



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

30 June 2025

Mr Ken Siong  
Senior Technical Director  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, 10017 USA

Dear Mr Siong

**INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS (“IESBA”)  
CONSULTATION PAPER, *COLLECTIVE INVESTMENT VEHICLES AND PENSION FUNDS -  
AUDITOR INDEPENDENCE***

The Ethics Standards Board (“ESB”) of the Malaysian Institute of Accountants (“MIA or the Institute”) welcomes the opportunity to provide its comments on the IESBA’s Consultation Paper (“CP”) on *Collective Investment Vehicles and Pension Funds - Auditor Independence*.

We enclose in **Appendix 1**, our response to the questions contained in the CP.

We hope our comments will contribute to the IESBA’s deliberation in whether enhancements or clarifications to the Code are warranted. If you have any queries or require clarification of this submission, please contact Simon Tay Pit Eu at +603 2722 9271 or email at [simontaypiteu@mia.org.my](mailto:simontaypiteu@mia.org.my).

Thank you.

Yours sincerely

**MALAYSIAN INSTITUTE OF ACCOUNTANTS**

**G SHANMUGAM**

Acting Chief Executive Officer

## **APPENDIX 1**

### ***Application of the Code to Investment Schemes***

#### **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.

In Malaysia, similar to many jurisdictions, fund management, custodial, and administrative functions are typically outsourced to external parties. While these parties may not meet the Code's criteria which is based on significant influence control or material financial interest, these parties could nonetheless exert significant influence over a Scheme's financial reporting and operations. As a result, auditors may overlook key independence threats posed by these parties unless specific guidance or mandatory inclusion criteria are provided in the Code.

The current definition of "related entity" may not sufficiently capture the full range of relevant relationships when CIVs and pension funds are considered. The IESBA could consider including clearer guidance or expanded criteria to ensure that all parties with meaningful involvement in the financial decision-making and reporting processes of CIVs and pension funds are appropriately considered.

We would, however, highlight that there is some concern that the CIV and pension fund sector may be receiving greater focus as opposed to other industries in this consultation. We believe that, to the extent practicable, further clarification from the IESBA would be helpful to explain why this sector warrants specific changes to the independence assessment framework, especially when similar independence risks may also arise in other sectors.

We find that the conceptual framework in Section 120 of the existing Code of Ethics broadly provides a principles-based approach for identifying, evaluating, and addressing threats to independence, including those that may arise from parties not formally defined as related entities. These inherent principles support the exercise of professional judgment and may address the independence risks in complex structures such as CIVs and pension funds. As such, any new provisions should aim to build upon, rather than duplicating, this existing framework by offering practical guidance or illustrative examples that support consistent application across jurisdictions.

### ***Application of the Code to Connected Parties***

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?

Please provide reasons for your response.

We broadly agree with the criteria set out in the CP as it would appear to capture the Connected Parties in respect of audits of a CIV/pension fund.

However, further clarity may be required on the terms “substantially affect” and “significant influence” as these are subjective and may lead to inconsistent interpretation in practice. We would suggest that the IESBA consider providing further elaboration with examples or additional guidance to assist auditors in determining the threshold or the minimum level of involvement at which a party should be recognised as a Connected Party.

We would also highlight the jurisdictional variances in how different jurisdictions assign fiduciary responsibilities. For example, some jurisdictions require trustees to appoint auditors while others rely on management companies. Any revisions to the Code would, therefore, need to accommodate jurisdiction-specific governance structures whilst maintaining global consistency in principle.

Furthermore, we believe there is a need to also address ongoing monitoring as the role or influence of certain parties may change over time (e.g. due to restructuring or outsourcing). Revisions to the Code should provide application material or guidance for practitioners to regularly reassess which parties qualify as Connected Parties throughout the audit engagement period.

With reference to our response in Question 1 and notwithstanding the above, we would caution against an overly broad application of the criteria. Without appropriate parameters or thresholds for scalability of application, there is a risk of inadvertently capturing entities whose involvement in the financial reporting process is limited and would potentially lead to unnecessary compliance burden and constraints to the pool of practitioners able or willing to undertake such audits. It may also be worth considering whether the perceived benefits to the public interest would justify the additional complexity and resource implications for practitioners if this area of auditor independence is further developed.

If the IESBA proceeds with developing the proposed criteria for identifying Connected Parties, we recommend also developing qualifying considerations such as the frequency, nature or scope of the other party’s involvement to assist the practitioner in identifying relationships that present independence risks. Incorporating these considerations into the application material or illustrations would promote more consistent implementation across jurisdictions and firm sizes.

### 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 current provisions may be insufficient due to the lack of clear definitions and application material involving investment schemes. In particular, Section 120 of the Code does not address the circumstances of CIVs and pension funds where other parties may have influence over financial reporting without being legally related entities. In the absence of specific guidance material, practitioners are required to rely on their professional judgement and may ultimately result in inconsistent application across firms.

As noted in our response to Question 2, the lack of specific guidance would lead practitioners to rely more on professional judgement and result in inconsistent decisions across firms and jurisdictions. For example, it is unclear whether a fund administrator or investment adviser that prepares the financial records but are not under the control of the investment scheme should be assessed as being an audit client or its related entity. Furthermore, there is also an increased complexity of relationships whereby investment schemes often have multiple layers of outsourced parties, some of whom play critical roles in operations, financial controls or data integrity.

We believe that it would be beneficial for further clarification to be made on the application of the conceptual framework to Connected Parties in relation to investment schemes. This can take the form of illustrative examples or application material which should also incorporate the qualifying considerations mentioned in Question 2 to assist practitioners in identifying relationships with actual independence concerns.

#### **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.

Kindly refer to our previous response to Question 3 which detail the views IESBA may need to consider.

As mentioned in our response to Question 1, the conceptual framework requires practitioners to identify, evaluate and address threats based on circumstances and relationships. However, when dealing with the audits of CIVs and pension funds, the governance of CIVs and pension funds may be fragmented and functions may be outsourced and therefore, operationally complex. The broad reliance on professional judgement in such situations may ultimately lead to inconsistencies in practice. Greater standardisation through guidance or application materials would help reduce divergence.

#### **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.

Apart from the matters highlighted in our previous responses, we believe it may also be helpful to consider the possibility of common ownership or sponsorship. For instance, where a sponsor or investment adviser holds ownership interests in both the CIV and other entities audited by the same firm, independence threats may arise due to actual or perceived conflicts of interest.

### ***Research Findings on Jurisdictional Responses to Independence***

#### **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.

In Malaysia, the regulation of collective investment schemes generally falls under the purview of the Securities Commission Malaysia (SC). The SC issues the Capital Markets and Services Act 2007 as well as specific guidelines for such investment schemes. While these guidelines generally govern various aspects of the investment schemes and its operations, they do not specifically address auditor independence.

Generally, auditor independence falls under the requirements of the MIA By-Laws, which are substantially based on the IESBA Code of Ethics and contain the same definition of audit client and related entity.