

GIFTS AND HOSPITALITY

(Lecture A620 – 9.58 minutes)

An issue which is currently receiving attention by the ICAEW is in respect of gifts and hospitality. The FRC's Ethical Standard (ES) deals with the issue of gifts and hospitality in paragraphs 4.61D to 4.65.

Paragraph 4.61D of the Ethical Standard states:

'A firm, its partners and any covered person, and persons closely associated with them, shall not solicit or accept pecuniary and non-pecuniary gifts or favours, including hospitality, from an entity relevant to the engagement, or any other entity related to that entity, unless an objective, reasonable and informed third party would consider the value thereof as trivial or inconsequential.'

FRC Ethical
Standard paragraph
4.61D

Paragraph 4.62 of the ES then goes on to confirm that when gifts, favours or hospitality are accepted from an audit client, or from others related to the audit client, a self-interest and familiarity threat to integrity, objectivity and independence are created. In addition, familiarity threats are also created where gifts, favours or hospitality are offered to an audit client, its partners or any other covered person.

Consider the following scenarios:

Scenario 1

An audit team of four staff attend an audit client's premises for two weeks to carry out the detailed audit fieldwork. During the course of that two weeks, the managing director's personal assistant regularly provides the audit team with tea, coffee and biscuits.

The provision of tea, coffee and biscuits (even on a daily basis) is unlikely to cause an ethical threat to integrity, independence and objectivity and hence it would be acceptable for the audit team to accept these refreshments.

Scenario 2

The financial statements of North Co Ltd for the year-ended 31 October 2017 have just been approved and the auditor's report thereon signed by the audit engagement partner. The chief executive officer (CEO) of North Co has offered to take the audit engagement partner out for a business lunch at North Co's expense.

Again, the provision of a business lunch in this scenario is unlikely to cause any ethical issues. This is also accentuated by the fact that the business lunch has taken place after the financial statements have been approved and the auditor's report signed. It would, therefore, be acceptable for the audit engagement partner to accompany the CEO for lunch.

Scenario 3

The audit of South Co Ltd completed on 10 December 2017 after a number of problems were found in the entity's internal control environment that caused some misstatements in the financial statements, which have now been corrected.

To thank the team for their efforts, the finance director has sent the audit engagement partner £300 worth of Amazon vouchers to be split among the four team members.

Each audit team member would receive £75 (£300 / 4) worth of vouchers. This is likely to cause an ethical problem and hence the audit engagement partner/team members should politely decline the gift. Christmas gifts from an audit client are unlikely to cause any ethical threats where they are very small (e.g. gifts where the value is less than £25).

Scenario 4

The audit engagement partner has attended a number of lunch/dinner engagements with the managing director of West Co Ltd. In addition, the managing director has invited the audit engagement partner and his Wife to his son's wedding in June 2018.

Attending regular lunches/dinners would indicate a familiarity threat. This is accentuated by the fact that the engagement partner and his Wife have both been invited to the managing director's son's wedding. Safeguards should be put in place to minimise this threat to an acceptable level, or the audit engagement partner rotated off the audit.

Paragraph 4.63 of the ES states:

'The firm shall establish policies on the nature and value of gifts, favours and hospitality that may be accepted from and offered to an entity relevant to an engagement, or any other entity related to that entity, their directors, officers and employees, and shall issue guidance to assist partners and staff to comply with such policies.'

FRC Ethical
Standard paragraph
4.63

Where gifts and hospitality are accepted by the audit firm, or are offered more than once, the view of an objective, reasonable and informed third party of the **cumulative** effect is considered. Therefore, to comply with this requirement, a record of such gifts and hospitality (and offers thereof) should be retained by the audit firm.

When there is any doubt as to the acceptability of gifts, favours or hospitality by the audit team, the team must discuss the situation with the engagement partner. Where the audit engagement partner has any doubts as to the acceptability of gifts, favours or hospitality, he/she must refer the issue to the firm's ethics partner/ethics function. Whenever there are doubts in such cases, it would always be advisable to decline the offer as, in such cases, if there are doubts in the minds of the audit engagement team, it is usually the case that the view of an objective, reasonable and informed third party would be that an ethical threat has been created.