Independent Review of icare's Improvement Program

Progress in Addressing the McDougall and GAC Recommendations

Prepared by Promontory Australia, a business unit of IBM Consulting

Interim Establishment Report

6 December 2021

Promontory Australia, a business unit of IBM Consulting, has been engaged to provide assurance services for the icare Improvement Program as it relates to the McDougall and GAC Recommendations. These assurance services include reviewing and providing an interim report on the establishment of the Improvement Program.

This is our interim report on the establishment of the Improvement Program. A final report on the establishment of the Improvement Program will be provided at a later date.

Representatives of icare have reviewed a draft version of this report for the purposes of identifying possible factual errors. Promontory is responsible for final judgement on all views and information in this report.

This report is provided solely for the purposes described above. Promontory's assurance role may not incorporate all matters that might be pertinent or necessary to a third party's evaluation of icare's Improvement Program or any information contained in this report. No third-party beneficiary rights are granted or intended. Any use of this report by a third party is made at the third party's own risk.

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Contents

Abbreviations & Definitions

BAU	Business-as-usual
Dore Review	The compliance and performance review of the NI Scheme conducted by Janet Dore in 2019 on behalf of SIRA
EI Plan	Enterprise Improvement Plan
EI Program	Enterprise Improvement Program
GAC	Governance, Accountability and Culture
GAC Recommendations	The 76 recommendations made in the GAC Report that are relevant to icare
GAC Report	The report delivered at the conclusion of the GAC Review
GAC Review	PwC's Independent Review of icare's governance, accountability and culture
icare	Insurance and Care NSW
Improvement Program	icare's program of work to, among other things, address the McDougall Recommendations and GAC Recommendations
Line 1	icare's first line of defence, the front line and operational function
Line 2	icare's second line of defence, the risk function
Line 3	icare's third line of defence, the internal audit function
McDougall Recommendations	The 31 recommendations made in the McDougall Report that are relevant to icare
McDougall Report	The report delivered at the conclusion of the McDougall Review
McDougall Review	The icare and State Insurance and Care Governance Act 2015 Independent Review
NII Plan	Nominal Insurer Improvement Plan
NII Program	Nominal Insurer Improvement Program
NI Scheme	Nominal Insurer Scheme
NSW	New South Wales
Plans	The EI Plan and NII Plan
Programs	The EI Program and NII Program
Promontory, we or us	Promontory Australia, a business unit of IBM Consulting
Recommendations	The McDougall Recommendations and GAC Recommendations
Reform PMO	The Reform Program Management Office
Report	This Interim Establishment Report dated 6 December 2021

Reports	The McDougall Report and GAC Report
Reviews	The McDougall Review and GAC Review
SIRA	State Insurance Regulatory Authority
Scheme Agents	Outsourced service providers
SICG Act	State Insurance and Care Governance Act
TMF	Treasury Management Fund

Executive Summary

This is the Interim Establishment Report that Promontory is required to provide as Independent Assurer over icare's Improvement Program.

This report sets out the background to the establishment of the Improvement Program, the current structure of the Improvement Program, our role in providing assurance, and broader observations on the key features that contribute to the success of such programs. As this interim report is being provided very early in our assurance role we have not made specific observations or assessments of the Improvement Program at this point.

Background

icare is responsible for managing over a dozen insurance and care schemes within NSW, the largest of which is the Workers Compensation Nominal Insurer Scheme.

Concerns about icare's compliance and performance in recent years resulted in a number of reviews of its operations, governance, stakeholder management and risk management frameworks.

The McDougall and GAC reviews, in particular, made several findings, including that:

- icare did not establish sound processes and principles in relation to:

  - procurement practices;

  - probity; and

  - conflicts of interest.

- The voice of customers had not been appropriately represented in governance processes.

- Accountabilities had not been well-defined.

- Employees were discouraged from raising cultural and operational shortcomings with senior management.

As a result of these and other findings, the McDougall and GAC reviews made a number of recommendations, including that icare should:

- ensure that the executive team proactively manages risks and obligations;

- establish clear accountabilities across all levels, enabled by effective performance management and consequences; and

- create a culture whereby perceptions, attitudes and behaviours of icare staff reinforce the importance of governance, risk and accountability.

The Improvement Program

In response to the McDougall and GAC reviews icare publicly expressed its commitment to improve. icare is addressing the recommendations made by the reviews through the Improvement Program.

The Improvement Program consists of two main sub-programs:

- the Enterprise Improvement Program, which aims to address recommendations that apply across the whole icare organisation; and

- the Nominal Insurer Improvement Program, which aims to address recommendations that apply to the Workers Compensation Nominal Insurer Scheme.

92 of the 107 recommendations made by the McDougall and GAC reviews are being addressed through the Enterprise Improvement Program. Another nine recommendations are being addressed through the Nominal Insurer Improvement Program. The remaining six recommendations made by the reviews are being addressed through business-as-usual improvement activities outside of the Enterprise Improvement Program and Nominal Insurer Improvement Program.

As at the date of this report there is evidence, based on material received from icare, that considerable work has commenced across a range of areas in the Improvement Program. Furthermore, there has been significant work undertaken to develop 'program infrastructure' such as governance and reporting arrangements. For example, a range of governance forums have been established to provide oversight and direction for the Enterprise Improvement Program and Nominal Insurer Improvement Program. Foremost among these forums are the Steering Committees that govern each of the sub-programs. Promontory notes that we have not as yet assessed the work that has been undertaken to date.

The Reform Program Management Office has been established within icare to manage the delivery of the Improvement Program as it relates to the recommendations of the McDougall and GAC reviews.

Promontory's Role

Promontory will provide independent assurance services for the Improvement Program as it relates to the recommendations of the McDougall and GAC reviews. These independent assurance services will include:

- monitoring the status and progress of the Improvement Program;

- assessing whether the artefacts provided by icare evidence that improvement activities have adequately addressed the relevant recommendations; and

- reporting on our findings.

We will also assess the ongoing adequacy of key elements of program infrastructure such as governance and reporting, communication and resourcing. We will also report on any potential risks to the successful execution of the Improvement Program that we identify.

Areas of Focus

While we do not make specific observations on the Improvement Program at this stage, we have provided general observations on key elements that contribute to the success of programs designed to uplift governance, culture and accountability. These 'areas of focus' should be considered by icare as it develops and implements its program. These include:

- Senior Leadership – a key component in the successful execution of remedial programs of this nature has been strong senior leadership oversight and engagement, including at the Board level.

- Rigorous Program Delivery Disciplines – there are several important aspects of project management disciplines, including that the objectives of the program are clearly established at the outset, that internal assurance over the health of the program is conducted and that appropriate prioritisation is applied to manage competing priorities. In particular, it is important to prioritise the more challenging aspects of the program early to ensure that timely remediation is not put at risk through delays.

- Managing Interdependencies and Keeping it Simple – successful programs have processes in place to manage interdependencies between initiatives, and simplicity is kept front-of-mind in setting up and executing such programs.

- Timing – it is vital to delivering good outcomes that a sense of urgency is balanced with long term commitment. Timeframes should be developed that support high quality and sustainable outcomes.

- Communication – clear communication around the aims and key elements of the program helps to ensure organisation-wide commitment and assist with addressing challenges which may arise during the course of the program.

- Sustainability – it is key to the success of such programs that the organisation not only operates in line with the targeted outcomes but that they continue to do so into the future.

1. Introduction

1.1. Background

In 2015 the New South Wales (**NSW**) Government passed the State Insurance and Care Governance Act (**SICG Act**) which, among other things, created Insurance and Care NSW (**icare**). icare was established as a NSW Government Agency governed by an independent Board of Directors who are appointed by the Responsible Minister, currently the Treasurer of NSW.

The SICG Act gives icare responsibility for managing over a dozen insurance and care schemes within NSW, the largest of which is the Workers Compensation Nominal Insurer Scheme (**NI Scheme**). The NI Scheme is responsible for the provision of workers compensation services and makes payments that cover the lost wages and medical expenses of workers who are injured or become sick as a consequence of their work.

Other schemes managed by icare include:

- the Treasury Management Fund (**TMF**), which provides workers compensation insurance and general insurance for NSW Government Agencies;

- the Home Building Compensation Fund, which compensates homeowners for defective building work in the event that the builder becomes insolvent or has their building licence suspended;

- the Lifetime Care and Support Scheme, which pays for the treatment, rehabilitation and care of people who have been severely injured in a motor accident in NSW;

- the NSW Dust Diseases Scheme, which provides financial compensation and health care support to people affected by work-related dust diseases; and

- the Sporting Injuries Compensation Scheme, which provides benefits for people seriously injured while playing sport.

Concerns about icare's compliance and performance in recent years have resulted in a number of reviews of its operations, governance, stakeholder management and risk management frameworks. These reviews include:

- the *icare and State Insurance and Care Governance Act 2015 Independent Review* (**McDougall Review**), which involved a 'root and branch' examination of icare; and

- PwC's *Independent Review of icare governance, accountability and culture* (**GAC Review**), which considered governance, accountability and culture across the whole of icare.

The findings and recommendations of the McDougall Review and GAC Review (**Reviews**) provide the basis for the Improvement Program and are discussed in further detail below.

Other reviews of icare include:

- the *Operational review of Insurance and Care and delivery of recommendations of the Dore Report*, which focused on icare's progress in addressing previous recommendations made in relation to claims management;

- RSM Australia's *Independent Review of icare – Probity and Procurement*, which considered the application of probity and procurement related policies and practices within icare;

- Effective Governance's *icare Governance Review*, which covered governance, Board effectiveness and accountability within icare; and

- Cumpston Sarjeant's *Independent Review of icare – Financial Sustainability*, which focused on the financial sustainability of the NI Scheme.[1]

While these other reviews provide context for and lead into the recommendations made by the Reviews, the recommendations of these other reviews are outside the scope of our engagement.

The McDougall Review

The terms of reference for the McDougall Review were wide-ranging and included:

- a comprehensive organisational review of icare;

- a review of the government-managed workers compensation schemes and the legislative framework that supports them;

- a statutory review required by the SICG Act; and

- providing recommendations for improvement.[2,3]

The activities of the McDougall Review included conducting interviews, document reviews, external expert reviews and public consultation.

The McDougall Review culminated in a report (**McDougall Report**) which was published on 30 April 2021.[4] The McDougall Report made a number of findings. A summary of the key conclusions include:

- Changes made by icare were executed too quickly and without adequate testing. Many of the problems that icare experienced as a result were readily foreseeable.

- icare did not establish and follow proper and prudent procurement practices. As a result, procurement was conducted on an opaque basis and in a way that did not ensure value for money.

- icare did not pay a great deal of attention to establishing and embedding sound probity principles. icare's executives accepted gifts and benefits that were not recorded promptly and appropriately.

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[1] The authors of these reviews were engaged by NSW Treasury for the purpose of providing input into the McDougall Review.

[2] Government-managed workers compensation schemes include the NI Scheme and the TMF.

[3] The SICG Act requires that the Responsible Minister review the Act 'to determine whether the policy objectives of the Act remain valid and whether the terms of the Act remain appropriate for securing those objectives' as soon as possible after five years from assent of the Act.

[4] The McDougall Report is available here.

- icare failed to develop and embed sound principles relating to the disclosure and management of conflicts of interest. Clear and obvious conflicts were not recorded formally and promptly, and in some cases were not adequately managed.

- In icare's early days attempts to insist on sound practices and process were rebuffed, and those who sought to do so were ostracised. There is evidence that employees were discouraged from bringing cultural and operational shortcomings to senior management.

Several of these inappropriate practices were attributed, in part, to the program of change undertaken soon after icare was established. The McDougall Report found that icare's determination to effect speedy change gave rise to procedural and cultural defects that resulted in a disregard for practices and procedures.

Importantly, the McDougall Report found that there was no evidence of criminality or corruption, no basis for finding that icare's culture was 'toxic', and no present threat to the workers compensation schemes' financial sustainability.

The McDougall Report made 31 recommendations relevant to icare (**McDougall Recommendations**). A summary of key McDougall Recommendations includes:

- icare should be bound to a procurement and probity framework equal to that of other Government Agencies;

- icare should prepare and publish a plan for cultural change which addresses key risk factors, and report annually to the Treasurer of NSW on its progress;

- the icare Board should include one or more members who possess extensive public sector experience and workers compensation insurance experience; and

- there should be a further independent cultural review of icare by 2023.[5]

The GAC Review

The GAC Review involved:

- the assessment and identification of gaps in governance, accountability and culture; and

- the development of findings to address the observed gaps in governance, accountability and culture.

In developing its findings, the GAC Review considered information from document reviews, interviews, focus groups, case studies and a survey.

The GAC Review resulted in a report (**GAC Report**) which was published on 1 March 2021.[6] The GAC Report made a number of findings. A summary of the key conclusions includes:

- There was a lack of clarity in the type of organisation icare is seeking to be and the compliance standards it is seeking to achieve. icare has expressed a desire to comply with APRA-type regulatory

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[5] A number of recommendations from the McDougall Report do not apply to icare as they relate to legislative or regulatory improvements. All references to the McDougall Recommendations only include those recommendations that apply directly to icare.

[6] The GAC Report is available here.

standards, but this has not been reflected as a requirement in icare's policies, processes and procedures.

- There has been a lack of discipline in delivering timely and quality outcomes to customers. The voice of customers has not been appropriately represented in governance processes.

- The framework for risk and compliance requires significant improvement and embedding into the organisation.

- There is a need to significantly improve the identification, escalation and approach to issues management.

- Accountabilities for decisions, outcomes and performance have not been well-defined or embedded.

- icare's leadership has not invested sufficient time in reflecting, learning and course-correcting. A preoccupation with transformation tasks rather than outcomes has created a tendency to look forward.

While the GAC Report identified a number of weaknesses which have affected icare's performance over time, it also identified several strengths. Importantly, the GAC Report noted that a customer vision is at the core of what drives icare.

The GAC Report contains 76 recommendations relevant to icare (**GAC Recommendations**). The GAC Recommendations relate to:

- the role of the Board, with the aim of creating a diverse board that actively ensures icare's obligations are met and sets a strong tone from the top;

- senior leadership oversight, with the aim of creating an executive team that proactively manages risks and obligations;

- risk management & compliance, with the aim of creating a risk aware organisation that consistently makes sound decisions and actively prevents loss or harm to customers;

- issue identification, escalation & resolution, with the aim of ensuring that employees are capable, confident and disciplined in identifying, dealing with and learning from issues;

- outsourced service providers (**Scheme Agents**), with the aim of fostering outcomes-focused partnerships with Scheme Agents based on commerciality, transparency and accountability;

- prioritisation & decision-making, with the aim of ensuring risk management is incorporated into investment and execution prioritisation;

- accountability, with the aim of establishing clear accountabilities across all levels, enabled by real performance management and consequences; and

- culture, with the aim of creating a culture whereby perceptions, attitudes and behaviours of icare staff reinforce the importance of governance, risk and accountability.

icare's Response and the Improvement Program

In response to the Reviews icare publicly expressed its commitment to improve. In announcements on its website icare acknowledged the mistakes of the past, and accepted the findings and conclusions of the

Reviews.[7] icare also noted that it will take action to address the issues highlighted in the Reviews by uplifting its processes, behaviours and culture to meet community expectations.

The McDougall Recommendations and GAC Recommendations (**Recommendations**) are being addressed through icare's Improvement Program. The Improvement Program is focused on three key areas:

- improving risk and governance to meet community and regulatory expectations;

- improving performance, particularly getting injured workers back to work sooner and reducing internal costs; and

- driving an accountable culture.

The Improvement Program has commenced, and material provided by icare indicates that substantial work is underway across areas of the Improvement Program.

As at 16 November 2021, icare reported that 84% of activities to address McDougall Recommendations are in progress and 6% are complete pending sign-off. In relation to addressing the GAC Recommendations, 86% of activities are in progress and 11% are complete pending sign-off.

In November 2021, after a public tender process, Promontory was appointed to provide independent assurance over the progress of icare's Improvement Program as it relates to the Recommendations of the Reviews. This Interim Establishment Report is our first report (**Interim Report**) with respect to the Improvement Program. Promontory has not at this stage assessed the initial implementation of actions under the Improvement Program, and this Interim Report focuses on the set up of the Improvement Program and our role in providing independent assurance over it.

1.2. Report Structure

This Interim Report is structured as follows:

- Chapter 2 outlines the current structure of the Improvement Program as it relates to the actions icare plans to take to address the Recommendations of the Reviews, Program delivery arrangements, governance and internal assurance;

- Chapter 3 describes our role in providing assurance and the approach we will take to providing that assurance; and

- Chapter 4 sets out a number of focus areas that, based on our experience, will help ensure that the Improvement Program is successful.

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[7] For example, see icare's announcements on 30 April 2021 here.

2. The Improvement Program

In response to the GAC Report and McDougall Report (**Reports**), icare established two sub-programs:

- the Enterprise Improvement Program (**EI Program**), which aims to address the Recommendations of the Reviews that apply across the whole icare organisation; and

- the Nominal Insurer Improvement Program (**NII Program**), which aims to address the Recommendations of the Reviews that apply to the NI Scheme.[8]

92 of the 107 Recommendations made by the Reviews are being addressed through the EI Program. Another nine Recommendations are being addressed through the NII Program. The remaining six Recommendations made by the Reviews are being addressed through business-as-usual (**BAU**) improvement activities outside of the EI Program and NII Program (**Programs**).

The Programs, along with the relevant BAU improvement activities, constitute the Improvement Program.

For each of the Programs a separate plan has been developed that outlines the remediation actions that will be taken to address the relevant Recommendations. Further details on the Enterprise Improvement Plan (**EI Plan**) and the Nominal Insurer Improvement Plan (**NII Plan**) are set out below. Work is currently underway to refine both the EI Plan and NII Plan (**Plans**) and improve the level of consistency between them.

2.1. The Enterprise Improvement Plan

To achieve the EI Program outcomes, the EI Plan has a three-level structure as set out below:

- Streams, which are thematic areas of work icare is completing to address the Recommendations;

- Initiatives, which are the high-level remedial activities to be undertaken within the Streams; and

- Key Milestones, which are the specific actions that icare will complete within the Initiatives.

Streams

The EI Plan has been divided into the following six Streams, the:

- Governance Stream, which aims to ensure that leaders set a clear direction and make the right decisions at the right time;

- Risk Uplift Stream, which aims to deliver appropriate structure, governance, processes, resources and education to drive sound risk-based decision making and consistent risk management behaviour in icare;

- Procurement Uplift Stream, which aims to ensure that icare delivers the five objectives of the NSW Government procurement guidelines and that icare is a customer of choice for suppliers;

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[8] Some recommendations made by other reviews are also being addressed through the EI Program and NII Program, but, as noted above, these recommendations are outside the scope of our engagement.

- Customer Uplift Stream, which aims to ensure that icare listens to its customers, learns from their insights and acts to continually improve customer outcomes;

- Culture & Accountability Stream, which aims to embed an open, constructive and accountable culture that enables the organisation to meet the expectations of the people and businesses that icare serves; and

- Enterprise Sustainability Stream, which aims to ensure that icare schemes have long-term sustainability and benefit realisation.

The Streams have the following attributes by which effectiveness of the Improvement Program will be determined:

- Stream Target State, which describes how icare intends to operate once the gaps and weaknesses are adequately addressed;

- Key Outcomes, which describe what needs to be delivered in order to achieve the Stream Target State; and

- Key Success Measures, which are qualitative or quantitative measures of successful delivery of Stream outcomes.[9]

The EI Plan also sets out for each Stream:

- Dependencies, which are other areas of work on which the completion of the Stream is dependant; and

- Risks, which would impede or prevent the successful completion of the Stream.

Initiatives

Each Stream is made up of a number of Initiatives. Examples of Initiatives include:

- the development or refinement of a framework, policy, procedure or process;

- system improvements;

- the refinement of a governance structure or committee charter; and

- the uplift of capability through training.[10]

Each Initiative has the following attributes:

- a Start Date and End Date;

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[9] We note that the Culture & Accountability Stream does not currently have the Key Success Measures attribute.

[10] There is not a one-to-one mapping between the Recommendations and Initiatives. Many of the Initiatives contribute towards addressing more than one Recommendation. Conversely, for a Recommendation to be addressed, a number of Initiatives, within or across Streams, need to be successfully completed. Work is currently underway by icare to review and finalise the mapping between the Recommendations and the Initiatives to ensure each Recommendation will be fully addressed by the relevant Initiatives.

- Outcomes, which are the changes in the organisation that the Initiative is trying to achieve;

- Definition of Done, which is the ultimate result of the Initiative;

- Success Measures, which are measures of successful Initiative delivery;

- Dependencies, which are other areas of work on which the completion of the Initiative is dependant; and

- Risks, which would impede or prevent the successful completion of the Initiative.[11]

Key Milestones

Each Initiative is made up of a number of Key Milestones, which are the actions required to achieve the Initiative Outcomes.

The Key Milestones are classed as being in one of three Phases: Design, Implement or Embed. The Design Phase involves designing an approach to address the Initiative's Outcomes, the Implement Phase involves the initial roll-out or launch of that approach, and the Embed Phase involves achieving demonstrated operational effectiveness of the approach.

Key Milestones have the following attributes:

- Definition of Done, which describes what needs to occur for the Key Milestone to be completed; and

- Due Date, which is the date when icare expects to complete work on each Key Milestone.

Some Key Milestones also have a Linkages attribute, which notes dependencies either on other Initiatives within the same Stream, or on other Streams within the EI Program.

2.2. The Nominal Insurer Improvement Plan

The NII Plan uses a different format and, in some cases, different terminology to the EI Plan. For instance, Initiatives are currently referred to as Program Work Packages under the NII Plan. As we note below, work is underway to improve, as far as possible, consistency across the two Plans.

The NII Plan, as at the date of this Interim Report, has been divided into the following seven Streams:

- the Improve RTW & Claims Outcomes Stream, which aims to improve how icare manages Return To Work performance, refine operational claims management practices and improve operational governance;

- the Performance Metrics & Reporting Stream, which aims to provide an end-to-end view of the NI Scheme performance against defined performance measures;

- the Risk & Compliance Stream, which aims to implement a sustainable Quality Assurance framework to ensure on-going reduction in process and framework failures;

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[11] icare plans to remove the Definition of Done at the Initiative level and instead rely on Definitions of Done at the Key Milestone level.

- the Claims Model & Service Provider Strategy Stream, which aims to refresh icare's claims management strategy and model, and deliver improvements that enhance return to work rates and scheme sustainability;

- the Improve Employer Experience Stream, which aims to better address the needs of Employers;

- the Professional Standards Capability Stream, which aims to enable the sourcing, development and retention of talent in the industry to further enhance the quality of claims management; and

- the Optimise Systems & Technology Stream, which aims to deliver system improvements and improved business processes that enables enhanced customer experiences, self-service and operational efficiencies across icare and claims service providers.

Similar to the EI Plan, the NII Plan includes:

- Stream Target States, Outcomes and Success Measures;

- Program Work Package Dependencies and Risks; and

- Design, Implement and Embed Key Milestones.

The NII Plan continues to be revised and is currently less settled than the EI Plan. In particular, icare plans to consolidate several of the Streams under the NII Plan. Work is also currently underway to:

- improve consistency between the format and terminology of the EI Plan and NII Plan; and

- ensure the relevant Recommendations are fully addressed by the NII Plan.

2.3. Program Delivery

Initially, delivery of the EI Program and NII Program was managed through icare's Program Delivery team. A member of the executive team provided oversight over the Programs. Each Program was led by an accountable Program Director and supported by a team of Project Managers and other personnel.

On 9 November 2021 the Reform Program Management Office (**Reform PMO**) was established. The Reform PMO was created to manage the delivery of the Improvement Program as it relates to the Recommendations of the Reviews. The Reform PMO brings leadership and management of the Improvement Program into one overarching team. icare is currently in the process of operationally establishing the Reform PMO and appointing staff.

The Executive Director, the leader of the Reform PMO, has accountability for managing and coordinating delivery of the Improvement Program as it related to the Recommendations of the Reviews. The Executive Director provides overall leadership and is responsible for ensuring that icare appropriately responds to the Recommendations. The Executive Director is also responsible for status reporting, prioritisation decisions, coordination across Streams and delivering change communications within the organisation.

Supporting the Executive Director are:

- Program Executive Sponsors, who are accountable for the delivery of each Program;

- Program Business Owners, who are responsible for the delivery of each Program;

- Stream Business Owners, who are responsible for the delivery of each Stream; and

- Initiative Owners, who are responsible for the delivery of individual Initiatives within each Stream.[12]

Each Stream also has a Sponsor, who is the Group Executive with accountability for delivering the Key Outcomes of that Stream.

The Improvement Program is also supported by various other staff, including Program Directors, a Change Director and Communications Director.

The operation of the Reform PMO is guided, but not bound, by the icare Project Management Controls Framework, which provides a consistent approach to the delivery of all projects across the organisation. The framework includes formal Stage Gates and Minimum Standards for each phase of the project.

2.4. Governance

Commensurate with recent changes made to the delivery of the Improvement Program, program governance arrangements have also recently been altered. Initially, a monthly Executive Steering Committee provided governance over the entire Improvement Program. Two separate Steering Committees have now been established to govern each Program, being the:

- EI Program Executive Steering Committee; and

- NII Program Executive Steering Committee.

The first meetings of these separate Steering Committees are scheduled for December 2021, and both Steering Committees will meet on a monthly basis thereafter.

All Group Executives are members of both Steering Committees. Other attendees include the Executive Director, Program Directors, Stream Business Owners, representatives from icare's Program Delivery function and Line 2 representation.

The responsibilities of each Steering Committee include:

- monitoring and guiding the overarching performance and progress of the relevant Program;

- leading the strategy of the Program, including the strategy for stakeholder engagement and communication;

- approving 'Definitions of Done' for each Initiative and the completion of Initiatives;

- monitoring Program assurance;

- oversight of material Program risks and providing guidance on mitigation; and

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[12] Each Initiative also has a Business Owner, who is not always the same person as the overall Stream Business Owner. The NII Plan does not yet include details on Stream Business Owners or Initiative Owners.

- resolving matters escalated to the Steering Committee.[13]

In addition to the Steering Committees, there are several other governance forums that monitor and manage the Programs. These include the:

- Change Council, which is a monthly forum for reviewing change capacity, endorsing the change calendar and reviewing change outcomes;

- Program Management Meeting, which is a monthly forum for ensuring delivery remains on track, approving Initiative change requests, and financial and risk management;

- Program Stream Interlock which is a fortnightly forum for discussing Stream content, interdependencies, the prioritisation of deliverables and delivery risks;

- Stream Steering Committee, which is a forum for identifying risks and developing solution;

- Kanban, which is a weekly forum for reviewing key risks and removing blockers; and

- Program RAID Meeting, which is a fortnightly forum for reviewing key Program and Stream risks, dependencies and escalations.[14,15]

Currently, there are some inconsistencies between the two Programs in relation to the governance forums that sit below the Steering Committees. icare has indicated it will increase the level of consistency between the Programs in this respect.

Program status reports form the basis of reporting to the Steering Committees. The Program status reports include commentary on delivery progress, Program status, the status of each Stream and key risks. The same format is currently used for both Programs, and the icare Board is provided with similar reporting.

icare will report on delivery progress to the following external parties:

- monthly updates to the Treasurer of NSW; and

- monthly reports to the State Insurance Regulatory Authority (**SIRA**) and NSW Treasury.

icare will also provide regular public updates via the icare website.

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[13] icare plans to remove the Definition of Done at the Initiative level. Once this occurs the Steering Committee's responsibility for approving the Definitions of Done for each Initiative will no longer be applicable.

[14] In additional to the Program-specific Change Councils, an overarching Business Planning Committee is being established to consider change management across the entire organisation.

[15] The Stream Steering Committees are also referred to as Working Groups in some cases.

2.5.   Internal Assurance

Line 1 review of the Improvement Program includes signoff at the Stream level by Stream Business Owner and Stream Sponsor and at the Initiative level by Initiative Owner.[16] This signoff will consider whether the activities that have been completed address the requirements of the Stream or Initiative.

Line 2's involvement in the Improvement Program to date has included:

- facilitating a series of initial risk workshops to establish a risk profile for the Programs;

- assisting with reviewing and updating the risk profile, associated risk ratings and mitigation actions; and

- attending, as risk representatives, the Steering Committees and other governance forums to provide challenge.

While the details are yet to be formalised, future involvement by Line 2 may include:

- Line 2 signoff on the completion of each Phase of an Initiative; and

- Line 2 targeted reviews of various aspects of the Improvement Program.

To date Line 3's involvement in the Improvement Program has been to review and provide advice on the Definitions of Done used in the Plans. In the future, Line 3 will conduct audits over some aspects of the Improvement Program, in addition to the usual Line 3 reviews of whether Line 1 and Line 2 are operating effectively.

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[16] Line 1 refers to icare's first line of defence, the front line and operational function. Line 2 refers to icare's second line of defence, the risk function. Line 3 refers to icare's third line of defence, the internal audit function.

3. Promontory's Role

Promontory will provide assurance services for the Improvement Program as it relates to the Recommendations of the Reviews. These assurance services will include:

- monitoring the status and progress of the Improvement Program;

- assessing whether each Phase of an Initiative has been completed in line with the description provided in the relevant Plan; and

- reporting on our findings.

The following sections describe our approach to these activities.

3.1. Improvement Program Assurance

Our approach to providing assurance over the Improvement Program involves determining whether the relevant parts of the Improvement Program are on-track and likely to be successful in addressing the Recommendations of the Reviews.

Promontory will monitor progress in executing the Improvement Program by:

- reviewing Program status reports to understand the status of the Improvement Program and potential risks;

- participating in briefings and observing governance meetings, such as the Steering Committees, to monitor the status of completion of Key Milestones and Initiatives;

- engaging with accountable and responsible staff to discuss the management of risks to the successful execution of the Improvement Program;

- reviewing changes made to the Plans to ensure that the planned improvement activities are likely to adequately address the relevant Recommendations; and

- attending weekly project management meetings with members of the Reform PMO to discuss Improvement Program progress and risks, and to raise potential concerns.[17]

We will assess the ongoing adequacy of key elements of 'program infrastructure' such as governance and reporting, communication and resourcing. In addition, we will assess the adequacy of governance and reporting arrangements with respect to ensuring that the reforms implemented under the Improvement Program are effectively monitored and are sustained.

Where we identify potential risks to the Improvement Program we will describe these in our quarterly reports, which are discussed in further detail in section 3.3 below. We will also provide regular briefings to SIRA on the progress of the Improvement Program and whether any risks to its delivery have been identified.

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[17] In monitoring the progress of improvement activities on which work has not yet been completed, Promontory will rely on the assessment of progress as summarised in Program status reports.

3.2. Enterprise Improvement Plan and Nominal Insurer Improvement Plan Assurance

Our approach to providing assurance over the Plans involves assessing whether the improvement activities undertaken in each Phase of an Initiative were completed in line with the relevant Plan and whether they adequately address the relevant Recommendation. This involves reviewing all of the Key Milestones under each of the Design, Implement or Embed Phases of an Initiative.

Once icare considers each Phase to be complete, evidence of completion of that Phase will be delivered to Promontory for our assessment. This evidence will consist of a closure pack containing artefacts that evidence the completion of the relevant Phase. The nature of the artefacts to be included in the closure pack for each Phase will be considered further over the coming months.

Promontory will review the artefacts provided by icare in the closure pack and make an initial assessment on whether the improvement activities undertaken in each Phase of an Initiative were completed in line with the relevant Plan and whether they adequately address the relevant Recommendation. Our assessments will consider the relevant context in the Reports as well as our observations regarding better industry practice.

As part of our initial assessment, we will determine whether we require further information or interviews with icare personnel before we can finalise our assessment. After receiving any additional information, we will make a final assessment and, if all the relevant criteria have been met, close the Phase.

An Initiative will be considered complete once all Phases of that Initiative has been assessed as closed. The need for separate assessments to provide assurance over the completion at the Stream- or Recommendation-level is currently being considered.

3.3. Promontory's Reporting

In addition to this Interim Report, Promontory will provide a Final Establishment Report in February 2022. The Final Establishment Report will describe any changes or enhancements made to the Improvement Program and how this will affect our assurance approach.

On a quarterly basis, we will also prepare reports that provide assurance over icare's progress in implementing the Improvement Program as it relates to the Recommendations.[18] Promontory will also meet with the Group Executive Team and icare's Board to discuss the content of our reports.

We will also report on the lessons learned and the delivery of outcomes throughout our engagement in a Closure Report at the conclusion of the engagement.

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[18] The first such report will be provided in conjunction with the Final Establishment Report.

4. Areas of Focus

icare's Improvement Program is a wide-ranging program of work that aims to embed significant cultural, governance and risk management reforms. As such, it will take time to sustainably implement the reforms as the scope of change means this program is 'a marathon not a sprint'. The timetable extends over the next two years; and it will likely take at least this amount of time to effectively address the Recommendations of the Reviews. This Interim Establishment Report offers an initial description of the structure of icare's Improvement Program and our role in providing assurance.

At this stage Promontory has not conducted a detailed review of the Improvement Program or of the initial actions undertaken by icare. We are therefore not in a position to provide an assessment of the Improvement Program or progress to date in this Interim Establishment Report. However, we note icare's work on developing the EI and NII Programs, as well as actions to implement certain Recommendations. icare has also been putting in place management and governance structures to support program development and implementation. This activity has been part of the icare's response to the Reviews and indicates the organisation's commitment to addressing the problems identified by the Reviews.

As discussed above, as icare continues to refine the Improvement Program over coming months we will complete a detailed review of the Improvement Program. The completion of this detailed review will allow us to make observations in our Final Establishment Report in early 2022 about areas of strength and opportunities for improvement in the program.

While we are unable to provide specific observations on the Improvement Program at this stage, we are able to provide some general observations, based on previous experience, of the areas of focus that contribute to effective implementation of programs designed to improve culture, governance and accountability. These are areas that icare should focus on to ensure that the Improvement Program is successful. These focus areas are discussed below.

4.1. Senior Leadership

A key component in the successful execution of remedial programs of this nature has been strong senior leadership oversight. Effective oversight by the Board and executive management involves a strong focus on the 'destination' – the desired outcomes and reforms that are required. Leadership also requires an ongoing openness as to the problems that need to be addressed and consistent messaging as to how the program will deliver an appropriate improvement in standards.

To ensure that momentum is maintained, it is important that senior leadership conveys an appropriate 'tone from the top' that is effectively cascaded throughout the organisation. This tone from the top should involve clarity around the program objectives. It should also engender a sense of the importance and urgency of change. This is critical to help maintain focus and momentum in long term change programs, which will inevitably confront the risk of change fatigue.

Cultural change, in particular, also requires positive messaging from leadership. Executive management should therefore deliver regular and ongoing communication emphasising its commitment to achieving the intended outcomes of the Improvement Program, and its expectation that the entire organisation remains committed to such outcomes.

We have observed that effective senior leadership oversight is greatly facilitated by a robust governance structure. An appropriate governance structure will ensure that senior leadership is able to effectively engage in and monitor progress in executing the Improvement Program. icare's Board in particular, has an important role to play in testing and challenging the quality of execution and sustainability of the changes being made. Senior governance forums should both demonstrate a commitment to program aims while continually testing program implementation – that is, cultivate a sense of 'chronic unease' rather than complacency about progress.

To ensure senior leaders are apprised of all relevant information, effective reporting on Program progress at meetings of the Board and executive management is key. During these updates senior leaders should be able to easily track, and work to mitigate, risks associated with Program execution. This will necessitate effective processes being in place to identify risks in a timely way.

Finally, critical to leadership of such programs is clear and effective accountability. This usually requires that formalised accountabilities for monitoring overall implementation status, and for addressing the issues that will inevitably arise, are in place.

4.2. Project Management Disciplines

In our experience there are several project management disciplines that contribute to programs being delivered on time and with the right outcomes.

Of primary importance to a successful program is that the objectives of the program are clearly established at the outset. This can be achieved by establishing clear target outcomes that take into account the root causes of the issues that need to be addressed. icare should ensure that detailed, but clear, documentation is in place for each Recommendation which sets out the outcomes to be achieved, timelines, interdependencies and accountabilities. It is also important to avoid duplication within this documentation, as this can lead to inconsistency and confusion over the objectives of the program.

A rigorous program management framework, which allows the program to adapt as required, is also important. For instance, successful programs have a formal change request process in place that sets out when and how approvals for changes to the project's plan should be sought.

Internal assurance is also a key component of a successful program. Internal assurance over both the health of program management, and the likelihood of achieving objectives within the proposed timeframe, will give senior leadership the ability to take remedial action and correct the course of the Improvement Program at an early stage. In particular, the Improvement Program would benefit from Line 2 regularly reviewing the Program's status and Line 3 providing assurance in relation to the completion of key Recommendations. Independent challenge should also be provided in relation to the change request process.

Finally, appropriate prioritisation will allow icare to manage the many competing priorities it faces. The appropriate sequencing of initiatives will allow icare to avoid bottlenecks and ensure adequate attention is given to addressing each Recommendation. For instance, it would be helpful for icare to prioritise the design, implementation and embedment of more challenging Initiatives over other, more straightforward Initiatives. In doing so, quality of execution must be prioritised over speed.

4.3. Managing Interdependencies and Keeping it Simple

A key challenge in broad-based programs that aim for organisation-wide reform is dealing with the complexities and interdependencies that inevitably arise.

Successful programs have processes in place that allow for the identification, monitoring and management of interdependencies between initiatives. This helps ensure that priorities are clear and program sequencing supports effective delivery.

icare is responding to multiple reviews at the same time, which adds an additional layer of complexity to the management of interdependencies. This will require careful oversight.

In any program where an organisation responds to a critical review there is a risk that new and revised processes may be over-engineered. Sound and robust processes are important to help ensure appropriate behaviour and accountabilities, but this should not require overly complex arrangements and systems. Rather, a strong focus on key governance principles should drive the design of key processes.

Simplicity should be front-of-mind in every decision made in setting up and executing such programs. This includes consideration of the design of the remediation plans and the associated monitoring and measuring of progress. In our experience, it is simplest to have one initiative mapped to one recommendation.

Complexity is also a factor in undermining the sustainability of such programs (which is discussed further below). It is more difficult for staff to embed reforms into their day-to-day work if they are complex and difficult to deal with. icare should take this into account in the design of its reforms.

4.4. Sustainability

Embedded, sustainable change is the ultimate aim of any remediation program. The Improvement Program offers icare the opportunity to design governance, accountability and culture frameworks that are built to last and that become part of 'the way we do things around here'. It is important that the Improvement Program is not seen as a set of short-term initiatives designed only to respond to the Recommendations of the Reviews at a point in time.

Based on our experience with other programs of this nature, as we review icare's response to the Recommendations we will look for evidence that icare is not only currently operating in line with 'Definitions of Done', but that it will continue to do so into the future. This requires the ability to *demonstrate* that the changes made are sustainable. Successful programs promote a focus on making sustainable changes, which includes structures and practices to support reforms on an ongoing basis (e.g., changes to reporting, appropriate governance requirements). This includes an ongoing *external* focus on how the changes deliver better outcomes for customers and key stakeholders into the future.