26 August 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 Implementation of OAG Recommendations 4th Status Report dated 24 August 2011.

You will note that our independent review report notes a change in scope of our review in that our independent reviews of the first three status reports (for the July to September 2010, October to December 2010, and January to March 2011 quarters) were limited to Annex C of those reports that set out the Auditor-General’s recommendations and detailed status of corrective actions against each recommendation. In contrast, our independent review this fourth quarter covers the entire report.

You will also note that we conclude that Annex B of the 4th Status Report on pages A to G contains internal quality measures of surveillance and certification for the April to June 2011 quarter. These internal quality measures have been used to show progress toward implementation of some of the Auditor-General’s recommendations. The measures that have been reported are interim measures, because the CAA intends developing and embedding improved standards and processes, in accordance with the Auditor-General’s recommendations. As a result, the internal quality measures in Annex B are not relevant or meaningful for making a reasonable assessment of the CAA’s progress against the Auditor-General’s recommendations, and therefore could be misleading.

We are pleased to note that the Authority intends to remove the reporting on the internal quality measures from future reports. We support this intended change to future reporting.

We make the following comments on CAA’s progress during this period.

Overall, we consider that CAA continues to make progress to implement our recommendations.

We note that work has been done:

- To develop a tool to measure the effectiveness of CAA’s interventions but this tool still needs to be applied to the certification and surveillance processes. Until this is done and we can see how effective the tool is we are not in a position to say that the recommendation has been addressed.
• To assess the training needs for management, the first module on performance management has started. We have seen improvement in the Performance Review and Development Agreements (PDAs) with the General Managers in the General Aviation Group in that the PDAs now reflect the goals in CAA's Statement of Corporate Intent. Again we are still to see the effectiveness of the new processes.

• A workplace survey has been undertaken.

We advised you at the completion of our review of the third quarter report that we planned to review a sample of certification and surveillance files during the fourth quarter review. We have done this by selecting a sample of files from the first quarter and the fourth quarter to establish whether the significant improvements in the quality of the files reported by the CAA are correct.

Our review established:

• The population selected in the first quarter was a different mix from the population selected in the fourth quarter (the proportion of certification and surveillance files selected). As surveillance audits are more complex and may therefore present more issues than certification audits this means that the results between the two periods are not necessarily comparable.

• The small size of the populations selected means that the results should not be extrapolated across the population i.e. they could not be said to be representative of the remaining files that were not reviewed. While we consider that the sample sizes are appropriate for an internal quality assurance process we do not consider the size to be sufficient to externally report significant improvement across the board between the first and fourth quarters.

• The reviews are assessed against CAA's current policies and procedures which are currently being improved. A satisfactory result therefore reflects "satisfactory" performance against a policies and procedures which are currently being improved by the CAA.

Overall, while we can see evidence the auditors are trying to be compliant (control and check sheets are being completed more consistently in the fourth quarter) the auditors are currently inhibited by a lack of policies and procedures in relation to the following key issues:

• the evidence of the audit work that needed to be retained;

• the rationale for sample sizes; and

• the performance of a risk based assessment when planning the audit.

We are concerned that the surveillance improvement project has been deferred for six months. While we can appreciate the reasons for the deferral we note that the surveillance improvement project will address the above issues.
We noted in our letter of 5 May 2011 that we would comment further on the issue of the complaint received from the aviation sector when the outcomes of the Director’s inquiries were known. The Auditor-General has been provided with a copy of the report from the investigation and will shortly discuss the contents of the report with the Chairman of the Civil Aviation Authority.

Yours sincerely

[Signature]

John O'Connell
Director
Audit New Zealand