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Victorian Auditor-General's Office



Fraud and Corruption Control— Local Government

June 2019

Independent assurance report to Parliament
2018–19: 29



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Victorian Auditor-General's Office

The Hon Shaun Leane MLC
President
Legislative Council
Parliament House
Melbourne

The Hon Colin Brooks MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report
Fraud and Corruption Control—Local Government.

Yours faithfully



Dave Barry
Acting Auditor-General

19 June 2019

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Acronyms

AIC	Australian Institute of Criminology
ARC	Audit and Risk Committee
ASIC	Australian Securities and Investments Commission
ATO	Australian Tax Office
CEO	chief executive officer
CFO	chief financial officer
EBA	Enterprise Bargaining Agreement
EFTPOS	electronic funds transfer at point of sale
HR	human resources
IBAC	Independent Broad-based Anti-corruption Commission
ICT	information and communications technology
KMP	key management personnel
LGI	Local Government Inspectorate
LGV	Local Government Victoria
PDC	Protected Disclosure Coordinator
PIN	personal identification number
RACV	Royal Automobile Club of Victoria
VAGO	Victorian Auditor-General's Office
VO	Victorian Ombudsman
VPSC	Victorian Public Sector Commission

Abbreviations

Shepparton	Greater Shepparton City Council
Strathbogie	Strathbogie Shire Council
the Accounting Standard	Australian Accounting Standards Board <i>AASB 124 Related Party Disclosures</i>
the Act	<i>Local Government Act 1989</i>
the Australian Standard	<i>Australian Standard 8001–2008 Fraud and Corruption Control</i>
the Minister	Minister for Local Government
the Regulations	<i>Local Government (Planning and Reporting) Regulations 2014</i>
Wellington	Wellington Shire Council
Wyndham	Wyndham City Council

Audit overview

Elected councillors and local government employees make decisions and perform functions that affect the lives and interests of all Victorians. The community expects—and the law requires—that they do this responsibly and with integrity, accountability, impartiality, and in the public interest.

The culture of an organisation is a key control that can help it to prevent, detect and respond to fraud and corruption. If the senior leadership of an organisation does not model, communicate and support appropriate values and behaviour, this can reduce the organisation's ethical culture and leave it vulnerable to fraud and corruption. Fraud and corruption undermines public trust in local government and damages the reputation of the sector. When fraudulent and corrupt activities are undetected, or left unchecked, public money and resources are wasted.

Fraud is dishonest activity involving deception that causes actual or potential financial loss by an entity or others.

Corruption is dishonest activity in which an employee of an entity acts contrary to its interests, abusing their position of trust to achieve personal gain or advantage.

The objective of this audit was to determine whether local councils' fraud and corruption controls are well designed and operating as intended. We examined fraud and corruption controls at Greater Shepparton City Council (Shepparton), Strathbogie Shire Council (Strathbogie), Wellington Shire Council (Wellington) and Wyndham City Council (Wyndham). We primarily focused on expenditure and processes involving senior council staff and councillors. We reviewed fraud and corruption controls and measures to assess council practices relating to:

- councillor and senior staff credit card and fuel card use and reimbursements
- identifying and managing conflicts of interest
- responding to suspected incidents of fraud and corruption.

The testing period for our audit was July 2015 to June 2018. However, when we identified anomalies, where appropriate, we extended the testing period as far as February 2019.

Conclusion

There are gaps in the fraud and corruption controls at the audited councils and in some cases important controls are not working. The failure of these controls can foster a culture in which fraud and corruption can occur and go undetected and result in financial loss or reputational damage to the councils. While we did not find fraud or corruption in the transactions we examined, we identified:

- expenditure where it was unclear to us how residents and ratepayers benefited
- practices that may not meet public expectations
- non-compliance with legislative requirements aimed at ensuring transparency over council practices to their communities and regulators.

Some individuals in positions of authority need to take a broader view of their obligations. They must appreciate that they are accountable to ratepayers and residents and consider how their communities may perceive their actions.

Fraud and corruption controls over councillor entitlements and expenditure

Inadequate documentation to support reimbursement claims and approvals

A key control to prevent and deter fraud and corruption is maintaining an adequate audit trail of documentation and data to support reimbursements. Under the *Local Government Act 1989* (the Act), councils must ensure that councillor reimbursement claims are reasonable and bona fide, and that the councillor incurred the expense when performing their role. Maintaining accurate financial records is also a financial reporting requirement. We identified issues including:

- three examples of reimbursements at Shepparton, from a selection of 12, with missing councillor claim forms
- six examples of reimbursements at Strathbogie, from a selection of 20, where the business reason, or council event, for which the expense was incurred was not detailed on the claim form.

While these expenses may be valid, the councils' failure to maintain adequate documentation inhibits full public scrutiny of these transactions.

Vehicle mileage

The audited councils' policies provide for the reimbursement of mileage to councillors when they use their private vehicles for council business. However, some of the audited councils are not ensuring councillors submit adequate documentation to support their mileage reimbursement claims.

The councils' policies vary in their requirements for supporting documentation. At present, Wellington's policy has no requirement to provide supporting documentation, such as an odometer reading or a tax invoice for fuel purchased, and Wyndham's policy only requires 'appropriate records'.

Strathbogie does not have clear requirements for supporting documentation for mileage claims, and does not, for example, require councillors to provide odometer readings. While Strathbogie's policy requires councillors to provide 'a receipt or tax invoice for any expenditure', the supporting claim form has no requirement for councillors to attach a receipt or tax invoice for mileage claims. None of the 10 approved mileage claims we reviewed at Strathbogie had any supporting documentation. Shepparton requires councillors to provide logbooks to support reimbursement claims; however, none of the five approved claims we tested had any supporting evidence attached.

Extra entitlements

Councils outline the level of benefits and support they provide to councillors in entitlement policies. These policies permit councils to provide, for example, meals for councillors when council meetings extend through normal meal times or accommodation when councillors travel for council business.

In our testing of credit card transactions, we identified four transactions at Wellington and two at Wyndham where council officers had made purchases for the benefit of councillors without a clear business need. This included the purchase of alcohol at Wellington for council meetings. We also identified one dinner at Wellington between senior council staff and new councillors and their partners that was not related to travel or council meetings. At Wyndham, we identified meals between senior council staff and councillors that were not related to travel or council meetings.

When councillor entitlements are outside policy boundaries and have unclear business purposes, it creates a risk that they do not meet community expectations.

Additional financial allowance

Under the Act, councillors receive a financial allowance for performing their role. The Minister for Local Government (the Minister) determines an allowance range, within which councils decide an amount. Councillors should not receive additional payments unless they are reimbursements for expenses incurred as part of official council business, supported by documentation that shows this.

Wyndham does not adhere to this, providing each councillor with an \$800 lump sum 'hard copy printing allowance' per year to purchase a printer, paper and toner. While this allowance is included in Wyndham's reimbursement policy, the council does not require councillors to provide evidence as to how they spent the \$800 printing allowance and pays the money directly to the councillor. The business need for this allowance is also unclear, as Wyndham provides councillors with a laptop or equivalent and the use of printers at council offices. Under the policy, the council will also reimburse councillors for printing costs, in addition to this printing allowance.

In contrast, Shepparton provides no printing allowance or reimbursements to councillors. Shepparton provides its councillors with tablets and the ability to use printers at council offices and does not offer any further printing entitlement.

Perception of 'double-dipping'

Councils need to consider how residents and ratepayers may perceive their actions in both providing equipment and reimbursing councillors for similar items or resources. Councils need to ensure that there is not a perception of 'double-dipping' or excessive entitlements.

We identified one example of Strathbogie reimbursing a councillor's entire private telephone and internet bill, despite the council already providing and covering the costs of a work mobile telephone. Reimbursement forms show that the councillor had not itemised the bills for reimbursement purposes, as required by policy, yet the council reimbursed them in full.

Failing to report councillor expenses as required by legislation

The *Local Government (Planning and Reporting) Regulations 2014* (the Regulations) require councils to detail in their annual report each councillor's expenses in five categories—travel, vehicle mileage, childcare, information and communication technology, and conference and training expenses.

Only one of the four councils, Wellington, fully complied with this legislative requirement in its 2017–18 annual report, which aims to provide transparency and enable scrutiny of councillor expenses. Shepparton did not report councillor expenses using the five required categories, Wyndham combined some of the categories, and Strathbogie combined allowances paid and expenses to report a total payment figure.

Fraud and corruption controls over council staff expenditure

While we did not identify instances of fraud or corruption in the transactions we examined, we found examples where controls are failing. These weaknesses provide an environment in which fraud and corruption can occur, potentially go undetected and breach public trust.

Credit cards

Controls over credit card use at the audited councils are, at times, inconsistently applied or are failing. We found:

- instances of inadequate documentation to confirm that transactions were made for official council business
- transactions contrary to stated council policies and procedures, including the payment of parking infringements at Strathbogie incurred by the chief executive officer (CEO) and a councillor, the costs of which were subsequently refunded after these individuals reviewed our draft report
- instances at Shepparton, Wellington and Wyndham where non-cardholders used cards allocated to others
- two instances at Wyndham where a non-cardholder used a card after the allocated cardholder left the council, and this non-cardholder also approved the transactions.

We also found inadequate scrutiny by approvers of transactions, such as:

- at Strathbogie, where a senior executive both witnessed a staff member's incomplete and undated statutory declaration, when the staff member failed to present tax invoices, and approved the transaction, contrary to policy
- at Wyndham, where the CEO incurred expenses on an administrative officer's card and approved the expenditure.

Data analytics can allow an agency to review large amounts of data and identify anomalies that may indicate fraud and corruption. We found that the audited councils did not have formalised processes to conduct data analytics of credit card transactions to identify and report anomalies. Wyndham and Shepparton have now started projects to report using data analytics.

Staff reimbursements

At Strathbogie, we found examples of inadequate documentation to support staff reimbursements and insufficient scrutiny by approvers, including:

- \$21 700 reimbursed to a senior executive for their rent, which the council described as a salary packaging arrangement, but had no supporting documentation other than an email in which the senior executive described the arrangement between the council and themselves as a 'loose agreement'
- \$3 085 in relocation expenses when there was no evidence that the staff member paid the amount to warrant reimbursement
- reimbursement of 100 per cent of course fees valued at \$4 111.50 when the supporting documentation stated that only 50 per cent could be reimbursed.

Fuel cards

Not all councils have fuel card policies or guidelines, and those that do are out of date or do not detail consequences for misusing fuel cards.

Although councils can apply fuel card restrictions, such as preventing the purchase of different fuel types, our testing found that blocks were not in place for all fuel cards and at times councils failed to:

- assign each fuel card to a specific vehicle or equipment
- maintain accurate motor vehicle and fuel card records
- update cardholder names with fuel suppliers when the council reassigns a vehicle and fuel card to another employee
- collect fuel transaction data as accurately as possible, including odometer readings to enable data analytics
- routinely monitor fuel card use, with only one council having conducted an internal review on fuel cards in the past three years.

We identified anomalies due to these control gaps, such as the purchase of different fuel types, and these could not always be explained. The councils' failures to implement controls, including regular, routine monitoring, leave them susceptible to fuel card misuse.

Maintaining public trust

Managing conflicts of interest

All councillors and council employees have private interests. These private interests can at times conflict, or be perceived to conflict, with the performance of their public duties. Effective management of such conflicts of interest is vital to maintain public trust and ensures council decisions are free from inappropriate influence.

Under the Act, councillors and nominated staff must lodge interest returns, called **Ordinary Returns**, every six months.

Under the accounting standard, key management personnel (**KMP**), which includes councillors, must complete **Related Party Disclosures** and declare associations and interests to identify transactions with related parties.

We identified one example where a councillor at Wellington failed to have their Ordinary Return witnessed per legislative provisions. The councillor instead used a photocopy of a previous return and changed the date.

When we reviewed interest disclosures made under the Act with disclosures under the Australian Accounting Standards Board *AASB 124 Related Party Disclosures* (the Accounting Standard) and data from the Australian Securities and Investments Commission (ASIC), we identified anomalies across Shepparton, Wellington and Wyndham. We referred these matters to the Local Government Inspectorate (LGI) for consideration, as LGI is the responsible authority for investigating anomalies and prosecuting offences under the Act.

Strathbogie KMP did not complete Related Party Disclosures in 2016–17, when it first became a requirement.

We also identified 10 examples in our credit card transaction testing at Strathbogie of a former manager buying gifts for, and dining with, suppliers, which raises the risk of perceived or actual conflicts of interest.

Effective use of funds

Meals and alcohol

We identified transactions involving the purchase of meals and alcohol at Strathbogie, Wellington and Wyndham that were not related to travel or council meeting catering. While councils may consider that spending council funds on meals and alcohol is appropriate in some circumstances, they need to consider community expectations and perceptions that are associated with this type of expenditure.

Selling and providing vehicles to staff

At Strathbogie, we identified six instances of the council directly selling vehicles to staff, at times below market value, and providing vehicles to staff as part of exit packages. The council also incurred additional vehicle-related expenses due to this practice.

Selling vehicles under market value or providing cars to employees—as well as paying additional expenses such as new tyres before the council transfers the vehicle—risks creating a perception of inappropriate or excessive entitlements for council employees. Further, a car that a council does not dispose of through a competitive auction represents a potential financial loss to the council and its residents and ratepayers.

Staff contributions to private use vehicles

Private-use vehicles are those that a council has assigned to an employee based on their role. Private-use vehicles differ from fleet vehicles in that the assigned employee may drive the car in their private time. Offering private-use vehicles can be a way for councils to attract and retain staff.

To have a council car for private use an employee will make annual contributions, negotiated as part of their employment package and contract. Although these contributions are subject to contract negotiation, private use of a council vehicle is ultimately funded by ratepayers and so must be transparent.

We found that Strathbogie and Wellington do not have transparent processes for calculating contributions and are not complying with their own policy requirements, resulting in some staff contributions towards their vehicles remaining the same for years. This means that expected increases in vehicle-related expenses—which should be incurred by individuals receiving the benefit—are being borne by the council and its ratepayers. Wyndham uses novated leases, a private arrangement between an individual and a company—with no impact on council expenditure.

Failing to report total remuneration, including motor vehicles

The Accounting Standard requires councils to report the remuneration of their executives (including non-monetary benefits) in annual reports. Where it is not possible to determine the value of a benefit, the Accounting Standard requires councils to provide a qualitative description in a footnote. This practice provides transparency of the council's expenditure and the benefits received by senior council staff.

We found that Strathbogie's 2017–18 annual report does not include a footnote for one senior executive's remuneration to capture the benefit of a motor vehicle. As a result of contract negotiations, the senior executive ceased making contributions in the last month of the financial year. Strathbogie advised that, subsequently, it omitted to include a footnote and the council will rectify this in its 2018–19 annual report.

Responding to fraud and corruption

The audited councils have varying levels of tools to support responses to fraud and corruption risks, as seen in Figure A.

Figure A
Tools to support response to fraud and corruption

Elements of fraud and corruption control framework	Shepparton	Strathbogie	Wellington	Wyndham
Protected Disclosure procedures made publicly available on council website at time of audit testing that include contact details for the Protected Disclosure Coordinator	✓	× ^(a)	✓	× ^(a)
Fraud and corruption control policy implemented	✓	✓	✓	✓
Fraud and corruption training provided to staff	✓	✓	✓	✓
Fraud and corruption incident register maintained	× ^(a)	× ^(a)	✓	✓

(a) Now compliant following VAGO findings.

Source: VAGO, based on council data.

Responding to potential instances of fraud and corruption

We identified instances at Strathbogie and Wyndham where the councils failed to respond appropriately to repeated non-compliance with policy.

For example, responsible staff at Strathbogie did not identify repeated non-compliance with its purchasing card policy by a staff member as a fraud and corruption risk. At Wyndham, responsible staff did not suspend a staff member's card privileges while they were subject to an investigation for allegations of card misuse—which were ultimately substantiated—and did not maintain full records of the investigation.

We did not identify similar instances at Shepparton or Wellington.

Recommendations

All councils should consider our findings to determine if our recommendations are applicable to their operations and perform their own self-assessment of their fraud and corruption controls.

We recommend that councils:

1. require councillors to certify that their expense claims are incurred in the context of relevant legislative provisions. Councils must require councillors to provide stronger evidence to support their claims, in particular for mileage reimbursements, including records pertaining to the claim and details of the business reason and who benefited from the expense (see Section 2.2)
2. review and update fuel card policy and guidance to clearly outline fraud and corruption controls, and require staff to confirm that they understand the terms of use and consequences for misuse (see Section 3.5)

3. review credit card policies and improve controls to ensure only allocated cardholders use their cards and there is appropriate segregation of duties over expenditure approvals (see Section 3.3)
4. ensure the council's chief financial officer or equivalent approves chief executive officer expenditure and report all expenditure by, or on behalf of, the chief executive officer to the Audit and Risk Committee and/or the council for periodic review (see Section 3.3)
5. document and develop formalised reporting over credit and fuel card use and incorporate, where appropriate, data analytics to identify anomalies (see Sections 3.3 and 3.5).
6. improve fuel card controls by:
 - assigning each fuel card to a specific vehicle or equipment
 - maintaining accurate motor vehicle and fuel card listings
 - updating cardholder names with fuel suppliers when the council reassigns a vehicle and fuel card to another employee
 - collecting fuel transaction data as accurately as possible, including odometer readings
 - having regular, routine processes to monitor fuel card use
 - conducting data analytics over fuel card transactions
 - conducting periodic internal audits on fuel cards (see Sections 3.3 and 3.5).
7. review and, as necessary, revise council policies on the purchase and reimbursement of meals and alcohol considering community perceptions, and require, for transaction approval, clear evidence of the community benefit from this expenditure and appropriate supporting documentation (see Sections 2.2, 3.3, 3.4 and 4.3)
8. ensure that annual reports accurately capture expenses relating to senior management remuneration packages including vehicle contribution amounts (see Section 4.3)
9. ensure all council staff and councillors receive fraud and corruption awareness training at least every two years (see Section 4.4)
10. develop or maintain fraud and corruption incident registers to accurately record suspected incidents of fraud and corruption, their handling, and all relevant supporting documentation (see Section 4.4).

We recommend that Greater Shepparton City Council, Strathbogie Shire Council, and Wyndham City Council:

11. publish councillor expenses for the 2017–18 year on their websites immediately and ensure their 2018–19 annual reports comply with *Local Government (Planning and Reporting) Regulations 2014* (see Section 2.3).

We recommend that Strathbogie Shire Council:

12. cease all sales and the provision of vehicles to council staff as part of exit packages (see Section 4.3).

Responses to recommendations

We have consulted with Shepparton, Strathbogie, Wellington and Wyndham and considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report to those agencies and asked for their submissions or comments. We also provided a copy of the report to the Department of Premier and Cabinet.

The following is a summary of those responses. The full responses are included in Appendix A.

All four councils accepted the recommendations addressed to them. The full responses are included in Appendix A.

1

Audit context

Local government employees and elected councillors make decisions and perform functions that affect the lives and interests of all Victorians.

The Independent Broad-based Anti-corruption Commission (IBAC) has repeatedly highlighted the need for agencies to develop a culture of integrity. A strong integrity culture can play a vital role in preventing, detecting and responding to fraud and corruption. Leaders must set the tone and ensure expectations are clear and that there are consequences for non-compliance.

Under the Act, councils have a duty to do all things necessary to:

- ensure that all money spent by the council is correctly used and properly authorised
- develop and maintain adequate internal control systems.

Ineffective controls can indicate that an organisation does not take fraud and corruption risks seriously and can create an environment where fraud and corruption can occur and go undetected. The financial amounts in question do not need to be significant to reduce public trust.

Transparency is crucial to maintaining public trust. In particular, discretionary spending presents perception risks to the sector, and should be able to withstand public scrutiny. Councils can jeopardise community confidence if they fail to adequately record and justify their spending decisions. In addition, if there is inconsistency between a council's stated policies and procedures and what it does in practice, this can raise suspicions about council expenditure and how well it is preventing fraud and corruption. If financial losses occur due to fraud and corruption, it can impact a council's ability to meet the needs of its community.

1.1 What is fraud and corruption?

Fraud is dishonest activity involving deception that causes actual or potential financial loss. Examples of fraud include:

- theft of money or property
- falsely claiming to hold qualifications
- false invoicing for goods or services not delivered, or inflating the value of goods and services

- theft of intellectual property or confidential information
- falsifying an entity's financial statements to obtain an improper or financial benefit
- misuse of position to gain financial advantage.

Corruption is dishonest activity in which employees act against the interests of their employer and abuse their position to achieve personal gain or advantage for themselves or others. Examples of corruption include:

- payment or receipt of bribes
- a serious conflict of interest that is not managed and may influence a decision
- nepotism, where a person is appointed to a role because of their existing relationships, rather than merit
- manipulation of procurement processes to favour one tenderer over others
- gifts or entertainment intended to achieve a specific outcome in breach of an agency's policies.

Losses resulting from fraud and corruption

It is difficult to measure total losses due to fraud and corruption. As well as financial losses, there are indirect losses, including productivity losses and damage to the community's trust in the local government sector.

The Australian Institute of Criminology (AIC) ranks fraud as the most costly type of crime. While there are no precise figures, AIC estimates that fraud costs the Australian economy \$8.5 billion per year. Between October 2016 and September 2017, the total value of reported frauds exceeding \$50 000 brought before Australian courts was \$482 million.

At present, there is no requirement for councils to report losses due to fraud and corruption to the Victorian Auditor-General's Office (VAGO), as required of state government departments and authorities under the *Standing Directions of the Minister for Finance 2016*. Councils are also not required to report financial losses to LGI. However, council CEOs need to report suspected corruption to IBAC.

1.2 Legislation, policy and guidance

In May 2018, the Minister introduced the *Local Government Bill 2018* into Parliament. The government intends for the bill to repeal and replace the Act with a modern, principle-based legislative framework. The proposed bill requires Audit and Risk Committees (ARC) to 'monitor and provide advice on risk management and fraud prevention systems and controls'. The proposed bill did not pass during the previous Parliamentary term and so has lapsed.

Figure 1A provides an overview of key legislative and accounting standard requirements and guidance material relevant to councils when developing their fraud and corruption strategies and controls.

Figure 1A

Key legislative and the Accounting Standard requirements and guidance material

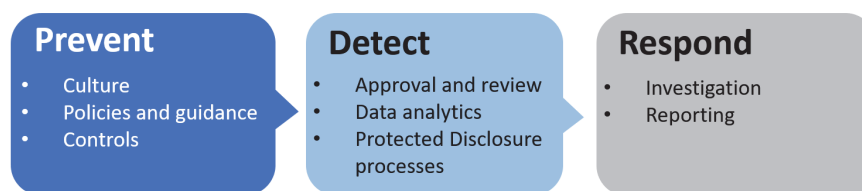
Instrument	Requirements / Guidance
<i>Local Government Act 1989</i>	<p>Mandatory compliance</p> <p>The Act describes the roles, functions and powers of councils and includes provisions relevant to fraud and corruption control, including conflict of interest, the role of audit committees, councillor reimbursements, and codes of conduct for council staff and councillors.</p>
<i>Local Government (Planning and Reporting) Regulations 2014</i>	<p>Mandatory compliance</p> <p>The Regulations require councils to document in their annual report expenses for councillors in five categories.</p>
<i>Local Government (General) Regulations 2015</i>	<p>Mandatory compliance</p> <p>The <i>Local Government (General) Regulations 2015</i> require councils to make specific documents available for public inspection, including a document containing details of overseas or interstate travel undertaken by a councillor or council staff member within the previous 12 months.</p>
<i>Protected Disclosure Act 2012 and Independent Broad-based Anti-corruption Commission Act 2011</i>	<p>Mandatory compliance</p> <p>The purpose of the <i>Protected Disclosure Act 2012</i> is to encourage and facilitate disclosures of improper conduct by public officers, public bodies and others, and to provide protections for people who make disclosures.</p> <p>If a body can receive protected disclosures, it must have effective procedures to facilitate the making of disclosures, including notifications to IBAC.</p> <p>The <i>Independent Broad-based Anti-corruption Commission Act 2011</i> requires all relevant principal officers of public-sector bodies, which includes council CEOs, to notify IBAC of any matter they suspect on reasonable grounds involves corrupt conduct.</p>
Australian Accounting Standards Board <i>AASB 124 Related Party Disclosures</i>	<p>Mandatory compliance</p> <p>The objective of the Accounting Standard is to ensure that financial statements contain disclosures to draw attention to the possibility that an entity's financial position may have been affected by the existence of transactions with related parties.</p> <p>Since July 2016, certain council staff and councillors are required to, for example, declare if they or close family members control or jointly control a business, club, association or sporting group that transacts or has commitments with the council.</p> <p>The Accounting Standard also requires that local councils note in their annual report total remuneration for key management personnel, including non-financial benefits, such as motor vehicles.</p>
<i>Australian Standard 8001–2008 Fraud and Corruption Control</i>	<p>Better practice</p> <p>The <i>Australian Standard 8001–2008 Fraud and Corruption Control</i> (the Australian Standard) provides guidance on controlling fraud and corruption within an entity. The Australian Standard views fraud and corruption control as 'a holistic concept involving implementation and continuous monitoring and improvement across three key themes—prevention, detection and response'.</p>
IBAC, LGI, VAGO and Victorian Ombudsman publications	<p>Better practice</p> <p>IBAC, LGI, VAGO and Victorian Ombudsman (VO) investigation and audit reports, reviews, media releases and resources can assist the local government sector.</p>

Source: VAGO.

Fraud and corruption controls

Fraud and corruption control frameworks should include controls that address the three key areas of prevention, detection and response, as outlined in Figure 1B.

Figure 1B
Fraud and corruption frameworks



Source: VAGO.

1.3 Agencies and their responsibilities

Local councils

The Constitution of Victoria recognises local government as a separate tier of government. Residents and ratepayers elect councillors to govern councils, and the councillors appoint a CEO, who manages the council's operations. While administered under the Act, all 79 councils in Victoria operate autonomously and are accountable to ratepayers and residents.

The local government sector is primarily funded through rates and charges, as well as government grants, to deliver services to the local community. In the 2017–18 financial year, our financial audit found that Victorian councils recorded revenue of \$10.7 billion. Rates and charges revenue was \$5.7 billion, making up over 50 per cent of total revenue. The second-largest revenue stream for councils was government grants and contributions, totalling \$3.15 billion.

Figure 1C shows the populations in the audited councils' municipalities and the audited councils' incomes for 2017–18.

Figure 1C
Audited councils' populations and incomes for 2017–18

Council	Population	Income for 2017–18
Wyndham	250 186	\$581 856 000
Shepparton	65 593	\$142 810 112
Wellington	43 747	\$99 062 112
Strathbogie	10 445	\$32 548 270

Source: VAGO, based on council annual reports for 2017–18.

Local Government Inspectorate

LGI is the dedicated integrity agency for local government in Victoria. LGI investigates offences under the Act and monitors governance and compliance with the Act in Victorian councils.

1.4 Why this audit is important

Fraud and corruption erode public trust in local government, disrupt business continuity, deter potential suppliers, reduce the quality and effectiveness of services, and threaten a council's financial stability.

A recent investigation by LGI resulted in criminal charges against a council CEO relating to the use of a council credit card for personal expenses. The CEO had bought items on their council credit card and falsely claimed they were for council business. The court convicted the CEO in December 2018 and ordered them to pay \$26 000 in fines and \$10 000 towards the prosecution's legal costs.

Following a separate LGI investigation, in July 2018 a court convicted and fined a councillor for their failure to submit Ordinary Returns by the prescribed date and disclose all companies in which they had an interest, as required by the Act. The court fined the councillor \$26 000, plus \$15 000 in legal costs. The County Court Judge noted that LGI had issued the councillor with a previous warning and described the councillor's offending as 'persistent'.

From December 2016, when IBAC introduced mandatory reporting of suspected corrupt conduct by relevant principal officers, including council CEOs, to November 2017, 44 per cent of reports to IBAC have concerned local councils.

1.5 What this audit examined and how

This audit examined whether councils have well-designed fraud and corruption controls that operate as intended. We primarily focused on expenditure and conflict of interest processes for senior council staff and councillors.

We assessed if councillor and senior staff credit and fuel card use, and reimbursements, were valid and in accordance with legislative and policy requirements. We also considered if the audited councils responded effectively when they detected non-compliant expenditure or reimbursements.

We also assessed if controls to identify and manage conflicts of interest for senior council staff and councillors were effective and operating as intended. This included assessing the completeness of interest disclosures, required under the Act, and Related Party Disclosures, required under the Accounting Standard.

We audited four councils—Shepparton, Strathbogie, Wellington and Wyndham. We selected the four councils through:

- discussions with other integrity agencies to ensure we would not be compromising any active investigations
- ensuring a selection of different sized councils and a spread across metropolitan and rural councils.

We also consulted with Local Government Victoria (LGV), which provides policy advice to the Minister and oversees the administration of the Act, and LGI in the conduct of this audit.

This report includes adverse comments about the current Strathbogie and Wyndham CEOs. Section 20(2) of the *Audit Act 1994* requires us to provide them with a reasonable opportunity to respond to the draft report. As a result, we provided draft reports to both of these CEOs on 18 April 2019 and 28 May 2019. Neither CEO provided a response to these matters in their individual capacity. The Acting Auditor-General has considered the councils' responses contained in Appendix A in making the decision to include the adverse comments in the report.

In accordance with section 20(3) of the *Audit Act 1994*, any other persons who are named from the information in this report are not the subject of any adverse comment or opinion.

We conducted our audit in accordance with section 15 of the *Audit Act 1994* and ASAE 3500 Performance Engagements. We complied with the independence and other relevant ethical requirements related to assurance engagements. The cost of this audit was \$675 000.

1.6 Report structure

The remainder of this report is structured as follows:

- Part 2 examines fraud and corruption controls over councillor entitlements and expenditure.
- Part 3 examines fraud and corruption controls over staff expenditure.
- Part 4 examines the maintenance of public trust.

2

Fraud and corruption controls over councillor entitlements and expenditure

Residents and ratepayers elect councillors to serve their communities. Councillors are responsible for setting the overall direction of the council and take an oath that they will perform their role impartially, to the best of their ability, and in the best interests of the municipality.

The Act provides for councillors to receive support from councils including an allowance, resources and facilities, and the reimbursement of expenses incurred while performing councillor duties.

Councillors must model appropriate behaviour. As highly visible community leaders, they must hold themselves to the highest standard of integrity and foster a culture of zero tolerance for fraud and corruption. Any perception of excessive entitlements may damage public trust and the maintenance of a culture of integrity.

As with any type of council expenditure, the provision of entitlements to councillors may constitute a fraud and corruption risk for which councils need adequate controls. Fraud and corruption risks over councillor entitlements can include councils:

- approving councillor expense claims or entitlements not required for official council business or for councillors to perform their roles
- approving councillor expenses not supported by adequate documentation
- misreporting councillor expenditure.

2.1 Conclusion

Audited councils are not consistently applying important fraud and corruption controls over councillor reimbursements and entitlements.

Audited councils do not consistently require and adequately scrutinise supporting documentation to confirm that councillor expenditure is valid. Shepparton, Strathbogie and Wyndham have also failed to comply with a legislative requirement to accurately report councillor expenditure in their annual reports. These control weaknesses expose councils to the risk of fraud and corruption and may damage public trust and reduce transparency.

2.2 Fraud and corruption controls

Councils decide the level of support they provide to elected councillors based on what the council can afford, and what their communities would accept as reasonable. Councillors seeking benefits outside of their entitlement may be a fraud and corruption risk. Some examples of fraud and corruption risks over councillor support include councillors seeking reimbursement for:

- petrol costs for private mileage
- meals for their families or friends
- items that have nothing to do with their official council duties
- something that the council has already provided.

Councillors must also consider how their community may perceive entitlements that appear excessive or where there is no clear business purpose, such as:

- expensive meals
- additional financial allowances
- alcohol at council meetings.

To control for these risks, we assessed whether:

- councils had clear policies outlining the level of support to which councillors are entitled, and the process for how councillors can claim these entitlements and reimbursements
- councillor reimbursements and entitlements are supported by documentation that confirms they are for genuine council business and details the beneficiaries of the expense
- standing entitlements and support that councillors receive are not excessive and meet community expectations.

Policy and process

The Act requires councils to adopt and maintain a policy that prescribes the types of councillor expenses the council must reimburse, and the procedures councillors must follow for reimbursements.

The policy should also outline the support a council will provide to councillors and mayors, including access to resources and facilities.

All audited councils have a policy detailing the support they provide to councillors and the mayor, which are available on the councils' websites. The policies vary in what entitlements they provide, such as different rates for mileage reimbursements and printing entitlements.

All council policies also outline the process by which a councillor can request a reimbursement of expenses. We assessed the councillor reimbursement forms and noted a good practice example at Wyndham that requires councillors to certify that their claims accord with the relevant legislative provisions. This may also help councils to hold councillors accountable if they fail to meet their obligations.

Documentation to support reimbursement claims and approvals

Under the Act, councils must reimburse councillors for expenses if the councillors:

- apply in writing to the council for reimbursement of expenses
- establish in their application for reimbursement that the expenses 'were reasonable bona fide Councillor out-of-pocket expenses incurred while performing duties as a Councillor'.

The Act defines councillor duties as 'necessary or appropriate for the purposes of achieving the objectives' of the council.

However, the audited councils do not always approve councillor reimbursements in line with these requirements. For example:

- from 12 councillor reimbursement claims we reviewed at Shepparton, the council was unable to provide the reimbursement claim forms for three approved transactions
- from 20 councillor reimbursement claims we reviewed at Strathbogie, we identified six examples where the councillor had failed to detail the business reason, or council event, for which the expense was incurred.

In some instances, the audited councils state with confidence that, in the absence of supporting documentation, they can confirm that the expenses were business related. However, incomplete or missing documentation means full public scrutiny cannot be applied to the transactions as the business reason and who benefited is not evident. Shepparton advised that it has now implemented a business rule where it will not process councillor reimbursements for payment without the relevant forms and conducts ad hoc 'spot checks' of councillor reimbursements.

The case study in Figure 2A outlines an example of how documentation gaps limited our ability to confirm whether reimbursements were bona fide and who benefited from the expense.

Figure 2A
Inadequate reimbursement documentation

We reviewed a reimbursement for \$110 paid by Wellington to a councillor. The description on the reimbursement form was 'reimbursement for meal'. The documentation did not detail:

- who consumed the meal
- the business purpose of the meal (the receipt reflected that the meal appeared to be for a number of individuals and included alcohol).

When we made enquiries, the council reviewed this councillor's calendar and advised that: '[this councillor] paid total bill for dinner although the names of attendees have not been detailed, it appears that there were 3 attendees.' The council also advised that the claim was in the context of the councillor's attendance at a business conference, although this was not evident in the supporting documentation.

Source: VAGO, based on Wellington data.

There is no evidence that the above case study indicates fraudulent expenditure. However, the supporting documentation should have detailed the business reason for the expense and the beneficiaries.

Mileage reimbursement

Reimbursement of mileage costs for councillors to attend council meetings, functions and events is to ensure that there is no financial disincentive to becoming a councillor and performing official duties. As such, the audited councils' policies provide for the reimbursement of mileage to support councillors when they use their private vehicles.

Given the significant distances travelled by councillors, particularly in regional Victoria, mileage reimbursement amounts can be significant. The Act requires councillors to prove that their reimbursement claims are bona fide. Therefore, the council should require some level of supporting documentation for mileage reimbursement claims, such as a logbook with odometer readings, and a description of the council meeting or function attended.

Figure 2B details the supporting documentation required by councils for mileage reimbursements according to their councillor reimbursement policies and councillor reimbursement expense claim forms.

Figure 2B
Supporting documentation for mileage according to policy

Council	Evidence requirement for supporting documentation in policy	Requirement in claim form
Shepparton	Logbook	<ul style="list-style-type: none"> • Date • Details of claim • Amount claimed • Attach tax invoice/receipt/logbook
Strathbogie	Receipt or tax invoice	<ul style="list-style-type: none"> • Date • Purpose of travel • Kilometres travelled
Wellington	No stated requirement	<ul style="list-style-type: none"> • Date • Destination • Reason for trip • Distance travelled • Vehicle cylinder size
Wyndham	'appropriate records '	<ul style="list-style-type: none"> • Destination • Kilometres travelled • Attach tax invoice and receipts

Source: VAGO, based on council policies.

Wyndham and Wellington need to improve their guidance to councillors. Wyndham's policy and claim form does not require councillors to detail their purpose for their travel, and Wellington's policy does not state what supporting document the council requires for mileage claims.

Figure 2C shows the mileage reimbursement rates for councillors according to council policies. The audited councils use three different sources for the rates, meaning councillors are provided with varying levels of support. This decision is at the audited councils' discretion, but they should consider public perception in determining these rates.

Figure 2C
Mileage reimbursement rates for councillors according to council policies

	Shepparton	Strathbogie	Wellington	Wyndham
Cents per kilometre	66 cents	97 cents	72 to 88 cents	80 to 97 cents
Source of rate	Australian Tax Office (ATO)	<i>Victorian Local Authorities Award 2001</i>	Royal Automobile Club of Victoria (RACV)	<i>Victorian Local Authorities Award 2001</i>

Note: The award rates differ depending on engine sizes. Strathbogie does not check engine sizes and pays all claims at the highest available rate.

Source: VAGO, based on council data.

Shepparton

Shepparton's policy states that councillors must support their claims for reimbursement with a logbook, which the council can provide on request. The councillor reimbursement claim form also requires the attachment of a 'Tax Invoice / Receipt / Copy of Log Book'. We selected five mileage reimbursement claims and found that even though none of the claims we reviewed had any supporting documentation, the council processed all five claims.

We also identified that Shepparton reimbursed three of the five claims in error, at a rate of 99 cents per kilometre, instead of the 66 cents in their policy. The council explained that the claims were processed in error at the council employee Enterprise Bargaining Agreement (EBA) rate, instead of the stated councillor reimbursement policy rate. The overpayments ranged from \$43 to \$126.

Shepparton advised that it has now provided councillors with logbooks and a new reimbursement form. We have confirmed that the new form outlines the evidence that councillors need to provide to obtain a reimbursement and alerts administrative staff who process these claims to the requirements.

Strathbogie

Strathbogie uses the *Victorian Local Authorities Award 2001* to reimburse councillors for mileage at a rate of 97 cents per kilometre and does not check engine sizes, which could result in a lower rate being applicable (80 cents per kilometre).

Strathbogie does not have clear requirements for supporting documentation for mileage claims, and does not, for example, require councillors to provide odometer readings. While Strathbogie's councillor reimbursement policy requires that councillors provide 'a receipt/tax invoice for any expenditure', its associated claim form does not require councillors to provide evidence in support of mileage claims. None of the 10 approved mileage claims we reviewed provided any tax invoices or receipts. While we found that six claims included details about the council event the councillors attended, four claim forms only stated the date and locations travelled between, without providing any detail on the actual business purpose for the travel.

We found one instance where Strathbogie reimbursed a councillor \$1 018.50 over a three-week period. In support of these mileage reimbursements, the councillor noted the kilometres travelled and the travel purpose. However, the councillor did not provide a tax invoice or receipt to support any of these reimbursements, which is a requirement under the council's policy, but not on its councillor claim form. Strathbogie does not require councillors to provide odometer readings to confirm the number of kilometres travelled.

In response to our findings, Strathbogie stated that it is committed to providing councillors with training to reinforce its policy requirements for reimbursements and ensure that councillors understand that any claim for reimbursement must be reasonable.

Wellington

Wellington uses the RACV vehicle expense rate to reimburse councillors for mileage. These rates vary depending on the size and type of the vehicle, and RACV revises them each year. The RACV rates for 2017 were 6 to 22 cents higher than ATO rates. The council states that the ATO rate does not provide a fair reimbursement rate, as it does not consider engine size or reflect the true expense in using a private vehicle for council business.

Wellington requires councillors to submit a reimbursement form that lists the date, cylinder size, distance travelled, reason for the trip, and destination. It does not require councillors to provide other supporting documentation, such as a logbook or odometer readings for mileage reimbursements or a receipt to confirm spending on fuel. However, the council advises that it takes steps to ensure that claims for mileage are for council business as follows:

- The support officer who books and records councillor meetings and events in a diary checks the entries against the councillor claim forms.
- The council uses Google Maps to confirm distances travelled.

We reviewed seven claims for mileage reimbursement. Wellington provided the reimbursement forms for all claims, which listed the destinations, kilometres travelled and the business purpose.

Wellington's claim form states that councillors should complete reimbursement claim forms at the end of every month and that claims submitted later than three months after the expense is incurred will not be paid. This is to enable appropriate scrutiny so that the business purpose for travel can be easily confirmed. We identified two paid claims from our review of 20 approved reimbursements where the councillors submitted these claims outside of this timeframe. Figure 2D outlines this.

Figure 2D
Delayed claims for reimbursement

We identified one reimbursement claim for mileage of 3 698 kilometres with a total claim value of \$2 662.56.

A councillor submitted the claim form in April 2017 and it covered the period November 2016 to April 2017.

The council acknowledged this delay and noted that it was an isolated incident.

We identified a second claim for reimbursement for a different councillor who submitted a claim in September 2018, for the period July to September 2018 for \$1 652.78.

Wellington stated in response to these findings that:

- the council endeavours to receive travel reimbursements from councillors by the end of each month
- there are times when councillors (primarily for personal reasons) forget to lodge claims
- the council tries to be flexible with this arrangement.

The council noted that it had added a monthly calendar reminder in each councillor's diary to help reduce delays and that it can 'only ask/remind Councillors to submit claims'.

Source: VAGO, based on Wellington data.

Wyndham

Wyndham uses the *Victorian Local Authorities Award 2001* rates to reimburse councillors for mileage. The council is of the view that this rate is consistent with its EBA and ensures councillors receive the same level of reimbursement as council staff. As a metropolitan council, Wyndham has fewer claims for mileage reimbursements.

Extra entitlements

Meals and alcohol

Councils may provide meals for councillors when council meetings extend through normal meal times or when they require councillors to travel for councillor business. In rural councils, councillors may travel significant distances to attend council meetings.

In our testing of credit card transactions, further described in Section 3.3, we noted transactions at two of the four audited councils and we provide examples in Figure 2E.

Figure 2E
Expenditure for councillors

Council	Audit findings
Wellington	<ul style="list-style-type: none"> • \$1 349.90 at a local restaurant for a dinner for newly elected councillors, with 23 people in attendance, including four executives and councillors' partners. • Purchases made on behalf of councillors and described in documentation as 'meeting supplies' and 'catering', including: <ul style="list-style-type: none"> • a case of wine purchased for \$171 • two transactions of eight cans of pre-mixed alcoholic drinks. <p>We note in response to these transactions that the council has stated that councillors do not consume alcohol during work hours.</p>
Wyndham	<ul style="list-style-type: none"> • \$113.50 transaction at a local restaurant for a lunch between the CEO and two councillors, including three glasses of wine. • \$166.50 transaction at a local restaurant described as a 'catch up lunch' between the CEO and two councillors, including six glasses of wine.

Source: VAGO, based on council data.

The transactions listed above are not instances of fraud or corruption. However, they are instances where councils have provided benefits to council staff and councillors that their own policies do not necessarily support and are not transparently reported back to their communities.

Wyndham has acknowledged that such expenditure, where material, should be included in the reporting of councillor expenses for greater transparency. Wyndham advised it will review its guidelines on councillor expenses to capture expenditure more broadly.

When entitlements exceed stated policy, have unclear business purposes, or councils do not transparently report these expenses to ratepayers, councils risk losing their communities' trust.

Additional financial allowances

Councillors should not receive additional payments unless they can prove they incurred an expense for official council business. For example, this would include a reimbursement of accommodation or meals costs where the councillor attended approved council business and provided supporting documentation.

We noted the following practice at Wyndham in the form of a printing allowance, which Figure 2F describes.

Figure 2F
Councillors receiving printing allowance

Wyndham’s councillor reimbursement policy states that the council will provide each councillor with an \$800 lump sum per year 'hard copy printing allowance' to purchase a printer, paper and toner. The council does not require councillors to provide evidence as to how they spend the \$800 printing allowance and pays the money directly to the councillor.

We note that:

- councillors can use the printers at the council offices
- the council provides councillors with laptop computers and electronic copies of meeting papers
- under its policy, the council will also reimburse councillors for printing costs, in addition to the printing allowance.

The council details the \$800 printing allowance in the councillor reimbursement policy, which is available for public inspection. However, it is an additional financial allowance as opposed to an actual reimbursement, which means Wyndham councillors are receiving the maximum allowance plus an \$800 lump sum.

Source: VAGO, based on Wyndham data.

In comparison, Shepparton, as a better-practice example, provides no printing allowance or reimbursements to councillors. Shepparton provides its councillors with tablets and the ability to use printers at council offices. The council does not consider that any further printing entitlement is necessary.

For any payments or reimbursements, councils must collect documentation that confirms that councillors are using this money for genuine council business.

Perception of 'double-dipping'

Councils need to carefully consider how residents and ratepayers may perceive their actions in providing equipment, as well as reimbursing councillors for similar items or resources. Councils need to ensure that there is not a perception of 'double-dipping' or excessive entitlements.

Figure 2G shows an example of Strathbogie reimbursing a councillor's entire private telephone bill, despite the council already providing and covering the costs of a work mobile telephone.

Figure 2G
Councillor provided with a mobile telephone and reimbursed for home telephone bill

The council issued a councillor with a work mobile telephone. In addition to the provision of a work mobile, the council's policy also provides for a maximum reimbursement of \$100 per month for 'Council business' telephone calls on their private mobile or home telephone.

Between 31 August 2015 and 31 March 2018, the councillor claimed reimbursements for their home telephone and internet totalling \$3 474.23.

Reimbursement forms show that the councillor had not itemised the telephone bills for reimbursement purposes, as required by policy. The council approved all these reimbursement claims.

Source: VAGO, based on Strathbogie data.

We understand that the council did not approve one reimbursement claim submitted by the councillor for telephone charges in March 2018 and the councillor has not sought reimbursement for their private home or internet charges since this time.

In response to our draft report, Strathbogie advises that it is reviewing its policy and that it has sought to recover these inadvertent overpayments.

Mayoral fuel cards

We completed analytics over fuel card use by mayors at Shepparton, Wellington and Wyndham. We were unable to complete analytics for Strathbogie, as transaction times, odometer readings and the volume of fuel purchased was not available to enable analysis. For the councils we were able to complete analytics for, we identified no fuel card misuse by the mayors.

2.3 Reporting councillor expenses in annual reports

The Regulations require councils to detail in their annual report a breakdown of each councillor's expenses in five categories:

- travel
- car mileage
- childcare
- information and communication technology
- conference and training expenses.

Reporting of councillor expenses in annual reports provides transparency and enables external scrutiny of councillor expenses.

We reviewed council annual reports for 2017–18 to determine if the audited councils comply with this legislative requirement. Only one of the four councils fully complied with the Regulations as detailed in Figure 2H. This illustrates not only a breach of the Regulations, but also limits opportunity for external scrutiny.

Figure 2H
Council compliance with annual reporting requirements for councillor expenses

Council	Compliance with councillor expenses in 2017–18 annual reports	Non-compliance
Shepparton	Not compliant	The council has not detailed in its annual report the councillor expenses in the five required categories.
Strathbogie	Not compliant	The council has reported the total expenses paid per councillor, instead of reporting the five required categories.
Wellington	Compliant	N/A
Wyndham	Not compliant	The council has combined the travel category with the training and conference category.

Source: VAGO, based on council annual reports for 2017–18.

In addition, Wellington and Wyndham are not currently capturing the instances we identified of council staff purchasing meals and alcohol for councillors in Figure 2E as councillor expenses, and reporting these back to the community.

3

Fraud and corruption controls over staff expenditure

Councils deliver vital services including health, community support, economic development, and waste and environmental management. To perform these functions, councils collect funds, in the form of rates and charges, to deliver services to the community. Council staff are responsible for using these funds responsibly to further council objectives.

The expenditure of council funds by council staff is a fraud and corruption risk that each council must mitigate. Fraud and corruption risks include a council staff member:

- using a council credit card for personal use
- using a council fuel card to fill-up their own vehicle
- seeking reimbursement for items not bought, or not for genuine council business.

Under the Act, councils must ensure that all money they spend is correctly used and properly authorised and develop and maintain adequate internal control systems. We assessed whether councils had adequate fraud and corruption controls over:

- council credit cards
- council fuel cards
- reimbursements made to staff.

3.1 Conclusion

At some of the audited councils, staff have been inconsistently applying fraud and corruption controls over credit and fuel cards and staff reimbursements, and in some cases these controls have failed. Incomplete or inaccurate data, a lack of monitoring for anomalies, and failure to implement and comply with controls have limited the ability of councils to detect fraud and corruption should it occur. Instances where councils have not implemented or enforced their policies and processes show that councils need to do more to strengthen existing controls and undertake proper monitoring to protect council funds.

3.2 Control framework

Figure 3A outlines the key features of a good practice framework to control for fraud and corruption risks over expenditure.

Figure 3A
Control framework over expenditures



Source: VAGO.

We assessed the control framework over credit and fuel card use and reimbursements made to staff at each of the audited councils.

3.3 Credit cards

Council staff use credit cards to buy high-volume and low-value goods and services. The use of credit cards can save time and money by avoiding lengthy procurement processes for goods and services that staff must purchase frequently. While credit cards are a flexible and efficient way to make purchases, for this reason they also constitute a fraud and corruption risk.

Policy

Clear and accessible credit card policies and procedures are an important fraud and corruption control. Policies should provide employees with clear instructions on how to use their council credit card and should take a strong stance against fraudulent and corrupt use. Policies can also act to deter inappropriate behaviours when they clearly outline controls to detect fraud and the consequences of inappropriate use. It is also essential that councils require cardholders to acknowledge that they have read and understood the policy before being issued with a card.

Policy strengths

Each council's credit card policy clearly states that:

- the use of a credit card should be for official council business only
- the council may take disciplinary action in the event of card misuse or breach of the policy
- cardholders are responsible for keeping their card details and personal identification number (PIN) secure and that they must immediately report lost cards
- cardholders must provide adequate documentation or a signed statutory declaration for each credit card purchase
- a manager or supervisor must approve every transaction
- the withdrawal of cash is prohibited, and card limits must not be exceeded.

While a policy cannot outline the appropriateness of every possible type of purchase, policies should provide examples of inappropriate use, especially where there may be ambiguity. The credit card policies at Shepparton, Strathbogie and Wyndham councils all gave examples of inappropriate use, for example the purchase of fuel, the payment of fines and purchase of alcohol not required to advance council business.

Policy weakness

We identified a policy weakness and associated control risk for Strathbogie, as its policy does not clearly define what is considered sufficient supporting documentation for a transaction. The other councils' policies clearly state that an electronic funds transfer at point of sale (EFTPOS) receipt is not adequate, as it does not itemise what a cardholder purchased. We identified multiple transactions at Strathbogie where there was insufficient documentation to support the spend (see the testing results in Figure 3D).

Data analytics and review

An important part of a fraud and corruption control framework over credit card use is the review and analysis of transaction data to detect potential fraudulent use. Officers who are independent of cardholders and card approvers should conduct these review activities. The level of review activity will differ between councils depending on the number of transactions and credit cards in circulation. Activities range from reviewing a percentage of transactions each month, to a more sophisticated approach using data analytics over all transaction data to detect potential misuse. More sophisticated data analytics could include comparing transaction data against staff leave data and identifying purchases made on weekends and public holidays or out of office hours. We expect that councils with large numbers of credit cards and high spends would have more sophisticated analytics given the increased risk.

Figure 3B details the number of credit cards used across the audited councils and the total spend on cards, according to data provided by the audited councils and their banks.

Figure 3B
Number of credit cards in use at the audited councils and total spend in data provided during the audit

Council	Cards used during testing period	Total spend on cards
Shepparton	24	\$633 300
Strathbogie	27	\$228 700
Wellington	106	\$1 000 000
Wyndham	256	\$4 900 000

Source: VAGO, based on council data.

At the time of the audit, the councils did not have formalised processes to conduct data analytics over credit card transactions. However, both Wyndham and Shepparton have started projects to use data analytics to report on fraud and corruption risks over credit cards. Figure 3C outlines specific findings for each council.

Figure 3C
Use of data analytics by audited councils

Council	Findings
Shepparton	<p>Shepparton has the lowest number of cards in circulation compared with the other councils and does not conduct data analytics over transactions. Instead, the finance team conducts 'spot checks' on a number of transactions each month. The team applies a risk-based strategy with more scrutiny applied to transactions from staff to whom the council has recently allocated a credit card. Shepparton could consider formalising this process by documenting checks conducted and undertaking data analytics over all transaction data to identify specific fraud and corruption risks.</p> <p>In early 2019, Shepparton began a project to develop a new performance report on credit card transactions that will go to the executive leadership team each year. This is a positive step towards increased reporting and trend analysis over credit card transactions.</p>
Strathbogie	<p>Strathbogie does not conduct data analytics over transactions. A finance officer undertakes ad hoc reviews over transaction records and refers potential anomalies to managers. However, this is not a formal process of consistent trend analysis and reporting.</p>
Wellington	<p>Wellington does not conduct data analytics over transactions. A manager reviews at least 10 per cent of total card transactions each month, checking that cardholders have followed processes, that an employee has attached the correct receipt, and that the item they purchased was for a business use.</p>
Wyndham	<p>At the time of our audit, Wyndham had already begun a project to analyse credit card transaction data and report to the chief financial officer (CFO) on:</p> <ul style="list-style-type: none"> • spend patterns • transactions on weekends • transactions with outstanding approvals • reviews of high-risk supplier types. <p>Wyndham has now formalised monthly exception reporting using data analytics. The reports are provided to the CFO for review and action as necessary.</p> <p>If Wyndham can report consistently, this will be a positive addition to their fraud and corruption control framework.</p>

Source: VAGO, based on council data.

Credit card testing

To test the effectiveness of credit card controls, we examined a selection of purchases made on council credit purchasing cards to confirm that they were for official council business and in accordance with council policies and procedures. Appendix B outlines our testing methodology.

Control 1: adequate receipts and supporting documentation

Council staff must be able to provide adequate documentation to prove that each transaction was for genuine council business.

We identified examples where the documentation supporting transactions was inadequate, as detailed in Figure 3D. These instances also demonstrate insufficient scrutiny by approvers who ultimately approved these transactions.

Figure 3D
Examples of inadequate supporting documentation

Council	Audit findings
Shepparton	<ul style="list-style-type: none"> \$56.50 at a cafe, which had no receipt attached. \$27.20 at a hotel, where the itemised receipt does not match the EFTPOS receipt.
Strathbogie	<ul style="list-style-type: none"> A transaction at a local cafe for \$48.50. Cardholder stated on the expense form that the transaction occurred on a Tuesday for a 'meeting re advertising', but the receipt showed the transaction was on a Saturday and included the purchase of a child's serving of a drink and meal. The same cardholder went back to the same cafe the next day on Sunday and purchased breakfast. The transaction description states it was for a 'comms meeting'. A transaction of \$74.50 at a local hotel, described as 'after work drinks' and 'good morale after busy week'. The receipt was illegible. A transaction at a restaurant for \$167 as a 'Comms group meeting' for three people. The statutory declaration stated that 'no itemised register receipt was available', and the EFTPOS receipt was timed at 7.27 pm. The statutory declaration was incomplete and not dated and was witnessed by a senior executive. A transaction of \$555.10 described as 'Christmas Drinks' accompanied by an illegible receipt. <p>It should be noted that all these examples are attributable to one former manager. We discuss this further in Section 4.4.</p>
Wellington	<ul style="list-style-type: none"> \$150 at a firearm vendor, where there were two receipts for different amounts and they were not itemised. \$400 transaction described as a gift card for a farewell, but the receipt attached was for \$19.15. \$1 480 payment to an association supported by a document with a copy and paste of a declined transaction. \$89.25 at a travel agency supported by a document that was a screenshot that did not reflect the amount paid. One instance of a cardholder submitting an incomplete statutory declaration.
Wyndham	<ul style="list-style-type: none"> \$610 payment to an institution where the supporting documentation for the transaction was a handwritten note on a 'membership renewal' form. \$325.20 payment to an airline where the supporting documentation did not reference the passenger, date or destination. Two transactions for \$100 and \$115 to a health and beauty spa where the transaction descriptions state a 'prize' for a council event, but the cardholders had only attached EFTPOS receipts, which did not itemise the purchases. A transaction for \$676.50 where the tax invoice itemised \$630 worth of goods, but the EFTPOS receipt stated that \$676.50 was spent.

Source: VAGO, based on council data.

Although each of these transactions represents a differing level of risk of fraudulent spend, all demonstrate the need for council controls to ensure staff support spends with adequate documentation.

In response to our findings, Strathbogie advised that it had reviewed its policy to address issues, with the policy now:

- describing the circumstances in which entertainment expenses can be incurred
- prohibiting the purchase of alcohol without written approval from the CEO
- outlining the revised internal controls and auditing that apply, including the requirement to identify the business purpose for the expense.

Wyndham has acknowledged the deficiencies in its documentation. It has also noted that there were review and assurance processes that existed in relation to these transactions, such as travel registers and purchased goods being sighted, that were not formally captured within its established credit card transaction system. Wyndham advises that it has taken steps to ensure greater compliance with existing controls.

Control 2: only the allocated cardholder may use the credit card

Banks that issue credit cards require in their terms of use that only the allocated cardholder use the card. Council staff using a credit card that the bank has not allocated to them is a fraud and corruption risk, as it:

- misrepresents who is making a purchase
- increases the risk that a bank may not refund illegitimate spends due to lax controls over card security and the failure to abide by the bank's terms of use
- may limit a council's ability to accurately monitor an individual cardholder's expenditure
- is a way that a council officer can bypass controls, including approval processes, to commit fraud, as there is no way to ensure that the card approver is not also the person who incurred the expense
- results in cardholders submitting and confirming statements that include transactions for which they are not responsible.

We matched the council's transaction data with its staff leave data and identified transactions at Shepparton, Wellington and Wyndham that occurred while the allocated cardholder was on leave. These transactions range from purchases made for accommodation, food and beverage to tourist attractions. Although the audited councils advise that all transactions were for official council business, they could not always confirm exactly who made the transaction, significantly weakening this fraud and corruption control. We have outlined these transactions in Appendix C.

Shepparton implemented card management software in 2019 that allows the council to suspend credit cards while cardholders are on leave. The council now also requires all cardholders to sign a credit card acknowledgement form that states the cardholder must be present for all purchases.

Wyndham notes that it is satisfied through other controls such as sighting the goods, multiple staff being present for transactions listed, and activities being promoted or reported on, that a business purpose existed and none of the transactions were fraudulent in nature.

We also identified two transactions at Wyndham, described in Figure 3E, which occurred after a cardholder's termination date. These transactions represent:

- an employee using a card not allocated to them
- a failure of the council to cancel a card when a staff member left the council
- the likely purchase and approval of a transaction by the same staff member.

Figure 3E
Credit card transactions after employee termination date

At Wyndham, two transactions occurred five days after a staff member (the cardholder) had left the council, for amounts of \$564.87 at a supermarket and \$23.90 at a hardware store.

The council informed us that both transactions were for supplies for a staff Christmas party.

The manager of the staff member stated that they collected the card from the departing staff member and 'As the credit card was in my possession I would therefore have authorised the use of the card and may have even been the one that actually used the card. I suspect this is the case as it is very unlikely I would have provided the PIN to another person to use—but I also don't specifically recall whether this was the case. At this stage this was the only credit card available for the [business unit] to use as it was prior to a card being issued to me'.

Source: VAGO, based on Wyndham data.

This case study suggests that the person who likely made the transactions on an allocated cardholder's card also approved the transactions. We discuss this control weakness and the need for segregation of duties further in Figure 3F.

In response to this finding, Wyndham note that it implemented a control in January 2019, which involves its human resources (HR) area notifying the procurement area on a fortnightly basis of staff movements and employment end dates to ensure its managers retrieve and cancel cards. Wyndham has also recently completed an internal audit of credit card processes to identify key issues and inform its policy and process review regarding the use of credit cards as a payment tool.

Other staff members using a council credit card may compromise investigations into credit card misuse, as a cardholder may be able to claim that others used their card. This is further discussed in Section 4.4.

Control 3: appropriate scrutiny and approval

Card approvers must appropriately scrutinise all transactions and the supporting documentation to confirm that all expenditure is for genuine council business. A delegated card approver's authorisation of a payment is an important fraud and corruption control.

Approvals must be timely, as lengthy delays may increase the risk of fraudulent card use going undetected. We identified a transaction at Wyndham of \$140.40 for alcohol in September 2016, described as a 'Mayoral Event'. The card approver did not approve this transaction until July 2017.

Appropriate delegation structures must also be in place to ensure that employees are not able to approve their own spend or a spend incurred on their behalf. We consider this to be especially important for transactions by senior executives. We chose to explore this issue by analysing credit card transactions of the audited councils' CEOs.

CEO expenditure

Shepparton, Strathbogie and Wellington have all allocated a credit card to their respective CEOs. At the time of the audit, these councils required that the mayor approve all CEO card transactions. Wyndham had not allocated a card to the CEO, but an administrative officer was issued with a card.

The basic accounting concept of segregation of duties ensures that an individual who incurs an expense, does not also approve the expenditure. Segregation of duties is also a key fraud and corruption prevention mechanism because it requires at least two people to collude to overcome this control.

We did not identify any issues with CEO transaction data at either Wellington or Shepparton. Wellington also submits the CEO's transactions to its ARC, which is a good practice example. At Strathbogie and Wyndham, we identified instances of weak controls over CEO expenditure, including at times poor segregation of duties, as Figure 3F describes.

Figure 3F

Examples of CEOs approving their own expenditure at Strathbogie and Wyndham

Council	Audit findings
Strathbogie	<p>We identified transactions for the CEO on a senior executive’s card, including:</p> <ul style="list-style-type: none"> • \$75.40 for lunch between the CEO and a consultant • \$501.74 for accommodation for the CEO and the senior executive • \$1 386 on conference tickets for the CEO. <p>The CEO was the card approver for this senior executive and approved these transactions, in accordance with the set delegation structure. While we note that the council has stated that it is satisfied that these transactions are legitimate and transparent, the practice of the CEO approving their own expenditure does not adhere to segregation of duties principles. It would have been more appropriate for the CEO to have used their own card and to have followed the established approval process, in place at the time, which required the mayor to monitor CEO expenditure.</p>
Wyndham	<p>Wyndham had not allocated the CEO with a credit card. Instead, the council allocated a card to an administrative officer who incurred expenditure on the CEO's behalf, for example, booking their flights and accommodation.</p> <p>Due to the hierarchical delegations for card approvals, the CEO approved purchases on this administrative officer’s card. This delegation structure resulted in the CEO approving their own expenditure for the following transactions we identified in our selection between June 2016 and July 2017:</p> <ul style="list-style-type: none"> • four flights • 10 accommodation bookings • five conference tickets and two sets of membership fees • \$61.67 worth of hotel minibar charges • a \$315.45 restaurant dinner between the CEO and a former councillor. <p>We also identified instances where the CEO presented the administrative officer’s card at the point of sale. When the CEO was at a conference in Canberra in June 2016, the transactions included:</p> <ul style="list-style-type: none"> • the purchase of books at two Canberra bookshops, \$90.97 and \$93.78, where the transaction description states, 'for the CEO' • \$73 at a Canberra cocktail bar at 11.36 pm, where the receipt is not itemised • \$38.93 at a convenience store in Canberra where the supporting documentation was a typed note stating 'unable to locate receipt'. <p>The CEO subsequently approved these transactions.</p> <p>The council identified that the practice of the CEO approving transactions on the administrative officer’s card was unsatisfactory and stopped this practice in 2017. Another executive started approving these transactions.</p> <p>Wyndham has now issued a separate credit card to the CEO, which will avoid the types of inconsistencies identified in this figure. The CEO’s credit card expenditure will be approved by the CFO with appropriate review by the ARC Chair.</p>

Source: VAGO, based on council data.

We consider better practice would be for the councils' CFOs or equivalent to approve CEO expenditure and for councils to refer the full transaction history to their ARC or council for periodic review. This increases financial scrutiny and ensures that mayors are not involved in daily council business, which is not their role.

Strathbogie's Motor Vehicle Policy states that employees who incur parking infringements must pay the infringement. The council's policy prohibits payment of parking infringements using a council-issued purchasing card. At Strathbogie, we identified that a senior executive used their credit card to pay for two parking infringements issued by a neighbouring council to the CEO and a councillor, described in Figure 3G. The CEO also approved the transactions.

Figure 3G
Payment of parking fines incurred by a councillor and CEO

A senior executive paid two parking fines incurred by a Strathbogie councillor and the CEO on their council card, with a total value of \$310. The council's supporting documentation for these transactions does not mention the council's policy, which prohibits the payment of fines.

Documentation states that the councillor, the CEO and a third staff member had separately driven to a 'high-level meeting' at another council office and 'did not have time to arrange special parking spaces' but believed they had parked legally.

The senior executive conducted 'an independent assessment of the circumstances' and concluded, '... the officers and Councillor did not intend to risk parking illegally ...' and that the council would pay the two parking infringements.

The senior executive advised that the councillor and CEO were not required to follow the established process to contest the fines. The senior executive had contacted the council that issued the fines and was told the 'chances were zero' of a successful appeal, as the fines were issued correctly. The senior executive also noted that another executive at the council had agreed with the decision to pay the fines.

Source: VAGO, based on Strathbogie data.

We confirmed with Strathbogie that after becoming aware that the payment of infringements was contrary to its policy, the CEO and councillor immediately refunded the council for the cost of the infringements.

The initial payment of these infringements by Strathbogie reflects a weak control framework and is contrary to stated council policy and public expectations. We identified a subsequent transaction where another staff member attempted to pay for a parking infringement on their council credit card. When questioned by the card approver, the staff member said they were not aware that the council would not pay for parking infringements. This highlights the importance of communicating policy requirements, and senior executives and councillors role-modelling appropriate behaviour.

3.4 Staff reimbursements

A key fraud and corruption risk in council expenditure is employees obtaining payments to which they are not entitled, in the form of reimbursements. This can involve employees providing false information for the reimbursement of expenses not incurred for council purposes, or beyond set entitlements.

Policies and guidance

To help educate staff on what expenses they can seek reimbursement for, councils should have clear and accessible policies. We found that not all audited councils provide clear policies or guidance for staff reimbursements. Shepparton, Strathbogie and Wyndham do not have policies guiding staff reimbursements. Wellington has guidelines attached to the reimbursement form that provides guidance for staff. We outline specific details of these policies in Appendix D.

Appropriate scrutiny and approval

Appropriate delegation structures must be in place to ensure employees cannot approve their own reimbursement claims or claims for expenses incurred on their behalf. Approvals must be timely as delays may increase the risk of fraudulent card use going undetected. The audited councils also require their employees to provide supporting documentation when seeking reimbursement, to show expenses were for council business and have been paid.

We identified examples at the audited councils of claims paid with inadequate documentation and insufficient scrutiny by approvers who ultimately approved these transactions. Figure 3H outlines these examples.

Figure 3H

Examples of inadequate scrutiny over reimbursement claims

Council	Audit findings
Shepparton	<ul style="list-style-type: none"> Reimbursement claim for two diesel purchases totalling \$364.35 for 274 litres of diesel. The payment was listed as 'diesel' on the claim form without the expense dates. The staff member did not explain why they were using their own credit card instead of a council-issued fuel card. They also did not provide the vehicle registration number to confirm that the diesel was for a council vehicle. Reimbursement claim for \$675.24. The payment was listed as 'reimburse hampers and rugs' on the claim form, without stating the expense dates and business purpose of the expense.
Strathbogie	<ul style="list-style-type: none"> Reimbursement claim for \$21 700 for a senior executive's rent in 2016–17, based on a 'loose agreement' between council and the staff member to reduce the executive's gross income. While the council has stated that this was part of a salary packaging arrangement, in which the council incurred no financial loss, no supporting documentation exists. The council advises that this practice ceased in 2017. Reimbursement claim for \$3 085 for relocation expenses. While the claimant had attached an invoice, there was no evidence that they had paid the amount to warrant reimbursement. The council confirmed that a former director had made this arrangement, which could have been 'verbal', and no supporting documentation exists. Reimbursement claim for \$4 111.50 for course fees, which was 100 per cent of the course costs. However, the council's supporting documentation confirms that the executive group decided that the council would reimburse 50 per cent of the course fees. Council advises that there was a subsequent discussion with the CEO, who had discretion and agreed to the payment of 100 per cent of the course fees. The CEO's decision was not formally documented and the council's policy states that the executive group should make the final decision regarding contributions towards course fees.
Wellington	<ul style="list-style-type: none"> Reimbursement claim for \$44.80. The purpose of expenditure listed on the claim form was 'dinner, training', without stating the date and title of the training. Reimbursement claim for \$31.95. The purpose of expenditure listed on the claim form was only the name of a major hardware store. It did not state the business purpose of the expense, nor the item purchased.
Wyndham	<ul style="list-style-type: none"> Reimbursement claim for a \$109.57 fuel purchase for a fleet vehicle. The staff member did not explain why they did not use a council-issued fuel card. They also did not provide the vehicle registration number, details of the distance travelled, or what the trip was for. Reimbursement claim for three items totalling \$365.13. The staff member did not provide a receipt for one item (\$9 coffee), which was purchased in September 2017 and claimed in February 2018. The receipt for one item (\$321 wireless good) was illegible. The staff member's manager approved the claim for all three items.

Source: VAGO, based on council data.

Although each of these transactions represents a differing level of risk of fraudulent spend, all demonstrate a failure of fraud and corruption controls to adequately document decision-making and confirm the legitimacy of the reimbursement.

3.5 Fuel cards

Councils issue fuel cards for all council vehicles, including:

- fleet vehicles, which are vehicles shared between council staff and used for council business
- private-use vehicles, which are vehicles assigned to a specific individual as part of their remuneration package and can be used for both council business and private purposes. Fuel for full private-use vehicles is unlimited.

Like credit cards, council-issued fuel cards present fraud and corruption risks. Examples of fraudulent use that can occur include a council employee using a council-issued fuel card to purchase:

- non-fuel products at a service station, such as groceries for personal use
- fuel for their personal car or another person's car
- non-fuel products such as oil to on-sell and make a profit.

Policies and guidance

We found that not all audited councils have documented fuel card policies or guidelines and, where they do exist, they are either out of date or do not detail consequences for misusing fuel cards. Some audited councils are currently drafting revised policies and guidelines to address these control gaps. We summarise the policy and guidance available on fuel cards for each council in Figure 31.

Figure 31

Policies and guidance on fuel cards

	Shepparton	Strathbogie	Wellington	Wyndham
Policy/guidance available on fuel cards	Fleet Corporate Procedure (May 2017)	Motor Vehicle Procedures (August 2017)	Fleet Management Guidelines (May 2012) Drivers Handbook (placed in each council vehicle) Draft Fleet Policy (January 2019)	No fuel card guidance in Motor Vehicles Policy 2014–15. Draft Motor Vehicle and Plant Policy (review 2019)
Information covered by policy/guidance:				
fuel card is for a specific vehicle only and cannot be used for another vehicle	✓	✓	✓	(✓)
approved purchases only (e.g. fuel and engine oil)	✓	✓	✓	(✓)
items blocked (e.g. groceries, incorrect fuel type)	×	×	(✓)	×
accurate odometer reading required at every fill-up	✓	✓	✓	(✓)
PIN required	×	×	(✓)	×
signature required	✓	×	×	×
report lost or stolen card immediately	×	×	✓	×
council to review fuel purchases regularly	×	×	(✓)	(✓)
consequences for fuel card misuse	×	×	(✓)	(✓)

(✓) Denotes item in a draft policy/guidance only.

Source: VAGO, based on council data.

Assigning fuel cards and maintaining accurate records

To help identify fraudulent fuel card use, councils should:

- assign each fuel card to a specific vehicle
- maintain accurate motor vehicle and fuel card records
- update cardholder names with fuel suppliers when councils reassign a vehicle and fuel card to another employee.

We found that three of the four audited councils maintain accurate motor vehicle and fuel card listings. We found that Strathbogie had poor record management of its motor vehicles and fuel cards. We were unable to identify fuel card numbers for all the vehicles we were testing, or the start and end dates for each driver of particular vehicles, as Strathbogie frequently transferred vehicles between staff without updating records correctly. This limits Strathbogie’s ability to detect any fraudulent activity.

Fuel card management controls

To prevent non-authorised use of council-issued fuel cards, councils can specify management control requirements for each fuel card.

Figure 3J shows the management control components at each audited council. Only two councils have chosen to require a mandatory PIN rather than a signature, which is a weaker control.

Figure 3J
Fuel card management controls in practice

	Shepparton	Strathbogie	Wellington	Wyndham
Mandatory PIN	×	✓	✓	×
Signature	✓	×	×	✓
Prompt cardholder for odometer reading	✓	✓	✓	✓

Source: VAGO, based on council data.

Odometer readings

Collecting odometer readings allows councils to compare the kilometres travelled with the volume of fuel purchased. When the volume of fuel purchased with a fuel card exceeds the distance travelled by the vehicle listed on the card, this can indicate that the fuel card has been used for another vehicle. This indicates potential fraudulent fuel card use. It is therefore important that cardholders only use fuel cards for the vehicle attached to their card.

Audited councils should ensure that staff are aware that odometer readings are required and provide accurate readings without being prompted by service station attendants.

We found that three of the four councils had some fuel card transactions with missing or unusual odometer readings, such as single digits. Odometer readings were not available for analysis at Strathbogie; however, the council advises that staff are reporting odometer readings at service stations inconsistently.

Blocks and restrictions on fuel cards

Councils can implement blocks and restrictions on fuel cards to prevent fuel card misuse. Figures 3K and 3L show whether councils have implemented blocks and restrictions on fuel cards.

Figure 3K
Fuel card blocks: permitted and blocked items

	Shepparton	Strathbogie	Wellington	Wyndham
Lubricants and engine oils	Blocked	Permitted	Permitted	Permitted
Goods and groceries	Blocked	Blocked	Blocked	Blocked
Service and parts	Blocked	Blocked	Blocked	Blocked

Source: VAGO, based on council data.

Figure 3L
Fuel card restrictions in place

	Shepparton	Strathbogie	Wellington	Wyndham
Fuel type	Restricted	Restricted	Restricted	Restricted
Fuel volume	Unrestricted	Restricted	Restricted	Unrestricted
Dollar amount	Restricted	Restricted	Restricted	Restricted

Source: VAGO, based on council data.

Detecting fuel card misuse

Councils should review and analyse transaction data to detect fuel card misuse. The level of review activity can range from selecting a percentage of fuel cards or fuel card transactions each month for review, to a more sophisticated approach of routinely running data analytics over all fuel card transactions. The level of review for each council will depend on the number of council vehicles and fuel cards in circulation.

We found that:

- all four audited councils did not have regular, routine processes to monitor fuel card use during our audit testing period
- only Wellington and Wyndham conduct data analytics over fuel card transactions
- only Shepparton had conducted an internal review on fuel cards.

We note that Wellington and Wyndham have recently introduced routine fuel card monitoring processes.

VAGO testing of fuel card transactions

During this audit, we used data analytics to detect potential fuel card misuse. Our testing primarily focused on fuel cards linked to mayors and senior council staff with private-use vehicles from 1 July 2015 to 30 June 2018. The results of our testing over mayoral fuel cards are in Section 2.2. We did not specifically test fuel cards linked to fleet vehicles, but flagged anomalies we identified.

We tested for:

- multiple fuel card transactions on the same day
- multiple fuel type purchases with the same fuel card
- purchases of non-fuel products with a fuel card.

We detail our test results for council staff in Figure 3M. We did not identify any anomalies at Wyndham.

Figure 3M

VAGO fuel card transaction test results for council staff

Council	Test results
Shepparton	<p>Multiple fuel types purchases: We identified four fuel cards used to purchase both diesel and petrol, even though the vehicles attached to these fuel cards consume diesel only.</p> <p>Across the four fuel cards, there were 60 petrol transactions totalling \$4 146.68 (3 315.12 litres). These transactions occurred between 2015 and 2018.</p> <p>The council advised that:</p> <ul style="list-style-type: none"> • it had not placed fuel card restrictions on these four cards • diesel was for the vehicles and the petrol was for lawn mowers used to maintain gardens in public areas • it decided to continue supplying fuel to the teams by allowing a team leader to purchase petrol using their vehicle's fuel card • only one of the four cards is still active and permits both diesel and petrol purchases. <p>Having separate fuel cards, each restricted to one fuel type, would help collect fuel transaction data by vehicle or equipment more accurately. This would assist the council in identifying fuel card usage anomalies.</p>
Strathbogie	<p>We were unable to complete our testing as there were limitations in the data we received from the council. Data limitations included:</p> <ul style="list-style-type: none"> • Strathbogie did not separate fuel data from its expense data • missing data fields such as vehicle registration numbers, transaction times, odometer readings, and volume of fuel purchased • data on products purchased not being available for all transactions • data on transaction locations not being available for all transactions • the council not always updating employee names linked with a fuel card when it is reassigned. <p>Non-fuel product purchases: We identified four transactions across two fuel cards used to purchase non-fuel items.</p> <p>While the total cost of these items was not material, it shows that blocks and restrictions the council believed were in place were not activated for all fuel cards. Staff could exploit this weakness, which heightens the risk of fraudulent use of fuel cards.</p> <p>In response to this finding, Strathbogie advise that it has now fully implemented fuel card blocks in accordance with the council's policy.</p>
Wellington	<p>Multiple transactions on the same day: We did not identify any fuel card misuse by the CEO or general managers.</p> <p>We identified one instance of two fuel fill-ups on the same day in August 2016 with the same fuel card. Both purchases were for petrol and the same odometer reading was entered for both fill-ups. The fill-ups were only 31 minutes apart and the total volume of petrol purchased was 140.9 litres. The council's motor vehicle records show this vehicle's tank capacity is only 80 litres, and so the total amount of petrol purchased within 31 minutes exceeds the tank capacity.</p> <p>The council confirms that it is unable to identify who was driving that vehicle on that day. This would have been possible if the council had regular routine monitoring processes and identified these transactions soon after they occurred.</p> <p>Wellington has confirmed that this type of transaction has not happened since, and that it has recently introduced routine fuel card monitoring processes to mitigate the risk of fraud.</p> <p>Multiple fuel types purchases: We identified five fuel cards that were used to purchase both diesel and petrol. The council was able to explain these transactions. For example, staff purchased diesel on the card for plant equipment and a staff member also mistakenly put diesel in the car.</p>

Source: VAGO, based on council data.

These control weaknesses have the potential to affect all council-issued fuel cards. Weaknesses in fuel card controls can present the possibility for fraudulent activity, especially given the number of fuel cards each council has for private use and fleet vehicles.

4

Maintaining public trust

Councils are accountable to the communities they serve and the ratepayers who fund their services. To properly manage fraud and corruption risks, councils must be aware of how ratepayers may perceive the actions and expenditure of councillors and senior council staff. To signal to their municipality that they have zero tolerance for fraud and corruption and that they are managing fraud and corruption risks to uphold public trust and protect council resources, councils must:

- identify and manage conflicts of interest and associated risks
- effectively manage and be prepared to report and explain expenditure, including managing community perceptions of excessive entitlements for discretionary spending, such as meals and alcohol
- ensure adequate fraud and corruption frameworks are in place and effectively respond to suspected fraud and corruption.

4.1 Conclusion

The audited councils need to do more to maintain public trust. Control weaknesses have resulted in transactions and practices at some councils where it is unclear how residents and ratepayers benefited, particularly at Strathbogie and Wyndham. This can create a perception of council funds being used inappropriately, for example, spending council funds on alcohol or selling vehicles to employees under market value. We also identified instances where senior leaders did not declare interests and where councils could have responded more effectively to suspected fraud and corruption. When these examples are viewed collectively, they have the potential to damage public trust.

4.2 Managing conflicts of interest

All councillors and council employees have private interests. However, these private interests can at times conflict, or be perceived to conflict, with the performance of their public duties. Effective management of conflicts of interest is vital to maintain public trust and ensure that council decisions are in the public interest and free from inappropriate influence and personal gain. IBAC, LGI and VO investigation reports frequently reference poorly managed or undeclared conflicts of interest.

Ordinary Returns and Related Party Disclosures

The Act and the Accounting Standard require councillors and certain council staff to declare their interests, which helps identify and effectively manage potential conflicts of interest associated with their roles.

Ordinary Returns process

Under the Act, councillors and nominated officers must submit Ordinary Returns in the prescribed form to the CEO within 40 days after 30 June and 31 December to declare their interests.

Ordinary Returns capture information such as whether a councillor or nominated officer:

- has been a director or otherwise in any company or body
- has a beneficial interest in any company or body or trust
- has a beneficial interest in any land in the municipal district of the council or in an adjoining municipal district
- has received any gift or hospitality above a threshold
- has any other substantial interest, whether of a pecuniary nature or not, for them or their families, that they are aware of and consider might appear to raise a material conflict between their private interests and public duties as a councillor, member of a special committee or nominated officer.

Related Party Disclosure process

Since July 2016, the Accounting Standard has required certain council staff and councillors, known as KMP, to annually declare if they or close family members control or jointly control a business, club, association or sporting group that transacts or has commitments with the council. The purpose of these declarations is to ensure that financial statements contain disclosures to draw attention to the possibility that an entity's financial position may have been affected by the existence of transactions with related parties.

Responsibility to declare interests

The responsibility to complete these interest declaration processes and accurately declare interests rests with the individual. However, the audited councils facilitate these processes by sending copies of required forms, explaining the process and tracking completion.

Completing declarations of interests

We checked to ensure that all sitting councillors and nominated officers at audited councils had completed their Ordinary Returns, and KMP had completed Related Party Disclosures as required. We also checked to ensure that Ordinary Returns were appropriately signed and witnessed.

All councillors and nominated officers at audited councils have submitted their Ordinary Return declarations for the past three return periods. However, we found one Ordinary Return for a Wellington councillor that was a photocopy of a previous return with the date changed. The councillor did not ensure this Ordinary Return was witnessed appropriately. Instances such as this weaken this control. Councillors must ensure they make accurate declarations that are properly witnessed and meet all legislative requirements. Wellington advises that it intends to amend its instructions to councillors to ensure this does not happen in future. LGI advises that it considered this matter as a possible breach of the Act and decided to resolve it informally and provide guidance to this councillor.

Councillors that do not meet this legislative requirement open themselves to scrutiny and potential legal action for breaching the Act. The case study in Figure 4A highlights the importance of the Ordinary Returns process and councillors meeting their obligations. It also highlights that council staff made efforts to ensure compliance with this requirement, despite the legislative responsibility resting solely with the individual.

Figure 4A

Example of a councillor failing to complete Ordinary Returns

On 4 January 2017, Wyndham emailed its councillors to explain the Ordinary Returns process, attaching guidance and the form for completion with a due date of 9 February 2017. The council monitored completion of Ordinary Returns and sent reminders about it.

One councillor failed to submit an Ordinary Return by the due date. This offence under the Act carries a maximum penalty of 60 penalty units. In March 2017, the council reported this councillor's non-compliance to LGI as a breach of the Act. LGI investigated and prosecuted the councillor.

The councillor pleaded guilty to eight charges relating to the filing of interest returns under the Act, including:

- three counts of failing to disclose companies in which they held office during the return period
- three counts of failing to disclose companies in which they held a financial interest
- two counts of failing to submit Ordinary Returns between February 2016 and February 2017.

On 16 July 2018, the Magistrate fined the councillor a total of \$26 000, plus \$15 000 in legal costs. The Magistrate noted that the councillor had received training from the council, a previous warning from LGI, and that the requirement to submit an interest return was an essential tool for good governance.

Source: VAGO, based on LGI media releases and Wyndham data.

Strathbogie KMP did not complete Related Party Disclosures in 2016–17, when it was first required. Strathbogie advises that at the time it had a contracted staff member who was unaware of the requirement, and it has now implemented measures to ensure compliance.

When we reviewed Ordinary Returns and Related Party Disclosures against data from ASIC, we identified anomalies across Shepparton, Wellington and Wyndham. We referred these matters to LGI for consideration given its responsibility to investigate and prosecute offences under the Act.

LGI has now completed its preliminary assessment and determined that:

- three matters are possible breaches of the Act and LGI has considered the associated risks, and determined that formal action is not required, and LGI will provide guidance to those individuals
- three matters require further review in order for LGI to determine whether there has been a breach under the Act.

Scrutiny and active management of declared conflicts

Responsibility to complete Ordinary Returns under the Act rests with the individual. However, we found that Wellington actively uses this information to manage declared conflicts of interests. Wellington collates information from Ordinary Returns and Related Party disclosures into a spreadsheet and identifies risks and actions to mitigate risks. Council staff use the spreadsheet to develop council meeting agendas to determine when certain councillors or nominated officers may need to leave meetings due to a conflict.

The Act also requires councillors and council staff to disclose conflicts in council meetings and to leave meetings when a matter is considered, or a vote taken, where they have a conflict. We reviewed a selection of the audited councils' meeting minutes and saw evidence of compliance with this requirement for all audited councils.

Transparency and perception risks

To ensure transparency to the public, the Act requires that the CEO of a council maintain a register of interests of councillors and nominated officers, consisting of the last three Ordinary Returns. The council must make the register available for public inspection on written request. All audited councils comply with this requirement and have registers that are available to the public for inspection at council offices.

However, to manage community perceptions that conflicts of interests are being effectively managed, councils must also ensure that council staff are mindful of their interactions with suppliers and how residents and ratepayers may perceive these interactions.

We identified examples in our credit card transaction testing at Strathbogie that raise risks regarding the management of perceived conflicts. These transactions were also in the context of:

- the council having a code of conduct directive that requires staff to disclose conflicts of interest to a nominated senior executive
- the senior executive reporting to us that no staff had ever formally declared a conflict.

We identified examples of a former manager providing suppliers with gifts of:

- a number of \$100 gift vouchers described as 'thank you' gifts for suppliers for work done at no cost
- a transaction for \$33 described as a bottle of wine to thank a supplier for work done at no cost.

We also identified examples of a former manager dining with suppliers, as detailed in Figure 4B.

Figure 4B
Lunch and alcohol with a supplier

Example 1

A Strathbogie manager used a council purchasing card to buy lunch for themselves and a supplier. The receipt for the lunch for two people was \$147.50, \$82.50 of which was for alcohol. The transaction stated that the lunch was a meeting to discuss future work with the supplier.

Under the council's Discretionary Expenditure Guide, the set meal allowance for lunch is \$20 and the purchase of alcohol requires CEO approval.

There is no evidence of CEO approval for the purchase of alcohol, nor any evidence that the executive who approved the transaction raised concerns regarding the appropriateness of the manager buying lunch for a supplier.

Example 2

The manager used a council purchasing card at a restaurant for \$70 on a Sunday night. The transaction stated that it was for a meeting with a marketing supplier regarding future work. The receipt was illegible.

A month later, the manager met with this same supplier at a local restaurant to discuss a current marketing campaign and charged \$82 to the council purchasing card. There was no receipt and instead the manager provided a statutory declaration to support the spend. A senior executive witnessed the statutory declaration, which was undated, and also approved the transaction, contrary to policy.

Source: VAGO, based on Strathbogie data.

Strathbogie advises that it had given some 'flexibility' to the former manager, 'naively or not', due to an understanding that, just as in the private sector, some weekend work would be required, as well as 'partnership building with private and public sector'. The council also advises that 'budgets were monitored for a net result' and the council identified 'no material overspend'. Strathbogie acknowledges that there could have been 'more scrutiny over actual purchases'. Strathbogie also advised that it finalised a review of its code of conduct in April 2019 and that it completed mandatory staff training in May 2019, at which time staff were required to declare that they had read, understood and would comply with the code of conduct.

4.3 Effective use of funds

Organisational culture and the actions of council leaders represent an important fraud and corruption control. The perception of highly visible council leaders spending council funds inappropriately, or receiving excessive entitlements, may lead to:

- an organisational culture that normalises inappropriate use of council funds, and a culture that may not deter council employees from inappropriate conduct

- a reduction in organisational morale and productivity
- a loss of public trust and a damaging community perception that waste and/or fraud and corruption may be occurring.

In our testing of credit card transactions, reimbursements and fuel cards, we identified instances that, although not fraudulent, represent potentially inappropriate or inefficient use of council funds. We have grouped these findings under the themes of:

- discretionary spending
- selling and providing vehicles to staff as part of exit packages, at times below market value, and associated expenditure
- employee contributions to private vehicle use.

Discretionary spending

Alcohol and meals

The provision of alcohol in the context of council business varies across the audited councils. Shepparton recently implemented a travel and accommodation policy with a strong stance on alcohol, which states that the council will not reimburse any expenditure involving alcohol while staff are travelling on council business. Shepparton advises that it is also in the process of developing a procedure for the appropriate use of catering, meals and alcohol. At the time of the audit, the audited councils had policies that allowed alcohol in certain circumstances. Figure 4C outlines these policies and alcohol and meal-related expenditure found in our testing.

Figure 4C
Alcohol and meals

Council	Transactions
Shepparton	We did not identify any purchases of alcohol at Shepparton on council credit cards.
Strathbogie	<p>The council's Discretionary Expenditure Guide states that 'The provision of alcohol is not considered a reasonable expense. Exemption requires CEO approval'. The guide also sets caps for meal allowances of \$20 for lunch and \$40 for dinner. We identified transactions that did not comply with this guidance:</p> <ul style="list-style-type: none"> • a statutory declaration to account for a transaction of \$67.50 at a winery, described as a 'Christmas lunch' • a transaction on a Friday after 5pm. at a supermarket for \$37.95, described as 'meeting/catering supplies' • \$255.50 on an end-of-year lunch, which included \$60 worth of wine and spirits • \$292 at a winery for an executive management team meeting • \$202.10 on a meal for councillors, including \$41.10 on alcohol • \$312.40 on a meal for the senior management team, including \$83.40 on alcohol.

Figure 4C
Alcohol and meals—continued

Council	Transactions
Wellington	<p>Strathbogie advises that in February 2019, in response to our findings, it reviewed the guide and ceased:</p> <ul style="list-style-type: none"> • alcohol purchases, under any circumstances • additional Christmas functions • minibar purchases • any offsite café purchases (unless special circumstances apply and the CEO gives formal approval). <p>Strathbogie subsequently required all council managers and relevant staff to declare that they had read and understood the revised guide.</p> <p>Wellington does not currently have a policy that prohibits the purchase of alcohol. The Employee Code of Conduct states that the council aims to ‘foster an attitude among employees that working under the influence of alcohol and/or drugs is unacceptable’.</p> <p>The council confirmed that staff attend after-hours events where alcohol is served. Transactions we identified include:</p> <ul style="list-style-type: none"> • \$171.50 for a long-term staff member’s farewell with external stakeholders in attendance, including \$100.00 on alcohol • \$92.00 for a 'working dinner' that included alcohol. <p>Wellington advise that it has implemented a new initiative and that it has ceased the practice of providing alcohol after council meetings and that attendees now provide their own refreshments.</p>
Wyndham	<p>Wyndham's guidelines prohibit the purchase of alcohol unless it is:</p> <ul style="list-style-type: none"> • for an approved council function • for official business and considered ‘essential to facilitate the conduct of council activities’ • pre-approved by the CEO for council-related activities. <p>We tested spends on meals and alcohol at two restaurants that are close to the council’s main office. We selected these two restaurants to see how Wyndham employees were using their cards to buy meals and alcohol not related to travel. We identified:</p> <ul style="list-style-type: none"> • a transaction for \$534.00 described as a 'monthly working lunch', which included two bottles of wine for \$75.00 and \$45.00 each. The council noted that this lunch included nine executives, an agenda and action items were identified, and the cost per person was \$59. • a transaction for \$210.00 for a meal between a council staff member and four external stakeholders, which included \$46.00 for alcohol and a \$15.00 tip. The leaving of tips is contrary to the council's policy. • 15 instances between January 2018 and January 2019, where the CEO attended lunches that included the consumption of alcohol in a local restaurant. This includes the CEO attending lunches at the same local restaurant over three consecutive days in May 2018, with one of these events to show appreciation for a successful staff team. <p>Wyndham state that 'the purchase and consumption of alcohol on each of the occasions identified ... was permissible and appropriate ...'.</p> <p>However, we do not believe these transactions are instances where alcohol is ‘essential to facilitate the conduct of council activities’, as outlined in the council’s guidelines.</p>

Source: VAGO, based on council data.

We also identified an example at Strathbogie where council staff purchased alcohol 'shots', as detailed in Figure 4D.

Figure 4D
Council staff purchasing 'shots' of alcohol over dinner

A Strathbogie manager used a council purchasing card to pay for a dinner attended by six council staff, including a senior executive. The receipt for the dinner was for \$298 and included beer, wine, vodka and other alcoholic 'shots'.

The staff had been working in Melbourne over the weekend at a food and wine trade event, promoting the shire and its businesses.

Under the council's guide, alcohol is 'not considered a reasonable expense' and employees must seek exemption from the CEO. There was no evidence of CEO approval for the purchase of alcohol. The senior executive approved this transaction.

Strathbogie advises that to offset unbudgeted overtime and weekend work, the council pays for accommodation, meals and drinks.

The council also advises that it ceased the purchase of alcohol under any circumstances from February 2019.

Source: VAGO, based on Strathbogie data.

While councils may consider that spending council funds on meals and alcohol is appropriate and reasonable in some circumstances, they need to consider community expectations and perceptions that can be associated with this type of expenditure.

Selling or providing vehicles to staff

There are no specific requirements or rules for councils regarding either selling or providing vehicles to staff as part of exit packages—it is a discretionary decision. When a council needs to dispose of a fleet vehicle, an employee may wish to purchase the vehicle from the council. Similarly, if an employee is retiring or made redundant, the council may decide to include a fleet vehicle as part of their exit package.

However, councils must recognise that this practice can create a perception of improper conduct, particularly if it is not transparent. For example, there may be a perception that the council has sold or provided vehicles to staff at costs below market values.

Shepparton, Wellington and Wyndham demonstrate awareness of these perception risks. Both Wellington and Shepparton have a strict policy that prohibits council employees from purchasing council vehicles, and they also do not sell or provide vehicles as part of exit packages.

Wyndham advises that the council usually does not sell or provide vehicles to staff, but noted one instance of the council selling a vehicle to a staff member in 2015. The council obtained a vehicle valuation from a car dealership and sold the car to the staff member at the valued amount.

Strathbogie selling and providing vehicles to staff

Strathbogie's procedures state that:

All Council owned vehicles will be disposed of by way of tender, auction or trade-in, as appropriate at the time of disposal. However, in exceptional cases, the CEO may approve the sale of vehicles to employees or former employees after informing Council of the proposal and the special reasons for such a sale.

Strathbogie was unable to provide documentation to demonstrate that this process had been followed. The council advises that: 'The CEO briefs Council at the Councillor/CEO only sessions without notes so they can all talk freely and confidentially about staff matters ...'.

Figure 4E outlines examples where the council sold or provided vehicles to staff by agreement when they left the council. We have included, where available, the original purchase price of the vehicle and the sale price, or the dollar value, attributed to the vehicle in exit package agreements.

Figure 4E
Staff purchasing and being provided with vehicles

Example 1

Strathbogie purchased a fleet car in January 2015 for \$35 980.55, which in October 2017 was valued at \$25 000.

The council sold the car to a staff member on their retirement for \$10 000—\$15 000 under the market value. In addition, the council paid the \$1 134.82 VicRoads fee to transfer ownership to the staff member.

Example 2

Strathbogie purchased a fleet car in June 2016 for \$35 107.96.

In August 2017, council sold the car to a senior executive on their retirement for \$23 000. The documentation in support of this amount was an email from the senior executive to the CEO stating they had difficulty obtaining prices but had spoken to a number of dealers and 'they agree that \$23 000 would be a reasonable price ...'.

The council did not seek a formal valuation of the car. On the day the council sold the car to the senior executive, the council also paid:

- \$595 for new tyres
- \$942.85 for a service of the car
- \$184.75 for a roadworthy certificate.

The senior executive also negotiated to keep their council-issued tablet, telephone and laptop for \$200. There is no evidence that the council sought a valuation for the items.

Example 3

Strathbogie purchased a vehicle in June 2015 for \$33 214.80. In May 2017, the council provided the car to a staff member as part of their exit package.

The council did not seek a valuation of the vehicle. On the staff member's departure, the council also paid:

- \$1 271 for new tyres
- \$840.45 for the VicRoads transfer fee
- \$170 for a roadworthy certificate.

Example 4

Strathbogie purchased a fleet car in August 2014 for \$42 126.15.

In August 2018, the council provided the car to a staff member as part of their exit package. The council did not seek a valuation of the vehicle.

Example 5

Strathbogie purchased a fleet car in March 2015 for \$31 754.55.

In July 2018, when the council decided to dispose of the vehicle, it sold it to a staff member for \$11 500.

Example 6

In August 2016, a staff member wrote to Strathbogie and asked to purchase a vehicle that the council purchased in 2012.

The staff member noted that they had attempted to seek valuations for the vehicle and had been quoted \$30 000, but the vehicle they wished to purchase had driven almost three times the kilometres.

The staff member noted the benefits of purchasing a car for which they knew the history, including that it had been serviced regularly. They offered the council \$16 000 to purchase the vehicle.

Documentation shows a management meeting considered the offer and agreed that the staff member could purchase the vehicle for an online valuation price.

The council was unable to confirm if it sought the online valuation before selling the vehicle to the staff member for \$16 000. Council also reimbursed the staff member \$170 for a roadworthy certificate.

Source: VAGO, based on Strathbogie data.

In response to the examples where Strathbogie sold vehicles or provided them as part of exit packages, the council states that these were part of ex gratia payments and therefore the council's policy for the disposal of vehicles does not apply. In relation to associated expenditure, the council note that they paid for new tyres at times to ensure vehicles were in a roadworthy state when the council transferred ownership.

Strathbogie state that it has now amended its procedures to ensure that a vehicle is not sold or transferred below market value. However, the practice of selling vehicles under market value or providing cars to employees—as well as paying additional expenses such as new tyres before the council transfers the vehicle—risks generating a perception of inappropriate or excessive entitlements for council employees. Further, a vehicle that a council does not dispose of through a competitive auction represents a potential financial loss to the council and its residents and ratepayers.

Employee contributions to private vehicle use

Councils assign private-use vehicles to an employee based on their role and they differ from fleet vehicles in that the employee may drive the car in their private time. Offering private-use vehicles can attract and retain staff, as they include:

- unrestricted business and private use of the vehicle
- use of vehicles during leave periods, which can include interstate travel
- council payment of fuel, maintenance and insurance costs.

To pay for the benefit of having a council car for private use, an employee makes annual contributions, negotiated as part of their employment package and contract. Although these contributions are subject to negotiation, private use of a council vehicle is ultimately funded by ratepayers and so must be transparent. Figure 4F shows the annual motor vehicle contributions by senior executives at each council. Novated leases are private arrangements between a council officer and a company and do not impact on council expenditure.

Figure 4F
Annual motor vehicle contributions for council senior executives

Council	Senior Executives
Shepparton	\$9 085.44 to \$10 902.59
Strathbogie	\$0 to \$8 000
Wellington	\$10 000 to \$12 000
Wyndham	Novated lease

Source: VAGO, based on Strathbogie and Wellington council data.

To provide transparency, councils should have a sound basis for the way they calculate contribution amounts and include the benefit of full private-use vehicles when reporting total remuneration packages in their annual reports.

Calculating motor vehicle contributions

Victorian Public Sector salary packaging arrangements do not apply to the local government sector. However, the Victorian Public Sector Commission (VPSC) has developed tools and guidance for costing executive vehicle salary sacrifices. The VPSC provides a calculator to help state government agencies determine what the annual employee contribution should be. The calculation includes:

- the vehicle model and current value
- expected annual kilometres travelled and the percentage of these kilometres that will be private use
- a dollar value for any additional items that will be included, such as servicing and fuel.

Although councils are not bound to use the VPSC calculator, we consider that councils should have transparent and consistent ways for calculating employee contributions. We did not identify any issues with the way Shepparton calculates vehicle contributions and Wyndham executives are on novated leases. We outline issues with Strathbogie and Wellington approaches to calculating employee contributions to private-use vehicles in Figure 4G.

Figure 4G
Calculating staff motor vehicle contributions

Council	Audit findings
Strathbogie	<p>While the council's 2013 policy references a formula to determine staff contributions towards their vehicles, the council is not using this consistently, resulting in contributions lacking transparency.</p> <p>Yearly vehicle contributions are as follows:</p> <ul style="list-style-type: none"> • Staff contributions range from \$4 000 to \$10 000. • Senior executive contributions range from \$0 to \$8 000. <p>For comparison, under the VPSC calculation tool, two senior executives would be paying a minimum of \$15 338 per year for their vehicles if they were in the VPS, and this is not factoring in that their vehicles' cost prices are higher than the proforma capital costs in the tool.</p> <p>Contrary to the council's stated policy, these two senior executives currently make no contribution towards their vehicles as a result of contract negotiations.</p>
Wellington	<p>Motor vehicle contributions are currently set according to an individual's role, regardless of the extent of private use. There is no spreadsheet or working paper that shows how the council calculated and set the contribution amounts. The motor vehicle contributions for general managers have remained at 2012 levels.</p> <p>The council is looking to change the structure of contributions, basing it on a percentage of the vehicle and running costs, rather than a set amount. The council will include the revised contributions in the new policy.</p>

Source: VAGO, based on council data.

Reporting contributions towards motor vehicles

The Accounting Standard requires councils to report the remuneration of their executives in financial statements. Where it is not possible to attribute a value to a benefit, the Accounting Standard requires councils to provide a qualitative description of the benefit in a footnote. This practice provides transparency over the council's expenditure and the benefits received by senior council staff.

We found that Strathbogie's 2017–18 annual report does not include a footnote for one senior executive's remuneration to capture the benefit of a motor vehicle. As a result of contract negotiations, the senior executive ceased making contributions in the last month of that financial year. The council advised that it subsequently failed to include a footnote about this in its annual report and this was an omission and will be rectified in its 2018–19 annual report.

4.4 Responding to fraud and corruption

Protected Disclosures

Fraud and corruption are secretive by nature and can be difficult to detect. IBAC states that employees are 'best placed' to identify suspicious conduct by their colleagues or concerns about external parties. Protected Disclosures are one way to report suspected corruption.

The *Protected Disclosure Act 2012* requires councils to:

- establish procedures to facilitate the making of disclosures and to handle those disclosures, including where appropriate the notification of disclosures to IBAC
- have these procedures readily available to the public
- detail in their annual report information about how to access procedures they have established, and the number of disclosures they have notified to IBAC during the financial year.

Procedures accessible to the public

Protected Disclosure procedures must be a clear and accessible channel of complaint for employees and people external to the council. Unclear or inaccessible guidance creates a risk that individuals may not report fraud and corruption as they may be unsure of whom they can complain to, and whether they will be protected from reprisals.

Figure 4H describes the Protected Disclosure information the audited councils have made available to the public.

Protected Disclosure Coordinators are employed by public-sector agencies and are nominated to receive potential protected disclosures and notify IBAC of them.

Figure 4H
Protected Disclosure procedures available to the public

Council	Audit finding
Shepparton	Shepparton's website has a section regarding Protected Disclosures, which includes their Protected Disclosure Policy and the contact details for their Protected Disclosure Coordinator (PDC). Shepparton recently added a link to Protected Disclosure information in the 'Contact Council' section of the website. This makes Protected Disclosure information more accessible for the public.
Strathbogie	The council had published a Protected Disclosure Policy on its website, but it did not provide contact details for the PDC. The council published the Protected Disclosure Procedure on its website in May 2019, and now provides contact details for the PDC.
Wellington	Wellington has its Protected Disclosure Policy on its website and the contact details for the PDC.
Wyndham	In February 2019, the council's Protected Disclosure Procedure was not available on the council's website, and there was no contact number for a PDC. The council advises that it removed the procedures from its website as they were out of date. A draft of the council's procedures was on the council's intranet, which was only available to council staff and not external parties. In March 2019, Wyndham published easily accessible guidance on making a Protected Disclosure on the council's website, including contact details for the PDC. Wyndham has also included a link to its Protected Disclosure Policy in the 'Complaints' section of its website, which is good practice.

Source: VAGO, based on council data.

Annual reporting of Protected Disclosures

For their most recent 2017–18 annual reports, all audited councils met their obligations to detail information about how to access their Protected Disclosure procedures and the number of disclosures notified during the financial year. However, Shepparton's annual report only referenced the role of the VO in relation to Protected Disclosures, and not IBAC, which makes determinations on Protected Disclosures, and so this information is outdated.

Fraud and Corruption Response Frameworks

Policies

The Australian Standard recommends that agencies develop a fraud and corruption control plan as a means of increasing staff awareness and ensuring a focus on areas vulnerable to fraud and corruption. The audited councils have all developed fraud and corruption control policies.

Training

Training helps staff understand their obligations and know what fraud and corruption is and how to report it. Fraud and corruption awareness training is mandatory at Shepparton, Wellington and Wyndham.

Figure 4I shows the training provided by the councils. Strathbogie references training in its fraud and corruption policy and prevention strategy but does not state that it is mandatory.

Figure 4I
Fraud and corruption awareness training provided to staff

Council	Audit finding
Shepparton	The council's fraud control plan states that it will provide mandatory fraud awareness training for all staff every two years as a minimum, or more frequently as required. The council last provided fraud and corruption training to staff in October 2017.
Strathbogie	The council's fraud and corruption policy references training to all employees on fraud and corruption awareness activities. The fraud and corruption strategy states that the council will arrange quarterly online training and require new staff members to read the fraud and corruption prevention policy and procedures as part of the induction process. Training records show that the council last provided training to staff in September 2018.
Wellington	The council provides online fraud and corruption awareness training to staff. This training is mandatory for all staff every two years. Fraud and corruption training is also part of the induction process. In addition, the council also delivered face-to-face training in 2017.
Wyndham	Online fraud and corruption awareness training is mandatory for all new staff as part of their induction process. The council has also engaged an external company to deliver fraud and corruption awareness training to all staff in February to March 2019.

Source: VAGO, based on council data.

Fraud and corruption incident registers

To align with better practice from the Australian Standard, councils should maintain a fraud and corruption incident register to track and monitor incidents and record how the council has addressed them and any associated risks.

At the time of testing, Wyndham was the only audited council with a fraud and corruption register. Figure 4J details the status of incident registers at each council.

Figure 4J
Council fraud and corruption incident registers

Council	Audit finding
Shepparton	While the council’s policy references a fraud register, the council does not maintain a register, as it states it has not identified any instances of suspected fraud and corruption.
Strathbogie	The council did not maintain a fraud and corruption incident register, despite it having investigated at least two matters. For one of these matters, the council terminated the employment of the staff member for what the council described as ‘petty’ theft. In response to our findings, the council has established a register.
Wellington	The council established a fraud and corruption incident register in December 2018. The council advises that there have been no identified incidents of fraud and corruption since the register was established. In discussions with staff, we identified one alleged WorkCover fraud that resulted in the termination of employment. The council took the view in that instance that the alleged fraud was against the insurance agent, not the council, and this incident predated the establishment of the register.
Wyndham	The council maintains an incident register, which takes the form of a locked down file in the council’s record management system. At the time of our inspection, the register contained 10 cases, with the first case dated June 2015.

Source: VAGO, based on council data.

Responding to potential instances of fraud and corruption

Councils must conduct thorough investigations into suspected fraud and corruption and keep appropriate records. Councils should also consider fraud and corruption risks when they identify non-compliances with council policy or inappropriate staff behaviour.

Through case studies, we explored the responses of Strathbogie and Wyndham to non-compliant staff behaviour and potential instances of fraud and corruption. Through our audit testing, we did not identify similar instances that required review at Shepparton or Wellington.

Strathbogie

We identified multiple transactions and reimbursements for a former manager that were non-compliant with Strathbogie's purchasing card policy. Multiple non-compliances with policies may indicate a fraud and corruption risk, especially if a staff member fails to present documentation that supports the legitimacy of a purchase. In this instance, despite several non-compliances and questionable spends on a council credit card, Strathbogie failed to identify these instances and respond. The transactions we identified span three years and include:

- illegible receipts
- multiple statutory declarations to account for missing receipts
- receipts for meals on weekends and after hours with insufficient evidence of who attended or the business purpose.

In response to our findings, Strathbogie acknowledged that 'budgets were monitored for a net result' and it identified 'no material overspend'. Strathbogie acknowledged that there could have been 'more scrutiny over actual purchases'.

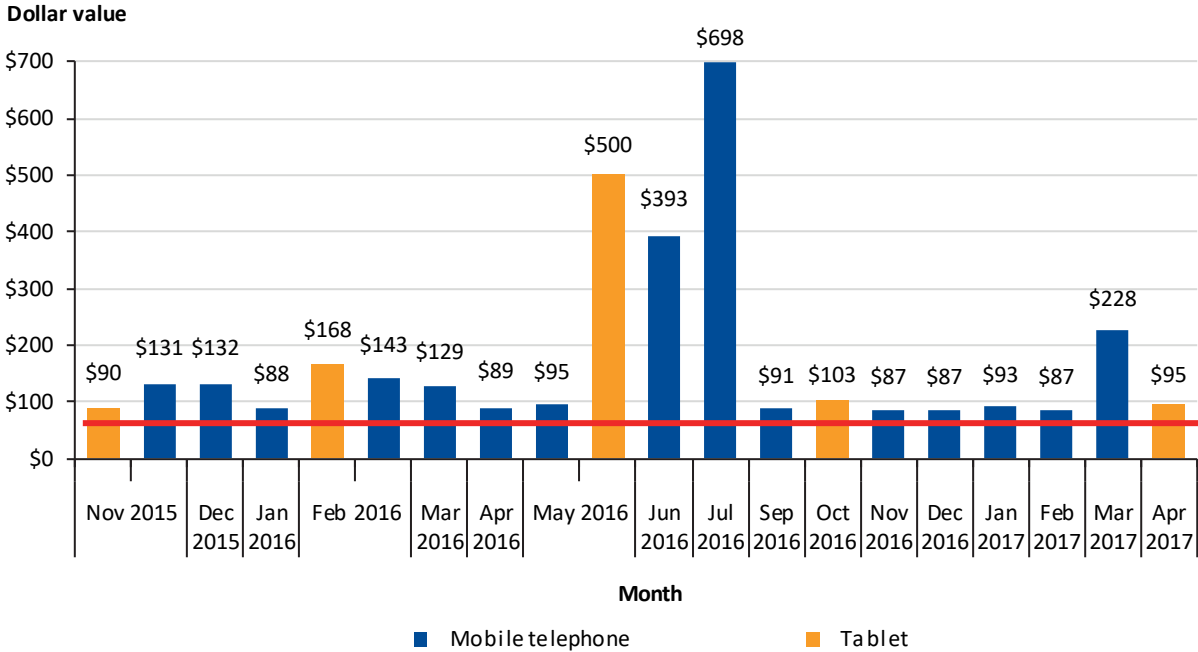
A manager exceeding data allowances

Strathbogie issues councillors and staff with mobile telephones and some also receive tablets.

Strathbogie advised that there are no formal maximum data limits that staff must adhere to; however, a spend over \$80 triggers the council to consider excessive use.

We reviewed reports of usage over \$80 for the period November 2015 to August 2018. Some staff and councillors, including the former manager with persistent non-compliance with policy, had consistently exceeded the \$80 trigger, sometimes by several hundred dollars. Figure 4K shows data use for that manager over the \$80 amount.

Figure 4K
Strathbogie manager's data use over \$80 per month trigger November 2015-April 2017



Note: Yellow bars show data usage on a tablet and blue bars show data usage on a mobile telephone. The red line shows the \$80 trigger.
 Source: VAGO, based on Strathbogie data.

We requested supporting documentation from Strathbogie as to any action it had taken in response to these reports and it:

- advised that 'follow up to date has been verbal'
- provided two emails to the former manager from an information and communications technology (ICT) officer, as opposed to a director, in 2014 and 2015.

The council subsequently advises that it has now entered into a new contract for telephone/tablet provision and has seen no expenditure over the \$80 trigger.

Wyndham

We inspected Wyndham's fraud and corruption incident register, which contained 10 cases, with the first case dated June 2015.

Our review of the register found key documents, such as the final investigation report and investigation evidence, missing in one case folder. Wyndham was unable to provide all the requested missing information.

Investigation of fuel card transaction anomaly

With the commencement of a new fleet coordinator, Wyndham has introduced monthly fuel card exception reporting, which we consider to be good practice. The case study in Figure 4L concerns a matter the council identified and effectively responded to and highlights the importance of consistent exception reporting over fuel card transactions.

Figure 4L
Misuse of fuel card

As part of the monthly exception reporting over fuel cards, the Wyndham fleet coordinator identified anomalies involving one litre oil purchases made on 17 occasions using the same fuel card between 27 February 2018 and 30 November 2018, totalling \$303.49.

According to the vehicle's odometer reading, the vehicle should not have required any oil. The fleet coordinator also identified that the same employee purchased car wash vouchers totalling \$1 074.15 between 21 January 2015 and 30 November 2018, without entering the car wash. The council was able to establish these instances by using GPS tracking. The council found that the vehicle left the service station in less than the standard wash duration of 11 minutes on these occasions. The council investigated the matter and substantiated the misconduct. The council subsequently terminated the staff member's employment.

Source: VAGO, based on Wyndham data.

Investigation of credit card transaction anomaly

We selected one incident contained in the register to assess Wyndham's response to complaints of inappropriate behaviour by a staff member, including alleged misuse of a council credit card. The case study is detailed in Figure 4M.

Figure 4M
Investigation into allegations of card misuse

In Wyndham's audit of credit card transaction data, the council identified 29 questionable transactions on a staff member's credit card. The staff member claimed that for 12 of these transactions, another member of the team had used the credit card, so they were not responsible for those transactions. For five of these transactions, the staff member claimed that they were unsure who was responsible for these transactions. This control weakness is discussed in Section 3.3 of our report.

Council engaged an external investigator to further examine four transactions, among other matters concerning the staff member. The investigator:

- interviewed council staff, including the staff member
- reviewed documentary evidence
- prepared a report, with findings, for the council.

In an April 2016 report, the investigator concluded that of the four transactions they considered, one allegation that related to credit card misuse was substantiated. The investigator found that for this \$89.99 transaction at a liquor store, the staff member 'used council's corporate credit card to pay for item(s) that were not required for Council or were not Council approved purchases'. Wyndham has not provided evidence that it sought to recover these funds.

Source: VAGO, based on Wyndham data.

In our credit card testing, we identified one transaction on the same staff member's credit card from February 2015 that we believe Wyndham should have referred to the investigator a receipt for \$370, which due to it being folded over when scanned, only showed the transaction total and not the items purchased.

We also found further transactions attributable to that individual in January and February 2016, after the time of the investigation, but just before the investigation report was released in April 2016. This shows that the council did not suspend the staff member's access to a credit card while investigating the alleged credit card misuse.

Appendix A

Audit Act 1994 section 16— submissions and comments

We have consulted with Shepparton, Strathbogie, Wellington and Wyndham, and we considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

Shepparton	76
Strathbogie	79
Wellington	82
Wyndham	86

RESPONSE provided by the CEO, Shepparton



11 June 2019

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31 / 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Greaves

**PROPOSED PERFORMANCE
AUDIT REPORT FRAUD AND CORRUPTION CONTROL**

Greater Shepparton City Council accepts all the recommendations in the proposed performance Audit Report Fraud and Corruption Control and provides the enclosed action plan to address each of the recommendations.

For any further information please contact, Mr Chris Teitzel, Director – Corporate Services via telephone on (03) 5832 9521.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'P. Harriott'.

**Peter Harriott
CHIEF EXECUTIVE OFFICER**

C18/17002

Greater Shepparton City Council
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RESPONSE provided by the CEO, Shepparton—continued

GREATER SHEPPARTON
GREATER FUTURE

OFFICIAL: Sensitive



**Greater Shepparton City Council action plan to address recommendations
from Fraud and Corruption Control – Local Government**

No	VAGO recommendation	Action	Completion date
1	Require councillors to certify that their expense claims are incurred in the context of relevant legislative provisions. Councils must require councillors to provide stronger evidence to support their claims, in particular for mileage reimbursements, including records pertaining to the claim and details of the business reason and who benefitted from the expense	Log books and a new reimbursement form have been provided to Councillors. The form now outlines the evidence that is required for Councillors to obtain a reimbursement. A briefing was conducted with Councillors to ensure they were aware of the obligations to provide stronger evidence to support their claims.	7 May 2019
2	Review and update fuel card policy guidance to clearly outline fraud and corruption controls, and require staff to confirm that they understand the terms of use and consequences for misuse.	Action: Fuel card policy to be updated to document all existing fraud and corruption controls (i.e. items blocked, process for reporting lost or stolen cards etc). Staff acknowledgement of understanding of terms and conditions of policy relating to fraud and corruption controls will be done via Fleet pool booking system.	30 June 2020
3	Review credit card policies and improve controls to ensure only allocated cardholders use their cards and there is appropriate segregation of duties over expenditure approvals	Comprehensive update of credit card policy undertaken in May 2018 leading to tighter controls. Action: Ongoing monitoring of compliance and implementation of documented consequences for any identified non-compliance.	Ongoing
4	Ensure the council's Chief Financial Officer or equivalent approves CEO expenditure and report all expenditure by, or on behalf of, the CEO to the Audit and Risk Committee for quarterly review	The Director Corporate Services now approves CEO expenditure. The Team Leader Risk has been advised to include this as a regular agenda item for the Audit and Risk Management Committee. Action: Commencement of quarterly reporting of CEO expenditure to Audit and Risk Committee	19 June 2019
5	Document and develop formalised reporting over credit and fuel card use and incorporate, where appropriate, data analytics to identify anomalies.	Comprehensive update of credit card policy undertaken in May 2018 leading new system of ongoing monitoring of compliance and reporting. Action: 2018/2019 financial year credit card compliance performance reported to Executive Leadership Team Action: Report regarding fuel card performance will be developed and provided to Executive Leadership Team on annual basis	31 July 2019 31 July 2020

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RESPONSE provided by the CEO, Shepparton—continued

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6	<p>Improve fuel card controls by:</p> <ul style="list-style-type: none"> - assigning each fuel card to a specific vehicle or equipment - maintaining accurate motor vehicle and fuel card listings - updating cardholder names with fuel suppliers when the council reassigns a vehicle and fuel card to another employee - collecting fuel transactions data as accurately as possible, including odometer readings - having regular, routine processes to monitor fuel card use - conducting data analytics over fuel card transactions - conducting periodic internal audits on fuel cards 	<p>Action: In conjunction with development of annual performance reporting, a process will be developed to formally record regular reviews of fuel card transactions with appropriate data analytics.</p>	31 July 2020
7	<p>Review, and as necessary revise, council policies on the purchase and reimbursement of meals and alcohol considering community perceptions, and require, for transaction approval, clear evidence of the community benefit from this expenditure and appropriate supporting documentation</p>	<p>The Councillor Expenses and Entitlement Policy will be reviewed to reflect the evidence required for reimbursement in accordance with the updated reimbursement form. A new procedure is also being developed on the purchase of catering and when that is applicable to ensure the appropriate use of council funds</p>	19 November 2019
8	<p>Ensure that annual reports accurately capture expenses relating to senior management remuneration packages including vehicle contribution amounts</p>	<p>Action: Review of payroll data to ensure 2018/2019 accounts accurately reflect senior management vehicle contribution amounts</p>	31 July 2019
9	<p>Ensure all council staff and councillors receive fraud and corruption awareness training at least every two year</p>	<p>Fraud and Corruption training will be conducted again in September/October 2019 to meet our 2 year timeframe</p>	31 October 2019
10	<p>Develop or maintain fraud and corruption incident registers to accurately record suspected incidents of fraud and corruption, their handling, and all relevant supporting documentation</p>	<p>Register has been established and will be maintained when an incident occurs</p>	7 May 2019
11	<p>Publish councillor expenses for the 2017–18 year on their websites immediately and ensure their 2018–19 annual reports comply with <i>Local Government (Planning and Reporting) Regulations 2014</i></p>	<p>Councillor expense information is being updated in accordance with the regulations</p>	7 June 2019

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RESPONSE provided by the CEO, Strathbogie



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11 June 2019

Andrew Greaves
Auditor-General

Dear Mr Greaves

Council's response to VAGO's Performance Audit Report
– Fraud and Corruption Control – Local Government

Please see attached response from Council for inclusion in the report.

Yours faithfully

A handwritten signature in black ink, appearing to read "Steve", is written over a circular stamp.

Steve Crawcour
CHIEF EXECUTIVE OFFICER

A decorative footer graphic consisting of a grid of squares in various shades of blue, green, and yellow, arranged in a pattern that tapers to the right.

www.strathbogie.vic.gov.au

RESPONSE provided by the CEO, Strathbogie—continued

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Council statement: Strathbogie is appreciative of its inclusion in this thorough audit process undertaken by VAGO. Council’s policies and procedures relating to fraud and corruption control have been (or will be) updated as detailed in the table appearing below.

Notwithstanding that only 4 councils were randomly selected to participate in the audit process, all Victorian councils will benefit from reviewing their policies and procedures by reference to VAGO’s recommendations and conclusions contained in this audit report.

No	VAGO recommendation	Action	Completion date
1	Require councillors to certify that their expense claims are incurred in the context of relevant legislative provisions. Councils must require councillors to provide stronger evidence to support their claims, in particular for mileage reimbursements, including records pertaining to the claim and details of the business reason and who benefitted from the expense.	Agreed. Review current policy, guidelines and templates against best practice in Local Government with help and assistance from Council’s audit committee and internal auditors. Audit Committee to formally endorse and then Council adopt.	30 November 2019
2	Review and update fuel card policy guidance to clearly outline fraud and corruption controls, and require staff to confirm that they understand the terms of use and consequences for misuse.	Agreed. Review current policy, guidelines and templates against best practice in Local Government. Implement new CEO directive and audit requirement and ensure staff are adequately trained and confirm their understanding.	31 December 2019
3	Review credit card policies and improve controls to ensure only allocated cardholders use their cards and there is appropriate segregation of duties over expenditure approvals.	Agreed. New policy and controls drafted for Audit Committee discussion and endorsement on 31 May 2019. Then to Council for adoption in July 2019.	31 July 2019
4	Ensure the council’s Chief Financial Officer or equivalent approves CEO expenditure and reports all expenditure by, or on behalf of, the CEO to the Audit and Risk Committee and/or the council for periodic review.	Agreed. Policies to be amended to have a Director/Group Manager approve the CEO’s expenses, and audit committee to review quarterly. Note: - The Chief Financial Officer is a third level staff member who is employed by the CEO. To mitigate any risk for the organisation it is felt more appropriate that the Director / Group Manager sign off on the CEO’s expenditure and then report it to the Audit Committee.	31 August 2019
5	Document and develop formalised reporting over credit and fuel card use and incorporate, where appropriate, data analytics to identify anomalies	Agreed. Implement controls and reporting as recommended. CEO directive to be developed with help from internal auditors.	31 December 2019
6	Improve fuel card controls by: <ul style="list-style-type: none"> • assigning each fuel card to a specific vehicle or equipment • maintaining accurate motor vehicle and fuel card listings • updating cardholder names with fuel suppliers when the council reassigns a vehicle and fuel card to another employee • collecting fuel transactions data as accurately as possible, including odometer readings • having regular, routine processes to monitor fuel card use conducting data analytics over fuel card transactions <ul style="list-style-type: none"> • conducting periodic internal audits on fuel cards. 	Agreed. As above plus we are in the process of reviewing fleet management processes to allocate responsibility and improve accountability.	31 December 2019

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RESPONSE provided by the CEO, Strathbogie—continued

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7	Review, and as necessary revise, council policies on the purchase and reimbursement of meals and alcohol considering community perceptions, and require, for transaction approval, clear evidence of the community benefit from this expenditure and appropriate supporting documentation	Agreed. New discretionary guidelines implemented and educated to staff in February, 2019. Also refer recommendation 3 in relation to Credit Cards.	Partially done and by 30 June 2019
8	Ensure that annual reports accurately capture expenses relating to senior management remuneration packages including vehicle contribution amounts	Agreed.	To be completed by 30 June 2019
9	Ensure all council staff and councillors receive fraud and corruption awareness training at least every two years	Agreed. Human Resources department to manage and diarise for all staff.	Done
10	Develop or maintain fraud and corruption incident registers to accurately record suspected incidents of fraud and corruption, their handling, and all relevant supporting documentation.	Agreed and completed in May 2019.	Done
11	Publish councillor expenses for the 2017–18 year on their websites immediately and ensure their 2018–19 annual reports comply with Local Government (Planning and Reporting) Regulations 2014	Agreed.	To be completed by 30 June 2019
12	Cease all sales and the provision of vehicles to council staff as part of exit packages.	Agreed. HR and senior management have been advised that this practice is now prohibited.	Done

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RESPONSE provided by the Mayor, Wellington



Your ref: 33629

11 June 2019

Mr Andrew Greaves
Victorian Auditor-General
Level 31
35 Collins Street
MELBOURNE VIC 3000

Dear Mr Greaves

PROPOSED PERFORMANCE AUDIT REPORT: FRAUD AND CORRUPTION CONTROL – LOCAL GOVERNMENT

Thank you for your letter dated 28 May 2019 providing the proposed report on *Fraud and Corruption Control – Local Government*.

In relation to the audit outcomes, we accept the recommendations as detailed and provide our responses in Table 1 attached.

Thank you for the opportunity to participate in the audit.

If you have any further queries, please direct them to Arthur Skipitaris, General Manager Corporate Services on 03-5142 3181 or at arthurs@wellington.vic.gov.au.

Yours sincerely

CR ALAN HALL
Mayor

Our ref: as:ss
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The Heart of Gippsland

RESPONSE provided by the Mayor, Wellington—continued

Table 1
Wellington Shire Council action plan to address recommendations from VAGO's Fraud and Corruption Control – Local Government Audit

No	VAGO recommendation	Action	Completion Date
1	Require councillors to certify that their expense claims are incurred in the context of relevant legislative provisions. Councils must require councillors to provide stronger evidence to support their claims, in particular for mileage reimbursements, including records pertaining to the claim and details of the business reason and who benefitted from the expense	We will review and update our Councillor policy guidance to ensure clarity regarding requirements for all claims and to ensure alignment with our current reimbursement processes.	1 August 2019
2	Review and update fuel card policy guidance to clearly outline fraud and corruption controls, and require staff to confirm that they understand the terms of use and consequences for misuse	As advised during this audit we are currently updating Council's Fleet Management Policy and Processes which will include guidance on fuel card usage and confirmation of terms and consequences of misuse.	1 August 2019
3	Review credit card policies and improve controls to ensure only allocated cardholders use their cards and there is appropriate segregation of duties over expenditure approvals	We will review and update Council's credit card policy, controls and annual training, to ensure appropriate use and segregation of duties over expenditure approvals.	1 August 2019
4	Ensure the council's Chief Financial Officer or equivalent approves CEO expenditure and report all expenditure by, or on behalf of, the CEO to the Audit and Risk Committee and / or the council for periodic review	<p>The CEO's cumulative credit card expenditure is presented to our Risk and Audit Committee on a quarterly basis.</p> <p>Previously our GM Corporate Services approved the CEO's credit card expenditure in line with the code of conduct and expense policies. In 2017/18 VAGO's contracted auditor found this practice to be High Risk and recommended that "...to ensure that the staff member reviewing credit card expenditure is at least at a level of delegation higher than the staff member who incurred the credit card expenditure. The CEO's credit card expenses should be reviewed and authorised by the Council or a suitable delegate of the Council".</p> <p>We therefore changed our process so that the Mayor approved the CEO's</p>	1 August 2019

RESPONSE provided by the Mayor, Wellington—continued

No	VAGO recommendation	Action	Completion Date
		<p>credit card with the support of VAGO and their contracted auditor.</p> <p>VAGO are now proposing that we instigate what we were doing previously and that any risk of having a subordinate to the CEO approve their credit card expenditure could be mitigated by reporting the CEO's expenditure to either the Council or our Risk and Audit Committee.</p> <p>We will therefore ensure that:</p> <ul style="list-style-type: none"> • the CFO approves the CEO's credit card expenditure in line with the code of conduct and expense policies. • the Mayor will also note the CEO's credit card expenditure in line with the code of conduct and expense policies. • the CEO's cumulative credit card expenditure will continue to be presented to our Risk and Audit Committee on a quarterly basis. <p>We would also suggest, given that VAGO advises that there is variation across the sector in how CEO expenditure is dealt with, that it would be prudent for VAGO to issue a directive so that each Council's process is aligned</p>	
5	Document and develop formalised reporting over credit and fuel card use and incorporate, where appropriate, data analytics to identify anomalies.	We will implement formalised reporting over credit card and fuel card usage.	1 August 2019
6	<p>Improve fuel card controls by:</p> <ul style="list-style-type: none"> • assigning each fuel card to a specific vehicle or equipment • maintaining accurate motor vehicle and fuel card listings • updating cardholder names with fuel suppliers when the council reassigns a vehicle and fuel card to another employee • collecting fuel transactions data as accurately as possible, including odometer readings 	As advised during this audit we are currently updating Council's Fleet Management Policy and Processes and we will ensure that this includes improved fuel card controls.	1 August 2019

RESPONSE provided by the Mayor, Wellington—continued

No	VAGO recommendation	Action	Completion Date
	<ul style="list-style-type: none"> • having regular, routine processes to monitor fuel card use • conducting data analytics over fuel card transactions • conducting periodic internal audits on fuel cards. (see Section 3.3 and 3.5) 		
7	Review, and as necessary revise, council policies on the purchase and reimbursement of meals and alcohol considering community perceptions, and require, for transaction approval, clear evidence of the community benefit from this expenditure and appropriate supporting documentation (see Sections 2.2, 3.3, 3.4 and 4.3)	Council has ceased the purchase of alcohol for Councillor meetings. Council will also revise all councillor and staff policies to ensure clarity regarding the purchase and reimbursement of meals and alcohol.	1 August 2019
8	Ensure that annual reports accurately capture expenses relating to senior management remuneration packages including vehicle contribution amounts (see Section 4.3)	Council's annual reports, accurately reflect expenses relating to senior management remuneration packages including vehicle contribution amounts.	No action required
9	Ensure all council staff and councillors receive fraud and corruption awareness training at least every two years (see Section 4.4)	We currently conduct online and face to face training annually. We will extend this training to Councillors.	1 August 2019
10	Develop or maintain fraud and corruption incident registers to accurately record suspected incidents of fraud and corruption, their handling, and all relevant supporting documentation (see Section 4.4).	Council maintains a fraud and corruption incident register.	No action required

RESPONSE provided by the CEO, Wyndham



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Your Ref:

Our Ref:

7 June 2019

Mr Andrew Greaves
Auditor-General
Victorian Auditor General's Office
Level 31/35 Collins Street
MELBOURNE VICTORIA 3000

Dear Mr Greaves,

Re: Fraud and Corruption Control – Local Government Report

Thank you for your letter dated 28 May 2019, regarding your Fraud and Corruption Control – Local Government Report. Wyndham Council recognises the importance of this work and welcomes the opportunity to provide comments on the recommendations that have been presented.

Firstly, I would like to acknowledge the high level of engagement that has occurred between the audit team and Wyndham staff. The team were very willing to meet when requested and the discussions were both informative and constructive.

Based on our review of the report, Wyndham City accepts all of the recommendations outlined. It is pleasing for us to note that, as documented in your report, a majority of the recommended actions are either already part of our existing practices or underway as part of our continuous improvement processes. Our specific responses to each of the recommendations are detailed in the attachment to this letter and we are happy to clarify any further comments that you may have.

Our primary objective is to deliver public value in a way that instils trust and confidence within our community. The observations and findings within the report therefore provide a good point of reference for both us and the broader sector to ensure continued focus on our Governance policies and operational processes.

Yours sincerely,

Kelly Grigsby
Chief Executive Officer

Att.

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RESPONSE provided by the CEO, Wyndham—continued

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Wyndham City Council action plan to address recommendations from Fraud and Corruption Control – Local Government

No	VAGO recommendation	Action	Completion date
1	require councillors to certify that their expense claims are incurred in the context of relevant legislative provisions. Councils must require councillors to provide stronger evidence to support their claims, in particular for mileage reimbursements, including records pertaining to the claim and details of the business reason and who benefitted from the expense	Recommendation accepted: Update Councillor Expense Policy and related forms.	End October 2019
2	review and update fuel card policy guidance to clearly outline fraud and corruption controls, and require staff to confirm that they understand the terms of use and consequences for misuse	Recommendation accepted: Wyndham as part of its vehicle policy refers to fuel card usage and guidelines associated with the use of purchase cards in general To address fraud and corruption controls, this will be incorporated in Council's credit card/purchase card policies as part of the policy and process review regarding the use of credit cards as a payment tool.	End July 2019
3	review credit card policies and improve controls to ensure only allocated cardholders use their cards and there is appropriate segregation of duties over expenditure approvals	Recommendation accepted: Wyndham has recently completed an internal audit of credit card processes to identify key issues and inform its policy and process review regarding the use of credit cards as a payment tool. As noted in Section 3.3 of the VAGO report, Wyndham has now also formalised monthly exception reporting using data analytics. These reports are provided to the CFO for review and action as necessary.	Internal audit has been completed. Credit card policy review to be actioned by End July 2019
4	ensure the council's Chief Financial Officer or equivalent approves CEO expenditure and report all expenditure by, or on behalf of, the CEO to the Audit and Risk Committee for quarterly review (see Section 3.3)	Recommendation accepted: Wyndham has now issued a separate Credit Card to the CEO which is subject to review and approval by the CFO and quarterly reporting to the Chair of the Audit and Risk Management Committee. Processes have also been implemented to ensure segregation of approvals for other expenditure on behalf of the CEO through Councils purchasing systems.	Completed With focus on monitoring and continuous improvement

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RESPONSE provided by the CEO, Wyndham—continued

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5	<p>document and develop formalised reporting over credit and fuel card use and incorporate, where appropriate, data analytics to identify anomalies.</p>	<p>Recommendation accepted: As identified in the report section 3.3 Credit Cards, Wyndham has commenced analysis of credit card transaction data and report to the Chief Financial Officer (CFO) addressing:</p> <ul style="list-style-type: none"> • spend patterns • transactions on weekends • transactions with outstanding approvals • reviews of high-risk supplier types. <p>Wyndham has formalised monthly exception reporting using data analytics. The reports are provided to the CFO for review and action as necessary.</p>	<p>Completed With focus on monitoring and continuous improvement</p>
6	<p>improve fuel card controls by:</p> <ul style="list-style-type: none"> • assigning each fuel card to a specific vehicle or equipment • maintaining accurate motor vehicle and fuel card listings • updating cardholder names with fuel suppliers when the council reassigns a vehicle and fuel card to another employee • collecting fuel transactions data as accurately as possible, including odometer readings • having regular, routine processes to monitor fuel card use • conducting data analytics over fuel card transactions • conducting periodic internal audits on fuel cards. (see Section 3.3 and 3.5) 	<p>Recommendation accepted Wyndham has the following controls:</p> <ul style="list-style-type: none"> • Two fuel cards (Caltex/BP) are assigned directly to vehicles • Extensive listing of all council fleet is in place • No names are associated with fuel cards. Wyndham fleet vehicle fuel cards are directly linked to the vehicle registration number • As part of the vehicle policy odometer readings are required when fuelling the vehicle and that data is collated • Council provides regular exception reporting through data analytics. • As per findings on item 3.5 Fuel Cards 	<p>Completed With focus on monitoring and continuous improvement</p>
7	<p>review, and as necessary revise, council policies on the purchase and reimbursement of meals and alcohol considering community perceptions, and require, for transaction approval, clear evidence of the community benefit from this expenditure and appropriate supporting documentation</p>	<p>Recommendation accepted. Council is in the process to finalise a new Travel and Accommodation Policy which will cover reimbursement for meals, incidentals, alcohol, accommodation, land based travel and flights.</p>	<p>End August 2019</p>

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RESPONSE provided by the CEO, Wyndham—continued

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8	ensure that annual reports accurately capture expenses relating to senior management remuneration packages including vehicle contribution amounts	Recommendation accepted: Included in the Annual report is the audited Financial Report. Note 6 of the Financial Report discloses the remuneration packages of Senior Management within Council.	Completed
9	ensure all council staff and councillors receive fraud and corruption awareness training at least every two years	Recommendation accepted: Wyndham has a Fraud & Corruption training program in place as identified in the report section 4.4 Responding to fraud and corruption fig.4I:	Completed
10	develop or maintain fraud and corruption incident registers to accurately record suspected incidents of fraud and corruption, their handling, and all relevant supporting documentation	Recommendation accepted: Wyndham City Council is using its EDRMS as a register for its fraud and corruption register. As identified in the report section 4.4 Responding to fraud and corruption fig.4J:	Completed
11	publish councillor expenses for the 2017–18 year on their websites immediately and ensure their 2018–19 annual reports comply with <i>Local Government (Planning and Reporting) Regulations 2014</i>	Recommendation accepted: 2017-18 Councillor expenses were published in the 2017/18 Annual Report of the Council. Transparency would be further enhanced through publication of councillor expenses for the 2017–18 year on the Council website in a more accessible location.	End June 2019

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Appendix B

Credit and purchasing card testing methodology

To test the effectiveness of the credit and purchasing card controls, we examined a selection of purchases made on council credit and purchasing cards to confirm that they were for official council business and in accordance with council policies and procedures.

We requested card transaction data for all four councils and from their banks within our testing period of 1 July 2015 to 30 June 2018. Due to some of the audited councils moving from hard copy files to electronic systems to store credit card transaction data, and banks not always storing historical data, the time frame for the data we collected for each council differed, as shown in Figure B1.

Figure B1
Time period for transaction data collected from each council

Council	Start date	End date
Strathbogie	2 February 2017	28 June 2018
Shepparton	30 June 2015	29 June 2018
Wellington	26 August 2015	14 August 2018
Wyndham	26 June 2015	29 June 2018

Source: VAGO, based on council data.

Due to the limited data available for collection from Strathbogie, we were only able to run data analytics over credit card transactions that occurred after 2 February 2017. However, where these tests identified high-risk cardholders, we were able to request hard copy files of transactions for these cardholders.

Data analytics

We ran data analytic tests over the available transaction data for each council to identify anomalies and potential high-risk transactions that would indicate inappropriate card use. These data analytic tests included identifying transactions:

- that occurred on weekends and public holidays
- that occurred when the cardholder was on leave
- that occurred leading up to and after a cardholder's termination date
- that were for an even dollar amount, potentially indicating the purchase of vouchers
- at vendor categories such as liquor stores and spas
- at restaurants, bars and wineries close to council offices.

Selecting transactions for further investigation

From the transactions highlighted in the data analytic test results, we identified a selection of transactions that warranted further investigation. Some of these transactions occurred outside of our original testing scope, after June 2018.

In some instances, we did not identify any transactions that warranted further investigation within the data analytic test results. In other instances, a high number of transactions were attributable to a certain employee. When this occurred, we targeted a wider selection of transactions made by this employee.

Due to this risk-based approach, the number of transactions we reviewed differs across each council.

Review of transactions

For each of the selected transactions, we viewed system workflows and supporting documentation to test whether each transaction was:

- for official council business
- incurred by the allocated cardholder
- approved by an appropriate delegate with appropriate segregation of duties
- supported by appropriate documentation, such as an itemised tax invoice.

We explore the results of our review of individual transactions in the body of the report for each council. We have only commented where data analytic tests and our further review confirmed questionable expenditure.

Appendix C

Transactions while cardholders are on leave

Figure C1 outlines transactions we identified where the cardholder was on leave. We did not identify any anomalies at Strathbogie.

Figure C1
Transactions while cardholders are on leave

Council	Audit findings
Shepparton	<ul style="list-style-type: none"> • \$98 online purchase • \$90 at an electronics store • \$74 at a bargain store
Wellington	<ul style="list-style-type: none"> • \$349 at a fitness store • \$374.51 on accommodation • \$148.44 on accommodation
Wyndham	<ul style="list-style-type: none"> • \$1 425.45 at a bar • \$954.76 at an office supply store • \$576 at a music store • \$443.66 at a tourist attraction • \$399 at a restaurant • \$367 at a hardware store • \$324 at an amusement park • \$315 at a tourist attraction • \$180 at a restaurant • \$150 at a florist • \$150 at a health and beauty spa • \$90 at a restaurant • \$74.80 at a restaurant • \$43 at a bar • \$14.40 on groceries • \$8.50 on fast food

Source: VAGO, based on council data.

Appendix D

Reimbursement policies and guidance

Figure D1 outlines staff reimbursement policies and guidance available for each audited council.

Figure D1
Policies and guidance for staff reimbursements

Council	Policies and guidance for staff reimbursements
Shepparton	The council does not have a policy, procedure or guidelines for staff reimbursements. An improved reimbursement form was introduced in 2016, which clearly states that receipts must be attached, or no reimbursement can be paid. It also clearly marks mandatory fields on the form (including the authorising officer's name) and states that the approval must be electronic. However, our testing found that not all council staff use the updated form.
Strathbogie	The council has no policy for staff reimbursements. The council instead relies on a Discretionary Expenditure Guide, which provides general guidance on what types of discretionary spend are appropriate for all types of council purchasing but does not outline specific examples of what staff may seek reimbursement for or how they should do so.
Wellington	The council's staff reimbursement guidelines are attached to the reimbursement form. The guidelines: <ul style="list-style-type: none"> • provide examples of items that can be reimbursed • specify items that should be paid using the corporate credit card or the council's creditor system (instead of using the reimbursement approach) • state that staff must provide a tax invoice/receipt, and that an EFTPOS receipt is not adequate • state that a direct supervisor or manager (not a co-worker or executive assistant) must approve the reimbursement • outline how the money will be reimbursed.
Wyndham	The council does not have a policy or guidelines for staff reimbursements and relies on its general procurement guidance and approval for each reimbursement from the line manager. The procurement policy does not outline specific examples of what staff may seek reimbursement for or how they should do so.

Source: VAGO, based on council data.

Auditor-General's reports tabled during 2018–19

Report title	Date tabled
Local Government Insurance Risks (2018–19:1)	July 2018
Managing the Municipal and Industrial Landfill Levy (2018–19:2)	July 2018
School Councils in Government Schools (2018–19:3)	July 2018
Managing Rehabilitation Services in Youth Detention (2018–19:4)	August 2018
Police Management of Property and Exhibits (2018–19:5)	September 2018
Crime Data (2018–19:6)	September 2018
Follow up of Oversight and Accountability of Committees of Management (2018–19:7)	September 2018
Delivering Local Government Services (2018–19:8)	September 2018
Security and Privacy of Surveillance Technologies in Public Places (2018–19:9)	September 2018
Managing the Environmental Impacts of Domestic Wastewater (2018–19:10)	September 2018
Contract Management Capability in DHHS: Service Agreements (2018–19:11)	September 2018
State Purchase Contracts (2018–19:12)	September 2018
Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2017–18 (2018–19:13)	October 2018
Results of 2017–18 Audits: Local Government (2018–19:14)	December 2018
Professional Learning for School Teachers (2018–19:15)	February 2019
Access to Mental Health Services (2018–19:16)	March 2019
Outcomes of Investing in Regional Victoria (2018–19:17)	May 2019
Reporting on Local Government Performance (2018–19:18)	May 2019
Local Government Assets: Asset Management and Compliance (2018–19:19)	May 2019
Compliance with the Asset Management Accountability Framework (2018–19:20)	May 2019
Security of Government Buildings (2018–19:21)	May 2019
Security of Water Infrastructure Control Systems (2018–19:22)	May 2019

Security of Patients' Hospital Data (2018–19:23)	May 2019
Results of 2018 Audits: Universities (2018–19:24)	May 2019
Results of 2018 Audits: Technical and Further Education Institutes (2018–19:25)	May 2019
Child and Youth Mental Health (2018–19:26)	June 2019
Recovering and Reprocessing Resources from Waste (2018–19:27)	June 2019
Melbourne Metro Tunnel Project—Phase 1: Early Works (2018–19:28)	June 2019



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