


Audit Sampling

CHAPTER 9



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Non-Statistical Sampling

Sampling does NOT have to be statistically based. It can be based on the application of auditor judgment. Such a sample is called a "non-statistical" sample.

EXAMPLE:
 Real estate company closes 10 large sales during the year. Each is "individually significant" and there is no other earnings activity.

Should we perform statistical or non-statistical sampling?
 Non-statistical: TEST 'EM ALL

Regardless of whether using statistical sampling or non-statistical sampling, need to DOCUMENT the determination of the sample as well as how selected.

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NOT WHAT YOU THOUGHT

Fyi- "Random" is probably NOT what you think it is!

If I give you a list of 100 items and you arbitrarily select 10 of them, is that a "random" sample from the 100 item population?

NO

What kind of sample is it?
 "Haphazard"

Random samples are selected based on application of a statistical model. Generally a firm utilizes third-party or proprietary software to perform this function because they are not hiring statisticians- they are hiring auditors!

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What is Audit Sampling?

- Applying a procedure to less than 100% of a population
- To estimate some characteristic of the population
 - Qualitative
 - Quantitative

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What does the opinion say?

Recall that the second paragraph is the "scope" paragraph and tells what the auditor did. It says:

...An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements...



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Advantages of Statistical Sampling

- Design efficient samples
- Measure sufficiency of evidence
- Objectively evaluate sample results



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Selection of Random Sample

- Random number tables
 - Random number generators
 - Systematic selection
- } **GENERALLY USE SOFTWARE**



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Requirements of Audit Sampling Plans

- When planning the sample consider:
 - The relationship of the sample to the relevant audit objective
 - Materiality or the maximum tolerable misstatement or deviation rate
 - Allowable sampling risk
 - Characteristics of the population
- Select sample items in such a manner that they can be expected to be representative of the population
- Sample results should be projected to the population
- Items that cannot be audited should be treated as misstatements or deviations in evaluating the sample results
- Nature and cause of misstatements or deviations should be evaluated



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SAMPLING FOR TESTS OF CONTROLS VS. SUBSTANTIVE TESTING

We can use sampling to test:

- Compliance with identified controls (AKA Test of Operating Effectiveness or "TOE")
- Identifying a sample for substantive testing

TOE DEVIATION: If the control you are looking for was not performed on an item, this means that the control is not operating effectively. Generally there is not a tolerable deviation when testing controls. If there is a deviation:

- Consider expanding sample to test controls of more items
- Consider increasing assessed "Control Risk", thus resulting in increased substantive testing

SUBSTANTIVE TEST DEVIATION: If the sample comes back with some deviation, that might be acceptable, depending on what the "Tolerable Misstatement" is (generally the sampling software utilized to make the sample will indicate the "tolerable misstatement" simultaneous with identifying the sample size). If in excess of tolerable misstatement:

- Increase sample size and/ or
- Consider revised approach to testing objective



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TOE SELECTIONS

NOT a rule, but to give you some perspective on guidelines common out there:

FREQUENCY OF APPLICATION OF

<u>CONTROL</u>	<u>SAMPLE SIZE</u>
Recurring	30
Daily	15
Monthly	2
Annually	1
System	1



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Audit Sampling for Tests of Controls

- Determine the objective of the test
- Define the attributes and deviation conditions
- Define the population to be sampled
- Choose an audit sampling technique
- Specify:
 - The risk of assessing control risk too low
 - The tolerable deviation rate
- Estimate the population deviation rate
- Determine the sample size
- Select the sample
- Test the sample items
- Evaluate the sample results
- Document the sampling procedure



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Factors Affecting Sample Size

- Risk of incorrect rejection
- Risk of incorrect acceptance
- Tolerable misstatement
- Characteristics of the population

**SUBSTANTIVE TEST SAMPLES NEVER LESS
THAN 20 ITEMS.**



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