

25 June 2025

International Ethics Standards Board for Accountants (IESBA)
Submitted electronically through the IESBA website

**RE: International Ethics Standards Board for Accountants' ("IESBA") Consultation Paper,
"Collective Investment Vehicles and Pension Funds – Auditor Independence"**

Dear Colleagues

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the effort of IESBA and welcomes this opportunity to comment on the IESBA's Consultation Paper (CP), 3/ 2025, "*Collective Investment Vehicles and Pension Funds – Auditor Independence*".

SOCPA welcomes this opportunity to offer its comment on the CP about "Collective Investment Vehicles and Pension Funds – Auditor Independence". Our interest in this topic comes from SOCPA's continuous efforts to provide sufficient technical and ethical guidance to professional accountants (PAs) individuals and institutions. We believe that the IESBA's Consultation Paper regarding auditor independence considerations for audits of investment schemes is particularly important because of the unique nature of these investment schemes and its relationships and operations. Thus, we support the proposed agenda in this CP to clarify the 'related entities' term in the Code considering the extent to which it may cover in particular industries, such as investment schemes. Accordingly, SOCPA's comment on the CP is further explained in its responses to the CP's survey questions in the appendix to this letter.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames
SOCPA Chief Executive Officer



Appendix

SOCPA Comments on Consultation Paper (CP), 3/ 2025, “*Collective Investment Vehicles and Pension Funds – Auditor Independence*”.

Consultation Main Questions:

Section 1:

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.

SOCPA Comments:

SOCPA believes that the definitions of ‘related entity’ and ‘audit client’ terms in the Code do not specifically cover other entities which should be part of the independence assessment in the case of investment schemes; however, the principle provided in para. R400.27 does *explicitly* establish to an extent a basis for the auditor to consider ‘any other related entities’ the audit team knows or has reason to believe that they are relevant to the assessment of the audit firm independence. This approach is consistent with the Code’s conceptual framework requiring Professional Accountants in Public Practice (PAPP) to remain alert towards any threats that may hinder compliance with independence standard, exercise professional judgment and use the reasonable and informed third party test to assess and respond to such threats. However, we agree with the proposed agenda in the CP with regard to enhancing clarity around considering relationships which are relevant to investment schemes since they warrant the public interest and the nature of their business model and operations may expose auditors’ independence to significant threats that should have been considered in the independence assessment.

Accordingly, we believe that the wording of the definitions of ‘audit client’ and ‘related entities’ (para. R400.27, para. R800.8, para. R601 and para. R901) worth revising, not only to capture the relationships and circumstances (e.g. connected parties) associated with investment schemes, but also to enhance clarity. Since the current definitions include differences between Public Interest Entities (PIE) and other entities, and some exceptions, they seem complicated. Thus, the proposed revision in the CP should pay attention not to introduce additional complexity for the sake of capturing other entities (e.g. connected parties) in these definitions.

Section 2:

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.

SOCPA Comments:

Yes, SOCPA believes that the criteria set out are capturing the ‘connected parties’ relevant to investment schemes. Although we believe that the use of a new term ‘connected parties’ with certain defining criteria may provide a beneficial guidance to auditors when assessing their independence from client in these investment schemes, the needed guidance may not necessarily require the introduction of a new term with a specific definition. This objective might be satisfied by including these defining criteria as an application material linked to the concept of ‘related entities’ (in specific para. R400.27). The application material should generally explain examples of relationships or circumstances which auditors should consider when implementing the Code’s conceptual framework and ‘related entities’ term in the assessment of independence when auditing particular types of industries (e.g. investment schemes). These application materials should also explain further the proposed criteria by clarifying, for instance, the threshold for “substantial affect” and “significant influence” to ensure consistency in application, and including examples of specific roles (e.g., actuaries for pension funds) to reduce ambiguity.

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.

SOCPA Comments:

Yes, SOCPA believes that the conceptual framework in section 120 provides an overarching approach that should, from principle-based perspective, warrant the PAPP to remain alert to potential threats arising from relationships and circumstances with ‘connected parties’ which may impact audit team’s independence (both ‘independence of mind’ and ‘independence in appearance’). The successful application of the conceptual framework is dependent on the PAPP’s conduct of the three relevant aspects: having an inquiring mind, exercising professional judgment, and using the reasonable and informed third party test. The proper application of these aspects should alert the audit team to such relationships with other parties whether in auditing investment schemes or other types of entities (e.g. value chain entities in sustainability assurance).

However, we agree with the notion explained in the CP that the uniqueness of investment schemes (including how it operates) signifies the public interest and complicates the independence assessment. We observe this uniqueness and complexity in Saudi ‘investment fund regulations’ which require the appointment of independent auditor, but do not provide sufficient guidance with regard to the assessment of independence while explaining the occurrence of such complex relationships (e.g. fund management, fund operations, fund custody...etc). Although SOCPA prohibits auditors from providing non-audit services to audit clients with specific exceptions, we believe that the proposed additional clarification can help in the consistent application of the Code’s conceptual framework because it should help auditors understand what should be part of ‘audit client’ definition and independence assessment in the context of investment schemes.

Additionally, we believe that supplementing the conceptual framework with specific examples and criteria tailored to certain complex relationships and circumstances associated with investment schemes should help improving clarity. This supplemental guidance may, for instance, clarify what constitute “substantial affect” on financial performance, and “significant influence” over financial reporting, or provide illustrative scenarios for common threat patterns involving related entities (e.g. 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.

SOCPA Comments:

No particular challenges have come to SOCPA’s attention with regard to the application of the conceptual framework in practice with respect to the assessment of auditor independence in relation to ‘connected parties’ when auditing investment schemes. However, the appreciation of the complexity associated with investment schemes (in particular complicated relationships), and the absence of explicit guidance that is specific to the application of the conceptual framework in such circumstances, may indicate the possible inconsistent application of the conceptual framework. This is specifically valid when considering how the larger audit firms (networks) may have developed internal protocols for threat assessment which may capture the complicated relationships and circumstances associated with investment schemes while smaller audit firms may rely heavily on individuals’ professional judgments since they may not have the necessary resources to develop their own internal protocols. Therefore, we believe that consistency in applying the conceptual framework can be improved through providing further guidance (e.g. application materials) in the Code with specific examples that can be benchmarked against because this specific guidance should help facilitating auditors’ professional judgment which is a critical aspect of the Code’s conceptual framework.

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.

SOCPA Comments:

Since investment schemes can significantly vary in its forms (e.g. public, private, real estate...etc.) and between jurisdictional laws and regulations, we believe that the project explained in the CP should focus more on clarifying the ‘related entities’ term with regard to the independence assessment when auditing different types of entities, including investment schemes. This is important because establishing new terms that are to be used only in a certain industry (investment schemes) may have unintended consequences, such as increased complexity in the Code, and a potential need for other terms or requirements to cover certain circumstances or relationships that are unique to particular industries. Additionally, the proposed clarification, with regard to the relationships associated with investment schemes which need to be considered in the independence assessment,

should refer auditors to consider relevant legal requirements which may specify certain relationships as threatening auditors' independence when auditing investment schemes.

Generally, we believe that there are several specific interests, relationships, and circumstances between auditors and Connected Parties of investment schemes that may warrant further explicit guidance (in the form of application materials) in the Code, to safeguard independence such as:

- Financial Relationships: Self-interest threat where auditor may compromise objectivity to retain consulting work.
- Employment Relationships: Familiarity threat where personal relationships may negatively affecting professional skepticism.
- Service Provision: Self-review threat when auditing work the firm had helped create.
- Governance Overlaps: Advocacy threat through perceived joint interests.

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.

SOCPA Comments:

Except for the Capital Market Authority (CMA) regulations for investment funds, Saudi Arabia does not currently have comprehensive, CIV or pension fund-specific auditor independence rules beyond the requirements in the SOCPA Code of Ethics, which is based on the IESBA Code.

CMA regulations require fund managers to appoint independent auditors, but do not explicitly define or regulate independence in relation to third-party service providers, such as custodians or investment advisors.