ED-600 Question 6 – Do You Support the Revised Definition of a Component?

**Question 1:**

Do you support the revised definition of a component to focus on the ‘auditor view’ of the entities and business units comprising the group for purposes of planning and performing the group audit?

**Q6 - Agree**

1. **Monitoring Group**
   
   **BCBS**
   
   We support the revised definition of a component to focus on the ‘auditor view’.
   
   The usage of the term ‘component’ is in the context of conducting the audit. In this regard it seems appropriate that it should be the auditor’s view as it is the auditor who is responsible for the conduct of the audit. If the term is linked to management’s view, there may be a risk that it unduly restricts the auditor in the risk assessment and development of appropriate procedures.
   
   Expressing the term as the auditor’s view does not prevent the auditor from having the same view as management. It does, however, allow the auditor to deviate where considered appropriate to do so.
   
   **IAIS**
   
   The IAIS supports the revised definition of a component to focus on the “auditor view”. The reason for identifying components is for the purpose of the audit and so it seems appropriate that there should be scope for the auditor to deviate from the view of management if required.

3. **Regulators and Audit Oversight Authorities**

   **CSA**
   
   Overall, we support the proposals

   **NASBA**
   
   We support the ED-600 requirement to take an “auditor view” of the group for the purposes of planning and performing the group audit.

   **UKFRC**
   
   Global businesses models continuously evolve in response to changing global trends, their effects on supplier, consumer and labour markets, geopolitical relationships and evolving technology. The implication of this is that many groups have increasingly complex structures, including with more extensive use of shared service centres. Auditors, therefore, need the flexibility to plan and perform their audits in a manner that will deliver consistently high quality work across many different group structures. As explained in our response to the ITC, in our view extant ISA 600 inhibits the flexibility required through its prescriptive mechanisms for obtaining audit evidence (see our response to question 8) and a definition of components that does not ally expand beyond the entity’s legal and reporting structure.
Along with the new risk-based approach, the change in the definition allows for audit teams to take into account the entity’s legal, reporting and operational structure in determining the most effective and efficient way to plan and perform the group audit. We therefore strongly support the revised definition of a component to focus on the “auditor view” of the entities and business units comprising the group for the purposes of planning and performing the group audit.

4. National Auditing Standard Setters

CNCC-CSOEC
Yes, we support the revised definition of a component to focus on the “auditor view” of the entities and business units comprising the group for purposes of planning and performing the group audit.

HKICPA
We agree with the revised definition of a component to focus on the “auditor view” to plan and perform a group audit. We believe this will result in a more prominent focus on identifying and responding to risks of material misstatements by the group engagement team based on the components identified, which do not necessarily align with how management views and manages the entities and business units.

NZAuASB
The NZAuASB supports the ED-600 requirement to take an “auditor view” of the group for the purposes of planning and performing the group audit.

5. Accounting Firms

CR
We support the revised definition of a component to focus on the “auditor view” of the entities and business units comprising the group for purposes of planning and performing the group audit. We believe this approach will be more functional than what exists in extant ISA 600 and help auditors more directly focus on risks of material misstatement.

DTT
As noted in the cover letter, DTTL supports the evolution of ED-600, including the shift to the “auditor view” of components, such that the proposed standard remains adaptable for use in both simple and complex group audit environments. DTTL believes that this flexibility is necessary given that the changing structure of groups (e.g., the use of shared service centers by groups) may result in the auditor to plan and perform the audit considering more factors than simply the entities or business units that make up a group (e.g., commonality of controls, IT systems, or centralized activities).

ETY
Yes, we do.

MNP
Yes, we support the revised definition of a component to focus on the ‘auditor view’ of the entities and business units comprising the group for purposes of planning and performing the group audit.
6. Public Sector Organizations

AGM

We believe that the proposed changes in the Exposure Draft (ED-600) are relevant. More particularly, we are in favour of the revised definition of “component” that takes into account the auditor’s point of view for the purposes of the planning and implementation of the group audit.

Yes, we support the revised definition of a component.

AGO

Yes. This approach provides the auditors with the flexibility to align their group audit procedures with their overall assessed risk of material misstatement rather than focus strictly on quantitative assessments, which may or may not be reflective of the audit risk.

GAO

We support the revised definition of component, as a focus on the “auditor view” is useful for purposes of planning and performing the group audit.

PAS

Yes, we support the revised definition of a component. The revised definition should help the group engagement team perform the audit in an efficient a manner possible (i.e., by taking into account commonality of controls, centralized controls where applicable

7. Member Bodies and Other Professional Organizations

AE

Yes, we support the flexibility provided to the auditor on how they view the group structure in order to design an efficient approach to planning and performing the group audit. We also believe that the group engagement team’s consideration of the risks of material misstatement shall encompass all of the entities and business units that comprise the group as mentioned in paragraph A12.

This flexibility is in line with revised ISA 315 which has not become applicable in many jurisdictions yet. Hence, as the application of revised ISA 315 develops, this experience will help auditors adapt to the new approach proposed by ED-600 for group audits.

CalCPA

Yes, we are supportive of allowing the auditor to use his judgement in defining components

CPAI

We support the revised definition of a component.

FAR

In general, FAR supports the response submitted by the Nordic Federation of Public Accountants and FAR therefore refers to this response.
ICAS
We welcome this revised definition to allow the auditor to exercise professional judgement in relation to the most effective and efficient audit strategy to be adopted in the particular circumstances.

ICPAS
Yes, we concur.

IIA
Yes.

IMCP
Yes, the standard is clear in the definitions of component

INCP
Yes, it is much more flexible; the definition is rather focused on how the auditor of the group’s financial statements determines, based on their insight of the group, the business units or entities to conduct both their planning procedures and their audit.

ISCA
We support the revised definition of a component under paragraph 9(b) to focus on the auditor’s perspective, as this provides greater flexibility for group auditors to decide how the audit should be best executed from a risk and efficiency standpoint instead of being confined to the concept of legal entities. This is especially useful for groups that may organise themselves by function, process, product or service etc. It could also allow for better focus on identifying, assessing and responding to the risks of material misstatement.

NRF
Although we believe that the auditor often will use the entity’s organizational and reporting structure in determining components of the group, we support the revised definition since it allows for more flexibility and hence is in accordance with a risk-based approach.

NYSSCPA
Yes, we believe the auditors’ focus in the proposed revised definition fits the objective of risk-based auditing.

8. Academics
HUNTER
We support the revised definition of a component to focus on the ‘auditor view’ of the entities and business units comprising the group for purposes of planning and performing the group audit in the ED-600. The ED-600 is focused on audits of group financial statements, which provides clarified standards for component auditors in group audits. Therefore, group auditors’ perspectives are important and considerable when revising the ED-600.
Q6 - Agree With Comments

1. Monitoring Group

IFIAR

While an auditor view of the entities and business units comprising the group for the purpose of planning and performing the group audit may provide more flexibility and potentially assist with the scalability of the standard, the level of complexity in practice for auditors may increase the risk of inappropriate application. There may be an increased risk of inappropriate scoping to achieve efficiencies in the audit at the cost of quality. For example, there is a risk that the group auditor may group entities and treat them as a homogeneous population when it is not appropriate and/or inconsistent with the facts and circumstances of the entities. We recommend the IAASB consider a requirement for the group engagement team (GET) to document its rationale when the auditor's view of the components differs from management's and the consequential impact of this on the risk assessment, testing of internal controls and substantive testing.

IOSCO

Consolidation Process

Due to the potential risk of fraud associated with the consolidation process, we believe the Board should include this as a separate consideration beyond the assessment of business components.

Definition of Component

Paragraph 9(b) defines a component as:

“Component – a location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit”.

Relatedly, paragraph A12 states that:

“Component: As noted in paragraph A4, the group engagement team uses professional judgment in determining the components for which audit procedures will be performed. Although the group engagement team may combine certain entities or business units for purposes of planning and performing the group audit, the group engagement team’s consideration of the risks of material misstatement of the group financial statements encompasses all of the entities and business units that comprise the group. In other words, the group engagement team’s view of components for the group audit and how entities or business units may be combined to facilitate the performance of the group audit considers all of the entities and business units that are included in the consolidation process.”

We believe the definition of component is too vague and inconclusive to drive consistent application of the standard by auditors. We believe that the definition and subsequent application by auditors would be enhanced if the Board were to first describe components of the business (we use the term “business component” for ease of reference) and then supplement that description with other process-oriented components (such as consolidation process or shared-service centers). While we agree that the group engagement team should use professional judgment in determining components, we also see the need for the Board to provide factors for consideration to assist auditors in identifying components.

In addition, we encourage the Board to set clear expectations of whether some audit procedures need to be performed on all components. If no audit procedures are to be performed at certain components (because no risk of material misstatement of the group financial statements is identified individually and in aggregate at
these components), the Board should provide guidance for the group engagement team to consider when evaluating aggregation risk – see further discussion on aggregation risk below.

Finally, we wanted to highlight a potential inconsistency in the definition of engagement team particularly considering an external expert and/or an external service provider. Paragraph A13 states, “The engagement team includes individuals from the group engagement team’s firm and may include individuals from a network firm, a firm that is not a network firm, or an external service provider”. (emphasis added). However, the definition of engagement team in ISA 220 (Revised) paragraph 10(d) in the February 2019 Exposure Draft states, “The engagement team excludes an auditor’s external expert engaged by the firm or a network firm”. (emphasis added). As such, it appears that under ISA 220 (Revised), an external expert engaged as a service provider would be excluded from the definition of engagement team, whereas, this same expert would be included in the definition of engagement team under ISA 600 (Revised). We encourage the Board to align the definitions between the two standards.

Matrix Organization Structure

Where management uses a complex structure to operate the business (for example, a matrix structure in which management simultaneously operates the business using two co-existing structures such as by product line as well as by geography—see IFRS 8, Operating Segments, paragraph 10), the group auditor should factor this level of complexity into its planning. The entity structure should be specifically addressed by the Board as it finalizes the standard.

Shared Service Center Considerations

Paragraph A6 states that “A group may also centralize activities or processes that are applicable to more than one entity or business unit within the group, for example, through the use of a shared service center. When such centralized activities are relevant to the group’s financial reporting process and audit procedures are performed at that location, the group engagement team may determine that the shared service center is a component for purposes of the group audit.”

We believe shared service centers should be viewed and assessed separately from business components in planning the group audit as the volume of transactions and the services provided can often be above and beyond traditional components as identified based on line of service or geography.

The Auditor View of Business Units and Entities

Paragraph 3 of the Paper states that:

“The group engagement team may plan and perform an audit of group financial statements based on the entities or business units as viewed by group management. Alternatively, the group engagement team may determine that it is effective and more efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not necessarily aligned with how group management views the entities or business units comprising the group.”

We believe the Board should emphasize within paragraph 3, the need for the auditor to first understand management’s view of the business prior to selecting an alternative approach to identifying components. Though this may seem to be a departure from the auditor’s traditional audit approach as required by other ISAs addressing areas such as understanding of the entity, risk assessment, control determination and testing, etc., we believe it can assist the auditor in gaining a better understanding of the entity by leveraging management’s understanding of its business and ultimately result in a better determination of components.
Once the auditor attains an understanding of group management’s view of the business, it may be necessary to consider additional factors, beyond how management runs the business, to better determine components. Such factors may include locations, functions or activities, as identified by the Board in the Paper in the proposed definition of “component”, that are not necessarily aligned with how group management views its business. However, other factors may also be relevant in the determination of components, for example, whether a risk of material misstatement due to fraud may exist, or interdependency between locations (i.e. when a single class of transactions is processed through multiple locations).

In addition, we are of the view that certain processes of the group, if present, are best assessed above and beyond the evaluation of business components. Examples of these processes are outlined below:

3. Regulators and Audit Oversight Authorities

CEAOB

ED 600 (paragraph 3) allows the auditor to plan and perform the group audit in a way that is not “[…] necessarily aligned with how group management views the entities or business units comprising the group”. There might be a risk of inappropriate scoping to achieve efficiencies in the audit at the cost of quality. It should be made clear in the standard that the group auditor should take into account the reporting processes of the group and the financial information as collected and prepared by the components defined by group management. Unless there are compelling reasons to deviate from the group structure - which have to be documented - the group engagement team’s view of the components for purposes of the group audit should be aligned to group management’s view. We suggest further clarifying the impact of this progressive approach on the auditor’s risk analysis, controls testing as well as audit approach and providing guidance on when bypassing the group structure may be appropriate.

CPAB

We acknowledge that an auditor’s view of the entities and business units comprising the group for the purpose of planning and performing the group audit may provide more flexibility and potentially assist with the scalability of the standard. This may increase the level of complexity in practice for auditors and could also increase the risk of inappropriate application. There is an increased risk of inappropriate scoping to achieve efficiencies in the audit at the cost of quality. For example, there is a risk that the group auditor may group entities and treat them as a homogeneous population when it is not appropriate and/or inconsistent with the facts and circumstances of the entities.

We recommend the IAASB consider including additional application material on scoping to assist auditors. It should also emphasize the requirement for the group engagement team to evidence their judgments where the auditor’s view of the components differs from management’s and its consequential impact on the risk assessment, testing of internal controls and substantive testing.

IAASA

ED 600 (paragraph 3) allows the auditor to plan and perform the group audit in a way that is not “[…] necessarily aligned with how group management views the entities or business units comprising the group”. It should be made clear in the standard that the group auditor should take into account the reporting processes of the group and the financial information as collected and prepared by the components defined by group management and they should evidence the professional judgments applied in reaching their conclusions as to the most appropriate scoping for audit purposes. We suggest further clarifying the impact of this progressive
approach on the auditor’s risk analysis and controls testing as well as audit approach and providing guidance on when bypassing the group structure may be appropriate.

**IRBA**

We support the revised definition of a component to focus on the “auditor view” of the entities and business units comprising the group for the purposes of planning and performing the group audit. However, we would like to highlight the practical challenges in reconciling to the management process where management’s conclusions on the components in a group may not be the same as the auditor’s conclusions on the components in the group. In such a scenario, who will be the envisioned component management? Further, the auditor may decide to aggregate subsidiaries into a component. In such a scenario, the IAASB is encouraged to give guidance as to who should be viewed as the component management from the auditor’s viewpoint. In any scenario where the auditor’s view of components differs from that of management, it may be challenging to determine at what level management takes responsibility for the financial information, approves such financial information for distribution or provides the auditor with management representations.

The IAASB should also consider additional guidance as to whether the group engagement team’s consideration of the risks of material misstatement of the group financial statements, as referenced in paragraph A12, has to be performed before or post consolidation entries. This is imperative as consolidation entries may eliminate items that could be an indicator(s) of error or fraud, if considered before the consolidation process.

**4. National Auditing Standard Setters**

**AICPA**

We support the revised definition of component to focus on the ‘auditor view’ for purposes of planning and performing the group audit. The use of the phrase ‘location, function or activity’ in this definition accommodates the many ways in which the group engagement team might view the group structure in designing the overall group audit strategy and group audit plan. The first two sentences of paragraph 3 should be moved to paragraph 2 because those sentences address how a group may be organized by management. Paragraph 3 would then become a standalone paragraph that focuses on the approach the auditor takes when planning and performing procedures.

Determining the Components for Which Audit Procedures Will be Performed

Paragraph A12 addresses the group engagement team’s process for determining the components for which audit procedures will be performed and how entities or business units may be combined when performing a group audit. It would be helpful to the auditor if that paragraph included an example, such as the following, to further illustrate the practical application of the guidance in paragraph A12.

A group has a number of locally managed standalone operating entities in North America, Europe, and Asia; however, the financial information is aggregated regionally for reporting purposes. The group engagement team has determined that the components will be the geographical regions for the purposes of planning and performing the group audit. Goodwill has been recorded on the books and records of the standalone operating entities. When performing audit procedures related to impairment of the aggregated goodwill balance on the group financial statements, the group engagement team determines that it will perform the further audit procedures at the components, because the impairment analysis is performed by management regionally.
AUASB
The AUASB supports the revised definition of a component to focus on the ‘auditor view’ of the entities and business units comprising the group for purposes of planning and performing the group audit.

The AUASB highlights that the “auditor view” definition of a component may lead to some practical implementation challenges which, with further considerations, could be avoided at the planning stage of the engagement. For example, when determining components, the AUASB believes that it is important for the auditor to consider the availability and accessibility of financial information, disaggregated at the appropriate level, for group audit purposes. The AUASB recommends including additional application material to paragraph A12 to take such considerations into account when determining the “auditor’s view” of a component.

CAASB
We support the approach of the ‘auditor view’ for components and believe this allows for greater flexibility in planning the group audit. However, we suggest the following changes.

Practicality of using the Auditor’s view
When the auditor’s view is different from how management analyzes financial information, the GET must consider whether financial information based on the auditor’s view will be available and whether management will be able to respond to audit queries. Application material is needed to remind the practitioner to consider the practicality of using the auditor’s view and the availability of financial information. The GET should also be able to identify which management (group or component level) can respond to their information needs.

Recognizing sub-groups
The application material related to the definition of component does not recognize that the component may also be a group. More complex groups can contain "groups within groups". The term "sub-group" is used in A3 to describe an entity or business unit, however ED-600 should more clearly recognize that a component may be a group and a group audit may be performed at the component level. In addition, it is unclear how the requirements of ED-600 would be applied by the GET for a component that is a group audit. For example, to what extent is the GET required to be involved in decisions made by the CA in auditing the group at the component level. Further guidance on these matters should be provided in application material.

IDW
In this context it is important to distinguish the definition of a component for group audit purposes from the definition of group financial statements (and its use of the terms “entities and business units” as described in paragraph 3 of the draft). The definition of group financial statements is inextricably attached to the existence of a consolidation process as defined in the draft and is designed solely to determine when the draft applies. In contrast, the definition of component serves to allow group engagement teams to design their audit approach so that the group audit is both effective and efficient.

While we believe that the group engagement team needs to have some flexibility as to how they identify components for the purposes of the group audit, the definition proposed in the draft and the related application material appears to underemphasize that group management may organize its financial reporting in a manner that is different from how its entities and business units within the group are structured. Paragraph A2 in extant ISA 600 provides some excellent examples of how management may structure the entities and business units within its group, but also that it may organize its financial reporting in different ways by geographic location,
function, process, product or service, or groups thereof. While in some cases the group engagement team may choose to group components differently for the purposes of the audit than management may have structured its group or organized its financial reporting, in many cases an effective and efficient group audit may be predicated upon the group engagement team identifying components in a manner similar to how group management has structured the group or organized its financial reporting.

Consequently, we believe the definition of component needs to be augmented to reflect the fact that often components are identified by the group engagement team through how group management structures its entities and business units, and the application material should emphasize that this structure or how management organizes the group’s financial reporting may often govern how group engagement teams identify components for group audit purposes. To this effect, some of the guidance noted above currently in paragraph A2 of extant ISA 600 should be reintroduced into the draft. However, clarity should remain in the application material that group engagement teams have the flexibility to depart from how group management structures its group or organizes its financial reporting to perform an effective group audit. Our suggested wording for the changed definition of component (also taking into account our response to Question 8) is “An entity, business unit, location, function, or activity (or groups or combinations thereof) determined by the group engagement team for the purposes of planning and performing the group audit.”

**JICPA**

We believe that the definition of “component” in the extant ISA 600 is not clear enough to determine whether an entity or business activity such as a shared service center falls under a component, and we understand ED-600 intends to clarify it. However, we believe the following points should be clarified.

**Definition of “Component Management” (Paragraphs 9(d) and A15)**

For example, in the case of a shared service center, the management who is responsible for the financial information preparation processes may differ from the management who is responsible for the business underlying the financial information. In such cases, it should be clarified what “component management” refers to, or both.

**Branches in the Consolidated Process (Paragraph A17)**

Based on the description in paragraph A17, if a branch prepares separate financial information to be aggregated into the financial statements, these financial statements fall under group financial statements in the light of the definition in paragraph 9(k). Nevertheless, we think that most companies prepare a certain kind of financial information for each branch (e.g., in a case where branches are treated as profit centers, they would prepare an income statement or equivalent financial information). Therefore, individual financial statement audits would also be defined as a group audit in most cases, but it should be clarified whether this is consistent with the intent of ED-600.

**KSW**

Due to the new concept of ED- 600 also the definition of the component has been adapted. We appreciate this point of view with higher focus on an auditor point of view. However, we do see also problems due to the structure (centralization/decentralization) of groups in practice. It will depend on the group’s organization rather than on the auditor view. The group engagement team is than responsible to define the components and also the risk assessment has to be performed on group level, with the problems described above.
From our experience in Austria, in the most cases a component will to be a legal entity due to local regulatory practice. We believe that this is the case in most of the engagements and we do not understand why this is unquoted. Therefore, we would appreciate to add this to the definition of a component.

Additional problems may arise in respect of the responsibility to sign the representation letter for functions or activity, as there might not be a clear management responsibility. Therefore, there should be guidance in ED-ISA 600.

MIA

However, there could be some inconsistencies arising from the revised definition of a component because it is a departure from the requirements of IFRS 8 Operating Segments on the need for management to disclose segment information in accordance with the view of the identified Chief Operating Decision Maker (‘CODM’). The imposition of an ‘auditor view’ could be contrary to the CODM view, which poses challenges during the audit of segment information. Paragraph A15 refers to component management based on what the auditor has defined as a component, but such component management may not exist. At the same time this could be alleviated by requiring a stand back approach by the GET to reassess if their assessment of components under the ‘auditor view’ would provide sufficient appropriate audit evidence over the group’s consolidation process and the audit of segment information.

Under the risk-based approach in ED-600 which closely aligns with the principles in ISA 315, the GET will need to make a preliminary determination of the risks of material misstatement of the group financial statements to determine components, but the GET may not be able to do this by itself and therefore, may need to involve component auditors as component auditors often have a more in-depth understanding of the component than the GET.

In doing so, there may be a need for greater clarity to ensure sufficient component auditor involvement to perform risk assessment procedures in identifying, assessing and responding to risks of material misstatement when the GET considers such involvement appropriate. The AASB would expect that there would be a framework on the involvement of component auditors, in particular, with respect to risk assessment when component auditors are involved.

Scoping - determination of components

We believe there is a lack of clarity with regards to the identification of components. To be able to determine the risks of material misstatement, and hence, determine the classes of transactions, account balances and disclosures that are significant to the group financial statements, the GET will need to make judgements about what they believe to be the components of the group in order to identify component auditors that they need to engage to ensure a robust and effective risk assessment as described above.

The current ED is premised on the new risk-based approach under ISA 315 (Revised 2019) in driving the determination of components. However, with the removal of the concept of significant components, there should be practical guidance to allow for consistent application.

The AASB generally supports the revised definition of a component to focus on the ‘auditor view’ of the entities and business units comprising the group for purposes of planning and performing the group audit. The additional flexibility provided by the revised definition enables auditors to adopt a group structure without restricting the ability to adopt alternative approaches for purposes of planning and performing the group audit.
NBA

This offers the necessary flexibility which is useful. However, we are concerned that the ED does not result in an effective and efficient audit if the group auditor uses a different structure than the entity itself. Legal structures cannot always be ignored. Then it might be difficult to determine how to organize the audit especially when component auditors are used (e.g. the sending of confirmation and representation letters: to which entities are they sent and by whom).

Some practical examples might help to clarify this.

5. Accounting Firms

BDO

We generally support the revised definition of a component that is focused on the ‘auditor view’. We believe this provides more flexibility in determining how to structure an audit of group financial statements. In many cases, we expect the identification of components by the group engagement team will still be aligned with the structure used by management, but allowing a departure from management’s structure may be appropriate in some circumstances.

There may, however, be some inconsistencies in what the auditor defines as a component versus how management reports on the different business units within the entity (for example in accordance with IFRS 8 Operating Segments). We recommend additional guidance on the application of ED-600 when the auditor’s definition of a component is different from how management structures the group or manages the business. We suggest the guidance also consider other implications where the auditor’s view is different, such as communications to those charged with governance. ED-600.A15 also refers to component management based on what the auditor has defined as a component, but such component management may not exist.

Further, under the ‘auditor view’ of entities and business units, there may be inconsistencies in how different engagement teams perform an audit and in deciding whether to use a component auditor. For example, in the situation where one group engagement team determines that there are no components using the ‘auditor view’, they would not need to set component performance materiality and work would be performed using the group performance materiality level. However, in situations where the group engagement auditor disaggregates the group financial statements across components, the audit work is performed using component performance materiality which is lower than group performance materiality. We believe additional guidance is needed in these circumstances.

BT

Yes. The ED gives the group auditor greater freedom to identify the relevant risks and populations for testing, rather than being forced to follow a legalistic or numeric model. The removal of the concept of significant components (15% “rule”) and the related guidance on the work required versus insignificant components and the potentially lower bar for those components is a substantive shift and the impact may only be apparent once the ISA is implemented. There is scope for innovation here, but that also implies inconsistency in approach and nature of evidence gathered by different audit firms for similar fact patterns. In principle, we agree that there are different ways to conduct a high quality group audit but the reaction of audit regulators will be a key influence on whether ED-600 in practice fosters innovation while supporting audit quality.
CG

The focus on the “auditor view” in the revised definition is right. However, the auditor view could give rise to the practical problem of identifying “component management” and “component auditor”. We encourage the IAASB to consider the practical consequences of applying the “auditor view” in developing the Application Material and Implementation Guidance.

EYG

Yes, we strongly support the revised definition of a component. We believe this will support enhancing quality in group audits by giving the group engagement team more flexibility to appropriately plan and perform the group audit and by driving a better focus on alignment of the group audit scope to the risks of material misstatement. Further, although the IAASB refers to this scoping as the “auditor view”, we strongly believe that this flexibility also allows the auditor to structure the audit more closely to the way in which management operates its business. This is because operating structures of today are evolving and can be very different from legal entity structures. There is an expectation from group management of large and complex groups that our group audits also evolve to be aligned to their way of operating rather than mirroring the audit to legal entities or consolidation structure.

We have the following specific observations in relation to the revised definition of a component:

Aggregation of locations, functions or activities – We support this change in the definition of a component (i.e., allowing the combination of location, function or activity), but we do not believe the consequences of such aggregation are sufficiently addressed in the guidance. Specifically, we believe guidance is needed on the effect of aggregation on the determination of component management, on component materiality, and in terms of selecting samples from a combined population that includes financial information from an auditor-defined aggregated component.

Disaggregation of locations, functions or activities – ED-600 focuses on the combination of locations, functions or activities (see Paragraphs A5, A12 and A15) in defining components. ED-600 should also recognize that the consideration of locations, functions or activities for components may also result in defining components at a level that is disaggregated from the group entity’s legal structure. Effectively, a component could be a segment of an entity or business unit or may be a function or activity that may operate across business units or across jurisdictions.

Examples - The revised definition would benefit from examples issued as implementation guidance to further assist auditors in understanding this change in the definition. These examples would help illustrate how this new definition could apply for different group audits of various structures and size.

As expressed in our response to Question 12, we believe that when the auditor’s view of components differs from “group management’s view”, the auditor’s required communication with those charged with governance in paragraph 56 (a) should include a discussion about the auditor’s view of components, including who the auditor views as “component management”.

GT

We support proposals that allow for greater flexibility in the auditor’s determination of what constitutes a component in a group audit engagement, and we believe that this flexibility could be helpful in facilitating some level of aggregation of components. However, it is not clear how this proposed amendment responds to the issues identified in the ITC. Further, we don’t believe that it will make a significant difference to scoping a group engagement in practice for the following reasons:
The auditor’s determination of components is naturally constrained by the information that management prepares or is able to prepare.

Performing the horizontal scoping across the components may require a level of disaggregation which is in direct contradiction to the ability to aggregate.

Determination, or aggregation, of components that is different to how management views the group, may make audit procedures, such as risk assessment or substantive analytical procedures difficult to perform where explanation and corroboration of variances is required from management.

We therefore recommend that consideration be given to the provision of implementation material that provides examples of situations where the auditor’s definition of a component may differ from management’s view of the business.

KPMG

We also consider the changes proposed regarding the definition of a group and component to be helpful, as these clarify the applicability of the standard to reflect the wide range of group structures that exist, as well as the introduction of material to drive the application of professional scepticism throughout the group audit. We also welcome the enhancements to reinforce the need for clear and regular communication between group and component auditors.

We believe the proposed revision to the definition of “component” will allow a more tailored approach to be taken by group engagement teams when planning their audits, in particular, that this permits group engagement teams to decide whether a “location, function or activity” represents a component. We believe this broader definition will permit the designation of shared services centres and other functions as components, which will enable group engagement teams to develop audit procedures that respond more specifically to the underlying activities of these components.

However, we note that there may be a lack of clarity as to when it would be appropriate to apply an auditor view that differs from management’s. The ED itself highlights that in these circumstances there may not be a management/governance function at the “component” and therefore certain aspects of the standard may be difficult to apply. We suggest that the Board further explore this situation and provide guidance as to how to apply such requirements in this scenario, and whether a group engagement team should consider whether there is identifiable “component” management as one of the factors in designating entities and business units as components.

MAZ

We generally agree with the revised definition of a component in paragraph 9(b) allows for greater auditor judgment in the scoping of a group audit and will hopefully improve the overall effectiveness and efficiency of such audits. However, while the revised definition adds some flexibility, we believe it will be used in only limited circumstances. The revised definition, does however, potentially increase the complexity of performing procedures for components that do not mirror “management’s view of the business”. The reporting and organizational structure of the business may not facilitate required aggregation of accounting data at the component level or provide a single management chain to address inquiries. Given the significance of this change in methodology, we suggest that the Board provide additional clarification or guidance as to how to address scenarios where the auditor’s determination of components does not conform with managements reporting structure beyond what is presently included in paragraph A12.
MAZUSA

We generally agree that the revised definition of a component in paragraph 9(b) allows for greater auditor’s professional judgment in the scoping of a group audit. However, while the revised definition adds some flexibility, we believe it will only be used in limited circumstances. The revised definition also potentially increases the complexity of performing procedures for components that do not mirror “management’s view of the business”. The reporting and organizational structure of the business may not facilitate aggregation of accounting data at the component level, or provide a single management chain, to address inquiries. Given the significance of this change in methodology, we suggest that the Board provide additional clarification or application material as to how to address scenarios where the auditor’s determination of components does not conform with managements reporting structure beyond what is presently included in paragraph A12.

MGN

We are neutral on the revised definition. We believe that in many circumstances, the auditor view of the entities and business units comprising a group will not substantially differ from management’s view.

We appreciate that in those circumstances where views do differ the new definition will afford auditors greater flexibility. This may be particularly useful where auditors wish to aggregate (or disaggregate) components and where there are shared service centres.

We do however have some concerns that implementation could cause some challenges with regard to risk assessment and identification of relevant risks and determining component materiality. There may also be practical challenges such as determining who component management would be (in relation to communication with management) if the auditor’s view of components differ from that of the client. Further, depending on financial reporting frameworks, there may in some cases not be appropriate financial information for the components per the “auditors’ view”.

NEXIA

We do not believe that the revised definition will make a significant difference for our group audits, as the group engagement team’s view of the structure of the business is unlikely to be very different from management’s.

United Kingdom 1

The definition is not clear as to which locations, functions or activities should be considered by the group engagement team.

Recommendation: more detail to be provided that would assist the group engagement team in applying their professional judgment in identifying components for which audit procedures will have to be performed due to their location, function or activities, for example whether it is of significance to the group, likely to include significant risks of material misstatement of the group financial statements, etc.

Q6 – The definition of a component is changed from “An entity or business unit for which financial information is separately prepared” to “A location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit”. The new definition may be more conceptually pure, but we are not sure this practically makes it any better. What if we draw a line around a component but there isn’t separately prepared financial information?
That said, the new definition would clearly capture situations where we ask an interstate Nexia firm to perform local stocktake procedures on inventory which is owned by our audit client. In that case, prima facie the documentation and other requirements between us the other Nexia office firm doing the stocktake look onerous. So, it is important that the IAASB is encouraged to use language that enables the requirements to be scalable.

AUSTRALIA/NEW ZEALAND
SOUTH AFRICA
PKF
We generally support the revised definition of a component however we believe that further clarification is required. The definition and the corresponding application guidance in ED-600 are still too loose as currently worded, which increases the risk of diverging interpretations amongst engagement teams.

PwC
Key recommendation 1: We recommend further emphasis is given to the importance of understanding the group’s structure, financial reporting processes, and systems as part of risk assessment.

This is important to help identify inherent risk factors that may affect the potential for risks of material misstatement across the group and the relevant controls that may be in place, as a basis for identifying components at which audit work will be required.

In our outreach with engagement partners, all participants talked about the importance of understanding the group structure. The structure of a group and its financial reporting processes and controls were seen as playing a significant role in determining how best to approach a group audit and the key judgements that need to be made around the involvement of component auditors in both risk assessment and performing further audit procedures to respond to risks.

We are supportive of providing group engagement teams with the ability to design the group audit in a manner that best supports audit quality, taking into account the group’s structure and circumstances. However, we believe the standard lacks sufficient clarity regarding the group engagement team’s thought process. Guidance is needed on the factors to consider in making key planning decisions when determining the overall group audit strategy and involvement of component auditors to ultimately obtain sufficient appropriate audit evidence on which to base the group audit opinion.

Further explanation is also needed of what it really means in practice to “take responsibility” for the key judgements around scoping, risk assessment and design of responses, while recognising the vital role component auditors play in most group audits.

Paragraph 50 of the explanatory memorandum outlines the Board’s view of how the risk-based approach to a group audit can be characterised, highlighting the judgements that need to be made about what, how, by whom, and where audit procedures will be performed in the group audit. Given the importance of these preliminary decisions in developing an overall group audit strategy, we believe that the proposed standard fails to give sufficient emphasis to the importance of the understanding of the group and financial reporting structure, and lacks sufficient guidance on the factors to consider in identifying the components at which audit work needs to be performed. Such judgements necessarily need to be based on a preliminary understanding of how management views and controls the business, taking into account the group, its structure, its financial reporting processes and system of internal control.
Our response to question 6 in the appendix provides further details.

We believe the standard lacks sufficient clarity regarding the group engagement team’s thought process and practical considerations in making key judgements in determining the overall group audit strategy, determination of components and involvement of component auditors.

The structure of a group and its financial reporting processes and controls play a significant role in determining how best to approach a group audit and the key judgements that need to be made around the determination of components, and involvement of component auditors in both risk assessment and performing further audit procedures to respond to risks of material misstatement. Such judgements necessarily need to be based on a preliminary understanding of how management views and controls the business, taking into account the group, its structure, its financial reporting processes and system of internal control. Different approaches may be justified depending on the group’s structure and circumstances.

We therefore recommend the standard gives further emphasis to the importance of understanding the group’s structure, financial reporting processes, systems and internal control as part of risk assessment procedures. This is important to help identify inherent risk factors that may affect the potential for risks of material misstatement across the group and the relevant controls that may be in place, as a basis for identifying components at which audit work will be required.

In providing that additional emphasis we recommend:

- Amending paragraph 24(c)(i) to add an additional reference to understanding “other relevant aspects of the design and implementation of the group’s information processing activities”; and
- Provide factors in application material for a group engagement team to consider in making key planning decisions, including the determination of the components of the group at which work needs to be performed.

Such factors referred to above would include:

- The nature and amount of assets, liabilities, and transactions executed at the location or business unit, including, e.g., significant transactions that are outside the normal course of business for the company or that otherwise appear to be unusual due to their timing, size, or nature (“significant unusual transactions”) executed at the location or business unit;
- The significance (materiality) of the entity or business unit’s financial information to the overall group financial statements;
- Locations at which relevant controls over group financial reporting are in operation; and
- The degree of centralization of records or information processing.

Please also see our response to question 8 where we elaborate on the considerations for involvement of component auditors in risk assessment and the design of responses to assessed risks at the identified components.

Having completed a robust understanding process and risk assessment, the group engagement team can make fully informed decisions about the final determination of components where further audit procedures are to be performed, based on the identified and assessed risks of material misstatement.

If the proposed changes we describe above are adopted, we support the proposed flexibility provided in the standard that the final determination of components may be designed by the group engagement team in a manner that is most effective for purposes of performing the further audit procedures.
RSM

Yes, we support the revised definition.

The focus on significant components in extant ISA 600 can lead to an approach whereby risks of material misstatements in non-significant components remain unaddressed. We believe that the revised definition of a component to focus on the ‘auditor view’ enables the group engagement team to apply professional judgment in the identification of risks of material misstatements and the related responses.

This will enhance the group engagement team’s understanding of the group and its environment and, in our opinion, lead to more focussed risk assessment and improved audit quality.

While we are fully supportive of this revised definition, we do believe that differences in the ‘auditor view’ and ‘management view’ of the structure of the components may cause confusion and recommend additional implementation guidance be provided for when the ‘auditor view’ and ‘management view’ of the structure of the components are not the same. This may be particularly challenging as auditors transition from extant ISA 600, with its focus on significant components, to the new risk based standard.

6. Public Sector Organizations

AGC

Yes, we support the focus on the auditor’s view of the entities and business units comprising the group for purposes of planning and performing the group audit. This focus is complementary to the risk-based approach. That being said, the application of this new concept could be challenging in some groups. Auditors may have difficulty obtaining information in a way that allows them to audit the group efficiently and effectively since the accounting and consolidation system most likely reflect the entity’s view of their structure and operations.

Also in some instances a group could manage and process transactions centrally for specific locations (for example all Canadian transactions managed at the group level in Canada) while the other transactions are managed and processed locally in different countries. Because the transactions are processed locally outside Canada, there is a consolidation process to aggregate the financial information of each country. If we look at the definition 9(b), in our example, Canada is a location like any other country and would end up being a component even if it is managed at the group level. If that is not the intent, the component definition could be more precise in specifying a “location, function or activity with transactions that are part of a consolidation process”.

AGSA

The definition in par 9 makes reference to a location, function and activity whereas in par 3 there is specific mention of entities or business units which is not included in the definition. The definition in par 9 (b) seems to be inconsistent with paragraph 3 which clearly details how the group may be structured and includes a collective reference being “entities or business units” however this is not used in the definition of a component. However, on the positive side these inclusions provide more explicit guidance to when a component will apply and is one of the areas where scalability is applied in that a component can exist even if there are no component auditors.
7. Member Bodies and Other Professional Organizations

**BICA**

Component as defined in the proposed standard in not in line with the proposed standard scope and paragraph 11. Paragraph 11 defines consolidation process with reference to entities or business units. Definition of components should therefore apply these wording to avoid ambiguity. What has been used to define components (location, function or activity) would be applied by the group engagement team to determine “business unit” as provide for in the scope of the proposed standard.

We therefore propose for the definition to be revised as follows:

“Component – An entity or business unit determined by the group engagement team for purposes of planning and performing audit procedures in a group audit.”

We agree with the proposal that component determination focus on the ‘auditor view’ of the entities and business units comprising the group for purposes of planning and performing the group audit. This will allow effective planning and application of audit procedures as deemed fit by the group engagement team.

**CAANZ-ACCA**

We generally support the revised definition of a component, although we received some feedback that the risk assessment process appears to be challenging. In our view the implementation of ISA 315 (Revised) will assist auditors becoming more proficient with the risk-based approach which in its turn will help them deal with ED-600. However, we suggest that implementation guidance is developed in this area to assist auditors making the adjustment in viewing a group in this way if in their judgement it is more appropriate to do so.

Feedback indicates that there may be some practical challenges in implementing this change which may make practitioners reluctant to consider moving away from the established view of a group, i.e. viewing it from a legal structure or internal management structure. Practitioners raised a concern that this is an area which is likely to lead to regulator challenge, for example, when in the last year’s group audit a component was deemed significant based on the extant approach, whereas this year based on the new approach no work is deemed necessary. Appropriate documentation will be key to the auditor documenting their assessment of the group and again, this is an area where implementation guidance may be useful.

Furthermore, the revised definition raises an important question on how the group auditor would determine who are the appropriate people to consider as being TCWG of a ‘component’ if using a different view of what is a component than business units or legal structure is determined to be more appropriate?

**CAQ**

Proposed definition of component – We suggest the Board provide additional clarification around the application of ED-600 in scenarios where the auditor’s definition of a component differs from how the entity’s management has structured or otherwise views the business.

We generally support the Board’s intent in revising the standard to provide the auditor flexibility to consider the many ways in which the group structure might be viewed in designing the most effective and efficient approach to planning and performing a group audit.

However, this is a significant change from existing practice and auditors may not fully understand the IAASB’s intent in moving from a “management view of the business”, which historically has been closely linked to discrete financial information, to an auditor view when scoping a group audit. Accordingly, we suggest that
the Board consider providing additional clarification as to the application of ED-600 in scenarios where the auditor’s definition of a component differs from how the entity’s management has structured or otherwise views the business. For example, paragraph A15 in the application and other explanatory material provides clarification of the definition of component management in the proposed standard; however, it is not clear how this definition should be applied in situations where the auditor combines multiple business units that have different management.

**CPAA**

We support the definition of component focusing on the auditor’s view, which will reflect the practicalities of managing the audit process. However, as explained in answer to question 4, we consider that the definition is too narrow. We agree that the auditor’s view of what is a component does not need to be aligned with legal, geographic or business lines used by the group or entity, but instead may be determined by “locations, function or activities”. The application material also notes that components may be determined based on commonality of information systems or internal controls. However, in seeking to provide flexibility in the definition of component the ED omits the possibility of aligning with “entities or business units”, which may themselves be based on legal, geographic or business lines, or aligning with “commonality of information systems or internal controls”. We think this may discourage the auditor from considering the legal form or other basis. Therefore, we suggest that these also be included in the definition as an alternative basis which may be used to identify the components.

We note that paragraph 57(b) requires documentation of the determination of components. This documentation will be particularly important when first implementing the standard, as the components identified may contrast markedly from components defined in the extant standard, and the components at which procedures are conducted may be quite different. Differences may also occur between years as the basis which the group engagement team can use to determine the components is much more flexible than under the extant standard. Further application material on documenting the determination of components would be useful.

**ECA**

Yes, in general.

Some experts had the following position:

It would be beneficial to subdivide the question into two parts:

The possibility for the auditor to define components for planning and performing the group audit – we support such a possibility

The revised definition of a component in para.9b) – we do not support it. This definition is not linked with para.9k) and should be corrected in appropriate way (See comments on Question 12)

**EFAA**

We support in general the revised definition of a component.

There is a risk, however, that the group auditor’s use of a different structure than the legal structure results in inefficiencies and practical difficulties, especially when component auditors are involved. For example, to whom are confirmation and representation letters addressed. Practical examples might clarify this.

**IBRACON**
We support the flexibility for the ‘auditor view’ in determining the components to perform the audit. However, we note that there may be a lack of clarity as to when it would be appropriate to apply an auditor view that differs from management’s. We suggest further information about how to apply the requirements in this scenario, and whether a group auditor should consider if there is recognizable component management as one of the factors in determining the components for the audit.

**ICAEW**

Our outreach suggests that the revised definition is unlikely to make a significant difference in terms of the approach to identifying components for many group audits where the group engagement team’s view of the structure of the business and that of management are unlikely to be widely different.

The revised definition does, however, afford auditors greater flexibility to use their judgement when aggregating components, considering sub-groups and dealing with shared service centres, though as noted in our response to question 4, there is a need for further guidance to provide greater clarity on how the standard applies to shared service centres and to cover entry-point challenges.

There will also be some practical implementation challenges with the new definition as part of a more focused risk-based approach to group audits and also in relation to determining component performance materiality – see our responses to questions 8 and 10.

**IPA**

The IPA supports the revised definition of a component based on an “auditor’s view”, however as noted in our response to Question 4, this definition is undermined by “overlay” of consolidation requirement (in particular the exitance of consolidation “eliminations”) and the application guidance at A17-A18.

**KICPA**

We support the revision of terms suggested as an entry point into group audits in ED-600.

However, the adoption of the revised ISA 600 in practice is expected to bring about following challenges. The management is the one who has the highest level of understanding on the location, function and activity of an entity, and the responsibility of preparing group financial statements, performing risk assessments and controlling risks go to the management. Then, describing “by auditors” in the definition of terms could mean that what is defined by auditors are irrelevant from risk assessments that are supposed to be appropriately performed by the management, and the role and duty of auditors increase as for the identification of components that cannot be performed by the management, thereby creating substantial difficulties to apply audits in “components” defined by auditors.

Consequently, audit procedures on what is defined by auditors (irrelevant from the management) could increase work burdens in practice, as we expect. To address such burdens, we believe the following would be necessary: (1) components, including those operated by the management, should be determined via deliberations between the management and auditors or (2) various examples to suggest criteria on components in which auditor’s judgments are exercised should be provided. For instance, various examples on how to determine components need to be provided, as there are some cases lacking clarity in how to determine components as for the combination of locations, functions or activities (e.g., ① an entity operates business units A and B, ② business unit A performs operations in Europe and Asia, and business unit B only in Europe, and ③ in Europe only HR function is performed at a shared service center and the rest functions
are performed at the respective jurisdictional level, and in Asia all of the functions are performed at the respective jurisdictional level).

**MICPA**

We support the revised definition of a component to focus on the auditor view of the entities and business units comprising the group for purposes of planning and performing the group audit, as it provides more flexibility for the group auditors to plan and perform the audit.

However, there may be challenges if the group auditors’ definition of a component is inconsistent with the view of the Chief Operating Decision Maker (CODM) as defined under IFRS 8. Application guidance should be provided to cater for such situations.

As articulated in our responses above, the input of the component auditors is critical in determining the risks of material misstatements in the group financial statements which in turn determines the identification and definition of components under the risk-based approach in view of their more detailed and in-depth knowledge and understanding of the component than the group engagement team. There should be application materials or a framework developed to set out the expected involvement of component auditors in this process.

**SAICA**

SAICA has noted the change in the definition of a ‘component.’ The new definition gives the group engagement team the option to determine whether it is more effective and more efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not necessarily aligned with how group management views the entities or business units comprising the group.

SAICA agrees with this change as the group structures in the modern-day business environment are not just driven by geographical locations or separate legal entities. Many businesses use shared service centres and other business considerations to structure their operations.

While SAICA agrees with this approach as it involves applying a questioning mind when assessing management conclusions and not readily accepting their views on the structure of the group, it is important that sufficient guidance is given in ED-600 and the application paragraphs on the actions that the group engagement team should take when they differ with group management on the structure of the group.

There is a risk that the group engagement team may not be able to obtain sufficient understanding of the group if a different view than management is taken and that actual areas of risk are missed. This risk may be even more prevalent on initial audit engagements where the group engagement team does not have sufficient industry knowledge. A mechanism that could be incorporated into ED-600 to mitigate this risk is to take a ‘stand-back’ approach where the group engagement team takes the group management’s view of the group structure initially, and after assessing the audit evidence, to conclude on the appropriateness of the group structure and set-up of the components.

Application paragraphs A4-A6 only give examples of when such differences in views with regards to the group structure may occur and do not go further to give guidance on how to address the possibility of differences in views. Practical challenges may arise where the group management’s and group auditor’s views of the group structure may be irreconcilable. For example, the processes and functions of the business may be structured in a way that only supports the management view of the group structure and the auditor could experience significant delays in obtaining audit evidence or even obtaining one set of financial information that management takes responsibility for, in a manner that supports the auditor’s views of the group structure. If
the IAASB considers such situations to be a restriction on access imposed by group management, SAICA recommends that ED-600 should explicitly state so.

**SMPAG**

Yes. Whilst we believe that the auditor will often use the entity’s organizational and reporting structure in determining components in a group audit, we support the flexibility for the auditor to choose a different way for categorization, where this is possibly more effective. Nevertheless, there is a concern about there being potential difficulties with some regulators with the focus on the ‘auditor view’.

**SRO AAS**

The approach used by the engagement team to identify components needs further improvement. The new definition of component suggests that components identified by the engagement team may be different from the actual structure of the group. In the event of such a difference, group management is not responsible for preparing financial information for a component identified by the group auditor that is not included in the group’s structure (see p. A5 of Draft 600). Consequently, the financial information of such a component will be disaggregated by the actual structural subdivisions of the group and it would thus be rather difficult to perform audit procedures on such a component. In addition, it would be difficult to identify management of the above component.

Para 9d of Draft 600 introduces the definition of component management. According to the logic of the standard, components are determined by the engagement team and not by the management of the audited group. Accordingly, a situation could arise where a component does not have any management who are responsible for the financial information to be audited.

**Q6 - Disagree**

6. Public Sector Organizations

**AGA**

I do not support the revised definition of a component auditor. ED-600’s definition of a component auditor states “A component auditor is part of the engagement team.” This addition to the definition of a component auditor adds increased complexity and is a concern for multiple reasons. First, independence is separately governed in individual jurisdictions and many jurisdiction include prohibitions for the “engagement partner and firm.” Due to the fact that independence rules correctly include “the firm,” if the component auditor is included as part of the engagement team then the component auditor’s firm would be prohibited from completing work for the entire group entity. In Canada this would create unnecessary difficulty. For example, firms audit many school jurisdictions across Canada which are consolidated into provincial government financial statements. If the firm is part of the consolidated provincial financial statements engagement team, as an auditor of an individual school jurisdiction, is that firm prohibited from providing their services to other consolidated entities, including health, government business entities, advance education institutions, etc.? Some jurisdictions may resolve this issue by having the rules of professional conduct provide a second definition of component auditor for independence considerations, however this creates increased confusion as the profession in that jurisdiction would be using two different definitions.

Second, by including the “component auditor is part of the engagement team,” a firm can take the position that “group engagement team” requirements within ED-600 are met when a component auditor completes the requirements because “a component auditor is part of the engagement team.” This creates the risk that the
group engagement team will not complete all required procedures. Therefore, I recommend “a component auditor is part of the engagement team” be removed from the definition of component auditor.

7. Member Bodies and Other Professional Organizations

WPK

No, we disagree. We believe that as described under extant ISA 600 A2 groups may also organise their reporting systems in various ways. Group management may for example decide to base their group financial reporting system on an organisational structure where the financial information is prepared separately by a parent entity and its subsidiaries. In other cases, group management may decide to organise their reporting systems across legal entities by functions, processes, products or services. We believe that the way how management organises the reporting system has significant repercussions for aspects like the completeness of financial information or the consolidation process. It is therefore highly relevant for the risk assessment consideration of the group auditor. Accordingly we believe that the group engagement team should follow a “management view” rather than an “auditor view” when defining the components for purpose of a group audit.

9. Individuals and Others

VERA

Para. 9b) - This definition is not linked with para.9k), para.A54, A87 etc. and should be corrected in appropriate way

Auditor’s view on defining components should be equal to the way financial information of the group is organized. If he defines components in any other way as it is mentioned in para.A4, he would not be able to appreciate their relative significance for the audit because of the lack of data and there may appear no component management at all.

Para.11 – Definition of component should be connected with the definition of «consolidation process».

The question is not correct and should be divided into two parts:

The possibility for the auditor to define components for planning and performing the group audit – I support such a possibility

The revised definition of a component in para.9b) – I do not support it. (See below. Comments on Question 12)
Q6 - No Comment

2. Investors and Analysts
   CRUF
   No Comment

3. Regulators and Audit Oversight Authorities
   MAOB
   No Comment

4. National Auditing Standard Setters
   ICAI
   No Comment

8. Academics
   AFAANZ
   No comment

   GRAHAM
   No Comment

   LI
   No Comment

9. Individuals and Others
   PITT
   No Comment