

**INQUIRY INTO SECURITY CLEARANCE
VETTING PROCESSES**

**Wellington
27 September 2010**

Contents

INTRODUCTION AND ACKNOWLEDGEMENTS	3
SUMMARY OF FINDINGS	5
The vetting process used for Mr Wilce	5
Adequacy of Current Vetting Processes	5
Summary	6
BACKGROUND.....	7
The Role of the NZSIS	7
Guidelines and standards for vetting	7
Security clearances	7
The challenges	8
The vetting process	8
Oversight of the process	8
Current situation and future challenges	9
Screening	9
Changes now underway	9
REPORT	11
Part A: The Vetting Process used for Mr Stephen Wilce.....	11
Sequence of events	11
Vetting standards for Top Secret clearance	11
Conclusion	11
Part B -The Adequacy of the Current Security Clearance Vetting System	13
General	13
The process	13
Are the criteria and standards used by the NZSIS adequate?	13
The system in 2005	14
Resourcing was part of the answer	14
And significant improvements have been made	14
Performance targets	15
Inter-Agency coordination	15
Engagement with user departments	16
Screening	17
Overall conclusion	17
TERMS OF REFERENCE – Annex A	18
TIMELINE – Annex B.....	19
LIST OF PEOPLE INTERVIEWED – Annex C.....	21
GLOSSARY OF TERMS – Annex D.....	22

INTRODUCTION AND ACKNOWLEDGEMENTS

On 13 September 2010 I was appointed to undertake an inquiry into the vetting processes used by the New Zealand Security Intelligence Service (NZSIS) in relation to the granting of a security clearance to Mr Stephen Wilce in 2005. I was also directed to review the adequacy and fitness for purpose of the current security clearance vetting system and to recommend what, if any, changes are required to strengthen it.

The background to this inquiry is that, following allegations made under the Protected Disclosures Act, the New Zealand Defence Force (NZDF) initiated two investigations concerning Mr Wilce. The first investigation, initiated on 6 September 2010, related to false statements alleged to have been made by Mr Wilce about his qualifications and experience. Then on 13 September 2010 the Chief of Defence Force (CDF) established a Court of Inquiry to inquire into the circumstances in which Mr Wilce was employed as Director of New Zealand's Defence Technology Agency.

On 8 September 2010 the TV 3 programme "60 Minutes" raised questions about Mr Wilce's suitability for the position he was holding. The programme featured excerpts from a secretly-filmed interview in which Mr Wilce made a number of claims relating to his qualifications, work background and achievements which were described as false or fanciful by other interviewees. Mr Wilce submitted his resignation to the NZDF the following day.

These events gave rise to widespread questioning of Mr Wilce's suitability for the position of Director of the Defence Technology Agency as well as of the processes followed at the time of his appointment.

On 13 September 2010 the Prime Minister, acting under Section 11(1) of the State Sector Act 1988, directed the State Service Commissioner to investigate and report to him on the vetting processes used in relation to the granting of Mr Wilce's security clearance in 2005 and on the adequacy and fitness for purpose of New Zealand's current security clearance vetting system.

A copy of the terms of reference for this inquiry is attached at Annex A.

The inquiry took place over the period 13 to 27 September 2010. In that time a number of interviews and meetings were held with the Director of the NZSIS and his staff. I also met with the Inspector-General of Intelligence and Security, the Chair of the NZSIS Audit and Risk Committee and a range of Chief Executives and senior officers of agencies for which the NZSIS provides a security clearance vetting service. A list of people interviewed is provided at Annex C.

The public version of this report differs from the classified version submitted to the Prime Minister in only two respects. First, I have deleted from the "Report" section some of the detail around New Zealand's security clearance processes. Second, I have withheld Annex E, which contains classified tables and graphs. My findings and recommendations are the same in both the classified and the public version of the report.

I received full cooperation from the NZSIS and was given access to all relevant papers. I am grateful to all interviewees for giving freely of their time and views. I was well supported by the State Services Commission throughout the inquiry and am particularly grateful for the assistance of Mr Olly Beckett.

Neil Walter

Wellington
27 September 2010

SUMMARY OF FINDINGS

The vetting process used for Mr Wilce

Finding 1

Two procedural irregularities aside, I am satisfied that the vetting process used for Mr Wilce's application for a security clearance was conducted in compliance with the relevant provisions of the Protective Security Manual (PSM) and generally accorded with the standards of timeliness and thoroughness in place at the time.

Finding 2

The requirements set for security clearances have been progressively strengthened – and the NZSIS' vetting processes improved – since 2005.

Finding 3

It was the responsibility of the NZDF, as employing agency, to have Mr Wilce's qualifications and employment record checked and verified.

Adequacy of Current Vetting Processes

Finding 4

The NZSIS has strengthened the criteria and rigour of scrutiny applied to security clearances since 2005. Its current vetting approach accords with best overseas practice.

Finding 5

Since 2005 the NZSIS has made a number of improvements to its management systems to streamline the vetting process and enhance its ability to manage risks to our national security. These include a strengthened staffing structure, an online application system and new assessment and evaluation tools.

Finding 6

The new Online Vetting Request (OVR) system has built into it extraction tools which make it possible to track the progress of individual requests as well as monitor the system's overall performance. This facility will enable the NZSIS to measure its performance in a more meaningful way as well as to achieve further efficiency gains and improve its engagement with the intelligence community and user departments.

Finding 7

Although coordination has improved in recent years, the security clearance system would benefit from more regular performance reporting (now made possible by the introduction of the OVR system) and open discussion among key departments about the vetting process and the steps being taken to improve its effectiveness. It is recommended that Officials Committee on Domestic and External Security Coordination (ODESC) hold a specific watching brief on the performance of the overall security clearance system. An early stocktake of how the current vetting system is working would seem appropriate. One issue in particular that the Committee might wish to consider is the application of the vetting requirements placed on public service departments to the broader public sector, in particular Crown Research Institutes and other Crown entities handling sensitive or classified material. The Committee could also look at whether State sector Chief Executives

should receive occasional reminders about their responsibilities in terms of the Security in the Government Sector (SIGS) and Protective Security Manual (PSM) manuals.

Finding 8

While the thoroughness and reliability of the vetting process are generally well regarded by user departments, timeliness and communication are seen as areas where the NZSIS could improve its performance. The NZSIS and user departments need to put more effort into ensuring strong and open communication and developing a clear and shared understanding not just of their respective roles but of how each can help the other in the interests of ensuring the reliability and improving the timeliness of the system.

Summary

Reverting to my terms of reference, I regard the current vetting process as adequate in terms of the standards of thoroughness and reliability laid down in the relevant instructions and guidelines and in comparison with the standards and practices in use among our main intelligence partners. It has a little way to go still in terms of its linkages and communication with the intelligence community and user departments, however, and further bedding in and fine tuning of its new management systems are needed before it can be said to be fully 'fit for purpose'.

BACKGROUND

The Role of the NZSIS

1. The responsibilities of the NZSIS in respect of security clearances are set out clearly and succinctly in the New Zealand Security Intelligence Service Act 1969, namely:

Section 4 (1) (bb): “To conduct inquiries into whether particular individuals should be granted security clearances, and to make appropriate recommendations based on those inquiries”; and

Section 4 (1) (bc): “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”.

2. The NZSIS’ responsibilities relating to security clearances (Section 4 (1) (bb)) are usually referred to as “vetting”, and the second set of responsibilities as “screening”. Although they involve rather different processes and levels of scrutiny, both activities come under the unit responsible for protective and operational security. While it is not of direct relevance to this inquiry, this unit also provides advice and technical assistance on physical and personal security issues.
3. This report does not deal with the NZSIS’ other major functions of security intelligence and foreign intelligence, notwithstanding that there are evident and important connections between those areas of work and the Service’s protective security activities.

Guidelines and standards for vetting

4. The approach taken by the NZSIS to discharging its security clearance and vetting responsibilities is shaped principally by the requirements and guidelines set out in two key manuals: “Security in the Government Sector” (SIGS); and “Protective Security Manual” (PSM). Both manuals were issued in 2002. The Government Communications Security Bureau (GCSB) manual “New Zealand Security in Information Technology Manual” (NZSIT) is also relevant.
5. These manuals explain the principles underlying the vetting system and prescribe in considerable detail the processes to be followed by employing agencies and the NZSIS in respect of the different types of security clearances.

Security clearances

6. The NZSIS has wide-ranging responsibilities for investigating risks and threats to New Zealand’s security. Underpinning much of its work nowadays is the government’s concern to ensure that New Zealand does not become either the target for, or the source of, terrorist attacks. The essential job of the NZSIS in vetting applicants for security clearances is to determine whether the person is sufficiently trustworthy and free from risk of exploitation or coercion to be given access to classified national security material. To put it another way, the security clearance vetting process is our primary safeguard against “insider risk” to national security. A formal security clearance is required for any person having access to government information classified “Confidential” or higher. Chief Executives of all

government departments are required to comply with the provisions of the security manuals mentioned above.

7. The NZSIS does not itself grant security clearances except for its own staff: rather it provides information and makes recommendations to enable the employing Chief Executive to take an informed decision on the level of security clearance to be granted. The costs of vetting for security clearance are met by the NZSIS.

The challenges

8. Security clearance work is intrinsically difficult. It requires both a systematic and thorough approach and sound judgement. In addition to the need to balance considerations of privacy and personal freedom against the requirements of national security, there is an inevitable tension between the imperative of following a rigorous clearance process on the one hand and the need to pay due regard to operational efficiency on the other. Predicting future behaviour patterns is no more a precise science for security clearance vetting staff than it is for Parole Boards. And the policies and standards of our main intelligence partners abroad have to be weighed alongside purely national considerations.
9. Security trustworthiness indicators include loyalty and commitment to New Zealand, associations with extremist groups, personality, behavioural patterns and vulnerability to coercion, blackmail or exploitation. These may take in such areas as financial mismanagement, gambling, exploitable behaviours, drug or alcohol dependence or a pattern of non-compliance with rules and regulations.

The vetting process

10. The current vetting process for access to classified information involves a range of checks carried out by the employing agency and the NZSIS. As indicated above, it is the responsibility of the employing agency (often assisted by an employment consultant) to assess the overall suitability for employment of candidates as well as their “match” with the position. This involves validating the qualifications claimed by candidates as well as verifying their employment record.
11. Based on information provided by the candidate and the employing agency, the NZSIS then runs checks on a range of matters including police history and credit status. Comments are sought from – and in some cases interviews held with – referees and candidates. A considered assessment is made of the candidate’s suitability for access to classified information, and a recommendation made to the employing agency. It is then for the employing agency to consider whether a security clearance should be granted and, if so, whether any conditions should be attached to it. The actual granting of security clearances is the responsibility of the employing department, not the NZSIS.

Oversight of the process

12. Oversight of the NZSIS is provided primarily by the Inspector-General of Intelligence and Security. His responsibilities, as laid out in the Inspector-General of Intelligence and Security Act 1996, include the investigation of complaints about the NZSIS’ security clearance vetting system. In the 2009/10 year the Inspector-General investigated 11 such complaints. The NZSIS also works to the Commissioner of Security Warrants and with the offices of the Privacy Commissioner and the Ombudsman. At the political level,

Parliament's Intelligence and Security Committee has a formal monitoring and oversight role in respect of the NZSIS' work.

Current situation and future challenges

13. There is no question but that the complexity of the NZSIS' work in the security clearance area is increasing. This in large part reflects heightened levels of concern about the international security situation. The 2001 terrorist attacks in the USA and the 2005 attacks in London have had a particular impact, causing security vetting standards and levels of scrutiny to be tightened up by all New Zealand's intelligence partners in a manner not dissimilar to the way international financial audit standards and financial reporting requirements were stepped up after Enron's collapse.
14. The volume of vetting work too shows little sign of letting up. The past few years have seen a steady growth in the number of requests made for checks to be carried out on people of interest to customer agencies. The marked increase in the numbers of people coming to New Zealand (including private students), the increasing diversity of our population and public sector workforce and the incidence of electronic attacks targeting our intellectual property and economy have also played their part. The added time and effort required to complete assessments of recent migrants and New Zealanders who have lived and worked overseas is of increasing concern to employing departments and the NZSIS alike. And events such as the upcoming Rugby World Cup require additional security clearances to be granted on top of the increase in screening work and the need to strengthen liaison arrangements with other agencies.
15. Vetting requests for security clearances are currently running at around 5,000 per year, or around 20 for every working day of the year. Moreover, an increasingly high proportion of these requests – presently just over half the total – are for higher levels of security and therefore require considerably more work.

Screening

16. The NZSIS currently provides screening services for the maintenance of international terrorist watch lists; visa applications for our Immigration Service; citizenship applications processed by the Department of Internal Affairs; the issuing of airport identity cards by Aviation Security; contractors working at sites such as NZDF base camps; and special events such as the 2011 Rugby World Cup.
17. In excess of 250,000 screening requests came to the NZSIS in the 2009/10 year. Several thousand additional screenings are anticipated to be required in connection with the 2011 Rugby World Cup. In some cases screening simply involves running one or more checks against various databases: in other cases it calls for considerable follow-up work.

Changes now underway

18. Recent years have seen considerable effort put into the strengthening and streamlining of the NZSIS' vetting and screening processes, drawing on recent international research and overseas experience. Online technology has been introduced to speed up the application process, special arrangements have been developed for dealing with the more sensitive and difficult cases and greater attention is paid to the prioritisation of requests and communication with user departments. In response to the increasing complexity and higher

volume of security clearance work, staffing numbers have been increased and the NZSIS' recruitment policy re-set to emphasise the value of broader skill sets.

REPORT

Part A: The Vetting Process used for Mr Stephen Wilce

Sequence of events

19. On 9 February 2005 the NZDF, having selected Mr Wilce as the preferred candidate for the position of Director of the Defence Technology Agency, formally requested the NZSIS to vet Mr Wilce for a security clearance to Top Secret (TS) level. Attached to the request form submitted by the NZDF were two forms completed by Mr Wilce: a 'Consent for Disclosure of Information' and a 'Security Questionnaire'.
20. The vetting request was logged in by the NZSIS on 10 February 2005. Police and security index checks were carried out the same day, and credit checks were completed within a fortnight.
21. By 29 March the NZSIS had received back the questionnaire forms completed by nominated referees.
22. The NZSIS carried out the following required checks for an application of this kind:
 - check against security database
 - police history check
 - credit and company check
 - questionnaires from nominated referees
 - interviews with nominated referees.
23. The vetting file having been reviewed and the candidate's suitability for access to classified material having been assessed against the criteria laid down in the PSM, a 'Routine' clearance advice was sent to the NZDF on 12 May 2005. On that basis Mr Wilce was granted a Top Secret clearance by the NZDF. The advice form noted that Mr Wilce had citizenship of the United Kingdom and Australia as well as New Zealand. (This notation is standard in the case of multiple citizenships.)

Vetting standards for Top Secret clearance

24. The criteria and standards for security clearances are set out in the Protective Security manual.

Conclusion

25. I have examined the NZSIS' vetting file on Mr Wilce. Two procedural irregularities aside, I am satisfied that the process was conducted in compliance with the relevant provisions of the PSM. In my judgement it would also have accorded with the standards of timeliness and thoroughness in place at the time. I saw nothing on the file – for example, in the questionnaires from, and reports on interviews with, nominated referees - that would

suggest that Mr Wilce might pose a security risk. Indeed, all the papers provided a good level of assurance as to his trustworthiness.

26. It is important to note that the requirements for high level security clearances have been reviewed and strengthened – and the NZSIS’ vetting processes improved – since 2005. The adequacy of our current arrangements is dealt with in the next section of this report.
27. The question has been posed in media reports of how thoroughly Mr Wilce’s qualifications and employment record were checked out at the time of his appointment. This was essentially the responsibility of the NZDF as employing agency. The basic division of responsibility between the NZSIS and departments requesting clearances was – and is - that the employing agency assesses the suitability of candidates for employment – including verification of qualifications and checking with previous employers - while the NZSIS assesses their trustworthiness and vulnerability to exploitation or coercion. The respective responsibilities of the NZSIS and the employing department are spelled out unambiguously in the Protective Security Manual.
28. Notwithstanding the division of responsibility outlined above, there is of course an overlap involved here. Information about applicants’ qualifications and work experience could be as useful to the NZSIS as it sets about assessing their loyalty and trustworthiness as to the employing agency charged with assessing their overall suitability as employees and their “match” with a particular position. And each party could reasonably expect to be informed of any issues, problems or new information coming to the attention of the other in the course of their respective inquiries. In this case, neither party found anything to excite suspicion about Mr Wilce. Although the results of the NZDF’s investigations are not yet out, I have assumed for the purposes of this report that if the NZDF had come across anything untoward in the course of inquiries made into Mr Wilce’s employment record, the NZSIS would have quickly been informed of this and would have initiated its own further inquiries.

Part B -The Adequacy of the Current Security Clearance Vetting System

General

29. Since 2005 the NZSIS has introduced higher standards for the vetting of applications for high level security clearances. It has also taken steps to improve and streamline its management systems.

The process

30. The process laid down for vetting an applicant varies according to the level of security clearance being sought. In brief:

“Confidential” level clearances are assessed on the basis of negative vetting – ie inquiries are normally confined to checking the applicant’s questionnaire, police history and any service records for negative traces. In some cases however the candidate will be interviewed in person, overseas inquiries will be made and further checks will be carried out.

“Secret” clearances involve more extensive inquiries and a positive assurance that the candidate is trustworthy. In addition to the checks made for *“Confidential”* clearance, a credit check is made, questionnaires are required of nominated referees and some interviews are held.

“Top Secret” clearances require the same steps to be taken as for *“Secret”* clearances. Because they require a higher degree of assurance about the candidate’s trustworthiness, however, the inquiries are more extensive. Referee and candidate interviews are required and a more rigorous assessment is made of the candidate’s suitability for access to highly classified information.

31. The final outcome of the above processes is normally a ‘Routine’, ‘Qualified’ (where a perceived vulnerability requires special management) or ‘Adverse’ response to the employing Chief Executive. Exceptionally, the NZSIS might decline to make a recommendation because the assessment could not be completed. Security clearances are normally reviewed at five yearly intervals.

Are the criteria and standards used by the NZSIS adequate?

32. The adequacy and appropriateness of the criteria and standards outlined above are borne out by comparisons with international practice. While there are variations among our key partners, a quick benchmarking against the criteria and policies used by each of them indicates that New Zealand’s approach is well up to standard – and accepted as such by our counterparts. This is important not just in terms of maintaining our reputation and access to information and intelligence but because each agency will from time to time be asked to conduct checks on behalf of its counterparts.

33. International best practice standards are derived mainly from compendiums of case studies and guidelines produced by the authorities in other countries. Developments in this area are followed closely by the NZSIS.

34. The NZSIS participates on a regular basis in international workshops and conferences on protective security. It also maintains close liaison with its partner agencies abroad and is conscious of the importance of aligning its operations with those of its counterparts.
35. As a point of interest, the NZSIS is in the unique situation of being the only organisation among the five like-minded countries with sole responsibility for the vetting of all government employees as well as its own staff. In the United Kingdom, for example, this responsibility is shared among MI5, MI6, GCHQ and the Defence Vetting Agency. In Australia the Department of Defence, the Australian Security Intelligence Organisation (ASIO) and the Australian Security Intelligence Service (ASIS) as well as the Attorney General's Department all have a piece of the action.

The system in 2005

36. The NZSIS' vetting systems were struggling to cope with the workload in the mid-2000s. The Service overall was suffering from serious capability problems, and the post-9/11 surge in security clearance work exacerbated the problem. An independent review of the NZSIS baseline in 2004/05 confirmed that it was seriously under-resourced in the security clearance area. A new electronic information storage system was experiencing significant teething problems. User departments faced a major and growing backlog and long delays in the processing of new and renewal vetting requests. Engagement with user departments was neither as close nor as effective as it needed to be.

Resourcing was part of the answer

37. As at 2000 the NZSIS establishment had shrunk (following the end of the Cold War) to around 100 staff. By 2005 this number had been increased to just under 150. It now stands at just over 220. The NZSIS budget has also grown significantly over the past decade – from around \$10 million in 2001 to just over \$17 million in 2004 and some \$34 million in the 2009/10 financial year. (Two major independent baseline reviews undertaken in 2004 and 2008 provide details of the reasons for this additional resourcing.)

Annex E contains a table showing detailed staffing numbers (withheld - see 'Introduction').

And significant improvements have been made

38. Since 2005 a number of changes have been made to the way the security clearance process is run. The easing of the NZSIS' resourcing problems in the past few years has meant that a sustained effort could be made to improve the vetting process. This work is being done in two main areas: the Online Vetting Requests system (OVR), which is progressively replacing the old paper-based application system; and a general systems improvement programme.
39. The main features of these workstreams are:
- a more selective, risk-based approach to vetting – including careful consideration of position requirements and risks specific to each application and a more agile approach to the prioritisation of vetting requests
 - a renewed emphasis on the responsibility of requesting agencies to (a) carefully assess the level of clearance required and (b) complete all their checks (for

example, verifying qualifications and checking employment records) before triggering the vetting process

- more emphasis on a lifecycle approach (ie maintaining continuity from a candidate's first public sector job through to his/her final placement)
- greater importance attached to using science and psychology in behavioural analysis, including the recruitment of staff with broader skill sets than in the past
- the establishment of a Special Assessments Group to handle sensitive and difficult cases and the institution of a 'risk advisory notice' sent to employing departments when risks are identified which need further investigation
- reducing delays through the introduction and refinement of online technology - the OVR system went 'live' in October 2009 and is now in general use
- improved management systems and strengthened corporate support
- better engagement with user agencies, including a strengthening of the NZSIS' training and awareness programmes.

Performance targets

40. A weakness in the clearance system in the past has been the absence of an efficient mechanism for tracking performance against targets. The OVR system has built into it extraction tools and a means of tracking the progress of individual requests as well as the system's overall performance. This will make it possible for the NZSIS both to measure its effectiveness in a more meaningful way and to improve its engagement with the intelligence community and its main user departments. It is envisaged that quarterly reports will in future be prepared and shared with user departments.

Inter-Agency coordination

41. Formally speaking, the main coordinating body for the NZSIS' work, including its protective security work, is the Officials Committee on Domestic and External Security Coordination chaired by the Chief Executive of the Department of the Prime Minister and Cabinet. The Interdepartmental Committee on Security also plays a role. Close liaison is maintained with other groupings dealing with security and intelligence issues such as the Combined Threat Assessment Group (CTAG). Officials from interested departments meet to discuss general or specific issues relating to security vetting from time to time. The NZSIS also holds a number of briefing meetings at departmental security officer level each year.

42. Although real advances in coordination have been made in recent years, there is a widespread sense among members of the various intelligence and security groupings that the vetting system would benefit from more regular performance reporting and wider and more open discussion among key agencies of the security clearance system and the steps being taken to improve its effectiveness. As indicated above, the NZSIS is already moving in this direction. It is recommended that ODESC hold a specific watching brief in this area. An early stocktake of how the system is working would seem appropriate. A specific issue that the Committee might wish to consider is the application of the vetting requirements placed on public service departments to the broader public sector, in particular Crown Research Institutes and other Crown entities handling sensitive or classified material. It might also look at whether State sector Chief Executives more generally need an occasional reminder about their responsibilities in terms of the SIGS and PSM manuals.

Engagement with user departments

43. Relationships between the NZSIS and individual user departments have not always been easy. To some extent this is inevitable: while employing departments naturally want to have applicants cleared quickly so that they can appoint and deploy them, the NZSIS has to keep a strong focus on the thoroughness and reliability of its assessments.
44. There is a rather uneven look about the quality of relationships between the NZSIS and the users of its vetting service. This makes it rather difficult to generalise about customer satisfaction levels. While the good work being done to streamline the service and make it more user-friendly is widely recognised, some residual frustration was registered with me about such matters as processing delays, a seemingly persistent backlog and poor communication about individual cases. Each user agency of course has a rather different take on the nature and extent of the problems. This suggests that closer engagement and better communication links needs to be developed and maintained between the NZSIS and some individual agencies. This will require effort on both sides, probably at Chief Executive and senior management level as well as at working level. Whether the NZSIS is adequately resourced to discharge its training and awareness raising responsibilities around the public sector is a matter I did not have time to investigate.
45. I stress that the complaints I have referred to should be viewed against a widespread appreciation of the advances made by the NZSIS in recent years to improve the way the system operates and to upgrade its quality of engagement with departments. There is also ready recognition of the resource constraints that the NZSIS has been under.
46. There is another side to this coin: in the past user departments have not always played their part in the application process, been sufficiently thoughtful about the level of clearance sought, taken full account of the consequences of their providing the NZSIS with only incomplete or low quality information in support of a request, managed staff with qualified recommendations as closely as they should, kept the NZSIS informed of reports they receive about their cleared staff or generally communicated as well as they need to with the NZSIS.
47. The division of responsibility between the NZSIS and user departments is however better understood now as a result of recent outreach work put in by the NZSIS. This means that more time is spent by departments in assembling the necessary information and running their own checks before the “clock starts ticking” in the NZSIS. It was noticeable that the main employing departments are paying much closer attention to ways in which they themselves can contribute to a smoother relationship and more efficient outcomes.
48. Overall, it was encouraging that the thoroughness and reliability of the vetting process currently in use by the NZSIS were generally well regarded by user departments. Finding the optimal point of balance between quality and timeliness seemed to be the main issue, with the communication of vetting results another point of complaint in some cases. The NZSIS and user departments will need to put more effort into ensuring strong and open communication and developing a clear and shared understanding not just of their respective roles but of how each can help the other in the interests of ensuring the reliability and improving the timeliness of the security clearance system.

Screening

49. The NZSIS currently provides a screening service for:

- the maintenance of international terrorist watch lists
- checking visa applications (short term visitors and permanent residents) for the Immigration Service
- checking citizenship applicants for the Department of Internal Affairs
- background checking for airside workers at airports and other groups such as contractors working at sites such as NZDF base camps
- workers and volunteers at major events.

50. In excess of 250,000 screening requests came to the NZSIS in the 2009/10 year. Several thousand additional screenings are anticipated to be required in connection with the 2011 World Rugby Cup. In some cases screening simply involves running one or more checks against various databases: in other cases it calls for considerable follow-up work.

51. Annex E contains two tables giving a breakdown of the NZSIS' screening workload in the 2009/10 year (Annex E withheld - see 'Introduction').

Overall conclusion

52. To revert to my terms of reference, I regard the current vetting process as adequate in terms of the standards of thoroughness and reliability laid down in the relevant instructions and guidelines and in relation to the standards and practices in use among our main intelligence partners. It has a little way to go still in terms of its linkages and communication with the intelligence community and user departments, however, and further bedding in and fine tuning of its recent management system improvements is needed before it can be said to be fully 'fit for purpose'.

TERMS OF REFERENCE

Investigation into the granting of a security clearance for Stephen Wilce on appointment to the Defence Technology Agency in 2005

Background

Mr Stephen Wilce is the Chief Defence Scientist and Director, Defence Technology Agency in the New Zealand Defence Force (NZDF). He was appointed to NZDF in 2005. In the context of his role he held a security clearance.

Allegations have been made that he misrepresented information about himself. These allegations give rise to questions about his trustworthiness.

An investigation is required to examine the vetting processes used in respect of the granting of a security clearance to Mr Wilce, and whether those processes were adequate. It will also consider the adequacy of current processes and whether these processes are fit for purpose.

Investigation

The Prime Minister has directed the State Services Commissioner (the Commissioner) under section 11(1) of the State Sector Act 1988 to investigate and to report to him on the following:

- 1 the vetting processes used by the New Zealand Security Intelligence Service (NZSIS) in relation to the granting of a security clearance to Stephen Wilce on his appointment to the New Zealand Defence Force Defence Technology Agency in 2005, and the adequacy of those processes;
- 2 the adequacy of the current vetting system and whether it is fit for purpose; and
- 3 recommendations for change, if any, required to strengthen the vetting system.

Under section 25 of the State Sector Act the Commissioner and persons he appoints under section 25(2) of the State Sector Act have the same powers to summon witnesses and to receive evidence as are conferred under the Commissions of Inquiry Act 1908.

Timing

The Prime Minister has advised the Commissioner that he considers this issue to be serious and seeks urgent attention to the request. Accordingly, the Commissioner's intention is that the investigation be completed by Monday 27 September 2010.

Annex B

TIMELINE

(Note: The timeline below represents my reconstruction of the sequence of events around Mr Wilce's recruitment and clearance for access to classified information based on information furnished by the NZDF and the NZSIS. The investigations currently being conducted by the NZDF into Mr Wilce's appointment will provide more detail on the recruitment process.)

August 2004	A NZDF planning team is established to map out and manage the recruitment process for the position of Director of Defence Technology
September 2004	A request for proposals (RFP) to assist in the recruitment process is sent out to a range of recruitment firms
October 2004	Momentum Consulting's proposal is accepted by the NZDF
October 2004	Advertisements are placed in newspapers and Momentum Consulting begins its search.
November 2004	26 applications are received and reduced to a "long list" of 14 by the NZDF in consultation with Momentum Consulting.
November 2004	NZDF in consultation with Momentum Consulting selects "short list" of 6 candidates.
December 2004-January 2005	The NZDF interviews the 6 short listed applicants and selects Mr Wilce as its preferred candidate.
January 2005	The NZDF requests the NZSIS to vet Mr Wilce for security clearance to Top Secret level.
May 2005	The NZSIS sends a 'Routine' clearance advice to the NZDF. The NZDF grants a Top Secret clearance to Mr Wilce.
July 2005	Mr Wilce takes up the position of Director of the Defence Technology Agency.
December 2005	Mr Wilce is given approval to access special intelligence by NZDF.
November 2007	The NZDF requests the NZSIS to conduct an SCI (Sensitive Compartmented Information) vetting of Mr Wilce.
June 2008	The NZSIS advises the NZDF of 'routine' outcome of the SCI check on Mr Wilce. An SCI clearance is duly given by NZDF.

August 2010	Allegations are made to the NZDF against Mr Wilce under the Protected Disclosures Act.
September 2010	The NZDF begins an investigation into the allegations and establishes a Court of Inquiry to investigate broader issues around Mr Wilce's employment.
September 2010	The State Services Commissioner is directed to conduct an inquiry into the security clearance vetting process.

LIST OF PEOPLE INTERVIEWED

Director and staff of NZ Security Intelligence Service

Deputy Commissioner, State Services Commission

Chief Executive, Department of Prime Minister and Cabinet

Comptroller of Customs and staff

Chief of Defence Force and staff

Secretary of Defence

Inspector-General of Intelligence and Security

Deputy Secretary and staff of Ministry of Foreign Affairs and Trade

Director of Government Communications Security Bureau

Commissioner of Police and staff

Chair of NZSIS Risk and Assurance Committee

GLOSSARY OF TERMS

ASIO	Australian Security Intelligence Organisation
ASIS	Australian Secret Intelligence Service
CDF	Chief of Defence Force
CTAG	Combined Threat Assessment Group
DPMC	Department of the Prime Minister and Cabinet
GCSB	Government Communications Security Bureau
NAB	National Assessments Bureau
NZDF	New Zealand Defence Force
NZSIS	New Zealand Security Intelligence Service
NZSIT	New Zealand Security Information Technology Manual
ODESC	Officials Committee Domestic and External Security Coordination
PSM	Protective Security Manual
SCI	Sensitive Compartmented Information