

December 2018

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

Prepared by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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

Basis for Conclusions ASA 540 Auditing Accounting Estimates and Related Disclosures and ASA 2018-1 *Amendments to Australian Auditing Standards* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASA 540 Auditing Accounting Estimates and Related Disclosures and ASA 2018-1.

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CONTENTS

	<i>Page</i>
Background	5
Scope.....	5
Major Issue raised by respondents on Exposure and AUASB consideration of issue ...	6
Conclusion.....	6

BASIS FOR CONCLUSIONS

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

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis of Conclusions relates to, but does not form part of, ASA 540 Auditing Accounting Estimates and Related Disclosures and ASA 2018-1 *Amendments to Australian Auditing Standards*, and is not a substitute for reading the Standards.

Background

1. The International Auditing and Assurance Standards Board (IAASB) issued ISA 540 (revised) *Auditing Accounting Estimates and Related Disclosures* in October 2018. This project was initiated in response to developments in business environments and changes to accounting standards giving rise to new audit challenges. Further, the use of disclosures by investors, and the importance of disclosures related to accounting estimates continues to increase.
2. Further details regarding the development of the International Standard on Auditing (ISA), including the Basis for Conclusions prepared by the Staff of the IAASB, can be found on the IAASB's website: ISA 540 Basis of Conclusions.
3. In accordance with its mandates under section 227 of the *Australian Securities and Investments Commission Act 2001* and the Financial Reporting Council's (FRC) *Strategic Direction*, the AUASB's policy is to adopt the IAASB's ISAs, unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so.
4. In line with this direction, the AUASB issued Exposure Drafts ED 03/18 *Proposed Auditing Standard ASA 540 Auditing Accounting Estimates and Related Disclosures* and ED 04/18 *Proposed Auditing Standard ASA 2018-2 Amendments to Australian Auditing Standards* in August 2018 with comments due 15 October 2018. No Australian specific amendments were proposed in either Exposure Draft.
5. The AUASB issued a revised Australian Auditing Standard, ASA 540 *Auditing Accounting Estimates and Related Disclosures* in December 2018. As a consequence of the making of ASA 540 (revised), the AUASB issued ASA 2018-1 *Amendments to Australian Auditing Standards* which contained conforming amendments to ASA 200, ASA 230, ASA 240, ASA 260, ASA 500, ASA 580, ASA 700 and ASA 701.

Scope

6. This Basis for Conclusions applies to ASA 540 primarily, but is also relevant for ASA 2018-1, which made conforming amendments to:
 - (a) ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* (Issued October 2009 and amended to December 2015);
 - (b) ASA 210 *Agreeing the Terms of Audit Engagements* (Compiled);
 - (c) ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information* (Compiled);
 - (d) ASA 230 *Audit Documentation* (Issued October 2009 and amended to December 2015);

- (e) ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* (Compiled);
- (f) ASA 260 *Communication with Those Charged With Governance*;
- (g) ASA 500 *Audit Evidence* (Compiled);
- (h) ASA 580 *Written Representations*
(Issued October 2009 and amended to December 2015);
- (i) ASA 700 *Forming an Opinion and Reporting on a Financial Report*
(Issued December 2015 and amended to May 2017); and
- (j) ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*
(Issued December 2015 and amended to May 2017).

Major Issue raised by respondents on Exposure and AUASB consideration of issue

7. The adoption of international standards and any changes to adopted standards are governed by the AUASB's policies regarding convergence with IAASB standards and harmonisation with the standards of the NZAuASB. The policies and procedures incorporate "compelling reasons" tests which must be used to support changes to the international standards. Changes are made only when the AUASB is satisfied that there are persuasive reasons to do so.
8. In relation to the expectation of the auditor to audit the point estimate/range calculation in accordance with paragraph 27(b) of the standard, one stakeholder expressed a view that this proposed wording represented a blurring of the lines between the auditors' and management's responsibilities.

AUASB members acknowledged that this is a challenging implementation issue, however it is not an issue unique to the Australian jurisdiction and therefore was not considered to be a compelling reason to amend the standard. The AUASB do consider there should be implementation guidance in this area. On the basis of implementation guidance being developed, the AUASB agreed there was no compelling reasons identified requiring modification to ASA 540 for this matter

Conclusion

9. In reaching its conclusions, the AUASB considered all stakeholder feedback, including the significant issue outlined above.
10. The AUASB voted to approve and issue ASA 540 Auditing Accounting Estimates and Related Disclosures and ASA 2018-1 on 5 December 2018.

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