



Report of the

NEW ZEALAND SECURITY INTELLIGENCE SERVICE

Report to the House of Representatives
for the year ended 30 June 2006

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

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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 began shockingly with the suicide attacks on three underground trains and a bus in London on 7 July 2005. 52 innocent people were killed, including one New Zealander, and over 700 injured. It was followed by the unsuccessful attempts in London on 25 July and by the arrests in Sydney and Melbourne in November and in Toronto in June. Violence involving the LTTE resumed in Sri Lanka, including an assassination in December. Then on 11 July 2006, just after the end of the year under review, there were attacks on seven trains in Mumbai in which 180 died and nearly 700 were injured. And of course there was continuing terrorism in the Middle East, on an enormous scale in Iraq.

These events are a tragic reminder, if one was needed, that terrorism remains an ongoing, even growing, threat. They demonstrated that the international terrorist threat is often home-grown, that individuals can be radicalised quickly, and that radicalisation can just as quickly turn into murderous action. While security services and police forces have the responsibility to try to prevent terrorist attacks from occurring, terrorism is the symptom of various issues which go well beyond the capacities and roles of those agencies. These issues need, internationally, good quality public debate and broader government and community attention.

We in New Zealand should not imagine that we are somehow immune either from these broader issues or from the threat of terrorist attack. While the Service continues to believe that the risk of a terrorist attack on New Zealand or New Zealand interests is low (“terrorist attack is assessed as possible, but is not expected”), we cannot afford to be complacent. We have to do everything we can to continue to achieve the Government’s objective: that New Zealand should be neither the victim nor the source of an act of terrorism. This requires constant vigilance by the Service and other government agencies. It also requires understanding and support from the media and from members of the public.

Proliferation of weapons of mass destruction (WMD) is another security concern. During the year the Service took part in joint approaches to all universities, led by the Ministry of Foreign Affairs and Trade with the Immigration Service. The objective was to explain New Zealand’s international responsibilities in this field. This includes ensuring that student permits are not given for research by foreign students that would have implications for WMD development. In this area also, we cannot assume that New Zealand is somehow immune from risk.

Having made those points, I repeat what the Service has said previously: in the Service’s view the vast majority of Muslims in this country (whether immigrant or born here) are law-

abiding members of the community who are of no security concern. That is also true of immigrants, including foreign students, in general.

The difficult task for the Service, for which it needs help from other agencies and the public, is to identify those few people who are of security concern and to prevent terrorist attacks or other developments of security concern from occurring. No one, however well resourced, can guarantee that such an event will never occur.

In August 2005 the Inspector-General of Intelligence and Security, in light of the Supreme Court's decision of June 2005, began his Review of the Security Risk Certificate I made about Mr Ahmed Zaoui in March 2003. The Review is proving to be a demanding and time-consuming process to which however the Service is fully committed.

In May 2006 a Yemeni national was deported because he posed a threat to national security. The operation that led to this decision demonstrated that, even if an individual of security concern succeeds in entering New Zealand, under a different name for instance, government agencies are likely over time to identify him. The decision itself demonstrated that the Government is determined that New Zealand will not become a safe haven for people of security concern. This is essential if we are to continue to be neither the victim nor the source of an act of terrorism.

Turning to Service resources, at 30 June 2005 the results of inter-agency follow-up work to the Review of the Service carried out in 2004 by Michael Wintringham were ready for consideration by the Officials Committee on Domestic and External Security Coordination (ODESC). Thorough consideration then took place and ODESC's recommendations were put to ministers after the election. The results for 2005/06 and 2006/07 were reflected in the increase in the Service's resources included in the 2006 Budget; the longer term requirements need further consideration.

The Service budget for the 2005/06 year was originally \$21.052 million excluding GST. Following ministerial agreement with ODESC's recommendations, this was increased in the Supplementary Budget to \$23.285 million. Continuing the approach of the last several years, that we should not sacrifice quality or security for the sake of meeting a numerical target, it did not prove possible to recruit all the additional staff as quickly as we had envisaged when the Supplementary request was prepared during 2005. Therefore expenditure was \$22.446 million, 3.6% less than the final appropriated sum.

Staff numbers increased, from 144 on 30 June 2005 to 150 on 30 June 2006. Initial emphasis was on the support and corporate management areas, in line with the Wintringham report and ODESC recommendations which reflected the fact that the Service's expansion in recent years had been almost entirely on the operational side.

This is the last Annual Report for which I will be responsible. In November 1999 when I took up the position, the Service was continuing the downward trend in its staff numbers which had started in the mid-80s. The events of 9/11/2001 changed that. Ever since, the

international security and intelligence community has been trying to prevent terrorist attacks, with mixed success. New Zealand has to play its part. That has included the provision by the Government and Parliament of significant extra resources for the Service.

International terrorism has thus dominated the last five of my seven years in this job. Proliferation and espionage and intelligence activities by other countries and individuals have however continued to require attention. So have the Service's protective security responsibilities – vetting and physical security advice – and foreign intelligence collection. But terrorism has been the big issue, and will continue to be for the foreseeable future.

It has been a great privilege, but also a great responsibility, to be the Director of Security during this period. At the political level I have been fortunate in the understanding and support of the Prime Minister and other ministers, and of the Leader of the Opposition and members of the Parliamentary Intelligence and Security Committee. At the Public Service level, ODESC is a remarkably collegial body, with thorough and unstinting cooperation among its members both bilaterally and as a group; I am grateful to them and other chief executives. I have also appreciated the willing cooperation of many people in the private sector, and much – though not all – of the media coverage.

But most of all, I am grateful to the staff of the Service. They are a remarkably fine and talented group of people dedicated to the protection of the country's security. New Zealand is lucky to have them, and it has been a privilege and a pleasure to be one of them.

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 2005/2006 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	69 per cent
Output 2:	Foreign Intelligence	14 per cent
Output 3:	Protective Security Advice	17 per cent

OUTPUTS

OUTPUT 1: SECURITY INTELLIGENCE ADVICE

Security Intelligence Advice accounted for 69% of the Service's expenditure in 2005/06, as planned. Within that total, expenditure on Counter-Intelligence was higher than planned, but Counter-Terrorism remained the largest single component, accounting for over 40% of Service expenditure.

Activities

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

- activities in New Zealand of a foreign national assessed to be a close associate of Islamic extremists in a foreign country;
- activities of individuals within New Zealand assessed as being Islamic extremists;
- links between individuals in New Zealand and international extremist organisations;
- individuals in New Zealand seeking to raise funds for terrorist organisations;
- covert activity in New Zealand on the part of foreign intelligence services;
- links to and activities in support of weapons of mass destruction programmes abroad.

Counter-Terrorism

As in past years Counter-Terrorism continues to be the biggest single component of the Service's activities.

The threat from Islamic Terrorism continues unabated. The arrests in Australia (November 2005) and Canada (in June 2006) are a positive sign that Western intelligence and law enforcement agencies are having some success in countering the plans of terrorists. That said, the investigations that have followed these arrests have revealed some worrying trends in the radicalisation process and the methods of operation of extremists.

In last year's annual report we outlined Al Qaida's move to become more of an inspirational force in Islamic terrorism. It seems from intelligence gathered in the last year that this process of localisation has continued and developed to the point of self radicalisation. Investigations have also revealed that radicalisation can occur much faster than previously thought. The causes of radicalisation are less well understood but there is some evidence to suggest it can be sparked by as little as a single significant event in a person's life.

Overseas partners have also been surprised at the speed with which radicalised individuals can coalesce into groups which then develop into operational cells. Previously the generally held view was that while this could occur quickly such a development was the exception rather than the rule. Current thinking is that this is no longer the case and that an individual can become radicalised, become part of an extremist group and move to plan terrorist attacks in a period of months. These groups have adopted good operational security practices and access the latest information on techniques and targets from the Internet.

The Internet is central to the work of extremists. It allows Al Qaida to proselytize to the world wide Muslim community; extremists meet people of similar views and through chat rooms self radicalise. The Internet makes communication simple and inexpensive and groups around the world can gain access to up to date information on bomb construction, operational security and targets. The use of the Internet by Islamic Extremists poses a real challenge to all Western intelligence agencies. The Service is no exception.

These international developments have implications for New Zealand and the Service which will need to consider how it should respond.

The Service is not aware of any specific terrorist threat to New Zealand. Currently CTAG continues to assess the threat of a terrorist attack occurring in New Zealand as low. But the continued trend towards localisation, use of the Internet by extremists and the results of the Service's own investigations confirm the need for increased vigilance if New Zealand is to continue to be neither the victim nor the source of an act of terrorism.

Combined Threat Assessment Group (CTAG)

The Combined Threat Assessment Group (CTAG) is hosted by NZSIS. The group comprises staff seconded from NZSIS, NZ Police, NZ Defence Force, GCSB, NZ Customs and Maritime NZ. CTAG is tasked with providing assessments on terrorist or criminal threats of physical harm to New Zealand and New Zealand interests at home or overseas, based on all-sources of information and intelligence available to the New Zealand government. During the year CTAG produced 144 reports on a variety of threat related issues. CTAG continues to monitor the domestic and international threat environments and will report any changes detected.

Proliferation of Weapons of Mass Destruction

The Service continues to work proactively on issues of proliferation concern, in cooperation with other New Zealand entities and foreign liaison partners.

Counter-Proliferation is a "whole of Government" issue which impacts upon a range of departments beyond those (GCSB, Customs and NZSIS) who contribute directly to the Service's Counter-Proliferation Joint Section (CPJS). The CPJS continues to serve as a vehicle to promote closer dialogue and understanding across government agencies, with a view to generating a coordinated approach to countering proliferation.

The Service participated, with MFAT and the Immigration Service, in visits to all New Zealand universities to raise awareness of the risks posed and the obligations New Zealand has under international conventions.

The issuing of Counter Proliferation Reports by the CPJS has served as a useful tool in highlighting areas of vulnerability in New Zealand and identifying policy gaps/initiatives that might enable the government to more effectively counter proliferation.

Intelligence Organisations Operating in New Zealand

The Service continues to place importance on investigating the activities of foreign intelligence organisations operating covertly in New Zealand.

Rather than diminishing, activity by foreign intelligence services continues to feature prominently in Service investigations.

Foreign intelligence services are interested in collecting economic and political information and scientific and technological research and development to further their own national interests. Their activities can be harmful to New Zealand's international and economic well-being.

OUTPUT 2: FOREIGN INTELLIGENCE

The strategic aim of the Service's foreign intelligence effort is to have Government decision makers better informed through the provision of foreign intelligence reports. This is done under Output 2, Foreign Intelligence. The work that the Service undertakes against this output relates to part (b) of the definition of security in the New Zealand Security Intelligence Service Act 1969 and its amendments:

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 2005/06 expenditure on the Foreign Intelligence output amounted to 14% of total Service expenditure, against a forecast figure of 15%.

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 17% (slightly more than the planned 16%) of the Service budget was expended on Output 3 – Protective Security Advice, which has two sub-outputs:

Sub-Output 3.1 – Personnel Security Advice (11%)

- the establishment of personnel security standards and the provision of advice on personnel security to government departments and agencies.
- rigorous assessment (vetting) of the security trustworthiness of those individuals required to have access to classified information and the provision of advice to Chief Executives so that they may make an informed decision as to the suitability of a candidate for a security clearance.

Sub-Output 3.2 – Physical Security Advice and Security Education (6%)

- the inspection of sites and the provision of recommendations to Chief Executives for the protection of classified material, personnel and physical assets.
- the development and delivery of protective security awareness briefings and programmes to government agencies and, where appropriate, to other public and private organisations

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

Protective Security Manual

The *Protective Security Manual* published by the Service in October 2002 to complement the policy material contained in *Security in the Government Sector* – a manual issued by the Interdepartmental Committee on Security – is available to those within the State Sector who require security guidance.

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 Protective Security Manual provides guidelines for both the Service and departments in assessing candidates for security trustworthiness. The criteria for loyalty, financial management, personal behaviour, and the potential influence of close associates (family and

others) are examined closely and a high quality assessment is made. The Service has an ongoing commitment to the enhancement of the vetting and risk assessment process.

The total of this year's recorded vetting requests, at 5,277, fell short of the previously reported expectation that the number received annually would be about 5,500. It was also slightly less than last year's total of 5,406.

The decrease was all at the Confidential level; there were substantial increases in the more resource-intensive Secret and Top Secret assessments.

Physical Security Inspections and Advice

Specialist technical advice was provided to other departments on a range of physical security and risk management issues. At the request of state entities, 11 formal site-inspections were conducted compared with 27 in the previous reporting period. Reports were prepared and recommendations made. Physical security advice was offered on 26 occasions.

Continuing support on routine matters was also given to MFAT, including physical security advice relating to proposed new diplomatic mission premises as well as existing missions.

During the reporting period a Service officer (in conjunction with MFAT staff) conducted security assessments of one New Zealand diplomatic mission, consulates-general, and residences occupied by New Zealand seconded staff.

Security Awareness Education

The Security Education position that remained vacant throughout the previous reporting period was filled one month into the present reporting period. However, the position again became vacant at the end of this reporting period when the incumbent received an internal promotion. It is planned to fill the vacancy in the near future.

During the reporting period security awareness advice has been offered to Government departments (in addition to the Ministry of Foreign Affairs and Trade) and other members of the state sector through their respective Departmental Security Officers. During the reporting period briefings have been delivered to 79 public servants about to take up overseas postings.

CORPORATE ISSUES

Financial Management

The original Service budget for the year 2005/06 (excl GST) was \$21.052 million. As a result of ODESC recommendations, building on the previous year's Wintringham review of the Service's Capability and Resourcing, the Service was given additional funding in the Supplementary Budget. It did not prove possible to recruit additional staff as fast as envisaged when the supplementary bid was prepared. Total Service expenditure was \$22.446 million, 96.4% of the revised appropriation of \$23.285 million.

The Service Accounts are audited by the Auditor-General, 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 Auditor-General follows in Part 3.

Service Structure and Staffing

The Service began the year with 144 staff and had grown to 150 by 30 June 2006. Seventeen new permanent staff were recruited, plus three employees on short term contracts and three returning from Leave Without Pay. There were two retirements, eight resignations, four short term contracts completed and three employees taking leave without pay.

The staff gender balance is roughly equal with 74 females and 76 males.

As recommended by the Wintringham Review, the Administration and Resources Branch was divided into a Human Resources Branch and a Finance and Planning Branch. Specialist managers for each of these new branches were recruited from outside the Service. The recruitment plan concentrates initially on ensuring that there is an efficient corporate and support infrastructure in place.

Accommodation

Pressure on the Stout Street headquarters building continued, and one section moved into temporary premises elsewhere.

Work continued on preparation for the move to the new Defence Building, scheduled to occur in March 2007.

Service Staff Association

Good relations continued between the Association and Service management, with engagement on a number of issues through the year.

Training

Within the financial year there was one intake of career intelligence officers who were provided with training. Other career intelligence officers received advanced training.

A comprehensive management development programme has been developed and all managers have received initial training. This programme will continue during the coming year.

A variety of other work related courses have been provided to staff.

Review of Capability and Resourcing

The reports of three interdepartmental working groups set up to carry forward the recommendations of the previous year's Wintringham Review were considered by ODESC in July 2005. ODESC's recommendations were submitted to ministers after the election. Ministers accepted the recommendations. Implementation for 2005/06 and 2006/07 was reflected in the 2006 Budget. Further consideration is required for the longer term.

Relationships With Other Agencies

The Service continued to cooperate closely with other government departments and agencies. There are working level links with, among others, the Department of Prime Minister and Cabinet, the Government Communications Security Bureau, the Police, the Ministry of Foreign Affairs and Trade, the Ministry of Defence and the New Zealand Defence Force, the Treasury, the Immigration Service, Customs, the Department of Internal Affairs, Archives New Zealand and Crown Law.

The Service participated in interdepartmental committees and watch groups.

Information Management

Information Technology

The main deliverable of the Business Process Improvement Project, begun in the 2002-2003 reporting period, was the implementation of the core components of a new information management system in October 2005. The project was completed on a revised schedule and within the budget of \$2.5 million excluding GST.

Records Management

Service information held on hard copy files and that held electronically is managed to ensure appropriate record keeping standards are properly met and maintained.

Library

In preparation for reopening in the new building as an “open source” research and information centre, the Library commenced a period of consolidation and transition. A significant investment in electronic resources, including database, news-wire and periodical subscriptions, was maintained, recognising the value of unclassified sources of information and meeting current research and analysis needs. At the same time, selective book purchases maintained the Service’s unique specialist library.

Archival Matters

In the year under review, 137 vetting files were purged under an Archives New Zealand authority to dispose of records.

The NZSIS continues to consult closely with Archives New Zealand on records matters, and the Service is participating in a joint panel which is examining historical prime ministerial papers to ensure they are declassified before public release.

Legal Matters

Official Information Act and Privacy Requests

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

Ten of the Official Information Act requests resulted in the release of information, mostly to historians. All the Privacy Act requests were able to be met. No complaints were made to the Ombudsmen or Privacy Commissioner in the review period. However, as at 30 June 2006 two long-standing complaints to the Ombudsmen awaited conclusion, as did one to the Privacy Commissioner; investigation into two other previous complaints, one to each of the review bodies, was discontinued by the authority concerned on the basis that the applicant did not wish to continue.

Parliamentary Questions

Fourteen Parliamentary Questions were addressed to the Minister in Charge of the Service. Most related to the joint Ministry of Foreign Affairs and Trade, Department of Labour, and New Zealand Security Intelligence Service discussions with Universities about the risks of misuse of information and research relating to weapons of mass destruction.

Legislation and Treaties

There have been no amendments to the New Zealand Security Intelligence Service Act 1969 in the current year. Nor have there been any consequential amendments made by amendments to other Acts.

There have been no other significant legislative amendments during the past year that have potential to affect the Service.

The Service was consulted on a number of proposed amendments to Acts, where this was relevant to security.

Annual Report

The 2004/05 Annual Report was tabled in the House of Representatives and posted on the Service website.

Scrutiny

Intelligence and Security Committee of Parliament (ISC)

The Director of Security appeared before the Committee to present the 2004/05 Annual Report and the 2006/07 Statement of Intent.

Inspector-General of Intelligence and Security

In August 2005 the Inspector-General began his Review of the Security Risk Certificate about Mr Ahmed Zaoui. The Director of Security and other Service staff devoted whatever time was necessary to meeting the requirements of the Review.

Apart from Zaoui-related matters, during the year under review the Inspector-General concluded enquiries into eight complaints about the Service. One related to an employment matter, on which the Inspector-General saw no reason to disagree with the Service's position. Two concerned vetting issues, on neither of which the Inspector-General recommended any alteration to the Service's original response. One was from an individual who had also complained to the Privacy Commissioner; the Inspector-General saw no reason to differ from the Privacy Commissioner's decision. Four were from individuals who were unknown to the Service or were known only through their own approaches to the Service. One other complaint was under enquiry by the Inspector-General at the end of the year under review. In addition, the Inspector-General began an enquiry into an employment matter which had been referred to him, by mutual agreement between the officer and the Service, for consideration and recommendation.

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 2006, 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-two (22) domestic interception warrants were in force. Of those, thirteen (13) were issued during the year under review, and nine (9) were issued during the previous year but remained in force for some part of the year under review. Action was taken under all domestic warrants during the year under review. The average length of time for which those warrants were in force during the year under review was 140 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.



E R Woods
Director of Security

DATED at Wellington this thirteenth day of September 2006.

I have reviewed all warrants in force during the period beginning 1 July 2005 and ending 30 June 2006 and certify that the information set out in the above Statement on Warrants is correct.

A handwritten signature in black ink, appearing to read 'H E Clark', written in a cursive style.

Rt Hon Helen Clark

Minister in Charge of the New Zealand Security Intelligence Service

DATED at Wellington this thirty first day of October 2006.

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 section 34 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 the Public Finance Act 1989 I report as follows:

	\$000
Total appropriation	23,285
Actual expenditure	22,446

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



E R Woods
Director of Security

AUDIT REPORT

TO THE READERS OF THE NEW ZEALAND SECURITY INTELLIGENCE SERVICE'S STATEMENT OF EXPENDITURE AND APPROPRIATION FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of the New Zealand Security Intelligence Service (the Service). The Auditor-General has appointed me, Terry McLaughlin, using the staff and resources of Audit New Zealand, to carry out the audit of the statement of expenditure and appropriation of the Service, on his behalf, for the year ended 30 June 2006.

Unqualified opinion

In our opinion the statement of expenditure and appropriation (the statement) of the Service on page 25 fairly reflects the actual expenses and capital expenditure against the Service's appropriation for the year ended 30 June 2006.

The audit was completed on 28 September 2006, and is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

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

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Chief Executive;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

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

We evaluated the overall adequacy of the presentation of information in the statement. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Chief Executive and the Auditor

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

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

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

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



Terry McLaughlin

Audit New Zealand

On behalf of the Auditor-General

Wellington, New Zealand

Matters relating to the electronic presentation of the audited statement of expenditure and appropriation

This audit report relates to the statement of expenditure and appropriation of the New Zealand Security Intelligence Service (the Service) for the year ended 30 June 2006 included on the Service's web site. The Service's chief executive is responsible for the maintenance and security of the Service's web site. We have not been engaged to report on the integrity of the Service's web site. We accept no responsibility for any change that may have occurred to the statement since it was initially presented on the web site.

The audit report refers only to the statement named above. It does not provide an opinion on any other information which may have been hyperlinked to/from this statement. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited statement and related audit report dated 28 September 2006 to confirm the information included in the audited statement presented on this web site.

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