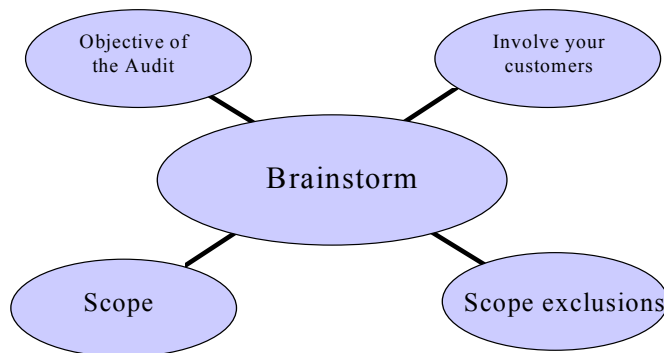


# Operational Audit -

## Generic Outline of Process to Follow with Hints

---

### 1. Brainstorm



### 2. Set Audit Objectives

**Purpose:** To ensure that sufficient appropriate audit evidence will be obtained

There are three elements to be identified:

**Criteria** ♦ - What will the operation to be audited be judged against (eg. policy manuals, laws, professional standards, public opinion etc)?

**Cause** ♦ - What are the reasons for the differences between the criteria and what the auditor will find?

**Effect** ♦ - What is the result or impact of this difference between the criteria and findings?

The audit objectives will usually be posed as a question, eg. Have bulk purchases of stationary been made in excess (cause) of actual and current industry norms (criteria) thereby increasing storage and other costs (effect).

These objectives will not be the same as operating objectives and will not always follow the SMART formula (ie. Specific, Measurable, Attainable, Result orientated, and Time bound). They will be concerned with whether the operating objectives will be met.

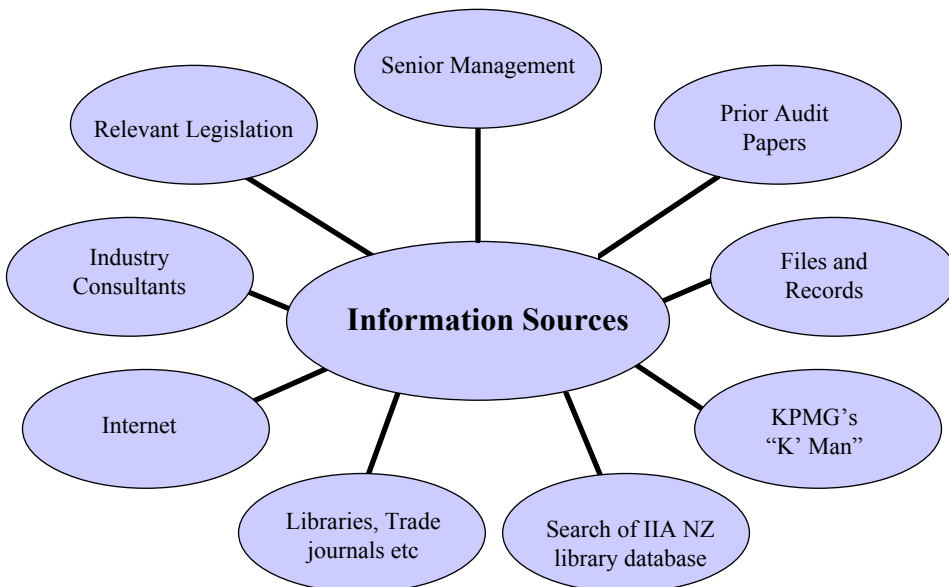
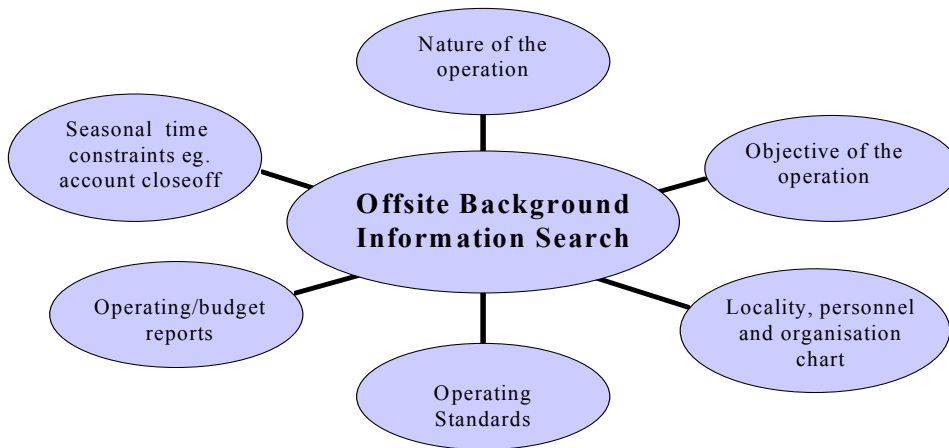
Review and update the audit objectives after the preliminary survey.

### 3. Set Scope

**Purpose:** - To manage expectations on what will be achieved by the audit by setting the boundaries of what will and will not be included. Review and update if necessary, but ensure that this is communicated to all concerned with the management and results of the audit.

### 4. Background Information Search

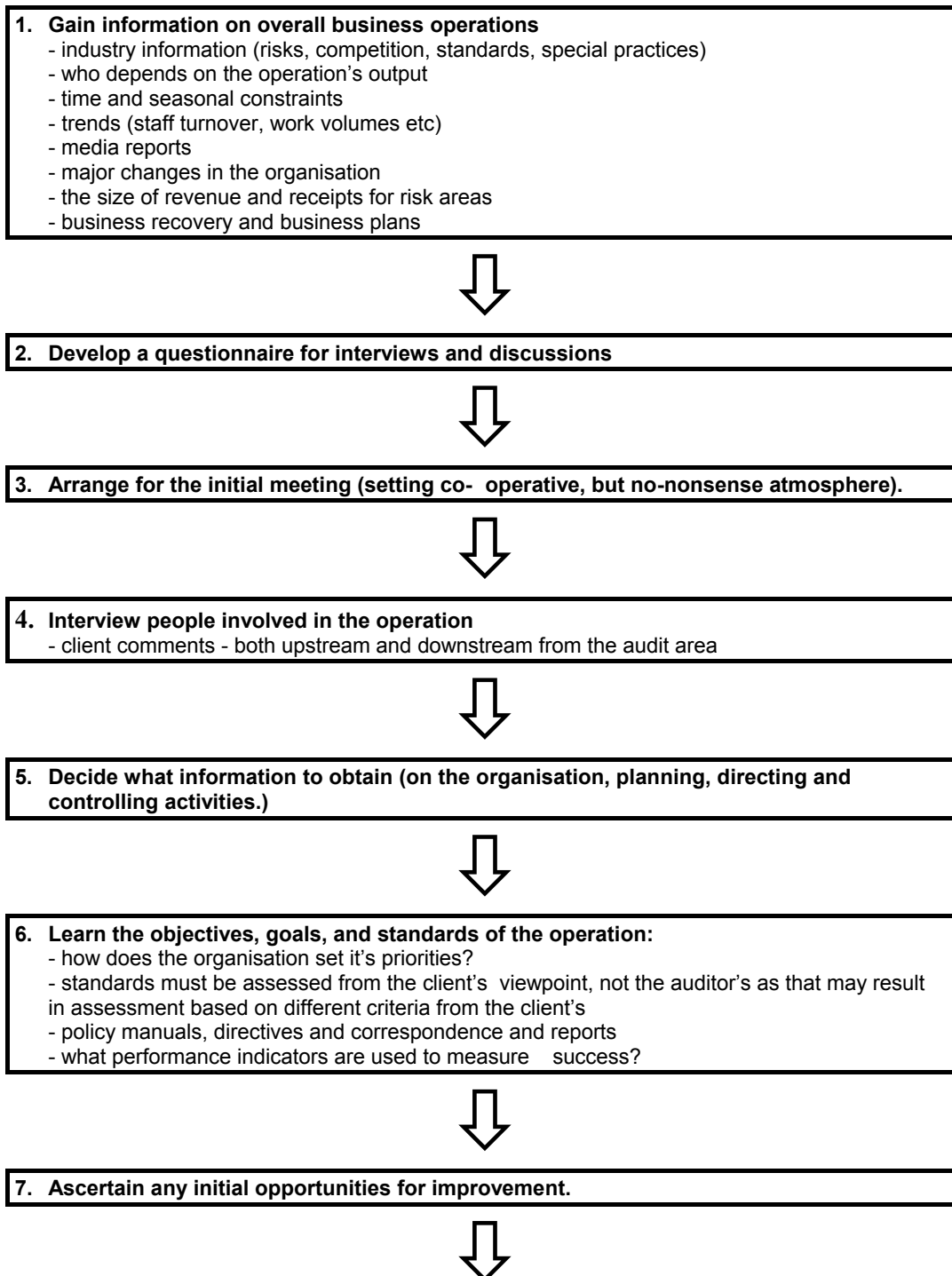
**Purpose:-** To obtain a broad knowledge of the subject of the audit.



## 5. Preliminary Survey

**Purpose:-** To gain a working knowledge of the operation to be audited.

To logically investigate and evaluate all information, a plan for the preliminary survey should be followed. It may look something like this:



**8. Learn the risks inherent in the operation**

- key controls needed to counter these
- influential environmental aspects



**9. Learn about the management of the operation**

- management style and level of control. How they find out about the work environment
- specific concerns of management



**10. Learn about the people performing the operation**

- key staff and their roles in the entity
- written job descriptions for staff
- what staff training is given? What methods are used to evaluate staff?



**11. Carry out physical inspections**

- tour the entity to gain overview and identify obvious areas of concern
- walk through a few representative work activities



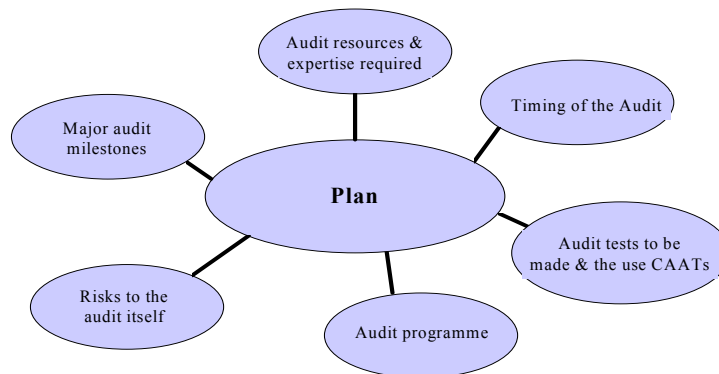
**12. Develop formal or informal flow charts of the operating process**

**13. Focus on possible cost savings from inefficiencies**

**14. Present the survey results**

During the preliminary survey the relationship with client to establish a co-operative and participative audit style. Update (or create) audit objectives based on this larger information base

**Develop a plan for the audit.**



## 6. Review of Internal Controls

**Purpose:-** To determine what level of reliance can be placed on internal controls.

This step takes place throughout the audit process.

### INTERNAL CONTROL REVIEW METHODS

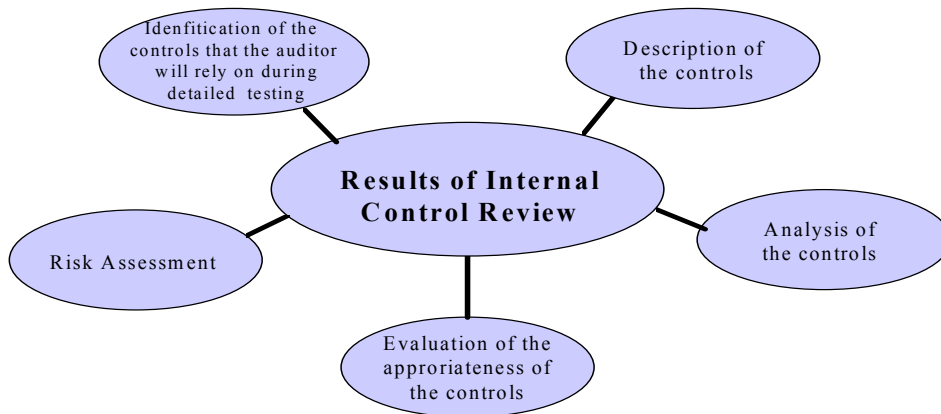
A) Complete the Internal Control Questionnaire from interviewing staff  
- this gets yes or no answers to control questions, indicating areas of control weakness to concentrate on

B) Prepare flow charts or narrative descriptions

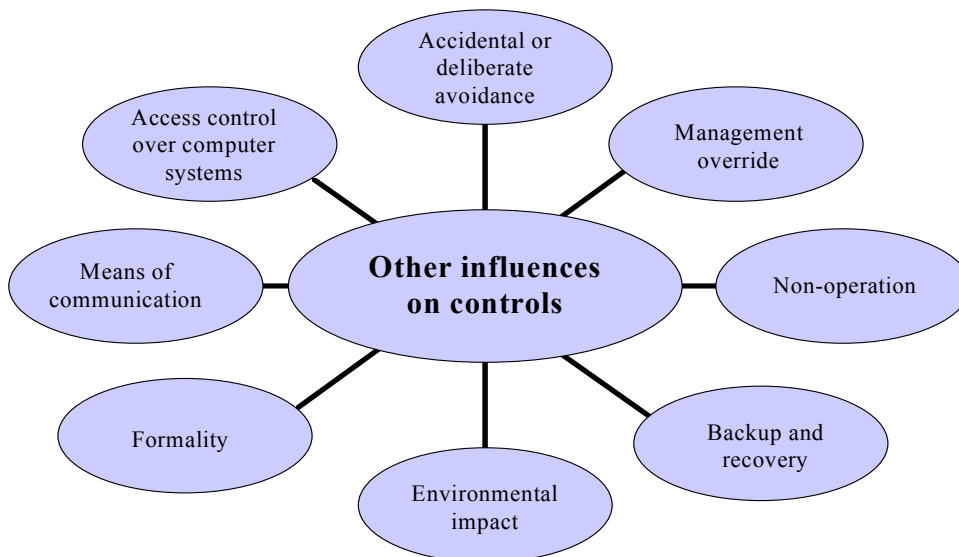
C) Walk throughs and limited system testing

D) Evaluate policy and procedures manuals

The results from this review will have entailed:



It is important to consider other factors that may influence your assessment of the controls:



A re-analysis of risk and budget time will need to be done at this stage. The audit area may need to be prioritised lower/higher in the audit plan, or the amount of detailed testing may be revised.

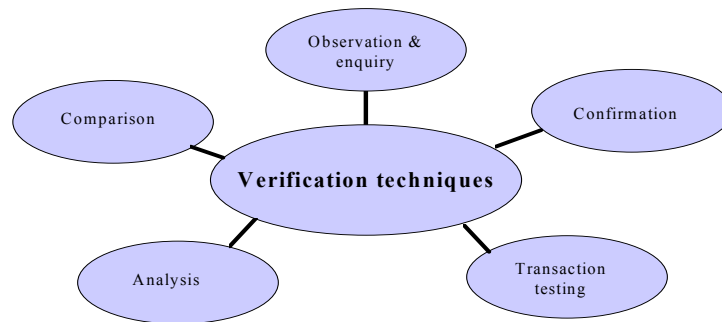
## 7. Detailed testing

To carry out sufficient audit tests of compliance and substantiation to gain sufficient evidence on the objective of the audit.

Create or modify the audit programme based on risk findings established in the internal control review and information gathered in previous steps.

The testing is aimed at significant controls that have previously been assessed as adequate to evaluate their effectiveness, and those controls assessed as inadequate to verify that the required results are not being consistently achieved.

Some verification techniques used may be:

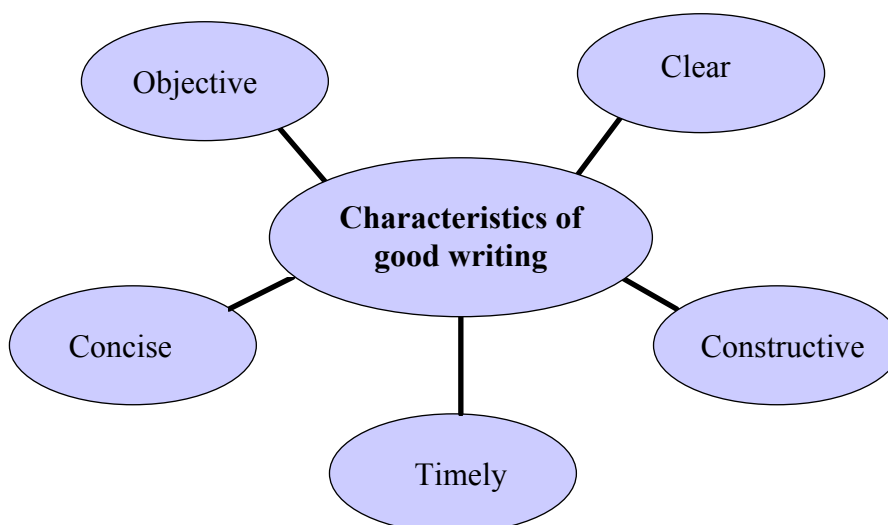


It is important to accurately assess the **CAUSE AND EFFECT** of findings, and not to make assumptions.

## 8. Draft the Report

The report has three purposes:

1. Inform - Clearly identify the difficulties or opportunities for improvement
2. Persuade - Using support for conclusions, and evidence of their importance
3. Results - Giving constructive and practical means of achieving the change



Include in the report

:

- Purpose
- Scope
- Results
- Audit Opinion
- Recommendations

Get it reviewed and read by another person

## **9. Follow-Up**

To ascertain that appropriate action is taken on reported audit findings, or that management of the board has assumed the risk of not taking correct action.