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## **Operational Auditing**

Increased competition, a shrinking world, and the decentralizing of operations are factors that have greatly magnified the role which operational auditing plays in the success of a company. The desire of management to monitor the overall operations of the company has increased the amount of internal auditors finding themselves involved in operational audits. The function has started to assume an even greater importance than any time in the past.

### **Operational Auditing Defined**

Operational auditing is a technique used by an organization to evaluate its effectiveness, efficiency, and nature of its operations and report to appropriate persons the results of the evaluation along with recommendations for improvement. The objectives are to assure management that its goals are being carried out and whether or not they are capable of being improved.

Operational auditing uses common sense along with logical audit techniques to apply findings to organizational objectives, operations, controls, communications, and information systems. The auditor performing the evaluation is concerned with the whom, what, when, where, why, and how of running an efficient and effective operation. This means that the auditor must have knowledge of the company's operations.

### **How to use Operational Auditing**

The purpose of operational auditing is to assist employees of the company in effectively performing their responsibilities. The auditing provides them with analysis, recommendations, advice, and information concerning the activities reviewed. In order

for the audit to be successful and provide this type of feedback, five phases of an operational audit exist and must be completed. The five steps are: preliminary preparation, field survey, program development, audit application, and reporting and follow up. Each step in the audit has its purpose and depends on the success of the previous step.

In the preliminary preparation step, the auditor must research and have a good understanding of the company that he/she is auditing. The history of the company, available technology, values of the company, and unique characteristics of the company are just a few of the things that an auditor will want to have knowledge of. It is important that the goals, objectives, policies, strategies, and tactics of the company also be clearly revealed by management to the auditors.

In the field survey step, the auditor uses the information in the first step to begin asking questions of management. More specific problem areas, sensitive activities, and crucial operations will be identified in this step. When this step is completed, the auditor will know where to focus the audit efforts on. The next step will be to develop a written audit plan that will set the objectives and steps to follow during the audit. This plan is usually a well-detailed outline on what is to occur in order to accomplish the objectives of the overall audit. Since each audit is unique in its objective, this step is important to the success of the audit.

Once the audit plan has been well developed, the auditor will begin to apply the plan and perform the audit. The audit will more than likely take place on the auditee's premises. During this step the problem areas, sensitive activities, and crucial operations that were identified in the field survey will be reviewed in depth. In this step techniques such as cause-and-effect relationships are developed to be able to report

recommendations, conclusions, and other findings. This is usually the most time consuming step in the audit and it is important for all information to be carefully recorded and documented in order to be able to refer to it after the physical audit has taken place.

If the audit application step is done effectively, the reporting and follow-up step is much easier to perform. This is perhaps the most critical part of the operational audit. A good audit report will effectively communicate the recommendations and conclusions to management. The report will be supported by all the documented facts, findings, and opinions that were gathered during the audit application. The reporting step should include a follow up step to determine what if any action needs to take place in order to improve the operations of the company.

Some companies have an internal audit department that can effectively perform all of these duties. In other cases, a company will hire an auditor to come in and perform the audit for them. In either case, careful and correct audit standards need to be used to prevent any bias or inaccurate conclusions from occurring.

### **An Example of an Operational Audit**

The Oklahoma Employment Security Commission had an operational audit performed in their department in November of 2000. The commission and executive directors wanted to make sure that operations within the agency were efficient and correctly following management instructions, federal and state laws, regulations, policies, and procedures. In their case, the audit was performed by the Oklahoma Department of Internal Audit. The internal audit department reported to the commission and executive directors throughout the activities of the audit.

## References for Further Information

There is a great amount of literature available for reading on the topic of operational auditing. The Institute of Internal Auditors founded in 1941 has developed credentials for those who wish to work in the auditing field. There are a large number of organizations that offer seminars and workshops for those companies who wish to start or improve an audit department within their company. For the companies who do not find it feasible to implement an internal audit department, there are many auditing firms out there who are specialized to perform the work for them. More CPA firms are becoming involved with this type of work as well. Below is a list of sources that I found useful in learning about operational auditing.

- American Institute of Certified Public Accountants. [www.aicpa.com](http://www.aicpa.com)
- Casler, Darwin J., Crockett, James R. *Operational Auditing: An Introduction*. The Institute of Internal Auditors, Inc. 1982.
- Coactive Connection. Operational Audit. [www.coactiveconnection.com/operatio.htm](http://www.coactiveconnection.com/operatio.htm)
- Haley, Donald C. *Decentralized Operational Auditing*. Mid-Atlantic Journal of Business. 1990. V26. P81-89.
- Oklahoma Employment Security Commission. Department of Internal Audit. [www.oesc.state.ok.us.htm](http://www.oesc.state.ok.us.htm)

I think you will find that there is an increasing need for operational auditing in the success of a company. Operational auditing is often a huge step for a company. Making sure that it is performed effectively will ensure that the company is able to accomplish its goals and objectives in the future.