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VAGO

Victorian Auditor-General's Office

Fraud Control Over Local Government Grants

May 2022

Independent assurance report to Parliament
2021–22: 18

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Fraud Control Over Local Government Grants

Independent reasonable assurance report to Parliament

Ordered to be published

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Victorian Auditor-General's Office

The Hon Nazih Elasmr 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 the *Audit Act 1994*, I transmit my report *Fraud Control Over Local Government Grants*.

Yours faithfully



Dave Barry
Acting Auditor-General
11 May 2022

The Victorian Auditor-General's Office acknowledges the Wurundjeri Woi Wurrung People as the traditional custodians of the land on which our office is located. We pay our respects to their Elders past and present.

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Audit snapshot

Are fraud controls over local government grants well-designed and operating as intended?

Why this audit is important

In 2020–21, Victorian councils distributed more than \$45 million in grants to individuals, businesses and community groups.

It is important that councils have effective controls for their grant programs to prevent fraud and give their communities confidence that public money is spent as intended.

Who and what we examined

We examined Hume City Council, Knox City Council, Loddon Shire Council, Southern Grampians Shire Council, Warrnambool City Council and West Wimmera Shire Council.

We looked at a selection of their grant programs from the last 5 years to see if their fraud controls are well-designed and consistently applied.

What we concluded

Councils' fraud controls for their grant programs are not always well-designed and operating as intended. In some cases, they are missing.

Councils are not consistently identifying conflicts of interest, assessing applications against criteria, documenting their decisions, checking how funds are used or evaluating their grant programs' outcomes.

This unnecessarily increases the risk of fraud and makes it harder for the audited councils to show that their grant programs are transparent, equitable and benefit the community.

What we recommended

We made 9 recommendations to all Victorian councils about strengthening their fraud controls and improving their guidance and training for grant-related fraud.

We also made one recommendation to Loddon Shire Council about reviewing its community planning grant process.

Key facts



46 Victorian councils spent more than

\$45m

on grants in 2020–21*



5/6

audited councils do not have an overarching grant policy



50%

of audited councils do not deliver fraud training for their councillors even though councillors approve grants

Note: *33 of 79 councils did not report their total grant spending in their 2020–21 annual reports.
Source: VAGO, based on information from councils.

What we found and recommend

We consulted with the audited councils and considered their views when reaching our conclusions. The councils' full responses are in Appendix A. We have included a summary of each audited council's performance in Appendix D.

Unless otherwise indicated, any individuals referred to in this report by name or position are not the subject of adverse comment or opinion.

Importance of fraud controls

None of the audited councils have consistently applied fraud controls across all their grant programs. We found that these inconsistencies have unnecessarily exposed councils to a higher risk of fraud.

Figure A shows an example from Loddon Shire Council (Loddon) of how a lack of fraud controls over the life cycle of a grant program increased the risk of fraud.

Figure A: **Lack of fraud controls for Loddon's community planning grant program**

Under Loddon's community planning grant program, a councillor applied for \$150,000 on behalf of a community asset committee in 2019. The grant was to upgrade a kitchen at a council facility to commercial standards.

The councillor chaired a community asset committee that manages a council facility on behalf of the council. The councillor, on behalf of the committee, estimated that the kitchen upgrade would cost \$233,000 and requested \$150,000 to complete the project.

The council staff member who assessed the application estimated that it would cost \$20,000 to complete the project. Loddon advised us that it sought quotes during project planning, but the staff member who assessed the application did not attach or reference them.

The councillors, including the councillor that made the application, approved \$20,000 for the project. But Loddon did not:

- exclude the councillor from the decision-making process
- review or comment on why the applicant requested \$150,000 when the assessors estimated that \$20,000 was an appropriate amount
- note that the requested amount was excessive in its report to the councillors.

Loddon's community planning grant program requires applicants to inform the local ward councillor of their application before they submit it. Otherwise, the council will consider it ineligible.

In this case, the local ward councillor and the applicant were the same person. While Loddon staff were aware of this, they did not consider how it could lead to a conflict of interest. For example, a local ward councillor could discourage other potential applicants from applying for a grant to reduce competition for their own application.

This process lacks transparency because Loddon does not require councillors to keep records of potential applicants that have approached them. Directly engaging with a potential applicant could also influence a councillor's decision to approve their application or not.

In this example ...	Which means ...
the council allowed the councillor to approve their own application without declaring or managing the conflict of interest	the councillor could be voting to approve funding for a project that may personally benefit them.
there were no assessment criteria to assess the applications	<ul style="list-style-type: none"> • there is no transparency on why the councillors approved the application • the council cannot be sure that the councillor's application will benefit the community the most.
<p>the council did not clearly document how it determined the grant amount</p> <p>2 of 5 councillors at Loddon, including the councillor who applied for the grant, had not completed fraud training</p>	<p>there is no transparency on why the council chose this amount.</p> <p>they might lack an understanding of how to prevent, detect and respond to fraud risks.</p>

As this case study shows, the following controls are important to help councils reduce the risk of fraud and ensure their grant programs are transparent, fair and benefit the community:

- declaring and managing conflicts of interest
- assessing applications against eligibility and assessment criteria
- not having councillors on assessment panels
- documenting funding decisions
- acquitting spending
- evaluating their overall benefits.

Inconsistently declaring conflicts of interest

All of the audited councils require their staff to declare conflicts of interest. However, none of them have an overarching grant policy that outlines how staff and councillors should declare them for all their grant programs.

Hume City Council (Hume) has a process for relevant staff to declare conflicts of interest for one program that delivers individual grants up to \$2,000. However, it did not apply this process to another program that provided grants up to \$250,000 between 2014 and 2020.

Only Loddon and Southern Grampians Shire Council (Southern Grampians), which has only one grant program, have processes for all their staff who assess applications to declare conflicts of interest within their grant management systems.

Lack of eligibility and assessment criteria

Loddon and West Wimmera Shire Council (West Wimmera) do not use eligibility or assessment criteria to assess applications for all their grant programs. This makes it unclear how these councils decide who is eligible for their programs or why they approve some applications over others.

Two of West Wimmera's 4 grant programs do not have eligibility criteria. These programs, which provide sponsorships and donations, require applicants to approach the council directly to request funding instead of making a formal application. In 2020–21, West Wimmera spent \$51,559, or 58 per cent of the \$89,409 it spent on grants, on sponsorships and donations with no eligibility criteria.

For Loddon's community planning grant program, assessors only record brief overall comments for each application and there is no evidence that they use assessment criteria. This makes it unclear if they assess all applicants against the same standard.

Loddon also distributes unallocated funds from one of its grant programs without assessing applicants against criteria. This reduces transparency over how it selects recipients and creates a risk that it is not maximising community benefits.

Councillors assessing grant applications

Councillors at Hume and Knox City Council (Knox) sit on assessment panels for some grant programs. This is an issue because these councillors are involved in both assessing and approving grant applications. For example, at Knox, a councillor assessed a grant application and later voted to approve it.

Both councils told us they will recommend that councillors do not form part of assessment panels. Knox advised us that its newly developed overarching grant policy will address this, which it will present to councillors in mid-2022.

Not documenting funding decisions

Assessors at Hume, Knox and Loddon changed their initial recommendations without documenting any reasons in their grant management systems. From these councils' records, it is not clear why they awarded:

- grants to some applicants who assessors did not initially recommend for funding
- a higher grant amount than assessors initially recommended.

For example, at Hume, the assessment panel chair changed an applicant's score and increased the grant amount from \$8,750 to \$10,000, but there are no records to explain this change.

At Knox, one applicant received \$20,000 in 2017 even though Knox's records show that none of the 4 assessors recommended awarding them the grant when they individually assessed applications. Knox advised us that after completing individual assessments, assessors met as an assessment panel and decided to recommend the application. However, Knox did not document reasons for changing its recommendation.

Knox advised us that it has recently changed its process to better document these types of changes. It also plans to include these notes in its grant management system.

Assessors are council staff members who assess grant applications.

An **assessment panel** typically has multiple assessors and a chairperson. A panel assesses grant applications and makes recommendations to the council about which applications should receive funding.

Not communicating outcomes to applicants

Only Loddon, Warrnambool City Council (Warrnambool) and West Wimmera consistently tell unsuccessful applicants why they have rejected their applications.

The other 3 audited councils do not consistently do this, which reduces the transparency of their grant programs.

Inconsistently applying acquittal processes

Councils can check if recipients have used grant funds as intended by asking them to provide evidence of their spending, such as receipts or photos of a completed project. This is called an acquittal process.

Without an acquittal process, councils cannot be sure that recipients have met a program's conditions and used the funding to benefit the community. It also may be difficult for councils to identify any unspent funding to recover.

While all audited councils use an acquittal process in some of their grant programs, only Knox acquits all of them. Southern Grampians uses an acquittal process for the only grant program it has. In line with better practice, Knox also monitors recipients' spending throughout the funding period for its largest grant program.

Inconsistently documenting acquittal processes

In addition, only Knox could give us complete documentation to show that it acquits grants consistently. This is because the other councils do not follow a consistent process or always keep supporting documentation.

Unlike the other audited councils, West Wimmera does not have a grant management system. Instead, it stores documentation in its records management system. As this system is not designed for managing grants, the council could not confirm if the gaps we found were due to the system's poor search functionality or missing records.

Not regularly evaluating grant programs

Councils cannot make informed decisions on how to best allocate their funding if they do not regularly evaluate their grant programs. None of the audited councils have a standard practice or requirement to assess if their programs benefit the community.

For example, Loddon annually allocates \$50,000 to each of its wards for its community planning grant program. It also rotates \$500,000 a year across its wards for significant community projects. However, it has not evaluated if dividing funding between wards maximises community benefits.

We also found examples at Warrnambool where the council has paid recurring grants for over 15 years without reviewing them. However, it stopped paying 3 non-competitive recurring grants after finding out that they were not benefitting the community or lacked relevant approvals.

Recommendations about improving fraud controls

We recommend that:

Response

All Victorian councils	1. improve their conflict-of-interest processes by: <ul style="list-style-type: none"> • requiring staff and councillors to declare conflicts of interest for each grant application they assess or approve • documenting how the council manages declared conflicts of interest (see Section 2.1) 	Accepted by: Knox City Council, Southern Grampians Shire Council, Warrnambool City Council, West Wimmera Shire Council Partially accepted by: Hume City Council, Loddon Shire Council
	2. develop eligibility and assessment criteria for all their grant programs and: <ul style="list-style-type: none"> • assess and document each application against them • communicate assessment outcomes and reasons to unsuccessful applicants (see Section 2.2) 	Accepted by: Knox City Council, Southern Grampians Shire Council, Warrnambool City Council Partially accepted by: Hume City Council, Loddon Shire Council, West Wimmera Shire Council
	3. exclude councillors from assessing and making recommendations on grant applications (see Section 2.2)	Accepted by: Hume City Council, Southern Grampians Shire Council, Warrnambool City Council, West Wimmera Shire Council Partially accepted by: Knox City Council, Loddon Shire Council
	4. verify that all grant recipients use grant funds for their intended purpose (see Section 2.3)	Accepted by: Hume City Council, Knox City Council, Southern Grampians Shire Council, Warrnambool City Council, West Wimmera Shire Council Partially accepted by: Loddon Shire Council
	5. evaluate the benefits of: <ul style="list-style-type: none"> • recurring grants and require recipients to seek future funding through existing competitive grant programs • non-recurring grants (if appropriate) and consider their risks and value (see Section 2.2) 	Accepted by: Hume City Council, Knox City Council, Warrnambool City Council Partially accepted by: Loddon Shire Council, Southern Grampians Shire Council, West Wimmera Shire Council
	6. document all funding decisions in a consistent and structured way within a centralised system to ensure their decision-making is transparent, including by recording: <ul style="list-style-type: none"> • the names of individuals involved in assessing or approving grant applications • if applicants met the eligibility criteria • how assessors and approvers scored applicants against the assessment criteria • what assessors and approvers considered to determine funding amounts • reasons why any funding decisions do not align with assessments (see sections 2.2 and 2.3) 	Accepted by: Hume City Council, Knox City Council, Southern Grampians Shire Council, Warrnambool City Council, West Wimmera Shire Council Partially accepted by: Loddon Shire Council
Loddon Shire Council	7. assesses the benefits of its ward-based approach to allocating grants and how this aligns with the council's strategy (see Section 2.2).	Partially accepted by: Loddon Shire Council

Internal guidance and training

Councils should provide guidance to staff and councillors who administer grants, including:

- an overarching grant policy
- fraud control frameworks
- fraud training.

Lack of overarching grant policies

Only West Wimmera has an overarching grant policy that documents how its staff and councillors should run grant programs.

This means that at other councils, staff and councillors do not have centralised guidance on which fraud controls they need to implement and when. Due to this, these councils have applied fraud controls in some grant programs but not others.

Hume, Knox and Loddon are currently developing draft overarching grant policies. They intend to adopt their policies in mid-2022.

Gaps in fraud control frameworks

All audited councils have risk management plans and fraud and corruption policies. However, councils do not prioritise grant-related fraud as a key risk. For example:

- none of the audited councils' risk management plans and fraud and corruption policies cover fraud controls for grant programs
- Loddon's fraud control framework does not clearly define roles and responsibilities for managing and reporting fraud
- of the 4 councils that have risk registers (Hume, Knox, Loddon and West Wimmera), none list grant-related fraud as a risk.

Gaps in fraud training

While all audited councils provide fraud training, none ensure that all staff and councillors involved in administering grants have completed it. In addition, only Knox, Loddon and Southern Grampians provide this training to councillors.

We assessed what the audited councils' fraud training covers and found that:

- none cover fraud risks that are specific to grants
- Southern Grampians refers to a superseded version of the *Local Government Act 2020*.

Without adequate training, councils are not proactively ensuring that staff and councillors understand their responsibilities in managing fraud risks.

Recommendations about improving guidance and training

We recommend that:

Response

We recommend that:	Response
<p>All Victorian councils</p> <p>8. develop their own overarching grant policy that details:</p> <ul style="list-style-type: none"> • when and why the council uses grants to achieve its strategy • how the council will administer grant programs across their life cycle • the risk-based approach the council uses to determine if it will evaluate each grant program • staff and councillors' roles in managing grants • relevant council policies and procedures, including policies and procedures for declaring conflicts of interest (see Section 2.4) 	<p>Accepted by: Hume City Council, Knox City Council, Loddon Shire Council, Southern Grampians Shire Council, Warrnambool City Council, West Wimmera Shire Council</p>
<p>9. include grant-related fraud risks in their risk management and fraud and corruption plans and assign responsibility for managing these risks (see Section 2.4)</p>	<p>Accepted by: Hume City Council, Knox City Council, Loddon Shire Council, Southern Grampians Shire Council, Warrnambool City Council, West Wimmera Shire Council</p>
<p>10. develop mandatory training for staff and councillors that covers:</p> <ul style="list-style-type: none"> • declaring and managing conflicts of interest • fraud risks specific to grant programs • the council's relevant policies and procedures (see Section 2.4). 	<p>Accepted by: Hume City Council, Knox City Council, Southern Grampians Shire Council, Warrnambool City Council, West Wimmera Shire Council</p> <p>Partially accepted by: Loddon Shire Council</p>

1.

Audit context

The law requires, and communities expect, councils to deliver grant programs with integrity and accountability.

A person or entity that fraudulently gets an unjust advantage over other applicants undermines the fairness of a grant program. Fraud controls help councils prevent, detect and respond to fraud-related risks.

This chapter provides essential background information about:

- What is fraud?
 - Local government grants
 - Fraud and local government grants
-

1.1 What is fraud?

Fraud occurs when a person or entity uses dishonest or deceitful means to get an unjust advantage over another person or entity. Within the public sector, fraud can also involve corruption.

Victoria's *Independent Broad-based Anti-corruption Commission Act 2011* defines corrupt conduct:

Of a public officer or public body as ...	For any person as ...
<ul style="list-style-type: none"> performing their public sector role dishonestly knowingly or recklessly breaching public trust, or misusing information or material gained through their public sector role. 	<ul style="list-style-type: none"> conduct that adversely affects the honest performance of a public officer or public body conduct that adversely affects the effective performance of a public officer or public body, or dishonestly obtaining: <ul style="list-style-type: none"> a licence a permit approval or authority an appointment to a statutory office or member of a board a financial benefit.

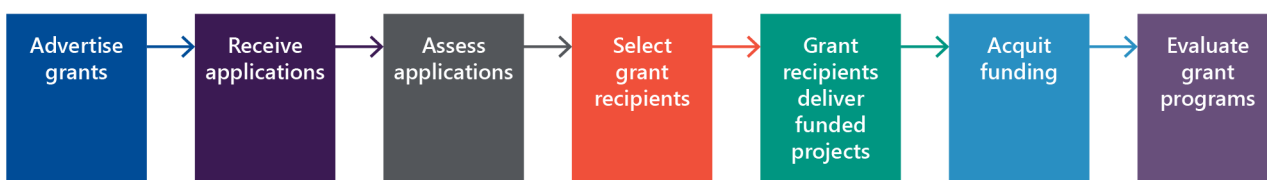
1.2 Local government grants

Councils can use grant programs to help them:

- meet an existing community need
- provide a service that aligns with the council's goals
- stimulate the local economy.

To do this, they distribute grants to individuals, community groups and businesses. Figure 1A shows the stages that should be involved in council grant programs.

FIGURE 1A: **Stages that should be involved in council grant programs**



Source: VAGO.

In 2020–21, 46 Victorian councils spent more than \$45 million on grants. The remaining 33 councils did not report their total grant spending in their annual reports. Figure 1B shows that the audited councils spent around \$4.11 million in grants in 2020–21.

FIGURE 1B: **Audited councils’ grant spending in 2020–21**

Council	Grant spending per capita	Total grant spending
Hume	\$7.70	\$1,902,285
Knox	\$6.10	\$1,017,141
Loddon	\$75.11	\$560,756
Southern Grampians	\$9.62	\$154,640
Warrnambool	\$10.84	\$388,237
West Wimmera	\$23.47	\$89,409
Total		\$4,112,468

Source: VAGO, based on information from the audited councils, the Australian Bureau of Statistics, and the Department of Environment, Land, Water and Planning’s projected population growth rates.

1.3 Fraud and local government grants

To award a grant, a council needs to transfer funding to a third party. This carries a number of fraud risks, including the risk of:

- staff or councillors selecting recipients unfairly based on personal interests
- an applicant giving staff or councillors benefits for awarding them a grant
- a recipient using funding for purposes outside the grant’s objective.

Fraud controls

Victorian state departments are bound by the 2018 Better Grants by Design guide for administering grants.

Better Grants by Design recommends...	To ensure that...
having processes for staff to declare conflicts of interest	conflicts are identified, managed and do not influence decision-making.
using clear and easy to understand eligibility criteria to select and assess applications	they fairly assess every application the same way.
documenting and communicating their decisions	their decision-making is transparent.
acquitting spending	<ul style="list-style-type: none"> • they know if grant recipients have used the funding as intended • they can recover any unspent funds.

However, there is no official guidance or better-practice document for Victorian councils on what fraud controls they should use in their grant programs, such as managing conflicts of interest, using assessment criteria and documenting decision-making.

Managing conflicts of interest

In the public sector, a conflict of interest occurs when an employee has private interests that could influence, or be seen to influence, their decisions or how they perform their public duties. A conflict of interest can be actual, potential or perceived.

For example, in its 2018 investigation *Protecting Integrity: West Wimmera Shire Council examination*, the Local Government Inspectorate found that West Wimmera’s communications officer engaged with prospective applicants and assisted them with their applications. As the officer was also involved in assessing applications, this created a conflict of interest.

In 2019, the Independent Broad-based Anti-corruption Commission’s *Managing corruption risks associated with conflicts of interest in the Victorian public sector* report described good-practice examples of some councils managing conflicts of interest. This included having a standalone conflict-of-interest policy and maintaining registers for declarations.

However, the report found that other councils it reviewed relied on general guidance provided by Local Government Victoria or codes of conduct that did not clearly outline how staff should declare and manage conflicts of interest.

If a council does not identify or manage conflicts of interest between grant applicants and assessors, it increases the risk of fraud.

Using assessment criteria and documenting decision-making

Councils must assess grant applications against eligibility and assessment criteria and record their decision-making process to make sure their funding decisions are transparent.

For example, the Local Government Inspectorate's 2019 *Protecting integrity: Yarriambiack Shire Council Investigation* report highlighted that the council's lack of record keeping and separation of duties in its decision-making process undermined the transparency around its community grants.

In particular, the investigation found that the council:

- did not have criteria to decide who would be on the assessment panel
- could not explain why councillors were on the assessment panel, which are operational roles within the council
- did not document why assessors approved or declined applications.

Similarly, in 2014, the Local Government Inspectorate found that councillor-discretionary funding programs at the City of Greater Geelong had limited oversight and accountability. This was because councillors could allocate funding to projects within their own wards without:

- formally advertising or publicly promoting funding programs
- a formal process for prospective applicants to apply
- documenting how they selected projects and against what criteria
- requiring any feasibility studies or business cases for proposed projects
- considering how the council would pay to maintain new assets.

2.

Implementing fraud controls

Conclusion

Councils do not always follow processes for staff or councillors to declare conflicts of interest, use eligibility criteria to select recipients, document decision-making or evaluate the outcomes of their grant programs. This means that they are not consistently using fraud controls when delivering grants, which undermines the transparency and fairness of their programs.

Councils' guidance to staff and councillors who administer grants is insufficient.

This chapter discusses:

- Conflicts of interest
 - Distributing grants fairly
 - Checking how funds are used
 - Frameworks to manage fraud risks
-

2.1 Conflicts of interest

If a councillor or staff member with a conflict of interest is involved in assessing or approving a grant application, they could use their position to benefit themselves or someone they know, such as a family member or friend.

Not identifying potential conflicts of interest

None of the audited councils have reviewed their grant records to detect potential fraud. Analysing grant records to see if staff or councillors have connections to past recipients can also help councils identify present conflicts of interest.

While connections do not always indicate fraudulent behaviour, councils should oversee these relationships.

Figures 2A and 2B present examples of councils approving applications made by staff or councillors without acknowledging potential conflicts of interest.

FIGURE 2A: **Loddon: family members applying for grants**

Loddon distributes grants to community groups for promoting local events. In 2021, a councillor's family member applied for a \$400 grant as a representative of a community group.

The family member used the councillor's account in Loddon's grant application portal to apply for the grant, which meant the application was lodged under the councillor's name. The councillor is not involved with the community group.

A Loddon staff member approved the application because it met the eligibility criteria. However, it is unclear if they knew the councillor was not involved with the community group. We found no evidence in council records that the staff member considered this.

FIGURE 2B: **Hume: staff applying for grants**

In 2018, Hume ran a grant program to sponsor local events.

Applications were due in October 2018 with budgets to be finalised in June 2019. In August 2019, 10 months after applications were due, a council staff member made a late application for \$16,500 on behalf of a community group for a street festival. Hume allowed the applicant to submit a late application and approved it.

Hume was unable to locate evidence for this approval because it processed the application outside its grant management system.

Lack of policies on how staff should declare conflicts of interest

All audited councils have general requirements for staff to declare conflicts of interest when they occur. However, none have an overarching grant policy that specifically outlines how staff should declare conflicts for grants. Without this, staff may not know how to declare and manage conflicts in this context.

Figure 2C presents better-practice examples of how Hume, Loddon and Southern Grampians identify conflicts of interests.

FIGURE 2C: **Hume, Loddon and Southern Grampians: declaring conflicts of interest**

Hume, Loddon and Southern Grampians use different better practice approaches to identify conflicts of interest for staff assessing grants.

Hume

For its economic development grant program, Hume requires both applicants and assessors to separately declare conflicts of interest.

Hume's grant application form asks if the applicant or their family members have any relationships with a council staff member. In addition, councillors and staff involved in the program must declare any relationships with applicants.

Loddon and Southern Grampians

Southern Grampians has a mandatory field in its grant management system for assessors to declare if they have a conflict of interest for every application in its grant program. Loddon also has this field for all its staff who assess grant applications.

Hume's 2-step process for declaring conflicts of interest reduces the risk of conflicts going undetected. While this program is an example of better practice, it is unclear why Hume does not consistently apply it to all of its grant programs.

Southern Grampians' approach ensures that assessors report and document any conflicts of interest consistently.

Inconsistently managing conflicts of interest

As the audited councils do not have consistent processes for staff and applicants to declare conflicts of interest, it is unclear if they are managing them well.

Figure 2D presents an example of better practice from West Wimmera. The council excludes staff and councillors that have declared a conflict of interest from the decision-making process. This way, the council does not provide some applicants with an unfair advantage over others.

FIGURE 2D: **West Wimmera: managing conflicts of interest**

In May 2021, West Wimmera excluded a councillor and staff member from the decision-making process for one of its grant programs because they declared conflicts of interest.

The councillor was a life member of a group that applied for a grant. The staff member managed a council asset at a local club that also applied for the grant.

The council's records show that the councillor left the room while the rest of the council voted to approve the application. The staff member did not take part in assessing the application.

West Wimmera documented details of each conflict of interest and the outcomes in its conflict-of-interest register.

2.2 **Distributing grants fairly**

To make sure grant programs are fair and accessible, councils should:

- set eligibility and assessment criteria and use them consistently
- document their funding decisions
- not have councillors on assessment panels
- communicate outcomes to all applicants
- regularly evaluate if their grant programs are providing community benefits
- publicly advertise their grant programs.

Using eligibility and assessment criteria inconsistently

When grant programs do not have clear eligibility and assessment criteria, councils may assess applications inconsistently and the public might think the outcomes are unfair.

All of the audited councils, except Loddon and West Wimmera, had eligibility criteria for all of the grant programs we reviewed.

Lack of assessment criteria for Loddon's community planning grant program

Loddon's community planning grant program annually budgets \$50,000 for each ward to use on projects proposed by community planning groups. While council staff

do assess applications before councillors vote to approve them, there is no evidence that they use assessment criteria. Instead, the council documents its overall comments for each application.

Figure 2E outlines an example where Loddon staff did not use assessment criteria for this program. This makes it difficult to understand why the assessors changed their recommendation.

FIGURE 2E: **Loddon: assessments do not reflect recommendations**

In May 2019, a local club applied for a \$16,390 grant to install a disabled toilet.

The council's assessment of this application states: 'Good project. This has been fully designed and planned and is ready to proceed. Recommend funding for full amount'.

However, Loddon's September 2019 report to its councillors did not recommend the project because it was for a specific club operation. In line with the report's recommendations, the councillors did not approve the project for funding.

The council's letter to the applicant says that it declined the project because it was better suited for another grant program.

While it was reasonable for the council to decline the project, Loddon's records do not explain why the council's initial assessment was different to its final recommendation to the councillors. Having assessment criteria would have helped Loddon document why it did not select the project.

Loddon's ward-based approach may not be delivering the best value for money for the municipality because it allocates funding based on wards. Even when the council does not approve any projects from a ward one year, the budget rolls over for the same ward to use in future years.

Loddon also provides \$500,000 per year to support its community planning framework. It funds a single project that strategically benefits the community and is intended to attract state and federal grant funding by providing a co-contribution. The council rotates the funding between wards and there is no competitive process to select projects. The council also delivers the project.

By using both of these programs to fund primarily capital projects, Loddon is not assessing these projects against competing projects that go through its annual budgeting process.

Loddon advised us that while it manages capital bids through its annual budget process, a lack of staff has impacted its ability to develop a project pipeline to help it develop and prioritise capital projects.

Lack of eligibility criteria in ad hoc grant programs

Both Loddon and West Wimmera have ad hoc grant programs that do not use eligibility criteria or an open competitive process. Figures 2F and 2G show that these grant programs are less transparent to the public because they rely on assessors' individual discretion, rather than a formal assessment process, to select recipients.

FIGURE 2F: **Loddon: grants awarded without assessment**

Councillors at Loddon distribute unallocated funds from its competitive community grant program without advertising that they are available and documenting the eligibility or assessment criteria.

In 2020 and 2021, Loddon did not open additional competitive rounds to distribute more than \$16,000 of un-allocated community grant funds. This is inequitable because some community groups have access to funds while others need to show how they will use them to benefit the community through a competitive process.

For example, in March 2021, the councillors voted to pay a community group almost \$7,000 in un-allocated funds from the community grant program. The recipient did not submit an application for council staff to assess.

In another example, a community group approached a councillor to ask for funding because it missed the community grant round. The councillor consulted a council officer to confirm that this group would have met eligibility criteria, but there was no formal application or assessment process. The councillor took this request to the council in June 2021 and the council approved the group's request for \$1,980.

If the applicant had applied through the council's community grant program, it would have had to detail what the funds would be used for and been scored against other applicants using the assessment criteria.

FIGURE 2G: **West Wimmera: lack of eligibility criteria**

In 2020–21, West Wimmera gave out 57.6 per cent of all its grant funding in programs without eligibility criteria.

In 2020–21, West Wimmera delivered 4 grant programs, but only 3 had eligibility criteria. For the remaining program, applicants approached the council directly to request funding. This is because these programs are sponsorships and donations, which have a different process than grant programs. However, it is still unclear how the council selected recipients for these programs.

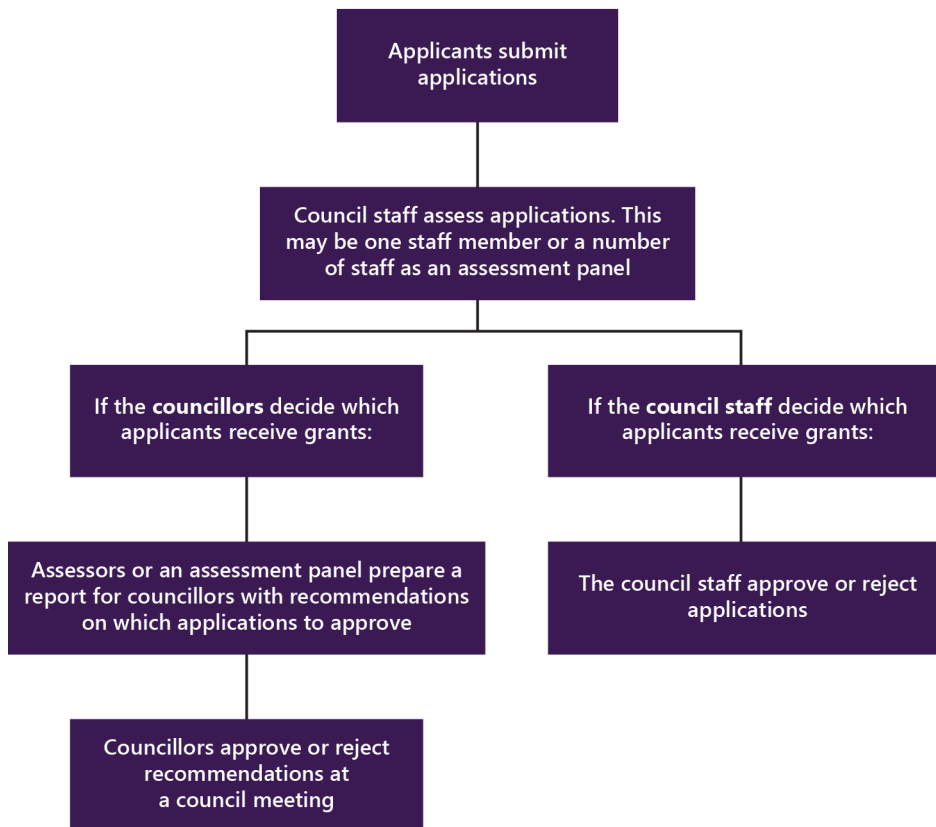
West Wimmera also told us that it did not have eligibility criteria because these grants are designed to give the council flexibility to respond to small funding requests that are not eligible for the council's other grant programs.

In 2020–21, West Wimmera spent \$51,559, or 57.6 per cent of its total grant spending of \$89,409, on this ad hoc funding. The funding included contributions to local businesses to start or continue operating in the council area, small payments to tourism companies and sponsorships of local events.

Not documenting funding decisions

Figure 2H outlines 2 different processes to select grant recipients depending on whether councillors or council staff approve applications.

FIGURE 2H: Processes to select recipients for grant programs



Source: VAGO.

Hume and Loddon have no internal guidance on when grant programs should have an assessment panel. It is not clear why these councils use one assessor to assess some grants and a panel to assess others.

Figure 2I describes examples from Hume, Knox and Loddon where assessment panels initially recommended funding less than the requested amount, or not funding an applicant at all, then changed their recommendations without recording why. Before this audit, none of these councils had standard practices to document when and why the assessors changed their recommendations.

FIGURE 2I: **Hume, Knox and Loddon: not documenting funding decisions**

Based on their grant records, Hume, Knox and Loddon have approved more funding for recipients than what assessors initially decided. This is because these councils do not record changes in assessors' recommendations.

For example, at Knox, a single applicant received \$20,000 when none of the 4 assessors recommended awarding the grant to them when they individually assessed applications. We also found that one applicant received the full \$14,200 they requested, even though 3 of the 4 assessors recommended they receive less than \$5,000.

Knox advised us that in both instances, the assessors discussed the applications as an assessment panel after completing their individual assessments and agreed to change their recommendations. However, Knox did not document reasons for doing so. Knox told us that it has since updated its processes to record more details about assessors' decisions.

In another instance, Hume's assessment panel chair changed an applicant's score and increased the grant amount by \$1,250. Hume advised us that the assessment panel increased the amount at a second meeting but did not document why.

We also found 3 instances at Hume where councillors approved grants despite the applicants not meeting the assessment criteria.

Loddon does not always document its funding decisions in its grant management system. For example, councillors approved one application that assessors did not initially recommend funding without documenting that the assessors changed their recommendation. Loddon also did not document in its system why it awarded 2 grant applicants more than \$33,000 when they only requested \$25,000.

Councillors on assessment panels

The Local Government Inspectorate's 2019 *Protecting integrity: Yarriambiack Shire Council Investigation* report recommended the council to remove councillors from assessment processes for community grants.

At Hume and Knox, councillors sit on assessment panels for some grant programs and then approve grants they have recommended at council meetings. For example,

in August 2020, a Knox councillor assessed a grant application for \$8,891. In September, the same councillor voted to approve the application.

Hume and Knox told us that they will recommend that councillors do not form part of assessment panels in mid-2022. Both councils advised us that their new overarching grant policy will address this, which they will present to councillors after this report is released.

For some grant programs at Loddon and West Wimmera, councillors assess and approve applications in council meetings without council officers formally assessing them (see figures 2F and 2G).

Lack of transparency in communicating outcomes to applicants

Informing applicants about the outcome of their application can help to ensure that councils have valid reasons for their decisions. It also gives the applicant transparency on why the council selected other applicants.

However, only Loddon, Warrnambool and West Wimmera consistently send letters to applicants that explain why they were unsuccessful.

While Knox does inform applicants and provides reasons why they were unsuccessful, we found 3 grant applications where this did not occur. Other audited councils do not consistently tell unsuccessful applicants why they rejected their application. This can reduce the transparency of their grant programs.

Not regularly evaluating grant programs

Regularly evaluating grant programs can help councils identify programs that are not delivering community benefits and redirect the funds to worthier recipients.

None of the audited councils have a standard practice or requirement to evaluate their grant programs. While all audited councils except West Wimmera have evaluated at least one of their grant programs in the past, this has occurred on an ad hoc basis.

Figure 2J discusses how Warrnambool continued to pay recurring grants without knowing if they were achieving their intended benefits or were fit for purpose.

FIGURE 2J: **Warrnambool: funding recurring grants without review**

While Warrnambool has evaluated if some of its recurring grants provide community benefits, it has continued to fund some grants for up to 25 years without reviewing them.

Warrnambool has provided:

- \$5,000 each year to the coast guard to cover petrol costs since 1997
- \$15,000 each year to a surf lifesaving club for at least 15 years.

Warrnambool has not adjusted the value of these grants even though:

- the price of fuel has risen more than 166 per cent¹ in the last 20 years
- it has not reviewed what equipment and maintenance costs the council provides to the surf lifesaving club and if these costs are greater than they were 15 years ago
- the coast guard has requested additional funds from the council.

The council stopped automatically paying the following 2 non-competitive recurring grants because it found that they were not benefitting the community or it could not find evidence from when it approved them:

- The council paid a committee of management (CoM) \$11,000 a year from 2006 to 2020 to maintain an athletics park. The athletics track has degraded and is currently not safe for schools and other community groups to use. In November 2020, council staff told the park's CoM that the council would not make any future payments. The CoM sent an invoice in late 2021, which the council has not paid.
- The council had been paying a sporting organisation \$10,000 per year since 2006 but had no evidence that it had approved the grant. In 2020–21, staff ceased the organisation's annual payments and recommended that it apply for budget funding.

Note: ¹This percentage was calculated based on the nominal price increase of fuel from 1999 to 3 May 2022.

Gaps in advertising grant programs to potential recipients

When distributing public funds, councils should ensure that they give all potential recipients the same opportunity to apply for a grant. Councils risk not treating all potential recipients fairly if they do not do this. While there are valid reasons for not advertising grant programs, it is important that councils document these reasons for transparency.

At Loddon and West Wimmera, gaps in advertising their grant programs mean that they cannot be sure that all potential recipients can access information about the programs they are eligible for.

For example ...	But ...
Loddon advertises its grant programs on its website	it spreads information about its grant programs across different policies and webpages.
Loddon's <i>Community Support Policy</i> mentions that the council may consider granting sponsorships and donations	does not include information on how a potential recipient can apply.
West Wimmera advertises its formal grant programs on its website	does not advertise programs that it categorises as sponsorships or donations.

2.3 Checking how funds are used

Councils should use acquittal and monitoring processes to make sure grant recipients use funds as intended. This can help them recover leftover or misspent funding. Councils should apply acquittal processes that are proportionate to the value of the grant.

Inconsistent acquittal processes

The audited councils do not consistently check if recipients use funding as intended. Only Knox and Southern Grampians have an acquittal process for all of their grant programs. The remaining councils do not require recipients to provide evidence of how they have used funding for at least one program.

Not consistently using an acquittal process means that councils cannot:

- be sure if grant recipients have used funds as intended
- be sure if recipients have met a grant's conditions
- recover any unspent funds.

Figure 2K provides an example where Loddon paid a larger grant than it should have because it did not check how the recipient used the funding.

FIGURE 2K: **Loddon: selling an oval mower against grant policy**

Loddon runs a grant program to help major recreation reserve CoMs replace their oval mowers.

Under the program's policy:

- eligible CoMs can receive support of up to \$35,000
- CoMs must give the council proof of the net cost of the new mower, accounting for any trade-in value of the old mower.

In August 2021, a CoM requested, and the council approved, a \$35,000 grant to purchase a new mower. Under the program's policy, the group should have supplemented the grant funding with funds from the sale of its old mower.

The CoM privately sold its old mower 2 months after purchasing the new mower, despite advising the council that the old mower had no trade-in value. The CoM kept the \$7,700 it received for the old mower after it made an agreement with the school that co-owned it.

Loddon was not aware of the sale because it had not acquitted the funding. While the CoM later informed Loddon about the sale, the council has no plans to recover this funding even though it should not have paid the full cost of the new mower.

In the conditions for its largest grant program, West Wimmera outlines its right to withhold 20 per cent of funding until recipients acquit their spending. This creates a financial incentive for recipients to show how they used the funding. However, West Wimmera does not have evidence that it does this in practice.

While West Wimmera specifies this process in funding agreements, it does not formalise it in its overarching grant policy. By not doing this, the council does not require staff to consistently apply this practice across its grant programs.

Not monitoring how recipients are using funds

None of the audited councils consistently monitor how grant recipients are using funding. Instead, they rely on acquittal processes at the end of a program. Ongoing monitoring could help councils detect potential fraud at an earlier stage.

From the grant programs we sampled, only Knox has an ongoing monitoring process, which Figure 2L describes. While this is an example of better practice, it only applies this to its largest grant program.

FIGURE 2L: **Knox: monitoring process for its community partnership funding grants**

Knox requires recipients of its community partnership funding grants, which support organisations that have ongoing operational costs to deliver community services and activities, to report how they have used the funding each year.

The program's 4-year funding agreements require recipients to provide Knox with an annual outcomes report for each funded activity that includes supporting documentation. This helps Knox ensure that recipients are using the funds as intended.

This monitoring has helped Knox identify areas for improvement in its performance measures. For example, an organisation reported that it would not be able to meet its original performance measures due to the coronavirus (COVID-19) pandemic. In response, Knox changed its performance measures so the organisation could still meet them and acquit its spending.

Lack of processes to recover funding

It can be difficult for councils to recover funding from recipients who have not met a program's conditions, such as not delivering a funded activity. Only Hume and Knox have clauses in their funding agreements that allow them to stop or recover payments.

Having these terms in their funding agreements has enabled Hume and Knox to recover funding. For example, in June 2021, Knox recovered around \$20,000 from a community group after a funded event could not go ahead due to COVID-19 restrictions.

Gaps in record keeping

Councils should have a structured way to document information about their grant programs to ensure that their decision-making is transparent throughout a program's life cycle. One way that councils can do this is by using a grant management system to document:

- how the council assessed applications, including the names of the assessors
- any conflicts of interest with individual applicants
- correspondence with applicants and recipients
- supporting documentation from recipients to acquit spending.

All audited councils except West Wimmera use a centralised grant management system to manage their grant processes.

However, we found that all audited councils except Knox had incomplete records, such as missing acquittal forms and receipts, for the programs we reviewed. This is because these councils administer some grant programs outside of their grant management system. For example:

Currently ...	But ...
Hume does not process all grants through its grant management system	it plans to move all grants into the system by the end of 2022.
Loddon administers all of its grants in the grant management system it implemented in 2019	some of the grant programs we reviewed from 2019 were administered outside the system in the early stages of its implementation.
Southern Grampians uses assessment panels to review applications, but only records one assessor's name per application in its grant management system	it plans to update its system to include the names of all assessors for its 2022 grant rounds.

West Wimmera uses its records management system to store documents that relate to its grant programs. However, the system's poor search functionality and lack of structure to organise documents makes it difficult for staff to find grant records. West Wimmera:

- did not record the assessors' names for 2 applications in 2017 and 2 in 2019
- could not find 2 letters of success sent to applicants in 2019
- could not provide assessment documents from 2018 when requested, but found them after some investigation.

West Wimmera is seeking funding in its next budget cycle for a grant management system that it expects will address these issues.

2.4 Frameworks to manage fraud risks

Councils can provide staff and councillors with guidance on how to manage fraud risks by:

- implementing an overarching grant policy to make sure staff apply fraud controls throughout a grant's life cycle
- documenting fraud risks in risk registers and defining roles and responsibilities for managing these risks
- training staff and councillors to detect and prevent fraud.

Lack of overarching grant policies

An overarching grant policy promotes consistency in how staff manage a council's grant programs. It should:

- cover the entire life cycle of a council's programs from advertising to acquittal
- set standards to prevent and manage fraud risks
- follow relevant legislation, policies and guidance
- be accessible to staff who are involved in administering grants.

However, 5 of the 6 audited councils do not have an overarching grant policy.

West Wimmera is the only audited council that has an overarching policy. This policy covers some key aspects, including:

- its definition of a grant
- an explanation of how past recipients who have not acquitted spending are ineligible for future grants
- its application, assessment and accountability processes.

However, its policy lacks some key elements, such as how to acquit spending and manage conflicts of interest for grant programs.

Hume, Knox and Loddon have developed draft overarching grant policies. Hume and Knox expect to adopt their policies in mid-2022. Both councils advised us that this timing will allow them to consider our report's recommendations in their new policies.

Hume and Knox's policies include better-practice fraud controls:

The draft policy at ...	Outlines how it will manage grants over their life cycle, including ...
Hume	<ul style="list-style-type: none">• excluding individuals or entities with the power to approve grants (such as councillors) from assessment panels• how staff and councillors should record and manage conflict of interests• how it will evaluate each grant program.
Knox	<ul style="list-style-type: none">• when it should use an assessment panel• how staff and councillors must identify conflicts of interest• how it will acquit spending.

Loddon's draft policy lacks guidance on how staff should manage grants at each stage of their life cycle, including assessment, acquittal and conflict-of-interest processes. Loddon told us that this policy is a work in progress.

Documenting fraud risks

Incomplete and missing risk registers

Risk registers can help councils evaluate the impact of risks and identify actions to address them.

Hume, Knox, Loddon and West Wimmera have risk registers, but they do not list grant-related fraud as a risk. This is a missed opportunity to reduce these risks and identify areas for improvement within their fraud controls.

Both Hume and West Wimmera told us that they are currently reviewing their risk registers to include grant-related fraud as a risk. Hume expects to complete its review at the end of 2022. West Wimmera plans to include controls around declaring conflicts of interest and selecting assessment panels.

Defining roles and responsibilities

Councils should have clearly defined roles and responsibilities for managing fraud-related risks. Without doing this, they may not be prioritising these risks.

Except for Loddon, all of the audited councils clearly define roles and responsibilities for managing and reporting fraud in their general fraud and corruption policies.

While all of the audited councils have policies for fraud and corruption, none of these policies cover fraud controls for grant programs.

Lack of training about grant-related fraud risks

Without training, staff and councillors involved in administering grants may not know how to prevent and detect fraud.

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

In 2020, councillors at the audited councils approved around \$2.6 million in grants. However, only Knox, Loddon and Southern Grampians deliver fraud training to their councillors. Other councils rely on councillors to act with integrity, which is required under councillor codes of conduct.

Figure 2M is an example that shows why councils should ensure they train staff and councillors on the risks of both perceived and actual conflicts of interest.

FIGURE 2M: **Loddon: councillor-sponsored prize**

A Loddon councillor sponsors a \$14,500 prize at an event that a local club runs every year. The prize is named after them and their family.

In 2021, the club applied for and received a \$1,000 grant from the council to promote the entire event.

While the councillor did not approve the grant, it can be perceived as a conflict of interest. This is because the council is providing public funding to promote an event that a councillor personally contributes to. While the event was eligible for funding, council records show that Loddon did not consider how the application could present a conflict of interest.

As of December 2021, 2 of Loddon's 5 councillors had not completed the council's fraud and corruption awareness training. While councillors do not have to complete this training under the council's fraud policy, Loddon has the authority under its Councillor Code of Conduct to ensure that councillors complete any training it sees as necessary to fulfil their role.

Gaps in training

While we found some examples of better practice, councils could improve their training so staff and councillors who administer grants understand fraud risks and how to respond to them:

All audited councils ...	But could improve their training by ...
cover conflicts of interest in their training	<ul style="list-style-type: none"> covering fraud risks specific to grant programs including detailed examples of conflicts of interest.
except Loddon and Southern Grampians, have updated their training in the last 2 years	<p>ensuring it refers to current legislation and guidance. For example, Southern Grampian's training refers to a superseded version of the <i>Local Government Act 2020</i>.</p> <p>Loddon advised us that it is currently reviewing its training content.</p>

APPENDIX A

Submissions and comments

We have consulted with Hume, Knox, Loddon, Southern Grampians, Warrnambool and West Wimmera, and we considered their views when reaching our audit conclusions. As required by 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:

Hume	35
Knox	40
Loddon	47
Southern Grampians.....	55
Warrnambool.....	58
West Wimmera.....	63

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Friday, 29 April 2022

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

Dear Mr Greaves

RE: PERFORMANCE AUDIT *FRAUD CONTROL OVER LOCAL GOVERNMENT GRANTS* – HUME CITY COUNCIL SUBMISSION

Hume City Council thanks the Victorian Auditor-General's Office (VAGO) for providing the Proposed Performance Audit Report – *Fraud control over local government grants* and for offering Council the opportunity to provide comment to be included in the report.

The learning and recommendations of the audit will ensure that Council is able to deliver a best practice grants program with a focus on preventing fraud and corruption. I am pleased to submit Hume City Council's action plan to address recommendations from *Fraud control over local government grants*, as attached.

Council thanks the Audit team for their collaborative and constructive approach and for the opportunity to provide comment on the performance audit.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sheena Frost', written in a cursive style.

**SHEENA FROST
CHIEF EXECUTIVE OFFICER**

Encl

OFFICIAL: Sensitive

Hume City Council action plan to address recommendations from *Fraud control over local government grants*

No.	VAGO recommendation	Action	Completion date
1	<p>Improve their conflict-of-interest processes by:</p> <ul style="list-style-type: none"> requiring staff and councillors to declare conflicts of interest for each grant application they assess or approve documenting how the council manages declared conflicts of interest (see Section 2.1) 	<p>Partially agreed.</p> <p>Council already requires staff and Councillors to declare conflicts of interest for each grant application they access or approve. However, it is noted that this is through Conflict of Interest policies and not an overarching grants policy.</p> <p>The conflict of interest requirements for all grants will be included in the overarching grant policy.</p>	June 2022
2	<p>Develop eligibility and assessment criteria for all their grant programs and:</p> <ul style="list-style-type: none"> assess and document each application against them communicate assessment outcomes and reasons to unsuccessful applicants (see Section 2.2) 	<p>Partially agreed.</p> <p>Hume City Council already has eligibility and assessment criteria for all its grants programs. However, it is noted that Council does not have an overarching grants policy which provides centralised guidance about these matters.</p> <p>The overarching grant policy will include the requirements, including record keeping requirements, for assessing each application and communicating outcomes.</p>	June 2022
3	<p>Exclude councillors from assessing and making recommendations on grant applications (see Section 2.2)</p>	<p>Agreed.</p> <p>The proposed Grant-giving Policy (to be considered by Council in June 2022) states that decision makers (i.e. Councillors) are not involved in the assessment of grant programs.</p>	June 2022

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Response provided by the Chief Executive Officer, Hume—*continued*

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4	Verify that all grant recipients use grant funds for their intended purpose (see Section 2.3)	Agreed. A mandatory requirement for financial acquittals will be included in the overarching grants policy.	June 2022
5	Evaluate the benefits of: <ul style="list-style-type: none"> • recurring grants and require recipients to seek future funding through existing competitive grant programs • non-recurring grants (if appropriate) and consider their risks and value (see sections 2.2 and 2.3) 	Agreed. A requirement to evaluate Council's grant programs will be included in the overarching grant policy. The Evaluation Framework will be developed by June 2023.	June 2022 / June 2023

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Response provided by the Chief Executive Officer, Hume—*continued*

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6	<p>Document all funding decisions in a consistent and structured way within a centralised system to ensure their decision-making is transparent, including by recording:</p> <ul style="list-style-type: none"> • the names of individuals involved in assessing or approving grant applications • if applicants met the eligibility criteria • how assessors and approvers scored applicants against the assessment criteria • what assessors and approvers considered to determine funding amounts • reasons why any funding decisions do not align with assessments (see sections 2.2 and 2.3) 	<p>Agreed.</p> <p>The overarching grant policy will include the requirements, including record keeping requirements, for assessing each application and communicating outcomes.</p> <p>Council is moving all its grant streams to SmartyGrants by the end of 2022 to assist with this recommendation.</p>	June 2022 / December 2022
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Response provided by the Chief Executive Officer, Hume—*continued*

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8	<p>Develop their own overarching grant policy that details:</p> <ul style="list-style-type: none"> • when and why the council uses grants to achieve its strategy • how the council will administer grant programs across their life cycle • the risk-based approach the council uses to determine if it will evaluate each grant program • staff and councillors' roles in managing grants • relevant council policies and procedures, including policies and procedures for declaring conflicts of interest (see Section 2.4) 	<p>Agreed.</p> <p>The development of an overarching grants policy has commenced. The policy is to be presented to Council for adoption in June 2022 following the publication of this Report so that all recommendations can be discussed publicly.</p>	June 2022
9	<p>Include grant-related fraud risks in their risk management and fraud and corruption plans and assign responsibility for managing these risks (see Section 2.4)</p>	<p>Agreed.</p> <p>Council's Corporate and Departmental Risk Registers are being updated in 2022. This will include consideration of a specific risk in relation to grants.</p>	Dec 2022
10	<p>Develop mandatory training for staff and councillors that covers:</p> <ul style="list-style-type: none"> • declaring and managing conflicts of interest • fraud risks specific to grant programs • the council's relevant policies and procedures (see Section 2.4). 	<p>Agreed.</p> <ol style="list-style-type: none"> 1. Fraud and corruption training for Councillors will be included in the Councillor training calendar. 2. Fraud risks in grant programs will be included in future fraud and conflict of interest training. 3. Fraud training will be rolled out to all staff involved in grants programs 	<ol style="list-style-type: none"> 1. August 2022 2. June 2023 3. June 2022

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2 May 2022

Mr. Andrew Greaves
Auditor-General
VAGO
Level 31, 35 Collins Street
MELBOURNE VIC 3000

KNOX
your city



Dear Mr. Greaves

Proposed Performance Audit Report – Fraud Control over Local Government Grants

I refer to your correspondence of 13 April 2022 and the opportunity to comment on the proposed report of this Performance Audit.

Grants are an important and tangible way that Council can directly support its residents and community groups to achieve broader community benefit. Council is committed to ensuring best practice effective controls are in place for its many grant programs to prevent fraud and corruption, with the objective of providing its community with confidence that public funds are being spent as intended.

We have now reviewed the proposed report and its recommendations and Council has also provided an action plan that addresses the recommendations.

Council is appreciative of the opportunity to participate in and work with VAGO officers during this performance audit.

Please contact Matt Kelleher, Director City Strategy and Integrity on 9298 8102 should you have any queries on this matter.

Yours sincerely

Cr Susan Laukens
Mayor

Enquiries: Matt Kelleher, Director City Strategy and Integrity
Document ID: D22-102217

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Knox City Council action plan to address recommendations from *Fraud control over local government grants*

No.	VAGO recommendation	Action	Completion date
1	<p>Improve their conflict-of-interest processes by:</p> <ul style="list-style-type: none"> • requiring staff and councillors to declare conflicts of interest for each grant application they assess or approve • documenting how the council manages declared conflicts of interest (see Section 2.1) 	<p><i>Accepts</i></p> <p>Council will finalise the Conflict of Interest Guide which:</p> <ul style="list-style-type: none"> • Reinforces the requirement to declare a conflict of interest in the manner prescribed by the Local Government Act 2020 and Council’s Governance Rules. • Nominates grant allocations as a high risk activity that requires proactive measures to be in place requiring individuals to proactively consider actual, potential or perceived conflicts of interest; and document that assessment. • Requires management strategies / plans be put in place with a scale and scope commensurate to the conflict that has been declared. 	August 2022

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Response provided by the Mayor, Knox—*continued*

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2	<p>Develop eligibility and assessment criteria for all their grant programs and:</p> <ul style="list-style-type: none"> • assess and document each application against them • communicate assessment outcomes and reasons to unsuccessful applicants (see Section 2.2) 	<p><i>Accepts</i></p> <p>Council will continue to develop assessment criteria for all Council grants programs. These will be documented and shared with applicants and assessors.</p> <p>Council will record the reasons for decisions and share these with unsuccessful applicants.</p> <p>Council will record the reasons for funding recommendations by grant assessment panels where the initial individual assessment differs from the final recommendation.</p> <p>All assessment records will be attached to each funding round in the SmartyGrants system to ensure transparency and a complete record of the funding round. Such documents may include meeting minutes and tools used by assessment panels such as assessment spreadsheets.</p> <p>This approach will be addressed in Council's draft Grants Framework.</p>	August 2022
3	<p>Exclude councillors from assessing and making recommendations on grant applications (see Section 2.2)</p>	<p><i>Partially Accepts</i></p> <p>Council has previously resolved to defer consideration of the Grants Framework to enable consideration be given to any feedback and recommendations emanating from this audit.</p> <p>Council will consider this recommendation in its draft Grants Framework which will be presented for a Council decision.</p>	August 2022

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Response provided by the Mayor, Knox—continued

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4	Verify that all grant recipients use grant funds for their intended purpose (see Section 2.3)	<p><i>Accepts</i></p> <p>Council will continue to ensure that all grant recipients use grant funds for their intended purpose through a consistent acquittal processes.</p> <p>Acquittal processes and consequences of non-compliance are covered in Council's draft Grants Framework.</p>	August 2022
5	<p>Evaluate the benefits of:</p> <ul style="list-style-type: none"> • recurring grants and require recipients to seek future funding through existing competitive grant programs • non-recurring grants (if appropriate) and consider their risks and value (see sections 2.2 and 2.3) 	<p><i>Accepts</i></p> <p>Council will continue to monitor its grant programs and evaluate benefits to the community and alignment with Council goals as recorded in our Community and Council Plans.</p> <p>Ongoing monitoring and evaluation will be done via a partnership model of grant management; feedback from applicants, assessors and other relevant stakeholders; regular review of relevant grant documents; and consideration of the funding environment.</p>	Ongoing

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Response provided by the Mayor, Knox—continued

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6	<p>Document all funding decisions in a consistent and structured way within a centralised system to ensure their decision-making is transparent, including by recording:</p> <ul style="list-style-type: none"> • the names of individuals involved in assessing or approving grant applications • if applicants met the eligibility criteria • how assessors and approvers scored applicants against the assessment criteria • what assessors and approvers considered to determine funding amounts • reasons why any funding decisions do not align with assessments (see sections 2.2 and 2.3) 	<p><i>Accepts</i></p> <p>Council will continue to utilise SmartyGrants as a centralised grant management tool. This will allow Council to continue:</p> <ul style="list-style-type: none"> - recording the name of assessors; their initial assessment of assigned grants; and reasons for their assessment; - recording all details of eligibility checks. <p>Council will record the reasons for funding recommendations by grant assessment panels where the initial individual assessment differs from the final recommendation.</p> <p>All assessment records will be attached to each funding round in SmartyGrants to ensure transparency and a complete record. In addition to assessment records (that are recorded in SmartyGrants), other such documents may include meeting minutes and tools used by assessment panels such as assessment spreadsheets.</p>	August 2022
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Response provided by the Mayor, Knox—continued

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8	<p>Develop their own overarching grant policy that details:</p> <ul style="list-style-type: none"> • when and why the council uses grants to achieve its strategy • how the council will administer grant programs across their life cycle • the risk-based approach the council uses to determine if it will evaluate each grant program • staff and councillors' roles in managing grants • relevant council policies and procedures, including policies and procedures for declaring conflicts of interest (see Section 2.4) 	<p><i>Accepts</i></p> <p>As Council has advised VAGO, a draft Grants Framework Policy has been developed.</p> <p>Council has previously resolved to defer consideration of the Grants Framework to enable consideration be given to any feedback and recommendations resulting from this audit.</p> <p>Council will consider this recommendation in its draft Grants Framework.</p>	August 2022
9	<p>Include grant-related fraud risks in their risk management and fraud and corruption plans and assign responsibility for managing these risks (see Section 2.4)</p>	<p><i>Accepts</i></p> <p>This will be incorporated in Council's Risk Management Framework and Fraud and Corruption Framework.</p>	December 2022

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Response provided by the Mayor, Knox—continued

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10	Develop mandatory training for staff and councillors that covers: <ul style="list-style-type: none">• declaring and managing conflicts of interest• fraud risks specific to grant programs• the council's relevant policies and procedures (see Section 2.4).	<i>Accepts</i> Council will refine existing Conflict of Interest training packages and rollout out as mandatory training that addresses these points, on a cyclical basis.	December 2022
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Doc ID:DOC/22/39247

2 May 2022

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

Dear Mr Greaves

Re: Loddon Shire Council Proposed Performance Audit Report Fraud control over local government grants

Loddon Shire Council welcomed the opportunity to be included in the "Fraud control over local government grants" audit recently undertaken, and the improvements that could be incorporated into our grants programs from the recommendations arising from the audit. Although I do raise concerns of some accuracy within the report, both from a contextual and factual perspective.

As a small rural Council we rely heavily on the volunteer effort of our community groups, and to support this Loddon Shire Council has various community support programs. We have recently engaged with our volunteers as part of a volunteerism strategy with the overwhelming response from volunteers being that there is too much bureaucracy. We therefore need find a balance between the recommendations of this audit alongside the willingness and capacity of our volunteers.

Our Community Support Policy is currently being drafted and there are around 15 different programs identified in that policy, ranging from financial support, non-financial support, competitive programs, and "as of right" programs determined through the annual budget process and supporting policy.

Noting the significant contribution that we provide to our volunteer community groups that provide Council with their significant volunteer effort, in 2019 Council commenced implementation of the SmartyGrants program for grants management. This program has become a valuable tool for:

- Managing grants and allocations consistently
- Providing all documentation in a single portal
- Providing a consistent approach for applications and assessment.

Acknowledging this implementation was still in progress during the audit period, we have continued, and will continue, to build on the capability of this program. This continuous improvement initiative will be complemented by the recommendations from the audit report, to improve our grants management process.

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Response provided by the Mayor, Loddon—*continued*

Council staff have assessed the 10 recommendations in the audit report and provided responses to each of them, and I look forward to monitoring progress of those actions to improve on the current process of grant management.

Should you have any queries in relation to this matter please feel free to contact Lincoln Fitzgerald, Chief Executive Officer on 03 5494 1200.

Yours faithfully,



Cr Dan Straub
MAYOR

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**Loddon Shire Council action plan to address recommendations from
Fraud control over local government grants**

No.	VAGO recommendation	Action	Completion date
1	<p>Improve their conflict-of-interest processes by:</p> <ul style="list-style-type: none"> • requiring staff and councillors to declare conflicts of interest for each grant application they assess or approve • documenting how the council manages declared conflicts of interest (see Section 2.1) 	<p>Partially agree</p> <p>Current practice: There is a conflict of interest declaration process embedded in the grants management program (SmartyGrants) for staff, and this will continue to be used to identify any staff related conflicts of interests during the application and assessment process.</p> <p>Council reports have a standing conflict of interest declaration for the authors of reports, and the Council Governance Rules incorporate how conflict of interests are managed at Council Meetings.</p> <p>This is in addition to the general conflict of interest process that is in place for all other conflicts of interests that staff and Councillors must manage.</p> <p>Action arising: Management of conflicts of interest will be incorporated into the Community Support Policy that is currently under development.</p> <p>SmartyGrants will be interrogated to ascertain its capability in identifying conflicts of interest and extracting conflict of interest data through reporting.</p>	<p>30 September 2022</p> <p>30 June 2022</p>

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Response provided by the Mayor, Loddon—continued

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No.	VAGO recommendation	Action	Completion date
2	<p>Develop eligibility and assessment criteria for all their grant programs and:</p> <ul style="list-style-type: none"> • assess and document each application against them • communicate assessment outcomes and reasons to unsuccessful applicants (see Section 2.2) 	<p>Partially agree:</p> <p>Current practice: Acknowledging there are clear eligibility criteria embedded in the community grants program and “as of right” allocations, it is also acknowledged that community planning program eligibility criteria can be strengthened. However, all eligibility criteria will be reviewed to ensure they are still valid for each program.</p> <p>Action arising: Progressively review the eligibility criteria (which may incorporate review of certain policies) across all community support programs to assess their validity and rigour around assessment.</p> <p>Incorporate any changes into the SmartyGrants program and operational procedures.</p>	<p>Full assessment to be undertaken between 1 July 2022 and 30 November 2022</p> <p>Following each program’s assessment</p>
3	<p>Exclude councillors from assessing and making recommendations on grant applications (see Section 2.2)</p>	<p>Partially agree</p> <p>Current practice: Acknowledging the comments in the audit report, it is not standard practice for Councillors at Loddon Shire to be involved in assessing grant applications.</p> <p>Standard practice is assessment by staff and a report authored by staff, which is presented to the Council for consideration and decision on the allocation of competitive grants throughout the year.</p> <p>In addition to this, there are other “as of right” allocations that the Council considers through the annual budget process and policy reviews.</p>	

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Response provided by the Mayor, Loddon—continued

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No.	VAGO recommendation	Action	Completion date
		<p>Action arising: Develop procedures for operationalising the Community Support Policy that clearly outline the process for assessment and approval of grants.</p>	30 September 2022
4	Verify that all grant recipients use grant funds for their intended purpose (see Section 2.3)	<p>Partially Agree</p> <p>Current practice: Council has acquittal processes in place for all competitive grants.</p> <p>Action arising: An acquittal process will be incorporated into the Community Support Policy and procedures for competitive grants; acknowledging that some allocations are “as of right” allocations and not subject to the same requirements.</p>	30 September 2022
5	<p>Evaluate the benefits of:</p> <ul style="list-style-type: none"> • recurring grants and require recipients to seek future funding through existing competitive grant programs • non-recurring grants (if appropriate) and consider their risks and value (see sections 2.2 and 2.3) 	<p>Partially agree:</p> <p>Current practice: As documented there are a suite of competitive (non-recurring) and “as of right” (recurring) grants in current practice.</p> <p>The recurring grants are designed to support the significant volunteer effort of our community groups, while minimising their volunteer effort to continually request funds to operate their various functions, which if not undertaken by volunteers, would fall within Council’ remit.</p> <p>However, it is acknowledged that evaluation is an important part of any process, and the recommendations in the report will be considered.</p> <p>Action arising: Progressively undertake a cost-benefit analysis (which may incorporate review of certain policies) across all community support programs to assess their value to Council.</p>	Full assessment to be undertaken between 1 July 2022 and 30 November 2022

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No.	VAGO recommendation	Action	Completion date
6	<p>Document all funding decisions in a consistent and structured way within a centralised system to ensure their decision-making is transparent, including by recording:</p> <ul style="list-style-type: none"> • the names of individuals involved in assessing or approving grant applications • if applicants met the eligibility criteria • how assessors and approvers scored applicants against the assessment criteria • what assessors and approvers considered to determine funding amounts • reasons why any funding decisions do not align with assessments (see sections 2.2 and 2.3) 	<p>Partially agree:</p> <p>Current practice: The SmartyGrants program was first implemented in 2019 and is progressively being improved to utilise all functionality. The items identified in the audit report are noted, and will be incorporated into standard practice through development of procedures for the Community Support Policy.</p> <p>Action arising: Incorporate into the procedures supporting the Community Support Policy, information required to be documented during the decision-making process.</p> <p>Investigate SmartyGrants functionality to assess whether the items identified can be marked as mandatory fields in the program.</p>	<p>31 October 2022</p> <p>30 November 2022</p>
7	<p>Assesses the benefits of its ward-based approach to allocating grants and how this aligns with the council's strategy (see Section 2.2).</p>	<p>Partially agree:</p> <p>Current practice: Council has been providing a cash-backed community planning program since 2003/2004, and the program has delivered significant community-led projects over many years, which have been identified through the community planning groups developing their specific Community Plans for their town or region.</p> <p>The \$50K annual ward allocation (with wards being based on population spread) along with the \$500K strategic fund which is rotated throughout each ward annually has</p>	

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Response provided by the Mayor, Loddon—continued

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No.	VAGO recommendation	Action	Completion date
		<p>not been challenged by our community to date.</p> <p>However, while evaluating the value of all other community support programs, the community planning program will also be evaluated.</p> <p>Action arising: Undertake a cost-benefit analysis of the community planning program to assess its value.</p>	<p>To be undertaken with all other community support programs between 1 July 2022 and 30 November 2022</p>
8	<p>Develop their own overarching grant policy that details:</p> <ul style="list-style-type: none"> • when and why the council uses grants to achieve its strategy • how the council will administer grant programs across their life cycle • the risk-based approach the council uses to determine if it will evaluate each grant program • staff and councillors' roles in managing grants • relevant council policies and procedures, including policies and procedures for declaring conflicts of interest (see Section 2.4) 	<p>Agree</p> <p>Current practice: Council has a Community Support Policy under development, and will consider the items identified in this report in finalisation of the policy and development of procedures to support the policy.</p> <p>Action arising: Finalise the Community Support Policy and procedures.</p>	<p>30 September 2022</p>

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Response provided by the Mayor, Loddon—continued

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No.	VAGO recommendation	Action	Completion date
9	<p>Include grant-related fraud risks in their risk management and fraud and corruption plans and assign responsibility for managing these risks (see Section 2.4)</p>	<p>Agree</p> <p>Current practice: A fraud risk register is in place but does not address fraud related to the grants process.</p> <p>Action arising: The fraud risk register will be reviewed and grant related risk items identified and analysed through the Risk Management Committee.</p>	<p>31 October 2022</p>
10	<p>Develop mandatory training for staff and councillors that covers:</p> <ul style="list-style-type: none"> • declaring and managing conflicts of interest • fraud risks specific to grant programs • the council's relevant policies and procedures (see Section 2.4). 	<p>Partially Agree</p> <p>Current practice: There is a mandatory fraud and corruption control training program in place for Councillors and staff which is required to be undertaken every two years.</p> <p>Action arising: The fraud and corruption control training program will be reviewed in line with the recommendations in the audit report. It will be tailored for the various risks associated with teams within the Council.</p> <p>Fraud and corruption control training will be directed to Councillors and staff for completion.</p> <p>An improved process around monitoring training records for completion will be implemented, which will incorporate hard deadlines for completion and follow up of all training not completed.</p>	<p>30 September 2022</p> <p>31 October 2022</p> <p>31 October 2022</p>

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D/22/27800

2 May 2022

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 control over local government grants.

Thank you for your letter dated 14 April 2022 inviting submissions and comments in relation to the recommendation contained in the Proposed Performance Audit Report Fraud control over local government grants.

Council welcomes the findings and recommendations of the report on how we can improve the governance processes associated with the distribution of vital grants to our community.

Council is committed to providing open and transparent processes and will consider each of the recommendations when reviewing its Greater Grants Policy and associated guidelines and procedures.

No.	VAGO recommendation	Action	Completion date
1	Improve their conflict-of-interest processes by: <ul style="list-style-type: none"> requiring staff and councillors to declare conflicts of interest for each grant application they assess or approve documenting how the council manages declared conflicts of interest (see Section 2.1) 	<p>COUNCIL ACCEPTS RECOMMENDATION</p> <p>Staff are required to declare any conflicts of interest when they are assessing grants via the electronic portal – guidelines will be update to reflect this.</p> <p>Councillor Code of Conduct training will be expanded to ensure coverage relating to fraud, probity and conflict of interest during induction period and again provided mid-term.</p> <p>Documentation regarding action taken once a declaration is made will be reviewed and strengthened to ensure appropriate record keeping is adhered to.</p>	31 December 2022

No.	VAGO recommendation	Action	Completion date
2	Develop eligibility and assessment criteria for all their grant programs and: <ul style="list-style-type: none"> • assess and document each application against them • communicate assessment outcomes and reasons to unsuccessful applicants (see Section 2.2) 	<p>COUNCIL ACCEPTS RECOMMENDATION</p> <p>Council programs already have eligibility and assessment criteria, however this will be reviewed as part of the Policy and Guidelines Review.</p> <p>Strengthening of communication will be addressed in the review of the Policy & Guidelines.</p>	31 December 2022
3	Exclude councillors from assessing and making recommendations on grant applications (see Section 2.2)	<p>COUNCIL ACCEPTS RECOMMENDATION</p> <p>Councillors are currently excluded from assessing and making recommendations on grant applications, however the revised Policy and Guidelines will review case studies from the VAGO report to identify any possible gaps in transparency.</p>	31 December 2022
4	Verify that all grant recipients use grant funds for their intended purpose (see Section 2.3)	<p>COUNCIL ACCEPTS RECOMMENDATION</p> <p>Acquittal processes are already incorporated into the Greater Grants Process however when reviewing the Policy and Guidelines, ways to make this process more efficient will be examined.</p>	31 December 2022
5	Evaluate the benefits of: <ul style="list-style-type: none"> • recurring grants and require recipients to seek future funding through existing competitive grant programs • non-recurring grants (if appropriate) and consider their risks and value (see sections 2.2 and 2.3) 	<p>COUNCIL PARTIALLY ACCEPTS RECOMMENDATION</p> <p>Council distinguishes clearly between operational assistance subsidies and competitive grants supported by separate policies and funding allocations within its adopted budget.</p> <p>This delineation will be further defined in the amended guidelines.</p>	31 December 2022
6	Document all funding decisions in a consistent and structured way within a centralised system to ensure their decision-making is transparent, including by recording: <ul style="list-style-type: none"> • the names of individuals involved in assessing or approving grant applications • if applicants met the eligibility criteria • how assessors and approvers scored applicants against the assessment criteria • what assessors and approvers considered to determine funding amounts • reasons why any funding decisions do not align with assessments (see sections 2.2 and 2.3) 	<p>COUNCIL ACCEPTS RECOMMENDATION</p> <p>The existing grant funding software has the capacity to record this information.</p> <p>Amended guidelines will strengthen the requirement to ensure all fields are completed as well as any additional notations regarding changes made during or after key milestones in the approval process.</p>	31 December 2022

No.	VAGO recommendation	Action	Completion date
8	<p>Develop their own overarching grant policy that details:</p> <ul style="list-style-type: none"> when and why the council uses grants to achieve its strategy how the council will administer grant programs across their life cycle the risk-based approach the council uses to determine if it will evaluate each grant program staff and councillors' roles in managing grants relevant council policies and procedures, including policies and procedures for declaring conflicts of interest (see Section 2.4) 	<p>COUNCIL ACCEPTS RECOMMENDATION</p> <p>Council will revise its Policy and consider all recommendations from the VAGO audit for appropriateness for inclusion.</p>	31 December 2022
9	<p>Include grant-related fraud risks in their risk management and fraud and corruption plans and assign responsibility for managing these risks (see Section 2.4)</p>	<p>COUNCIL ACCEPTS RECOMMENDATION</p> <p>The Risk Register will be amended to incorporate the possibility of fraud and corruption as well as an assessment of residual risk.</p>	31 December 2022
10	<p>Develop mandatory training for staff and councillors that covers:</p> <ul style="list-style-type: none"> declaring and managing conflicts of interest fraud risks specific to grant programs the council's relevant policies and procedures (see Section 2.4). 	<p>COUNCIL ACCEPTS RECOMMENDATION</p> <p>Council is already considering a revised training program to include (amongst other things) fraud, probity and declaration of conflicts of interest for all Councillors, Executive Officers, Senior Leaders and key staff involved in "high risk" areas of council administration.</p>	31 December 2022

It is pleasing to note Council's positive performance in a number of areas and looks forward to strengthening its performance in this area. We would like to thank the Audit Team for their constructive and collaborative approach in undertaking this audit.

Yours sincerely



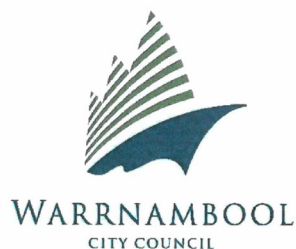
EVELYN ARNOLD
ACTING CHIEF EXECUTIVE OFFICER



BRUACH COLLITON
MAYOR

Date: 29th April 2022

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



Dear Mr. Greaves

RE: FRAUD CONTROL OVER LOCAL GOVERNMENT GRANTS

Thank you for the opportunity provided to Warrnambool City Council to participate in the VAGO fraud control over Local Government grants review. The Council is satisfied with the outcomes from the report and does not wish to add anything further.

It is pleasing to note that Council began implementing some of the findings prior to the audit commencing, particularly around reviewing the value to the community of some of its long standing grant allocations.

We would like to thank the efforts of the VAGO team for their approach with Council that allowed for cooperative and constructive discussion.

Should you require any further information or wish to discuss this please do not hesitate to contact me.

Yours faithfully

A handwritten signature in blue ink, appearing to read "Peter Schneider".

Peter Schneider
Chief Executive Officer

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Warrnambool Victoria Australia
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Warrnambool City Council action plan to address recommendations from *Fraud control over local government grants*

No.	VAGO recommendation	Action	Completion date
1	<p>Improve their conflict-of-interest processes by:</p> <ul style="list-style-type: none"> requiring staff and councillors to declare conflicts of interest for each grant application they assess or approve documenting how the council manages declared conflicts of interest (see Section 2.1) 	<p>Agree. Warrnambool City Council has overarching conflicts of interest processes in its code of conduct for staff and Councillors. Council will develop specific processes relating to grants which will be documented through the development of a grants policy and procedure.</p>	September 2022
2	<p>Develop eligibility and assessment criteria for all their grant programs and:</p> <ul style="list-style-type: none"> assess and document each application against them communicate assessment outcomes and reasons to unsuccessful applicants (see Section 2.2) 	<p>Agree. Warrnambool City Council currently has eligibility and assessment criteria for all grant programs. This requirement will be formalised through the development of a grants policy and procedure.</p>	September 2022
3	<p>Exclude councillors from assessing and making recommendations on grant applications (see Section 2.2)</p>	<p>Agree. Warrnambool City Council does not have Councillors assessing grant applications. This business rule will be formalised through the development of a grants policy and procedure.</p>	September 2022

Response provided by the Chief Executive Officer, Warrnambool—*continued*

4	Verify that all grant recipients use grant funds for their intended purpose (see Section 2.3)	<p>Agree.</p> <p>Warrnambool City Council will develop a framework to actively monitor large grants (greater than \$50k) to ensure the funds are being used for their intended purpose. Grants below this threshold will be verified through an acquittal process.</p> <p>This business rule will be formalised through the development of a grants policy and procedure.</p>	September 2022
5	<p>Evaluate the benefits of:</p> <ul style="list-style-type: none"> • recurring grants and require recipients to seek future funding through existing competitive grant programs • non-recurring grants (if appropriate) and consider their risks and value (see sections 2.2 and 2.3) 	<p>Agree.</p> <p>Warrnambool City Council has stopped a number of non-competitive grants and is continuing to review the remaining recurring grants. The review will include looking at value to the community provided through the grant and following this, a decision will be made to either move the grant to a competitive stream or enter into a multi-year funding agreement with requirements around monitoring and reporting outcomes along with an acquittal process.</p>	March 2023

Response provided by the Chief Executive Officer, Warrnambool—*continued*

6	<p>Document all funding decisions in a consistent and structured way within a centralised system to ensure their decision-making is transparent, including by recording:</p> <ul style="list-style-type: none"> • the names of individuals involved in assessing or approving grant applications • if applicants met the eligibility criteria • how assessors and approvers scored applicants against the assessment criteria • what assessors and approvers considered to determine funding amounts • reasons why any funding decisions do not align with assessments (see sections 2.2 and 2.3) 	<p>Agree. Warrnambool City Council will develop an overarching grant policy to detail the process of documenting all funding decisions in a consistent and structured way. It will investigate a common system to ensure decision-making is transparent.</p>	September 2022
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Response provided by the Chief Executive Officer, Warrnambool—*continued*

8	<p>Develop their own overarching grant policy that details:</p> <ul style="list-style-type: none"> • when and why the council uses grants to achieve its strategy • how the council will administer grant programs across their life cycle • the risk-based approach the council uses to determine if it will evaluate each grant program • staff and councillors' roles in managing grants • relevant council policies and procedures, including policies and procedures for declaring conflicts of interest (see Section 2.4) 	<p>Agree. Warrnambool City Council will develop an overarching grant policy that details:</p> <ul style="list-style-type: none"> • when and why the council uses grants to achieve its strategy • how the council will administer grant programs across their life cycle • the risk-based approach the council uses to determine if it will evaluate each grant program • staff and councillors' roles in managing grants 	September 2022
9	<p>Include grant-related fraud risks in their risk management and fraud and corruption plans and assign responsibility for managing these risks (see Section 2.4)</p>	<p>Agree. Grant related fraud risks will be added to Councils risk register and monitored on an ongoing basis.</p>	September 2022
10	<p>Develop mandatory training for staff and councillors that covers:</p> <ul style="list-style-type: none"> • declaring and managing conflicts of interest • fraud risks specific to grant programs • the council's relevant policies and procedures (see Section 2.4). 	<p>Agree. Following the development of the grant policy and procedure, training will be provided to staff and councillors.</p>	December 2022



WEST WIMMERA SHIRE COUNCIL

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

Dear Mr Greaves,

RE: Performance Audit – Fraud Control Over Local Government Grants

Thank you for the opportunity provided to West Wimmera Shire Council to participate in the VAGO Performance Audit of Fraud Control Over Local Government Grants. West Wimmera Shire Council acknowledges and supports the review's conclusions.

West Wimmera Shire Council acknowledges the important role local governments play in supporting their local communities, particularly in small rural municipalities such as ours. We welcome the recommendations in the report as an opportunity to improve councils' processes around providing this support to the community.

I wish to thank the VAGO team for their professional and cooperative conduct over the course of this review, and we welcome your continued feedback as we work toward implementation of the recommendations.

Council aims to address the recommendations of the report via the attached Action Plan. Please do not hesitate to contact Melanie Jordan, Chief Financial Officer, on 13 99 72 if you wish to further discuss this submission.

Yours sincerely



David Bezuidenhout
CHIEF EXECUTIVE OFFICER

All correspondence to: WEST WIMMERA SHIRE COUNCIL: PO Box 201, Edenhope VIC 3318
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Edenhope: 49 Elizabeth Street, Edenhope VIC 3318 - Tel: 13 99 72 - Fax: 03 5585 9950
Kaniva: 25 Baker Street, Kaniva VIC 3419 - Tel: 13 99 72 - Fax: 03 5392 7750



West Wimmera Shire Council action plan to address recommendations from *Fraud control over local government grants*

No.	VAGO recommendation	Action	Completion date
1	<p>Improve their conflict-of-interest processes by:</p> <ul style="list-style-type: none"> requiring staff and councillors to declare conflicts of interest for each grant application they assess or approve documenting how the council manages declared conflicts of interest (see Section 2.1) 	<p>Agree.</p> <p>Question to be added to assessment criteria sheet for all grant programs: ‘Do you have a conflict of interest with this application?’</p> <p>Update policy to include that anyone with conflict of interest will be removed from scoring of that application. Programs will be managed through a centralised grant management system.</p>	31 December 2022
2	<p>Develop eligibility and assessment criteria for all their grant programs and:</p> <ul style="list-style-type: none"> assess and document each application against them communicate assessment outcomes and reasons to unsuccessful applicants (see Section 2.2) 	<p>Partially agree.</p> <p>Review of Business Assistance Program - assessment criteria to be introduced.</p> <p>Review of Streetscape Scheme – improvements to be made to assessment criteria.</p> <p>Council does currently communicate assessment outcomes and reasons to unsuccessful applicants as noted in the report.</p>	31 December 2022





3	Exclude councillors from assessing and making recommendations on grant applications (see Section 2.2)	Agree. Assessment for each grant program will be conducted by officers and recommendation will be presented to Councillors	31 December 2022
4	Verify that all grant recipients use grant funds for their intended purpose (see Section 2.3)	Agree. Ensure there is an acquittal process and payment milestones requiring substantiation, for all grant programs, sponsorships, donations and other community support.	30 June 2023
5	Evaluate the benefits of: <ul style="list-style-type: none"> • recurring grants and require recipients to seek future funding through existing competitive grant programs • non-recurring grants (if appropriate) and consider their risks and value (see Sections 2.2 and 2.3) 	Partially agree. Review of all community funding and assess suitability to be eligible for Council's grant programs, or other funding programs and controls required.	30 June 2023





6	<p>document all funding decisions in a consistent and structured way within a centralised system to ensure their decision-making is transparent, including by recording:</p> <ul style="list-style-type: none"> • the names of individuals involved in assessing or approving grant applications • if applicants met the eligibility criteria • how assessors and approvers scored applicants against the assessment criteria • what assessors and approvers considered to determine funding amounts • reasons why any funding decisions do not align with assessments (see Sections 2.2 and 2.3) 	<p>Agree. Implement a centralised system to administer Council's grant programs to increase transparency.</p> <p>Ensure that all funding decisions are consistent with Council goals as outlined in the Council Plan and documented as such.</p>	31 December 2022
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8	<p>Develop their own overarching grant policy that details:</p> <ul style="list-style-type: none"> • when and why the council uses grants to achieve its strategy • how the council will administer grant programs across their life cycle • the risk-based approach the council uses to determine if it will evaluate each grant program • staff and councillors' roles in managing grants • relevant council policies and procedures, including policies and procedures for declaring conflicts of interest (see Section 2.4) 	<p>Agree.</p> <p>Council will develop an overarching grant policy to provide a framework for managing council's grant programs and other community financial assistance.</p>	31 December 2022
9	<p>Include grant-related fraud risks in their risk management and fraud and corruption plans and assign responsibility for managing these risks (see Section 2.4)</p>	<p>Agree.</p> <p>Council will include grant-related fraud risks into the risk register and fraud and corruption control plan, along with the assignment of responsibility.</p>	31 December 2022





10	develop mandatory training for staff and councillors that covers: <ul style="list-style-type: none"> • declaring and managing conflicts of interest • fraud risks specific to grant programs • the council's relevant policies and procedures (see Section 2.4) 	Agree. Council will build these requirements into its existing mandatory training program for staff and councillors.	30 June 2023
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APPENDIX B

Acronyms, abbreviations and glossary

Acronyms

CoM	committee of management
VAGO	Victorian Auditor-General's Office

Abbreviations

COVID-19	coronavirus
Hume	Hume City Council
Knox	Knox City Council
Loddon	Loddon Shire Council
Southern Grampians	Southern Grampians Shire Council
Warrnambool	Warrnambool City Council
West Wimmera	West Wimmera Shire Council

Glossary

Reasonable assurance	We achieve reasonable assurance by obtaining and verifying direct evidence from a variety of internal and external sources about an agency's performance. This enables us to express an opinion or draw a conclusion against an audit objective with a high level of assurance. We call these audit engagements. See our assurance services fact sheet for more information.
Limited assurance	We obtain less assurance when we rely primarily on an agency's representations and other evidence generated by that agency. However, we aim to have enough confidence in our conclusion for it to be meaningful. We call these types of engagements assurance reviews and typically express our opinions in negative terms. For example, that nothing has come to our attention to indicate there is a problem. See our assurance services fact sheet for more information.

APPENDIX C

Scope of this audit

Objective

To determine whether fraud controls over local government grants are well-designed and operating as intended.

Who we examined

A selection of 6 Victorian councils:

- Hume
- Knox
- Loddon
- Southern Grampians
- Warrnambool
- West Wimmera.

Their key responsibilities

Councils can distribute public funding to individuals, community groups and businesses through grant programs. The law requires, and communities expect, councils to deliver grant programs with integrity and accountability.

What we examined

We looked at a selection of their grant programs from the last 5 years to see if their fraud controls are well-designed and consistently applied.

How we assessed performance

To form our conclusion against our objective, we used the following lines of inquiry and associated evaluation criteria:

Line of inquiry	Criteria
Councils' fraud and corruption controls over local government grants are well-designed.	<p>Councils:</p> <ol style="list-style-type: none">1. have clearly documented grant management frameworks/processes that cover the life cycle of grants and have clear accountabilities2. provide staff who administer grant programs with appropriate training/guidance to be aware of and address fraud and corruption risks, including conflicts of interest3. have clear and equitable eligibility criteria for their grant programs that logically relate to the purpose of the grant and are equitably communicated to potential recipients4. have grant assessment and approval processes that are transparent, equitable, consistent and clearly communicated to potential recipients5. review and evaluate grant programs to assess their outcomes and if they are equitable.
Councils' grant programs are free from fraud and corruption.	<ol style="list-style-type: none">1. Administration of the grant program/s was free from conflicts of interest.2. No council officer/councillor received a dishonest benefit associated with the grant program/s.3. Grant recipients used grant money in compliance with grant requirements.

Our methods

As part of the audit we:

- reviewed records from a selection of grant programs across 6 audited councils
- examined councils' policies and training programs
- interviewed grant officers at each council.

We randomly selected 6 councils to achieve a spread of council types and sizes.

The selection of grant programs we looked at is listed in Figure C1. This included reviewing how councils assessed and acquitted 130 applications. We chose the largest-value grant programs and programs that had fraud risk factors, such as having no limit on the amount of funding per applicant.

FIGURE C1: List of grant programs we reviewed

Council	Program	2020–21 spending
Hume	Conserving our rural environment	\$424,480
	Small to medium business quick response	\$985,741
	Event sponsorship	\$20,000
Knox	Community development fund	\$436,066
	Community partnership funding grants	\$2,920,050 ¹
Loddon	Halls and recreation reserves	\$120,898
	Community grants	\$179,931
	Community planning	\$161,559
Southern Grampians	Greater grants program	\$154,640
Warrnambool	Community development fund	\$255,428
	Individual or group assistance fund	\$400
West Wimmera	Community strengthening grants	\$34,175
	Business assistance scheme	\$3,675
	Streetscape scheme ²	\$0
	Council contributions and donations ³	\$51,559

Notes: ¹Funding provided over 4 years (2018 to 2022). ²West Wimmera did not receive any applications for this grant program in 2020–21. ³West Wimmera recognises these programs as sponsorships or donations that are separate from its 3 formal grant programs.

Source: VAGO, based on data provided by councils.

We also performed data analysis on grant records to identify any matches between council staff and councillor names with grant applicants. This was to identify any potential conflicts of interest that councils did not manage and inform our further inquiries. We did not, and the analysis did not intend to, find any instances of fraud.

We conducted our audit in accordance with the *Audit Act 1994* and ASAE 3500 *Performance Engagements* to obtain reasonable assurance to provide a basis for our conclusion.

We complied with the independence and other relevant ethical requirements related to assurance engagements. We also provided a copy of the report to the Department of Premier and Cabinet.

Unless otherwise indicated, any individuals referred to in this report by name or position are not the subject of adverse comment or opinion.

Cost and time

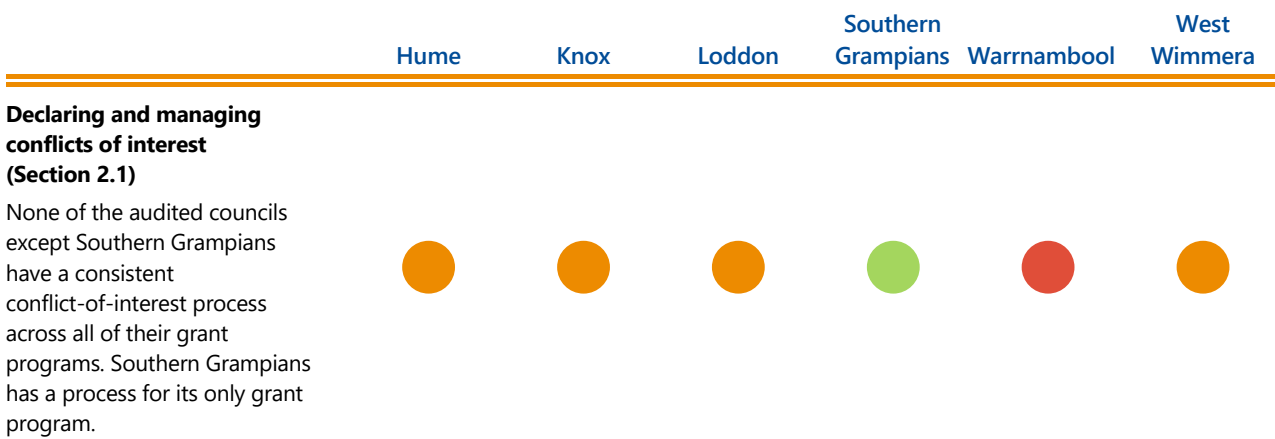
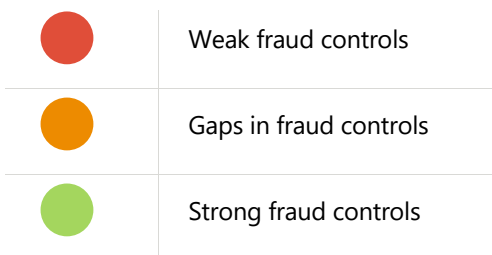
The full cost of the audit and preparation of this report was \$725,000. The duration of the audit was 11 months from initiation to tabling.

APPENDIX D













Performance ratings of audited councils

We found that the audited councils lack focus on preventing fraud and corruption in their grant programs. As a result, many of their control areas are weak or inconsistent. Figure D1 compares how well the audited councils have implemented fraud controls.

FIGURE D1: **Summary of audited councils' performance in implementing fraud controls**



	Hume	Knox	Loddon	Southern Grampians	Warrnambool	West Wimmera
<p>Documenting practice through policies (Section 2.4)</p> <p>Only West Wimmera has an overarching grant policy. Hume, Knox and Loddon have developed draft policies. In addition, councils' policies for individual grant programs do not address fraud risks, such as conflicts of interest.</p>						
<p>Training staff and councillors (Section 2.4)</p> <p>None of the audited councils have ensured that staff and councillors who administer grants have completed fraud training. Councils can also improve the content of their training by including fraud risks that are specific to grant programs.</p>						
<p>Applying fair and reasonable eligibility criteria (Section 2.2)</p> <p>Loddon and West Wimmera both have grant programs without eligibility criteria.</p>						
<p>Assessing and approving applications (Section 2.2)</p> <p>None of the councils consistently follow all elements of better practice by:</p> <ul style="list-style-type: none"> • asking assessors to declare conflicts of interest • using more than one assessor • documenting decisions • following the assessment panel's decisions. 						

	Hume	Knox	Loddon	Southern Grampians	Warrnambool	West Wimmera
Monitoring and acquitting spending (Section 2.3)						
Four audited councils do not have an acquittal process for some of their grant programs. Where there are acquittal processes, councils do not always apply them consistently.						
Evaluating outcomes (Section 2.2)						
None of the audited councils have an evaluation framework to measure if their grant programs are achieving their intended outcomes.						

Source: VAGO.

Auditor-General's reports tabled during 2021–22

Report title

Report title	Month
<i>Integrated Transport Planning (2021–22: 01)</i>	August 2021
<i>Major Infrastructure Program Delivery Capability (2021–22: 02)</i>	September 2021
<i>Clinical Governance: Department of Health (2021–22: 03)</i>	September 2021
<i>Managing Conflicts of Interest in Procurement (2021–22: 04)</i>	September 2021
<i>Major Projects Performance (2021–22: 05)</i>	September 2021
<i>Administration of Victorian Courts (2021–22: 06)</i>	October 2021
<i>Protecting Victoria's Biodiversity (2021–22: 07)</i>	October 2021
<i>Management of Spending in Response to COVID-19 (2021–22: 08)</i>	October 2021
<i>Supplying and Using Recycled Water (2021–22: 09)</i>	November 2021
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2020–21 (2021–22: 10)</i>	November 2021
<i>Results of 2020-21 Audits: Local Government (2021–22: 11)</i>	December 2021
<i>Council Waste Management Services (2021–22: 12)</i>	December 2021
<i>Business Continuity During COVID-19 (2021–22: 13)</i>	February 2022
<i>Effectiveness of the Navigator Program (2021–22: 14)</i>	March 2022
<i>Government Advertising (2021–22: 15)</i>	April 2022
<i>ICT Provisioning in Schools (2021–22: 16)</i>	April 2022
<i>Offsetting Native Vegetation Loss on Private Land (2021–22: 17)</i>	May 2022
<i>Fraud Control Over Local Government Grants (2021–22: 18)</i>	May 2022

All reports are available for download in PDF and HTML format on our website www.audit.vic.gov.au

Auditor-General's responsibilities

Our fact sheets provide you with more information about our role and our audit services:

- [About VAGO](#)
Information about the Auditor-General and VAGO's work
- [Our assurance services](#)
Information about the nature and levels of assurance that we provide to Parliament and public sector agencies through our work program

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