

Response to Parliamentary Inquiry Follow-Up Questions

Introduction

We appreciate the opportunity to provide further clarification and responses to the follow-up questions posed in the recent Parliamentary Inquiry. The responses have been split into two sections, Section 1 being the identified questions on notice from the transcript and Section 2 being the additional questions noted in the email on the 14 April 2025.

Section 1 - Questions on Notice

Question 1.1: If there was standardisation, particularly even in the small regional cluster groups, would that then allow for some greater oversight or prevention of fraud and corruption, do you think?

Response:

Yes, greater standardisation within regional clusters may help establish baseline processes and promote shared oversight mechanisms. However, implementation must be scalable and context sensitive. Whilst standardised systems offer better visibility and uniform controls, councils without the means to upgrade must continue to rely on other fraud mitigation strategies, such as enhanced manual checks or shared audit services.

Question 1.2: Are there remaining challenges and, if any, what would be your recommendation?

Response:

While many of the Act changes and general reform have had some positive effects, ongoing challenges include resourcing constraints and financial constraints, particularly in smaller councils, and the pace of embedding new practices. A sensible approach could be to co-design scalable compliance frameworks with Local Government Victoria or other relevant agencies, which is also supported by targeted funding to help councils with the roll-out and help ensure that even the smaller rural councils can meet the requirements.

Question 1.3: In your experience, are there a number of councils that are not undertaking [fraud risk audits] as a matter of course at the moment?

Response:

While most if not all councils would include fraud audits in their rolling internal audit programs, there may still be variation in frequency and scope. Continuous encouragement to every council to embed periodic fraud audits into their core risk cycles is great and I think the audit committees would be doing more and more of this.

Question 1.4: Are there any documents from within that you have [on AI Governance in councils]

Response:

FinPro has hosted sessions introducing members to AI's applications and risks. This overall is a larger piece of work, in terms of templates and policies, however, happy to discuss further should the opportunity arise. Even from a whole of government perspective. Evidently, interest in growing in this space, and potentially over time, the development of a template policy may be a good initiative going forward, to help provide guidance on ethical, secure, and complain AI use in local government.

Question 1.5: Even just within the areas in your remit where you have had your own personal experience, do you feel that those council groups are prepared for these types of [cyber fraud] risks?

Response:

Based on my experience and sector engagement, preparedness has improved significantly in the past few years. However, cyber remains a fast-evolving risk. Councils, like most organisations and sectors, I am sure are at different stages of maturity. Again, when you have large for-profit organisations that are exposed to such risks, it means no organisation can ever say they are ever going to be risk free in this space. It is something that I am sure across the sector, via other agencies, all Councils, including small rural, can be provided with insights and guidance to assist them in being as best prepared as possible.

Section 2 - Additional Questions

1. Question 2.1: How can councillors and staff be best prepared for enacting effective controls from commencement of their duties?

- a. What challenges exist in developing fraud control guidance materials given the significant variation in size, resources and culture across councils?
- b. How might tailored training offerings for councils be developed and implemented in practice, considering this diversity?

Response:

- a) The diversity in council size, culture, and resources does make a “one size fits all” guidance scenario difficult. Cultural differences include different levels of risk awareness, leadership engagement, and maturity of internal controls, also mean that what works well in one Council may not be feasible in another. However, when it comes to education and training, this should not be as difficult. It should be focused on what to look out for and maybe scalable examples of small and large organisations and what have been effective controls.

Smaller Councils often can lack the capacity for in-house fraud control expertise or even dedicated risk teams. So, all of this should be taken into consideration.

- b) Training should be modular and scalable, delivered through online platforms and even at a regional level where possible.

Agencies could work together, such as Local Government Victoria, FinPro and/or MAV to collaborate on a tiered training program reflecting varying council contexts that would be delivered from the commencement of their role or duties. Councils could be grouped by similar size or type (e.g., metro, rural, interface) to enable more relevant training and collaboration. From a Councillor perspective, this is at election time and for staff as part of their induction.

Noting that a number if not most Councils, would have large portions of this already in place - maybe not standardised, but as part of induction of staff and Councillors alike.

Question 2.2: If mandatory training for councils on fraud and corruption controls was legislated to maintain consistent learning outcomes across all councils:

- a. What support is required from government to ensure all councillors and staff—including Audit and Risk Committees—can complete standardised training?
- b. What role could professional associations play in supporting councils to undertake best practice training? What can be learned from other jurisdictions?
- c. How can performance be tracked to determine if training is effective improvements?

Response:

- a) To support such a change, funding subsidies should be considered for all councils, but particularly smaller rural councils.
The development of high-quality, accessible training content delivered through flexible formats i.e. online modules, in-person workshops, and webinars—would ensure standardisation.
The consideration towards a consistent and centralised training portal that all councils can gain access to may also assist.
Lastly, annual refreshers supported through LGV and professional associations, would assist in this process. However, cost would have to be considered, because as we add these elements, it adds cost to Councils in an already tight fiscal position across the sector.
- b) FinPro, MAV, LG Pro and LGV can help and collaborate to help design and potentially deliver the best practice training required going forward. Just as they have as part of the implementation of the new Local Government Act 2020. I think we have found aspects of that have worked well, and led to some standardised training, such as in the Conflict-of-Interest space and general role of Council.

- c) This could be done in many ways I am sure, and there would be other areas to look at, or jurisdictions to see how they have measured this. But perhaps the use of pre-and post-training knowledge checks ins one way. How the audit committee gets involved in the oversight of the induction or training process. Or similarly, with the required reporting at a Council meeting, of all the induction training, the same could be said for fraud and corruption, so it is transparent as to who or who has not completed the training from a Councillor perspective. Even reporting uptake and impact in annual governance statements, similarly to what happens currently in the annual report.

Question 2.3: IBAC's submission noted that smaller communities, including regional and rural councils, have greater difficulties appropriately managing conflicts of interest. Resourcing constraints in rural councils were also noted in FinPro's submission.

- a. What other unique challenges are faced by smaller or regional/rural councils implementing effective fraud and corruption controls?**
- b. How can these challenges be addressed?**

Response:

- a) Again, from an overarching FinPro perspective, this would or should be surveyed to ensure accuracy of information and data. However, generally some of the challenges can consist of:
- Limited staff and generalist roles which can reduce fraud oversight or impact the ability of implementing segregation of duties controls (just like any small organisation in any sector).
 - Any level of staff turnover can have a greater disruption on control continuity.
 - Potentially less financial ability to invest in this area or in more controls.
- b) Some ways that councils can mitigate or manage some of these challenges could include:
- Ability for region of councils to pool fraud controls and training mitigations together.
 - As noted in my responses at the inquiry, providing simple fraud detection templates and fraud and corruption control plan templates that can be scalable based on organisation size.
 - Providing the grant funding that may assist in the greater levels of investment in this space.
 - Potentially an ability to partner with integrity bodies for pro bono assistance in audit diagnostics.

Question 2.4 Evidence to the Committee has indicated that there is a preference by council staff to report suspected fraud risks internally rather than initially escalating to integrity agencies.

a. What more could be done to ensure that council managers understand their internal reporting roles?

Response:

- a) This could take many forms, of which we are sure a number are in place across the sector:
- Clearly defined roles and expectations
 - Including internal reporting pathways in induction.
 - Promote anonymous internal reporting tools.
 - Use scenario-based training to illustrate proper escalation pathways for staff.
 - Encourage a culture of accountability and transparency.

Question 2.5 How do professional associations in the local government sector engage with VAGO?

a. Are sector-wide recommendations like those in the Inquiry audits regularly communicated to professional associations?

b. How could communications with VAGO be improved to ensure recommendations are known across the sector and tracked to determine adoption by councils and effectiveness of outcomes?

Response:

The sector engagement with VAGO I would like to think is strong. Particularly from a FinPro and VAGO perspective. VAGO issues regular status reports to senior members in councils and all professional agencies. VAGO also presents regularly at FinPro professional development days, where instances such as sector audits are communicated.

What FinPro would encourage is direct reporting of the VAGO findings to each Audit and Risk Committee, even if the audit was not specifically on the impacted Council. That way, it opens transparency, and the organisation can undertake a self-assessment on the findings. By sharing these findings, regardless of the direct applicability to the individual council, it enhances transparency and ensures that councils are keeping abreast of broader sectoral issues, risks, and best practices. This practice fosters a culture of openness and accountability, allowing councils to proactively engage with findings that may impact their own operations, even if they are not the direct subject of the audit. This approach provides the opportunity for councils to undertake a self-assessment considering VAGO's recommendations and findings.

If VAGO can continue the briefings that they do with FinPro and the sector, I believe this holds it in good stead.

An improvement could be for VAGO to provide a simple self-assessment checklist, accessible via a central dashboard, for councils to use in assessing their progress against recommendations. This would support internal reflection and allow councils to share high-level updates with VAGO in a way that is informative but not resource intensive.

Conclusion

In conclusion, our responses reflect our commitment to continuous improvement, noting that for consistently more accurate and comprehensive information, surveys of the sector on specific topic points, would aid in future document or template development. At FinPro, we look forward to continued dialogue and a collaborative approach working closely with government bodies, professional associations, and councils to address emerging challenges.