

Management Audit

Management audit is a new concept in auditing. A management audit is an independent review, analysis and assessment of the competencies and capabilities of a company's management in carrying out the corporate objectives. The purpose of a management audit is not to appraise individual executive performance but to evaluate the management team in its effectiveness to work in the interests of all the stakeholders, maintain good relations with the employees, and uphold reputational standards. There is no formal management audit committee for the board of directors. The board members assess the performance of individual executives by using quantitative information like organic sales, EBIT margins, segment margins, operating cash flows, and EPS and unquantifiable or intangible elements like efforts toward acquisition integration etc. A management audit is an assessment of how well an organization's management team is applying its strategies and resources. A management audit evaluates whether the management team is working in the interests of shareholders, employees, and the company's reputation. The independent consultants will be hired by the board of directors to conduct the management audit.

Area of Management audit is beyond conventional audit; it reviews all aspects of management. It is an audit of overall performance of management. It covers planning, organizing, co-ordination and control, etc. Management audit detects and diagnoses the problem and suggests various means to avoid and solve the problems. Management audits are often conducted before mergers, restructurings, bankruptcies, and succession planning; they can identify weaknesses in a company's management.

Objectives of Management Audit

- It helps management in setting sound and effective targets.
- It suggests management in getting desired results and to reveal any defect and irregularities in the process of management.
- Management audit helps the management in effective discharge of their duties.
- It helps in co-ordination of various department.
- It facilitates training of personnel and marketing strategies.

- It also helps in comparing inputs with outputs.
- It ensures strong relations with outsiders.
- It also helps in ensuring that the organisation have the most efficient internal organization.

Need for Management Audit

The reports on matters of policies and their implementation is very important to improve the efficiency of the management. Management Auditors advise the management on various matters related to performance of various departments as well as of the organization as a whole. Management Auditors may or may not be any finance and accountancy person. Management Auditors evaluate the actual performance by comparing it with predetermined standards. Auditors reveal any kind of defect and irregularities in the working of management. It can be said management audit helps in improving the performance and efficiency of management.

Advantages of Management Audit

- It is helpful in making plan, objectives and policies of the management.
- It is beneficial for achieving the set objectives of the management by coordinating with the personnel.
- It is very helpful to create strong communication system with outsiders and within the various departments.
- It is helpful to evaluate the performance of management.
- To establish good relations with employees.
- To elaborate duties, rights and liabilities of staff members and to make market strategies.
- It is helpful in preparation of budgets of organizations.
- It is helpful in resource management.

Appointment of Management Auditors

Management audit is not compulsory under law. The shareholders or board of directors may appoint the management auditor. No specific qualifications have been prescribed for the management auditor. Generally chartered accountant are appointed as the management

auditor. The terms and conditions of appointment, the scope of audit work, the period to be covered, the time frame of the submission of audit report and similar issues are settled through the letter of appointment of the auditor. The management audit team has experts with expertise in different fields of Management. Management audit team coordinates with the other levels of management and runs a smooth audit process. It is a team of experts with full knowledge about management science. Most of the team members have practical working experience of being a part of management. Such experience helps them handle actual work situations in a better way.

Qualities of Management Auditor

The management auditor should have the following qualities:

- A management auditor should have good knowledge and experience of Managerial Functions.
- An Auditor should have good knowledge of the financial statements analysis techniques.
- An auditor should have the knowledge of human resource accounting and social accounting.
- He should have the knowledge about economics and business laws, etc.
- Understanding about the working of organization and its problems is also required.
- An Auditor should have sound knowledge of preparation and understanding about financial statements.
- He should know and understand the objectives of organization very well.
- He should understand about planning, budgets, rules and procedures to be applied in management.
- He should be well-versed with the entire production process.
- He should have enough knowledge and experience to understand the reason behind the lack of co-ordination between different departments.
- He should have the quality of giving practical and achievable solutions to the problems in the organisation

Scope of Management Audit

The scope of the audit is narrow but it is comprehensive including many key aspects of the responsibilities of a management team. A management audit might address many important questions like: What is the organizational structure that has been set up by management? What are the policies and procedures of the finance group, and are these always in compliance? How effective are the measures of current risk management? How are the relations among the employees of the organization? In what way the management put together its annual budget? Is the management quiet responsive to all the stakeholders? Is management taking enough steps to ensure the company is a "good corporate citizen"? Is management taking all the steps to guide the company toward its financial targets? It is not possible to define complete working of management audit and the scope of work and the areas covered by management audit. Following are a few important areas covered by Management Audit:

- Administration
- Sales Management
- Purchase Management
- Distribution Management
- Stores and Inventories Management
- Production Management
- Personnel Management
- Finance and Accounts Management
- Management Information System
- Advertisement and Sales promotion

Management Audit Program

Management Audit Program means the planning of the outlines for the whole process and procedures of management audit from the beginning to the end. The program can be designed in the following way:

- To study the structure of the organization.
- To study whether the principles of a good organization have been followed or not.

- To have a detailed discussion with the top management about the objectives and the plans.
- To study the current policies adopted to achieve the desired objectives.
- To decide the area of improvement whether it is planning or its implementation or both.
- To give recommendations for improvements.
- To study whether the control system of an organization is adequate and effective.
- To study the manufacturing process for locating the factors that are hindering the maximization of production.
- To observe the personnel departments for policies, training and motivational schemes adopted currently for employees of the organization.
- To check whether there is optimum utilization of the space available and of the physical equipment in the organisation.

Audit Report

The report submitted by a management auditor should give true and correct assessment of the working of the organization and should contain suggestions for improvements as required in management policies, procedures or any other area. He should not hesitate in criticizing the management but on the other hand his report should not be merely condemning in nature. The management auditor should cover the following areas in his report:

- He should see whether the relations between staff members and the management is cordial or not.
- He should highlight the areas of weakness and the suggestions for improvement.
- He should cover the methods and procedures of production.
- He should tell about operating efficiency.
- He should also explain about rate of return on investment.
- He is also supposed to tell whether the return to shareholders is adequate or not.

Criticism of Management Audit

In spite of having many advantages of management audit in modern business world, it has faced criticism too. According to managers and accountants it is just a vague concept which serves no material purpose. The management auditors usually pin point shortcomings of managers in action, therefore they hesitate to take initiative. It is believed that the normal practice of managers is to keep their record up to date instead of improving efficiency and reducing costs.

Sources for the E-Content

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1. These notes are only for the students.
2. These notes are prepared after referring various books and websites.