

30 June 2025



**Response to the IESBA
Consultation Paper:
Collective Investment
Vehicles and Pension
Funds – Auditor
Independence**



1. Introduction

The Institute of Chartered Accountants of Scotland (ICAS) is a global, professional membership organisation and business network for Chartered Accountants. It's also an educator, regulator, examiner and a professional awarding body.

ICAS' diverse membership is made up of over 23,000 world class business professionals who work in the UK and in more than 80 countries around the globe. Members of ICAS are also known by the letters CA, an exclusive professional designation in the UK.

ICAS members operate at the forefront of ethical and sustainable business. Educated, regulated, and led by the highest standards of ethical leadership since 1854, they are at the top of their game. They are trusted professionals, that transform business and support one another for the greater good.

Acting in the public interest is the guiding principle of all that ICAS does and we continually work to maintain trust in the finance profession. That ethos is enshrined in the ICAS Code of Ethics – which applies to all members, students and member firms, and is underpinned by our Royal Charter commitment.

ICAS is a member of the Chartered Accountants Worldwide Network, a global family that brings together the members of 15 leading institutes to create a community of over 1.8 million Chartered Accountants and students in more than 190 countries.

Any enquiries should be addressed to Ann Buttery, ICAS Head of Ethics.

We have considered the International Ethics Standards Board for Accountants (IESBA) Consultation Paper: 'Collective Investment Vehicles and Pension Funds – Auditor Independence' and our comments are included below.

2. Key Points

Collective investment vehicles is a topic that has featured on IESBA's pipeline of projects for some considerable time. We are not aware of major issues in practice in relation to audits of such entities. We, therefore, do not believe revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) are warranted in relation to such entities and the same applies to Pension Funds. Rather, we believe that the conceptual framework in the Code remains robust and fit for purpose in addressing auditor independence in these contexts, including application of the reasonable and informed third party test. Given the complexities that are often associated with the operations of such entities we believe application of the conceptual framework by auditors to be the optimum approach in properly assessing any threats to independence that may exist and ensuring that these are appropriately addressed in the context of the particular facts and circumstances and the jurisdiction concerned.

3. Responses to the specific questions

Question 1

Does the Code's definition of related entity capture all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs/pension funds?

Please provide reasons for your response.

Whilst we believe that the Code's definitions of "audit client" and "related entity" would not necessarily directly capture "Connected Parties" we do not believe this to be crux of the matter. Auditors are required to apply professional judgement in applying the conceptual framework to identify any threats to their independence, evaluate the level of the threat and to appropriately address these. This assessment is not limited by the boundaries of the definition of a related party. This is the approach that is currently applied and we are not aware that there is currently an issue in practice. Indeed, it can be argued that this approach ensures that appropriate consideration is given to identifying any such risks that may be present and that they are appropriately addressed.

Additionally, given their very nature, the operational structure of such entities may change in a fairly short space of time. Therefore, there is a risk that if IESBA was to impose further specific restrictions that such an approach might inadvertently have the unintended consequence of further reducing choice for CIVs and pension schemes in certain jurisdictions. To best disseminate best practice for the auditors of such entities we would encourage IESBA to consider producing non-authoritative guidance.

Question 2

Do you believe the criteria set out above are appropriate and sufficient to capture Connected Parties that should be considered in relation to the assessment of auditor independence with respect to the audit of a CIV/pension fund?

Please provide reasons for your response.

Given our view on this matter as set out above, we do not believe that there is a need for further criteria to be introduced into the Code of Ethics. Such an approach would potentially unnecessarily add to the complexity of the Code and might have unintended consequences.

Question 3

Where there are such Connected Parties, do you believe that the application of the conceptual framework in Section 120 of the Code is sufficiently clear as to how to identify, evaluate and address threats to independence resulting from interests, relationships, or circumstances between the auditor of the CIV/pension fund and the Connected Parties?

If not, do you believe the application of the conceptual framework in the Code as applicable to Connected Parties associated with Investment Schemes warrants additional clarification?

Please provide reasons for your response

We believe that the conceptual framework is sufficiently clear as to how to identify, evaluate and address threats to independence resulting from interests, relationships, or circumstances between the auditor of the CIV/pension fund and any such Connected Parties.

Question 4

Do you believe that the conceptual framework in Section 120 of the Code is consistently applied in practice with respect to the assessment of auditor independence in relation to Connected Parties when auditing a CIV/pension fund?

Please provide reasons for your response.

Whilst we cannot state that it is consistently applied in all situations, as we only have knowledge within our own jurisdiction, we do believe that audit firms place considerable focus on ensuring that any threats are identified and appropriately addressed in the specific facts and circumstances. We believe this to be an appropriate means of identifying any threats to the independence of the auditor and in ensuring that any such threats are appropriately responded to and addressed. There is a risk that introducing new terms into the Code will merely increase complexity and not meet the intended aims.

Question 5

Are there certain interests, relationships, or circumstances between the auditor of a CIV/pension fund and its Connected Parties that should be addressed? Please provide reasons for your response.

We don't believe there is a need for IESBA to specifically address any such matters. Although we are aware of certain jurisdictions that do specifically address such matters we do not believe that there is any need for specific revisions to the Code. This is because of the differences in jurisdictional legislation, regulations etc and we believe that such matters are best left to the respective jurisdictions to deal with as they deem appropriate.

Question 6

Does your jurisdiction have requirements or guidance specific to audits of CIVs/pension funds from an auditor independence perspective? If yes, are those requirements included in audit-specific or CIV-specific regulation? Please provide details

The UK does not have such specific requirements or guidance. However, the Financial Reporting Council (FRC) in the UK recognises that there is always a risk that no matter how well stated specific requirements are, there may still be circumstances that are not adequately addressed. Hence in the first section of its Ethical Standard it states:

“110 Part B sets out specific requirements relevant to certain circumstances that may arise in audit and other public interest assurance engagements. These specific requirements are designed to assist in meeting the ethical outcomes required by the overarching principles and supporting ethical provisions. However, circumstances relating to engagements vary widely and meeting the ethical outcomes required by the overarching principles and supporting ethical provisions is paramount. **Compliance with the specific requirements may not always be sufficient to achieve this as Part B does not, nor is it practicable for it to, address all possible circumstances that may exist. Practitioners need to be alert for, and respond appropriately to, other circumstances that create threats to meeting the ethical outcomes required by the overarching principles and supporting ethical provisions.**”

“The ‘Third Party Test’

114 Consideration of whether the ethical outcomes required by the overarching principles and supporting ethical provisions have been met should be evaluated by reference to the perspective of an objective, reasonable and informed third party (see the definition of independence). Such a person is informed about the respective roles and responsibilities of an auditor (or reporting accountant as applicable), those charged with governance and management of an entity, and is not another practitioner. The perspective offered by an informed investor, shareholder or other public interest stakeholder best supports an effective evaluation required by the third-party test, with diversity of thought being an important consideration. The assessment that a firm makes when applying the third-party test, is:

- principles-based, covering both the spirit and the letter of the requirements in this Ethical Standard;
- carried out using both qualitative and quantitative factors, and includes issues arising on an engagement or issue specific basis, and in the context of wider publicly available information that an informed person would be aware of and would bring to bear on their assessment – it is based on the information available at the time, and not hindsight;
- an overarching assessment of risks that the third party might consider would have an impact on the audit firm's independence and not a narrow or formulaic assessment. Such an assessment might include the factors shareholders use when assessing the independence of an auditor proposed for appointment; and
- alive to the risk that arrangements, policies or procedures implemented by a firm to address any threat to independence may be construed as a way to circumvent the overarching principles and supporting ethical provisions of this Ethical Standard.

In making such an assessment, the cumulative impact of a series of ethical issues, which taken together would lead the third party to have concerns about an audit firm are also considered.”



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