

NOTE FROM INSTRUCTOR

There is a LOT of terminology that doesnn't help us understand sampling or its application to audits. AND all of it is very logical. I do not spend time in the following materials listing everything that you may need to "memorize" for the CPA exam. There will be review materials excellent for that purpose when the time comes.

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What does the opinion say?

Recall that the second paragraph is the "scope" paragraph and tells what the auditor did. It says:

...An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements...

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Intro & Chantor 0-

What is Audit Sampling?

- Applying a procedure to less than 100% of a population
- To estimate some characteristic of the population
 - Qualitative aka "attribute"
 - Quantitative aka "variables"

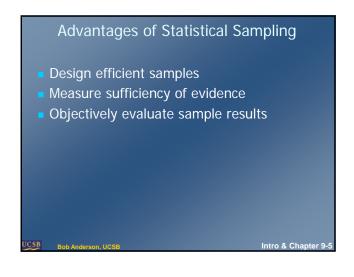
SAMPLING RISK= Risk of wrong conclusion because tested <100% of population.

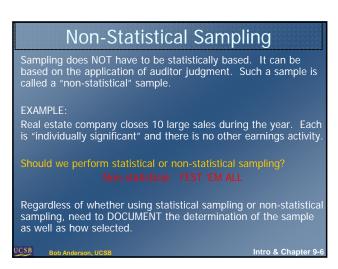
- SUBSTANTIVE TESTING: Risk of incorrect acceptance or rejection
- CONTROLS TESTING: Risk of assessing control risk too low or high

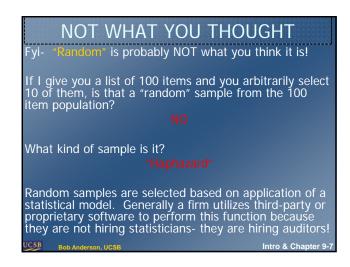
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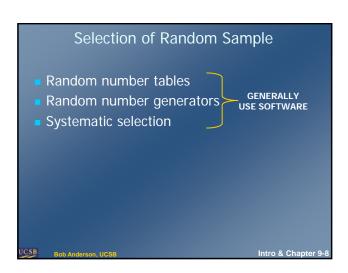
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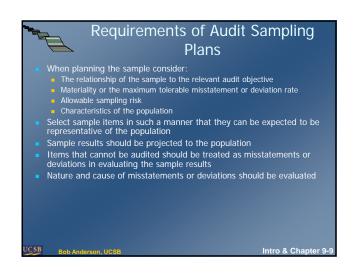
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SAMPLING FOR TESTS OF CONTROLS VS. SUBSTANTIVE TESTING We can use sampling to test: Compliance with identified controls (AKA Test of Operating Effectiveness or "TOE") Identifying a sample for substantive testing TOE DEVIATION: If the control you are looking for was not performed on an item, this means that the control is not operating effectively. Generally there is not a tolerable deviation when testing controls. If there is a deviation: Consider expanding sample to test controls of more items Consider expanding assessed "Control Risk", thus resulting in increased substantive testing SUBSTANTIVE TEST DEVIATION: If the sample comes back with some deviation, that might be acceptable, depending on what the "Tolerable Misstatement" is (generally the sampling software utilized to make the sample will indicate the "tolerable misstatement" simulteneous with identifying the sample size and/ or Increase sample size and/ or Consider revised approach to testing objective

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TOE SELECTIONS NOT a rule, but to give you some perspective on guidelines common out there:			
	FREQUENCY	SAMPLE SIZE	
	Recurring	25-30	
	Daily	10-20	
	Weekly	5-10	
	Monthly	2-5	
	Quarterly	2	
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