

STATE BOARD OF INTERNAL CONTROL

Conflict of Interest

Conflict of Interest

- ▶ A situation arising from conflict between the performance of public duty and private or personal interests.
- ▶ **It is not wrong or unethical to have a conflict of interest, what is important is that it is identified and appropriately managed.**
- ▶ It is wrong to have a conflict of interest and not do anything to manage the situation. Managing the situation can range from disclosing the conflict of interest to recusing oneself from a decision.

Conflict of Interest

- ▶ Should include two basic directives
 - Require those with a conflict (or a potential conflict) to disclose it.
 - Require an individual to remove themselves from any situation where there is a conflict.
- ▶ Also need to answer “How will the state agencies or individuals manage the conflict?”

Conflict of Interest vs. Related-party Transaction

- ▶ Related-party Transaction
 - A business deal or arrangement between two parties who are joined by a special relationship prior to the deal.
 - These commonly occur in the normal course of operations.
- ▶ Examples
 - Between Government and its related organizations, joint ventures, and jointly governed organizations.
 - Between a government and its elected and appointed officials, management, or members of their immediate families.

GASB Codification



Conflict of Interest vs. Related-party Transaction (continued)

- ▶ All conflicts of interest are considered related-party transactions; however, not all related-party transactions are conflicts of interest.
- ▶ Key Difference
 - A conflict of interest most often involves a situation when a person has decision-making authority, and can use that authority to benefit himself or herself.

Common Risk Areas

- ▶ Almost all functions performed can potentially lead to a conflict of interest.
- ▶ Common Risk Areas include:
 - Procurement processes, bids, and contracts
 - Sponsorship from the private sector
 - Allocation of grants for community-based services
 - Dual roles as a public officer
 - Boards and Committees with representative members
 - Gifts, benefits, and hospitality
 - Filling a public sector vacancy
 - Secondary employment

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Scenario 1

- ▶ Jack is the contracts manager for a state agency.
- ▶ He is required to award a contract for a new telecommunications system.
- ▶ Until three years ago, Jack worked in the 'telco' business, having worked for a number of different companies throughout the state. He hasn't really kept in touch with former colleagues, although suspects many of them are still in the business.
- ▶ He appreciates that it is a rapidly changing and highly competitive industry and wonders if any of his former employers will bid.
- ▶ Perception?

Scenario 2

- ▶ Jim works as a senior planner for a state agency involved with the regulation and conservation of the environment.
- ▶ As part of his job, Jim sits on a panel that assesses and approves grant applications from community groups.
- ▶ His wife Jane is involved with an environment advocacy group, as an active and long-term member, although not an officer.
- ▶ Her environment group applies for the state agency's grant in which the panel that Jim sits on makes the funding decision.
- ▶ It is a competitive grant, as other groups are also seeking support for a diverse range of projects.

Scenario 3

- ▶ Kevin is employed as an IT support officer within a state agency.
- ▶ He has developed significant knowledge and expertise in maintenance of personal computers.
- ▶ In his spare time Kevin occasionally assists his friend Kelly with her business restoring and selling second-hand computers.
- ▶ He does not get paid for this maintenance work but is compensated for every new customer he brings to the business.