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Auditing Management Assertions: The Impact of SAS No. 106

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listing in paragraph .03. While the 13 assertions included in SAS No. 106 is a significant increase in number from the five assertions in SAS No. 31, the substance of the collective body of assertions is essentially the same. The increase in number can be explained primarily by the repetition of the same concepts in multiple categories in SAS No. 106. For example, while “completeness” appears as one assertion in SAS No. 31, it appears as three separate assertions in SAS No. 106 – once as a transaction-related assertion, once as a balance-related assertion and once as a sub-component of presentation and disclosure. Figure 3 shows how the 13 assertions from SAS No. 106 map neatly into the five assertions from SAS No. 31. In short, the 13 assertions enumerated in SAS No. 106 cover the same basic information that was previously covered more concisely in SAS No. 31.

While SAS No. 106 does not break much new ground in the management assertion area, the standard does provide a few enhancements to the prior guidance. One notable contribution is in the area of presentation and disclosure. The new guidance provides some additional detail about presentation and disclosure, and adds “understandability” as a component of presentation and disclosure. While presumably “understandability” has been an underlying assertion, this guidance makes that assertion explicit. Similarly,

while the concepts of transaction-related assertions, balance-related assertions and presentation and disclosure-related assertions are not new, the use of a formal classification scheme makes these more explicit.

Differential Guidance for Audits of Issuers vs. Audits of Non-Issuers

In 2003, the Public Company Accounting Oversight Board (PCAOB) took over responsibility for promulgating auditing standards for the audits of public companies (issuers), while the ASB of the AICPA continues to promulgate standards for the audits of non-public companies (non-issuers). Initially, the differences in the two sets of standards were minimal, since the PCAOB elected to adopt, on an interim basis, the then-existing auditing standards. However, every time either the PCAOB or the ASB issues new authoritative guidance, the gulf between the two sets of standards gets larger. This issue is particularly problematic for audit firms who conduct audits of both issuers

Figure 1: Management Assertions from SAS No. 31
Applicability: Audits of issuers; audits of all companies prior to 2006

Assertion (paragraph .03)	Items governed (as discussed in paragraphs .04 - .08)
Existence or occurrence	Existence – Account balances Occurrences – Transactions
Completeness	Account balances and transactions
Rights and obligations	Account balances
Valuation or allocation	Account balances
Presentation and disclosure	Components disclosed in the financial statements

and non-issuers, since keeping track of two distinct sets of audit standards could be confusing. So how will the differential management assertion guidance created by SAS No. 106 affect practitioners?

For audits of issuers, SAS No. 31 continues to provide the applicable guidance on management assertions, while SAS No. 106 is now the guidance applicable to audits of non-issuers. Fortunately, as the preceding examination of the two standards has shown, the practical differences in the two are minimal, so the potential for confusion should also be minimal. Practitioners should not see any real differences in the use of management assertions to obtain audit evidence. If anything, the guidance in SAS No. 106 serves to clarify and

Figure 3: Mapping of SAS No. 106 Assertions into SAS No. 31 Assertions

SAS No. 31 Assertions	SAS No. 106 Assertions
Existence or occurrence	Occurrence (transactions)
	Existence (balances)
Completeness	Completeness (transactions)
	Completeness (balances)
Rights and obligations	Rights and obligations (balances)
Valuation or allocation	Accuracy (transactions)
	Cutoff (transactions)
	Classification (transactions)
	Valuation and allocation (balances)
Presentation and disclosure	Occurrence and rights and obligations (Presentation and disclosure)
	Completeness (presentation and disclosure)
	Classification and understandability (Presentation and disclosure)
	Accuracy and valuation (presentation and disclosure)

Figure 2: Management Assertions from SAS No. 106
Applicability: Audits of non-issuers after 2006

a. Assertions about classes of transactions and events for the period under audit
1. Occurrence
2. Completeness
3. Accuracy
4. Cutoff
5. Classification
b. Assertions about account balances at the period end
1. Existence
2. Rights and obligations
3. Completeness
4. Valuation and allocation
c. Assertions about presentation and disclosure
1. Occurrence and rights and obligations
2. Completeness
3. Classification and understandability
4. Accuracy and valuation

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sharpen concepts that existed, but were not explicitly stated, in the previous SAS No. 31 guidance. That is good news for practitioners, as they prepare to enter the first audit season under the new management assertion guidance. ■

Endnotes:

1. The only notable difference between the assertions enumerated in SAS 106 and the assertions enumerated in ISA 500 involves assertion c. i. related to presentation and disclosure. Whereas ISA 500 makes an assertion about "disclosed events, transactions, and other matters

(emphasis added)" the corresponding assertion included in SAS No. 106 is limited to "disclosed events and transactions."

References:

American Institute of Certified Public Accountants (AICPA). *Statement on Auditing Standards (SAS) No.106: Audit Evidence*. New York, NY: AICPA (2006).

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International Auditing and Assurance standards

Board (IAASB). *International Standard on Auditing (ISA) 500: Audit Evidence*. www.ifac.org/IAASB/Pronouncements.php

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