Operational Audit

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Concept

Operational Audit is a systematic review of effectiveness, efficiency and economy of operation. Operational audit is a future-oriented, systematic, and independent evaluation of organizational activities. In Operational audit financial data may be used, but the primary sources of evidence are the operational policies and achievements related to organizational objectives.[1] Operational audit is a more comprehensive form of an Internal audit.

The Institute of Internal Auditor (IIA) defines Operational Audit as a systematic process of evaluating an organization's effectiveness, efficiency and economy of operations under management's control and reporting to appropriate persons the results of the evaluation along with recommendations for improvement.

Objectives

1. To appraise the effectiveness and efficiency of a division, activity, or operation of the entity in meeting organizational goals.

2. To understand the responsibilities and risks faced by an organization.

3. To identify, with management participation, opportunities for improving control.

4. To provide senior management of the organization with a detailed understanding of the result

Advantages

- In addition to making the business more efficient and profitable in the long run.

- An operational audit almost always provides a company with some new, fresh perspectives.

- It makes executives aware of problems that might not have been found otherwise and lets them evaluate risks for the future.

- Managers also can use results to motivate employees, as the company always has something to work toward at the end of the process.

Disadvantages

- Reviewing operational processes can be very time consuming and costly.

- When employees and managers are working with the auditor, they can't do other activities that might benefit the business, so projects or production might slow temporarily.

- Sometimes, the changes that a business makes are hard for workers to get used to, which can increase conflicts or confusion.

Steps of Operational Audit

Generally Operational Audit involves following five steps;

1. Preliminary preparation

2. Field Survey

3. Audit Programme Development

4. Audit Execution

5. Reporting and Follow-up