Conflict of Interest and Professional Independence Policy
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1. **Policy statement**

Managing conflicts of interest and threats to professional independence are central components of the Audit Office’s Ethical Framework. Managing conflicts and threats appropriately ensures the integrity of the Audit Office is not compromised or called into question. Maintaining independence is a concept fundamental to the Audit Office of NSW in two key ways:

1. Independence of the office – as employees of an oversight agency such as the Audit Office of NSW, it is vital that staff are independent and are perceived to be independent.
2. Professional independence of audit staff - our audit team members are required to be professionally independent which means being independent of mind and independent in appearance.

The Audit Office and its staff must be, and be seen to be, free of any interest that is incompatible with objectivity in performing Audit Office activities including audit engagements, procurement or recruitment activities.

Audit engagement team members, Audit Service Providers or other Audit Office staff who can directly influence the outcome of the assurance engagement must be aware of their professional independence obligations and must follow this policy and the Conflict of Interest and Professional Independence Procedure (the Procedure).

2. **Scope**

This policy applies to permanent and temporary staff and the Audit Office's contingent workforce.

This policy is divided into three parts:

- **Part One** – conflicts of interest and the independence of the Audit Office – this part applies to all staff (except for Section 5.6 which only applies to the Office Executive)
- **Part Two** – professional independence of audit staff – this part applies to all audit staff in Financial and Performance Audit
- **Part Three** – General provisions – this part applies to all staff.

This policy should be read in conjunction with the Procedure, the Code of Conduct and any related policies and procedures including any relevant laws and professional standards.


3. **The Independence of the Audit Office**

Conflicts of interest compromise the independence of the office and arise where private interests make it difficult for staff to perform their duties impartially in the public interest. Conflicts of interest may be actual, perceived or potential.

Staff must take reasonable steps to avoid or manage actual, perceived or potential conflicts of interest. This is done by:

- identifying and evaluating the circumstances or relationships that may create a conflict of interest, so that it may be avoided or managed
- declaring any conflicts of interest found to exist
- managing and acting to address any conflict of interest. All actions must be approved by the Deputy Auditor-General or delegated authority.
4. Identifying and evaluating conflicts of interest

The Audit Office and its staff have an obligation to identify and evaluate circumstances and relationships that may create a conflict of interest and take reasonable steps to avoid or manage them. Both qualitative as well as quantitative factors must be considered.

The key test in assessing if a conflict of interest exists is whether a reasonable and informed person would perceive that a staff member could be influenced or perceived to be influenced, by any interest that is incompatible with objectivity when carrying out their official duties as a member of the Audit Office.

A conflict of interest can arise from several situations. This may involve:

- **personal interests** - conflicts could arise through financial interests, personal beliefs, personal relationships, (which can involve the interests of the individual’s immediate or close family members) or political activities.

- **secondary employment (including voluntary work)** - the Audit Office must be the primary employer for all staff. Any secondary employment, including voluntary work, must be approved by the Deputy Auditor-General or delegate.

- **temporary staff assignments** - temporary staff assignments may include staff secondments to government agencies, Audit Service Providers or other external organisations which the Audit Office may have an affiliation with.

- **inducements or intimidation** - acceptance of a gift, benefit or hospitality can create a sense of obligation that may compromise impartial and honest decision making, and may be perceived as a bribe. Such inducements are not to be accepted. Refer to the Audit Office’s [Gifts, Benefits and Hospitality Policy](#) for further guidance.

Intimidation occurs when a staff member may be deterred from acting objectively because of pressure or threats being made. If a staff member feels intimidated, they must promptly report it to their manager and the Deputy Auditor-General.

If staff are unsure if a conflict of interest exists they should consult with their manager, Director, the Quality and Innovation Group, the Executive Manager, Governance, professional body or legal advisors where necessary.

Refer to the [Procedure](#) for more examples of how a conflict may arise, the procedure for managing applications for secondary employment and the procedure for managing temporary staff assignments.
5. Declaring conflicts of interest

5.1 Annual Declarations

All staff need to complete a Conflict of Interest and Professional Independence declaration form in MiCareer when appointed and annually thereafter. This acts as a regular reminder to staff to identify and report any conflicts of interest or threats to professional independence. Staff must consider the range of clients audited by the Audit Office when making their declaration.

5.2 Change in circumstances

If circumstances change throughout the year, staff must not wait for the annual declarations to report a conflict of interest, or threat to professional independence. As soon as you become aware of an actual, perceived or potential conflict of interest or threat to professional independence, it must be reported. Refer to the Procedure for details on how to report a change in circumstances.

5.3 Activity specific declarations

Conflicts of interests and threats to professional independence are particularly relevant in high risk function areas or where staff have a decision-making role or can directly influence a decision. This includes procurement and recruitment activities. When assigning staff to such activities and during the assignment, staff must evaluate circumstances or relationships that may identify a conflict of interest or threat to professional independence. Where an actual, perceived or potential conflict of interest or threat to professional independence is found to exist, it must be declared and suitable action taken to reduce or eliminate it.

5.4 Committee declarations

Audit Office Committee members must declare conflicts of interest in accordance with the respective charters. These committees include the Office Executive, Audit and Risk Committee, Quality Audit Review Committee and Remuneration Committee.

Staff on Procurement Committees and those on Recruitment Panels must also declare any conflict of interest in relation to those specific activities.

5.5 Conflict of interest and threats to professional independence register

All declared conflicts of interest and threats to professional independence, whether declared annually or when circumstances change are recorded in a central register. Refer to the Procedure for information on how this register is used in practice.

5.6 Related Parties Disclosure*

This section only applies to the Office Executive.

The Audit Office is required to comply with AASB 124 ‘Related Party Disclosures’ and Treasury Circular TC 16-12 ‘Related Party Disclosures’ which require the office to collect, report and disclose related party transactions in respect of Key Management Personnel (KMP). The Office Executive are the KMP of the Audit Office. They have the authority and responsibility for planning, directing and controlling the activities of the Office.

Related party transactions are transactions between the Audit Office and the related parties of KMP. Related parties of KMP include:

- close family members, e.g. children, spouse, partner, other dependents
- entities controlled by the KMP and/or close family members.

The Audit Office’s KMP are required to annually declare any material transactions between the KMP and related parties.

Declarations are made in respect of each financial year, using the template developed by the Treasury, and the disclosures made in the declaration are reported in our financial statements. Our financial statements also contain details of the compensation paid to KMP over the financial year.
In addition to the annual declaration, KMP are also required to provide a declaration upon ceasing employment with the Audit Office.

6. Managing conflicts of interest

It is important that conflicts of interests are managed or resolved on a timely basis. Staff and their manager are jointly responsible for taking reasonable steps to resolve the conflict. The actions taken must be approved by the Deputy Auditor-General or delegated authority. For details of how a potential conflict may be managed, refer to the Procedure.

If the conflict of interest continues or cannot be easily resolved, it should be referred up through the levels of delegation or directly to the Deputy Auditor-General where appropriate.

Part 2 – PROFESSIONAL INDEPENDENCE OF AUDIT STAFF

7. Professional independence

This section contains guidance on the standards of ethical and professional behaviour expected of professionally qualified auditors, as well as audit and assurance team members who may not be professionally qualified.

In addition to the obligation to maintain the independence of the office, audit staff have an obligation to be professionally independent which includes being independent of mind and independent of appearance.

Audit staff must act in the public interest and observe and comply with the fundamental principles of independence, which are:

- integrity
- objectivity
- professional competence and due care
- confidentiality
- professional behaviour.

There are a number of relevant professional standards which cover independence including APES 110, ASQC 1, ASAE 3000, ASAE 3500 and other relevant standards or laws e.g. Corporations Act 2001.

Audit engagement team members, Audit Service Providers or other Audit Office staff who can directly influence the outcome of the assurance engagement must be aware of their professional independence obligations and must follow this policy and Procedure.

The three stages in avoiding and managing conflicts of interest as set out in Figure 1 on page 2 above (identifying and evaluating, declaring, managing and taking action) apply equally to threats to professional independence.

8. Identifying and evaluating threats to professional independence

The same principles that apply to identifying and evaluating conflicts of interest also apply to identifying and evaluating threats to professional independence.

When assessing if there is threat to independence, staff must consider the range of clients audited by the Audit Office and not just their current audit clients. Staff do move between teams and it is important that all clients are considered when identifying an actual, perceived or potential threat to professional independence.
9. Declaring threats to professional independence

Audit staff are required to annually declare potential, actual or perceived threats to professional independence. This declaration is made at the same time as the annual conflict of interest declaration. Staff are also required to declare a change in circumstances after the annual declaration has been made. The method for declaring a change in circumstances is set out in the Procedure.

10. Managing threats to professional independence

Directors, Assistant Auditors-General, the Deputy Auditor-General and the Auditor-General, must ensure staff under their direction (including Audit Service Providers and those with significant indirect involvement in an engagement) who have declared an actual, perceived or potential threat to professional independence or conflict, are not assigned to or are immediately withdrawn from any engagement affected by the threat or conflict.

Team members who have declared as above must immediately cease work on engagements subject to the conflict, until the conflict is appropriately mitigated or resolved.

The Director must propose a safeguard to mitigate the risk. Further guidance on managing threats is contained in the Procedure.

Part 3 – GENERAL PROVISIONS

11. Compliance with this Policy and Procedure

Staff who suspect this Policy or Procedure are not being complied with or reasonably believe that a conflict of interest or threat to professional independence is not being adequately managed, should raise their concerns with the appropriate level of management. The Audit Office will not tolerate any reprisal action against staff whose concerns are raised in good faith.

Breaches of this policy and repeated or intentional breaches may be subject to disciplinary actions including but not limited to warning letters, suspension, demotion or cessation of employment.

12. Confidentiality and privacy

Reporting conflicts of interest and threats to professional independence may involve disclosing personal or highly sensitive information. The information will be used for the purpose set out in this policy and Procedure. The information will be held confidentially (subject to the provisions relating to access to the register as set out in the Procedure) and in accordance with the NSW Privacy and Personal Information Protection Act 1998 and the Audit Office’s Privacy Management Plan.

13. Roles and responsibilities

Deputy Auditor-General - the Deputy Auditor-General assumes ultimate ownership of this policy. The Deputy Auditor-General either approves or delegates approval of all actions to resolve a conflict of interest or threat to professional independence, including approval for secondary employment, temporary staff assignments and any exceptional circumstances that fall outside the policy.

Engagement team members - an ‘engagement team’ consists of staff members, including Audit Service Providers assigned to an engagement, whether professionally qualified or not. The engagement team may include other staff not working directly in the team, but who are in a position to influence the outcome of an assurance engagement.
People not commonly considered part of the engagement team, but might through substantial involvement indirectly influence the outcome of an engagement may include those who:

- recommend the compensation of the Director in connection with the performance of the engagement
- provide direct supervisory, management or other oversight of the Director connected to the performance of the engagement
- consult with the team on technical or industry specific issues, transactions or events
- are experts employed by the Audit Office
- provide quality control on an assurance engagement.

Professionally qualified Audit Office staff and audit and assurance team members are personally bound to uphold professional standards and ethical pronouncements by virtue of their membership of Australian accounting professional bodies.

**Executive Manager, Governance** - the Executive Manager, Governance will maintain this Policy and associated Procedure, the Conflict of Interest and Threats to Professional Independence Register and the Secondary Employment and Volunteering Register.

**Office Executive** - the Office Executive will regularly review compliance with this policy.

**Managers** - Managers, jointly with staff, shall manage conflicts of interests and threats to professional independence and ensure steps are taken to resolve the conflict.

**Staff** - all staff must take reasonable steps to avoid conflicts of interest and threats to professional independence and identify and report any conflicts of interest and threats to professional independence as soon as they arise. Staff must also cooperate in the management of the conflict.

### 14. Legislative context

This Policy has been developed in line with:

- Independent Commission Against Corruption – Identifying and Managing Conflicts of Interest in the Public-Sector July 2012
- *Independent Commission Against Corruption (ICAC) Act 1988*
- NSW Ombudsman – Fact Sheet Conflicts of Interests May 2017
- PSC guide Behaving Ethically: A guide for NSW Government sector employees November 2014 – relevant sections pertaining to conflicts of interest.
- PSC Circular 2015-08 Declaration of private interest – August 2015 – supplementary information
- relevant Corporate Service’s and Governance policies including the Code of Conduct and Gifts, Benefits and Hospitality Policy
- ASQC1 ‘Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements’
- APES 320 ‘Quality control for Firms’
- APES110 ‘Code of Ethics for Professional Accountants’
- ASA102 ‘Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements’
- ASAE 3500 Performance Engagements
- **Corporations Act 2001**
- **Public Finance and Audit Act 1983**
- **Australian Charities and Not-for-Profits Commission Act 2012**
- **Superannuation Industry (Supervision) Act 1993**
- **Local Government Act 1993.**
15. Definitions

Conflict of interest: exists where a staff member could be influenced or perceived to be influenced, by any interest that is incompatible with objectivity when carrying out their official duties. For the purposes of this Policy a conflict of interest includes:

- an actual conflict of interest: involves a direct conflict between a staff member’s current official duties and any interest that is incompatible with objectivity
- a perceived conflict of interest: exists where a reasonable and informed person perceives that a staff member’s interests could improperly influence the performance of their duties – whether or not this is in fact the case
- a potential conflict of interest: arises where a staff member has interests that could conflict with their official duties in the future
- threats to professional independence.

Official duties: the work done by a staff member of the Audit Office, including; as defined by the employee’s position description or governing legislation (and regulations), lawful directions given by a manager or supervisor, or responsibilities or duties reasonably expected of the staff member in his or her capacity as a member of AO staff.

Immediate or close family member: includes:

- spouse (married, de facto, civil union partnerships)
- children (step, adoptive, dependent, non-dependent, adult children and those not living at home)
- parent or sibling
- other family members who may be influenced by that person in dealing with the entity, e.g. cousin, uncle or auntie, brother or sister in law.

Professional Independence requires audit staff to be:

- independent of mind, so individuals act with integrity, exercise objectivity and professional scepticism and express conclusions without being affected by influences that compromise professional judgement
- independent in appearance, so that a reasonable and informed third party would not conclude that integrity, objectivity or professional scepticism had been compromised.

Secondary employment: refers to any additional employment or voluntary work, that an individual is engaged in outside of their primary position in the Audit Office, including consulting or contracting work or participating in a business. The activities must be in the nature of employment taking into account such things as the roles and responsibilities, hours or reliance placed on the individual to do the job and any delegated authority or decision-making ability. Involvement in a union, activities as a member of a faith organisation or recreational club, or investment activities is generally not considered secondary employment.

Staff: refers to a person, whether remunerated or not, working on the Office’s behalf including part time staff, fulltime staff and contingent workforce.

16. Contact point

Contact Executive Manager, Governance (Legal) for any questions about this Policy.

17. Review

This Policy will be reviewed every two years or earlier if significant new information, legislative or organisational change warrants an update.