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Submitted electronically to kensiong@ethicsboard.org

Mr K Siong
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Dear Ken

Comments on the Exposure Draft on the Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements

The Independent Regulatory Board for Auditors (IRBA) is the audit regulator and national auditing and ethics standard-setter in South Africa. Its statutory Committee for Auditor Ethics (CFAE) is responsible for prescribing standards of professional competence, ethics and conduct for registered auditors. One of the IRBA's statutory objectives is to protect the public by regulating audits performed by registered auditors, thereby promoting investment and employment in South Africa.

The IRBA adopted Parts A and B of the International Ethics Standards Board for Accountants' (Board) *Code of Ethics for Professional Accountants* (the Code). This was prescribed in 2010 as the *Code of Professional Conduct for Registered Auditors* (the IRBA Code) in South Africa, with certain additional national requirements. The IRBA Code, with its *Rules Regarding Improper Conduct*, provides the basis for disciplinary action against registered auditors. As the IESBA's exposure draft on the proposed revisions pertaining to the Offering and Accepting of Inducements in the Code could result in possible amendments to Part B, the IRBA has particular interest in the process.

We appreciate this opportunity to comment on the exposure draft and our comments are presented under the following sections:

- A. General Comments;
- B. Request for Specific Comments and Responses;
- C. Request for General Comments; and
- D. Annexure A: Comments on Specific Paragraphs.

We remain available to discuss our comments.

Yours faithfully,

Signed electronically

Imran Vanker
Director: Standards

Saadiya Adam
Professional Manager: Ethics

A. General Comments

- 1.1. The IRBA notes the importance of the IESBA project to strengthen the provisions and facilitate better dealings with the offering and receiving of inducements.
- 1.2. As a regulator of registered auditors with a statutory objective to protect the public, we are concerned with the enforceability of the Code. We support initiatives that create an enabling environment for registered auditors to apply the IRBA Code and those that promote ease in understanding the IRBA Code.
- 1.3. While the exposure draft on the Code has been drafted in the context of professional accountants, our responses are provided in the context of registered auditors who perform audits and reviews and provide other assurance services.
- 1.4. Recent events in South Africa have made this exposure draft very relevant and topical. Local developments such as the close relationship between auditors and their clients have featured prominently in our media. This has heightened the interest in the nature of the relationship between auditors and their clients. (<https://www.businesslive.co.za/bd/companies/financial-services/2017-09-15-kpmg-admits-going-to-the-gupta-wedding-was-a-bad-idea/>).
- 1.5. While we appreciate the attempts to create a filter in determining if inducements are proper or improper, the proposed amendments are complicated, confusing and highly subjective. We encourage a simpler and more robust mechanism to address inducements.
- 1.6. We are of the view that the proposed amendments will confuse registered auditors by trying to differentiate between acceptable inducements and improper ones rather than between an inducement and a non-inducement. The explanatory memo notes that there were reservations expressed about using the term inducements because of its negative connotations. We share those reservations because in the context of professional services the term generally refers to an undesirable practice but the exposure draft uses the term to collectively refer to both acceptable and improper practices.
- 1.7. The proposed description of an inducement does not resolve the confusion as it does not explain acceptable inducements.
- 1.8. We agree with the decision of the IESBA to adopt a principle-based strategy to the proposed amendments relating to inducements. A rules-based approach would be complicated. We note that in the absence of a timely response from the IESBA to the real market need, it is not unlikely that regulators and standard setters would resort to local rules that would be akin to prohibitions, and a variety of practices could evolve around the world.
- 1.9. We appreciate that the proposed amendments begin to change the mind-set around inducements by not only defining them as monetary objects but also as situations and actions.

B. Request for Specific Comments and Responses (our responses provided in detail to Section 250, would also apply to Section 340, in addition to the comments made separately on Section 340)

Proposed Section 250

1. *Do respondents support the proposals in Section 250? In particular, do respondents support the proposed guidance to determine whether there is an intent to improperly influence behaviour, and how it is articulated in the proposals?*
 - 1.1. The IRBA Code did not adopt Part C of the extant IESBA Code of Ethics. However, amendments made to Section 340 of the IESBA Code are based on Section 250.

Thus, we will make comments under this section, on the understanding that it will also give rise to matching amendments to Section 340.

Description of Inducements (Paragraph 250.4 A1)

- 1.2. This is the most important part of the proposed amendments, as it defines the scope of the amendments.
- 1.3. Unfortunately, the current description of inducements incorporates different concepts in a single description. This is confusing for the following reasons:
 - “*as a means to influence another individual’s behaviour*” – There is an assumption that every form of inducement referred to in the exposure draft, even trivial and inconsequential inducements, has the ability of influencing someone’s behaviour. However, this is not true in practice, for example, there are numerous acts of hospitality for which there is no intention to influence someone’s behaviour. It would be burdensome to consider if trivial or inconsequential inducements have intent.
 - “*individuals*” – The definition does not take into account that an inducement may be offered or accepted by an entity/firm. Additionally, the inducement made to an individual may influence the entity/firm and not an individual.
 - “*not necessarily with the intent*” – The improper intent is only explained in R250.7 and R250.8, thus the reading of the description without the complete context seems disjointed.

Examples of Inducements (Paragraph 250.4 A1)

- 1.4. All the examples of inducements listed are positive in nature. We would appreciate clarity on whether a negative action (e.g. a threat) would meet the definition of an inducement.
- 1.5. The following are suggestions to add to the examples of inducements:
 - Patronage;
 - Frequent board appointments; and
 - Access to information.

We have provided a comprehensive list in Annexure A.

- 1.6. We note and agree that certain inducements do not have a monetary amount attached to them. This statement may be worth including in the amendments.

Inducements Prohibited by Laws and Regulations (R250.5)

- 1.7. This subheading has a relationship with Section 260 and Section 360, *Non-compliance with Laws and Regulations (NOCLAR)*. However, a cross reference has not been included under this subsection.
- 1.8. We note that requirement R250.5 is a new requirement and has not been mentioned in Section 260. The IESBA may want to consider consequential amendments to Section 260 as a result of amendments relating to inducements.
- 1.9. Paragraph 250.6 A1 may be phrased as a requirement. This will give a clear direction for jurisdictions that do not have laws and regulations addressing bribes and corruption, and the appropriate course of action when faced with a bribe.

Intent (Paragraph 250.9 A1)

- 1.10. Paragraph 250.9 A1 does increase the robustness of the Code. A possible improvement is to elevate this application material to a requirement and reconfigure the paragraph as a test.
- 1.11. We are uncomfortable with the view expressed in Paragraph 23 of the Explanatory Memorandum, which states that “since no one other than the person offering an inducement knows whether there is intent”. We disagree with this statement as inducements may be made by a firm, or a group of individuals, as part of a marketing or stakeholder strategy, and it is a fairly common place for recipients to be aware of the giver’s motive.
- 1.12. We would encourage the following additions to paragraph 250.9 A1:
 - The extent of formality, publicity and disclosure associated with the inducement.
 - As the independence in appearance concept is relevant to this section, the other actions of the professional accountant will be relevant, i.e. those actions immediately before and after the inducement.

Intent to Improperly Influence (R250.7 and R250.8)

- 1.13. The distinction between an inducement with the *intent to improperly influence* and with *intent to properly influence* is unclear.
- 1.14. This is mainly because the proposed amendments are silent on inducements with intent to properly influence the recipient.
- 1.15. If by definition an inducement as a means to influence someone’s behaviour, then the amendments need to be clear regarding the circumstances under which an inducement would be acceptable, i.e. under what circumstances a professional accountant is allowed to attempt to influence someone’s behaviour where that would not be considered to be improper.

Reasonable and Informed Third Party (R250.7 and R250.8)

- 1.16. We have reservations about whether the use of the reasonable and informed third party test (RITP) is the correct test to use in this section.
- 1.17. When offering or accepting an inducement, we question whether “the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant’s actions” as required by the RITP test is applicable. The appropriate test should be at a less sophisticated level. A public perception/investor test would be more appropriate. This is especially relevant since this section poses a risk to independence in appearance. The offering or accepting of an inducement is not isolated to the experience or knowledge of professional accountants. Additionally, there is very little technical expertise that is required when considering if an inducement should be accepted.

Focus on the Individuals versus Groups

- 1.18. The examples provided in Section 250 have been limited to the individual offering and accepting the inducement. However, the offering and accepting of inducements may extend to a group of individuals (e.g. management, the organisation, a firm or entity).

1.19. Additionally, paragraphs R250.7 and R250.8 use the word “recipients”. This word suggests direct relationship between the giver and the receiver. This therefore does not incorporate the possibility that the person being influenced is someone other than the immediate recipient. This is not uncommon, where a front or proxy is used. Therefore, consideration should be given to extending this to include a third party. This is in keeping with the logic in sections that refer to “immediate or close family members”.

Safeguards (250.11 A3)

1.20. We noticed that none of the safeguards listed are suitable for use by small and medium practices (SMPs). We suggest that additional safeguards be included for such practices.

1.21. We disagree with the example of a donation as a safeguard. Accepting an inducement and then donating it to charity are two separate acts and the second act doesn't remedy the first. Additionally, a donation may give rise to a tax benefit and an elevated corporate social responsibility position, and the entity or professional accountant may inevitably benefit from the donation.

1.22. Additional safeguards may include making reasonable effort to return the inducement to the provider thereof.

Paragraph 250.11 A4

1.23. We do not believe that transferring responsibility necessarily eliminates the threat. A suggestion is to remove this paragraph and rather add this example to the list of safeguards (250.11 A3).

1.24. The subjectivity relating to the transferring of responsibility is due to the following:

- It is dependent on the relationship between the business partner and the professional accountant;
- It is dependent on the closeness between the business partner and the professional accountant;
- It is more likely for the business partner to understand the implications of the inducements, which may affect his judgment; and
- Whether the professional accountant and the business partner have a shared department, goal, or business target.

1.25. The threat may even be considered greater than an inducement to an individual's family, as the business partner would be in a better position to understand the reason for the inducement.

Immediate and Close Family Members (R250.12 and R250.13)

1.26. This section focuses on family members. However, consideration should be given to extending it to related parties or people who are in business with the professional accountant as inducements offered or provided to these parties may also create threats.

Declined Inducements

- 1.27. We believe that there should be an inclusion of a requirement stating that a professional accountant shall not offer or accept the inducement, if the threat to the fundamental principles cannot be reduced to an acceptable level.
- 1.28. The current amendments do not address the possible actions that a professional accountant should consider if inducements are offered to them but are not accepted. Alternatively, it is silent if there is any remedial action for an inducement that has been offered by them but declined.

Proposed Section 340

2. *Do respondents agree that the proposed provisions relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs in proposed Section 250? If so, do respondents agree that the proposals in Section 340 achieve this objective?*

- 2.1. We support the alignment of Section 340 with Section 250, taking our comments under Section 250 into consideration.
- 2.2. We acknowledge that this project started as a Part C project, thus welcome the IESBA efforts to increase the scope to include registered auditors. However, professional accountants in public practice do require a high level of awareness regarding inducements. Additionally, a higher level of objectivity is expected between a professional accountant in public practice and the client compared to a professional accountant in business and the stakeholder. The proposed amendments to Section 340 do not achieve this.

For example, a tax advisor in public practice would be expected and will have a higher level of objectivity compared to the tax accountant (a professional accountant in business).

Proposed Conforming Amendments to Independence Provisions

3. *Do respondents support the restructuring changes and proposed conforming amendments in proposed Sections 420 and 906?*

- 3.1. We support the restructuring of Sections 420 and 906. However, we are confused by the following:

- The heading should include the mention of Inducements. This will allow Sections 340, 420 and 906 to be aligned. If this amendment is not made, the registered auditor will be unaware of the relationship between the sections.
- It is not clear why the Section 340 (*intent to improperly influence behaviour*) inclusion of trivial and inconsequential inducements has not been carried over to Sections 420 and 906.
- Sections 420 and 906 requirements have not been elevated in any way. Additionally, the amendments in respect of intent for trivial and inconsequential items should have been carried over from Section 240 and 340. The cross reference to the respective sections may not be easily understood.
- “Trivial and inconsequential” has not been defined, thus creates a level of subjectivity.
- The extension of inducements to immediate and close family members has not been included in Sections 420 and 906.

- 3.2. We question whether the relationship between Section 340 and Sections 420 and 906 is understood. Paragraphs included under the International Independence Standards are usually more stringent. However, the consequential amendments have not resulted in more stringent requirements for audit, review and assurance engagements.
- 3.3. Additionally, consequential amendments relating to non-monetary inducements have not been introduced in Section 420 and 906.
4. *Do respondents believe the IESBA should consider a project in the future to achieve further alignment of Sections 402 and 906 with proposed Section 340? If so, please explain why.*
- 4.1. We encourage the Board to align Sections 420 and 906 with the proposed Section 340 under this current Inducement project.
- 4.2. We encourage the Board to deal with all amendments relating to inducements under this project. The amendments suggested are not extensive enough to warrant a standalone project on the topic. Additionally, it would be more efficient for a firm to deal once with implementation and maintenance costs relating to internal awareness and training initiatives and the updating of internal policies and methodologies relating to inducements.

C. Request for General Comments

5. *Small and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs) – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.*
- 5.1. The lack of clarity on some important concepts in the proposed amendments would make it especially difficult for SMPs to implement. For example, additional time and resources would be required for SMPs to comply with the intent test, even if the item is trivial and inconsequential.
- 5.2. The safeguards provided in paragraphs 250.11 A3 and 340.11 A3 are almost impossible to implement in a small firm.
6. *Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.*
- 6.1. As a regulator, our main concern is the robustness and enforceability of the proposed amendments. Our concern is in the following areas:
- The subjectivity of the proposed amendments, especially the proof of intent;
 - The use of the reasonable informed third party test seems to be the incorrect test to use in the Code. The “society view” may need to be considered.
 - The same level of proof is required to prove and disprove that there is an inducement. The definition favours the registered auditor.
 - Currently, the level of proof needed by the regulator is too high. It would be unlikely to efficiently raise adverse findings on inducements.
 - The proposed amendments may be inappropriately challenged during an investigation due to the style of phrasing of the amendments.

7. *Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.*

7.1. In environments where the IAASB pronouncements and the Code have been adopted relatively recently, the need for clarity within the Code is of utmost importance. In developing nations, the limited experience of practitioners, standard-setters and regulators in the application of the Code makes a clear structure and enforceability of the Code paramount. As such, we believe that further efforts can be made by the IESBA to achieve clarity and enforceability of the Code.

7.2. It is uncommon for the IESBA's interpretation of an "inducement" to be easily understood by the media and the public in our country, and we anticipate that this would also prevail in other developing economies or economies where cases of corruption are relatively high.

8. *Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.*

8.1. There are several words used in the exposure draft that are not easy to understand and will be difficult to translate, e.g. the title "inducements".

D: Annexure A – Comments on Specific Paragraphs

In this Annexure we have made suggestions for possible edits to the Code, in line with some of our comments to the specific questions above. Suggestions for additions appear in *italics* and are underlined, while suggestions for deletions have been ~~struck through~~. This, however, is not a comprehensive proposal of all edits.

This table has been divided into:

- Chapter 1: Section 250;
- Chapter 2: Section 340;
- Chapter 3: Sections 420 and 906; and
- Chapter 4: Editorial comments.

Chapter 1: Section 250

No	Section 250	Comment
1.	Paragraph 250.3: “Section 250 sets out requirements and application material relevant to applying the conceptual framework in relation to the offering or accepting of inducements that does not <i>result in</i> constitute non-compliance with laws and regulations. <u>A professional accountant should refer to paragraph 260 if the offering or accepting of an inducement has resulted in a non-compliance with laws and regulations.</u> ”	Suggest including a reference to Section 260 and Section 360, Non-compliance with Laws and Regulations.
2.	Paragraph 250.4A1: “Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations.”	It is unclear who “business colleagues” refers to. This term has not been used previously in the Code and is not defined.
3.	Paragraph 250.4A1: 250.4 A1 An inducement is an object, situation, or action <i>in whatever form</i> that is used as a means to influence another individual’s behaviour. ; but <u>Inducements are</u> not necessarily with the intent to improperly influence that individual’s behavior.	We have included a suggestion to change the sentence grammatically for better understanding. The IESBA may wish to consider how this sentence can be shortened or simplified to aid understanding. Additional examples of safeguards have been included.

No	Section 250	Comment
	<p>Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:</p> <ul style="list-style-type: none"> • Gifts. • Hospitality. • Entertainment. • Political or charitable donations. • Appeals to friendship and loyalty. • Employment opportunities. • Preferential treatment. • Facilitation payments. • <u>Access to information.</u> • <u>Avoidance of a loss, liability, penalty, forfeiture, punishment or other disadvantage.</u> • <u>An office, status, honour, employment, contract of employment or services.</u> • <u>Any agreement to give employment or render services in any capacity and residential or holiday accommodation.</u> • <u>Any other service or favour or advantage of any description, including protection from any penalty incurred or being apprehended or from any action or proceedings of a disciplinary, civil or criminal nature, whether or not already instituted, as well as the exercise or the forbearance from the exercise of any right or any official power or duty.</u> • <u>Right or privilege.</u> • <u>Aid, vote, consent, influence or abstention from voting.</u> • <u>Patronage.</u> • <u>Bribes.</u> 	

No	Section 250	Comment
4.	<p>Paragraphs R250.7 and R250.8:</p> <p>R250.7 A professional accountant shall not offer, or encourage <u>or enable</u> others to offer, any inducement that is made, or which the accountant believes a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the recipient's <u>or third party's</u> behavior.</p> <p>R250.8 A professional accountant shall not accept, or encourage <u>or enable</u> others to accept, any inducement that the accountant has reason to believe is made, or believes a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the recipient's <u>or third party's</u> behavior.</p>	<p>"... with the intent to improperly influence the recipient's behavior." Include the words "or third party's" after "recipient's".</p> <p>"A professional accountant shall not offer, or encourage ..." Add the words "or enable".</p>
5.	<p>Paragraph 250.9A1:</p> <p>250.9 A1 Relevant factors to consider in determining whether there is actual or perceived intent to improperly influence behavior include:</p> <ul style="list-style-type: none"> • The nature, frequency and value of the inducement. • Whether there is a special occasion that has given rise to the inducement, for example, whether it is customary practice in relation to a religious holiday or wedding. • Whether the inducement is an ancillary part of a professional activity, for example, accepting lunch in connection with a business meeting. • Whether the offer of the inducement is limited to the individual recipient or available to a broader group. The broader group might be internal or external to the employing organization, such as other customers or vendors. • The roles and positions of the individuals offering or being offered the inducement. • Whether the professional accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the counterparty's employing organization. • <u>Actions of the individuals who are party to the inducement before and after the inducement was offered or received.</u> 	<p>Additional factors have been suggested.</p>

No	Section 250	Comment
	<ul style="list-style-type: none"> <i>The extent of formality, publicity and disclosure associated with the inducement.</i> 	
6.	<p>Paragraph 250.10A1</p> <p>250.10 A1 Unless an inducement is trivial and inconsequential, the requirements and application material set out in the conceptual framework apply when a professional accountant believes there is no actual or perceived intent to improperly influence behavior.</p>	<p>It is not clear whether the paragraph relates to the giver or receiver of the inducement.</p> <p>It is unclear how a professional accountant is expected to treat an inducement that has “no intent to improperly influence behavior”.</p>
7.	<p>Paragraph 250.11A3</p> <p>250.11 A3 Examples of actions that might be safeguards to address threats created by offering or accepting an inducement include:</p> <ul style="list-style-type: none"> Registering the inducement, whether offered or accepted, in a log monitored by senior management or those charged with governance for the purposes of transparency. Having an appropriate individual, who is not otherwise involved in the professional activity, review any work performed or decisions made by the professional accountant with respect to the individual or organization from which the accountant accepted the inducement. Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to those charged with governance or the individual who offered the inducement. <i>Transferring responsibility for any business-related decision involving the counterparty to another individual who the professional accountant has no reason to believe would be, or perceived to be, improperly influenced in making the decision.</i> 	<p>Include additional examples of safeguards.</p>
8.	<p>Paragraph 250.11A4</p> <p>250.11 A4 An example of an action that might eliminate threats created by offering or accepting an inducement is transferring responsibility for any business-related decision involving the counterparty to another individual who the professional accountant has no reason to believe</p>	<p>Paragraph is not strong enough to conclude that the threats would be eliminated. Propose to include this paragraph as a possible safeguard.</p>

No	Section 250	Comment
	<p>would be, or would be perceived to be, improperly influenced in making the decision.</p>	
9.	<p>Paragraph R250.12</p> <p>R250.12 A professional accountant shall remain alert to potential threats to the accountant's compliance with the fundamental principles arising from an inducement being offered:</p> <p>(a) By an immediate or close family member of the accountant to a counterparty with whom the accountant has a professional relationship; or</p> <p>(b) To an immediate or close family member of the accountant by a counterparty with whom the accountant has a professional relationship; or</p> <p>(c) To a related party of the accountant by a counterparty with whom the accountant has a professional relationship.</p>	<p>Include reference to related parties.</p>
10.	<p>Paragraph 250.15 A3</p> <p>250.15 A3 If a professional accountant is offered an inducement by the employing organization relating to financial interests, compensation and incentives linked to performance (outside of normal terms), Section 240 is also relevant.</p>	<p>The IESBA to clarify that the usual salary is not included in the scope.</p>

Chapter 2: Section 340

No	Section 340	Comment
1.	<p>Paragraph 340.3</p> <p>Section 340.3 sets out requirements and application material relevant to applying the conceptual framework in relation to the offering or accepting of inducements that does not constitute non-compliance with laws and regulations.</p>	<p>What does not constitute non-compliance with laws and regulations? If this is in line with <i>Section 360, Non-compliance with Laws and Regulations (NOCLAR)</i>, then a cross reference should be included.</p>
2.	<p>Paragraph 340.4A1</p> <p>340.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between professional accountants and clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:</p> <ul style="list-style-type: none"> • Gifts. • Hospitality. • Entertainment. • Political or charitable donations. • Appeals to friendship and loyalty. • Employment opportunities. • Preferential treatment. • Facilitation payments. • <u>Letters of support.</u> • <u>Endorsements.</u> • <u>Access to information.</u> • <u>Avoidance of a loss, liability, penalty, forfeiture, punishment or other disadvantage.</u> • <u>An office, status, honour, employment, contract of employment or services.</u> • <u>Any agreement to give employment or render services in any capacity and residential or holiday accommodation.</u> • <u>Any other service or favour or advantage of any description.</u> 	<p>Additional examples of inducements included.</p>

No	Section 340	Comment
	<p><i>including protection from any penalty incurred or being apprehended or from any action or proceedings of a disciplinary, civil or criminal nature, whether or not already instituted, as well as the exercise or the forbearance from the exercise of any right or any official power or duty.</i></p> <ul style="list-style-type: none"> • <i>Right or privilege.</i> • <i>Aid, vote, consent, influence or abstention from voting.</i> • <i>Patronage.</i> • <i>Bribes.</i> 	
3.	<p>Paragraph 340.11A4</p> <p>340.11 A4 An example of an action that might eliminate threats created by offering or accepting an inducement is transferring responsibility for the provision of any professional services for the client to another individual who the professional accountant has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.</p>	<p>Suggest that this paragraph be deleted as it does not eliminate threats to an acceptable level. Eliminating threats to an acceptable level is dependent on too many other factors and open to a great level of subjectivity.</p>
4.	<p>Paragraph 340.13A1</p> <p>340.13 A1 The factors set out in paragraph 340.9 A1 are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the professional accountant or the client. Another factor that is relevant is the nature or closeness of the relationship, between:</p> <p>(a) The professional accountant and the immediate or close family member;</p> <p>(b) The immediate or close family member and the client; and</p> <p>(c) The accountant and the client.</p> <p>For example, the offer of employment, outside of the normal recruitment process, to a spouse of the professional accountant by a client for whom the accountant is providing a business valuation for a prospective sale might indicate such intent.</p>	<p>The example provided in the offering of employment could lead to other more material independence rules being contravened, if it is an audit or assurance client.</p> <p>Suggest that this example be replaced.</p>

No	Section 340	Comment
5.	<p data-bbox="331 264 454 292">340.11 A3</p> <p data-bbox="331 328 1133 384">340.11 A3 Examples of actions that might be safeguards to address threats created by offering or accepting an inducement include:</p> <ul data-bbox="331 389 1160 783" style="list-style-type: none"> <li data-bbox="331 389 1160 507">• Registering the inducement, whether offered or accepted, in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance for the purposes of transparency. <li data-bbox="331 528 1160 646">• Having an appropriate individual, who is not otherwise involved in providing the professional service, review any work performed or decisions made by the professional accountant with respect to the client from which the accountant accepted the inducement. <li data-bbox="331 667 1160 783">• Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement. 	<p data-bbox="1220 496 1995 552">Donation is not an adequate safeguard, as there is still a personal benefit to be derived.</p>

Chapter 3: Section 420 and 906

No	Section 420 and 906	Comment
1.	Section 420 <i>Inducements, including</i> Gifts and Hospitality	“Inducements” should be included in the heading, for alignment. If not included, it is unclear how non-monetary inducements should be dealt with in audit, review and assurance engagements.
2.	Paragraph R420.4 R420.4 In addition to complying with the requirements relating to the offering or accepting of inducements set out in Section 340, a firm, network firm or audit team member shall not accept gifts and hospitality from an audit client, unless the value <i>individually</i> is trivial and inconsequential, and <i>does not create a benefit to the firm, network firm or audit team member</i> .	Emphasise that inducements should be considered individually. A reconsideration of whether the term audit client includes management or part of management would be helpful.

Chapter 4: Editorial comments

Sections that are in italics, underlined and struck through are reflected as they appear in the exposure draft.

No	Editorial	Comment
1.	Contents Page and Section 420 PART 4A – INDEPENDENCE FOR AUDITS AND REVIEWS ENGAGEMENTS	Add “engagements” to the title. Audit and Review should be singular.
2.	Paragraph 250.4A1 250.4 A1 An inducement is an object, situation, or action, <i>in whatever form</i> , that is used as a means to influence another individual’s behavior, but not necessarily with the intent to improperly influence that individual’s behavior. Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example: • Gifts. • Hospitality. • Entertainment.	Add “in whatever form”.

No	Editorial	Comment
	<ul style="list-style-type: none"> • Political or charitable donations. • Appeals to friendship and loyalty. • Employment opportunities. • Preferential treatment. • Facilitation payments. 	
3.	<p>Paragraph 250.6A1</p> <p>250.6 A1 The offering or accepting of inducements that is <u>are</u> not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.</p>	Replace the word “is” with “are”.
4.	<p>Paragraph 250.11A1</p> <p>(b) Familiarity threats</p> <ul style="list-style-type: none"> • A professional accountant regularly takes a customer or supplier to sporting events. 	Remove the word “regularly”.
5.	<p>Paragraph 250.11A3</p> <ul style="list-style-type: none"> • Having an appropriate individual, who is not otherwise involved in the professional activity, review any work performed or decisions made by the professional accountant with respect to the individual or organization from which the accountant <u>offered or</u> accepted the inducement. 	Include the words “offered or”.
6.	<p>Paragraph 250.11 A1 and 340.11A1</p> <p>340.11 A1 The following are examples where threats might be created from offering or accepting an inducement:</p> <p>(a) Self-interest threats</p> <ul style="list-style-type: none"> • A professional accountant is offered hospitality from a client whilst 	Remove the “s” from “threats” or provide additional examples per threat.

No	Editorial	Comment
	<p>preparing the client's tax return.</p> <p>(b) Familiarity threats</p> <ul style="list-style-type: none"> • A professional accountant regularly takes a client to sporting events. <p>(c) Intimidation threats</p> <ul style="list-style-type: none"> • A professional accountant accepts hospitality from a client that would be perceived to be inappropriate were it to be publicly disclosed. 	
7.	<p>Paragraph R420.4</p> <p>R420.4 In addition to complying with the requirements relating to the offering or accepting of inducements set out in Section 340, a firm, network firm or audit team member shall not <u>offer or</u> accept gifts and hospitality from an audit client, unless the value is trivial and inconsequential.</p>	<p>Include the words "offer or".</p>