

Follow-up questions: Fraud and Corruption Control in Local Government

Context

VAGO representatives appeared before the Public Accounts and Estimates Committee on 31 March 2025 for its *Inquiry into Fraud and Corruption Control in Local Government: A Follow-up of Two Auditor-General Reports*. During the hearing:

- the Committee asked 3 questions that VAGO took on notice
- following the appearance, the Committee submitted 5 additional questions.

This paper provides VAGO's responses to all questions from the Committee.

Questions taken on notice

Page 5 of the transcript, Matthew Hilakari – '*... Why wouldn't we have consistency across local government? Departments might do it differently, but why wouldn't we have IT systems that are consistent across all local government areas?*'

The decision to centralise information systems across the local government sector, or to adopt common IT systems, rests with local governments.

Councils use a range of information systems to support their diverse services and operations. Many continue to use legacy systems, which vary widely across the sector and add additional layers of complexity. This complexity is heightened when considering the potential to centralise or standardise systems across all 79 councils.

We have not conducted assurance work to assess the benefits or risks of centralising information systems in the local government sector. As a result, we are not in a position to provide an informed view on this matter, especially given the sector's unique challenges and complexities.

Page 14 of the transcript, Matthew Hilakari – '*...in terms of fraud and corruption controls, have you found any to be particularly effective over the period, or do some work better than others in terms of fraud and corruption controls? Where is the best performance of fraud and corruption controls, as opposed to those that sometimes are a bit middling?*'

Councils are required to develop policies and controls to prevent, detect and respond to fraud and corruption in their organisations.

The purpose of our audit was to assess the effectiveness of these policies against legislative requirements or other generally accepted performance benchmarks.

Our report identified certain features of effective controls including:

- Clearly documented policies and procedures informed by risk and developed in line with legislative requirements.
- Fraud and corruption training delivered to staff
- Maintenance of fraud and corruption registers
- Effective management of conflicts of interest through Ordinary Returns and Related Party Disclosures
- Readily available Protected Disclosure policies and procedures.

Page 15 of the transcript, Aiv Puglielli – '*...can I ask why election fraud and corruption were scoped out [of the 2019 report].....so potentially at that time they perceived that there was greater risk for corruption and the matters we are looking into here than in the electoral context? That seems outrageous to me?*'

The scope of this audit was limited to Victoria's local government sector and did not include any Victorian Government entities.

As such, the administration and application of Victoria's local government electoral laws, which are the responsibility of the Victorian Electoral Commission, were not in scope for this engagement.

Additional questions

1. LGI's submission noted a lack of transparency and effectiveness regarding council Audit and Risk Committees (ARCs).

a. Are the measures in place across ARCs to establish, maintain and monitor internal fraud and corruption controls consistent and effective?

Please refer to our response to Matthew Hilakari on page 14 of the transcript.

Beyond this performance audit, we have not undertaken assurance work to assess the design, implementation, or operating effectiveness of ARC's fraud and corruption control measures through our performance audit program. We are therefore unable to respond to this question.

b. What could be done to better improve the effectiveness of ARCs?

c. What lessons can be learned from other jurisdictions on best practice measures across Audit and Risk Committee processes?

There is a wealth of publicly available guidance aimed at improving the effectiveness of audit and risk committees, particularly in relation to fraud and corruption. Councils and Local Government Victoria (LGV) should consider this guidance to strengthen their governance practices.

One effective way for ARCs to measure their effectiveness is by conducting a gap analysis, comparing their current practices with better practice recommendations and insights from the various publications in this space. This approach helps identify areas for improvement and ensures alignment with industry standards in fraud prevention and overall risk management.

Some examples of this better practice guidance include:

- IBAC's *Local government integrity frameworks review* (2019) – [link](#). This report gives an overview of the integrity frameworks used by six Victorian councils in 2017 and 2018. It highlights good practices and areas that could be improved. The main goal of this guidance is to help all councils strengthen their own frameworks to better prevent corruption. It builds on a 2015 IBAC review that looked at a different group of councils.

- LGV's *Audit Committees: A Guide to Good Practice for Local Government guidelines* (2011) – [link](#). This guide promotes consistent standards for councils, library boards, and council companies, including in the area of fraud prevention.
- Australian Auditing Standards Board's *Audit Committees: A Guide to Good Practice* (2017) – [link](#). This guide offers a practical overview of the role and responsibilities of an audit committee, including in the area of fraud and corruption.

Our *Results of 2022-23 Audits: Local Government* report states 'governance arrangements across the sector can be improved and that LGV or the Municipal Association of Victoria, as key stakeholders in the sector, may be best positioned to develop and deliver a structured training program for councillors and their audit and risk committee members. This may include appropriate resource material' – [link](#). Our *Results of 2023-24 Audits: Local Government* report indicates the recommendation from our 2022-23 report is yet to be resolved – [link](#).

2. How were the findings of the 2019 audit communicated across the sector through professional organisations like FinPro or Audit and Risk Committee meetings? What was the impact of this?

a. What more could VAGO have done to communicate the audit findings to the whole local government sector?

We carry out a range of activities to raise awareness of our report findings and recommendations. For the *Fraud and Corruption Control in Local Government* (2019) report, we undertook the following actions.

Pre-tabling

We flagged our intention to undertake this audit in our Annual Plan and shared the Plan's topics through our regular communication channels—including monthly status updates to Chief Financial Officers and Audit Committee Chairs, and ongoing engagement with industry bodies such as LGV.

In sector presentations, we often take the opportunity to promote upcoming reports. For this report, the Financial Audit Sector Director for Local Government presented at the FinPro Professional Development Day on 31 May 2019. He provided key updates on our work and advised stakeholders of the upcoming performance audit scheduled for tabling in June 2019, encouraging the sector to stay informed and look out for its release.

Tabling

We tabled the report in Parliament on 19 June 2019. On the same day, we:

- published the report on the VAGO website, along with an explanatory video (which received 1,900 views) and a presentation
- distributed it to representatives of the audited councils, the Local Government Inspectorate, Local Government Victoria, the Municipal Association of Victoria, LG FinPro, IBAC, and the Victorian Ombudsman.

The report received significant media coverage upon release. Our records show that the Minister for Local Government also wrote to all councils to address the report's findings and recommendations.

Post tabling

Our records indicate that VAGO representatives presented on the audit at LG FinPro and at the Australian Public Sector Anti-Corruption conference in 2019. Subsequently, VAGO engaged with the Local Government Inspectorate and IBAC regarding findings relating to Ordinary Returns.

The report's release was also communicated by the Financial Audit Sector Director for Local Government to all Chief Financial Officers and Audit Committee Chairs via our monthly status updates in July, August and September 2019.

While working within modest financial resources for engagement and communication, we believe the steps taken to share our findings with the sector reflect an appropriate and considered approach. We gave local councils and key stakeholders several opportunities to review and consider our findings and recommendations, to helping them think about what these mean for their own systems and processes.

3. VAGO's submission noted that 'financial and performance directors from VAGO meet with Local Government Victoria (LGV) monthly to discuss the status of performance and financial audits underway and activities happening across the sector'.

a. What more could LGV do with this information to improve the fraud and corruption controls in the local government sector?

To clarify, VAGO's financial and performance audit directors meet monthly with LGV to discuss the status of ongoing audits and share insights on sector-wide matters from both financial and performance audit perspectives. These conversations are thematic in nature and do not cover specific council outcomes, in accordance with the confidentiality provisions of the *Audit Act 1994*.

We value these regular meetings as an opportunity to support LGV in promoting our work across the sector and encouraging councils to reflect on our reports and findings in the context of their own operations, helping to identify and address any gaps.

We don't have direct visibility of the specific actions LGV took following their engagement with us, so we can't provide an informed response on this matter. However, as noted above in relation to the 2019 report, our records show that the Minister for Local Government wrote to all councils to highlight the report's findings and recommendations. This was a strong and constructive step. A follow-up to that initial correspondence, if it hasn't already happened, could help keep councils accountable and clarify how they have assessed themselves against the report's recommendations.

4. VAGO's submission notes that 'there is no centralised reporting or repository of instances of suspected, alleged or proven fraud and corruption. Consequently, it is difficult to get a sense of its prevalence and seriousness across the sector'.

a. Could centralised reporting assist VAGO to measure the extent of implementation of their financial and performance audit findings and recommendations?

We note that reports of instances of suspected, alleged or proven fraud and corruption do not necessarily demonstrate ineffective fraud and corruption policies and controls, or a failure to implement relevant audit recommendations.

We consider that existing mechanisms provide more effective ways to determine the extent to which agencies accept and implement our performance audit recommendations to them, including:

- Publishing agency action plans in our reports to Parliament
- Monitoring implementation via agency attestation for its annual Responses to Performance Engagement Recommendations: Annual Status Update report
- Undertaking follow up reviews for a small number of engagements each year.

Centralised reporting would provide us and other integrity bodies with intelligence to inform risk assessment activities, including identifying areas of interest for future performance audits and reviews.

b. Which body/agency would be best placed to obtain/monitor such reports?

Any decision regarding which body or agency would be best placed to obtain or monitor centralised reporting would be a matter for government.

We note that:

- the Standing Directions require agencies covered by the *Financial Management Act 1994* to report actual or suspected significant or systemic fraud, corruption or other loss to the Auditor-General, responsible Minister, Audit Committee and portfolio department of the incident and remedial action (SD 3.5.3).

- the *Independent Broad-based Anti-Corruption Commission Act 2011* requires principal officers to report to IBAC any matter they suspect on reasonable grounds involves corrupt conduct (s. 57).

5. What would have been the benefits of scoping VAGO's audits so that the definition of fraud and corruption used aligned with relevant legislation used by integrity agencies?

a. What impact has a narrower scope had?

b. What action did VAGO take to ensure that the recommendations made across both audits aligned with the prevention, detection and investigation processes of the state's integrity agencies?

VAGO's performance audit *Fraud and Corruption Control in Local Government* (2019) and *Fraud Control over local government grants* (2022) used definitions of fraud and corruption consistent with AS 8001 *Australian Standard for Fraud and Corruption Control*. These definitions are consistent with relevant legislation used by integrity agencies.