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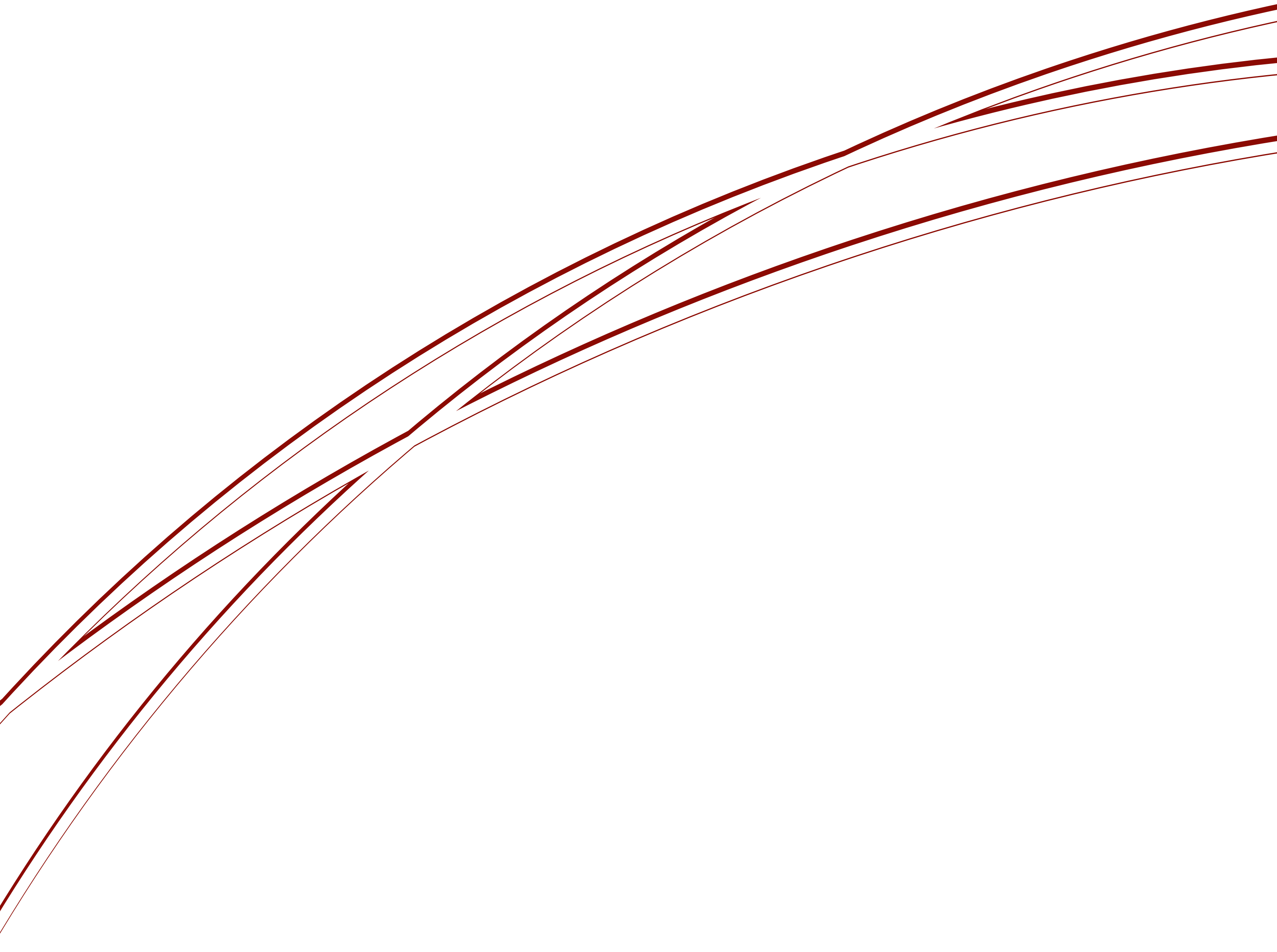
INDEPENDENT COMMISSION
AGAINST CORRUPTION
NEW SOUTH WALES

CHANGE MANAGEMENT

KEEPING IT TOGETHER: SYSTEMS AND STRUCTURES IN ORGANISATIONAL CHANGE

MARCH 2017



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Overview

Significant organisational change is common in the public sector. If not managed well, organisational change can provide opportunities for corruption. These opportunities can arise from poorly designed, conflicting or inadequate processes or from a failure to recognise shifts in incentives during the change period. While the NSW Government has issued guidelines on change management to public sector managers, it is also important to understand the associated corruption risks so that they can be addressed.

The aim of this report is to alert public sector managers to the corruption pitfalls during and following organisational change and provide advice on minimising the corruption risks. It explores why and how large-scale organisational change initiatives create opportunities for corruption, with a specific focus on mergers and restructures and the operational factors that agencies should consider when undergoing large-scale change. The report presents case studies from relevant investigations conducted by the NSW Independent Commission Against Corruption.

Chapter 1 sets out the challenges of maintaining an effective control system in a climate of constant change.

Organisations that have developed a standing change management capability are better placed to manage these challenges. Chapter 2 provides advice on how to build this change capability, such as:

- putting in place a clear management structure and selecting appropriate senior executives to lead the change
- appropriately allocating and linking accountabilities and key performance indicators (KPIs) to the performance management system
- separating change management from change governance
- ensuring that the risk assessment and change management functions are not performed by the same person
- integrating risk management with the progress of the change
- designing the risk function so that it assists the person or people responsible for managing the change and also reports to the governance group.

Chapter 3 discusses three elements that are vital in planning for change:

- performing due diligence early on in the change process
- developing a business case and continuously referring to it throughout the change process
- developing and using a roadmap to guide and assess the progress of change.

This chapter also describes how the risks associated with the frequency, pace and scale of change can be diminished by:

- slowing the high-risk elements of change
- increasing the number of, and reducing the distance between, milestones
- using pilot programs to test the change model before increasing in scale.

Chapter 4 provides guidance on how to reduce opportunities for misconduct, including:

- identifying emerging risks
- analysing control gaps
- tightening controls in high-risk areas during the change
- creating a deterrence to misconduct by heightening the perceived risk of detection.

Chapter 5 discusses how the implementation of the change process can be reviewed by:

- ensuring effective and continuous measurement of critical factors
- building-in triggers for the escalation of risk in alignment with a business case.

Introduction

Public sector agencies organise and reorganise regularly. There is constant pressure for the public sector to create synergies, and be efficient and agile in order to deliver new and innovative solutions.

Almost all organisational change has the effect of modifying the control systems of the organisation. These systems include business processes, reporting lines, accountabilities, informal relationships and organisational structures.

In a 2012 report, the NSW Commission of Audit highlighted how constant change can degrade basic controls. In examining the early stages of cluster formation, the Commission of Audit noted:

> *Many clusters are not able to gain a single view of their organisation, cannot produce a set of monthly accounts or performance reports, or even email all staff on a common system.*[1]

A number of the public inquiries by the NSW Independent Commission Against Corruption ("the Commission") explored in this report have exposed corruption that was caused by a control environment weakened through the change process.

One of the principal functions of the Commission is to examine work methods or procedures that may be conducive to corrupt conduct, and to:

> *...advise public authorities or public officials of changes in practices or procedures compatible with the effective exercise of their functions which the Commission thinks necessary to reduce the likelihood of the occurrence of corrupt conduct.*[2]

In this report, the Commission considers the actions that public authorities or public officials can take to minimise the opportunities for misconduct when preparing for and undergoing organisational change.

As part of its research, the Commission examined the successful change management practices of a number of organisations to better understand change control. In particular, the Commission focused on large and bureaucratic organisations in NSW that had undertaken transformational changes. The Commission researched financial services bureaucracies since those organisations place a high regard on probity and security, understand risk well and have undergone a significant number of mergers and acquisitions over the past 10 years.

The Commission also undertook a desktop review of change management literature, examined the practices of several NSW government agencies, and conducted interviews with change management consultants and academics with expertise in the field of change.

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[1] NSW Commission of Audit, *Interim Report, Public Sector Management*, January 2012, p. 12.

[2] Section 13(1)(f) of the *Independent Commission Against Corruption Act 1988*.

Chapter 1: Constant disruption

The frequency, scale and pace of change across the public sector can overwhelm the capacity of an organisation to manage change. Every change modifies the internal organisational arrangements; policies and procedures may be altered, duplicated or become inconsistent, often creating confusion around risk-heavy activities such as procurement. In addition, complex asset arrangements, including facilities maintenance contracts, may be picked apart in one cluster, and assets may be dispersed across the asset registers of other government units.

Information and communications technology (ICT) systems and security may be changed, along with associated support and control systems, and ongoing contracts may be overlooked by management. The oversight of small units may become lost in the bigger series of changes, creating uncontrolled risks for expenditure.

Case study 1: The frequency of change in the public sector

From 2009 to 2015, the NSW Department of Industry changed its name three times (divisions within the department were also renamed) and made changes to its administrative arrangements.

The department was formed in 2009 as the Department of Industry and Investment (DII) after a decision was taken to create administrative arrangements across government that grouped agencies into broad policy areas, such as justice, transport and health. This marked a shift from agencies operating as independent or siloed organisations. DII combined the Department of Primary Industries, Department of State and Regional Development, Department of Water and Energy (energy component), Screen NSW, NSW Food Authority, NSW Rural Assistance Authority, Mine Subsidence Board, Coal Compensation Board and Game Council NSW.[3] It took two years (until 2011) to integrate payroll and ICT systems in this cluster.[4]

After the 2011 NSW state election, DII became the Department of Trade and Investment, Regional Infrastructure and Services (DTI). Additional elements included parts of Communities NSW (Office of Liquor, Gaming and Racing and Arts NSW), the NSW Department of Planning (Crown Lands and Soil Conservation Services) and the NSW Department of Environment, Climate Change and Water (Office of Water, Marine Parks Authority and Catchment Management).[5] Divisions and associated agencies were amalgamated, abolished or moved out of the cluster.

Within the cluster, further changes were made to divisions and agencies. For example, the Industry, Innovation and Investment Division experienced several administrative changes as it was transformed to Industry, Innovation, Hospitality and the Arts, followed by Business NSW/Arts NSW.[6]

Individual agencies within DTI experienced frequent change as they transferred from one division to another in rapid succession. In the 2011 financial year, Crown Lands was transferred to the new Catchment and Lands Division.[7] Then, during the 2013 financial year, Crown Lands was managed by the Land and Natural Resources branch.[8]

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[3] Department of Industry and Investment, *Annual report*, 2009–10.

[4] Op cit, *Interim Report, Public Sector Management*.

[5] Department of Trade and Investment, Regional Infrastructure and Services, *Annual Report*, 2010–11.

[6] NSW Trade and Investment, *Annual Report*, 2014–15.

[7] NSW Trade and Investment, *Annual Report*, 2011–12.

[8] NSW Trade and Investment, *Annual Report*, 2013–14.

Following the NSW state election in 2015, there was a further name change and further administrative changes to what is now the Department of Industry. The new department was reorganised into Industry, Development, Primary Industries and Resources and Energy divisions and Arts NSW and the Office of Liquor, Gaming and Racing were transferred to the Justice cluster. Later, the Mine Subsidence Board was transferred to the Department of Finance, Services and Innovation, and TAFE NSW was transferred from the Department of Education cluster to a skills area within the department.

Change as a corruption enabler

If the control environment is not able to be kept intact during change, then the gaps that appear may put the integrity of the agency at risk. The risks that emerge when systems of control are weakened by organisational change are illustrated in case study 2.

Case study 2: Vulnerable systems as a result of a speedy merger

NSW state rail, like much of the public sector, has undergone almost continual change. In 1988, the State Rail Authority (SRA) was restructured internally. In 1996, it was broken up into four distinct units, with the SRA being one of the four. In 1998, the SRA was again restructured internally. In 2001, two of the four units created in 1996 were re-combined to create the Rail Infrastructure Corporation (RIC). In 2004, the SRA and RIC were merged to create RailCorp. In 2013, RailCorp was again broken up with the creation of Sydney Trains and NSW Trains.

Operation Monto was the seventh major Commission investigation into rail agencies since 1992, and focused on the period of the merger of RIC with the SRA in 2004. The SRA and RIC were given only nine months notice, with the merger to take effect from 1 January 2004. At the Commission's public inquiry, the chief executive officer of RailCorp gave evidence that, when RIC and the SRA were brought together:

> *…it became quite clear that across a range of business systems, including finance, procurement, human resources systems, that there were quite disparate systems and systems that were at various levels of effectiveness.*[9]

This had the effect of significantly weakening some of the basic control systems for the agency. Opportunities for corruption were created because management and general staff had unclear roles and responsibilities before position descriptions were finalised and formalised. In addition, the systems of the merged organisation were poorly integrated. Following this merger, lines of authority were also unclear and employees were confused about which policies or procedures they should follow. RailCorp's internal audit unit found that the merger had a specific and detrimental impact on procurement, noting, "there has been a lack of strategic focus on procurement activities due to the ongoing restructure and various competing management priorities".[10]

The Commission investigated allegations of fraud, bribery, improper allocation of contracts, unauthorised secondary employment, the failure to declare conflicts of interest, the falsification of timesheets, and a cover-up of a safety breach. The Commission found that:

> *The persons who were subjects of corrupt conduct findings appeared to grasp every opportunity available to them to exploit their employment within RailCorp to corruptly maximise the financial benefits they could derive from their work.*[11]

The Commission's inquiry identified about $20 million in corrupt benefits and found corruption was systemic. A total of 96 corrupt conduct findings were made against 31 people. Recommendations in the corruption prevention report focused on improving the oversight, management practices and structure, and procedures at RailCorp.[12]

Keeping control: systems versus people

One of the challenges of organisational change is managing it so that the control environment is maintained. Unsurprisingly, most of the management effort in change processes is focused on human factors. It is, after all, well known that issues affecting people can undermine the success of a change process. Here, the focus is often on problems created by declining morale, of having to let staff go, and the emerging politicking and jockeying for positions. But there are also issues such as a values clash, resistance, survivor syndrome, fear and uncertainty, sabotage and change-fatigue.

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[9] NSW Independent Commission Against Corruption (ICAC), *Investigation into bribery and fraud at RailCorp: Eighth Report*, December 2008, p. 23.

[10] Ibid.

[11] Ibid, p. 11.

[12] The ICAC website at www.icac.nsw.gov.au shows how RailCorp implemented the recommendations stemming from this investigation.

Entire systems of change management have been developed that are heavily weighted towards people issues. Lewin's 1947 three-stage model begins with unfreezing the organisation by challenging beliefs and values.[13] Similarly, Kotter's 1996 eight-step model begins with creating a sense of urgency, followed by steps such as communicating a vision and empowering employees.[14] Prosci's 1998 model of change, commonly referred to by the acronym ADKAR, focuses on awareness, desire, knowledge, ability and reinforcement.[15] Even Kubler-Ross's five-stage model of grieving has been used to predict the way people within organisations will respond at different parts of what the model calls "the change curve".[16] Case study 3 provides an example of a public sector agency that focused heavily on the people-aspect of change.

Case study 3: When culture clash takes priority over systems clash

In 2009, the Public Trustee (PT) NSW and the Office of the Protective Commissioner (OPC) merged to form the NSW Trustee and Guardian (T&G).[17] PT was a financially viable business that provided financial services to a pay-for-service client base. The mindset was that of a private sector company. In contrast, OPC had a human-service outlook and managed the financial affairs of disadvantaged people, such as those suffering from physical and mental illnesses. Social work was, in effect, a part of its business function.

PT was established in 1914 to write the wills of soldiers going to fight in the First World War. It operated with a decentralised structure using traditional systems and practices and had not experienced any significant change in a century. By contrast, OPC was formed in 1983 from an older organisation known as the Master in Lunacy. It had a centralised organisational structure using an electronic system. Over time, OPC had experienced many changes and staff members were change-weary.

There was some resentment from PT staff about the merger and a perception that the merger was due to OPC not being financially viable. It involved working with a different client base and PT staff were worried that this would impact on their current client base and business. In addition, there were fears about job losses. OPC staff were concerned that their clients would not have the same level of service.

With different specialisations and ranks, an attempt to break down silos within T&G met with staff resistance to change. A "green room" was set up to facilitate and resolve staff differences. Unsurprisingly, given the inevitable clash of cultures, T&G initially focused on managing the people-aspect of change. T&G provided training for staff and support to clients. Communication was paramount with forums and extensive email communication ensuring information flowed freely.

At the same time, however, the changes were affecting the control environment. In the 2010 report to the NSW Parliament, the Auditor-General noted that key performance indicators were not set before or after the merger, and the key activities of the merger were not quantified.[18]

The 2013 Auditor-General's report identified internal control deficiencies in T&G. These included several instances of fraud, and some clients that were over-serviced or had experienced under-delivery of services or theft of their funds.[19] In this report, the Auditor-General referred to the progress that T&G had made concerning recommendations made by the Ombudsman in his 2011 report in relation to staff supervision and support, quality of service (delays in interactions with clients), management of financial assets, and documentation of management processes.

In response, T&G altered the balance of its change management approach. While the people factor remained important, T&G recognised the importance of also focusing on the systems aspect of change and developing a standing change management capability (see chapter 2).

The standing change management capability requires that, for any future change, T&G establishes a separate risk register for the change process, where all process changes can be identified and delegation changes monitored. Controls are to be reviewed for both the existing system and during the change process, and a dedicated person assigned to monitor controls. Staff are to be provided with information about risks and controls, and data analytics utilised.

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[13] K Lewin, "Frontiers in group dynamics: concept, method and reality in social science; social equilibria and social change," *Human Relations*, vol. 1, 1947.

[14] JP Kotter, *Leading change*, 1996.

[15] For example, see Prosci, *The perfect change*, 1998.

[16] E Kubler-Ross, *On death and dying*, 1973.

[17] The NSW T&G supports the public guardian, which is a statutory officer under the *Guardianship Act 1987*. The role operates independently but reports administratively to the chief executive officer of the NSW T&G.

[18] NSW Auditor-General's *Report to Parliament*, vol. 8, 2010, NSW Trustee and Guardian.

[19] NSW Auditor-General's *Report to Parliament*, vol. 6, 2013, NSW Trustee and Guardian.

Chapter 2: Developing a standing change management capability

Many of the organisations in the Commission's research sample have developed what could be considered a standing change management capability. A standing change management capability means that an organisation has considered issues such as:

- which leaders are assigned which roles
- how accountabilities will work and cascade through the organisation
- how the governance arrangements will work
- how risks will be assessed and controlled
- what information systems will be required
- how quickly control problems will be addressed.

Organisations that have a standing change management capability are well-placed to manage the challenges that transformational change poses for the control environment. They are able to:

- quickly undertake the planning for change and establish milestones
- build risk controls into the change plans and examine changes to processes, accountabilities, delegations, monitoring and approvals based on materiality of the risk
- manage the size and pace of the change by using pilot programs, segmenting the change and slowing change in high-risk areas
- initiate reviews of plans and risk controls by comparing progress and issues against the original business plan, roadmap and milestones.

Many organisations that establish a permanent change management capability recognise its importance. While this capability often includes maintaining a professional change management staff member, it is better understood as a well-developed roadmap of how to respond to fast, large and unpredictable change demands that ensures an ability to roll out systems, leadership and processes as needed.

Organisations that have an established change management capability know what has to happen to control risk during change. If faced with short notice of significant change, this capability can be brought into action in time to keep control of the change. This involves allocating accountabilities, integrating risk into the change management process, and understanding that information systems and data analytics must be ready to be put into play. In this way, organisations are able to move much more quickly in response to major change demands while having assurance around the integrity of the control environment.

Across those organisations with which the Commission spoke, there are common elements of a standing change management capability. These include the ability to bring together the necessary executive groups and operational groups, establishing reporting and oversight arrangements, coordinating mechanisms, measures and ICT systems, and adjusting KPIs throughout the organisation. The risk and audit function is linked to senior managers and change managers, and there is a well-understood approach to clearly communicating the change process.

Establishing clear structures and leadership

An organisation may view change management like a business in and of itself, where there are clear structural arrangements, coordination of the elements of the structure and effective leadership. For example, a financial services organisation ("company A") told the Commission that it knows beforehand how the project team will be structured to control the implementation of change. When faced with imminent change, company A establishes a project team structure to implement the change. To ensure the change receives the necessary attention and controls, company A insists that an executive staff member heads the project team. The role of change project management is considered of such significance that company A will search across all of its operations (both local and international) to find the right person to lead the project team, rather than change leadership defaulting to human resources personnel or an established change management position.

In company A, the executive member appointed to lead the change is formally accountable for the delivery of the project. The managers of the work streams within the project have their own accountabilities; change accountabilities and KPIs then cascade through the organisation.

Organisations among the Commission's research sample recognised the need for a clear allocation of change accountabilities and the need to modify both the change deliverables and the performance appraisal system to reflect the demands of the change. In the case of T&G (see case study 3), although the KPIs of staff performance remained unaltered during the change, the accountabilities were reassigned to match the demands of the change.

A lack of clarity of roles, accountabilities and measures that flow from structuring the change into specialist sub-projects can lead to isolated silos developing within the overall change program. The change efforts become uncoordinated and confused, and, as a result, the control environment is weakened. Some managers with whom the Commission spoke saw the problem of isolated silos developing as particularly prevalent in government change programs.

To counter the isolation issue, another financial services organisation ("company B") told the Commission that it links together the various committees involved in change to ensure that they understand each other's efforts. A team of managers with change accountabilities is formed to improve coordination and control. Similarly, a local council told the Commission that it deals with the challenge of coordination by way of a "change council", where different parts of the organisation can come together to learn from each other and share practical experiences.

A standing change management capability should include:

- putting in place a clear management structure and selecting appropriate senior executives to lead the change
- allocating and linking accountabilities and KPIs to the performance management system.

Risk management and governance

In the Commission's view, a standing change management capability should include an understanding of the structural arrangements that manage risk and governance. A number of organisations have developed methods to integrate risk management while ensuring the independence of change governance to meet vulnerabilities created by change.

Company A told the Commission that it embeds a risk manager into the change team to ensure that there is close and ongoing knowledge of issues. Despite this, the risk manager and change manager report independently to the executive management team that oversees the change. In this way, the organisation achieves full and continuous management of risk in cooperation with the executive team managing the change, yet with independent reporting to this group.

In a variation of this approach, company B told the Commission that it addresses change governance by integrating change management into the existing systems that make up its three lines of defence: change manager, internal audit and external audit. The roles of the chief operating officer or change managers are explicitly linked to the roles of the probity and audit officers throughout the process of change.

One local council told the Commission that it adopts a very different methodology to achieve the close monitoring of risk while ensuring that the oversight of change remains independent. The council has integrated risk assessment and governance to such a degree that in excess of 20 peer managers with strong project management expertise meet to review risks across the organisation as a whole and oversee the progress of the change projects as a group.

While organisations have dealt with change risk and governance in a variety of ways, they share a common approach to change management control in so much as risk and governance is not isolated from the organisation's operations.

The governance of change should include:

- separating governance from change management
- ensuring that risk assessment and change management functions are not performed by the same person
- integrating risk management with the progress of the change
- designing the risk function so that it assists the person responsible for managing the change and also reports to the governance group.

Chapter 3: The planning of change

The Commission's research revealed that three elements are essential in preparing for organisational change and maintaining the control environment. These are the need to:

- undertake a thorough risk assessment (due diligence) to ensure there is an understanding of the potential issues and any organisational incompatibilities to inform the change plan
- develop a business case that identifies the goals of the change
- develop a roadmap or critical path map that contains the methods by which the change will occur and identifies clear milestones. Without a change roadmap, large-scale change can go awry long before problems are detected by managers.

Case study 4 is an example of where corruption could have been prevented if the above three elements had been present.

Case study 4: Neglect of an altered accounts payable system leads to $700,000 fraud

In 2007, the South East Sydney Area Health Service and the Illawarra Area Health Service (IAHS) were merged.[20] For the accounts payable function of the two areas, this triggered a series of changes that first led to the transfer of the IAHS accounts payable function from the Illawarra to Sutherland offices, and then a subsequent transfer of the function to Health Support Services (HSS) in Newcastle (now known as HealthShare NSW).

While the accounts payable function exists to process transaction payments, it also acts as a pivotal control against fraud and corruption. As the changes unfolded in this merger, however, the control capability of accounts payable was eroded. Many staff members did not wish to relocate to Sutherland and, consequently, there was a steep increase in temporary employees at the same time as the substantial increase in workload.

Of the 20 accounts payable staff members at the time, 70% were temporary staff who had been sourced from employment agencies. One contract employee gave evidence to the Commission that she "did not receive any formal induction or training".[21] She was "never informed of the procedure if a tax invoice was received without a purchase order or requisition form".[22]

There was no requirement for accounts payable staff to check whether delegations were correct and many were unaware that a delegations manual existed. Given that the delegations manual contained no sample signatures, it was of limited use.

When the accounts payable unit transferred to HSS in 2008, the control environment was further weakened. After the accounts payable function of another health area (the Northern Sydney and Central Coast Area Health Service) was transferred to HSS, confusion existed among staff as to whether that area or HSS was required to check invoices, non-order vouchers or purchase orders. For a period of time, very little verification occurred.

As a result of these changes, the hospitals in the two health districts incurred a $700,000 loss. The Commission found that an individual was able to gain "employment status" as a student to conduct medical trials on a new instrument. False documents were used to enter the student's own companies on the accounts payable vendor master file.

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[20] NSW ICAC, *Investigation into corrupt conduct involving alleged fraud on two Sydney hospitals*, August 2011.

[21] Ibid p. 71.

[22] Ibid.

A series of false invoices relating to the trials (the invoices were often presented as late or urgent) were then presented to the accounts payable unit. Of the 16 invoices submitted, 11 did not have supporting documentation. None of the invoices were the subject of a purchase order and signatures were forged on five requisition forms (in some cases, the forged signatures were those of a doctor who did not have the necessary delegations). Notwithstanding these irregularities, personnel in the HSS accounts payable unit paid the invoices.

The control failures that developed as a result of the various mergers and relocations of the accounts payable function were a product of poor planning and/or resourcing gaps. Effective planning would have shown that there was likely to be a loss of staff, that training and processes would need to be enhanced, and that workload would increase.

A clear roadmap would have established a series of milestones and red flags capable of revealing that the capacity of the merged accounts payable system was not adequate.

Due diligence

Public sector agencies may be perceived as a set of homogenous units that can be shifted around as interchangeable pieces. In reality, however, they can differ significantly as to culture, systems, structural arrangements, management capabilities and risk attitude. These differences can give rise to unexpected problems for managing and maintaining an organisation's control environment.

Changes in the public sector that bring together different agencies, or break up agencies and move the constituent parts elsewhere, present similar risks to those of private sector mergers and acquisitions. As a matter of routine, private sector organisations undertake due diligence prior to mergers and acquisitions precisely to avoid the unexpected problems and incompatibilities revealed in the case studies dealt with in the previous chapters.

To avoid the problems created by bringing together disparate organisational arrangements, company A undertakes due diligence during the first phase of change. In this phase, there are checks performed on contracts and procurement and potential risks and issues flagged before the merger begins. Each merging organisation's attitude to risk is examined and a risk profile is built.

Rather than struggling to regain control after the change has begun, effective due diligence allows change to be planned in a way that deals with incompatibilities within ICT, human resources, financial systems, contracts, culture, structure, processes, capabilities and risk attitude. Planning continues throughout the transitional phase when the merger is executed and after the change is complete, as new control measures are put into place.

The business case and roadmap

A formal business case provides a justification for why the change is necessary and identifies the vision for the change. It also considers the costs, risks, timeframe and expected outcomes. The business case serves as a benchmark for each stage of the change process. In this way, justification for the change can be assessed to determine whether the change is still within the scope and viable, and whether requirements and deliverables have been met.

A roadmap flows from the business case. It makes clear the paths to the business goals and the milestones along the way. A roadmap demonstrates how the vision of the business case can be achieved by outlining the current state, the desired future state and describes how the transition will be achieved.

A good change roadmap incorporates features to identify early warning signs of gaps in the progress of the change. Early warnings may come from timely reporting on early milestones missed or from reports on leading indicators that are heading the wrong way.

The Commission's research did not identify any right way to produce a roadmap. Change managers with whom the Commission spoke use a wide variety of methodologies, generally based on project management techniques. Some use proprietary consulting tools, PRINCE2[23] and Gantt charts[24] . Others use the PERT[25] or related critical path analyses.[26]

One change manager advocates a variation of a fishbone analysis[27] to understand the drivers of the system changes on one side, and the people issues on the other, and sequences the elements into the roadmap. Whichever the method, the resultant roadmap breaks down the path to the business case goals in a way that reports the early assessment of progress back to the managers.

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[23] PRINCE2 (Projects in Controlled Environments) is a process-based method for effective project management.

[24] Gantt charts are used to depict a project schedule.

[25] PERT (Program Evaluation and Review Technique) is a statistical tool used for project management to plan and demonstrate the tasks required in a project.

[26] Critical path analysis is another project management technique that is used to plan project tasks.

[27] A diagram used to identify possible causes for an effect or problem.

A change plan strategy should include:

- performing due diligence early on in the change process
- developing a business case and continuously referring to it throughout the change process
- developing and using a roadmap to guide and assess the progress of change.

Controlling the frequency, scale and pace of change

The case studies in this report illustrate that the frequency, scale and pace of government change can overwhelm the capacity of an organisation to manage the change. When PT and OPC amalgamated to form T&G (case study 3), it was announced in March 2009 that the merger would occur a few months later in July. As seen in case study 4, the Commission found that the merger of the accounts payable function (as a result of the amalgamation of the two area health services) occurred in 2007 and, only a year later, the accounts payable function was moved again to Newcastle.

It is not only the pace and scale of change that can overwhelm organisations, but also the frequency. Case study 2 shows that state rail has undergone a major change every four years since 1988. To put the four-year cycle into perspective, two banks that spoke with the Commission have five- or 10-year implementation timeframes for major change. Indeed, change in the government sector may not be completed before the need to implement further change is identified. In such cases, the most recent change is still being implemented when the next change begins.

While some elements of change can be undertaken without generating too much additional risk to an organisation, changes to functions such as asset management, procurement systems and information systems can pose a very high risk to the integrity systems if not managed carefully. When these systems are subject to sequences of multiple changes, the ability to maintain control is challenged and vulnerabilities to risk may become unacceptable.

One of the financial services organisations with which the Commission spoke (company A) manages this challenge by slowing the pace of change in those areas of greatest vulnerability. During major mergers and acquisitions, low-risk aspects of the change program move ahead quickly. But in areas such as building an integrated ICT system to underpin the merged entities, the pace is deliberately slowed to allow for careful control (in one case, company A allowed a six-year timeframe for the integration of its ICT systems).

An alternative approach to dealing with large-scale change is to improve how the components of the change are tracked. It is arguable that the duration of a change project is not directly linked to success but, rather, it is the distance between milestones or project reviews that predicts change outcomes.[28] Complex change projects, transformations or projects with a long timeframe are more likely to require more frequent reviews to control the progress and scope of the project.

Company A told the Commission that it uses pilot programs to reduce the scale of the change when there are significant challenges to the control environment. It is only when the organisation learns to manage the challenges in the context of the pilot that it moves to the larger scale.

The risks associated with frequency, pace and scale of change can be diminished by:

- slowing the high-risk elements of change
- increasing the number of, and reducing the distance between, milestones
- using pilot programs to test the change model before increasing in scale.

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[28] HL Sirkin, P Keenan & A Jackson, "The hard side of change management", *Harvard Business Review*, October 2005.

Chapter 4: Managing risk

It has been argued that there are three main criteria that must be present for corruption to occur.[29] First, a person must be motivated to engage in corrupt conduct. Secondly, there must be the opportunity to engage in corruption. Thirdly, there must also be a low risk of detection.

The effectiveness of the control environment is diminished if reporting lines are broken, accountabilities are clouded, processes and structure are weakened and information integrity and management capabilities are reduced. When a change program diminishes the effectiveness of the control environment, there are greater opportunities for motivated individuals to engage in misconduct and there is a decreased risk of detection.

Case study 5: Motivation, opportunity and threat of detection

One Commission investigation[30] examined how a restructure of the agency eroded the control environment when the geographical arrangements were changed. Managers were separated from the offices and teams for which they were responsible. The restructure, for example, had placed one state director over 600 kilometres away from an office he was directly responsible for managing, and over 800 kilometres from head office. Another state director was placed in an office in which he had no direct operational responsibility. Management capability and information integrity were degraded by virtue of distance, and corrupt behaviour was able to occur in the weakened control environment because motivated individuals had the opportunity to engage in corrupt conduct with a low risk of detection.

As there is heightened vulnerability for misconduct to occur during change, organisations need to adapt their risk assessment and control activities during change programs. Control activities need to target motivations and social structures for close assessment and management in addition to tightening the control environment.

Managing opportunities for misconduct

Organisational change can create unforeseen opportunities for misconduct. The challenge for managers is working out where the opportunities for misconduct are emerging as the change progresses.

In one bank interviewed by the Commission, each role – from the chief executive down – is assigned responsibility and accountability for risk. Information about risks is collated from each branch manager's reports on performance and risk and this is compared across branches and regions. Managers who need more help addressing any particular risk are able to obtain it from the operational risk and assessment units.

While operational managers will often know which risks are being generated by the change, reporting these risks requires managers to be willing to speak up. In company A, for example, because there is concern that a culture of blame or the fear of negative evaluation will develop and inhibit the reporting of risk by operational managers, the organisation puts significant efforts into developing a call-out culture to ensure risks are identified.

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[29] A Sidebottom, "Enriching corruption: some suggestions on how situational crime prevention can inform the analysis and prevention of corruption", July 2010. In this paper, the author credits Graycar and Gaziarifoglu (p. 7). See also A Graycar & A Sidebottom, "Corruption and control: a corruption reduction approach", *Journal of Financial Crime*, vol. 19, issue 4, 2012, pp. 384–399.

[30] NSW ICAC, *Investigation into the conduct of the Hon Edward Obeid MLC and others in relation to influencing the granting of water licences and the engagement of Direct Health Solutions Pty Ltd*, June 2014.

Managers at company A are encouraged to report risks, rather than be punished for having weaknesses in their areas. This gives all parties a voice and confidence to speak up when there is a suspicion that new risks have emerged. A dedicated risk manager is responsible for mapping out the control points and risks in any change process or in mergers and acquisitions. The attention on fraud and corruption controls in an environment of heightened risk is improved if specific individuals are empowered to focus solely on monitoring controls during change.

To manage risk, T&G (see case study 3) now adds extra reviews throughout the change process to help identify and close gaps before they are exploited. Like company A, T&G also separates organisational change risks from business-as-usual risks so that it is able to focus on the management of change and the risks inherent in the process of change.

There should also be a proactive focus on the areas of the organisation that present the highest risk (that is, a risk-based philosophy). In discussion with the Commission, managers from the research sample said they focused on the erosion of control in key pathways by which something of value (for example, money, government contracts and physical assets) is transferred from the organisation to the private sector. One key area of risk is procurement. This includes the purchasing function and particularly the effectiveness of segregations, delegations and monitoring systems, the controls around contractor engagement and extension, and organisational systems that manage supplier choice and variations, and so on. For example, close scrutiny of the accounts payable function should occur to ensure that delegation checks and document matches continue to be performed during the change, and that the vendor master file is up-to-date and secure.

Other areas of vulnerability depend very much on the nature of the business, as it is the nature of the business that determines the way that something of value can be transferred without significant risk of detection.

Developing a complete asset register was a priority for some organisations in the Commission's research sample. Others were concerned with ensuring there was a register of contracts that was brought up-to-date and had clear accountabilities for the management and performance of the contracts. The examination of systems that protect against theft of information or property featured heavily in discussions with some organisations. In others, it was the potential for misconduct by regulatory staff. Some expressed vulnerability in their payroll systems. The consistent theme is that the focus is risk-based.

A number of managers within the Commission's research sample noted that attrition created special risks in its effect on the control systems. In a large organisation, attrition results in unplanned staff losses at random points in the change process and in the management chain. Without a redesign of the change process, staff will often pick up the duties of those who have left the organisation. In most cases, this may not matter, but in some cases the effect is to breach the segregation of accountabilities designed into the process, where the remaining person takes on activities on both sides of the segregation.

Case study 6: Accountabilities, supervision and process-mapping

In the Commission's Operation Persis, a contracts officer, who was responsible for approving air-conditioning maintenance contracts, was able to favour businesses in return for corrupt payments.[31] Privately, he was associated with two companies that were involved in related maintenance work. The officer did not inform the agency of his involvement in these companies or seek approval under the agency's outside employment policy.

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[31] NSW ICAC, *Report on an investigation into corrupt conduct associated with RailCorp air-conditioning contracts*, June 2007.

Over a period of several years, the officer awarded air-conditioning maintenance contracts to companies owned by his friends and associates. They, in turn, subcontracted work to the public official's own businesses, enabling him to corruptly obtain more than $710,000 over a six-year period.

The internal restructures and outsourcing of maintenance services fragmented accountabilities and supervision arrangements, and the corrupt officer found himself with end-to-end control over contract vendor selection and rate of pay. Restructuring had also resulted in the officer being managed by three different line managers and, at times, the managers were working at a different location to the contracts officer. These managers were also unclear about the officer's financial delegations and responsibilities.

Some managers identified that mapping the processes before and during change was a central check for control gaps that develop as a result of the change. In a report on organisational change in councils, two councils in Western Australia conducted planning sessions five months prior to being merged to prepare for the change.[32] By utilising process mapping, they were able to identify where processes and systems differed between the two councils, propose a new merged structure, and identify any gaps in reformed processes and structures post-merger. This process helped to identify structural deficiencies and missing links that could potentially give rise to corruption risks.

Another council with which the Commission spoke reviews all policies such as gift registers, conflict of interest, secondary employment and fraud corruption controls to bring risk assessment into the change program. When gaps are detected, the development of procedures is quickly acted upon and new rules are communicated clearly and more than once to reduce ambiguity and uncertainty. As a result of lessons learned from previous changes, the council now has separated risk and governance from its audit function to create two specialised oversight bodies.

An examination of shifting accountabilities and lines of reporting was frequently mentioned to the Commission as important to maintaining control during change. Indeed, corruption was facilitated by confusion around reporting lines and accountabilities that developed as a result of change of the type in operations Monto and Persis (case studies 2 and 6 respectively).

One public sector manager in the research sample told the Commission that often financial delegations are reduced during change to minimise the potential loss that can be incurred from the actions of one employee, and to force additional checking and approval as reduced delegations can force decisions to higher levels of the organisation. Data analytics and email scans are also often increased during the change period.

The opportunities for misconduct can be reduced by:

- identifying emerging risks
- analysing control gaps
- tightening controls in high-risk areas during the change
- creating a deterrence to misconduct by heightening the perceived risk of detection.

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[32] Jeff Tate Consulting, *Report: Assessing processes and outcomes of the 2004 local government boundary changes in NSW*, January 2013.

Chapter 5: Monitoring and reviewing the progress of change

Managers who took part in the Commission's research frequently raised the importance of ongoing measurement of the progress of the change, comparing progress against the original business case, roadmap or milestones and – where the change is deviating from the initial plan – having in place a protocol to reconsider and adapt the initial plan, and the associated risk analyses.

Measuring progress

Measuring the progress of change projects can be difficult, as the full benefits of the project outcomes can take years to materialise or the change may veer in an unexpected direction. Factors such as commitment and culture are often hard to define and, therefore, difficult to measure in a meaningful way. Multiple stakeholders with competing interests may each have their own perspective on the achievement of social goals and objectives.

Yet, for most organisations the objective measurement of the progress of change was central to controlling the change itself and the control environment more broadly. For the financial services organisation in the research sample (company B), the measurement of change was considered so important that a specialist unit was created to collaboratively develop measures of success for change. The company dedicated a significant portion of the change budget for this purpose. The unit produced a multi-element scorecard that was completed by the leaders across the organisation every few months. Over time, company B was able to identify problems in leadership and products within the organisation.

In the case of company B, the measurement process was more than a tool for monitoring change progress. The scorecard approach has become a change tool itself by providing incentives for managers to modify their behaviour and mechanisms to improve efficiency, and by driving cultural change through an organisation.

Some organisations in the Commission's research sample said that they develop a series of indicators using aggregations of key measures and decisions. Others identify and monitor key controls and the progress of change by analysing relevant data. Such analyses can help identify trends, issues and particular risks across multiple aspects of the change process.

Regardless of the specifics, ICT systems can assist with maintaining control during change. Whether it is communicating during change, producing a series of indicators or running data analytics, managers emphasised the importance of integrating relevant parts of the ICT systems of the changed organisation. While recognising the risks of a hasty integration of critical ICT systems, low integration brings its own challenges. The ICT integration challenges identified by the NSW Commission of Audit (see case study 1) can reasonably be assumed to have eroded the ability of the organisation to monitor the progress of change and detect problems as they arise.

Triggers for review

It is not uncommon for organisations to develop a system to review the risk of change in the control environment. In describing the process of linking measurement to review triggers, managers in the research sample identified three areas requiring attention:

- the link between measurement and the milestones that form the basis of the planned progress
- the detection of unexpected risks and problems that emerge during change
- the management of information that is collected so that assignment of accountabilities and escalation of issues occurs without information overload.

Milestones are triggers to check the progress of change projects and ensure that deliverables are met. At each milestone, the business case is reassessed to determine whether the project is still within scope. Without an opportunity to review the progress of the plan, it is unrealistic to expect that the outcomes of change will be met as planned.

Complex change projects (for example, transformational change projects) or projects with a long timeframe are more likely to require more frequent reviews to control the progress and scope of the project. Projects that involve shallow, surface-level changes or have a short duration are likely to require less frequent reviews, as they are more manageable in scope.[33]

Company A told the Commission that it relies on a full-time dedicated risk officer, who is part of the program team, to report to the executive team any management practice risks and control environment risks. In this structure, the executive team receives information from planned reviews of milestones as well as unexpected issues and risks. The risk and governance unit constantly seeks to establish:

- if the business case assumptions are still valid
- if the business case is achieving its intended purpose
- which new risks the program has created or now exist.

In fact, the problem for organisations with comprehensive measurement systems is to avoid drowning in detail. Several organisations described to the Commission how they control the flow of information in such a way that decision-makers are not swamped by the minutiae of the change. Central to the control of information is some form of protocol to ensure that senior managers are informed when necessary and that action is taken only when necessary. Company A maps the control points in any change, and the information and communication about those control points are managed by integrated systems, and preset trigger thresholds determine escalation.

Company B identifies the threshold at which risk in any process must be reviewed, re-assessed and, if necessary, when a plan should be put in place to manage it. This is the business case for "acceptable risk"; change of the process only takes place at a point where information indicates that the threshold has been exceeded, and accountabilities are realigned accordingly.

Change implementation can be reviewed by:

- ensuring effective and continuous measurement of critical factors
- building-in triggers for the review of change progression and risk, and alignment with the business case.

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[33] Op cit, "The hard side of change management", *Harvard Business Review*.

I·C·A·C

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