

EXPLORING THE IESBA CODE

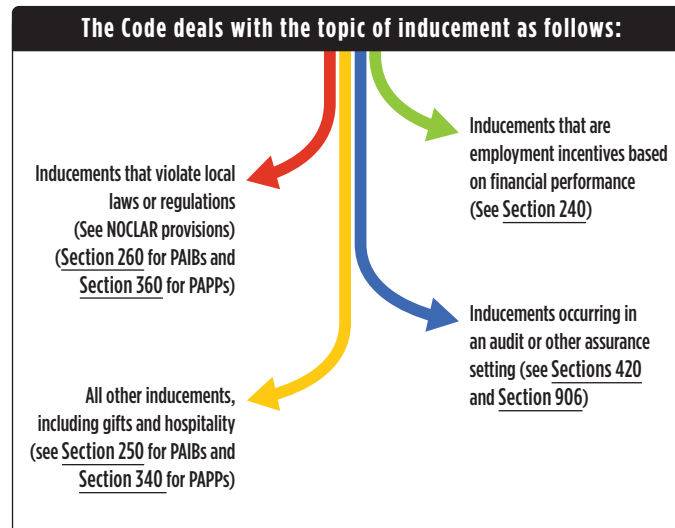
Installment 7: Inducements, Including Gifts and Hospitality



In some cultures, the exchange of gifts and hospitality can be an important factor in building and strengthening business relationships. At the same time, however, these and other inducements can threaten a professional accountant’s (PA’s) ability to be objective and act with integrity. Proper checks and balances are needed to safeguard professional behavior in the public interest.

What is an inducement?

Under the IESBA Code, “Inducements” refers to anything that is used to influence another individual’s behavior. Sometimes, this influence is just part of natural business relationship-building, but other times the intent behind the inducement is to improperly influence someone to act unethically. Inducements can range from customary hospitality exchanged between business colleagues, to illegal acts such as bribery. In this installment, we explore inducements that do not violate local laws or regulations (as addressed in the NOCLAR provisions of the Code).



We often think of inducements as having monetary value, but they can also include offers of preferential treatment or even appeals to friendship or loyalty. The fact that no money is involved does not necessarily lessen the threats created.

⚠ Family Matters

PA’s are required to remain alert to threats caused by immediate or close family members offering or being offered inducements. For example, a PA’s spouse might be offered a job by a client. If there is an actual or perceived intention to improperly influence behavior, the PA is required to advise the family member to not offer or accept the inducement.

Inducements with improper intentions

Even if an inducement does not violate local laws or regulations, PAs cannot offer or accept an inducement if the intent is to improperly influence behavior and cause someone (whether the recipient or someone else) to act unethically. Doing so would go against the PA's requirement for integrity. Similarly, PAs must not encourage others to give or receive inappropriate inducements.

What about intentions that are not improper?

If the intentions of the offer are benign (i.e., there is no actual or perceived intent to improperly influence behavior), then compliance with the fundamental principles might still be threatened (e.g. the PA's objectivity might be threatened by self-interest).

If the item is trivial and inconsequential, the level of threat will usually be acceptable, but the PA needs to evaluate the threat and then decline the offer or put safeguards in place if the threat is not at an acceptable level. Relevant safeguards might include reimbursing the gift-giver for the value of the gift, disclosing receipt of the gift to the appropriate level in the organization, sharing the gift with colleagues, or donating it to charity.



In times of crisis, rapid decision-making is needed, which can present challenges to maintaining effective checks and balances that protect against inappropriate inducements. Additional safeguards might be needed to ensure that malevolent actors are not able to take advantage of a crisis situation.

Improper or not—consider the example below:

The CFO of a distillery hired a PA firm to provide tax services. The CFO is thinking about offering the engagement team tickets to an upcoming customer appreciation event, which includes a bottle of limited-release whiskey.

WHERE TO GET ASSISTANCE?



In addition to the specific sections of the Code highlighted on page 1, IESBA Staff has prepared diagrams to help PAs analyze Inducements Offered by or to a PA **Appendix 1**, Inducements offered by or to an Immediate or Close Family Member **Appendix 2**, and Gifts and Hospitality Offered by an Audit or Assurance Client **Appendix 3**.



The eCode, which is available at www.IESBAeCode.org, is an on-line resource for accountants and other users of the Code. It provides quick and efficient access to the Code, making it easier to use, implement, and enforce.

How can a PA determine intentions?

PAs need to apply professional judgement and consider the situation from the perspective of a **reasonable and informed third party** to determine whether there is an actual or perceived attempt to improperly influence behavior. Relevant questions to ask might include:

- What are the roles and positions of the individuals involved?
- What is the timing relative to any action or decision that might be influenced?
- Is it directed toward the decision-maker alone, or meant to be shared among a broader group?
- What is the value of the gift, hospitality or other inducement?
- Is it offered transparently or secretly?

In order to determine whether the inducement described in our distillery example would be acceptable, both the CFO and the PA firm would need to evaluate the intent of the offer. For example:

- With respect to timing, it would be important to consider that receiving the bottles of whiskey as a symbol of appreciation after the close of the engagement might be acceptable, whereas the same gift given while the engagement is underway might not be.
- With respect to value, is the event and bottle of whiskey an economic perk to gain favor, or are the PAs invited as a way to meet key employees of the company and to learn about the business?

Identify, Evaluate, Address the Threat

Assuming there is no attempt (or perceived attempt) to improperly influence behavior, both the CFO and the firm would need to evaluate whether the gift and hospitality creates a threat to compliance with the fundamental principles—particularly objectivity, integrity, and professional behavior.

For threats that are deemed too high to be at an acceptable level, safeguards might include:



- documenting the gifts in the engagement file to ensure full transparency
- having the team take part in the event to learn the business, but not accepting the bottle of whiskey

If this were an assurance engagement, the gift and hospitality could not be accepted by the PAPP regardless of the CFO's intent, unless the inducement was small enough to be deemed trivial and inconsequential.