

In this KLIP, we will cover topic:

12. Employment with an Audit Client

Employment relationships with an audit client might create a self-interest, familiarity or intimidation threat.

A familiarity or intimidation threat might be created if any of the following individuals have been an audit team member or partner of the firm or a network firm or if either of the following has joined the audit client as:

- i. A director or officer;
- ii. An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

Former partner or audit team member restrictions:

When a former partner or audit team member is employed with an audit client, the firm shall ensure that no significant connection remains between the firm or a network firm and:

- a) A former partner who has joined an audit client of the firm; or
- b) A former audit team member who has joined the audit client.

If either has joined the audit client as a director, officer or an employee, a significant connection will remain between the firm or a network firm, and the individual, unless:

- a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made as per fixed pre-determined arrangements;
- b) Any amount owed to the individual is not material to the firm or the network firm; and
- c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.

Factors that are relevant in evaluating the level of such threats include:

- The position the individual holds at the client.
- Any involvement the individual will have with the audit team.
- The length of time since the individual was an audit team member or partner of the firm or network firm.
- The position of the individual held previously within the audit team, firm or network firm.

Examples of actions that might be safeguards to address such threats include:

- ✓ Modifying the audit plan.
- ✓ Assigning to the audit team individuals who have sufficient experience relative to the individual who has joined the client.
- ✓ Having an appropriate reviewer review the work of the former audit team member.

For an Audit team member entering into employment with a client:

A firm or network firm shall have policies and procedures that require audit team members to notify the firm or network firm when entering employment negotiations with an audit client. A self-interest threat will be created when the audit team member participates in the audit engagement who will, or might join the client at some time in the future.

An example of an action that might eliminate this self-interest threat is by removing the individual from the audit team. And a safeguard to address such threat is by having an appropriate reviewer review any significant judgments made by that individual, while on the team.

We will discuss, how to address the threat, if employed by audit clients that are Public Interest Entities, in our next KLIP.

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