

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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

Melbourne – Monday 28 July 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 (*via videoconference*)

Dr Allan Yates, Managing Director, Ethikos.

The CHAIR: I declare open this hearing of the Public Accounts and Estimates Committee, and I ask that mobile telephones please be turned to silent. On behalf of the Parliament, the committee is conducting this inquiry into fraud and corruption controls in local government.

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 placed on the committee's website.

I welcome Dr Allan Yates, Managing Director of Ethikos. Dr Yates has provided a written statement to the committee in lieu of an opening statement, so we are going to proceed directly to questions from members. We are going to go to Mr Welch.

Richard WELCH: Thank you, Chair. Dr Yates, in your submission there is one part in particular that resonated with me and I would like you to expand on. You made the very sensible distinction between corruption and fraud, and you made mention of the abuse of discretion. It seems to me that that is probably one of the hardest things to police or put rigour around in a local government context. Could you expand on that issue and give some examples of where typical abuse of discretion might take place within council?

Allan YATES: I am glad you picked up on it, because it is probably something I was looking to elaborate on anyway today. I might just quickly backtrack, because you are right: fraud and corruption are very different concepts, albeit two sides of the same coin; and obviously that distinction is made in the terms of reference for this committee as well. But under that sort of umbrella term of what we describe as corrupt conduct, abuse of discretion was one of the key themes that came through in my PhD thesis as being one of the most observed or witnessed practices within local government. To answer your question with specific answers there, the types of discretion I have seen being abused or misused, whichever term may be preferable, are around the parking infringements aspect of local government work; in the development application space, where discretion may be part and parcel of the role; and environmental inspections. They would be common areas, I believe, where the abuse of discretion could be a heightened corruption risk. I have seen it as well in a different side of my life as an investigator and as an ombudsman in local government, where those forms of discretion have materialised in complaints of misconduct that then leads into the definition of 'corrupt conduct'. They would be the kind of areas and parts of the business I would see and have seen, those kinds of areas of discretion, abused or misused.

Richard WELCH: Has there been ever an effective mitigation to that or belts and braces put around it?

Allan YATES: I would love to say there has. I think there have been efforts made to manage or mitigate it, but if I sort of circle back to the issue here, I do not think it is really construed as the biggest or one of the bigger risks within the local government's risk profile, and again, if we do not understand the risks per se I think it is very difficult to look to control those, certainly within a fragmented network of councils like we have in our various states and territories around the country.

Jade BENHAM: Can I continue?

The CHAIR: Yes.

Jade BENHAM: Great. Thank you, Chair. The second point in your submission I thought was an interesting one as well, talking around how the media focuses on high-profile corruption or the ones that they see as a cheap headline sometimes. But you have said it creates the perception of what corruption is not, and now we hear terms like 'grey corruption'. Can you expand on that point for us as well?

Allan YATES: I think to those two points, really, media follow-up on corruption inquiries and the various efforts taken by our integrity or anti-corruption bodies around the country have resulted in an impression, by the public as well as by the people who work within the councils and at the elected level, of what corruption really is – a high-level, high-profile thing, perhaps committed by high-profile elites or by politicians and so on. What

it then does is create an unintended consequence that corruption is not the lower level, more mundane practices, if you like. I guess that is where I have seen it in my own research as well as in my experience. I think the difficulty really is how we address that, and I do not know if there is a one-size-fits-all approach or any sort of panacea to this problem. It is a matter of educating on what corruption is and what it is not. Actually all of those more mundane or unexceptional forms of corruption that bubble up will be systemic or serious corruption if they are allowed to continue without intervention.

Jade BENHAM: It then leads into the third point about the integrity agencies and the anti-corruption commission that all states and territories have and how much they differ. Considering that we are a nation of federated states, you would expect some sort of difference state to state. But does that have an overall implication for how corruption, or grey corruption, is understood? And you mentioned earlier parking fines, that sort of discretionary corruption. Can you expand a little bit on that as well?

Allan YATES: Yes. I mean, it is interesting now, with the federated country that we are, with different states and territories doing their own thing. We have so many nuances, really, in the way they approach corruption – how they define it, how it is regulated, the kind of risks they conceive in their respective jurisdictions and so on. But it becomes problematic for us as a country, when we start to look at corruption as a term that is used in the media and on the news at 6 pm and so on, when all of those jurisdictions have different approaches and different triage mechanisms, have different assessments and investigation remits and so on. When states are neighbouring – if we use the east coast, where we have got Queensland and New South Wales and Victoria literally all down the coast there – we have different remits and different definitions, and it means that what may be investigated in one may not even meet the threshold for investigation in another. So it is a bit of a shame that here we are in 2025, especially with the formation of so many integrity agencies in the last decade, and we have not got some of those more consistencies across the board and some of those wrinkles ironed out. But I think – using the abuse of discretion example and several of those other unethical infraction-type corruption examples as well that I have mentioned in my submission – they just do not always meet the attention of the right bodies and therefore do not meet the attention of the media and the viewing public.

Jade BENHAM: Yes. And I think in the last decade or so, as you mentioned, there have been neighbouring states where a former Premier lost her job and her career entirely over a bottle of wine, and we have had other premiers that have had the public throw different nicknames at because nothing seems to stick. Do you think that then erodes public trust in the governments of the day?

Allan YATES: I think ‘erode’ is probably one way to put it. I think it does put that question mark about how effective our oversight framework across the country really is when we do have all of those differences more so than our similarities, and I think that becomes very troublesome. There are various matters that have hit the papers, of course, one recently up in the Northern Territory involving the police commissioner, and that was around conflicts of interest. I have to wonder, I suppose – being an intrigued person, I am around this space – would that have hit the papers and the press if that person was not so senior and did not have such a high profile in that particular area? I do not know. The other aspects of corruption that may be more widespread – if we call it the kind of idea that is lower value, higher volume, so to speak – would not necessarily be as newsworthy, as topical, and therefore not necessarily seen as one of the heightened risks.

Jade BENHAM: In your opinion, is there a way that federally perhaps there is a framework or some work to do as a nation so that the term corruption is far more consistent across the board? Or are we really looking at this and saying, ‘Well, all the states would have to agree, and that’s highly unlikely.’ What is your opinion on that?

Allan YATES: I think it would be a challenge, no doubt about it. I think having that consistent base across the country would be difficult. Corruption as a term is still without an international, universal definition, and various measurement indices, such as the Corruption Perceptions Index that is put out by Transparency International, are very influential, and they refer to corruption as a term that is universal. Of course it is very different in Australia and our neighbours in New Zealand to what it might be in less affluent, poorer countries where corruption is a very different concept and where bribes are part of day-to-day life. We do not see those kinds of corruption realities or risks. They are certainly not as high here when we look at those sorts of overt forms of bribery – it is much more nuanced; it is much more unethical rather than unlawful. So I think we need to sort of drill down to those and say, ‘What is our local risk profile when it comes to corruption?’ and have some consistency across the board in that respect.

Jade BENHAM: I suppose ultimately the public are the judge, jury and executioner really. If something is perceived as corrupt, then it will be paid for at the next election I guess.

Allan YATES: Yes. It is those economic drivers and political drivers I guess too. The National Anti-Corruption Commission is obviously our federal body, but again, it is another body on top of the various ones we have at the state and territory level. I do not know when it comes to local government if we have sufficient frameworks and capabilities in place that deal with the less systemic, less serious forms of corruption that do not meet the threshold of the oversight bodies such as ICAC and IBAC and what have you.

Jade BENHAM: Just really quickly with the last minute and a half we have got going – unless you have got another one.

Richard WELCH: I do, but you go.

Jade BENHAM: I just want to ask about the Local Government Inspectorate. There has been a lot of talk about their lack of coercive powers and their lack of ability to actually investigate. What would be your recommendation with the Local Government Inspectorate in Victoria?

Allan YATES: I am glad you have asked me that question, because I think the Local Government Inspectorate is certainly one of the bodies that does not exist in other states and territories to my knowledge, certainly not in the capacity that it does in Victoria. I think it would be great if it had a much more acute investigative remit within each of the 79 councils – something that was impartial and that gave it that degree of oversight and independence but that actually allowed it to get into the weeds of the risks, the realities and all of those different transactional forms of corruption as much as those more cultural forms of corruption such as nepotism and conflicts of interest. It would need that holistic approach I think to be taken across the local government sector, but the Local Government Inspectorate could be a well-placed body to do that.

Jade BENHAM: Great. Thank you. Mr Welch, in the last 20 seconds.

Richard WELCH: Done.

The CHAIR: Ceding your time, are you – ceding your seconds. We are going to go to Mr Galea.

Michael GALEA: Thank you, Chair. Thanks very much for joining us today, Dr Yates. One of the things that has come up repeatedly, including in today's hearings we have had with councillors and officials – you will be aware, I am sure, of Operation Sandon, amongst others, and the high-profile, outrageous conduct from a former City of Casey council in relation to decisions made about developments and zonings by councillors. As a response we have seen that tilt away from councillors, who are now less involved in those sorts of planning decisions but also grants and other things, and the removal of the role of councillors from that. Is this addressing the problem, or is it just transferring the risk of corruption from elected councillors to unelected council officials?

Allan YATES: I am not sure if it is addressing it. I certainly think that there is not really a silver bullet for corruption in local government. I think it has highlighted an area where corruption is a risk and also has manifested there as a reality. It has highlighted the different relationships and what goes with those sorts of relationships that allows corruption to thrive within local government and certainly the development space and what have you. But it makes me think: why would something like this not be highlighted as a risk with corresponding controls in that organisation and in that council's risk profile? I am not convinced that local government as a sector has sufficient coverage of the risks that might manifest, because that would be one of the ones that we would expect to see.

Certainly when it comes to that relationship between elected and non-elected officials, various codes of conduct and so on have placed that segregation of duties and compartmentalised their respective roles for that particular reason, but I do not think it is the reality on the ground. Certainly in my thesis that was coming through – that even though some of these code of conduct stipulations were there, what was happening in reality was not what was being dictated to in code of conduct training. It is a sad reality sometimes. I think it is just transferring the risk or even still not flagging it as the kind of risk it should be in terms of how high it should be and what sorts of risk controls should be in place. But I do not think it is the panacea, if I am honest.

Michael GALEA: How do you address it then, if you even can fully, satisfactorily address it?

Allan YATES: I guess there are two bits to that, in that, one, this is an area which has been flagged, which has been reported, which has been investigated and has obviously hit our attention; I think it is great. It would be good to see what is below that tip of the iceberg. Is this going on at all of the other councils, and has it been captured as a risk? Has it got corresponding controls? And ultimately, if it is referred for an investigation or if it does come through whistleblower channels or to any one of the oversight bodies, do we have the capabilities in place, such as the Local Government Inspectorate or a similar body, that has that jurisdiction to investigate it to the required standard? If I was in that kind of capacity, I would be looking back at that and saying, 'Well, let's go back to the drawing board and say, "Have we addressed this at the root cause?"'

Michael GALEA: Thank you. I know we might come to questions over transparency and what things are or are not reported at some point; – my colleague Mr Hilakari might want to come to that. Just before we do, we have had some discussions with some smaller councils today as well; obviously they have some challenges with a small amount of resources to properly fulfil some of the governance functions that they are now required to do, and there have been some councils that have been collaborating together and having some of that work done across their boundaries with multiple LGAs. Do you see that as a good approach to balancing things out and what might be accepted in cultural practice and not even questioned in one council suddenly being challenged because it is not the norm? Or do you see other complications or challenges through councils working together on governance models?

Allan YATES: I think it is a step in the right direction. The shared service or similar kind of model is favoured I believe by a lot of local government entities. Certainly given the size, the scale and all of the differences between them – we have coastal and regional and rural and large and small and so on – it would make sense from some perspectives to have a shared service or to have a body of people who can work across that board. I think, to take it another step further, if that is the model favoured for different reasons of effectiveness and costs and so on, it is having some degree of consistency across that base to make sure that they are working to a common standard and to common definitions and risks and so on. But I do see challenges with it; I think there are always challenges with these approaches. But given today's circumstances, 2025 and the kind of way things are working, it is probably one of the best I have seen so far.

Michael GALEA: Are there any particular challenges that councils who are going on this path should be mindful of?

Allan YATES: Like many things, I think one of the anti-corruption controls is around rotation. We often rotate staff, for example, to make sure they are not comfortable in certain roles, or we might do that sort of thing at a more granular level. It could be that there are various terms – two years, four years or something – so that there is not a degree of complacency or staleness around the approaches that are taken, and also degrees of familiarity and relationships that can be built up in that time. So again, some of those good anti-corruption practices would lessen the risk of anything going wrong there and also ensure maybe fresh approaches, fresh blood, new best practices and so on are introduced. That would be a means of taking it forward. And a diverse set of councils – most likely where we have some metropolitan ones, some regional ones, some small ones, some big ones – I think allows best practice to be shared across some of the ones that do not have as much capacity.

Michael GALEA: Interesting, that perspective of not having all the small councils together or having that sort of mix. That is an interesting idea. I know my colleague Mr Hilakari would like to ask some questions too, so I will pass to him.

The CHAIR: Thank you. Mr Hilakari.

Mathew HILAKARI: Thank you so much. Earlier today we heard from a council that they had spent tens of millions of dollars extra on an IT project and certainly did not disclose that to the public at any point over the years previously. They also said that project for the following three quarters, so about nine months, was on track. How would you describe that sort of behaviour?

Allan YATES: I am sorry, would you mind going back to the first part of that question? I think it just dropped out.

Mathew HILAKARI: Certainly. A council earlier today said that they had spent tens of millions of dollars more on a failed IT project. They described the project as on track even though they had known that project had failed for at least nine months. They had never disclosed it to the public in any way whatsoever. How do we describe that sort of behaviour?

Allan YATES: It is an excellent question, because sometimes it does not fall in that definitional or umbrella term of corruption – it comes down to waste or error or any number of other things in between. A similar example manifested in Sydney involving the Olympic pool, and again the press was focusing on the blowouts and the chief executive at the time and various other things like that. I think it is a shame when it could be a case of the projects not being budgeted for, the scopes not being clearly articulated or understood or the tenders not being appropriate in relation to whoever is providing those services. I do not know if it falls within that remit of corruption, but certainly it is difficult to disentangle an example such as that from something that may be very untoward. I guess at the outset we do not quite know what might be going on behind the scenes either, so it does prompt that idea ‘Is there more to be looked at here?’

Mathew HILAKARI: That is, I guess, one of the issues that we have come across today: that some councils have very minimal decisions made behind closed doors, somewhere in the order of just over 1 per cent; other councils have near 20 per cent of their decisions made behind closed doors – actually I think there are some even greater ones than that. That sort of variance is a real problem I think for the sector. How do we combat that?

Allan YATES: I think, without sounding clichéd, coming back to one of the key terms that is always one in the anti-corruption rhetoric, it is around transparency – not just transparency sometimes in the decisions that have been made or the outcomes such that happen when it is all done and dusted but transparency in the processes, the appointments, the individuals concerned, the views tabled and so on. That I believe would give much more comfort to the ratepayers and the constituents around how their funds are being utilised, around how decisions are being made that potentially involve them.

I come back to the fact as well that local government is the closest tier of government to the general public of Australia. Whichever state people live in or work in, they are familiar with a council because they will all live in at least one local government area, so decisions made by their local bodies are going to affect them more so than a state or federal decision. I think that would be a way of moving forward with that. If I can go to one example I think in my own experience, it is around the nature of interests and conflicts and even convergences of interest that sometimes bubble up within these kinds of –

Mathew HILAKARI: I might go directly to that. One of the issues I think that may exist – and I would be interested in your thoughts – is around the appointment of CEOs. Obviously when councillors appoint CEOs, and it is probably the most important thing a council group does, that is a real challenge, particularly if a CEO is coming up for appointment. Do they buck the majority council group and say, ‘Well, we really shouldn’t be doing this’ and give advice opposite to those councillors who wish to proceed with the project in a certain way?

Allan YATES: I think, touching on the appointment of general managers and CEOs, it definitely came through in some of the research I did as one of the biggest risks. At the heart of it all is the fact that if it is done wrong or not done right, it can set the pathway for all sorts of corrupt pathways and tendencies to move on from there. That in itself – to ring fence that as a risk within local government – is something I think that needs to be looked at and scrutinised with a bit of a finer lens. But then, yes, flowing on from there, the transparency of decisions made on all of the different committees, just make it as public and as visible as possible.

Mathew HILAKARI: If there was one thing that you could do to limit fraud and then, separately, corruption on councils, what would those two things be that you would recommend to this committee?

Allan YATES: I think when we come back to that good practice model, which is prevention, detection and response, which is pretty much tried and tested across the country and in all forms of anti-corruption and anti-fraud best practice, it is around the ability to respond adequately. We do not, I think, still have the right frameworks in place to adequately respond to corrupt scenarios. The ones that are finding their way to the oversight bodies – the corruption bodies and integrity bodies – are the tip of the iceberg and the ones that typically then inform what corruption is to the viewing public. No-one is really looking at the less serious, more

mundane or less exceptional forms of corruption and nipping it in the bud before it gets any worse. I would like to see something across the local government sector that would address that.

Mathew HILAKARI: Thank you.

The CHAIR: Thank you, Mr Hilakari. Dr Yates, our time this afternoon has come to an end. Thank you very much for taking the time to appear before the committee this afternoon. The committee will 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 take a short 5-minute break before recommencing the hearing. I declare the hearing adjourned.

Witness withdrew.