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

WITNESS

Tony Rocca, President, Local Government Finance Professionals.

The CHAIR: I declare open this hearing of the Public Accounts and Estimates Committee. I 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. 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, any comments you make 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 placed on the committee's website.

I welcome Mr Tony Rocca, President of Local Government Finance Professionals. Mr Rocca, I invite you to make an opening statement or presentation of no more than 5 minutes, and then the committee will have some questions.

Tony ROCCA: Thank you, Chair. Good afternoon, Chair and members of the committee. Thanks for the opportunity to speak today. I only have a few words to say in the lead-up, but as you mentioned, I represent FinPro, which is a peak body in local government providing all 79 councils with a level of insight, leadership and training, including CPD hours and an opportunity to share what works really well and the learnings within the sector. Our members work, as I said, across all 79, which includes small rural shires as well as large metropolitan councils. Fraud and corruption control is a matter of professional integrity and public trust, and FinPro welcomes this inquiry.

Firstly, on the issue of providing consistent fraud and corruption guidance across a diverse sector, the variation of council size, resourcing and culture can be quite diverse across the 79 councils. While some councils have dedicated risk and even potentially audit staff internally, others operate with leaner structures. This can sometimes create uneven capacity to implement or even monitor controls as regularly as others do. For example, the 2019 audit found basic tools like fraud incident registers and whistleblower procedures were in place in some councils but not necessarily in all councils. The lack of standardisation and sector-specific guidance in some areas means that fraud control practices can differ when you have got in-house development of those templates.

Secondly, the *Local Government Act 2020* I think has brought about some really important reforms that have been quite positive for the sector. Notable ones are the requirements for the audit and risk committee, stronger financial management principles and a greater level of transparency or focus on transparency and how local government processes and policies are all meant to integrate with one another – your budget, your financial plan, your revenue and rating plan and so on. This has led to a greater level of transparency for the sector and I would say a lesser opportunity to conduct fraud when you have got that level of integration between key strategic documents. However, since the Act, we did identify that there were some weaknesses. Notably, the grants review did take place after the Act, albeit only a year or so after, so the opportunity to implement some of those Act reforms probably was still being embedded at that time.

The third one is regarding staff awareness of reporting obligations. Most councils have appropriate policies in place, and many from our understanding run fraud awareness sessions frequently and incorporate this into their staff induction. But training content must stay current, and access to reporting mechanisms must be clear. Some audits found procedures sometimes could be dated or need to be more frequently updated to ensure consistency.

Just finally, on the IT-related fraud risks, councils increasingly rely on digital systems, like most organisations and sectors, and the integrity of those systems becomes critical in terms of mitigating fraud and ensuring that systems are not infiltrated both internally and externally. Some councils do lack the dedicated cybersecurity resourcing, and again that is a financial element that councils have to consider, especially where it is not seen as a mandatory requirement and some councils are working with limited resources and have to really be sure of where they apply finance resources or resources in general when there are statutory versus non-statutory obligations. However, we encourage investing in sound IT governance, access management, data analytics and system audits quite regularly, and we talk to this at any opportunity with our members.

In summary, the sector has made real progress but challenges remain. Councils need consistent support and scalable tools, and FinPro is committed to working with integrity bodies, departments and all our councils to strengthen control and public confidence.

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

Richard WELCH: Thank you. Thank you, Mr Rocca. In equivalent-sized corporates in the private sector, fraud and governance systems are pretty much baked in, and if you go from one to another, you will not find much difference between them. The major difference might be which version of the software or software systems they are using. My two-part question is: why is there so much variation between local governments in terms of the baked-in rules and the gap between best practice and worst-case practice, and has there been enough investment by local government into the software systems themselves that would put them on a par with most corporates of that scale?

Tony ROCCA: I will answer the first part first. Across the 79 councils our understanding is that there are about seven to eight different finance systems – if I focus on the finance system and what could leak in that space. There are seven to eight different finance systems across the 79 councils, which means you are dealing with different vendors, different levels of capacity and a different scope to integrate or bake in some of those requirements that have become probably more and more necessary in recent times. When I say 'recent times', fraud has changed in terms of its evolvement, including the cyber component, and some of those systems perhaps have not kept up to pace with what we would be seeing as baked-in requirements. Obviously the financial constraints on councils have been long standing – we know about the Parliamentary inquiry into financial sustainability in local government – and perhaps systems, I would say, need heavier investment more generally, but that has not been a space that councils focus on given there are community aspects that take priority.

Richard WELCH: Sorry to interrupt, Tony, but could I ask: do you know, with those six different software types, if the service contracts for those systems say that they will automatically update for regulatory changes or do the councils have to pay them for that and therefore have a risk of not keeping up because they cannot afford to?

Tony ROCCA: Obviously I cannot speak to every council and their individual contract needs. I am aware of ones – for example, our one – where it is definitely within the contract requirements to do so. However, I cannot speak to every single council and the seven to eight different systems. But evidently as councils move to new systems or go out to tender, that should be something that is encouraged to be within the tender specifications, most definitely.

Richard WELCH: Would you recommend that councils move to harmonise their platforms?

Tony ROCCA: Yes. This is a topic that comes up regularly within our sector and within FinPro specifically. We do lots of benchmarking work to understand what the implications are and what the current systems are with the idea that there is an ability to move and create some consistency and standardisation. It is definitely where the sector is trying to move. Obviously is a big beast to move it at any one time, but it is definitely a priority area.

Richard WELCH: Thank you. Not a million miles from that, does your body have a view on the degree to which we should make certain functions shared services? Where they are in effect a commodity-level activity, not a value-added activity, should we do more than harmonise and actually unify?

Tony ROCCA: I would say as FinPro, shared services are something we regularly explore, whether that is systems or procedures and processes that are quite consistent and should be quite consistent across all councils. That is something that we are looking to encourage within the sector and also in other bodies that play a part in this space. There are lots of council regional bodies that play a big part in it. Probably that is a good starting point, and that is how we have been working through those channels. But it is definitely something that –

Richard WELCH: There would be pros and cons in that, though – that it could become too unwieldy or something that was non-responsive to local needs.

Tony ROCCA: Like any organisation there are certain processes that organisations adopt or that have been in place for a long time, and to get that synergy between different organisations, whether you are a council or any other organisation, is sometimes the most challenging part. What we have found where it has worked is we know in some regional areas where they have done joint procurement on finance systems and ensured that they all go out with the same finance system, the same procurement processes and the same payment processes; it typically leads to at least an understanding and being able to input the same level of insights into the system – if that answers the question.

Richard WELCH: It does. Thank you, Chair.

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

Michael GALEA: Thank you, Chair. Thanks for joining us today, Mr Rocca.

Tony ROCCA: No worries.

Michael GALEA: Just to bounce off your recommendation 4.7, which is about the maturity assessment framework and having a standardised fraud control system, can you talk to us a little bit more about what that would look like?

Tony ROCCA: Yes. In the sector currently we have some standardised templates, whether it is annual reporting or the budget, where we have got a set template. They have held the sector quite well in terms of providing at least a baseline for councils to pick up and work with and know they have got those minimum requirements within each and every document. I think it would work in a similar way if we understood the minimum base points we are saying every council should have in place. Then, even with a standardised template at a scalable level, knowing that you are dealing with different-sized councils, you could say, 'Well, at a minimum these are the non-negotiable areas.' Having seen it work well in other pockets of what the sector does, I think that would hold it in good stead.

Michael GALEA: Thank you. The two VAGO reports we are looking at are almost three and almost six years old. Since that time what changes, if any, has FinPro seen? Obviously there are a few councils that are specifically looked at in each audit, but across the sector what, if any, changes have you seen across local government and what changes in particular in response to these recommendations?

Tony ROCCA: I think without talking to every council and not knowing where every council is at but knowing what I hear through our channels, what some councils have done really well is as audit VAGO reports are issued a number of councils now, with the requirements of the audit committee, are picking up those recommendations just like you would have an internal audit report for your own council and actually having those as part of the agenda for the audit committee and reporting against those recommendations as though they were their own recommendations. I think that is a good way of understanding, 'Well, just because a council wasn't forming part of the VAGO audit doesn't mean that it shouldn't be picking up those recommendations and benchmarking against them.' That way the committee has some level of transparency over how council is progressing. From a grants-specific perspective, there has been some

investment in some grants systems to have a level of control around how grant applications are managed as well as how the committee that reviews the grants is established. I think we have seen some improvement in that space to ensure a greater level of independence and reduce the risk of the conflict-of-interest component that was highlighted within that report.

Michael GALEA: Naturally you are not responsible for every local government in Victoria. But given the time that has lapsed since these two reports – we are currently in the process of questioning each local government, and we are looking forward to hearing those responses – would it be reasonable for us to expect that every council has at least come very close to, or has a good reason why they have not been, matching these recommendations?

Tony ROCCA: Yes. As much as I am talking on behalf of the FinPro body, which includes our members, it is difficult because every council depending on resourcing and movement within the councils may lead them not to implement. But I would say, on the whole, it should be good accepting or implementing or adopting of those recommendations, whether in full or close to in full, I would say.

Michael GALEA: And if not, perhaps with an explanation as to why – their local circumstances, for example.

Tony ROCCA: I would say so, yes.

Michael GALEA: In recommendation 4.2, you advocate for regular fraud and corruption control training for councillors and also council staff. I think we have already heard today the importance of that. From your perspective, can you tell us why you believe that is important.

Tony ROCCA: I think it is all good and well to have a fraud and corruption control plan and policy or framework, but like anything, if it sits on a shelf collecting dust it is not really going to do too much. So I think, in terms of training, right from the outset, induction of councillors, induction of staff, communicating what those expectations are and empowering people to be able to actually report on instances where they have seen or identified fraud are all things that we need to make sure are encouraged within organisations, because you can have the best process document, like we know, but if it is not really understood or embedded within the culture, it is going to be very difficult to actually get the outcomes that we are looking for. So I think that is where we are coming from in terms of the submission. Where there is some minimum requirement training that we think is important, similar to the templates that I was talking about, or that we were talking about as part of the submission, I think that would be quite useful for the sector, noting that vast sort of scale of councils across the state.

Michael GALEA: Thank you. Do I have time for one more?

The CHAIR: Yes, you do.

Michael GALEA: Thank you. Audit and risk committees – we have also heard some evidence around the varying degrees of transparency and regularity of meetings. What in your view is best practice for these committees when it comes to independent chairs as well, topics like that? What would you see as best practice?

Tony ROCCA: I would say, like with the changes in the *Local Government Act 2020*, the requirement to have more independent members in the make-up of the committee I think was a big tick. I think having a chair that is an independent member is again a big tick, noting that way the committee does not get absorbed into what is a drive or a priority from a councillor or a staff member, for example. I think, at a minimum, quarterly meetings would be required, where you are covering off on each financial quarter, your annual reporting at the end of the financial year, and in amongst that, it is not just about the finances. So a best practice audit and risk committee should have strong risk reporting on organisational risk registers, tracking of the movements and the risks, and that includes fraud and how cyber can interrelate to fraud management. I think all that has to be at the visibility of the audit committee, not necessarily the audit committee having to tell the organisation what to do, but then providing insights from their knowledge being broader scope, because there sometimes can be audit committee members on local

government, state, private, and they bring that level of more varied experience. I think it is important to bring those topics to the table.

Michael GALEA: And then be able to give frank feedback to council. Yes.

Tony ROCCA: Exactly, yes, and that includes internal audit reporting. So, you know, when we are doing internal audit reports, they should be tabled in an audit committee, talked about, benchmarked against how you are doing against the recommended findings, why are they open, why are they not, what have you done to ensure a level of completeness around closing of internal audit recommendations. I could go on all day with that sort of stuff, but that is okay. Those are the sorts of things that I would say is better practice.

Michael GALEA: Excellent. Thank you very much. Thank you, Chair.

The CHAIR: Thank you. Ms Benham.

Jade BENHAM: Thank you, Chair. Mr Rocca, firstly, FinPro is a volunteer organisation, right?

Tony ROCCA: That is correct. Members pay a subscription which goes back to the members. The committee volunteer their time to develop the program, develop any training materials and develop the conference program and the professional development programs throughout the year.

Jade BENHAM: Just out of curiosity, where do the membership fees go, then?

Tony ROCCA: They go towards the programs.

Jade BENHAM: Training.

Tony ROCCA: Training the staff members – the staff being the council staff. We have the likes of VAGO present, we have Local Government Victoria come and talk to the mandatory requirements of the template reporting, and that helps with continuing professional development hours of the members as well.

Jade BENHAM: What is the uptake of that training? Every council is a member. What is the uptake like for the smaller regional and rural councils of that training?

Tony ROCCA: Given it is probably a more cost-effective, scalable ability for those councils to join, the uptake is quite high, because you are doing it in bulk as opposed to rural councils having to go and source their own form of training. Their ability to attend what is an all-of-sector training has been quite good. Again, FinPro is not all about fraud and corruption; it is actually about finance reporting and maintaining up-to-date accounting standards and the like, so the focus has not always been in that space.

Jade BENHAM: With regard to that, and getting back to Mr Welch's questions before, when we talk about standardising finance systems – and you spoke about how some of the smaller rural councils have been able to collaborate with procurement systems and things like that – are we seeing more of that? We know that there are a lot more challenges for small regional and rural councils that do not have cash reserves, and communities are often more dialled in and would not see a heavier investment in finance systems as a sexy investment for their rates I guess.

Tony ROCCA: Yes. That is a good point, and I think it all comes down to timing as well, so where every council is at can be different at any point in time. Where systems are no longer supported, a council's decision to replace the system is made a lot simpler – you cannot keep going with the system you have got if it is no longer supported by the vendor – whereas where a council has got that level of support, the financial decision to make a shift, whether it is in a joint procurement opportunity or whether you are going standalone, is made a lot harder because you have to actually justify the shift, which is a big shift for any organisation, let alone the smaller rural councils.

Jade BENHAM: If there was a 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?

Tony ROCCA: I would probably have to take that on notice in terms of how every one of those councils is placed, but if you apply the general rule that you have got an up-to-date system that has got all the bells and whistles that we talked about, then you would say yes. But that is a big investment and decision, where typically councils are finding other means to implement controls in and around that system as opposed to relying just on the system itself, if that makes sense. Where you have not got the ability to move, you have to find other means to identify and manage fraud. You cannot just rely on a system –

Richard WELCH: A lot of spreadsheets.

Tony ROCCA: Yes – spreadsheets or personnel or flags that you can implement in terms of what you are tracking and what you are reporting against.

Jade BENHAM: With regard to that, then, there has been some discussion today from other evidence given that competence levels within local government can be a real issue and if those flags are not being raised by people who may not be qualified to hold the position that they have – is that a very real challenge that you see?

Tony ROCCA: I would say the biggest challenge is not so much competence but more so people movement. Obviously there has been a level of changeover. In an organisation that may be smaller, ensuring that there is handover or crossover of what you are looking out for – if you have not got automated controls in a system, you have to be able to hand over and induct someone to know what they are looking out for, what they are reporting on and what are they checking. I obviously cannot talk about each and every one of those councils, but some councils, I am sure, like any organisation, have better ability to do a handover with someone when they are new, to understand what those processes are, and some may not. I would say that on the competency you would hope that when you are going for a role you would have a minimum on what you are looking for, if you get what I am –

Jade BENHAM: Certainly in the finance roles within local government you would hope the qualifications and competence were there, yes. With regard to recommendation 4.7 in your submission, 'Introducing a standardised fraud control maturity assessment framework to evaluate council performance and identify areas for improvement', can you expand on that?

Tony ROCCA: Yes. I guess like any internal audit program, if you are undertaking a general audit on fraud matters, that should identify levels of exposure for a council. Having that framework that sets aside what the key controls, at a minimum, are that should be in place for purchasing, for procurement – that framework – sets the boundaries or the controls for the whole organisation – and then communicating that. What we were talking about there was really the ability to have a set framework that is consistent across the sector, that allows for those minimum sorts of standards that should be non-negotiable-type items. That could be through agencies, similar to the work we have done in the past, with the model financial accounts or the model budget.

Jade BENHAM: If there was a minimum – because we have heard today from other witnesses that councils will just manage themselves with regard to a lot of issues – who would then, in your view, be responsible for making sure that those minimum standards are being ticked off?

Tony ROCCA: If you are talking about developing a model framework, I would like to think it is through the agencies, like working together with Local Government Victoria, MAV and the like to establish whether that is something that there is an appetite for and then putting that in place.

Jade BENHAM: If there was an appetite for that from most but not all and some still did not comply – as we have heard today, some still do not comply with legislative requirements – would it be your opinion that those councils should perhaps be penalised? Or do we just go with the status quo and carry on?

Tony ROCCA: I think, similar to the discussion earlier, it is understanding the context around why some things occurred. Like anything that is blatant noncompliance, that is something that needs to be worked through, but where there is contextual understanding around why certain things happen – we talked about resourcing constraints, so whatever a template or a baseline looks like, it needs to be scalable

across 79 councils, from very small to large. I think getting that framework right first would be the first point before thinking about what the penalties for nonconformance or noncompliance looked like, without knowing where the other conversation led to around where councils are not following prescribed materials. For the most part, we understand, the sector follows the model financial budget very closely and ticks all those boxes, so where it is in place it works quite well.

Jade BENHAM: Okay. Thank you, Chair.

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

Meng Heang TAK: Thank you, Chair. Thank you. I just have a few questions in terms of the changes to the *Local Government Act* recently and to the governance and integrity amendment moving from the rule-based model to the principle-based model. What challenges or benefits have your members faced or benefited from with the changes?

Tony ROCCA: I think I touched on earlier one of them, being the audit and risk committee and the changes that were in place there. I think the integrated strategic planning framework is a big one too in terms of streamlining the linkages between the budget, the finance plan, the revenue and rating plan and the asset plan. I think anything where you have got that streamlining, and the Act has actually encouraged that level of transparency, inevitably, in a positive way, it will lead to a reduction in fraud once you have got those integrated pieces in place. Because the whole principle is around the Act, or the changes were about transparency and providing the principles around that. The strengthened conflict of interest elements I think were also quite useful within the changes in the Act. I would say they have all been benefits, noting that we are five years into the new Act. I would think that, on reflection, they are probably the key aspects that councils have taken on board and put in place – the councillor code of conduct becoming a more standard sort of consistent document as well. It is interesting, because when you talk about it, it is all about a level of consistency that is applied, regardless of what we are looking at, leading to hopefully what are better outcomes for the sector.

Meng Heang TAK: So for all the 79 members, have these changes been considered to be effective by your members?

Tony ROCCA: Yes. I think as a whole from the feedback we have received from the members, as much as there is challenge in implementing new legislation, on the whole I would say there have been positive outcomes that have led to better outcomes overall so far.

Meng Heang TAK: Are there remaining challenges and, if any, what would be your recommendation?

Tony ROCCA: I probably could take a bit more of that on notice, if that is okay, because it is a difficult one in terms of making sure we get the feedback from our members on specific things; it would be good to provide more detail on that one, if that is possible.

Meng Heang TAK: Thank you. No further questions, Chair.

The CHAIR: Yes. We have got heaps of time. No other questions? Sorry, Heang. We will go straight to Mr Puglielli.

Aiv PUGLIELLI: Thank you, Chair. Good afternoon. Just looking at some of the recommendations in your submission, 4.6 around cybersecurity enhancements is:

> Supporting councils with dedicated resources to strengthen cybersecurity protections against financial fraud and cybercrime threats.

Can you just speak a bit more about why you have specifically recommended this, and what are some of the threats that councils are experiencing?

Tony ROCCA: Obviously with cyber it is an evolving beast, and it is something that evolves quite regularly in terms of councils and organisations having to mitigate against those sorts of risks and with

that, I guess, I sort of touched on embedding IT controls into fraud risk assessments. So again, not to harp on about it, but by having foundational minimum requirements in understanding how cyber plays a role in fraud, I think it is ensuring that that is well understood in the sector. I think it is; like I said, the scalability of councils is a challenge, and cyber requires a level of investment and understanding. Some councils, for example, have got cybersecurity staff members, though not all would. So understanding those challenges and helping councils implement levels of controls is where those recommendations were sort of coming from.

Aiv PUGLIELLI: When you are saying cyber plays a role in fraud, do you have any case studies that you can point to? What happens when things go wrong in this space?

Tony ROCCA: I guess I do not have any specific local government case studies, but we are aware of case studies where systems can be infiltrated in terms of vendor listings or phishing exercises where organisations are tested on what the vendor change is in terms of details, and if it is not well understood what that looks like it can lead to not necessarily fraud internally but can lead to fraud externally in terms of payment of incorrect vendors or changes to vendor details that should not be made based on risks that cyber can present. So that is probably where there is an example of one where that can be an issue. We have heard that of many organisations, not only in local government but outside of the sector too.

Aiv PUGLIELLI: So what would that look like for a council, those vendors? Can you just walk us through it a bit more?

Tony ROCCA: So from an accounts payable perspective, you obviously pay on particular contractors or suppliers. You have to ensure that you have vetted their details, whether it is banking details, name of the organisation and so on. So that is what the vendor would be from a local government perspective. Learnings from outside of the sector are of attempts to have vendor listings changed so that you are paying the wrong person or something like that. The controls have to be embedded where you lock down master files, the systems ensure that they cannot be changed or you are verifying any change to a vendor as opposed to relying on an email that could have been suspicious in nature, for example. That is just one example.

Aiv PUGLIELLI: So where does this then fit in with grants funding systems that a council might be administering? Where does this then intersect?

Tony ROCCA: Well, there is more probably from the fraud review as opposed to the grants component. The grants one: the only way that could take place is if, you know, for whatever reason the details of where you are meant to pay the grant to – because it is a community grant and you are meant to pay to a particular community group or community organisation – gets infiltrated in terms of where you are paying those funds to, but the likelihood of that is lower because you do not have that level of regularity of payment because vendors obviously get paid more regularly than when you award a community grant to someone which is typically a one-off circumstance or less regular than a vendor.

Aiv PUGLIELLI: So the security of that information, for example, in the example we are sort of speaking to, that is the risk of that being transmitted elsewhere beyond those closed spaces within council?

Tony ROCCA: It should be tighter from a grants perspective than what it would be, you know, where there is a vendor or where there is a more regular changeover of details potentially or regularity of payment.

Aiv PUGLIELLI: And do those risks primarily come from outside or from within councils?

Tony ROCCA: They can probably come from both. If you ensure you have got the right cyber controls and training internally to make sure that you are either (a) looking out for it – because typically if you are not across what you are looking for you might become more susceptible to it. Although the issue might come externally, usually weaknesses can be internal to the organisation, so it is having that level of understanding of cyber that comes in the form of training and the like and how cyber can play a part in fraud risk as well.

Aiv PUGLIELLI: In your view, how prepared is the local government sector for these types of risks?

Tony ROCCA: Again, that is a pretty broad question. But I would say that we are better prepared than we once were three or four years ago, for example. But I would probably have to take it on notice, because every council in that space could be quite different.

Aiv PUGLIELLI: If you can take that on notice, that would be great. 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 risks?

Tony ROCCA: I would say yes, better prepared than I have seen them. But as you know, cyber is such an evolving beast that you are never going to have cyber as a low risk on your risk register, regardless of how many controls you have in place. It is something that you have to constantly be on top of and manage.

Aiv PUGLIELLI: Thank you. Are there any other steps that we should be taking beyond what we have spoken about today in this hearing that you want to put on record?

Tony ROCCA: I think this is probably a good starting block. Obviously the regular conversations around it with the sector bodies after this would not be a bad opportunity to sound out the sector bodies together. Obviously this has been a chance for everyone to come individually and talk to you, but it could be one where you bring those sector bodies like FinPro and MAV and the like together and talk about what better practice looks like or what good practice looks like.

Aiv PUGLIELLI: Thank you. Thanks, Chair.

The CHAIR: Thanks, Mr Puglielli. We will go to Mr Hilakari.

Mathew HILAKARI: Thanks so much for attending today. Your insights have been great so far. We will keep that going, right?

Tony ROCCA: I will try.

Mathew HILAKARI: I am going to go through your recommendations, first in section 4 of your submission. In 4.3 you say:

> Council policies have been developed to help enforce the requirements regarding councillor expenses, fuel card use and corporate purchasing card procedures.

This was really a fundamental part of the VAGO processes that were undertaken. So there is the policy side of things, and I am expecting that there have been many policies produced across all of Victoria. The practice side of those policies – are there any insights that you or your members have about whether those have led to practical changes? Because policies can sometimes just sit there as something nice that some may read but many may not. But it is the practice itself which really comes down to the fundamentals of it.

Tony ROCCA: Again, I am talking about –

Mathew HILAKARI: I am not asking for all 79 councils. I understand that it is a challenge.

Tony ROCCA: I think in general I would say that it has not just been a policy exercise but it has been a practicality around ensuring appropriate controls around segregation of duties or limits on what can be paid or even limits on what types of purchases can be made – those sorts of controls where you are not relying on someone checking something; you have actually got those instantaneous, automatic controls embedded within a process. I think there has been a noticeable improvement in that space, and I think it goes back to some of the earlier conversation around ensuring that every council and their audit committees are across what some of those recommendations were and what councils are doing in that space to ensure a level of comfort around some of these what could be seen as more susceptible items. Like in any organisation where there is purchasing or procurement involved, you have to ensure you have got the adequate and relevant controls in place. Like you said, 100 per cent, you have got policy, but you have to ensure how

those processes are being put in place, how they are being tested and how are they being sense-checked in terms of again that level of comfort around compliance or fraud mitigation.

Mathew HILAKARI: Great. Thank you. The next one is:

4.4 Mandatory Fraud Risk Assessments, even as part of a Councils internal audit program.

Could you just outline what that would actually look like in a practical sense?

Tony ROCCA: I would say the majority of councils would have an internal audit program, and typically they are contracted out to an independent internal auditor. Usually they run an internal audit program across the whole 12 months or even a three-year internal audit program. It is really, as part of some of the findings from past audits, ensuring that fraud is a regular audit that is undertaken, whether that is general fraud control audits or whether that is part of your internal audit program and you are picking a process that you think can be a bit more susceptible to that space and ensuring that it is audited regularly. That is where I am sort of suggesting that, whether councils are or not at the moment, every council should have an element of fraud auditing within their internal audit program that they are rolling out.

Mathew HILAKARI: In your experience, are there a number of councils that are not undertaking those as a matter of course at the moment?

Tony ROCCA: I would have to take – I could not say that.

Mathew HILAKARI: That is okay. If you can take it on notice, brilliant, and if not, I understand as well. Recommendation 4.5 leads to:

Greater Coordination Between Integrity Agencies and Councils …

I guess you finished a moment ago talking about bringing FinPro and other organisations together more regularly. Is that what you are really looking for, that regular touchpoint between organisations, or are you looking for something more in depth than that?

Tony ROCCA: I think what I was talking about, in terms of what a minimum standard looks like around a fraud and corruption control plan or what that framework looks like, is where those agencies coming together could assist. Not to say that there is an issue or a gap in the sector, because I think with the audits that were undertaken, from where I started off this conversation, we have seen that improvement. It is to ensure you do not sit on your hands and you look at what is next that can be done to ensure continuous improvement in that space. I think we probably feel that is an opportunity that can be looked at.

Mathew HILAKARI: These two reports have travelled across that five or six years ago, and VAGO considered those important matters to deal with at the time. I think about the usage of credit cards and car fuel cards and these sorts of matters, but in the context of councils, which deal with projects that lead into the hundreds of millions of dollars, what is the next step VAGO should be thinking about in terms of fraud control and preventing corruption? Are there bigger fish to fry or more important areas that need to be looked at as the next step to take on?

Tony ROCCA: That is a good question. I would say that capital works form the largest parts of council's and probably government's spending in general. I would say that if you look at projects, project management and capital works, if you had to pick one, that is probably not a bad one given that you are getting, like you said, bang for buck in terms of the coverage of what a council invests in and spends on.

Mathew HILAKARI: So do you feel at the moment that there are adequate fraud controls, in your experiences or the experiences that your members have put forward to you?

Tony ROCCA: My suggestion was not obviously based on –

Mathew HILAKARI: No, of course – any knowledge of it. I know you would appropriately give that to the authorities straightaway.

Tony ROCCA: Yes. Not necessarily, no. I do not have –

Mathew HILAKARI: Are there other gaps that members talk about? Maybe there are some gaps in different areas that we as a government or the integrity agencies could be looking into or just gaps that are missing at council in general that could be filled? I have given you a bit of a free kick now.

Tony ROCCA: Obviously, in terms of my role, I come from a metro council. If I think of my rural counterparts, it is probably ensuring that if there are any additional requirements placed upon them, there is actually some resourcing or funding that goes with that to assist them through those processes if they are looking to make improvements in that space. Coming from the member component, I think that would be quite important. I still think that if you are going to focus on fraud and corruption controls, the elements that are focused on in the reports are important, especially reputationally. It is not just the financial impact but the reputational component. But if you are talking about financial issues, challenges or impacts, then you cannot go much further than the capital side of things and project management, I would say.

Mathew HILAKARI: And grants sit there in the middle, which was a strong element of one of the inquiries.

Tony ROCCA: Yes.

Mathew HILAKARI: You talked a little bit about the standardisation of reporting by councils, which has been a good thing. We talked a little bit earlier in the day about the budgets and their public reporting. You are on the side that gets to look below the hood and see how everything is running and operating. What the community sees is probably a really limited amount of information – or in my view a limited amount of information. Do you think there is enough public information available in that reporting so that the public can discern what councils are actually doing with the ratepayers money?

Tony ROCCA: I would say from the sector that, noting that we do lots of reporting and quite regular reporting, I would like to believe that there is lots of info there from Know Your Council through to your commitments in your contracts that get put within the annual report. You can clearly see where and what commitments are beyond not just the year ahead but years beyond that. The key is that the transparency around that reporting and how those documents link I think has led to a level of improvement already. I would probably safely say that our sector feels like they do lots of reporting and has lots of opportunities to demonstrate that. I probably would not put it out there to commit them to any more reporting than what are they doing.

Mathew HILAKARI: Fair enough. Asking yourself to do more work is always a challenging matter, isn't it?

Tony ROCCA: Or asking for everyone else to do more.

Mathew HILAKARI: It does not make you popular with the members – I understand. Are there any other trends that you have observed or challenges that are communicated by members across the sector? We have talked a little bit about the seven or eight different platforms that are used and that there may be opportunities to standardise that into one. Are there any other trends or challenges that you are observing?

Tony ROCCA: I like to think that rate capping has been – I will not say 'great' – a good mechanism in terms of councils looking at efficiency, innovation and ways of doing things. But I think it is probably at a time where a review of the rate cap is something that would be important. I know that is outside of scope of this work, but I think it goes hand in hand with ensuring that councils' financial viability does not impact or go in contradiction of how much they could be investing in this space. The rate cap has obviously been in place for quite some time. Again, I mentioned the parliamentary inquiry into financial sustainability, which was quite in depth and helpful, I would say, for the sector. It is ensuring what is going to be the flow-on effect of that to ensure that those challenges, especially those in rural settings, are empowered or at least aided to be able to do better things in this space too. It is probably a big challenge in terms of the remit of local government as a whole.

Mathew HILAKARI: So you felt that, at least initially, the rate capping has sharpened up some of those decisions about expenditure for councils?

Tony ROCCA: I would say, yes, for some councils. I am sure that some would say that there have been some positives, otherwise why would you have that in place. At the same time it leads to a point where, as we have seen in other jurisdictions, it can provide challenges for the sector in terms of level of investment in renewal of assets and renewal of infrastructure and the like. So it becomes quite a challenging piece for any organisation. If you think that CPI and beyond goes a lot higher than what any organisation can generate, it is like any formula; it can cause those constraints or challenges.

The CHAIR: Can I just ask a follow-up question on the rate capping. From some of the evidence that we have heard today, whether it is council officer, CEO or indeed councillor qualifications to comprehensively understand, for example, past motions when it comes to things like rate capping in the local municipality, there has been questionable behaviour in evidence put forward to the committee. The flipside of what you have just told us is that rate capping is perhaps a protection mechanism to protect the community from councils who really are not equipped to be making these sorts of decisions.

Tony ROCCA: With any change in jurisdiction or in any, I guess, control or change in policy, anyone would have to adapt and that is part of adaptation. I guess what I am saying is it gets to a point where the equation or the scale has gone probably too far the other way, and it is now leading to the issues that we are having in that financial sustainability space, which is quite significant on the sector. So I would say that you can control and you can mitigate, but it can also cause some clear challenges on the sector and as a whole.

The CHAIR: I know Mr Welch had a question, and we will come back if we have got time.

Richard WELCH: Thank you. This is a slightly roaming question, because it certainly does involve fraud and corruption, but I am wondering from you as a peak body: has there been any thought leadership around what the role of AI will be in the council sector?

Tony ROCCA: We have had some actual sessions on AI for our members as well to start considering, but I guess it is also around ensuring the relevant policy is in place before you go and explore it too far. Obviously there are key risks associated with that when you are a public entity, but it is definitely something that I would say any organisation or sector should be at least investigating further.

Richard WELCH: But you do not at this point, as an industry, if I want to call you that, have the belts and braces of a regulatory framework within which to operate?

Tony ROCCA: I would say that councils that have probably explored it further would have embedded their own policy, but no, there would not be a holistic framework around it that councils can pick up and go with.

Richard WELCH: Are there any documents from within that you have?

Tony ROCCA: I can take that on notice and check whether there is anything that would be of any use.

Richard WELCH: That would be interesting, thank you. Thank you, Chair.

The CHAIR: Thank you, Mr Welch. Mr Hilakari.

Mathew HILAKARI: I have got the lucky last one, which is my usual one: if you had one thing that you could do and one recommendation for this committee to make, what would it be?

The CHAIR: Offer him two – go on.

Mathew HILAKARI: I will give you two; I gave the last lot two.

Tony ROCCA: In terms of fraud and control obviously?

Mathew HILAKARI: Yes. I mean, you can give a broader one than fraud and control. No, I am joking – stick with fraud and control.

Tony ROCCA: The biggest one would be probably what I was talking about around a standardisation that is scalable for the sector of a fraud and corruption control plan that would be useful for any council, large or small, to be able to pick up and implement with a level of ease. Yes, that is probably one I think would be quite impactful, with a level of guidance and assistance for some councils.

Mathew HILAKARI: Do you think some councils are just too small – just do not have the resources there to undertake this work?

Tony ROCCA: Yes, and that is why I think there is something scalable that you would say would at least help smaller councils to know what to look out for, what to pick up, so that if you have got those gaps or those challenges, hopefully, that would help in at least being able to put some of those sort of positive mitigations in place. Yes, that is probably, I would say, the main one, and if there is scope I guess bringing those agency bodies in from a councillor and officer perspective around what minimum training looks like for both councillors and council officers would be would be good, again to create that level of consistency across the board.

Mathew HILAKARI: They are two good ones.

Tony ROCCA: I think they are practical and something that can be tangibly achievable. That is probably why I had that hat on or mindset on that.

Mathew HILAKARI: Fantastic. Thank you so much.

The CHAIR: Thank you, Mr Hilakari. Well, Mr Rocca, that brings our time this afternoon together to an end. Thank you very much for appearing before the committee today. The committee will follow up on any additional questions that we may have or questions taken on notice in writing, and responses are required within five working days of the committee's request.

The committee is going to take a very short break before recommencing the hearing. I declare this hearing adjourned.

Witness withdrew.