



# GOOD GOVERNANCE AND RISK MANAGEMENT WORKSHOP

EEA and Norway Grants Workshop  
15 October 2019  
Liechtenstein



# SESSION 1: RISK MANAGEMENT AND CONTROL FOR BETTER GOVERNANCE



# PART 1.1



# What is good governance?





## Good governance in context

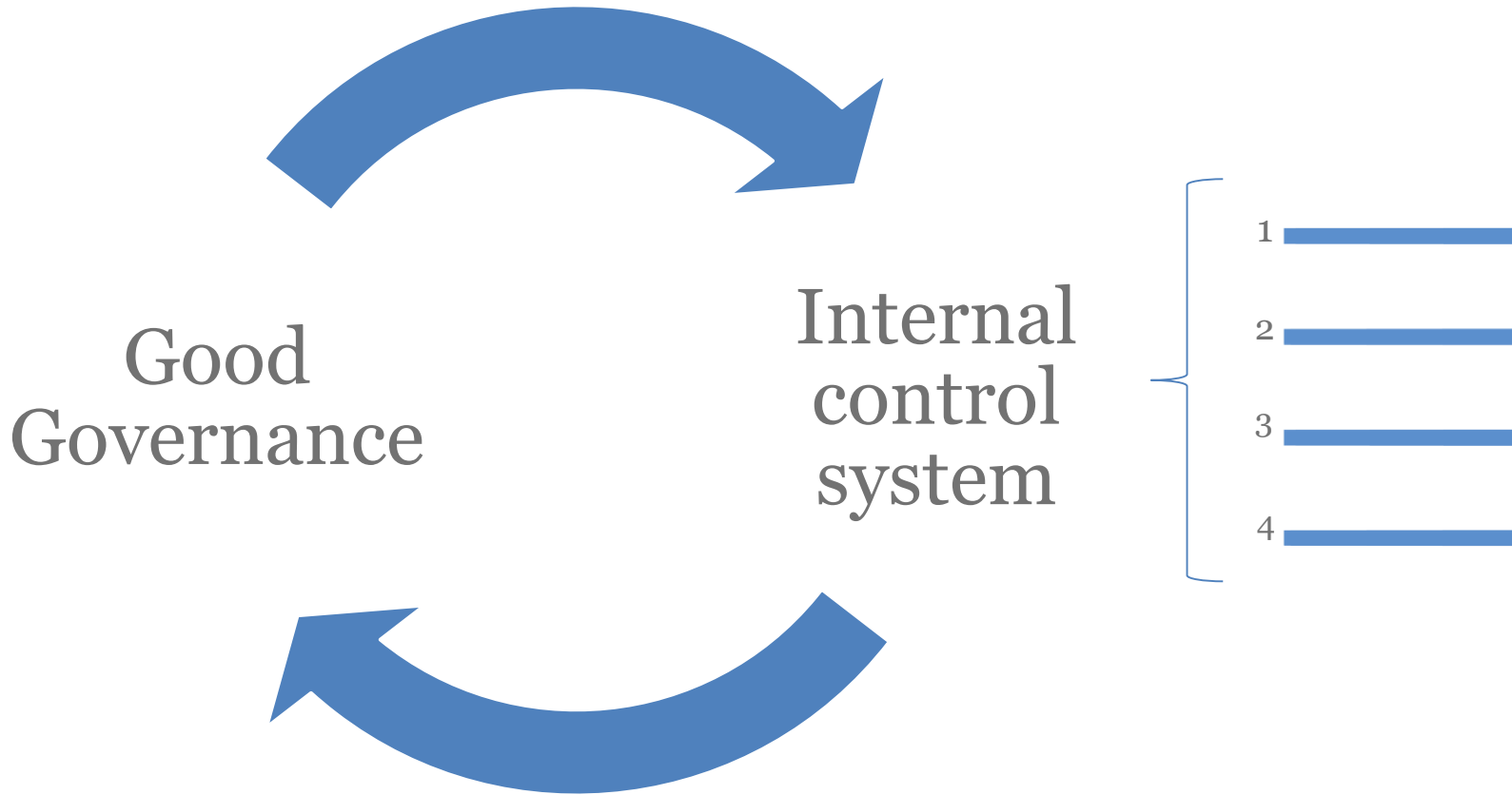
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- EEA and Norway Grants Risk Management Strategy (2014-21):
  - Participatory and inclusive, accountable, transparent, responsive, effective and efficient.
- OECD adds the rule of law



# What does this all mean for risk management and control?

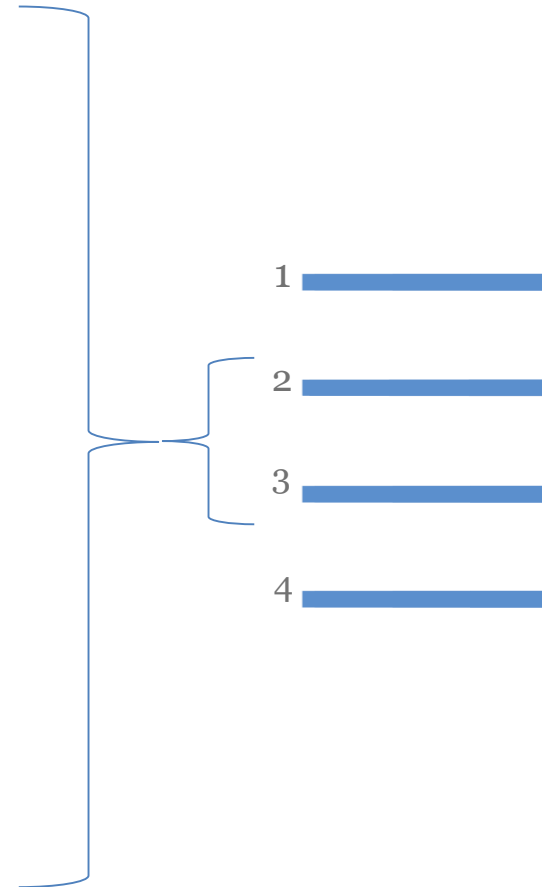
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# What does this mean for NFP's?

1. Retain overall responsibility for implementation of the Grants and for reaching their objectives;
2. Provide a detailed description of the management and control system at national level;
3. Assess the functioning of these control systems in the Strategic Report as well as any risks and mitigation measures identified in respect of programmes;
4. Carry out regular monitoring of the programmes;
5. Ensure that risk assessment and reporting shall be a regular point on the agenda for the Annual Meeting between the donor states and each beneficiary state.





## Typical challenges for first, second and third lines

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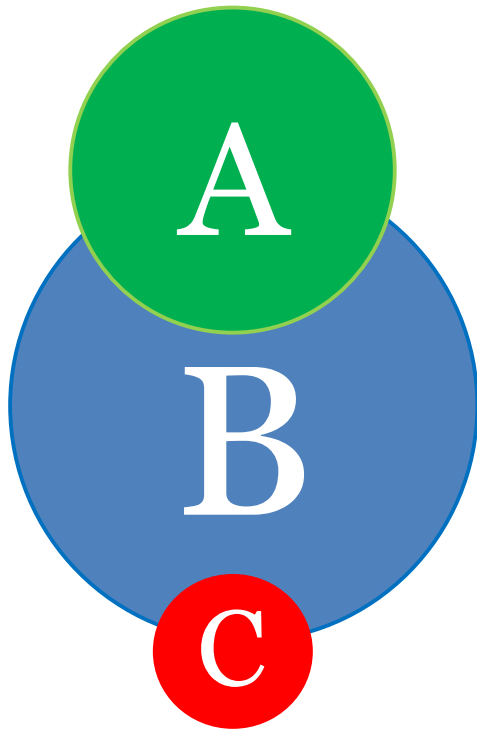
- Implementation, implementation, implementation
- Knowing what makes for a “quality risk assessment”
- Linking risk assessments to decision-making
- Contributing to an effective culture of integrity and control, without crowding out “business objectives”







# Culture and targeting Integrity measures





	Integrity-Driven	Corrupt
Integrity-Driven		0, 2
Corrupt	2, 0	

Diagram illustrating the relationship between Integrity-Driven and Corrupt states. A central blue circle labeled 'B' has arrows pointing to a green circle labeled 'A' (Integrity-Driven) and a red circle labeled 'C' (Corrupt).

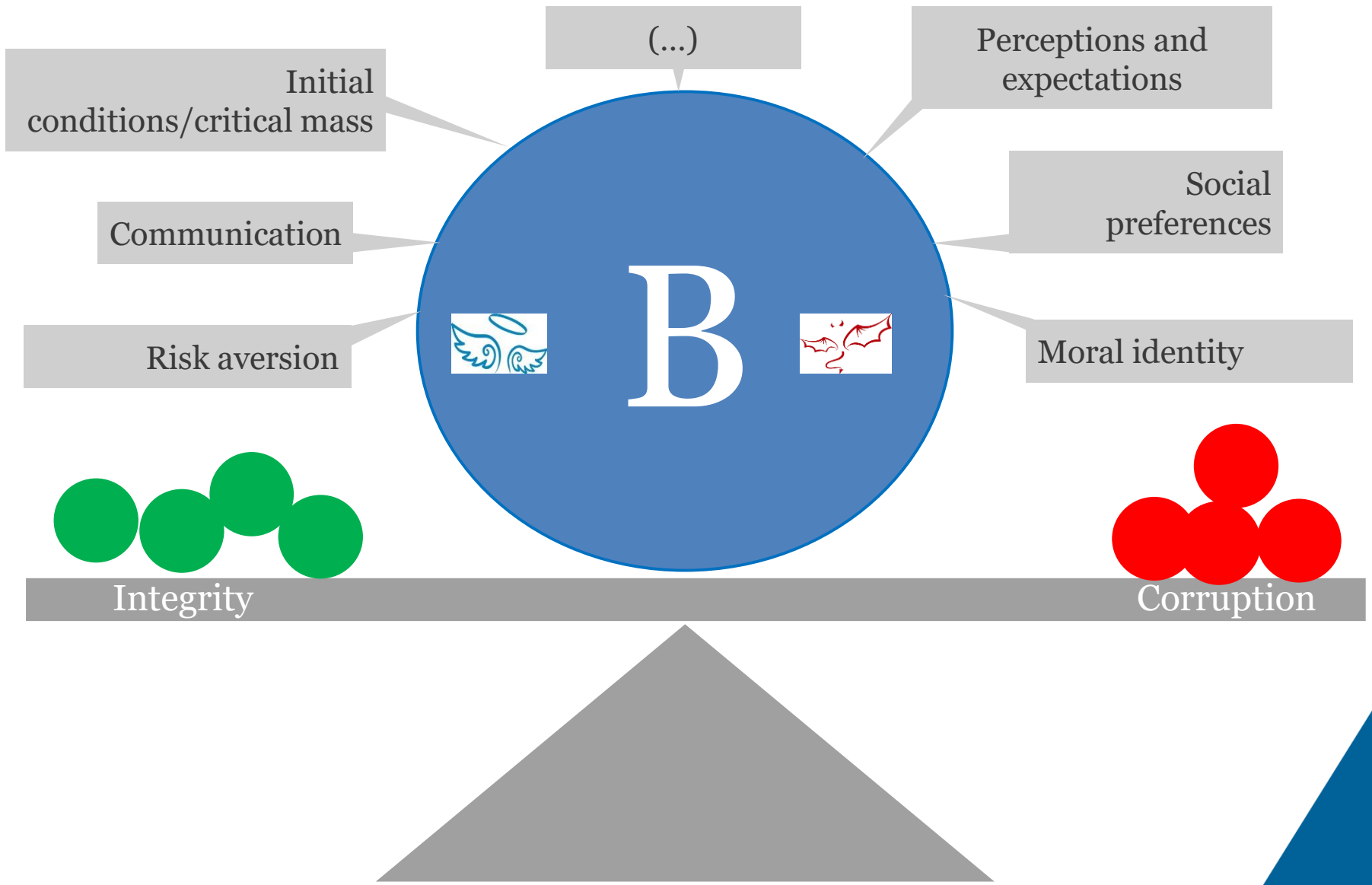
**Virtuous** v.s. **Vicious** Cycles

See Australian Example:

<https://www.aclei.gov.au/corruption-prevention/key-concepts/values-alignment>



# What factors influence this equilibrium?





# The Macro View of a Culture of Integrity



## Whole of society

Businesses, individuals and non-governmental actors uphold public integrity and do not tolerate corruption.



## Leadership

Managers lead with integrity in public sector organisations; they carve out the 'integrity agenda' and communicate it to the organisation.



## Merit based

The public sector strives to employ professional and qualified people that have a deep commitment to the public service integrity values.



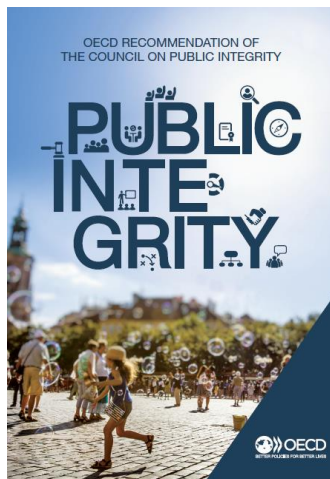
## Capacity building

Public officials are skilled and trained to apply integrity standards.



## Openness

Integrity concerns are openly and freely discussed in the workplace and it is safe to report suspected violations of integrity.





# PART 1.2



# Good governance in the regulations

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## Regulation on the implementation of the Norwegian Financial Mechanism 2014-2021

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adopted by the Norwegian Ministry of Foreign Affairs pursuant to Article 10.5 of the Agreement between the Kingdom of Norway and the European Union on a Norwegian Financial Mechanism for the period 2014-2021 on 23 September 2016

## Regulation on the implementation of the European Economic Area (EEA) Financial Mechanism 2014-2021

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Adopted by the EEA Financial Mechanism Committee pursuant to Article 10.5 of Protocol 38c to the EEA Agreement on 8 September 2016 and confirmed by the Standing Committee of the EFTA States on 23 September 2016



# Principles of Good governance

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# Linking Good Governance to our objectives

**Reducing economic and  
social disparities**



**Strengthening  
bilateral relations**



**Effective and Efficient  
implementation**







# Tools for good governance in the Grants

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**Evaluation  
and  
Monitoring**

**Results  
framework**

**Strategic  
partnerships**

**Audits**

**Planning**

**Regular  
reporting**

**Management  
and control  
systems**

**Complain  
mechanisms**

**Irregularity  
reporting**

**Risk  
Management**

**Training and  
capacity  
building**

**Regular  
communi-  
cation**



# Good governance for all - All for Good Governance

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- **NFPs**
- **POs**
- **Project Promoter**
- **Project Partners**
- **FMO**
- **FMC**
- **DPPs**
- **IPOs...**





Good governance - a difficult equilibrium between achieving results, complying with the regulations and managing costs versus benefits of controls

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# Governance set up in Beneficiary States

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- Rely on national structure and expertise
- National Management and Control systems
- Integrated as much as possible into existing structures and systems
- Use of good national and international grant management practice
- Etc..

*What are the benefits and drawbacks?*



# PART 1.3



## Challenges of applying governance standards for EEA and Norway grants (1/2)

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- EEA FM: well-thought-through and sensible governance standards, with clear guidelines, formats and technical support!
  - However significant differences and gaps may exist between such governance expectations and the real governance practices and actual program/ project management in your country!
  - To what extent are such gaps and corresponding challenges acknowledged?
    - Is it culturally acceptable to show that, on average, national practices do not meet such standards?



## Challenges of applying governance standards for EEA and Norway grants (2/2)

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- Setting high standards (above current practices) => inherent risks of “window dressing”
  - E.g. referring to formal and legal or regulatory arrangements (theory) without acknowledging that these are hardly applied (reality).
  - Willingness to please/ accommodate the donor?
  - Better to face reality (avoiding the ‘boomerang’)
- Do you (as NFP and beneficiary country) have a well-documented (*systemic*) understanding (*overall and per sector and or program*) of formal and real “maturity levels” vis-à-vis key aspects/ components of the EEA good governance standards? *Is there a need to work on this?*



## Culture of continuous improvement and realistic targets (1/2)

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- We are never perfect while new challenges and opportunities emerge all the time!
- A paradigm and practice of continuous adaptation and improvement is needed.

This requires:

- a culture of openness that welcomes feedback, complaints and critique;
- a paradigm of continuous learning & improvement
- low resistance to *(justified)* change

How would you situate your EEA/ Norway grants' stakeholders for such cultural aspects (*scale 1 – 10*)?





## Culture of continuous improvement and realistic targets (2/2)

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- Targets should be ambitious but realistic
  - Targets that are too ambitious (and thus not realistic) are counter productive.
    - demotivation, cynical attitudes, window dressing, ...
  - A progressive (incremental) approach allows achieving higher ambitions over time.
    - Each step/phase includes generating the conditions of success for the next step/phase.
    - After generating a sufficient (initial) support base, one may raise the ambition level for next phases
- The culture of continuous improvement and realistic targets applies to good governance and integrity management and also to results and policy ambitions of sectors or programs.

## Involving new program and project partners in the EEA and Norway grants (1/1)

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- Ensuring good governance and program/project management with new programme operators and project partners without prior experience in EEA, Norway grants and/or EU structural funds could be quite a challenge!
  - What are your good practices and successful approaches (*combining risk assessments, training, coaching, technical assistance, outsourcing, peer tutors, ...*) ?
  - What are the conditions of success and/or pitfalls?
  - On what issues do you need further support?



## Repartition of roles and synergies between FMO, NFP and PO (1/1)

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- How to implement your role as NFP, between those of FMO and PO?
  - How to avoid duplication and gaps in roles?
  - Statement: the NFP's role should be 'adaptive' and 'adding value' ! Do you agree? If yes, to what extent should this be documented?
  - What are the best strategies and practices for NFP's and FMO's focus in view of a full empowerment and accountability of Program Operators ? How successful are we in avoiding micro management versus PO's?



## How to further real adoption and embedment of results management? (1/6)

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- EEA and Norway grants Result Guideline (January 2019) calls for enhanced focus on results (outputs, outcomes and impacts)
  - Focus: value for money and societal, ecological and developmental return on investment
  - Risk management should be conducive towards optimising results of the grants
  - Regulations, internal control systems, risk management, compliance control, ... are not a goal on their own but should be “proportionate” and add *net value* to grants mechanism



## How to further real adoption and embedment of results management? (2/6)

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- Just a ‘guideline’ does not suffice to shift the balance to results management: a fundamental *paradigm shift* is required!
  - Acknowledge that rules, regulation, controls, etc. may be counterproductive: bureaucratic while not effective in mitigating risks
  - Blocking ‘alignment of interests’
  - Window dressing; while real problems continue
  - Heavy rules that are costly and slow while not really resulting in value for money procurement



## How to further real adoption and embedment of results management? (3/6)

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- Generations of ‘auditors’, ‘internal control specialist’, etc. have been raised within a mainly ‘compliance’ perspective and paradigm!
  - What is the predominant paradigm among staff of the Certifying Authority, Audit Authority and Irregularities Authority in your country?
  - How do they perceive their mission and roles?
  - To what extent are ‘value for money’ and ‘results management’ perspectives adopted in their paradigm?
  - Do they apply the ‘proportionality’ and ‘effectiveness’ perspectives to risk mitigation?



## How to further real adoption and embedment of results management? (4/6)

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- Results management along all stages of the program and project cycle!
  - Importance of a systemic understanding of the contexts in which projects intervene!
  - Explicit analysis of the result chain! Why do we believe that the proposed activities and outputs of the project will lead to the envisaged outcomes and impacts (on peoples lives, the environment, etc.)? What are the conditions of success? What other initiatives contribute? What would have happened anyhow?
  - How do we ensure that projects/programs learn and apply new insights in order to enhance their effectiveness? Does the grants management system fosters this and provides flexibility?



## How to further real adoption and embedment of results management? (5/6)

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- How good are we in planning, measuring, reporting, being accountable for and evaluating results (*outputs, outcomes and impacts*) and to what extent is this an integral part of our ‘good governance’?
  - What are typical pitfalls of using performance indicators, KPI, etc.?
    - Widespread idea: use few and easy to measure indicators!
    - You get what you measure; but is this what you really wanted?
    - Neglecting baseline measurements
    - Blindness for: unintended (positive or negative) outcomes / impacts; deadweight; third party contributions, ...
    - Rigidity in using inappropriate indicators
  - Are you avoiding such pitfalls? Good practices?





# How to further real adoption and embedment of results management? (6/6)

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- What about external evaluations?
  - Focus: external support to shared learning process ↔ external assessment as part of (assured) accountability?
  - What are the typical pitfalls?
    - Industry of ‘pleasing’ evaluations; ‘checklist’ evaluations, etc.
    - To what extent are critical evaluations welcomed and appreciated and are the additional efforts recognized and remunerated?
    - Professional capacity and sturdiness of the evaluator?
  - Are you avoiding such pitfalls?
    - Any good practices to share?



# SESSION 2 INTERACTIVE GROUP EXERCISE AND EXCHANGE

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PRACTICAL SESSION:  
HOW TO FOSTER AN  
INSTITUTIONAL CULTURE OF  
GOOD GOVERNANCE AND  
EFFECTIVE RESULTS AND RISK  
MANAGEMENT



## Objective of session 2

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This session 2 allows exchange of ideas and insights between the National Focal Points (and also with FMO) with the view to:

- pose a diagnosis of the key issues and challenges of enhancing an institutional culture of good governance and effective results and risk management
- identify key priorities and areas of improvements for the NFPs.

*(Remark – the technicalities of effective risk and integrity management are further addressed in sessions 3 and 4)*



## Practical organisation

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- 2 sub-sessions: 2.1 diagnosis => 2.1 solutions (good practices) & plan for improvement
- Discussions in 4 groups – reporting duo in each group  
After discussion, the group visits the 2 other tables (but reporting duo stays):
  - Listen and observe 2/3 minutes
  - Provide feedback and collect takeaways
- Return to your table and integrate what you learned at the other table

Every (duo of) participants is invited to select/ note/ document what is most relevant for his/her (their) country: **make your own diagnosis and improvement plan!**



## Session 2.1 – institutional culture and governance environment

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### Understanding the institutional culture and governance environment in which NFP operate

1. How do normal (average) governance, program/project practices, results and risks management in the public / social sectors of your country relate to the standards expected for the EEA/ Norway grants? And what are or may be the challenges / impediments for reaching such standards?
  - *Apply scale of 1 to 6 (for FM requirements and your context*
  - *Also consider % variation above and under such average?*
2. To what extent are you as NFP (and/or your programme operators and project partners) confronted with pressures to loosen the application of such standards?



## Session 2.1 – institutional culture and governance environment

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3. To what extent do bureaucratic paradigms prevail with numerous rules and regulations, but without appropriately contributing to good governance, risk mitigation and/or optimisation of results?
4. Who are the enablers (supporters) for improving governance, including effective results and risks management?
5. How do you perceive resistance to change (a scale of 1 to 6) among the different partners and stakeholders of EEA/Norway funded programs and how does this resistance manifest itself?

Consider any other relevant strengths and weaknesses of the institutional culture and governance environment



# Tool for assessing and managing capacity – scale with six levels of maturity

**1 = very weak; 2 = weak, 3 = rather weak, 4 = rather good, 5 = good, 6 = very good (role model); St = your score for the EEA/ Norway standards; Co = your score for the context**

	1	2	3	4	5	6
<b>Overall approach to good governance</b>				Co	St	
<b>Internal control system</b>				St Co		
<b>Program/ project planning and reporting</b>			Co		St	
<b>Risk management</b>						
Proportionality and effectiveness of risk management and control		Co		St		
<b>Results management</b>						
<b>Openness to critique and change</b>						
<b>Public acceptance of fraud and conflict of interest</b>						
<b>Complaints mechanism</b>						





# Tool for assessing and managing capacity – scale with six levels of maturity

**1 = very weak; 2 = weak, 3 = rather weak, 4 = rather good, 5 = good, 6 = very good** (role model)

	1	2	3	4	5	6
<b>Focus on results and value for money</b> (societal, environmental and developmental return on investment)						
<b>Embedment of continuous learning cycle</b>						
<b>Capacity for effective and timely change and adaptation</b>						
<b>Stakeholder involvement and accountability</b>						
<b>Capacity for effective partnership and synergies</b>						
<b>Transparency</b>						
Insights in informal mechanisms						
<b>Mitigating undue influence and conflicts of interest</b>						



## Session 2.2 – Identification of good practices and feasible improvements

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### Identification of good practices and planning for feasible improvements

- How to address challenges identified in sub-session 2.1? What to improve (moving from level x to level y?) and how to do that?
- Exchange experiences: both good practices and failures
- Identify conditions of success for different types of envisaged improvements
- Make best use of your support base and other opportunities identified as part of your systemic analysis
- Reflect in a pathway of change – incremental process
  - E.g. improvements including steps creating the conditions of success for to a next improvement



## Session 2.2 – Identification of good practices and feasible improvements

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### Identification of good practices and planning for feasible improvements

- Discussions in 4 groups – reporting duo in each group
  - + every participant is invited to select/ note/ document what is most relevant for his/her country
- After discussion, the group visits the 2<sup>nd</sup> next table (but reporting duo stays):
  - Listen and observe 3 minutes
  - Provide feedback and collect takeaways
- Return to your table and integrate what you learned at the other table
- Takeaways:
  - Overview of relevant good practices / recurring recommendations
  - First outline of country specific improvement plan, for discussion at country level



# SESSION 3: MANAGING INTEGRITY RISKS

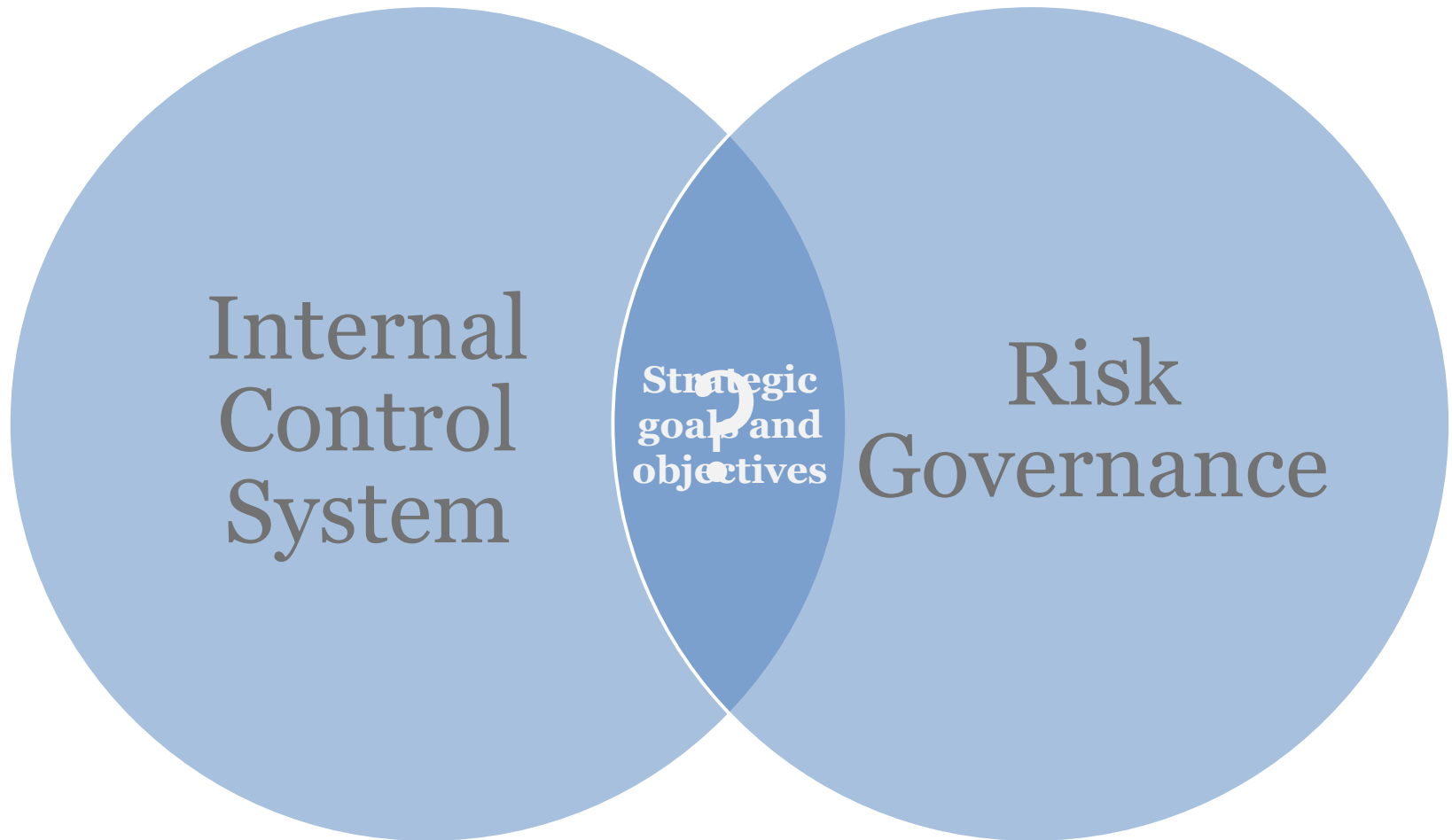


# PART 3.1



# From good governance to risk governance

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# Key components of Fraud Risk Management Framework

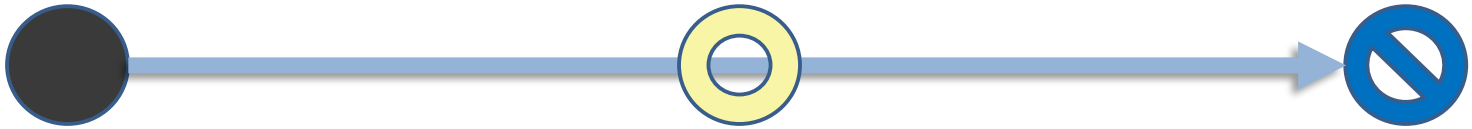
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- **Commit:** Commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management.
- **Assess:** Plan regular fraud risk assessments and assess risks to determine a fraud risk profile.
- **Design and Implement:** Design and implement a strategy with specific control activities to mitigate assessed fraud risks and collaborate to help ensure effective implementation.
- **Review and Adapt:** Review outcomes using a risk-based approach and adapt activities to improve fraud risk management.

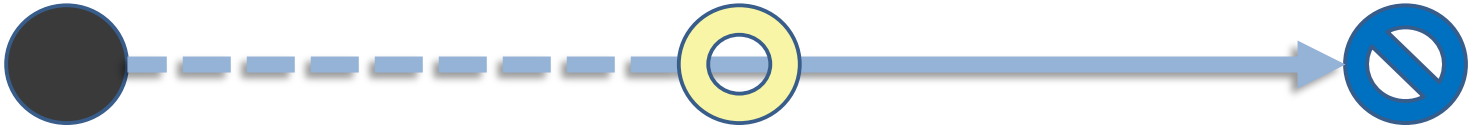


# What does an effective risk assessment look like? Or not look like?

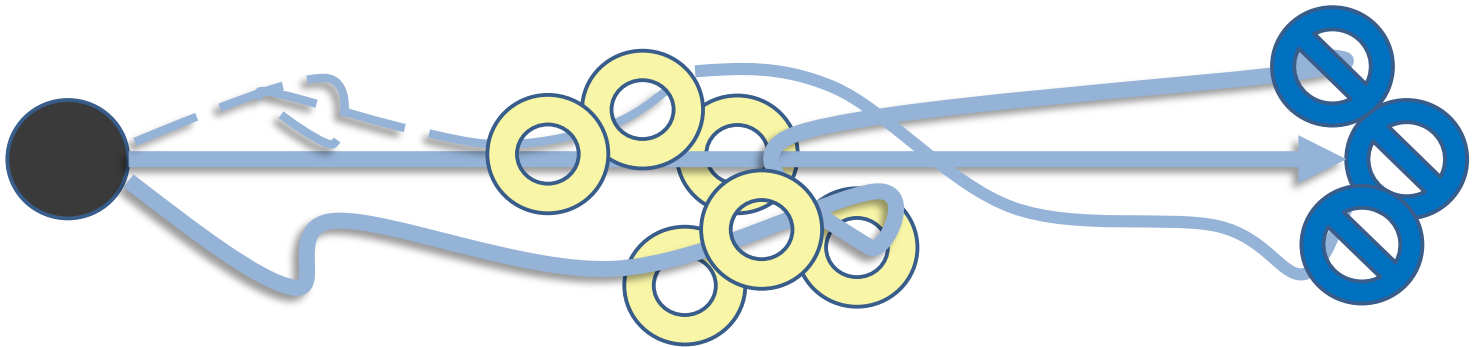
✓



✗



✗



✗







# Key actions for safeguarding integrity of ESI funds: the case of Slovakia

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## Enhancing integrity risk assessments

- Risk tolerance is not zero tolerance
- Sharpen the focus on fraud and corruption risks
- Make better use of data analytics techniques and existing databases

## Strengthening risk governance

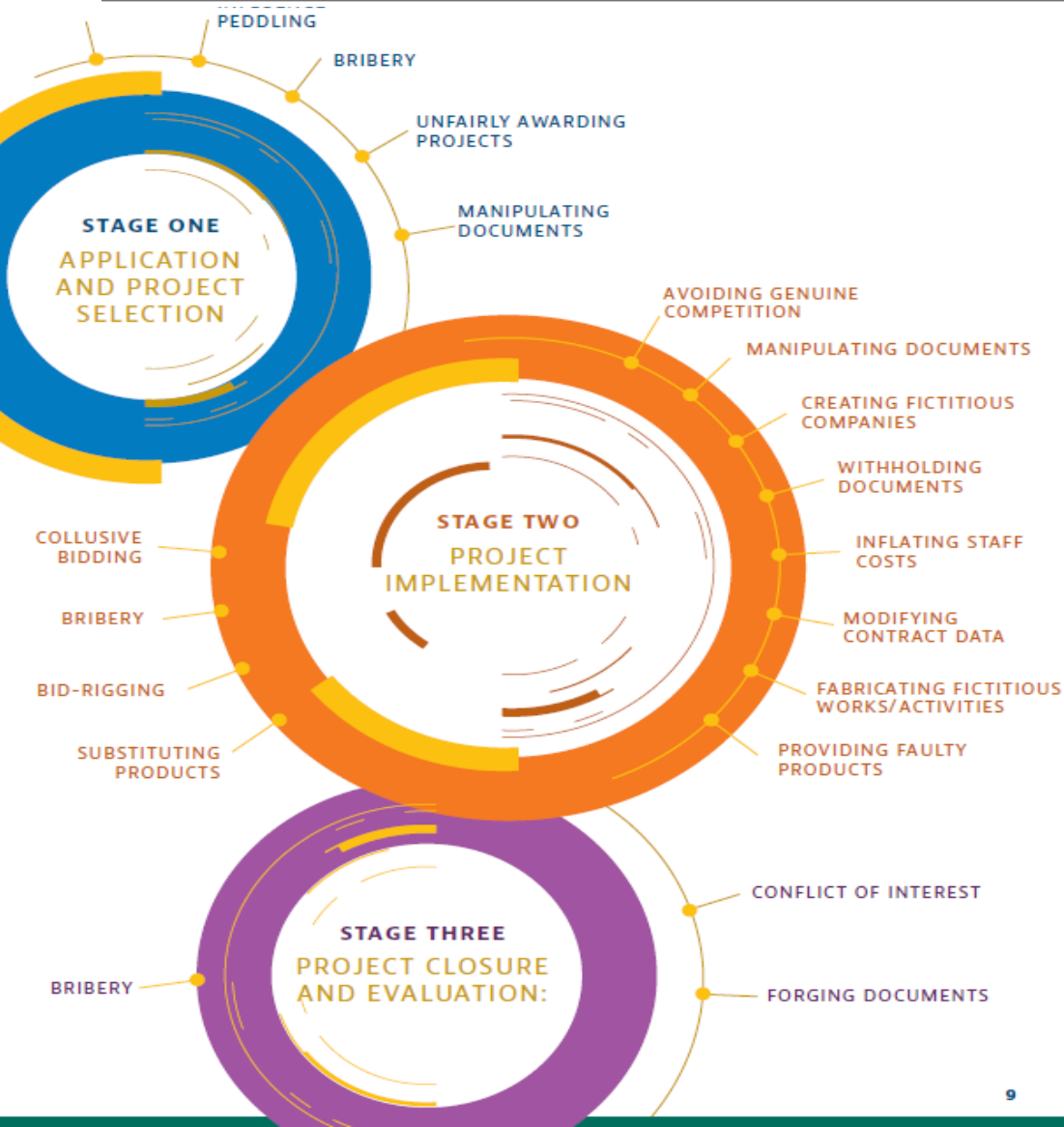
- Develop explicit anti-fraud policies
- Improve co-ordination among authorities

## Taking a systematic approach

- Increase capacity to manage risks
- Monitor and evaluate



# Common fraud and corruption risks across the EU Funds Project Cycle



With many opportunities for fraud and corruption, a “whole-of-funds” approach is needed to prevent and detect schemes across the cycle.



## Bringing together some lessons from the OECD's work

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- Linking integrity risk management to strategic objectives
- Avoiding common pitfalls of risk assessments
- Going beyond a “check-the-box” approach
- Feeding results of risk assessments into decision-making
- Monitoring and evaluating the entire risk management framework
- Not taking “culture” as context, but rather a driver.



## PART 3.2

**Risk and internal control principles and their integration into the Grant award and project cycle, regulations and procedures of EEA and countries**



# EEA and Norway Grants – Risk management principles

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- Why risk management is important in managing the EEA and Norway Grants
- The risk assessment process – **It's not rocket science**
- Actions that can be taken to address risks





# Risk

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**Risk is “an event or circumstance that may affect the achievement of expected results.”**

**Risks are inevitable.** The aim is not to eliminate risk altogether...

... but to **understand risk and manage it** more effectively with results and performance in mind.



# Principles of risk management in the Grants

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- Risk management should be a **continuous, proactive** and **systematic** process to understand, manage and communicate risk
- The process should be embedded in the **organisational culture**
- All programmes and initiatives shall follow the principles of **good governance**.  
There shall be zero-tolerance towards corruption.



# Linking risks and internal controls

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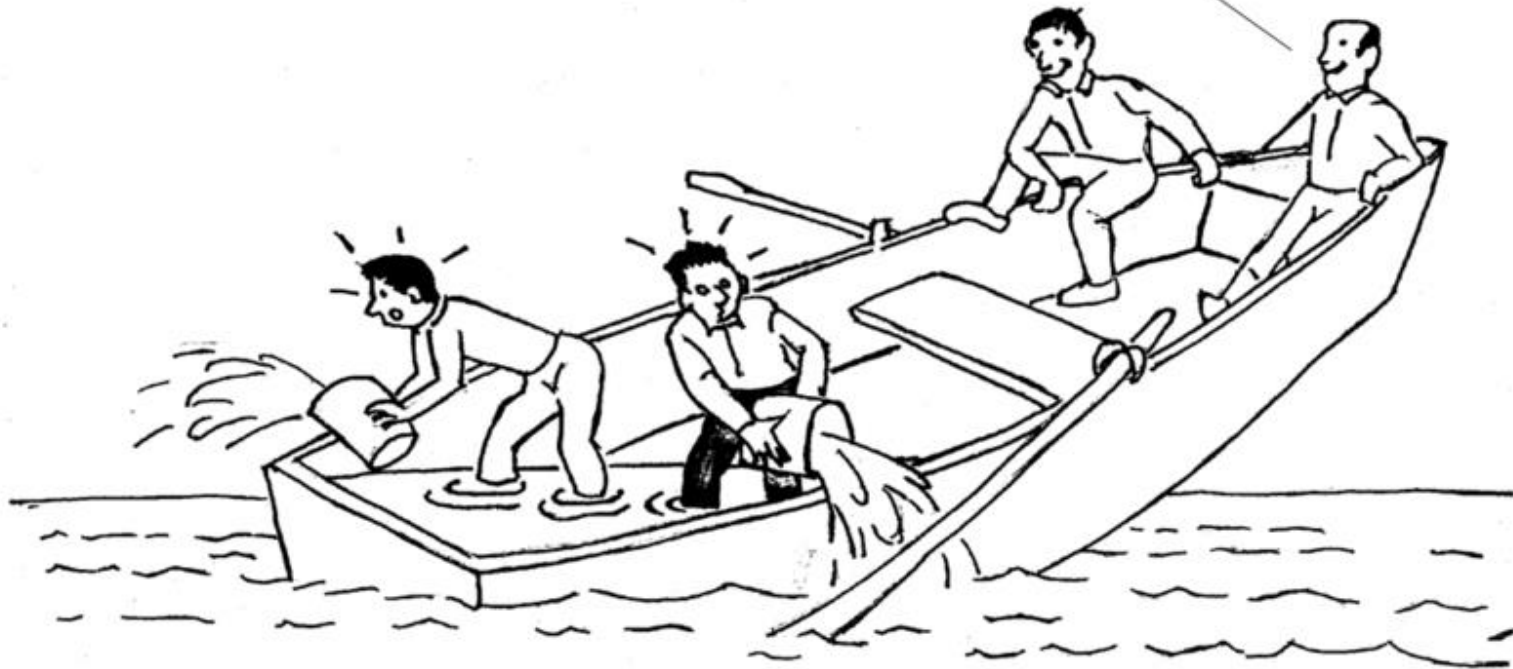
**→ Risk management →**





# Effective risk management means working together

Sure glad the hole isn't at our end.

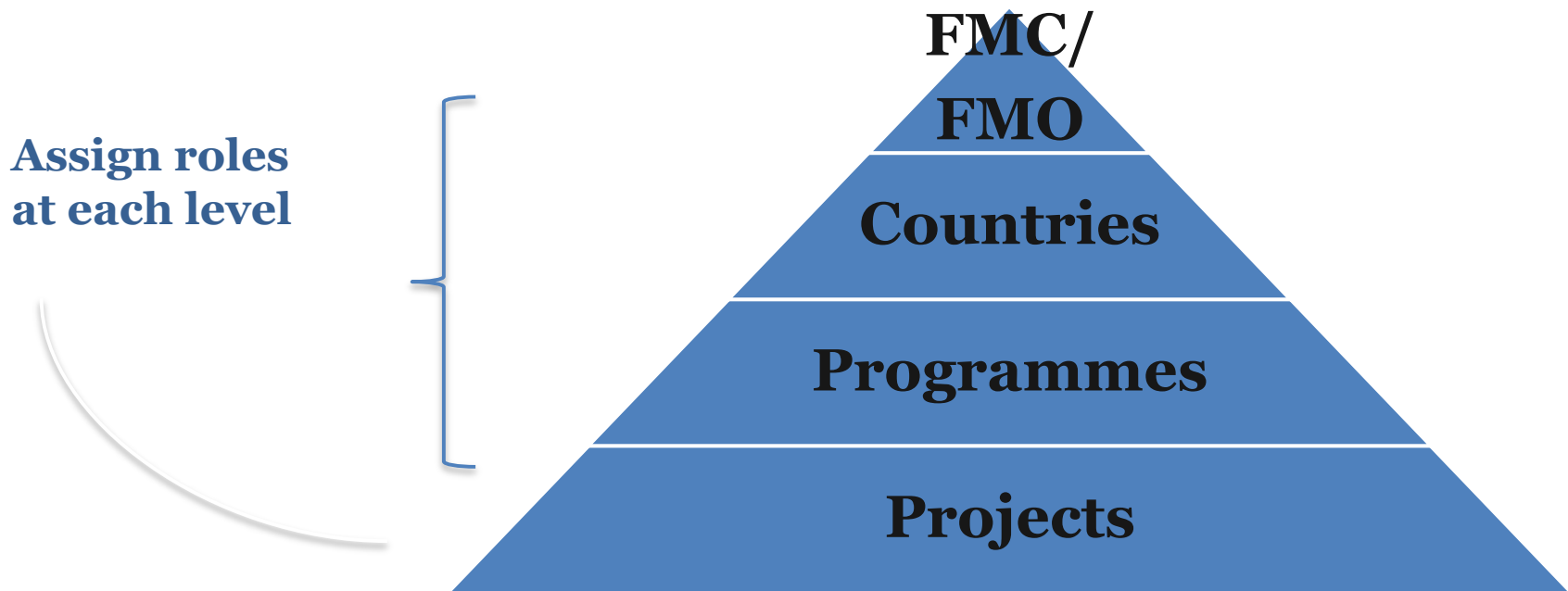




All actors in the Grants need to try to manage risks

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**Risks at national level, programme level and project levels may affect achievement of programme results**





# Role of National Focal points

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- a. Retain overall responsibility for implementation of the Grants and for reaching their objectives;
- b. Provide a detailed description of the management and control system at national level;
- c. Assess the functioning of these control systems in the Strategic Report as well as any risks and mitigation measures identified in respect of programmes;
- d. Carry out regular monitoring of the programmes;
- e. Ensure that risk assessment and reporting shall be a regular point on the agenda for the Annual Meeting between the donor states and each beneficiary state.



# Programme/Fund Operators – main responsibilities

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Part of good programme management

Identify and assess the risk factors – and **their importance as a risk to results**

Risk assessment is part of the PA/PIA phase.

- a) Develop a risk mitigation plan
- b) Report in the Annual Programme Report
- c) Ensure good governance in particular measures to avoid conflict of interest
- d) Conduct annual monitoring of a sample of projects based on risk



# Communicating on risks - When and where?

- **Before Programme Agreement Signature (PO)**
- **In each Annual Programme Report; Include DPPs/IPOs in the process. (PO)**
- **In each Strategic Report (NFP)**
- **At Annual Meetings (NFP)**
- **At good governance seminars (NFP, PO)**
- **At Cooperation Committee Meetings (PO)**
- **At technical meetings (PO); Phone discussions with FMO (NFP, PO); at JCBF meetings (NFP)**

# Monitoring risk

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Establish a system for monitoring and handling identified risks:

**During implementation, take a systematic, proactive approach:**

*For example*

- Incorporate mitigating measures into work plans
- Assign staff to mitigate risks
- Monitor progress of mitigating measures
- Identify any new risks





# Be proportionate

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## PART 3.3.1

# FOCUS ON SOME PRACTICAL ASPECTS OF INTERNAL CONTROLS





# COSO Framework of Internal Controls



The COSO framework formalizes:

- The 5 types of internal controls
- The areas of application
- The hierarchical levels



## Practical Aspects

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1. Monitoring and Evaluation
2. Control Effectiveness
3. Transparency of decision making
4. Reducing motivation for integrity risks



# Monitoring and Evaluation

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**Overarching goal:** to implement pertinent projects with long term impact along the lines of the defined programme. How shall we know it happens?

Monitoring: **Is the right thing happening in the right time in the right way?** Are the funds used in an efficient and effective way?

**The result of monitoring and (mid-term) evaluation should feed quickly into the implementation lifecycle.** The monitoring is not only for information purposes, but should optimize effectiveness. **Does it happen?**

Is reprogramming feasible, or is the processes administratively too heavy?

The **final evaluation** should feed into the next project and risk assessment. The final evaluations happens usually **too early** to show the impact and durability (1-2 years post project)



# Control Effectiveness

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**Control effectiveness (CE) is more than the sum of all controls introduced.** The term describes the total **effectiveness** of all the **controls** that act upon the sum of risks.

CE reflects on the maturity of the internal controls, and in a further step, the ability to lead consistent, complete, reliable and timely operations. Just like there is a risk map there should be a reflective control map to examine the effective coverage by controls.

Gaps or duplicities may happen – some areas experience a magnitude of controls (e.g. minor expenditures) while other areas may not be sufficiently covered. Over- under coverage should be explored. **The large risks should be covered by COSO controls proportionately and adequately.**



# Transparency of Decision Making

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Transparency supports accountability, adds to inclusivity and above all **protects the NFP from ex-post disagreements and criticisms.**

**Lack of communication is one of most common complaints for public bureaucracies.**

Numerous ways to achieve transparency:

- Document and witness decisions, best ex-ante or ex-post. Create note to file for any further use.
- Invite experts, stakeholders from other institutions to witness or participate in decision making.
- Define how each stakeholder – within the funding structure or outside should be informed
- Make decisions with others (shared responsibility) or at least in the presence of others (shared knowledge)

**These are measures that come at nearly no cost**



# Reducing motivation for integrity risk

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**Maximize transparency:** Document and make all information accessible in a timely way, at least internally or accessible for involved groups.

For complex services, involve independent technical support or supervision (as it happens, not ex-post)

**Positive motivation:** Reinforce recognition and ownership, valuation of work. Good salary for good work. Strengthen sense of ownership and possibility to present own work.

**Reduce opportunity** through lump-sum payments. Broad application of conflict of interest.

**Enhance the 4-eyes principle**



## PART 3.3.2

# FRAUD REFRESHER

FRAUD CONTRIBUTORS, NON-  
MONETARY ELEMENTS OF FRAUD



# Fraud Contributors







# Fraud Prevention

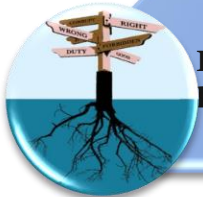


**Ensure that internal controls are applied consistently and correctly**  
**Ensure that rules stated in corporate policies and procedures are followed**  
**Red flags include missing documentation, multiple payments, adjustments in the accounting**



## **Special attention with Subcontractors**

1. Make sure the subcontractors fit the purpose
2. Make sure the quotes are competitive
3. Make sure invoices and services from subcontractors are well integrated in the audit trail
4. Make sure proper supervision and performance evaluation is performed



**Promote the Risk, Ethics and Compliance Culture in the work environment. Involve external parties and independent experts. Check on Conflicts of Interest**



**Ensure that staff knows how to report questions or issues related to Risk, Ethics and Compliance**  
**Never hold back any question or issue**  
**CONSIDER AN EXTERNAL WHISTLEBLOWER COMMITTEE**  
**ORGANIZATIONS WITH HOTLINE DETECT FRAUD MORE OFTEN**



## Areas most prone to fraud

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- Procurement and consulting services
- Payroll and HR
- Maintenance and Construction
- Reported expenses



# SESSION 4 INTERACTIVE GROUP EXERCISE AND EXCHANGE

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# HOW TO ASSESS AND EFFECTIVELY MANAGE INTEGRITY AND COMPLEX RISKS

GOOD PRACTICES, SUGGESTIONS AND  
OPEN QUESTIONS



# Structure of the Session

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**Intention** of the exercise: to look together at complex and probable risks, discuss their components, exchange views and information between NFP, NFP to FMO, and to present solutions

**90 minutes:** facilitator-group discussion -presentation

## **Process**

- **Facilitator suggests broad themes on risks and controls**
- **NFP may suggest other/related risk themes to discuss**
- **Every table (group) is assigned one theme for reflection and discussion + every group also addresses cross-cutting topics.**  
*Participants may choose their table (group)*
- **55 min.:** group work on challenges and solutions for improvement
- **20 min.:** visiting 2 other tables: collecting + contributing ideas
- **10 min.:** concluding within your group
- **5 min:** wrap-up of the session by facilitator (in plenum)



# Suggested Risk Themes for Discussion

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The risk themes proposed for discussion are systemic and concern the entire grant:

- 1. Procurement**
- 2. Selection process**
- 3. Risk of undue influence**
- 4. Lack of segregation of duties**

Every group discusses 1 major theme and cross cutting topics.

The discussion is done from the perspective of NFP's role in optimizing risk and integrity management



## Cross-cutting topics

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All four groups should include reflection on the following cross-cutting topics:

- 1. Changes in context and control environment from 2<sup>nd</sup> to 3<sup>rd</sup> programming period for the particular area**  
E.g. How did the changes in requirements from 2<sup>nd</sup> to 3<sup>rd</sup> programming period modify the possibilities for undue influence?
- 2. Civil Society Involvement and Information to the Civil Society (in that particular area)**  
E.g. How can the Civil Society involvement and information reduce the risks related to the selection process?
- 3. Elements and possibilities of NFP oversight of programme operator for the risks in the particular area.** E.g. How can/should the NFP monitor procurement at the level of PO?



## 2. Risk theme Procurement 1/2

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**Procurement represents one of the largest fraud risks.**

**As well, some procurement -such as construction- requires a complex process with complicated tendering and selection procedures, with risk of procedural errors.**

The larger the complexity, the less the inherent transparency and the higher is the opportunity for fraud or for margin of error in the tendering and selection process.





## 2. Risk theme Procurement 2/2

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Discuss internal controls that can be used on large procurements such as construction, and how to make these controls **inclusive, transparent and efficient**.

Present concrete sources of fraud risks (such as overbudgeting, kickbacks, subcontracts, phantom payments, execution in different quality/quantity etc.) and present how these risks can be hedged (e.g. through publishing of signed contracts (subcontracts, evaluation results), independent construction supervision, bench marking, external reviews/audits by experts, frequency/ coverage of audits etc.)



## 2. Risk Theme Selection of Projects 1/2

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**The transparency, inclusiveness, the neutrality of project bidding invitation and evaluation of projects should result in a significant number of valuable projects be submitted and the best chosen for implementation.**

Discuss risks that the independence and neutrality of the selection process could be tainted, by leaking of confidential information to bidders, customizing specifications to particular bidders, biased evaluators, introducing irrelevant criteria, supporting certain bidders for document submission, etc..

Sometimes, the selection of projects is concluded with substantial delay, shortening the time for implementation and so endangering the quality and quantity of results.



## 2. Risk Theme Selection of Projects 2/2

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How can these risks be hedged?

Discuss internal procedures and verification processes that ensure that the selection of project is done in a transparent and equitable manner, while keeping efficiency.

Keep in mind the three cross-cutting questions presented above



## 3. Risk Theme Segregation of duties 1/2

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**The segregation of duties (SOD) is one of essential internal control mechanisms.**

It allows separation of responsibilities along one transaction. Request, authorize and pay for a transaction, accepting and verifying the delivery of service paid should be performed by different people. The cumulation between such duties can facilitate and conceal fraud.

However SOD is costly in resources and may lead to inefficiencies, additional delays, etc. and thus in certain cases even hamper results.

What to do if SOD may be counterproductive?

How about periodically assessing the effectiveness of SOD and allow for less SOD if an alternative and better mix of risk mitigation measures may be designed and implemented?



## 3. Risk Theme Segregation of duties 2/2

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How will the NFP know that separation of duties is adequately implemented throughout PO's environment? Which instruments are at NFP service? Which number of PO offer a digital trace of SOD?

Do not forget to view the aspects of the cross-cutting topics.



## 4. Risk of undue influence (1/2)

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The selection, implementation and evaluation/ accountability of projects should be transparent and based on programme objectives and on best value on money. Nevertheless, risk can arise at various levels to unduly influence project, bidder selection or variables on project level, including its M&E. This undue influence can have a political or social background.

While the funding should preferentially reach beneficiaries in peripheral areas, regional grants have been subject to stronger influences and conflicts of interest on regional governance level.



## 4. Risk of undue influence (2/2)

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- Can such influence be exerted on level of EEA Norway programmes in your country?

For example through involvement of persons higher in the hierarchy, through certain members of selection committees, by how the call is distributed or through ‘customized’ selection criteria, through informal pressure?

- How can this risk be hedged?

Take into account the cross-cutting questions above.



- EACH GROUP TAKES ON ONE MAJOR RISK THEMES (+ CROSS-CUTTING TOPICS)
- VISITING OTHER TABLES TO BE INFORMED AND COMPLETE
- RETURN TO YOUR OWN TABLE TO CONSOLIDATE

**ALL THE TIME COMPLETE YOUR OWN OVERVIEW OF TAKE-AWAYS AND DRAFT AN ACTION PLAN FOR IMPROVED GOVERNANCE AND RESULTS & RISK MANAGEMENT**





# BACK-UP SLIDES SESSION 1



# BACK-UP SLIDES PART 1.1



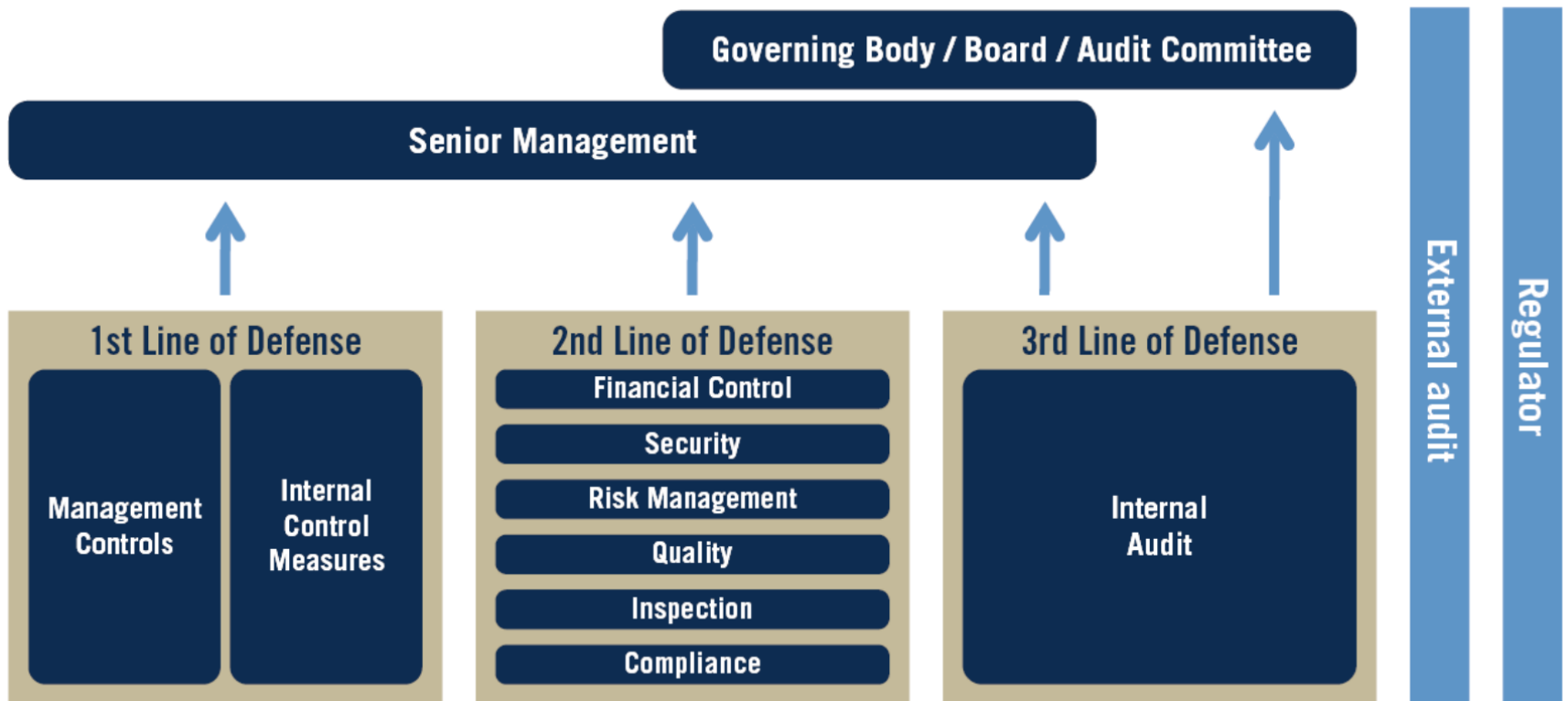
# EEA and Norway Grants RM Strategy 2014-2021 on “Good Governance”

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- All programmes and activities funded by the EEA Financial Mechanism 2014-2021 **shall follow the principles of good governance**; they shall be participatory and inclusive, accountable, transparent, responsive, effective and efficient.
- The FMO is responsible for:
  - Contributing to improving transparency, **good governance**, risk management, mitigation, and reducing corruption risks within the EEA and Norway Grants.



# Three Lines of “Defence”



Source: The Institute of Internal Auditors



# Snapshot of the OECD and Integrity Work

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- **Building** knowledge, such as:
  - Safeguarding integrity through risk management/control
  - Contributing to the evidence base on anti-corruption measures and effective auditing (e.g. comparative analyses, surveys and leading practices)
  - Closing implementation gaps through improved risk mapping and data analytics
- **Communicating** evidence through key products, such as Integrity Reviews, Government at a Glance and international standards and recommendations (e.g. 2017 OECD Recommendation on Public Sector Integrity)
- **Learning** through dialogue, workshops, forums and bridging gaps between experts



# BACK-UP SLIDES PART 1.3



## Risk assessments/management and systemic understanding (1/2)

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- Do you (as beneficiary country) conduct thorough risk assessments and what is their added value?
  - To what extent do they provide systemic understanding of risks (vulnerabilities) vis-à-vis effectiveness, value for money and integrity of EEA/Norway funded programs and projects?
  - Do the results of risks assessments lead to reduced and/or better managed risks?
  - Do you (or should you) use the findings (*of such risk assessments*) for designing and implementing *pathways of improvement to higher maturity levels* in the governance of EEA/ Norway funded programs and projects?



## Risk assessments/management and systemic understanding (2/2)

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- Do you assess the differences between legal/theoretical world and real practice?
  - Too often risk mitigation (*after risk assessments or irregularities found*) focuses on (*and remains limited to*) adding additional layers of control that hamper the work of those doing well while “wrongdoers” learn to avoid such additional controls?
  - Merely copying international good practices (*e.g. whistleblowing mechanisms*) will not work if the conditions of success (*e.g. trust/ confidence/ public support*) are not there.
- Do you recognise such pitfalls?
  - How do you ensure that ‘formal’ and ‘informal’ risk mitigation are aligned? Any good practices to share?





Applying change management principles and practices to shift paradigms, improve ownership and foster progress in institutionalising risk management and control



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## **A. Introduction ... and warming up**



## A1. Who needs *change management* to promote integrity and combat corruption?

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- Who has felt the need for (improved) “*change management*” when fostering integrity and enhancing risk management & control?
- What were/are your key change questions or issues in this context?
- Do you have any relevant “change experiences” to share related to enhancing integrity, risk management and control?
- What you always wanted to know about “facilitating change”?
- What is ‘contradictory’, potentially confusing, in the commonly used term ‘change management’?
- What should be the learnings, your *take-away*’s on this topic?



## A2. Management ownership of risk management and internal control – any change issues ?

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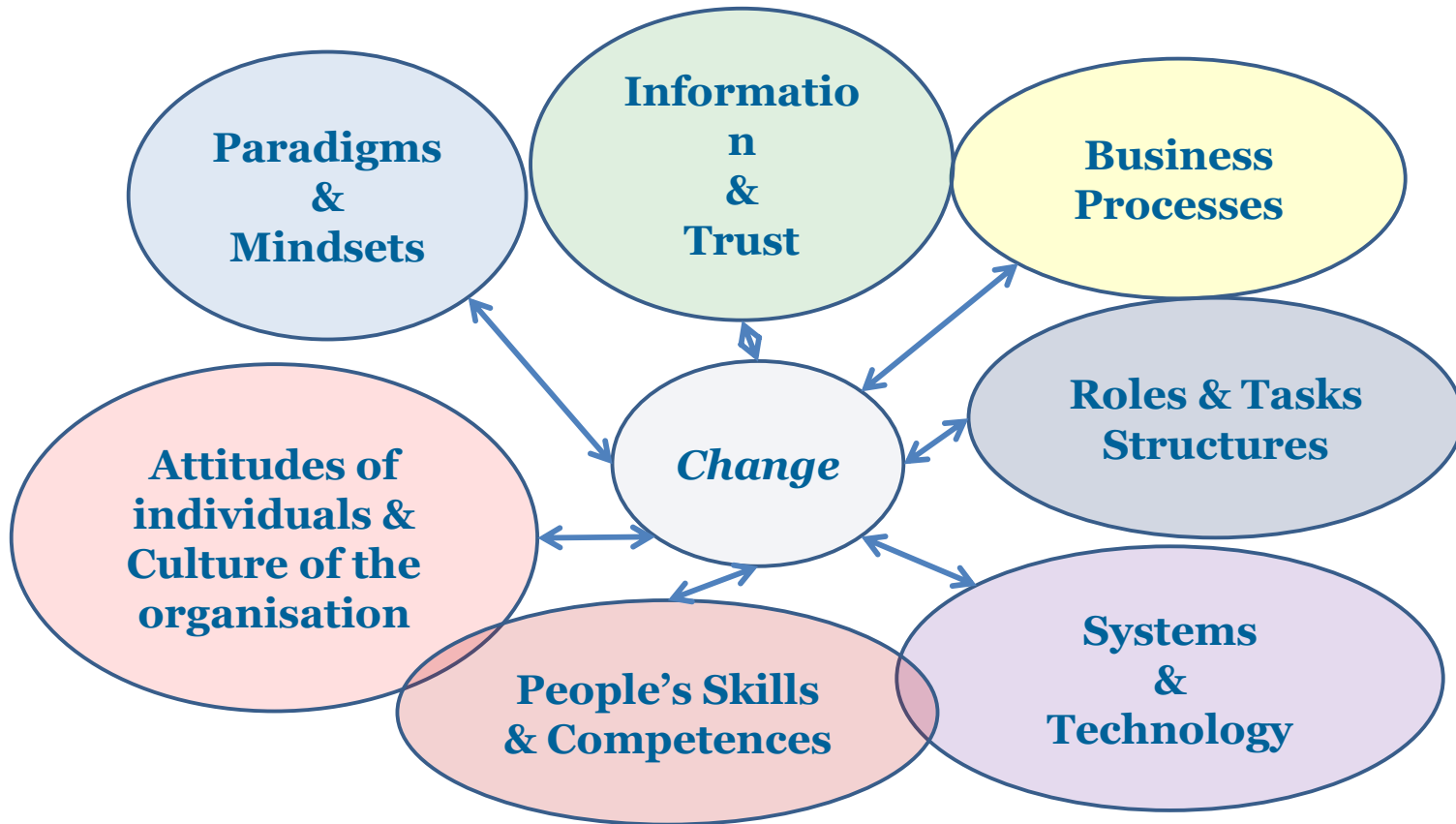
- How do you score such ‘management ownership’ in the public sector of your organisation?
  - (range of 1 to 6 : (1) very weak; (2) weak; (3) rather weak; (4) acceptable / rather good; (5) strong and (6) very strong
- What (do you think) is hampering such management ownership?
- Why is it important to enhance this management ownership?
- What are the related key “change issues”?
- How comfortable are you with how to foster management ownership of integrity, risk management and control among the actors / stakeholders of EEA and Norway grants in your country?



## **B. Some basic change concepts**



# B.1 Where should the change process start?





## B.2 Resistance to change

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- Why do people resist change ?
- When & why have you (yourself) resisted change ?
- What characterises resistance to change towards enhancing integrity and reducing Fraud in relation to EEA and Norway grants?
- What can/shall a change facilitator do when confronted with (fierce) resistance to change?



## B.3 Causes of Resistance to Change

---

Resistance to Change may come from those who ...

- Feel *threatened* by the change (fear loss of: power, prestige, opportunities – e.g. career, preferential status; need to develop new skills)
- Do *not understand* the *need* for and/or *implications* of the changes
  - ✓ A smooth and successful change process is very difficult when stakeholders believe that the “status quo” is a good (or the only) option?
- They *lack trust* : in the ‘change agents’, in probability of success, in their own capacities to profit from newly emerging opportunities
- Other: plain laziness or obstinacy (rare – hiding underlying causes?)





## B.4 How to cope with resistance to Change?

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*Resistance to Change may come from those who ...*

- Have a **good reason** to resist



Certainly do not ignore or marginalise those who resist the change process

- First try to understand their reasons for resisting the change
- Open up to their queries, doubts, etc. and use them for improving your ambitions and strategies to change (e.g. towards more integrity and less corruption in implementing EEA and Norway grants in your own country)

*Change facilitators* must :

- Address: Fear – Uncertainty – Doubt – Knowledge gaps – Lack of Trust
- Facilitate *real paradigm shifts* (shared belief: it is possible & beneficial)



## B.5 Manage resistance to change

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- Demonstrate clearly that the “status quo” is not a viable option and explain why!
- Listen well to the reasons and doubts expressed by those who resist change and provide real answers
- Do not be afraid of or allergic to resistance to change: use the energy
  - Understand and make good usage of resisting forces
  - Good opportunities to: (a) understand the potential weaknesses, loopholes and/or missing conditions of success for the change ambitions and (b) to improve the change strategy
- Involve those who resist in improving the ideas / pathways of change
- Create valid, healthy and sustainable new perspectives for stakeholders
- *You want to be “trusted”? .... Be trust worthy!*



## B.6 Moving towards enhanced management ownership – dealing with resistance

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- What type of blockages / resistance do you expect when promoting / demanding enhanced management ownership of risk management, internal control and performance management?
- How does this relate to public sector organisational cultures in your own national context?
  - Relate this to: risk appetite, to empowerment of operational management, acceptance of a certain level of (integrity) risks, ...
- How to deal with such blockages and resistance?



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**C. Specific change challenges and conditions of success for enhancing integrity and value for money in implementing EEA and Norway grants in your country**



## C.1 The beliefs / paradigms prevailing your context?

---

You cannot successfully conceive / implement pathways of change towards enhanced integrity and value for money without understanding, taking into account and addressing key stakeholders' beliefs and paradigms !

What are the prevailing paradigms in your public sector context?

1. Corruption : normal  $\Leftrightarrow$  abnormal ?
2. Hierarchical – rules-based  $\Leftrightarrow$  Merits-based and empowerment?
3. Compliance-focus  $\Leftrightarrow$  Performance- and/or Results-focus and “Value for money”?
4. Complexity and bureaucracy:  
power base for bureaucrats  $\Leftrightarrow$  detrimental (economy/society)?



## C.2 How to foster paradigm shifts?

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- Without neglecting the explications and methodology, paradigm shifts are triggered by “real demonstration”, by clear successes.
- A ‘mind blowing’ experience => you see differently after the ‘shift
- Understand the context in which you operate and develop feasible and progressive change paths
  - ✓ Focus on generating convincing (initial – subsequent) successes, thus demonstrating concrete progress (= progress markers)
  - ✓ Initially focus on ‘quick wins’ / low hanging fruit)
  - ✓ Intermediate successes that are instrumental in building a support base (e.g. early adopters => 1 proof people => 10 proof people => late majority)
  - ✓ Intermediate successes that fit in a well-thought-through result chain; each time reuniting the “conditions for success” for the next steps.



## C.3 Align the (real) incentive systems

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**Understand the (real) incentive/reward system and modify it to be more aligned to the ambitions of integrity, performance and effectiveness!**

Understand the challenges and conceive more ‘healthy systems’:

- What about people having invested (informally) to reach a position and expecting to obtain (informal) return on their investment?
- What about focussing on more transparent, efficient and lean processes that guarantee proper public service delivery to citizens / organisation; thus eliminating any corrupt business model of system?
- Evolving to “value for money” procurement of services, goods and works
- Procurement of public infrastructure based on life-cycle-costing and renting/leasing of infrastructure meeting quality requirements
- ...



# C.4 Applying the “3 lines of defence” model







## C.5 Conditions of success for 1<sup>st</sup> & 2<sup>nd</sup> lines

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- The model implies *real empowerment of operational management*, coupled with *holistic accountability on performance, value for money and integrity* of the program / projects (and corresponding partner organisations).

To what extent does that fit within the evolving national contexts?

- How to further foster *1<sup>st</sup> line ownership of risk management and control*, among operational management and their staff?
  - ✓ Essential role 2<sup>nd</sup> line professional specialists in support of line managers!
  - ✓ Clear organisational vision and mission with shared values
  - ✓ Avoid bureaucratic risk management / controls, increasing the burden on the organisation ⇔ *embedment in lean, e-based and optimised processes*
  - ✓ Realistic and incremental ambitions – *recognize and reward progress*
  - ✓ Build trust – Avoid ‘window dressing’ – *Tackle incompatible behaviour*



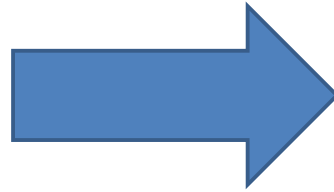
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## **D. Theories and pathways of change** **Towards integrity ... through risk management & control**

## D.1



**Current  
status?**



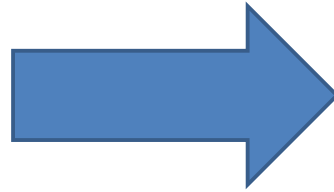
**Desired status?**

- **Legal and regulatory framework**
- **Overall context – attitudes of political leadership, business sector, civil society**
- **Acceptance of risks ⇔ Required levels of transparency & accountability**
- **Public sector or implementing partners' organisational culture**
- **Professional skills and know-how in management / risk / control / integrity**
- **Remuneration and reward system of staff / officials**
- **Level of maturity with regards to internal control and risk management framework**
- **Remuneration & (real) incentive systems**
- **Shared concepts & tools related to risk management & control ⇔ audits**
- ...

## D.2



**Current  
status?**



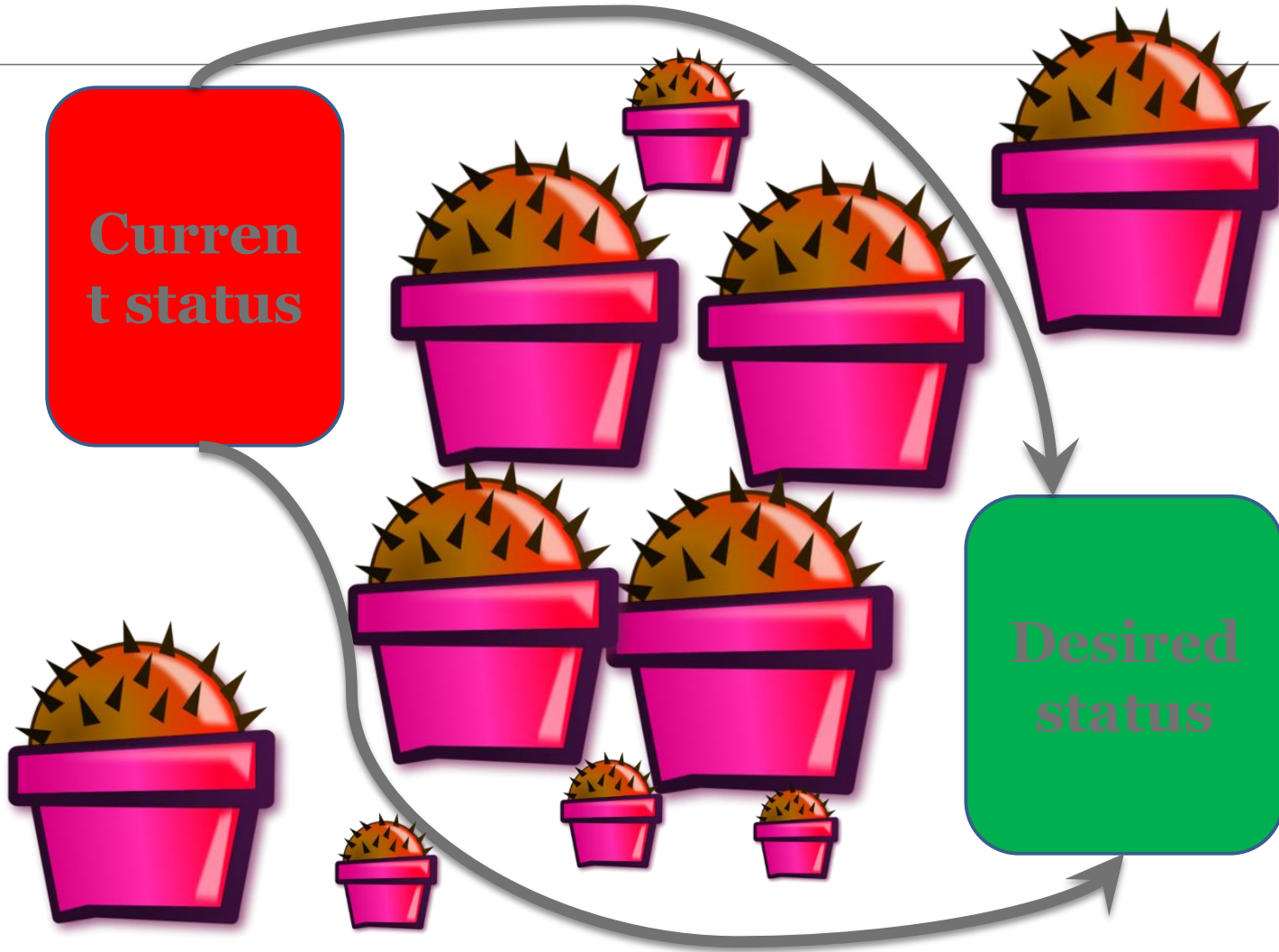
**Desired status?**

*What characterises the ongoing reforms in your context?*

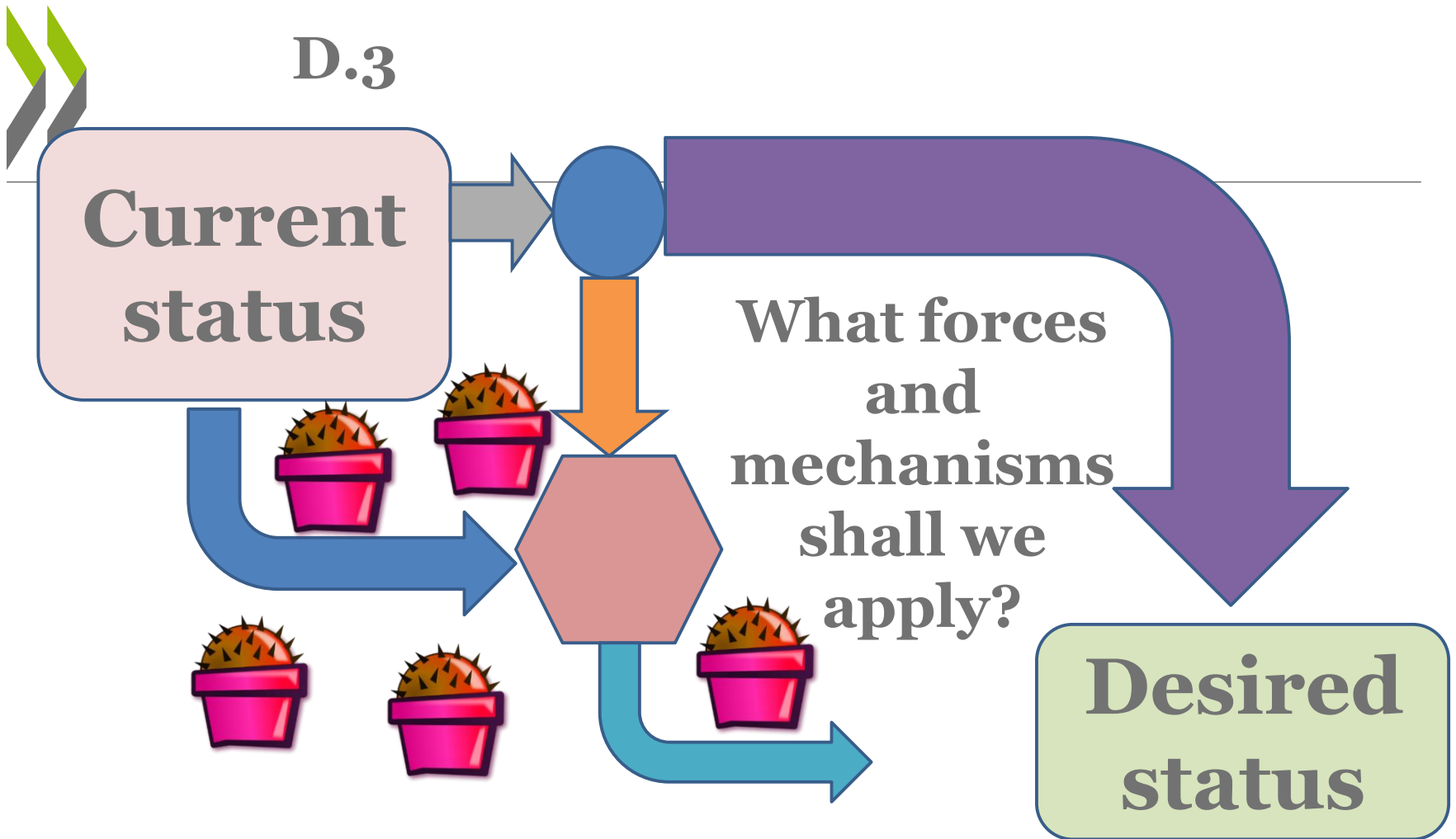
Topic	Start status	Ongoing change	Desired Status



## D.3 A pathway of change



## D.3



How to get there? What are the steps?  
What obstacles and potholes to avoid?

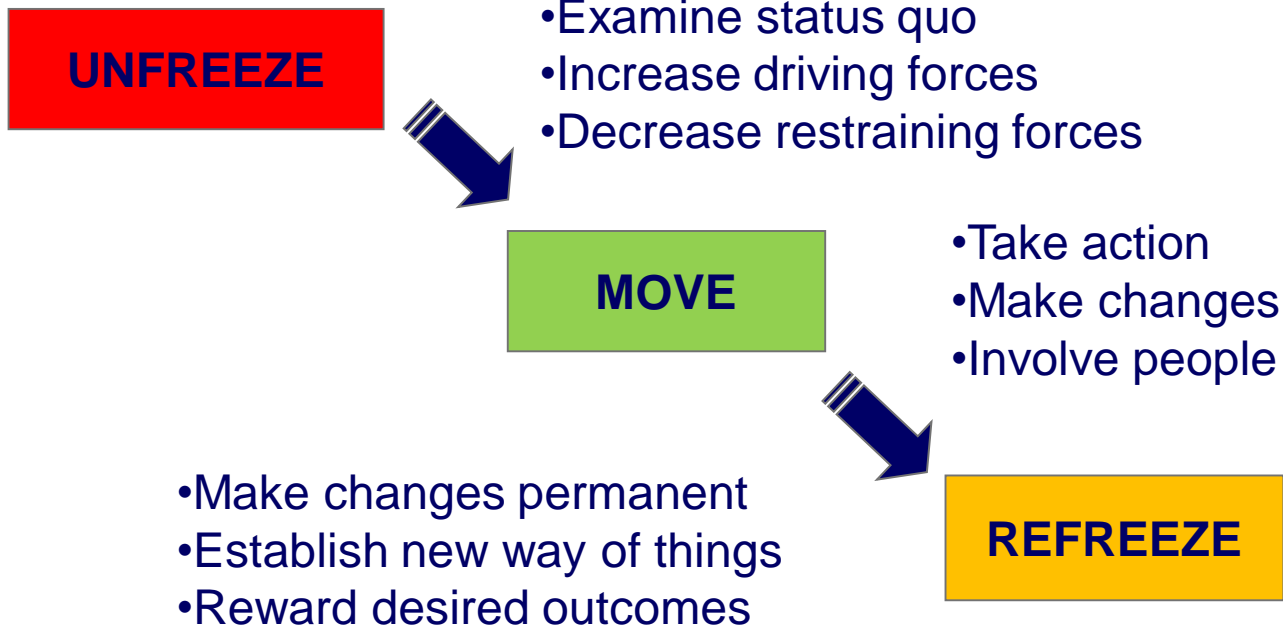


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## **E. Some methodological concepts of change**



# E.1 Change Methodology - Lewin



What do you think of this “simple” concept?

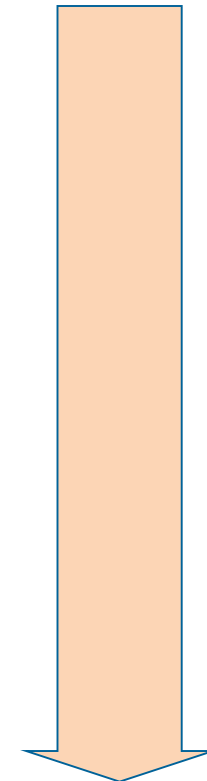
What strengths?  
Any drawbacks?





## E.2 Change Methodology - Kotter

1. establish a sense of urgency
2. form a powerful guiding coalition
3. create a vision
4. communicate the vision
5. empower others to act on the vision
6. plan for and create short term wins
7. consolidate & produce more changes
8. institutionalise new approaches



What do you think of this further elaborated “8-step” concept?

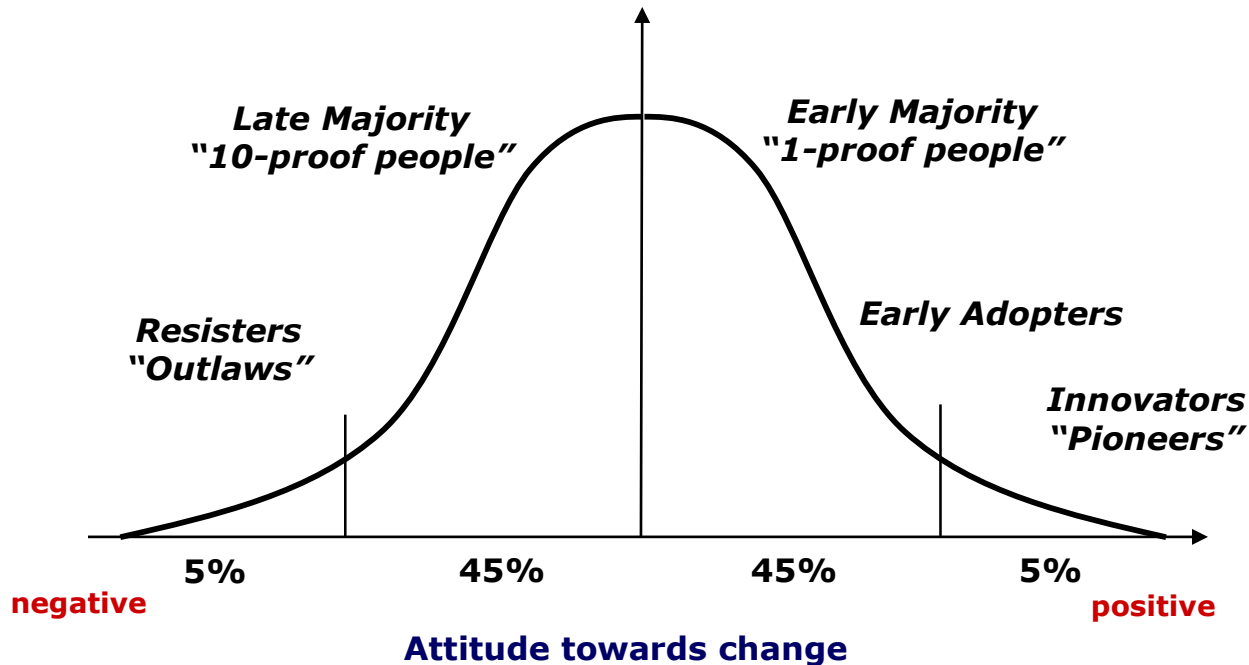
What strengths?  
Any drawbacks?

sources: Kotter (1995)



## E.3 How do people react to change?

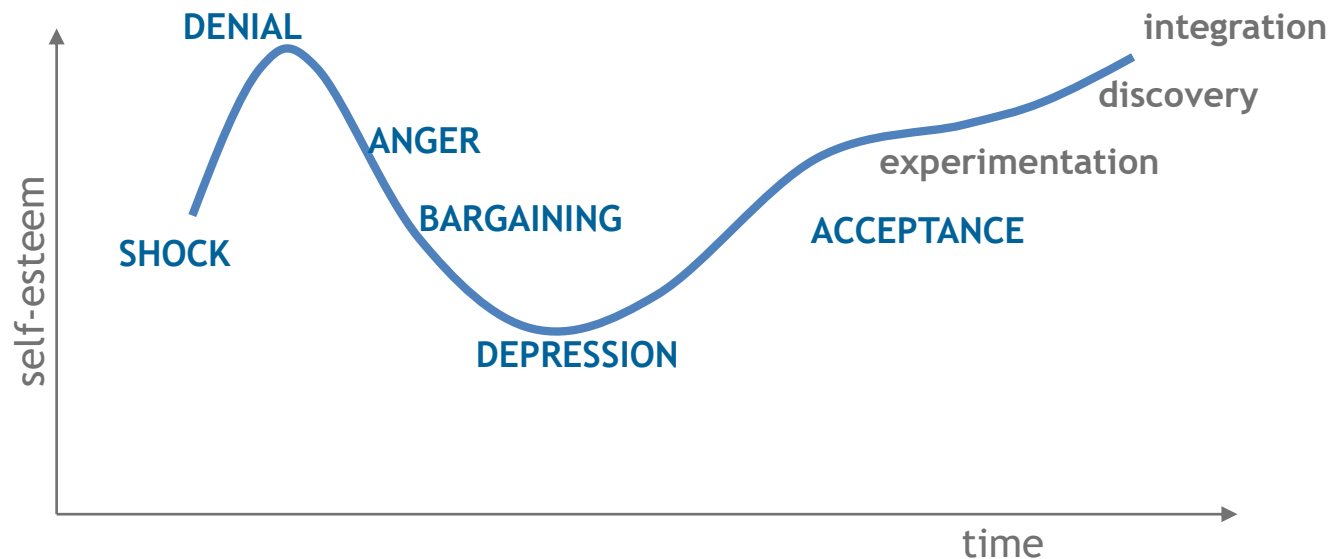
- a typical profile of attitudes to change in organisations





# E.4 Emotional stages in dealing with change

Evolution in psychological (and emotional) state when faced with changes



source: Kubler-Ross (1969), Adams et al. (1976)



## E.5 Acceptance of change

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After the shock, the denial and the depression => 'acceptance' is the new starting point to (actively) involve the concerned stakeholders

But:

- ✓ The psychological process is different from one person to another and is strongly influenced by the context
- ✓ The acceptance is not gained at once
  - People may relapse in resistance
  - Difference between : rational en emotional acceptance
- ✓ Relapse in resistance to change because of deception or lack of trust (trust in yourself or in the team that is driving the change)



## E.6.1 Spheres of control, influence and concern

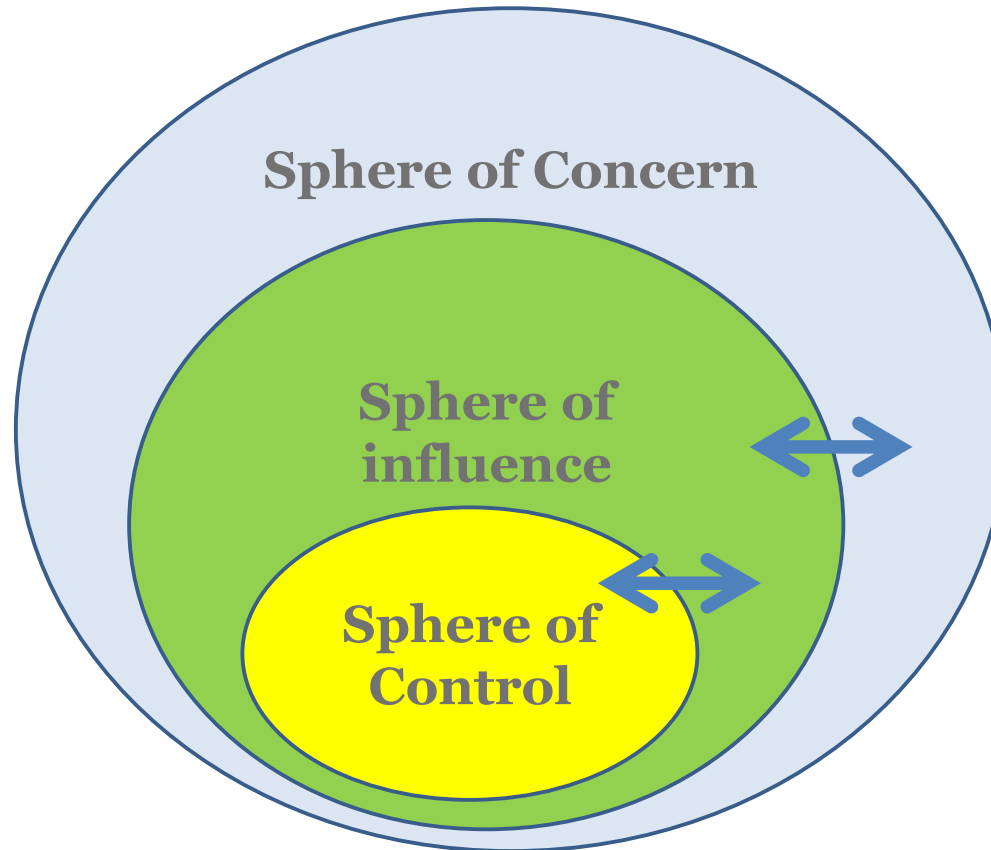
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- What are your spheres of control, influence and concern?
- How to these spheres interact?
- Why does it matter to reflect using this 3 spheres' model?
- How does change relate to these 3 spheres
- How does healthy/effective leadership relate to these 3 spheres?



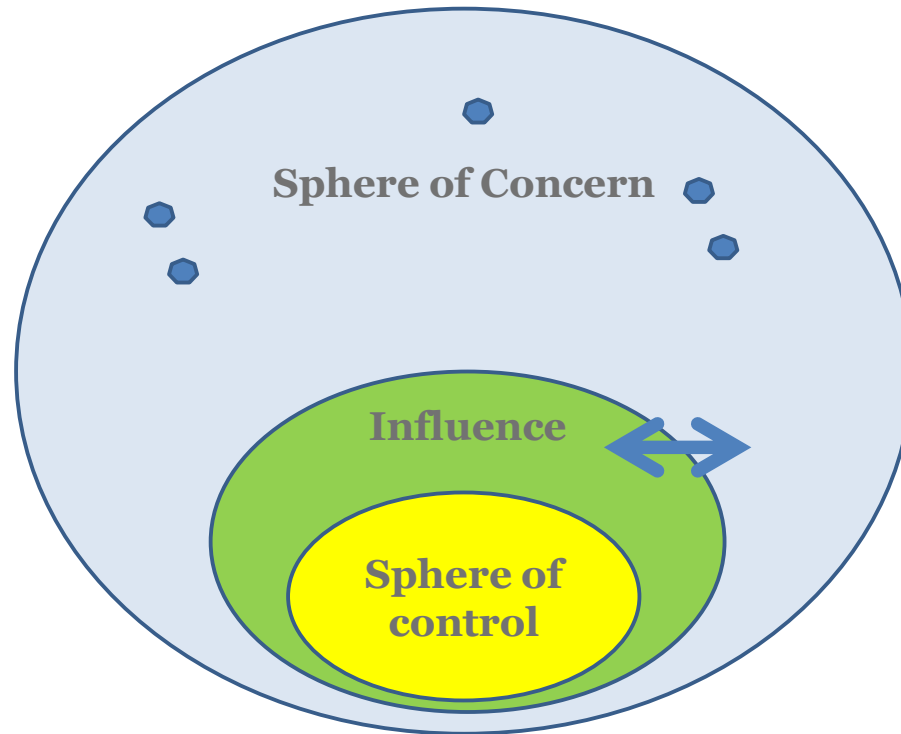
## E.6.2. Good performance often leads to growth (extension) of your spheres of influence and control.

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## E.6.3. Loss of energy and reduced influence





# BACK-UP SLIDES SESSION 3





# BACK-UP SLIDES PART 3.1



# Moving from design to implementation (commit)

## Organizational Culture

**Structure**

Senior-level  
Commitment

Dedicated  
Entity

Clear roles

Inclusive



Moving from design to implementation (assess)

# Plan Assessments

**Fraud Risk Profile**

Tailored and iterative

Inherent Risks

Likelihood and impact

Risk tolerance

Suitability of controls

Document

Stakeholders, data and tools



# Moving from design to implementation (design and implement)

## Strategy

### Risk-Based Control Activities

Prevention

Cost-Benefit Analysis

Data Analytics, Awareness, Reporting Mechanisms and employee integrity

### Action Plans

Response and referrals

Collaborative Relationships

Incentives

Guidance

Roles and Responsibilities

Link to other risk activities



# Moving from design to implementation (evaluate and adapt)

## Risk-based monitoring, comprehensive evaluation

### Adapt

Feedback loop

Leveraging results of investigations and prosecutions

Communicate results and corrective actions

### Outcome Measurement

Engage all levels of organisation

Adherence to leading practices in the absence of data

Data and trend spotting

Accounting for internal and external factors



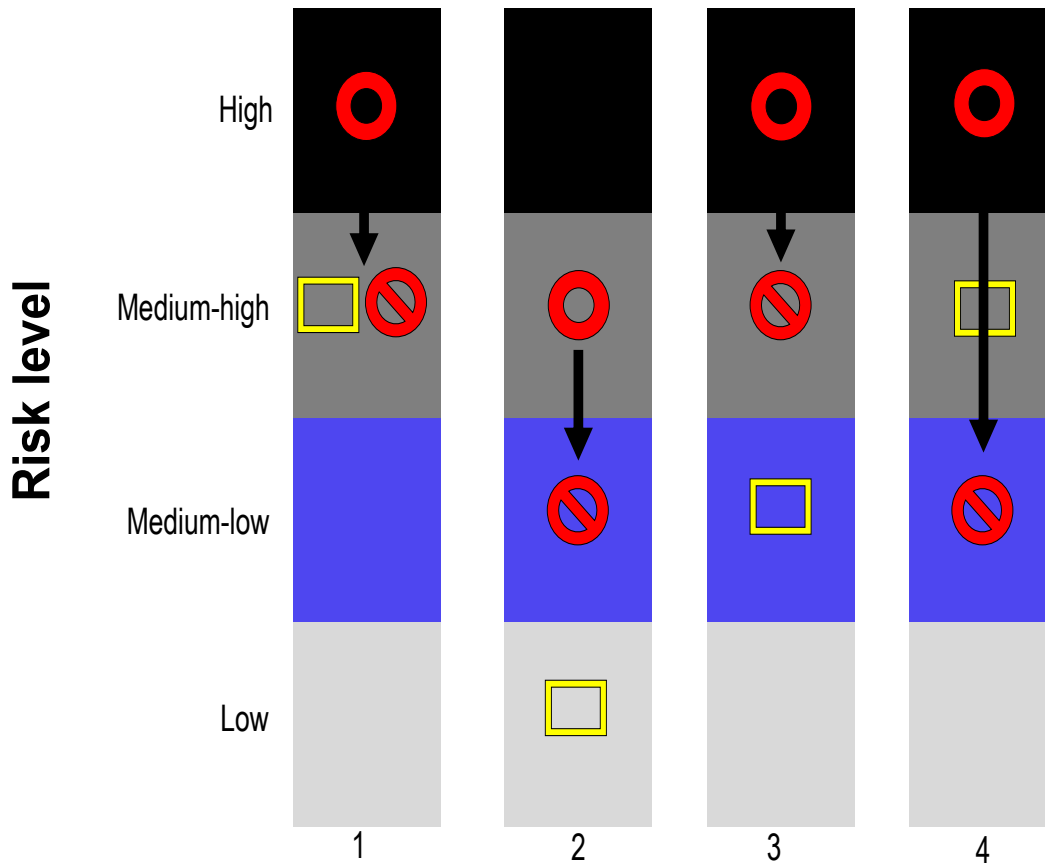
## Risk tolerance in theory vs. practice

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- What is it?
- Risk management strategy:
  - A continuous, proactive and systematic process of identifying, assessing and managing risk in line with the **accepted risk levels** to provide reasonable assurance as to achieving the expected results
  - There shall be zero-tolerance towards corruption.
- What does this mean in practice?



# Risk tolerances explained



• *Column 1* - Risk tolerance and residual risk align, indicating risk and mitigation measures at an optimal level.

• *Columns 2 and 3* - Risk tolerance is lower than residual risk, indicating mitigation measures are insufficient to reduce risks to acceptable level.

• *Column 4* - Risk tolerance is higher than residual risk, indicating mitigation measures are excessive.

 *Inherent risk level*

 *Residual risk level*

 *Risk tolerance*



# BACK-UP SLIDES PART 3.3





## HR and capacity constraints

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- Lack of knowledgeable HR leads enhances the risk of fraud and hampers implementation
- The needs to be agreed beforehand and monitored.
- Have a training plan.
- Make job rotation possible.



## Not only about money. Fraud means also....1/2

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- Give or promise undue advantages (including gifts & entertainments) to parties that influence the project selection or implementation
  - Accept or request advantages.
  - Use of third parties for paying bribes and facilitations, receiving any facilitation fees
  - Disseminate confidential information to bidding parties
  - Customize bidding or call information with the purpose that it fits one particular bidder



## Fraud means also....2/2

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- Bid rigging - Sharing information on competitors, their methodology and price and coordination of the submitted offer with competitors during a tender process.
- Refusal to deal with a bidder based on administrative details.
- Selective exchange of sensitive information with bidders during tender process. Selective advice to bidders