIS has four Intermediate Outcomes:

- New Zealand’s Classified Information, Intellectual Property, Critical Infrastructure and Border are Protected;
- Threats to New Zealand and New Zealanders are Identified and Frustrated;
- New Zealand Participates in Joint International Security Operations and the Prevention of Weapons of Mass Destruction (WMD) Proliferation; and
- New Zealand Contributes to the Security and Stability of the South Pacific Region.

which result in our key impacts:

1. New Zealand’s Vulnerabilities are Identified and Reduced;
2. New Zealand is Safeguarded Against Threats of Terrorism, Espionage, Sabotage, and Subversion;
3. New Zealand’s International Reputation and Standing are Enhanced; and
4. Security and Stability is Enhanced in the South Pacific Region.

Our impacts directly reflect the relationship between our Intermediate Outcomes and the End Outcomes, to which NZSIS contributes. There is a “one to many” relationship between our Intermediate Outcomes and the associated impacts, i.e. each Intermediate Outcome contributes to more than one impact.

Impact 1: New Zealand’s Vulnerabilities are Identified and Reduced

The impacts that NZSIS was aiming to achieve during 2010-15 were:

- Secure classified information and intellectual property
- New Zealand’s critical infrastructure is protected
- New Zealand’s border is secure

Secure Classified Information and Intellectual Property

WikiLeaks confirmed how potentially vulnerable national classified information is, and a number of international and local cyber intrusions have accentuated this. New Zealand's intellectual property and classified information continues to be at risk from international attack, inadvertent disclosure and disaffected insiders. The first line of defence for classified information is trust in the persons who manage that information and the technology systems they run it on. NZSIS advises government agencies on the trustworthiness and reliability of persons to have access to classified information, and on the procedures by which classified information must be managed.

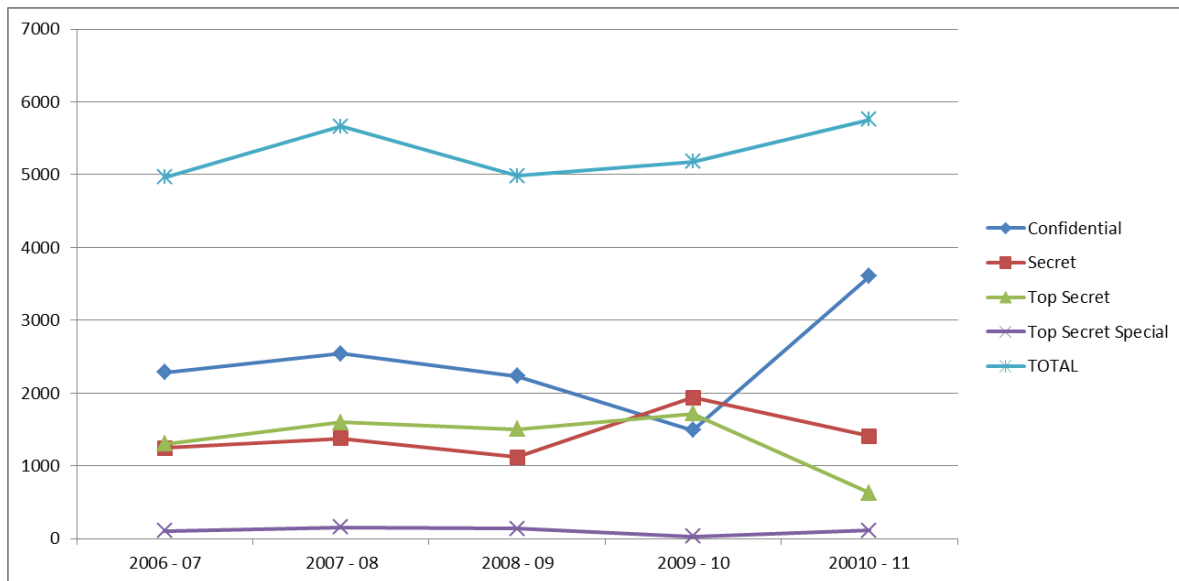
Security clearances are required by all those who access government information classified as "Confidential" or higher. The vetting process examines a number of indicators to establish whether an individual is trustworthy or has any security vulnerabilities and then makes a risk-based recommendation as to whether a security clearance should be granted 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.

NZSIS has continued to invest in the Online Vetting Request (OVR) system to ensure that demand and supply are in balance and the system is optimised. This financial year NZSIS delivered 5,759 vettings, an increase of more than 500 (11%) from the previous year.

For the majority of the year the vetting and security screening processes were dominated by RWC requirements. The large majority of work in both of these areas had to be completed before the tournament began. NZSIS prioritised RWC NZ Police vettings and security screenings ahead of other customers.

The OVR system has been improved with on-going upgrades in regards to usability and management performance reporting. The following chart demonstrates the impact of changes commenced in 2008/09. In the last FY it was clear that the vetting improvements had changed the mix of vetting levels sought but trends were not discernible. This FY trends are becoming more evident and demonstrate less reliance on Top Secret clearances and more focus on the lower levels of Confidential and Secret.



New Zealand's Critical Infrastructure is Protected

New Zealand's classified information, intellectual property, and critical infrastructure are safeguarded by the provision of security and risk management advice. Security and risk advice is provided to government agencies so that they can actively manage their risks in relation to processes, equipment and premises, nationally and internationally. This is done by way of advice, frameworks, tools and oversight.

In the 2010/11 year NZSIS ran four Departmental Security Officer (DSO) fora. The first two attracted 20 and 19 DSOs, and addressed Protecting Classified Information and security issues including RWC, while the third forum attracted eight DSOs. This last group of eight were all new DSOs and the forum was tailored for them. The fourth forum discussed customer vetting and was aimed at DSOs and their recruitment and vetting staff, and attracted 15 attendees.

Outside the forums, NZSIS gave protective security advice on 256 occasions to employees in government agencies; on 106 of these occasions the advice was given directly to DSOs.

The NZSIS gave pre-posting security briefings to 93 staff from the Ministry of Foreign Affairs & Trade, New Zealand Trade & Enterprise and Immigration New Zealand before they took up their assignments in our diplomatic posts.

NZSIS continued to evaluate security products to assess their suitability for use in protecting classified information within government agencies.

New Zealand's Border is Secure

The NZSIS continues to contribute 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 is a standard process that involves the name checking of thousands of individuals before they enter New Zealand. This is to ensure that persons with international terrorist or WMD proliferation linkages were identified and monitored, with advice being given to Immigration New Zealand (INZ) as to the proliferation risk posed by the visa applicant entering New Zealand. Visa and Residency applications from individuals in 'at-risk' countries are checked by NZSIS against the available data and advice provided accordingly.

The NZSIS may respond in a number of ways to visa applications. The majority receive a 'no comment' response but the remainder can range from gathering intelligence information through to operational deployment or exclusion via the immigration process. Agencies are advised in detail where the risk is high, allowing those agencies to make an informed decision.

The NZSIS also contributed to the NZ Police accreditation checks of Rugby World Cup participants. People such as caterers, security guards, bus drivers, volunteers and hotel staff have all been checked by NZ Police as to their appropriateness to be in the vicinity of the teams or Internationally Protected Persons (IPPs). As part of the process, the NZSIS checked all of these persons against our security intelligence databases. As at 30 June 2011, approximately 11,000 accreditation checks had been completed by NZSIS.

Counter Proliferation Visa Process

There have been considerable advances in streamlining the visa process for applicants of potential proliferation concern. Inefficiencies in the system have been reduced with CPJS now only providing advice to INZ on entity associations. Technical assessments, while recommended by CPJS, are sent direct to INZ.

Impact 2: New Zealand is Safeguarded Against Threats of Terrorism, Espionage, Sabotage, and Subversion

As a security organisation, the NZSIS mandate is to identify and safeguard New Zealand against threats from terrorism, espionage, sabotage and subversion.

We work closely with other government agencies and our Five Eyes partners to identify, investigate, disrupt potential threats to our national security, and 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.

The measures for progress towards these impacts that NZSIS was aiming to achieve during 2010-15 were:

- Threats are identified and frustrated
- Intelligence and advice provided to government
- Industry outreach
- Rugby World Cup

Threats are Identified and Frustrated

During 2010/11, the NZSIS continued its programme of on-going development of its staff through a targeted programme of training. These courses continued to strengthen our skills in the areas of advanced tradecraft necessary to collect high priority intelligence of interest to policy makers and our international partners, and to meet our long-term objective of ensuring that NZSIS is security intelligence "match-fit" to enable the highest level of efficiency and effectiveness.

In January 2011, an intelligence gathering investigations course was held at NZSIS Headquarters. The main objective of the course was to prepare NZSIS and NZ Police for the Rugby World Cup. Seven NZSIS staff (Case and Desk Officers) and seven Police Officers attended. The course was valuable in fostering closer working relations between us and NZ Police and this was evidenced when the NZSIS and the NZ Police had to work shoulder-to-shoulder in Christchurch in the aftermath of the 22 February 2011 earthquake.

Counter Terrorism

The aim of our 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 combat terrorism.

A new team to look at Leads, Requirements, Priorities and Targeting was developed during the 2010/11 financial year, an essential precursor for dealing with RWC emergent leads. An audit of the existing processes was undertaken and led to a redesign of the processes used to address leads. The team now systematically determines the level of security concern for each lead received. This is done through initial screening and preliminary investigations, and may lead to a full security investigation if a security concern is identified.

In response to intelligence of a mass arrival (illegal immigrant) venture targeting NZ, the NZSIS assigned counter terrorism resources to monitor and develop investigative support around illegal immigration threats to NZ. The NZSIS is now developing a regular contribution to the NZ Customs-led Joint Intelligence Group, and is considering how we can work more broadly as part of the 'NZ Inc.' response to people smuggling.

In May 2011, the NZSIS – together with the NZ Police – hosted a meeting of the International Working Group on Terrorism Financing, which was attended by both intelligence and law enforcement agencies. The agenda drew together policy issues around terrorism financing investigations and disruptions, as well as case studies showing how the community is making progress in this area. The most significant outcome for the NZSIS was a deepening of our relationship with New Zealand Police's Financial Intelligence Unit, and some possible future innovations in how we work together.

NZSIS engagement with the NZ Police reached new levels with the addition of a Deputy Liaison Officer (LO) to NZSIS from Police HQ, and the establishment of the Counter Terrorism National Intelligence Centre (CTNIC) position which is seconded from NZSIS to NZ Police. Having a person in the CTNIC is a key enabler in supporting a joint management process for lead information relating to counter terrorism. While the driver for this new joined-up approach to national security issues was the RWC, the processes will form part of our on-going/permanent relationship beyond that event.

A new relationship was established with the NZ Customs Service's (NZCS) Integrated Targeting and Operations Centre (ITOC) in Auckland and the foundations were laid for the secondment of a NZSIS liaison officer from 1 July 2011.

Combined Threat Assessment Group (CTAG)

The CTAG is hosted by the NZSIS. It is a multi-agency group that comprises staff seconded from the NZSIS, NZ Police, NZDF, GCSB, NZCS and MFAT. The 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.

A focus for CTAG during 2010/11 has been the issuing of a range of threat assessments relating to RWC and other major sporting events.

During the year CTAG produced:

- 75 Threat Assessments
- 16 Threat Reports
- 1 Threat Warnings
- 0 Incident Reports
- 53 Shared Liaison Reports
- 10 Threat Letters/Advisories
- 112 Threatscapes

The CTAG continues to monitor the domestic and international threat environments and will report any changes detected.

Toward the end of April 2010 it was agreed that CTAG would be formally integrated into NZSIS. By the end of the financial year, management relationships had been established in the Intelligence Directorate, and CTAG had successfully relocated to Pipitea House with NAB and GCSB as recommended in Simon Murdoch's "Intelligence Agencies Review".

Counter Espionage

The counter espionage effort identifies and frustrates acts of espionage against New Zealand or New Zealanders. We give advice to internal and external stakeholders and disrupt, where appropriate, espionage activities prejudicial to New Zealand's national security. A number of intelligence services whose interests we assess as inimical to New Zealand's national security continue to operate in and against this country.

Cyber Threat

The NZSIS continued to work closely with GCSB, which has the lead technical and forensic responsibility for cyber investigations. NZSIS has engaged with other key intelligence agencies, government departments, and private companies in relation to cyber issues. Cyber techniques enable espionage to be conducted remotely, and seek to obtain intelligence from the computer networks concerned. These networks may be restricted or open government networks, or belong to commercial entities.

The priority attributed by NZSIS to investigations into this relatively new type of threat is articulated in the Joint Statement of Intent and by increased NZSIS staffing of cyber investigations in the latter part of the year.

The NZSIS participates in the National Cyber Security Initiative Working Group. The working group was established in response to a Cabinet decision to consider the nature and extent of the threat posed to New Zealand by cyber attack, and to articulate specific recommendations to improve the Government's cyber security.

Intelligence and Advice to Government

The role of the NZSIS is to provide the New Zealand Government, and its agencies, with timely and accurate intelligence.

The NZSIS provides relevant reports to government on a timely and appropriate basis using three key classes of report:

- Security Intelligence Reports, which contain assessed intelligence, generally generated by investigations or a series of enquiries;
- NZSIS generated Foreign Intelligence Reports, which contain intelligence that may come from single or multiple sources, with an off-shore focus. Usually these reports contain intelligence that has yet to be assessed; and
- rebranded Foreign Intelligence Reports which contain information of security interest provided to NZSIS by our international partners, and which we then distribute to appropriate agencies.

In September 2010, NZSIS staff were deployed to India for the New Delhi 2010 Commonwealth Games and implemented an intelligence management process to provide situational awareness and intelligence to the NZ Government for the duration of the Games, which were held in a high threat environment. This work received favourable comment from customers. A key component in this process was working alongside CTAG to share intelligence and assessments, which were issued as jointly badged product, so that customers received a single stream of intelligence and threat reporting. CTAG and the NZSIS were therefore able to speak with one voice.

NZSIS also deployed staff to New Delhi to provide regular updates to government on threats to the Cricket World Cup in India, Sri Lanka and Bangladesh in February 2011.

A NZSIS Officer participated in NZDF's Security Roadshow to all of the NZDF bases in New Zealand, with the presentations having been developed by the Defence Security Directorate (DSyD), Military Police and NZDF IT security specialists in conjunction with NZSIS.

Industry, Academia, and Community Outreach

During the 2010/11 financial year NZSIS has continued to strengthen its outreach interactions to industry and tertiary institutions and the wider community. We are also sharing our message more broadly, including organisations outside of government, for whom this is particularly relevant, such as industries based on science and technology, significant importers/exporters, and infrastructure providers.

In November 2010, we released a new booklet "An Introduction to NZSIS - How we Contribute to New Zealand's National Security". Our key audience is both government and the wider public – including politicians, government agencies and SOEs, international partners and visitors, private industry and universities, schools, the media, and the general public. It is used for meetings and outreach, provided to key organisations, and made available at conferences and other relevant events as they occur, with the aims of:

- improving public perception and understanding of what the NZSIS does;
- lifting our profile; and
- helping inform people of our role and functions.

The information in this booklet is also available on our public website.

Addresses by the Director of Security included:

- a presentation to the Institute of Internal Auditors in July 2010;
- an annual address to the Victoria University Masters of Strategic Studies Programme on Intelligence in July 2010; and
- addresses to the New Zealand Institute of Intelligence Professionals in Auckland, Wellington and Christchurch in April 2011.

Rugby World Cup

NZSIS has planned extensively and prepared for an increased level of terrorism awareness during RWC, and ensured that we have adequately trained and configured resources.

NZSIS participated in discussions with a range of domestic and international partner agencies on counter terrorism preparations for the RWC.

With the majority of the NZSIS planning completed for RWC, we commenced implementation, which included participating in a rehearsal exercise that tested our preparedness across a range of issues.

Impact 3: New Zealand's International Reputation and Standing are Enhanced

New Zealand's is committed to frustrating the proliferation of WMD, materials, technology and/or expertise.

The NZSIS further developed its relationships with its partners and other international security agencies. We participated in reciprocal training programmes and worked with our partners in joint operations with a view to improving both our capability and our relationships, as well as contributing to shared requirements and priorities.

The NZSIS supports the NZ Police and the NZDF in operations/deployments as requested.

New Zealand's Intelligence Contribution to the International Effort against the Proliferation of WMD

The CPJS is a multi-agency group embedded within NZSIS, staffed by Officers from GCSB, NZCS, INZ and the NZSIS. This group was formed to detect, investigate and frustrate WMD proliferation (whether witting or unwitting) from New Zealand or by New Zealanders overseas.

The CPJS issues advice to INZ for 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 an 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 2010/11, the CPJS undertook a number of investigations into the procurement of dual-use technology and goods.

Comprehensive Coverage of Regional and International Issues

The primary focus for NZSIS foreign intelligence collection is on the priorities being set by the Foreign Intelligence Requirements Committee (FIRC).

PART FOUR

REVIEW OF OUTPUT PERFORMANCE

REVIEW OF OUTPUT PERFORMANCE

This section reports on the NZSIS output performance as set out in the Statement of Intent 2010-15.

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

Detailed reporting is omitted from this unclassified version of the NZSIS Annual Report, for reasons of national security.

PART FOUR

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 2011, 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.

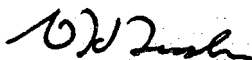
In my opinion, these financial statements fairly reflect the financial position and operations of the NZSIS for the year ended 30 June 2011.

STATEMENT OF EXPENDITURE AND APPROPRIATION

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

	\$000
Total Appropriation	37,081
Actual Expenditure	37,514

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



Dr W H Tucker
Director of Security

30 September 2011

Note: The NZSIS incurred expenses in relation to the Canterbury Earthquake in February 2011, including the write off of damaged assets of \$852,000. This resulted in actual costs exceeding those appropriated by \$433,000. This unappropriated expenditure was approved by Cabinet, and is awaiting validation by Parliament under section 26C of the Public Finance Act.

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 2011

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 31.

Opinion

In our opinion the statement of expenditure and appropriation of the New Zealand Security Intelligence Service on page 31 fairly reflects the New Zealand Security Intelligence Service's expenses and capital expenditure incurred for the financial year ended 30 June 2011 against the New Zealand Security Intelligence Service's appropriation for that financial year.

Our audit was completed on 30 September 2011. 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. 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 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 2011 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 2011 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 30 September 2011 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.