

Difference between Performance, Operational-Compliance Audit and Financial Audit

- **Financial** audit focuses on the accuracy and correctness of accounts.
- **Operational** audit focuses on compliance with procedures and regulations.
- **Performance** audit focuses on efficiency measurements.

Financial and operational audits are different in both their purpose and how they should be performed. These two types of audits require the use of completely different skills, knowledge and experience.

Financial audit is a routine job where attention is more on figures. It does not focus on any specific problem.

Performance audit, on the other hand focuses on problems and the process of identification of its causes, where the attention is more on people, and other resources.

Financial audits are carried out in order to form an independent and objective judgment of the reliability and integrity of the business's financial condition.

Financial statements should be prepared in accordance with the relevant accounting standards as applicable to the entity.

Statements about past performance should be fair, accurate, complete and reliable.

A financial audit provides a way to assess whether the business's financial statements satisfy these requirements.

A financial audit also looks into the past performance of the company, and examines if financial information has been properly recorded, as well as whether there is sufficient evidence to support the numbers.

This type of audit might be performed on a set of financial statements, a single account on the trial balance or a particular financial process. Examples of what a financial audit may cover include:

Asset management	Travel expenditure
Payroll	Income and expenditure
Budgeting and forecasting process	Accounts payable

In order to perform a financial audit effectively, the auditor must be familiar with the generally accepted accounting practices in the industry, as well as the underlying principles of the accounting framework.

Operational audits

As the name suggests, an operational audit is concerned with how the whole or parts of the organization performed in a predetermined period, from an operational point of view. Unlike financial audits, the main concerns of an operational audit are the efficiency and effectiveness of the activities that were carried out in the course of doing business.

The types of activities that might be audited vary between businesses, but some examples of processes that are common to many companies include **Purchasing, receiving**.

An operational audit is an evaluation of *specific activities* within a business and how they have contributed to the function of the company. It also provides assurance about the business's key performance indicators.

While an operational isn't necessary, an effective operational audit requires a professional with experience in the industry and the ability to understand business processes.