

Topic E3 Audit Sampling and Other Means of Testing09

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1. Audit sampling ISA530 Audit Sampling and Other Means of Testing defines audit sampling as: The application of audit procedures to less than 100% of the items within an class of transactions or account balance such that all sampling units have chance of 0selection. This will enable the auditor to obtain and evaluate audit evidence about some characteristic of the items 0selected in order to form or assist in forming conclusion concerning the population. In exceptional cases, sampling may not be appropriate: (1) Cases where the auditor is ‘ on enquiry ’ (2) Populations are too small to justify sampling approach (3) All transactions in particular are are of great monetary significance (4) ‘ Sensitive ’ items, such as directors ’ emoluments (5) Population is non-homogeneous But normally audit sampling is inevitable for the reasons given below. Full substantive testing is impossible in large assignments. Even if theoretically possible, full substantive testing is time-consuming and expensive Full substantive testing may not verify that transactions are ALL recorded (i.e. it may not demonstrate completeness) For sampling to be acceptable: (1) Population must be sufficiently large (2) Anticipated error rates must be low (3) Each unit in the population must be identifiable (4) Population must be representative of transaction types under review, and of time period under review (5

) Population must be homogeneous (6) Each item in the population must stand an equal chance of selection Sampling risk is the risk that the conclusion drawn by the auditor, based on sample, will be different from that which he would have drawn had he examined the entire population. 2. Constructing samples Steps in sampling (1) Sample design (2) Selection of the sample (3) Evaluation of sample ISA530: when designing (the size and structure of) an audit sample, the auditor should consider the specific audit objectives, the population from which the auditor wishes to sample, and the sample size. The population is the entire set of data from which the auditor wishes to sample in order to reach conclusion. The essential feature of population is that it must be homogeneous, i.e, composed of similar or uniform parts. Often the auditor will analyze population into strata. ISA530: when determining the sample size, the auditor should consider sampling risk, the tolerable error and the expected error. Sampling risk applies both to tests of control and to substantive procedures. Tolerable error is the maximum error in the population that the auditors are willing to accept and still conclude that the audit objective has been achieved. ISA530: the auditor should select sample items in such way that the sample can be expected to be representative of the population. Methods of selection include: (1) Simple random selection (2) Value weighted selection (3) Systematic selection (4) Block sampling (5) Haphazard selection (or judgment sampling) Test results are evaluated by (1) First, define what constitutes an error by reference to the audit objectives (2

) Errors, identified in the sample are then projected across the population as whole.

3. Statistical and non-statistical sampling procedures compared

Statistically based sampling involves the use of techniques from which mathematically constructed conclusions about the population can be drawn. Any sampling procedures which do not meet this definition are referred to as non-statistical or judgment sampling.

Areas where statistical sampling and judgment sampling procedures are similar

- (1) Determining objectives
- (2) Defining the population
- (3) Defining what constitutes an error or exception
- (4) Testing the selected items

Areas where statistical sampling and judgment sampling procedures differ

- (1) Determining the sample size
- (2) Selecting the sample items
- (3) Evaluating results
- (4) Projecting results over the whole population
- (5) Assessing the risk of an incorrect conclusion

The advantages and disadvantages of using statistical sampling rather than judgment sampling are summarized in the table below:

Advantages	Disadvantages
Conclusions can be drawn in quantitative terms	It may be difficult to extract samples, especially if documents are not sequentially numbered
Sample selected will be unbiased	Initiative may be stifled and staff become de-motivated
Its use forces clarification of audit objectives in that confidence and precision levels must be predetermined	Results may be misunderstood if staff are not properly trained in the use of the technique
Time and money may be saved by the avoidance of excessive checking	It is not suitable for all applications
Acceptance of the known risk involved in statistical sampling is preferable to the unknown risks when large	

numbers of items are 0selected judgmentally Although judgment is reduced at the more detailed 0selection and testing level, the importance of judgment when deciding the confidence level, precision and meaning of error is greatly increased. More precise information can be given to the client in the letter of weakness 4.

Further aspects of statistical sampling 4.1 Attribute sampling aims to detect what proportion of population has, or lacks, defined characteristic or attribute. It is therefore useful in tests of control.

‘ Failure ’ in control procedure is given equal weight, regardless of their monetary value. The title of this subsection is therefore correct as far as the origin of this technique is concerned. However, in response to demands from audit firms for statistical method which could measure monetary deviations, an attribute sampling technique was developed by statisticians which could express conclusion in monetary terms monetary unit sampling (MUS) . Sample size is calculated as: Reliability factor \div precision required The reliability factor is taken from statistical tables. The precision required is the auditor ’ s assessment of the acceptable error rate. It is expressed as proportion of the population (i.e. if the auditor is prepared to accept two incorrect items in every 100, the precision required is /- 0.02. if the precision required is three errors per 100 items, the figure is /- 0.03) . This implies, as one would expect, that the lower the level of precision the auditor is prepared to accept, the smaller the sample size he will have to test. 4.2 Variables sampling aims to detect the monetary value of an overstatement or understatement. In its pure form, it is complicated procedure, mainly because it requires

estimation of both the number of units in population and the standard deviation of the population. The latter in particular is difficult to determine. To avoid these difficulties, many audit firms instead use monetary unit sampling (MUS). History Exam Paper Analysis (B-Q5/D2006) (a) () In the context of ISA530 Audit Sampling and Other Means of Testing , explain and provide examples of the terms ‘ sampling risk ’ and ‘ non-sampling ’ risk. (4 marks) () briefly explain how sampling and non-sampling risk can be controlled by the audit firm. (2 marks)

(b) Tam Co, is owned and managed by two brothers with equal shareholdings. The company specializes in the sale of expensive motor vehicles. Annual revenue is in the region of \$70,000,000 and the company requires an audit under local legislation. About 500 cars are sold each year, with an average value of \$140,000, although the range of values is from \$130,000 to \$160,000. Invoices are completed manually with one director signing all invoices to confirm the sales value is correct. All accounting and financial statement preparation is carried out by the directors. recent expansion of the company ’ s showroom was financed by bank loan, repayable over the next five years. The audit manager is starting to plan the audit of Tam Co. The audit senior and audit junior assigned to the audit are helping the manager as training exercise. Comments are being made about how to select sample of sales invoices for testing. Audit procedures are needed to ensure that the managing director has signed them and then to trace details into the sales day book and sales ledger. “ we should check all invoices ” suggests the audit

manager. “ How about selecting sample using statistical sampling techniques ” adds the audit senior. “ Why waste time obtaining sample? ” asks the audit junior. He adds “ taking random sample of invoices by reviewing the invoice file and manually choosing few important invoices will be much quicker. ”

Required: Briefly explain each of the sample selection methods suggested by the audit manager, audit senior and audit junior, and discuss whether or not they are appropriate for obtaining representative sample of sales invoices. (9marks)

(c) Define ‘ materiality ’ and explain why the auditors of Tam Co must form an opinion on whether the financial statements are free from material misstatement. (5marks)

(20marks) 答案 : (a) Sampling risk Sampling risk is the possibility that the auditor ’ s conclusion, based on sample, may be different from the conclusion reached if the entire population were subjected to the audit procedure. The auditor may conclude from the results of testing that either material misstatements exist, when they do not , or that material misstatements do not exist when in fact they do . Sampling risk is controlled by the audit firm ensuring that it is using valid method of selecting items from population and/or increasing the sample size.

Non-sampling risk Non-sampling risk arises from any factor that causes an auditor to reach an incorrect conclusion that is not related to the size of the sample. Examples of non-sampling risk include the use of inappropriate procedures, Misinterpretation of evidence or auditor simply “ missing ” an error. Non-sampling risk is controlled by providing appropriate training for staff so they know which audit

techniques to use and will recognize an error when one occurs. (b) The audit manager suggests checking all invoices, effectively ignoring any statistical sampling. In other words this is not TAM because: The population is relatively small and it is likely to be quicker to test all the items than spend time constructing sample. All the transactions are not large but could be considered material in their own right, e.g. compared to project. As all the transactions are material, then they all need to be tested. The audit senior suggests using statistical sampling. This will mean selecting limited number of sales invoices from the population using probability theory ensuring random selection of the sample and then applying audit tests to those invoices only. This approach may be appropriate because: The population consists of similar items (i.e. it is homogeneous) and there are no indications of the control system failing or changing during the year. There is the query about how long it will take to determine and produce sample, which may make statistical sampling inappropriate in this situation. The audit junior suggests using “ random ” sampling, which the junior auditor appears to understand as manually choosing which invoices to look at. The approach therefore involves an element of bias and is not statistical or true “ random ” sampling. The sample selected will not be chosen “ randomly ” but on the whim of the auditor. Human nature will tend to avoid difficult items for testing. Also, as invoices will not have been chosen using statistical sampling, no valid conclusion can be drawn from the results of the test. If an error is found it will be difficult extrapolating that error on to the population.

(c) Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. It is important that the auditors of Tam ensure that the financial statements are free from material error for the following reasons. There is legal requirement to audit financial statements and present an opinion on those financial statements. If the auditors do not detect material error then their opinion on the financial statements could be incorrect. There are only two owner/directors who will be the initial users of the financial statements. While the owners/directors maintain the accounting records, the directors will want to know if there are material errors resulting from any mistakes they may have made. The auditor has responsibility to the members to ensure that the financial statements are materially correct. There are also other users of the financial statements who will include the taxation authorities and the bank who have made loan to the company. They will want to see “ true and fair ” accounts. The auditors must therefore ensure that the financial statements are free from material misstatement to avoid any legal liability to third parties if they audit the financial statements negligently. 100Test 下载频道 开通，各类考试题目直接下载。详细请访问 www.100test.com