

**Performing Audit Procedures**

- The auditor shall perform audit procedures on each item selected.
- If a selected item is not appropriate for the application of the audit procedure, the audit procedure is ordinarily performed on a replacement item.
  - Example: A cancelled cheque may be replaced.
- If neither the procedure nor an alternative can be applied, treat the item as
  - A deviation (in tests of controls), or
  - A misstatement (in tests of details).
- An example of a suitable alternative audit procedure might be the examination of subsequent receipts when no reply has been received in response to a positive confirmation request.

**Nature And Cause Of Deviations And Misstatements**

- When the auditor finds deviations (in controls) or misstatements (in amounts) Auditor must investigate each deviation or misstatement to find the underlying cause.
- Then, evaluate how it impacts the purpose of the audit test and other related areas.
- If several misstatements share a common feature (e.g., location, product line), the auditor should extend testing to the full group.
- These patterns could also signal intentional errors, meaning possible fraud.
- In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a **high degree of certainty** that such misstatement or **deviation is not representative of the population.**
- The auditor shall obtain a high degree of certainty by performing **additional audit procedures** to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population.
- Anomaly may be defined as a misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population. (one-off event)

**Projecting Misstatements**

When the auditor finds misstatements in a sample:

- They must project those misstatements to the entire population to estimate the full error.
- But this projection gives a broad view – it may not be used as the exact adjustment amount.
- If any misstatement is an anomaly
  - It can be excluded from the projection,
  - But its impact must still be evaluated separately.
- For the test of details → projection is mandatory.
- For a test of controls → no projection needed. Sample deviation rate = population deviation rate.

(if there are 8% deviation in the sample, this will also become the rate of deviation in the population)

**Evaluating Results Of Audit Sampling**

The auditor shall evaluate:

- the results of the sample; and
- determine whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

**Sampling Risk**

This arises from the possibility that the auditor's **conclusion, based on a sample**, may be **different** from the **conclusion reached if the entire population was subjected to the same audit procedure.**

Sampling Risk in Test of Details			
		The recorded value of population is	
		OK	Not OK
The sample indicates that the population is	OK	<ul style="list-style-type: none"> <li>• Correct Decision</li> </ul>	<ul style="list-style-type: none"> <li>• Incorrect Decision</li> <li>• Risk of Incorrect Acceptance</li> <li>• Not effective</li> </ul>
	Not OK	<ul style="list-style-type: none"> <li>• Incorrect Decision</li> <li>• Risk of Incorrect Rejection</li> <li>• Not Efficient</li> </ul>	<ul style="list-style-type: none"> <li>• Correct Decision</li> </ul>

Sampling Risk in Test of Control			
		The actual operation of control is	
		OK	Not OK
The sample indicates that the control in operation in	OK	<ul style="list-style-type: none"> <li>• Correct Decision</li> </ul>	<ul style="list-style-type: none"> <li>• Incorrect Decision</li> <li>• Risk of Over reliance</li> <li>• Risk of assessing the CR too low</li> <li>• Not effective</li> </ul>
	Not OK	<ul style="list-style-type: none"> <li>• Incorrect Decision</li> <li>• Risk of under reliance</li> <li>• Risk of Assessing the CR too high</li> <li>• Not Efficient</li> </ul>	<ul style="list-style-type: none"> <li>• Correct Decision</li> </ul>

**Non-Sampling Risk**

“Non-sampling risk” arises from factors that cause the auditor to reach an erroneous conclusion for any reason **not related** to the size of the **sample**.

For example,

- ordinarily the auditor finds it necessary to rely on audit evidence that is persuasive rather than conclusive,
- the auditor might use inappropriate audit procedures, or
- the auditor might misinterpret audit evidence and fail to recognize an error.
- Human Mistakes

**Tolerable Misstatement and Deviation****Tolerable misstatement**

A **monetary amount** set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is **not exceeded** by the **actual misstatement** in the population.

**Tolerable rate of deviation**

A **rate of deviation** from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is **not exceeded** by the **actual rate of deviation** in the population.

**Approaches To Sampling**

1. Non-statistical or
2. Statistical sampling approaches.

**Statistical Sampling**

- Based on random selection and probability theory
- Uses mathematical methods to decide sample size
- More scientific, avoids personal bias
- Best suited when population has many similar items
- Commonly used in:
  - Compliance testing
  - Trade receivables confirmation
  - Payroll checking
  - Vouching invoices & petty cash
- Reliable projections can be made from sample to population.

**Advantages of Statistical Sampling**

1. The amount of testing (sample size) does **not increase** in **proportion** to the **increase** in the **size** of the area (universe) tested. (Smaller sample size gives a better representation of the population, in judgemental or non statistical sampling sample size is large still it does not give a fair representation of the population) – Tickmark Tiwari tests 120 vouchers from 10,000 and only 140 from 20,000, as statistical sampling focuses on audit risk and expected error, not just population size. Once a certain sample size is reached, adding more items provides diminishing returns in terms of statistical reliability.

2. The sample selection is **more objective** and thereby more **defensible**.
3. The method provides a means of estimating the
  - **minimum sample size associated** with a **specified risk**. (Basically helps in determining the sample size depending upon audit risk)
4. Allows calculation of sampling error (**calculated risk**)
5. Gives a better representation of large data sets when compared to a non-statistical approach of sampling.
6. Results of sampling can be evaluated and projected in a better way

**Non-Statistical Sampling**

- A sampling approach that does not have characteristics of random selection and use of probability theory is considered as non-statistical sampling.
- Based on auditor’s experience and judgement
- This approach is simple.
- The sample may not be a true representative of the total population because of personal bias and no scientific method of selection.
- For example,
  - April, August and March may be selected in year one and different months would be selected in the next year,
- An attempt would be made to **avoid establishing a pattern** of selection year after year.
- An **element of surprise** is maintained.
- It is a common practice to check large numbers of items towards the close of the year so that the adequacy of cut-off procedures can also be determined.
- Also, because year end transactions are prone to high risk of misappropriation.

**Problems with Non-Statistical Sampling**

- Not objective or scientific
- Personal bias can’t be eliminated
- Projection may not be accurate
- Less defensible, as there’s no mathematical backing
- Auditor depends more on experience than on calculated methods