

ASA 540
(December 2018)

Explanatory Statement

ASA 540 Auditing Accounting Estimates and Related Disclosures

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

DISCLAIMER

This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Explanatory Statement

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: 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 *Legislative Instruments 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

The purpose of the Auditing Standard 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).

Main Features

This Auditing Standard contains differences from the revised ISA 540, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

The revision of ASA 540 reflects recent enhancement to auditing and 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.

Operative Date

ASA 540 *Auditing Accounting Estimates and Related Disclosures* is operative for financial reporting periods ending on or after 15 December 2019.

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 Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 03/18 Proposed Auditing Standard ASA Error! Reference source not found. *Auditing Accounting Estimates and Related Disclosures* was 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 Instrument: **Auditing Standard ASA 540 *Auditing Accounting Estimates and Related Disclosures***

This Legislative Instrument is 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 Instrument

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 *Legislative Instruments 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.

Main Features

The revision of ASA 540 reflects:

- 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

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues due to the nature and content of the revised auditing standard.