Management Audit

**Management audit** may be defined as the systematic and dispassionate examination, analysis and appraisal of management’s overall performance. It takes into account both financial and non-financial factors including economic environment, their effect on the administration and goals of the business organisation.

It is essentially a procedure or a form of appraisal of the total performance of the management by means of an objective and comprehensive examination of the organisation structure, its components such as a department, its plans and policies, methods of process or operation and controls, and its use of physical facilities and human resources.

Thus management audit signifies critical assessment of management of the enterprise from the broadest possible point of view. The thrust of this audit is, therefore, on evaluation, with appropriate analysis for improvement on contribution towards industrial development.

**In this regard, George A. Terry states:**

“The periodic assessment of a company’s managerial planning, organising, actuating, and controlling compared to what might be called the norm of successful operation is the essential meaning of management audit. It reviews the company’s past, present and future. The areas the company covers are examined with a view to determine whether the company is achieving maximum results out of its endeavors.”

Such an audit may be undertaken by the management itself, or it may be carried out with the help of management consultants. In the same way, while a comprehensive management audit may be recommended, companies may even apply it independently to some specific sections or areas of the organisation. For example, production efficiency or investment appraisal may well be the subject-matter of management audit.

Management audit may even be used to provide guidance on critical assessment of capital budgeting or profit performance, forecasting and planning activities on long-term and short-term basis. Management audit is thus concerned with evaluation and appraisal of the control system and information system in various segments of the organisation.

#### **Management Audit Scope:**

The scope of management audit can be better understood if it is possible to relate each of the aspects or processes of management to an audit scrutiny that may be carried out. It was originally developed as a tool for investment appraisal.

However, since the process of management are the same in all organised sectors, this concept has gradually been extended to cover virtually all kinds and sizes of organisations, and the principles of management audit remain valid irrespective of the nature of an enterprise. It now covers all aspects of the business economic, physical, tangible, quantitative or qualitative, financial and personnel.

The scope of management audit can be widened to appraise in detail the systems and sub­systems, procedures, job separation, authorisation, work-quantity studies, accountability, quality of personnel, quality of information generation etc. However it should be made clear that management audit is a measure of control designed to improve performance, eliminate inefficiencies and increase effectiveness and profits.

Management audit is now widely practiced to evaluate management’s objectives, the extent to which they have been achieved and company policies and procedures complied with, especially in large scale business organisations.

On this basis, some people argue that the objectives of an organisation are determined by management and that management audit is only to report the extent to which objectives are attained. However, it can well be argued that the jurisdiction of management audit needs to be extended further with the right and responsibility.

Management Audit is the systematic and dispassionate examination, analysis and appraisal of management’s overall performance. It is a form of appraisal of the total performance of the management by means of an objective and comprehensive examination of the organization structure, its components such as department, its plans and policies, methods of process or operation and controls, and its use of physical facilities and human resources.

Management Audit is an important tool for the continuous appraisal and evaluation of the methods and performance of an enterprise. The prime objective of Management Audit is to locate defects of irregularities in the areas covered by the audit and to suggest possible improvements. It assists the management in managing the operations of an undertaking in the most efficient manner practicable.

Economic outlook, the adequacy of the organization structure, compliance with policies and procedures, reliability of the system of control, adequate protective methods, causes of variances, effective utilization of manpower and equipment, efficiency of the method of operation etc., all come under the purview of management audit.

Thus Management Audit is concerned with evaluation and appraisal of the control system and information in the entire or in various segments of the organizations. Its scope has been widened to appraise in detail the systems and subsystems, procedures, job separation, authorization, accountability, quality of personnel, quality of informa­tion generation etc.

#### **Objective of Management Audit:**

**The main objectives of Management Audit are:**

(a) To ensure optimum utilization of human resources and available physical facilities.

(b) To point out deficiencies in objectives, policies, procedures and planning.

(c) To suggest improved methods of operations.

(d) To point out weak links in organizational structure and in internal control system and suggesting improvements.

(e) To help management by providing early signals of sickness, ways and means to avoid the same; and

(f) To anticipate problems and suggest remedies to solve them in time.

Scope of Management Audit:

The scope of Management Audit has no limitations. The areas of review depend on the objectives of the business.

**Accordingly, the scope of Management Audit may include:**

(a) The suitability, practicability and present compliance or otherwise of the organization with its designated objects and aims.

(b) The current reputation of the organization in relation to the general public and within its own particular industrial or commercial field.

(c) The rate of return on investors’ capital – whether poor, adequate or above average.

(d) Relationship of the business with its own shareholders and the investing public in general.

(e) The ratios of operating returns and the rate of return on capital projects.

(f) The relationship between management and staff within the business.

(g) The aims and effectiveness of management at its various levels such as top level, middle level and operational level.

(h) Financial policies and control relating to production, sales and distribution and in other functions of the organization.

#### **Weaknesses Revealed by Management Audit:**

**The weaknesses that a Management Audit might reveal may include:**

(a) Weaknesses among the members of the Board of Directors.

(b) A lack of awareness among directors and managers of the objectives of the organization and the extent to which these are being achieved, failure to define clearly the objectives and responsibilities of individual managers.

(c) Inadequate steps taken to provide adequate finance.

(d) Lack of technical competence of managers.

(e) Retaining authority by managers for matters which ought to have been delegated.

(f) Lack of clear and identifiable management style in the organization.

(g) Lack of proper staff/management training.

(h) Failure on the part of managers to measure and assess the performance of their subordi­nates.

(i) Inadequacy of the management information system.

(j) Lack of enforcement of procedures and too much wastage of time in enforcing such procedures.

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The need for management Audit can be felt by studying the following points:

**1.Useful for performance appraisal:** Management audit enables appraisal of performance of various managers. The standards for every manager are predetermined and their performance has to be judged in view of these targets. There should be a regular system of evaluation for keeping efficiency standards. Various Incentive plans may also be linked with such reports.

**2. Result oriented:** Management audit is result oriented. The performance is judged on the basis of rates of inputs and outputs. It does not give much importance to the procedures followed and formalities completed which is generally said that when Management audit is introduced then managers be more particular about completing the file work only.

**3. Satisfies Financial Institutions:** When a concern approaches various financial institutions for loans then they will like to see the performance of the business. Management Audit System is already undertaken then lending institutions will not find any difficulty in taking a decision. Moreover, outside agencies will feel satisfied that the management is constantly evaluating its performance.

**4. Helpful in entering Foreign Collaborations.** Whenever there is a proposal to enter into a foreign collaboration then collaborators will not find any difficulty in assessing the managerial potentials of the party. They can be provided with management audit report which will enable the parties to form a judgement about the concern.

**5. Necessary for Government Organisations.** There is an urgent need for management audit in govemment organisations. The present system of audit is not useful in curbing ineffciency. It gives more importance to formalities and ignores performance. Management audit will emphases results and when performance be judged pre-determined standards then officials will try to improve there efficiecy.

**6. Basis for Critical Evaluation.** Management Audit is needed for dynamic management to know what are the deficiencies and how to get them to remove.

**7. Mirror of Organisation Progress.** The management Audit is useful in knowing the reasonable retum on [capital](https://www.playaccounting.com/accounting-terms/c/capital/) employed.

**8. The Management Audit needed for Change.** The [cost Audit](https://www.playaccounting.com/qa/mqa/cmaudit/cost-audit/) is very useful for knowing the effect of changes in organisational structure such as : change is useful or not.

**9. Helpful in Loan/Advances.** The management Audit is working like a guide to a person who wants to give loan or invest his money in any company.

**10. Knowledge of efficiency and Productivity.** The management Audit is useful in knowing the efficiency and Productivity of any organisation. When these are not within the satisfactory limit the suggestions for efficient running can be suggested.

**11. Helpful of Foreign Collaboration.** The management Audit is useful to foreign investors: They can know the profitability of the organisation can take decision regarding investment.

**12. Suitable to Public Sector Units.** The study of management Audit is very desirable to public sector units, these can improve their working efficiency for their existence.

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