

Week 4 – DQ 1

Why do auditors find it necessary to use sampling? What are the risks associated with sampling?

How might these risks affect the audit conclusion?

Response #1

Sampling is widely used in auditing. Auditors use sampling because sometimes is not possible and economically justifiable to review all items. In other words, because of time and focus, sampling is very popular. Sampling allows auditors to review items in order to establish a reasonable basis on which to make an opinion. There are certain methods whereby an individual could examine a certain portion (sample) of a population and reach statistically valid conclusions based on the sample. Sampling is the most effective way to make better audit and certain assurance even if it is any sampling risk not to detect any defects or material weakness. The main risk is the assumptions made in selecting the sample. Wrong assumptions would provide the wrong sample, which would translate to misleading results. In other words, sampling risk relates to the possibility that a properly drawn sample may not be representative of the population. Thus, the auditor's conclusion about internal controls or the details of transactions and balances based on the sample may be different from the conclusion that would result from the examination of the entire population. There is always a risk that if the wrong type of sampling is used or the sample is biased in some way that an auditor could reach a defective conclusion.

Response #2

Auditors find it necessary to use sampling because it is not realistic to fully audit all items. Sampling provides an overview that all transactions are properly reflected and all controls are working to the auditor. Even if all information could be 100% tested, the cost would be costly. Audit sampling allows the auditor to evaluate key characteristics of the account balance. Samples are randomly selected by the auditor so the client's won't expect certain

procedures. Information sampling involves the auditor selecting important financial transactions such as accounts payable. Risk sampling involves examination of information and accounts with frequent errors. Risks associated with sampling depend on what the sampling is used for. The risk if the sampling is substantive is rejection or incorrect acceptance. Sampling the risk that the accounting system will not detect errors, (control risk), the control risk could be assessed too high or low. If the control risk is assessed too high the sample would not support the planned assessed level. Another risk involved with sampling is the auditor could miss some of the records involved with the audit. These risks could affect the audit conclusion by causing material misstatements. Material misstatements could cause the auditor to make an incorrect opinion due to the misstatements.

Response #3

Audit sampling is necessary for any items audited at less than 100% as a means of evaluating characteristics of a certain class of transactions or an account balance. Sampling provides a viable means to relate evidence found in the sampling to form a conclusion regarding the integrity of stated transactions. However, given that the auditor is responsible for determining the sample size and appropriateness of audit evidence, the use of sampling holds a certain degree of inherent uncertainty which is represented by the audit risk.

Sampling risk refers to the possibility that when a test is restricted to a sample, conclusions produced from evidence derived from that sample may be different than conclusions produced from a test done on all transactions and all items within the account balance. Regarding specific aspects of sampling risk, the auditor is primarily concerned with the risk of incorrect acceptance or rejection, depending on the amount materially misstated or not materially misstated. The auditor is also concerned with assessing control risk too high or too low when performing tests of controls with sampling. Consequently, these risks may directly effect an auditor's conclusion given that there may be a

disproportionate amount of misstatements within the sample than when compared to the balance as a whole.

Response #4

"Generally accepted auditing standards (AU 350.01) defines audit sampling as the application of an audit procedure to less than 100 percent of the items within an account balance or class of transactions for the purpose of evaluating some characteristics of the entire balance or class" (Boyton & Johnson, 2006, p. 553). Audit sampling can be used to test such accounts as accounts receivable and payable through vouching, confirming, and tracing.

There is some uncertainty with sampling which is more often referred to as audit risk; control risk and test of details risk. The risk associated with sampling stems from the sample not being a true representative of the population and can taint the audit conclusion with a non-reprehensive outcome. If the auditor was to test the entire account, the outcome might be completely different than when using sampling. This can cause the auditor's opinion to incorrect, or not have a level of reasonable assurance. "The auditor's combined procedures may not be sufficient to detect material misstatements, and he or she may not have a reasonable basis for an opinion" (Boyton & Johnson, 2006, p. 554). Yet, even with these risks, sampling is necessary to the audit.