

# **PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE**

## **Inquiry into Fraud and Corruption Control in Local Government: A Follow Up of Two Auditor-General Reports**

Melbourne – Monday 31 March 2025

### **MEMBERS**

Sarah Connolly – Chair

Nicholas McGowan – Deputy Chair

Jade Benham

Michael Galea

Mathew Hilakari

Lauren Kathage

Aiv Puglielli

Meng Heang Tak

Richard Welch

## WITNESSES

Roberta Skliros, Assistant Auditor-General, Financial Audit,

Peter Graham, Deputy Assistant Auditor-General, Parliamentary Reports and Services,

Travis Derricott, Director, Financial Audit, and

Ben Hasker, Director, Parliamentary Reports and Services, Victorian Auditor-General's Office.

**The CHAIR:** I declare open this hearing of the Public Accounts and Estimates Committee and ask that mobile telephones please be turned to silent.

I begin by acknowledging the traditional Aboriginal owners of the land on which we are meeting, and we pay our respects to them and their elders past, present and emerging, as well as elders from other communities who may be here with us today.

On behalf of the Parliament the committee is conducting this Inquiry into Fraud and Corruption Control in Local Government: A Follow Up of Two Auditor-General Reports.

I advise that all evidence taken by the committee is protected by parliamentary privilege. However, comments repeated outside of this hearing may not be protected by this privilege.

Witnesses will be provided with a proof version of the transcript to check, and verified transcripts, presentations and handouts will be published on the committee's website.

I welcome representatives of the Victorian Auditor-General's office. We have got Roberta Skliros, Assistant Auditor-General, Financial Audit; Peter Graham, Deputy Assistant Auditor-General, Parliamentary Reports and Services; Travis Derricott, Director, Financial Audit; and Ben Hasker, Director, Parliamentary Reports and Services. I am going to invite you to make an opening statement or presentation of no more than 10 minutes, and this will be followed by questions from the committee. Your time starts now.

**Ben HASKER:** Thank you, Chair. Thank you for the opportunity to speak today for this inquiry. On behalf of the Auditor-General Andrew Greaves, we welcome the committee's interest in our two reports relating to fraud and corruption in the local government sector. The inquiry is a key mechanism to strengthening parliamentary oversight of the public sector. Andrew Greaves sends his apologies today as he is flying out to Perth to attend a conference for Auditors-General and staff from around the country.

In our reports to Parliament we may include recommendations both in performance engagements and also in management letters to individual agencies as part of our financial audit program. Our recommendations are intended to strengthen the controls with audited agencies and to improve their performance. However, our office has no power to compel agencies either to accept our recommendations or to act on them, and that is appropriate, because it is those who are charged with governance within each agency who are responsible and accountable for maintaining efficient and effective operations in compliance with the law. Given this, it has been our practice to follow up annually with agencies and ask them about how they are going in progressing the recommendations from our performance engagements, and each year we also conduct a separate follow-up on specific tabled performance engagements. In fact earlier this year, in February, we tabled a reporting on local government performance follow-up review. However, as you would be aware, we have not undertaken follow-up reviews on either of the two fraud audits that are the subject of this inquiry.

Councillors have obligations to establish and maintain good governance, and we have outlined what specific legislative and accounting standard requirements they are required to follow. We did that on page 18 of our June 2019 report.

Our two performance audits into fraud and corruption controls within local governments both showed that the controls are not always well designed or operating as intended. We did make 22 recommendations to the 10 councils associated with it across both audits. We have got senior staff here today from both the performance audit and the financial audit divisions of VAGO.

With regard to the areas that the committee was interested in specifically as part of our submission, I am going to talk briefly to the outcomes since the conclusions of those audits and my colleague Roberta Skliros will talk to how we engage with the audit committees and the sector more broadly and also some areas of key risk.

From the perspective of the audits, we do consider them in terms of their results and the impacts that are tied closely to the timeframe over which we expect to observe change. We are pleased that all councils fully or partially accepted all of our recommendations and provided detailed action plans. Eight of the 10 councils reported that they had fully implemented the recommendations, and only two councils, Hume city and Warrnambool, had one of their nine recommendations still to be resolved. Ultimately we seek for councils to establish and maintain effectively fraud and corruption controls so that they minimise fraud and corruption happening in the first place. We do note, however – and we note that this is an interest of the committee – that there is no centralised reporting or repository of instances of suspected or alleged or proven fraud and corruption. As a result it is difficult to get a sense of fraud and corruption prevalence and seriousness across the sector.

I would now like to hand over to Roberta, who is going to talk briefly about our broader engagement and communication in areas of risk.

**Roberta SKLIROS:** Thanks, Ben. Our submission to the committee also captures aspects relating to VAGO's financial audit activity. It explains that financial audits themselves are not designed to detect fraud. However, we must assess the risk of fraud as it may have a significant impact on the financial report of a council. If we suspect or if we identify possible fraud, we will be obligated to report this to councils. As part of the financial audit activity we also look at key systems, processes and controls surrounding a financial report, and where we identify weaknesses in those controls that may allow fraud to occur or for a fraud to go undetected we are required to report these to council management and audit committees.

We report on these internal control issues annually in our results of audits reports to Parliament, and you will note that our submission talks to two key areas in the 2022–23 parliamentary report which we believe have a likelihood of increasing the chance of fraud. The first finding relates to high staff turnover and extended vacancies based on the competitive labour environment that is experienced across the sector, potentially leading to loss of corporate knowledge and weakened control environments, including fraud controls. The second finding relates to weaknesses in information technology controls that we identify when we look at key systems that support financial transactions and balances. As the use of IT systems in the councils to manage operating and financial data increases, it is ever so important that councils focus on effective IT controls in this space, and that is because they reduce the likelihood of unauthorised access to systems and individuals changing council systems in addition to maintaining the integrity of the data of the councils. We have identified and continue to identify IT issues that we have raised that remain unresolved in past audits, and this means that councils are not acting quick enough to resolve the issues and, potentially leaving them exposed in this space.

Finally in the submission we share with you how we interact with the sector as it relates to audit committees and other industry bodies and the guidance that we may provide where we can to help them support and maintain robust control environments. I will hand back to you, Ben, to close.

**Ben HASKER:** We are now happy to take questions.

**The CHAIR:** Great. We are going to go straight to Mr Welch.

**Richard WELCH:** Thank you. Hi. I am Richard Welch, Member for North-East Metro. What surprises me through your study of it is that there seems to be a very great difference between best practice and worst practice council to council. Given that financial management and financial controls are a very

established, almost commodity level activity, why is that in your view? Why have you seen such a variation in practice council to council?

**Roberta SKLIROS:** May I ask which report you are referring to in this space?

**Richard WELCH:** Well, just simply from your submission. In here as well you have got cases where there is very weak practice, so I really am referring to your submission. There are cases where there is best practice. Obviously by omission there must be cases of good practice. Is there a systemic reason why there would be such variation between councils? They are all involved in the same activities; why would there be such difference in how they are operating?

**Ben HASKER:** For a start, in terms of systemic variation our reports look at the practices we see within the councils that we audit. We do not look systemically unless that is the focus of the particular audit. So in these cases we have got two audits here that are the focus of the submission. One is to four councils and one is to six. So we can only talk to the variations that you ask about that are specific to the questions that we asked for both of those reports. We do not get systemic reports on how councils are doing; we only focus on the terms of the objective of the audits.

**Richard WELCH:** Right. Okay.

**Roberta SKLIROS:** But in terms of the findings that relate to weaknesses in internal controls, across the sector we see varying maturity, and that is based on what may exist in terms of the capability and resources we find across the sector in that space. The maturity of the control environment may be stronger where you have got higher capability and higher access to financial resources to be able to support functions and practices across a council.

**Richard WELCH:** But I guess by extension then it is vulnerable to turnover. So it is not a hardened system that allows for process to continue irrespective of the individual filling the role –

**Roberta SKLIROS:** Yes, hence why we see that as a risk of increasing the likelihood of fraud and error.

**Richard WELCH:** I will ask for an opinion here, I guess: would any of these things be strengthened if we had a form of shared services between councils where we had greater shared services where some of these functions, particularly at the commodity level, if I can put it that way, were centralised so that you are not subject to the vagaries of individual councils' resources?

**Ben HASKER:** I do not think that we can accurately comment as to whether one system would be better than another. An analogy that the committee might be interested in is that shared services are often provided in the public sector. However, departments in the case of the public sector are often on the hook for making sure that there is appropriate fraud and corruption awareness training, and that is never done in a shared way; that is done individual agency by individual agency, so irrespective of any financial controls that might be provided in a shared system. There are various departments who share financial systems. Often it comes down to the culture and the onus of the individual departments, if that is sort of any use. But we do not see that in the local government council sector.

**Richard WELCH:** Sure. Just lastly, you said in your opening comments you did not find cases of fraud to pursue. When two people collude it is impossible to prevent a fraud. You therefore have to have the systems to catch it after it has occurred, because you cannot prevent fraud when there is collusion. Is it your suspicion that there are as yet unidentified areas of fraud that have evaded detection to date because there has been collusion but there are not the systems to actually catch it after the event?

**Roberta SKLIROS:** With respect to financial audits, we undertake a risk assessment in considering significant fraud. We can only comment in that we have not identified the risk of significant fraud through our financial audit process.

**Richard WELCH:** Yes. I will just drill down on that then. I would like you to comment generally. Do you find greater weakness in the systems that allow fraud, allow collusion, or greater weakness in the systems that do not catch it once it has occurred?

**Roberta SKLIROS:** We look at systems and processes that aid in the preparation of the accounts – the financial reports themselves. We do not go and seek detailed information further down, say, from a probity perspective or from a procurement perspective, so we do not have assurance activities undertaken in that space – in the financial audit space. I am not sure through your performance audits whether that was a key term of reference.

**Ben HASKER:** No, it has not been.

**Roberta SKLIROS:** So I cannot comment on that.

**Richard WELCH:** All right. Thank you. Thank you, Chair.

**The CHAIR:** Thank you, Mr Welch. We will go straight to Mr Hilakari.

**Mathew HILAKARI:** Good morning. Thank you so much for your attendance. I am disappointed that the Auditor-General could not be here this morning, but I really do thank you for your attendance and your evidence today. I might just continue on from where we were a moment ago. 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?

**Roberta SKLIROS:** Each council is established separately. They have their own reporting and governance structures. It is not something we can comment on –

**Mathew HILAKARI:** Established by an Act of Parliament?

**Roberta SKLIROS:** Yes. But it is not something we can comment on in this space.

**Mathew HILAKARI:** Do you think it would improve fraud and corruption controls?

**Roberta SKLIROS:** There are pros and cons to centralised systems, yes.

**Mathew HILAKARI:** Run us through some of pros and the cons.

**Roberta SKLIROS:** I am just conscious of talking about pros and cons without undertaking assurance activities in this space. We have not done any audit work in this space to capture and then be able to provide informed comment in that space.

**Mathew HILAKARI:** Happy to take that on notice and provide some further information?

**Roberta SKLIROS:** We will consider providing something in that space, yes.

**Mathew HILAKARI:** If there was one thing that you would like to see to limit fraud and corruption across local government, what would that be?

**Ben HASKER:** I think, as we have touched on before, in terms of the ultimate outcome of what we do, the ultimate outcome of all our recommendations is for the agencies that we audit to strengthen their controls. That will be seen in terms of follow-up audits that we do in the financial audit space but also in the performance audit space about the effectiveness of those controls. That is what we are always seeking to do.

**Mathew HILAKARI:** Okay. 'Not quick enough', you mentioned, Ms Skliros, a moment ago. Can you give us some examples of what is not quick enough in terms of their acting on recommendations?

**Roberta SKLIROS:** Yes. When we issue our management letters, issues are rated as low, moderate or high, and they have a time period attached to them. When we undertake an audit each year, we will raise

issues to council, to management and audit committee with those recommended time periods for action. When we indicate on an annual basis that something is unresolved, it means unresolved addressed against that risk rating and that time criteria.

**Mathew HILAKARI:** Do you have some examples of particular councils where they have not met those time periods?

**Roberta SKLIROS:** I cannot make comment on particular councils based on the confidentiality of our Act, but our results of audits report and our submission on page 5 demonstrate the type of issues that we identify and find in the IT space.

**Mathew HILAKARI:** Okay. I was hoping you might be able to provide some information on particular councils, but that is okay. You mentioned in your submission 'our financial audit staff and our authorised audit service providers'. I am interested in just the process that you get to in 'authorised audit service providers'. What is your mix of authorised audit providers versus internal staff? I am hoping to walk down the path of what equivalent full-time staffing roles are and all the rest there.

**Roberta SKLIROS:** In terms of our office? We undertake 50 per cent based on revenue of financial audit activity internally, and 50 per cent is undertaken by a qualified panel for our service providers. We have eight firms that sit on our panel, and they are mixed – two in the big four tiers all the way down to some smaller firms. We go through a deep empanelment process to have those firms work with us, and they are required to comply with not only the auditing standards and our *Audit Act* provisions but a whole suite of internal quality management processes to act on our behalf.

**Mathew HILAKARI:** Why don't you just have internal hires for those?

**Roberta SKLIROS:** If you look at the way in which our –

**Mathew HILAKARI:** Is it a timing thing?

**Roberta SKLIROS:** Yes. The number of agencies within Victorian government and the balance date with over 90 per cent sitting at 30 June – you would have to hold a very high workforce, which would be inefficient across years of non-peak periods, so we have outsourced part of it to be able to manage that smoothing process across the 30 June reporting period.

**Mathew HILAKARI:** Okay. Just so I am clear, so it is over a multiyear term you are worried about or – how is it that we cannot smooth out that half your workforce is externalised?

**Roberta SKLIROS:** There are over 550 agencies that we undertake financial audits over, and 90 per cent of those –

**Mathew HILAKARI:** So it is just the bulk at the end of the financial year?

**Roberta SKLIROS:** Yes.

**Mathew HILAKARI:** Okay. Fair enough.

**Travis DERRICOTT:** I think the other thing that is worthwhile just adding, touching on what Roberta was saying, is that under the *Local Government Act* there is that requirement for councils to present an annual report at a council meeting that is open to the public by no later than 31 October each year. With 79 councils, if you were to undertake all of those audits using in-house staff, really they take the month of July as a general rule to close their books for the financial year and prepare their draft accounts and supporting schedules. So the window that you would have to undertake all the audits is quite condensed. I guess our model has been one of using our in-house staff and some outsourced staff. But those eight firms that Roberta spoke to, we oversee their work and we have got I guess a framework in place where they are still subject to our direction and supervision and we are still responsible for signing the audit opinion in relation to the 79 councils. But to try and support the sector to satisfy their legislative obligations – that is the model that we have currently got.

**Mathew HILAKARI:** I am glad you said 'legislative obligations'. Shepparton, Strathbogie, Wyndham all failed to comply with the legislative requirement to accurately report council expenditure in their annual reports. This goes back some years now, so more than half a decade. What did VAGO do in terms of referring that on to any other appropriate authority to make sure that those legislative requirements were then met ongoing?

**Roberta SKLIROS:** We undertake our audit work over the financial report, not the annual report, so we do not look at the explicit requirements in the annual reporting – so the financial report being the back of the annual report. We do not look at compliance for the whole document itself.

**Mathew HILAKARI:** This is in your submission. But I am reading directly from your submission that Shepparton, Strathbogie and Wyndham have also failed to comply with all legislative requirements to accurately report councillor expenditure in their annual reports. Or am I wrong?

**Roberta SKLIROS:** No, that is for the performance audit work on Ben's side, so I will defer to Ben.

**Ben HASKER:** Can you just repeat the question so I understand where you have got that from?

**Mathew HILAKARI:** Yes, certainly. What did you then do to refer that on to any other agency that could take that up? Because I would have thought there were problems in not meeting legislative requirements.

**Ben HASKER:** Unless it is something of a fraud- or corruption-based nature where there are council obligations to actually report to IBAC in that situation, our remit is essentially on performance, and we do comment on that through our recommendations in the report itself – so no additional referrals other than the recommendations and the follow-up we do with those recommendations.

**Mathew HILAKARI:** If you come across a council or any other body that is not meeting a legislative requirement, it is just a 'not in our remit' and move on rather than get it on to somebody who should be looking at these matters? I am not saying it is VAGO's responsibility to get to that.

**Ben HASKER:** No. I suppose our starting point is one of our remit, which is performance and it is of transparency. By making them transparent and making those recommendations we feel like that is acquitting our responsibility, but also it puts the onus back on those who are responsible, which in this case are the councils.

**Mathew HILAKARI:** From your report as well, councils have updated their policy to include guidance on fuel purchases, and their policies have been updated. Have you done any subsequent work in terms of anything to say about their practices? Because policies are of course one matter, but the actual practices matter more than the policies themselves.

**Ben HASKER:** Yes. One of the things we mentioned in our submission was we have not actually done a follow-up of this particular two audits. Now, we do routinely every year –

**Mathew HILAKARI:** You do that yearly.

**Ben HASKER:** We do a follow-up of all recommendations annually, but also specifically we usually select some performance audits to do a deeper dive, if you like, into a follow-up. Now, we have not done that for these two particular audits. If you looked at our forward plan – and I think you are privy to our forward plan going forward – we have not scheduled specifically an audit about that in the local government sector. I think we have got an audit in the cybersecurity space for local government as part of the forward plan. But as always we are open to suggestions from PAEC and other agencies as to what we should include in our forward plan.

**Mathew HILAKARI:** On recommendation 3 and the status being complete – this is related to credit card policies, allocated cardholders, appropriate segregation – again, is there evidence that the culture has changed, or is it just similar: you have not undertaken that work?

**Ben HASKER:** Yes, that is right. So we have to do a follow-up to specifically examine whether what they said they have done has actually happened.

**Mathew HILAKARI:** Okay.

**The CHAIR:** You are almost out of time, Mr Hilakari.

**Mathew HILAKARI:** Am I out of time?

**The CHAIR:** Almost. We will come back to you.

**Mathew HILAKARI:** Okay. Come back to me later. Thank you.

**The CHAIR:** We will come back to you, Mr Hilakari. We are going to go to Ms Benham.

**Jade BENHAM:** Thank you, Chair. Just listening to information so far with regard to the submission, if there is no ability to compel agencies to implement recommendations and then you do not also refer when there is evidence of fraud and corruption going on, what level of importance do you think local government actually holds with regard to audits?

**Ben HASKER:** I suppose it is not just local governments; it is any agency that is subject to our recommendations. We cannot compel or make them act on anything, but we feel like transparency is a big part of what we do, and putting things on the public record for agencies to respond and making sure that those that are accountable do respond is a matter for them.

**Jade BENHAM:** With regard to transparency with audit and risk committees then – and the LGI in their submission noted that there is a lack of transparency and efficiency – what could be done better to improve that if again there is no ability for VAGO to compel any agency to implement recommendations? What can be done better to make sure that there is transparency, particularly with local government ARCs?

**Ben HASKER:** I think it is very difficult for our office to comment on what essentially is a policy matter for government in terms of what else could be done to improve the performance of agencies beyond what we do. That might be a frustration of this committee. We are always compelled to respond to the remit under which we are bound. We have mentioned in here that there is no central reporting and there is no repository of information for systemic awareness in local government, and that is a fact. Whether government choose to look at that further is a matter for them, but that is something that we have noted.

**Jade BENHAM:** I am still seeking some clarity. There are at least two, Strathbogie and Shepparton, as Mr Hilakari pointed out, that have not met legislative requirements – that has been noted. Yet it is just ‘This has been noted’ and nothing further happens about it. I am struggling to understand why local governments, their offices and their councillors would hold in regard any auditor investigation by any fraud or corruption committee or agency. Can you give me some clarity on that? Because it takes up a lot of resources and time, and particularly smaller councils, like Shepparton and Strathbogie, do not have extra resources.

**Ben HASKER:** To say they do nothing I think would be unfair and to say that they do not hold it any regard I think would be unfair, because what they do do, which we have said in our submission, is they do put up an implementation plan and they do have an action plan. They do follow up on that, and we follow up on them. They do assert that they have done what they have done, and we have the option going forward to then do follow-up inquiries or investigations or audits to ensure that what they have said they have done they have actually done. So I think based on their implementation plans that councils do take seriously the recommendations that are put to them.

**Jade BENHAM:** Is there any tracking of the implementation of the recommendations?

**Ben HASKER:** Every year we do a follow-up. We ask councils, in this case, and say, ‘How are you going with your recommendations?’ And they provide us with the status report. We then publish that on

our website, and we have provided a link to that website as part of our submission. To the extent that we track what they say they are doing – we do.

**Jade BENHAM:** So it is a case of the council simply reporting back to your office?

**Ben HASKER:** Yes. It is an attestation by them, that is right. Depending on what we do when we look at all our risk profile, we may choose to follow that up in a specific way or just through the annual process of ‘How many actions have you implemented and how many have you not?’

**Jade BENHAM:** If they come back to you and say that they have not commenced implementation of any of the recommendations, what is the action from there?

**Ben HASKER:** Often that is part of our risk assessment for our all-performance audit program. When we choose selected audits to go and do a follow-up and a deep-dive inquiry, we will look at what the level of response has been. If there has been very little response, that may well make us go and have a look.

**Jade BENHAM:** When you say, ‘Go and have a look’, would that be a follow-up audit?

**Ben HASKER:** A follow-up audit, a specific audit, yes. I think I mentioned in the opening remarks that we did a follow-up on local government reporting, which we tabled in February of this year. That is an example.

**Jade BENHAM:** Okay. All right.

**Travis DERRICOTT:** If you like, because I know Ben is obviously in the performance audit space, from a financial audit point of view we do have issues that come to light as a part of our audits. They are communicated to the councils and management and their audit risk committee through what we call our final management letters. The final management letters are not external public documents, but through our audit process we do track management action against the issues that we raise. They will continue to remain open until management has taken the agreed action.

There are times when with an agency that we audit we might put forward a recommendation in terms of our observations, and they may disagree. For any organisation we encourage them to obviously assess risk and then, if they decide to accept the risk, where there is an opportunity, to strengthen an internal control or a process. Again, as the governing body are responsible for the operations of the organisation, the record keeping and the safeguarding of assets, if they consider the matter to be such that they are willing to wear the risk, they will indicate that to us and we will note that. If we see issues remaining open for a longer period of time than we would expect based on what Roberta mentioned in terms of low, medium or high risk ratings. Obviously if there is a high-risk issue we would expect it to be closed out a lot quicker than a low-risk issue.

We reflect on an annual basis in terms of what issues are being raised: are they being closed out or are the organisation are ignoring it? Maybe that is not the right word. But if we are not seeing traction or action, which might be a reflection of how effective their governance arrangements are, we may then increase our risk assessment and alter our audit plan and the testing that we do in the subsequent financial audit. Then I guess the report that we table in Parliament on an annual basis called ‘Results of’ – whatever financial year it is – ‘audits: local government’ is where we try to share with the broader Parliament and the community key themes that we are seeing in terms of all our financial audits across the 79 councils. We try to bring that to light, and again we track, as you will see in our reports, how many open issues that we have that relate to the current year and how many are carrying forward from previous years. Once we have identified something that we believe requires attention we do try to track the action being taken.

**Ben HASKER:** That report I think is tabling on Thursday this week.

**Roberta SKLIROS:** The most updated version.

**Jade BENHAM:** And that is the first time that those letters of management are available to the public? They are not available to the public before then?

**Travis DERRICOTT:** Even the management letters are not available to the public. We sit back and look at the 79, and then we bring the key themes up to the report to Parliament.

**Jade BENHAM:** Even if there are issues in particular local governments, ratepayers are not aware of it, so there is no transparency there at all for the ratepayers and residents of that council that there is potentially a major issue or a high-risk issue?

**Travis DERRICOTT:** Yes, that information is not publicly available.

**Jade BENHAM:** Thank you.

**The CHAIR:** Thank you. We will go straight to Mr Tak.

**Meng Heang TAK:** Thank you, Chair. Thank you for your presentation. I have just a follow-up question following on from your answer. What more could Local Government Victoria, LGV, do with this information to improve fraud and corruption control in local government agencies?

**Ben HASKER:** I do not think we have made specifically many comments about what Local Government Victoria are doing with these reports. I think it would probably be a matter for them as to what more they could do. I am not sure – I assume you are talking to them as part of this inquiry.

**Meng Heang TAK:** That is right.

**Ben HASKER:** I think I will just leave it to what we have said in our reports in terms of what else they could do. If we make recommendations specific to them, then that is what we think they should do, but where we have not said anything more, then the submission speaks for itself.

**Meng Heang TAK:** All right. Thank you. Moving on to cybersecurity and grant funding in this digital financial system, evidence to the inquiry has indicated that there is increased risk of fraud and corruption from inadequate cybersecurity, particularly in relation to grant funding and digital financial systems. Many of VAGO's medium- and high-risk findings from the 2022–23 audits on local government reports also relate to IT control. Can you tell us what relationship inadequate IT control has to fraud and corruption risk?

**Roberta SKLIROS:** Where we find weaknesses around systems that maintain key transactions and balances – you will see in the submission on page 5 the types of issues they relate to. If you have a look in the submission, you have got things such as access management. That is about protecting who can access systems and what they can do within systems. Some people have privileged access, others do not. If you do not have strong controls around who you are allowing in your system, that can create issues. Things around audit logging and monitoring – so how well is the activity within the system being monitored? And then the other is things such as intrusion detection, which monitors traffic through the system and searches for any inappropriate activity. That is another high area there. You have got other things such as your policies and procedures, how well established they are. If there are weaknesses in areas that are protecting your systems, there is a higher chance for inappropriate activity to occur in those systems.

**Meng Heang TAK:** And that also includes foreign influence and economic coercion risk?

**Roberta SKLIROS:** Yes.

**Meng Heang TAK:** Moving on, what can be done by councils to mitigate all of these risks?

**Roberta SKLIROS:** We look at the IT system controls every year as part of a financial audit. We are continuing to raise issues in this space, and we are seeing a pattern of those issues being unresolved. The strongest thing that councils can do is to react and respond and address those issues.

**Meng Heang TAK:** All right. Thank you, Chair.

**The CHAIR:** Thank you, Mr Tak. We are going to go to Mr Puglielli.

**Aiv PUGLIELLI:** Thank you. Good morning. With regard to fraud controls, in the view of VAGO, what supports are needed to ensure that smaller councils are not unfairly disadvantaged in implementing fraud controls and relevant protections?

**Ben HASKER:** I think you are talking to smaller councils and what else could be done. I am not sure whether you are talking about the funding available to them, and obviously we do not comment on that. Our comments are specific to the councils that we have audited, and it is a matter for the management of those councils to operate within their resources and respond to the risks that we have identified and the recommendations that we have made, so we cannot make any comment beyond that.

**Aiv PUGLIELLI:** Okay. I appreciate that.

**Roberta SKLIROS:** Just on that, more generally, though, given the sector is quite big and you have got varying sizes of councils across, there are lots of industry groups – there is FinPro; there are conferences and attendance at Local Government Victoria. We would really urge the small councils, if they do not already, to try and liaise with the larger councils and learn from them, share knowledge and access information from them that may assist them in maintaining robust control environments.

**Aiv PUGLIELLI:** Thank you. Just to follow on, is VAGO aware if there has been any increase in support to particularly smaller councils from other levels of government to ensure that they can actually implement these controls, these protections, or, as potentially I think you have indicated earlier, are they being asked to take additional steps from within the same limited budget?

**Roberta SKLIROS:** I am not aware.

**Ben HASKER:** No, I am not aware.

**Aiv PUGLIELLI:** Okay. Thank you. Is there any risk identified by VAGO of, say, smaller councils being disadvantaged through implementation of these relevant controls and protections?

**Roberta SKLIROS:** The only thing I can point to is where we make reference in our submission and our report last year about the higher staff turnover and extended vacancies for smaller councils, and obviously that loss of knowledge, that loss of understanding may impact the strength of the control environment, which includes management of fraud.

**Aiv PUGLIELLI:** In VAGO's view, what was some of the rationale behind that turnover that you were seeing?

**Roberta SKLIROS:** The competitive nature of the labour market at the moment, particularly post pandemic. I think it is harder to also access resources the further you go out from the centre of Melbourne through to the regions in Victoria.

**Aiv PUGLIELLI:** If we are talking about maybe preventing that turnover from occurring in the first place, is VAGO aware of anything in place that is there to assist those councils to retain and attract staff to prevent that turnover, given the risk that poses potentially to fraud and corruption?

**Roberta SKLIROS:** No, I am not aware of anything. Travis, in your industry engagement, are you aware of anything?

**Travis DERRICOTT:** No. I think some of it is linked to geographical location, population, the amount of resources they can tap into, possibly the remuneration that might be offered. I mean, the remuneration is all going to be linked to the size of the organisation and complexity and turnover. So there will be a number of different factors that I think would be impacting the turnover at the smaller councils.

**Aiv PUGLIELLI:** Thank you. With regard to recommendation 10 in your submission, recommending that Victorian councils develop mandatory training for staff and councillors, it is noted, for context, that:

... audited councils deliver fraud training, but attendance records show that none has ensured that all staff have completed it.

What is the reason for this?

**Ben HASKER:** I cannot give you an answer to that. That would probably be a matter for the council. I do not have the reasons, certainly not at hand, but potentially, if we did a follow-up, we could explore that.

**Aiv PUGLIELLI:** Sure. That is all from me. Thanks.

**The CHAIR:** Thank you, Mr Puglielli. We will go to Mr Galea.

**Michael GALEA:** Thank you, Chair. Good morning. Thank you very much for joining us. Just to begin with, I notice from I think report 316 on local government grants, you have done a very helpful table showing the difference in spending on grants between the councils you audited, both in raw numbers but also per capita. In particular it is notable that regional councils are spending more per capita on grants – in one case extremely more. But on average it appears that they are spending more per capita on these grants than the outer metro councils that you examined, Hume and Knox. I am just curious if you believe that there is a pattern to that and that that would be likely replicated across other councils. Firstly, can I ask you if that is something you have observed?

**Ben HASKER:** No, I could not comment on whether there is a pattern to it or not, and it has not been a focus of the audits.

**Michael GALEA:** Do you think it speaks to a horizontal fiscal imbalance between councils that outer suburban councils have more demands on them, more pressures, and that is why their grants are less?

**Ben HASKER:** Again, I think that is really a policy matter that we would not comment on.

**Michael GALEA:** In the same report, at section 2.2, page 20, you discuss how Loddon shire has, or at least had, a fairly interesting ward-based approach to grants, which the report criticises – that the council puts \$50,000 per ward as well as a revolving \$500,000 grant that goes ward to ward. I am just curious. I know, living in an outer-suburban council area myself, that people in different pockets often say that our area is being neglected. I know that you have criticised this, but does this approach not show the community that it is actually being balanced and that it is trying to engender some faith in the system if it is showing that every ward gets its fair share? For example, if you live in Boort and you think that Wedderburn is getting all the attention, you can actually see: 'Well, here's 50 grand just for my ward.' Is that a fair criticism?

**Ben HASKER:** I think we made a specific recommendation about that in the reports, and I think if you looked at the follow-up and the responses by the council – they did a cost-benefit follow-up themselves in response to that and were satisfied with their allocation of audits. We have gone as far as we think we can in terms of making recommendations about whether or not that is a good idea, and then it is for the councils to respond and put that on the public record, which they have done.

**Michael GALEA:** Of course. So it is an approach that VAGO would not generally support, is that fair – a ward-based grant structure?

**Ben HASKER:** I do not think we would say one way or the other. We would just look at the allocation and the process and the criteria and the evaluation, and if we thought that any of those aspects of grant allocation are falling down, we would highlight those and make recommendations accordingly.

**Michael GALEA:** Thank you. Obviously where you are doing a follow-up audit inquiry into these two audits, specifically in relation to 316, are there any particular areas that you think we should be focusing on that you believe might warrant further investigation by this committee?

**Ben HASKER:** I do not have a specific answer for you on that one. All the recommendations that we put forward we thought were the issues of the day, and I think, with perhaps one exception in the recommendations, all of those have been responded to and fully completed, at least as attested by the agencies. Unless we go back in again and have another look, we are fairly comfortable with what we have put on the record.

**Michael GALEA:** Thank you. Mathew, do you have anything?

**Mathew HILAKARI:** Yes, I will have a go. I am just checking, in terms of your financial and performance auditing, what you think the greatest risks of fraud and corruption are and how that might have changed between 2018–19 and 2023–24.

**Ben HASKER:** Do you want to talk from a financial audit perspective?

**Roberta SKLIROS:** In terms of greatest risks?

**Ben HASKER:** Yes.

**Roberta SKLIROS:** I think the risks for us –

**Mathew HILAKARI:** I was a little worried about petrol cards, but I am a lot worried about contracts and really substantial spending that councils undertake.

**Ben HASKER:** I think I would be hesitant to talk about one risk being particularly greater than the other. We did an audit more generally on fraud and corruption control in the public service in March 2018 as well, and we talked about fraud and corruption on the HR side, the human resources side, as well as fraud and corruption on the procurement side. That provides a framework for assessment of fraud and corruption for similar sorts of areas, if you like, in local government. The other thing that I point to is that, in terms of the practices, processes and controls in place, there are good standards out there that talk about better practice. That is one of the things that we have pointed local government to, and that was highlighted in that audit you were referring to. Beyond that, I think it would be hard for me to single out a particular risk.

**Mathew HILAKARI:** What are your concerns around the HR side of practices that exist?

**Ben HASKER:** We have touched on it, and I know it is not a specific focus of this in particular, but it was a report that we tabled the year prior. We just talked about the risks that play around employment screening around declarations of private interests, and those risks equally apply in the local government space.

**Mathew HILAKARI:** Just in terms of transparency of presentation of budgets that councils undertake – you know, if we think about the presentation of budgets that are available online to the general community – do you find that they are adequate and go into the specifics enough? I note some line items in budgets are almost a million dollars on occasion without any adequate explanation of what that expenditure is for. Are you finding that that is, in your opinion, something that is meeting the standard and threshold of what the community would expect?

**Ben HASKER:** It is not something that we really specifically focus on other than through the financial audit work, in terms of the accuracy or the completeness of the information they put up in their budgets, so unless that was a focus of our audit, I would not comment.

**Mathew HILAKARI:** What would be best practice? For the layperson to have a look at a budget, should they be able to discern fairly easily what that money is being spent on?

**Roberta SKLIROS:** We are always in the space of wanting to make sure that what is being put out in the reports is clear and easily understood. If there are items that are significant and material that do not provide any context, it is not very helpful for a user. The user needs to make decisions about what information is being provided to them. It is not that we under our remit look at budget context, but we

would be very supportive of things making sense, being very clear and for a user to be able to pick them up and have a clear understanding and make a decision as a community member.

**Ben HASKER:** I might just add to that. In terms of clear accessibility and visibility of information, we do do performance audits and limited assurance audits around major project performance reporting, and we do touch on that. That is not specifically for this space here but to give an insight about what we consider to be reasonable from the public's perspective as to what sort of information they need. Those sorts of reports talk to that.

**Travis DERRICOTT:** Maybe if I just add one comment. Local Government Victoria play a lead in that budgeting space, so they develop and provide a template that they like to get all 79 councils to comply with, I guess to get a degree of consistency. So perhaps if there are further questions around that template and the level of detail and how it breaks down some of the budgeted costs, that might be something that is worthwhile taking up with them.

**Mathew HILAKARI:** I will take your advice on that. Thank you very much. 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?

**Ben HASKER:** It is not a question I am prepared for, so I would have to go back and have a look and look at the public information in order to give you a good answer there, which we are happy to take on notice.

**Mathew HILAKARI:** Fantastic. Have I still got time?

**The CHAIR:** Yes.

**Mathew HILAKARI:** Great. I am hoping you can provide a data breakdown across the interface – large, metro, regional and small councils – for that if possible and if there is a way that you can discern what might work better for some versus others. I have got a broader question about the audit and risk committees. Are they effective, the audit and risk committees, as they are currently set up? Do they have the right personnel? Are they meeting the needs of councils?

**Ben HASKER:** Do you want to have a go?

**Roberta SKLIROS:** Do you want to touch on this space with your experience? Or I am happy to jump in.

**Travis DERRICOTT:** Yes, maybe I will go first and, Roberta, you just jump in. Again, I probably would just direct the committee to our results of the 2022–23 audits local government report. We did have a recommendation in that report around LGV and/or MAV maybe being best positioned to provide some ongoing guidance, support and training to councils, including audit and risk committees. With audit and risk committees generally the composition is a mixture of councillors plus some independent members. I guess our reflections through the 79 audits in 2022–23 were that we do see variability in terms of the maturity of different internal control frameworks, which Roberta touched on. Part of that is obviously the operation of audit committees and reflecting on some of the questions and what we see. We see that there was a gap or there was an opportunity for LGV or MAV to provide more guidance, support and training to assist audit committees, if that helps.

**Mathew HILAKARI:** That does. Okay, great. Thank you.

**The CHAIR:** Ms Benham.

**Jade BENHAM:** Thank you, Chair. Just going back to my questions from earlier and the letter of management that we were discussing, we established that the public are not aware of the extra scrutiny in their municipality. Is the minister made aware of that at that stage?

**Travis DERRICOTT:** The issues that are included in our final management letter are not shared with the Minister for Local Government either. Again, the key themes from our audits get rolled up into our results-of-audit report.

**Jade BENHAM:** So it is effectively left for the councils to manage themselves until that report is tabled in Parliament?

**Travis DERRICOTT:** Well, the issues that come out of individual audits, yes. Our responsibility under the auditing standards is to bring those to those that are charged with their governance. So the councils and the senior management will be responsible for responding to the individual issues that we include in our final management letters, and then we just sit back and try and summarise the key themes and report those via our report to Parliament.

**Jade BENHAM:** Extraordinary. Thank you.

**The CHAIR:** Thank you. Mr Welch.

**Richard WELCH:** No, that was with my question.

**The CHAIR:** Mr Puglielli.

**Aiv PUGLIELLI:** Thank you, Chair. Just one more from me: with respect to the VAGO audit and its scope, can I ask why election fraud and corruption were scoped out?

**Ben HASKER:** You are talking about the first audit, the fraud and corruption in local government audit?

**Aiv PUGLIELLI:** Yes, that is right.

**Ben HASKER:** This is going back a little while now – June 2019, that report was tabled – and we make decisions at the front end of every audit as to what is in and what is out, so the audit team at the time would have decided that these were the main areas of fraud and corruption risk as per the standards, as per the requirements. So they made that judgement at that time. I would have to go back to the audit record to see whether there was a specific omission or anything like that around the area you are asking about.

**Aiv PUGLIELLI:** If that is something you can provide, that potentially would be useful for assessing scope here. Just to query what you have said: 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.

**Ben HASKER:** Really it would not be a focus of one or the other, it would just be when we decide to look at a particular area. So in this case, fraud and corruption in local government control – we have decided to look at that rather than say, ‘Okay, what about the electoral side of things?’ So I suspect it was not a consideration as to one or the other, but I would have to go back and look.

**Aiv PUGLIELLI:** Thank you.

**The CHAIR:** Thank you, Mr Puglielli. Mr Welch.

**Richard WELCH:** Thank you. Just following up on the question regarding reporting to the minister: from VAGO’s point of view, would there be any operational challenges to giving more real-time reporting, particularly if you have identified an area of material risk? It seems very late in the day to be waiting for an annual report to be addressing that. Is there any operational obstacle for you giving more real-time reporting on material risk areas?

**Roberta SKLIROS:** I think it comes down to probably the nature of the risks. The risks that Travis is referring to relate to risks associated with the financial audits, so risks around the compilation of the financial statements. Some of them can be quite low in nature and very operational, and the nature of them

would not need to make their way up all the way through a council and through a governance structure. I think what I am trying to get at is the nature of what needs to be reported is probably something that is quite simply managed administratively. Where there are significant items that we face in the council sector, you will see our reports talk about judgement associated with valuations of assets, for example; they are very accounting-related matters.

**Richard WELCH:** But where you have got areas where you are not seeing mitigations implemented the way you would like to see them implemented, you are considering further investigation.

**Roberta SKLIROS:** So you are referring to the follow-up reports from our performance audit activity.

**Richard WELCH:** Yes.

**Ben HASKER:** I think your question is: should we be escalating those further or is there a mechanism for escalating them?

**Richard WELCH:** Escalating, or not even a matter of escalating –

**Roberta SKLIROS:** More timeliness.

**Richard WELCH:** just simple transparency to the ministers so the ministers are aware in real time.

**Ben HASKER:** We are a little confined with that in terms of what we can do and what we should do. Our remit is not to report into the ministers, but where we see something, our main mechanism under our Act is to report them through the reports that we table in Parliament, and that is what we are limited to do.

**Richard WELCH:** So you are actually constrained by law from providing a minister with timely –

**Ben HASKER:** We cannot put anything on the public record unless it is through a report or it is publicly available information, and that is what our Act constrains us to do.

**Richard WELCH:** Thank you.

**The CHAIR:** Thank you. Ms Benham.

**Jade BENHAM:** Is there time for one more?

**The CHAIR:** Yes, quickly, Ms Benham.

**Jade BENHAM:** Just with regard to that then, following on – and it may not be public information – wouldn't it be a case of if there is collusion or if there is evidence of even low-level fraud and corruption, notifying the minister would be of benefit so that the minister is aware before the reports come out?

**Roberta SKLIROS:** Where we identify instances of corruption we have obligations under our Act to report them to IBAC.

**The CHAIR:** Thank you. Mr Galea.

**Michael GALEA:** Thank you, Chair. Thanks again. I have just one more question. The report into fraud controls in grants also discusses an example of a community asset committee. You do have West Wimmera, one of Victoria's smallest councils, audited here. Often with these committees it is very hard to get volunteers, and it is easy to see how councillors themselves or council staff might end up sort of involved with that, especially for those smaller councils. Is there anything in particular that you would be mindful of that they would need to be doing to avoid those conflicts emerging, especially where it is small communities with small populations and people wearing many hats, as opposed to a metropolitan council? Or from your point of view, should it be one size fits all?

**Ben HASKER:** I think it is difficult to be one size fits all for everything, but in terms of the recommendations that we made in that, I think we made some specific recommendations about councillors

being removed from the process. I think those recommendations apply irrespective of the size of the council.

**Michael GALEA:** Thank you.

**Travis DERRICOTT:** I was just going to say that under the *Local Government Act* there are some fairly clear requirements in terms of special interest returns – having the CEO summarise information biannually in special interest returns – so I guess those councils and senior management are meant to be declaring matters which might impact their public duties.

**Michael GALEA:** And that is where you found the basis for these recommendations in some cases where this has not always been complied with in the audited councils in terms of that –

**Travis DERRICOTT:** I am not sure whether that happened with that particular –

**Michael GALEA:** Not specifically for the community asset committees, but in general you found those recommendations based on things where notification otherwise could have helped. Indeed in some councils you found that they were doing the right thing in some grant processes but not others.

**Ben HASKER:** Yes, that is right.

**Michael GALEA:** Thank you.

**The CHAIR:** Mr Hilakari, you have got about 60 seconds.

**Mathew HILAKARI:** Great. VAGO representatives on audit and risk committees – what is the role that they play? Do they champion the recommendations that VAGO has more generally made?

**Ben HASKER:** Do you want to have a go?

**Roberta SKLIROS:** We can. We attend the audit committees as part of the financial audit activity. Yes, we are there to convey key messages about the financial audit itself, but also we play a role in communicating key issues that may be occurring from our report. So, for example, when these reports were tabled, they were referenced and strong recommendations were made to councils to consider the recommendations and how they might impact their own operations.

**Mathew HILAKARI:** With things like three out of four councils not having fraud and risk registers, they would be in there saying it is time to put these together and make sure that they are available and part of normal council business.

**Roberta SKLIROS:** Yes.

**Mathew HILAKARI:** I think that is my 60.

**The CHAIR:** Thank you, Mr Hilakari. Thank you very much for appearing before the committee today. The committee is going to follow up on any additional questions or questions taken on notice in writing, and responses are required within five working days of the committee's request. The committee will now take a 5-minute break before recommencing the hearing. I declare the hearing adjourned.

**Witnesses withdrew.**