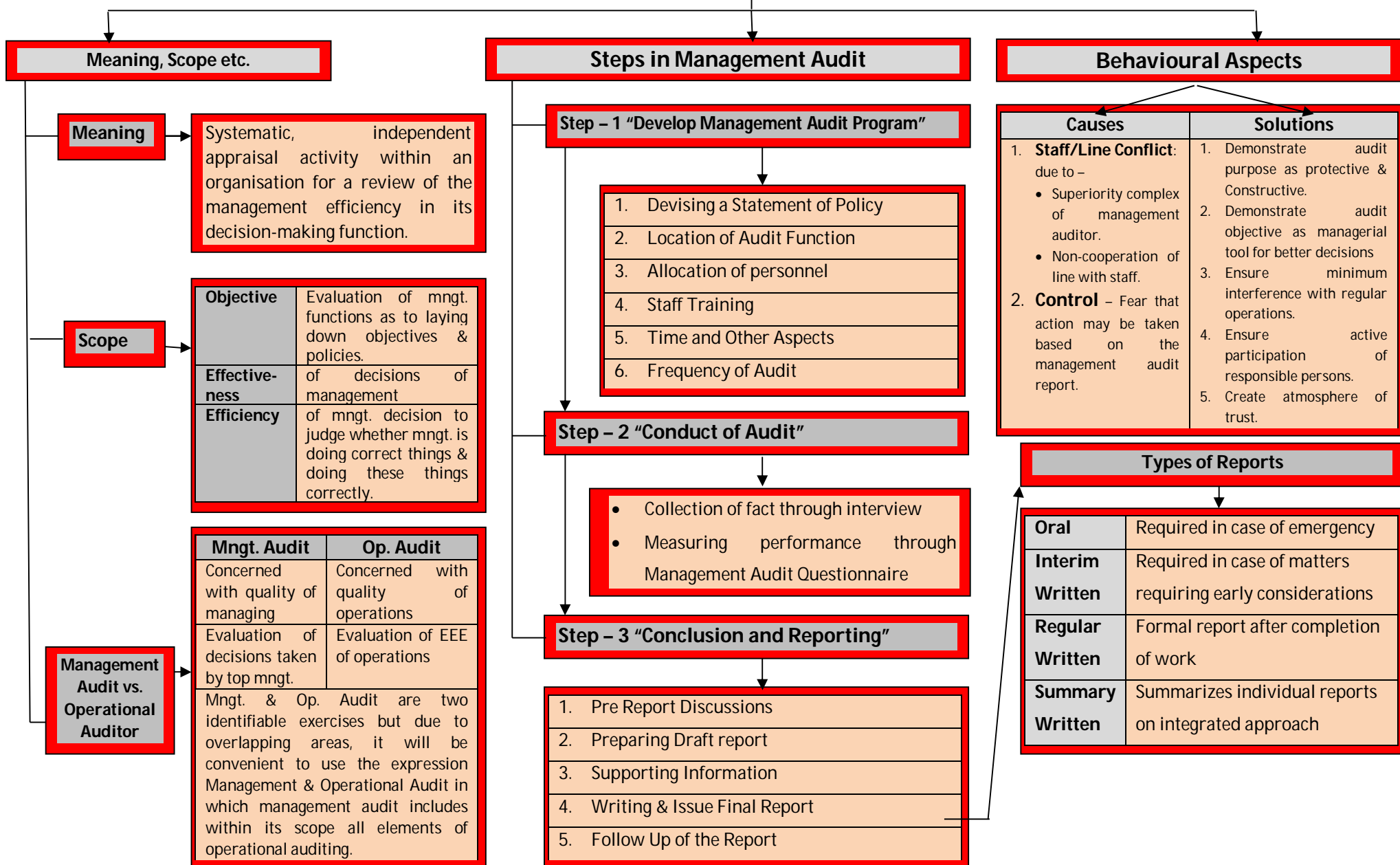


Chapter 14 - Management Audit



Operational Audit

Meaning, Types, Objectives & Need

Meaning

Review and Appraisal of Operations conducted by competent independent person

Types

1. **Functional Audit:** deals with one or more functions.
2. **Organisational Audit:** deals with entire organizational unit.
3. **Special Assignments:** arises at the request of management.

Objectives and Scope

1. Appraisal of Controls
2. Evaluation of Performance
3. Appraisal of Objectives & Plans
4. Appraisal of Organisational Structure.

Need for Operational Audit

- Management requirement for the information in respect of areas beyond their direct supervision.
- Inadequacy of traditional sources of information to provide complete information to management.
- Operational Audit acts as an inexpensive, continuous and objective appraisal of activities, operations and controls to inform the management about achievement of standards and the exceptions if any.

Operational Audit vs. Internal Audit

Operational Auditing	Internal Auditing
It is concerned with the review and appraisal of operations.	Concerned with determining whether other controls are well designed & in place
It is not a part of internal control	It is a part of internal control system
It is a constructive function i.e. to provide suggestions for improvement	It is a protective function i.e. to safeguard the assets of the enterprise.
It analyses all aspects of operations whether they are in tune with management policies, objectives and Goals	It is primarily concerned with financial accounting and internal control
It mainly deals with qualitative aspects	It focuses more on quantitative aspects

Operational Audit vs. Financial Audit

	Financial Auditing	Operational Auditing
Purpose	Concerned with the opinion that whether the historical information recorded is correct or not.	It emphasizes on effectiveness and efficiency of operations for future performance.
Area	Restricted to matters directly affecting the appropriateness of the presented F.S.	It covers all the activities that are related to efficiency and effectiveness of business operations.
Reporting	Financial audit report is sent to all stakeholders.	Operational audit report is primarily for the management
End Task	Financial audit reports the findings to the persons as its end objectives.	Operational audit is not limited to reporting but includes suggestions for improvements also.