
The Parliament of the Commonwealth of Australia

Report 404

**Review of Auditor-General's Reports 2003-2004
Third & Fourth Quarters; and First and Second Quarters of
2004-2005**

Joint Committee of Public Accounts and Audit

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Contents

Foreword	vii
Membership of the Committee	ix
List of abbreviations	xiii
List of recommendations	xvii
1 Introduction	1
Background to the review	1
The Committee's report	3
2 Intellectual Property Policies and Practices in Commonwealth Agencies	5
Introduction	5
Whole-of-Government approach	9
Recognition and benefits for contributors.....	12
Classifying and valuing Intellectual Property.....	15
3 The Administration of Major Programs - Australian Greenhouse Office	19
Introduction	19
Risk assessment	23
Measuring outcomes	26
Selection and appraisal of projects.....	28
Management and monitoring of agreements.....	30
Performance reporting	31
4 The Commonwealth's Administration of the Dairy Industry Adjustment Package.....	35

Introduction	35
Planning and implementation	38
Management issues	43
Supplementary Dairy Assistance (SDA) Package	44
Data matching and checking for fraudulent claims	48
Governance issues	49
Performance measures and reporting.....	51
Evaluation of the Package.....	53
ANAO access to premises.....	54
5 Client Service in the Family Court of Australia and the Federal Magistrates Court	57
Introduction	57
Client service.....	61
Clients requiring special assistance	65
Coordination between the courts	72
Primary Dispute Resolution	76
6 Management of Federal Airport Leases.....	79
Background	79
Cost recovery for administering airport leases.....	83
Lease management.....	86
Tripartite deeds	90
Letters of comfort	92
Lease documentation	93
Annual lease reviews.....	95
Aeronautical infrastructure development	96
Performance reporting	97
7 Management of Customer Debt – Centrelink	101
Background	101
Characteristics of Centrelink debt.....	104
Frameworks and processes to manage customer debt.....	106
Debt prevention.....	111
Identification of overpayments	114

Debt Raising	116
Debt waiving	117
Debt recovery	119
Performance monitoring of debt management in Centrelink	122
8 Management of the Standard Defence Supply System Upgrade	125
Introduction	125
Establishment of the project	129
Delivery management and ongoing support	134
Get Well Program	136
Previous Committee review	139
Other Defence projects.....	140
9 ANAO Inability-to-form-an-Opinion on the Department of Defence financial statements 2003-04	141
Introduction	141
Defence Financial Statements	142
How did the situation occur	146
Defence remediation programs	147
More recent ANAO findings	157
Future challenges	160
Project JP 2077.....	163
10 Financial Management of Special Appropriations.....	167
Background	167
Management of special appropriations by Commonwealth entities.....	170
Special appropriations stocktake	179
Mirror taxes	181
Responsibility for special appropriations.....	184
Finance guidance and training	186
Processes in place for a better understanding on the drawings of special appropriations.....	187

11	Container Examination Facilities - Australian Customs Service	193
	Introduction	193
	Target development	198
	Target selection.....	199
	Intervention processes	206
	Facilities operation	207
12	Regulation of Non-prescription Medicinal Products - Department of Health and Ageing and Therapeutic Goods Administration	211
	Introduction	211
	Licensing and certification.....	218
	Manufacturer audits.....	219
	Deficiency findings	223
	Post market monitoring.....	227
	Communication with industry.....	229
	TGA management framework	230
	Appendix A — Conduct of the Committee’s review	235
	Appendix B — Submissions	245
	Appendix C — Exhibits.....	247
	Appendix D — Witnesses Appearing at Public Hearings.....	249
	Appendix E.....	257
	Schedule of Airport Insurance Cover – Federal Leased Airports 1997 – 2005 (Department of Transport and Regional Development)	257
	Appendix F.....	1
	Airport Development Commitment Expenditure as required under Airport Sale Agreements (Department of Transport and Regional Development)	1



Foreword

One of the important functions of the Joint Committee of Public Accounts and Audit, as prescribed by its Act, the *Public Accounts and Audit Committee Act 1951*, is to examine all reports of the Auditor-General, and report the results of the Committee's deliberations to the Parliament. Report 404 details the findings of the Committee's examination of 11 performance audits by the ANAO.

This is the first review of Auditor-General's reports to be undertaken by the Committee of the 41st Parliament. This review includes three ANAO reports which were selected for review by the Committee of the previous Parliament. That review was suspended upon the dissolution of the House of Representatives in August 2004.

In December 2004, the new Committee of the 41st Parliament resolved to complete the review of the three ANAO reports begun by the previous Committee, and also to undertake a busy program reviewing a further eight Audit Reports, selected from the 37 ANAO reports that had been presented to Parliament during and following the election period.

The eleven reviews undertaken by the Committee have covered a broad range of Government agencies, and have included subjects such as grants administration; customer service; regulatory functions; management of assets; contract management; and program implementation. In each chapter of the report we have made recommendations to improve agencies' efficiency and effectiveness in implementation of programs; and to ensure that the Auditor-General's recommendations are implemented.

Two of the Audit Reports, nos. 5 and 21 of 2004-05, have detailed major problems with financial management and project administration at the Department of Defence. The Committee held a number of public hearings on this subject, and is concerned to note that further Audit Reports tabled since the beginning of this current inquiry have revealed more problems.

The Committee also reviewed an Audit Report detailing Centrelink's management of customer debt. This report highlighted problems in planning, communication across regions, and consistency in managing customer debt across the Centrelink network. This report is just one of a series of Centrelink reviews undertaken by the ANAO. The

Committee has now embarked on a new review of seven ANAO reports which further detail some problems with Centrelink's customer service; and a review of another report which details the failed *Edge* information technology system.

Another theme emerging from our review of a number of the Audit Reports is a need for Government agencies to pay closer attention to their responsibilities under the Constitution and/or the *Financial Management and Accountability Act 1997* (the FMA Act); and other important issues such as implementation of appropriate risk strategies; proper project planning; and thorough record-keeping.

These are issues that the Committee intends to pursue throughout its reviews of Auditor-General's reports in this Parliament. We hope to see an improvement in agencies' adherence to their financial management, accountability and reporting responsibilities.

During the term of this inquiry Mr Pat Barrett AO retired as Auditor-General, following a ten-year term. On behalf of the Committee I would like to extend my thanks to Mr Barrett for his service to the Commonwealth, and wish him well in his retirement. For the first time, the Committee was involved in the selection of the new Auditor-General, due to the introduction of the *Auditor General Act 1997*. Following receipt of a nomination for Auditor-General from the Prime Minister, the Committee deliberated on the nomination, and was pleased to endorse Mr Ian McPhee PSM as the new Auditor-General. This process is outlined further in the Committee's annual report to Parliament, which will be tabled shortly.


The Committee extends its congratulations to Mr McPhee and looks forward to working with him.

Finally, I would like to acknowledge the work of the previous Committee in initiating the review of three Auditor-General's reports which was suspended due to the election in late 2004. I would like to thank my colleagues on the Committee of the 41st Parliament for the work they have undertaken in completing this large review of eleven Auditor-General's reports.

The Committee looks forward to continuing its reviews of Auditor-General's reports throughout this Parliament.



Bob Baldwin MP
Chair




Membership of the Committee (40th Parliament)

Chair Mr Bob Charles MP

Deputy Chair Ms Tanya Plibersek MP

Members	Senator Richard Colbatch (from 14/02/02, until 25/05/03)	Mr Steven Ciobo MP
	Senator Stephen Conroy (from 5/02/03, until 10/09/03)	Mr John Cobb MP
	Senator John Hogg (until 5/02/03, from 10/09/03)	Mr Petro Georgiou MP
	Senator Gary Humphries (from 25/02/03)	Ms Sharon Grierson MP
	Senator Kate Lundy (from 19/11/02, until 1/04/04)	Mr Alan Griffin MP
	Senator Claire Moore (from 1/07/02, until 19/11/02 and from 1/04/04)	Ms Catherine King MP
	Senator Andrew Murray	Mr Peter King MP
	Senator Nigel Scullion	The Hon Alex Somlyay MP
	Senator John Watson	



Membership of the Committee (41st Parliament)

Chair Mr Bob Baldwin MP

Deputy Chair Ms Sharon Grierson MP

Members Senator John Hogg

Hon. Bronwyn Bishop MP
(from 17/8/2005)

Senator Gary Humphries

Mr Russell Broadbent MP

Senator Claire Moore

Ms Anna Burke MP (to 14/9/2005)

Senator Andrew Murray

Dr Craig Emerson MP
(from 14/9/2005)

Senator Fiona Nash (from 7/9/2005)

The Hon Jackie Kelly MP

Senator Nigel Scullion (to 7/9/2005)

Ms Catherine King MP

Senator John Watson

Mr Andrew Laming MP

Senator Andrew Murray

Hon. Alex Somlyay MP (to 10/8/2005)

Mr Lindsay Tanner MP

Mr Ken Ticehurst MP

Membership of the Sectional Committee (40th Parliament)

Chair	Mr Bob Charles MP	
Deputy Chair	Ms Tanya Plibersek MP	
Members	Senator Andrew Murray	Ms Sharon Grierson MP
	Senator John Watson	Mr Catherine King MP
		Mr Peter King MP

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	Mr Russell Broadbent MP	Mr Lindsay Tanner MP
	Ms Anna Burke MP (to 14/9/2005)	Senator John Hogg
	Hon. Jackie Kelly MP	Senator Claire Moore
	Ms Catherine King MP	Senator John Watson
	Hon. Alex Somlyay MP (to 10/8/2005)	

Committee Secretariat

40th Parliament

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41st Parliament

Secretary	Mr Russell Chafer
Inquiry Secretaries	Ms Bronwen Jagers Ms Rebecca Gordon
Research Officers	Mr Muzammil Ali Ms Penne Humphries
Administrative Officer	Ms Frances Wilson



List of abbreviations

ABS	Australian Bureau of Statistics
ADC	Australian Dairy Corporation
AFCP	Alternative Fuel Conversion Program
AGD	Attorney-General's Department
AGO	Australian Greenhouse Office
ANAO	Australian National Audit Office
ASO	Area Service Office
ATO	Australian Taxation Office
ATSIC	Aboriginal and Torres Strait Islander Commission
ATSIS	Aboriginal and Torres Strait Islander Services
CALD	Culturally and Linguistically Diverse
CBOs	Community Based Organisations
CEF	Container Examination Facilities
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CIU	Cabinet Implementation Unit
CNG	Compressed Natural Gas
CRF	Consolidate Revenue Fund
CSC	Customer Service Centres
CSIRO	Commonwealth Scientific and Industrial Research Organisation
Customs	Australian Customs Service

DA	Dairy Australia Limited
DAA	Dairy Adjustment Authority
DAFF	Department of Agriculture, Fisheries and Forestry
DCITA	Department of Communications, Information Technology and the Arts
DEH	Department of Environment and Heritage
DIMIA	Department of Immigration, Multicultural and Indigenous Affairs
DMO	Defence Materiel Organisation
DNSDC	Defence National Storage and Distribution Centre
DOTARS	Department of Transport and Regional Services
DSAP	Dairy Structural Adjustment Program
DVA	Department of Veterans' Affairs
EXAMS	Examination Data Management System
FaCS	Department of Family and Community Services
FCoA	Family Court of Australia
Finance	Department of Finance and Administration
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMC	Federal Magistrates' Court
G-Gap	Greenhouse Gas Abatement Program
IP	Intellectual Property
JCPAA	Joint Committee of Public Accounts and Audit
KPI	Key Performance Indicator
LPG	Liquefied Petroleum Gas
LTO	Land Titles Office
MOU	Memorandum of Understanding
PBS	Portfolio Budget Statements
PDR	Primary Dispute Resolution services
PMKeys	Personnel Management Key Solution
PVRP	Photovoltaic Rebate Program

PwCC	Price Waters Coopers Consulting
RECP	Renewable Energy Commercialisation Program
REEF	Renewable Energy Equity Fund
SCA	Supply Customer Accounts
SDA	Supplementary Dairy Assistance Program
SDSS	Standard Defence Supply System Upgrade
SME	Specialised Military Equipment
SRLs	Self-Represented Litigants
TGA	Therapeutic Goods Administration



List of recommendations

Chapter 2: Intellectual Property Policies and Practices in Commonwealth Agencies

Recommendation 1

The Committee recommends that the Attorney-General's Department commence development of a whole-of-government approach and guidance for the management of the Commonwealth's intellectual property, for completion by May 2006. The Attorney-General's Department should consult widely with Commonwealth agencies, particularly those which are major generators of intellectual property.

Recommendation 2

The Committee recommends that the whole-of-government approach to the management of the Commonwealth's intellectual property within a framework for IP management should leave each Commonwealth agency free to optimise its role within the framework.

Recommendation 3

The Committee recommends that the Department of Finance and Administration, in consultation with the Attorney-General's Department, develop guidelines to assist agencies in developing valuation systems for their intellectual property.

Chapter 3: The Administration of Major Programs - Australian Greenhouse Office

Recommendation 4

The Committee recommends that the Australian Greenhouse Office provide to the Committee a copy of the guidelines for administration of the new greenhouse abatement programs announced in the Energy White Paper and the 2004-05 Federal Budget; and an outline of how the

new guidelines meet the ANAO's recommendations regarding assessment and selection procedures for project funding.

Recommendation 5

The Committee recommends that the Australian Greenhouse Office include the following elements in all future agreements for project funding:

- recognition of foreign exchange risks to enable increase or decrease of project grants according to currency variations (if projects involve components sourced from overseas);
- setting a time limit for completion of funding negotiations; and
- a requirement that milestone payments are directly linked to a demonstrable greenhouse benefit, to ensure program objectives are being met. This may include withholding a portion of funds, to be paid on completion of the project when testing proves the project has delivered a greenhouse gas abatement.

Chapter 4: *The Commonwealth's Administration of the Dairy Industry Adjustment Package*

Recommendation 6

The Committee recommends that the Department of Agriculture, Fisheries and Forestry ensure that future assistance packages have a clause in relevant legislation which allows for incorrect payments made in error to be reclaimed by the appropriate agency or authority.

Recommendation 7

The Committee recommends that the Government place an overall budget limit on the cost of implementing new assistance packages to encourage administrative cost efficiencies and effectiveness.

Recommendation 8

The Committee recommends that the Department of Agriculture, Fisheries and Forestry report back to the Committee on the progress and evaluation of the Dairy Structural Adjustment Package and the Supplementary Assistance Program by 30 June 2006. The report should outline progress against each program's original objectives and measurement indicators such as Key Performance Indicators. The report should also outline the Dairy Industry's progress in adjusting to the new economic environment, including exits from the industry.

Recommendation 9

The Committee recommends that the Department of Agriculture, Fisheries and Forestry ensure that all future agreements with Statutory Authorities include a clause allowing the ANAO access to premises and records, for auditing purposes.

Chapter 5: *Client Service in the Family Court of Australia and the Federal Magistrates Court*

Recommendation 10

The Committee recommends that as a matter of urgency, the Family Court of Australia introduce toll-free phone numbers for each of its registries.

Recommendation 11

The Committee recommends that both the Family Court of Australia and the Federal Magistrates Court:

- investigate best practice initiatives in client service which have worked successfully in individual court registries and implement these across all registries;
- investigate the appointment of Federal Magistrates specialising in family law in the Sydney Central Business District in order to alleviate work pressures;
- conduct more frequent surveys of client satisfaction to further enhance processes and levels of service;
- investigate methods of further assisting clients who are in positions of disadvantage in their dealings with the courts; and
- progress the initiative to identify and support clients with mental illness.

Recommendation 12

The Committee recommends that the Family Court of Australia and the Federal Magistrates Court continue to work towards minimising duplication in areas such as client processing, information available to the public via publications, websites and the like, and duplication of administration across the courts.

Recommendation 13

The Committee recommends that the Federal Magistrates Court:

- seeks to gain further performance information from Community Based Organisations, in order to assess their effectiveness in dispute resolution and their adherence to the government's Family Relationships Services guidelines ;
- undertakes further evaluation of the settlement outcomes from outsourced Primary Dispute Resolution providers; and
- investigates client satisfaction with Primary Dispute Resolution services provided by Community Based Organisations to understand why rates of settlement are low and how they could be increased to reach targets set in Portfolio Budget Statements.

Recommendation 14

The Committee recommends that the Family Court of Australia and the Federal Magistrates Court:

- report to the Committee by June 2006 on progress of both courts' evaluations of their outsourced PDR services and whether PBS targets have been met; and
- provides the Committee with feedback in regards to both courts' developing relationship with the new Family Relationship Centres.

Chapter 6: *Management of Federal Airport Leases*

Recommendation 15

The Committee recommends that in future privatisation programs, government agencies include a clause in all sales contracts which provides for the Commonwealth's cost-recovery of administrative expenses.

Government agencies should then ensure that they undertake cost-recovery of such expenses as a matter of course.

Recommendation 16

The Committee recommends that the Department of Transport and Regional Services adopts a procedure which ensures that follow up administration on all insurance reports from the audit contractor are finalised within a three month timeframe.

The Department's annual report should include a report on the status of all insurance reports from the audit contractor, including the date of the report, and date of any departmental actions arising from the report.

Recommendation 17

The Committee recommends that the annual report of the Department of Transport and Regional Services include a matrix reporting on each airport lease – including the status of annual lease reviews, insurance reports, development obligations, letters of comfort and cost recovery of administrative expenses.

Where time extensions for development obligations have been granted, DOTARS must provide a comprehensive explanation detailing why the extension has been approved.

Chapter 7: *Management of Customer Debt – Centrelink*

Recommendation 18

The Committee recommends that Centrelink prioritise the implementation of its payment integrity strategy, to ensure that payments are right in the first instance, rather than relying on reactive processes.

Centrelink should report to the Committee on its progress in implementing the payment integrity strategy in February 2006 and July 2006.

Recommendation 19

The Committee recommends that Centrelink proceed with data-matching activities with academic institutions and major employers, in an effort to prevent debts incurred when clients change study courses or employment.

Recommendation 20

The Committee recommends that Centrelink review its methods of identifying customer debt, with a view to improving current methods of debt identification, or increasing the resources dedicated to compliance reviews. Centrelink should also take into consideration the ANAO's suggestion that it consider other methods of debt identification, such as:

- cross-referencing customer behaviour and attributes with known debt factors to better target debt prevention strategies;
- drawing on the experience of other agencies such as the Australian Taxation Office and the Child Support Agency to develop best practice models for debt management; and
- increasing support for the national coordination unit to better manage debt prevention projects.

Recommendation 21

The Committee recommends that Centrelink provide training to all officers responsible for debt raising, on the correct circumstances in which to apply a debt waiver. The training should focus on empowering workers to make responsible decisions, and an emphasis on the importance of getting decisions right in the first instance, and not relying on downstream appeal mechanisms.

Centrelink should also introduce a standard operating procedure whereby debt raising officers refer any matter on which they are uncertain whether to apply a 'special circumstances' waiver, to a more senior officer for consideration.

Centrelink should undertake a review of the appropriateness of applying Debt Waivers throughout the Centrelink network, taking into account the matters raised in the ANAO report, as a matter of priority.

Recommendation 22

The Committee recommends that the debt waiver amount be raised from \$50 to not more than \$100. The Committee recommends that where small debts are raised and automatically waived, customers should be informed of this action and of steps they can take to prevent a debt being incurred in the future.

Where a customer continues to incur small debts of less than \$100, that are continually waived, Centrelink should retain the right to recover these debts if a pattern of behaviour is apparent whereby the customer is not making any effort to prevent the incursion of small debts.

Recommendation 23

The Committee recommends that Centrelink monitor the work of its debt recovery officers, and those employed by its debt recovery agent, to ensure that customers are encouraged to repay debts via means other than credit cards.

Chapter 8: *Management of the Standard Defence Supply System Upgrade – Department of Defence*

Recommendation 24

The Committee recommends that all Defence information system projects be subject to the appropriate levels of cabinet, ministerial or departmental approval, as per Defence's own internal procurement guidelines and the 2003 Kinnaird review.

Where project managers fail to ensure that their project receives the adequate levels of cabinet, ministerial or departmental approval, disciplinary action should be undertaken by Defence.

Recommendation 25

The Committee recommends that the Department of Defence and the Defence Materiel Organisation institute a formal policy which excludes external contractors from being appointed as project managers for IT systems. Any performance bonuses paid to project managers must be directly linked to project milestones being met on-time and on-budget.

Recommendation 26

The Committee recommends that Defence continue with its planned rollout of Radio Frequency Portable Data Entry Terminals (handheld scanners) for use with the SDSS system in warehouses.

However, this rollout must only be undertaken when Defence is confident that the system can adequately support the new technology, to ensure that the system is not circumvented because of users' frustrations at slow processing.

Defence must also ensure that adequate training is provided to all personnel who will be using the scanners.

Chapter 9: *ANAO Inability-to-form-an-Opinion on the Department of Defence financial statements 2003-04*

Recommendation 27

The Committee recommends that the Department of Defence report to this Committee every six months against the milestones of the 14 remediation plans outlined in the 2005-06 Portfolio Budget Statements. These reports are to continue until the end of the 41st Parliament.

Recommendation 28

The Committee recommends that Defence outline to the Committee its plan to ensure that the Julian date problem associated with the SDSS program will be fixed prior to May 2007. Defence's report to the Committee should include a project plan, costings, milestones, and details of the project management team.

Recommendation 29

The Committee recommends that Defence urgently review the security controls for the SDSS program to ensure that user access is set at the appropriate levels. Defence should report back to the Committee about its implementation of this recommendation by February 2006.

Recommendation 30

The Committee recommends that Defence and the ANAO conduct ongoing consultations to discuss areas of disagreement such as pricing within the SDSS system. Defence should aim to resolve the issue of pricing of items within SDSS by June 2006.

Recommendation 31

The Committee recommends that for Project JP 2077:

- the project must be managed from within the Defence Materiel Organisation;
- all appropriate cabinet-level, ministerial-level and departmental approvals must be sought prior to implementation of various phases of the project;
- the project must include defined project milestones;
- no project management bonus payments are to be made to any DMO personnel if the project milestones are not met on-time, and on-budget;
- there must be continued input from on-the-ground users of the logistics system; and
- the project must include sufficient upgrades to the technological hardware supporting the new logistics system to ensure that it will run efficiently.

Chapter 10: *Financial management of Special Appropriations***Recommendation 32**

The Committee recommends that the Department of Finance and Administration continues to provide ongoing advice to all Commonwealth agencies in relation to the accurate management and reporting of special appropriations.

Recommendation 33

The Committee recommends that the Attorney-General's Department and the Department of Finance and Administration resolve which agency is best equipped to administer the Special Appropriation in relation to Mirror Taxes.

Recommendation 34

The Committee recommends that all Chief Financial Officers' performance bonuses should be linked to a proven understanding and application of correct procedures for the management and reporting of all relevant special appropriations.

Chapter 11: *Container Examination Facilities – Australian Customs Service***Recommendation 35**

The Committee recommends that the Australian Customs Service:

- continues to rectify data integrity issues within EXAMS;
- creates clearly defined business rules for data entered in EXAMS 2 for consistency across regions; and
- ensures that the one-day Target Selection Officer x-ray training course is implemented across all regions.

Recommendation 36

The Committee recommends that the Australian Customs Service:

- report to the Committee by June 2006 of the progress and findings of the current review of contracts with service providers; and
- strengthen its reporting requirements within service providers contracts for ease of reconciliation and comparison.

Chapter 12: *Regulation of Non-prescription Medicinal Products - Department of Health and Ageing and Therapeutic Goods Administration***Recommendation 37**

The Committee recommends that the TGA provide this Committee with a copy of the audit frequency matrix, and any other documentation linked to determination of audits (such as procedures for undertaking an unannounced audit), when it is completed.

Recommendation 38

The Committee recommends that the Therapeutic Goods Administration document its procedures for implementation of enforcement action against manufacturers. This should include:

- a clear definition of different enforcement actions, the circumstances in which they are applied, and manufacturers' rights of submission or appeal;
- stipulation of management authorisation for enforcement actions;
- a definition of timelines for short-term reporting and TGA assessment of manufacturer reports; and
- a requirement that all manufacturers subject to an enforcement action will undergo a follow-up audit within three to six months of the initial action.

Recommendation 39

The Committee recommends that the Therapeutic Goods Administration increase its post-market laboratory testing for non-prescription medicinal products from overseas manufacturers, particularly with an emphasis on products from manufacturers who have not been subject to certification or audit in the past 18 months.

Recommendation 40

The Committee recommends that the Therapeutic Goods Administration urgently review its information management systems, including documentation of key decisions and correct electronic and hard copy filing of relevant documents. The importance of maintaining accurate and up-to-date records should also be communicated to all TGA staff.

Recommendation 41

The Committee recommends that the Therapeutic Goods Administration continue with its re-accreditation process for ISO 9000 and National Association of Testing Authorities (NATA) standards. When the TGA achieves these standards this information should be promulgated to manufacturers and other industry bodies.

Recommendation 42

The Committee recommends that the Therapeutic Goods Administration report to the Committee on the establishment and operation of the Trans-Tasman Therapeutic Products Agency, with regard to how the new agency will continue to regulate non-prescription medicinal products in accordance with the 26 ANAO recommendations. The TGA should also report on any changes to its governance and reporting arrangements.

These reports should be forwarded to the Committee in February and July 2006.

