

Audit Sampling

Table of Contents

Introduction	1
The Development of Audit Sampling	1
The Significance of Audit Sampling	2
The Purpose of This Guide	2
Audit Sampling Guidance for Compliance Audits.....	5
Chapter 1 – Characteristics of Audit Sampling	7
Learning Objectives	7
Introduction.....	7
Audit Sampling Defined.....	7
Procedures That May Not Involve Audit Sampling	8
Inquiry and Observation.....	8
Analytical Procedures	8
Procedures Applied to Every Item in a Population	8
Some Tests of Controls May Not Involve Audit Sampling	9
Tests of Controls When Extrapolation Is Not Intended.....	9
Procedures That Do Not Evaluate Characteristics.....	10
Untested Balances.....	10
Tests of Automated IT Controls.....	10
Sampling and Nonsampling Audit Procedures Distinguished.....	10
Terminology Used in This Guide	11
Reliability or Confidence Level	11
Sampling Risk.....	12
Precision.....	12
Review Questions.....	13
Review Answers	14
Chapter 2 – The Audit Sampling Process.....	15
Learning Objectives	15
Introduction.....	15
Purpose and Nature of Audit Sampling.....	15
How Audit Sampling Differs From Sampling in Other Professions.....	15
Evaluation of Audit Samples	16
Types of Audit Tests	16
Tests of Controls.....	16
Substantive Procedures.....	17
Dual-Purpose Tests	17
Risk	17
Sampling Risk.....	18
Nonsampling Risk.....	18
Nonstatistical and Statistical Sampling	19
Planning the Audit Sampling Procedures	20
Types of Statistical Sampling Plans.....	21
Attributes Sampling.....	21
Variables Sampling.....	22
Relating Balance Sheet and Income Statement Sampling	22
General Implementation Considerations.....	23
Continuing Professional Education.....	23
Sampling Guidelines	23
Use of Specialists	23
Supervision and Review.....	24
Review Questions.....	25
Review Answers	26

Table of Contents

Chapter 3 – Nonstatistical and Statistical Audit Sampling in Tests of Controls	27
Learning Objectives	27
Introduction.....	27
Determining the Test Objectives	27
Defining the Deviation Conditions	28
Defining the Population	28
Defining the Period Covered by the Test.....	29
Initial Testing	29
Estimating Population Characteristics	30
Considering the Completeness of the Population	30
Defining the Sampling Unit.....	31
The Role of Walk-throughs	31
Determining the Method of Selecting the Sample	32
Simple Random Sampling.....	32
Systematic Sampling	33
Haphazard Sampling	33
Block Sampling.....	33
Determining the Sample Size.....	34
Considering Sampling Risk in Assessing Controls Effectiveness	34
Considering Other Evidence in Determining Risk of Concluding Controls Are More Effective Than They Actually Are (Overreliance) and Tolerable Rate of Deviation	36
Considering the Risk of Concluding Controls Are More Effective Than They Actually Are (Overreliance) for Multiple Controls Addressing the Same Control Objective	36
Determining the Tolerable Rate of Deviation	36
Considering the Expected Population Deviation Rate.....	38
Considering the Effect of Population Size.....	38
Small Populations and Infrequently Operating Controls.....	39
Considering a Sequential or a Fixed Sample Size Approach	40
Developing Sample Size Guidelines.....	40
Performing the Sampling Plan.....	40
Voided Documents	40
Unused or Inapplicable Documents.....	41
Mistakes in Estimating Population Sequences.....	41
Stopping the Test Before Completion.....	41
Inability to Examine Selected Items.....	41
Evaluating the Sample Results.....	42
Calculating the Deviation Rate	42
Considering Sampling Risk	42
Considering the Qualitative Aspects of the Deviations.....	43
Extending the Sample When Control Deviations Are Found	44
Assessing the Potential Magnitude of a Control Deficiency.....	44
Reaching an Overall Conclusion	46
Documenting the Sampling Procedure	46
Review Questions.....	48
Review Answers	50
Chapter 4 – Nonstatistical and Statistical Audit Sampling for Substantive Test of Details	53
Learning Objectives	53
Introduction.....	53
Determining the Test Objectives	53
Defining the Population.....	54
Considering the Completeness of the Population	55
Identifying Individually Significant Items	55
Defining the Sampling Unit.....	55
Choosing an Audit Sampling Technique.....	56
Selecting the Sample.....	56
Determining the Sample Size.....	57

Table of Contents

Considering Variation Within the Population.....	58
Determining the Acceptable Level of Risk	59
Considering Tolerable Misstatement	62
Performance Materiality and Tolerable Misstatement	62
Considering the Expected Amount of Misstatement.....	67
Considering the Effect of Population Size.....	68
Relating the Factors to Determine the Sample Size.....	68
Performing the Sampling Plan.....	72
Evaluating the Sample Results.....	72
Projecting the Misstatement to the Population.....	72
The Sufficiency of Sampling Evidence for Proposing Adjustments.....	76
Negative Confirmations.....	76
Interim Sample Results.....	77
Considering Sampling Risk at the Test Level	77
Misstatements Not Projected	79
Documenting the Sampling Procedure	80
Review Questions.....	81
Review Answers	84
Chapter 5 – Nonstatistical Sampling Case Study	89
Learning Objectives	89
Introduction.....	89
Determining the Sample Size.....	90
Evaluating the Sample Results.....	91
Review Questions.....	93
Review Answers	94
Chapter 6 – Monetary Unit Sampling	95
Learning Objectives	95
Introduction.....	95
Selecting a Statistical Approach	96
Advantages	96
Disadvantages.....	96
Defining the Sampling Unit.....	97
Selecting the Sample.....	98
Determining the Sample Size.....	99
Formula Method—No Misstatements Expected.....	100
Formula Method—Some Misstatements Expected	100
Evaluating the Sample Results.....	102
Sample Evaluation With 100 Percent Misstatements.....	102
Sample Evaluation With Less Than 100 Percent Misstatements.....	103
Quantitative Considerations	105
Qualitative Considerations	106
MUS Sampling Case Study.....	106
Selecting the Sample.....	107
Evaluating the Sample Results.....	107
Review Questions.....	109
Review Answers	110
Chapter 7 – Classical Variables Sampling.....	113
Learning Objectives	113
Introduction.....	113
Selecting a Statistical Approach	113
Advantages	113
Disadvantages.....	114
Types of Classical Variables Sampling Techniques.....	115
Mean-Per-Unit Approach	115

Table of Contents

Difference Approach	115
Ratio Approach	115
Choosing a Classical Variables Sampling Approach.....	115
The Ability to Design a Stratified Sample.....	116
The Expected Number of Differences Between the Audited and Recorded Amounts	116
Required Information	116
Determining the Sample Size.....	117
Considering Variation Within the Population.....	117
Calculating the Sample Size	117
Evaluating the Sample Results.....	119
Classical Variables Sampling Case Study	121
Review Questions.....	125
Review Answers	126
Appendix A – Attributes Statistical Sampling Tables	129
Learning Objectives	129
Using the Tables.....	129
Applying Nonstatistical Sampling for Tests of Controls	130
Basis for Tables A-1 – A-4	131
Review Questions.....	134
Review Answers	135
Appendix B – Sequential Sampling for Tests of Controls	137
Learning Objectives	137
Example of a Sequential Sampling Plan.....	138
Comparison of Sequential Sample Sizes With Fixed Sample Sizes	138
Review Questions.....	140
Review Answers	141
Appendix C – Monetary Unit Sampling Tables.....	143
Learning Objectives	143
Review Questions.....	147
Review Answers	148
Appendix D – Ratio of Desired Allowance for Sampling Risk of Incorrect Rejection to Tolerable Misstatement	149
Appendix E – Multilocation Sampling Considerations	151
Learning Objectives	151
Review Questions.....	153
Review Answers	154
Appendix F – Case Study Using Software to Plan and Evaluate a Classical Variables Sample	155
Appendix G – Glossary	163
Appendix H – Overview of Statements on Quality Control Standards.....	171
Learning Objectives	171
Communication of Quality Control Policies and Procedures	171
Elements of a System of Quality Control	172
Leadership Responsibilities for Quality Within the Firm (the “Tone at the Top”).....	172
Relevant Ethical Requirements	173
Acceptance and Continuance of Client Relationships and Specific Engagements.....	173
Human Resources	174
Engagement Performance	175
Monitoring.....	176
Documentation of Quality Control Policies and Procedures	177

Table of Contents

Review Questions.....	178
Review Answers	179
Appendix I – Schedule of Changes Made to the Text From the Previous Edition	181
Index of Pronouncements and Other Technical Guidance.....	183
Index	185