

Effectiveness of Internal Audit and Audit Committees

Government Departments

Auditor-General's Report
to the Legislative Assembly
No 3: 2025-26



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At the Northern Territory Auditor-General's Office we
acknowledge the Aboriginal and Torres Strait Islander people
as the traditional Owners, Custodians of Country throughout
Australia and their connection to land, seas and community.

We pay our respects to their cultures,
and to their Elders past and present.





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The Speaker
Legislative Assembly of the Northern Territory
Parliament House
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Auditor-General's Report to the Legislative Assembly No. 3 of 2025-26

In accordance with section 24 of the *Audit Act 1995*, I submit my report on the effectiveness of internal audit and audit committees in government departments.

A blue ink signature of Jara K Dean, written in a cursive style.

Jara K Dean
Auditor-General

1 September 2025



Auditor-General's Report to the
Legislative Assembly

No 3: 2025-26

**Effectiveness of
Internal Audit and
Audit Committees**

Preface

In simple terms, corporate governance is about how an organisation is managed. Like other organisations, government departments are expected to have elements of good corporate governance in place. These include clear objectives and strategies, which should inform business planning; internal controls, including risk management, internal audit and audit committees; performance monitoring and reporting to name a few. These elements are often mandated by legislation or other directives.

My review focused on two mandated elements of corporate governance in departments: internal audit and audit committees. Some recommendations echoed those from a similar review in 2016. The challenge for chief executive officers is not to simply implement internal audit and audit committees because they are mandated but to ensure that they are coordinated, focus their attention and resources in the right areas and their roles are well articulated and understood throughout the department. If implemented and run effectively, both functions should aid chief executive officers in overseeing their departments' core corporate governance systems.

Effective audit committees should have a clear view of the maturity and performance of financial reporting, risk management, governance and compliance systems. What may work in one department may not work for another and audit committees should use that understanding to determine the areas of their focus and the focus of internal audit. Shifting from compliance oversight to emerging and strategic risks should be a priority for audit committees and internal audits.

Rules, like Treasurer's Directions, are designed to be applied indiscriminately across all departments. This can sometimes lead to more emphasis on the form rather than adopting a risk approach based on the department's specific circumstances. Combining scalability with the "if not, why not" approach could provide for sensible flexibility in appropriate areas, ensuring that if a department chooses to depart from certain requirements, it clearly explains the reasons why.

The effectiveness of any audit committee depends largely on the effectiveness of the internal audit function. I would hope that this symbiotic partnership would also extend to the external auditor. Six government departments regularly invite me to attend their audit committee meetings, and I welcome the opportunity to join as an observer and discuss issues of common interest.

I thank everyone who provided information and assistance with this review.

Jara K Dean
Auditor-General

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OVERVIEW

Introduction

Internal audit and audit committees are key components of the public sector governance framework. They provide independent assurance on risk management, controls and compliance, and support accountable officers in fulfilling their legislated responsibilities.

In the public sector, it is the responsibility of chief executive officers as accountable officers to implement effective governance arrangements in their departments.

Internal audit and audit committees are two of the four pillars of effective governance, with executive management and external audit the other two pillars.



This review was a high-level assessment of the effectiveness of internal audits and audit committees across Northern Territory government departments.

Background

The role of an audit committee is generally to assist the governing body in discharging its responsibilities as they relate to risk management and external audit.

The *Financial Management Act 1995* renders chief executive officers of government departments solely responsible for their financial management, including internal audit. The *Public Sector Employment Management Act 1993* requires chief executive officers to manage and provide strategic leadership to their department.

Therefore, audit committees in the public sector play an important role in assisting chief executive officers in discharging their responsibilities related to the strategic leadership and financial management of their departments by reviewing, overseeing and providing advice on a range of matters.

Effective audit committees provide insight from their experience and promote accountability, integrity and transparency.

Internal audit, on the other hand, is an invaluable resource not only for chief executive officers but also for audit committees by providing independent reviews of, and suggestions for, improving the design and operation of the department's:

- financial and non-financial control environment
- processes for identifying and monitoring risks
- governance.

Objective of the review

The objective of the review was to answer these questions:

- Are internal audit functions effective in assisting chief executive officers in the performance of their legislated functions?
- Are audit committees effective in providing independent advice to chief executive officers, assisting them to meet their legislated obligations and supporting the governance of their departments and agencies?

How we conducted the review

Each year, we undertake agency controls audits which examine selected aspects of compliance with Treasurer's Directions. We used the results of the agency controls audits to make a high-level assessment of the effectiveness of the internal audit functions and audit committees across selected Northern Territory government departments. Appendix A lists the government departments included in the review.

When assessing the effectiveness of the internal audit functions and audit committees, we considered the requirements of Treasurer's Directions on internal audit (section 2 of part 3) and audit committees (section 3 of part 3). We noted that these Treasurer's Directions were introduced in 1995 and partly updated in 2001. While the fundamentals of internal audit and audit committees remain the same, the complexity of the risk and the continual emergence of new challenges mean that the frameworks that underpin these functions need to evolve to remain effective. For this reason, we also referred to Global Internal Audit Standards which were updated in 2024 and serve as a basis for evaluating the quality of the internal audit function.

The work for this review was primarily undertaken between March to May 2025.

What did we observe?

What went right

- Internal audit charters and audit committee terms of reference were in place for the majority of government departments.
- Independence of internal audit through reporting lines directly to the chief executive officer.
- Regular engagement between chairs of audit committees and chief executive officers.

Areas for improvement

We noted gaps in the inconsistent development and approval of risk-based internal audit plans. Many government departments did not link audit efforts to strategic and operational risks, thus potentially neglecting areas of highest risk or importance.

There were also delays in the completion of planned audits, leading to delayed assurance. The lack of adequate documentation for quality assurance and improvement programs further hindered systematic assurance and improvement of internal audit functions. These deficiencies were compounded by insufficient tracking and reporting of internal audit costs, limiting audit committees' and chief executive officers' ability to assess cost-effectiveness and value-for-money of internal audit functions in their departments.

The review of audit committees' operations highlighted complementary issues alongside those identified in internal audit. Independence concerns arose from potential conflicts of interest due to committee members' ties within the broader Northern Territory Government, potentially affecting objective oversight.

The terms of reference often lacked specificity, failing to detail essential oversight responsibilities, especially in financial reporting and emerging performance risks, leading to potential oversight gaps. Member diversity was insufficiently addressed, with terms of reference not ensuring a range of qualifications and skills suited to the specific needs of the department.

Additionally, the absence of annual self-assessment protocols restricted audit committees' capacity to evaluate their performance and implement necessary improvements. These observations point to key areas needing enhancement to strengthen the effectiveness of audit committees and governance frameworks within government departments.

Conclusion

Overall, we found that there is commitment to internal audit and audit committees within government departments. Nevertheless, there are several areas that need improvement to make them more effective in assisting chief executive officers in discharging their legislated functions and obligations.

While basic structures are in place, inconsistencies in documentation of key operational elements, and the depth of strategic oversight limit their full effectiveness.

Both the internal audit functions and audit committees demonstrated varying levels of maturity, with common challenges including resource transparency, comprehensive risk-based planning, robust quality assurance and proactive engagement in their oversight roles.

Addressing these gaps, particularly through clearer mandates, improved documentation and a greater focus on strategic risks is crucial for strengthening governance and accountability across the Northern Territory public sector.

In this context, establishing a complimentary overarching internal audit function to oversee mandated audits, such as procurement or travel across multiple departments may enhance resource utilisation and consistency. Most importantly, this would allow:

- internal audits in government departments to shift their focus on strategic risks
- take advantage of developments in information technology that can improve the efficiency of the audit process, reduce costs, reduce the audit workload, and deliver the results of the audit process in a timely manner.

Recommendations

We have made the following recommendations to the Department of Treasury and Finance as the department responsible for developing mandatory guidelines for all government departments and agencies subject to the Financial Management Act:

Number	Recommendation
3	<p>Treasurer's directions should mandate that processes are in place for the evaluation of the effectiveness and efficiency of internal audit, including ongoing monitoring, periodic internal assessments, and mandatory external evaluations.</p> <p>Consideration should be given to creating a uniform quality assurance and improvement plan for all government departments.</p>
4	<p>Treasurer's directions should mandate government departments to include in their annual reports key performance indicators for their internal audit function.</p>
9	<p>Treasurer's directions should mandate government departments to include in their annual reports the cost of their internal audit function. This includes fees paid to external professional service providers and in-house costs.</p>
10	<p>Treasurer's directions and audit committee's terms of reference should include more explicit criteria for the independence of audit committee members that specifically address independence from the broader Northern Territory Government, not just the individual government department.</p> <p>This should also include a colling-off period for former public service employees, such as chief executives, senior executives, senior officers and other officers before they can be appointed as members of audit committees.</p>
14	<p>Treasurer's directions should mandate regular evaluation and continuous improvement of audit committee's performance and provide guidance to audit committees on how to effectively assess and improve their performance practices. For example, the assessment should integrate the audit committee's annual work plan and a baseline level of maturity in areas of focus to measure improvements over time.</p>

Observations

We have also made several observations for government departments and audit committees to consider as opportunities for improving the effectiveness of their internal audit function.

Number	Observation relevant for Government Departments
1	Government departments should prioritise developing or finalising a comprehensive internal audit charter that clearly defines the purpose, authority, responsibility and reporting lines of their internal audit functions.
5	Government departments, through their audit committees, should ensure that internal audit plans are explicitly and demonstrably linked to the significance of their strategic and operational risks.
6	Government departments should develop and maintain an assurance map to identify and address assurance gaps.
7	Heads of internal audit should implement robust project management for internal audit engagements, ensuring realistic timelines, clear milestones and proactive progress monitoring to ensure timely completion of internal audit projects.
8	Heads of internal audit should track internal audit cost and regularly report this, alongside performance against the audit plan, to the audit committee for effective oversight and value assessment.
11	Government departments should review and where necessary amend audit committee's terms of reference to include diverse and complementary mix of members with specialised expertise relevant to the department.
13	Government departments should review and where necessary revise audit committee's terms of reference to ensure they explicitly and comprehensively define the committee's oversight responsibilities.

Number	Observation relevant for Audit Committees
2	Audit committees should review the language and responsibilities in their department's internal audit charter to ensure that the purpose, authority, responsibility and reporting lines of their internal audit functions are clearly defined, appropriate and specific to the department.
12	Audit committees should assess the current profile and skills lacking in its members to ensure that they collectively have the knowledge and understanding of the department's functions as well as expertise in areas including governance, risk management, financial reporting and public sector regulatory frameworks.

Comments and submissions

A draft report was provided to the Department of Treasury and Finance for comments and shared with all government departments included in the review on 18 August 2025 in accordance with section 24(a) of the *Audit Act 1995*.

No formal comments or submissions were sought from government departments.

However, submissions from departments that decided to provide formal responses are included in the *Comments received* section of this Report.

Response from the Department of Treasury and Finance

Section 24(4)(b) of the Audit Act requires the Auditor-General to include in reports to the Legislative Assembly and supplementary reports any submissions or comments received.

The submission received from the Department of Treasury and Finance is included below.

The Department of Treasury and Finance (DTF) are currently developing a new Treasurer's Direction (TD) on Internal Controls to strengthen internal audit and audit committee functions across government and largely addresses the majority of your recommendations.

DTF will consider any recommendations not yet addressed in the draft TD to determine the appropriateness and applicability to agencies.

Key principles addressed by the new TD include:

- minimum requirements of an agency's internal control system
- mandating high risk matters are included in an agency's risk management process and internal audit plan
- roles and responsibilities of an agency's chief audit executive, and audit and risk committee
- minimum structure requirements for an internal audit function, and audit and risk committee.

Tim McManus
Under Treasurer

27 August 2025

INTERNAL AUDIT

Internal audit is a function of management that helps to evaluate the effectiveness of internal controls and ensure that the government department's operations comply with policies and procedures. Internal audit adds value by helping to identify potential risks and opportunities for improvement in the department's operations.

Internal audit charter

Introduction

An internal audit charter is the foundational document that defines the internal audit's purpose, authority, independence and responsibility. An endorsement of the internal audit charter by the audit committee and its formal approval by the chief executive officer is crucial for establishing the internal audit's mandate.

An internal audit charter should be periodically reviewed by the audit committee and any changes presented to the chief executive officer for approval.

To have an internal audit charter in place is a requirement under section 3.2.3 of the Treasurer's Direction and is also a requirement under the Global Internal Audit Standards.

Observations

Most government departments had an approved and up-to-date internal audit charter in place, providing a clear foundational document under which their internal audit functions operated.

However, there were government departments which operated under a draft internal audit charter, an internal audit charter that had not been endorsed by the committee and approved by the chief executive officer or did not have an internal audit charter altogether.



Absence of a formal internal audit charter

One government department did not have a formal internal audit charter and was still in the process of developing a Risk and Audit Framework, some six months after it was formed following the machinery of government changes.

Internal audit charter in draft form and not approved

Four government agencies were found to be operating with an internal audit charter that was still in a draft form and had not been endorsed by the audit committee or approved by the chief executive officer. Three of the four government agencies shared the internal audit function and hence operated under a joint internal audit charter. Their respective chief executive officers have not approved the internal audit charter.

Why is having an up-to-date and approved internal audit charter important?

- Without a formally approved internal audit charter, the internal audit function's purpose, authority and responsibilities may be unclear, leading to potential disputes or limitations on its ability to operate effectively.
- It becomes difficult to hold the internal audit function accountable for its performance against a defined mandate if that mandate is not formally established and approved.

Recommendations and observations

1

Government departments should prioritise developing or finalising a comprehensive internal audit charter that clearly defines the purpose, authority, responsibility and reporting lines of their internal audit functions.

2

Audit committees should review the language and responsibilities in their department's internal audit charter to ensure that the purpose, authority, responsibility and reporting lines of their internal audit functions are clearly defined, appropriate and specific to the department.

Quality Assurance and Improvement Program

Introduction

A quality assurance and improvement program is the basis for evaluating the effectiveness and efficiency of the internal audit function. Such a program typically includes:

- ongoing monitoring and periodic self-assessments
- external assessments performed at least once every five years by a suitably qualified and an independent reviewer.

Global Internal Audit Standards mandate that the head of internal audit must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. There is no such requirement in the Treasurer's Direction.

Observations



A review of government departments' internal audit charters showed a consistent lack of adequate documentation regarding the essential foundational element articulating a robust quality assurance and improvement program. Furthermore, government departments did not have any additional documented procedures detailing their quality assurance and improvement programs for their internal audit functions.

Internal audit charters of only two government department detailed the need for both internal and external assessments. Three government departments required only an internal assessment and internal audit charters of the remaining government departments did not cover quality assurance and improvement program at all.

However, we noticed that the description of the quality assurance and improvement program was generic and lacked specific details on how ongoing monitoring, periodic internal assessments, and mandatory external assessments would be conducted, documented, and reported. This made it difficult to ascertain how the quality and effectiveness of the internal audit function itself are systematically assured and improved.

This is often compounded by a lack of awareness or consistent interpretation of professional standards, particularly concerning internal audit proficiency and quality assurance requirements. Consequently, internal audit charters may inadvertently focus on high-level mandates, outlining broad responsibilities and reporting structures, while neglecting crucial quality assurance frameworks.

Evidence of internal or external quality assurance programs for internal audit activities was not consistently present within the reviewed audit committee meeting minutes.

We also noted that there was inconsistent monitoring of key performance indicators of the internal audit function which was a critical symptom of a broader failure to implement a foundational quality assurance and improvement program.

Why is having a documented quality assurance and improvement program important?

- The absence of clear skill definitions, development plans, and a robust quality assurance and improvement program increases the risk of inconsistent and unreliable internal audit assurance engagements.
- A lack of a clear quality assurance and improvement program framework diminishes transparency in assessing and improving the internal audit function's performance, potentially eroding stakeholders' confidence.

Recommendations and observations

3

Treasurer's directions should mandate that processes are in place for the evaluation of the effectiveness and efficiency of internal audit, including ongoing monitoring, periodic internal assessments, and mandatory external evaluations.

Consideration should be given to creating a uniform quality assurance and improvement plan for all government departments

4

Treasurer's directions should mandate government departments to include in their annual reports key performance indicators for their internal audit function.

Internal audit plans

Introduction

Effective internal audit functions are defined by their capacity to efficiently execute approved plans and deliver timely assurance. Global Internal Audit Standards require the head of internal audit to communicate the audit plan and resource needs to the audit committee and the accountable officer for approval, while also outlining any limitations.

Furthermore, the head of internal audit must establish clear policies and procedures to ensure the timely completion of audit engagements and regularly report on internal audit performance against its plan.

An assurance map is a key tool to ensure that there is a coordinated approach between internal and external auditors to enhance audit coverage, reduce duplication and minimise disruption.

Observations

We found deficiencies in developing risk-based internal audit plans. In some instances, government departments did not have a formally approved internal audit plan. These issues collectively undermine the effectiveness of the internal audit function.



Inconsistent linkages to strategic and operational risks

The linkage of internal audit plans to the government department's strategic risk and/or operational risk registers was inconsistent. Even though some of the audit plans had a link to the risks, in most instances, those did not clearly demonstrate how internal audit projects were derived based on the significance of the risks detailed in the departments' risk registers. This suggests that audit efforts may not always be directed to the areas of highest risk or strategic importance.

Internal audit plans of the majority of government departments focused predominantly on mandated audits, including Value for Territory and travel compliance audits, potentially at the expense of a broader risk-based approach.

Only a handful of government departments had robust risk-based internal audit plans. However, even some of those focused on the mandated audits with specific timelines, while the rest of the projects did not have a specific timeline for completion.

Lack of approved internal audit plans

Two government departments were operating without a current internal audit plan that was endorsed by their respective audit committees. One of the departments was awaiting the completion of a risk and audit framework before finalising the internal audit plan.

Absence of assurance mapping

The majority of the government departments lacked assurance maps or similar documents that would provide a comprehensive overview of organisation's risk and control activities.

An assurance map is a useful tool for management and audit committees to outline key processes as a source of assurance, as well as expose any gaps or duplication in processes.

The mapping is most commonly done against four lines of defence as shown in the example below:

Process	Management controls	Oversight functions (e.g. finance, legal)	Internal audit and consultants	External audit and regulators
Managing records	Privacy Policy and Procedures	Data Breach Reporting to Executive	Privacy Management Internal Audit	No assurance

Why is having thorough internal plans important?

- Audit efforts may be misdirected, focusing on lower-risk areas while higher-risk areas remain unexamined.
- Without an approved plan, it's difficult to hold the internal audit function accountable for its performance.
- Without a comprehensive view of assurance, entities face gaps or duplicated efforts, making it difficult to demonstrate effective oversight to stakeholders.

Recommendations and observations

5

Government departments, through their audit committees, should ensure that internal audit plans are explicitly and demonstrably linked to the significance of their strategic and operational risks.

6

Government departments should develop and maintain an assurance map to identify and address assurance gaps.

Inefficiencies in internal audit

Introduction

Effective internal audit functions are defined by their capacity to efficiently execute approved plans and deliver timely assurance. This requires the head of internal audit to ensure internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. They must also establish policies and procedures to guide the internal audit activity, ensuring timely completion of engagements.

Periodic reports to the audit committee and chief executive officer should cover the internal audit's purpose, authority, responsibility, and performance against its plan, including resource utilisation and any significant deviations.

These practices align with the Global Internal Audit Standards and the government policies and Treasurer's Directions, which implicitly require departments to maintain effective internal audit functions through efficient program execution and responsible financial management.

Observations

We found deficiencies in the timely completion of planned internal audits. This issue is compounded by ineffective planning, resource allocation challenges, under-utilisation of approved outsourcing budgets, and a general lack of consistent tracking and reporting of internal audit costs to audit committees.



Untimely completion of planned internal audits

Internal audits are not being completed in a timely manner. More than half of the government departments demonstrated delays in completing their scheduled audits, leading to a backlog of work and potentially outdated assurance. In some departments we noted that the previous year's plans remained incomplete.

Incomplete performance tracking of internal audit function

Internal audit functions of government department that have formed an internal audit function lacked comprehensive performance indicators beyond the audit committee's understanding of planned audit status and tabled reports.

This gap hinders the ability to assess the efficiency and effectiveness of internal audit and its value-add to the department. Without a robust framework for tracking indicators such as audit recommendation implementation rates, stakeholder satisfaction, audit cycle times, resource utilisation against plan, or the impact of audit work on improving controls and processes, management and audit committees cannot fully evaluate the internal audit function's overall performance and continuous improvement.

The absence of performance data prevents an objective assessment of whether current staffing levels are adequate or if specific skill sets are missing, leading to under-utilisation of recruitment budgets. It was also noted that even though budgets had been approved for inhouse and to outsource to professional firms to carry out the planned internal audits, these budgets have not been fully utilised. This indicates a failure to leverage available resources to mitigate internal capacity constraints.

Lack of internal audit tracking and reporting

Government department have not been consistently tracking the actual internal audit costs (both internal staff time and external spend) and reporting this information to their audit committees. This prevents audit committees from effectively assessing the cost-effectiveness and value-for-money of the internal audit function.

Why is tracking internal audit performance important?

- Delays in audit completion result in a backlog of unaddressed issues, leaving departments exposed to critical, unmitigated risks for extended periods.
- The internal audit function cannot systematically identify its own areas for development, improve efficiency, or adapt its strategy to better meet organisational needs without data-driven insights into its performance.
- Funds allocated for internal audit, whether for staffing or outsourcing, may not be deployed in the most efficient or effective manner, potentially leading to under-resourced critical areas.
- A lack of consistent reporting on costs and performance against the audit plan severely limits the audit committee's ability to effectively oversee, challenge resource requests, and assess the value of internal audit.

Recommendations and observations

7

Heads of internal audit should implement robust project management for internal audit engagements, ensuring realistic timelines, clear milestones and proactive progress monitoring to ensure timely completion of internal audit projects.

8

Heads of internal audit should track internal audit cost and regularly report this, alongside performance against the audit plan, to the audit committee for effective oversight and value assessment.

- 9** Treasurer's directions should mandate government departments to include in their annual reports the cost of their internal audit function. This includes fees paid to external professional service providers and in-house costs.

AUDIT COMMITTEES

Audit committees in the public sectors have historically focused on internal audit: approving internal audit plan, reviewing progress of internal audits, reviewing internal audit reports and following up the implementation of internal audit recommendations.

These days, audit committees should be providing independent advice to chief executive officers on a range of matters concerning the systems of risk management and internal control, and financial and performance reporting. Effective audit committees also play an important role in influencing better governance.

Independence and composition

Introduction

The independence of audit committee members is crucial for their ability to provide objective oversight.

This principle aligns with professional standards, which emphasise that the internal audit function itself must operate independently with appropriate reporting lines to fulfil its responsibilities. By extension, an audit committee as the body responsible for overseeing internal audit, must also possess this independence.

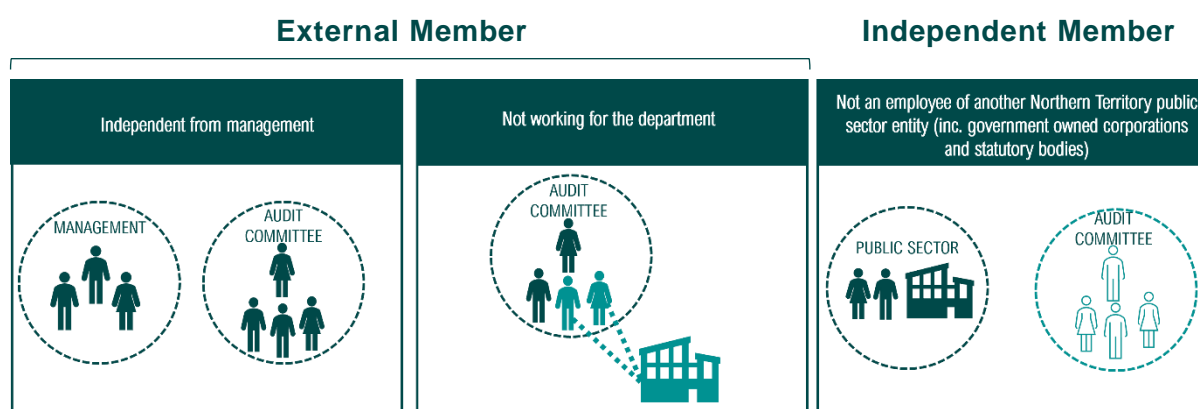
The current Treasurer's Direction does not explicitly require members, or at least a majority of members of an audit committee to be independent. In fact, it requires the audit committee to have senior level representation from across the agency.

Furthermore, audit committees' terms of reference should explicitly require skill diversification among the members to ensure comprehensive coverage and robust scrutiny of the organisation's governance, risk management, and control frameworks.

Observations

Audit committees of government departments generally comprised of three or four members. Most audit committees had a majority of external or independent members.

We distinguish independent members from external members as follows:





No independent members[^]

Audit committees of two government departments had no independent or external members, with all members sourced from within senior management. This makes separating the day-to-day activities of management and employees from the audit committee's oversight role difficult, if not impossible.

Mix of independent and external members

Some government departments opted for a model where their "independent" members were external to the department, meaning that they had no direct ties to the agency but work for another government department or were employed by another Northern Territory public sector entity, for example a government owned corporation.

Independent chairs

The majority of government departments appointed independent audit committee chairs who were not current employees of another Northern Territory public sector entity. Several chairs were, however, former public sector employees.

Independent chairs have the ability to:

- provide advice and assurance from an objective and independent perspective
- address issues without preconceived ideas or bias and assist in encouraging objective debate on issues
- provide an insight into practices adopted in other entities.

Some of the departments with an independent audit committee chair also appointed one other member on the committee who was also independent.

[^] Two government departments had no independent or external members and the membership of three government departments' audit committees was not finalised at the time of our review.

Declarations of conflicts of interests

Not all audit committee charters explicitly defined or required disclosures of conflicts of interest related to other Northern Territory public sector appointments or prior employment within a Northern Territory public sector entity for its external and independent members.

The independence of audit committee members may be compromised by ambiguity in independence criteria and failing to clearly differentiate between independence from the specific department and the broader government. This is impaired by a lack of formal disclosure requirements, meaning independent members may not fully reveal all their relevant relationships or past employment across the government. Consequently, appointment practices may not consistently prioritise or thoroughly vet for independence from the wider government, focusing instead on agency-specific independence.

Skills of audit committee members

Generally, the terms of reference did not adequately specify the requirement for a diverse mix of members of the audit committee with appropriate qualifications, knowledge, skills and experience relevant to the government department's operations and financial complexities.

Audit committees should not only ensure that their members skillsets cover the core functions such as financial reporting, risk management, governance and compliance but that they also align the skills and experience of their members with the key risks of the department or agency.

Audit committees should consider inviting the management to present to them on the department's functions, the risks and audit issues they are responsible for. This helps the audit committee to hold management accountable for taking effective action and to develop and maintain a good understanding of the department's functions, objectives and operational context.

Why is having the right composition of the audit committee important?

- Lack of independence can undermine the audit committee's objectivity, especially on whole-of-government issues, and diminish stakeholder confidence in its impartial oversight.
- Conflicts of interest, both actual and perceived, could impact on the audit committee's ability to challenge management and improve governance, increasing the risk of undisclosed conflicts of interest influencing decisions.
- Audit committees may lack the necessary expertise to effectively scrutinise complex operational, financial, and strategic risks pertinent to their departments' unique circumstances.

Recommendations and observations

- 10** Treasurer's directions and audit committee's terms of reference should include more explicit criteria for the independence of audit committee members that specifically address independence from the broader Northern Territory Government, not just the individual government department. This should also include a colling-off period for public service employees before they can be appointed as members of audit committees after leaving their employment.

This should also include a colling-off period for former public service employees, such chief executives, senior executives, senior officers and other officers before they can be appointed as members of audit committees.

- 11** Government departments should review and where necessary amend audit committee's terms of reference to include diverse and complementary mix of members with specialised expertise relevant to the department.

- 12** Audit committees should assess the current profile and skills lacking in its members to ensure that they collectively have the knowledge and understanding of the department's functions as well as expertise in areas including governance, risk management, financial reporting and public sector regulatory frameworks.

Oversight and self-assessment

Introduction

Effective audit committees are crucial for good governance, with their terms of reference needing to clearly define their role in overseeing organisational governance, risk management, and control processes.

Professional standards emphasise that internal audit activities must systematically evaluate and improve these areas, including assessing the effectiveness of risk management and recommending enhancements to governance design. These expectations are further reinforced in the Treasurers' Direction which outlines the general responsibilities of audit committees and imply the necessity of detailed terms of reference for effective execution of these duties.

Good governance practices also recommend that audit committees regularly undertake self-assessments of their own performance and effectiveness.

Observations

We found that audit committees' terms of reference lacked sufficient detail and explicit articulation of the committee's oversight responsibilities, particularly concerning critical areas such as significant accounting judgments, emerging performance risks, and comprehensive compliance frameworks.

This lack of detail could lead to potential gaps in oversight.

Oversight of Compliance with Laws and Regulations

The audit committee's role in overseeing the department's compliance framework and monitoring adherence to relevant legislation, policies, and guidelines was missing.



Audit committee self-assessment and continuous improvement

Audit committees' terms of reference did not always mandate or clearly define the need for an annual self-assessment of the committee's own performance against its charter and professional standards.

The majority of government departments had no mechanism for their audit committees to formally assess their own effectiveness and identify training needs, which may be crucial for some of the agencies based on the nature of their operations.

When assessing their performance, audit committees should consider ascertaining whether chief executive officers are satisfied with their performance and seeking feedback from management, auditors and other relevant stakeholders.

Why is having clear terms of reference important?

- Unclear or incomplete terms of reference can lead to inadequate oversight of critical risks and governance areas, diminishing the audit committee's effectiveness and accountability.
- Vague mandates result in inconsistent oversight and hinder the audit committee's ability to provide strategic advice and challenge.
- Without explicit requirements for self-assessment, audit committees may fail to identify and address their own operational and skill deficiencies.

Recommendations and observations

13

Government departments should review and where necessary revise audit committee's terms of reference to ensure they explicitly and comprehensively define the committee's oversight responsibilities.

14

Treasurer's directions should mandate regular evaluation and continuous improvement of audit committee's performance and provide guidance to audit committees on how to effectively assess and improve their performance practices. For example, the assessment should integrate the audit committee's annual work plan and a baseline level of maturity in areas of focus to measure improvements over time.

Comments received

Section 24(4)(b) of the *Audit Act 1995* requires the Auditor-General to include in reports to the Legislative Assembly and supplementary reports any submissions or comments received.

Response from the Department of Agriculture and Fisheries

Thank you for taking the time to provide this high-level summary of your observations on Internal Audit and Audit Committees.

I am pleased to note that since the passage of time when the agency controls audit was conducted in March 2025, our Internal Audit and Audit Committees have progressed and addressed much of the observations and recommendations raised in your report. I am reassured that the recommendations align with the developments made and consider Internal Audit is well positioned to address those outstanding recommendations.

Noting some recommendations spoke to the need for improvements and updates to the Treasurer's Directions on Internal Controls and Internal Audit. Subject to feedback and consultation on the revised Treasurer's Directions, I support the finalisation of the updated Treasurer's Directions to provide improved clarity and expectations to the Risk Management and Audit Committee and Internal Audit function within my department.

Andrew Baylis

A/Chief Executive Officer

26 August 2025

Response from the Department of Corporate and Digital Development

The Department of Corporate and Digital Development (DCDD) has recently concluded a review of the Audit and Risk Committee's Terms of Reference to ensure the inclusion of appropriately qualified members and to reinforce the committee independence. DCDD will also consider the recommendations and observations arising from the review to strengthen the agency's internal audit function and address any identified gaps.

Catherine Webber

Chief Executive

25 August 2025

Response from the Department of Education and Training

Thank you for the opportunity to review and provide comment on your draft report on the effectiveness of internal audits and audit committees.

I value the role and function of internal audits and audit committees in providing independent advice and assurance on risk management systems and internal controls.

While there were no comments or recommendations for the Department of Education and Training directly, I welcome your observations and recommendation as an opportunity to review and refine our approach.

Susan Bowden

Chief Executive

29 August 2025

Response from the Department of Mining and Energy

Thank you for taking the time to provide this high-level summary of your observations on Internal Audit and Audit Committees.

I am pleased to note our Internal Audit and Audit Committees have progressed and addressed much of the observations and recommendations raised in your report. I am reassured that the recommendations align with actions to date and am comfortable the Internal Audit is well positioned to address outstanding recommendations.

I note some recommendations spoke to the need for improvements and updates to the Treasurer's Directions on Internal Controls and Internal Audit, and subject to feedback and consultation, I support the finalization of the updated Treasurer's Directions to provide improved clarity and expectations to the Risk Management and Audit Committee and Internal Audit function within my Department.

Alister Trier

Chief Executive Officer

26 August 2025

Response from the Department of Trade, Business and Asian Relations

Thank you for taking the time to provide this high-level summary of your observations on Internal Audit and Audit Committees.

I am pleased to note that since the passage of time when the agency controls audit was conducted in March 2025, our Internal Audit and Audit Committees have progressed and addressed much of the observations and recommendations raised in your report. I am reassured that the recommendations align with the developments made and consider Internal Audit is well positioned to address those outstanding recommendations.

I note some recommendations spoke to the need for improvements and updates to the Treasurer's Directions on Internal Controls and Internal Audit. Subject to feedback and consultation on the revised Treasurer's Directions, I support the finalisation of the updated Treasurer's Directions to provide improved clarity and expectations to the Risk Management and Audit Committee and Internal Audit function within my department.

Hayley Richards

Chief Executive Officer

21 August 2025

Response from the Department of Lands, Planning and Environment



Department of LANDS,
PLANNING AND
ENVIRONMENT

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Mr Jara Dean
Auditor General
GPO Box 4594
Darwin NT 0801
Via email: [\[REDACTED\]@nt.gov.au](mailto:[REDACTED]@nt.gov.au)

Dear Mr Dean

Re: Auditor-Generals Report to the Legislative Assembly No. 3 of 2025-26 – Effectiveness of Internal Audit and Audit Committees in Government Departments.

Thank you for sharing a copy of the draft Auditor-General's Report and for the opportunity to provide a response.

I confirm that the Department of Lands, Planning and Environment (DLPE) has the following in place:

- An Internal Audit Charter and Audit Committee Terms of Reference specifically established for the department's Risk Management and Audit Committee.
- Independence of the internal audit function is maintained through direct reporting lines to the CEO.
- Regular engagements occur between the Risk Management and Audit Committee Chair and the CEO, scheduled to coincide with the quarterly committee meetings.

In response to your recommendations and areas of improvement, I provide the following feedback from my department's perspective.

1. Risk-based internal audit planning

There have been previous gaps in linking internal audit plans to operational and strategic risks. To address this, DLPE conducted a Strategic Risk Register workshop in May 2025, led by the Executive Leadership Team. As a result, key strategic risks for the Department were identified and confirmed. Based on this exercise, four audits have been aligned directly with these strategic risks, enhancing the relevance and impact of the internal audit program.

2. Audit delivery and resourcing challenges

Delays in the completion of planned audits have occurred, primarily due to machinery of government changes that took effect on 10 September 2024, when DLPE was established. These changes significantly disrupted the Department's ability to implement compliance controls and fully understand its risk profile.

Currently, DLPE has only one dedicated internal audit resource and no budget for outsourcing audits, limiting audit capacity. The Department acknowledges that to improve audit timeliness and coverage, increased capacity and capability will be essential.

3. Independence of audit committees

DLPE's Risk Management and Audit Committee (RMAC) maintains independence through its structure that includes an independent Chair and an external independent member.

This composition ensures the integrity and impartiality of audit oversight and the mitigation of any potential conflicts of interest.

4. Committee Terms of Reference and Membership

The current RMAC Terms of Reference support effective governance. Membership includes:

- 2 independent members
- 8 senior executives from various divisions within DLPE
- Corporate Governance Manager as an observer.

This diverse composition ensures a broad range of expertise and experience suited to the department's unique operational environment.

5. Performance Monitoring and Self-Assessment

DLPE has established internal processes to monitor and improve the internal audit function:

- A biennial self-assessment questionnaire completed by RMAC members with input from the CEO.
- An independent five-yearly review of the internal audit function, measuring:
 - timeliness and cost relative to audit objectives
 - acceptance and implementation of audit recommendations
 - progress in delivering the audit plan
 - engagement planning and oversight
 - efficiency of the audit process.

These measures are designed to promote continuous improvement and accountability.

DLPE supports the full implementation of the recommendations arising from the review. However, the department notes that fulfilling these recommendations - particularly in the context of reduced resources post-machinery of government changes - would require additional funding and staffing. Resource decisions must be weighed against competing Government priorities.


DLPE recommends that the Auditor-General's Office consider establishing a professional development program that enables internal audit staff from departments to undertake short-term rotations through the Auditor-General's Office. This initiative would:

- enhance understanding of the Auditor-General's operations.
- foster stronger inter-agency relationships.
- improve the alignment of agency audit practices with whole-of-government expectations.

DLPE is committed to strengthening its internal audit and governance capabilities. The department fully supports all review recommendations and remains open to collaborative initiatives that improve internal audit performance across government.

Please let me know if you require any further details or documentation.

Yours sincerely



Joanne Townsend
Chief Executive Officer

22 August 2025

Response from Northern Territory Fire and Emergency Services



OFFICE OF THE COMMISSIONER

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T 08 8995 5272

Your reference: AGD2025/55
Our reference: 04-D25-93011

Mr Jara K Dean
Auditor-General
Northern Territory Auditor-General's Office

Via email: nt.audit@nt.gov.au

Dear Auditor-General

Thank you for correspondence of 18 August 2025 providing a copy of the draft report on the *Effectiveness of Internal Audit and Audit Committees*, which is intended to be tabled during the September 2025 sittings of the Legislative Assembly.

The Northern Territory Fire and Emergency Services (NTFES) formally separated from Northern Territory Police, Fire and Emergency Services in April 2024. As part of the 2025 Budget, NTFES received funding to establish agency-specific corporate services, which enabled the employment of a single resource to manage the agency's Audit and Risk function within this allocation.

NTFES identified the need for additional resources in order to support the Accountable Officer and the agency's wider audit and risk function to ensure effective audit and risk governance. Funding will be sought as part of the 2026 Budget to address this resourcing need.

In the section of your report titled *Internal audit plans*, you note inconsistent linkages to strategic and operational risks, and internal plans focusing predominantly on mandated audits. NTFES agrees with this observation and provides the following details:

- Due to limited funding for only one audit and risk resource, NTFES is currently unable to conduct risk-based audits beyond government's mandatory compliance requirements. This constraint also impacts the timely completion of planned internal audits.
- NTFES' Risk Management Framework was established in December 2024 and has been rolled out across the agency. The Framework informs the agency's requirements for future audit planning.

In the section of your report titled *No independent members*, you note that agencies had no independent or external members. At NTFES' inaugural Audit and Risk Committee meeting on 19 August 2024, it was agreed that external membership would be deferred for approximately 12 months to allow internal processes for the new agency to be embedded. An independent member was subsequently appointed to the committee on 30 May 2025.



NTFES acknowledges the other observations made within the report and reaffirms our commitment to continuous improvement in the Audit and Risk space.

If you have any queries, my contact is the Director Strategic Services, Ms Krystel Harvey who is available on telephone 8985 8338 or email krystel.harvey@pfes.nt.gov.au.

Yours sincerely



Collene Bremner
Acting Commissioner of Fire and Emergency Services

25 August 2025

APPENDIX A

Government departments included in the review

Attorney-General's Department
Department of Agriculture and Fisheries
Department of the Chief Minister and Cabinet
Department of Children and Families
Department of Corporate and Digital Development
Department of Corrections
Department of Education and Training
Department of Health
Department of Housing, Local Government and Community Development
Department of Lands, Planning and Environment
Department of the Legislative Assembly
Department of Logistics and Infrastructure
Department of Mining and Energy
Department of Tourism and Hospitality
Department of Trade, Business and Asian Relations
Department of Treasury and Finance
Department of People, Sport and Culture
Office of the Independent Commissioner Against Corruption
Northern Territory Fire and Emergency Services
Northern Territory Police Force

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Auditor-General's Office