

CHAPTER 7 AUDIT SAMPLING

Q	Reference	Question	Answer
1	ICAI Module	What is the meaning of Sampling? Also discuss the methods of Sampling. Explain in the light of SA 530 "Audit Sampling"	"Audit Sampling" means 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
2	ICAI Module	With reference to Standard on Auditing 530, state the requirements relating to audit sampling, sample design, sample size and selection of items for testing	<p>Audit Sampling: As per SA 530 on "Audit Sampling", the meaning of the term Audit Sampling is – 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.</p> <p>The requirements relating to sample design, sample size and selection of items for testing are explained below-</p> <p>Sample design - When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics</p>

			<p>of the population from which the sample will be drawn.</p> <p>Sample Size- The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.</p> <p>Selection of Items for Testing- The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection</p>
3	ICAI Module	While planning the audit of S Ltd. you want to apply sampling techniques. What are the risk factors you should keep in mind?	<p>As per SA 530 “Audit Sampling”, sampling risk is 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:</p> <p>(i) In the case of a test of controls, that controls are more effective than they actually are, or in the case of tests 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.</p> <p>(ii) In the case of test of controls, the controls are less effective than they actually are, or in the case of tests 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.</p>
4	ICAI Module	Short note on Advantages of Statistical sampling in Auditing	<p>The advantages of statistical sampling may be summarized as follows</p> <p>(1) The amount of testing (sample size) does not increase in proportion to the increase in the size of the area (universe) tested.</p> <p>(2) The sample selection is more objective and thereby more defensible</p> <p>(3) The method provides a means of estimating the minimum sample size associated with a specified risk and precision.</p> <p>(4) It provides a means for deriving a “calculated risk” and corresponding precision (sampling error) i.e. the probable difference in result due to the use of a sample in lieu of examining all the records in the group (universe), using the same audit procedures.</p> <p>(5) It may provide a better description of a large mass of data than a complete examination of all the data, since non-sampling errors such as processing and clerical</p>

			mistakes are not as large.
5	ICAI Module	Short note on Stratified sampling	<p>Stratification: Audit efficiency may be improved if the auditor stratifies a population by dividing it into discrete sub-populations which have an identifying characteristic. The objective of stratification is to reduce the variability of items within each stratum and therefore allow sample size to be reduced without increasing sampling risk. When performing tests of details, the population is often stratified by monetary value. This allows greater audit effort to be directed to the larger value items, as these items may contain the greatest potential misstatement in terms of overstatement. Similarly, a population may be stratified according to a particular characteristic that indicates higher risk of misstatement, for example, when testing the allowance for doubtful accounts in the valuation of accounts receivable, balances may be stratified by age</p>