PREVENTION in focus

Organisational change and economic recovery:
Managing the risks

The period during and following organisational change can be a high risk period for corruption

This publication is intended to alert heads of public sector agencies, senior management and members of audit and risk committees to corruption risks arising from MoG changes and the current economic landscape and provide advice about ways to mitigate these risks.

Following the Queensland state government election in October 2020 significant changes to the machinery of government[1] were announced. These included the establishment of a new department and the movement of functions and services between existing departments.

Previous investigations by the CCC and other anti-corruption agencies throughout Australia have demonstrated how organisational change processes can provide opportunities for corruption and decrease the early detection of wrongdoing.

An awareness of the risks associated with organisational change is vital in the current environment where there is also increasing pressure on the public sector to quickly respond to the challenges arising from the COVID-19 health pandemic and its impact on the economy.

What you should know

- The current pressure on governments to boost the economy through grants, funding and relief packages can place increasing demands on public sector employees to accelerate decision-making and sidestep internal controls and processes in the interests of urgency and efficiency.

- The CCC's own investigations and intelligence demonstrate how both organisational change processes and economic recovery efforts can put the integrity of agencies at risk. A changing organisational environment, combined with increased economic pressure and the desire to "get things done", can make agencies vulnerable to corruption and provide increased opportunities for fraud and other types of serious wrongdoing.

- The public sector should have processes in place to ensure internal controls and corruption safeguards are maintained during periods of heightened organisational and economic change.

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1   Machinery of government (MoG) refers to the functions, processes and responsibilities of government agencies, typically departments of the government.

Organisational change: maintaining control

MoG changes and organisational restructures are common features of the public sector. Public sector agencies regularly merge, restructure and reorganise to improve service delivery or promote efficiencies. Previous experiences in Queensland and interstate show that when organisational change is not managed effectively, it can have serious and costly consequences.[2]

The period during and immediately following organisational change is particularly vulnerable to corruption risks. These risks can arise from new and unclear reporting arrangements, changed financial delegations, outdated or missing policies and procedures, unfamiliar or incompatible IT systems, disrupted service delivery and a decline in staff morale.

Periods of change and instability within an organisation can also create opportunities for motivated individuals to exploit gaps or weakness in internal controls when there may be lower risk of their behaviour being detected.

The CCC's public report on a fraud committed on Queensland Health recommended that agencies undertaking restructures or other organisational changes implement strict productivity and risk based analyses of work flows, procedures and accountabilities to ensure that local and overall efficiency is not compromised during organisational change.[3]

> *When organisational change is not managed effectively, it can have serious and costly consequences*

Fraud, financial management and accountability in the Queensland public sector

September 2013

An examination of how a $16.69 million fraud was committed on Queensland Health

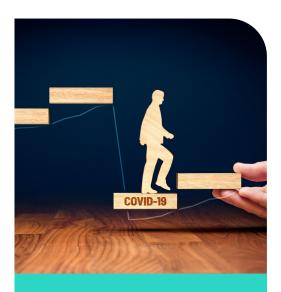CRIME AND MISCONDUCT COMMISSION
QUEENSLAND

Case study

Multi-million dollar fraud committed during periods of organisational change and crisis

Over a four-year period commencing in October 2007 Hohepa Morehu-Barlow (Joel Barlow) committed the single largest fraud in the Queensland public service, defrauding Queensland Health of $16.69 million. Although the investigation found that Barlow acted alone in committing the fraud, it also found that a number of Queensland Health officers failed to comply with existing policies and procedures and, in so doing, defeated a number of internal controls which may have otherwise prevented Barlow's offending or led to it being identified much earlier.

The investigation found that Barlow took advantage of confusion arising from organisational changes within Queensland Health, including a period following a restructure in 2009 where his team was unsupervised for several months, during which time he made seven fraudulent payments totalling more than $378 000. Barlow's fraudulent activity also spiked during the 2011 Queensland flood crisis where he appeared to exploit relaxed internal controls and governance mechanisms. In January and February 2011, he made four fraudulent payments totalling more than $770 000, two of which were described as being for "flood relief".

2 ICAC 2017, Keeping it together: Systems and structures in organisational change, ICAC, Sydney.
3 CCC 2013, *Fraud, financial management and accountability in the Queensland public sector: An examination of how a $16.69 million fraud was committed on Queensland Health*, CCC, Brisbane.

> *"Corruption is criminal, immoral and the ultimate betrayal of public trust... it is even more damaging in times of crisis"*
>
> *– UN Secretary-General, António Guterres*

Economic recovery: managing opportunities

At present there is a need for governments across Australia to quickly respond to the unfolding public health situation and stimulate the economy due to the impact of COVID-19. Government assistance through grants, subsidies, funding and other initiatives is essential to the economic future of Queensland.

However, if not carefully managed, economic recovery and crisis management strategies can provide opportunities for corruption. The need to rapidly procure goods and services, or stimulate the economy through administering grants and funding, can put increased pressure on public sector employees to cut red tape and "get things moving", a consequence of which can be proper governance processes and procedures being abandoned in the interests of urgency or efficiency.

Periods of economic disruption and crisis provide motivated individuals with additional avenues to defraud public funds. Experience suggests the risk of this occurring is further heightened during periods of organisational change and restructure when internal controls, systems and committees are undergoing review, restructure or mergers, and when the likelihood of early detection of suspected wrongdoing is decreased.

It is vital that public sector agencies are alert to the corruption pitfalls during and following organisational change and crises, and are aware of opportunities to strengthen systems and processes to target harden their agencies against fraud and corruption risks.

RECOVER with integrity

Corruption in the context of COVID-19

"Corruption thrives in times of crisis and the ongoing global pandemic is no exception.

States all over the world have taken significant measures to address the health emergency and to avoid a global economic collapse. **These urgent responses required, however, led some States to trade compliance, oversight and accountability for achievement of rapid impact, thus creating significant opportunities for corruption.**

Last year's theme for International Anti-Corruption Day "Recover with integrity", highlighted that real recovery from COVID-19 can only be achieved with integrity.

Such efforts require the involvement of strong anti-corruption bodies, more open and transparent public procurement and include enhancing anti-corruption compliance by the private sector."

– UN Secretary-General, António Guterres, Statement on corruption in the context of COVID-19

What you should do

The need for immediate and innovative responses, combined with changing organisational structures and oversight mechanisms within departments, presents new risks and opportunities for corruption.

If not planned and executed well, organisational change can result in weakened internal controls, less clear lines of accountability and responsibility, disrupted service delivery and poor staff morale.

A checklist for managing change during a crisis

✓ Communicate organisational restructures and change to all staff.

✓ Ensure the roles, responsibilities and delegations of staff are clearly documented and communicated.

✓ Ensure policies and procedures are contemporary and staff are aware and educated about changes to these documents.

✓ Empower integrity "gatekeepers" — such as procurement officers, internal auditors and human resource managers — to be alert to corruption risks.

✓ Encourage staff to report corruption risks and suspected wrongdoing and provide them with training about the process for reporting matters.

✓ Ensure reporting requirements under the *Crime and Corruption Act 2001* (Qld)[4] reflect new organisational structures.

✓ Seek advice from the Public Service Commission on the implementation of machinery of government changes. In October 2020, the Queensland State Archives published an advisory for public sector agencies on machinery of government changes.

Related publications

- CCC, *Fraud, financial management and accountability in the Queensland public sector: An examination of how a $16.69 million fraud was committed on Queensland Health*

- CCC, *Fraud and Corruption Control - Best Practice Guide*

- Public Service Commission, *A summary of changes to departments of government*

- Queensland State Archives, *Machinery-of-government changes: Advice for agencies*

- Queensland Audit Office, *Are you prepared for your machinery of government changes?*

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4 Sections 38, 40 and 48A .