Audit Sampling

Audit sampling is testing a sample out of a larger population of items for the purposes of forming an audit conclusion.

> Example – Testing 90 invoices out of a population of 1,000's for appropriate approvals.

A properly selected sample enables the auditor to conclude on the likelihood of misstatement or the effectiveness of controls without testing the entire population of transactions.

Testing a sample does involve some amount of uncertainty because we are not testing 100% of the population. This is acceptable as long as the uncertainty is not too great and the cost of testing 100% outweighs the benefits.

This uncertainty is measured by various types of risk. As risk increases, sample sizes and the extent of audit procedures must also increase.

Sample Evaluation – Relates only to the likelihood that misstatements or deviations from controls are included in the audit sample on a proportionate basis to the rest of the population.

> Evaluating evidence obtained through sampling still requires judgment.

Audit Risk – Includes uncertainties due to sampling and factors other than sampling.

Sampling Risk – The risk the auditors conclusions from evaluating the sample are different than if the auditor evaluated the entire population.

> When sample sizes are small, sampling risk is high.

Allowance for Sampling Risk = Tolerable Rate – Expected Rate

> Alternative formula = Upper Precision Limit – Actual Rate