Making sense of sampling and substantive analytical review

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Stephanie Henshaw & Peter Herbert

Ask a question

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.

Today's presenters

Stephanie Henshaw
Head of Audit and
Assurance
PKF Francis Clark

Peter Herbert
Director
Insight Training

Programme

Sampling – a hot topic

The evidence 'pie'

Efficient & effective substantive AR

Sampling tips & traps

Frequently asked questions

Q&A

Sampling – a hot topic

The elephant in the room …

"

Many firms' audit methodologies permit capped or limited sample sizes. We raised findings where we found limited samples employed on significant risk areas and Key Audit Matters. Audit teams tend to default to limited sample sizes which can prevent an objective assessment of the actual test results. Limited sample sizes also prevent audit teams from exploring more effective ways of obtaining appropriate audit evidence.

FRC Developments in Audit 2021

Possible responses

Reactive
- Welcome to 21st century auditing!!
- Change methodology provider?!

Proactive
- Perform a <u>proper</u> risk assessment
- Explore other ways of testing
- Sample thoughtfully

Putting risk assessment first

‘When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks’

ISA (UK) 240 para 27

Fraud not error

Can the presumption be rebutted?

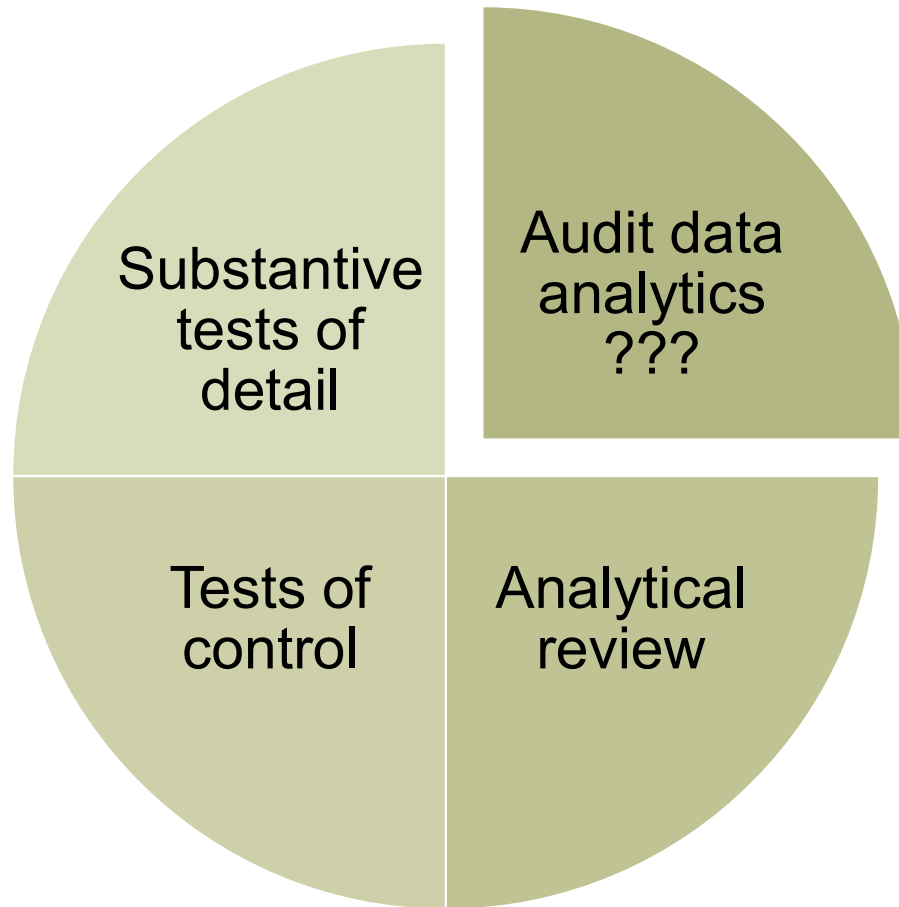Which assertion(s)?

Which revenue stream(s)

Care re controls

Leave time to think!

The evidence "pie"

The evidence 'PIE'

Tests of control

Pros

- ↓ sample size for substantive test of detail
- What clients would expect?
- Three-year rule
- Sometimes substantive tests just don't work!

Cons

- Efficient enough?
- Standard methodologies giving limited 'credit'?
- Do we really have conviction about controls?
- How much work?
- How many 'failures' for wheels to come off?

Common question

All the systems seem fine and we've had no problems with walkthrough tests. So can our substantive test sample size can be reduced?

Audit data analytics – brave new world!

Challenges

Requires investment
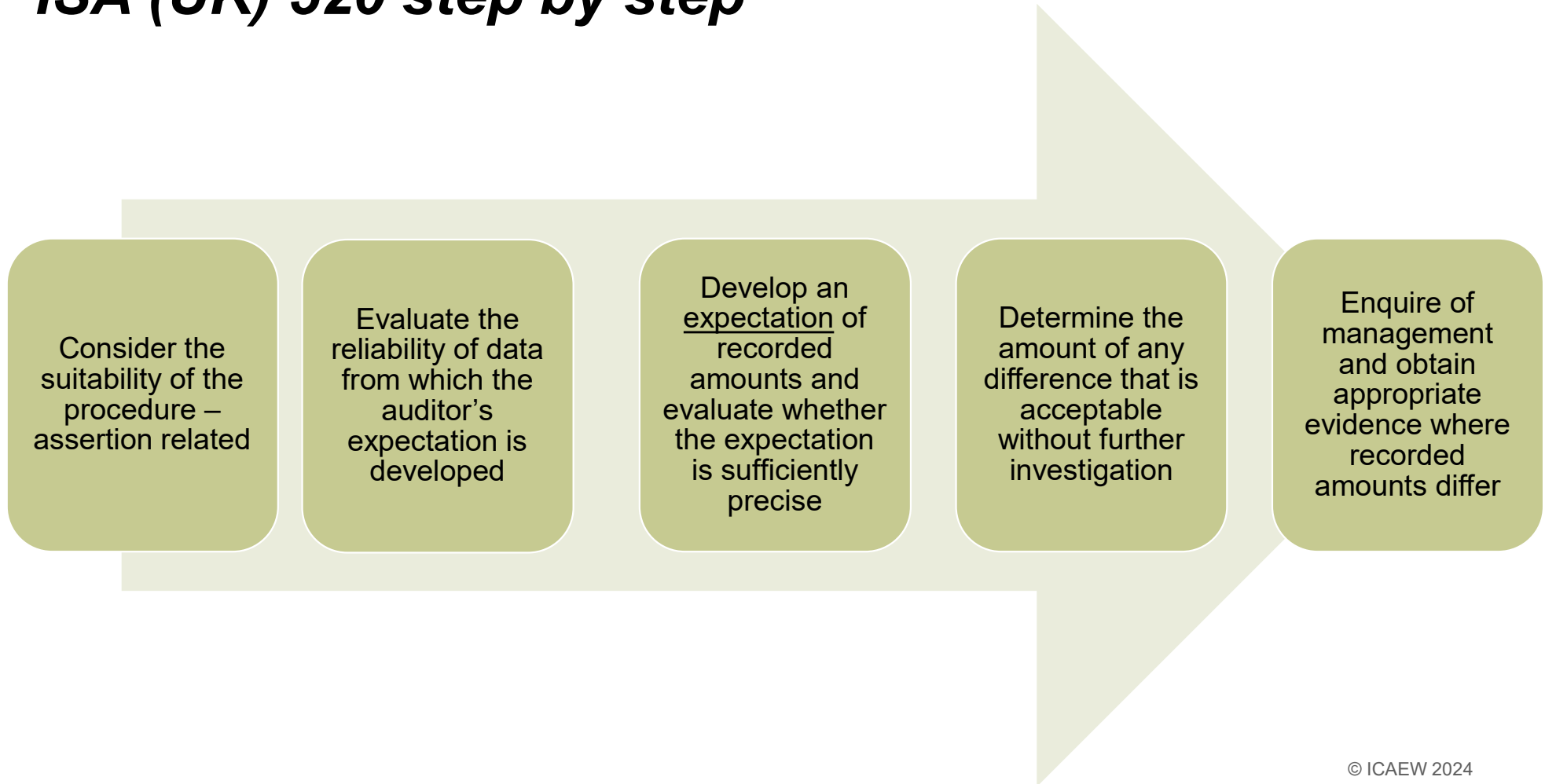
Can't always be made to work

How much credit to take?

Doesn't work for all assertions

Which outliers – and how many?

Efficient and effective SAR

ISA (UK) 520 step by step

Consider the suitability of the procedure – assertion related

Evaluate the reliability of data from which the auditor's expectation is developed

Develop an expectation of recorded amounts and evaluate whether the expectation is sufficiently precise

Determine the amount of any difference that is acceptable without further investigation

Enquire of management and obtain appropriate evidence where recorded amounts differ

Back to basics

Expectation

Calculation

Investigation

Substantiation

Conclusion

Every

Corner

Is

Swept

Clean

Example

2022 gross salaries	£874K
2022 Ave employee numbers	52.67
2023 Ave employee numbers	59.0
Pay rise	3.5 %

Expected 2023 gross salaries [£874K x 59.0/52.67 x 1.035]	£1,013K
Actual 2023 gross salaries	£1,063K
Difference	£50K
Adjust for one off redundancy payments	£29K
Remaining difference	£21K 2% - trivial

Evaluating the results of SAR

Sampling tips and traps

Question

When testing a **sample** of trade debtors can/should I be picking the larger balances?

Sampling approach

Overall aim:

- Obtain evidence that the total balance is not materially misstated

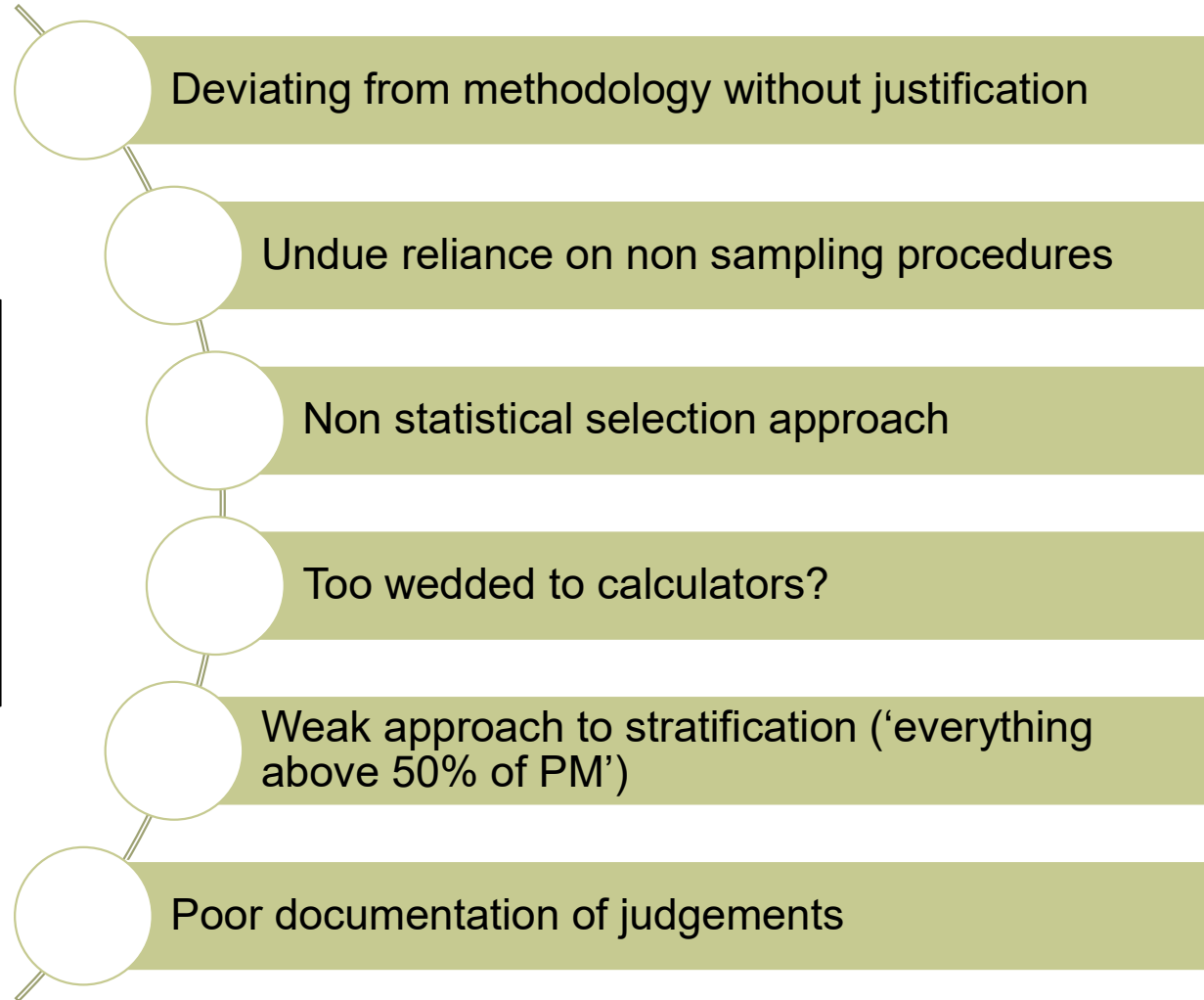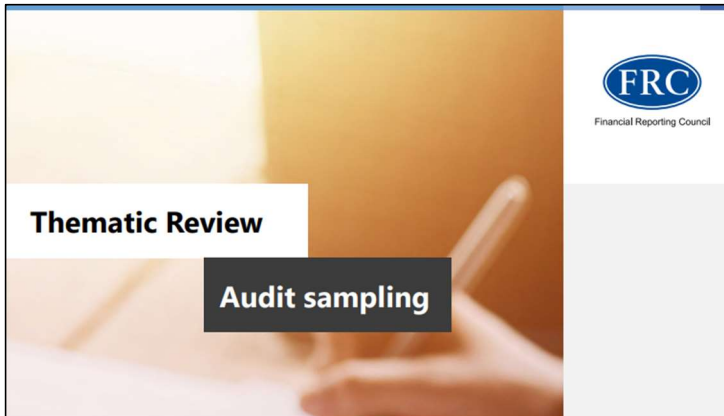| Option 1: Selection	Option 2: Sampling	Option 3: Combination
• Test higher value items until the total value of the untested items in the population is less than performance materiality	• Test a representative sample of items from the population and project your conclusions over the entire population	• Separate out the high value/key items into a sub-population and test these individually • Test a representative sample from the remaining sub-population

Common issues

Thematic review: Audit Sampling
(frc.org.uk)

Deviating from methodology without justification

Undue reliance on non sampling procedures

Non statistical selection approach

Too wedded to calculators?

Weak approach to stratification ('everything above 50% of PM')

Poor documentation of judgements

FAQs

FAQs

Our sample size calculator for stock take attendance is telling us that we should sample 60 items. It will take forever to look at 60 each way. Can we therefore split the sample and look at 30 each way instead?

When testing trade creditors, we're normally checking for understatement. It therefore seems wrong to plug the total value of year end trade creditor balances into the sample size calculator. How should we be tackling it?

Where there is a number of very similar subsidiaries in a group with very similar systems, can we pick samples from across the group?

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