Report to the Board of the Civil Aviation Authority

on the follow up of the

Office of the Auditor-General’s 2010 report on Improving Certification and Surveillance
Executive summary

Introduction

In 2010 the Office of the Auditor-General ("the OAG") assessed the performance of the Civil Aviation Authority ("the CAA") and made thirteen recommendations (and an additional recommendation relating to the Ministry of Transport) to improve the regulatory effectiveness.

In July 2012 the OAG agreed that the Authority had provided evidence to close off nine of the original recommendations, and at that time it was recognised that the Authority was not in a position to close off the last four, as additional work was required. These final four recommendations were noted as being longer term recommendations.

The CAA approached Audit NZ and the OAG during 2017 to advise that they had addressed the final four recommendations and requested that CAA’s response to these recommendations be reviewed.

The CAA provided us with details of how they had concluded that the remaining four recommendations had been addressed and this was the basis of our review.

The scope of our additional work was to establish whether the actions taken by the Authority, when considered collectively or individually, addressed the intent of the original recommendations, while also acknowledging that considerable time has passed since the original recommendations were reported.

Overall results on follow up of the Office of the Auditor-General’s 2010 report on Improving Certification and Surveillance

We have followed-up the progress made by the Authority in addressing the four remaining recommendations. We have noted that improved measures have been implemented for the outputs of CAA and there is regular oversight and monitoring of the performance of these measures against targets.

From our review work and our discussions held with management, we have concluded that the actions taken by the Authority, individually or collectively, address the intent of the four remaining recommendations made by the OAG in 2010.
Recommendation from 2010

<table>
<thead>
<tr>
<th>Recommendation from 2010</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Civil Aviation Authority put in place measures to better assess the effectiveness of its certification and surveillance functions and use these measures to report and account to the Board for its performance in achieving its outcomes. (Recommendation 1)</td>
<td>Cleared</td>
</tr>
<tr>
<td>The Board extend its internal audit of the Civil Aviation Authority to include assurance over the executive management team’s assessment of how well the Airlines Group’s and General Aviation Group’s certification and surveillance are contributing to its strategic priorities and achieving its overall goals and objectives. (Recommendation 2)</td>
<td>Cleared</td>
</tr>
<tr>
<td>The Civil Aviation Authority prepare and implement better measures of the strength and effectiveness of its regulation of the civil aviation sector, including measures to assess the relative effectiveness of advisory and enforcement actions. (Recommendation 5)</td>
<td>Cleared</td>
</tr>
<tr>
<td>The Civil Aviation Authority give priority to completing the project to improve the integrity and reliability of safety data in its Management Information System, and improve the analysis of this data so that it can be used to better inform regulatory decision-making. (Recommendation 7)</td>
<td>Cleared</td>
</tr>
</tbody>
</table>

Improvement opportunities identified during the review

Our review identified some areas for further enhancements, however these were not considered to be significant to our overall conclusion that the recommendations have been addressed. These areas for further improvement have been provided to management to consider, as they fully develop and embed the initiatives associated with the recommendations.

As these areas for further improvement were not considered significant we have not included them within this report, and do not intend to follow them up through the audit process in the future.

Thank you

We would like to thank management and staff for their assistance during our review. Should you require clarification on any other matters raised in this report, please contact me on 021 222 6119.

Kelly Rushton
Audit Director
3 May 2018
## Contents

1. Introduction and background .................................................................4
2. Our approach ......................................................................................5
3. Overall findings ..................................................................................5
4. Other processes under development ....................................................7
1 Introduction and background

The Office of the Auditor-General (OAG) carried out a performance audit of certification and surveillance in 2010 and issued a report detailing findings and recommendations. The Minister of Transport required the Authority to publish quarterly reports detailing the progress it was making in implementing actions to address the recommendations made, and these reports were subject to audit review until August 2012.

Audit NZ’s final review of CAA’s quarterly progress reporting was dated 2 August 2012, and reported that we considered 9 of the 14 recommendations had been addressed and the improvement actions were part of the CAA’s business as usual. We agreed that we would cease our review of the CAA’s progress reporting, however would continue to monitor the progress made by the Authority in addressing four of the remaining five recommendations (recommendations 1, 2, 5 and 7), with the fifth remaining recommendation being directed at the Ministry of Transport.

The CAA advised us during 2017 that, in their view, the remaining four recommendations had been sufficiently addressed and requested that we review the progress. CAA provided us with documentation of a collection of measures which they believe, when considered collectively, addresses the intent of the four outstanding OAG recommendations.

The following table outlines management’s responses and initiatives to address the four remaining OAG recommendations:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation 1</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Recommendation 2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recommendation 5</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Recommendation 7</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

(Extract from CAA responses document)
2 Our approach

Our review of the Authority’s progress against recommendations 1, 2, 5 and 7 from the OAG 2010 performance audit, has been limited to a review of the information and documentation provided by CAA on what management consider has addressed the intent of each recommendation.

This involved gaining an understanding of the processes and individual initiatives implemented or being implemented, and assessing whether outputs produced by these produce, or will produce, the required impacts. The tests performed were also aimed at establishing whether management could demonstrate the initiatives’ value as a key component of the Authority’s regulation and governance framework.

We have not completed a full re-review of the scope of the OAG performance audit, or a review of all operations of CAA, but focussed on the initiatives that the CAA have highlighted as contributing the most to addressing the intent of the remaining four recommendations.

3 Overall findings

We consider that the Authority has addressed the intent of all four recommendations. Improved measures have been implemented for each output and there is regular oversight and monitoring of the performance of these measures against targets.

3.1 How the CAA has responded to each recommendation

<table>
<thead>
<tr>
<th>Development of new metrics and reporting on them</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2010 Recommendation</strong></td>
</tr>
<tr>
<td><strong>Recommendation number 1, the OAG recommended that:</strong></td>
</tr>
<tr>
<td>The Civil Aviation Authority put in place measures to better assess the effectiveness of its certification and surveillance functions and use these measures to report and account to the Board for its performance in achieving its outcomes.</td>
</tr>
</tbody>
</table>

The Regulatory Oversight Review (ROR) has the highest impact on addressing this recommendation. We noted that new metrics of performance have been introduced through the Intervention Effectiveness Methodology (IEM), which were being reported on to the appropriate levels of management. Other initiatives such as the Plan-Do-Check-Act (PDCA) review and the independent internal reviews conducted by the Internal Audit function have also had an impact on determining whether regulatory processes are achieving the intended levels of effectiveness. It was also noted that the benefits of the overall functioning of the ROR system are leveraged on the Regulatory Performance Panel (RPP) which has assigned responsibility to provide assurance to the Leadership Team that the Regulatory Operating Model (ROM) is being applied effectively when undertaking regulatory functions.
We noted that the Integrated Quality Management System (IQMS) integrates the activities of all the component parts of the ROR.

**Extension of internal audit functions**

**Recommendation number 2, the OAG recommended that:**

*The Board extend its internal audit of the Civil Aviation Authority to include assurance over the executive management team’s assessment of how well the Airlines Group’s and General Aviation Group’s certification and surveillance are contributing to its strategic priorities and achieving its overall goals and objectives.*

Cleared

Internal Audit, through its function as an independent reviewer of the two operational processes of the ROR (PDCA and IEM), provides assurance to the Authority that certification and surveillance processes across the Regulatory group are effective. This is underscored by the engagement of an independent assurance provider. We also noted that there is active involvement of Internal Audit in the RPP. Internal audit contributes to the process improvement decisions and assurance provided to the Leadership Team that the ROM is being applied effectively when undertaking regulatory functions.

The CAA also developed an assurance framework which comprises of the Integrated Quality Management System (IQMS), Risk Management Framework, Audit Finance and Risk Committee (AFRC) and Internal Audit. We noted that through this framework Internal Audit oversees independent process reviews that aim to provide the Authority with a view as to how well the groups are contributing to the CAA’s strategic priorities for certification and surveillance.

**Development of better measures of the strength and effectiveness of its regulation of the civil aviation sector**

**In terms of Recommendation number 5, the OAG recommended that:**

*The Civil Aviation Authority prepare and implement better measures of the strength and effectiveness of its regulation of the civil aviation sector, including measures to assess the relative effectiveness of advisory and enforcement actions.*

Cleared

The ROR has assisted in addressing this recommendation. We noted that the new measures of effectiveness that were introduced through the IEM, are specifically targeted at ensuring that intervention responses are appropriate to each situation.

Other initiatives such as the Plan-Do-Check-Act (PDCA) review and the independent internal reviews conducted by the Internal Audit function have also addressed the intent of this recommendation in terms of determining whether regulatory processes are achieving intended levels of effectiveness. It was also noted that the benefits of the overall functioning of the ROR system are leveraged on the RPP which has assigned responsibility to provide assurance to the Leadership Team that the ROM is being applied effectively when undertaking our regulatory functions.
We also noted that as part of the IQMS processes, the CAA attained ISO9001:2015 certification. This independent assurance underscores the functional applicability of the activities of the component parts of the ROR.

**Recommendation number 7, the OAG recommended that:**

*The Civil Aviation Authority give priority to completing the project to improve the integrity and reliability of safety data in its Management Information System, and improve the analysis of this data so that it can be used to better inform regulatory decision-making.*

Cleared

The changes made to the Intelligence Safety & Risk Analysis (ISRA) business unit and the Regulatory Safety Management System (RSMS) have assisted in addressing the intent of this recommendation.

We noted that through changes made to the structure of the ISRA business unit, there are now improved data management controls and increased analytical capabilities. We were able to confirm the existence and functionality of the ISRA tool which was a primary requirement in the OAG’s recommendation. This will likely be enhanced further through the implementation of the technology component Regulatory Craft Programme.

We noted how the Regulatory Safety Management System (RSMS) had been expanded from the original Air Transport and Airworthiness (ATA) Group Safety Risk Panel to include all three operational groups. We have reviewed the Terms of Reference of the new oversight panels and noted that the areas of focus are aligned with the recommendation made by the OAG in that it aims to enhance CAA processes for identifying and managing aviation safety risk through being Intelligence driven and Risk based.

---

4 **Other processes under development**

In addition to the measures highlighted above, CAA are in the process of implementing new processes which are designed to enhance organisational performance management capability.

**Business Scorecard**

The CAA has developed an integrated performance management and measurement framework to assess and report the organisation’s performance through a business scorecard. The tool is applied by both the Regulatory and the Aviation Security Service (AVSEC) business units and is to be collated at the Authority level. It will enable the Authority and Leadership Teams to assess how well the organisation is tracking against its strategic objectives by measuring performance in the four areas of Results; Partners, stakeholders and customers; Processes; and People, information and technology.

The tool has been in use by AVSEC but is still undergoing further refinement for the Regulatory function. It is envisaged that the first complete application will be performed for the third quarter of the 2017/18 financial year, and will enable consolidation at Authority level, of the AVSEC and Regulatory balance scorecards, at the end of the financial year.
We have noted the potentially enhanced capabilities that this tool will provide to the regulation and surveillance operations when fully implemented.

**Regulatory Craft Programme**

The Authority has developed the Regulatory Craft Programme (RCP) which is a broader suite of initiatives designed to help the CAA adapt and respond positively to an evolving external world and internal organisation. It is envisaged that the RCP will use a set of measures to demonstrate that progress is being made to improve CAA’s performance as a regulator. The measures will be collected in four work-streams which are designed to fit within a broader suite of organisational measurements that will be used within the Authority’s business scorecard. We understand that a modular approach to implementing the different work-streams within the tool will commence in the first half of 2018.

We have noted the potentially enhanced capabilities that this programme will provide to the regulation and surveillance operations when fully implemented.

**Other proactive continuous improvement initiatives**

The CAA has also employed a strategy of carrying out proactive continuous improvement activities. These activities by their nature, are aimed at addressing emerging issues. These include conducting post-intervention lessons learned reviews and consolidating the tools that the organisation uses to implement and track corrective and improvement actions. The CAA are in the process of codifying this strategy in a “Lessons Learnt” policy. We obtained a copy of the latest draft of this new policy and were able to confirm that there is a drive and focus towards learning from current and previous experiences so as to improve the Authority’s performance.

We have noted the potentially enhanced agility capabilities that this tool will provide to the CAA in its regulation and surveillance operations when fully implemented.