



**Government
Communications
Security
Bureau**

ANNUAL REPORT

for the year ended 30 June 2004

Presented to the House of Representatives pursuant to
Section 12 of the
Government Communications Security Bureau Act 2003.

ISSN 1176-4686

LETTER OF TRANSMITTAL

Prime Minister

I have the honour to present to you the report of the Government Communications Security Bureau for the year ended 30 June 2004.



Warren Tucker
Director

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Part One

Statement of Purpose

MISSION AND OUTCOMES

Mission Statement

The mission of the GCSB is to contribute to the national security of New Zealand through:

- a. providing foreign signals intelligence¹ to support and inform Government decision making;
- b. providing an all-hours foreign intelligence watch and warning service to Government;
- c. ensuring the integrity, availability and confidentiality of official information through information systems security services to Government; and
- d. assisting in the protection of the national critical infrastructure from information-borne threats.

Vision

“To be the leading source of foreign intelligence and information systems security advice to Government.”

¹Foreign intelligence as defined in the GCSB Act 2003 means information about the capabilities, intentions, or activities of a foreign organisation or a foreign person.

Outcomes

The Government purchases services from the Bureau to achieve its two high-level outcomes:

- New Zealanders and New Zealand interests are protected and advanced through the provision of relevant, timely and accurate foreign intelligence, and threat warning information; and
- National and public interest is properly served through the appropriate protection of official information and the national critical infrastructure.

The Bureau seeks to contribute to these outcomes through achieving four departmental outcomes as shown in the diagram below

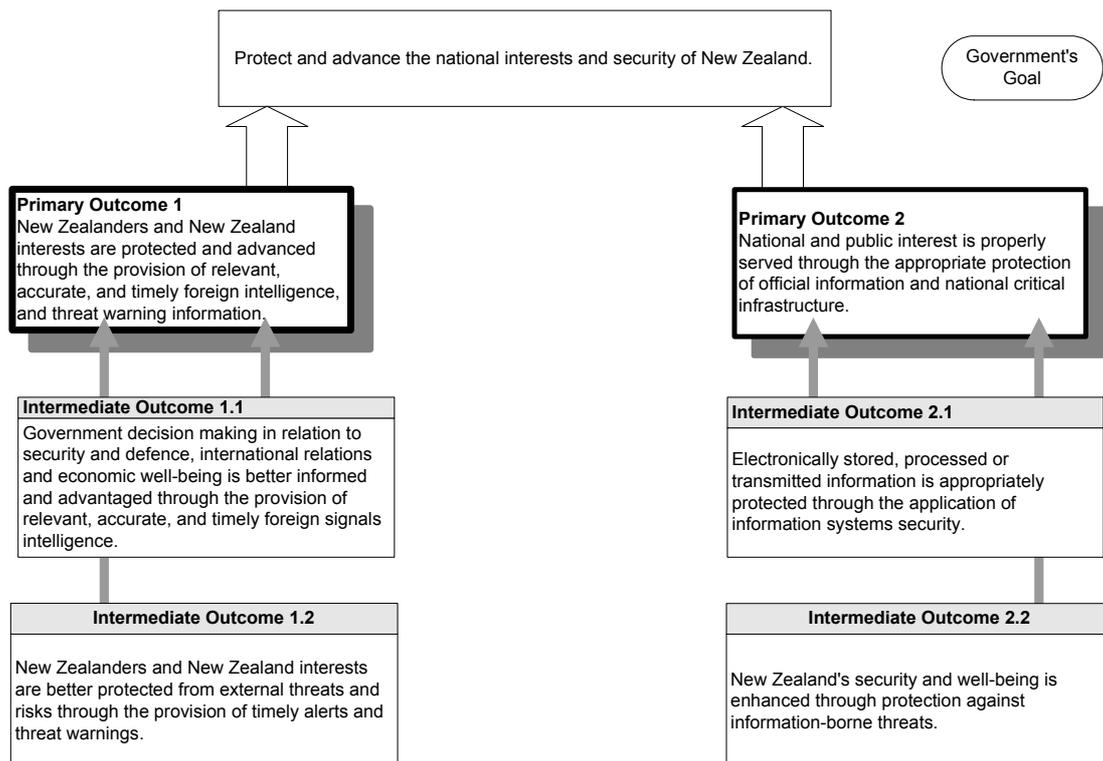


Figure 1 – GCSB Outcomes

Part Two

The Year in Review

DIRECTOR'S OVERVIEW

This year has been a particularly busy and challenging one for the GCSB, reflecting the pace and complexity of events both in our primary region of interest and in the wider international context.

A significant focus of the GCSB's operations throughout the year has been the provision of intelligence and information systems security support to deployed elements of the New Zealand Defence Force (NZDF). This has presented some significant technical challenges, which have been successfully overcome, but it has also placed some strain on resources, particularly in the first half of the year, with the result that some other priorities had to be reassessed.

The Bureau has provided support to Ministers and senior officials at a number of international events, and to Police and other law enforcement agencies in relation to our statutory function of providing support to the prevention and detection of serious crime.

Considerable effort has been made during the year to provide enhanced language training for our intelligence analysts, and the preparation of a strategy for long-term language capability development is now well-advanced, as is a formal intelligence production strategy. Initial work has also been undertaken on the development of a draft national ELINT policy.

The Bureau was successful during the year in obtaining significant additional funding for a range of capability enhancements, in particular the further development of both collection stations, and an increase in the number of intelligence analysts. Ongoing development of the Tangimoana and Blenheim stations included the installation of a new 7.3m antenna at Waihopai, and important advances were also made in a number of other capabilities.

The New Zealand Intelligence Community Network (NZICNet) was established during the year, with the first fully secure connection (to the Domestic and External Security Secretariat in the Department of Prime Minister and Cabinet) going live in March. The network is now being progressively extended to other key customer departments and agencies as part of a planned phased programme.

Despite resourcing constraints, significant progress was also made on the Information Systems Security (INFOSEC) side of the Bureau's business, particularly on the establishment of the Electronic Key Management System (EKMS), the introduction into service of the Sectera secure cellphone system, and in the development of the CCIP outreach programme.

Internally, the Bureau has been successful in its efforts to secure additional accommodation for the medium term and to improve security at its Wellington Head Office. Significant progress has been made with the implementation of the Human Resources Strategy, including a comprehensive review of the Bureau's performance management and remuneration systems and our leadership succession arrangements. Staffing levels in both HR and Finance have been increased in response to the growing demand for their services. A significant effort has also been made to address internal IT security and accreditation issues.

Throughout the year, the Bureau has continued to play its full part in the international partnership. Collaboration and cooperation, particularly on counter-terrorism, is extremely strong, as demonstrated by the record number of visitors to GCSB (including several major conferences).

This has been a successful year for the Bureau. I look forward to continuing achievement in the year ahead.



Warren Tucker
Director

ACHIEVEMENT OF OUTCOMES

Provision of Intelligence and Threat Warning Information

Primary Outcome 1
New Zealanders and New Zealand interests are protected and advanced through the provision of relevant, accurate, and timely foreign intelligence, and threat warning information.

Better Informing Government decision making

The Bureau seeks to make a difference to Government decision-making through the provision of foreign intelligence. The increasing demand for the Bureau's services and feedback from customers indicates that Bureau-supplied intelligence is being used to underwrite and inform Government decision making.

Intermediate Outcome 1.1
Government decision making in relation to security and defence, international relations and economic well-being is better informed and advantaged through the provision of relevant, accurate, and timely foreign signals intelligence.

The Bureau was able to meet the intelligence demands of its customers across a range of high priority international issues. Regional security issues and the international campaign against terrorism were areas of particular focus throughout the year.

Protecting New Zealanders and New Zealand Interests through threat-warning

The Bureau seeks to ensure that relevant agencies receive timely information that prevents or reduces a negative outcome such as the loss of life or contributes to the detection and prevention of serious crime with an international dimension. The Bureau achieves this through the operation of a 24 hour 7 day a week operations centre. This Centre is frequently the means by which New Zealand becomes aware of threats, particularly terrorist threats, and receives "tip-off" information on changing events. The GCSB also works closely with a range of New Zealand Government departments and agencies to enhance their own threat warning capabilities.

Intermediate Outcome 1.2
New Zealanders and New Zealand interests are better protected from external threats and risks through the provision of timely alerts and threat warnings.

Protecting Official Information and the National Critical Infrastructure

Primary Outcome 2

National and public interest is properly served through the appropriate protection of official information and national critical infrastructure.

Appropriately Protecting Official Information

Intermediate Outcome 2.1

Electronically stored, processed or transmitted official information is appropriately protected through the application of information systems security.

A key result for the Bureau is to ensure that official information which is electronically stored, processed or transmitted is appropriately protected through the application of INFOSEC measures. The Bureau seeks to achieve this by assisting departments to protect their official information through the provision of advice and assistance, including training, and policy and doctrine. The Bureau also supplies cryptographic keying material, and procures high-grade and other cryptographic equipment on behalf of users. The provision of INFOSEC inspection services provides assurance that the application of INFOSEC measures is effective.

Demand for the Bureau's services is increasing. The Bureau has had to carefully prioritise its resources in order to provide the level of support required to ensure that departments apply appropriate protection measures to protect their electronically stored or processed information. Departments and agencies handling and storing material at the CONFIDENTIAL level or higher, or operating in areas of increased INFOSEC threat such as New Zealand's posts and missions overseas, were a priority for assistance.

Protecting Against Information-Borne Threats

Intermediate Outcome 2.2

New Zealand's security and well-being is enhanced through protection against information-borne threats.

The Centre for Critical Infrastructure Protection is established to ensure New Zealand's critical infrastructure does not fail due to "cyber-threat".

The major focus for the CCIP for the year was the continuing development of its response capabilities and links, both internationally, and domestically, with Critical Infrastructure operators. Substantial progress in was achieved with the CCIP working closely with critical infrastructure operators, and product manufacturers to isolate and rectify identified vulnerabilities.

Statement on Interception Warrants

A number of Foreign Interception Warrants, issued pursuant to section 17 of the Government Communications Security Bureau Act 2003, were in force during the year ended 30 June 2004.

Statement on Computer Access Authorisations

A number of Computer Access Authorisations issued pursuant to section 19 of the Government Communications Security Bureau Act 2003, were in force during the year ended 30 June 2004.

Oversight and Review

The GCSB (in common with the New Zealand Security Intelligence Service) is subject to oversight by the Inspector-General of Intelligence and Security. The principal role of the Inspector-General is to assist the Minister in the oversight and review of New Zealand's intelligence and security agencies.

Hon Laurie Greig, Inspector-General of Intelligence and Security, resigned his office on 31 March. Neither he nor his successor, Hon Paul Neazor, who took up his appointment on 8 June, noted any issues of concern relating to the GCSB during the reporting year.

The Intelligence and Security Committee is a statutory committee of Parliamentarians established by the Intelligence and Security Committee Act 1996.

The Intelligence and Security Committee met three times during the year to consider, *inter alia*, the GCSB's Annual Report, budgetary estimates and Statement of Intent.

ORGANISATIONAL INFORMATION

Corporate Structure

Description

The Bureau is divided into five functional areas:

- Intelligence Collection and Processing;
- Intelligence Production and Customer Services;
- Information Systems Security;
- Technology Support and Communications; and
- Corporate Services, Policy, Planning and Legal.

The Bureau has two collection or interception stations: the HF radio interception and direction-finding station at Tangimoana, and the satellite communications station at Waihopai, near Blenheim.

The Bureau's management structure is shown in the diagram below:

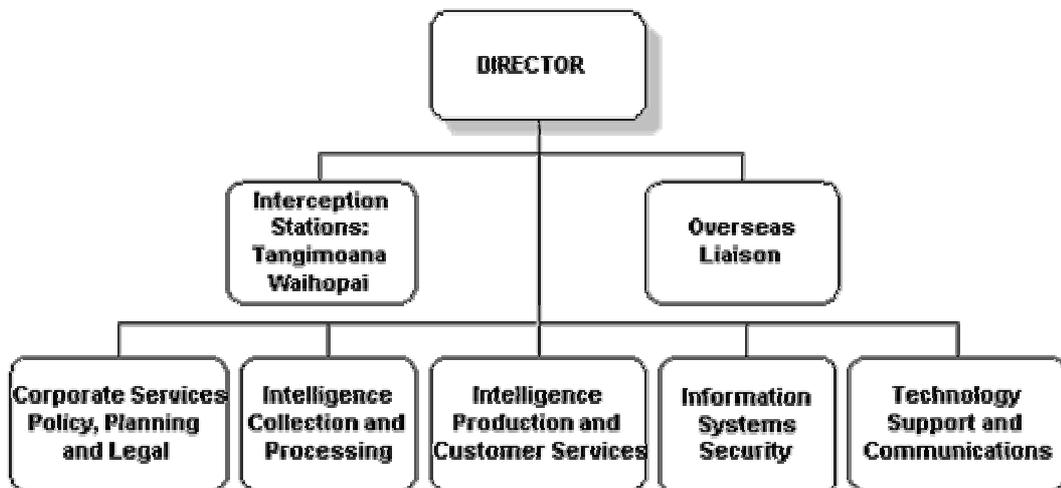


Figure 2 – GCSB Organisation

Human Resources

Good Employer Requirements

The Bureau is a department of the Public Service, and operates in accordance with section 56 of the State Sector Act 1988, which requires departments to operate a personnel policy that complies with the principle of being a “good employer”. This requires departments to provide for the fair and proper treatment of employees in all aspects of their employment.

HR Strategy

The Bureau continued to progress implementation of its Human Resources strategy, which is designed to provide it with the flexible, innovative workforce that is required to support its mission. A particular focus during the year has been the ongoing development, implementation and review of a new staff performance management system, and a re-designed remuneration structure. Other priorities have been enhanced staff training and development, and a formal succession planning mechanism to ‘groom’ a group of staff for competition for key senior expert and managerial roles in the future.

Encouraging Diversity within the GCSB

The Bureau recognises that understanding and knowledge of different perspectives enhances the performance of its employees and hence the organisation. In addition to complying fully with the Human Rights Act 1993, and the New Zealand Bill of Rights Act 1990, we are endeavouring to achieve this through:

- ensuring that all employees have equal access to employment opportunities;
- membership of the EEO Trust; and
- fostering of non-discriminatory practices within the GCSB’s recruitment procedures.

Key achievements during the year included:

- collection of EEO data and the establishment of an effective reporting system to reflect recent trends and developments;
- continued networking and membership of the EEO Trust Employers’ Group
- participation in an Employee Assistance Programme for all employees who choose to access the programme for advice and assistance.

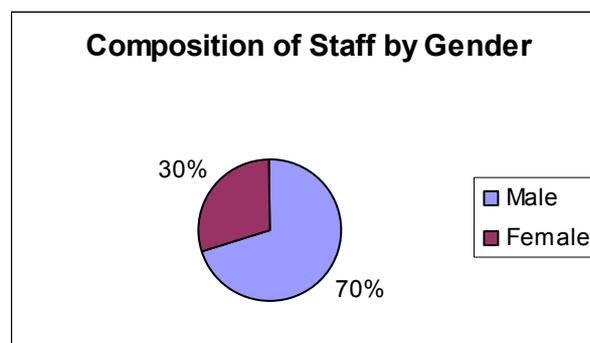


Figure 3 – Composition of Staff by Gender

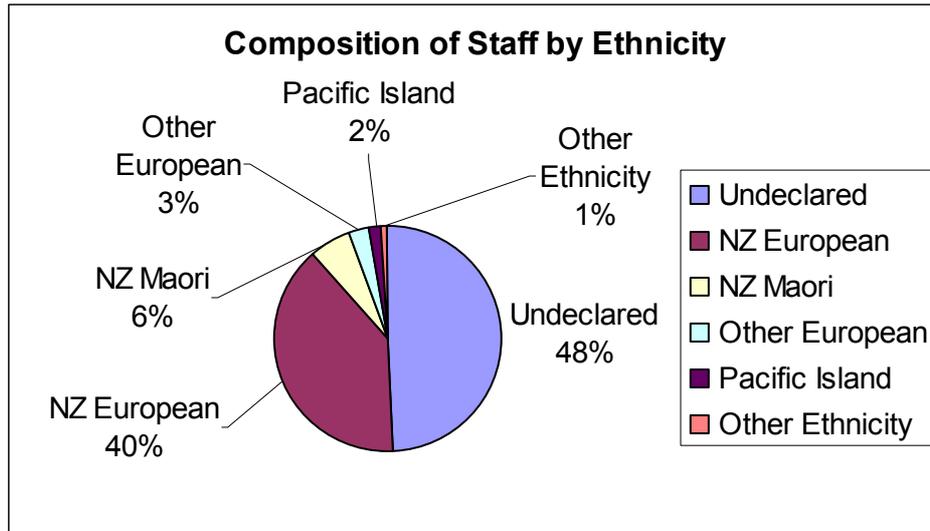


Figure 4 – Composition of Staff by Ethnicity

Operational Capacity – Staffing Numbers

The total number of staff employed in the GCSB at 30 June 2004 was approximately 303, an 8% increase compared to total staff employed at 30 June 2003. Staff turnover (excluding fixed term and casual employees) decreased to 4.4% from 5.6% last year. Staff turnover was evenly distributed on a proportional basis across the Bureau.

Legal and Statutory

The Bureau maintains a small legal team to provide advice on legal and statutory matters.

During the year the team provided advice on:

- the application and interpretation of the GCSB Act 2003 and other legislation relevant to the operations and administration of the Bureau;
- the Telecommunications (Interception Capability) Act 2004;
- the Public Finance (State Sector Management) Bill; and
- the Public Records Bill.

Part Three

Financial Reporting

STATEMENT OF RESPONSIBILITY

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

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

In terms of sections 35 and 37 of the Public Finance Act 1989, I am responsible as Chief Executive of the Government Communications Security Bureau, for the preparation of the Bureau'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.

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



Dr W H Tucker
Director GCSB

15 September 2004



Countersigned by

C B G Carson BCA, CA
Chief Financial Officer

15 September 2004

STATEMENT OF EXPENDITURE AND APPROPRIATION

The total appropriation was \$29.894 million.

The expenditure out-turn on the Vote was \$29.754 million or 99.5 per cent of appropriation.

	GST Inc \$000
Total appropriation.....	\$29,894
Actual Expenditure.....	\$29,754



AUDIT REPORT

TO THE READERS OF

THE STATEMENT OF EXPENDITURE AND APPROPRIATION OF THE

GOVERNMENT COMMUNICATIONS SECURITY BUREAU

FOR THE YEAR ENDED 30 JUNE 2004

The Auditor-General is the auditor of the Government Communications Security Bureau (the Bureau). The Auditor-General has appointed me, Terry McLaughlin, using the staff and resources of the Auditor-General, to carry out the audit of the statement of expenditure and appropriation (the statement) of the Bureau, on his behalf, for the year ended 30 June 2004.

Unqualified opinion

In our opinion the statement of expenditure and appropriation of the Bureau on page 23 fairly reflects the total of actual expenditure made and costs incurred for the year ended 30 June 2004 against the Bureau's vote for that financial year.

The audit was completed on 30 September 2004, and is the date at which our opinion is expressed.

The basis of the 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 our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements 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 the opinion.

Our 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 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 the opinion above.

Responsibilities of the Chief Executive and the Auditor

The Chief Executive is responsible for preparing a statement providing a record of the total of actual expenditure made and costs incurred for the financial year against the Bureau's vote for that financial year. The Chief Executive's responsibilities arise from the Public Finance Act 1989.

The Chief Executive of the Government Communications Security Bureau has requested the Auditor-General to undertake an audit of the statement of expenditure and appropriation. We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. As the auditor of the Bureau under the Public Audit Act 2001, we have audited the statement.

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 Bureau.



Terry McLaughlin
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Government Communications Security Bureau (the Bureau) for the year ended 30 June 2004 included on the Bureau's website. The Chief Executive is responsible for the maintenance and integrity of the Bureau's website. We have not been engaged to report on the integrity of the Bureau's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

We have not been engaged to report on any other electronic versions of the Bureau's financial statements, and accept no responsibility for any changes that may have occurred to electronic versions of the financial statements published on other websites and/or published by other electronic means.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. 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 financial statements and related audit report dated 30 September 2004 to confirm the information included in the audited financial statements presented on this web site.

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