

30 June 2025

Mr K Siong
Program and Senior Director
International Ethics Standards Board for Accountants (IESBA)
529 5th Avenue
New York

By email: KenSiong@ethicsboard.org

Dear Mr Siong

COMMENTS ON THE IESBA'S CONSULTATION PAPER ON COLLECTIVE INVESTMENT VEHICLES AND PENSION FUNDS – AUDITOR INDEPENDENCE

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national audit and ethics standard-setter in South Africa. Its legislative objectives include the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in the Republic. Its statutory Committee for Auditor Ethics (CFAE) is responsible for prescribing the standards of professional competence, ethics and conduct for registered auditors.

The IRBA adopted Parts 1, 3, 4A and 4B of the IESBA International Code of Ethics for Professional Accountants (including International Independence Standards) (Code) and incorporated these into the IRBA Code of Professional Conduct for Registered Auditors (Revised November 2024) (IRBA Code), together with certain South African adaptations and amendments. The IRBA Code is applicable to all local registered auditors and, with its Rules Regarding Improper Conduct, provides the basis for disciplinary action against these professionals.

We appreciate this opportunity to comment on the IESBA's Consultation Paper on Collective Investment Vehicles and Pension Funds – Auditor Independence.

Our response has been prepared by a CFAE Task Group that comprised representatives from auditing firms, the Johannesburg Stock Exchange, the Financial Sector Conduct Authority (FSCA), the Association of Chartered Certified Accountants (South Africa) and the South African Institute of Chartered Accountants.

www.irba.co.za

- Physical Building 2, Greenstone Hill Office Park, Emerald Boulevard, Modderfontein
- Postal PO Box 8237 Greenstone 1616 Johannesburg South Africa
- Tel 010 496 0600 ▪ Fax 086 482 3250 ▪ E-mail board@irba.co.za

Established in terms of the Auditing Profession Act 26 of 2005 (as amended).

The comments are presented under the following sections:

- A. General Comments; and
- B. Request for Specific Comments.

If you require further clarity on any of our remarks, please email ychoonara@irba.co.za.

Yours faithfully,

Signed electronically

Yussuf Choonara

Professional Manager: Standards

A. GENERAL COMMENTS

1. The IRBA welcomes the IESBA's initiative that highlights the auditor independence concerns in relation to audits of Collective Investment Vehicles (CIVs) and pension funds. We recognise the inherent complexities and potential risks associated with these sectors, particularly in relation to the influence of connected parties and their impact on financial reporting and decision-making.
2. We wish to highlight two areas noted below that warrant further consideration.
 - a. The term "connected parties" is not commonly used in the South African context, and its broad scope may lead to inconsistent interpretation and application across jurisdictions and audit firms. To mitigate these risks, it may be more effective to provide non-authoritative guidance and illustrative examples.
 - b. Guidance is needed on evaluating and addressing threats posed by non-audit services provided to connected parties, to ensure that auditors maintain their independence.

B. REQUEST FOR SPECIFIC COMMENTS

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?

3. We believe that the current definition of "related entity" does not fully capture all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs and/or pension funds. The definition relies on the concept of control, which is not clearly defined in the Code. This ambiguity can lead to inconsistent interpretation and application across different jurisdictions and audit firms. We understand that the Code is designed to be framework-neutral and that entities across various jurisdictions may employ differing reporting frameworks. However, it would be helpful if guidance on control could be provided with reference to the specific accounting standard/framework being applied.
4. CIVs and pension funds often rely on external service providers, and the definition does not specifically capture these parties, which include management companies, asset managers, service organisations, custodians, brokers, investment advisors or trustees. These external parties may have roles and responsibilities for decision-making and the operation of the scheme, be able to substantially affect its financial performance, or be in a position to exert significant influence over the preparation of its accounting records or financial statements. It would be helpful to articulate these aspects from a principled-based perspective rather than by specific designations, as these may vary across different jurisdictions.
5. For example, a Collective Investment Scheme's (CIS) external asset manager might not be a "related entity" under the Code, if there is no formal control or significant financial interest, yet its role in managing investments and pricing significant unlisted investments (significant to the fund) can directly impact the scheme's financial statements, posing potential threats to auditor independence if the auditor is not sufficiently independent from the external asset manager (e.g. self-review or self-interest threats).
6. Although the definition does not fully capture all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs and/or pension funds, it is noteworthy that many jurisdictions may have already established independence rules and legal requirements to address this matter.

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.

7. Overall, we believe that the criteria, as outlined in paragraph 35, are appropriate and relevant for identifying the connected parties that are to be included in the auditor's independence assessment when auditing a CIV or pension fund. These criteria address key roles that could compromise an auditor's objectivity, integrity or professional scepticism, if relationships or services exist between the auditor and these connected parties.

8. However, additional guidance is necessary to ensure consistent application and understanding across different jurisdictions and audit firms.
 - a. Clear guidelines on what constitutes responsibility for decision-making are essential, especially in cases where mandates are tight and decision-making authority is limited. Examples to illustrate the practical application of this criterion would be beneficial.
 - b. Clarification is needed on whether the connected parties being considered for auditor independence refer to individuals within an entity or the entity as a whole. For instance, if the employees of an administrator serve on a pension fund's board of trustees, it should be clear whether the connected party is the individual trustee or the entire administrative entity.
 - c. Clearer definitions and detailed guidance or examples are needed for terms such as "substantially affect" and "exerting significant influence". Without precise definitions and detailed guidance or examples, these terms are open to interpretation, which could lead to inconsistent application.
 - d. The practical implications of these criteria should be considered. If, for example, multiple asset managers are involved in a CIV, it would need to be clarified how auditors are to assess the independence threats posed by each manager.
9. Thus, while the proposed criteria are a good starting point, they require further refinement, guidance and illustrative examples to ensure they are applied consistently and effectively. This will help auditors identify and address independence threats in a manner that is both practical and aligned with the principles of the Code.

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.

10. We believe that the current application of the conceptual framework in the Code may not be sufficiently clear to identify, evaluate and address threats to auditor independence concerning the connected parties of CIVs and pension funds. While the conceptual framework is robust, it lacks specific guidance on applying its principles to the connected parties of CIVs and pension funds, which might lead to inconsistent application and interpretation among audit firms. We recommend that additional non-authoritative guidance and examples be provided to illustrate how to apply the framework in these contexts.
11. CIVs and pension funds often involve complex arrangements and rely on external parties to perform functions. They can also differ in form from one jurisdiction to another. This complexity can make it difficult to consistently identify all relevant connected parties and assess the associated threats to independence. As a result, audit firms may reach different conclusions when applying the framework, which is why additional guidance may be required.

12. Threats to independence, such as self-review, advocacy and familiarity threats, would need to be addressed in relation to connected parties. For example, connected parties earn commissions and fees based on the value of assets under their management. If an audit firm has, or is seen to have, a substantial role in managing, valuing or being the custodian of the assets, that could create a self-interest threat that would be difficult to mitigate. Guidance on how to evaluate and mitigate these threats is necessary.
13. While the conceptual framework serves as a strong foundation, additional non-authoritative guidance would be helpful to address the unique challenges posed by the connected parties of CIVs and pension funds. Guidance and practical examples would enhance the clarity and consistency of the framework's application.

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.

14. It is unlikely that the conceptual framework is being applied consistently in practice to identify, evaluate and address threats to independence arising from relationships with connected parties to a CIV or pension fund. The absence of conversation or awareness raising may have resulted in this divergence. Differences in professional judgment and the interpretation of the framework contribute to inconsistencies.
15. From a regulatory perspective, we have noted variations in how audit firms apply the conceptual framework, particularly in identifying relevant parties and assessing independence threats in addressing quality risks at a firm level. Some audit firms consider the influence of asset managers on their audit client, while others do not. Different thresholds for defining significant influence further contribute to the inconsistency.
16. The FSCA has observed that successor auditors tend to uncover matters related to connected parties that were not identified by the predecessor auditors.
17. Furthermore, the diversity of investment scheme structures and governance models across jurisdictions, combined with reliance on external parties for operations and financial reporting, complicates the consistent application of the framework without specific guidance.

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.

18. Yes, there are certain interests, relationships or circumstances that pose threats to independence and need to be addressed. Threats to fundamental principles created by different roles and responsibilities should be considered, and independence considerations relevant to those threats need to be assessed to determine whether any of the threats are at an acceptable level.
19. Interests and relationships to be considered include:
- Direct/material indirect financial interests in the connected party held by the audit firm, network firm, audit team or closely associated persons. For example, where the audit firm/auditor holds a financial interest, such as shares in an asset manager who manages the investments held by the CIV.
 - The self-interest threat associated with fee dependence on the connected parties to an investment scheme, which includes situations where a significant portion of the audit firm's revenue is derived from the services provided to these connected parties.
 - The provision of non-audit services to connected parties, which may create self-review or advocacy threats. For example, providing services to a CIV's external fund manager, such as developing a transaction processing system, creates a self-review threat when auditing financial statements that are reliant on that system. Additionally, if a firm provides investment advice to individuals or entities that includes investing in the CIVs audited by the firm, this creates a self-interest threat because investment advisors typically earn fees and commissions based on the financial performance of the CIVs.
 - Long-standing relationships with connected parties that are also the firm's audit clients, which may create familiarity threats and need to be considered to ensure that they do not impair the auditor's 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.

20. Yes, South Africa has requirements relating to auditor independence with regard to audits of CIVs and pension funds. These include:
- [R400.23 SA of the IRBA Code](#) defines the categories of public interest entities (PIE), which includes CIVs and pension funds, to meet the purpose outlined in paragraph 400.15 and as mentioned in paragraph (d) of the PIE definition;

Extract of R400.23 SA:

“(h) Collective Investment Schemes, including hedge funds, as defined in the Collective Investment Schemes Control Act No. 45 of 2002, that hold assets in excess of R30 billion.

(i) Funds, as defined in the Pension Funds Act No. 24 of 1956, that hold or are otherwise responsible for safeguarding client assets in excess of R30billion.

(j) Pension Fund Administrators, in terms of Section 13B of the Pension Funds Act No. 24 of 1956, with total assets under administration in excess of R30 billion.”

b. [Section 9 of the Pension Funds Act 24 of 1956:](#)

“Every registered fund shall in the manner set out in its rules appoint an auditor registered under the Auditing Profession Act, 2005 (Act 26 of 2005), who shall not be an officer of the fund, except where the accounts of such a fund in terms of the provisions of any law are to be audited by the Auditor-General.”

c. [Section 73 of the Collective Investment Schemes Control Act 45 of 2002:](#)

“73. Appointment and approval of auditor

(1) A manager must appoint an auditor for the purpose of auditing the whole of the business of the collective investment scheme administered by it.

(2) No director or employee of a manager, trustee or custodian and no firm of which any such director or employee is a member may be appointed as an auditor of a collective investment scheme.

(3) A manager must within 30 days from the date of appointment of an auditor apply to the registrar for approval of such appointment.

(4) The registrar may withdraw a prior approval of the appointment of an auditor.

(5) An auditor who has been removed by a manager from his or her office as auditor, must inform the registrar thereof.”
