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**GOVERNMENT COMMUNICATIONS
SECURITY BUREAU**

**ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2012**

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LETTER OF TRANSMITTAL

Prime Minister,

I have the honour to present to you the Annual Report of the Government Communications Security Bureau for the year ended 30 June 2012.

A handwritten signature in black ink, appearing to read 'Ian Fletcher', with a horizontal line underneath it.

Ian Fletcher
Director

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PART ONE

PURPOSE AND ROLE

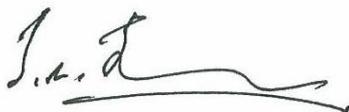
DIRECTOR'S OVERVIEW

I took up my appointment as Director of the Government Communications Security Bureau (GCSB) in February 2012. For the early part of the reporting year, Simon Murdoch had been Acting Director of GCSB in succession to Sir Jerry Mateparae.

Good progress had been made before I arrived in terms of defining GCSB's Strategic Direction, which was completed in September 2011 in time to inform work on both the Joint New Zealand Intelligence Community Statement of Intent and Four Year Budget Plan. Together these initiatives consolidated the planning framework for the wider New Zealand Intelligence Community in a collaborative sector-based approach.

Cyber security, in the sense of both detecting and defending against sophisticated attacks, remains both a strong threat and a major priority. There is much to be done. Progress has been made in the reporting year establishing the National Cyber Security Centre within GCSB and giving it the initial resources it needs in order to carry out its defensive mission. At the same time GCSB focused on modernising its intelligence operations, with the introduction of Integrated Mission Centres, the establishment of a project to transform our intelligence analysis processes, and the planning and development of a training programme to build analysis capabilities.

However, this progress has been overshadowed since the end of the 2011/12 year by the Dotcom investigation, which has led to the realisation by GCSB, and the disclosure by Government, of unlawful actions. A major review process has been launched. Furthermore, other pressures remain in the training and development of our workforce and the maintenance of the technology capabilities required to support GCSB's mission. All these will require attention going forward.

A handwritten signature in black ink, appearing to read 'I. Fletcher', with a horizontal line underneath.

Ian Fletcher
Director

GCSB'S ROLE AND OPERATIONAL INTENT

GCSB's Vision

Mastery of cyberspace for the security of New Zealand

GCSB's 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 protection of official information through the provision of information assurance services to Government;
- Improving advice to national critical infrastructure to assist them to defend against cyber-borne threats.

Outcomes

In its *Statement of Intent 2011-2016*, GCSB specified that it would assist Ministers and other departments in achieving the Government's priority of Building a Safer and More Prosperous New Zealand by contributing to three outcomes:

- New Zealand is protected from harm.
- New Zealand's decision-makers have an advantage.
- New Zealand's international reputation and interests are enhanced.

Impacts

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

- New Zealand is safe-guarded against threats of violent extremism and espionage.
- Increased security for New Zealand deployments.
- New Zealand's vulnerabilities are identified and reduced.
- Regional security and stability.
- New Zealand policy-makers are well-informed on foreign political and economic issues.

GCSB's Output Classes

GCSB's contribution is provided through three output classes:

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

Focus Areas for 2011/12

GCSB's *Statement of Intent 2011—2016* outlined the organisation's priority focus across three key areas:

- Reviewing SIGINT operations and cyber activities to improve efficiencies.
- Establishing a cyber-security capability, specifically a National Cyber Security Centre.
- Developing New Zealand's GEOINT capability together with the New Zealand Defence Force.

PART TWO
THE YEAR IN REVIEW

NEW ZEALAND INTELLIGENCE COMMUNITY

Progress has been made across a range of proposals designed to underpin the collaboration agenda within the New Zealand Intelligence Community (NZIC). Chief among these in the year under review was the planning undertaken to move towards the establishment of a shared corporate services entity which will support a number of the NZIC agencies, and the work underway within the NZIC to address key technology enablers.

The key to the success of these initiatives is the commitment of NZIC agencies to work together to the maximum extent consistent with our different roles and legislation in order to deliver 'Better Public Services'. In the operational context, this can be expected to result in a consequential improvement in our joint focus on answering the key intelligence questions of the Government. GCSB will have an important leadership role to play in progressing these initiatives.

INTELLIGENCE DIRECTORATE

GCSB is a major provider of foreign intelligence to government. The intelligence services it delivers cover a subject range which may be categorised as matters affecting New Zealand's national security, geopolitical interests or its economic well-being.

During 2011/12, a critical function of the Intelligence Directorate was the provision of SIGINT and GEOINT reporting in support of New Zealand military deployments overseas. GCSB's reporting in this area continues to be recognised by our New Zealand Defence Force partners as a vital element for force protection.

GCSB continued to provide intelligence products on a wide range of subjects supporting policymakers in formulating foreign and economic policy, and to maintain regional stability and security.

GCSB made a small but meaningful contribution to whole-of-government security arrangements for the 2011 Rugby World Cup through the provision of SIGINT analysis and reporting on potential threats. GCSB also refined processes for dissemination of actionable intelligence at lower classifications to ensure customer agencies were enabled to rapidly share intelligence needed for the disruption of emerging threats.

GCSB's GEOINT capability has continued to develop as a key and integral part of the intelligence mission. Now that the Intelligence Coordination Group's GEOINT review is complete, and the national authority responsibility has been reassigned to the New Zealand Defence Force, the joint GEOINT New Zealand Team is working on establishing effective requirement and prioritisation processes.

In addition to delivering a range of intelligence products, the Intelligence Directorate also undertook a review to redefine its mission in order to best deliver the intelligence outcomes GCSB is charged with. The outcome from this review was a number of initiatives that are in different states of maturity.

One such initiative is the establishment of Integrated Mission Centres (IMCs) which provide a framework for multi-disciplined teams. IMCs promote collaboration and information-sharing, discourage information silos and ensure all parts of the organisation understand, identify with and work to support the intelligence mission.

Statement on interception warrants

Some GCSB interception warrants were in place over this timeframe.

Statement on computer access authorisations

Some GCSB computer access authorisations were in operation over this timeframe.

INFORMATION ASSURANCE AND CYBER SECURITY DIRECTORATE

This year was marked by an increasing awareness of the severity of the threat that New Zealand faces from cyber intrusions, and the start of work to materially improve cyber security for New Zealand.

The number of cyber intrusions detected continued to rise over the year and it is clear that, unchecked, cyber intrusions are causing significant national security and economic harm to New Zealand interests. The operational response led by GCSB is focused on assisting designated organisations to build and operate secure IT systems, and to discover, detect and mitigate so-called advanced persistent threats. This approach requires a broad public-private response because the threat is faced equally by both sectors and both must participate in the solution.

Regarding government organisations in particular, a major focus of effort has been setting standards according to which the security adequacy of IT systems (both those already in operation and those to be built) can be assessed and improved against. GCSB's key response has been through the Cyber Security Plan, jointly developed with the then Ministry of Economic Development (now the Ministry of Business, Innovation and Employment (MBIE)) and the Department of Internal Affairs (DIA). The plan sought an initial improvement in cyber security by implementing the four most effective mitigations. The plan has now moved to a more enduring framework of integrating information risk management into core government business. There has been increasing interest in the plan over the year and, in particular, the linking of privacy concerns to cyber security has been helpful as agencies better understand the risk that they are carrying. GCSB is working closely with the National Cyber Policy Office and the Office of the Government Chief Information Officer to enhance the security of government networks.

As directed in the National Cyber Security Strategy of June 2011, GCSB established the National Cyber Security Centre (NCSC) in September 2011 to provide enhanced services to government agencies and critical national infrastructure providers. The role of the NCSC is to protect government systems and information, to plan for and respond to cyber incidents

and to work with providers of critical national infrastructure to improve the protection and computer security of such infrastructure against cyber-borne threats.

ORGANISATIONAL CAPABILITY

GCSB remains fundamentally a technical agency, and an ongoing priority is ensuring that our capability to derive intelligence in a rapidly evolving telecommunications environment is maintained. Because of the nature of the work undertaken by GCSB, there is a limited ability to access training opportunities from the private sector.

In 2011/12, GCSB developed an internal training programme to raise the baseline of analysis skills across the analyst workforce. This is the most significant staff education programme undertaken in recent years, and will be delivered to staff members in the 2012/13 financial year.

In 2011/12, GCSB was also able to leverage off the training programmes of its overseas partners to increase opportunities for staff to develop their tradecraft skills.

Climate survey

GCSB carried out a climate survey in the first part of 2011/2012. The areas identified as being of primary concern to staff included:

- Clarity of purpose and role: staff stated that GCSB's purpose, value and role were not clearly articulated at all levels, and they expressed a need for greater organisational direction from senior management.
- Communication: staff felt that the amount of information available, and the ways in which it was communicated, could be improved.
- Rewards: staff expressed concern about GCSB's system for rewarding good performance, including concern that the system was not necessarily applied equitably.

In response, GCSB undertook a number of activities.

GCSB's formal Strategic Direction was published on 1 October 2011, and made available to all staff. The Intelligence and Information Assurance and Cyber Security directorates both published flow-on strategies at around the same time. Meanwhile, the joint NZIC Statement of Intent (accessible to all staff via the GCSB intranet) reflected GCSB's purpose and role in the intelligence community. These documents told a consistent story about GCSB's strategic priorities, its purpose and direction, and provided staff with greater clarity than had previously existed. However, significant cultural issues remain.

The Director now holds regular informal meetings, open to all staff, at which he talks about current issues and invites questions. These meetings are always well-attended, and provide a good indication of the issues front of mind for staff. In addition, the introduction of a new blogging platform has also enhanced the communication options available to all staff. Blogs can vary in nature from highly-technical tradecraft issues, to areas such as health and wellness advice.

The issue of remuneration and rewards for high performance continues to be an issue about which GCSB staff feel very strongly; and the matter is under active consideration by senior management.

Equal employment opportunities

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

GCSB STAFF	2010	2011	2012	Up/Down
Staff turnover	6.6%	6.9%	6.5%	Down
EEO information				
Female	31%	29.6%	32.4%	Up
Male	69%	70.4%	67.6%	Down
NZ European	37%	48%	53%	Up
Maori	6%	7%	6.1%	Down
Pacific Island	2%	2%	3.1%	Up
Other	10%	12.4%	14.3%	Up
Unknown	45%	30.6%	23.5%	Down
Equivalent full-time staff at 30 June	303.7	286	294	Up

Oversight and review

GCSB is subject to oversight by the Inspector-General of Intelligence and Security (the Inspector-General), Hon Paul Neazor QC. The principal role of the Inspector-General is to assist the responsible Minister in the oversight and review of New Zealand's intelligence and security agencies. The Inspector-General visited GCSB regularly throughout the reporting period to conduct routine inspections of GCSB's warrants and authorisations.

The Intelligence and Security Committee (the Committee) is a statutory committee of Parliamentarians established by the Intelligence and Security Committee Act 1996. During the reporting period, the Committee considered inter alia GCSB's Annual Report 2010/11, and other financial and performance information.

Capability, governance and performance review of GCSB

In October 2012, Rebecca Kitteridge was appointed in a temporary capacity as Associate Director of GCSB to implement a capability, governance and performance review. Ms Kitteridge's responsibilities include:

- reviewing the systems, processes and capabilities underpinning GCSB's intelligence collection and reporting
- building capability and providing assurance to the Director that the compliance framework has been reviewed, improved and is fit for purpose
- establishing new, specific approval processes for activity in support of police and other law enforcement agencies.

During the 2012/13 reporting year, the Director will provide the Prime Minister (as GCSB's responsible Minister) with regular updates about the progress of the capability, governance and performance review. The GCSB's 2012/13 Annual Report will also provide a detailed account of the outcome of the review, and other work now underway to improve GCSB's performance.

The review follows GCSB's discovery, in September 2012, that it had undertaken unlawful activity in respect of Mr Kim Dotcom in the 2011/12 financial year.

GCSB subsequently conducted an audit of all Requests for Information from law enforcement agencies since January 2009. The audit identified three out of 58 cases where GCSB may potentially have acted unlawfully. The Inspector-General of Intelligence and Security has been invited to look further into these cases.

Internal financial audit

PricewaterhouseCoopers completed two internal reviews of GCSB's financial procedures for the year ended 30 June 2012. The objective of the reviews was to assess the operational effectiveness of procedures within Finance. No major exceptions were noted.

PART THREE
FINANCIAL REPORTING

FINANCIAL STATEMENTS

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 GCSB's Statement of Expenditure and Appropriation and the judgements made in the process of producing that statement.

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, the Statement of Expenditure and Appropriation fairly reflects the expenditure and appropriation of the GCSB for the year ended 30 June 2012.



Ian Fletcher
Director GCSB

28 September 2012



Countersigned by

C B G Carson BCA, CA
Chief Financial Officer

28 September 2012

Statement of Expenditure and Appropriation

The total appropriation was \$57.442 million.

The expenditure out-turn on the Vote was \$56.146 million or 2.26% less than the appropriation.

	\$000
Total appropriation.....	57,442
Actual expenditure.....	56,146

Independent Auditor's Report

To the readers of the Government Communication Security Bureau's statement of expenditure and appropriation for the year ended 30 June 2012

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 16.

Opinion

In our opinion the statement of expenditure and appropriation of the Bureau on page 16 fairly reflects the Bureau's expenses and capital expenditure incurred for the financial year ended 30 June 2012 against the Bureau's appropriation for that financial year.

Our audit was completed on 28 September 2012. 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 all 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 2012 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 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 2012 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 28 September 2012 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.

GOVERNMENT COMMUNICATIONS
SECURITY BUREAU

PO Box 12-209
Wellington
New Zealand

Telephone: 472 6881
Fax: 499 3701
Website: www.gcsb.govt.nz

New Zealand Government