



OPERATIONAL AUDITING - THE EXTENSION OF THE INTERNAL AUDIT

Yakubov Matrasul Mavlonberdiyevich

*Researcher, Tashkent institute of finance

ABSTRACT

The operational audit can be a valuable tool in the management information system of an organization. Efficient management is a key to any company's success. Checking and improving the management can be accomplished through the operational audit. In this article, described the nature of operation audit and the process of conducting it by internal auditor. Moreover, defined the difference of financial and operational audit.

ARTICLE INFO

Article history:

Received 28 Sep 2023

Received in revised form

29 Sep 2023

Accepted 30 Oct 2023

Keywords:

operational audit, financial audit, internal audit, efficiency, effectiveness, economy, audit firms.

© 2023 Hosting by Research Parks. All rights reserved.

INTRODUCTION

The extension of the internal auditor's responsibility into operations is a logical evolution from the initial delegation of responsibility to the auditor for the protection of the interests of the company. Protective internal auditing is a function that exists in any business larger than a sole proprietorship.

An operational audit is a nonfinancial audit of all aspects of an operation. An operational audit is a thorough examination with the objective of appraising managerial organization, performance, and techniques. It might be considered as a type of constructive criticism. The auditor attempts to determine the extent to which company objectives have been achieved. Operational auditing is a control technique that provides management with a method for evaluating the effectiveness of operating procedures and internal controls. The reduction of waste and inefficiency is a primary goal of an operational auditor. The operational audit is the broadest type of internal audit and examines all functions of the business.

LITERATURE REVIEW

Known by many names, it appears in the literature as operations auditing, management auditing, performance auditing, systems auditing, efficiency auditing, expanded scope internal auditing among others.

The term “operational auditing” conjures up different images for internal auditors. It may be used to mean any of the following:

Alvin A. Arens and Randal J. say that “operational audit- a review of any part of an organization’s operating procedures and methods for the purpose of evaluating efficiency and effectiveness” [1].

The audit of operating units such as manufacturing plants, depots, subsidiaries, overseas operating units, and so on. While the audit scope may cover only accounting, financial and administrative controls it may be broadened in scope to cover the administrative and operational controls, risk management and governance processes of the operating unit under review. To impose general scope limitations for internal audit activities is inconsistent with the global Standards of The Institute of Internal Auditors.

The audit is how the functional areas of a business (such as sales, marketing, production, distribution, HR, etc.) account for their activities and exercise financial control over them. This meaning of operational auditing acknowledges that the internal auditing activity should review all the operational areas of the business, but too narrowly specializes in the audit of accounting and financial controls. It is likely to imply that the internal auditing activity is representing only the finance director or the chief accountant in providing assurance about accounting and financial control across the business.

The audit of any part of the business (operating unit, functional area, section, department or even business process, etc.) where the audit objective is to review the effectiveness, efficiency and economy with which management is achieving its own objectives. Depending upon how broadly one defines internal control, the approach to operational auditing goes further than a review of detailed internal control procedures since management’s objectives are not achieved merely by adhering to satisfactory systems of internal control [2].

The Business Dictionary defines operational audit as “A review of how an organization’s management and its operating procedures are functioning with respect to their effectiveness and efficiency in meeting stated objectives. For example, a business might perform an operational audit if its senior management has become convinced that operational improvements can be made and need to be identified [3].

ANALYSIS AND RESULTS

The biggest difference between the traditional financial audit and the operational audit is in the scope of the engagement. The traditional financial audit has the objective of determining the fairness of financial statements, placing great emphasis on the internal controls of the company. The operational audit includes a review of the objectives of the company, the environment in which the company operates, its operating policies, personnel, and even its physical facilities. The operational auditor uses a great variety of tools to obtain the information necessary to fulfill the objectives of the audit.

The evaluation aspects of an operational audit require the auditor to utilize several procedures that are not usually part of the financial audit. The similarity of the two types of audits is that the auditor measures against certain standards in performing both audits. The standards used in an operational audit come from two basic sources. These two sources are the individual company and the industry of which the company is a part. Company standards include lists of objectives, goals, plans, budgets, records of past performance, policies, procedures, and directives. Industry sources include industry averages and common business practices. These are not always objective standards, so the auditor should not accept an engagement to render an opinion to a third party, but subjective judgments can be used to identify possible problem areas. The objective of an operational audit is to point out situations where efficiency and effectiveness can be improved. In order to achieve the objectives in operational audit,

internal auditor need to certain approaches.

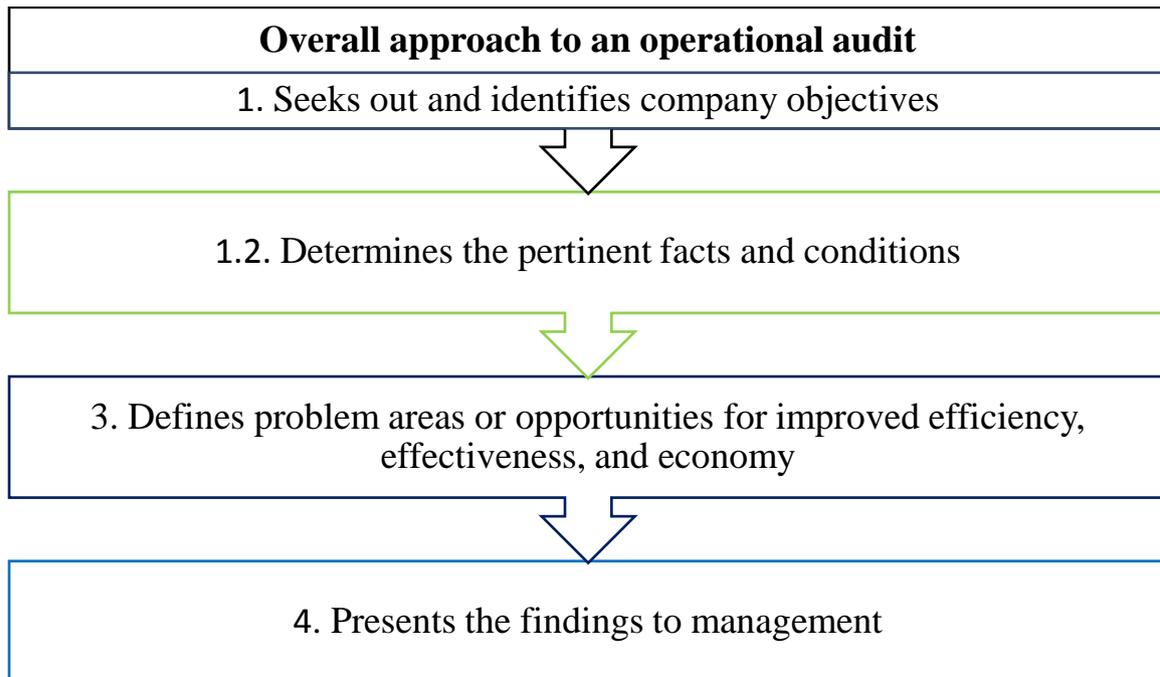


Figure 1. The overall approach of internal auditor in conducting operational auditing¹

Since operational auditing standards can never be precisely defined, it is the responsibility of the auditor to use good judgment in all phases of the work. Because of the judgmental nature of the work, operational auditing can provide its practitioners an outstanding opportunity for professional fulfillment.

The sources of the operational auditor's data include a physical tour of the plant or department, interviews in each functional area with the use of management and operational control questionnaires, and financial analysis work.

An operational audit normally begins with an orientation meeting with high-level management to discuss the scope of the audit, the reason for the audit, and the broad policies, goals, and objectives of the company. This orientation meeting is followed by a preliminary audit of the company. The preliminary audit usually includes a physical tour of all facilities and interviews in each functional area (or at least those areas that might economically gain from an intensive operational audit effort). Occasionally the preliminary audit can be eliminated because management already knows what departments it wishes to have audited in depth. Therefore, the auditor must limit his study to the areas where he can do the best.

Financial analysis plays a key role in the preliminary part of the operational audit. Various financial ratios for the company for the current year, for previous years, and for the industry as a whole can be useful tools to help the auditor spot trends of increasing efficiency or patterns of decreasing efficiency.

After the preliminary audit and survey memorandum have been completed, the auditor selects the department for the in-depth audit. There are three broad sources of information that the auditor should utilize during the in-depth state of the audit: (1) people, (2) internal documents, and (3) direct observation [4].

¹ Made by author

Once the in-depth audit of a department has been completed, it should be followed by an exit interview with personnel from the department. A discussion of the audit results will benefit both the auditor and the department employees. The employees can get a head start on solving the problems that have been identified and the auditor can get another opportunity to test the findings before filing the final audit report. In fact, a rough draft of the final audit report should be available for discussion. As an example, the auditor may have overlooked the fact that a particular inefficiency is unavoidable owing to regulatory requirements. Explaining this to the auditor before the final report is complete, the department.

CONCLUSION

The role of the auditor has broadened in recent years. Management has become more aware that the size of big business and the increasing squeeze on management time have caused a need for an outsider who will advise on various aspects of an organization. This need has been filled by operational auditors, who search out inefficiency and ineffectiveness. Operational auditing can be viewed as a control technique that provides management with a method for evaluating the effectiveness of operating procedures and internal controls.

Traditionally, operational audits have been performed by internal auditors. Independent audit firms began offering operational audit services to fill the needs of companies that did not have an internal audit staff. The Audit firms' annual financial audits were thereby extended and a link provided with their management services departments. Starting with detailed questionnaires that are used as a basis for interviewing company personnel and adding subsequent financial analysis, the auditor can find problem areas or areas of inefficiency within the company.

Operational audits are much broader than financial audits and often more complex. Operational auditing can help management maintain and enhance its effectiveness despite the increased complexity of business. Most managers are too busy implementing policies to take an adequate reading of each department's position or direction. The operational audit can be a valuable tool in the management information system of an organization. Efficient management is a key to any company's success. Checking and improving the management can be accomplished through the operational audit. As an outsider, the operational auditor does not have to worry about the day-to-day problems of a department but can assess the efficiency and effectiveness of the entire operation. The operational auditor can distinguish between the forest and the trees. Most independent audit and management consulting firms are well qualified to perform these audits.

REFERENCES

1. Alvin A. Arens, Randal J. Elder, Mark S. Beasley. Auditing and Assurance Services: an integrated approach. – 14 ed., 2012. Pages 13-14
2. Chambers, Andrew D. The operational auditing handbook: auditing business and IT processes. —2nd ed. John Wiley & Sons, 2010. Pages 3-5
3. Phillips, Ann W. (2008) ISO 9001:2008 Internal Audits Made Easy Tools, Techniques, and Step-By-Step Guidelines for Successful Internal Audits Third Edition Ann W. Phillips ASQ Quality Press Milwaukee, Wisconsin. Pages 56-57
4. <http://www.businessdictionary.com/definition/operational-audit.html>