

SA 530 Revised – Audit Sampling

What is Audit Sampling and what is objective of auditor when he is using audit sampling?

According to SA530 Audit Sampling refers to the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population. The objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected. Population here means the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

What are the steps involved in Audit Sampling ?

Step-1 Designing of Sample –

When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn. If population is uneven stratification kind of techniques will be required for random selection.

Step-2 Determining the sample size - The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. Sample size will be depending on the degree of Sampling risk, Tolerable misstatement range of the auditor and expected error. More the sampling risk and expected errors are bigger shall be the sample size and vis a vis. More the tolerable misstatement range of the auditor lesser will be the sample size and vis a vis. Here tolerable misstatement means 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

Step-3 Selection of items to the sample:- The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection. There are three commonly used methods for selection of sample Haphazard selection, Random Selection, Systematic random selection.

Step-4 –Performing Audit Procedures on selected sample - The auditor shall perform audit procedures, appropriate to the purpose, on each item selected.

Step -5 Analysis of Nature and Cause of Deviations and Misstatements

If identified - The auditor shall investigate the nature and cause of any deviations or misstatements identified, and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit. 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.

Step-6 Projecting Misstatements :- For tests of details, the auditor shall project misstatements found in the sample to the population.

Step-7 Evaluating Results of Audit Sampling

The auditor shall evaluate:

- (a) The results of the sample; and
- (b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

What is Sampling risk and What are its type?

According to SA530 Sampling risk refers to the risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions:

(i) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

(ii) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.