

## PROPOSED INTERNATIONAL STANDARD ON AUDITING 530 (REDRAFTED) AUDIT SAMPLING AND OTHER MEANS OF TESTING

Paragraph of extant ISA 530	Redrafted ISA 530 (as per Agenda Item 6-A).
	<b>Introduction</b>
	<b>Scope of this ISA</b>
1	1. <del>The purpose of</del> This International Standard on Auditing (ISA) <del>is to establish standards and provide guidance</del> <u>deals with</u> on the use of audit sampling and other means of selecting items for testing when designing audit procedures to gather audit evidence. <u>This ISA is applicable when the auditor performs tests of controls and tests of details. It is not applicable when the auditor performs substantive analytical procedures (see ISA 520, “Analytical Procedures”).</u> (Ref: A1-A7)
	<b>Effective Date</b>
	2. This ISA is effective for audits of financial statements for periods beginning on or after [date <sup>1</sup> ].
	<b>Objective</b>
2	3. <del>The objective of the auditor is to obtain sufficient appropriate audit evidence, through using appropriate bases for selecting items for testing. When designing audit procedures, the auditor should determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures.</del>
	4. <u>For purposes of the ISAs, the following terms have the meanings attributed below:</u>
3	(a) Audit sampling (sampling) — <del>involves 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. This will enable 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 use either a statistical or a non-statistical approach.</del>

<sup>1</sup> This date will not be earlier than December 15, 2008.

6	(b) Population — means 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.
7	<p>(c) Sampling risk — arises from the possibility risk that the auditor's conclusion, based on a sample may be different from the conclusion reached if the entire population were subjected to the same audit procedure. There are two types of sampling risk:</p> <p>(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</p> <p>(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.</p> <p>The mathematical complements of these risks are termed confidence levels.</p>
8 Deleted sentence redrafted.	<p>(d) Non-sampling risk — arises from factors that cause the auditor to reach an erroneous conclusion for any reason not related to <del>the size of the sample</del> <u>sampling</u>. <del>For example, ordinarily the auditor finds it necessary to rely on audit evidence that is persuasive rather than conclusive, the auditor might use inappropriate audit procedures, or the auditor might misinterpret audit evidence and fail to recognize an error.</del> <u>Non-sampling risk includes the possibility of selecting audit procedures that are not appropriate to achieve the specific aim of the procedure. For example, confirming recorded receivables cannot be relied on to reveal unrecorded receivables. Non-sampling risk also arises because the auditor may misinterpret audit evidence or fail to recognize an error included in documents that the auditor examines, which would make that procedure ineffective even if the auditor was able to examine all items.</u></p>
9	(e) Sampling unit — <del>means</del> the individual items constituting a population, <del>for example checks listed on deposit slips, credit entries on bank statements, sales invoices or debtors' balances, or a monetary unit.</del>
10	<p>(f) Statistical sampling — means any approach to sampling that has the following characteristics:</p> <p>(i) Random selection of a sample; and</p> <p>(ii) Use of probability theory to evaluate sample results, including</p>

	<p>measurement of sampling risk.</p> <p>A sampling approach that does not have characteristics (i) and (ii) is considered non-statistical sampling.</p>
11	(g) Stratification — is the process of dividing a population into subpopulations, each of which is a group of sampling units which have similar characteristics (often monetary value).
12 Tolerable error replaced with tolerable rate and tolerable misstatement.	<p><del>Tolerable error means the maximum error in a population that the auditor is willing to accept.</del></p> <p><u>(h) Tolerable rate — the maximum rate of deviations from the prescribed control that the auditor is willing to accept without altering the auditor's risk assessment.</u></p>
12 51	<p><u>(i) Tolerable misstatement — the maximum monetary misstatement of the balance or class of transactions that the auditor is willing to accept. For tests of details Tolerable misstatement is an amount less than the auditor's materiality used for the individual class of transactions or account balances being audited.</u></p>
	<b>Requirements</b>
	<b>Selecting Items for Testing to Gather Audit Evidence</b>
22	<p>5. When designing <del>audit procedures</del>, <u>tests of controls and tests of details</u>, the auditor <del>should</del> <u>shall</u> determine appropriate means of selecting items for testing <u>in order to be satisfied that the method or methods used are effective in providing sufficient appropriate audit evidence to meet the objectives of the audit procedure.</u></p> <p>(Ref A8)</p>
22	<p>6. The means available to the auditor are:</p> <ul style="list-style-type: none"> <li>(a) Selecting all items (100% examination); (Ref A9)</li> <li>(b) Selecting specific items; (Ref A10-A11)and</li> <li>(c) Audit sampling. (Ref A12-A15)</li> </ul>

15, 33, 34 – paragraphs combined	<p>7. <del>Based on the auditor's understanding of internal control</del> <u>When designing tests of controls</u>, the auditor <u>shall identify</u> <del>ies</del> the characteristics or attributes that indicate performance of a control, as well as possible deviation conditions which indicate departures from adequate performance. The presence or absence of attributes can then be tested by the auditor. <u>When designing tests of details</u>, the auditor <u>shall identify the conditions that constitute a misstatement</u>. The auditor <u>shall determine</u> <del>considers</del> what conditions constitute <del>an error a deviation or misstatement</del> by reference to the objectives of the audit procedure. <del>When performing tests of controls, the auditor generally makes an assessment of the rate of error the auditor expects to find in the population to be tested. Similarly, for tests of details, the auditor generally makes an assessment of the expected amount of error in the population.</del> <u>The auditor shall make an assessment of the expected rate of deviation or expected misstatement in the population to be tested.</u> (Ref A16)</p>
	<i>Audit Sampling</i>
31	8. When designing an audit sample, the auditor <del>should</del> <u>shall</u> consider the objectives of the audit procedure and the attributes of the population from which the sample will be drawn. (Ref A17-A18)
35, 35a	<p>9. <del>It is important for the auditor to ensure that the population is (a) appropriate...(b) complete...</del></p> <p><del>The auditor is required to obtain audit evidence about the accuracy and completeness of information produced by the entity's information system when that information is used in performing audit procedures. When performing audit sampling, the auditor performs audit procedures to ensure that the information upon which the audit sampling is performed is sufficiently complete and accurate. ISA 500 paragraph 11, contains additional guidance on the audit procedures to perform regarding the accuracy and completeness of such information.</del></p> <p><u>The auditor shall determine that the information on which the audit procedures are based is appropriate to the objective of the audit procedure, accurate and complete.</u> (Ref A19-A20)</p>
40	10. In determining the sample size, the auditor <del>should</del> <u>shall</u> <del>consider</del> <u>evaluate</u> whether sampling risk is reduced to an acceptably low level. (Ref A21-A22)
42	11. The auditor <del>should</del> <u>shall</u> select items for the sample <del>with the expectation that in such a way</del> that all sampling units in the population have a chance of selection. (Ref A23-A24)
	<b>Performing the Audit Procedure</b>
44, 45 46	<p>12. The auditor <del>should</del> <u>shall</u> 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, <del>the audit procedure is ordinarily performed</del> <u>the auditor shall perform the procedure on a replacement item. Sometimes however,</u></p>

	<p>If the auditor is unable to apply the designed audit procedures to a selected item; <del>because, for instance, documentation relation to that item has been lost. If suitable alternative audit procedures cannot be performed on that item, the auditor ordinarily considers that item to be in error</del> the auditor shall consider 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 A25-A26)</p>
	<b>Nature and Cause of Errors</b>
47	<p>13. The auditor <del>should</del> <u>shall</u> consider the sample results, the nature and cause of any <del>errors</del> <u>deviations or misstatements</u> identified, and their possible effect on the objective of the particular audit procedure and on other areas of the audit. (Ref A31-A32)</p>
48	<p>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. <del>However, w</del><u>When the auditor <del>such errors are</del> identifies such deviations,</u> the auditor <u>shall</u> makes specific inquiries to understand these matters and <u>shall</u> also <del>needs to</del> consider matters such as:</p> <ul style="list-style-type: none"> <li>(a) The direct effect of identified deviations on the financial statements; and</li> <li>(b) The effectiveness of internal control and their effect on the audit approach <del>when,</del> for example, <u>when</u> the <del>errors</del> <u>deviations</u> result from management override of a control.</li> </ul> <p>In these cases, the auditor <u>shall</u> determines 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 using substantive procedures.</p>
50	<p>15. <del>Sometimes t</del><u>The auditor may be able to establish that <del>an error</del> 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 (<del>an anomalous error</del> <u>an anomaly</u>).</u> To be considered an <del>anomalous error-anomaly,</del> the auditor has to have a high degree of certainty that <del>such error</del> <u>the deviation or misstatement</u> is not representative of the population. <u>Where the auditor believes that a deviation or misstatement may be an anomaly,</u> the <del>The</del> auditor <u>shall</u> obtains this <u>high degree of certainty</u> by performing additional audit procedures <u>that</u> <del>The additional audit procedures depend on the situation, but</del> 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. (Ref: A30)</p>
	<b>Projecting Errors</b>
51	<p>16. For tests of details, the auditor <u>shall</u> project <del>monetary errors</del> misstatements</p>

52	found in the sample to the population, and <del>shall</del> <u>should consider</u> evaluate the effect of the projected <del>error</del> misstatement on the <del>particular audit objective of the particular audit procedure</del> and on other areas of the audit. If a class of transactions or account balance has been divided into strata, <u>the auditor shall project the misstatement</u> <del>the error is projected</del> for each stratum separately. For tests of controls, no explicit projection of <del>errors</del> <u>deviations</u> is necessary since the sample <del>error</del> <u>deviation</u> rate is also the projected rate of <del>error</del> <u>deviations</u> for the population as a whole. (Ref A31-A32)
53	
51	17. <del>The auditor projects the total error for the population to obtain a broad view of the scale of errors, and to compare this to the tolerable error.</del> <u>The auditor shall compare the total amount of projected misstatement for the population to tolerable misstatement.</u> If the <del>evaluation of sample results indicates that the assessment of the relevant characteristic of the population needs to be revised,</del> <u>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.</u> <del>(a) Request management to investigate identified errors and the potential for further errors, and to make any necessary adjustments; and/or (b) 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; and/or (c) consider the effect on the audit report.</del> (Ref A30)
56 (note: deleted text a,b,c is retained as guidance in A30)	
	<b>Evaluating the Sample Results</b>
54	18. The auditor <del>shall</del> <u>should</u> evaluate the sample results to determine whether the assessment of the relevant characteristic of the population is confirmed or needs to be revised. (Ref A31-A32)
	<b>Application and Other Explanatory Material</b>
	<b>Audit Evidence</b>
13	A1. In accordance with ISA 500, "Audit Evidence" audit evidence is obtained by performing risk assessment procedures, tests of controls and substantive procedures. The type of audit procedure to be performed is important to an understanding of the application of audit sampling in gathering audit evidence.
	<i>Risk Assessment Procedures</i>
13a	A2. <del>In accordance with ISA 315, "Understanding the Entity and Its Environment Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment,"</del> <u>requires the auditor to perform risk assessment procedures to obtain an understanding of through understanding the entity and its environment, including the entity's internal control. Ordinarily, risk assessment procedures do not involve the use of audit sampling. However, the auditor often plans and performs may plan and perform tests of controls concurrently with obtaining an understanding of the design of controls and</u>

	determining whether they have been implemented. In such cases, the following discussion of tests of controls <u>in paragraphs A3-A4 of this ISA</u> is relevant.
	<i>Tests of Controls</i>
14	A3. In accordance with ISA 330, “The Auditor’s <del>Procedures in Response</del> <u>Responses</u> to Assessed Risks” tests of controls are performed when the auditor’s assessment of risks at the assertion level includes an expectation of the operating effectiveness of controls.
16	A4. Audit sampling for tests of controls <del>is generally may be</del> 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).
	<i>Substantive Procedures</i>
17  Deleted text moved to paragraph 1	A5. Substantive procedures are concerned with amounts and are of two types: (i) tests of details of classes of transactions, account balances, and disclosures and (ii) substantive analytical procedures. The purpose of substantive procedures is to obtain audit evidence to detect material misstatements at the assertion level. <del>In the context of substantive procedures, audit sampling and other means of selecting items for testing, as discussed in this ISA, relate only to tests of details.</del> When performing tests of details, audit sampling and other means of selecting items for testing and gathering audit evidence may be used to verify one or more assertions about a financial statement amount (for example, the existence of accounts receivable), or to make an independent estimate of some amount (for example, the value of obsolete inventories).
	<i>Risk Considerations in Obtaining Audit Evidence</i>
20	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 <del>errors-deviations</del> in a sample and conclude that controls are operating effectively, when the rate of <del>error-deviation</del> in the population is, in fact, unacceptably high (sampling risk). Or there may be <del>errors-deviations</del> 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. <del>Depending on their nature, these methods will be subject to sampling and/or non-sampling risks. For example, the auditor may choose an inappropriate substantive analytical procedure (non-sampling risk) or may find only minor misstatements in a test of details when, in fact, the population misstatement is greater than the tolerable amount (sampling risk).</del> 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.

	<i>Audit Procedures for Obtaining Audit Evidence</i>
21	A7. Audit procedures for obtaining audit evidence include inspection, observation, inquiry and confirmation, recalculation, reperformance and analytical procedures. The choice of appropriate audit procedures is a matter of professional judgment in the circumstances. Application of these audit procedures will often involve the selection of items for testing from a population. Paragraphs 19-38 of ISA 500 contain additional discussion on audit procedures for obtaining audit evidence.
	<b>Selecting Items for Testing to Gather Audit Evidence</b>
23	<del>A8. The decision as to which approach to use will depend on the circumstances, and</del> The application of any one or combination of the <del>above</del> means <u>of selecting items for testing identified in paragraph 6</u> may be appropriate in particular circumstances. <del>While</del> The decision as to which means, or combination of means, to use is made on the basis of the risk of material misstatement related to the assertion being tested and audit efficiency, <del>the auditor needs to be satisfied that methods used are effective in providing sufficient appropriate audit evidence to meet the objectives of the audit procedure.</del>
	<i>Selecting All Items</i>
24	A9 The auditor may decide that it will be most appropriate to examine the entire population of items that make up a class of transactions or account balance (or a stratum within that population). 100% examination is unlikely in the case of tests of controls; however, it is more common for tests of details. 100% examination may be appropriate when, for example: <ul style="list-style-type: none"> <li>• The population constitutes a small number of large value items;</li> <li>• There is a significant risk and other means do not provide sufficient appropriate audit evidence; or</li> <li>• The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective, <del>for example through</del> <u>In this circumstance</u> the use of computer-assisted audit techniques (CAATs) <u>may be appropriate</u>.</li> </ul>
	<i>Selecting Specific Items</i>
25	A10 The auditor may decide to select specific items from a population <del>based on such factors as</del> . <u>In making this decision, factors the auditor might consider include, for example,</u> the auditor's understanding of the entity, the assessed risk of material misstatement, and the characteristics of the population being tested. The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include: <ul style="list-style-type: none"> <li>• <i>High value or key items.</i> The auditor may decide to select specific items within a population because they are of high value, or exhibit some other</li> </ul>



	<p>characteristic, for example items that are suspicious, unusual, particularly risk-prone or that have a history of error.</p> <ul style="list-style-type: none"> <li>• <i>All items over a certain amount.</i> The auditor may decide to examine items whose values exceed a certain amount so as to verify a large proportion of the total amount of class of transactions or account balance.</li> <li>• <i>Items to obtain information.</i> The auditor may examine items to obtain information about matters such as the nature of the entity, the nature of transactions, and internal control.</li> <li>• <i>Items to test control activities.</i> The auditor may use judgment to select and examine specific items to determine whether or not a particular control activity is being performed.</li> <li>•</li> </ul>
26	A11. While selective examination of specific items from a class of transactions or account balance will often be an efficient means of gathering audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population. The auditor <del>considers the</del> <u>may</u> need to obtain sufficient appropriate audit evidence regarding the remainder of the population when that remainder is material.
	<i>Audit Sampling</i>
27 Inserted text from paragraph 3	A12. The auditor may decide to apply audit sampling to a class of transactions or account balance. <u>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.</u> Audit sampling can be applied using either non-statistical or statistical sampling approaches. <del>Audit sampling is discussed in detail in paragraphs 31-56.</del>
	Statistical versus Non-Statistical Sampling Approaches
28	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 <del>errors</del> <u>deviations</u> will often be more important than the statistical analysis of the mere presence or absence (that is, the count) of <del>errors</del> <u>deviations</u> . In such a situation, non-statistical sampling may be most appropriate.
29	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.

30	A15. <del>Often</del> While the approach adopted <del>does</del> <u>may</u> 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.
33	A16. <u>It is important that the auditor has a</u> <del>A</del> clear understanding of what constitutes <u>a deviation or misstatement so an error is important to ensure</u> 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 <del>an error</del> <u>a misstatement</u> 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 likelihood of fraud or the adequacy of the allowance for doubtful accounts.
34	A17 <u>For tests of controls, This the assessment of the rate of deviations</u> 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 <del>amount of error</del> misstatement in the population. <del>These assessments</del> <u>This assessment is</u> <del>are</del> useful for designing an audit sample and <del>in for</del> <u>for</u> determining sample size. For example, if the expected rate of <del>error</del> <u>deviations</u> is unacceptably high, tests of controls will normally not be performed. <del>However, when performing tests of details,</del> If the expected amount of <del>error</del> <u>misstatement</u> is high, 100% examination or use of a large sample size may be appropriate, <u>when performing tests of details.</u>
32	A18. <del>The auditor first considers</del> <u>When designing an audit sample, the auditor's consideration includes</u> 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 <del>error</del> <u>deviation or misstatement</u> conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes <del>an error</del> <u>a deviation or misstatement</u> and what population to use for sampling.
35	A19 It is important for the auditor to <del>ensure</del> <u>determine</u> that the population is:  (a) <i>Appropriate</i> to the objective of the audit procedure, which will include consideration of the direction of testing. For example, if the objective of the audit procedure is to test for overstatement of accounts payable, the population could be defined as the accounts payable listing. On the other hand, when testing for understatement of accounts payable, the population is

35

	<del>selects the auditor endeavors to select</del> a representative sample by choosing sample items which have characteristics typical of the population, and <del>the sample needs to be selected</del> so that bias is avoided.
43	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.
	<b>Performing the Audit Procedure</b>
45	A25. <u>An example of when it may be necessary to perform the procedure on a replacement item is when</u> <del>For example</del> 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 <del>an error</del> <u>a deviation</u> , an appropriately chosen replacement is examined.
46	A26. Sometimes, <del>however</del> , 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.
	<b>Nature and Cause of Errors</b>
48	A27. When performing tests of controls, the auditor is primarily concerned with obtaining audit evidence that controls operated effectively throughout the period of reliance. This includes obtaining audit evidence about how controls were applied at relevant times during the period under audit, the consistency with which they were applied, and by whom or by what means they were applied.
49	A28. In analyzing the <del>errors</del> <u>deviations and misstatements</u> 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.
	<b>Projecting Errors</b>
52	A29. <del>When a misstatement has been established as an anomaly, it may be</del> <u>Because an anomaly is, by definition, not representative of misstatements in the population it is excluded when projecting sample errors to the population.</u>
56	A30. To reduce projected misstatement below tolerable misstatement, the auditor may: <ul style="list-style-type: none"> <li>• Request management to investigate identified errors and the potential for further errors, and to make any necessary adjustments; and/or</li> <li>• 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</li> </ul>

	<p>size, test an alternative control or modify related substantive procedures; and/or</p> <ul style="list-style-type: none"> <li>• <del>Consider the effect on the audit report.</del></li> </ul>
	<b>Evaluating the Sample Results</b>
54	A31. In the case of tests of controls, an unexpectedly high sample <del>error</del> <u>deviation</u> 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 <del>error</del> <u>misstatement</u> 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.
55	A32 <del>For example</del> , if the <del>total amount of</del> projected <del>error</del> <u>deviations or projected misstatement</u> plus <del>anomalous error-anomaly</del> is less than but close to <del>that which the auditor deems tolerable</del> <u>the tolerable rate or tolerable misstatement</u> , the auditor <del>would</del> considers 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 <del>error</del> <u>deviations or projected misstatement</u> plus <del>anomalous error</del> anomalies is the auditor's best estimate of <del>errors</del> <u>deviations or misstatements</u> in the population. However, sampling results are affected by sampling risk. Thus when the best estimate of <del>error</del> <u>deviations or misstatement</u> is close to the tolerable <del>error-rate or tolerable misstatement</del> , <del>the auditor recognizes the</del> <u>there is a risk that a different sample would result in a different best estimate that could exceed the tolerable</u> <del>error-rate or tolerable misstatement</del> . 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.
	<b>Appendix 4</b> Stratification
36	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.
37	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, <del>which as these items</del> may contain the greatest potential <del>monetary error-misstatement</del> 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.
38	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 gathering audit evidence will be used, or which may be considered immaterial).
	Value Weighted Selection
39	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. <del>This approach to defining the sampling unit ensures</del> <u>One benefit of this approach</u> 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.