

**Revision of Part C Phase 2—Inducements Issues and Task Force Proposals****How the Project Serves the Public Interest**

A professional accountant in business (PAIB) may be offered an inducement with the intention of influencing the behavior of the accountant or obtaining an advantage from the accountant that would not have been attained without the inducement. Such actions might violate the legitimate objectives of the accountant's employing organization and could result in the accountant failing to comply with the fundamental principles of the Code. It is not in the public interest for an accountant to offer, solicit or accept inducements that could result in breaching the fundamental principles of the Code.

**Background**

1. During its May 2017 teleconference, the IESBA considered revisions to the proposed Section 250<sup>1</sup> relating to the offering and accepting of inducements with a view to reaching substantive agreement on the structure and content of that section.
2. The IESBA agreed that the revised proposed Section 250 text, including the Board's input from its May teleconference would be used to form the basis of consequential and conforming amendments to the relevant provisions in the proposed restructured Code (i.e., Part 3, Professional Accountants in Public Practice and Part 4 – International Independence Standards).
3. The purpose of this paper is to summarize the key revisions made to Section 250 since the May 2017 teleconference and summarize the nature of the consequential and conforming amendments to the other sections of the Code since the IESBA's last review.

**Feedback from May 2017 IESBA Teleconference**

4. The IESBA was generally supportive of the revisions made to proposed Section 250 by the Task Force in response to the comments provided by the IESBA members during the March 2017 Board meeting.
5. No substantive concerns were raised about the revised structure relating to the prohibitions and the application of the conceptual framework. It was noted the revisions made clear that the offering or acceptance of any inducement made with actual or perceived intent to improperly influence the recipient's behavior is prohibited by the Code as there can be no safeguards to reduce the threat to an acceptable level and is an aspect of the enhanced conceptual framework.
6. It was explained that the reference to "bribery and corruption" in paragraph R250.5 was retained in response to some regulatory stakeholders' view that the issue should be addressed within Section 250.
7. In response to comments raised by the IESBA members about the usefulness and clarity of some subheadings, the phrase "Applying the Conceptual Framework" was removed from the subheading above paragraph 250.10 A1. The Task Force also removed the subheadings above paragraphs R250.13 and 250.14 A1 to improve readability of the paragraphs under the section titled "Immediate

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<sup>1</sup> Proposed restructured Code, Part 2, Professional Accountants in Business, Section 250, *Inducements, including Gifts and Hospitality*

or Close Family Members”.

8. The Task Force considered all other comments and editorial suggestions received from the IESBA teleconference participants. Those comments and suggestions have been incorporated where appropriate to improve the clarity and readability of proposed Section 250, and to further align it to the new structure and drafting conventions for the proposed restructured Code. See Agenda Item 2-B for the revised proposed text in proposed Section 250.

#### **Matters for Consideration**

1. IESBA members are asked to consider the Task Force’s proposals in Agenda Item 2B, and agree to the proposed revised text for proposed Section 250.

#### **Proposed Consequential and Conforming Amendments**

9. During the March 2017 IESBA meeting, the Task Force presented the consequential amendments to proposed Sections 340,<sup>2</sup> and the conforming amendments to proposed Sections 420<sup>3</sup> and 906<sup>4</sup> in light of the revisions made to the March 2017 draft of proposed Section 250. The Task Force has made further revisions to those proposed sections in light of the changes agreed to proposed Section 250 since the May 2017 teleconference as presented in Agenda Item 2-B.

#### *Proposed Consequential Amendments to Proposed Section 340*

10. As part of the project, it was agreed that the Task Force would align the relevant restructured provisions for professional accountants in public practice (PAPPs) (i.e., proposed Section 340) to the revised inducement proposals for PAIBs. This is because PAPPs are likely to encounter circumstances relating to inducements that will create threats to compliance with the fundamental principles similar to those encountered by the PAIBs. For reference, a copy of the restructured extant provisions for PAPPs is included in the Appendix to this paper (i.e., proposed Section 340 as agreed-in-principle in December 2016).
11. In developing the consequential amendments to proposed Section 340, the Task Force has taken the following approach and rationale:
  - Proposed Section 340 has been expanded to include inducements other than gifts and hospitality, the offering of inducements by professional accountants as well as a new section on intent and immediate or close family members.
  - A PAPP should follow the same logical steps when assessing whether the offering or accepting of an inducement creates any threats to compliance with the fundamental principles. Accordingly, the structure and content of proposed Section 340 should mirror those of proposed Section 250.

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<sup>2</sup> Part 3, Professional Accountants in Public Practice, Section 340, *Gifts and Hospitality* (Extant Part B, Section 260, *Gifts and Hospitality*)

<sup>3</sup> Part 4A, Independence – Audits and Reviews, Section 420, *Gifts and Hospitality* (Extant Part B, Section 290, *Independence – Audits and Reviews*, paragraph 290.225)

<sup>4</sup> Part 4B, Independence – Other Assurance Engagements, Section 906, *Gifts and Hospitality* (Extant Part B, Section 291, *Independence – Other Assurance Engagements*, paragraph 291.155)

- Proposed Section 340 will apply to all PAPPs offering or being offered any inducement from a client whereas proposed Sections 420 and 906 will set out additional guidance material for auditors and assurance practitioners relating to accepting gifts and hospitality from an audit, review or assurance client. For example, the enhanced provisions in proposed Section 340 as amended would apply to a PAPP being offered an inducement from a tax client.
  - Changes were made to the terminology and examples in proposed Section 250 as appropriate to tailor them for PAPPs and their clients. For example:
    - The words “employing organization” and “counterparty” were replaced with the words “firm” and “client” respectively.
    - The examples were tailored or revised to be more appropriate for PAPPs and client relationships.
  - Within the Other Considerations section of proposed Section 250, references to other relevant PAIB provisions in the Code were replaced with appropriate references to the International Independence standards to remind PAPPs of their additional responsibility under the International Independence Standards when accepting gifts and hospitality from an audit or assurance client (i.e., the references to proposed Sections 240 and 270 are replaced with proposed Sections 420 and 906).
12. As part of developing its proposals, the Task Force considered questions that have been raised by some IESBA participants about the extent of the changes in proposed Section 340 in comparison to the extant provisions in Section 260.<sup>5</sup> The Task Force’s response is that, it is important that the Code provides the same enhanced guidance to PAPPs when dealing with inducements in the course of providing professional services as is being established for PAIBs in proposed Section 250.
13. The Task Force’s proposals in **Agenda Item 2-C** is intended to replace the restructured extant provisions in proposed Section 340.

*Proposed Conforming Amendments to Proposed Sections 420 and 906*

14. In addressing the comments raised by the IESBA members during the March 2017 IESBA meeting, the Task Force has taken the following approach and rationale:
- Proposed Section 340 should be referenced in proposed Sections 420 and 906 in order to give users a more holistic view of the requirements and application material relating to the offering and accepting of inducements for PAPPs. The reference clarifies that the requirements in proposed Sections 420 and 906 are in addition to those set out in proposed Section 340.
  - The restructured extant provisions in proposed Sections 420 and 906 of the proposed restructured Code prohibit gifts and hospitality being accepted unless it is trivial and inconsequential in value. This diverges from the directions in Section 340, where an inducement that is not trivial and inconsequential can be accepted, provided that any threats have been eliminated or reduced to an acceptable level. The Task Force felt that such a divergence is in line with the extant pronouncements and hence should be maintained.

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<sup>5</sup> Extant Part B, Professional Accountants in Public Practice, Section 260, *Gifts and Hospitality*.

- Incorporating into proposed Sections 420 and 906 the elements of intent, immediate and close family members or the offering of an inducement would result in substantial increase in the scope of these Sections. Instead, reference to proposed Section 340 is added to remind a PAPP of the additional responsibilities relating to the offering and accepting of inducements.
15. The three key changes that were made to the turnaround version of the proposed conforming amendments to 420 and 906 since the March 2017 meeting are as follows:
- (a) The reference to “inducement” that was included in the title of both sections has been removed to reflect the focus of the sections on accepting gifts and hospitality by a firm, network firm or audit team member.
  - (b) Threats to independence has been added to the introductory section of proposed Sections 420 and 906. The Task Force considers the inclusion of both threats to compliance with the fundamental principles and independence to be appropriate given proposed Section 340 also deals with inducements. Such use also aligns with the introduction in proposed Section 600 of the proposed restructured Code.<sup>6</sup>
  - (c) The section titled “Other Considerations” has been removed. Instead, the reference to Section 340 has been incorporated into the requirement paragraphs.<sup>7</sup>

**Matter for IESBA Consideration**

2. IESBA members are asked to consider the approach for developing proposed consequential and conforming amendments arising from the revised provisions for inducements in proposed Section 250 (i.e., Agenda Item 2-B) and agree to the proposed text for:
- (a) Proposed Section 340, *Inducements, including Gifts and Hospitality*
  - (b) Proposed Section 420, *Gifts and Hospitality*
  - (c) Proposed Section 906, *Gifts and Hospitality*
3. IESBA members will be asked whether they agree to the Task Force’s proposals, subject to any refinements made during the meeting and, if so, to approve them for exposure.
4. Do IESBA members agree with the proposed timeline and exposure period set out in Agenda Item 2?

<sup>6</sup> Proposed restructured Code Section 600, *Provision of Non-assurance Services to an Audit Client*, paragraph 600.2.

<sup>7</sup> Paragraphs R420.4 and R906.4.

## Relevant Extracts of Structure Phase 1 Agreed-in-Principle Text

### Part 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

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#### Section 340

#### Gifts and Hospitality

##### Introduction

- 340.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 340.2 An offer of gifts or hospitality from a client might create self-interest, familiarity or intimidation threats.
- 340.3 Section 340 sets out specific application material relevant to applying the conceptual framework to offers of gifts and hospitality.

##### Application Material

- 340.4 A1 An offer of gifts or hospitality from a client to a professional accountant, or an immediate or close family member of an accountant, might create:
- A self-interest or familiarity threat to compliance with the principle of objectivity if the offer is accepted.
  - An intimidation threat if the acceptance of the offer might be made public.
- 340.4 A2 The level of any threat created by an offer of a gift or hospitality will depend on the nature, value and intent of the offer, and whether, taking into account the reasonable and informed third party test:
- The offer of gifts or hospitality would be considered to be trivial and inconsequential; or
  - The offer of gifts or hospitality is made in the normal course of business without intent to influence decision making or to obtain information.

### PART 4A – INDEPENDENCE FOR AUDITS AND REVIEWS

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#### Section 420

#### Gifts and Hospitality

##### Introduction

- 420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to

independence.

- 420.2 Accepting gifts or hospitality from an audit client might create self-interest, familiarity or other threats.
- 420.3 Section 420 sets out a specific requirement relevant to applying the conceptual framework to offers of gifts and hospitality.

### **Requirement**

- R420.4** A firm, a network firm or an audit team member shall not accept gifts or hospitality from an audit client, unless the value is trivial and inconsequential.