

**Collective Investment Vehicles, Pension Funds and
Investment Company Complexes – Update****I. INTRODUCTION**

1. As discussed in previous meetings, the IESBA is conducting a holistic review of the independence implications with respect to audits of collective investment vehicles (CIVs), pension funds, and investment company complexes (ICCs)¹ (collectively referred to as Investment Schemes). The review aims to understand the nature and structure of these schemes and their relationships with various parties, and to ensure that the Code adequately addresses the application of the related entity concept to these types of audit clients.
2. The Project Team provided an update at the March 2024 IESBA meeting that included preliminary observations on the Investment Schemes, informed by desktop research and interviews with industry experts, auditors, national standard setters, and regulators. As a result of the research, the Project Team highlighted common characteristics and differences among CIVs in Australia, South Africa and the United States and potential gaps in the Code's independence provisions warranting further examination.
3. The potential gaps can be highlighted by considering relevant portions of the extant Code:²
 - **R400.18** requires that a “firm performing an audit engagement shall be independent”.
 - **R400.19** provides that a firm should apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

To comply with these requirements, a firm must first identify all entities that comprise the audit client.³ When the audit client is a publicly traded entity, the audit client will include all related entities. For non-publicly traded entities, the audit client includes only those entities over which the client has direct or indirect control. However, if the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team must include that related entity when identifying, evaluating and addressing threats to independence.

4. Relevant to the requirements noted in paragraph 3 is the definition of “related entity” in the Code. That definition focuses on whether an entity has “control” or “significant influence” over another entity. However, the concepts of “control” and “significant influence” are not defined within the Code. The Project Team's research across different jurisdictions shows that control of CIVs or pension plans by a third party can be based on either accounting or regulatory criteria. Accounting-based control is often derived from IFRS 10 (discussed below), while regulatory-based control varies depending on the jurisdiction.

¹ A term adopted by the [U.S. Securities and Exchange Commission](#) (SEC) to address independence and related rules relevant to mutual funds, hedge funds, private equity funds, and similar investment instruments that are registered in the United States.

² References to the Code in this Agenda Paper are to the 2024 version of the Code, being the extant Code plus revisions which become effective by the end of 2024.

³ As defined in the Glossary and paragraph R400.27 of the Code.

5. At its March 2024 meeting, the Board discussed scenarios involving CIVs which may reveal gaps in the coverage of the Code. Exploration of these scenarios and the related gaps that have been revealed through desktop research, questionnaires, and interviews are the basis for this paper. This paper explores:
- The definitions of audit client and related entity in the Code, and the meaning of control and significant influence (paragraphs 10 to 16);
 - The application of the extant Code to Investment Schemes and potential gaps in the Code's independence provisions (paragraphs 17 to 24); and
 - How different jurisdictions have addressed auditor independence in respect of Investment Schemes (paragraphs 25 to 33).

II. MATTERS ARISING

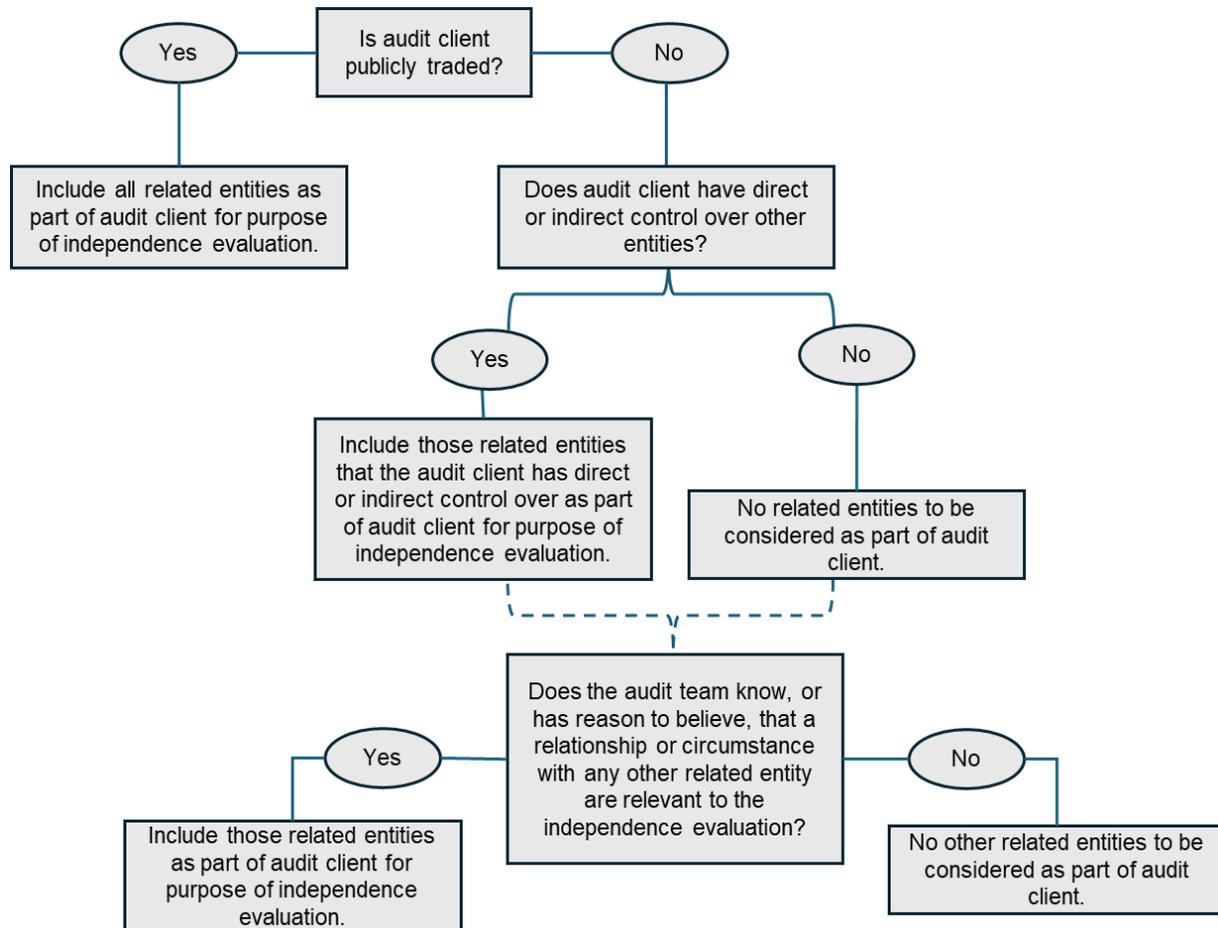
6. During discussions about this project in March, Board members enquired about the risks associated with auditors of Investment Schemes. Although the Project Team has not identified an audit failure caused by a lack of independence when auditing these Investment Schemes, it has noted regulatory interest arising from the substantial amount of funds invested in CIVs and pension funds.
7. In June 2006, the Technical Committee of the International Organization of Securities Commissions (IOSCO) issued its final report of the Examination of Governance for Collective Investment Schemes (CIS). The report highlighted the results of a survey conducted of IOSCO's member jurisdictions, noting the various entities and legal structures that existed and how these might create differences in member jurisdictions' approaches to CIS governance issues. As a result of the differences, it was agreed that the overarching principle of governance would be independent review and oversight of the CIS operator's fiduciary duties. The report specifically noted that auditors of CIS can play a role in the governance framework, resulting in protection of investors' interests.
8. According to the [Investment Company 2024 Factbook](#) as of year-end 2023, worldwide capital markets, as measured by the value of equity and debt securities outstanding, totaled \$257.4 trillion, of which regulated funds' net assets were 27%, or \$68.9 trillion. According to the International Investment Funds Association (IIFA), which collected data on 46 jurisdictions, regulated funds are typically defined as collective investment pools that are substantively regulated, open-end investment funds. In the past decade, the net sales of regulated funds worldwide have totaled \$19.9 trillion from 139,982 regulated funds. The report specifically notes that 116 million individual investors in 68.7 million US households relied on mutual funds to meet long-term personal financial objectives. This activity resulted in net inflows of US\$292 billion in 2023.
9. The public interest in Investment Schemes is undeniable. However, due to the diversity of Investment Schemes, the global scale of these types of investments and the regulatory complexities, thoughtful consideration is paramount when considering how to move forward.

Audit Client, Related Entity, Control and Significant Influence

Audit Client and Related Entity

10. As shared by the Project Team at the March 2024 IESBA meeting, the scope of the independence provisions in Part 4A is determined by the definition of “audit client,” and consideration of related entities⁴ depends on whether or not the client is a publicly traded entity (refer to Diagram 1 below).

Diagram 1: Audit client and related entities, per paragraph R400.27



11. Diagram 1 sets out the process by which auditors would consider whether a related entity should be scoped in with the audit client for the purpose of evaluating independence. Regardless of the audit client’s status as a publicly traded entity, the element of control or significant influence is fundamental in determining whether an entity should be classified as a related entity. If the entity is not classified as a related entity, it would not fall within the definition of audit client and, as a result, would not be part of an auditor’s independence evaluation.

⁴ [Appendix 3](#) sets out the definition of “related entity” in the Code.

12. The Project Team’s research has revealed that it is not unusual for Investment Schemes to engage third parties to perform services such as fund manager, investment advisor, etc. These third parties do not own and control the Investment Schemes in the common or traditional corporate structure of a holding company owning and controlling a subsidiary. Therefore, the Board advised the Project Team to examine the contractual rights, responsibilities, and privileges of third-party management companies/investment advisors to Investment Schemes and whether they in substance and effect control the Investment Schemes.

Control and Significant Influence

13. The Code does not define “control” or “significant influence” and many jurisdictions seem to base their determination on whether “control” or “significant influence” exists based on the applicable accounting or regulatory framework.
14. For those that rely on the accounting framework, International Financial Reporting Standard (IFRS) 10 *Consolidated Financial Statements* contains the guiding principle. IFRS 10 was promulgated to establish principles for preparing and presenting consolidated financial statements when an entity controls one or more other entities. It requires a parent entity that controls subsidiaries to present consolidated financial statements and defines control as the basis for consideration.
15. This concept has been practically applied to Investment Schemes to determine which entities constitute related entities for the purpose of evaluating independence threats. Essentially, when applying the IFRS 10 concept to Investment Schemes, a third party would control an Investment Scheme if, and only if, all of the following exist:⁵
 - (a) *Power over the investee.* This element exists if the management company/investment advisor has existing rights that give it the current ability to direct the Investment Scheme’s relevant activities. For example, decision making power and discretion about what assets the fund invests in, even if within defined parameters, indicates power through a current ability to direct the fund’s relevant activities. Power arises from rights which can result from voting rights but can also result from contractual arrangements.
 - (b) *Exposure, or rights, to variable returns from its involvement with the investee.* This element exists if the investor’s returns have the potential to vary as a result of the investee’s performance. An example would be when a management company/investment advisor is entitled to a fixed percentage of management fees, performance fees or holding direct investments in an Investment Scheme.
 - (c) *The ability to use its power over the investee to affect the amount of the investor’s returns.* The determining factor is whether the management company/investment advisor is acting as a principal (control) or agent (does not control) for the Investment Scheme. IFRS 10, Examples 14A-14C, convey factors that would help an auditor determine whether the fund manager is acting as an agent or principal.

⁵ Refer paragraph 7 of IFRS 10 *Consolidated Financial Statements* (IFRS 10) for the three factors and paragraphs 5 to 18 of IFRS 10 for additional material explaining these concepts.

16. Under IFRS, significant influence “*is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies*” and is presumed where an entity holds directly or indirectly 20% or more of the voting power in the investee.⁶ If an entity holds less than 20% in the investee, it is presumed that significant influence does not exist unless such influence can be clearly demonstrated.⁷

Application of the Extant Code to Investment Schemes

17. At the March 2024 IESBA meeting, an IESBA member noted similarities between CIVs and elements of control compared to certain holding companies and other unusual structures, and requested the Project Team to analyze whether this is already addressed in the extant Code. The following analysis highlights the impact of the Extant Code in different situations that are relevant to independence considerations for audits of Investment Schemes.

Self-Review Threats

18. When assessing Investment Schemes and their relationships with trustees, managers and advisors, the Project Team has been cognizant of whether the Code’s independence requirements apply consistently irrespective of the structures involved. This is particularly relevant when:
- Third parties within these arrangements (e.g., investment advisor, management company) undertake activities that might be considered management responsibilities of the Investment Scheme; or
 - Services are provided by the Investment Scheme auditor to these third parties which might create a self-review threat to the auditor’s independence from the Investment Scheme.
19. However, as noted previously, these third parties might not be captured by the definitions of “audit client” and “related entity” in the Code so independence evaluations could be inadequate. Accordingly, if the auditor of an Investment Scheme assumes these types of responsibilities for, or indirectly provides non-assurance services (NAS) to, the audit client via those third parties, threats to independence might not be adequately identified, evaluated and addressed if those third parties are not regarded as parties to which the Code applies.

Technology-related Revisions to the Code

20. The [IESBA Final Pronouncement: Technology Related Revisions to the Code](#)⁸ includes new paragraphs 520.7 A1 and 600.6 which clarify that Section 600 applies where a firm provides, sells, resells or licenses technology resulting in the provision of a NAS by the firm to an entity that provides services using such technology to the firm’s audit clients. The accompanying [Basis for Conclusions](#) states that these provisions act as a “*signpost*” for PAs to assess if “*indirect*” services are being provided to audit clients. However, pure reselling without other services does not constitute a NAS (paragraph 72-73).

⁶ IAS 28 *Investments in Associates and Joint Ventures*, paragraphs 3 and 5.

⁷ IAS 28 paragraphs 5-6 set out ways through which the existence of significant influence can be evidenced, including board representation, participation in policy making, material transactions between the entity and investee, interchange of managerial personnel, or provision of essential technical information.

⁸ Published in April 2023 and becomes effective December 15, 2024.

21. These provisions are relevant to Investment Schemes – for example, if a firm provides technology to a third-party management company and that third party then uses that technology to provide services to the Investment Scheme, which is an audit client of the firm. Whilst the provisions are specific to technology-related services, the Project Team believes the underlying principle that the provision of “indirect” services to an audit client might create independence threats is relevant to the Project Team’s development of recommendations.

Scenarios Demonstrating Application of the Extant Code to Investment Schemes

22. [Appendix 2](#) applies the extant Code to examples of a firm providing NAS to the management company of a CIV audit client:
- (a) Scenario 1: IT systems services – the technology-related revisions to the Code result in the provision of indirect services to an audit client via a management company being:
 - Prohibited if the CIV is a PIE audit client; and
 - Likely to be declined by the firm after applying the conceptual framework.
 - (b) Scenario 2: Accounting and Bookkeeping services – where a management company:
 - Does not “control” the CIV, then the firm might decline to provide the service; and
 - “Controls” the CIV, the firm is likely prohibited from providing the service.
23. [Appendix 2](#) demonstrates that even though the threats created by the NAS in each scenario are essentially equivalent, the extant Code applies inconsistently depending on the facts and circumstances. Additionally, the scenarios involve several critical judgments that depend on a comprehensive and nuanced interpretation of the Code and its interrelated provisions to reach the most suitable outcomes.
24. The Project Team is also concerned that due to the unique characteristics of Investment Schemes and the separation or outsourcing of management from the fund, the existence of control or significant influence might not always be a definitive factor when determining independence in respect of Investment Schemes. Further, the recent technology-related revisions to the Code on indirect services do not apply to all NAS, only NAS that are technology-related.

Jurisdictional Responses to Independence

25. Since March 2024, the Project Team has expanded its research to other jurisdictions to better understand the global context of CIVs and their relationships with trustees, managers and advisors. To supplement the desktop research, the Project Team circulated separate questionnaires to stakeholders and conducted interviews with relevant parties to obtain further insight into how different jurisdictions address potential independence matters involving Investment Schemes. The following preliminary high-level jurisdictional summaries are based on this research, questionnaire responses and interviews.
26. At the IESBA-National Standard Setters (NSS) meeting in New York in May 2024, participants were briefed about the project and invited to offer feedback. [Appendix 1](#) provides a list of stakeholders that the Project Team engaged with in 2024, and the jurisdictions they represent. Some stakeholders have expressed the view that the principles underlying “control” in accounting frameworks do not work appropriately in respect of third-party service providers to Investment Schemes. Other stakeholders

have stressed that certain Investment Scheme⁹ frameworks ensure that no single third-party service provider “controls” the Investment Scheme. Another stakeholder referred to the importance of the IOSCO principles of securities regulation¹⁰ in the design of regulatory frameworks addressing auditor independence in respect of Investment Schemes.

United States (US)

27. The US Securities and Exchange Commission (SEC) ICC Rules specify each entity of which the auditor must be independent, i.e., affiliate, when the entity under audit is an investment company, investment adviser, or sponsor. These rules always require the auditor to be independent of the Investment Adviser, irrespective of who the entity under audit is.¹¹ Some stakeholders expressed the view that these rules “deem” that the investment adviser controls the investment company to ensure consistent application of the ICC rules.
28. [Appendix 3](#) compares the definition of “affiliate” in the AICPA *Code of Professional Conduct* (AICPA Code) to “related entity” in the Code. The elements of “related entity” in the Code generally align to parts a. to e. of the AICPA Code’s “affiliate” definition. However, parts g. to l. of the AICPA Code’s “affiliate” definition (highlighted green and not included in the IESBA Code) include entities involved with Investment Schemes.

Australia

29. The Australian corporation’s legislation has specific provisions on auditor independence in addition to those in the local Code.¹² When applying certain provisions, the legislation requires the audit firm to include as part of the “audited body” the “responsible entity” and its directors.¹³ The “responsible entity” is the trustee and manager and a separate legal entity to the CIV.

India

30. CIVs in India include mutual funds that are trusts and require a sponsor to set up a trustee company and an asset management company. The asset management company is responsible for day-to-day management, compliance with regulatory requirements, accounting and the financial statements for the fund. The Securities and Exchange Board of India (SEBI) regulations¹⁴ stipulate that the fund’s auditor must not be in any way associated with the auditor of the asset management company.

⁹ For example in the European Union, including Luxemburg and Ireland.

¹⁰ [Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation](#). For example, Principle 20 “Auditors should be independent of the issuing entity that they audit” sets out the critical role of independent auditors in enhancing the reliability of financial information.

¹¹ Further details on the SEC ICC Rules were included in the Project Team’s [March 2024 update](#) to the IESBA.

¹² APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

¹³ Section 324CH(1) of the *Corporations Act 2001* sets out a table of relevant relationships for the auditor independence requirements set out in Sections 324CE, CF and CG of that Act. Under Section 324CH(2), if the audited body is a registered scheme (which is a type of CIV) then the responsible entity for the registered scheme is included as part of the audited body for certain provisions. Note there are similar provisions for a registrable superannuation entity (a type of pension fund).

¹⁴ [Securities and Exchange Board of India \(Mutual Funds\) Regulations 1996](#) Clause 55.

31. The asset management company is required to invest in the mutual fund to ensure there is an alignment of interests with other investors.¹⁵ The definitions of “associate,” “control” and “group” in the SEBI regulations effectively stipulate that the asset management company and trustee company control the fund. Consequently, the asset management company and trustee company would likely be related entities under the Code¹⁶ and part of the audit client, either due to the fund being a listed entity¹⁷/publicly traded entity or via the “reason to believe” requirement to include any “other related entity” that is relevant to the evaluation of independence.

Italy

32. Italian CIVs are either contractual or statutory based:¹⁸
- Contractual based mutual investment funds do not have their own legal personality. A separate asset management company acts on the fund’s behalf, is the formal owner of the fund’s assets and liabilities, and the management company’s Board of Directors is the ultimate decision maker for the fund. As a result of Italian law,¹⁹ the “audit client” is the CIV itself and the management company, the fund auditor must be the same as the management company auditor, and the auditor must be independent of both the fund and the management company.
 - Statutory based Undertakings for Collective Investment management²⁰ are companies with their own legal personality, which can be managed within the company itself or externally managed. However, there is no formal distinction between the fund and management company.

Hong Kong SAR

33. In Hong Kong, there are three main funds – Securities and Futures Commission (SFC)-regulated mutual funds, Mandatory Provident Funds (MPF) and Limited Partnership Funds. SFC-regulated funds are unit trusts or open-ended fund companies subject to the SFC Code.²¹ The SFC Code requires an independent Trustee (for unit trusts) or Custodian (for fund companies) and a management company to be appointed for each fund.²² Due to the role of the Trustee/Custodian,²³ the management company is generally considered to be an agent, does not control the fund, and therefore, is generally not a related entity under Hong Kong’s Code of Ethics.²⁴ However, the SFC

¹⁵ Clause 25 of the SEBI Regulations and [SEBI issues circular on alignment of interest of Asset Management Companies with the Unit-holders of the Mutual Fund Schemes | SCC Times \(sconline.com\)](#)

¹⁶ The Institute of Chartered Accountants in India (ICAI) [Code of Ethics \(Revised 2019\)](#) is derived from the IESBA Code of Ethics 2018.

¹⁷ 5 out of the 44 asset management companies in India are listed and, in some instances, the mutual funds can be listed.

¹⁸ Italian CIVs (called UCIs – Undertaking for Collective Investment management) and management companies (called a SGR) are generally not PIEs but are classified as Entities Subject to an Intermediate Regime (ESRI), meaning they are subject to some of the rules applicable to PIEs, including certain independence requirements.

¹⁹ Including [Legislative Decree No. 58 of 24 February 1998, TUF](#)

²⁰ Called a SICAV (variable capital investment company) or a SICAF (fixed capital investment company).

²¹ [Section II: Code on Unit Trusts and Mutual Funds.](#)

²² Paragraphs 4.1, 4.7, and 5.1 of the SFC Code.

²³ Chapter 4 and paragraph 5.11 of the SFC Code.

²⁴ Hong Kong Institute of Certified Public Accountants (HKICPA) *Code of Ethics for Professional Accountants* is based on the IESBA Code and has the same related entity definition.

Code requires the auditor to “*be independent of the management company, the trustee/custodian, and, in the case of a mutual fund corporation, the directors.*”²⁵

III. NEXT STEPS

34. The Project Team will continue to consider the unique characteristics of pension funds, government sovereign wealth funds, and different types of CIVs, including private equity and hedge funds. As part of this exercise, the Project Team will extend consideration to whether the other independence requirements in Part 4A of the Code, including relationships and interests, apply appropriately for Investment Schemes.
35. The Project Team will also continue its desktop research on other jurisdictions and interviews of stakeholders that have completed the questionnaires on CIVs and pension funds (refer to [Appendix 1](#), Table 3). The results will be presented at the September 2024 IESBA meeting.
36. As a preliminary step to generate discussion, the Project Team has identified several alternatives that may address the need for a consistent application of the Code when auditing CIVs or pension plans. Although more research is needed before presenting recommendations to the IESBA, the Project Team has developed the following points for discussion purposes to seek the IESBA’s initial views:
 - A. Amend the definition of “audit client” in the Code to align with the definition of “assurance client” which recognizes that a third party may be used to generate subject matter relevant to the financial statements.
 - B. Amend the definition of “related entity” in the Code to include relevant third-party service providers (e.g. management company, investment advisor, pension fund administrator) that are not under the direct or indirect control of the audit client (similar to the SEC ICC Rules).
 - C. Include definitions of “control” and “significant influence” in the Code.
 - D. Enhance the Code to address “indirect” NAS provided to audit clients by requiring PAs to assess whether certain NAS provided to an entity that then uses the results of that NAS to provide services to an audit client of the firm should be included when applying Section 600.
 - E. Refrain from revising the Code at this point and issue non-authoritative material to promote globally consistent application of the Code’s provisions relating to Investment Schemes.
37. [Appendix 4](#) Table A provides further details and analyzes the advantages and disadvantages of the above options.
38. The Project Team will continue to refine the project scope based on the results of research, develop its recommendations, and present its final report for the Board’s consideration during the second half of 2024.

²⁵ Paragraph 5.16 of the SFC Code.

Appendix 1

Table 1: List of Stakeholders Engaged to Date

Abbrev.	Respondent	Region
AICPA	American Institute of Certified Public Accountants (ICC and Employee Benefit Plan Audit Quality Center experts)	North America
APESB	Accounting Professional & Ethical Standards Board (Australia)	Asia Pacific
Assirevi	Association of Italian Audit Firms	Europe
AUASB	Auditing and Assurance Standards Board, Australia	Asia Pacific
CPAK	Capital Markets Authority of Kenya	Africa
EY	Ernst & Young Global Limited	Global
GT	Grant Thornton International Limited (United States)	North America
IAASB	International Auditing and Assurance Standards Board	Global
IRBA	Independent Regulatory Board for Auditors	Africa
NSS	National Standard Setters	Global
PwC	PricewaterhouseCoopers International Limited	Global
SEBI	Securities and Exchange Board of India	Asia Pacific

Table 2: Jurisdictions Represented by Stakeholders Engaged

Country		Region	Considered as Public Interest Entity ²⁶	
			CIVs	Pension Funds
1	Australia	Asia Pacific	Yes	Yes
2	Bahrain	Middle East	No	No
3	France	Europe	No	No
4	Hong Kong	Asia Pacific	No	No
5	India	Asia Pacific	No	No
6	Ireland	Europe	No	No
7	Italy	Europe	Yes ²⁷	No
8	Kenya	Africa	No	No
9	Luxembourg	Europe	No	No
10	Saudi Arabia	Middle East	No	No

²⁶ As per the [Database of Public Interest Entity \(PIE\) Definition by Jurisdiction](#)

²⁷ Entities subject to an intermediate regime to which only certain PIE independence requirements are applicable.

Country		Region	Considered as Public Interest Entity ²⁶	
			CIVs	Pension Funds
11	South Africa	Africa	Yes	Yes
12	United Arab Emirates	Middle East	No	No
13	United States of America	North America	No	No

Table 3: List of Additional Stakeholders for Further Engagement

Abbrev.	Respondent	Region
AE	Accountancy Europe	Europe
AFRC	Hong Kong Accounting and Financial Reporting Council	Asia Pacific
CPAC	Chartered Professional Accountants Canada	North America
DTTL	Deloitte Touche Tohmatsu Limited	Global
FoF	Forum of Firms	Global
IFAC SMP AG	IFAC Small and Medium Practice Advisory Group	Global
IFIAR	International Forum of Independent Audit Regulators	Global
ISCA	Institute of Singapore Chartered Accountants	Asia Pacific
KEPFIC	Kenya Pension Fund Investment Consortium	Africa
SEC	United States Securities and Exchange Commission	North America

Appendix 2

Application of the Extant Code to CIV Scenarios²⁸

Background Information

The CIV and its Management Company

Firm A undertakes the audit of a registered Collective Investment Vehicle (CIV) called CIV-Z. CIV-Z is not listed on a recognized stock exchange and is therefore not a “publicly traded entity” and is also not a public interest entity (PIE) pursuant to the local Code of Ethics.²⁹ CIV-Z is a contractual based CIV, which is effectively a trust, and its investors are unit holders.

In accordance with local legislation, CIV-Z is operated by a management company that is a separate legal entity called Responsible Advisor Ltd (RAL), which acts as CIV-Z’s trustee and manager/advisor. RAL is a public company and is required to be licensed and registered with the local corporate and financial services regulator. RAL owns a 10% interest in CIV-Z³⁰ and RAL receives a fee of 1% of CIV-Z’s net assets for the services it provides to CIV-Z, which is a market-based fee commensurate with the services provided. The services provided by RAL for CIV-Z include:

- Providing investment advice;
- Custodial services;
- Maintaining the unitholder registry and reporting to unitholders;
- Appointing and monitoring other third-party service providers; and
- CIV administration and back-office support including accounting and portfolio valuations.

Independence

A firm performing an audit engagement must be independent (paragraph R400.18) and must apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement (paragraph R400.19). Independence is linked to the principles of objectivity and integrity and comprises (paragraph 400.5):

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s, or an audit team member’s, integrity, objectivity or professional skepticism has been compromised.

²⁸ These scenarios developed by IESBA Staff, are hypothetical and intended to provide an aid to illustrate the thought process when applying the Code. The analyses reflect the facts and circumstances set out in the scenarios and do not preclude the need to consider any new information or changes to the facts and circumstances that might affect the conclusions reached.

²⁹ The local Code of Ethics fully adopts the IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)*. It is assumed that there are no other auditor independence requirements in this jurisdiction outside the Code of Ethics.

³⁰ Under the local legislation, a management company may acquire and hold an interest in a registered CIV subject to specific requirements and limitations.

Risk of Assuming a Management Responsibility

A firm or a network firm is prohibited from assuming management responsibility for an audit client (paragraph R400.20). This prohibition applies to the provision of non-assurance services (NAS) to all audit clients, whether they are a PIE or non-PIE audit client.

Management responsibilities involve controlling, leading, and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources (paragraph 400.20 A1). Therefore, when performing a professional activity for an audit client, the Code of Ethics requires a firm to be satisfied that client management makes all judgments and decisions that are the proper responsibility of management (paragraph R400.21).

Establishing who is the Audit Client

Under the Code of Ethics, an “audit client” is “*an entity in respect of which a firm conducts an audit engagement*” and paragraph R400.27 sets out what an audit client consists of for the purposes of Part 4A. An audit client that is a publicly traded entity includes all of its related entities.³¹ For all other entities, such as CIV-Z, the audit client includes related entities over which the client has direct or indirect control. However, if the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to evaluating the firm’s independence, that entity must be included when identifying, evaluating and addressing threats to independence.

The audit client is CIV-Z and does not include RAL as CIV-Z does not control RAL. Determining if RAL is otherwise a related entity (relevant to the “reason to believe” requirement) depends on:

1. Whether RAL controls CIV-Z and CIV-Z is material to RAL, which depends on the facts and circumstances and the definition of control applied. For example, under IFRS there is control when *all* of the following factors exist:³²
 - a) *Power over the investee* – RAL would likely have power over CIV-Z as RAL has existing rights that give it the current ability to direct CIV-Z’s relevant activities;
 - b) *Exposure, or rights, to variable returns from involvement with the investee* – RAL’s 10% interest in CIV-Z and 1% management fees expose RAL to variable returns; and
 - c) *The ability to use power over the investee to affect the amount of those returns* – although RAL’s management fee and investment in CIV-Z expose RAL to variability of returns, the exposure is not significant enough to indicate that RAL is a principal of CIV-Z. As such, RAL is an agent for, and does not control, CIV-Z.

³¹ The Glossary to the Code of Ethics defines “related entity” as an entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.

³² Assume the same facts as Example 13 in IFRS 10 *Consolidated Financial Statements*.

2. Whether RAL has a direct or indirect financial interest in CIV-Z that gives RAL significant influence over CIV-Z and the interest is material to RAL. RAL's 10% interest in CIV-Z is considered to not create significant influence over CIV-Z. The interest in, and fees from, CIV-Z are material to RAL.

Accordingly, RAL is not a “related entity” of CIV-Z under the Code of Ethics. Even if the audit team knows, or has reason to believe, that the relationship or circumstances involving RAL are relevant to evaluating Firm A's independence, paragraph R400.27 does not require RAL to be included when identifying, evaluating and addressing threats to independence as it is not an “other related entity”.

Provision of NAS to the Management Company of a CIV³³

<p>Scenario 1 – Provision of IT Systems Services to RAL the management company of the client CIV-Z³⁴</p> <p>RAL acts as the management company for multiple CIVs and is looking to increase its presence in the market. Accordingly, RAL is considering upgrading its software suite to make it more streamlined and so the transactions for the individual CIVs automatically integrate with RAL’s general ledger and to improve the efficiency and accuracy of the financial reporting process. RAL has one IT employee responsible for maintaining its IT system, but this employee does not have the relevant expertise, skills and experience to update RAL’s entire software suite.</p> <p>RAL’s finance manager approaches Firm A’s IT Consulting team to request them to assist with the system transformation, which would involve designing and implementing RAL’s IT systems and improving IT-related internal controls. RAL is not an audit client of Firm A.</p>	<p>Scenario 2 – Provision of Accounting and Bookkeeping Services to RAL the management company of the client CIV-Z</p> <p>CIV-Z is one of only a few CIVs that RAL acts as the management company for. RAL’s finance manager, a professional accountant (PA), is on extended leave of absence. The finance manager’s responsibilities include maintaining internal controls and accounting and portfolio valuations for the CIVs. RAL’s other employees are not PAs and do not have the relevant expertise, skills and experience to take responsibility for the preparation and fair presentation of the financial statements for the CIVs.</p> <p>RAL is not replacing the finance manager whilst they are on leave. RAL’s CEO approaches Firm A’s Business Services team to request them to prepare and present CIV-Z’s financial statements in accordance with local legislation. RAL is not an audit client of Firm A.</p>
<p>Management Responsibility</p> <p>As RAL’s IT employee does not possess suitable skills, knowledge and experience to update the software suite, RAL cannot make the decisions that are the proper responsibility of management with respect to the design, development, operation, maintenance, monitoring, updating or upgrading of the IT system (paragraph 606.3(b)). However, as the provision of the IT systems service is to RAL, and not the audit client CIV-Z (including its relevant related parties, which does not include RAL), the prohibition on assuming management responsibility does not apply (paragraph R.400.20).</p> <p>Even if the proposed NAS does not involve assuming a management responsibility, Firm A must still apply the conceptual framework to identify, evaluate and address threats to independence that might arise.</p>	<p>Management Responsibility</p> <p>As RAL’s current employees do not possess suitable skills, knowledge and experience for the preparation and fair presentation of CIV-Z’s financial statements, RAL cannot make the decisions that are the proper responsibility of management in this regard (paragraphs 400.20 A3, R400.21 and 601.2 A1). However, as the provision of the accounting service is to RAL, and not the audit client CIV-Z (including its relevant related parties, which does not include RAL), the prohibition on assuming management responsibility does not apply (paragraph R.400.20).</p> <p>Even if the proposed NAS does not involve assuming a management responsibility, Firm A must still apply the conceptual framework to identify, evaluate and address threats to independence that might arise.</p>

³³ The Background Information applies equally to both scenarios and each scenario should be read separately.

³⁴ Some of the facts in this scenario are based on Scenario 1 in the IESBA and APESB document [Applying the Code’s Conceptual Framework to Independence: Practical Guidance for Auditors in Technology-Related Scenarios](#).

Identifying Threats

Paragraph 600.6³⁵ of the Code of Ethics states that Section 600 applies where a firm provides, sells, resells or licenses technology resulting in the provision of a NAS by the firm to an audit client or to an entity that provides services using such technology to audit clients.

Firm A's proposed IT systems service is to RAL and RAL will in turn use the transformed system to provide services to CIV-Z including fund administration, back-office support and accounting. Accordingly, Section 600 applies to this IT systems service.

Before providing the NAS, Firm A must determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that (paragraph R600.15):

- (a) The results of the service will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements subject audit; and
- (b) In the course of the audit of those financial statements, the audit team will evaluate or rely on any judgments made or activities performed by the firm when providing the service.

Providing IT systems services to an audit client might create a self-review threat where there is a risk that the results of the services will affect the audit of the financial statements on which the firm will express an opinion (paragraph 606.4 A1).

There is a self-review threat³⁶ that Firm A's audit team will not appropriately evaluate the results of previous judgments or activities performed by Firm A's IT Consulting team for RAL, on which the audit team will rely when forming a judgment as part of the audit of CIV-Z. This is because the output of the upgraded IT system affects CIV-Z's financial records and is influenced by the activities of the IT Consulting team when they designed and developed the system. These activities will involve the knowledge, expertise or judgment of the IT Consulting team (paragraph 300.6 A2).

Identifying Threats

The provision of the accounting service is to RAL, and not the audit client CIV-Z (including its relevant related parties, which does not include RAL). However, paragraph 600.6 of the Code of Ethics does not apply in this scenario because Firm A is not providing, selling, reselling or licensing technology. Accordingly, the prohibition on providing accounting and bookkeeping services to non-PIE audit clients in paragraph R601.5 (subject to exceptions) does not apply.

Although the above prohibition does not apply, Firm A must still apply the conceptual framework in Section 120 to identify threats to independence.

There is a self-review threat³⁷ that Firm A's audit team will not appropriately evaluate the results of previous judgments or activities performed by Firm A's Business Services team, on which the audit team will rely when forming a judgment as part of the audit of CIV-Z. This is because the output of the Business Services team's activities affect CIV's accounting records and financial statements that are the subject of the audit.

³⁵ Paragraph 600.6 is a new provision that was included in the [IESBA Final Pronouncement: Technology Related Revisions to the Code](#) published in April 2023 and becomes effective December 15, 2024.

<p>Evaluating Threats</p> <p>Firm A is required to apply the conceptual framework to evaluate whether the identified self-review threat to independence is at an acceptable level.</p> <p>Based on an assessment of the facts and circumstances and taking into consideration that the proposed system transformation service is likely to have a material effect on CIV-Z’s financial statements and an extensive impact on CIV-Z’s accounting records and internal controls over financial reporting, Firm A determines that the self-review threat is not at an acceptable level and needs to be addressed.</p>	<p>Evaluating Threats</p> <p>Firm A is required to apply the conceptual framework to evaluate whether the identified self-review threat to independence is at an acceptable level.</p> <p>Based on an assessment of the facts and circumstances and taking into consideration that the accounting service is likely to have a material effect on CIV-Z’s financial statements, Firm A determines that the self-review threat is not at an acceptable level and needs to be addressed.</p>
<p>Addressing Threats</p> <p>Threats that are not at an acceptable level are addressed either by (i) eliminating the circumstances creating the threats to independence; (ii) applying safeguards, where available and capable of being applied; or (iii) declining or ending the specific professional activity (paragraph R120.10). The use of the reasonable and informed third party test is relevant to Firm A’s overall conclusion in assessing whether the actions it intends to take to address the threats to independence will be appropriate to eliminate or reduce the threats to an acceptable level (paragraph R120.11).</p> <p>(i) Is Firm A able to adjust the scope of the proposed IT systems service such that the specific circumstances creating the threat are eliminated? For instance, could the scope of the services be restricted so that it avoids designing or implementing aspects of the IT system that:</p> <ul style="list-style-type: none"> • Form part of the internal control over CIV-Z’s financial reporting. • Involve generating information for CIV-Z’s accounting records or financial statements. <p>Given the needs of RAL and the scope of the system transformation service, this is unlikely to be a practical approach.</p>	<p>Addressing Threats</p> <p>Threats that are not at an acceptable level are addressed either by (i) eliminating the circumstances creating the threats to independence; (ii) applying safeguards, where available and capable of being applied; or (iii) declining or ending the specific professional activity (paragraph R120.10). The use of the reasonable and informed third party test is relevant to Firm A’s overall conclusion in assessing whether the actions it intends to take to address the threats to independence will be appropriate to eliminate or reduce the threats to an acceptable level (paragraph R120.11).</p> <p>(i) Is Firm A able to adjust the scope of the proposed accounting service such that the specific circumstances creating the threat are eliminated?</p> <p>Given the needs of RAL and the scope of the accounting service, this is unlikely to be a practical approach.</p> <p>(ii) Is Firm A able to apply a safeguard that would reduce the self-review threat to an acceptable level? For example, Firm A might take steps to ensure that the Business Services team members who would provide the accounting service to RAL are not audit team members for CIV-Z (paragraph 120.10 A2).</p>

³⁶ Paragraph 120.6 A3(b). Other threats such as self-interest and intimidation might also be relevant, however, the scenario focuses on self-review for simplicity.

³⁷ Paragraph 120.6 A3(b). Other threats such as self-interest and intimidation might also be relevant, however, the scenario focuses on self-review for simplicity.

<p>(ii) Is Firm A able to apply a safeguard that would reduce the self-review threat to an acceptable level? For example, Firm A might take steps to ensure that the IT Consulting team members who would provide the system transformation service would not be audit team members (paragraph 606.5 A1).</p> <p>A reasonable and informed third party will likely conclude that the self-review threat is not at an acceptable level even after a safeguard is applied, since the systems transformation service has a material effect on CIV-Z's financial statements and an extensive impact on CIV-Z's accounting records and internal controls over financial reporting (paragraphs 600.10 A2, 600.11 A1 and 606.4 A2).</p> <p>(iii) For the reasons set out in (i) and (ii) above, it is likely that Firm A would decide not to provide the NAS to RAL.</p>	<p>A reasonable and informed third party might conclude that the self-review threat is not at an acceptable level even after a safeguard is applied, since the accounting service has a material effect on CIV-Z's financial statements.</p> <p>(iii) For the reasons set out in (i) and (ii) above, Firm A might decide not to provide the NAS to RAL.</p>
<p>Self-review Threat Prohibition for PIE Audit Clients</p> <p>Assume that all the facts remain the same except that CIV-Z <u>is a public interest entity</u>. The provision of an IT systems service to a PIE audit client that might create a self-review threat is prohibited (paragraph R606.6).³⁸</p> <p>Due to the application of paragraph 600.6 discussed above, the indirect provision of the NAS to CIV-Z via RAL means Section 600 and the prohibition in paragraph R606.6 applies, and the IT systems service is prohibited.</p>	<p>What if RAL “controls” CIV-Z?</p> <p>Assume that all the facts remain the same except that RAL owns a 35% interest in CIV-Z, rather than 10%, which results in an assessment that RAL controls CIV-Z. As RAL controls CIV-Z and CIV-Z is material to RAL, <u>RAL is a “related entity” of CIV-Z</u>.³⁹</p> <p>A reasonable and informed third party would likely conclude that Firm A knows, or has reason to believe, that the relationship and circumstances involving RAL is relevant to evaluating Firm A's independence, and accordingly Firm A must include RAL when identifying, evaluating and addressing threats to independence (paragraph R400.27).</p> <p>As RAL is part of the CIV-Z audit client, Section 600 applies. Before providing the accounting service to RAL, Firm A must determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that (paragraph R600.15):</p> <p>(a) The results of the service will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements subject audit; and</p>

³⁸ There is also a general self-review threat prohibition in paragraph R600.17 of the Code of Ethics for PIE audit clients.

³⁹ As per subparagraph (a) of the definition of related entity in the Code of Ethics “An entity that has direct or indirect control over the client if the client is material to such entity.”

	<p>(b) In the course of the audit of those financial statements, the audit team will evaluate or rely on any judgments made or activities performed by the firm when providing the service.</p> <p>Providing accounting and bookkeeping services to an audit client creates a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion (paragraph 601.4 A1).</p> <p>A firm is prohibited from providing accounting and bookkeeping services to the non-PIE audit client unless (i) the services is of a routine or mechanical nature, and (ii) the audit firm addresses any threats to independence that are not at an acceptable level (paragraph R601.5). The accounting service provided to RAL is not of a routine or mechanical nature as the client has not made the necessary judgments or decisions and it requires professional judgment (paragraph 601.5 A1). Accordingly, the accounting service is prohibited.</p> <p>Further, as RAL is now part of the CIV-Z audit client and RAL’s current employees do not possess suitable skills, knowledge and experience for the preparation and fair presentation of CIV-Z’s financial statements, RAL cannot make the decisions that are the proper responsibility of management in this regard (paragraphs 400.20 A3, R400.21 and 601.2 A1). Accordingly, the prohibition on assuming management responsibility also applies (paragraph R.400.20).</p>
<p>Corporate vs Contractual Based CIVs</p> <p>The above scenarios are based on a contractual based CIV. However, the analysis would not change if the CIV in the scenarios was corporate based, i.e. the CIV is a separate legal entity/company with its own Board of Directors, except for the assessment of “control” which might be affected. As there would be a separate Board of Directors, there is more likelihood of substantive rights to remove the management company, meaning there is less likelihood that the management company is acting as a principal and controlling the CIV.</p>	

Appendix 3

Comparison of Related Entity in the Code and Affiliate in the AICPA Code

The Code – Related Entity Definition	AICPA Code – Affiliate Definition (<i>italicized terms are defined terms in the AICPA Code</i>)
(a) An entity that has direct or indirect control over the client if the client is material to such entity;	c. An entity (for example, parent, partnership, or LLC) that <i>controls</i> ⁴⁰ a <i>financial statement attest client</i> ⁴¹ when the <i>financial statement attest client</i> is material to such entity.
(b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;	d. An entity with a <i>direct financial interest</i> in the <i>financial statement attest client</i> when that entity has <i>significant influence</i> ⁴² over the <i>financial statement attest client</i> , and the interest in the <i>financial statement attest client</i> is material to such entity.
(c) An entity over which the client has direct or indirect control;	a. An entity (for example, subsidiary, partnership, or limited liability company [LLC]) that a <i>financial statement attest client</i> can <i>control</i> .
(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and	b. An entity in which a <i>financial statement attest client</i> or an entity <i>controlled</i> by the <i>financial statement attest client</i> has a <i>direct financial interest</i> that gives the <i>financial statement attest client</i> <i>significant influence</i> over such entity and that is material to the <i>financial statement attest client</i> .
(e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.	e. A sister entity of a <i>financial statement attest client</i> if the <i>financial statement attest client</i> and sister entity are each material to the entity that <i>controls</i> both.
	f. A trustee that is deemed to <i>control</i> a trust <i>financial statement attest client</i> that is not an investment company.

⁴⁰ Definition of “control” in the AICPA Code “As used in FASB Accounting Standards Codification (ASC) 810, Consolidation. When used in the “Client Affiliates” interpretation [1.224.010] of the “Independence Rule” [1.200.001], control depends upon the entity in question. For example, when used for not-for-profit entities, control is as used in FASB ASC 958-805-20; for commercial entities, control is as used in FASB ASC 810.”

⁴¹ Definition of “financial statement attest client” in the AICPA Code “An entity whose financial statements are audited, reviewed, or compiled when the member’s compilation report does not disclose a lack of independence.”

⁴² Definition of “significant influence” in the AICPA Code “As defined in FASB ASC 323-10-15.”

	g. The sponsor of a single employer employee benefit plan <i>financial statement attest client</i> .
	h. Any entity, such as a union, participating employer, or a group association of employers, that has <i>significant influence</i> over a multiemployer employee benefit plan <i>financial statement attest client</i> and the plan is material to such entity.
	ii. The participating employer that is the plan administrator of a multiple employer employee benefit plan <i>financial statement attest client</i> .
	j. A single or multiple employer employee benefit plan sponsored by either a <i>financial statement attest client</i> or an entity <i>controlled</i> by the <i>financial statement attest client</i> . All participating employers of a multiple employer employee benefit plan are considered sponsors of the plan.
	k. A multiemployer employee benefit plan when a <i>financial statement attest client</i> or entity <i>controlled</i> by the <i>financial statement attest client</i> has <i>significant influence</i> over the plan and the plan is material to the <i>financial statement attest client</i> .
	l. An investment adviser, a general partner, or a trustee of an investment company <i>financial statement attest client</i> (fund) if the fund is material to the investment adviser, general partner, or trustee that is deemed to have either <i>control</i> or <i>significant influence</i> over the fund. When considering materiality, <i>members</i> should consider investments in, and fees received from, the fund.

Table A: Preliminary Options and Advantages and Disadvantages

Option	Description	Advantages	Disadvantages
Option A	<p>Amend the definition of “audit client”</p> <p>Amend the “audit client” definition to align to the definition of “assurance client” in the Code and the International Framework for Assurance Engagements which sets out the “Three Party Relationship” for assurance engagements as consisting of the responsible party, the practitioner, and the intended users, and there can also be separate roles for measurer or evaluator and/or engaging party.⁴³</p>	<ul style="list-style-type: none"> Aligning the definition to “assurance client” will capture situations where the responsible party engages a third party to compile the subject matter information and the third party assumes responsibility for it, in which case both parties are considered to be the audit client.⁴⁴ 	<ul style="list-style-type: none"> Goes beyond the Workstream’s scope as the: <ul style="list-style-type: none"> Project Team’s Terms of Reference do not contemplate amending the “audit client” definition. Definition of “audit client” affects numerous aspects of Code. Amending the definition of “audit client” might have unintended consequences for traditional corporate structures. It would make the definition of “audit client” more conceptual and difficult to understand. The definition of an “audit client” is a future work stream as part of the IESBA's SWP 2024 - 2027.
Option B	<p>Amend the definition of “related entity”</p> <p>Amend the definition of “related entity” to include relevant third-party service providers (e.g. management company, investment advisor, pension fund administrator) that are not under direct or indirect control of the audit client.</p> <p>This would likely require amendments to paragraph R400.27 or new material to ensure that the new elements are captured</p>	<ul style="list-style-type: none"> Relevant third-party service providers will be part of the “audit client” resulting in all independence provisions in Part 4A being applicable. Promotes consistent application of the Code for Traditional Corporate Structures, CIVs and pension funds. Avoids potential unintended consequences resulting from changing “audit client” as it discretely targets CIVs and pension funds. 	<ul style="list-style-type: none"> Developing globally applicable terminology for these elements of “related entity” might be difficult due to jurisdictional differences in names, governance, and structures of third-party service providers.

⁴³ Refer to paragraphs 27-38 of the *International Handbook for Assurance Engagements* and page 63 of [IAASB-2022-Handbook-Volume-3](#).

⁴⁴ Refer paragraphs R900.11 to 900.11 A3 of the Code.

Option	Description	Advantages	Disadvantages
	<p>within audit client/related entity for the purposes of Part 4A.</p>	<ul style="list-style-type: none"> There is a precedent with a similar approach adopted in the US SEC Rules. 	
<p>Option C</p>	<p>Define “control” and “significant influence” in the Code</p> <p>The Code does not currently define “control” or “significant influence” and jurisdictions apply “control” and “significant influence” based on the applicable accounting framework or local legislation or regulations.</p>	<ul style="list-style-type: none"> Defining “control” and “significant influence” in the Code might aid consistent global application. 	<ul style="list-style-type: none"> Developing globally applicable definition of “control” and “significant influence” might be difficult due to different jurisdictional approaches. Including definitions of “control” and “significant influence” might result in unintended consequences for traditional corporate structures and jurisdictional implementation of the Code. However “control” and “significant influence” are defined might not always capture all relevant entities for CIVs and pension funds. Refer paragraphs 22 to 24 and Appendix 2.
<p>Option D</p>	<p>Enhance the Code to address “indirect” NAS provided to audit clients</p> <p>Require PAs to include certain NAS provided to an entity that then uses the results of that NAS to provide services to an audit client of the firm (i.e. “indirect” services to audit clients) when applying Section 600. This requirement could:</p> <ul style="list-style-type: none"> Expand new paragraph 600.6 of the Code (from the Technology-related revisions), beyond technology-based services, for example, by adding a subparagraph (c). Be premised on the auditor knowing, or having reason to believe, that the result of a NAS might ultimately form part of or affect the accounting records, the 	<ul style="list-style-type: none"> Captures “indirect” services to be considered by the auditor from an independence perspective. Expands the application of the principle on “indirect services” adopted by the IESBA in the Technology-related revisions to the Code. Including the “reason to believe” test ensures that not all NAS needs to be considered and enables the exercise of professional judgment to determine which NAS to include when applying Section 600. 	<ul style="list-style-type: none"> Goes beyond the scope of the Workstream as it impacts all entities, not just CIVs and pension funds, where “indirect” services are provided. Does not capture independence concerns beyond NAS, including financial interests, business relationships, and other relationships.

Option	Description	Advantages	Disadvantages
	internal controls over financial reporting or the financial statements on which the firm will express an opinion.		
Option E	<p>Develop non-authoritative material</p> <p>No change to the Code and issue non-authoritative material (NAM) to promote globally consistent application of the Code’s provisions for CIVs and pension funds.</p>	<ul style="list-style-type: none"> • Assist PAs to apply the conceptual framework and relevant provisions of the Code in relation to the unique characteristics of CIVs and pension funds. • Foster greater consistency of the application of the Code’s provisions in relation to CIVs and pension funds. 	<ul style="list-style-type: none"> • Does not address inconsistent application of the extant Code to CIVs and pension funds. For example, the Code does not consistently address “indirect” NAS. Refer Option D and Appendix 2. • NAM is non-authoritative and does not hold the same weight as requirements or application material in the Code.