

Need and Scope of Management Audit

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Abstract

Management audit is a new concept in the sphere of auditing. It was the United States of America, which coined this term. In that country the professional accountants have a management services wing which is designated as Management Audit. We have already seen while dealing with the audit of Government companies that the auditor has to answer a questionnaire relating to the management of the company in addition to the audit report, pertaining to the financial matters, which he has to submit. That is what is meant by management audit. The questionnaire relates to the appraisal of the efficiency of the management.

Management Audit comprises two basis aspects of an enterprise i.e. Management on the one side and Audit on another side. Management is the process of planning organizing staffing, coordinating and controlling etc. and getting thing done through other people. Whereas Audit is a critical examination of Programme, Policies method techniques and adherence there to. By soaking these two terms together one would be able to clear the meaning of Management Audit. Since affairs of an enterprises are controlled. Administrated, organized and managed by human beings, thus it is definite that management audit is a special kind of examination of the controlling body of the organization. So management audits though a developing concept, is an examination of the administrative operations and organizational arrangement of an enterprise. In any case one can say that management audit attempt to evaluate the performance of various management process and functions. It is an audit to examine, review and appraise the various polices and functions of the management on the basis of certain standards. It goes beyond the conventional audit, which involves a scrutiny of financial transaction and the books of accounts. It is a comprehensive and critical review of all aspects of management performance.

SCOPE OF MANAGEMENT AUDIT :

There cannot be framework of scope of the management audit of any institution. It depends upon the need of management. There may be an examination of whole business or any part thereof or any particular area may be checked under management audit. Generally the following areas are checked under it :-

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- (a) Appraisal of Management Decisions
- (b) Appraisal of Objectives
- (c) Appraisal of Planning
- (d) Appraisal of Organisational Structure
- (e) Review of Office Operations
- (f) Review of Management Control System
- (g) Review of Purchasing Operations
- (h) Review of management Information System
- (i) Review of Selling and Distribution Policies
- (j) Review of Manufacturing Operations
- (k) Examination of Personal Policies
- (l) Review of Computer Programming

(a) Management Decisions :

Members of the management team not only take various decisions for running the business concerned but implement them for achieving the target. Management auditor should review decisions taken with reference to their reasonableness, appropriateness and their related requirements.

(b) Objectives :

An enterprise cannot survive without objectives because these are basic indicators of the enterprise. Management auditor should go through the objectives of the enterprise and then start the work.

(c) Planning :

Planning is based on objectives of the enterprise. Management auditor should satisfy himself whether the plan formulated in the enterprise is according to the objective fixed. He should inquire about implementation, execution and any related barriers thereof.

(d) Organisational Objective :

Complete work is more complicated to perform at once and if it is divided into some precise part, it becomes easier to perform. Dividing and subdividing the organization into some precise section and then starting work, is a good practice of management.

(e) Office Operations :

Correspondence, communication filing, maintenance of records etc. are such other operations in the office, which should be duly examined. Results of these kinds of examinations increase the efficiency of the management.

(f) Management Control System :

Control means looking back. It is directly related to planning, whether the enterprise has achieved its targets or not. If not, find out the reason therefor and management auditor should try to suggest for general improvement and upliftment.

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(g) Purchasing Operations :

Manufacturing concerns purchase various items for its process depending upon requirement these operations should be reviewed entirely. Management auditor should constantly examine and ensure himself whether procedure duly applied.

(h) Management Information System :

It is a crucial phenomenon in any concern and should be reviewed very carefully.

(i) Selling and Distribution Policies :

Policy matters relating to marketing are vital one in the organization and therefore deigned systematically. Efforts should always be made to correlate the production and selling and distribution department.

(j) Review of Manufacturing Operations :

Production process is iterative one and responsible for output. It should be carefully examined whether manufacturing operations are right ones and producing according to the specification already decided.

(k) Examination of person of policies :

Personnel, policies play very crucial role in the organization. Recruitment system, training procedure. Promotions and retirement rules worker turnover etc., are all effected by these policies. Management auditor therefore, should examine these very closely because persons in the organization are active part.

(l) Review of Computer Programming :

System of electronic data processing is rapidly increasing how a days. It is really a system of increasing efficiency, effectiveness, accuracy faith in the organization if undertaken and maintained properly, otherwise mislead the results. Management auditor therefore should ensure himself whether computer programming is handled and operated by competent, technically knowledgeable and efficient staff.

NEED FOR MANAGEMENT AUDIT :

As there is a common concept that necessity is the mother of investigation, need for management audit begins with problems. It is the problems of business, which ultimately generates/indicates beginning point of the management audit. Business concern may face the following kinds of problems:

- (a) External Problems
- (b) Internal Problems

(a) External Problems :

External problems are those which come into light due to relationship of business with outsiders.

Business organization cannot inter into transactions with itself. It has to depend outside agencies for running the business.

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Therefore external problems may be one or more of the kinds given below :-

(1) Problem of Competitors :

Industry (as a whole) may create problem before the business concern upto a negligible share of production of that business concern in the industry, therefore the business.

Concern should have a constant watch on the proceedings of the industry and its effect on concern itself.

(2) Financial Problems :

Business concern requires management audit if there are problems like day to day functioning, extension and other financial crisis. Management audit is the key to solve all financial problems of a business concern.

(3) Problems of Sales :

Sales line is a right measurement of position of a business concern. It is the duty of management to take corrective action if sales line is decreasing. This process will be more effective if it is based upon accurate planning.

(4) Customer Relationship :

Customer problems can be a good point to initiate management audit. There should neither be a passive orientation towards the market nor the tendency to perform everything for the pleasure of the customer. There should be the same procedure from debtors.

(5) Problems of Suppliers :

These problems, to some extent, attack supplier's policy and stock policy and ultimately generate the need of management audit.

(6) Problems Concerning Shareholders :

There may be some internal problems created by shareholders or partner in case of company, partnership firm respectively. They may be dissatisfied relating to dividend policy, interest on capital, other benefits or concerning about the progress of the concern, management in these circumstances, satisfied them through help of management.

(b) Internal Problems :

There are some internal problems within the concern generated through its own complicate. There are some important internal problems of which management audit is the solution.

(1) Problem of Initial Recruitment :

Management audit answers the following question for newly born concerns-qualification experience and number of employees to be recruited, their training, feedback etc. Management audit indicates the way by suggesting upon above matters. It helps in taking early decision and planning.

(2) Problems Relating to Rights and Responsibilities :

Management audit not only clears out the reason for taking late decision and making delayed plans

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but passes the light to them earliest possible. This possible through properly fixing the responsibilities supported by rights on the basis of qualification, age, experience etc. This is a period of division of labour and circumstances change everyday.

(3) Performance Related Problems :

Management audit is good from to check the performance with targets. It collects the deviations if any and suggests the ways to remove them. So Management audit is needed in performance evaluation.

(4) Problems of making decision and plans :

It should be closely examined if policies and decisions are frequently changed in any concern. Management audit can play a leading role in such examination by perfectly removing the obstacles and providing suitable suggestions.

(5) Problems of Communication :

There should be adequate and reasonable communication arrangement in the concern. There may be slight confusion or misunderstanding during communication process from one place to another but it is not desirable to change it regularly. Management audit is needed in these kind of circumstances.

(6) Much Paper Work :

Management audit consolidates the information and limits the maintenance of undesirable and use unless filing and documentation through some paper work is inherent during the process of collection of information.

(7) Problem of Stock :

Sometimes large amount of closing stock may be a reason of business failures. Management audit, by indicating suitable quantity of closing stock, help on quarrying such difficulty.

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