Meaning of Sampling

- Audit sampling refers to application of audit procedure to less than hundred percent of the population.

- sampling must be done in such a way that every item must have equal chance of selection

- audit sampling provides a reasonable basis to the auditor to draw conclusion about the entire population from which sample is selected

Limitation of Traditional Approach

- Traditional approach of auditing was economically wasteful.
- In traditional approach, all the transactions were checked and this approach was inefficient time, consuming and costly
- routine errors and frauds have diminished due to formal internal controls
- Also, routine checking often does not reveal material issues

Risk based audit approach

- modern audit approach focuses on principles and controls
- It has reduced non-consequential routine checking
- It allows auditor to focus on area of high risk and importance

1. Accounting System — (1)
2. Internal Control —

3. Areas — Sampling Not Suitable (2)

4. Sampling Method
5. Stratification — Classified. (3)
6. Sample Size

7. Unbiased
8. Errors — Proper Analysis (4)

Population

Example: If an auditor aims to test the existence and accuracy of sales transactions for a company during the financial year 2022-23, the **population** would be all sales transactions recorded by the company in that period.

Sampling Unit

Example: In the context of the above population, a **sampling unit** could be an individual sales invoice. Each invoice represents a single unit within the overall population of sales transactions that the auditor might select for testing.

Auditor — Overstatement — A/cs Payable

— A/c Payable Closing

Auditor — Understatement — A/c Payable

A/c Payable Closing

Sampling Process

1. Sample Design
2. Sample size
3. Sample Selection
4. Audit Procedure
5. Deviation — Nature & cause.
6. Projection
7. Evaluation — Conclusion About the entire Population

Characteristics

Appropriateness

- Appropriate means the population from which the samples are drawn shall be ***relevant*** for the specific ***objective***. Auditor will choose the sample and test it and then will project the results on the entire population.

- Appropriateness will include consideration of the direction of testing.

- For example, if the auditor's objective is to test for overstatement of accounts payable, the population could be defined as the accounts payable listing.

    - Reasoning: If the auditor wants to see if liabilities have been recorded too high, they look directly at the liabilities themselves the accounts payable. By examining the entries in the accounts payable listing, the auditor can check if each liability is valid and accurate, ensuring no overstatement.

- On the other hand, when testing for understatement of accounts payable, the population is not the accounts payable listing but rather subsequent disbursements, unpaid invoices, suppliers' statements, unmatched receiving reports or other populations that provide audit evidence of understatement of accounts payable;

Reasoning: When testing for understatement, the auditor looks for liabilities that should have been recorded but weren't. The accounts payable listing won't show these missing liabilities because it only includes what has already been recorded. Instead, by examining payments made after the year-end, unpaid invoices, and other documents, the auditor can find

Sampling Process

1. Sample Design
2. Sample Size
3. Sample Selection
4. Audit Procedures
5. Nature and Cause of Deviation
6. Projecting
7. Evaluating Results of Audit

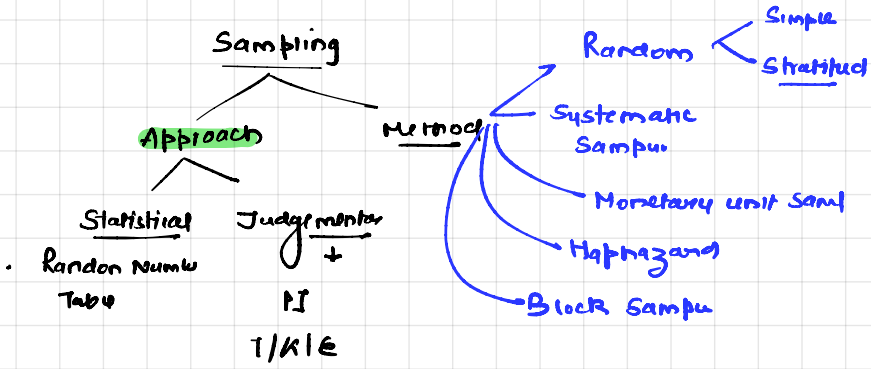
Sample Design

While designing an audit sample auditor should consider the

- ***purpose*** of audit ***procedure*** and
- ***characteristic*** of ***population*** from which the sample will be drawn
- The auditor first considers
  - the specific objectives to be achieved and
  - the combination of audit procedures which is likely to best achieve those objectives.
- Auditor has to clearly define what will be considered as a misstatement. It will help the auditor in projecting the misstatement in the population.
  - For example - In a test of details relating to the existence of accounts receivable, such as confirmation, payments made by the customer before the confirmation date but received shortly after that date by the client, are not considered a misstatement.

- Assessment of characteristic of population in Tests of Controls
  - Involves estimating the expected Rate of deviation based on control design and implementation.

- Assessment of characteristic of populationTests of Details
  - Involves estimating the expected amount of error in the population.
  - Influences the decision on examination extent; high expected errors may warrant 100% examination or large sample size.



Problem
Solution
Attitude

Skill > degree

degree w/o skill = D

Re
=
r

performing audit procedures

- Appropriate audit process (For inventory valuation and existence physical inspection, documentation review, reconciliation with ledgers, valuation assessment, analytical procedures) should be performed on the samples selected.
- If audit procedure is not applicable for a selected item, perform audit procedures on replacement item
- If unable to apply designed audit procedure or suitable alternative procedures treat that item as deviation or MS
- Investigate nature and cause of deviation or MS

Nature and cause of deviation and misstatement

- Investigate nature and cause of deviation and misstatement identified
- Evaluate possible effect
    - on purpose of audit procedure
    - on other areas of the audit
- In case of anomaly
    - obtain high degree of certainty by obtaining SAAE that such MS or deviation is not representative of the population
- Anomaly
    - MS or deviation that is demonstrably not representative of MS or deviation in a population

projecting MS

- To obtain a broad view of scale of MS
- projection may not be sufficient to determine and amount to be recorded. The auditor recognizes that while projection provides a broad view, it might not accurately reflect the precise amount of misstatement to be recorded in the financial statements
- Anomaly may be excluded when projecting misstatement to population
- Effect of anomaly if uncorrected needs to be considered in addition to other misstatements
- projection of deviation is not necessary in case of test of control
    - sample division rate will be the project division rate for population as a whole

Evaluating results of audit sampling

Evaluate results and determine whether audit sampling provided reasonable basis for inclusion about the population that has been tested

1. Statistical Sampling

•) Random Selection of Sampling Unit
- Every unit have equal chance of selection
- Random Number table is used

•) Use of Probability theory — Measure Sampling Risk / Evaluate Sample Result
Analysing Random events — Selection Sample
& determining Likelihood of various outcome
→ Misstatement
→ Correct
Projection

- Mathematical and statistical methods
- More scientific . 100000

Sample Size ← . 500 Sample Select
- Sufficient to Represent total transaction
- Determined through formula

Considering .
- Total Number of transaction.
- Desired Level of Confidence 95%
- Acceptable Margin of error 5%.

- Widely used when large number of similar items are there for example, in case of trade receivable
- No personal bias
- Projection is more reliable

- Non_statistical sampling
  a sampling approach that does not have characteristics of random selection and does not use probability theory
- Sample size and the samples are determined on the basis of personal experience and Knowledge of the auditor
- This approach is simple
- The sample may not be true representative of the population
- Attempt is made to avoid establishing pattern
- Element of surprise is maintained
- It is a common practice to check large number of items towards the close of the year to check the cut_off procedures and also because of the reason that year end transactions are prone to high risk of mis statement

Problems with non_statistical sampling

- It is neither scientific nor objective
- Neither sampling risk, nor the degree of confidence can be calculate
- Projection may not be as accurate as it was in statistical sampling
- The sample will be less defensible because of lack of mathematical proof of accuracy