SECTION 524

EMPLOYMENT WITH AN AUDIT - SUSTAINABILITY ASSURANCE CLIENT

Introduction

524.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

524.2 Employment relationships with an audit - sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

All Audit - Sustainability Assurance Clients

524.3 A familiarity or intimidation threat might be created if any of the following individuals have been an audit - sustainability assurance team member or partner - service leader of the firm or a network firm:

- A director or officer of the audit - sustainability assurance client.
- An employee in a position to exert significant influence over the preparation of the client’s records underlying the sustainability information or the sustainability information accounting records or the financial statements on which the firm will express an opinion.

Former Partner Engagement Leader or Audit Sustainability Assurance Team Member Restrictions

R524.4 The firm shall ensure that no significant connection remains between the firm or a network firm and:

- A former partner - service leader who has joined an audit - sustainability assurance client of the firm; or
- A former audit - sustainability assurance team member who has joined the audit sustainability assurance client, if either has joined the audit sustainability assurance client as:
  - A director or officer; or
  - An employee in a position to exert significant influence over the preparation of the client’s records underlying the sustainability information or the sustainability information accounting records or the financial statements on which the firm will express an opinion.

A significant connection remains between the firm or a network firm and the individual, unless:

- The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;
- Any amount owed to the individual is not material to the firm or the network firm; and
- The individual does not continue to participate or appear to participate in the firm’s or the network firm’s business or professional activities.
524.4 A1 Even if the requirements of paragraph R524.4 are met, a familiarity or intimidation threat might still be created.

524.4 A2 A familiarity or intimidation threat might also be created if a former partner service leader of the firm or network firm has joined an entity in one of the positions described in paragraph 524.3 A1 and the entity subsequently becomes an audit sustainability assurance client of the firm.

524.4 A3 Factors that are relevant in evaluating the level of such threats include:

- The position the individual has taken at the client.
- Any involvement the individual will have with the audit sustainability assurance team.
- The length of time since the individual was an audit sustainability assurance team member or partner service leader of the firm or network firm.
- The former position of the individual within the audit sustainability assurance team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client’s management or those charged with governance.

524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:

- Modifying the audit sustainability assurance plan.
- Assigning to the audit sustainability assurance 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 sustainability assurance team member.

Audit Sustainability Assurance Team Members Entering Employment with a Client

R524.5 A firm or network firm shall have policies and procedures that require audit sustainability assurance team members to notify the firm or network firm when entering employment negotiations with an audit sustainability assurance client.

524.5 A1 A self-interest threat is created when an audit sustainability assurance team member participates in the audit sustainability assurance engagement while knowing that the audit sustainability assurance team member will, or might, join the client at some time in the future.

524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the audit sustainability assurance team.

524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made by that individual while on the team.

Audit Sustainability Assurance Clients that are Public Interest Entities

Key Audit Sustainability Assurance Partners Leaders

R524.6 Subject to paragraph R524.8, if an individual who was a key audit sustainability assurance partner leader with respect to an audit sustainability assurance client that is a public interest entity joins the client as:

(a) A director or officer; or
(b) An employee in a position to exert significant influence over the preparation of the client’s records underlying the sustainability information or the sustainability information accounting records or the financial statements on which the firm will express an opinion,
independence is compromised unless, subsequent to the individual ceasing to be a key audit sustainability assurance partner leader:

(i) The audit sustainability assurance client has issued audited financial statements assured sustainability information covering a period of not less than twelve months; and

(ii) The individual was not an audit sustainability assurance team member with respect to the audit assurance of those financial statements that sustainability information.

Senior or Managing Partner (Chief Executive or Equivalent) of the Firm

R524.7 Subject to paragraph R524.8, if an individual who was the Senior or Managing Partner (Chief Executive or equivalent) of the firm joins an audit sustainability assurance client that is a public interest entity as:

(a) A director or officer; or

(b) An employee in a position to exert significant influence over the preparation of the client’s records underlying the sustainability information or the sustainability information accounting records or the financial statements on which the firm will express an opinion,

independence is compromised, unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.

Business Combinations

R524.8 As an exception to paragraphs R524.6 and R524.7, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

(a) The position was not taken in contemplation of the business combination;

(b) Any benefits or payments due to the former partner key sustainability assurance leader or Chief Executive from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner key sustainability assurance leader or Chief Executive is not material to the firm or network firm as applicable;

(c) The former partner key sustainability assurance leader or Chief Executive does not continue to participate or appear to participate in the firm’s or network firm’s business or professional activities; and

(d) The firm discusses the former partner key sustainability assurance leader’s or Chief Executive’s position held with the audit sustainability assurance client with those charged with governance.