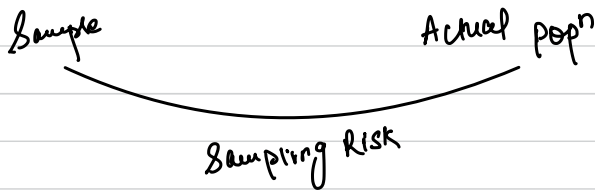


SA 530: Audit Sampling (Simple + logical)



Sampling Risk (Erroneous conclusion on population)

I. In case of,

ToCs concluded → controls are **more effective** than actual

or

ToCs concluded → **M.M. does not exist** when it does

• leads to **inappropriate** opinion.

• Affects audit effectiveness ^{purpose}

• over/under **reliance** on controls.

II. In case of,

ToCs concluded → controls are **less effective** than actual.

or

ToCs concluded → **M.M. exists** when it does not

• leads to **additional work**.

• Affects audit efficiency.

• over/under **reliance** on controls.

Sample

Design
consider audit purpose
&
population characteristics.

• Stratification

• value weighted selection

Size

Sufficient to reduce
Sampling risk to
acceptably low level.

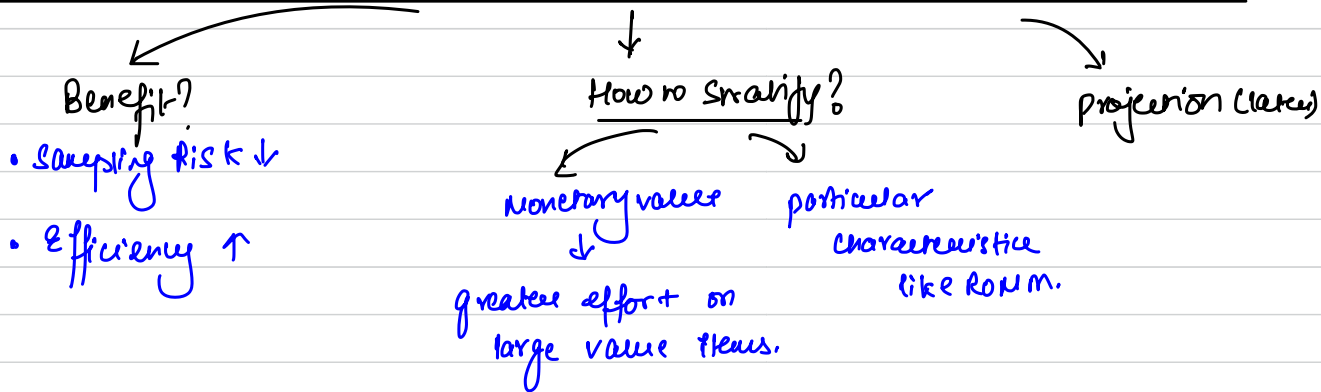
Selection

In a way that each
Sampling unit has a
chance of selection.

Stratification

Debtors ₹50,00,000 [Small groups → ^{plural} Strata / ^{singular} Stratum]

Monetary value			Particular characteristic. [High Risk]		
> ₹10 L	xxx	→ 100%	Overdue > 3yrs	xxx	→ 100%
7.5L - 10L	xxx	→ 75%	2-3 yrs	xxx	→ 75%
5L - 7.5L	xxx	→ 50%	1-2 yrs	xxx	→ 50%
2.5L - 5L	xxx	→ 25%	6m - 1yr	xx	→ 25%
< 2.5L	xxx	→ 10%	< 6m	xbx	→ 10%



• Value weighted selection [Identify → sampling units → individual monetary units]

Debtors ₹10,00,000

Listing	₹	Excel	Sort (H → L)	₹
A	5,00,000		A	5,00,000
B	1,00,000		D	2,00,000
C	1,50,000		C	1,50,000
D	2,00,000		B	1,00,000
E	50,000		E	50,000
				<u>10,00,000</u>

85% comfort

Difference?

- Random → Random No. Generator [computer software]
- Haphazard → Auditor's judgment ✓

o Systematic selection / Interval sampling

eg popⁿ size = 5000 items
Sample size = 100 items.

Sample interval = $\frac{5000}{100} \rightarrow$ Every 50th item.



Performing Audit Procedures

- ① Perform audit procedures \rightarrow appropriate to purpose on \rightarrow selected item
- ② If audit pro. is. \rightarrow N.A. on selected item, apply pro. on replacement item.

eg Purpose [Test Bank Payments Authorisation] \rightarrow Selected sample of cheques
 \downarrow
cancelled cheque
 \downarrow
Another proper cheque.

③ If auditor unable to apply $\left\{ \begin{array}{l} \text{Audit pro.} \\ \text{or} \\ \text{alternate audit pro.} \end{array} \right.$ to selected item.
 \downarrow
(Mistake)
Treat it as
 $\swarrow \quad \searrow$
Deviation for T.O.S. & Misstatement for T.O.S.

eg Testing Debtor \rightarrow confirmation x \Rightarrow 'misstatement'
 \rightarrow (Alt. pro.) Invoice / subsequent receipts x

St. Structure

Debtors £20,000,000 [for simplicity, whole value of Dr D&C. assumed to be misstated]

Name	£	Testing Results	Investigate (nature & cause of misstatement)
A	500,000	✓	-
D	* 2,000,000	X	<p>Anomaly (CAAE)</p> <ul style="list-style-type: none"> • Only foreign Dr. → issue with forex conversion. • Co. has not applied Revenue recognition principle properly. This issue can be with other debtors also.
C	1,500,000	X	
B	1,000,000		
E	50,000		
	<u>10,000,000</u>		

$$\text{Estimated misstatement} = \frac{(2,000,000 + 1,500,000)}{8,500,000} \times 10,000,000$$

$$= 4,117,650 \text{ wrong}$$

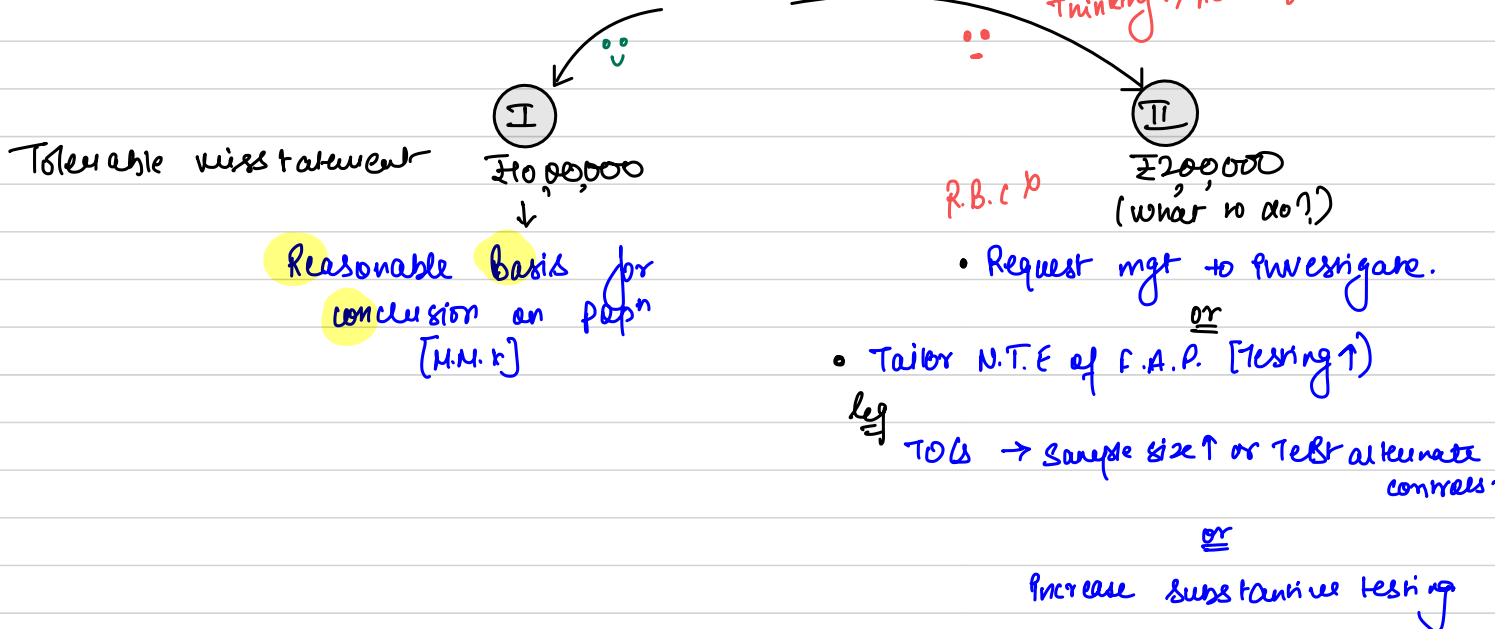
Right way,

$$\text{Estn. misstatement} = \text{Anomaly} + \text{Projected misstatement}$$

$$= 2,000,000 + \frac{1,500,000}{6,500,000 (8L-2L)} \times 8,000,000 (10L-2L)$$

$$= 2,000,000 + 1,846,150$$

$$= 3,846,150$$



Strates.	Pop'n	Sample size	Misstaterments	Proj. miss.
1	1000	400	100	250
2	2000	500	250	1000
3	3000	600	400	2000
	<u>6000</u>	<u>1500</u>	<u>750</u>	<u>3,250</u>

Projected miss.? $\frac{750}{1500} \times 6000 = 3000$

Right way

ISA 230: Audit Sampling [1 pg. Revision]

• **Sampling**: A. pro. \rightarrow $< 100\%$ population \rightarrow R.B.C. about popⁿ (Reasonable Basis for Conclusion)

• **Sampling Risk** • **Erroneous conclusion**

- 1. **Tols** \rightarrow controls \uparrow effective than actual
- **Tods** \rightarrow mm \times exist but it does not

Affects Audit efficiency? \rightarrow wrong opinion

2. **Tols** \rightarrow Ics \downarrow effective than actual \rightarrow \uparrow work \rightarrow Audit efficiency?

- **Tods** \rightarrow mm exist but it does not

• **Tolerable misstatement**: Monetary Amt \rightarrow set by auditor \rightarrow Assurance \downarrow
(\leq P.M.) \times exceeded by actual miss.

• **Sample Design**: Nature of popⁿ & purpose

• **Sample Size**: \downarrow Sampling Risk • **Sample Selection**: Each item \rightarrow chance of selection.

I. **Performing Audit Pro.**: Each item selected \rightarrow \times Applicable \rightarrow Replacement item

- \times A. pro. | Alt. pro. \rightarrow Tols (Deviation) \equiv Tods (Misstatement)

II. Investigate (Nature & cause)

• Evaluate possible effect \rightarrow Extreme rare circumstances \rightarrow Anomaly (\times affect remaining popⁿ)

\downarrow
[SAAE]

III. Projected misstatements (Tods)

• Broad view of scale of miss. \rightarrow Exclude Anomaly \rightarrow [Est.] Anomaly + Proj. miss.

IV. Reasonable Basis for conclⁿ on Population (RBC)

\checkmark \times (Est. miss. $>$ Tolerable miss.)
(know Actual miss.)

mgt. investigate \equiv Tailor NTE of CAP.

- Tols. \uparrow Substantive Testing.
- \uparrow sample size
- Another control.