

How to formulate an audit objective

What is an audit objective?

Audit objectives are broad statements developed by the internal auditor that define the intended audit accomplishments.

Audit objectives are specific statements about some aspect of a particular subject. The audit objectives must be clearly stated, specific, capable of being evaluated by the available audit evidence, sufficient to render an audit opinion and likely to result in a useful audit report.

How do you formulate an audit objective?

The audit objectives are developed from the information obtained from the preliminary survey and should also encompass the relevant risk areas identified in the risk assessment. When you are developing the engagement objectives for the audit, one should ask oneself **why** are you performing the test of control.

An objective should focus on the results rather than on systems and practices, and should be presented as a statement in the following format: "The objective of the audit is to **ensure/determine** if/whether the . . ." The objective should **not** be phrased in an inconclusive manner, such as ". . . assess the extent to which . . .," as this does not lead to a clear conclusion in a pass or fail format.

The following are possible examples of the outcomes which an audit objective should achieve:

- proof of occurrence
- proof of completeness
- proof of classification

Example of how to answer a question on engagement objectives:

Narrative description:

No credit management controls are in place. All orders received are filled without verifying whether the order is from an existing customer or if the client has credit available

Risk:

All orders received are filled without verifying whether the order is from an existing customer or if the client has credit available. This will increase the risk of bad debts.

Engagement Objective:

To ensure that orders are only accepted from valid account holders.

Explanation of solution:

As per above the objective, the objective should begin with words such as to ensure, to determine, etc.

You should ask yourself why you are doing the test. You want determine that all orders that you have accepted are only from valid account holders. This will reduce the risk of bad debts. Therefore, it is important to remember that your objective must be linked to the risk identified.

Your objective should include a possible outcome. The outcome that is relevant here is proof of validity.

Question on audit objectives:

The following are risk identified by the internal auditor at XYZ Limited:

- 1) Invalid purchases may be recorded.
- 2) Goods received from suppliers may not be recorded.
- 3) Liabilities may be understated, causing profits to be overstated.
- 4) Purchases may be accounted for in the current period, while the goods were in fact only received in the following period.

For each of the above risks formulate an audit objective that you will include in your internal audit programme for the assurance engagement.

Solution to question:

- 1) Validity: To ensure that only valid purchases are recorded.
- 2) Completeness: To ensure that all the goods received from suppliers are recorded as purchases in the purchase journal.
- 3) Valuation: To ensure that the liability in respect of credit purchases are recorded at the correct value.
- 4) Cut-off: To ensure that purchases accounted for in the current period are related only to goods received in the current period.