

## Dear Q&A

### Would a board member have a conflict of interest if they are a service provider partner with the outsourced internal audit service provider?

#### Answer

The short answer is 'yes'. More than that, they would have a perceived conflict of interest if they were a partner (or even employee) with a competitor of the internal audit service provider. The perception can continue even after the individual has left the service provider firm.

This does not mean, however, that partners of organisations that provide internal audit services cannot be members of boards in organisations that outsource parts of their internal audit activity. The questions we should ask ourselves are:

- › Does the individual have any decision-making influence that affects the internal audit service provider?
- › Does the individual have information that may advantage the service provider in any market decisions, and is the relationship fully declared?

There may be more serious issues if the individual were a member of the audit committee or was in any way involved in the selection or performance assessment of the internal audit service provider.

The general rule in dealing with potential or perceived conflicts is that such conflicts should be:

- › Made known to all directly affected parties.
- › Dealt with in a transparent manner by each of the relevant parties.

The board might choose to exclude the individual from discussions about the performance, appointment or replacement of the internal audit service provider. They might value the opinion of the individual and allow them to join discussions but not to vote.

However the board chooses to deal with this, it should be openly decided and minuted. The organisation might like to consider how the actions of the board would be interpreted in a Royal Commission or if they were published in publications such as the 'Australian Financial Review'.