

**PROPOSED INTERNATIONAL STANDARD ON AUDITING 530**

**(REDRAFTED)**

**AUDIT SAMPLING**

(Effective for audits of financial statements for periods beginning on or after ~~{date}~~December 15, 2009)\*

**Marked for Changes from Exposure Draft**

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\* ~~See footnote 1.~~

~~Appendix 5: Using Estimated Maximum Misstatement to Evaluate Sample Results~~

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International Standard on Auditing (ISA) 530 (Redrafted), “Audit Sampling” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services,” which sets out the authority of ISAs.

## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample use of audit sampling when designing and performing tests of controls and tests of details.
2. This ISA complements [proposed] ISA 500 (Redrafted), "Considering the Relevance and Reliability of Audit Evidence," which deals with what constitutes audit evidence in an audit of financial statements, the auditor's responsibility to obtain information that is capable of providing sufficient appropriate audit evidence, and the evaluation of whether sufficient appropriate evidence has been obtained.

### Effective Date

3. This ISA is effective for audits of financial statements for periods beginning on or after ~~{date}~~December 15, 2009.<sup>+</sup>

### Objective

4. The objective of the auditor when using audit sampling is to design and select the audit sample, perform audit procedures on the sample items, and evaluate the results from the sample in a manner that will provide an appropriate basis for the auditor to draw conclusions about the population from which the sample is drawn.

### Definitions

5. 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 population of audit relevance such that all sampling units have a chance of selection to enable conclusions to be drawn about the entire population.
  - (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.
  - (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. Sampling risk can lead to two types of erroneous conclusions:
    - (i) 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 misstatement does not exist when in fact it does. Because it affects audit effectiveness and

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

is more likely to lead to an inappropriate audit opinion, the auditor is primarily concerned with this type of erroneous conclusion.

- (ii) 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 misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.
- (d) Non-sampling risk – The risk that the auditor ~~does not recognize misstatements or deviations included in the sample for what they are~~ reaches an erroneous conclusion for any reason not related to the size of the sample. (Ref: Para Ax)
- (e) Sampling unit – The individual items constituting a population.
- (f) Statistical sampling – An approach to sampling that has the following characteristics:
  - (i) Random selection of the sample items; and
  - (ii) The 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 sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).
- (h) Tolerable misstatement – A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that it is not exceeded by the actual misstatement in the population. (Ref: Para A1)
- (i) Tolerable rate of deviation – A rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that it is not exceeded by the actual rate of deviation in the population.
- ~~(j) Estimated maximum misstatement – The upper limit of the range of possible misstatement consistent with the auditor's risk assessment and results of other audit procedures.~~
- ~~(k) Estimated maximum rate of deviation – The upper limit of the range of possible rates of deviation consistent with the auditor's planned reliance on internal controls.~~
- (j) Projected misstatements<sup>2</sup> – The auditor's best estimate of misstatements in populations involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.

<sup>2</sup> The term projected misstatements can be used when referring to a particular sample or when referring to a combination of samples.

- (km) Anomaly – A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.

## Requirements

### Sample Design, Size and Selection of Items for Testing

6. When designing an audit sample, the auditor shall consider the objectives of the audit procedure and the characteristics of the population from which the sample will be drawn. (Ref: Para. A2-A8)
7. ~~In determining the sample size, the~~ auditor shall consider whether sampling risk is reduced to an acceptably low level. determine a sample size sufficient to allow the auditor to conclude with an appropriate level of sampling risk that:
  - ~~(i) In the case of tests of details, the total misstatement does not exceed tolerable misstatement; or~~
  - ~~(ii) In the case of tests of controls, the total rate of deviation does not exceed the tolerable rate of deviation.~~ (Ref: Para. A9-A10)
8. 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. A11-A12)

### Performing Audit Procedures

9. The auditor shall perform audit procedures appropriate to the particular audit objective on each item selected.
10. If the audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a replacement item. (Ref: Para. A13)
11. If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item the auditor shall treat that item as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details. The auditor shall also consider whether the reasons for the inability to apply the designed audit procedures or suitable alternative procedures have implications for the assessed risk of material misstatement due to fraud, for the assessed level of control risk that the auditor expects to be supported, or for the degree of reliance on management representations. (Ref: Para. A14)

### Nature and Cause of Deviations and Misstatements

12. The auditor shall investigate 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. A15)
13. In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor shall obtain this degree of certainty by performing additional audit procedures

to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population. (Ref: Para. A16)

### **Projecting Misstatements and Evaluating Sample Results**

14. For tests of details, the auditor shall project misstatements found in the sample to the population, and The auditor shall conclude whether, in light of the risk assessment and other procedures performed, the use of audit sampling has provided an appropriate basis for conclusions about the population that has been tested. In making these conclusions:
- (a) For tests of controls, the auditor shall determine, for the population, the projected rate of deviation and shall evaluate its effect on the objective of the particular audit procedure and on other areas of the audit.
- (b)(a) For tests of details, the auditor shall determine, for the population, projected misstatement and shall evaluate its effect on the objective of the particular audit procedure and on other areas of the audit. (Ref: Para. A17-A1920)

### **Evaluating Sample Results**

15. The auditor shall evaluate the sample results to determine whether, in the case of tests of controls, the rate of deviation is less than tolerable rate of deviation, and in the case of tests of details, the projected misstatement is less than tolerable misstatement. If the auditor determines that the use of audit sampling has not provided an appropriate basis for conclusions about the population, the auditor shall obtain additional audit evidence. (Ref: Para. A20-A21)
16. The auditor shall evaluate whether, in light of the risk assessment and other procedures performed, the use of audit sampling has provided an appropriate basis for conclusions about the population that has been tested. (Ref: Para. A22)

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## **Application and Other Explanatory Material**

### **Definitions**

Non-sampling Risk (Ref: Para. 5())

A1x. Examples of non-sampling risk include:

- Use of inappropriate audit procedures.
- Misinterpretation of audit evidence resulting in failure to recognize an error.

Tolerable Misstatement (Ref: Para. 5(h))

- A1. When designing a sample, the auditor determines tolerable misstatement in order to address the risk that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated and provide a margin for possible

undetected misstatements as described in [proposed] ISA 320 (Revised and Redrafted), “Materiality in Planning and Performing an Audit.”

### **Sample Design, Size and Selection of Items for Testing**

#### *Sample Design* (Ref: Para. 6)

- A2. 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.
- A3. 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.
- A4. The auditor’s consideration of the objectives of the audit procedure, as required by paragraph 9, includes 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.
- A5. For tests of controls, the assessment of the rate of deviation is based on the auditor’s understanding of the design of the relevant controls and whether they have been implemented, or on 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 deviation 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.

#### **Statistical Versus Non-Statistical Sampling Approaches**

- A6. The decision whether to use a statistical or non-statistical sampling approach is a matter for the auditor’s judgment; however, sample size is not a valid criterion to distinguish between statistical and non-statistical approaches.

- A7. 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.

#### Information on Which Audit Procedures are Based

- A8. In considering the characteristics of the population from which the sample will be drawn, the auditor may determine that stratification or value weighted selection is appropriate. Appendix 1 provides further discussion on stratification and value weighted selection.

#### *Sample Size* (Ref: Para. 7)

- A9. The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be.
- A10. The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment. Appendices 2 and 3 indicate the influences that various factors typically have on the determination of sample size, and hence the level of sampling risk. When circumstances are similar, the effect on sample size of factors such as those identified in Appendices 2 and 3 will be similar regardless of whether a statistical or non-statistical approach is chosen.

#### *Selection of Items for Testing* (Ref: Para. 8)

- A11. Statistical sampling requires that sample items are selected at random so that each sampling unit has a known probability 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.
- A12. The principal methods of selecting samples are the use of random selection, systematic selection and haphazard selection. Each of these methods is discussed in Appendix 4.

#### **Performing Audit Procedures** (Ref: Para. 9-11)

- A13. An example of when it may be necessary to perform the procedure on a replacement item is when a voided check is selected when testing for evidence of payment authorization. If the auditor is satisfied that the check has been properly voided such that it does not constitute a deviation, an appropriately chosen replacement is examined.
- A14. An example of when the auditor is unable to apply the designed audit procedures to a selected item is when documentation relating to that item has been lost.

**Nature and Cause of Deviations and Misstatements** (Ref: Para. 12-13)

- A15. In analyzing the deviations and misstatements identified, 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.
- A16. The smaller the sample size in which the misstatement or deviation occurs, the more difficult it will be for the auditor to obtain the level of certainty necessary to determine that the misstatement or deviation identified is an anomaly.

**Projecting Misstatements and Evaluating Sample Results** (Ref: Para. 14-15)

- A17. The auditor is required to project misstatements for the population to obtain a broad view of the scale of misstatement. 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.
- A18. When a misstatement has been established as an anomaly, it may be excluded when projecting misstatements in samples to the population. However, the effect of any such misstatement, if uncorrected, still needs to be considered in addition to the projection of the non-anomalous misstatements.

A19. For tests of controls, no explicit projection of deviations is necessary since the sample deviation rate is also the projected deviation rate for the population as a whole. ISA 330, "The Auditor's Responses to Assessed Risks"<sup>3</sup> provides guidance when deviations from controls upon which the auditor intends to rely are detected.

**Evaluating Sample Results** (Ref: Para. 15-16)

- A20. For 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. For 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~~19~~. In the case of tests of details, When the projected rate of deviation exceeds the tolerable rate of deviation or the projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population. When the projected misstatement plus anomalous misstatement, if any, exceeds that which the auditor deems tolerable tolerable misstatement, the sample does not provide an appropriate basis for conclusions about the population that has been tested. If the total amount of projected

<sup>3</sup> ISA 330 paragraphs 17 and A41.

~~misstatement plus anomalous misstatement is less than but close to that which the auditor deems tolerable, the auditor may 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 misstatement plus anomalous misstatement is the auditor's best estimate of misstatement in the population. However, sampling results are affected by sampling risk. The closer the projected misstatement plus anomalous misstatement is to tolerable misstatement, the more likely that actual misstatement in the population may exceed tolerable misstatement. Also if the projected misstatement is greater than the auditor's expectations of misstatement used to determine the sample size, the auditor may conclude that there is an unacceptable sampling risk that the actual misstatement in the population exceeds the tolerable misstatement. Thus when the best estimate of misstatement is close to the tolerable misstatement, the auditor recognizes the risk that a different sample would result in a different best estimate that could exceed the tolerable misstatement.~~ Considering the results of other audit procedures helps the auditor to assess the risk that actual misstatement in the population exceeds tolerable misstatement~~this risk, and while the risk is~~ may be reduced if additional audit evidence is obtained.

~~A20. When using statistical sampling the auditor may use estimated maximum misstatement for purposes of concluding whether the audit sample has provided an appropriate basis for conclusions. See Appendix 5.~~

A22~~1~~. If the auditor concludes that audit sampling has not provided an appropriate basis for conclusions about the population that has been tested, the auditor may:

- Request management to first investigate misstatements or deviations that have been identified and the potential for further misstatements or deviations and to make any necessary adjustments; ~~and/or~~
- Tailor the nature, timing and extent of those further audit procedures to best achieve the required assurance. 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.

## Appendix 1

(Ref: Para. A8)

### 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 the use of stratification and value weighted sampling techniques.

#### 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 increasing sampling risk.
2. When performing tests of details, the population 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.

#### Value Weighted Selection

3. 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 the population. 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 4) and is most efficient when selecting items using random selection.

## Appendix 2

(Ref: Para. A10)

### 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.

<b>FACTOR</b>	<b>EFFECT ON SAMPLE SIZE</b>
1. An increase in the extent to which the risk of material misstatement is reduced by the operating effectiveness of controls	Increase
2. An increase in the rate of deviation from the prescribed control activity that the auditor is willing to accept	Decrease
3. An increase in the rate of deviation from the prescribed control activity that the auditor expects to find in the population	Increase
4. 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	Increase
5. An increase in the number of sampling units in the population	Depends on the type of sample

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 rate of deviation 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 level of assurance.* The greater the level of assurance that the auditor requires that the results of the sample are in fact indicative of the actual incidence of deviation 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.

## Appendix 3

(Ref: Para. A10)

### 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.

<b>FACTOR</b>	<b>EFFECT ON SAMPLE SIZE</b>
1. An increase in the auditor's assessment of the risk of material misstatement	Increase
2. An increase in the use of other substantive procedures directed at the same assertion	Decrease
3. A decrease in the risk that the auditor will conclude that a material misstatement does not exist, when in fact it does exist	Increase
4. An increase in the total misstatement that the auditor is willing to accept (tolerable misstatement)	Decrease
5. An increase in the amount of misstatement the auditor expects to find in the population	Increase
6. Stratification of the population when appropriate	Decrease
7. The number of sampling units in the population	Negligible Effect

1. *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.
2. *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 population, the less assurance the auditor will require from sampling and, therefore, the smaller the sample size can be.
3. *The auditor's required level of assurance.* The greater the level of assurance 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.
4. *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.
5. *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.
6. *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.
7. *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.)

## Appendix 4

(Ref: Para. A12)

### Sample Selection Methods

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

- (a) Random selection, (such as may be applied through random number generators).
- (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. Monetary unit sampling is a form of systematic selection using the monetary unit as the base.
- (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.

**Appendix 5**

(Ref: Para. A20)

**Using Estimated Maximum Misstatement to Evaluate Sample Results**

1. ~~Statistical sampling enables the auditor to determine estimated maximum misstatement. When using statistical sampling the auditor may use estimated maximum misstatement for purposes of concluding whether the audit sample has provided an appropriate basis for conclusions.~~
2. ~~Projected misstatement is the auditor's best estimate of the amount of misstatement in the population. Estimated maximum misstatement, on the other hand, is the upper limit of the range of reasonably possible misstatement; and is always larger than projected misstatement. Even if no misstatements are detected in a sample, so that projected misstatement is zero, there is a probability that at least some misstatement exists despite the lack of sampling evidence. The risk ordinarily declines for increasingly large amounts of potential misstatement, and at some point on the continuum of potential misstatement reaches an acceptably low level. That point is the estimated maximum misstatement. If misstatements are detected in the sample, the projected misstatement is greater than zero and the estimated maximum misstatement is greater than it would have been had no misstatements been detected.~~
3. ~~When the sample is evaluated, estimated maximum misstatement may be compared with tolerable misstatement to determine whether the auditor has achieved reasonable assurance that actual misstatement is tolerable. If estimated maximum misstatement exceeds tolerable misstatement the auditor cannot conclude with an appropriate level of assurance that actual misstatement does not exceed tolerable misstatement. If this is the case, in order to make the appropriate conclusions required by paragraph 14 of this ISA, it is necessary to obtain additional audit evidence.~~
4. ~~Considerations analogous to those discussed in paragraphs 2 and 3 in relation to estimated maximum misstatement also apply to the estimated maximum rate of deviation in the context of tests of controls.~~

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