# GAQC.bmpBackground

In December 2009, a new chapter was added to the 2009 edition of the [AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*](http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/IndustryspecificGuidance/NotforProfit/PRDOVR~PC-012743/PC-012743.jsp)(GAS A-133 Guide), titled, “Audit Sampling Considerations of Circular A-133 Compliance Audits” (Chapter) to address sampling in a single audit environment. This Chapter was issued in response to the federal study on the quality of audits performed under [Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*](http://gaqc.aicpa.org/UI/ASPX/Login/SendUserToExternalSite.aspx?URL=http%3a%2f%2fwww.whitehouse.gov%2fomb%2fcirculars%2fa133%2fa133.pdf&siteCode=0) (Circular A-133)—also referred to as single audits or Circular A-133 compliance audits—which indicated that improvements were needed in many areas. The study results are detailed in a report titled, *Report on National Single Audit Sampling Project* (the PCIE report) that can be accessed by [clicking here](http://gaqc.aicpa.org/UI/ASPX/Login/SendUserToExternalSite.aspx?URL=http%3a%2f%2fwww.ignet.gov%2fpande%2faudit%2fNatSamProjRptFINAL2.pdf&siteCode=0).

The PCIE report observed a wide disparity in the number of items tested for compliance and for internal control over compliance, as well as a lack of documentation supporting auditors’ sampling conclusions. It also recommended that the AICPA provide clarifying guidance for implementing [AU Section 350, *Audit Sampling*](http://www.aicpa.org/download/members/div/auditstd/AU-00350.PDF)*,* in the context of single audits and that such guidance include specific tables or formulas (or references to tables or formulas) that auditors should use to compute the required sample sizes. Further, it recommended that the GAS A-133 Guide include clear explanations on how to use the tables and formulas, and include illustrative examples based on situations auditors would be likely to encounter in real single audits. Finally, it stated that the GAS A-133 Guide should also explain how sample universes and transactions tested should be documented.

The GAQC established a task force (the Sampling TF) to review the findings in the PCIE report and to respond to the sampling-related recommendations. The Sampling TF was comprised of a wide range of auditors, including a state auditor representative, who have expertise in performing single audits, as well as an academic with significant expertise in audit sampling. The new Chapter is the outcome of the work of the Sampling TF in response to the PCIE report. Before its issuance, the Chapter was cleared by the AICPA Auditing Standards Board and federal agency representatives.

# When is the Guidance Effective?

The Chapter is effective upon its issuance because auditing guidance contained in an AICPA Audit Guide is considered an interpretative publication. Therefore, the Chapter is not setting new requirements but rather providing recommendations on the application of the existing auditing standards, including [AU section 350](http://www.aicpa.org/download/members/div/auditstd/AU-00350.PDF), to this topic area.

# How Can I Obtain the Guidance?

As noted above, the Chapter is included in the [2009 GAS A-133 Guide](http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/IndustryspecificGuidance/NotforProfit/PRDOVR~PC-012743/PC-012743.jsp)*.* Subscribers to the AICPA online publication, [AICPA RESOURCE–ONLINE](http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/Featured/Featured_Online_Subs/PRD~PC-ORS-XX/PC-ORS-XX.jsp), and other similar subscription services should already be able to access the 2009 GAS A-133 Guide. The printed version of the 2009 GAS A-133 Guide will be available February 1, 2010. You may place your order for the 2009 edition of the Guide by [clicking here](http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/IndustryspecificGuidance/NotforProfit/PRDOVR~PC-012743/PC-012743.jsp). For more information on subscriptions to AICPA RESOURCE–ONLINE, [click here](http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/Featured/Featured_Online_Subs/PRDOVR~PC-ORS-XX/PC-ORS-XX.jsp).

In addition to the Chapter, auditors may also want to reference [AU section 350](http://www.aicpa.org/download/members/div/auditstd/AU-00350.PDF) and [AICPA Audit Guide *Audit Sampling*](http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/TopicSpecificGuidance/PRDOVR~PC-012530/PC-012530.jsp) (Sampling Guide). The Sampling Guide, which serves as the foundation for much of the guidance in the new Chapter is also an interpretive publication and assists practitioners in the application of AU section 350. AU section 350 can be accessed by [clicking here](http://www.aicpa.org/download/members/div/auditstd/AU-00350.PDF) and the Sampling Guide can be ordered by [clicking here](http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/TopicSpecificGuidance/PRDOVR~PC-012530/PC-012530.jsp).

The following executive summary of the Chapter has been developed to help practitioners better understand what the new Chapter encompasses and to assist those who do not yet have access to the Chapter to begin planning for upcoming single audit engagements. This summary should not be used as a substitute for the Chapter. The Chapter provides much more context and detail for sampling considerations. Therefore, practitioners are highly encouraged to obtain the GAS A-133 Guide to ensure an appropriate understanding of the requirements and guidance for sampling in a single audit environment.

# Overview of Sampling Guidance

The Chapter provides considerations in designing an audit approach that includes audit sampling to achieve both compliance and internal control over compliance related audit objectives in a Circular A-133 compliance audit or program-specific audit performed in accordance with OMB Circular A-133. The Chapter builds upon the general guidance set forth in [AU section 350](http://www.aicpa.org/download/members/div/auditstd/AU-00350.PDF), (as further discussed in the [Sampling Guide](http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/TopicSpecificGuidance/PRDOVR~PC-012530/PC-012530.jsp)*)* by providing specific, relevant sampling guidance for a Circular A-133 compliance audit or program-specific audit.

Sampling to accomplish compliance-related audit objectives in a Circular A-133 compliance audit environment differs from sampling in a financial statement audit in that to meet the compliance-related objectives, the auditor gathers sufficient appropriate audit evidence on whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program.

In addition to providing important considerations when applying sampling in a Circular A-133 compliance audit, the Chapter provides suggested minimum sample sizes for tests of controls over compliance and tests of compliance based on certain engagement-specific inputs (discussed below). However, the Chapter does not include guidance on every possible valid method of selecting and evaluating audit samples in a Circular A-133 compliance audit. The Sampling Guideprovides additional guidance and technical background and forms the basis of the practical application of audit sampling to Circular A-133 compliance audit, as further outlined in the Chapter.

# Audit Sampling in the Context of Other Auditing Procedures

The Chapter emphasizes that sampling is one of many audit procedures designed to provide sufficient appropriate audit evidence to support the auditor’s compliance opinion on each major program. An auditor often does not rely solely on the results of any single type of procedure to obtain sufficient appropriate audit evidence on each major program’s compliance and internal control over compliance. Rather, audit conclusions may be based on evidence obtained from several sources and by applying a variety of audit procedures. Auditors should consider the combined evidence obtained from the various types of procedures to determine whether there is sufficient appropriate audit evidence to evaluate possible audit findings and to develop the auditor’s report on internal control over compliance and the opinion on whether the auditee complied with laws, regulations, and the provisions of contracts or grants for each major program.

The Chapter discusses numerous audit procedures that may not involve audit sampling including inquiry and observation, analytical procedures, procedures applied to every item in a population in compliance testing, individually important items[[1]](#footnote-1), and understanding and testing internal control over compliance. These types of procedures are important to understand to provide the appropriate context for audit sampling.

# Statistical vs. Nonstatistical Approach

An auditor may choose between a statistical and a nonstatistical approach to audit sampling as both methods comply with [AU section 350](http://www.aicpa.org/download/members/div/auditstd/AU-00350.PDF). An auditor who applies statistical sampling uses tables or formulas to compute sample size based on judgments about factors such as characteristics of the population and certain assessed risks. An auditor who applies nonstatistical sampling uses professional judgment to relate these same factors in determining the appropriate sample size. Paragraph .23 of AU section 350 indicates that ordinarily this would result in a sample size comparable to the sample size resulting from an efficient and effectively designed statistical sample, considering the same sampling parameters.

# Attribute sampling

The underlying basis for the large population sample sizes provided in the Chapter is attribute sampling. When testing internal control over compliance, the auditor is primarily concerned about the rates of deviations from a prescribed control. Similarly, in tests of compliance, the auditor is concerned about whether or not there is evidence of compliance (that is the rate and likely magnitude of noncompliance). Therefore, attribute sampling, as defined in the [Sampling Guide](http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/TopicSpecificGuidance/PRDOVR~PC-012530/PC-012530.jsp) is typically used for tests of controls over compliance and compliance testing in a Circular A-133 compliance audit.

# Planning Considerations

### Determining audit objectives

Proper definition and documentation of the audit objective precedes sampling design and execution. When designing a particular sample, the auditor should consider the specific audit objective to be achieved and should determine that the audit procedure, or combination of procedures, to be applied will achieve that objective. The specific compliance audit objectives will differ for each type of compliance requirement. The Chapter discusses the use of the [*OMB Circular A-133 Compliance Supplement*](http://www.whitehouse.gov/omb/grants_circulars/) (*Compliance Supplement,)* as well as other useful references in the [GAS A-133 Guide](http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/IndustryspecificGuidance/NotforProfit/PRDOVR~PC-012743/PC-012743.jsp) to develop audit objectives for each of the 14 types of compliance requirements.

### Defining the population & considering completeness

The population is defined in a manner consistent with the audit objective and the internal control and compliance attributes being tested. The auditor should determine that the sampling unit and the population from which units are selected for sampling is appropriate for the specific audit objective because sample results can be appropriately projected only to the population from which the sample was selected.

The auditor should select a sample in such a way that the sample can be expected to be representative of the population. If the physical representation (for example, a printout or electronic file purportedly containing all expenditures) and the desired population differ, the auditor might make erroneous conclusions about the population. The Chapter further discusses population considerations including: procedures an auditor may use to verify completeness of a population; some of the unique factors of Circular A-133 compliance audits; considerations when an initial sample does not include a particular attribute being tested; definition of the sampling unit, an internal control system which crosses which multiple major programs, auditee operations in multiple-components, and matters related to clusters.

### Defining control deviation and compliance exception conditions

Based on the auditor’s understanding of internal control over compliance and compliance requirements, an auditor generally will identify the characteristics that would indicate performance of the control or compliance requirement to be tested. The auditor may then define the possible deviation or exception conditions. For tests of controls, a deviation is a departure from the expected performance of the prescribed control. For compliance testing, an exception is a departure from laws, regulations, and the provisions of contracts or grant agreements being tested. Defining a deviation or exception for each audit objective assists the auditor executing the procedures to properly identify control deficiencies and instances of noncompliance. The Chapter discusses the impact of control deviations and compliance exceptions on the reporting elements of a Circular A-133 compliance audit.

### Dual-purpose samples considerations

In some circumstances, the auditor might design a test that uses a *dual-purpose* sample. The most common dual-purpose approach in a Circular A-133 compliance audit is testing the operating effectiveness of a control and testing whether the auditee complied with relevant laws, regulations, or provisions of contracts or grant agreements using the same sample. When utilizing a dual-purpose sample for internal control and compliance testing, it is important that the test objectives align to the same sampling unit and population (that is, the population being sampled is appropriate for the tests being applied to it). There are many factors to consider if contemplating the use of a dual-purpose sample and the Chapter discusses the caveats to consider so that an auditor may properly define, conduct, document and evaluate tests.

# Determining the Sample Size

The Chapter presents suggested minimum sample sizes as well as factors auditors may consider when using judgment to determine appropriate sample sizes. Because the objectives for tests of controls and tests of compliance are different, there are different factors to consider when determining sample sizes; thus, sample sizes should be considered separately for internal control testing and compliance testing. Audit documentation typically includes the inputs and assumptions for sample sizes to support each sample for every direct and material type of compliance requirement where sampling is used. It is important to note that the size of the population has little or no effect on the determination of sample size, except in relatively small populations of 250 items or less.

The suggested minimum sample sizes are all based on an expectation of zero deviations/exceptions. If an expectation is for more than zero deviations/exceptions, the auditor may develop their own sample sizes with planned deviations/exceptions. The [Sampling Guide](http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/TopicSpecificGuidance/PRDOVR~PC-012530/PC-012530.jsp)provides tables and guidance for auditors desiring to design audit samples when deviations/exceptions are expected.[[2]](#footnote-2)

# Control Testing Sample Size Table and Inputs

If the auditor determines that internal control over compliance is effectively designed and implemented, Circular A-133 requires that the auditor plan the audit to support a low level of assessed control risk. This requires the auditor to plan to obtain a high level of assurance that controls operate as designed. Therefore, generally, samples for control tests are designed to achieve a 90 percent to 95 percent confidence level (see the Sampling Guidefor further discussion of confidence levels). Because there are typically few other procedures that provide evidence of the effectiveness of controls, the sample size table included in the Chapter (and reproduced below) is designed to provide a high level of assurance. The following table provides suggested minimum samples sizes for very and moderately significant controls with limited to higher inherent risk of material noncompliance in a major program (see discussions of these terms below) for populations of 250 items or greater.

The suggested minimum sample sizes are designed to provide sufficient appropriate audit evidence that controls are operating effectively in many Circular A-133 compliance audit testing situations. However, auditors may need to use professional judgment to determine if larger sample sizes are warranted in order to obtain sufficient appropriate audit evidence that controls are functioning in their particular circumstances.

|  |  |
| --- | --- |
| **Control Testing Sample Size Table** | |
| **Significance of Control and Inherent Risk of Compliance Requirement** | **Minimum Sample Size** |
| **0 deviations expected** |
| Very significant and higher inherent risk | 60 |
| Very significant and limited inherent risk  or  moderately significant and higher inherent risk | 40 |
| Moderately significant and limited inherent risk | 25 |

### Significance of control

The auditor may vary the type or amount of evidence obtained regarding the effectiveness of individual controls selected for testing based on the significance associated with the control. All controls that the auditor determines must be tested to mitigate the risk of material noncompliance are significant controls, but a spectrum exists as to the significance of each control. An important factor in determining the significance of a control is the potential magnitude of noncompliance (both qualitatively and quantitatively) if the particular control were to fail. The auditor should use the information gathered by performing the risk assessment procedures, including the audit evidence obtained in evaluating the design of controls and determining whether they have been implemented, as audit evidence to support the risk assessment. The Chapter further discusses the role and impact of the risk assessment to determine the nature, timing, and extent of further audit procedures for each control selected for testing. The Chapter also discusses the impact of other complementary, compensating, or redundant controls on determining significance and extent of testing.

### Inherent risk factors

The Chapter presents numerous factors that may suggest higher inherent risk of noncompliance including:

* New program with little history with compliance requirement.
* Complex processing (for example, nonroutine versus routine, nonsystematic versus systematic, manual versus programmed) or judgment.
* Significant deficiencies or material weaknesses observed in the past.
* Correspondence from program officials indicating potential problems.
* Lack of adherence to applicable laws and regulations in prior years.
* High auditee turnover in a particular area.
* Very high volume of activity.
* Substantial change in the policies, processes, or personnel associated with the compliance requirement.
* The program has been identified as higher risk by the OMB in the *Compliance Supplement*.

It is important to note that the size of the program does not necessarily affect the potential for noncompliance. The presence of one or more of the factors listed above may lead the auditor to determine that there is higher inherent risk; however, the auditor uses professional judgment to determine whether the number and combination of risk factors present higher or limited inherent risk of material noncompliance.

### Inputs and Assumptions Underlying the Suggested Minimums

In order to properly apply the sampling tables illustrated in the Chapter, it is useful to understand the inputs and assumptions underlying the suggested minimums (that is, confidence level, tolerable deviation rate, expected deviation rate). These items are discussed in the Chapter and the [Sampling Guide](http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/TopicSpecificGuidance/PRDOVR~PC-012530/PC-012530.jsp) provides an extensive discussion of the concepts.

It is important to note that for Circular A-133 compliance audits, the auditor often plans for zero deviations in the sample. The sample sizes in the table above are based on an expectation of zero deviations in the sample and a high level of assurance. If testing discovers no deviations, then a high degree of assurance is achieved that the control is being performed at an acceptable level to be effective. When more deviations are encountered than were planned for, the auditor has not met the planned audit objective. The Chapter further discusses an auditor’s responsibilities when deviations (whether expected or not) are found in testing.

# Compliance Testing Sample Size Table and Inputs

The auditor typically performs a broad array of procedures to provide a reasonable basis for expressing an opinion on compliance for each major program. In a Circular A-133 compliance audit, just as in a financial statement audit, other audit procedures typically precede compliance audit sampling. For example, risk assessment procedures typically precede substantive procedures. Similarly, it is common for some controls-related procedures to be conducted prior to compliance testing. Before designing a compliance audit sample, it is also common for the auditor to consider whether there are individually important items that may be selected for testing prior to selecting a compliance sample (which are discussed at length in the Chapter). The auditor should consider other audit procedures when determining the appropriate sample size for compliance testing.

The risk of material noncompliance consists of inherent risk and control risk. The assurance required from a compliance sample and, therefore, the determination of the minimum compliance sample size, depends on the risk of material noncompliance remaining after other audit procedures (for example, risk assessment procedures, substantive analytical procedures, tests of individually important items) have been executed. If the auditor gathers evidence that controls over compliance are effective through tests of controls, and other audit procedures do not identify instances of noncompliance or identify specific heightened risk factors, and the auditor determines that additional testing via audit sampling is warranted, it is likely the remaining risk of material noncompliance would be low or moderate. Conversely, if tests of controls identify weaknesses in the controls over compliance, or other audit procedures identify instances of noncompliance or identify specific heightened risk factors, it may lead the auditor to assess the risk of material noncompliance as high or moderate.

The following table provides suggested minimum sample sizes associated with high, moderate, and low remaining risk of material noncompliance for populations of 250 items or greater. The remaining risk of material noncompliance is an indicator of the desired level of assurance. A high remaining risk of material noncompliance indicates that a high level of assurance is desired to meet the audit objective.

|  |  |
| --- | --- |
| **Compliance Testing Sample Size Table** | |
| **Desired Level of Assurance (Remaining Risk of Material Noncompliance)** | **Minimum Sample Size** |
| **0 exceptions expected** |
| High | 60 |
| Moderate | 40 |
| Low | 25 |

The minimum sample sizes in the table above may be applied for each direct and material compliance requirement for each majorprogram.[[3]](#footnote-3) Although the minimum sample sizes suggested in the table often provide the appropriate extent of testing, auditors may use professional judgment to determine if larger sample sizes are warranted in order to obtain sufficient appropriate audit evidence in particular circumstances. Depending on the nature of the compliance requirement, the results of other procedures performed during the audit, and the risks and complexities of the sampling population, there may be situations when larger sample sizes would be more appropriate than the proposed minimum sample sizes. Each type of compliance requirement tested should be evaluated separately for purposes of determining sample size.

### Desired level of assurance

As noted in the compliance testing sample size table above, the primary determinant of the appropriate minimum sample size for a particular compliance test is the risk of material noncompliance remaining after considering other audit procedures (for example, risk assessment, controls testing, testing individually important items, substantive analytical procedures) and, therefore, the desired level of assurance.

The desired level of assurance or confidence from a compliance sample varies as the types of compliance requirements differ in importance and risk. There is also a broad array of audit procedures the auditor may use that contribute to the overall evidence of compliance. There is general consensus across audit sampling applications that high assurance is typically associated with 90 percent to 95 percent confidence levels. The confidence levels associated with moderate and low in the compliance table above are considered appropriate in compliance testing associated with a Circular A-133 compliance audit.

The basis for expressing an opinion on compliance for each major program often is based on multiple procedures. While the combined totality of audit evidence gathered by the auditor should be sufficient to support a high level of assurance, an auditor may not need to design compliance samples to achieve high assurance when there are other sources of evidence beyond the compliance sample.

In evaluating the desired level of assurance, the auditor may consider the importance of the type of compliance requirement, inherent risk factors, fraud risks, and the results from tests of the operating effectiveness of controls for the type of compliance requirement.

### Tolerable exception rate

The tolerable exception rate for compliance tests is the maximum rate of compliance exceptions that auditors are willing to accept. The tolerable exception rate for all types of compliance requirements is related to program materiality. Materiality is considered in relation to each major program. The quantitative thresholds used to determine if an exception is an “audit finding” related to a major program is lower than the materiality used for planning the Circular A-133 compliance audit and expressing an opinion on the auditee's compliance.

The determination of major program materiality is a matter of professional judgment. The tolerable exception rate for a compliance sample testing nonmonetary compliance attributes as well as monetary compliance attributes is normally equal to or lowers than the level of materiality for expressing an opinion on the auditee’s compliance with requirements having a direct and material effect on each major program. The compliance testing sample size table above is based on a 5 percent tolerable exception rate for both nonmonetary and monetary attributes. If program materiality is set lower than 5 percent, then the tolerable exception rate would be lowered, and the minimum sample sizes may need to be adjusted upward. The Sampling Audit Guide provides tables and guidance for auditors desiring to design audit samples for different tolerable exception rates.

# Testing Small Populations

Some significant controls or instances, or both, of compliance do not occur frequently. The following table provides suggested minimum sample sizes in testing small populations subject to controls and compliance requirements.[[4]](#footnote-4) *Small populations*, for purposes of the Chapter, are defined as populations of fewer than 250 items.

|  |  |
| --- | --- |
| **Small Population Sample Size Table** | |
| **Frequency and Population Size** | **Sample Size** |
| Quarterly (4) | 2 |
| Monthly (12) | 2–4 |
| Semimonthly (24) | 3–8 |
| Weekly (52) | 5–9 |

For populations between 52 and 250 items, a rule of thumb some auditors follow is to test a sample size of approximately 10 percent of the population, but the size is subject to professional judgment, which would include specific engagement risk assessment considerations. The Chapter discusses other issues to consider with small populations including selecting a sample size from the ranges presented and the impact the sampling unit may have.

# Selecting Sample Items for Testing

Once the population of transactions or items relevant for a control or type of compliance requirement is identified, the auditor may select items for testing from a physical or electronic representation of the population. For example, a physical representation might be a printout of expenditures for the period.

Sample items should be selected so the sample can be expected to be representative of the sampling population and, thus, the results can be appropriately projected to the population. The goal of sample selection, a representative sample, is the same for both nonstatistical and statistical sampling. The Chapter discusses appropriate sampling methods for statistical sampling versus nonstatistical sampling as well as specific guidance found within the *Compliance Supplement* for certain types of major programs.

It is common for control testing samples to be drawn from a population that contains multiple major programs (assuming common controls, policies, procedures, and competence of personnel). Experience has shown that it is preferable to select separate compliance samples from each major program because the separate samples provide clear evidence of the tests performed, the results of those tests, and the conclusions reached, which support the auditor’s opinion on each major program.

# Performing the Test Procedures

The Chapter has a lengthy discussion on performing test procedures once the sample has been selected and covers the following topics:

* Considerations if an auditor is unable to apply the planned audit procedures to selected items.
* Investigating and understanding the nature and cause of control deviations and compliance exceptions.
* Determining if additional testing is warranted in response to an observed deviation or exception.

These elements are all important to be familiar with in order to assess the impact of the procedures performed on the engagement and the auditor’s report.

# Evaluating Control Deviations

The Chapter discusses the evaluation process when tests of controls present potential control deviations in order to reach an overall conclusion on the results of tests of controls. The controls sample size table above is based on an expectation of zero deviations. Therefore, the Chapter discusses the effect of finding deviations when using the suggested samples size because when more deviations are encountered than were planned for, the auditor has not met the planned audit objective. The Chapter also discusses methods of calculating a deviation rate; the effect sampling risk may have on the results; assessing the magnitude of the deviation, and reaching an overall conclusion on tests of controls.

# Evaluating Compliance Exceptions

Similar to the content on control deviations, the Chapter discusses the evaluation process when tests of compliance present potential compliance exceptions in order to reach an overall conclusion on compliance with a particular type of compliance requirement. The Chapter discusses methods to calculate the exception rate for monetary and nonmonetary compliance attributes; noting that similar to the control sample size table, the compliance sample size table is based on an expectation of zero exceptions. The Chapter provides considerations as to whether to expand testing and/or report findings. It also discusses coming to an overall conclusion about the sample and how such results may impact reporting findings and/or the audit opinion.

# Documenting the Sampling Procedure

The form and extent of documentation related to sampling are influenced by numerous factors, which may include the size and complexity of the auditee, the nature and complexity of the auditee’s internal control over compliance, the nature and complexity of the compliance requirements, and the auditee’s past experience relative to compliance.

Although [AU section 339, *Audit Documentation*](http://www.aicpa.org/download/members/div/auditstd/AU-00339.PDF), [AU section 350](http://www.aicpa.org/download/members/div/auditstd/AU-00350.PDF), and the Chapter do not contain a list of specific documentation requirements for audit sampling applications, the Chapter does include examples of items that the auditor typically documents including the following:

* A description of the control or compliance requirement being tested
* A definition of the population and the sampling unit, including how the auditor considered the completeness of the population
* A definition of the deviation or exception condition
* The desired confidence or assurance level, the tolerable deviation or exception rate, and the expected population deviation or exception rate[[5]](#footnote-5)
* The chosen sample size[[6]](#footnote-6)
* The sample selection method such as random, haphazard, or systematic selection
* The selected sample items, which would include identifying characteristics of the specific items tested, clear documentation to support both controls and compliance testing when dual purpose testing is applied, and resolution of any documents that cannot be located. Paragraph 21 of AU section 339 provides several alternatives regarding how an auditor can identify selected sample items in audit documentation
* An evaluation of the sample, including:
  + the number of deviations or exceptions found in the sample,
  + important qualitative aspects of the deviation(s) or exception(s),
  + the projected population deviation or exception rate,
  + a determination of whether the sample results support the test objective,
  + the effect of the evaluation on other audit procedures (for example, if tests of controls do not allow the auditor to support a low assessed level of control risk for major programs, consideration of the effect on subsequent tests of compliance),
  + the auditor’s determination of known questioned costs and estimation of likely questioned costs, and
  + a determination whether observed deviation(s) or exception(s) require a modification of the auditor’s opinion on compliance or will result in a finding and, if not, how the auditor considered sampling risk
* Any qualitative factors considered significant in making the sampling, selections, assessments, and judgments which may include multiple major programs, multiple components, clusters, or other factors
* A summary of the overall conclusion (if not evident from the results)

1. Items of individual importance may be large, risky, or unusual items or transactions that contain characteristics of a prior compliance finding. Individually important items are those that, standing alone, are significantly different from the remainder of the population. [↑](#footnote-ref-1)
2. If internal control over compliance is deemed likely to be ineffective, Circular A-133 states that the auditor should assess control risk at the maximum and consider whether any additional compliance tests are required because of ineffective internal control. The auditor could consider testing compensating or redundant controls. If no compensating or redundant controls are operating effectively, the auditor also should report a significant deficiency or material weakness as part of the audit findings. [↑](#footnote-ref-2)
3. The suggested minimum sample sizes are consistent with sample sizes provided in tables A.1 and A.2 of appendix A in the AICPA Audit Guide *Audit Sampling.* Although the sample sizes are consistent with statistically-based tables, the sample sizes provided in the Chapter can be used for either statistical or nonstatistical sampling. [↑](#footnote-ref-3)
4. The table is adapted from the table *Small Population Sample Size Table* in the AICPA Audit Guide *Audit Sampling*. [↑](#footnote-ref-4)
5. Use of a sample size from the tables in the Chapter provides adequate documentation of the underlying inputs to the table (that is,tolerable deviation/exception rate, confidence, and expected deviation/exception rate). However, the support for the sample size used within the range provided, which depends on factors such as the significance of the control tested or the remaining risk of material noncompliance, is based on auditor judgment and is not implicit in the tables and, thus, is important in documenting the sampling applications and procedures. [↑](#footnote-ref-5)
6. See footnote 5. Similarly, if an auditor determines a sample size using other than the suggested minimums from the tables in the Chapter (for example, some audit organizations may use their own internal guidance that results in a sample size that is slightly different from the tables in the Chapter), the basis for that determination would also be important in documenting the sampling applications and procedures. [↑](#footnote-ref-6)