



Audit Objectives

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Definition of an Audit Objective

While many different audit standards address objectives, I like the way the GAO defines audit objectives:

6.08 The objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be thought of as questions about the program that auditors seek to answer based on evidence obtained and assessed against criteria.

Notice a few things about that paragraph. It states that an objective needs to identify the **subject matter**. It also says that objectives can be thought of as **questions** that you seek to answer and that you need to use **criteria** to evaluate the subject matter.

The GAO thinks that audit objectives are so important that they mention them 120 times in Chapter 6 of the Government Auditing Standards (the Yellow Book).

What NOT to Do

Sometimes it is more instructive to start by examining an obvious failure than a success.

A Bad Audit Objective

Imagine your supervisor handing you this objective and telling you to get it done in two months.

Examine internal controls at the entity.

The team conducting fieldwork cannot be set loose on something like that. There's no telling what they might come back with. The objective is much too vague and broad: internal controls at the entire entity? So, your supervisor wants you to apply the COSO model to the entire entity? I think not!

What is a Performance Aspect?

The definition of an objective in 6.08 mentions an unusual and confusing term: performance aspect.

6.08 They identify the audit subject matter and performance aspects to be included...

And unfortunately, the GAO doesn't define the term! So, I'll give it a shot. A performance aspect is the characteristic you are looking for the audit subject matter to have. It is similar to, but not exactly the same as, criteria. Good audit criteria is a documented, written standards issued by an authoritative body. Performance aspects include: economy, efficiency, effectiveness, compliance, accuracy, completeness, and timeliness.

Here is a tricked out audit objective that includes a finite subject matter (seven performance measures), a performance aspect (accuracy), and documented criteria (Comptroller's Guidance).

Are the seven performance measures reported by the Court of Criminal Appeals accurate as required in the Comptrollers Guidance for Performance Measures issued on January 15, 2012?

Now, I can audit and conclude on that!



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How to Tighten up a Loose Audit Objective

1. First, break the subject being audited into smaller, digestible pieces. In other words, get very specific and finite about your subject matter: choose a specific program, a specific control system, a specific department.
2. Second, clearly define the criteria being used. An audit is defined as the evaluation of a subject matter against criteria. Without criteria, you don't have an audit. Instead, you have a study or a consulting project.

The Worst Performance Audit Ever

My first opportunity to work on a performance audit came when the state's prison system decided to parole a few guys who had been sitting on death row (?!WHAT?!?). The legislature called us – the legislative auditors – and asked us to find out what was happening.

At the entrance conference, we explained that we were going to conduct a management control audit. When the client asked, "What exactly is management control?" we pulled out our audit standards and started our boring description of management controls. "Management controls ensure efficient information and communication, compliance, safeguarding of assets...." Blah blah blah.

Later in the meeting, the tenacious executive asked again, and we said, "Management controls ensure efficient information and communication...." Blah blah blah. After a few more tries, he finally gave up, which is too bad because he could have kept us from

starting the worst audit ever.

What we didn't admit to him, or understand ourselves at the time, was that our audit objective was never defined. Looking back on that crazy project, I realize that our objective was "Whas' up at the Department of Criminal Justice?"

Because our objective was unclear, each auditor tackled a different area of the huge prison system. Being a CPA and having a financial background, I decided the root cause must be lack of money. So, I started looking at the budget process. Genius.

Another auditor looked at healthcare for the inmates. Huh? Another auditor looked at the little businesses the department created to "employ" the inmates. (Inmates cleaned sensitive data off of the state's computer hard drives until someone recognized what a bad idea that was!)

Only one auditor examined the right thing: the parole process to find out

why the dangerous criminals were released. It turned out that a very influential parole board member decided that everyone – even murderers on death row – deserved a second chance.

After spending all summer and part of the fall on the road doing our crazy-all-over-the-place audit, we returned to the office to compile the report. As you can guess, writing the report was hellish, and the resulting report was long and unfocused... just like our audit. The professional writer who helped us pull the report together quit once the report was finished saying something about us driving her completely insane.

But from this painful failure, the legislative auditor learned what NOT to do on a performance audit. Now audit teams must have at least five "focus" meetings to refine their audit objective before they are allowed to begin fieldwork.

Most objectives start out broad. Your job is to narrow the objective and create something auditable. How do you do this? You filter the subject matter through a risk assessment process.

Conclusion vs. Opinion

What is the difference between a conclusion and an opinion? Nothing really.

What you call the answer to your audit objective depends on which audit standards you are following. When discussing performance audits, the GAO calls the answer to the objective a conclusion. The AICPA and the GAO call the answer to the objective an opinion when discussing a financial audit. And the IIA uses both terms interchangeably.

The Deadly “E” Words

Whenever I see “efficient,” “economical,” and “effective” in an audit objective, warning bells go off in my head. The “e” words make it nearly impossible to conclude. How can any auditor gather enough evidence to conclude that a program is “effective?”

Imagine a program designed to combat childhood obesity, for instance. As soon as you conclude that the program is “effective,” someone will point to a chubby kid and say, “I don’t think so!”

Those three words need to be replaced with more specific, concrete, and auditable criteria. For example:

- Replace “effective” with “Are they achieving their objectives?”
- Replace “economical” with “Do the benefits outweigh the costs?”
- Replace “efficient” with “Are services provided in a timely manner?”



A Finite Audit Subject

If I told you to go audit the universe, would you be pleased?

How about if I told you to go audit earth? What, still to big?

How about Europe? Surely, you can do that... No?

How about Italy? Italy is so fun. But it is still too broad of a subject matter, isn't it?

How about Venice?

How about the cathedral in Venice?

What if I asked you to determine whether the holy water in the cathedral in Venice, Italy, Europe, planet Earth is actually holy?

You can do that, can't you?

And that finite subject matter – the holy water – will easily allow you to conclude or opine. You will be able to say, “The holy water in the cathedral in Venice is holy.” And reaching that conclusion or opinion is your primary goal, after all.

You Don't Have to Limit Yourself to Just One Objective!

You might have an overarching objective and several sub-objectives. You can even have sub-objectives for your sub-objectives!

What really matters is that your hierarchy of questions makes sense to your audit report readers and to your audit team!



Build the Skills of Your Team

Give each member of your audit team copies of your five most recent audit reports. Have the team extract audit objectives and the resulting audit opinions/conclusions from these audit reports and write them on a flip chart or white board.

Ask the following questions of the team:

1. Do the objectives and opinions/conclusions mirror each other?
2. Do both the objectives and opinions/conclusions include a specific subject matter and criteria?
3. Reimagine either the objective or the opinion/conclusion for each report so that it aligns and include a specific subject matter and criteria. What are the new objectives? (Write these on the flip chart or white board.)
4. Evaluate the two longest audit reports. Do all findings in the audit reports align with the old and the reimagined objectives?
5. Which findings do not belong in these reports? Discuss with the team how these errant findings ended up in the report.
6. Discuss ways you can ensure that your objectives are clearly defined and that all findings relate to the audit objectives in your audit report.

Can You Improve These Objectives?

Here is an example of how to improve an audit objective:

STINKY: Determine whether the entity has strong controls over assets.

BETTER: Is St. Mary's Hospital guarding the medical equipment from theft?

The stinky objective could lead you anywhere – to any part of the entity and to any asset.

So, let's look at some example audit objectives against this list of qualities. Is the objective:

- Stated as a close-ended question?
- Focused on a specific subject?
- Anchored in documented criteria?
- Free of the deadly “e” words – efficient, economical, effective?

1. Is the computer system used to issue lottery tickets reliable?

This objective is pretty good. It is a close-ended question. It has a specific subject and a relatively specific performance aspect: “reliability.” “Reliability” still leaves some uncomfortable wiggle room for the client and you. What is reliable to the client (that the system works five days out of seven) may not be reliable to you (that the system is up and running 99.9% of the time). In order to avoid a nasty debate at the end of your audit, have the client agree to your definition of reliable on

the front end of the engagement, and let that definition also serve as your audit criteria.

2. Determine whether management has considered alternatives for carrying out a program that might yield the desired results more effectively.

This is not a question, “program” is too broad, and it contains a deadly “e” word, “effective.” Where is the criteria?

3. Identify ways of making the program work better.

That is so bad that I can't even imagine taking it on. This is not a question, the subject is too broad, and it uses the vague term “better.” This sounds more like a never-ending consulting project!

4. Determine whether the entity is using the optimum amount of resources for producing or delivering the appropriate quality and quantity of goods and services in a timely manner.

This is not a question. The subject “entity” is way too broad. It includes several vague performance aspects, “appropriate quality and quantity.” It is missing the criteria.

5. Audit of the statement of cash receipts and disbursements.

This is not a question. It does have a subject, but what are we auditing it for? Completeness, accuracy? Against which criteria?

6. Express an opinion on the financial statements of the entity.

This is a common audit assignment for a financial audit. However, you cannot work from here. It is not stated as a question, and it does not have a specific subject (the financial statements may contain dozens of line items). It is also missing the criteria. We might assume it is GAAP (generally accepted accounting principles), but it could also be an opinion about the quality of the paper on which the financial statements are printed!

7. Determine whether the entity is following purchasing regulations issued by the state.

This one is dangerous! It has a broad subject “the entity” and volumes and volumes of criteria. You could spend the rest of the year on this one.

8. Is the IT Department following computer hardware purchasing regulations as described in Policy #787?

I dig this one. How about you? It is missing a performance aspect, but performance aspects aren't necessary for a compliance type objective.

It is best to have both criteria and a performance aspect in your objective. But if you only have one, it is best to have audit criteria.

Audit types



Most auditors classify audits into three categories:

1. Financial audits – where auditors opine on whether the financial statements are presented in accordance with an accounting standard – like GAAP (generally accepted accounting principles)

2. Compliance audits – where auditors verify that the audit subject complies with law or policy
3. Performance/operational audits – where the audit subject and the audit criteria can be anything

The audit standards don't align with this categorization. The AICPA doesn't directly acknowledge the existence of performance audits. And the GAO's Yellow Book does not mention compliance audits as a specific category of audits but instead addresses financial audits, attestation engagements, and performance audits. The IIA avoids the discussion altogether by calling all audits "assurance services." Yes, it is a bit messy.

How do you know what type of audit you have? Look at either the objective or the resulting opinion/conclusion.

GAGAS 2.03 *All audits begin with objectives, and those objectives determine the type of audit to be performed and the applicable standards to be followed.*

Why does knowing the type of audit you are working on matter? Because you must follow specific audit standards related to that specific audit type. For instance, if you are conducting a financial audit in the United States, you must follow AICPA auditing standards. And if you are doing a performance audit under Yellow Book Standards, you must follow specific guidance regarding performance audits in Chapters 6 and 7.

Future whitepapers include:

- Audit criteria and performance aspects
- Risk assessment
- Audit findings
- Audit methodologies
- Working paper documentation

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