3 February 2011

Anita Mazzoleni
Chairperson
Audit and Risk Management Committee
Civil Aviation Authority
PO Box 3555
Wellington 6140

Dear Anita

Please find attached our report arising from our independent review of the Civil Aviation Authority's (CAA) Implementation of OAG recommendations – 2nd Status Report dated 20 January 2011.

Overall, based on the work that we have done as part of this engagement and our wider knowledge of CAA, we consider that the progress that has been made during this quarter has not been as quick as we expected in some areas.

We consider that while work has continued to improve the surveillance and certification functions during the quarter, the same momentum has not been maintained to bring about changes in organisational performance. We discussed this matter with the Chief Operating Officer who advised that CAA had seen this period to be one of consolidation and the work that had been put into establishing the CAA’s strategic direction and desired attributes would provide a good foundation for moving forward. The CAA also thought that recommendations from the funding review and the value for money review were needed prior to making any significant organisational changes and that it was important to consolidate the various streams of work within the CAA in the strategic and change plan required by the Authority. While we agree that strategy is important, we consider that in order to bring about the needed cultural change the momentum of change needs to be sustained.

We also expected that more progress would have been made in relation to recommendation 8 of our report. After six months there is little evidence that the CAA has assessed, and where necessary, provided training to improve its managers’ capability to effectively lead and manage staff. In our view competent and effective management and leadership is key to improving the certification and surveillance functions, as well as the wider organisational change that the CAA is implementing. We consider that addressing this recommendation needs to be given priority over the next quarter.

As part of this review we attended two quality measurement sessions which reviewed certification and surveillance work undertaken by the General Aviation Group (fixed wing) and the Airlines Group (flight operations). We have not reviewed the outcome of the process i.e. ensuring documented feedback is provided to staff and any action that will result from the senior operational manager's quarterly review (as these were being undertaken at the time of our review). However, from what we have seen, we consider that the process is a valuable quality assurance tool and note from the sessions that we attended it identified several important areas that need to be improved.
During this review we noted that CAA’s interpretation and proposed response to recommendation 5 does not fully address the recommendation. We discussed this with the Chief Operating Officer and clarified our intent that the CAA is able to establish the strength of their regulatory focus (i.e. where the organisation sits on the continuum between a strong regulator/enforcer at one end and advisor/educator at the other end). The Chief Operating Officer will ensure that the necessary changes are made to the CAA’s response to the recommendation to ensure that the intent is addressed.

Other Matters

During this quarter, we received a request for an inquiry into CAA’s certification actions in relation to an airline. The Director has informed us that he intends to undertake an inquiry into the operations of the airline and the regulatory oversight of the airline by the CAA in the civil aviation system. The concerns that have been raised relate directly to deficiencies in the CAA’s certification function that we have identified in our previous audit work. Therefore, we intend to consider the results of the Director’s inquiry in our future assurance work and report on this matter as appropriate.

I would like to thank the CAA staff for the time and assistance that they have provided during the review.

Yours sincerely

John O’Connell
Director
Independent review of Civil Aviation Authority’s implementation of the Office of the Auditor-General’s recommendations – 2nd Report for the October to December 2010 quarter

The Civil Aviation Authority’s (CAA’s) Implementation of the Office of the Auditor-General’s (OAG’s) Status report for the October to December 2010 quarter includes a report (Detailed status of corrective actions in response to the OAG recommendations) about the corrective actions CAA is taking in response to the OAG’s recommendations in their performance audit report – The Civil Aviation Authority’s progress with improving certification and surveillance.

Our review was limited to the OAG’s Recommendations: Detailed Status of Corrective Actions (pages 12 to 32) section of the status report.

The purpose of our review was to confirm the reasonableness of the detailed status of corrective actions reported against the OAG’s recommendations, based on the work that the CAA has undertaken during the October to December 2010 quarter.

A summary of the work that we performed and our conclusion based on that work is set out below.

**Summary of work performed**

The scope of our review include:

- enquiries with the Chief Operating Officer and CAA staff about the progress in addressing the OAG recommendations;

- sighting sufficient and appropriate supporting documentation to be satisfied that:
  - the work that CAA noted in the Status Report is an accurate reflection of the work completed by the CAA; and
  - the internal audit assessment and comment is a fair reflection of the CAA’s progress and the current status of their corrective actions.

We performed this engagement in accordance with the New Zealand Institute of Chartered Accountants International Standard on Assurance Engagement (New Zealand) 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.
Our Conclusion

Our review was limited primarily to enquiries of CAA's personnel and examination of documents and provides less assurance that an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

Based on the work that we have undertaken nothing has come to our attention that causes us to believe that the detailed status of corrective actions information on pages 12 to 32 of the CAA’s Implementation of OAG recommendation – status report is not a fair and reasonable representation of the progress made by CAA during the October to December 2010 quarter.

John O'Connell
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand
3 February 2011]