



Annual Report **2011**
for the year ended 30 June

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 2011.

A handwritten signature in blue ink, appearing to read 'Simon Murdoch', is positioned above the printed name.

Simon Murdoch

Acting Director

29 September 2011

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

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Director's Overview

The Financial Year 2010-2011 was one of change and some instability for GCSB, affecting both its operational mission and its organisational shape. A physical change involved a move from the former headquarters space in the Freyberg Building into the new purpose-built Pipitea House on Pipitea. This facility is proving to be an enabler for increasing collaboration between and among the agencies which are now co-located in the building. For GCSB, getting the building project to completion, and staff moved in and settled, occupied a significant amount of organisational resource in the past 12 months.

Additionally, the organisation has had four different Chief Executives over the period, along with several internal efficiency reviews. These stresses, together with the ongoing fiscal situation and a delay in the production of the organisation's strategic direction for 2011-2014, contributed to pressures on the workforce and were the primary factor behind the results of a workforce climate survey which revealed staff concern about levels of drive, clarity and alignment. Through all of this, the Bureau nonetheless sustained a level of productivity which matched the high tempo of its core business and its operational portfolio.

In regard to the Bureau's deliverables (its products, services and effects) as a member of the New Zealand intelligence community, the operating environment is changing in fundamental ways. The continuing pace of developments in communications technologies, and the growing significance of cyber security, will continue to impact on the organisation. GCSB must identify a sustainable tempo, and introduce smart systems, to enable it to continue to deliver its mission in the cyber era. GCSB has made good progress, but the journey is only just beginning.



Simon Murdoch

Acting Director

29 October 2011

GCSB's Role & Operational Intent

VISION

Mastery of Cyberspace for the Security of New Zealand

MISSION

To inform and enhance the decision-making processes of the New Zealand Government in the areas of national security, foreign policy, support to law enforcement, and information assurance by:

- * Providing foreign intelligence to support and inform Government decision-making.
- * Providing an all-hours intelligence watch-and-warn service to Government.
- * Ensuring the integrity, availability and confidentiality of official information through the provision of information assurance services to Government.
- * Improving the protection of the national critical infrastructure from cyber threats.

OUTCOMES

The Government's goal is to provide greater prosperity, security and opportunities for all New Zealanders.

GCSB assists in achieving this goal through its contributions to the following outcomes:

1. New Zealand's engagement with foreign powers better delivers government goals.

2. New Zealand government institutions and our way of life are more secure.
3. The New Zealand economy is better able to resist and recover from external shocks.
4. New Zealanders at home and overseas are at reduced risk of physical harm.
5. New Zealand's international reputation is enhanced.
6. International security and stability is maintained and developed.

IMPACTS

GCSB's contribution to the outcomes was to be provided through these impacts:

- * New Zealand policy-makers have an advantage over their international counterparts.
- * New Zealand critical infrastructure is defended from external attack.
- * Government information is protected from unauthorised access and available for official use.
- * New Zealand agencies receive timely alerts to threats to citizens and VIPs.
- * New Zealand's security initiatives are enabled by actionable intelligence.

GCSB'S OUTPUT CLASSES

GCSB's contribution is provided through three output classes:

1. Signals Intelligence (SIGINT).
2. Geospatial Intelligence (GEOINT).
3. Information Assurance (IA).

PURPOSE & ROLE

FOCUS AREAS FOR 2010/11

GCSB's operational focus areas for the period spanned five key areas:

- * Enhancing our contribution to New Zealand trade and the economy.
- * Developing a cyber capability.
- * Developing a national GEOINT capability.
- * Improving access to intelligence.
- * Maintaining a robust support to military operations capability.

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COMMUNITY

Improved collaboration across the sector is firmly on the agenda for the New Zealand intelligence community, and GCSB has been closely involved with a change and business 'de-siloisation' agenda at the systemic level under the banner of 'many agencies, one community'. The occupation of Pipitea House on Pipitea by intelligence agencies in the early months of 2011 has also contributed to growing sectoral cohesion.

The opening of Pipitea House in May 2011 was the culmination of many years of work by GCSB. The building was originally designed in response to GCSB's requirement for a new headquarters facility, but now houses several intelligence agencies:

- * Government Communications Security Bureau
- * Some elements of the Department of the Prime Minister and Cabinet
- * Combined Threat Assessment Group
- * Some elements of the New Zealand Defence Force

In designing Pipitea House, GCSB's intention had been to create a space which would promote interaction through and across the workforce. In welcoming other intelligence community partners into the building, this ethic has been maintained. Over time, joint work by the different analysts in the building in pursuit of critical intelligence priorities should become the norm. This has started to happen, and is expected to continue.

INTELLIGENCE

GCSB provides secret intelligence inputs to the national security policy advice and decision-making process, intended to inform the conduct of New Zealand's international relations and diplomatic negotiations from the leadership level down. GCSB responds to this requirement at both a strategic medium-term level, and at the level required for the tactical decision-making required for issue management of a more immediate kind.

GCSB products cover a subject range which may be categorised as matters affecting either New Zealand's geopolitical interests or its economic health and trade opportunities – or both, where the two overlap. Over the reporting period, GCSB expanded its intelligence efforts to support New Zealand policymakers in formulating trade and economic policy. Some successes were recorded, but GCSB struggled to make headway because of critical staff absences. GCSB also continued to develop its contribution to the maintenance of New Zealand security, law enforcement and border control. Key enhancements to GCSB's GEOINT establishment were also secured during the reporting period. By mid-May recruitment had been completed, and GCSB had issued over fifty unique reports on a variety of high priority topics. Preparing for the Rugby World Cup was a major focus for the GEOINT team during the report period. GCSB developed a new line of intelligence reporting, in order to better prepare and inform New Zealand troops carrying out operations.

GCSB's operating landscape and authorising environment continue to evolve. Externally, governance direction-setters coordinated by the Intelligence Coordination Group have brought improved cohesion to the intelligence sector. Internally, work was done to follow up an initiative of

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the previous reporting period which evaluated the efficacy of GCSB's management structure. A new Directorate of Intelligence was created, by merging the previous Directorates of Signals Intelligence and Geospatial Intelligence. The collaborative work in which GCSB analysts engage with their colleagues in the New Zealand intelligence community also continued to grow and deepen.

Meanwhile, with the addition of a cyber security mandate to GCSB's Information Assurance Directorate, GCSB has been working to ensure that the advantages of cooperation between the two disciplines of intelligence and cyber security are realised.

Over the reporting period the Directorate of Intelligence made structural performance improvements, realigning and relocating intelligence teams (taking advantage of Pipitea House's open plan working environment), in an effort to increase the quality of outputs against the most difficult intelligence problems. At the same time, the Directorate began reconceptualising its service delivery framework. Work has also begun on improving the capture of performance-related information.

Statement on Interception Warrants

Some GCSB interception warrants have been in place over this timeframe.

Statement on Computer Access Authorisations

Some GCSB Computer Access Authorisations have been in place over this timeframe.

INFORMATION ASSURANCE AND CYBER SECURITY

During the reporting period, GCSB saw a significant increase in the prevalence and sophistication of the cyber threat, as the tradecraft of threat actors continued to advance. GCSB shares similar concerns as close international partners about the extent and sophistication of the cyber security threat to New Zealand government and economic interests.

The realignment of GCSB's senior management structures in late 2010 led to the creation of a new Directorate of Information Assurance and Cyber. This was one of several ways in which GCSB refined its posture with regard to the cyber security threat over the 2010-2011 period.

GCSB worked in close partnership with the Ministry of Economic Development (MED) as the lead policy agency on cyber security; the Department of Internal Affairs (DIA) with its central role in the provision of ICT services to Government; and other intelligence community partners to develop an effective response to the threat. This included providing significant technical input to assist MED in the drafting of New Zealand's first National Cyber Security Strategy, which was approved in June.

The most important response to the cyber threat is to build secure systems in the first instance. GCSB has seen from observation in New Zealand that secure systems defeat the majority of intrusions. The New Zealand Government's response is being implemented jointly with DIA through the Cyber Security Plan for the Protection of Government Assets. The first step was issuing the New Zealand Information Security Manual in late 2010, which provides the foundation for secure government systems. It is incorporated in the acquisition processes being developed by DIA.

The second important response is to identify the Advanced Persistent Threats which particularly jeopardise New Zealand's security, understand them and mitigate them. As part of the National Cyber Security Strategy, Cabinet therefore agreed to the establishment of a National Cyber Security Centre (NCSC), as a new capability within GCSB. The initial phase of the NCSC was funded by GCSB from internal efficiency savings and reprioritisation. Until the NCSC was established, GCSB's network defence analysts and the Centre for Critical Infrastructure Protection were involved in investigating and mitigating a number of significant intrusions into New Zealand industry and government. A range of advice was also provided as a result of intelligence tip-offs and self reporting. GCSB has begun to recruit technical expertise into the NCSC; but remains mindful of the potential impact on a still slender resource of likely growth in demand for cyber security services.

Meanwhile GCSB also worked with DIA and MED to raise the overall level of information security in government agencies. The major focus was the "Cyber Security Plan for the Protection of Government Information and Assets" (CSP), implementation of which aims to introduce known, effective mitigations against cyber intrusions. The CSP itself was introduced in July 2011.

Organisational Capability and Value For Money

Pipitea House

The project to design, build and occupy Pipitea House took five years from conception to delivery, and the facility was formally opened by the Prime Minister on 18 May 2011. In the late stages of the project, decisions had been taken to co-locate units from other parts of the New Zealand intelligence community in Pipitea House. This is intended to create operational synergies and effectiveness opportunities, as well as an efficiency dividend from pooled infrastructure and shared services. The move to Pipitea House was a significant piece of work for GCSB on top of operational commitments over the reporting period, and the organisation is proud of the resource that has been delivered.

Efficiency

GCSB's Statement of Intent for the reporting period envisaged the introduction of a range of measures to achieve better value for money for the New Zealand taxpayer. As forecast in that document, a comprehensive review of GCSB's management structure and functions was introduced, with a view to reducing the size and costs of the management overhead. Phase I of the review reduced the number of senior officials on GCSB's Executive Leadership Team by approximately 50%. Phase II of the review will consider "de-layering" the middle and senior operational management establishment. GCSB also completed a review of the operations at its site in Tangimoana. The efficiency saving achieved by reducing the footprint at that site was used to resource GCSB's nascent cyber security capability. Operational capability at

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Tangimoana was maintained through more effective use of IT.

Leadership Development

Planning for future workforce requirements was enabled by the establishment of a new 'Leadership and Management Development Programme', intended to assist the organisation in developing its leaders and managers of tomorrow. The programme is designed for people managers; project managers; and technical specialists and leaders. It offers a variety of learning experiences, including a number of courses and workshops; opportunities to shadow senior leaders; and focused personalised learning sessions.

Information Management

GCSB is working towards implementing an Electronic Document Records Management System (eDRMS) which will ensure compliance with the Public Records Act 2005. Analysis and design work was conducted during the reporting period to establish business processes, file plan structures, and proof of concept of the application in the IT environment. A Knowledge Management Strategy and Policy was approved by the Executive Leadership Team (ELT) in December 2010.

Also in 2010, GCSB built an Off-Site Secure Storage Facility at Tangimoana, built to Archives New Zealand's Storage Standard. The building is a further example of GCSB's contribution to the efficiency of the New Zealand intelligence sector, as it was scoped to hold records not just for its own purposes but also from other departments with similar requirements to store classified records.

Oversight and Review

GCSB (in common with NZSIS) is subject to oversight by the Inspector-General of Intelligence and Security, Hon Paul Neazor QC. 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. The Inspector-General of Intelligence and Security visited GCSB regularly throughout the reporting period to conduct routine inspections of GCSB's warrants and authorisations.

The Intelligence and Security Committee is a statutory committee of Parliamentarians established by the Intelligence and Security Committee Act 1996. During its meetings during the reporting period, the Committee considered inter alia GCSB's Annual Report 2009-2010, and other financial and performance information.

Internal Audit

Pricewaterhouse Coopers completed two internal reviews of GCSB's financial procedures for the year ended 30 June 2011. No major exceptions were noted. Due to work commitments associated with Pipitea House, no one-off reviews were completed during the financial year.

People Capability

GCSB recognises that understanding and knowledge of different perspectives enhances the performance of its employees and hence the organisation. GCSB endeavours to ensure that all employees have equal access to employment opportunities, and fosters non-discriminatory practices in its recruitment procedures.

In building Pipitea House, GCSB included both a childcare facility (which will accommodate up to 30 children) and a staff gym. These initiatives were

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intended to promote staff health and welfare, and as a tangible demonstration of GCSB's commitment to creating a family-friendly working environment for its staff.

During the year, staff turnover was 6.9% and at the end of the reporting year GCSB had the equivalent of 286 full-time staff.

Statement of Responsibility

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



Simon Murdoch

Acting Director

29 October 2011



Countersigned by

C B G Carson BCA, CA

Chief Financial Officer

29 October 2011

Statement of Expenditure and Appropriation

The total appropriation was \$73.926 million.

The expenditure out-turn on the Vote was \$72.785 million or 1.54% less than the appropriation.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of the Government Communications Security Bureau's financial statements for the year ended 30 June 2011.

The Auditor General is the auditor of the Government Communications Security Bureau (the Bureau). The Auditor General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the statement of expenditure and appropriation of the Bureau on her behalf.

We have audited the statement of expenditure and appropriation of the Bureau on page 1.

OPINION

In our opinion the statement of expenditure and appropriation of the Bureau on page 1 fairly reflects the Bureau's expenses and capital expenditure incurred for the financial year ended 30 June 2011 against the Bureau's appropriation for that financial year.

Our audit was completed on 29 September 2011. This is the date at which our opinion is expressed.

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

BASIS OF OPINION

We carried out our audit in accordance with the Auditor General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the statement of expenditure and appropriation is free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the statement of expenditure and appropriation. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the statement of expenditure and appropriation, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bureau's preparation of the statement of expenditure and appropriation that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control.

An audit also involves evaluating:

- * the appropriateness of accounting policies used and whether they have been consistently applied;

- * the reasonableness of the significant accounting estimates and judgements made by the Chief Executive;
- * the adequacy of disclosures in the statement of expenditure and appropriation; and
- * the overall presentation of the statement of expenditure and appropriation.

We did not examine every transaction, nor do we guarantee complete accuracy of the statement of expenditure and appropriation. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE CHIEF EXECUTIVE

The Chief Executive is responsible for preparing a statement of expenditure and appropriation that fairly reflects the Bureau's expenses and capital expenditure incurred for the financial year ended 30 June 2011 against the Bureau's appropriation for that financial year.

The Chief Executive is also responsible for such internal control as is determined is necessary to enable the preparation of a statement of expenditure and appropriation that is free from material misstatement, whether due to fraud or error.

The Chief Executive's responsibilities arise from the Public Finance Act 1989.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the statement of expenditure and

PART THREE: FINANCIAL REPORTING

appropriation and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

INDEPENDENCE

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

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



S B Lucy

Audit New Zealand
On behalf of the Auditor General
Wellington, New Zealand

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED STATEMENT OF EXPENDITURE AND APPROPRIATION

This audit report relates to the statement of expenditure and appropriation of the Bureau for the year ended 30 June 2011 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 website. We accept no responsibility for any changes that may have occurred to the statement of expenditure and appropriation since it was initially presented on the website.

The audit report refers only to the statement of expenditure and appropriation named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the statement of expenditure and appropriation. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited statement of expenditure and appropriation and related audit report dated 29 September 2011 to confirm the information included in the audited statement of expenditure and appropriation presented on this website.

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

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New Zealand Government

