

# **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



**WITNESSES**

Cr John White, Mayor (*via videoconference*),

Sarah Johnston, General Manager, Business Excellence (*via videoconference*), and

Janelle Skipworth, Manager, Governance and Regulatory Services (*via videoconference*), East Gippsland Shire Council;

Matthew Morgan, Chief Executive Officer,

Amanda Finn, Manager, Governance, Risk and Performance, and

Beau Mittner, Manager, Finance, Moira Shire Council; and

Cr John Schelling, Mayor, and

Rhys Matulis, Manager, Governance and Integrity, South Gippsland Shire Council.

**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, any 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.

In the room with us this afternoon I welcome representatives from Moira Shire Council. We have got Matt Morgan, CEO; Amanda Finn, Manager of Governance, Risk and Performance; and Beau Mittner, Manager of Finance. From South Gippsland shire, we have got Cr John Schelling, who is the Mayor, and Rhys Matulis, Integrity Manager. Appearing remotely, I would like to also welcome East Gippsland Shire Council. We have got Mayor John White, General Manager of Business Excellence Sarah Johnston and Manager of Governance and Regulatory Services Janelle Skipworth. Very much welcome here.

Witnesses have provided the committee with written statements in lieu of opening statements this afternoon. So what we will do is just proceed straight to members' questions. The first round of questions is going to go to Mr Welch.

**Richard WELCH:** Thank you, Chair, and welcome everybody. As a Gippslander, I am very, very glad to have you here. I have got a short question up-front. With some of the previous councils we have been talking obviously about integrity issues and disclosure issues. I will just start with a very gentle opening. All councillors no doubt put forward a disclosure of interests, which is important of course for any work that they are doing. What rigour is applied to those disclosures, and in your opinions do you think it would be sensible to increase the rigour around the accuracy and completeness of disclosures?

**John SCHELLING:** I am happy to go first with that. Rigour is – how do I say it? You are judged by what you do, so you put down what you think is your disclosure of interest, but you lean on the governance team to work out what you really should put on that disclosure certificate. I would say there is enough rigour in it as it is now. It is like a lot of the stuff we have to do – there are a whole heap of checks along the way. I think it is just part of what we do.

**Richard WELCH:** If it actually turns out there has been a conflict or there has been a non-disclosure, are there any consequences as far as your council goes?

**John SCHELLING:** I cannot be sure of that. Rhys?

**Rhys MATULIS:** I guess what I can say is that, as the Mayor has said, we support councils with advice around what they should be declaring. If council feels that there is a blatant breach or something is being deliberately left off that could potentially become a conflict of interest, we would follow through with the mandatory reporting requirements to the Local Government Inspectorate or IBAC. I understand, I guess, the question is around is there an oversight body checking and reviewing those. Of course that would be helpful. But again, I think there is that time factor, and as a governance unit, we try and do that sort of role where we can. But at the end of the day, they are individual returns by a councillor, and we will give advice to try and support them.

**Richard WELCH:** And have you had any incidents of things that should have been disclosed?

**Rhys MATULIS:** I will say no, but I think we are very lucky at South Gippsland where our council will actively engage in that governance process and actively ask the questions. If they are unsure, they will ask us, and then we can give advice. We have got a very positive governance culture, and I think that really helps.

**Richard WELCH:** Yes, okay. Thank you. I will go to Moira.

**Matthew MORGAN:** Thank you, member, for the question. I talk with the context of multiple jurisdictions, being a CEO in South Australia as well as Victoria, and I think the declarations are effectively a voluntary disclosure of interests. It would be interesting to ascertain whether there was a desire to strengthen those in terms of formalisation of company search records, to actually validate what was disclosed or not disclosed, but effectively, as the administration of council, you are working on what is on the forms. Unless there is a complaint or some sort of grievance raised that there is a conflict that has not been disclosed, you are effectively taking them on face value.

**Richard WELCH:** Yes, that is right. I guess in some of the rural councils we still, thankfully, have local media and other ways to create scrutiny that we perhaps do not have in some of the urban areas now. The media play a role in scrutiny in other communities, but in a lot of cases I feel we do not know what we do not know. Obviously it would take resources and effort, and there are very valid concerns about how far you take that as well – what ultimately needs to be disclosed and does not. But again, you have not had any incidents where there has been a failure to disclose or something has come up?

**Matthew MORGAN:** In my time at Moira we have not had any instances of failure to disclose. In my time as CEO of other councils I have not had any specific examples. We have had from time to time – particularly in rural communities you wear multiple hats, and I think probably the best example that we see is someone might be on a committee of a community organisation and people have the perception that that creates a conflict. That requires a bit more of an in-depth investigation from the governance team to ascertain the details of the conflict, if there is actually a conflict there, but certainly not, you know, private interests per se. But that is one that we commonly face in small regional communities – people wear multiple hats, and quite often there is the perception of conflict where there is no actual conflict.

**Richard WELCH:** Thank you. Over to you, East Gippsland.

**John WHITE:** Thank you for the question. The thing that I find from this is that these disclosure forms – yes, you do fill them in to the best of your ability, answer all the questions that are before you, but there is also staff assistance to make sure. If you are not sure, they are there to help you get it right. There is no point in putting something in that might arouse some suspicion. Everything that you are involved in that you need to disclose, you do that, and the staff obviously assist in it. In terms of the discussion around, say, councillors that might be on committees of management, those issues come up from time to time. We are still working in an environment of small communities, and there are never enough people to go around to fill all the vacancies. So at the moment there is a decision around perhaps a grant application. Any of our councillors who may be in those positions just automatically come forward and say, ‘I wish to declare a conflict of interest because I am on that committee of management, so I would like to just step back and have no involvement in the decision-making around something that may benefit my cricket club.’

**Richard WELCH:** Mayor, I hasten to add, 99.99 per cent of all council officers operate in good faith on that basis. So my question is not really around self-disclosure, because I think most people act properly – the vast majority act properly. It is the question of rigour in the process for the bad actor, for when the bad actor comes along. Do we have enough checks and balances to prevent bad actors gaming the system in that respect?

**John WHITE:** Well, look, if I could throw to some of the staff that are here present with me, because that is their role. We do not get involved in that officer work, but they can probably explain what those checks and balances are in their field and also the rigour with which they approach it.

**Sarah JOHNSTON:** Thanks, Mayor. Thanks for the question. I suppose what you are saying – and we agree with what you are saying – is that there could definitely be more rigour around process. Yes, our teams are working really hard and really closely with all of the councillors to make sure that everyone is declaring and that everything is filled in a way that meets all the legislation. But as for an independent checkpoint or the resourcing to be able to do that, that is not something that (1) we are resourced to do or (2) from an officer perspective we see we have got a lot of authority to be able to actually do. However, I do also think being able to do that at a level that offers the right assurance across the whole local government environment would be a big ask, and you have obviously got to weigh up the risk and reward on that particular piece to what you are checking those things against.

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

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

**Michael GALEA:** Thank you, Chair. Thanks very much, each of you, for joining us today. I might firstly put a quick question to each council, possibly through the elected representatives. Would it be fair to say that the impression is that when it comes to these matters of integrity and compliance you rely on the officers to tell you what is right and what is wrong in each situation?

**John SCHELLING:** We certainly lean on them very heavily, because they know the system and they know the compliance that goes with the job. We certainly lean on our governance officers a lot in those sorts of regards, yes.

**Michael GALEA:** Thank you. I am sorry, I realise Moira is under administration. From East Gippsland?

**John WHITE:** Very similar, actually. I think when you are making your declarations most of the questions are self-explanatory, but it is great to know that we have such support and backup through officers to do the checks and balances, dot the i's and cross the t's and just ensure that we are all following the rules.

**Michael GALEA:** I certainly appreciate that. To what extent do you both believe that it is important that councillors should be fully trained themselves on these sorts of matters, these sorts of issues, so that you can make those decisions in that rare case, as Mr Welch says, that there is a council official who is not necessarily acting in good faith?

**John SCHELLING:** I do not think it is something we need to be fully trained on. I think we have paid employees who can give us that guidance that we need. We come in to oversee the operations of the council; we do not come to necessarily delve into what happens inside the council. At the end of the day I think to be able to lean on the officers is imperative in the whole thing, keeping in mind that we also have to be very comfortable with ourselves and what we are producing.

**Michael GALEA:** Because ultimately you are accountable for your disclosure?

**John SCHELLING:** Yes.

**Michael GALEA:** Thank you. In terms of that, if I can ask each council quickly: do you currently have training processes in place to ensure that all officials who are dealing with grant applications and other similar things have conflict of interest training and fraud prevention training? If I can just get a quick yes or no from each council.

**Matthew MORGAN:** Yes. Part of the induction process for staff is that they have conflict of interest training, which can always be strengthened and improved. I will just add, if you want an officer's context on your first question there, which was in relation to the extent to which elected members rely on officers to tell them what is right or wrong in completing the forms, I think there are certainly induction processes, and that is something that is explained to elected members. I think elected members will always ask for guidance. I think best practice from an officer's perspective is to err on the side of caution, and my advice as CEO has always been to elected members: overdeclare rather than leave anything out. I think that is the best guidance that

officers can provide, especially if there is a grey area in terms of a judgement call being made, because officers cannot be asked to make that judgement call on behalf of the elected member. So the advice that we will always provide is: overdeclare and play it safe. You are better off having a declaration made that is maybe going too far than one where you are not declaring what you need to declare.

**Michael GALEA:** Thank you. And just quickly, for East Gippsland, those training processes are also in place for your officials?

**John WHITE:** Yes. Actually for this term of council, the newly introduced compulsory training for all councillors across the state has introduced a lot of these procedures, and as much as it is a bit of a pain for a councillor who has been on council for some time, it is another check and balance. We are ably assisted by our staff as we progress through these compulsory training exercises.

**Michael GALEA:** Indeed, but just to confirm as well that that training is in place in terms of fraud prevention control for relevant staff as well.

**Sarah JOHNSTON:** Yes, absolutely. Our fraud and corruption – all staff do that when they commence with the business. If you are talking specifically around grants, we have guidelines and processes around anyone who is actually part of a grant approval process, including the declaration of conflicts of interest as part of that process as well.

**Michael GALEA:** Thank you. Now, we are blessed to have you all here today. We have got three very geographically large shires. One of the recommendations in relation to Loddon shire that VAGO put down was in relation to their system of allocating grants by wards. Now, I realise that two of you do not have wards, but South Gippsland, you do. Do you see any merit in a system that would be allocating the grants by the wards, or would it be better to keep it as a centralised system that is allocated as needed?

**John SCHELLING:** I think a centralised system is the best system simply because there are needs in different parts of a shire at different times. There is a danger with that in that the one who knows how to write a grant application the best will get a lot more than some others, but I think the opportunity should be there for everybody in the shire, because we do not actually work as wards, we work as one South Gippsland. So each councillor backs the other councillors in their wards in what we are doing. So I think it is a whole-of-shire.

**Michael GALEA:** Thank you. Do you think the current system in South Gippsland adequately ensures that there is an equitable system geographically for all parts of the shire? It is not just going into, for argument's sake, Korumburra, it is going across the shire?

**John SCHELLING:** I do. I am pretty happy with that. And the staff work very hard on making sure that they assist different groups at their time of need.

**Michael GALEA:** Thank you. That is my time. Thanks very much.

**The CHAIR:** Thanks, Mr Galea. Ms Benham.

**Jade BENHAM:** Thank you, Chair. I am going to focus on Moira council if that is okay, given that post 2022 there might be some valuable insights that they could all offer to this inquiry. Thank you for your submission as well. Can we talk about some of the recommendations from the Auditor-General's office and the costs associated with implementing them for small regional councils that have very, very little resources compared to metros in a lot of cases? Have you got any insights into how we can get around some of those and still implement those recommendations?

**Matthew MORGAN:** Yes.

**Jade BENHAM:** Great. I thought you might have.

**Matthew MORGAN:** It was worthwhile us coming today. I think when it comes to understanding the context in rural councils where resources are constrained, you might have one governance officer or you might have three, and that is repeated across different areas within council. It is understanding, I guess, the internal control structures that you have in councils. We have our own internal audit processes. For example, at Moira we have 12 internal audits that will rollover in a three-year period. Each of those will have a series of

recommendations for improvements. Each of those recommendations will require anywhere from 20 to 150 hours to implement.

I think what we are getting better at is trying to understand the resource impact of these recommendations, because it is not as simple as changing a policy. It is the implementation of that policy change across all of the different processes in a small organisation. When it comes to the VAGO recommendations, I think what we put in our statement was that it would be useful, like we do in our annual management reports, to have some sort of a weighting on the recommendation, whether it is a risk rating or whether it is a priority or criticality rating, so then we know whether we can let that one wait 12 months until we get around to our standards cyclical policy review or our procedure review or whatever else is happening within the organisation to implement that so it is not being implemented out of cycle, or whether or not we actually need to start diverting resources towards that to implement it based on the criticality of that control. I think the reflection that we had was that would be immensely useful if there was some sort of rating on those recommendations that we can then assess and then we can allocate resources towards accordingly.

The other, I guess, recommendation or suggestion would be: we have got 79 councils doing the same thing; it would make sense for some resourcing to be put in place in terms of developing those guidelines. I know that that happens in some areas and there are various bodies that work – MAV, VLGA, FinPro et cetera, et cetera – but I think it would be useful for potentially LGV to take a lead role in some of these areas as well and be resourced to support that, because we are dealing with 79 councils doing the same thing, and the same controls are probably going to be needed across all 79 councils. So rather than Moira trying to figure out how we are going to implement it and what that looks like, and South Gippsland trying to work out what that looks like, and East Gippsland, if there is a structured process and some support around how we roll that out, then we can localise it at each council.

**Jade BENHAM:** It makes perfect sense to me, doesn't it? Can we talk about the support that you have had from some of the integrity agencies? There has been a lot of feedback about that the integrity agencies are under-resourced and the time it takes for a response before the organisation can actually act on any line of investigation comes with great risk at times. Can you give us any insights into whether you feel like you have had adequate support, particularly in the last three years, from all of the integrity agencies?

**Matthew MORGAN:** I will probably take that in the first instance. I have been at Moira now for 18 months, so I cannot talk too much about what happened before the 18 months. What I have observed – and we are not talking a great quantity of queries that are coming through – is I think there is a time lag between when a complaint or a grievance is lodged with an external party as opposed to when it then ends up with council to consider or to look at. Having relocated back to Victoria from South Australia, that is not unique to Victoria. But no to your point, it could raise a little bit of a profile of risk if there was a matter that needed to be addressed that was not addressed.

I think in terms of the support that we receive, and I think we have noted this in our statement as well, what would be incredibly useful is some resourcing within those agencies to do what we call a roadshow. It could be to clusters of councils where IBAC, the Ombudsman – they actually come out and they talk to staff, they talk to elected members and they potentially talk to committee members about the role of that agency and then the responsibilities of the council in terms of mandatory disclosures and also working with those agencies on investigations. I think the investigation process is – if there are grievances, there is a time lag there. In terms of how that gets addressed, that is a matter of resourcing for those agencies. But I do see that there is a huge opportunity for that education engagement with the agencies around the role of the agencies and then the role of councils in working with those agencies as required.

**Jade BENHAM:** Great. Thank you. Thanks, Chair.

**The CHAIR:** Thanks. Ms Kathage.

**Lauren KATHAGE:** Thank you, Chair, and thank you to the witnesses here with us today. I just want to focus on what some of you have provided in your statements and in your information to us that one of the difficulties for smaller councils with fraud and corruption control is around fraud functions or responsibilities being included in people's general roles and that there are not specialist staff that are looking after this. I would like to hear from each of the councils around whether these types of tasks are explicitly included in position

descriptions, if they are part of the assessment matrix for recruitment and if they are included in the performance management of staff who have these responsibilities.

**Rhys MATULIS:** I am happy to go first. As mentioned in our submission, my role was effectively created to sort of address some of those issues you were just talking about. Several of our fraud and integrity functions were brought into one department to sit under me, and I hold that responsibility around the KPIs and around the performance of council in those areas in terms of investigating. But also as part of my role I have what we will call a dedicated time assigned to actually undertake those functions. Now, the challenge with all of these sorts of things is that you never know the size of an inquiry. Some inquiries might take half a day, some might take a whole week. So I think that is always the challenge, that with a lot of these things you want to manage them as quickly as you can, but it is about a balance with what other tasks you need to perform. I think at South Gippsland we have recognised that challenge and we have done what we can with the resources we have to try and meet that challenge.

**Lauren KATHAGE:** Thank you – and other councils that do not have a dedicated unit or dedicated staff?

**Sarah JOHNSTON:** We can jump in. Sorry, we are online so it is hard to work out when we should say something. Hello. Yes, look, it is a really good question, and to be honest, yes, it is included in our governance manager's PD, who is sitting here to my right, but the reality is that it is one priority against a whole myriad of other priorities that she and her team help manage. I think the other thing that we have in this particular area, and I know that other councils might feel the same, is the capability gap that we also have when we go to market. So we recently went to market to get a governance coordinator, for which this will be part of their remit, and the market said, 'We don't have anyone with the skills in this area', or more abroad than that from where we try to do recruitment. What that means for us is that we need to train people up internally on this as well, and I think it also goes back to some of the things that Michael was saying in regard to the roadshow from different agencies to help us upskill our team members and upskill our community, and upskilling obviously will continue to strengthen the councillors' understanding of these areas.

**Lauren KATHAGE:** Moira?

**Matthew MORGAN:** Thank you. Yes, I guess we do have defined responsibilities, so we just endorse the fraud, corruption and control policy update in November 2024, which defines some responsibilities and accountabilities. I would have to check off the top of my head whether it is written into specific PDs. However, it is underpinned by the code of conduct and I guess the values that are written into all PDs. Specific responsibilities will be derived from the policy, but we will need to take that on notice around whether or not it is specifically in governance officers' and teams' PDs, but it is certainly something that we report quarterly through to the audit risk management committee as well.

**Lauren KATHAGE:** So I guess it is one way of assessing performance on an individual level, but at the council level I am interested to hear from elected witnesses here how they are satisfying themselves that their council is meeting the standards of fraud and corruption control, and if there is explicit discussion around where you are setting the bar as a rural or regional council, because obviously you are not going to be able to be worldwide best practice without all of the staff and funding. Do you explicitly set the bar at a certain level, and then how do you reassure yourself that council is meeting that bar?

**John SCHELLING:** I will go first. Certainly as the Mayor I sit on the audit and risk committee as an observer, not as a member. We also have a council member who sits on the audit and risk committee as well. So those sorts of issues come up periodically in looking at our governance and our laws around how things are done. Conflict of interest, those sorts of issues; they come up in discussion quite often. So that is probably how we satisfy ourselves – that, and the report that comes out from audit and risk committee as well.

**Lauren KATHAGE:** Any other councils – maybe if anyone has a more formal approach?

**John WHITE:** From the point of view of East Gippsland we have our quarterly audit and risk committee meetings, which I am ex officio on, and two other councillors sit on that committee, but our core independents are very experienced consultants, I will call them, or members of that committee, so the questions are often asked, but then we also have a fallback position to our managers around the levels of expectation and also the fact that we are continually being updated and retrained – just any new outcomes that come forward, our

officers are immediately taking that to the elected councillors and producing the outcomes that are required, say, under legislation. So we are always going forward and following the rules, pretty much.

**Lauren KATHAGE:** Thank you, Chair.

**The CHAIR:** Thank you, Ms Kathage. Do Mr Welch or Ms Benham have anything?

**Richard WELCH:** We have heard across the board that the timeliness of response from integrity organisations can cause problems. I would just like to know if you feel that when you refer something to an integrity committee you get a timely response or if there has been any problem in having those matters addressed. I guess the secondary-level question is: how does that affect your ability and your confidence in those processes?

**Rhys MATULIS:** I think the timeliness has improved from integrity agencies. I think the ongoing challenge is there is no timeframe as to when they need to report back to you after you have made a disclosure. For me, I think we have growing confidence that we will get a timely response, but as there is no timeframe we do not know if that is going to be 30 days, 60 days, 90 days. I think, as many of the other witnesses have said, that means you are carrying a risk. So there could be a potential issue; you are aware of it but you are unable to act, and you are waiting for that response. I think for me it would be beneficial if there was a timeframe set – just like for councils to report – for integrity agents to respond, because at least then councils would have a defined period of time they knew they had to wait.

**Richard WELCH:** Thank you. Moira.

**Jade BENHAM:** They kind of answered it before with my question.

**Richard WELCH:** Did they? Sorry. East Gippsland, we will jump over to you.

**John WHITE:** Thank you. What Rhys said there was totally correct in terms of there being no restrictions on the times for those agencies getting back to us. We have even had instances where there has been no response. I think that is really important, the fact that we have had no response. That is a failing I think of these watchdog organisations.

**Richard WELCH:** Not that I am expecting you to do these reports every day, but of the ones that have had no response, do they vary in levels of gravity? Is it the trivial ones or the really grave ones, or is it not as big a sample size to differentiate?

**Sarah JOHNSTON:** If we go back a step, no, we are not seeing reporting every given day. There is not a lot, but there have been instances where we have put an inquiry through and we have not had a response at all. That has been flagged as a risk by my particular team. I think it also of course goes back to the resourcing that they have, because I can imagine that they are trying to do the best that they can possibly do. It is just that they do not have the resources to be able to respond in that way either.

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

**The CHAIR:** Thank you, Mr Welch. We are going to go to Mr Hilakari.

**Mathew HILAKARI:** Thank you so much for your attendance this afternoon. It is very appreciated. I might just start with a very general question for each of the councils here, which is: what is the area that you think is most vulnerable to corruption or fraud at your council – not that is particularly happening but that is most vulnerable? I might start with South Gippsland.

**John SCHELLING:** Certainly procurement would be the biggest thing we all do. We are always looking for better ways to do things. Procurement-wise we try to keep it as in-house as we possibly can with our local people, but you always have the risk of having to go outside to get a cheaper rate or whatever it might be. Procurement would be the biggest one. I suppose then the other risk you have probably got is around some of your staff and credit cards and bits and pieces like that, but we do not seem to have too many issues with those sorts of things.

**Mathew HILAKARI:** Much appreciated. Moira?

**Matthew MORGAN:** Thank you for the question. It is hard to identify which area would be the biggest risk. There are certainly areas that would be susceptible, and I think that is what we look at through internal audit processes and trying to test internal control structures. I think procurement is certainly an area, whether it is intentional fraud or whether it is a pragmatic approach to getting things done, where we are constantly reviewing transactions and trying to understand: are we complying? Is there a procedural issue here? Is there a transactional issue here? That might just be more a reflection of the process than an indication of fraud.

I think any time you have got systems where there are weaknesses, if we think about the context of rural and regional councils – and I think we put this context in our response around cybersecurity – you are relying on legacy systems which are largely manually operated, which opens the door for manipulation of either data files between systems or a lack of checking and control on data being entered into systems as well. So I think it is not necessarily that there is fraud occurring in those areas, but they are the systems where the vulnerabilities lie, and that is where we need to concentrate most of our internal control structures around. An example would be a payroll transaction file coming out of your payroll system and going to your finance system and what sorts of controls you have over that data in between those two points. It would be similar with your payment transactions from supplier transactions and from your accounts payable system into your bank file as well. So it is just about understanding the weaknesses in systems and then what internal control structures you have got around those. I do not think there is one area that we would say is particularly more susceptible than others, but just generally we are alert to where the weaknesses are, and that is what we try and identify through internal audit processes and stronger controls around those.

**Mathew HILAKARI:** Thank you. And for East Gippsland.

**Sarah JOHNSTON:** Thank you. I think it is very much the same. I am scanning my mind here, and I think of the perception survey that I think IBAC did recently from an employee perspective. Two of the key points that they brought out from that from an employee's perspective as to where they think fraud and corruption may occur were around procurement and around recruitment actually as well. If I scan back to some of the areas that we are focused on from an internal audit perspective – and it goes back to some of the things that Matthew was saying – it is more susceptibility rather than the highest risk areas. The community grants and administration of community grants, fuel cards and credit cards, payroll, and procurement would probably be the four areas that we have got pretty robust internal controls around and checkpoints around to make sure that we are reducing any risk in those areas.

**Mathew HILAKARI:** I will start at the other end. I will start with East Gippsland first this time, so there is a bit of fairness for each council. We have talked here previously with large and small councils together. Large councils were able to have, for example, significant cybersecurity control, hiring a couple of staff to undertake that, and the smaller councils in the previous session talked about the sharing of their systems across different councils. Is that something you participate in, and what sorts of challenges are posed by the size of a council?

**John WHITE:** Thank you for that question. It is actually quite relevant for us because we have just recently passed a significant contract to upgrade our cybersecurity and all our IT. It is very expensive. It has certainly cost a lot of money. But in the long run it will be worthwhile, because those people who want to intercept our systems are upgrading all the time. We are trying to stay just in front of them by doing these upgrades, because at the end of the day that is really important to keep our systems safe and not allow predators in. That is what we have worked on just recently, and we are very happy that we are doing it.

**Sarah JOHNSTON:** If I may, Mayor, add to that, from East Gippsland's perspective – and it is a legacy piece we are really lucky to have inherited at my end – we do have shared services in our ICT with Wellington. Between Wellington and us we share a chief information officer. There are some real benefits in that from a cost perspective but also in the sharing of resources and sharing of skills and capabilities between the two councils. Obviously they have an audit program, and we have an audit program. We can share between those two audit programs what is coming up from cyberspace, and obviously we can share the cost of the different resources that work between the two different councils. We are at the moment looking at a cybersecurity strategy, which means how we need to uplift, because we know that this is an ongoing risk. I suppose, though, we are not there yet. If we were thinking about how we would be at very best practice, we would be putting more investment in people, resources and technology to be able to get to the very best practice in the field.

**Mathew HILAKARI:** Thank you very much. South Gippsland?

**John SCHELLING:** As councillors we are encouraged and sent online training to do in cybersecurity and so on, which I find very effective. It keeps reinforcing what you should be looking for when it comes to people who want to delve into your thing. I think we are pretty lucky with the small resources we have got to actually be able to do that.

**Mathew HILAKARI:** Are any of your back-of-house services shared across other councils, so not just limited to cybersecurity but other areas?

**Rhys MATULIS:** We do not currently share with other councils, but it is something we are always looking at. When we are looking at replacing a legacy system, we do try and actively look at that, but at the moment it is not something we do. I think we are uplifting in that space internally, as the mayor flagged, and we are investing a lot of resources in terms of our procurement around our IT systems as well to make sure that they are fit for purpose around that IT security. It is that challenge around a small council trying to do those activities, but we always do look, where we can, to share.

**Mathew HILAKARI:** With your indulgence, Chair, can I go to Moira as well? Great.

**Matthew MORGAN:** Thank you. We do not have any particular shared services around core systems, and it does increase the complexity of the security environment. You are increasing the number of actors that may be involved in a particular incident, and you are also delegating authority over confidential information to someone outside of the organisation in another council environment. So there are some complexities in that. I guess the challenge that we face, like many of our neighbouring councils and colleague councils in the rural and regional space, is the cost to upgrade legacy systems. We have got an example at the moment where we have targeted reaching maturity level 1 on the Essential Eight cybersecurity spectrum. We cannot get there, because of one system that we are using, which will not be compliant with multifactor authentication. To upgrade that system is going to cost anywhere between \$500,000 and \$1 million, which is a project in itself. So we are faced with the consequence of either removing a portion of our e-services offering to our community to be compliant with cybersecurity or looking at an investment to upgrade and migrate off our core operating systems. I think that is just the state of systems availability for councils. There are only a handful of providers, and they determine how things will operate. So the introduction of a standard similar to the PCC standard for credit card transactions across the sector would be incredibly useful as a minimum standard that software solutions providers providing services to councils have to meet – it would certainly aid us. Even if we do not have to upgrade, those providers who are providing those solutions should be able to meet a minimum standard, otherwise we are taking away a service from our community or we are taking rates money from our community to fund upgrade of systems unnecessarily.

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

**Jade BENHAM:** Thank you, Chair. Just a couple of things for clarity on topics we have covered already. Do any councils have any outstanding inquiries with any of the integrity agencies? We have had one council who have had a case outstanding for nearly 12 months, so I am just interested to know if anybody else does. No? Great. That is good news. We heard from East Gippsland earlier about the shared resourcing in terms of ICT, and I understand the challenges. When you tell ratepayers that you are going to spend \$1 million upgrading an IT system, it is not entirely sellable. Are there any councils in the room at the moment that share governance resources? Because we know that finding great governance people can be a challenge, particularly in rural areas. Do any councils in the room do that currently, or are there plans to, even with your clusters?

**Matthew MORGAN:** Moira do not. But we are not opposed to that. We work collaboratively with our neighbours in a range of areas. If there was a discussion point around that, we could certainly entertain that, but we do not at the moment.

**Rhys MATULIS:** We do not, no.

**John SCHELLING:** We are not going to let Rhys go, sorry.

**Jade BENHAM:** But you could second him, couldn't you? East Gippsland.

**Sarah JOHNSTON:** Not currently. But that is not to say that there are not some pretty strong networks from our governance professionals working together across the industry. I know we have really strong ties across the Gippsland network specifically and of course with all of our neighbour partners here.

**John WHITE:** I would just like to add – and I am probably being very selfish here – we have a brilliant governance officer and we could be reluctant to share, she is doing such a good job for us.

**Jade BENHAM:** Yes, and I absolutely get that. But if there was the need – and without having a crystal ball you could perhaps see in the future that there may be the need to require some sharing of resources – because there are systems that do not talk to each other council to council, would that be an issue?

**John WHITE:** I think if it was for the greater good, certainly we would support that.

**Rhys MATULIS:** I think the challenge is sometimes our systems do not work the same or we do things a little bit differently, but I think the overall concept of sharing resources is a positive one.

**Jade BENHAM:** What I am trying to get at I think is, given the risk with cybersecurity, which is only going to get worse, and given the resourcing issues, again without a crystal ball, are we looking at the standardisation of all systems across the local government sector across the state in the very near future? Has anyone got any comments on that?

**John SCHELLING:** It would make sense. It would make a lot of sense.

**Jade BENHAM:** It would, wouldn't it? It would make a lot of sense. Sometimes it does not often make that much sense.

**John WHITE:** From here, if there was a universal system, I am sure it would work so much better.

**Jade BENHAM:** Can I also just say that perhaps this is something that, if it was going to be implemented, would not be at the cost of ratepayers; it would have to be something that would come from other funding bodies.

**John WHITE:** You are talking our language now.

**Jade BENHAM:** I am a former mayor and councillor, so I understand the cost-shifting elements within local government, believe me, but that is something that I think has become pretty clear.

**Matthew MORGAN:** Yes. I think when we look at the costs, if we look at the annual reports and the financials of each of the councils, the governance costs, overhead of governance continues to increase, and when we look at the rate cap environment that we work within, what that means is putting price pressure on other service areas, which are also susceptible to cost increases because they have got external service providers, contracts et cetera, et cetera in place. It is a no-win game at the moment, so I think if there was the opportunity, that would certainly be useful. Just in terms of the resource sharing, I think the resource sharing discussion is useful, but it needs to be about understanding that there is not latency within the resourcing at the moment, so it is not like you are going to take one governance officer and stretch them across three councils. It needs to be: if you have got three governance officers across three councils, how do you get them to stop duplicating the work so they can do value-adding work across those three councils? I think that is an important part of the conversation. It is not about cost saving, it is about capacity building and adding value in there, because the resources are pretty tight at the moment and each council will be on a different journey at a different level at a different level of maturity in those processes as well. But there are certainly opportunities and scope for that, as long as it is viewed through the lens of how we capacity-build as opposed to cost-save.

**Jade BENHAM:** Great. Excellent point, thank you. Just to change tack a little bit – and this is probably one that is for the elected representatives in the room – current thresholds for investigation of fraud and corruption: do you think they are too high at the moment, which then could discourage councillors or council officers in fact from making reports? Because for an actual breach they are pretty high.

**John SCHELLING:** How do you set a mark on that? How do you set a mark on what the breach is and how high it actually is? I think that comes down to advice from these people. It is not something we can really set, is it? It is really up to the team to set that parameter.

**Jade BENHAM:** Well, yes, but they are set by the Act at the minute. Because we do not want to get to the point that we had in Moira, where things go drastically wrong – where I want to go with this is: are they too high? Do we come down, and to what point do we come down so that councillors may actually start making reports or council officers have the ability to start making reports?

**John SCHELLING:** I would not like to see councillors making reports. I think it should come from the staff.

**Jade BENHAM:** You do not think they do at the moment? They are not making reports to IBAC?

**John SCHELLING:** I do not. None of ours –

**Jade BENHAM:** Well, you might not, but in other settings they probably do.

**John SCHELLING:** Maybe they do, yes.

**Jade BENHAM:** Yes. East Gippsland?

**John WHITE:** As far as I know, we are not doing that either. It was a government decision to have put the bar as high as it is, so I guess the only way to get that changed – if you come to a conclusion that that setting is too high, then it will be up to your committee then to make a recommendation to reduce it.

**Jade BENHAM:** Hence the questions. Any thoughts?

**Matthew MORGAN:** I think there are a range of considerations there. One of the things that we have not touched on today and I think would be useful, particularly when it comes to the elected member space – no disrespect to the elected members in the room, and we have talked about the declarations of interest – is front-ending a little bit of that work into the election process and the qualifications for election processes up-front, because that can potentially identify issues before they become issues and before people become elected. That is an area I think broadly most jurisdictions could do better in.

**Jade BENHAM:** Yes, great. Thank you. Thanks, Chair.

**The CHAIR:** Thank you, Ms Benham. Mr Galea.

**Michael GALEA:** Thank you, Chair. Mr Morgan, I was quite interested in something in your written statement, which is a suggestion for how VAGO could more effectively run its guidance to councils. Specifically, you said that it would be useful for VAGO recommendations to come with a risk rating so that higher risk or consequence recommendations can be actioned as a priority over lower risk or consequence areas, similar to the rating system used in annual external audit management letters. You went on to give the example, which we have already touched on, about resourcing and how sometimes compiling registers and other things can be quite intensive. Can you talk to me a little bit more about how you would see VAGO make this change in an ideal world?

**Matthew MORGAN:** I think it is something that they do anyway through the annual external audits. In terms of when we receive the management letters as part of the annual external audit, it comes with a rating in terms of the priority rating but also the implications. Then it is up to management to provide a response on whether or not we accept that recommendation but also how we will prioritise the implementation of that control. I think it would just be potentially adapting to what they do through the external audit process on an annual basis and looking at how they bring that across into their investigation reports as well.

**Michael GALEA:** That is very good feedback for us to have as the oversight committee of VAGO as well.

**Matthew MORGAN:** I will just ask: Beau, did you want to add anything to that?

**Beau MITTNER:** I think it is basically just defining what that criticality is, and then we can prioritise accordingly. As Matthew mentioned, they already do it as part of the annual audit cycle, so it would just be adopting that.

**Michael GALEA:** Yes, and also presumably of course it would give ratepayers that accountability of what has been set as a priority so that council's actions can be seen to either be complying with that or going a different path. Would that be fair?

**Beau MITTNER:** Correct.

**Michael GALEA:** If I can put that same question to South and East Gippsland, would you be supportive of such a change as well?

**Rhys MATULIS:** Yes, I think that would be helpful. Again, when we are assessing VAGO recommendations through our audit and risk committee, of course we put our own lens across them. But I think if there was that overall weighting from VAGO, that would be helpful.

**Michael GALEA:** Thank you. East Gippsland?

**Sarah JOHNSTON:** Yes, I absolutely agree with what everyone says in the room. I think what VAGO uses are materiality thresholds. I suppose the only part that would be in my mind is: would you apply different prioritisations to different-sized councils? But I think the concept absolutely is sound and would be helpful at our end.

**Michael GALEA:** Point well made. Thank you very much.

**The CHAIR:** Thank you, Mr Galea. Just quickly, in the couple of minutes we have got left, a lot of our conversation has really focused on issues with councillors and integrity or corruption issues or fraud issues with councillors. I just want, for the elected officials, to flip that in the reverse. What if as mayors and deputy mayors and councillors there are significant problems with your CEO and the staff about making applications to IBAC or the Local Government Inspectorate and things like that?

**John SCHELLING:** So you would like to know how we would deal with that?

**The CHAIR:** Yes.

**John SCHELLING:** It would go back from the councils through the mayor to deal with the CEO in their weekly meetings. Then if it did not improve, you would have to make an application to VAGO for an investigation. That is the way we would do it anyway.

**The CHAIR:** East Gippsland.

**John WHITE:** That is an interesting question, because we have had no experience in this area. I think probably we have been very lucky to have some really good senior staff and CEOs over the years. We have not encountered that, so it is really hard to make a judgement call. As elected representatives we come to council and basically we learn on the run because we have not been in these fields where these officers are. They are trained extensively to do the right thing for everybody. We just become the decision-makers and often just act, as John would probably agree with, on advice from these officers on how we make decisions for our communities. I cannot speak to the issue in that I have never been confronted with it. In fact it would be really disappointing if that did happen to us in this council. I hope that gives you some sort of an answer, but I just cannot speak to that because it has never occurred.

**The CHAIR:** I would say it does not give me any comfort. Perhaps it is something you would want to talk about with your fellow councillors. We are out of time. No, we have got a couple of minutes. We have got five more minutes. I am going to throw to Mr Hilakari.

**Mathew HILAKARI:** Thank you. I am looking really at the audit and risk committees and how they contribute to fraud and corruption prevention. How do you prioritise your work at the audit and risk committees that are at each of your councils? We will start with you, South Gippsland.

**John SCHELLING:** How do we prioritise it?

**Mathew HILAKARI:** Yes.

**John SCHELLING:** We have an independent group of people who come together.

**Mathew HILAKARI:** That is right. I know you said you are ex officio.

**John SCHELLING:** I am an ex officio. We have two councillors who sit on the audit and risk committee as well. Every quarter I think there is a meeting.

**Mathew HILAKARI:** Who sets the agenda? And who sets out what the priorities are for that particular meeting?

**Rhys MATULIS:** I can help you, Mr Mayor.

**Mathew HILAKARI:** Thank you.

**Rhys MATULIS:** The audit and risk committee has a work plan. They review that every year, and they look at what the issues are across the sector and things they are learning from other audit and risk communities they might be on as well. They set that every year, and they will set out an internal audit plan. Again, in terms of fraud and corruption, we regularly report on, for example, councillor expenses, conflict-of-interest management and fraud and corruption disclosures or inquiries we may have received from integrity agencies. We are actively reporting back to our audit and risk committee on a regular basis, and they are using that to form their work plan.

**Mathew HILAKARI:** Are you relooking at your agenda as you work through the year as risks change?

**Rhys MATULIS:** Yes.

**Mathew HILAKARI:** Of course risks will change across the course of the year and it is readjusting that agenda accordingly.

**Rhys MATULIS:** If there is a topical issue, they will ask for a report to come to the committee. They are actively looking at what is happening across the sector.

**Mathew HILAKARI:** So it is not a set and forget?

**Rhys MATULIS:** No, definitely not.

**Mathew HILAKARI:** Fantastic. Same for East Gippsland as well – is that a similar situation? I understand you are ex officio as well, Mayor.

**John WHITE:** Thank you. Yes, that is pretty much the way this system works. Of course it is our very good independent members who often ask those questions, and then they are dealt with by the officers and then re-reported at the next meeting. Without fail, at this stage a resolution has been reached and satisfies the committee.

**Mathew HILAKARI:** You have not had any big misses over your experience. I am not asking you to go into particular detail about them, but there have not been big misses through your audit and risk committee.

**John WHITE:** No, not at all. It is just regular reporting, and it is certainly in-depth. It takes a long time to read the agenda for our quarterly meetings. All the jobs are covered off, and then of course we also have another part, which is the VAGO reporting. I think that is correct, Sarah. Is that what we are calling it?

**Sarah JOHNSTON:** Yes. I suppose, reiterating what some of the others have said here, we have obviously got the annual work program and we have got the independence of the Chair and the different members, and I think that offers a really unique and different assurance mechanism, of course, to council more broadly. Yes, there certainly is adjustment based on risk as to what the agenda needs to look like and to focus on things, and yes, every single integrity report goes up through the audit and risk committee. And I suppose then the other part, obviously there is the external and internal audit function where the audit and risk committee look at risks and go, 'Right, this is where we think we need to have internal audits on specific areas to give us that extra assurance and to then bolster again with the external auditors of course as well.'

**Mathew HILAKARI:** Thank you. And for Moira, I understand you are in administration. Has that been an area of real need for strengthening over the course of the administration?

**Amanda FINN:** Yes. We did actually strengthen our audit and risk committee recently by increasing the number of independent members. We have up to five independent members. Our two administrators are also part of our committee. And as mentioned before, there is a works program in accordance with the charter and the act, as you are aware, and that does include fraud and corruption. Matt also mentioned earlier that we have recently endorsed our fraud and corruption control plan and policy. That was tabled through our audit committee as well, so they had oversight over that control before it was endorsed.

**Mathew HILAKARI:** Great. Thank you.

**The CHAIR:** Thank you, Mr Hilakari. Right on time. Moira, South Gippsland and East Gippsland, thank you so much for appearing before the committee this afternoon. Our time together has come to an end. The committee will follow up on any additional questions that sometimes we have as part of our discussions or any questions taken on notice, 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 this hearing adjourned.

**Witnesses withdrew.**