

❖ **MANAGEMENT AUDIT??**

- ⇔ It is an **"AUDIT OF MANAGEMENT"**.
- ⇔ Management Audits are concerned with:
 - ⇔ Evaluating management's accomplishment **of organizational objectives**.
 - ⇔ Management functions of **planning, organizing, directing & controlling**.
 - ⇔ Adequacy of **management's decisions & actions** in moving towards its stated objectives.

❖ **DESIRABILITY OF MANAGEMENT AUDIT / NEED**

☛ Requirement for Management audit arises-

1) For **DETECTING & OVERCOMING**

- ⇒ Current **managerial deficiencies** &
- ⇒ Resulting **operational problems**
- ⇒ So that deficiencies can be **spotted before their adverse effect**.

2) It represents another **MANAGEMENT TOOL**

- ⇒ To **assist the organization** in accomplishing **desired objectives**.

3) Helpful **IN CASE OF AILING INDUSTRIES**

- ⇒ To **report efficiency of management**,
- ⇒ Where such industries are either to be **taken over by the government** or
- ⇒ To be heavily **financed by financial institutions**.

4) **BEFORE COMMITTING PUBLIC FUNDS**, like Government funds or Institutional funds,

- ⇒ It is important to **properly diagnose** the **financial health**.

❖ **SCOPE OF MANAGEMENT AUDIT**

⇒ Management audit includes elements of operational audit where knowledge of following is essential –

Purposes of organization	Management Structure	Reports required for proper management
Internal controls	Nature of production of Business	Production planning
Factory layout, design & installed capacity	Policies & procedure followed	Personnel Policy & Personal Management
Material Management	Sales management	Decision making process
Accounts Related	Financial Managements	

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❖ STAGES/ PHASES INVOLVED IN MANAGEMENT AUDIT

STAGE-I: ORGANIZING/PLANNING THE MANAGEMENT AUDIT (PLAST-Frequency)

1) DEVisING THE STATEMENT OF POLICY-

- ⇒ Policy statement should be **quite specific**
- ⇒ **w.r.t** the **scope & status of management** auditing in enterprise,
- ⇒ Its **authority** to
 - ✓ **Carry out** audits,
 - ✓ **Issue** reports,
 - ✓ **Make** recommendations, &
 - ✓ **Evaluate** corrective action.



2) LOCATIOn OF AUDIT FUNCTION WITHIN THE ORGANIZATION –

- ⇒ **Place** the auditing function **quite high** in the organization to **ensure independence**.

3) ALLOCATIOn OF PERSONNEL –

- ⇒ **Audit team** should have **requisite knowledge & experience**
- ⇒ **Pertaining to** various aspects of **auditing, organization & its management**.

4) STAFF TRAINING PROGRAMME –

- ⇒ A **continuous training** programme is **necessary**
- ⇒ To achieve **quality** in **performing audit assignments**.

5) TIME & OTHER ASPECTS –

- ⇒ Time & cost is one of the **important factors** in performing the audit.
- ⇒ Therefore, it requires **special consideration**.

6) FREQUENCY-

- ⇒ Frequency of audit **depends upon the changing environment**
- ⇒ In which the organization/industry operates, use of latest technology etc.
- ⇒ However, in any case it should **not exceed 3 years**.

STAGE-II: CONDUCTING/EXECUTING THE MANAGEMENT AUDIT

- ⇒ Getting **facts through interviews**
- ⇒ Measuring performance **through management audit questionnaire**

STAGE-III: CONCLUSION

- ⇒ Discuss the **findings** with management & other concerned personnel.
- ⇒ Discuss **alternative recommendations** &
- ⇒ **Figure out the consequences** of recommended actions.
- ⇒ **Make investigations** based upon scope of report.
- ⇒ In case if the **scope is broad** then **make comprehensive investigation**.

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STAGE-IV: MANAGEMENT AUDIT REPORT

1) **PLANNING THE AUDIT REPORT** -

- ⇒ **Before starting** the report, auditor should ask himself,
- ⇒ "What do I want to tell the reader about this audit?"
- ⇒ The answer will enable him to communicate effectively.

2) **SUPPORTING INFORMATION** -

- ⇒ Supplement report with documents & data that
- ⇒ **Adequately & convincingly**
- ⇒ **Support the conclusions.**

3) **PREPARING DRAFT REPORT** -

- ⇒ Before writing the final report, the auditor should prepare a draft report.
- ⇒ It would **indicate a gap in reasoning.**

4) **WRITING & ISSUING THE FINAL REPORT** -

- ⇒ Before issuing final report, auditor should
- ⇒ **Discuss conclusions & recommendations**
- ⇒ At appropriate levels of management.

5) **FOLLOW-UP OF AUDIT REPORT** -

- ⇒ **Review** whether **follow-up action is taken by management**
- ⇒ On the basis of report.

6) **ACTION / RESPONSE OF MANAGEMENT ON AUDIT REPORT** -

- ⇒ Where management has **not acted upon his suggestions** or
- ⇒ **Not implemented** his **recommendations**,
- ⇒ Auditor should ascertain the **reasons** therefore.



❖ **TYPES OF REPORTS**

1) **ORAL REPORTS** - It is a result of **EMERGENCY ACTION** needs.

- ⇔ **Example:** If Management Auditor has come across any embezzlement,
- ⇔ He should immediately inform the concerned management orally,
- ⇔ So that steps may be immediately taken to prevent further embezzlement.

2) **INTERIM WRITTEN REPORTS** -

- ⇔ It is issued where there is a **NEED FOR EARLY CONSIDERATION** or
- ⇔ Report may be of a progress nature.

3) **REGULAR WRITTEN REPORTS** -

- ⇔ It is a formal written report, **PREPARED AFTER FINAL DISCUSSION** &
- ⇔ Recommendations to appropriate level of management.

4) **SUMMARY WRITTEN REPORTS** -

- ⇔ These summary reports are also referred to **AS 'FLASH' REPORTS**,
- ⇔ **SUMMARIZING THE VARIOUS INDIVIDUAL REPORTS.**
- ⇔ They are **SIGNIFICANT HIGHLIGHTS** for **immediate attention** of top management,
- ⇔ Such reports are primarily **ISSUED FOR** audit committee of BOD & other **TOP-LEVEL**



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MANAGERS who do not actively review the individual reports.

❖ ORGANIZATION OF THE WRITTEN REPORT [FORMAT]

- 1) **TITLE** - Short & descriptive.
- 2) **OBJECTIVES** - Describe the objectives of audit.
- 3) **SCOPE** - Give a brief description of the **activities audited**.
- 4) **FINDINGS, CONCLUSION & OPINION** - Conclusions & opinions should **normally follow findings**.
- 5) **RECOMMENDATIONS** -
 - ⇒ **Point out defects & make recommendations**
 - ⇒ in a broad manner on **how to overcome them**.
- 6) **AUDITEE'S VIEWS** - Auditee's views about audit conclusions or recommendations may also be included in the audit report.
- 7) **SUMMARY** -
 - ⇒ Summary of **conclusions & recommendations** may be given at the end.
 - ⇒ This is particularly **useful in long reports**.

❖ BEHAVIORAL ASPECTS ENCOUNTERED IN A MANAGEMENT AUDIT

- **Financial auditor deal with figures,**
- Whereas **management auditor deals with people.**
- They **deal with** -
 - ⇒ **Colleagues** in their own department,
 - ⇒ **Staff** of department whose functioning they audit,
 - ⇒ **Top Management** who authorize them to perform audits.
- Therefore, Management auditors must
 - ⇒ **Develop & maintain good relations** with auditees
 - ⇒ To **gain information & to ensure corrective action** on audit findings.



NATURE & CAUSES OF BEHAVIOURAL PROBLEMS

- 1) **STAFF/LINE CONFLICT** -
 - ⇒ Staff/line relationship is **inherently prone to conflict**.
 - ⇒ Management auditors are staff & other members **in the department are line**.
 - ⇒ Management auditors being specialists in their field **may think** that
 - ⇒ their **approach & solutions** are the **only answers**.
- 2) **CONTROL** -
 - ⇒ **Auditee fear** that his **actions when reported** will have



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- ⇒ Adverse effect on top management.
- ⇒ They have-
 - ⇔ Fear of criticism
 - ⇔ Fear of changes in day-to-day working habits
 - ⇔ Fear of Punitive action
 - ⇔ Perception of Insensitive audit practices &
 - ⇔ Hostile audit style

3) RESISTANCE TO CHANGE-

- ⇒ There is a certain built-in resistance to change,
- ⇒ When a change is recommended by the auditor.

❖ SOLUTION TO BEHAVIORAL PROBLEMS

1) DEMONSTRATE THAT-

1. Audit is part of an Overall Programme for protective & constructive benefit.
2. Objective of review is to provide maximum service in all feasible managerial dimensions.
3. Review will be conducted with minimum interference with regular operations.
4. Responsible officers will review findings & recommendations before any audit report is formally released.
5. Create an atmosphere of trust & friendliness.

2) CONSTRUCTIVE CRITICISM -

- ✓ Auditor should concentrate only on constructive criticism.
- ⇒ He should report value of his comments in tangible terms.

3) REPORTING METHODS -

- ✓ Reports should concentrate on areas which need improvement
- ✗ Rather than fault finding-
- ✗ Listing inefficiencies & deficiencies in performance of the auditee.

4) PARTICIPATIVE APPROACH -

- ⇒ Auditor's reports will have better acceptability if improvements suggested are discussed with those who have to implement them & Made them feel like they have participated in Recommendations made for improvements.



❖ MANAGEMENT AUDIT QUESTIONNAIRE (MAQ)

- ⇔ It is an important tool for conducting the management audit.
- ⇔ Used to make an inquiry into important facts by measuring current performance.

⇔ PRIMARY OBJECTIVE

- ⇒ Highlights weaknesses & deficiencies of organization.
- ⇒ Review management functions of planning, organizing, directing & controlling. Evaluating an organization's ongoing operations by examining its major functional areas.

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⇔ DESIGNING OF MAQ-

⇔ There are three possible answers to the MAQ: Yes, No, Not Applicable

- ✓ "YES" indicates **acceptable performance**
- ✗ "NO" indicates **unacceptable performance** & therefore, it requires written explanation "NOT APPLICABLE" indicates that the **question does not apply.**

