

**ASA 540**  
(December 2018)

## **Explanatory Statement**

# ***ASA 540 Auditing Accounting Estimates and Related Disclosures and ASA 2018-1 Amendments to Australian Auditing Standards***

Issued by the Auditing and Assurance Standards Board



**Australian Government**  

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**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Explanatory Statement**

The Explanatory Statement, ASA 540 and ASA 2018-1 are available free-of-charge on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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## **Reasons for Issuing Auditing Standard ASA 540 *Auditing Accounting Estimates and Related Disclosures***

The AUASB issues Auditing Standard ASA 540 *Auditing Accounting Estimates and Related Disclosures* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a Non-corporate Commonwealth Entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

The Auditing Standard conforms with ISA 540 *Auditing Accounting Estimates and Related Disclosures* issued by the International Auditing and Assurance Standard Board.

## **Purpose of Auditing Standard ASA 540 *Auditing Accounting Estimates and Related Disclosures* and Auditing Standard ASA 2018-1 *Amendments to Australian Auditing Standards***

ASA 540 *Auditing Accounting Estimates and Related Disclosures* (December 2018) represents the Australian equivalent of revised ISA 540 *Auditing Accounting Estimates and Related Disclosures* (October 2018) and replaces the current ASA 540 issued by the AUASB in October 2009 (as amended).

ASA 2018-1 makes amendments to the requirements and/or application and other explanatory material and/or appendices of Australian Auditing Standards as a result of the issuance of ASA 540 *Auditing Accounting Estimates and Related Disclosures*.

### **Main Features**

The revision of ASA 540 reflects recent enhancement to auditing accounting estimates and related disclosures developed by the International Auditing and Assurance Standards Board (IAASB). The improvements include:

- Addressing evolving audit risks relating to accounting estimates due to a more complex business environment;
- Addressing audit quality for accounting estimates and fostering improved exercise of professional scepticism; and
- Realising public interest benefits through improved communication and transparency.

ASA 2018-1 makes conforming and consequential amendments to Australian Auditing Standards as a result of the issuance of ASA 540.

### **Operative Date**

ASA 540 *Auditing Accounting Estimates and Related Disclosures* and ASA 2018-1 *Amendments to Australian Auditing Standards* are operative for financial reporting periods commencing on or after 15 December 2019. Early adoption of ASA 540 and ASA 2018-1 is permitted prior to this date.

## **Process of making Australian Auditing Standards**

The AUASB's Strategic Direction, inter alia, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

## **Consultation Process prior to issuing the Auditing Standards**

The AUASB has consulted publicly as part of its due process in developing the Auditing Standards. Exposure Draft ED 03/18 Proposed Auditing Standard ASA 540 *Auditing Accounting Estimates and Related Disclosures* and Exposure Draft ED 04/18 Proposed ASA 2018-2 *Amendments to Australian Auditing Standards* were issued in August 2018 with a 70-day comment period.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

## **Regulatory Impact Statement**

A Regulatory Impact Statement Preliminary Assessment (RIA) has been prepared in connection with the preparation of ASA 540 *Auditing Accounting Estimates and Related Disclosures*. The RIA has been cleared by the Office of Best Practice Regulation (OBPR).

## STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS

*Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011*

**Legislative Instruments:**      **Auditing Standard ASA 540 *Auditing Accounting Estimates and Related Disclosures* (December 2018)**  
**Auditing Standard ASA 2018-1 *Amendments to Australian Auditing Standards***

These Legislative Instruments are compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

### Overview of the Legislative Instruments

#### *Background*

The AUASB is a Non-corporate Commonwealth Entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

#### *Purpose of Auditing Standard ASA 540*

The purpose of ASA 540 is to conform with the equivalent revised international standard on auditing, ISA 540; and to replace the pre-existing auditing standard.

The purpose of ASA 2018-1 is to make consequential and conforming amendments to Australian Auditing Standards as a result of the issuance of ASA 540.

#### *Main Features*

The revision of ASA 540 include:

- Addressing evolving audit risks relating to accounting estimates due to a more complex business environment;
- Addressing audit quality for accounting estimates and fostering improved exercise of professional scepticism; and
- Realising public interest benefits through improved communication and transparency.

### Human Rights Implications

The Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

#### *Conclusion*

The Legislative Instruments are compatible with human rights as it does not raise any human rights issues due to the nature and content of the revised auditing standard.