OBJECTIVE: To document the audit sampling methods and considerations for both statistical and non-statistical sampling used in the conduct of the audit in accordance with SAS 39.

CONSIDERATIONS: Generally accepted auditing standards (SAS 39, AU 350.01) define audit sampling as:

> …the application of an audit procedure to less than 100 percent of the items within an account balance or transaction class for the purpose of evaluating some characteristic of the balance or class.

What Audit Sampling IS: A test that involves application of procedures to less than 100 percent of the population for the purpose of projecting the results to the entire account balance or transaction class. Examples would include:
- Test of attributes on a sample of items for the purpose of concluding on the effectiveness of internal controls through projecting the results to all items
- Test of compliance on a sample of items for the purpose of concluding on compliance with laws, regulations or contract requirements through projecting results to all items
- Test of account balance or transaction class details on a sample of items for the purpose of projecting the results to the entire account balance or transaction class to conclude on the fair presentation of the balance or class

What Audit Sampling IS NOT: A test that involves application of procedures to less than 100 percent of the population but that DOES NOT involve projecting the results to the entire account balance or transaction class. Examples would include:
- Test or review of a few transactions to gain an understanding of the nature of the entity's operations or processes, but not to form a conclusion about effectiveness
- Test of a few transactions to clarify the auditor's understanding of the design of the entity's internal controls, but not to conclude on effectiveness
- Test of details limited to a specific group of transactions or items within an account balance or transaction class that have a distinct characteristic, such as all items over ISI, where results are not projected to the untested transactions or remaining balance of account or class

TRANSACTION CLASS OR ACCOUNT BALANCE: Expenditures (Goods and Services)

WORK PAPER REFERENCE OF TESTING: H-2

TYPE AND OBJECTIVE OF SAMPLING TEST:

Test of control attributes for concluding on control effectiveness ___X___

Test of compliance for concluding on the level of compliance   _____

Substantive test of details for concluding on fair presentation   _____

DOCUMENTATION OF SAMPLING PLAN

Definition of the Population to be Tested	The population is either all the items that make up the account balance or transaction class, or the portion of the balance or class being tested. A portion of the account balance or class is tested through sampling when other items in the population have been separately tested.	All expenditure transactions for goods and services, excluding payroll, capital, and debt service.
Sampling Unit	The sampling units are the individual items that will be subject to testing, such as customer account balances to be confirmed, invoices, payroll, or utility bills.	Vendor Checks
Deviation, Misstatement, or Noncompliance Definition	Define what constitutes a deviation, instance of noncompliance or a misstatement. Only identify controls, noncompliance or misstatement important to achieving objectives.	No invoice or claim form, unapproved purchase/payment, incorrect invoice amount, check differs from invoice, no evidence of receipt, and improper coding/classification.
Tolerable Rate Risk of Deviations or Noncompliance **Or** **Tolerable Misstatement**	Tolerable rate risk is the level of risk of deviations, noncompliance or misstatement considered acceptable (tolerable) while still concluding positively as to the audit objective. For control and compliance tests, a **High** tolerable rate risk is acceptable when experience indicates a low level of errors or fraud is expected, or when a moderate control risk is desired (i.e. inherent risk is other than High). A **Low** tolerable rate risk is acceptable when experience indicates a higher level of errors or fraud is expected, or when a low control risk is desired (i.e. inherent risk is High). For substantive tests, use the lowest monetary, tolerable misstatement acceptable for the opinion units involved.	For control and/or compliance tests: **High** _____ **Low** __X__ For substantive tests: $ _____ Tolerable Misstatement
Sampling Risk / Other	In control tests, this risk is the allowable risk of assessing control risk too low. In substantive tests, this risk is the uncertainty resulting from not	**High** __X__

Procedures Risk / Risk of Incorrect Acceptance or Assessment	testing 100 percent of the population. If sampling is the only audit procedure to achieve the audit objective, consider sampling risk to be **High**. If other effective audit procedures will be applied to balance or class, then consider sampling risk to be **Low**.	**Low** _____
Expected Deviations, Misstatement or Noncompliance	The expected rate is the auditor's best judgment, based on past experience or current understanding, as to the anticipated number or amount of deviations or misstatements from the sample. If the expected rate is more than $1/3^{rd}$ the tolerable rate, sampling is likely not going to be an efficient audit procedure.	$1/3^{rd}$ of tolerable = 3% of transactions tested Expected rate = _____0%_____
Sample Size Computation	For control and compliance testing see chart below. For substantive testing, us the following formula: (Dollar Value of Remaining Population / Tolerable Misstatement) x Risk Factor from Chart Below Note: If calculated sample size is too high, consider reducing the remaining population by stratifying it and separately testing individually large amounts.	Per controls testing chart below. Sample Size _____40_____
Sample Selection Method	Description of how sample items were selected.	Haphazard __X__ Random _____ Systematic _____

MODEL FOR CONTROL & COMPLIANCE TESTS SAMPLE SIZE DETERMINATION

Tolerable Rate of Deviations/Noncompliance	Risk of Assessing Control Risk Too Low	Sample Size
H	L	25
H	H	40
L	L	40
L	H	60

RISK FACTORS FOR SUBSTANTIVE TEST SAMPLE SIZE DETERMINATION

Desired Detection Risk	Other Procedures Risk		
	High	**Moderate**	**Low**
Low	3.0	2.3	1.9
Moderate	2.3	1.6	1.2
High	1.9	1.2	0.9

DOCUMENTATION OF SAMPLING RESULTS EVALUATION

Tolerable Rate of Deviations, Noncompliance or Misstatement (Use 3% of Sample Size, or $ Amount of Tolerable Misstatement)	40 x 3% = 1
Number of Deviations, Instances of Noncompliance or Amount of Misstatement Detected from Sample	0
Likely Causes for Deviations, Noncompliance or Misstatements	N/A
Projection of Deviations, Noncompliance or Misstatements to Entire Population	0
Conclusion	Internal controls over the existence and presentation assertions of goods and services expenditures appear to be operating effectively and can be relied upon in the assessment of control risk for the audit objective related to those assertions.