

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



AUDIT STAFF TRAINING WORKSHOP

LEARNING OBJECTIVES



- ❖ DEFINITION OF AUDIT SAMPLING
- ❖ AUDIT SAMPLING OBJECTIVE
- ❖ STATISTICAL V/S NON STATISTICAL SAMPLING
- ❖ SAMPLE SELECTION METHODS
- ❖ SAMPLING V/S NONSAMPLING RISK
- ❖ CONTROL V/S SUBSTANTIVE PROCEDURES
- ❖ SAMPLING SIZE DETERMINATION
- ❖ QUIZ/GROUP WORK

DEFINATION OF AUDIT SAMPLING



- ❖ Audit sampling is the application of audit procedures to selected piece of data(the sample) (IAS 530 audit sampling)
- ❖ The objective of the auditor, when using sampling;
 - is to provide a reasonable basis for the auditor to draw conclusions about the population

DEFINATION OF AUDIT SAMPLING



- ❖ Is used by auditors because examining all of the available information is;
 - ✓ Costly
 - ✓ Time- consuming
 - ✓ Impractical in the time allocated for the audit
- ❖ Is used in every audit regardless of client size

DEFINATION OF AUDIT SAMPLING



- ❖ When is sampling used?
 - Exact information is needed
 - Large population
 - Trade effectiveness for efficiency
- ❖ Is everything in an audit done on a sampling basis?

DEFINATION OF AUDIT SAMPLING



➤ No

➤ Sometimes it is necessary to examine the entire set (called the population) for example

All individually material transactions get audited because when they are misstated, the financial statements are misstated

SATISTICAL V/S NONSTATISTICAL



- Statistical sampling is any approach to sampling that involves;
 - random selection
 - the use of probability theory to evaluate sample results,
 - measurement of sampling risk

STATISTICAL V/S NONSTATISTICAL



- nonstatistical sampling is where the auditor does;
- not use statistical methods
- draws a judgment opinion about the population

SATISTICAL V/S NONSTATISTICAL



- ❖ Advantages of statistical sampling
 - Formal approach towards planning
 - Sample size determined objectively
 - Evaluation more precise and sampling risk quantified

- ❖ Disadvantages of statistical sampling
 - Lack of judgment
 - Time consuming
 - High sample size

SAMPLE SELECTION METHODS



- ❖ Random selection;
 - ensures that all items in the population have an equal chance of selection
 - It often involves selection of a sample with the use of random numbers or random generators
- ❖ Systematic selection involves;
 - Selecting items using a constant interval between selections
 - The first interval having a random start

SAMPLE SELECTION METHODS



- ❖ Haphazard selection
 - May be alternative to random selection provided auditors are satisfied that the sample is representative of the entire population
 - It's a selection of a sample without following any particular structured technique
 - It requires care guard against making a selection biased

SAMPLE SELECTION METHODS



- ❖ Block selection;
 - May be used to check whether certain items have particular characteristic
 - For example an auditor may use a sample of 50 consecutive cheques to test whether cheques are signed by authorized signatories rather than picking cheques throughout the year

SAMPLING SELECTION METHODS



- ❖ Monetary unit sampling (mus) a subset of probability proportional to size(pps) sampling
- Each item in the population has a probability of being included in the sample proportionate to the ksh value of the item
- Results in small sample size
- Not effective for understatement or omission errors

STATISTICAL V/S NON STATISTICAL



- ❖ How do auditors decide to use statistical or nonstatistical sampling?
- Generally the audit firm makes this decision for all audits of a certain type (like a specified client size) based on these factors;
- The need to quantify sampling risk, which is more justifiable in case of a law suit in the event of an audit failure.

STATISTICAL V/S NON STATATISICAL



- Additional cost of designing selecting and evaluating a statistical sample
- Availability of computer software to assist in
 - designing, selecting and/or evaluating the sample
- Ability of audit staff to properly implement statistical sampling

STATISTICAL V/S NON STATISTICAL



- ❖ Representative sampling- is one in which the characteristics in the sample of audit interest are approximately the same as those of the population
- Sample accurately represents the total population
- An auditor can increase the likelihood of a representative sample by using care in designing the sampling process and selection, and evaluating the results

SAMPLING RISK V/S NONSAMPLING RISK



- ❖ Sampling risk-is the risk that an auditor makes an incorrect conclusion because the sample is not representative of the population(inherent part of the sampling)
- Controlled by;
- Determining an appropriate sample size

SAMPLING RISK V/S NONSAMPLING RISK



- Ensuring that all items have an equal opportunity of selection
- Mathematically evaluating sample results
- ❖ Nonsampling risk –is the risk that audit test do not uncover existing exceptions in the sample
- Results from;
 - Auditors failure to recognize exceptions
 - Inappropriate or ineffective audit procedures

SAMPLING RISK V/S NONSAMPLING RISK



- Controlled by;
- Training and supervision
- Reasonable working conditions
- effort

SAMPLING RISK V/S NONSAMPLING RISK



- ❖ Sampling consideration;
- Large samples decreases sampling risk, may be needed as population increases
- Sample items should relate to audit of objective being tested
- Sample items should be representative of the population, so results can be projected

SAMPLING RISK V/S NONSAMPLING RISK



- Must know your maximum tolerance misstatement level
- Must know your assessment of control risk
- Incomplete or missing items that cannot be sampled are considered deviations or misstatements

CONTROL V/S SUBSTANTIVE PROCEDURES



- ❖ Audit sampling fall into two general types;
- Internal control sampling-Study and evaluation of internal control (controls procedures)
- ✓ Selecting control procedures to verify compliance

CONTROL V/S SUSTANTIVE PROCEDURES



- Sampling substantive procedures
 - ✓ Selecting components or transactions of account balances for verification
- ❖ Internal control sampling approach
 - ✓ State the objective of the audit test(e.g. test operating effectiveness of ic)

CONTROL V/S SUBSTANTIVE PROCEDURES



- Decide whether auditing sampling applies
- Define attributes and exceptions conditions
- Define the population
- Define sampling unit(must be consistent with audit objectives)
- Specify tolerable rate of deviation

CONTROL V/S SUBSTANTIVE PROCEDURES



- Specify acceptable risk of assessing control risk
- Estimate the population exception rate
- Determine the initial sample size
- Select the sample
- Perform audit procedure

CONTROL V/S SUBSTANTIVE PROCEDURES



- Evaluate the results by;
 - Generalize from sample to the population
 - Decide the acceptability of the population
-
- ❖ Sampling substantive procedures;
 - (Sampling account balances)
 - Specify the audit objective of the test and define a misstatement

CONTROL V/S SUBSTANTIVE PROCEDURES



- Define the population from which the sample is to be taken
- Chose an appropriate sampling method
- Determine the sample size
- Select sample items and perform the substantive procedure
- Evaluate the results
- Document all phases of the sampling

CONTROL V/S SUBSTANTIVE PROCEDURES



- ❖ Substantive tests details of account balances
 - Account balances of inventory
 - Book value of inventory balance –ksh 3,000,000
 - Book value of items sampled-ksh 100,000
 - Audited value of items sampled- ksh 98,000

CONRTOL V/S SUBSTANTIVE PROCEDURES



- Total overstatement observed in audit-
ksh 2000
- Ratio of misstatement
 $2000/1000000=2\%$
- Apply ratio to entire population
 $30000000 \times 2\%$
- Ksh 60,000 best estimate of
misstatement

CONTROL V/S SUBSTANTIVE PROCEDURES



- If tolerable misstatement is ksh 50,000, we can conclude account is fairly stated because our best estimate of the projected misstatement is greater than tolerable misstatement

CONTROL V/S SUBSTANTIVE PROCEDURES



- ❖ Difference method
- Total number of items in population-805
- Number of items tested 100%-5
- Number of items tested in the sample-40
- Errors found in items tested 100%
- Errors found in sample-9000

CONTROL V/S SUBSTANTIVE PROCEDURES



- Potential error in sample $[(805-5) \times 9000] / 40 =$
- 180000
- Actual error in items tested 100%-15000
- Potential error in population $180000 + 15000 = 195000$

SAMPLING SIZE



- ❖ Value of population to be audited(e.g receivables)
 - Ksh 2,000,000
 - Individual area materiality ksh 200,000
 - Risk factor 2.0
 - Sampling interval(materiality level/risk factor)
 - Ksh 100,000

SAMPLING SIZE



- ❖ If the test is for overstatement (e.g. trade \$ receivables)
- Total population-2,000,000
- Less; higher value items(to be tested 100%)-600,000
- Total of lower value items 1,400,000
- Divided by planned sampling interval 100,000
- Sample size of lower items value-14
- Add; sample size of higher value items-2
- Total sample size-16

QUIZ



- ❖ Describe the procedures the auditor would perform where errors have been identified in a sample?
- Record the error on their schedule of uncorrected misstatement
- Investigate the reason for the error and determine whether it is an anomalous (one-off) error or a recurrent one

QUIZ



- Extrapolate the non-anomalous errors and determine the projected error for the population as a whole
- Where auditor is being used to perform tests of controls the auditor will compare the error rate to the level of tolerable error (tolerable error rate)

QUIZ



- Where sampling is being used to perform substantive testing the monetary value of the error will be extrapolated and compared to the monetary value of tolerable error
- Where sampling is being used to perform substantive testing the monetary value of the error will be extrapolated and compared to the monetary value of tolerable error

END



 **THANK YOU**

DR DANSON MUSYOKI PROFILE



- ❖ **PhD-FINANCE**
- ❖ **MBA-(ACCT/FIN)**
- ❖ **B.COM(ACCT)**
- ❖ **CPA(K)**
- ❖ **ACCA(UK)**
- ❖ **CIFA(K)**
- ❖ **SENIOR PARTNER- DANSON & COMPANY**
- ❖ **FINANCIAL ANALYST- DANSON & PARTNERS**
- ❖ **DIRECTOR-CHARTERED SCHOOL ACC/FIN**
- ❖ **RESEARCH- INSTITUTE OF RESEARCH ANALY**