

AUDIT SAMPLING: CAS 530

Definitions

- **Audit sampling (sampling)** – The application of audit procedures to **less than 100% of items within a population; all sampling units have a chance of selection** in order to provide the auditor with a reasonable basis to draw conclusions about the entire population
- **Sampling risk** – The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure
 - **It can lead to the conclusion that controls are more effective than they actually are or in the case of test of details, material misstatement does not exist when in fact it does, and vice versa**
- **Non-sampling risk** – The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk
- **Statistical sampling** – has the following characteristics:
 - **Random selection** of the sample items; and
 - The **use of probability theory** to evaluate sample results, including measurement of sampling risk

Sample Design, Size and Selection of Items for Testing

- Consider the **purpose of the audit procedure** and the **characteristics of the population** from which the sample will be drawn
 - Auditor should have an understanding of what constitutes a deviation or misstatement
- Determine a **sample size sufficient to reduce sampling risk to an acceptably low level**
 - The lower the sampling risk the auditor is willing to accept, the greater the sample size
 - Sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment
- Select items for the sample in such a way that **each sampling unit in the population has a chance of selection**
 - Methods of selecting samples are the use of
 - **Random selection** - applied through random number generators
 - **Systematic selection** - sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected; and
 - **Haphazard selection** - selects the sample without following a structured technique

Performing Audit Procedures

- Perform **audit procedures on each item selected**
- If the audit procedure is not applicable to the selected item, perform the procedure on a **replacement item** (i.e. **if a voided check** is selected while testing for evidence of payment authorization)
- If the auditor is **unable to apply the designed audit procedures, or suitable alternative procedures**, to a selected item, treat that item as a deviation in the case of tests of controls, or a misstatement in the case of tests of details
 - This usually happens when documentation relating to that item has been lost (a suitable alternative procedure could be inspecting subsequent payments in the case of a missing purchase invoice)

Nature and Cause of Deviations and Misstatements

- Investigate the nature and cause of any **deviations or misstatements identified**, and evaluate their effect on the purpose of the audit procedure and on other areas of the audit
- when the auditor considers a misstatement or deviation discovered in a sample to be an **anomaly**, obtain a **high degree of certainty** that such misstatement or deviation is not representative of the population by performing additional audit procedures

Projecting Misstatements

- Project misstatements found in the sample to the population
 - A misstatement that has been established as an anomaly may be excluded when projecting misstatements to the population (however, the anomaly still needs to be considered in the total misstatement amount)
 - **For tests of controls, no explicit projection of deviations is necessary** since the sample deviation rate is also the projected deviation rate for the population as a whole

Evaluating Results of Audit Sampling

- The auditor shall evaluate:
 - The **results of the sample**; and
 - Whether the use of audit sampling has provided a **reasonable basis for conclusions about the population** that has been tested