

The Institute of Chartered Accountants of Jamaica (ICAJ)
Response to Consultation Paper: Collective Investment Vehicles and Pension Funds –
Auditor Independence.

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?

Response:

Not entirely. While the IESBA Code provides a robust general definition of "related entity," concerns remain that the definition may not fully capture all relevant parties in the unique structures of Collective Investment Vehicles (CIVs) and pension funds. These structures often involve multiple stakeholders (e.g., trustees, fund managers, administrators, sub-advisors) whose roles significantly influence financial reporting, yet may not legally qualify as "related entities."

Key issues include the decentralized governance of CIVs/pension funds, extensive outsourcing of key functions, and the lack of sector-specific application guidance. These factors suggest that a broader or risk-based approach is necessary to ensure all influential parties are assessed for independence threats.

The questions in this Section pertain to an audit of a CIV/pension fund where a Connected Party to the Scheme meets the criteria set out in paragraph 35, i.e., the Connected Party is:

- (a) Responsible for its decision making and operations;*
- (b) Able to substantially affect its financial performance; or*
- (c) In a position to exert significant influence over the preparation of its accounting records or financial statements.*

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?

Response:

The Code's definition of a related entity, as currently drafted, does not comprehensively capture all Connected Parties relevant in the context of a CIV or pension fund. Where a Connected Party meets the criteria in paragraph 35 (such as being responsible for decision making, substantially affecting financial performance, or influencing financial reporting) there are heightened risks to independence that may not be adequately addressed under the existing related entity framework. Additional clarity or supplementary guidance would be beneficial to ensure that such parties are appropriately considered in independence assessments.

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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?

Response:

While Section 120 of the Code sets out a sound conceptual framework, its application may not be sufficiently clear in scenarios involving Connected Parties who meet the criteria in paragraph 35. In particular, the framework does not provide practical guidance or examples specific to the CIV/pension fund environment, where complex governance structures and third-party service providers may give rise to unique threats to independence. In such cases, the auditor may struggle to appropriately identify and evaluate threats without more detailed, context-specific direction from the Code.

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?

Response:

In practice, the application of the conceptual framework in Section 120 is inconsistent when assessing auditor independence in relation to Connected Parties of CIVs/pension funds. This inconsistency is primarily due to the lack of specific guidance and definitional clarity around Connected Parties that meet the criteria in paragraph 35. Auditors may interpret the threats differently depending on the structure of the fund and the nature of the relationship with Connected Parties, leading to variable judgments and potentially undermining the robustness of the independence assessment.

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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?

Response:

Yes, specific interests and relationships involving Connected Parties that satisfy paragraph 35 criteria should be explicitly addressed. These include:

- **Management or advisory relationships** with parties responsible for fund operations;
- **Financial dependencies or significant business relationships** between the audit firm and Connected Parties;
- **Shared personnel or family relationships** that may impair objectivity.

Such relationships pose significant self-interest, familiarity, and advocacy threats to independence. Given their ability to influence the financial reporting process, these interactions should be clearly identified and appropriately safeguarded within the Code.

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?

Response (Jamaica context):

Yes, Jamaica has regulatory requirements that impact auditor independence in relation to the audits of Collective Investment Vehicles (CIVs) and pension funds. While Jamaica has adopted the IESBA Code of Ethics for Professional Accountants (as issued by the Public Accountancy Board), additional guidance and requirements are embedded in sector-specific legislation and regulatory oversight frameworks.

For **pension funds**, the **Pensions (Superannuation Funds and Retirement Schemes) Act** and related regulations administered by the **Financial Services Commission (FSC)** impose governance and oversight obligations, including the requirement for the appointment of an independent auditor. The FSC Guidelines emphasize the avoidance of conflicts of interest, and auditors must confirm their independence to the trustees and the Commission.

For **CIVs**, such as unit trusts and mutual funds, regulated under the **Securities Act**, the **FSC also requires disclosure of any potential conflicts of interest** between the auditor, fund administrator, or investment manager. Although the legislation does not prescribe detailed auditor independence provisions, the FSC expects compliance with the IESBA Code and may take regulatory action if independence is impaired.

In both cases, there is an implicit expectation that auditors evaluate independence threats where a Connected Party (e.g., fund manager or administrator) has significant influence over the fund's operations or financial reporting—consistent with paragraph 35 of the IESBA Code. However, there is no separate Jamaican auditing standard or binding guideline specific to CIVs or pension funds that goes beyond what is already required under the IESBA framework.
