



Where We Are Going with Sampling in a Single Audit Environment

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Agenda

- Observations from the federal study on single audit quality related to sampling
- Sampling concepts interpreted for single audits



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PCIE Report

- Specific review of sampling on 50 audits
- Review included evaluating sample sizes over Allowable Costs/Cost Principles for:
 - Internal control over compliance
 - Compliance
- Samples ranged from <10 to >60



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PCIE Report

Stratum I (Single Audits with Expenditures > \$50 million)

# of Transactions Tested	Dual Purpose Testing	Internal Control Test	Compliance Test	Totals
< 10	5	-	-	5
10-19	3	-	4	7
20-29	10	1	-	11
30-39	11	-	1	12
40-59	10	-	-	10
60 or more	5	1	1	7
Totals	44	2	6	52



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PCIE Report

Stratum II (Single Audits with Expenditures > \$500,000 & < \$50 million)

# of Transactions Tested	Dual Purpose Testing	Internal Control Test	Compliance Test	Totals
< 10	4	2	3	9
10-19	4	-	-	4
20-29	6	1	4	11
30-39	1	-	1	2
40-59	3	-	3	6
60 or more	5	-	-	5
Totals	23	3	11	37



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Sampling Concepts

- Statistical vs. nonstatistical approach
- Attribute vs. monetary sampling
- Population considerations
- Sample sizes
- Dual purpose testing
- Deviations



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Statistical vs. Nonstatistical

- Auditor may choose between a statistical and a nonstatistical approach to audit sampling.
- Both methods comply with auditing standards.
- Nonstatistical sampling
 - Not required to compute the sample size using statistical theory
 - Paragraph .23 of AU section 350, *Audit Sampling*, clarifies that sample sizes of statistical and nonstatistical samples ordinarily would be comparable when the same sampling parameters are used





Sampling Concepts

- Tests of controls (TOC) provide evidence about the effectiveness of the design, implementation, or operation of controls and policies in preventing or detecting material noncompliance.
 - **Concern:** Rates of deviations from a prescribed control.
- Compliance testing provides evidence about an auditee's ability to adhere to the direct & material compliance requirements of its major programs.
 - **Concern:** Rates and likely magnitude of noncompliance.





Sampling Concepts Attribute vs. Monetary Sampling

- Attribute sampling is recommended for both TOC and Compliance
 - TOC: Common to apply attribute sampling for TOC in a financial statement audit
 - Compliance:
 - Populations involve monetary amounts but focus is on evidence of compliance (yes/no)
 - Circular A-133 **does not** require the auditor to
 - opine on the fairness of the related balance or
 - compute a precise estimate of the potential error





Sampling Concepts Attribute vs. Monetary Sampling

- A-133 does require
 - Best estimate of likely questioned costs
 - If estimate >\$10,000, the auditor reports a finding
- Attribute sampling allows for the projection of an error





Sampling Concepts Population Considerations

- Identify & document testing objective
 - Separate objectives for TOC & Compliance
 - Utilize the *Compliance Supplement*





Sampling Concepts Population Considerations

- Properly identify the universe of transactions
 - Remember: auditor's opinion is on EACH major program
 - Preferable to treat each major program as a separate population for compliance testing
 - Single audit concept: each transaction or instance of the control has an equal opportunity of being selected
 - Avoid the NUCLEAR sample





Sampling Concepts Population Considerations

- Understand the characteristics of the population
 - Multi-location & centralized/decentralized processing
 - Identify the sampling unit (eligibility files, expenditures, financial reports, cost transfers)
 - May be more than one type of transaction
 - Allowable costs—payroll vs other than payroll
- Execute procedures to test for completeness
 - Reconciliation to the SEFA
 - Compare to other accounting records





Sampling Concepts Sample Sizes

- Controls Testing
 - 90-95% confidence
 - Plan for zero exceptions
 - Importance or significance of control
 - What is potential risk is to the compliance requirement
 - Complexity of the control





Sampling Concepts Sample Sizes

Minimum samples for populations >250 - CONTROLS

Importance / Significance of Control Being Tested	Minimum Sample Size
	0 deviations tolerated
Very Important/Significant	60
Moderately Important/Significant	25





Sampling Concepts
Sample Sizes

● Compliance Testing for each Direct and Material Compliance Requirement

- Other evidence obtained
 - Risk assessment procedures
 - Important item testing
- Determine the risk of material noncompliance
 - Inherent risk assessment
 - Controls testing results—control risk assesment





Sampling Concepts
Sample Sizes

Minimum samples for populations >250 – COMPLIANCE

Remaining Risk of Material Noncompliance (Desired Level of Assurance)	Minimum Sample Size
High	60
Moderate	40
Low	25





Sampling Concepts
Sample Sizes

Small Populations

Frequency & Population Size	Sample Size
Quarterly (4)	2
Monthly (12)	2-4
Semimonthly (24)	3-8
Weekly (52)	5-9





Sampling Concepts Dual Purpose Sampling

- Common practice to utilize a single sample to achieve multiple audit objectives
 - Internal control over compliance testing
 - Compliance testing
 - Financial statement balance testing
- Exercise caution:
 - Different characteristics are for different objectives
 - If there are errors in internal control, compliance sample may not be adequate





Sampling Concepts Dual Purpose Sampling

- Sample size designed for a dual purpose test should be the larger of the samples designed for the separate tests
- Evaluate findings separately for compliance and controls
- Separate documentation for I/C and Compliance tests
 - Population considerations
 - Deviations
 - Conclusions





Sampling Concepts Deviations

- Define deviations for TOC & compliance tests
 - Assists staff auditors in properly identifying control deficiencies and instances of non-compliance during testing
 - More experienced auditors may assist in evaluating the nature and severity of the noted deficiencies





Sampling Concepts Deviations

● ALL deviations should be evaluated to:

- Understand the likely cause
- Determine if it should be reported

● Evaluation of deviations may include:

- Rate
- Systematic nature of the issue
- Pattern relative to past history
- Relationship to other aspects of the audit





Sampling Concepts Deviations

● Additional testing considerations

- Unexpected deviations may be indicative of a larger problem
- Justify 'containment' of the deviation
 - Documentation should explain why the deviation is isolated
 - Additional audit work necessary to contain





Next Steps

● Practitioner input – as this is an active time in the field of single audits and the governmental arena

- Submit your thoughts, suggestions, or reactions to GAQC@aicpa.org





Questions ?????


