

Conflict of Interest and Professional Independence Policy

July 2023



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1. Policy statement

Managing conflicts of interest and threats to professional independence are central components of the Audit Office of New South Wales's (the Audit Office) 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 in two key ways:

- 1. Independence of the office** – as an oversight agency, it is vital that the Audit Office and its Staff¹ are independent and perceived to be independent.
The Audit Office and its Staff must be, and be seen to be, free of any interest that is incompatible with objectivity in performing activities including audit engagements, procurement or recruitment activities.
- 2. Professional independence of audit engagement team members** – audit engagement team members are required to be professionally independent which means being independent of mind and independent in appearance.
Audit engagement team members, Audit Service Providers (ASPs) and other Audit Office Staff who can directly influence the outcome of engagements must be aware of their professional independence obligations and the obligations in this Policy and the Conflict of Interest and Professional Independence Procedure (the COI&PI Procedure).

Audit Office Staff are required to declare any conflicts of interest or threats to professional independence as soon as they become aware of any and will be requested to formally consider any conflicts or threats when appointed and annually thereafter through an annual attestation.

This Policy takes account of the Independent Commission Against Corruption's (ICAC) guidance (the guidance) on [Managing Conflicts of Interest in the NSW Public Sector](#). The guidance recommends officials and agencies err on the side of caution when considering whether or not a conflict of interest exists.

2. Scope

This Policy applies as follows:

- Part One** – applies to all Staff¹ who are required to manage conflicts of interest to support the independence of the Audit Office as a public sector agency
- Part Two** – applies to audit engagement team members who are required to maintain professional independence. While this includes those not employed by the Audit Office such as ASPs and other external experts, the internal conflict of interest and professional independence declaration (COI&PI declaration) and annual attestation (COI&PI attestation) are only required to be completed by audit engagement team members employed by the Audit Office. Refer specifically to section [9.1](#) and [9.2](#) of this Policy.
- Part Three** – covers general provisions that apply to all Staff.

This Policy should be read in conjunction with the COI&PI Procedure, the Audit Office's [Code of Conduct](#) and other related policies and procedures including any applicable laws and professional standards.

Part 1 – CONFLICTS OF INTEREST AND THE INDEPENDENCE OF THE AUDIT OFFICE

3. The independence of the Audit Office

Conflicts of interest compromise the independence of the Audit Office and arise where private interests make it difficult for Staff to perform their duties impartially in the public interest. Conflicts of

¹ Refer to the definition of Staff in [section 15](#) of this Policy.

interest may be potential, perceived or actual. Refer to [section 15](#) of this Policy for the definition of a conflict of interest.

Staff must take reasonable steps to avoid or manage potential, perceived or actual 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 conflict of interest found to exist
- managing and acting to address any conflict of interest.

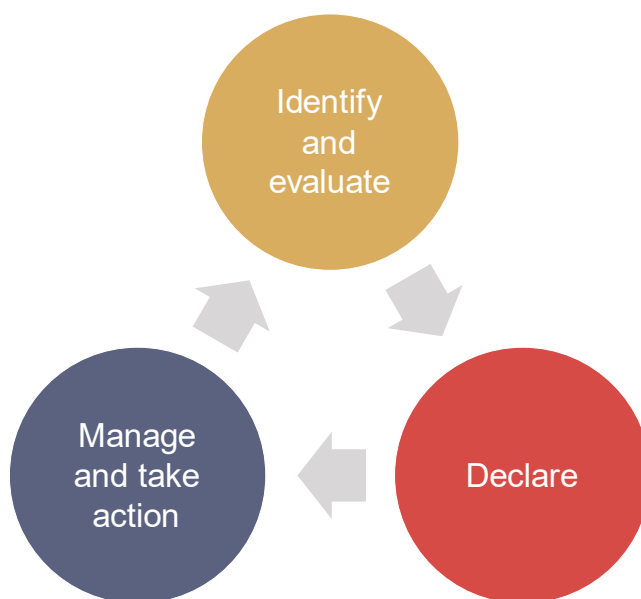


Figure 1

4. Identifying and evaluating conflicts of interest

4.1 Key test

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 staff member of the Audit Office.

4.2 Situations

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

- **personal interests** - personal interests that could create a conflict of interest include:
 - **financial interests** - where there is the potential to gain financially, whether directly or indirectly.
 - **non-financial interests** - where there is the potential to gain from a decision or action, or to be biased. For example, because of personal beliefs or involvement towards a cause, an individual could be conflicted between duty at the Audit Office and personal views.
 - **personal relationships** - they can involve the interests of the individual's immediate or close family members, friends, foes, business partners or associates where these interests are known by the individual. They include any tendency toward favour or

prejudice resulting from friendship, animosity, or other personal involvement with another person or group. In assessing whether a personal relationship has created a potential, perceived or actual conflict consider:

- i) the position, responsibility or delegated authority the individual, related to or associated with the staff member, holds in the auditee or other organisation involved
 - ii) the position, responsibility or delegated authority of the staff member involved including the ability of the staff member to exert direct or significant influence over the audit or internal business decision.
- **political activities** - political expression, association or activity may conflict with the primary duty as a staff member of the Audit Office.
 - **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 Executive Director, Professional Services.
 - **secondments** - may include Staff secondments to government agencies, ASPs or other external organisations which the Audit Office may have an affiliation with.
 - **inducements or intimidation** -
 - **inducements** are an object, situation or action that is used to improperly influence a staff member's behaviour and actions such as the offer of a gift, benefit or hospitality. Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations. Such influence can be directed either to the staff member or through someone the staff member has a personal relationship with. It 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.

Staff **must** consider all entities audited by the Audit Office when making their COI&PI declarations, by referring to the central list of auditees, which includes the non-public sector entities subject to follow the dollar audits.

4.3 If unsure

If Staff are unsure if a conflict of interest or threat to professional independence exists, in the first instance they should consult with their manager, their Director, the Director Governance (Risk and Ethics), Quality and Technical group. If the concerns are not resolved internally, relevant professional bodies or legal advisors may be consulted.

Refer to section 1.1 of the COI&PI Procedure for details of the process for managing applications for secondary employment and to section 1.2 for managing secondments.

5. When to declare conflicts of interest

5.1 COI&PI attestations – when starting employment and annually

A COI&PI attestation requires staff to formally attest that they understand their responsibilities and comply with the requirements of this Policy. It acts as a reminder to Staff to check for, identify and declare any conflicts of interest or threats to professional independence, and for any secondary employment.

A COI&PI attestation is completed when starting employment with the Audit Office and then as part of the annual attestation process for all staff.

5.2 COI&PI declarations – as soon as you become aware

A COI&PI declaration is only completed where a conflict of interest or threat to professional independence exists and is separate to the COI&PI attestation. Details of the conflict of interest or threat to professional independence is provided in the declaration, such as the manager you discussed the conflict or threat with and the agreed approach of how it will be managed. Refer to Appendix 1 for approval of actions to be taken to manage a declared conflict or threat.

COI&PI declarations must be completed as soon as you become aware of any conflict of interest or threat to professional independence. This may have been triggered when completing the COI&PI attestation or when there has been a change in circumstances.

Refer to section 2 of the COI&PI Procedure for further details.

5.3 Change in circumstances

If circumstances change that create a new or changes to an existing conflict of interest or threat to professional independence, Staff must declare the conflict or threat as soon as they become aware of it. Staff must not wait for the annual attestation process.

Refer to section 2 of the COI&PI Procedure for details on how to report a change in circumstances.

5.4 Activity specific declarations

Conflicts of interest and threats to professional independence are particularly relevant:

- in high-risk function areas (including recruitment and procurement)
- where Staff have a decision-making role
- where Staff can directly influence a decision
- where there is a statutory or other obligation to declare, for example the Chief Audit Executive.

When assigning Staff to such activities and during the assignment, Staff must evaluate the circumstances or relationships that may identify a conflict of interest or threat to professional independence. Where a potential, perceived or actual 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.

Staff must discuss with their manager and obtain approval from the Deputy Auditor-General or delegated authority (Refer to Appendix 1 of this Policy), if they are requested by an auditee to participate in a recruitment process for the auditee.

Staff on tender evaluation committees and those on recruitment selection panels must also declare any conflict of interest in relation to those specific activities.

5.5 Committee declarations

All committee members are expected to exercise objectivity on all matters.

Members of the Office Executive Committee, Audit and Risk Committee and Remuneration Committee must declare conflicts of interest at the beginning of each meeting. These are captured within their respective registers and disclosed on the website.

Similarly, members of other Audit Office committees (such as Finance and Performance Committee, Strategic Technology Committee, Work, Health and Safety Committee, etc), must declare any conflicts of interest at the beginning of each meeting where one exists, or before discussion of the relevant agenda item. Simply representing your branch or business area in one of these committees, does not create a conflict to be declared. Details of relevant conflicts must be minuted, and the conflict managed or resolved. Where appropriate, this may include being excused from deliberations for a particular agenda item/s where a conflict exists. In appointing committee members any conflicts must be considered prior and during the appointment.

5.6 Conflict of Interest and Professional Independence Register

The Conflict of Interest and Professional Independence Register (the Register) is a central register that records information from the COI&PI declarations as provided by Staff. The Register includes a list of all declared conflicts of interest and threats to professional independence.

The conflicts and threats declared must be taken into consideration when allocating Staff to audit engagements or other business activities.

5.7 Related parties' disclosures²

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 Audit 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 Audit Office.

Related party transactions are transactions between the Audit Office and the related parties of the KMP. Related parties of KMP³ include:

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

6. Managing conflicts of interest

It is important that conflicts of interest are managed or resolved on a timely basis. Staff and their managers are jointly responsible for taking reasonable steps to resolve the conflict.

For details of how a conflict may be managed refer to section 3 of the COI&PI Procedure.

Refer to Appendix 1 of this Policy for approvals.

Part 2 – PROFESSIONAL INDEPENDENCE OF AUDIT ENGAGEMENT TEAM MEMBERS

7. Professional independence

The Audit Office performs audit, assurance and assurance-related engagements. These are performed in accordance with relevant laws, regulations, professional standards and public-sector frameworks including [APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)](#) (November 2018) (APES 110), ASQM 1, ASQM 2, ASA 220, ASAE 3000, ASAE 3500 and other relevant standards or laws e.g. the *Corporations Act 2001*.

This section contains guidance on the standards of ethical and professional behaviour expected of audit engagement team members which includes professionally qualified auditors, other Staff working on the audit engagement who may not be professionally qualified, and external parties such as ASPs who form part of the audit engagement team.

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

Staff members who are not professionally qualified and who are part of an audit engagement team, must also behave ethically and comply with the Audit Office's Code of Conduct and associated ethical behaviour policies.

² This section only applies to the Office Executive.

³ According to para 9 of the AASB 124 Related Party Disclosures.

In addition to the obligation to maintain the independence of the Audit Office covered in Part 1 of this Policy, audit engagement team members have an obligation to be professionally independent, which includes being independent of mind and independent in appearance.

Audit engagement team members 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.

The three stages in avoiding and managing conflicts of interest as set out in [Figure 1](#) on page 2 of this Policy (identifying and evaluating, declaring, managing and taking action) also apply 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 in [section 4](#) of this Policy also apply to identifying and evaluating threats to professional independence.

Circumstances and relationships which present threats to independence are described in APES 110 and include:

- financial interests
- loans and guarantees
- business relationships
- family and personal relationships
- recent service with an assurance client
- serving as director or officer of an assurance client
- employment with an assurance client
- secondments
- long association with an assurance client
- non-assurance services to assurance client
- dependence on fees, negotiation of fees and presence of overdue fees
- gifts, benefits and hospitality
- actual or threatened litigation.

Examples of threats to independence in the context of an audit or assurance engagement are provided in the [Independence Guide](#) (May 2020), a joint publication of Chartered Accountants, Australia and New Zealand, CPA Australia, the Institute of Public Accountants and the Accounting Professional & Ethical Standards Board.

When assessing if there is a potential, perceived or actual threat to professional independence, audit engagement team members must consider:

- all auditees of the Audit Office and not just their current auditees
- non-public sector entities subject of the follow the dollar audits.

If a member of the audit engagement team identifies multiple threats, which individually might not be significant, they need to aggregate and evaluate the collective significance of those threats and apply any safeguards collectively.

9. Declaring threats to professional independence

9.1 Audit engagement team members employed by the Audit Office

All audit engagement team members employed by the Audit Office are required to declare whether there are circumstances and relationships that create potential, perceived or actual threats to professional independence so appropriate safeguards can be applied or other action taken as soon as they become aware.

For Financial Audit and Performance Audit staff where the conflict or threat is in relation to an entity they are currently auditing they must complete a Threats, Safeguards and Contravention of Independence form available on Alfie, and attach an approved form within the COI&PI declaration in MilIntegrity.

Further, in accordance with APES 110, there is a requirement for the engagement audit team member to notify the Audit Office when entering into employment negotiations with a current or former auditee. In the first instance this notification should be made to the manager. If audit engagement team members have concerns about making the notification to their manager, they can discuss the matter with the Director, Governance (Risk and Ethics).

The method for declaring a threat to professional independence is set out in section 6 of the COI&PI Procedure.

9.2 Audit engagement team members NOT employed by the Audit Office

Members of the audit engagement team who are not employed by the Audit Office, such as ASPs, are required to immediately declare any conflicts of interest or threats to professional independence to their nominated Engagement Controller as required by the Agreement to Provide Auditing Services or any other applicable contract.

10. Managing threats to professional independence

The same principles that apply to managing conflicts of interest in [section 6](#) of this Policy also apply to managing threats to professional independence.

Further guidance on managing threats to professional independence is contained in section 7 of the COI&PI Procedure.

Refer to Appendix 1 of this Policy for approvals.

Part 3 – GENERAL PROVISIONS

11. Compliance with this Policy and the COI&PI Procedure

Staff who suspect this Policy or the COI&PI 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 their manager or the Director, Governance (Risk and Ethics). The Audit Office will not tolerate any reprisal action against Staff whose concerns are raised in good faith.

Breaches of this Policy 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 and/or sensitive information. The information will be used for the purpose set out in this Policy and the COI&PI Procedure. The information will be held confidentially (subject to the provisions relating to access to the Register as set out in section 2.6 of the COI&PI Procedure) and in accordance with the [Privacy and Personal Information Protection Act 1998](#) and the Audit Office's [Privacy Management Plan](#).

13. Roles and responsibilities

Audit engagement team members - an audit engagement team consists of Staff, whether professionally qualified or not, and ASPs when they have been engaged. It also includes Staff not working directly in the team, but who through significant involvement, directly influence the outcome of an engagement. For example, those who:

- recommend the compensation of the Engagement Controller in connection with the performance of the engagement
- provide direct supervisory, management or other oversight of the Engagement Controller connected to the performance of the engagement
- consult with the team on technical or industry specific issues, transactions or events
- are experts engaged by the Audit Office (e.g. actuaries, valuers)
- provide quality control on an assurance engagement.

Deputy Auditor-General - the Deputy Auditor-General assumes ultimate ownership of this Policy. The Deputy Auditor-General either approves or delegates (as per [Appendix 1](#)) approval of all actions to resolve or manage a conflict of interests or threat to professional independence, and any exceptional circumstances that fall outside this Policy.

Executive Director, Professional Services - the Executive Director, Professional Services determines applications for secondary employment and provides an oversight and consultative role for all aspects of this Policy and the COI&PI Procedure.

Director, Governance (Risk and Ethics) - the Director, Governance (Risk and Ethics) maintains this Policy and the COI&PI Procedure, the Conflict of Interest and Professional Independence Register and the Secondary Employment and Volunteering Register.

Managers - all managers must:

- ensure Staff complete the annual attestation and declare any conflicts of interest and threats to professional independence in a COI&PI declaration as soon as they become aware of any
- manage conflicts of interest and threats to professional independence jointly with Staff
- ensure steps are taken to resolve a declared conflict or threat as appropriate.

Staff - all Staff must:

- take reasonable steps to avoid conflicts of interest and threats to professional independence
- identify and declare any potential, perceived or actual conflicts of interest and threats to professional independence as soon as they become aware of any in a COI&PI declaration
- complete a COI&PI attestation when starting employment and annually thereafter
- cooperate in the management of the conflict or threat
- consider circumstances when re-allocated to a new business team or a business activity.

14. Legislative context

This Policy has been developed in line with:

- ICAC's guidance on [Managing Conflicts of Interest in the NSW Public Sector](#)
- [Independent Commission Against Corruption Act 1988](#)
- Public Service Commission's (PSC's) [Behaving Ethically: A guide for NSW government sector employees](#), October 2014 – relevant sections pertaining to conflicts of interest
- PSC's [Circular 2015-08 Declaration of private interest](#), August 2015 – supplementary information
- relevant Human Resources and Governance policies including the Code of Conduct, and Gifts, Benefits and Hospitality Policy

- ASQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements
- ASQM 2 Engagement Quality Reviews
- ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information
- [APES 320 Quality Control for Firms](#)
- [APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)](#)
- [Auditing Standard ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements](#)
- [Standard on Assurance Engagements ASAE 3500 Performance Engagements](#)
- [Corporations Act 2001](#)
- [Government Sector Audit Act 1983](#)
- [Government Sector Finance Act 2018](#)
- [Australian Charities and Not-for-profits Commission Act 2012](#)
- [Superannuation Industry \(Supervision\) Act 1993](#)
- [Local Government Act 1993](#).

15. Definitions

Conflict of interest: a 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:

- a potential conflict of interest - arises where a staff member has interests that could conflict with their official duties in the future, for example a staff member has a conflict in relation to an Audit Office auditee that they are not currently auditing.
- 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.
- 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, for example where a staff member has a conflict in relation to a current auditee.
- threat to professional independence - see definition below.

Contingent worker: is a person employed by a recruitment organisation who performs the same types of work as permanent Audit Office 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 close family members who may be influenced by that person in dealing with the entity, e.g. cousin, uncle or aunt, brother or sister in law.

Manager: For the purposes of this Policy, this is the manager who is in the most appropriate position to manage the conflict of interest or threat to professional independence jointly with the Staff and may not necessarily be the direct administrative manager but a functional manager. For example, a project manager or an audit engagement leader.

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

Professional independence requires audit engagement team members 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, investment activities, hobbies which generate a nominal income are generally not considered secondary employment.

Staff should consider whether their involvement in such activity creates a conflict of interest. Contact the Director, Governance (Risk and Ethics) for advice on your individual situation if you are unsure.

Staff: all permanent and temporary staff and the contingent workers employed by the Audit Office.

Threats to professional independence: categories of threats include:

- self-interest threat - the threat that a financial or other interest will inappropriately influence an audit engagement team member's judgement or behaviour;
- self-review threat - the threat that an audit engagement team member will not appropriately evaluate the results of a previous judgement made, or an activity performed by the audit team member, or by another staff member within the Audit Office, on which the audit team member will rely when forming a judgement as part of performing a current activity;
- advocacy threat - the threat that an audit engagement team member will promote an auditee's position to the point that his/her objectivity is compromised;
- familiarity threat - the threat that due to a long or close relationship with an auditee, audit engagement team members will be too sympathetic to their interests or too accepting of their work; and
- intimidation threat - the threat that an audit engagement team member will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the staff member.

16. Contact point

Contact Director, Governance (Risk and Ethics) for any questions about this Policy.

17. Review

This Policy will be reviewed at least every two years in the absence of any significant changes or more frequently where required taking into account legislative or organisational changes, risk factors and consistency with other policies.

Appendix 1 – Conflict of Interest Delegations from the Deputy Auditor-General

Approval	Delegated authority
Approve the management of (including any actions to resolve) potential or perceived conflicts of interest declared ⁴	Staff's Manager* and must be in consultation with Director, Governance (Risk and Ethics)
Approve the management of (including any actions to resolve) actual conflicts of interest or any threats to professional independence declared** ⁶	Deputy Auditor-General**
Approve secondary employment and volunteering applications	Executive Director, Professional Services
Approve secondments	Deputy Auditor-General
Approve participation in the recruitment process for an auditee	Executive Director, Professional Services
Approval for any exceptional circumstances falling outside of this Policy	Deputy Auditor-General

*The manager's name is to be included in the COI&PI declaration.

**Approvals by the Deputy Auditor-General for threats to independence are done via the Threats, Safeguards and Contravention of Independence Form, which covers the level of approvals required.

⁴Conflicts of interest and threats to professional independence declared by the ASPs are dealt with by the Engagement Controller.