Management Audit: A Tool of Analyzing the Strength and Weaknesses of an Enterprises

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Introduction

Justice lopes highlighted the duties of an auditor by giving a landmark decision in London and General Bank case in 1885. He said that it is no part of an auditor duty to give advice either to director or shareholders as to what they ought to do. An auditor has nothing to do with the prudence or imprudence of making loans with or without security. It is nothing to him whether the business of a company is being conducted prudently or imprudently, profitably or unprofitably, it is nothing to him whether dividends are properly or improperly declared. His business it to ascertain and state the true financial position of the company at the time of the audit and his duty is confined to that. There were such other issue considered by the Judges and Accountants, which ultimately led to generate the term Management Audit.

When the profession of accountancy developed, the management used to requisition the services of auditors to detect errors and frauds, Later on they were asked to suggest ways and means to prevent the commission of errors, frauds and manipulation of accounts. By and by the area of the functions of the auditor expanded and the statutory auditor was required to state whether the balance sheet and the profit and loss were properly drawn up according to the Companies Act and that they represented true and fair view of the state of the affairs of the company. Now-a-days the Act enjoins the auditor, in addition to what has been sated in the foregoing lines, to state in his report whether or not the personal expenditure has been charged to revenue account; whether the prices paid for the stores, raw materials or other components exceeding the value of one thousand rupees purchased from the subsidiaries in which the directors are interested are reasonable or not; whether the rate of interest and other terms of loan in the case of concerns engaged in manufacturing, mining, processing is reasonable or not and so on.

Significance of Management Audit :

Many Accountants regards Management Audit as a vague concept and argue that it serves no material purpose. It is also argued that a review of past Managerial functions and decision would stifle the initiative and dynamism of Managers. The example of public enterprises is quoted in this regard. The fear of detailed scrutiny of their functions generates among the Government officials, a preference to keep their files upto date rather than achieve higher production or efficiency. Also it is easy to review a past decision on many grounds since he reviews it much later when all the information are available. The decision-maker on the other hand, faces a large number of uncertainties at the time of making a decision. Thus, management audit it is argued may discourage initiative and dynamism.

The critics of management audit do not realize that it is not really a detailed audit of the kind that the government auditors undertake. Management audit is essentially a review of performance of various managers. It does not examine whether the procedures have been followed or not whether all the formalities have been completed or not. It evaluates the actual performances and compares then with the predetermined targets. It concentrates on the results and not on the files. It concerns itself primarily with the results of the organization and item with ratio input and outputs. It measures in quantitative terms, various input that manager uses in terms of wages, materials, overheads or capital resources. The outputs are measured in terms of quantity, return or performance targets. The performances are evaluated by relating inputs with outputs. Thus, management audit is highly result oriented. It can be particularly useful in many situation like the under mentioned. A progressive management may have management audit conducted periodically to assess the performance of various managers and link a system of incentives with such an assessment. This appraisal may be conducted on the basis of objective.

Purpose of Management Audit :

Examination of Managerial Capabilities :

Management audit examines managerial capabilities and efficiency at all levels viz top, middle and supervision levels. It appraises whether the managers of enterprise are efficient and capable enough to meet the assignment at all levels of management. It also assessee whether they use such efficiency and capacity in performing their respective duties in due course.

Analysis the strength of an enterprise:

Strength here denotes the favorable oints of an enterprise, which always help it towards the path of progress. It contains relationship between the workers and owners, availability of raw material, favorable location, easily available water, electricity, etc. These favorable points can be identified through conducting management audit.

Analysis and appraisal of weakness:

It is but natural that business has some shortcomings of itself, which may push the activities of business in darkness or create problems for it. For instance, lack liquid, uncertainty about the supply of electricity, lack of morale in workers, unfavorable location of business proceedings, non-availability or scarcity of required raw material, management audit not only highlights those weaknesses but finds out ways to suppress its.

Investigation of opportunities :

Favorable chances arise in the business but benefits of which go to the handful of them due to lack of recognition. Business can draw benefit and earn profit out of such opportunities only if they are timely informed. Management audit is such a technique, which indicates the favorable chances. It is, therefore beneficial to get business affairs audited by management auditor to find out opportunities.

Identification of threats :

Business is surrounded by various risks i.e. risks by nature, risk by politics, risk by economy, risk by society, risk by market, financial risk and so on. These potential damage's or threats can be identified through conducting management audit.

Stoppage of unnecessary loss :

Loss of labour and material in the business is a common phenomenon in these days. Techniques of cost accounting sometime fail or tend to disprove the desired results. Management audit, of course in these cases not only brings them to light but also tries to suggest right ways to stop them.

Performance Appraisal :

Management audit check whether performance of various parts and persons at different standards in business is satisfactory and what attempt should be made to improve their performance.

Evaluation of effectiveness of controls :

There are different controls which are used for running the business efficiently like Financial Audit, Research Programme, Internal Check, Expenditure control. Standard Costing, Budgetary Control etc. management audit evaluates whether they are effective, satisfactory and adequate one's.

Evaluation of Policies and Processes :

It also examines various policies, processes and programmes of business and check whether there is proper follow-up.

Opinion about new plant :

Management audit, after proper checking, indicate whether there are new plants and implements available in the market and they should be changed depending upon the prevailing circumstances.

Profit Evaluation :

Management auditing evaluates whether the business has earned the targeted profit. It also goes further and examine the reasons incase the answer is negative one.

Reporting system :

This is also an object of management audit to suggest the business management to have a scientific reporting system at various levels in the organization. Reporting system is a proper link among all other objectives of a business concern.

Evaluation of objectives :

Management audit determines whether objectives of management are adequate considering the resources of the institution and extent to which these can be achieved. If analyses the difficulties during this period and suggests to remove them.

Evaluation of Planning's :

Whether planning's implemented in the business organization are according to the objectives. To what extend their formulation is successful and how the various obstacles are removed. These all question are answered by the auditing of management.

In a nut shall we can say that management audit is the evaluation of efficiency of the management of the institution and light on the method by which it can be improved in the future.

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