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Washington, DC 20548

December 8, 2017

Mr. Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017

**GAO's Response to the International Ethics Standards Board for Accountants' September 2017 Exposure Draft, *Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements***

Dear Mr. Siong:

This letter provides GAO's response to the exposure draft, *Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements*. GAO promulgates generally accepted government auditing standards (GAGAS) in the United States. GAGAS provides a framework for conducting high-quality audits of government awards with competence, integrity, objectivity, and independence. Our comments reflect the importance we place on reinforcing the values promoted in both the *Code of Ethics for Professional Accountants* (the Code) and GAGAS.

We support the International Ethics Standards Board for Accountants' (IESBA) efforts to strengthen the provisions in the Code related to inducements to assist accountants in better dealing with the offering and accepting of inducements while complying with the fundamental principles. In particular, as detailed in our response to question 1, we support IESBA's proposed general approach for dealing inducements, but we believe that the proposed standard could benefit from additional application guidance.

**Specific Comments**

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 behavior, and how it is articulated in the proposals?**

We support IESBA's proposed general approach for dealing with inducements, including

- a) requiring the accountant to understand and comply with relevant laws and regulations;
- b) prohibiting the accountant from offering or accepting inducements if there is actual or perceived intent to improperly influence the behavior of the recipient; and
- c) requiring the accountant to apply the conceptual framework to identify, evaluate, and address any threats to compliance in the absence of actual or perceived intent to improperly influence behavior, unless the inducement is trivial or inconsequential.

We also support the list of additional safeguards in paragraph 250.11 A3 and the clarification of the accountant's responsibility to remain alert to inducements being offered by or to an immediate or close family member in paragraph R250.12.

However, we believe that the proposed standard could benefit from additional application guidance. Specifically, we suggest adding a list of relevant factors that accountants should consider in determining whether an inducement is trivial or inconsequential. We also suggest incorporating guidance from extant paragraph 350.4 that "real or apparent threats to compliance with the fundamental principles do not merely arise from acceptance of an inducement but, sometimes, merely from the fact of the offer having been made" to further clarify the circumstances when an inducement may create a threat to compliance with the fundamental principles.

#### 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?**

We agree that the proposed provisions relating to inducements for professional accountants in public practice (PAPP) should be aligned with the enhanced provisions for professional accountants in business (PAIB) in proposed section 250, as PAPPs face similar threats resulting from inducements and should be given the same guidance. We believe that the requirements and application material included in proposed section 340 achieve this objective. Additionally, to maintain this alignment, we recommend incorporating the application guidance suggested in our response to question 1 above regarding proposed section 250.

#### Proposed Conforming Amendments to Independence Provisions

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

We support IESBA's restructuring changes and proposed conforming amendments in proposed sections 420 and 906. We support referencing the enhanced section 340 in requirements 420.4 and 906.4 as it will assist auditors and assurance practitioners in complying with all relevant requirements. However, consistent with our response to question 1 above regarding proposed section 250, we suggest including as application guidance a list of relevant factors that auditors and assurance practitioners consider in determining whether an inducement is trivial or inconsequential.

- 4. Do respondents believe the IESBA should consider a project in the future to achieve further alignment of Sections 420 and 906 with proposed Section 340? If so, please explain why.**

We did not identify the need for IESBA to consider a future project to achieve further alignment of sections 420 and 906 with proposed section 340.

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Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or [dalkinj@gao.gov](mailto:dalkinj@gao.gov).

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James R. Dalkin  
Director  
Financial Management and Assurance