



30th June 2025

International Ethics Standards Board for Accountants (IESBA)

Att: Ken Siong,
IESBA Program and Senior Director,

**SUBMISSION OF COMMENT PAPER ON INDEPENDENCE CONSIDERATIONS WITH
RESPECT TO AUDITS OF COLLECTIVE INVESTMENT VEHICLES AND PENSION FUNDS**

The Institute of Certified Public Accountants of Kenya (ICPAK) wishes to affirm its mandate through participation in the standards development. This is by ensuring that it actively and substantively contributes to relevant proposals, exposure drafts and comment papers in a timely manner. ICPAK now welcomes the opportunity to comment on stakeholders' views on the provisions in the Code and the clarity of their application to audits of Investment Schemes where Connected Parties are involved with such Schemes, thereby safeguarding the public interest and supporting consistent application of the Code's principles.

We hereby present our comments to the specific questions highlighted in the exposure draft memorandum. Kindly contact us using the details below should you require any additional information or clarification catherine.asemeit@icpak.com Tel: +254711638370.

Yours Sincerely,

CPA CATHERINE ASEMEIT

DIRECTOR, STANDARDS & TECHNICAL SERVICES
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Question	Response <i>(Please give clear reasoning to support your response)</i>
<p>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.</p>	<p>No. The code definition of related entity does not capture all relevant parties. Capturing all relevant parties is difficult due to several factors, primarily related to the complexity of relationships, organizational structures, and regulatory scope. In essence, identifying all relevant parties for an auditor’s independence assessment is difficult because of:</p> <ul style="list-style-type: none"> i) the breadth of what constitutes a relevant party; ii) the depth of relationships that must be evaluated; iii) the dynamic nature of business structures and human behavior. <p>The Code’s current definition of “related entity” — focused on ownership, control, or significant influence — provides a solid starting point for assessing auditor independence in collective investment vehicles (CIVs) and pension funds. However, it overlooks several economically powerful parties whose relationships create equally serious threats to objectivity. For example, investment managers and sub-advisors, though not equity holders, make critical portfolio decisions and earn performance-based fees. Trustees, custodians, and administrators control cash flows and maintain the accounting records auditors rely on. Promoters, sponsors, and large placement agents also wield substantial influence through seed-capital arrangements or special governance rights.</p>

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	<p>Because these stakeholders can intimidate auditors or create self-interest threats — even without formal ownership ties — the definition should be broadened. We propose explicitly including key service providers (investment managers, custodians, administrators), founding and sponsoring parties (promoters, seed investors), and major investors or placement agents whose withdrawal power or fee negotiations could compromise impartiality. By capturing these relationships, the Code will better ensure that all parties capable of affecting a CIV or pension fund’s financial results are considered in the auditor’s independence assessment, thereby strengthening public confidence and consistency in audit quality.</p>
<p>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.</p>	<p>We believe the criteria set out are appropriate but may not be sufficient to capture connected parties. This is in consideration to the difficulties as highlighted in question 1 above.</p> <p>To address these gaps, the Code could be supplemented with a “catch-all” provision requiring auditors to consider any party that (i) provides critical data or decision-support services, (ii) participates in material non-audit services, or (iii) holds contractual governance or veto rights, even if none of the three existing criteria strictly applies. This would ensure all economically or informationally powerful relationships are evaluated for</p>

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	independence threats, thereby reinforcing the robustness and public confidence in CIV and pension-fund audits.
<p>Question 3</p> <p>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?</p> <p>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.</p>	<p>We believe the application of the conceptual framework is sufficiently clear however, while the conceptual framework offers flexibility and a principles-based approach, it demands strong ethical awareness, judgment, and a supportive professional environment. For example: Pressure from management vs. public interest can be hard, particularly where there's no explicit rule or clear guidance.</p> <p>First, Section 120 and Part 4A require auditors to recognize threats arising from interests, relationships or circumstances and to apply safeguards where necessary. However, because Connected Parties to Investment Schemes often do not meet the Code's definitions of "audit client" or "related entity," auditors are simply directed back to the high-level conceptual framework (paragraph 400.6) without tailored guidance on how to treat, for example, an investment manager who designs the fund's accounting systems or a seed-capital sponsor whose withdrawal power creates intimidation threats.</p> <p>Second, this gap can lead to inconsistent interpretations. Paragraph 37 of the Consultation Paper notes that some provisions in Part 4A do not explicitly capture relationships "in a position to exert significant influence" or services "indirectly" provided to the Scheme—forcing auditors to</p>

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	<p>improvise in varied ways across firms and jurisdictions. Without clear application material, two auditors could reach different conclusions about the same Connected Party, undermining the Code's objective of consistent application.</p> <p>We recommend that the Code be bolstered with tailored application guidance for CIV and pension-fund audits by: (1) including illustrative examples of common Connected-Party scenarios—such as fund managers providing non-audit services or sponsors wielding veto rights—and showing step-by-step how to apply Section 120's threat-identification and evaluation process; (2) prescribing explicit safeguards (for example, mandatory engagement-quality reviews or rotation requirements) whenever auditors face significant self-interest, familiarity, or intimidation threats from these parties; and (3) defining clear threshold criteria—drawing on both quantitative measures (e.g., size of financial stake, fee dependency) and qualitative factors (e.g., decision-making authority)—to determine when a party's influence merits inclusion in the independence assessment.</p>
<p>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?</p>	<p>In practice, no—we don't believe Section 120's conceptual framework is applied consistently when auditors assess independence threats from Connected Parties in CIV and pension-fund audits. Because the Code lacks concrete application guidance for relationships beyond formal</p>

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Please provide reasons for your response.	ownership or control, auditors rely on firm-specific policies or their own judgment to interpret “significant influence” or “indirect” services. This variability leads to divergent threat-identification thresholds, uneven use of safeguards, and inconsistent documentation. Until the Code provides clear examples, quantitative thresholds, and tailored safeguard requirements for common CIV/pension-fund scenarios, auditors will continue to apply Section 120 unevenly, undermining both consistency and stakeholder confidence in audit independence.
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.	<p>Auditors of collective investment vehicles and pension funds must be vigilant for a range of interests, relationships, and circumstances that go beyond formal ownership links but nonetheless pose real threats to independence. For example, when an audit firm provides non-audit services—such as investment-valuation, actuarial advice, or information-technology implementation—to the fund manager or administrator, it faces a self-review threat: the auditor may unconsciously favor work they or their colleagues performed.</p> <p>Similarly, if a significant proportion of the firm’s revenue derives from a single CIV or its seed-capital sponsor, the auditor encounters a self-interest threat, as the risk of losing that lucrative engagement might temper their willingness to challenge aggressive accounting estimates or report control weaknesses.</p>

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	<p>Personal and professional ties can be equally problematic. Auditors who rotate into or out of managerial roles at the fund manager, trustee, or custodian run the risk of familiarity threats, where loyalty or past relationships impair objectivity. Close personal relationships—family ties, friendships, or financial dependencies—with senior executives of connected parties can likewise create familiarity or intimidation threats, particularly if those individuals hold sway over future audit appointments or fees.</p> <p>Finally, any equity stakes or outstanding loans between the auditor (or their firm) and a promoter, sponsor, or major investor introduce self-interest or intimidation pressures that must be assessed. By identifying and addressing these scenarios—none of which involve formal equity control but all of which can influence audit judgments—practitioners ensure that Section 120’s conceptual framework fully captures the independence risks inherent in CIV and pension-fund audits.</p>
<p>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.</p>	<p>In Kenya, auditor independence for collective investment vehicles (CIVs) and pension funds is underpinned by both the general audit framework and industry-specific regulations. Under the Accountants Act and the ICPAK Code of Ethics—which incorporate the IESBA Conceptual Framework—every auditor must evaluate and manage threats to independence, including self-interest,</p>

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	<p>self-review, and intimidation, regardless of the client type. These overarching rules establish a baseline of ethical and professional standards for all engagements in Kenya.</p> <p>Beyond these general requirements, the Capital Markets Authority's Collective Investment Schemes Regulations and the Retirement Benefits Authority's Approved Schemes Regulations impose additional, scheme-specific independence obligations. For CIVs, the CMA mandates that each fund appoint an external auditor who is completely independent of both the scheme and its management company. Although the same audit firm may service both entities, different engagement partners or senior team members must be used if any individual has a financial interest in the manager.</p> <p>Meanwhile, pension-scheme auditors must declare their independence annually to the RBA, confirm they have no financial or familial ties to trustees or sponsors, and rotate the engagement partner every five years to guard against familiarity threats. Together, these layered requirements ensure that auditors of Kenya's CIVs and pension funds remain free from conflicts of interest and uphold the highest standards of objectivity.</p>

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