



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

Report to the House of Representatives
for the year ended 30 June 2003

*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

Just as last year was dominated by the 11 September 2001 terrorist attacks on the United States, this **year was dominated by the 12 October 2002 attack on Bali**, Indonesia. New Zealanders died in both attacks, but the one in Bali brought the threat of terror much closer to home for New Zealand. **It emphasised the urgency of more counter-terrorist work, and the importance of international cooperation between security, intelligence and law enforcement agencies**, if terrorist threats are to be identified and defeated. **Within resource constraints the Service played an appropriate role**, increasing its counter-terrorist work and enhancing its international cooperation in this area.

Counter-terrorism was the largest single component of **Security Intelligence Advice**, the Service's main output. But the Service also worked against the **proliferation of weapons of mass destruction, foreign intelligence activities in New Zealand, and illegal immigration**, with useful results in each case.

Collection of **Foreign Intelligence** to help meet the Government's requirements continued.

Under the **Protective Security Advice** output, increased resources helped deal with the **continuing high demand for vetting**. The Ministry of Foreign Affairs and Trade began a **review of security at overseas posts**; this had significant resource implications for the Service.

The Service budget for 2002/03 was \$16,493,000, an increase of 22% over the budget for 2001/02. Some of this increase was for equipment but most of it was **intended to enable the Service to make substantial progress in expanding staff numbers to 140** from 111 at 30 June 2002. As I said in the overview to last year's Annual Report, "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".

A significant recruitment effort saw 29 permanent staff commence duties, as well as **14 on short term contract. But there were 22 departures**: 7 resignations, 2 retirements, 1 inward secondment completed, 1 secondment to another agency, and 11 short term contracts completed. Thus **at 30 June 2003 staff numbers totalled 132, still well short of the intended target.** On the other hand **the Service is delighted with the calibre of people it has been able to recruit** in all types of positions.

The shortfall in staff numbers, and the consequent shortfall in operational activity, meant that **expenditure** in the financial year **was \$15,655,000, 5.1% below the sum appropriated.**

Of the total expenditure, **Security Intelligence Advice accounted for 65% as opposed to the planned share of 72%.** Within this output, expenditure on counter-terrorism was somewhat higher than planned, reflecting evolving priorities.

Expenditure on **Foreign Intelligence was 14% against a planned 11% and on Protective Security Advice 21% by comparison with a planned 17%.** In both these outputs **increased demand** was met by expenditure greater than planned, but the percentage over-expenditure is exaggerated by the under-expenditure on Security Intelligence Advice.

During the year good progress was made with a **Business Process Improvement Project.** All staff were provided with training by the **Human Rights Commission.**

Although running somewhat behind schedule, the Service is well on the way to achieving what the Government expects with the increased funding available – a doubling of counter-terrorist activity while maintaining the overall level of other activity. 2003/04 should see staff numbers reach the planned level.



E R Woods
Director of Security

PART 1

OUTPUT REVIEW

STATEMENT OF EXPENDITURE

The projected activities and internal allocation of funds for the 2002/2003 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 three outputs within that class:

Output 1: Security Intelligence Advice

Output 2: Foreign Intelligence

Output 3: Protective Security Advice

Financial resources were expended as follows

Output 1: Security Intelligence Advice	65 per cent
Output 2: Foreign Intelligence	14 per cent
Output 3: Protective Security Advice	21 per cent

OUTPUTS

Output 1: Security Intelligence Advice

The Security Intelligence Advice 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. Assessments are disseminated to those who have a need to be aware.

The planned share of the output in the operating budget was 72%. Actual expenditure was 65%, because of shortfalls in staffing and thus in operational activity. Within that total, expenditure on counter-terrorism was greater than planned, in order to deal with evolving priorities.

Activities

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

- **the provision of financial support from New Zealand for organisations which undertake terrorist acts overseas;**
- **links between individuals in New Zealand and terrorist organisations abroad;**
- **people operating in New Zealand and overseas to procure dual use equipment for foreign governments;**
- **links in New Zealand to weapons of mass destruction development programmes;**
- **foreign intelligence organisations running informants against New Zealand citizens and residents;**
- **networks in New Zealand which facilitate the travel of illegal immigrants to New Zealand and elsewhere.**

The world wide effort to combat Islamic terrorism which began after the terrorist attacks in New York in September 2001 has continued unabated in the period under review. The Bali bombings undertaken by Jemaah Islamiya (JI) in October 2002 underlined the threat from Islamic extremism in Asia. The subsequent discovery of a JI cell in Australia underlines the global threat posed by Islamic extremists and how close that threat has come to New Zealand.

During the period under review the Service has moved as quickly as possible to expand its work on counter-terrorism. The Service has strengthened relationships with relevant New Zealand government departments to ensure as far as possible a whole of government and integrated approach to counter-terrorism work. The Service is seeking to maximise its relations with foreign liaison partners with the aim of developing to the fullest possible extent the flow of terrorist related intelligence to New Zealand.

After the bombings in Bali the Service began a detailed investigation to determine if JI had established itself in this country. Work in this area is ongoing.

Investigations are also continuing to establish if Al Qaeda has established itself here.

The Service is not a lead agency in efforts to counter illegal immigration. It does, however, continue to disseminate intelligence to those New Zealand agencies who are involved in such work.

During the period under review, the Service determined that its efforts in respect of money laundering were no longer making a value added contribution to lead agency work in this area and this work was stopped.

On 20 March 2003, the Director of Security issued a Security Risk Certificate in respect of an Algerian refugee seeker, Ahmed ZAOUI, who arrived in New Zealand in December 2002. This is the first time that a Security Risk Certificate has been issued since provision was made for it in the 1999 Amendment to the Immigration Act. As at 30 June the Certificate was being reviewed by the Inspector General of Intelligence and Security at the request of ZAOUI.

The Service continues to have an ongoing interest in members of potentially hostile foreign intelligence organisations.

It is rare that counter-proliferation investigations involve just one agency and this complex work demands close cooperation and joint working between agencies. This year has been notable for the in-depth cooperation on counter-proliferation work between agencies.

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.

In 2002/03 expenditure on the Foreign Intelligence output amounted to 14% of total Service expenditure, against a forecast figure of 11%.

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 Service budget was expended on the Protective Security Advice Output, instead of the planned 17%, 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.

Increased demand for the first two areas was met by increased activity. No charge is made for protective security advice provided by the Service.

Protective Security Manual

In October 2002, the Service published the *Protective Security Manual (PSM)*. This manual was produced to complement the policy material contained in *Security in the Government Sector (SIGS)* – a manual issued by the Interdepartmental Committee on Security, and to provide additional guidance in some aspects of security. For ease of reference, the PSM incorporates SIGS as Part One; Part Two comprises ‘Protective Security Supplements’ and Part Three a ‘Catalogue of Approved Security Equipment’. The PSM was distributed to all government departments and has been made available to crown entities requiring relevant security guidance e.g. Aviation Security, Maritime Safety Authority, NZ Post. Although SIGS is an unclassified manual, the PSM has an overall classification of RESTRICTED because several of the Supplements in Part Two are classified. The PSM is available in hard copy or as a CD.

Personnel Security Assessments (Vetting)

The NZSIS is responsible for undertaking investigations and making assessments of the security trustworthiness of people needing access to classified national security information. These vetting investigations are requested by chief executives of most Government agencies and are undertaken with the knowledge and cooperation of the person

concerned. The extent of an investigation depends upon the level of clearance sought. As an outcome of the vetting process, the Service makes a recommendation to the chief executive as to the suitability of the candidate. The decision as to whether to grant or deny a security clearance rests with the chief executive.

The Protective Security Manual includes detailed guidelines for personnel screening, security clearance vetting and security assessment guidelines as well as 'Aftercare and the Role of Line Managers'. This is the most comprehensive guide for chief executives and Departmental Security Officers published in recent times. In particular it sets out clearly the concerns to be taken into account when assessing the trustworthiness of a person requiring access to classified national security information. It has enabled the Service to be more specific in cases where recommendations are negative or adverse and provides chief executives with detailed information to assist them in making better-informed decisions.

The significant increase in requests following the events of September 11, 2001, has now eased somewhat, with the total declining from 5938 in 2001/02 to 4928 in 2002/03. However the total remains higher than in previous years despite apparent efforts by some agencies to reduce the number of requests, and the reduction is mainly in the confidential category which is the least resource-intensive. The Service's workload is demand driven and current resource levels are at the minimum required to manage current demands and reduce the backlog.

Over the next year or two there will be a significant increase in the numbers of CONFIDENTIAL clearances required. It is now policy to review CONFIDENTIAL clearances every five years, in line with all other levels of clearance. Previously, CONFIDENTIAL clearances, once granted, remained extant regardless of circumstances. As a result of this policy change, the number of CONFIDENTIAL clearances required will increase with consequent resource implications at this level. Departments have been asked to review their requirements for TOP SECRET and SECRET clearances and in due course this may have an effect on the number of clearance requests received.

The introduction of re-designed vetting forms in November 2002 has enabled more specific and relevant information to be obtained from Departmental Security Officers, security clearance candidates and their referees. Departmental Security Officers are now required to justify a vetting request and the candidates and referees are better informed as to their responsibilities and rights regarding the personal information they provide and the protection afforded it by the Service. The vetting process has thus been refined and enhanced.

Physical Security Inspections and Advice

Specialist technical advice was provided to other departments on a range of physical security and risk management issues. Additionally, in response to the formal requests of ten government agencies, eleven site inspections were conducted. Reports were prepared and recommendations made.

A significant advisory commitment was made during the year to the Ministry of Foreign Affairs and Trade (MFAT). This arose from a request to assist with security assessments of New Zealand's diplomatic Missions overseas.

Support on routine matters was also provided to MFAT.

Advance security planning commenced for an eventual move by the Service's Wellington Headquarters to new accommodation.

Security Awareness Education

A Security Education post was established in the early part of the reporting period with the appointee tasked to develop and deliver security advice and security awareness programmes aimed at primarily government departments and agencies. Other customers will be those public and private organizations holding proprietary information (scientific, technical and economic) where the loss would be likely to damage New Zealand's economic wellbeing.

The Security Education Officer (SEO) commenced duties in November 2002 and presentations have been developed to cover a variety of security related topics. During the period under review presentations were made to representatives of four government departments.

The Security Education Officer has taken responsibility for delivering briefings to public servants about to take up overseas postings. In the main these are staff from the Ministry of Foreign Affairs and Trade.

The SEO has established contact with the Departmental Security Officers of twenty one government departments and the Service's Protective Security Manual has been promoted.

CORPORATE ISSUES

Financial Management

The Service budget for the 2002/03 financial year was \$16,493,000. Despite a determined and focussed recruitment effort, staff losses meant it was not possible to reach the planned number of staff by 30 June 2003. This was the principal reason that final expenditure amounted to \$15,655,000, 5.1% below budget.

The Service 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 111 staff the Service had by 30 June 2003 increased to 132 staff. Forty three staff joined the Service during the year, of whom 29 were permanent and 14 on short term contract. There were 22 departures: two secondments, two retirements, seven resignations and eleven staff who completed short term contracts during the year.

Recruitment was active throughout the year and across all areas of the Service.

The Service successfully recruited trainee career intelligence officers.

Regional offices in Wellington, Christchurch and Auckland, all increased in size over this financial year.

Head office numbers have also increased.

Service Staff Association

Results were achieved on a number of issues raised with management whilst others remain under consideration. Relations between the Association and management continue to be cooperative and constructive.

Training

This was a very busy year with the focus being on the 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, and training for all staff by the Human Rights Commission.

Human Resource Review

The focus on recruitment activities meant that the intended review of the Performance Development Review (PDR) System had to be held over and will take place in the next financial year as will a review of Human Resource and Personnel policies.

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 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 reporting period has seen the consolidation and integration of facilities within the Service as well as further development of the computer network.

A Business Process Improvement Project has been enhanced by the recruitment of a Project Manager to facilitate the process. His appointment, and advice from the State Services Commission and Treasury, have provided assurance that best practice principles are being met as the project proceeds.

Archives Policy

To enable the orderly release of historical records the Service has developed an archives policy, in the process consulting the Chief Archivist, Chief Ombudsman, Inspector-General of Intelligence and Security and the Privacy Commissioner. A summary of the policy will be made public after some final suggestions have been considered.

In addition to its own files, the NZSIS holds security records originating from the New Zealand Police and the wartime Security Intelligence Bureau.

Legal Matters

Official Information Act and Privacy Requests

In the period under review the Service received twenty-one applications for information made or considered under the Official Information Act 1982 (fifteen requests) or the Privacy Act 1993 (six). Particular care is taken to safeguard sources of information, targetting and operational methods, and regard is had for privacy, when the Service responds to such requests.

Two complaints were considered by the Ombudsmen in relation to the Service's responses. One was decided in favour of the Service; in the other case, the release of a clarificatory statement and some additional documentation was agreed.

Six of the Official Information Act requests led to material being released.

Parliamentary Questions

Twenty six Parliamentary Questions were addressed to the Minister in Charge of the Service. In broad terms these related to archive issues, administration and the Service's power to intercept communications; but many were addressed to Ministers generally and related to matters common to government agencies.

Legislation and Treaties

The Service continued to be involved in legislative and associated administrative proposals that continue to be developed in response to the events of 11 September 2001. The Terrorism Suppression Act 2002 came into force in October 2002 and this was followed by the introduction of the Counter-Terrorism Bill which proposes, among other changes, to update the definition of "terrorism" in the New Zealand Security Intelligence Service Act 1969.

Proposed amendments to the Crimes Act 1961 continued to be of interest because of proposals relating to computer hacking and to broadening the prohibition on using devices to intercept communications. A consequence of its passage (after the end of the reporting year) is that interception warrants are now required for all communications, not just oral communications.

Other legislative proposals of continuing interest to the Service included:

- Telecommunications (Interception Capability) Bill;
- Proposals bearing on border control; and
- Steps to implement the International Convention against the Recruitment, Use, Financing and Training of Mercenaries.

Public Relations

A revised version of the Service booklet was published and posted on the Service website, together with the 2001/02 Annual Report as tabled in the House of Representatives. The Director continued to undertake speaking engagements with various groups.

Scrutiny

Intelligence and Security Committee of Parliament (ISC)

The Director of Security appeared before the Committee to present the 2001/02 Annual Report and the 2003/04 Financial Forecast. The Director also briefed Committee members on the terrorist attack in Bali in October 2002 and on related intelligence-sharing.

Inspector-General

In the period under review the Inspector-General made inquiries of the Service in respect of four complaints he had received and of a request for him to review a Security Risk Certificate issued by the Director of Security. His inquiries were underway at the end of the reporting period.

PART 2

STATEMENT ON WARRANTS

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 2003, 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 fourteen (14) domestic interception warrants were in force. Of those, four (4) were issued during the year under review, and ten (10) were issued during the previous year but remained in force for some part of the year under review. Action was undertaken under all domestic warrants during the year under review. The average length of time for which those warrants were in force during the year under review was 206 days. There were no amendments under section 4D of the Act. The methods of interception and seizure used were listening devices and the copying of documents.

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

Removal

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

Foreign

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

A handwritten signature in black ink, appearing to read 'ER Woods', written over a light grey rectangular background.

E R Woods
Director of Security

DATED at Wellington this ninth day of September 2003.

I have reviewed all warrants in force during the period beginning 1 July 2002 and ending 30 June 2003 and certify that the information set out in the above Statement on Warrants is correct.

A handwritten signature in black ink, appearing to read 'Helen Clark', written over a light grey rectangular background.

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

DATED at Wellington this eighteenth day of September 2003.

PART 3 FINANCIAL REPORTING

INTRODUCTION

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.

Statement of Expenditure and Appropriation

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

	GST inc \$000
Total appropriation	16,493
Actual expenditure	15,655

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 STATEMENT OF EXPENDITURE AND APPROPRIATION OF THE SECURITY INTELLIGENCE SERVICE FOR THE YEAR ENDED 30 JUNE 2003

I have audited the statement of expenditure and appropriation (the statement) on page 21. The statement shows the total of actual expenditure made and costs incurred by the Security Intelligence Service for the year ended 30 June 2003 against its Vote for that year.

Responsibilities of the Director

Section 4J (3) of the New Zealand Security Intelligence Service Act 1969 and section 70I of the Public Finance Act 1989 require the Director of the Security Intelligence Service to prepare a statement providing a record of the total of actual expenditure made and costs incurred for the financial year against the department's Vote for that financial year.

Auditor's responsibilities

The Director of the Security Intelligence Service has requested the Auditor-General to undertake an audit of the statement prepared pursuant to Section 4J (3) of the New Zealand Security Intelligence Service Act 1969 and section 70I of the Public Finance Act 1989. It is the responsibility of the Auditor-General to express an independent opinion on that statement 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 in the statement. It also includes assessing:

- ▲ the significant estimates and judgements made by the Director in the preparation of the statement; and
- ▲ whether the accounting policies used in the preparation of the statement are appropriate to the Security Intelligence Service's circumstances and consistently applied.

I conducted my 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 my 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 statement is free from material misstatements, whether caused by fraud or error.

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

Unqualified opinion

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

In my opinion, the statement of expenditure and appropriation of the Security Intelligence Service on page 21 fairly reflects the total of actual expenditure made and costs incurred for the year ended 30 June 2003 against the department's Vote for that financial year.

My audit was completed on 29 August 2003 and my unqualified opinion is expressed as at that date.



T. P. McLaughlin
Assistant Auditor-General
Wellington, New Zealand

