PROPOSED INTERNATIONAL STANDARD ON AUDITING 530 (REDRAFTED)

AUDIT SAMPLING

Summary of Changes made to Agenda Item 6-A:

The source of paragraphs from Agenda Item 6-A is shown in square brackets.

Paragraph 3 – objective revised to address audit sampling only
Paragraphs 5-7 – move to ISA 500 to the extent not already addressed there
Paragraph 9 – already included in some form in ISA 500 (note this change was proposed by the ISA 530 task force after completion of the ISA 500 documents).
Paragraph A1 – delete – repeats ISA 500
Paragraph A2 – delete – repeats ISA 315
Paragraph A3 – delete – repeats ISA 330.08a
Paragraph A4 – now paragraph A2
Paragraph A5 – delete – first two sentences repeat ISA 330.4, and the final sentence is unnecessary
Paragraph A6 – now paragraph A11
Paragraph A7 – delete – repeats extant ISA 500.23
Paragraphs A8-A11 – move to ISA 500
Paragraph A19 – already included in some form in ISA 500 (note this change was proposed by the ISA 530 task force after completion of the ISA 500 documents).
Paragraph A27 – delete – repeats ISA 330.10 and ISA 330.A41
PROPOSED INTERNATIONAL STANDARD ON AUDITING 530 (REDRAFTED)
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Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor’s use of audit sampling when designing and performing audit procedures to obtain audit evidence. This ISA is applicable when the auditor designs and performs tests of controls and tests of details. It is not applicable when the auditor performs substantive analytical procedures (see ISA 520, “Analytical Procedures”). (Ref:Para. A1-A6)

Effective Date

2. This ISA is effective for audits of financial statements for periods beginning on or after [date1].

Objective

3. The objective of the auditor is to use audit sampling appropriately so as to be able to draw valid conclusions as part of obtaining sufficient appropriate audit evidence.

Definitions

4. For purposes of the ISAs, the following terms have the meanings attributed below:

   (a) Audit sampling (sampling) — The application of audit procedures to less than 100% of items within a class of transactions or account balance such that all sampling units have a chance of selection.

   (b) Population — The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions. For example, all of the items in a class of transactions or account balance constitute a population. A population may be divided into strata, or sub-populations, with each stratum being examined separately. The term population is used to include the term stratum.

   (c) Sampling risk — 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. There are two types of sampling risk:

      (i) The risk the auditor will conclude, in the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material error does not exist when in fact it does. This type of risk affects audit effectiveness and is more likely to lead to an inappropriate audit opinion; and

      (ii) The risk the auditor will conclude, in the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material error exists when in fact it does not. This type of risk affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

The mathematical complements of these risks are termed confidence levels.

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1 This date will not be earlier than December 15, 2008.
(d) Non-sampling risk — Arises from factors that cause the auditor to reach an erroneous conclusion for any reason not related to sampling. Non-sampling risk includes the possibility of selecting audit procedures that are not appropriate to achieve the specific objective of the procedure. For example, confirming recorded receivables cannot be relied on to reveal unrecorded receivables. Non-sampling risk also could arise because the auditor may misinterpret audit evidence and thus not recognize a misstatement or deviation included in documents that the auditor examines, which would make that procedure ineffective even if the auditor was able to examine all items.

(e) Sampling unit — The individual items constituting a population.

(f) Statistical sampling — Any approach to sampling that has the following characteristics:
   (i) Random selection of a sample; and
   (ii) Use of probability theory to evaluate sample results, including measurement of sampling risk.

A sampling approach that does not have characteristics (i) and (ii) is considered non-statistical sampling.

(g) Stratification — The process of dividing a population into subpopulations, each of which is a group of sampling units which have similar characteristics (often monetary value).

(h) Tolerable rate — The maximum rate of deviations from the prescribed control that the auditor is willing to accept without revising the auditor’s risk assessment.

(i) Tolerable misstatement — The maximum monetary misstatement for the class of transactions or account balance that the auditor is willing to accept.

Requirements

Sample Design

5. [8.] When designing an audit sample, the auditor shall consider the objectives of the audit procedure and the attributes of the population from which the sample will be drawn. (Ref: Para: A7-A9)

6. [10.] In determining the sample size, the auditor shall evaluate whether sampling risk is reduced to an acceptably low level. (Ref: Para. A10-A12)

7. [11.] The auditor shall select items for the sample in such a way that all sampling units in the population have a chance of selection. (Ref: Para. A13-A14)

Performing Audit Procedures

8. [12.] The auditor shall perform audit procedures appropriate to the particular audit objective on each item selected. If a selected item is not appropriate for the application of the audit procedure, the auditor shall perform the procedure on a replacement item. If the auditor is unable to apply the designed audit procedures to a selected item the auditor shall treat that item to be a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details. (Ref: Para. A15-A16)
Nature and Cause of Deviations and Misstatements

9. [13.] The auditor shall consider the sample results, the nature and cause of any deviations or misstatements identified, and their possible effect on the objective of the particular audit procedure and on other areas of the audit. (Ref: Para A17)

10. [14.] When performing tests of controls, the auditor is primarily concerned with obtaining audit evidence that controls operated effectively throughout the period of reliance. The concept of effectiveness of the operation of controls recognizes that some deviations in the way controls are applied by the entity may occur. When the auditor identifies such deviations, the auditor shall make specific inquiries to understand these matters and shall also consider matters such as:

(a) The direct effect of identified deviations on the financial statements; and
(b) The effectiveness of internal control and their effect on the audit approach, for example, when the deviations result from management override of a control.

In these cases, the auditor shall determine whether the tests of controls performed provide an appropriate basis for use as audit evidence, whether additional tests of controls are necessary, or whether the potential risks of misstatement need to be addressed by using substantive procedures.

11. [15.] The auditor may be able to establish that a deviation or misstatement arises from an isolated event that has not recurred other than on specifically identifiable occasions and is therefore not representative of similar errors in the population (an anomaly). To be considered an anomaly, the auditor has to have a high degree of certainty that the deviation or misstatement is not representative of the population. Where the auditor believes that a deviation or misstatement may be an anomaly, the auditor shall obtain this high degree of certainty by performing additional audit procedures that are adequate to provide the auditor with sufficient appropriate audit evidence that the deviation or misstatement does not affect the remaining part of the population.

Projecting Misstatements

12. [16.] For tests of details, the auditor shall project misstatements found in the sample to the population, and shall evaluate the effect of the projected misstatement on the objective of the particular audit procedure and on other areas of the audit. If a class of transactions or account balance has been divided into strata, the auditor shall project the misstatement for each stratum separately. For tests of controls, no explicit projection of deviations is necessary since the sample deviation rate is also the projected rate of deviations for the population as a whole. (Ref: Para A18-A19)

13. [17.] The auditor shall compare the total amount of projected misstatement for the population to tolerable misstatement. If the total amount of projected misstatement is greater than tolerable misstatement, the auditor shall either perform audit procedures to reduce projected misstatements below tolerable misstatement or modify the auditor’s opinion. (Ref: Para A19)
Evaluating Sample Results

14. [18.] The auditor shall evaluate the sample results to determine whether the assessment of the relevant characteristic of the population is confirmed or needs to be revised. (Ref: Para A20-A21)

Application and Other Explanatory Material

Sample Design (Ref: 5-7)

A1 [A12.] The auditor may decide to apply audit sampling to a class of transactions or account balance. Audit sampling enables the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Audit sampling can be applied using either non-statistical or statistical sampling approaches.

A2. [A4.] Audit sampling for tests of controls may be appropriate when application of the control leaves audit evidence of performance (for example, initials of the credit manager on a sales invoice indicating credit approval, or evidence of authorization of data input to a microcomputer based data processing system).

Statistical versus Non-Statistical Sampling Approaches

A3 [A13.] The decision whether to use a statistical or non-statistical sampling approach is a matter for the auditor’s judgment regarding the most efficient manner to obtain sufficient appropriate audit evidence in the particular circumstances. For example, in the case of tests of controls the auditor’s analysis of the nature and cause of deviations will often be more important than the statistical analysis of the mere presence or absence (that is, the count) of deviations. In such a situation, non-statistical sampling may be most appropriate.

A4. [A14.] When applying statistical sampling, the sample size can be determined using either probability theory or professional judgment. Sample size is not a valid criterion to distinguish between statistical and non-statistical approaches. Sample size is a function of factors such as those identified in Appendices 1 and 2. When circumstances are similar, the effect on sample size of factors such as those identified in Appendices 1 and 2 will be similar regardless of whether a statistical or non-statistical approach is chosen.

A5. [A15.] While the approach adopted may not meet the definition of statistical sampling, elements of a statistical approach may be used, for example the use of random selection using computer generated random numbers. However, statistical measurements of sampling risk are valid only when the approach adopted has the characteristics of statistical sampling.

A6. [A16.] It is important that the auditor has a clear understanding of what constitutes a deviation or misstatement so that all, and only, those conditions that are relevant to the objectives of the audit procedure are included in the projection of deviations or misstatements. For example, in a test of details relating to the existence of accounts receivable, such as confirmation, payments made by the customer before the confirmation date but received...
shortly after that date by the client, are not considered a misstatement. Also, a misposting between customer accounts does not affect the total accounts receivable balance. Therefore, it is not appropriate to consider this a misstatement in evaluating the sample results of this particular audit procedure, even though it may have an important effect on other areas of the audit, such as the assessment of the risk of fraud or the adequacy of the allowance for doubtful accounts.

Design of Sample

A7. [A17.] For tests of controls, the assessment of the rate of deviations is based on the auditor’s understanding of the design of the relevant controls and whether they have been implemented or the examination of a small number of items from the population. Similarly, for tests of details, the auditor makes an assessment of the expected misstatement in the population. This assessment is useful for designing an audit sample and for determining sample size. For example, if the expected rate of deviations is unacceptably high, tests of controls will normally not be performed. If the expected misstatement is high, 100% examination or use of a large sample size may be appropriate, when performing tests of details.

A8. [A18.] When designing an audit sample, the auditor’s consideration includes the specific objectives to be achieved and the combination of audit procedures which is likely to best achieve those objectives. Consideration of the nature of the audit evidence sought and possible deviation or misstatement conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes a deviation or misstatement and what population to use for sampling.

A9. [A20.] In considering the attributes of the population from which the sample will be drawn, the auditor may determine that stratification or value weighted selection is appropriate. Appendix 4 provides further discussion on stratification and value weighted selection.

Sample Size

A10. [A21.] Sample size is affected by the level of sampling risk that the auditor is willing to accept. The lower the risk the auditor is willing to accept, the greater the sample size will need to be.

A11. [A6.] Sampling risk and non-sampling risk can affect the components of the risk of material misstatement. For example, when performing tests of controls, the auditor may find no deviations in a sample and conclude that controls are operating effectively, when the rate of deviation in the population is, in fact, unacceptably high (sampling risk). Or there may be deviations in the sample which the auditor fails to recognize (non-sampling risk). With respect to substantive procedures, the auditor may use a variety of methods to reduce detection risk to an acceptable level. For both tests of controls and tests of details, sampling risk can be reduced by increasing sample size, while non-sampling risk can be reduced by proper engagement planning supervision and review.

A12. [A22.] The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment. Appendices 1 and 2 indicate the
influences that various factors typically have on the determination of sample size, and hence the level of sampling risk.

Selecting the Sample

A13. [A23.] Statistical sampling requires that sample items are selected at random so that each sampling unit has a known chance of being selected. The sampling units might be physical items (for example, checks listed on deposit slips, credit entries on bank statements, sales invoices or debtors’ balances) or monetary units. With non-statistical sampling, an auditor uses professional judgment to select the items for a sample. Because the purpose of sampling is to draw conclusions about the entire population, it is important that the auditor selects a representative sample by choosing sample items which have characteristics typical of the population, and so that bias is avoided.

A14. [A24.] The principal methods of selecting samples are the use of random number tables or CAATs, systematic selection and haphazard selection. Each of these methods is discussed in Appendix 3.

Performing Audit Procedures (Ref: 8)

A15. [A25.] An example of when it may be necessary to perform the procedure on a replacement item is when a voided check may be selected when testing for evidence of payment authorization. If the auditor is satisfied that the check had been properly voided such that it does not constitute a deviation, an appropriately chosen replacement is examined.

A16. [A26.] Sometimes, the auditor is unable to apply the designed audit procedures to a selected item because, for instance, documentation relating to that item has been lost. An example of a suitable alternative audit procedure might be the examination of subsequent receipts when no reply has been received in response to a positive confirmation request.

Nature and Cause of Deviations and Misstatements (Ref: 9-11)

A17. [A28.] In analyzing the deviations and misstatements discovered, the auditor may observe that many have a common feature, for example, type of transaction, location, product line or period of time. In such circumstances, the auditor may decide to identify all items in the population that possess the common feature, and extend audit procedures in that stratum. In addition, such deviations or misstatements may be intentional, and may indicate the possibility of fraud.

Projecting Misstatements (Ref: 12-13)

A18. [A29.] Because an anomaly is, by definition, not representative of misstatements in a population, it is excluded when projecting misstatements in the sample to the population.

A19. [A30.] To reduce projected misstatement below tolerable misstatement, the auditor may:

- Request management to investigate identified errors and the potential for further errors, and to make any necessary adjustments; and/or
• Modify the nature, timing and extent of further audit procedures. For example, in the case of tests of controls, the auditor might extend the sample size, test an alternative control or modify related substantive procedures.

Evaluating Sample Results (Ref: 14)

A20. [A31.] In the case of tests of controls, an unexpectedly high sample deviation rate may lead to an increase in the assessed risk of material misstatement, unless further audit evidence substantiating the initial assessment is obtained. In the case of tests of details, an unexpectedly high misstatement amount in a sample may cause the auditor to believe that a class of transactions or account balance is materially misstated, in the absence of further audit evidence that no material misstatement exists.

A21. [A32.] For example, if the projected deviations or projected misstatement plus anomaly is less than but close to the tolerable rate or tolerable misstatement, the auditor would consider the persuasiveness of the sample results in the light of other audit procedures, and may consider it appropriate to obtain additional audit evidence. The total of projected deviations or projected misstatement plus anomalies is the auditor’s best estimate of deviations or misstatements in the population. However, sampling results are affected by sampling risk. Thus when the best estimate of deviations or misstatement is close to the tolerable rate or tolerable misstatement, there is a risk that a different sample would result in a different best estimate that could exceed the tolerable rate or tolerable misstatement. Considering the results of other audit procedures helps the auditor to assess this risk, while the risk is reduced if additional audit evidence is obtained.
### Appendix 1

**Examples of Factors Influencing Sample Size for Tests of Controls**

The following are factors that the auditor may consider when determining the sample size for tests of controls. These factors, which need to be considered together, assume the auditor does not modify the nature or timing of tests of controls or otherwise modify the approach to substantive procedures in response to assessed risks.

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>EFFECT ON SAMPLE SIZE</th>
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</thead>
<tbody>
<tr>
<td>1. An increase in the extent to which the risk of material misstatement is reduced by the operating effectiveness of controls</td>
<td>Increase</td>
</tr>
<tr>
<td>2. An increase in the rate of deviation from the prescribed control activity that the auditor is willing to accept</td>
<td>Decrease</td>
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<tr>
<td>3. An increase in the rate of deviation from the prescribed control activity that the auditor expects to find in the population</td>
<td>Increase</td>
</tr>
<tr>
<td>4. An increase in the auditor’s required confidence level (or conversely, a decrease in the risk that the auditor will conclude that the risk of material misstatement is lower than the actual risk of material misstatement in the population)</td>
<td>Increase</td>
</tr>
<tr>
<td>5. An increase in the number of sampling units in the population</td>
<td>Depends on the type of sample</td>
</tr>
</tbody>
</table>
1. **The extent to which the risk of material misstatement is reduced by the operating effectiveness of controls.** The more assurance the auditor intends to obtain from the operating effectiveness of controls, the lower the auditor’s assessment of the risk of material misstatement will be, and the larger the sample size will need to be. When the auditor’s assessment of the risk of material misstatement at the assertion level includes an expectation of the operating effectiveness of controls, the auditor is required to perform tests of controls. Other things being equal, the greater the reliance the auditor places on the operating effectiveness of controls in the risk assessment, the greater is the extent of the auditor’s tests of controls (and therefore, the sample size is increased).

2. **The rate of deviation from the prescribed control activity the auditor is willing to accept (tolerable rate of deviation).** The lower the rate of deviation that the auditor is willing to accept, the larger the sample size needs to be.

3. **The rate of deviation from the prescribed control activity the auditor expects to find in the population (expected control deviation).** The higher the rate of deviation that the auditor expects, the larger the sample size needs to be so that the auditor is in a position to make a reasonable estimate of the actual rate of deviation. Factors relevant to the auditor’s consideration of the expected error rate include the auditor’s understanding of the business (in particular, risk assessment procedures undertaken to obtain an understanding of internal control), changes in personnel or in internal control, the results of audit procedures applied in prior periods and the results of other audit procedures. High expected control deviation rates ordinarily warrant little, if any, reduction of the assessed risk of material misstatement, and therefore in such circumstances tests of controls would ordinarily be omitted.

4. **The auditor’s required confidence level.** The greater the degree of confidence that the auditor requires that the results of the sample are in fact indicative of the actual incidence of error in the population, the larger the sample size needs to be.

5. **The number of sampling units in the population.** For large populations, the actual size of the population has little, if any, effect on sample size. For small populations however, audit sampling may not be as efficient as alternative means of obtaining sufficient appropriate audit evidence.
Examples of Factors Influencing Sample Size for Tests of Details

The following are factors that the auditor may consider when determining the sample size for tests of details. These factors, which need to be considered together, assume the auditor does not modify the approach to tests of controls or otherwise modify the nature or timing of substantive procedures in response to the assessed risks.

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>EFFECT ON SAMPLE SIZE</th>
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<tbody>
<tr>
<td>6. An increase in the auditor’s assessment of the risk of material misstatement</td>
<td>Increase</td>
</tr>
<tr>
<td>7. An increase in the use of other substantive procedures directed at the same assertion</td>
<td>Decrease</td>
</tr>
<tr>
<td>8. An increase in the auditor’s required confidence level (or conversely, a decrease in the risk that the auditor will conclude that a material misstatement does not exist, when in fact it does exist)</td>
<td>Increase</td>
</tr>
<tr>
<td>9. An increase in the total error that the auditor is willing to accept (tolerable misstatement)</td>
<td>Decrease</td>
</tr>
<tr>
<td>10. An increase in the amount of misstatement the auditor expects to find in the population</td>
<td>Increase</td>
</tr>
<tr>
<td>11. Stratification of the population when appropriate</td>
<td>Decrease</td>
</tr>
<tr>
<td>12. The number of sampling units in the population</td>
<td>Negligible Effect</td>
</tr>
</tbody>
</table>
6. **The auditor’s assessment of the risk of material misstatement.** The higher the auditor’s assessment of the risk of material misstatement, the larger the sample size needs to be. The auditor’s assessment of the risk of material misstatement is affected by inherent risk and control risk. For example, if the auditor does not perform tests of controls, the auditor’s risk assessment cannot be reduced for the effective operation of internal controls with respect to the particular assertion. Therefore, in order to reduce audit risk to an acceptably low level, the auditor needs a low detection risk and will rely more on substantive procedures. The more audit evidence that is obtained from tests of details (that is, the lower the detection risk), the larger the sample size will need to be.

7. **The use of other substantive procedures directed at the same assertion.** The more the auditor is relying on other substantive procedures (tests of details or substantive analytical procedures) to reduce to an acceptable level the detection risk regarding a particular class of transactions or account balance, the less assurance the auditor will require from sampling and, therefore, the smaller the sample size can be.

8. **The auditor’s required confidence level.** The greater the degree of confidence that the auditor requires that the results of the sample are in fact indicative of the actual amount of misstatement in the population, the larger the sample size needs to be.

9. **The total misstatement the auditor is willing to accept (tolerable misstatement).** The lower the total misstatement that the auditor is willing to accept, the larger the sample size needs to be.

10. **The amount of misstatement the auditor expects to find in the population (expected misstatement).** The greater the amount of misstatement the auditor expects to find in the population, the larger the sample size needs to be in order to make a reasonable estimate of the actual amount of misstatement in the population. Factors relevant to the auditor’s consideration of the expected misstatement amount include the extent to which item values are determined subjectively, the results of risk assessment procedures, the results of tests of control, the results of audit procedures applied in prior periods, and the results of other substantive procedures.

11. **Stratification.** When there is a wide range (variability) in the monetary size of items in the population. It may be useful to group items of similar size into separate sub-populations or strata. This is referred to as stratification. When a population can be appropriately stratified, the aggregate of the sample sizes from the strata generally will be less than the sample size that would have been required to attain a given level of sampling risk, had one sample been drawn from the whole population.

12. **The number of sampling units in the population.** For large populations, the actual size of the population has little, if any, effect on sample size. Thus, for small populations, audit sampling is often not as efficient as alternative means of obtaining sufficient appropriate audit evidence. (However, when using monetary unit sampling, an increase in the monetary value of the population increases sample size, unless this is offset by a proportional increase in materiality.)
Sample Selection Methods

There are many methods of selecting samples. The principal methods are as follows:

(a) Use of a computerized random number generator (through CAATs) or random number tables.

(b) Systematic selection, in which the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerized random number generator or random number tables. When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.

(c) Haphazard selection, in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling.

(d) Block selection involves selecting a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population. Although in some circumstances it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample.
Appendix 4

Stratification and Value Weighted Selection

In determining the attributes of the population from which the sample will be drawn, the auditor may determine that stratification or value weighted selection is appropriate. This appendix provides guidance to the auditor on stratification and value weighted selection.

Stratification

1. 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 a proportional increase in sampling risk. Sub-populations need to be carefully defined such that any sampling unit can only belong to one stratum.

2. When performing tests of details, a class of transaction or account balance 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 a higher risk of misstatement, for example, when testing the valuation of accounts receivable, balances may be stratified by age.

3. The results of audit procedures applied to a sample of items within a stratum can only be projected to the items that make up that stratum. To draw a conclusion on the entire population, the auditor will need to consider the risk of material misstatement in relation to whatever other strata make up the entire population. For example, 20% of the items in a population may make up 90% of the value of an account balance. The auditor may decide to examine a sample of these items. The auditor may evaluate the results of this sample and reach a conclusion on the 90% of value separately from the remaining 10% (on which a further sample or other means of obtaining audit evidence will be used, or which may be considered immaterial).

Value Weighted Selection

4. When performing tests of details it will often be efficient, particularly when testing for overstatements, to identify the sampling unit as the individual monetary units (for example, dollars) that make up a class of transactions or account balance. Having selected specific monetary units from within the population, for example, the accounts receivable balance, the auditor may then examine the particular items, for example, individual balances, that contain those monetary units. One benefit of this approach to defining the sampling unit is that audit effort is directed to the larger value items because they have a greater chance of selection, and can result in smaller sample sizes. This approach is ordinarily used in conjunction with the systematic method of sample selection (described in Appendix 3) and is most efficient when selecting items using CAATs.