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Report of the  
**NEW ZEALAND  
SECURITY INTELLIGENCE  
SERVICE**

Report to the House of Representatives  
for the year ended 30 June 2002

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

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**DELETIONS FROM THIS REPORT HAVE BEEN MADE IN  
ACCORDANCE WITH SECTION 4J(4)  
OF THE NZSIS ACT 1969 AS AMENDED 1999**

### **MISSION STATEMENT**

***The New Zealand Security Intelligence Service provides the Government with timely and accurate intelligence and advice on national security issues within the terms of the NZSIS Act 1969 and its amendments.***

## **FUNCTIONS OF THE NEW ZEALAND SECURITY INTELLIGENCE SERVICE**

1. Subject to the control of the Minister, the functions of the New Zealand Security Intelligence Service shall be –
  - To obtain, correlate, and evaluate intelligence relevant to security, and to communicate any such intelligence to such persons, and in such manner, as the Director considers to be in the interest of security:
  - To advise Ministers of the Crown, where the Director is satisfied that it is necessary or desirable to do so, in respect of matters relevant to security, so far as those matters relate to Departments or branches of the State Services of which they are in charge:
  - To advise any of the following persons on protective measures that are directly or indirectly relevant to security:
    - i Ministers of the Crown or Government departments:
    - ii Public authorities:
    - iii Any person who, in the opinion of the Director, should receive the advice:
  - To conduct inquiries into whether particular individuals should be granted security clearances, and to make appropriate recommendations based on those inquiries:
  - To make recommendations in respect of matters to be decided under the Citizenship Act 1977 or the Immigration Act 1987, to the extent that those matters are relevant to security:
  - To co-operate as far as practicable and necessary with such State Services and other public authorities in New Zealand and abroad as are capable of assisting the Security Intelligence Service in the performance of its functions:
  - To inform the Officials Committee for Domestic and External Security Co-ordination of any new area of potential relevance to security in respect of which the Director has considered it necessary to institute surveillance.
2. It is not a function of the Security Intelligence Service to enforce measures for security.

*NZSIS Act 1969 as amended 1999*

**ACCOUNTABILITY**

The Director of Security is responsible to the Minister in Charge for the efficient and proper working of the Security Intelligence Service.

## OVERVIEW BY THE DIRECTOR OF SECURITY

The year was **dominated by the 11 September 2001 attacks** on the United States which demonstrated the will and ability of terrorists to wreak havoc and destruction on a previously unexpected scale. The **New Zealand government**, like others all over the world, **moved to increase its counter-terrorist capabilities**. This had **major implications for the Security Intelligence Service**.

The prime responsibility for detecting and preventing an act of terrorism in New Zealand lies with the Police, but the Service plays a role in accordance with the NZSIS Act. **Although there is no evidence of a serious terrorist threat against New Zealand, there is no room for complacency**. A letter to the United States Embassy in December 2001 threatened American interests here and the New Zealand Golf Open; it may have been a hoax – but the cyanide in the envelope was real.

There is **another requirement: to ensure that New Zealand is not used as a safe haven from which acts of terrorism elsewhere could be planned or facilitated**. Here the Service plays a key role, working with other government agencies as appropriate.

There are **individuals in New Zealand with links to international terrorist groups**. They or other people of security concern may attempt to raise or launder money; to acquire false documentation; to obtain arms, explosives, or knowledge or things used in the manufacture of weapons of mass destruction; or to recruit other people. They may simply use New Zealand as a place to hide for a while, perhaps acquiring citizenship and then travelling overseas on a New Zealand passport. **The Service seeks to identify such individuals and to protect New Zealand's open and welcoming environment from being abused** in these or other ways.

Counter-terrorism was already a major area of the Service's Security Intelligence work before 11 September. **Resources** from other areas were then immediately **diverted into counter-terrorism**. Among other initiatives, an **0800 number – 0800 SIS 224 – was established**, to make it easy for members of the public to pass on information of possible terrorist concern; **there was a very good response which produced some useful information**. **The number continues to be available**.

This **diversion of resources was not sustainable beyond the short term** because the other activities thus reduced or suspended were already at minimum levels. Recognising this, and after examination by the Officials Committee for Domestic and External Security Coordination (ODESC) of counter-terrorist budgetary proposals from several agencies,

the **Government agreed to increase the Service's budget for 2001/02 from \$12,000,000 to \$13,518,000.**

**Actual expenditure, at \$13,376,000, was 1.1% less than appropriated,** mainly because it was not possible to build up staff numbers as rapidly as intended. Having begun the year with 100 staff, the Service recruited nineteen; but eight left, giving a total at 30 June 2002 of 111.

For the longer term, **the Prime Minister stated** publicly in May 2002 that, with its share of the additional counter-terrorist funding she had announced in January, **the Service would be able to increase its staff numbers over time, probably to around 140.** That follows a long period of reduction, from the peak of 159 in 1982/83.

Rapid expansion is testing for any organisation. For the Service, with the need for very careful selection and high level security clearances for all staff and for specialised training for many, it poses particular challenges. **While every effort will be made to recruit and train new staff as quickly as possible, quality and security will not be sacrificed in pursuit of a numerical target.**

Both the Parliamentary Committee on Intelligence and Security and the Ad Hoc Cabinet Committee on Intelligence and Security were briefed on the Service's response to the events of 11 September and on the budgetary implications.

Despite the diversion of effort from **other Security Intelligence activities** into counter-terrorism after 11 September, **some useful results were achieved, including in counter-proliferation and against illegal immigration** which took on greater importance in light of developments in the region. With the additional funding for counter-terrorist activity, the Security Intelligence Advice output's planned share of the Service's operating budget rose from 59% to 62% and actual expenditure matched this.

The **Foreign Intelligence** output accounted for 10% of expenditure as in the revised plan. Some **valuable intelligence was produced.**

**Expenditure on the vetting component of the Protective Security Advice output was higher than intended (because of increasing demand from other government agencies),** so the share of this output in overall expenditure was 21% instead of the planned 20%.

This additional outlay was balanced by a reduction in the **Overseas Liaison output which used 7% of total resource instead of the 8% planned.**

On the administrative side, **a major recruitment effort began**. The Service again advertised for career intelligence officers; the response was again very encouraging. Good progress was made on **improving information technology**. These and other efforts over the past two years to improve its management and administration will help the Service to meet the greater demands it now faces.

A handwritten signature in black ink, appearing to read 'E R Woods', with a horizontal line underneath the name.

E R Woods  
Director of Security



# PART 1

## OUTPUT REVIEW

### STATEMENT OF EXPENDITURE

The projected activities and internal allocation of funds for the 2001/2002 Financial Year provided for the discharge of the NZSIS's designated functions, as defined in the NZSIS Act 1969 and its amendments.

The Service had a single Output class: The provision of Security and Intelligence advice. There were four outputs within that class:

- Output 1: Security Intelligence Advice
- Output 2: Foreign Intelligence
- Output 3: Protective Security Advice
- Output 4: Overseas Liaison

Financial resources were expended as follows

Output 1: Security Intelligence Advice	62 per cent
Output 2: Foreign Intelligence	10 per cent
Output 3: Protective Security Advice	21 per cent
Output 4: Overseas Liaison	7 per cent

# OUTPUTS

## Output 1: Security Intelligence Advice

The Security Intelligence output relates to Service activity in obtaining, correlating and evaluating intelligence relevant to security. Threats can arise from terrorism, espionage, subversion or sabotage, or from foreign or foreign influenced activities that are clandestine or deceptive, or threaten the safety of any person, and that impact adversely on New Zealand's international or economic well being. The assessment is disseminated to those who have a need to be aware of it.

The planned share of the Output in the original \$12 million budget was 59%. With additional funding for extra counter-terrorist activity post 11 September, the planned share of the Output rose to 62%. This was achieved.

### **Activities**

Issues which have been investigated over the past year have included:

- **the provision of financial and logistical support from New Zealand for organisations which undertake terrorist acts overseas**
- **possible links between individuals in New Zealand and Al Qaeda and the perpetrators of the September 11 terrorist attacks**
- **links in New Zealand to weapons of mass destruction development programmes, including people operating in New Zealand to procure dual use equipment for foreign governments**
- **foreign intelligence organisations running informants against New Zealand citizens and residents**
- **networks operating in New Zealand to facilitate the travel of illegal immigrants to New Zealand and elsewhere, and money-laundering activities.**

**The events of September 11 diverted considerable resources away from other Security Intelligence activities into the counter-terrorist effort.**

**This enabled the Service to:**

- establish an 0800 number for the public to convey information that could be relevant to the detection of terrorism. Over 400 calls were

received with about 90 requiring further action by NZSIS and/or Police;

- conduct more interviews;
- work with Police and Civil Aviation authorities to investigate potential threats to civil aviation;
- respond to requests from overseas liaison services for terrorist related information;
- contribute to interdepartmental discussion on new procedures and legislation to counter terrorist activities in New Zealand.

The Service worked with the Police and others to identify individuals in New Zealand involved in illegal immigration.

On matters relating to possible international money laundering activities, intelligence has been collected against foreign-owned commercial interests and their contacts in New Zealand.

## Output 2: Foreign Intelligence

**The Service gathers foreign intelligence in response to national requirements set by the interdepartmental Foreign Intelligence Requirements Committee (FIRC).** The work the Service undertakes against this output relates to part (b) of the definition of security in the NZSIS Act as amended in 1999 (No 2):

*the identification of foreign capabilities, intentions or activities within or relating to New Zealand that impact on New Zealand's international well-being or economic well-being.*

**10 per cent of the budget was expended on Output 2** in the review period, as planned.

### Output 3: Protective Security Advice

The Service provides advice to Government departments and agencies on measures required for the protection of classified information and assets. In this review period, **21% of the budget was expended on the Protective Security Advice Output, instead of the planned 20%**, in three main areas:

- **assessments of the security trustworthiness of individuals** required to have access to classified information (“Vetting”) and **the provision of advice to Chief Executives about the issue of security clearances;**
- **inspections of sites** and areas in which classified information is stored or handled, and **the provision of inspection reports and other general physical security advice** to Chief Executives;
- the **development and delivery of security awareness briefings and programmes** to individuals and groups in response to specific requests or according to standing arrangements.

No charge is made for protective security advice provided by the Service.

#### ***Personnel Security Assessments (Vetting)***

The NZSIS is responsible for undertaking investigations and making assessments of the security trustworthiness of people needing access to highly classified national security information. These vetting investigations are requested by Chief Executives, and are undertaken with the knowledge and cooperation of the person concerned. The extent of the investigation depends on the level of clearance sought. Policy, procedures and guidelines are agreed by the Service with the Interdepartmental Committee on Security.

There are four levels of security clearance. This year, there were substantial increases in requests for all levels of assessments. There was an overall increase of 25.9% over the previous year, to 5,938.

The 11 September terrorist attacks undoubtedly raised security awareness and contributed to some of the increase in requests.

The increase in vetting workload required the urgent **recruitment of additional staff in the latter half of the year. This was the cause of the over-expenditure in the Output.**

In this past year, the Service had intended to introduce new vetting forms and processes which would improve understanding of the vetting

system. There was a delay due to other priorities, but the content has been decided and the new forms are currently being prepared for print. They and some refinements of process will be introduced early in the new financial year.

### ***Physical Security Inspections and Advice***

Specialist technical advice was provided to other departments and agencies on a range of physical security and risk management issues.

Fifteen physical security inspections (the same as last year) of the offices of eight government agencies were conducted, and reports and recommendations provided.

A major customer during the year was the Ministry of Foreign Affairs and Trade (MFAT). Considerable time was committed to consultation about security for the new MFAT head office building. This year saw NZSIS specialists involved in security inspections of overseas posts.

The Service participated in a working group which reviewed and made recommendations on physical security for the Parliamentary complex in the wake of September 11, and gave advice on security aspects of the refurbishment of the Executive Wing.

The policy manual "Security in the Government Sector" (SIGS), jointly produced by the Department of the Prime Minister and Cabinet, GCSB and NZSIS, was distributed to all Chief Executives and Departmental Security Officers (DSOs) in June 2002. The drafting of SIGS, together with the Service's own supplementary "Protective Security Manual" (PSM), was a major project during the year. The PSM will provide practitioners with more detailed information about security matters than is in SIGS. It also includes (based on the compiled results of the ongoing testing programme) a catalogue of approved security equipment. Most of the PSM has now been completed, and it will be published and distributed early in the new financial year.

### ***Security Awareness Education***

The Service offers Government departments and agencies training or briefings, in groups or on an individual basis, on the security measures required to protect classified information or assets; in some cases this extends to advice about personal security for officials travelling overseas.

Individual briefings were provided for New Zealand officials about to take up diplomatic or other official posts overseas.

Travel security briefings were provided to groups from various departments.

The Director of Security briefed a meeting of Public Sector Chief Executives on the security situation post 11 September 2001.

The terms of reference for a full time Security Education Officer have been drafted. This new position will have responsibility for liaison with customer departments and agencies on protective security matters, and for the delivery of briefings and training to both individuals and groups. Applications have been invited, and the appointment will be made early in the new financial year.

## **Output 4: Overseas Liaison**

This is the **last year in which this activity is treated as an output**; it is in fact an input and for 2002/03 its costs have been reallocated accordingly.

**Expenditure under this Output was 7% of the Service budget for the year instead of the forecast 8%.**

In the wake of 11 September there was an **increase in bilateral cooperation against terrorism. Service officers participated in meetings** on counter-terrorism.



## **CORPORATE ISSUES**

### ***Financial Management***

The original Service budget for the year 2001/02 was \$12,000,000. Following the events of September 11 additional funding of \$1,518,000 was approved, giving a new total of \$13,518,000. Despite determined efforts, the length and complexity of the recruitment and selection process combined with some staff losses meant that it was not possible to reach the planned number of staff by 30 June 2002. Final expenditure was therefore \$13,376,000, 1.1% less than the revised appropriation.

The Service's accounts are audited by the Audit Office, assisted by a former Service officer who undertakes the functions of an internal auditor. The shortcomings revealed by the audit were minor and did not suggest any impropriety, misuse of funds or extravagance. The Report of the Audit Office follows in Part 3.

### ***Service Structure and Staffing***

Having begun the year with 100 staff, at 30 June 2002 the Service had 111 (48 women, 63 men) against a revised planned number of 125. Nineteen staff were recruited during the year but eight left, comprising two on parental leave, one other on leave without pay, one retirement, and four resignations. In addition five staff began and completed short term contracts during the year.

Recruitment was active throughout the year but particularly following the events of 11 September.

In May 2002 the Service again ran a public advertising campaign for Career Intelligence Officers. The standard of applicants was high. Detailed recruitment procedures will be undertaken in the new financial year.

Regional offices continue to be maintained in Wellington, Christchurch and Auckland.

### ***Service Staff Association***

The Association made representations to Service management on a number of issues. Management was able to respond positively on some of these; others remain under consideration. Relations between the Association and management were cooperative and constructive.

### ***Training***

This was a very active year with the review and implementation of a revised training and assessment programme for the intake of Career Intelligence Officers. Other courses during the year included induction and familiarisation programmes, specialist courses for analysts and those conducting interviews. With the introduction of a new computer system within the Service all staff were involved in a staged computer training programme.

### ***Human Resource Review***

The Performance Development Review (PDR) System and associated performance pay have now bedded down and are generally operating well. The PDR system will be subject to refinement and enhancement over the next financial year.

A review of Human Resource and Personnel policies will pick up momentum with the recruitment of a dedicated specialist due to commence employment in July 2002.

The Service continues to foster its relations with the State Services Commission and other Government agencies through bilateral meetings and by attendance at various human resource and policy forums.

### ***Relationships With Other Agencies***

The Service co-operated closely with a number of government departments and agencies. There were working level links with, among others, the Ministry of Foreign Affairs and Trade, the External Assessments Bureau, the Government Communications Security Bureau, the Department of Prime Minister and Cabinet, the Police, the Ministry of Defence and the New Zealand Defence Force, the Immigration Service, the Department of Internal Affairs, the Ministry of Agriculture and Forestry, the Ministry of Fisheries, the Customs Service and the Inland Revenue Department.

The Service participated in interdepartmental committees and watch groups.

### ***Information Management***

#### ***Information Technology***

This has been a busy and productive period with significant advances towards achieving the goals set in the IT Strategic Plan. These have included substantial upgrades to the computer hardware and the computer network structure.

### *Files*

Service information holdings are continually reviewed to ensure that appropriate standards of relevance and accuracy are met.

In the year under review 800 files were purged.

As foreshadowed in the last Annual Report, a Service archives policy has been drafted and is currently under discussion with other interested agencies. Greater attention is now being given to the conservation of records, and staff are being trained in salvage procedures.

### **LEGAL MATTERS**

A small legal section advises on all legal matters relating to the Service's functions and internal operations, and handles enquiries relating to the Official Information and Privacy Acts, and investigations by the Inspector-General.

#### *Official Information Act and Privacy Requests*

In the period under review the Service received directly, or was involved in responding to, thirty-two requests for information, half made under the Privacy Act 1993 and half under the Official Information Act 1982. Two complaints were considered by the Privacy Commissioner in relation to the Service's responses, one dating from the previous reporting period, and both were resolved in favour of the Service. Of three complaints made to the Ombudsmen, one was decided in favour of the Service and two have yet to be settled.

When considering requests for information the Service takes particular care to safeguard sources, targeting and operational methods. Effectively, this usually requires neither confirming nor denying whether or not information is held.

#### *Parliamentary Questions*

Twenty eight Parliamentary Questions were addressed to the Minister in Charge of the Service. In broad terms, these related to administration, terrorism, and a security conference in Queenstown; but many were addressed to Ministers generally and related to matters common to government agencies.

The Service provided answers to all questions within the required time span.

### ***Legislation and Treaties***

The Service was consulted on a wide range of legislative and administrative proposals emerging in response to the events of 11 September 2001. Of these the most significant was the Terrorism Suppression Bill which implements New Zealand's obligations in the International Convention for the Suppression of Terrorist Bombings, the International Convention for the Suppression of the Financing of Terrorism and United Nations Security Council Resolution 1373.

Other legislation of continuing interest to the Service includes:

- legislation relating to the International Convention against the Recruitment, Use, Financing and Training of Mercenaries and to the United Nations Convention Against Trans-national Organised Crime and its Protocols on the Trafficking of Persons and the Smuggling of Migrants;
- a bill to amend the Crimes Act by introducing a computer hacking offence;
- issues arising from the review of the Telecommunications Act 1987.

### ***Public Relations***

The Director continued to undertake speaking engagements with various groups. Work was almost completed on a revised version of the Service booklet, to be published early in the new financial year.

### ***Scrutiny***

#### ***Intelligence and Security Committee of Parliament (ISC)***

The Director or Acting Director of Security appeared before the Committee to present the 2000/01 Annual Report and the 2002/03 Financial Forecast. The Director also briefed Committee members on the Service's response to the events of 11 September 2001 and the budgetary implications.

#### ***Inspector-General***

In the period under review the Inspector-General made inquiries of the Service in respect of three complaints he had received. One related to a matter that it transpired did not involve the Service. The other two inquiries were still underway at the end of the reporting period.

In his annual report 2001 the Inspector-General reviewed the five years since he took up the position. The following is an excerpt. "There has been no growth in the business of the Inspector-General. Not all would

agree but I believe that is a good sign. It is a sign that the activities and operations of the New Zealand Security Intelligence Service and the Government Communications Security Bureau have no adverse impact on New Zealand citizens. That has been confirmed by my conclusions on the complaints that I have investigated, the other enquiries I have made and the continuing investigation and consideration of the agencies' activities. I am satisfied that the activities of the agencies comply with the law and are in all respects carried out with propriety and with proper regard to the interests of New Zealand and New Zealand citizens. I have not had occasion to disapprove or to criticise any actions or conduct by either of the agencies."

## **PART 2**

# **STATEMENT ON WARRANTS**

### **STATEMENT ON WARRANTS**

In accordance with section 4K of the New Zealand Intelligence Service Act 1969 (“the Act”), I submit the following Statement on Warrants for the year ending 30 June 2002, 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, thirteen (13) 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 nineteen (19) of the twenty one (21) warrants during the year under review. (The other two warrants remained in force from the preceding year, during which action was taken.) The average length of time for which those warrants were in force during the year under review was 131 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, and was not likely to have been obtained by other means.

#### ***Removal***

One removal warrant was in force for fourteen (14) days during the year under review.

**Foreign**

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



E R Woods  
Director of Security

DATED at Wellington this 25th day of September 2002.

I have reviewed all warrants in force during the period beginning 1 July 2001 and ending 30 June 2002 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 first day of October 2002.

## PART 3 FINANCIAL REPORTING

The Service prepares annual financial statements in accordance with generally accepted accounting practice which fairly reflect the financial operations of the Service and the Service's financial position at the end of the financial year.

The financial statements are presented to the Intelligence and Security Committee of Parliament.

In terms of sections 35 and 37 of the Public Finance Act 1989, I am responsible, as the Director of Security, for the preparation of the New Zealand Security Intelligence Service's 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 provide reasonable assurance as to the integrity and reliability of financial reporting.

In accordance with section 70I of the Public Finance Act 1989 I report as follows:

	<b>GST inc \$000</b>
Total appropriation .....	13,518
Actual expenditure .....	13,376

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



E R Woods  
Director of Security





**Audit New Zealand**

## **REPORT OF THE AUDITOR-GENERAL**

### **TO THE READERS OF THE FINANCIAL STATEMENTS OF THE NEW ZEALAND SECURITY INTELLIGENCE SERVICE FOR THE YEAR ENDED 30 JUNE 2002**

I have audited the financial statements. The financial statements provide information about the past financial performance of the New Zealand Security Intelligence Service (the Service) and its financial position as at 30 June 2002. This information is stated in accordance with the accounting policies set out.

#### *Responsibilities of the Director*

The Public Finance Act 1989 requires the Director to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that fairly reflect the financial position of the Service as at 30 June 2002, the results of its operations and cash flows for the year ended on that date.

#### *Auditor's responsibilities*

Section 15 of the Public Audit Act 2001 and section 38(1) of the Public Finance Act 1989 require the Auditor-General to audit the financial statements presented by the Director. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed T P McLaughlin to undertake the audit.

#### *Basis of opinion*

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- ▲ the significant estimates and judgements made by the Director in the preparation of the financial statements; and
- ▲ whether the accounting policies are appropriate to the Service's circumstances, consistently applied and adequately disclosed.

I conducted the audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. I planned and performed the audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming my opinion, I also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in my capacity as auditor acting on behalf of the Auditor-General, I have no relationship with or interests in the Service.

### *Unqualified opinion*

I have obtained all the information and explanations I have required.

In my opinion the financial statements of the Service:

- ▲ comply with generally accepted accounting practice in New Zealand; and
- ▲ fairly reflect:
  - the Service's financial position as at 30 June 2002; and
  - the results of its operations and cash flows for the year ended on that date

My audit was completed on 18 September 2002 and the unqualified opinion is expressed as at that date.



Terry McLaughlin  
Assistant Auditor-General  
Wellington, New Zealand