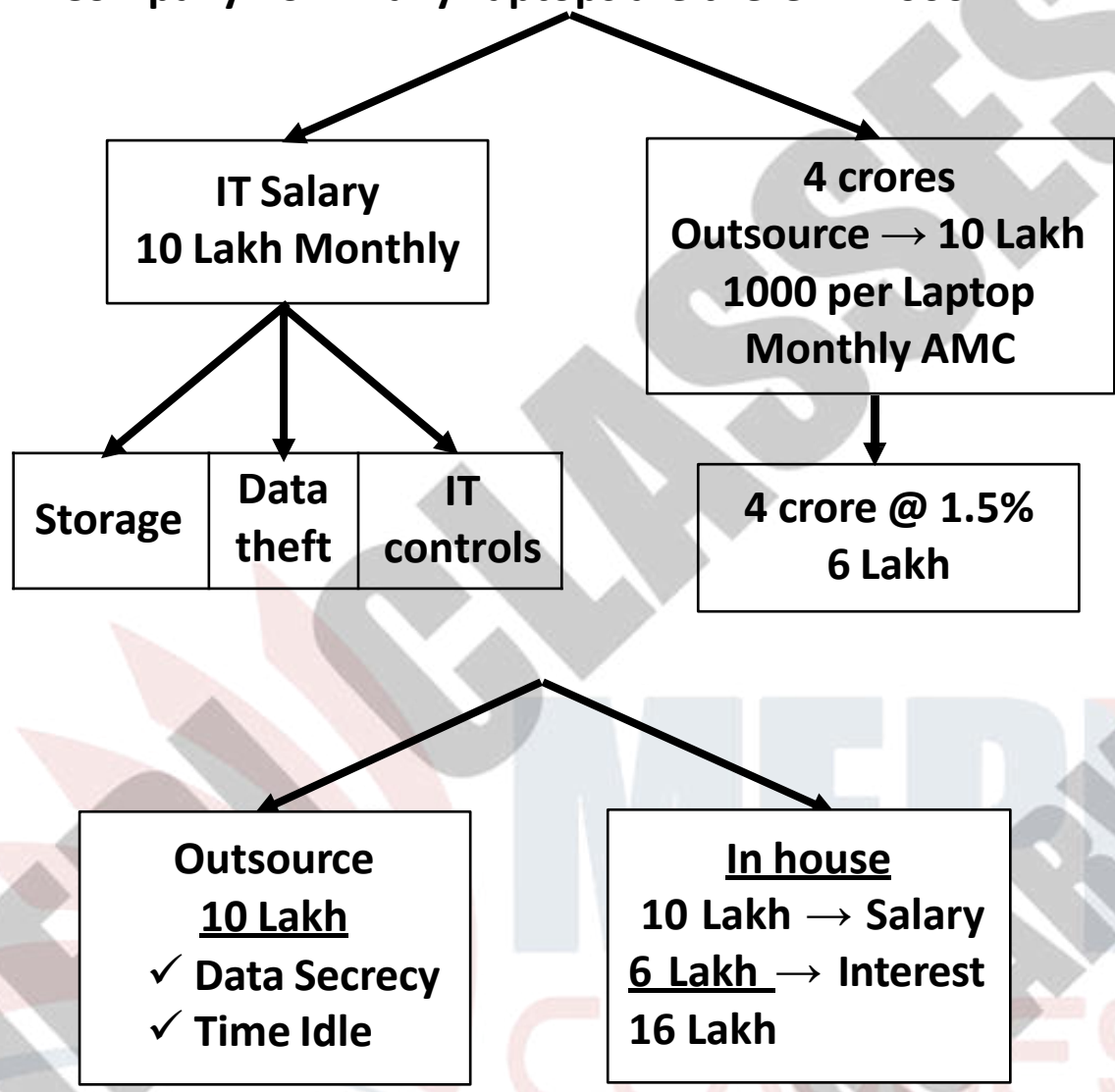


MANAGEMENT AUDIT

- ☞ The Management Audit is the audit of the overall management of the company rather than the performance of individual managers. The audit is conducted by an independent auditor or the employee of the company who is independent or not related to that particular management/function whose audit is being conducted.
- ☞ The auditor will critically analyse the efficiency & profitability of the management.
- ☞ There is no rules specifying the management audit i.e., it is not mandatory in nature.
- ☞ There is no qualification criteria of the management auditor.

Example:	KPMG is a company which has an IT department whose role is to manage the IT related assets of the company. The company is now conducting the audit/management of IT department.
-----------------	---

→ Company how many Laptops are there → 1000



Management Audit → independent review analysis assessment

↓
Competencies & Capabilities of overall management of the company

To understand how they are applying the strategies and resources. To check its impact on the profitability of the company.

Effectiveness of Management

Profitability enhancement

Overall Objective

Decision making

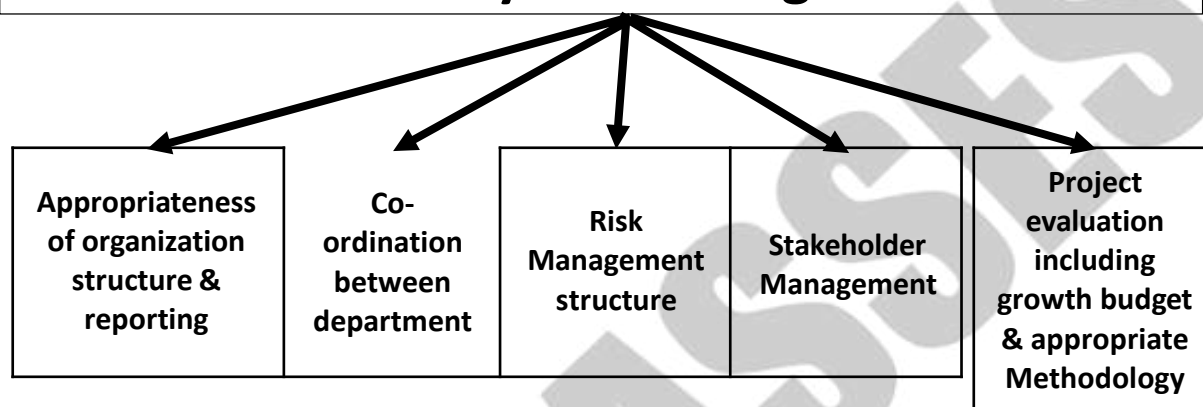
Defects & irregularities in Management

Effective discharge of Duties & responsibilities

Identifying process gap & strengthening

Cost effective implementation of plans

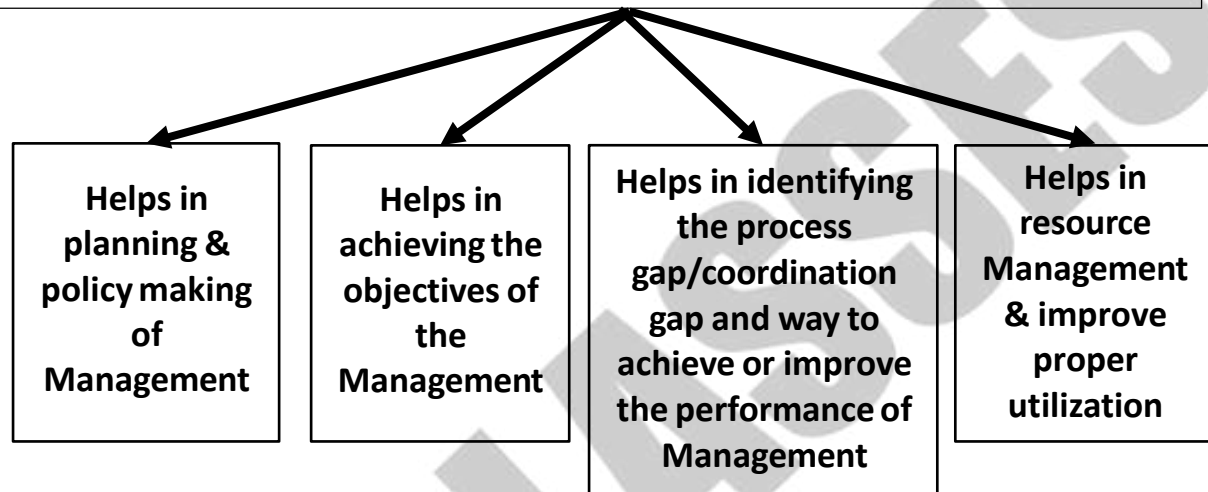
Issues Addressed by the Management Auditor



Qualities of the Management Auditor

- Good Knowledge & experience of Managerial functions
- Knowledge of financial, cost statement & analysis technique
- Economic & Labour law knowledge
- Organisational structure knowledge
- Organisational objectives knowledge
- Policies & Procedures applied by the Management
- Production Process
- Auditor should have proper understanding of lack of coordination between department
- Auditor should give suggestion to the problems of the management

Advantage of Management Audit

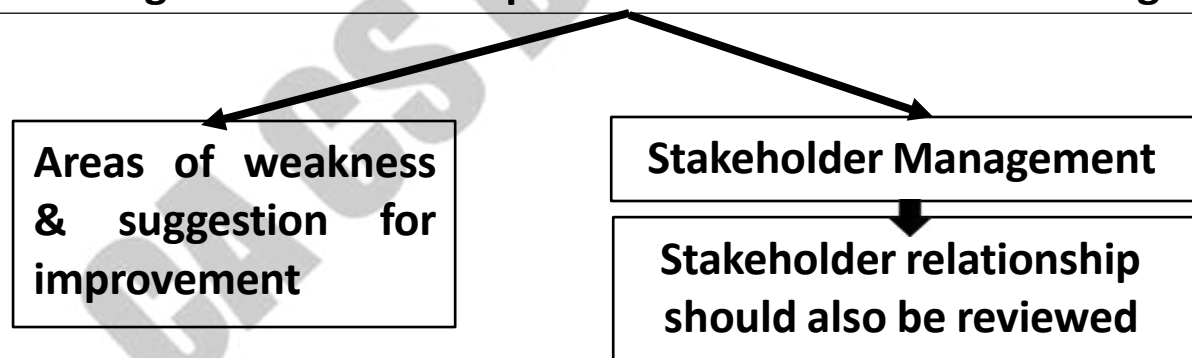


Management Audit Programme (MAP)

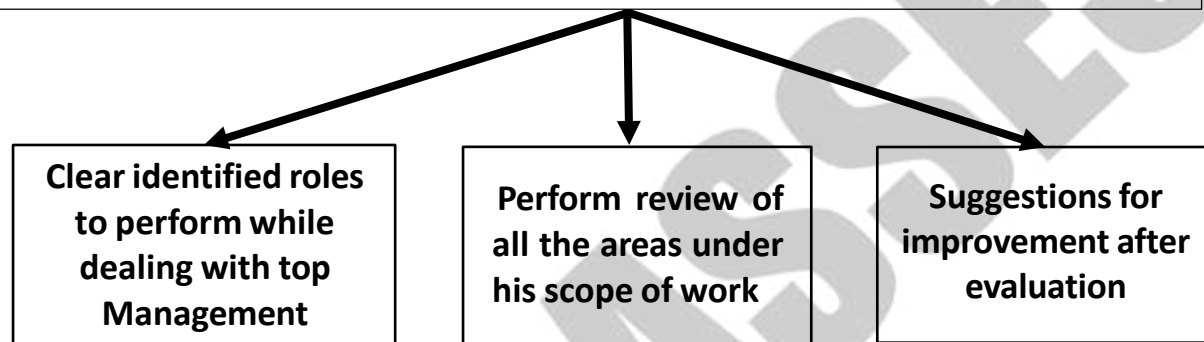
MAP means the planning of the outlines for the whole process & procedures from beginning to end.

- Study the organisation structure
- Decision making process and line of command
- Understanding the objective & plan with top management
- Policies & Procedures to achieve the objectives
- Identify the area of improvement
- Recommend the area of improvement in the operation or decision-making
- Adequacy & effectiveness of control of Management

Management Auditor report should include the following

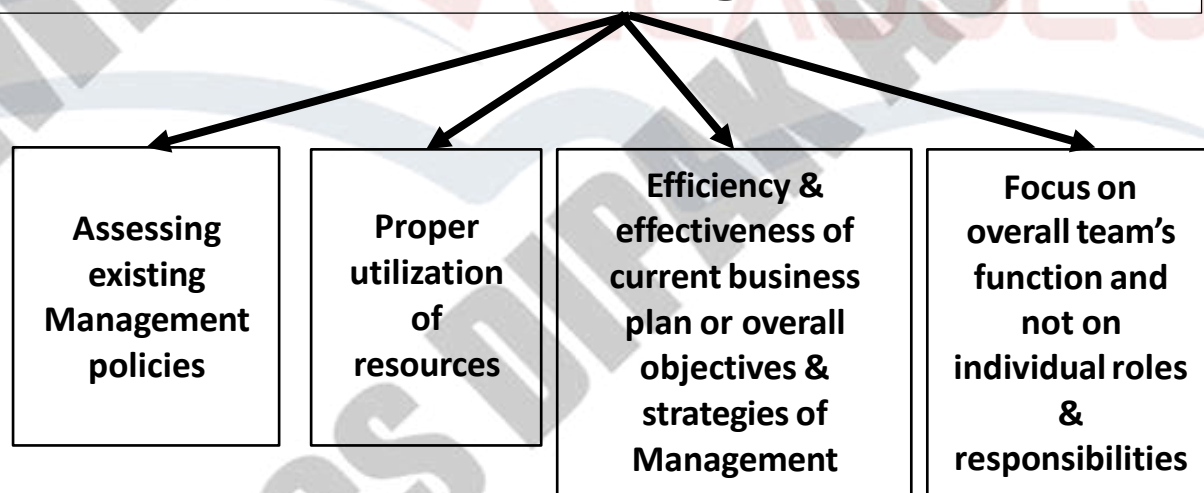


Functions of Management Audit



Note: Management Audit can only be successful if the Top Management take part in the same. The “Tone at the Top” i.e., the management at the top most should help the management auditor to perform his duties effectively. If the duties of the management auditor is not performed properly the management may not have the purpose of audit achieved.

Focus areas of Management Audit



Top Objectives of having a Management Audit are:

- Clearly defined prime objectives
- Proper Organisational reporting structure
- Goal setting & aligned with the business activity.
- Improving effectiveness of the overall organisational process
- Suggest areas of improvement
- Effective utilization of resources
- Profitability & efficiency improvement

Management Audit can address financial questions too, like:

- The management's role in the annual budgeting exercise of the company.
- Plan /Budget deviations and reason therefor.
- Existence of function-based approval prior to Finance accord.
- The compliance level of the current policies employed by the finance team of the company.

Role of CMA in Management Audit

Qualities required for Management audit which Cost Accountant possesses

- Ability to understand business problem
- Ability to understand business processes
- Rules & Regulations → general understanding
- Applicable laws → general understanding
- Subject matter / background understanding → Science, Engineering, Statistics, Costing, Accountancy

● Professional conduct of duty / Personality as per the requirement

Management Auditor may embrace the following areas: -

● Formulating Plan & Policy

● Decision-making process

● Designing the organisation authority structure

● Measuring & evaluating business performance

● Tax Planning & budgeting

● Improving communication

Internal	There should be proper flow of communication between the department for overall improvement and working of organisational structure.
-----------------	--

External	Further there should be follow of external communication such as laws of land / market condition / competitor knowledge / customer understanding to strengthen the overall business process.
-----------------	--

Reliability on Data Management

(1) Source of Data

(2) Purpose

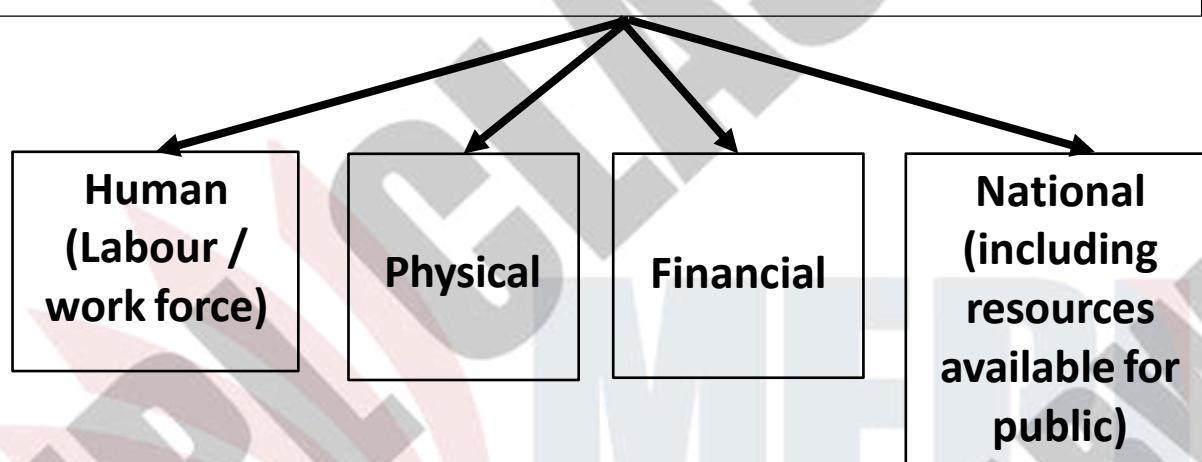
(3) New Evidence

(4) Cost is important factor

(5) Validity

- | |
|--|
| (6) Collection process and relevancy |
| (7) Method of improvement |
| (8) Channel of communication & reliability |
| (9) Access controls & data sharing process |
| (10) Adequacy / accuracy / necessity of data |

Management Auditor shall check whether there is cost effective utilisation of resources



- | |
|--|
| ● Fluctuations in production, work-loads, and services |
| ● Communication channels and openness in the Organisation |
| ● Information sharing among multiple locations of the entity |

There should not be any wastage and the utilization should be proper i.e., Efficiency of management to utilization each & every resource available to the company.

Execution of Principals and Policies:

It reviews whether the policies and the principles deployed by the company are effective and successful.

Management Audit Checklist

Management Audit Checklist is used to ensure that management systems and processes are effectively addressing the objectives and goals of the business/entity or company. The following template (A Specimen) can be used by compliance teams or management auditors to record and report any act of non-conformity. Few steps are given hereunder.

Administration:

- Roles and Responsibilities are assigned for administrative functions?
- Policies and Procedures are in place for monitoring activities?
- Aware of the policies and procedures?
- Management committee meetings held at intervals prescribed by the constitution?
- The annual report distributed to the members?
- Members limited to certain committee members?
- Functional reporting hierarchy is in place?
- The backup is stored in a different location w.r.t the main computer?

- Budgetary process and approval mechanism is in place?
Are all transactions recorded?
- Cash Flow Statement prepared and reviewed by senior management on regular basis?
- Financial report produced for management committee and general meetings?
- Goals are set with assigned responsibility for

achievement?

- Whether all Company Assets across locations are covered with adequate insurance against insurable perils?
 - Whether 'loss of Profit', Earthquake, Burglary etc. are covered?
 - Does the company have insurance cover for the following?
 - Amateur accident insurance
 - Public liability insurance
 - Directors' and officers' insurance
- Whether the members aware of the insurance coverage and related policies?
- Whether Claims are made prudently as per stipulation in Policies?

- Documented policy guideline for all critical areas of business?
- Coverage of multiple Rules and Regulations are looked into while framing Policy guidelines?
- Policies are communicated/distributed to all employees?
- Reviewed and monitored at regular intervals annually?
- Guidelines are immediately brought to notice?
- Are there policies on the following issues?
 - Harassment
 - Drugs
 - Alcohol
 - Coaching ethics
 - Child protection

➤ **Disabilities**

- Culture of action oriented
- The company have a strategic plan or development plan?
- Deviation against Plans are mapped and adequate
- The company have a marketing plan?
- Jobs completed in the time frame stated in the plans?
- Adequate resources to implement the plans?
- Company has an emergency evacuation plan?
- Plans reviewed annually?

- Having a Human Resource Policy in place?
- Appropriate codes of conduct?
- Practices are followed to retain resources and avoid attrition?
- Retrenchment
- Complaints available to address matters raised?

- Appropriate legal safeguard evaluated for any expected shortcoming or execution problems?
- Is the company involved in any of the following contracts?
 - Employment
 - Lease
 - Membership
 - Sponsorship

- HAZOP exercise carried out to protect the probable impact on mishap?
- Are work health and safety inspections carried out on

the following?

- Buildings
- Equipment
- Grounds
- Parking
- Relevant authorities made on hazardous operations?
- Procedure for reporting maintenance needs?
- Risk assessments created for events?
- Procedure for reporting accidents, injuries, and incidents?

- Appropriate steps been taken to reduce risks?
- Risk management procedures maintained and updated?
- Documented contingency plan in place documented?
- Risk considered high priority when conducting an event?
- “Code of Behaviour” been set?

- Whether appropriate legislative and industry standards are made known to related responsibility owners?
- Whether penal actions on non-compliance also appraised to the persons accountable to ensure compliance?
- Is the company aware of the government standards?
- Whether a ‘good governance’ practice is circulated to ensure ‘beyond compliance’?
- Whether legal experts are manned to ensure compliance issues?

Q. What are the steps of Management Audit?

(1)	Objective & scope i.e., area of operation of Management Auditor
(2)	(i) Collect appropriate Documents & information gathering (ii) Gap identification & mitigation (Discussion with management) (iii) Issue of formal report
(3)	Result vis-a-vis Industrial standard? (i) Yes (ii) No → Further steps
(4)	Process to achieve Industrial standards or norms (i) Planning (ii) Execution (iii) Performance measurement & controls
(5)	Detailed investigation → collecting all relevant Document & information / Data
(6)	Report the finding and make suggestion / recommendation

Management Audit Procedures

(1)	Preliminary survey of activity under audit (Background analysis)
(2)	Data collection & Information gathering
(3)	Discussion regarding “Pain Point” (Problem understanding)
(4)	Analysis to accomplish audit objective (applicable laws & regulation / restriction & limitation)
(5)	Study the policies governing the activities, & identify any gaps & weaknesses

(6)	Identifying weaknesses, process gaps & discussion with Management
(7)	Report of finding & recommendation

Techniques used by management auditor to identify problem areas

- | | |
|-------|---|
| (i) | <p>Identification of possible control weakness by survey</p> <ul style="list-style-type: none"> • Preliminary survey work, though practical working information • To control effectively or be susceptible to abuse. • Points in the purchasing process may be: <ol style="list-style-type: none"> a) The determination made of the quantities and the quality of materials to be purchased. b) The procedure followed in obtaining the best prices, and c) The methods for determining whether the correct quantities and quality are received. |
| (ii) | <p>Review of Management Reports (MTS reports)</p> <ul style="list-style-type: none"> • MIS (Management Information System) for various areas and Reports created and distributed for perusal by management from time to time. |
| (iii) | <p>Review of Internal Audit</p> <ul style="list-style-type: none"> • Using the outcome of other professional work • Quality and depth of coverage. |
| (iv) | <p>Physical Inspection</p> <ul style="list-style-type: none"> • Quality of assets, usage, physical condition etc. • Executive rework operations, or disposal of apparently useful materials or equipment. |
| (v) | <p>Test Examination of Transactions</p> <ul style="list-style-type: none"> • Guidance being adhered to through selection |

- To pursue several transactions about the organisation's operations from initiation to final disposition.

(vi) Discussions with officials & Employees

Review of Management System Control

- (1) Understanding process flow
- (2) In depth audit of particular / selected transaction
- (3) Auditing in & around IT related things (computer)
- (4) Policies of the organisation are proper or not
- (5) Management control is designed on the basis of the policy designed by the top Management
- (6) Management control provides adequate control over the resources of company

Other factors which may be considered while auditing management system controls

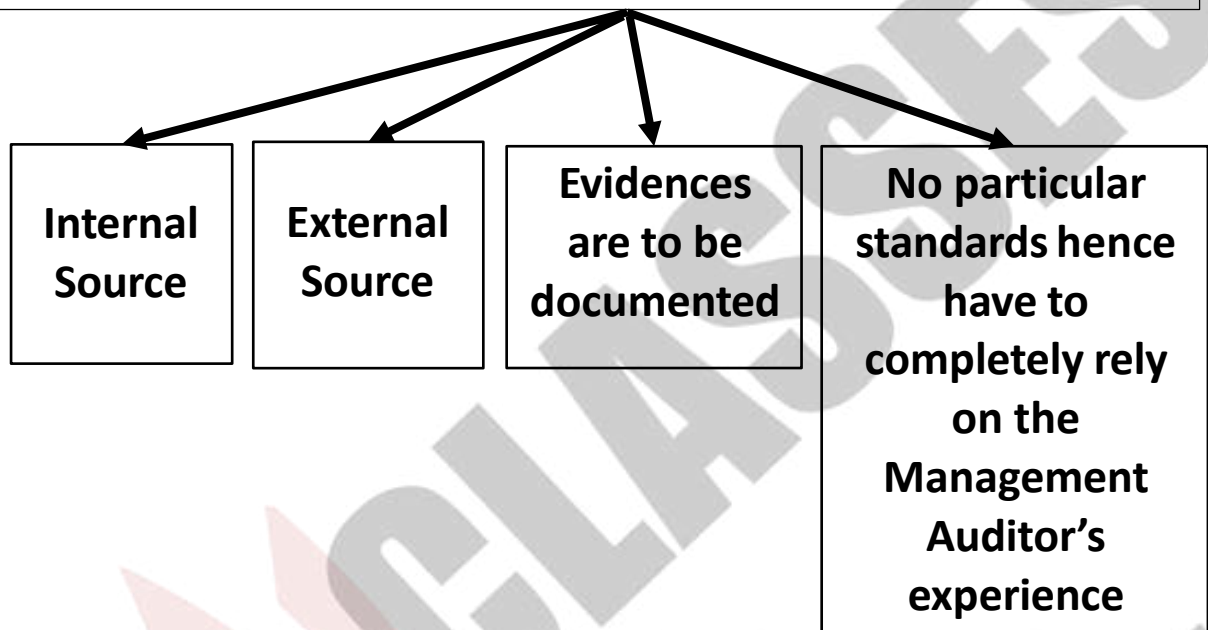
- ✓ Capabilities of person
- ✓ Failures to accept responsibilities
- ✓ Duplication of effort
- ✓ Improper use of funds
- ✓ Improper use of resources
- ✓ Lack of clarity of procedures & policies framed by Top Management

Techniques of Management Audit

- (i) Accounting / Economic Technique
 - ✓ Break-even analysis

<ul style="list-style-type: none"> ✓ Budgetary control including a flexible budget system ✓ Discounted cash flow and net present value methods ✓ Cost-benefit analysis ✓ Standard costing and marginal costing
<p>(ii) Scientific technique (Linear Programming / Transportation or Simulation)</p> <ul style="list-style-type: none"> ✓ Computer Models ✓ Network Analysis ✓ Mathematical Analysis
<p>(iii) Statistical analysis</p> <ul style="list-style-type: none"> ✓ Monte Carlo Simulation ✓ Activity sampling ✓ Smoothing
<p>(iv) Personnel technique</p> <ul style="list-style-type: none"> ✓ Interviewing Training Survey etc.
<p>(v) General technique</p> <ul style="list-style-type: none"> ✓ Brain storming ✓ Transfer pricing ✓ Management by objectives ✓ Management by exception ✓ Corporate planning ✓ Information theory

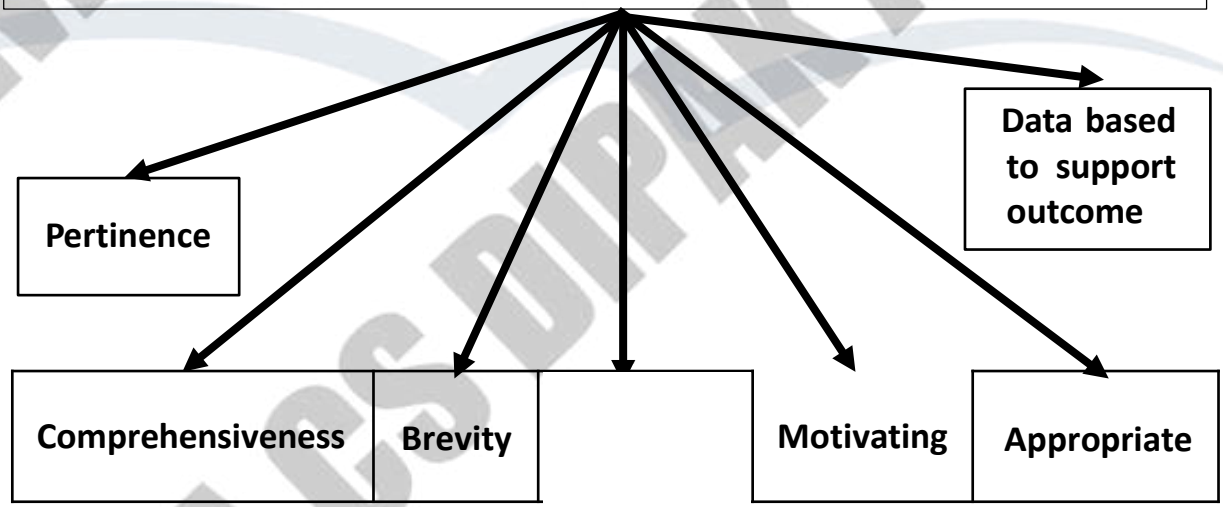
Management Audit Evidence



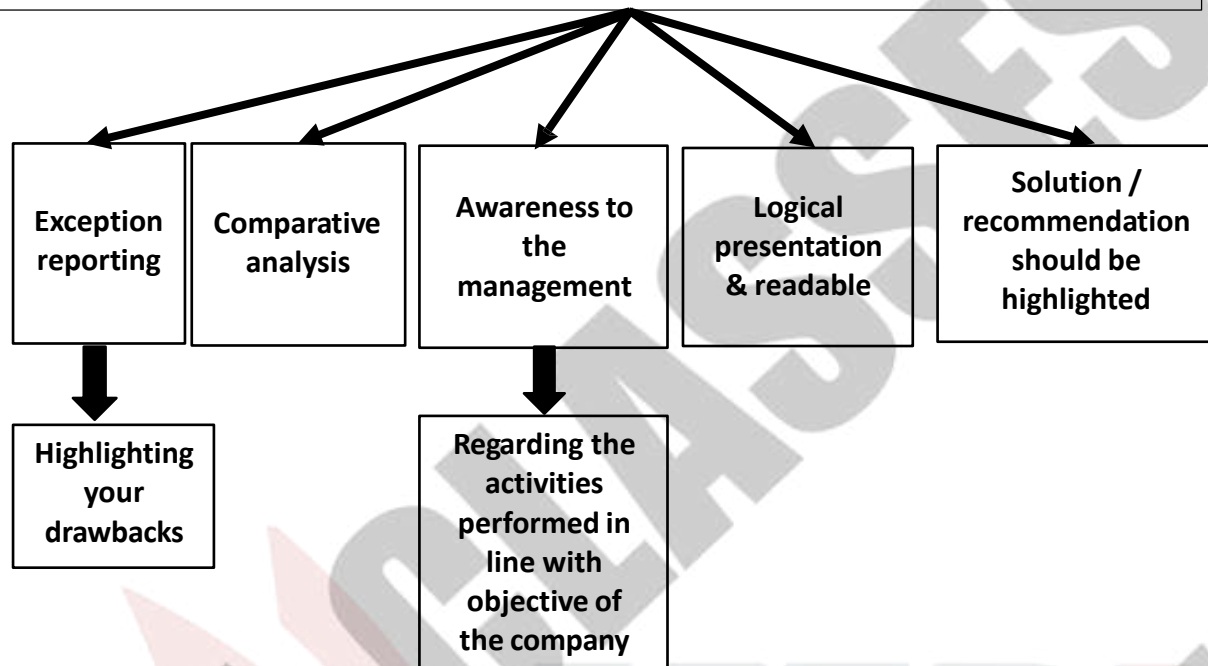
Management Audit Report (MAR)

MAR is the report or the reflection of how the review was conducted by the Management Auditor

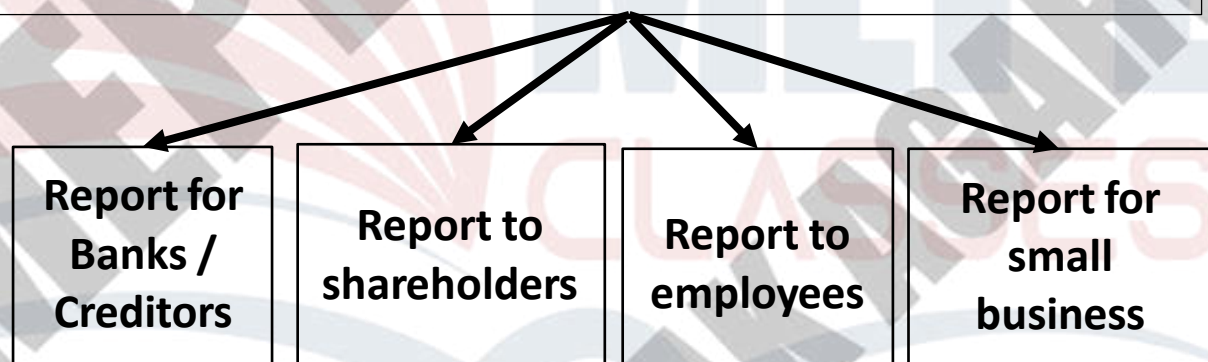
Characteristics of good MAR



Content of MAR



Special Report



(1) Report for Banks / Creditors

- The form and content of financial statements and schedules are important to the lender

(2) Report to shareholders

- By financial experts, bankers, tax authorities, public officials, and research people
- Correct message to a layman
- Report is often used as a public relation

- An auditor's report in the prospectus at the time of public issue is very important. Experts read "between the lines"

(3) Report to employees

- Charges by unions, or explain the need for continuance of the business in times of strike, competition

(4) Report for small business

- Companies Act is the same for a large.
- A great deal of reporting for small businesses is subjective, due to a lack of adequate data. This poses problems in analysing and comparing data. Suggestions in the report must be based on a proper appraisal of the problem.

Chapter 10 – Management Reporting Issues & Analysis

Various types of Management Audit Reports

(1)	<p><u>Based on characteristics</u></p> <p>☞ Financial Report</p> <ul style="list-style-type: none"> ● Cash Flow report ● Cost of Borrowing ● Budgetary Analysis ● Comparative analysis of financials <p>☞ Information Report</p> <ul style="list-style-type: none"> ● Trend Report ● Analytical Report ● Activity <p>☞ Control Report</p>
(2)	<p><u>Based on Nature</u></p> <p>☞ Enterprise</p> <ul style="list-style-type: none"> ● Prepared for Banks / FI / SH / Government authority <p>☞ Investigative</p> <ul style="list-style-type: none"> ● To investigate certain problem
(3)	<p><u>Based on Function</u></p> <p>☞ Joint Activity Report</p> <p>☞ Individual Activity Report</p>

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Performance Analysis

(1)	Parameters <ul style="list-style-type: none"> • Past • Current
(2)	Actual performance
(3)	Micro/Macro
(4)	Root cause analysis
(5)	Feedback from Employees → Business performance
(6)	Review of Past performance
(7)	Comparative analysis of performance
(8)	Management decision analysis

Types of Analysis

(1)	Capacity Utilization Analysis
(2)	Productivity & Efficiency Analysis
(3)	Utility & Energy Efficiency Analysis
(4)	Key Cost & Contribution Analysis
(5)	Profitability Analysis
(6)	Working Capital & Liquidity Management Analysis
(7)	Manpower Analysis
(8)	Other areas

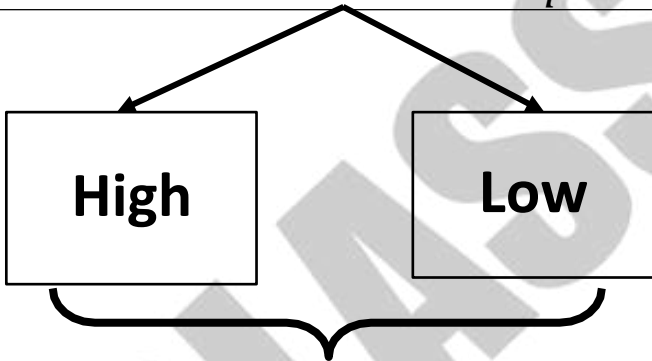
(1) Capacity Utilization Analysis

Example: A machine can manufacture 100 units. But the machine manufactured 70 units only in F.Y. 21-22

$$\text{Capacity Utilization} = \frac{70 (\text{Actual output})}{\text{Maximum output } 100} \times 100$$

= 70%


$$\text{Capacity Utilization} = \frac{\text{Actual output}}{\text{Maximum output}} \times 100$$



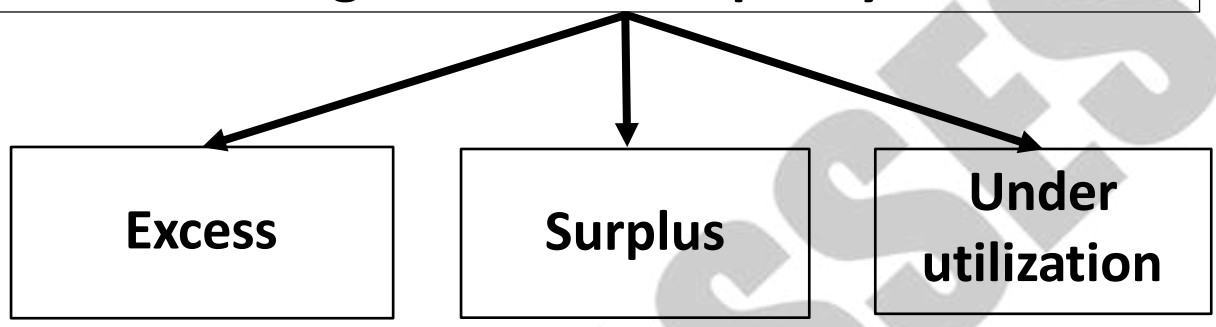
Excess / Surplus / Under utilization

Demand – 60	Production – 70	Maximum – 100
Surplus		

Demand – 120	Production – 70	Maximum – 100
Underutilization and Excess demand		

Company Machine: 2,00,000 → 100 units 2000 x 20 = 40,000	→ 80 units
	
<div style="border: 1px solid black; padding: 5px; display: inline-block;"> Opportunity Cost Loss </div>	

Economic Significance of Capacity Utilization

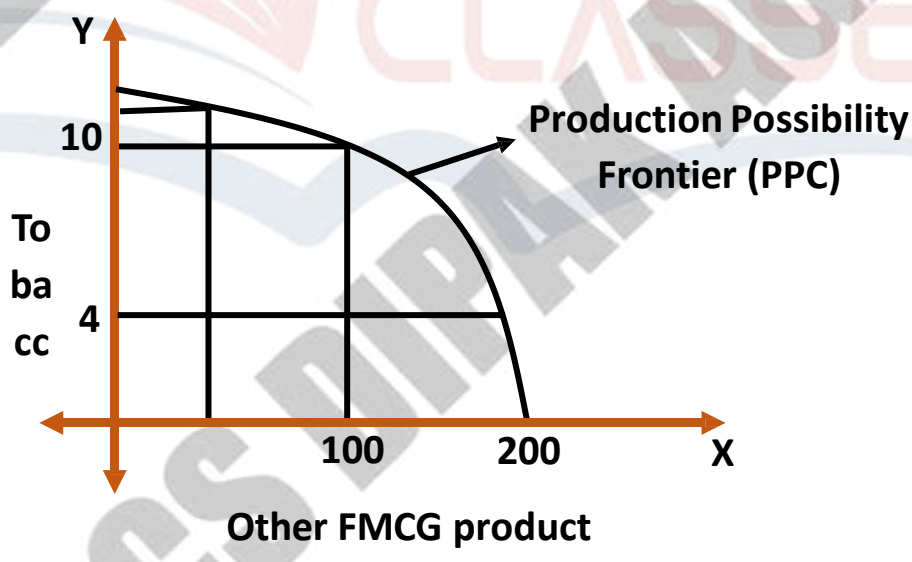


(2) Productivity & Efficiency Analysis

Notes:

(i) **Productive Efficiency:** It refers to the efficiency of the company to produce the maximum level of output by using the limited amount of resources
 Here different company may fight for a limited or scarce resource for example → Crude oil, Petroleum, Semi-conductor chips etc.

(ii) **Productive Possibility Frontier: (PPF) → (ITC)**

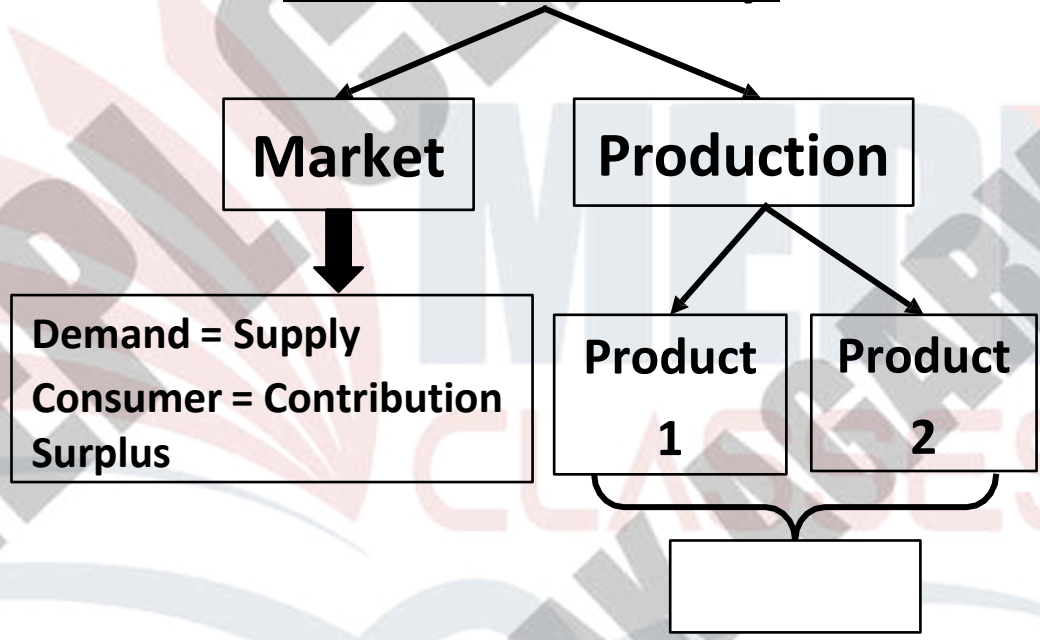


Using the same input resources for Manufacturing both the product

- It is the frontier or a curve which gives a comparative analysis of products (two) manufactured by the company using the inputs available with the company.
- Increase in production of 1 product (i.e., Product x) will lead to decrease in production of (Product Y) as the resources are scarce in nature.

(iii)

Allocative Efficiency:



- Proper allocation of goods & services in the market
 - The benefit of the consumer buying the goods & services = Marginal Cost of production of each unit
- Ex: 10 products = ₹ 1000 } 200 Consumer benefit
 11 products = ₹ 1200 }
- The concept of Marginal Cost =

$$\frac{\Delta \text{ Cost of Production}}{\Delta \text{ Quantity}} = \text{MC}$$

→ **Consumer Surplus: Price a consumer is willing to pay to buy an additional commodity**
Marginal COP = Consumer Surplus

Thus, the company will never incur loss as the product is providing the surplus to the consumer which is equal to the marginal cost of production.

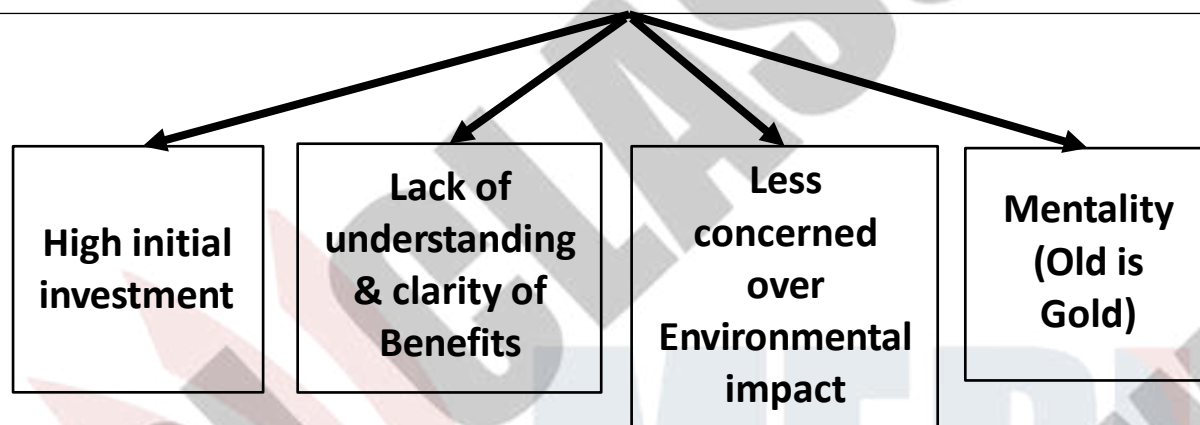
(3) Utility & Energy Efficiency Analysis

- * There should be proper utilization of Energy (Power/Electricity) towards sustainable development of the world
- * There should be sustainable Energy Policy
- * Factories/Manufacturers can use green Energy i.e., Energy produced from Bio gas, windmill, etc. (Renewable Energy)
- * Less Energy consumed to produce more products
- * India → Commercial Truck → BS 6 → Pollution
 BS 4 → 10 years
 BS 5 → 15 years
 India (Bharat) is telling the people to scrap the vehicle which is older than 10 years
- * Cogeneration System: The process of trapping the heat generated by the industry & using it for the purpose of heating/cooling in various other industry.

* **Recycling:** The use of product generated in the production process which can be reused for further production or can be recycled by another industry.

Example: Aluminium, Glass, Water, Solar cells, Paper etc.

Barriers to Success



Ex: Use of Solar Energy instead of normal electricity

(4) Key Cost & Contribution Analysis

$$\text{Contribution per unit} = \frac{\text{Total Revenue} - \text{Variable Cost}}{\text{No. of units sold}}$$

Total Revenue ↑ Variable ↓
 Contribution ↑
 ↓
 Overall Profitability ↑

Example:


Total Revenue: 10000/-

Total cost of product: 8000/-

Unit sold: 200
 Contribution/unit: $\frac{10000-8000}{200} = 10/-$
 Total = 2000/-

Break Even point = Fixed cost = Contribution

Profit Volume chart:
 It is a graphical representation of volume vis-a-vis profit



If there is 10% increase in sales, will it lead to 10% increase in contribution
 ↑ 10% TR - TVC (10% more) = Contribution ↑ 8%

Advantages	Disadvantages
✓ Decision Making	✓ Assumptions not taken correctly
✓ By having unit wise contribution & Break Even → Performance can improve	✓ Unrealistic figures can lead to false analysis
✓ Helps in understanding critical points i.e., Revenue & Contribution mismatch	

(5) Profitability Analysis

Contribution: TR – TVC

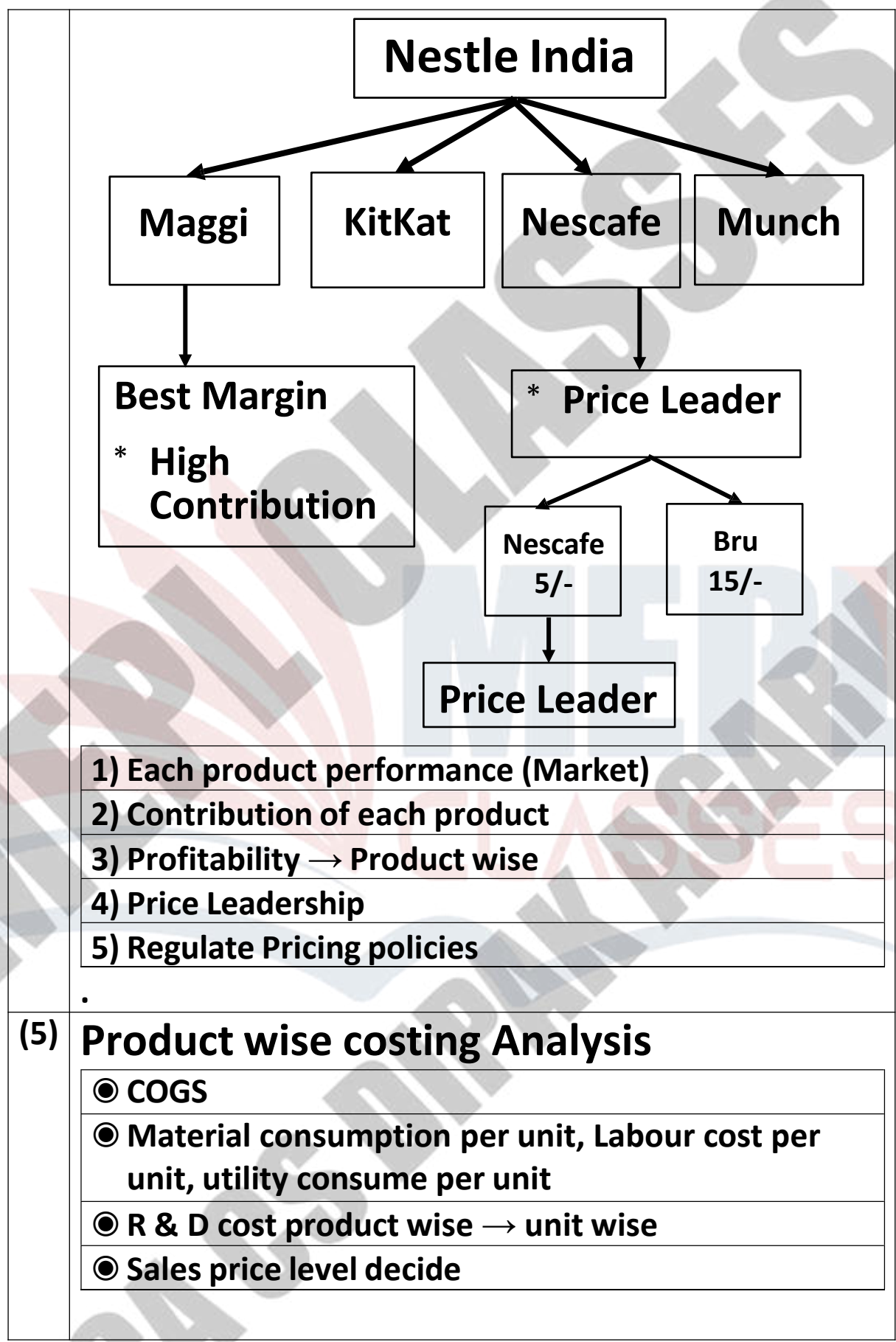
Contribution - FC - OC - Debenture - Interest - Tax = Profit

Sustainable

Budgeting → Profitability should be considered

Types of Profitability Analysis

- | | |
|-----|---|
| (1) | Ratio Analysis <ul style="list-style-type: none"> ✓ Return on Equity (ROE) ✓ Return on Asset (ROA) ✓ P/E Ratio ✓ EPS ✓ EBIT/EBDIT |
| (2) | Customer wise profitability Analysis <ul style="list-style-type: none"> ✓ Customer Centric ✓ Favourable customer gives good margin |
| (3) | Qualitative Analysis <ul style="list-style-type: none"> ✓ Charts ✓ Technical analysis ✓ Business cycles |
| (4) | Product Profitability Management
Example → |



- 1) Each product performance (Market)
- 2) Contribution of each product
- 3) Profitability → Product wise
- 4) Price Leadership
- 5) Regulate Pricing policies

(5) Product wise costing Analysis

- COGS
- Material consumption per unit, Labour cost per unit, utility consume per unit
- R & D cost product wise → unit wise
- Sales price level decide

Important Ratio

Sales to Stock Ratio

$$= \frac{\text{Net Sales}}{\text{Average Inventory}}$$

Gross Margin

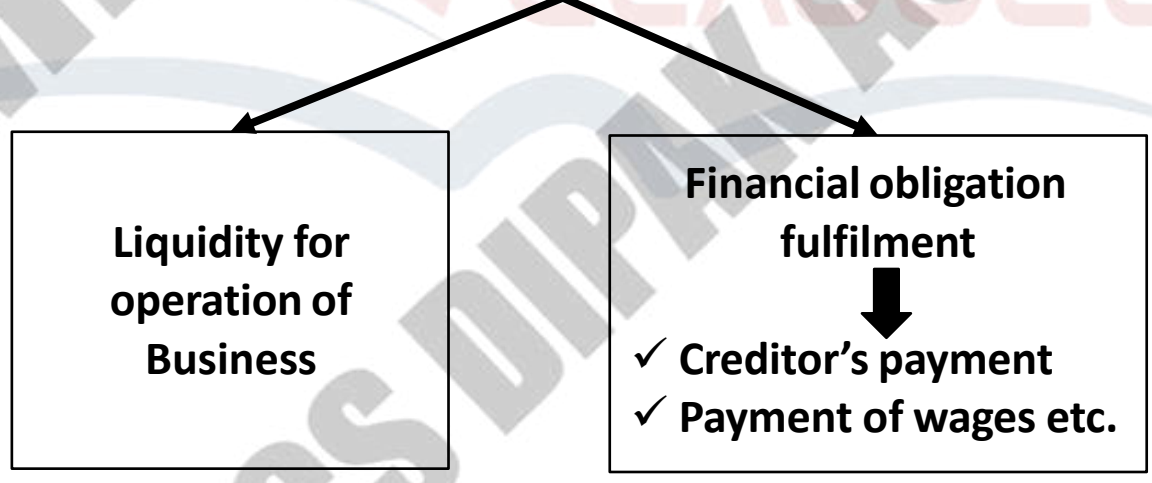
$$= \frac{\text{Gross Profit}}{\text{Net Sales}}$$

Example:

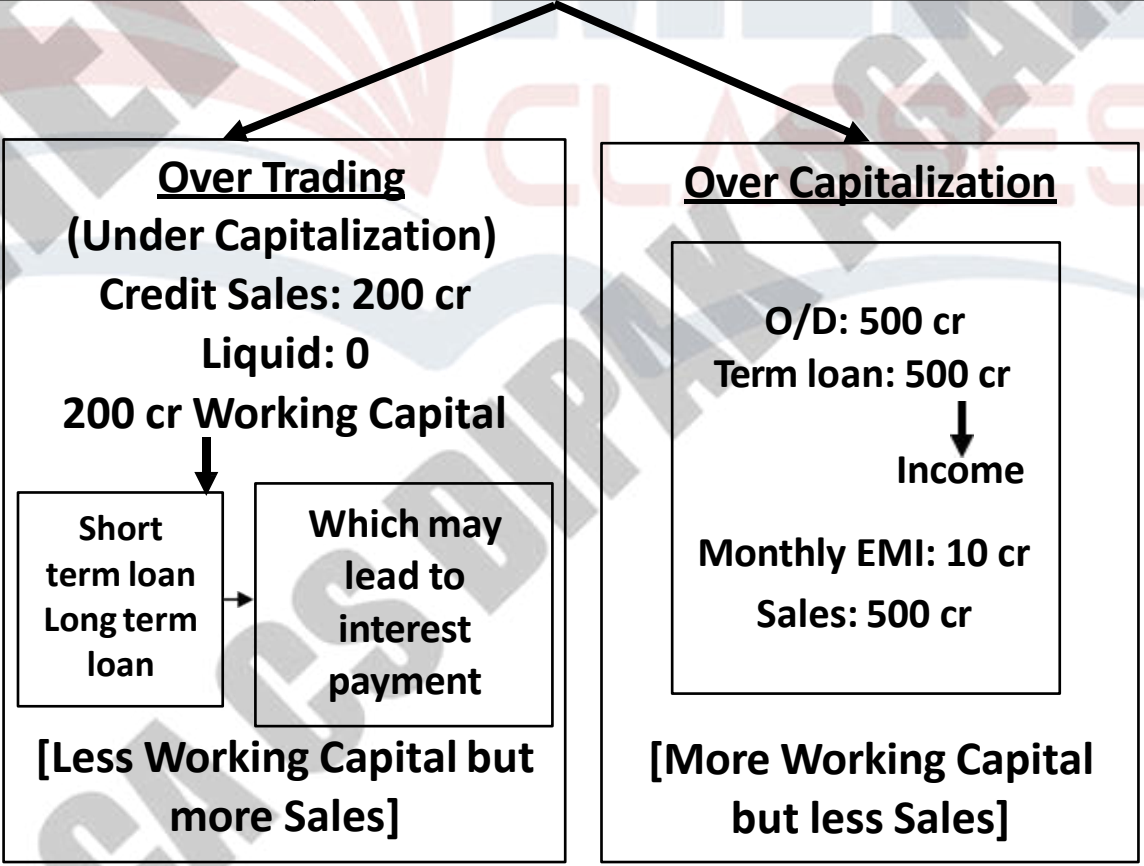
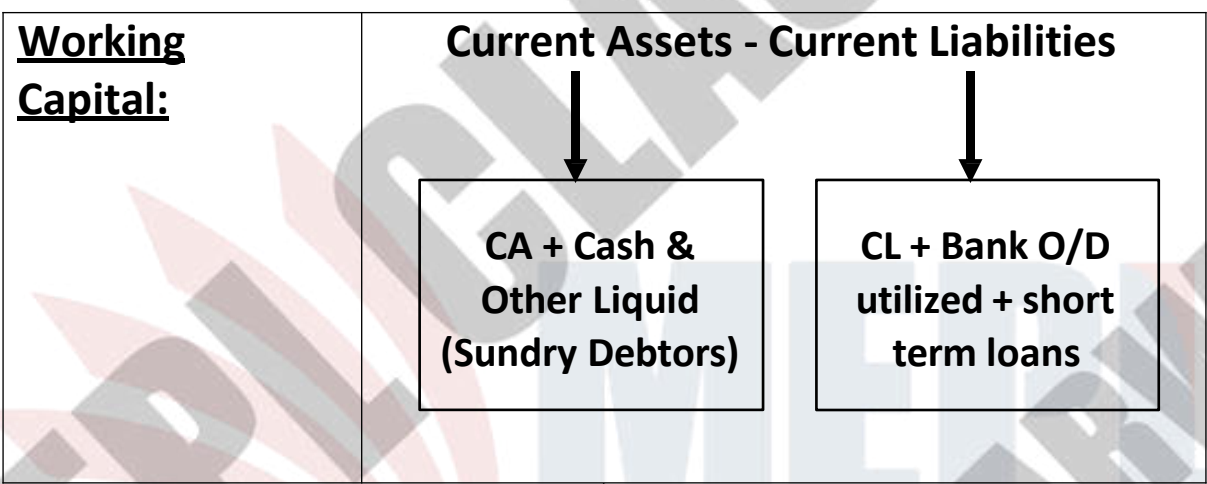
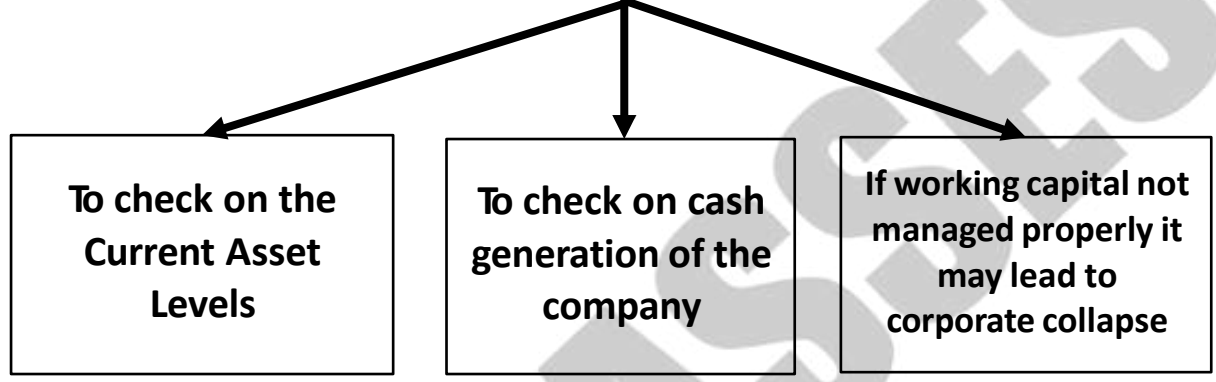
<p>Net Sales = 1000 Average Inventory = 500 $\therefore \frac{1000}{500} = 2$</p>	<p>Gross Profit = 10000 Net Sales = 5,00,000 $\therefore \frac{10000}{500000} = 0.02$</p>
--	--

(6) Working Capital & Liquidity Management Analysis

Objective of Working Capital Management



Benefit of Working Capital Management



Types of Ratios

(1) Liquidity Ratio

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liability}}$$

$$\text{Acid Test Ratio (Quick Ratio)} = \frac{\text{Quick Asset}}{\text{Current Liability} - \text{Inventory}}$$

$$= \frac{\text{Quick Asset}}{\text{Current Liability}}$$

↑
(Slow moving inventory)

(2) Efficiency Ratio

$$\text{a) Inventory T.O} = \frac{\text{Cost of Sales}}{\text{Average Inventory}}$$

$$\text{b) Inventory Days} = \frac{\text{Average Inventory}}{\text{Cost of Sales}} \times 365$$

- Raw Material days = $\frac{\text{Raw Material}}{\text{Cost of Sales}}$

- Work-in-Progress days = $\frac{\text{Work in Progress}}{\text{Cost of Sales}}$

- Finished Goods days = $\frac{\text{Finished Goods}}{\text{Cost of Sales}}$

$$\text{c) Trade Payable Days} = \frac{\text{Average Trade Payable}}{\text{Annual Credit Purchase}} \times 365$$

$$\text{d) Trade Receivable Days} = \frac{\text{Trade Receivable}}{\text{Credit Sales}} \times 365$$

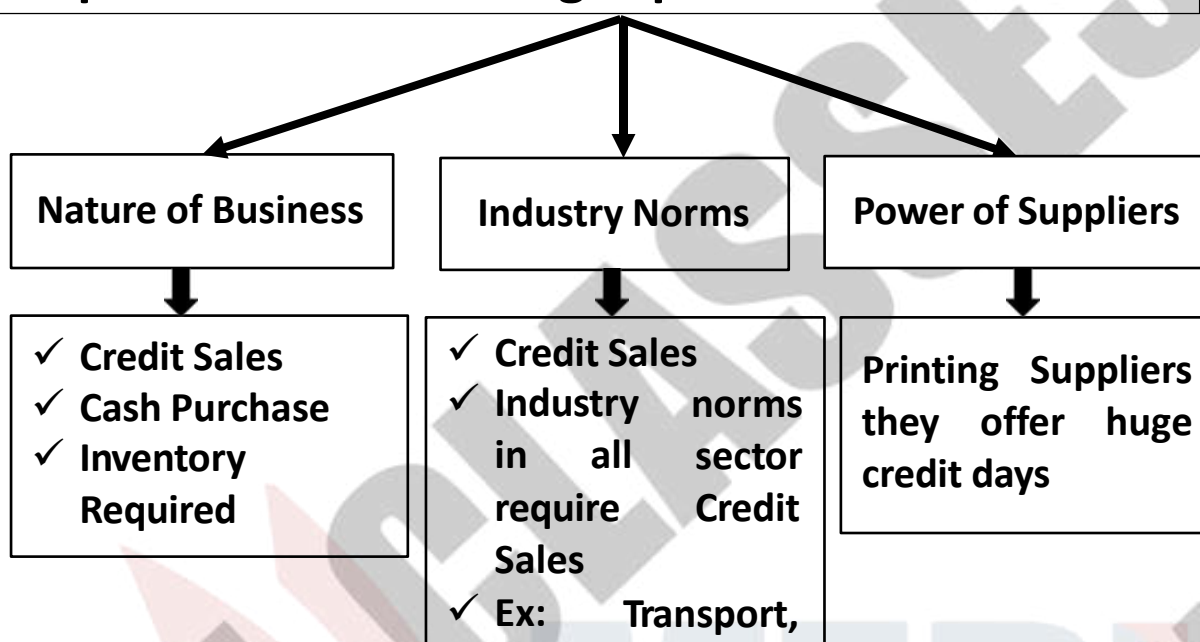
$$\text{e) Sales to Working Capital} = \frac{\text{Sales}}{\text{Working Capital}}$$

(3) Cash Operating Cycle

(Working Capital Cycle/Conversion Cycle)

$$= \text{Inventory Days} + \text{Receivable Days} - \text{Payable Days}$$

Higher the operating cycle than higher the requirement of working capital



Example:

Topple Co has the following forecast figures for its first year of trading:

Sales ₹ 36,00,000

Purchases expense ₹ 30,00,000

Average receivables ₹ 3,06,000

Average inventory ₹ 4,95,000

Average payables ₹ 2,30,000

Average overdraft ₹ 5,00,000

Gross profit margin 25%

Industry average data: Inventory days 53

Receivables days 23

Payables days 47

Current ratio 1.43

Assume there are 365 days in the year.

Required:

Calculate and comment on Topple Co's cash operating

cycle, current ratio, quick ratio, and sales to working capital ratio.

Solution:

$$(1) \text{ Inventory Days} = \frac{495000}{27,00,000} \times 365 = 67$$

$$(2) \text{ Receivable Days} = \frac{306000}{36,00,000} \times 365 = 31$$

$$(3) \text{ Payable Days} = \frac{230000}{30,00,000} \times 365 = 28$$

$$(4) \text{ Working Capital Days (Cash Operating Cycle)} \\ = 1 + 2 - 3 \\ = 67 + 31 - 28 = 70$$

$$(5) \text{ Current Ratio: } \frac{CA}{CL} = \frac{495000 + 306000}{230000 + 500000} = \frac{801}{730} = 1.10$$

$$(6) \text{ Quick Ratio: } \frac{CA - \text{Inventory}}{CL} = \frac{306}{730} = 0.42$$

$$(7) \text{ Sales to WC: } \frac{\text{Sales}}{CA - CL} = \frac{3600000}{495000 + 306000 - 230000 - 500000} \\ = 51 \text{ times}$$

(Overdraft is long term loan)

$$= \frac{3600000}{495000 + 306000 - 230000} = 6.3 \text{ times}$$

Industry Standards

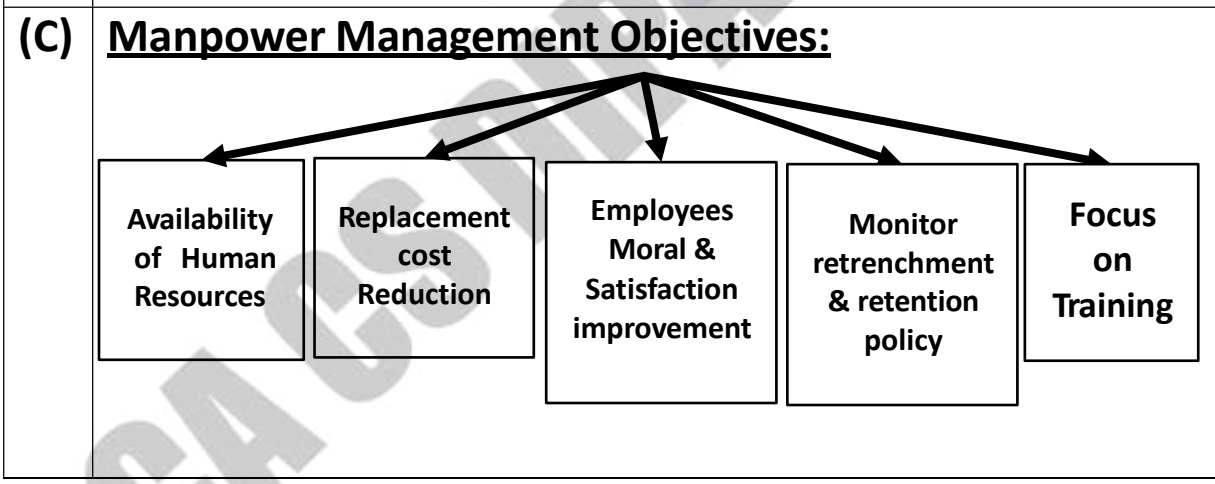
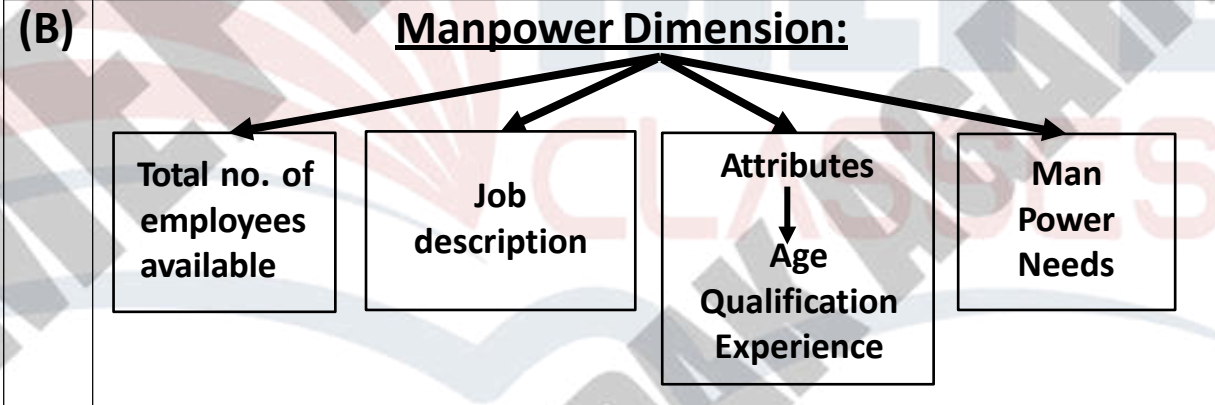
Inventory days →	53	<u>Current Ratio</u>
Receivables days →	23	1.43
Payables days →	<u>(47)</u>	In our case CR is 1.10 which is below the industry standard hence we should try to increase the same to the industry standards
Cash operating cycle <u>29 days</u>		
Here, in our case the cash operating cycle is above the industry average by 70 – 29 = 41 days		

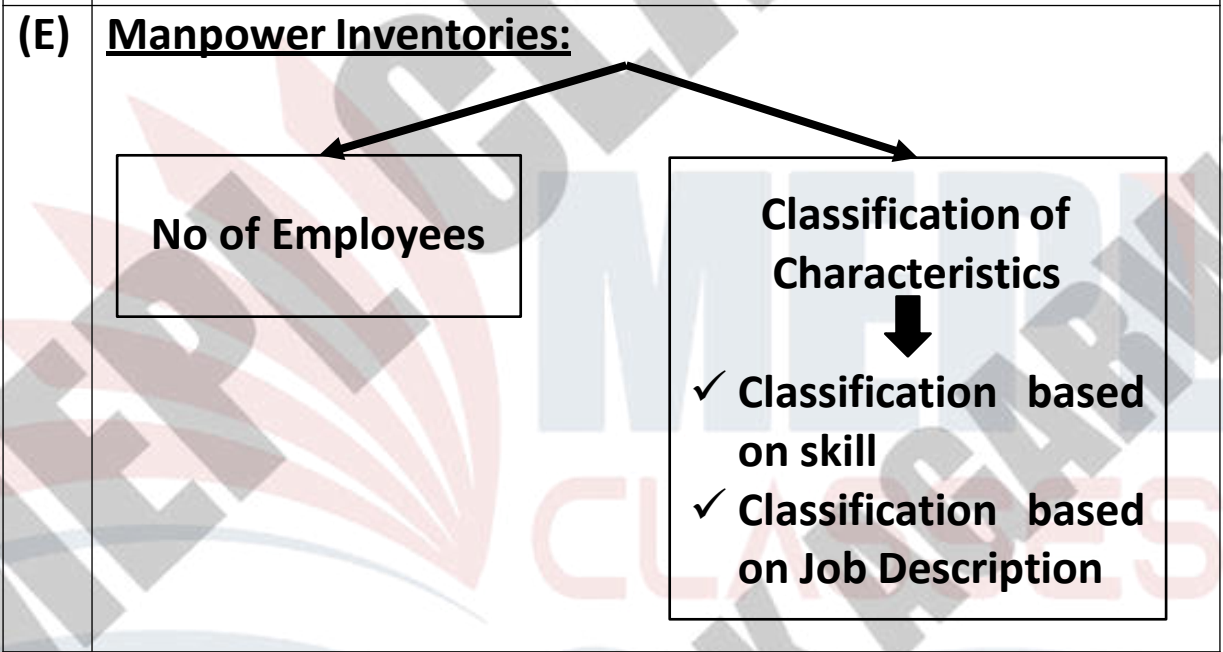
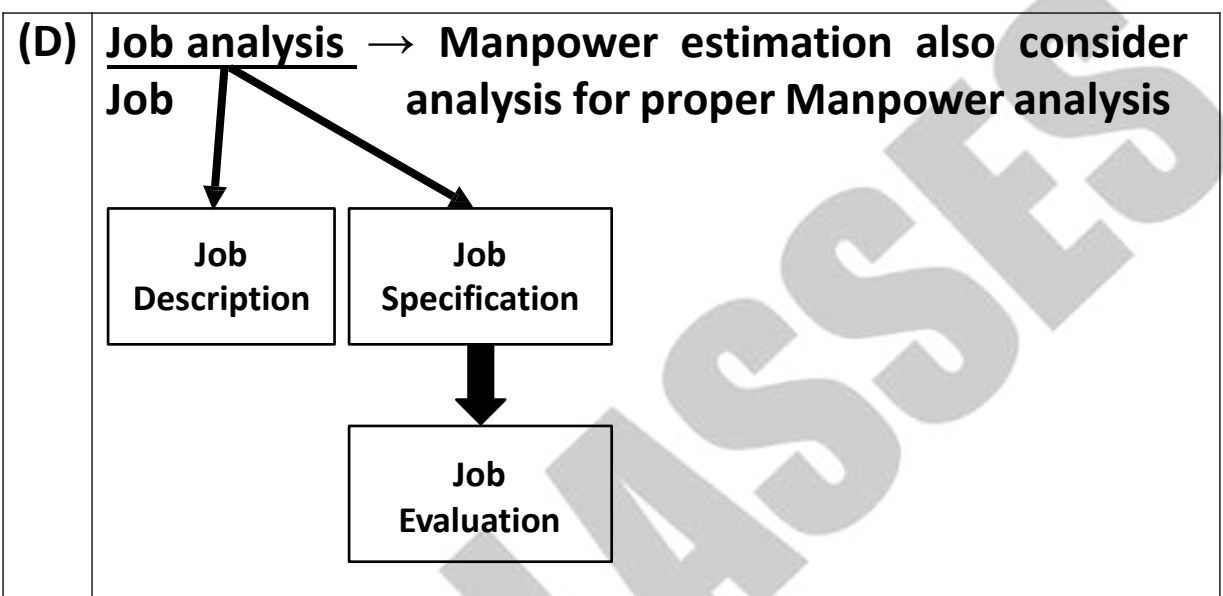
that means more of our capital will be stuck in working capital

$$\begin{aligned} \text{Sales to Working Capital} &= \frac{\text{Sale}}{\text{CA} - \text{CL (Excluding Overdraft)}} \\ \text{Working Capital} &= 100 \\ \text{Sales} &= 100 \times 6.3 \\ &= 630 \end{aligned}$$

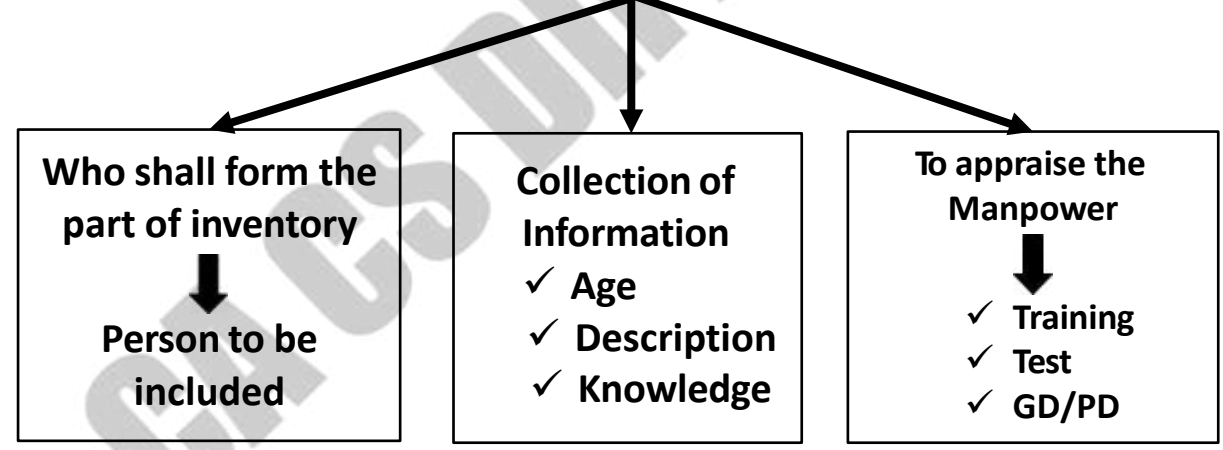
(7) Manpower Analysis

(A) **Manpower Management:** The need of the organisation of skilled/unskilled workforce for completion of the objective efficiency & productivity is achieved is called manpower management.



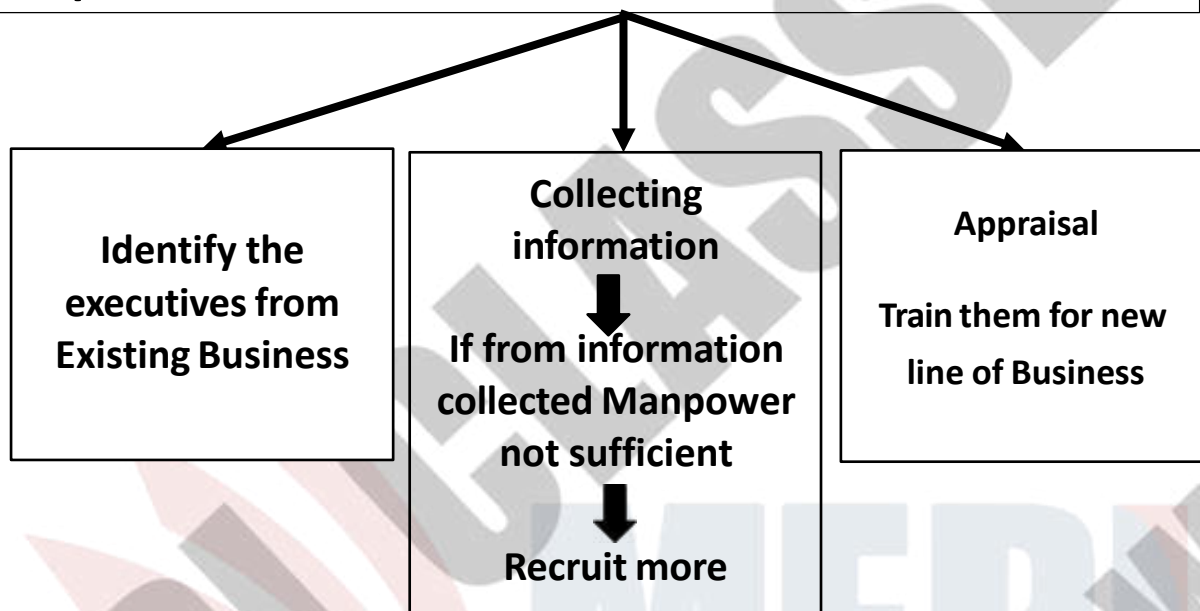


Steps to measure Manpower inventory



Example:

Suppose RIL want to start a new Line of business so he will prepare a manpower inventory which is required for the new business

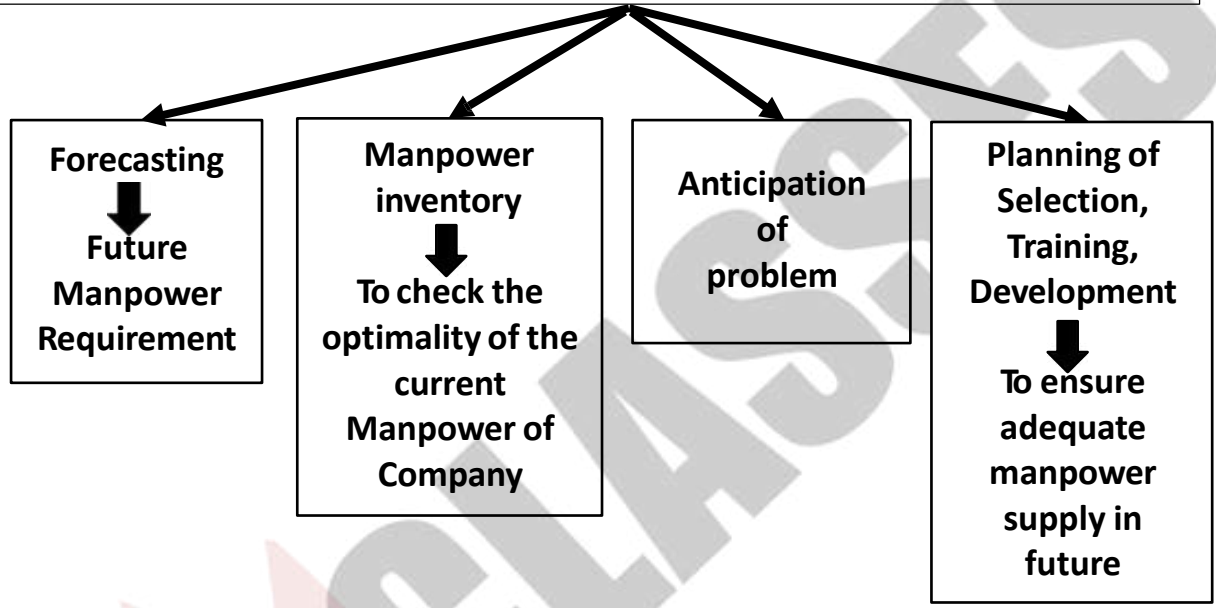


We will have right labour at right time for Efficient handling of business

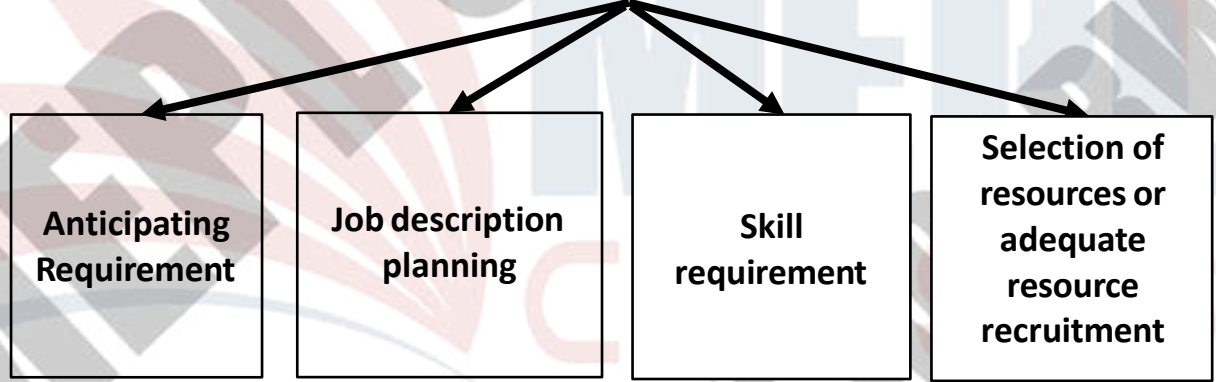
Strategies for Manpower Planning

- Collection of information regarding Human Resources
- Periodical Review
- Development of procedures to determine manpower requirement
- Technique for allocation of work
- Measures for utilization of Manpower
- Procurement Policy
- Process of Appraisal such as Training etc.
- Process of Management to improve Employees performance

Activities for Manpower Planning

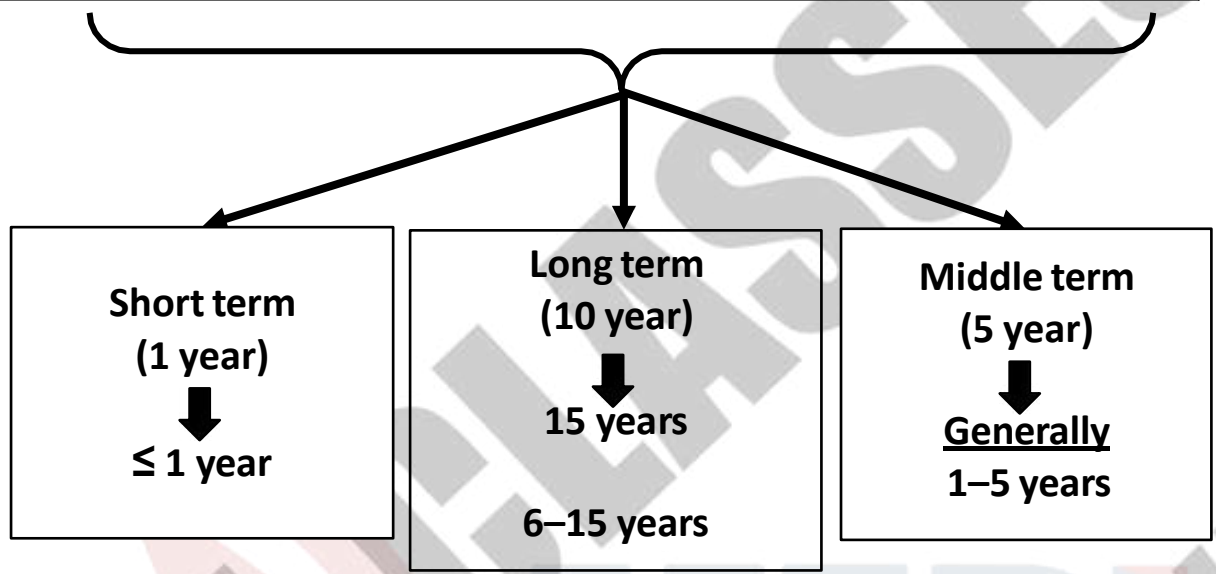


Steps for Manpower Planning



Human Resource Planning
(1) Demand Forecasting
(2) Supply Forecasting
(3) Future Deficit → Recruitment (Increase Manpower)
(4) Plan for Recruitment
(5) Future Surplus → Retrenchment (Decrease Manpower)
(6) Plan to modify or adjust the organisation plan on

manpower management
(7) Manpower Materiality → Calculation of net Manpower resource available



STEPS OF MANPOWER ANALYSIS





Manpower Planning Process:

The process of manpower planning works in a stepwise manner. The steps for the same are –

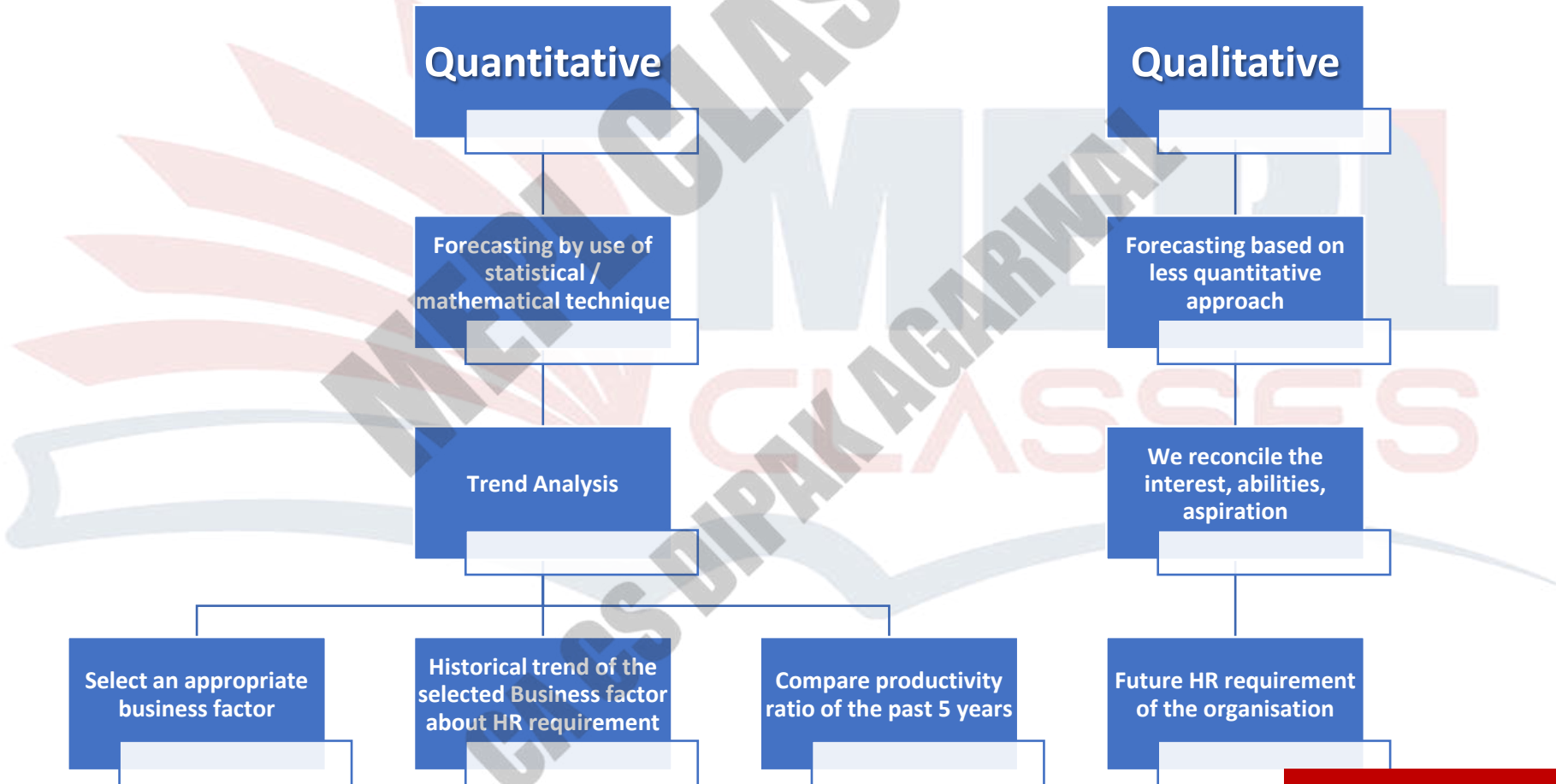
- (a) **Need identification:** Each department has to identify its targets and get resources allocated accordingly.
- (b) **Succession plan:** Then, a succession plan must be formulated by the personnel managers of each department ensuring that they incorporate additional training programs to alleviate the labour turnover rate of the company.
- (c) **Planning:** Planning is done for recruiting candidates if there is a shortage of staff in the organisation.
- (d) **Redundancy plan:** A redundancy plan must also be developed in case the organisation feels that there are employees in a company not required due to lack of adequate knowledge to handle the job/performance.
- (e) **Approval:** These plans and proposals made by the personnel managers are then sent to the higher management team for approval. If these are approved, then each department seeks to implement them, and depending on the needs of individual departments and cost constraints, these plans are evaluated and managed.

Techniques Used to Determine the Requirements of Personnel:

The four methods generally used to determine the requirements of personnel are

- Annual estimate of vacancies;
- Long-range estimates of vacancies;
- Fixed minimum manpower specification-wise requirements; and
- Specific position estimations.

Approach to HR Demand Forecasting :



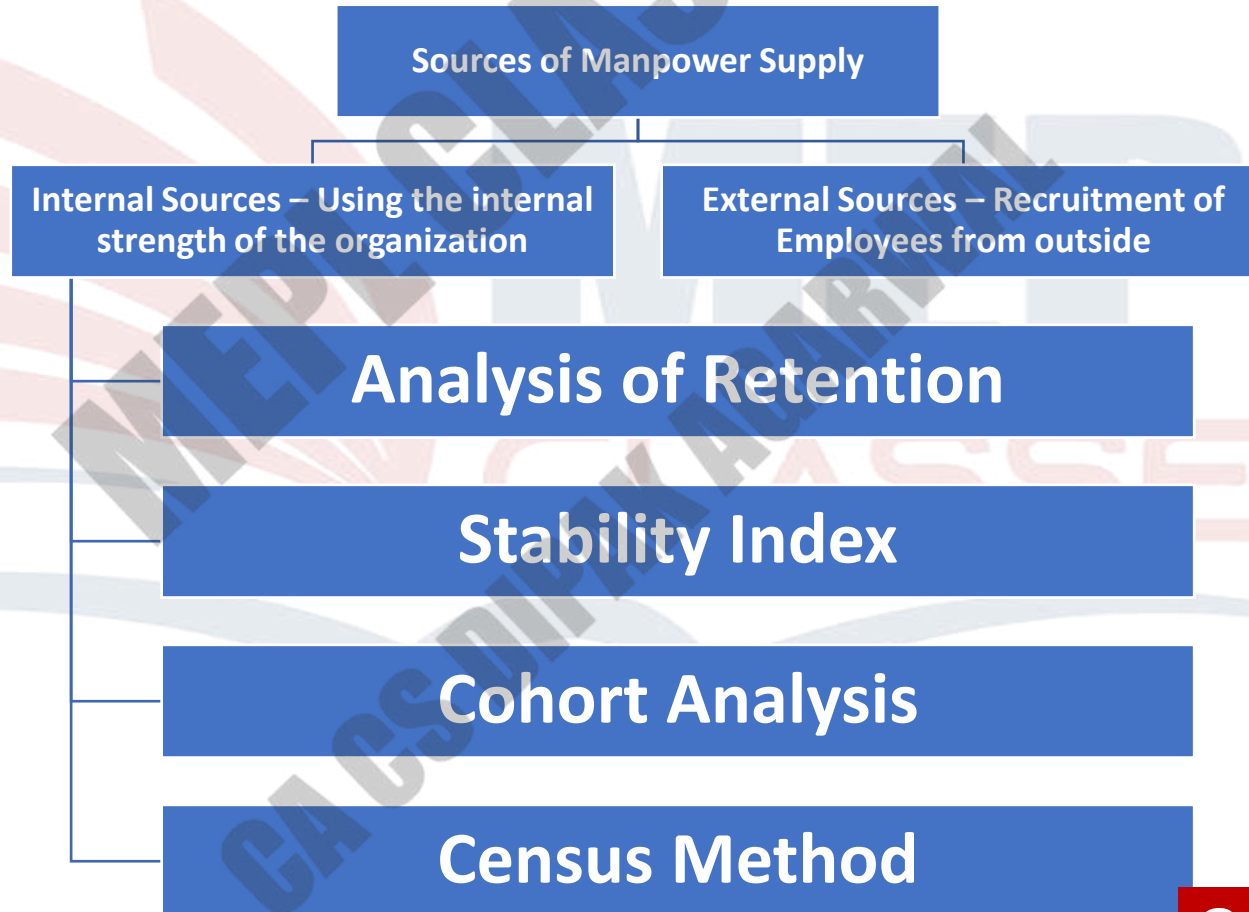
HR planners many times go further and analyse the demand based on the following:

(i) Workforce analysis to determine the rate of influx and outflow of employees – It is through this analysis one can calculate the labour turnover rate, absenteeism rate, etc. Qualitative methods go a long way in analysing the internal flow created by promotions, transfers, etc.

(ii) Workload analysis, with which one can calculate the numbers of persons required for various jobs concerning a planned output – This takes into consideration factors such as absenteeism, idle time, etc. Both quantitative and qualitative techniques are utilised for accurate results.

(iii) Job analysis: Job analysis helps in finding out the abilities or skills required to do the jobs efficiently. A detailed study of jobs is usually made to identify the qualifications and experience required for them. Job analysis includes two things – job description and job specification. Job description, thus, is a factual statement of the duties and responsibilities of a specific job. It indicates what is to be done, how it is to be done, and why it is to be done. Job specification provides information on the human attributes in terms of education, skills, aptitudes, and experience necessary to perform a job effectively

Supply Forecasting Techniques



- **Labour Turnover =**
(No. of Levers in the year / Avg no. of Employees in a year)
x 100

Example –

100 Levers

1000 Employees

$$(100/1000) \times 100 = 10\%$$

- **Stability Index =**
(Employees in service for at least 1 year / total no. of employees) x 100

Example –

100 Levers

1000 Employees

500 Employees worked for at least 1 year

$$(500 / 1000) \times 100 = 50\%$$

$$\text{Labour Turnover} = (100/1000) \times 100 = 10\%$$

- **Cohort Analysis**

Homogenous group of Employees joined the organization during a fixed period

2020-21 : Cohort Analysis

CA – 40

CMA – 50

CS – 10

Total = 100

Homogenous -

CA – need to do more recruitment

CMA – need to do more recruitment



- **Census Method**

Behavior Analysis

Labour Force

Leavers – Chart – why they left the organization

Joiners – Chart – why they joined

Determining Manpower Gaps:

The final stage is to balance out the demand and supply gap. The closer the gap the better it is for the company when it goes into recruiting.

In this process, a company always needs to keep repeating this step as it operates in a changing environment. Changes in product mix, union agreements, and competitive action are some of the important things that need special attention.

A comparison chart can be developed to find what is available and to what extent it can fulfill the demand forecast. This exercise helps us have an idea of the quantitative and qualitative gaps in the workforce. A reconciliation of demand and supply forecasts will give us the number of people to be recruited or made redundant as the case may be. This forms the basis for preparing the manpower plan.

The human resource requirements thus identified are translated into a concrete manpower plan, backed up by detailed policies, and other human resources instruments and strategies (for example, recruitment, selection, training, promotion, retirement, replacement, etc.).

Manpower Gap Determination:

Understanding the gap in the Demand & Supply of Manpower

Operational Plans to be considered for
Manpower Planning –

1. Recruitment
Plan

2. Redundancy
Plan

3. Training Plan

4. Productivity
Plan

5. Retention
Plan

6. Check /
View points



The manpower plan is further divided into the following resultant operational plans:

1. Recruitment plan to show how many and what type of people are required and when they are needed;
2. Redeployment plan to help chart out the future movement in terms of training and transfers.
3. Redundancy plan will indicate who is redundant, when and where; the plans for retraining, where this is possible; and plans for a golden handshake, retrenchment, lay-off, etc.
4. Training plan to chart out if training is required. If yes, when and to which level; whether it will be done inhouse, done in phases, or included as part of a formal induction program. This includes the cost and benefits analysis of all the options available.
5. Productivity plan will indicate reasons for employee productivity or reducing employees costs through work simplification studies, mechanization, productivity bargaining, incentives, profit-sharing schemes, job redesign, upskilling etc.
6. Retention plan will indicate reasons for employee turnover and show strategies to avoid wastage through compensation policies, changes in work requirements, and improvement in working conditions.
7. Check/reviews points. The success of the entire exercise is dependent upon frequent reviews so that none of the factors are left out and changes are constantly taken care of. The important thing is to demarcate points for periodical checks to incorporate deficiencies and periodic updating of manpower inventory based on training and performance reviews, in the light of changing circumstances.

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Need for Strategic Manpower Planning :

Predicting Manpower needs is crucial

Economics of Manpower Planning is also crucial

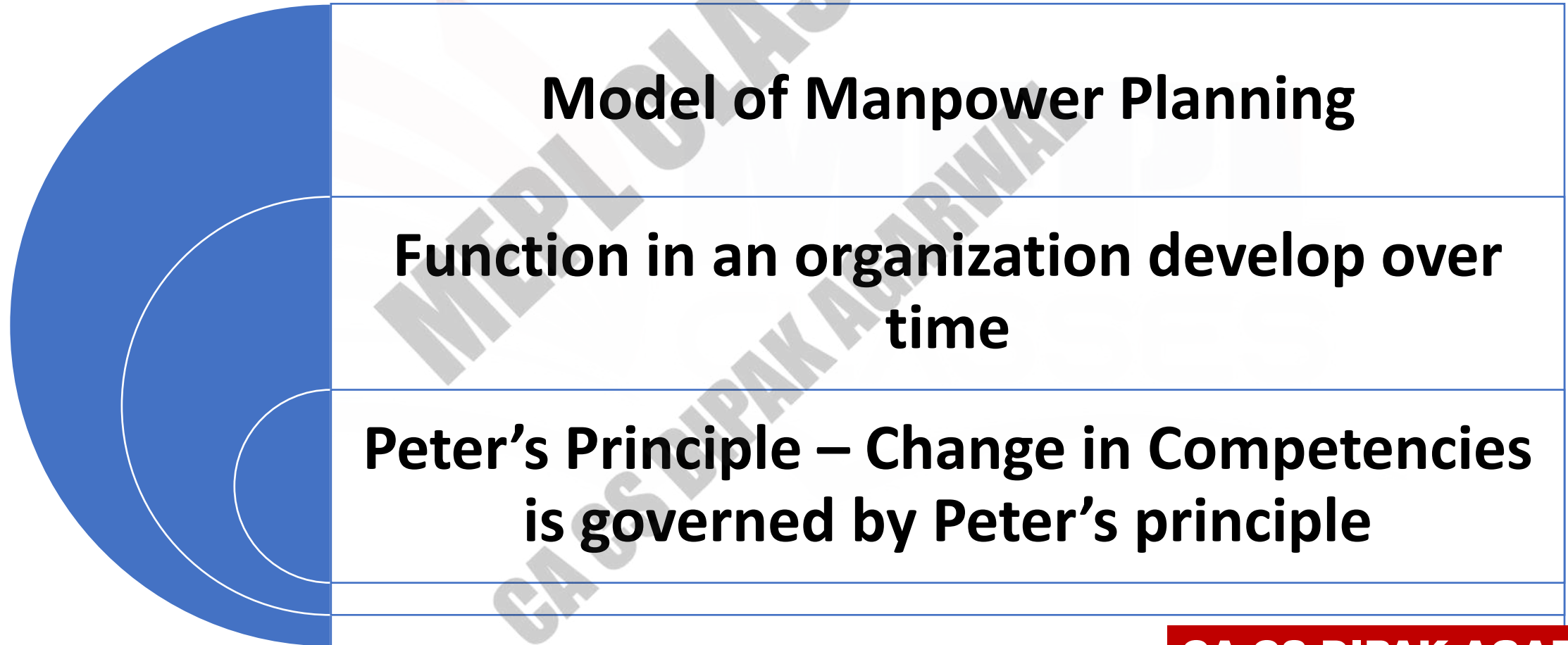
Economics of Demand & Supply forecasting

Get up the right people

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Manpower Planning Framework



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Models of Manpower Planning:

The models of manpower planning deal on a high level of abstraction with employee movements from function to function throughout the organisation. As a consequence, functions, and employees are seen as numbers with no characteristics

Functions in an Organisation Develop Over Time:

Within the organisation, the requirements of functions develop over time. As a result, employees are needed with different competencies. To decrease the level of abstraction we must avoid the pitfall of implementing too much behaviour of employees. It is not possible to model the many interactions and career patterns of employees and the occupation of function in a very detailed manner.

The modelling of “soft” factors such as preference, or dislike of specific functions by employees is, therefore, saved for later research. Our approach is to first cover the “hard” factors of employee characteristics and function requirements, for example, education, age, and experience based on earlier fulfilled functions. To model, verify, and explain these interactions patterns that will occur over time is the first aim.



Change in Competencies is Governed by Peter's Principle:

The competencies of the employees, which are useful for the organisation, can also decrease by several causes. In the first place, after reorganization, a shift in the competency demand of the organisation arises. The number of employees stays the same, but the amount of competencies of the employees, which are still valid for the organisation can decrease

As these competencies are no longer necessary for the organisation, they are not taken into account anymore. Secondly, the employee's competencies get out of date after some time`

Fighting obsolescence is a joint responsibility of the employee and the organisation. Solutions can be to take courses or to change position in the organisation to gain new experience.

The factors mentioned here do not change the quantity of the employees, but just the set of available competencies. Besides the mentioned processes, three other factors have an influence on the available competencies in an organisation – inflow, outflow, and absence. The inflow of employees creates growth in competencies available for the organization

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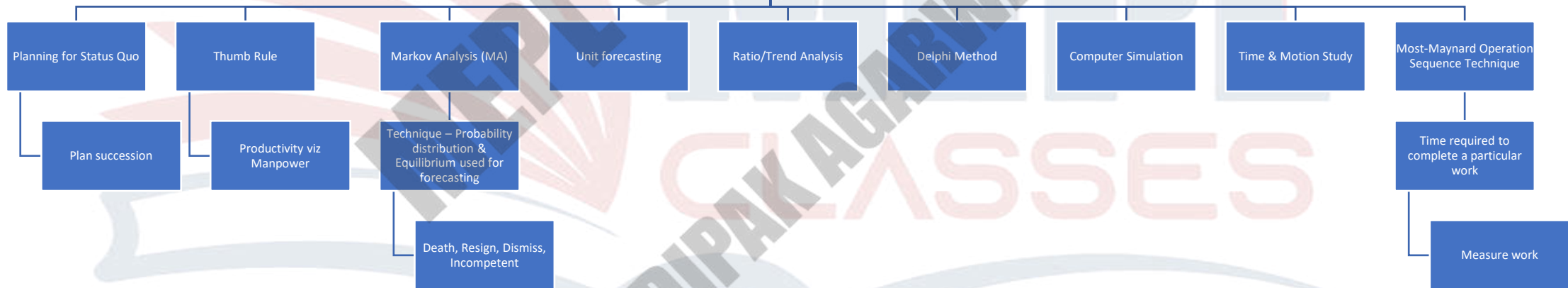
Change in Competencies is Governed by Peter's Principle:

The other two factors decrease the competencies. Insight into the trends of absence (through illness, vacation, and other causes), inflow, and outflow can be gained by analysing historical data and by looking at the developments in the labour market

These three factors change the obtainable competencies in the organisation by changing the number of employees within the organisation. Of course, there is a difference between inflow in the 'lowest' functions in the organisation and horizontal inflow in higher functions.

However, at the macro level, the competencies, whether regarding existing or new employees, are governed by Peter Principle which articulates – “In time, every post tends to be occupied by an employee who is incompetent to carry out his duties” and adds that “work is accomplished by those employees who have not yet reached their level of incompetence”.

Approach for developing Manpower Planning





Advantages of Manpower Planning:

Besides this, the following points also throw light on the advantages and manpower planning:

- (i) Manpower planning involves forecasting manpower requirements in an organisation and helps the management in anticipating personnel shortages and surpluses and also to develop ways to avoid or correct problems before they become serious. Further, forecasting long-range manpower requirements help forecast the compensation costs involved in that connection.
- (ii) A proper and systematic forecasting of human resource requirements helps an organisation to determine proper sources and methods of recruitment. Further, an organisation can also adopt a proper selection procedure depending upon the needs of the jobs. Proper tests can be designed to select the right candidates for the right jobs. Thus, the importance of manpower planning is immense in recruiting and selecting personnel.
- (iii) From the viewpoint of training and development, the importance of manpower planning is great. Manpower planning ensures the training of employees in an organisation. Training involves imparting knowledge and developing attitudes, skills, social behaviour, etc., of the employees. Manpower planning identifies the training needs of the personnel of an organisation beforehand so that necessary arrangements and training programs can be chalked out accordingly to give training to the employees. Training helps the organisation to utilise its human resources to the optimum. Manpower planning is not only important from the viewpoint of an organisation but it also helps the employees of an organisation in developing and in the application of skills, abilities, knowledge which affect their capacity positively as for as efficiency, earnings, etc., are concerned.



Advantages of Manpower Planning:

Besides this, the following points also throw light on the advantages and manpower planning:

- (iv) So far as performance appraisal is concerned, manpower planning plays an important role in that area too. Performance appraisal refers to the identification of strengths and weaknesses of the employees of an organisation relating to their jobs. It is conducted to know whether the existing human resources possess the necessary qualities and qualifications as per the requirements of the jobs. Manpower planning makes available necessary strategies to correct the weaknesses of the employees by making the proper arrangements for corrective training, retraining, and orientation programmes. All these are interrelated activities.
- (v) Importance of manpower planning is none-the-less in respect of controlling the labour costs. Efforts are made in manpower planning to assure the timely and sufficient supply of labour, thus, avoiding the shortages and surpluses of labour which leads to saving and controlling labour costs.
- (vi) Manpower planning facilitates the career development of employees. Career development refers to the upward movement of the personnel employed in an organisation. Taking into consideration the long-range plans of the organisation, a career path of an employee can be projected along with what is expected from him in terms of competence levels. The employees can then plan their careers accordingly within the organisation. The clarity plays a significant role in enhancing the levels of motivation of employees – a very important role of Manpower Planning.
- (vii) Manpower planning if done properly and systematically, problems of low productivity, absenteeism, interdepartmental conflicts, resistance to change, etc., can be tackled and solved efficiently. The effort leads to higher productivity and efficiency levels, thus stressing the importance of this major function under HR organisation. Thus, it can be said that manpower analysis helps to increase the prospects of an organisation in managing its resources in a better way and coping more effectively with dynamic situations.

Itemized income from different product lines, regions, or product types

Return on sales and return on investment.

Profit per employee and sales per employee.

Financial ratios between assets, liabilities and net worth.

Company goals over the next three, five, and 10 years.

Market share and status

Reviewing and adjusting costs or spending regularly, etc

Here are the steps to conduct performance analysis for an entire department or organisation

1. Variance analysis:
Variance is the difference between the projected and the actual performance.

2. Research variances:
Finding the 'root cause' for the variance leads to corrective actions to preempt possibility of future expectation gap.

3. Analyse metrics:
Understanding non-financial key business metrics can be a helpful tool in researching the causes of variances.

4. Review competitor performance: Data need to be collected from authentic market sources about performance of the competition. Strength, Weakness, Opportunity, Threat (SWOT) analysis to be carried out to understand strength of own brand vis-avis others, price effect, entering into new geography etc.

changes: Gaps noticed post analysis of performance, scope for improvement need to be explored. Possibility of multiple alternatives for the same shortcoming also can't be ruled out. Hence, zeroing on the best option for optimum benefits and implementation of the same is the main motto of performance

Typical managerial accounting tools are

Break-even analysis: The break-even point is the point at which total cost and total revenue are equal, meaning there is no loss or gain.

Capital budgeting analysis: an examination of proposals for acquiring fixed assets and related fund allocation with avenue of financing.

Constraint analysis: a tool that examines the primary bottlenecks of a business and how these affect revenues and profits.

Inventory analysis: useful for calculating cost of goods sold as well as placing a value on raw materials and unsold products.

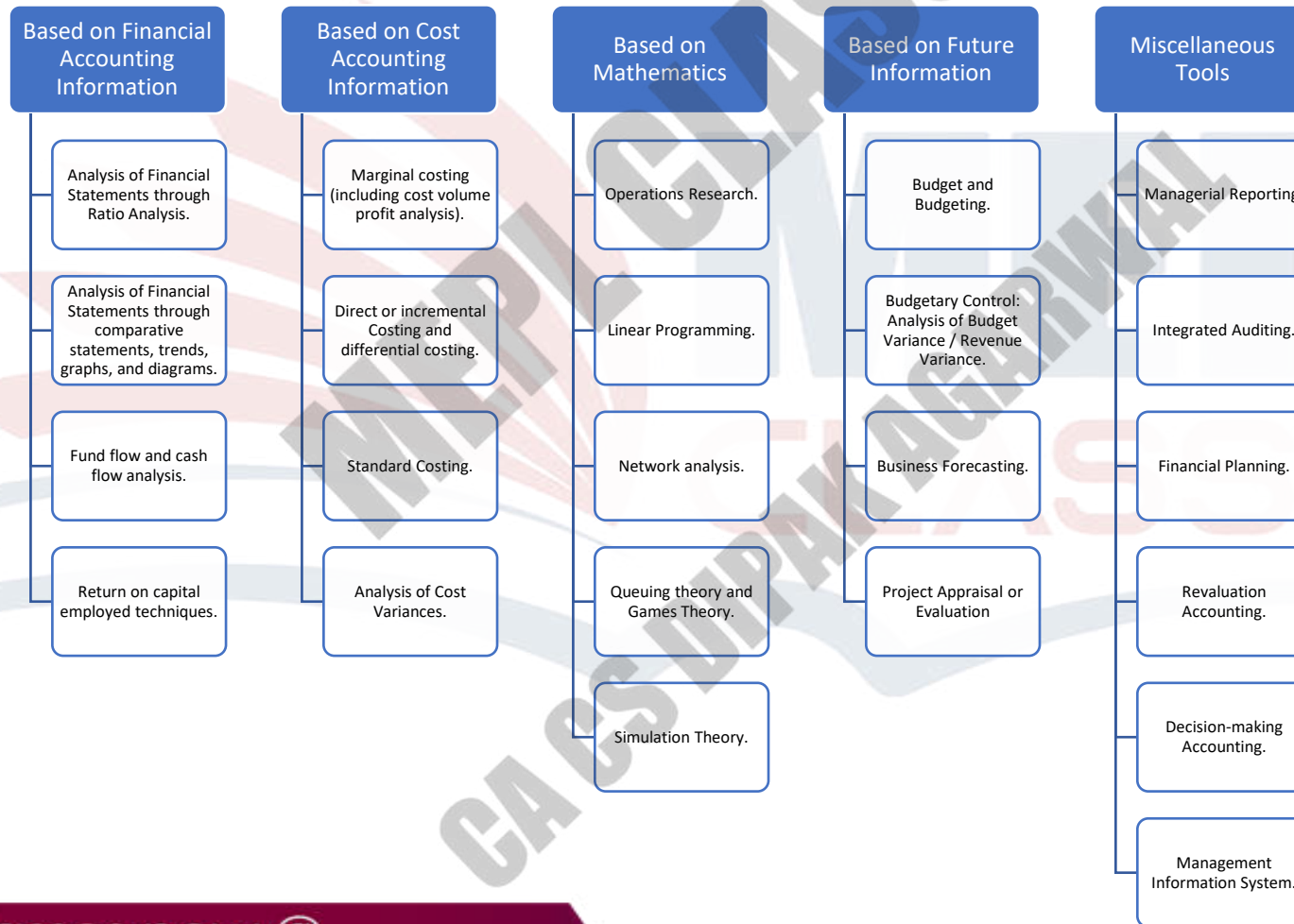
Margin analysis: a profit analysis typically built around revenue generated by a specific subset of data, such as customer, region, product, or business branch.

Transaction analysis: tools that look at specific transactions, such as sales to a particular customer or purchase of certain goods.

Trend analysis: tools that look at changes to data over time to permit examination of changes to business conditions, helpful for creating forecasts

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The various tools used at present in management accounting may be classified into the following groups.





Important tools and techniques used in management accounting



Financial Planning
Financial Statement Analysis
Cost Accounting
Fund Flow Analysis
Cash Flow Analysis
Standard Costing
Marginal Costing
Budgetary Control
Revaluation Accounting
Decision-Making Accounting
Management Information System
Statistical Techniques
Management Reporting
Historical Cost Accounting
Ratio Analysis

• **Illustration 1 –**

A Company introduced a new product EZY with advanced technology in a product market where there is huge competition with many competitors having an individual market share of 5% to 10%. A survey of the present market estimates that demand will increase by 80,000 units per year. The company is presently targeting 50% of the additional market demand as competitors will need at least two years to match its product

The Product EZY passes through three departments. Direct cost per unit of product at a present rate: Material cost ₹65 and Labour Cost ₹45. Overheads are absorbed based on normal capacity. The following relevant information is given:

Production Dept	Unit of Measurement	Normal monthly capacity	Monthly Allocated Fixed Overheads (₹)	Full Overhead cost Rate (₹)	Hours consumed by the product
X	Machine Hour	12,500 machine hrs	₹ 50,000	10.50	2
Y	Direct Labour Hour	15,000 labour hrs	₹ 60,000	9.00	1.5
Z	Direct Labour Hour	25,000 labour hrs	₹ 75,000	6.00	3

The company has set a target of Selling and Distribution costs of ₹3,00,000 irrespective of sales volume. The company normally sets a price by adding a mark-up on costs between 30% to 40%

You are required to suggest the price to take care of competition from the right perspective.

- Illustration 2 –

ABC Co. has two Department producing small electrical goods. New Technology for the production of X will induce the following cost:

Costs	Department-A	Department-B
Direct Material	₹ 240	₹ 200
Direct Labour Rate / Hours	₹ 120	₹ 100
Direct Labour Hours	2 Hours	3 Hours
Variable OH Per Hour	₹ 50	₹ 30
Fixed Per Hour (Based on 100% Capacity)	₹ 60	₹ 40
Value of Machine on revaluation	₹ 40 Lakhs	₹ 28 Lakhs

New Technology cost = ₹25 lakhs, working capital = ₹7 lakh

The target volume of production in the 1st year is 2000 units @ 25% capacity

Variable Selling and Distribution Cost is ₹3 lakh for 2000 units. Expected return on investment 24%.

Suggest pricing of a new product for a new one or the existing ones at 80% capacity

Chapter 11 – Management Audit in Different Functions



A Corporate or Business Objective is a result that a company aims to achieve. It also includes the strategies that people will use to reach there. A business objective usually includes a time frame and lists the resources available to fulfil the objective.

Business Objective vs. Goal :

(A) Business goals and objectives are not the same. The goal includes a broad primary outcome. A business objective, on the other hand, is a measurable step people take to achieve that goal. Goals are general while objectives are specific.

(B) A company's business objectives provide steps a picture of how it plans to achieve its goal with timeframe and resource requirement. It also states how long it will take, and what resources are available. A business goal is vague in comparison

(C) People commonly use the terms 'goals' and 'objectives' interchangeably. However, they are not the same. Business objectives and goals have important differentiating attributes which we use at different stages of the planning process.

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Objectives are Specific, Not Goals :

- Goals are statement a business makes regarding its future. They represent the aspirations its leaders have. The CEO of a company may say: “We seek to become the largest maker of bicycles in the world.” This is a goal because the person does not explain how the company will achieve this

The exact steps a company plans to take to reach its goals or aims are its business objectives. When expressing the objectives, the CEO might say –

“We will increase our sales of bicycles by 2.5% each quarter of this year. We will open new branches and factories in Hyderabad and Visakhapatnam during the next twelve months.”

Business Objectives- Small Companies

- The main objectives of a small or very young business might be
 - 1. Profit Maximization
 - 2. Survival
 - 3. Growth

When a Business Objective Clashes

Sometimes, one business objective can clash with another, e.g. good governance with profiteering. For example, certain unethical practices endorsed by management (e.g. low quality, adulterated product) to earn additional profit at the cost of Customer satisfaction.

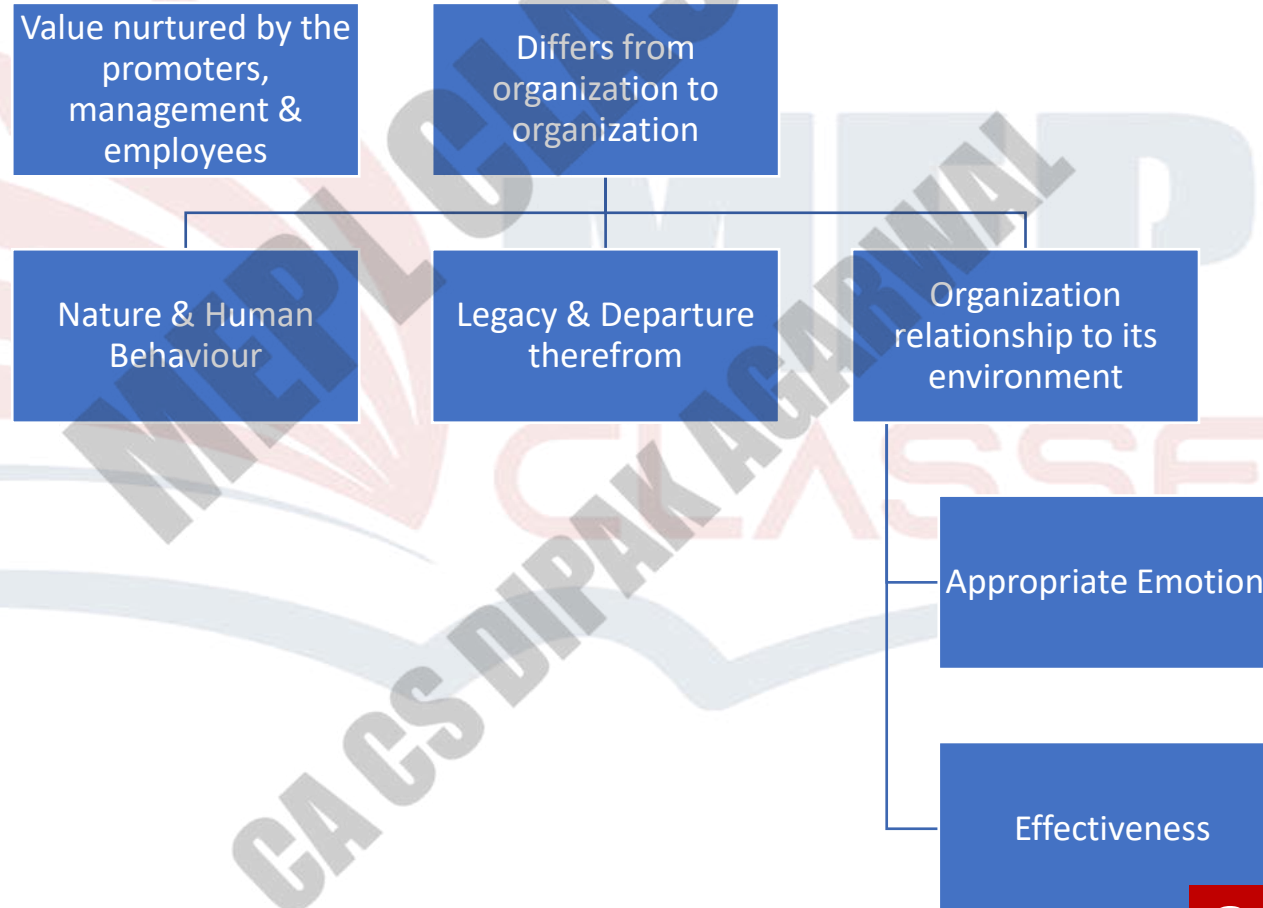
Long-term objectives can affect the short-term prospects of a business e.g. high investment in new plant, equipment, or new products, will hit cash flow in the short term

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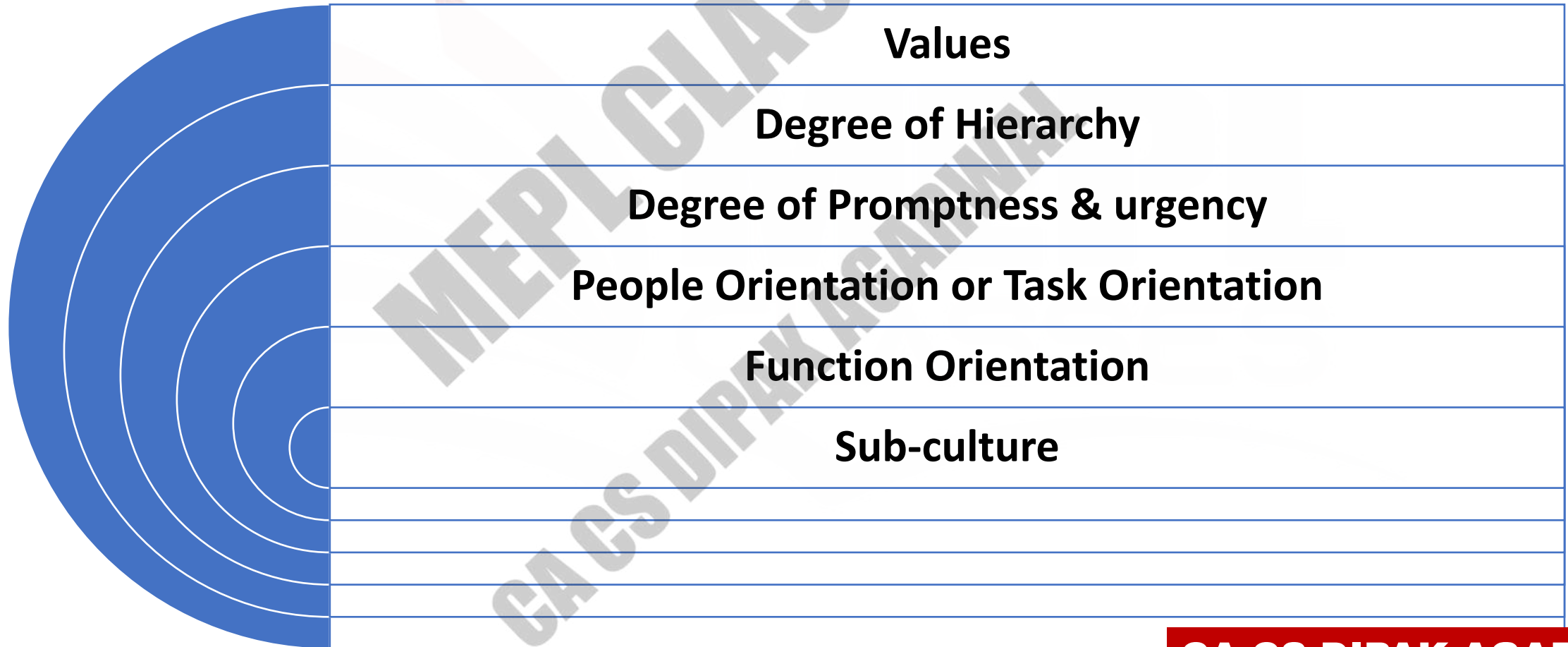
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Organisational Culture –



Factors that shape organizational culture



Sustaining a Culture -

The management of organisational culture starts with identifying a company's organisational culture traits or "artifacts." Artifacts are the core business activities, processes, and philosophies that characterize how an organisation does its day-to-day business. Identifying these traits and assessing their importance in light of current business objectives is a way to start managing culture.

Identify common artifacts or traits, including those from the standpoint of an organisation's social, material and ideological culture.

Convene groups of employees-representatives from all levels, functions, and locations of the organisation-to assess the validity, significance, and currency of key artifacts.

Subject those traits to a rigorous assessment of their underlying shared assumptions, values, and beliefs

Summarize findings and share them with all participants to solicit additional insights

Create a culture management action plan. The plan should enhance traits that support corporate growth or organisational effectiveness and correct traits that might hinder a company's advancement



FUNCTION AUDIT



CORPORATE SERVICE AUDIT

Obligation of the
Corporate Entity
towards the
interest group

Consumer

Share Holder

Fellow
Businessmen

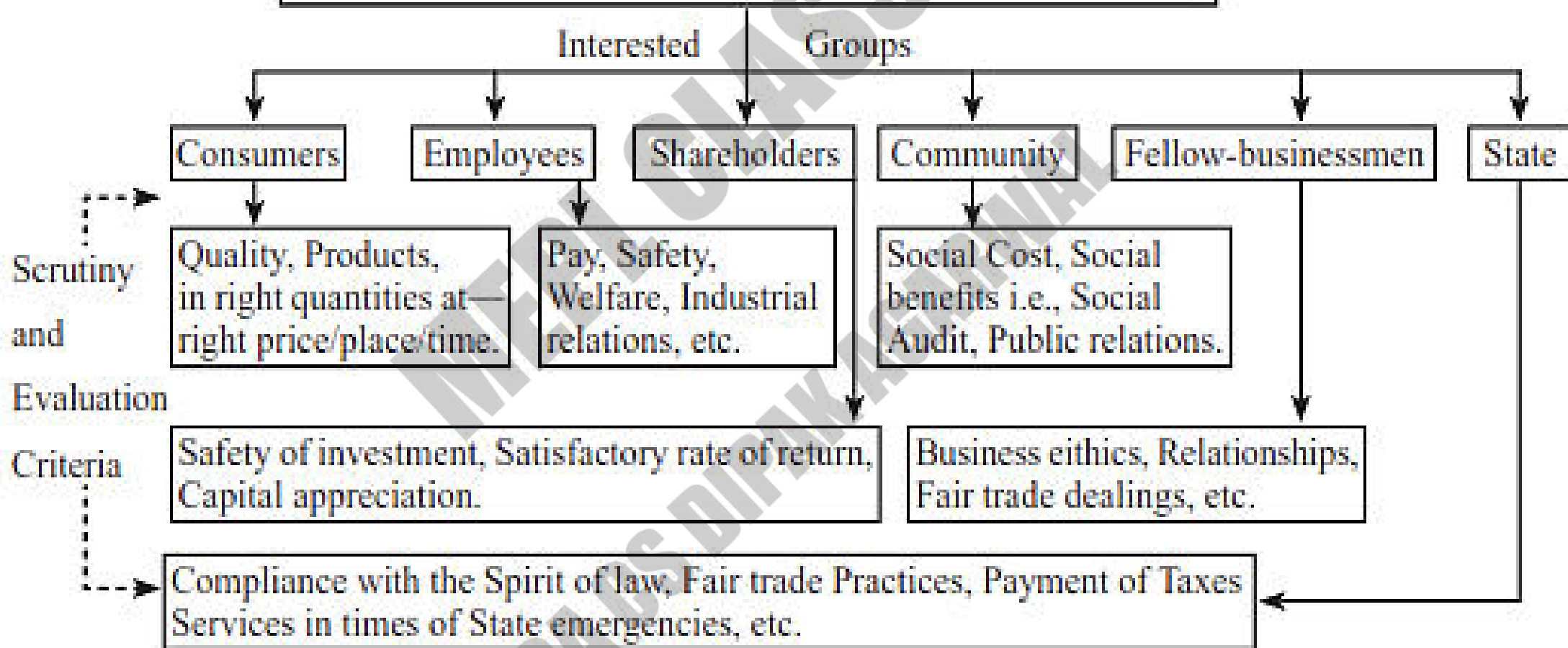
Employee

State

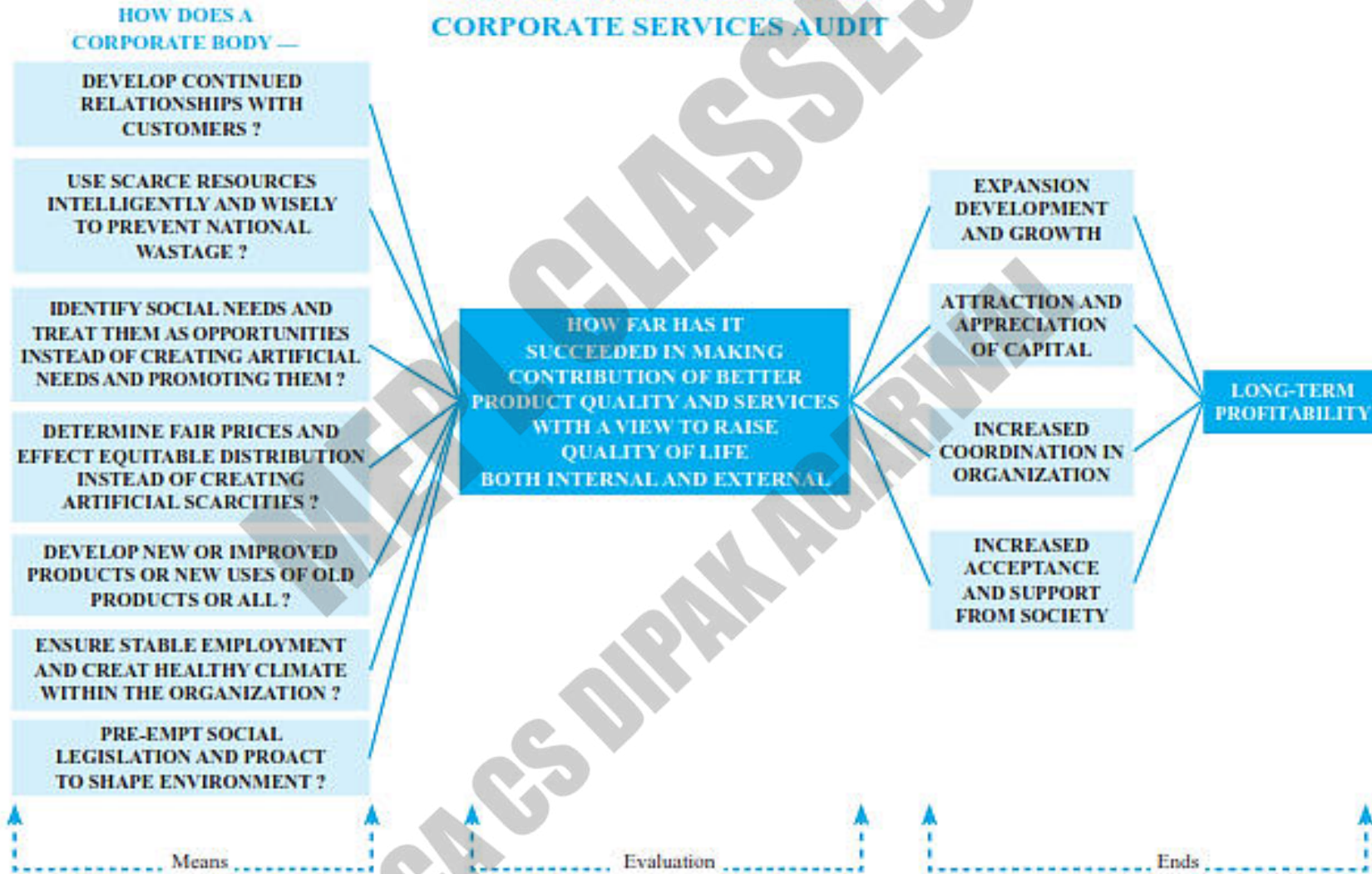
Community

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SCOPE OF CORPORATE SERVICES AUDIT



CONCEPTUAL APPROACH OF CORPORATE SERVICES AUDIT





So, the audit considerations include assessment of reactions to the following basic questions:

(i) What a business may do in terms of available opportunities?

(ii) What a business can do in terms of capabilities and resources?

(iii) What a business wants to do in terms of aspirations, ambitions, and values of top management?

(iv) What a business should do in terms of response to society and its environment?

CORPORATE DEVELOPMENT AUDIT

Potential

**Plan / Policy
/ Procedure
/ Structure**

**Kinetic
Aspect**

Operations



How well is the organizational structure is formed (including Planning, Policies, Procedures, etc.) and the functions performed to achieve the set objectives

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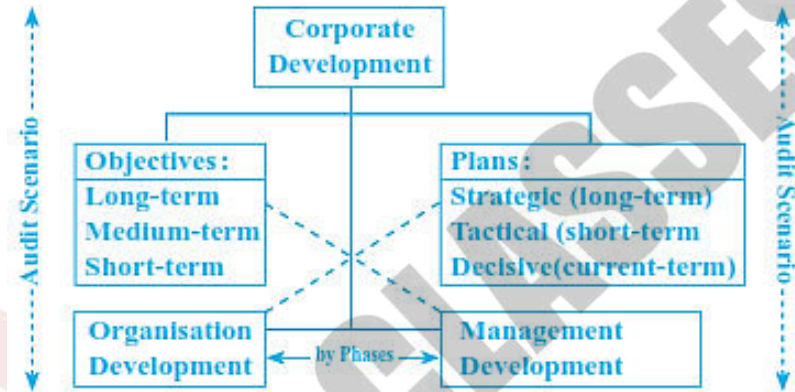
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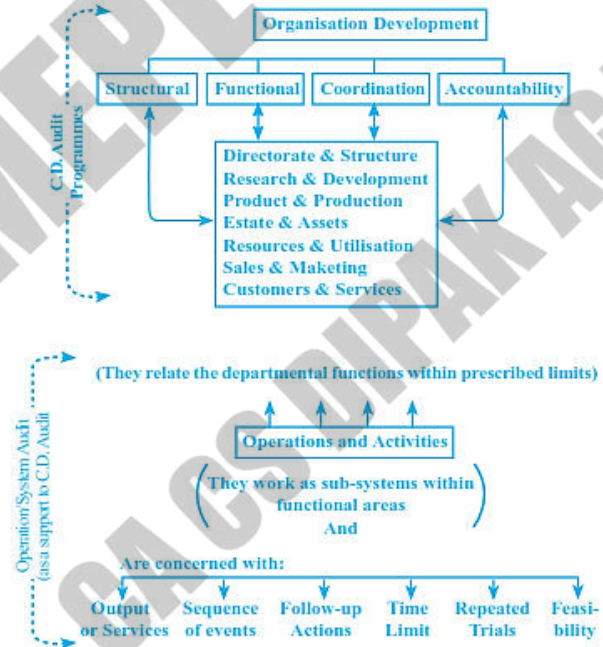
In the broadest sense of the term, there are four essential dimensions involved in corporate development audits -

- (i) **Regularity:** That means the different elements /parts of a body corporate are under constant watch.
- (ii) **Systematic check:** This suggests the assessment of changing requirements of a corporate body in the context of forces generated from within and outside.
- (iii) **Review:** This assesses past performance, its quality, and content, and its contribution to the corporate goals as definitively pronounced from time to time. This examines the deviations from goal realisation and suggests measures for achievement
- (iv) **Appraisal:** This examines in detail the character, content, and quality of the corporate goals set matches the resources employed against the attainments recorded, and suggests the future course of action on the premise that nothing is taken for granted, even goals

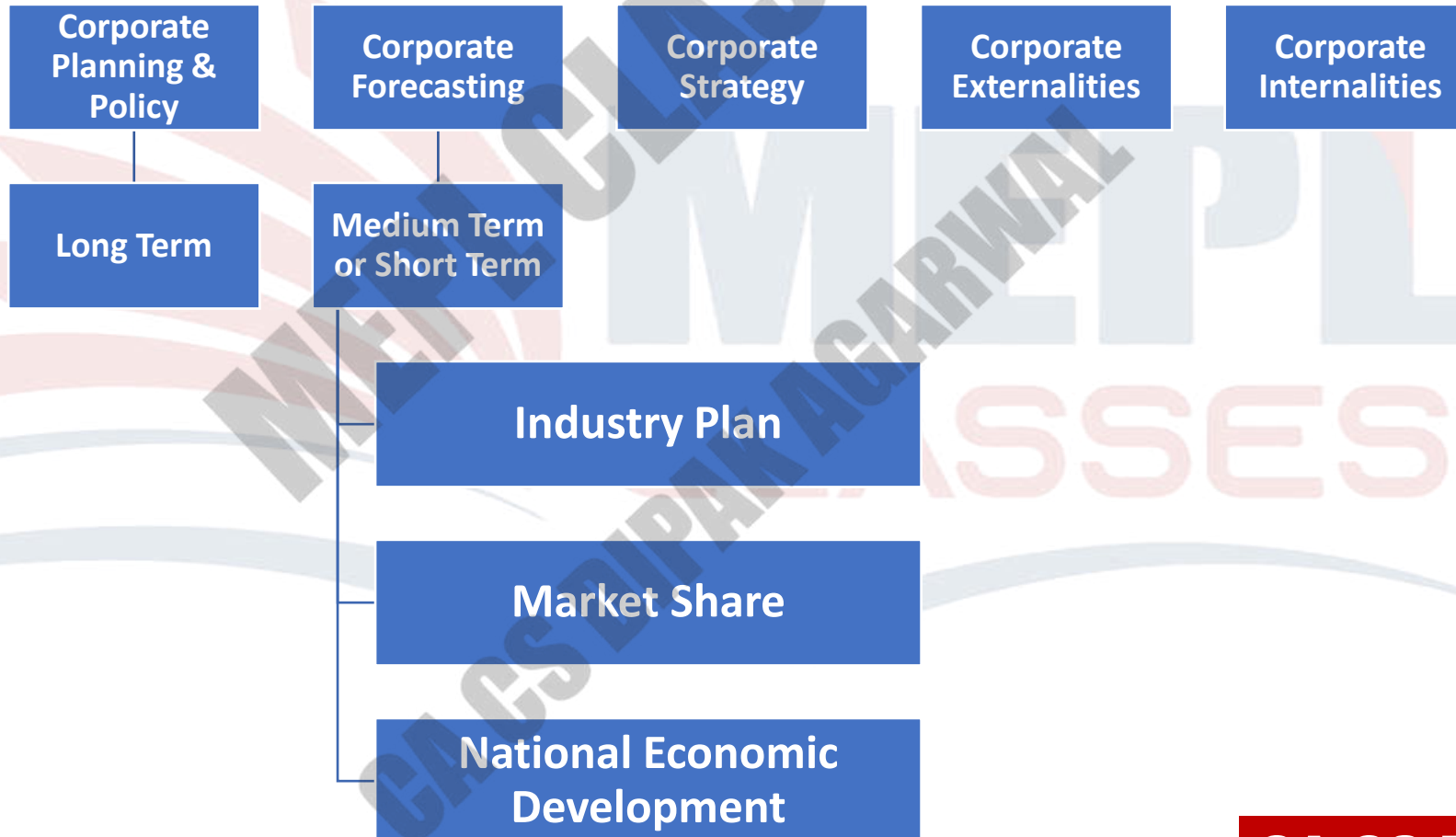
• Chart 1 –



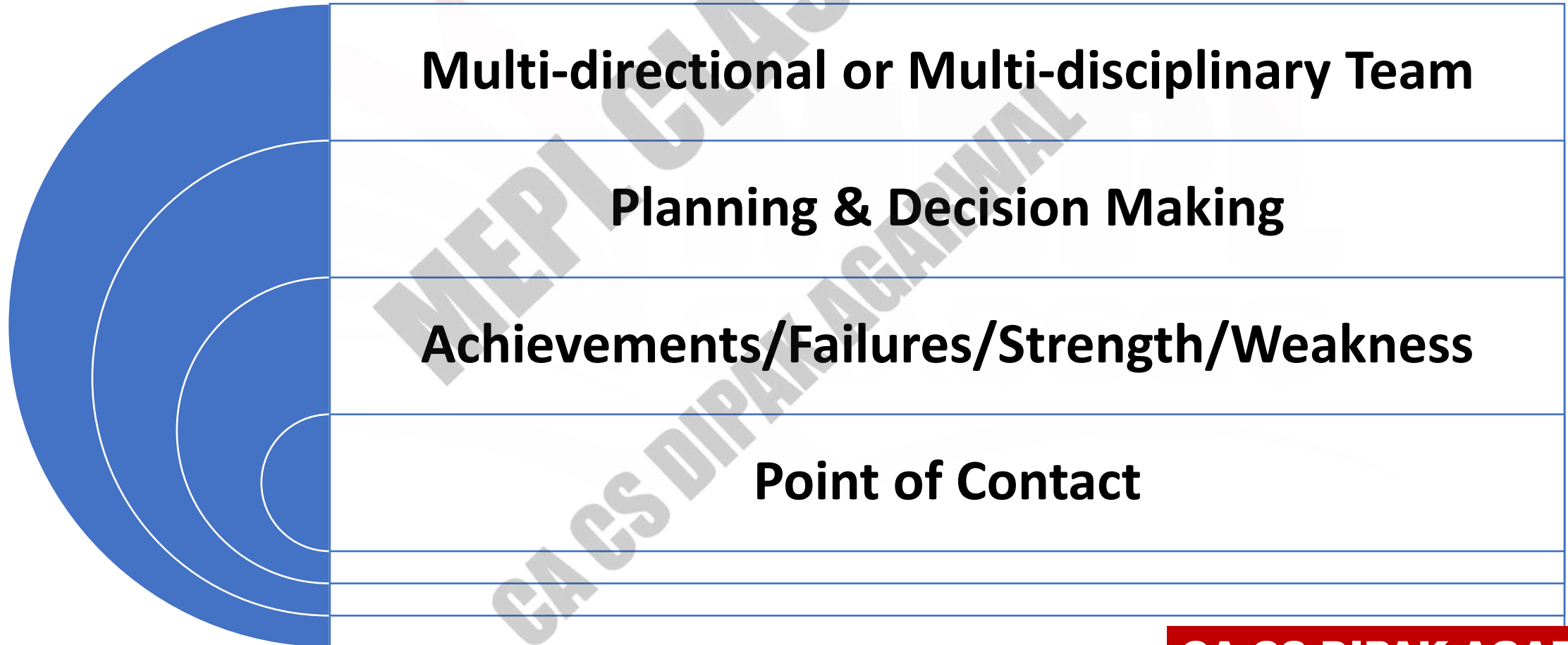
• Chart 2 –



Scope of Corporate Development Audit



Characteristics of Cost Development Audit



Corporate development audit seeks to assist the corporate management in assuring:

(i) The various factors and forces are working towards betterment of the Organisation.

(ii) The motivational and coordination responsibilities are appropriately understood and implemented.

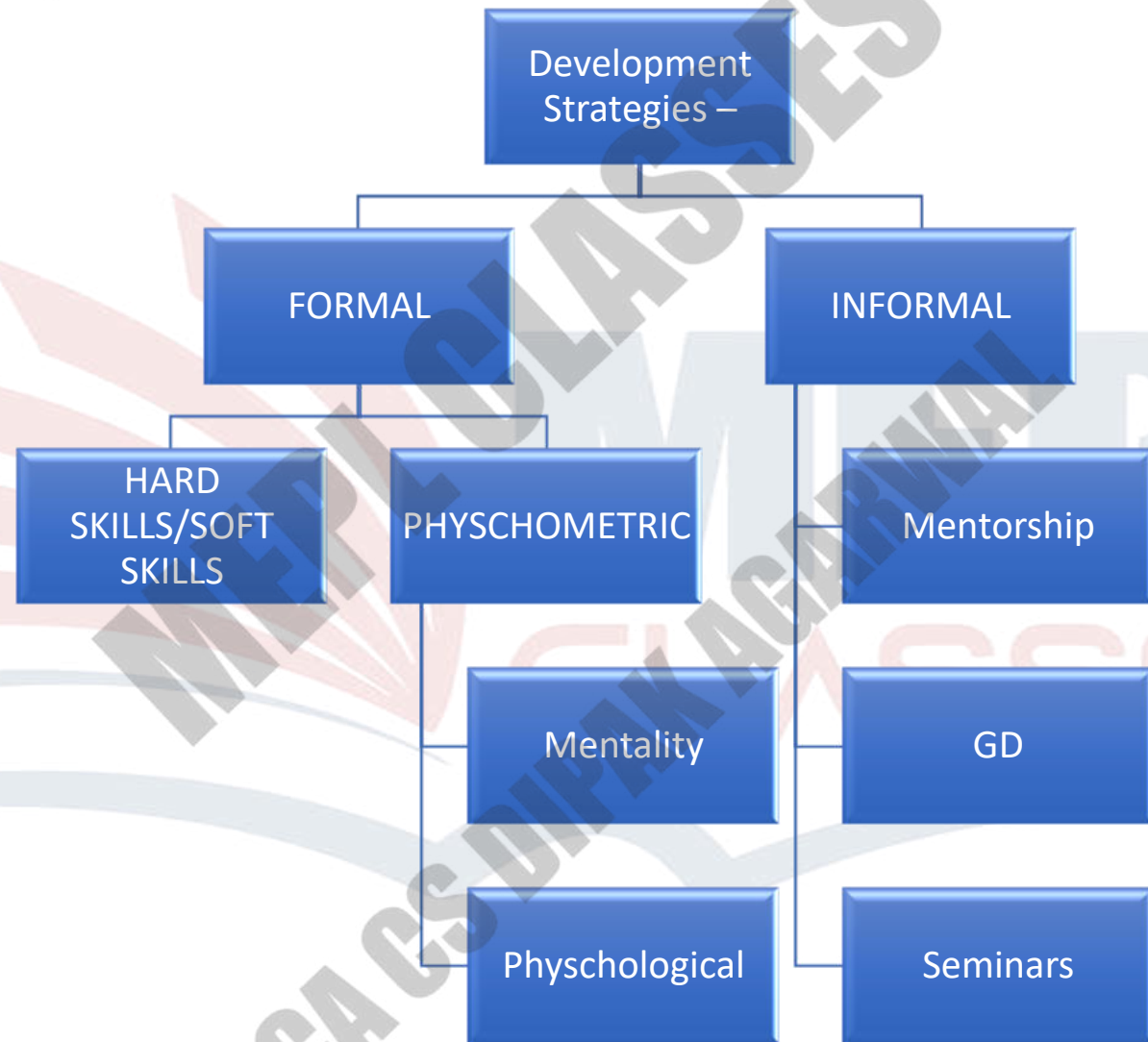
(iii) The elemental responsibilities of planning, coordination, motivation, and control at departmental/functional management levels are discharged in the right spirit.

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Evaluation of Personnel Development

Managers have an important role to play in ensuring development of people. Some of the most important things a manager can do for their team members are:

- Delegating responsibility rather than fixing problems before they arise
- Honest and candid feedback for the development.
- Offering or suggesting specific appropriate development opportunities to employees
- Motivating for additional risk and reward.
- Demonstrating the meaning of true LEADERSHIP attributes. (L.E.A.D.E.R.S.H.I.P. - LOYALTY, EMPATHY, ACCOUNTABILITY, DETERMINATION & DUTIFULNESS, ENCOURAGEMENT, RESPECT, SELFLESS, HUMBLE, INTEGRITY & INNOVATION, PASSION)



Performance Evaluation

Most companies conduct annual performance evaluations of employees against the task assigned in their KRA (Key Result Area).

The 'goal setting exercise' determines the role and assignment of broad areas. Periodical review exercise is carried out to evaluate and track the shortfall in achievement. Any mid term intervention or changes also can be given effect based on the requirement. Annual review (performance appraisal) is a agglomeration of earlier period /s of the appraisal period. The basic objective is to provide feedback to employees for their role and organisational requirement.

- Rating Scales allow managers to rate the quality of an employee's performance or skills based on numerical values, wherein minimum and maximum is specified. Actual ratings given and accepted by employee placed normally in a 'bell curve' to identify top performers out of the total population.
- 360° Feedback mechanism perused in progressive Organisations where employees' managers, subordinates, and peers to provide feedback about performance of the employee from every angle. This can be a very useful form of evaluation, as some individuals can be wonderful managers but have a difficult time interacting with peers or vice versa. By gathering a wide range of perspectives, managers can pinpoint areas of strength and opportunities for growth. On the other hand, this approach can be problematic if the employee in question is less popular for any reason or if a supervisee is unhappy about being disciplined



CONSUMER SERVICES AUDIT

Customer service is the experience an organisation's customers receive when they interact with an organisation. In any way; this includes business to business (e.g., where a farmer sells produce to a supermarket, or where a telecommunications company provides telephony services to a business) as well as business to consumer organisations (e.g., where an organisation interacts directly with individual customers such as a mobile phone company selling phones and contracts to an individual or a supermarket selling produce to the public).

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The key principles of good customer service as –

- **Respect towards Customer requirement**
- **Commitment towards a customer**
- **Provision of clear, relevant, and accessible information**
- **Well-trained, customer-focused staff**
- **Clarity in communication**
- **Earliest resolution of customer complaints**
- **Effective use of customer feedback**

Without customers, there is no need for the business at all:

- Customer satisfaction is monitored through customer surveys, usually administered by independent third parties or skilled internal resources.
- Customer service levels are monitored and measured against pre-defined targets.
- Customers have been identified and are consulted in meaningful ways, such as through focus groups.
- Customer satisfaction/survey/insight results are analysed, communicated and action is taken from the information to derive benefit for the organisation.
- Accurate and reliable management information is in place related to all customer insight.
- There is an appropriate governance forum to discuss all customer insight at the executive level, and board-level updates are provided on a periodic but regular basis.
- Key performance indicators and targets around customer service have been implemented and are monitored and tracked through customer insight.
- Colleague feedback is collected in real-time, analysed for trends, and action is taken where required.
- All customer input (views, complaints, feedback, online chatter, etc.) is viewed as valuable information and is analysed for trends and required actions.
- Social media is monitored in real-time and appropriate action is taken where necessary to deal with any issues or react to trends.

Specifics for customer service audit –

- Whether process of complaint registration exists?
- Whether a dedicated group of people are there to look after Customer Service?
- Whether the organisation having a documented policy to address customer complaints?
- Whether Customer WOW (wish on worth) measured for loyalty assessment?
- Whether any legal action filed against the entity for failing to cater Customer complaint?
- To track customer complaints? Tracking complaints can reveal patterns that then can be addressed. When complaints are not tracked, the same problems can exist forever.

Role of Internal Auditor

Internal audit has a key role to play in providing the board with reasonable assurance over customer service and complaint resolution process

- The internal audit activity should utilise customer service indicators such as risk metrics, complaints, product recalls, resolution process and time taken etc. for periodical reviews and other key indicators as a useful source of information for risk assessment.
- Customer service should be considered as part of the risk assessment and should also be considered for cyclical audits and included as a necessity for periodic coverage.
- Internal audit's role is to provide periodic independent assurance that controls are in place and operating effectively.
- Customer service data and satisfaction index for future guidance on Product and Customer behaviour.
- Cost of Poor Quality (COPQ) to highlight as a further scope for Product development.

Challenges for internal audit

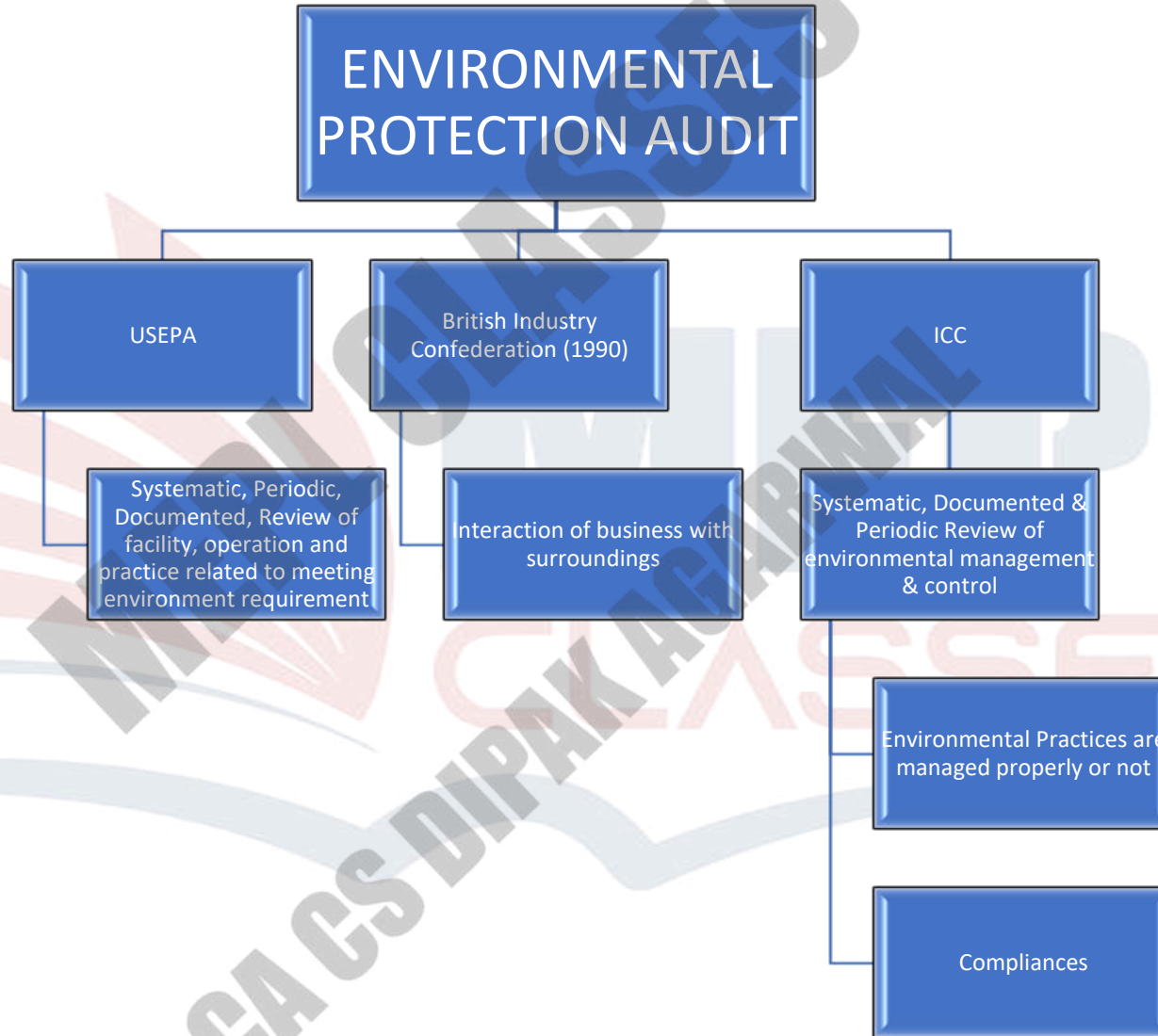
Customer service is a key risk for organisations, and poor management of customer service can severely impact the reputation and commercial performance of organisations. Internal audit has a key role to play in providing the board with assurance that this risk is being managed effectively. The challenges faced are

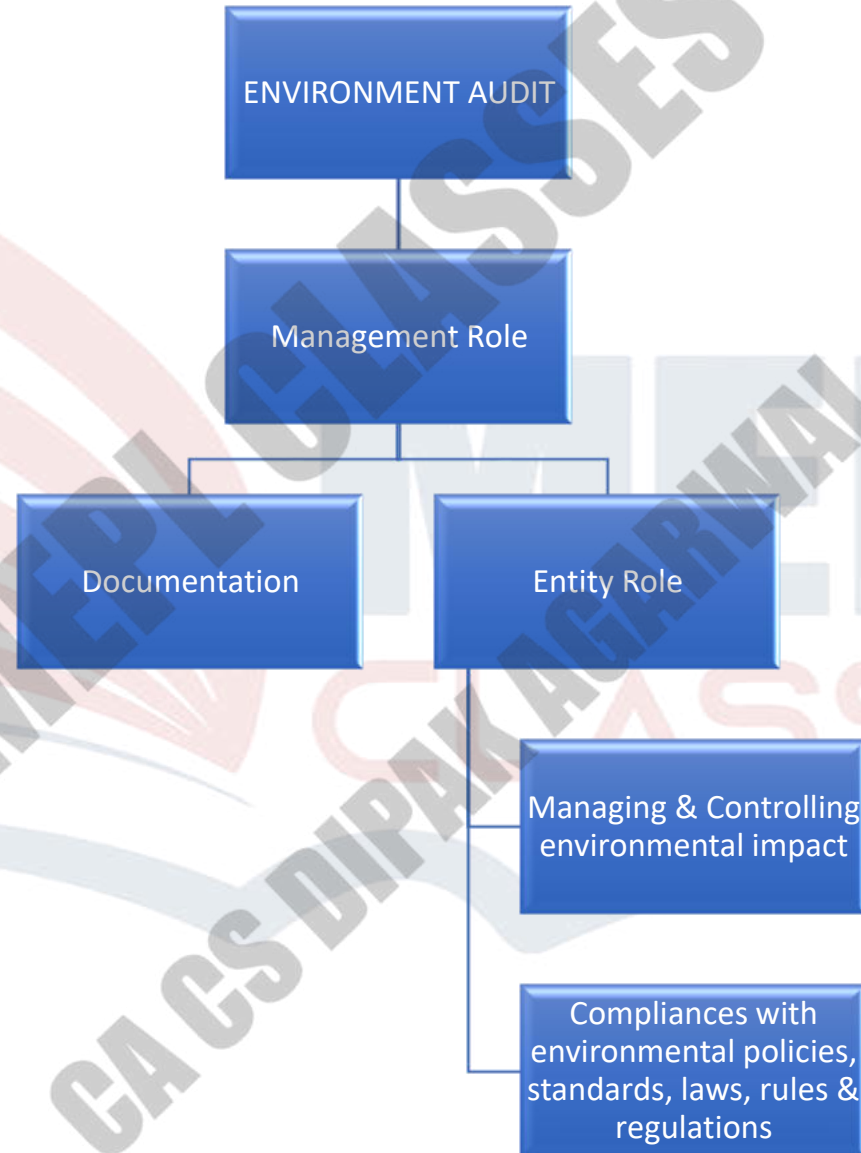
(a) Failure to judge Customer requirement against Company's process of handling the complaint.

(b) Absence or non-availability of requisite datum.

(c) Lack of clarity over legal position and implications.

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Features of Environmental Audit

Role of Management: Environmental audit performed through Internal Audit Team is generally considered as part of the internal control system and is mainly used to assess, evaluate and manage the environmental performance of a company including compliance against various legislations. It also includes recommendation for mitigation actions including proposition for Capex as to emerging risk

Environmental Impact Assessment (EIA): Risk and impact is the basis for any mitigation plan. EIA is a tool used to predict, evaluate and analyze environmental impacts w.r.t upcoming Projects, mostly before a project commences, expansion plans etc. It assesses the potential environmental effects of a proposed facility. Whereas environmental audit looks at environmental performance for an existing operation or activity with impact assessment on account of non-conformity.

Systematic: Audit is a systematic carefully planned, structured, and organized end to end process to ensure adequacy and result orientation for the environmental concerns. Since it is a part of a long-term process of evaluation and checking, it needs to be a replicable process so that over time, it can be easily used by different teams of people in such a way that the results are comparable and can reflect the change in both quantitative and qualitative terms.

Features of Environmental Audit

Documentation: Like any other audit, the base of any environmental audit findings also needs to be backed-up and supported by proper documents and verifiable information. Management needs to ensure appropriate methods for environment related data collection and preservation, so that same can be perused for review and/or future reference purposes.

Continuous Review: Monitoring of environmental performance against regulations and/or benchmarking the same is a continuous process. Regular collection of actual measurement datum and review, finding out 'root cause' for deviations from norms set can help in timely intervention and taking steps. The robustness of the process will help not only the entity but the people stay nearby from the environmental hazards.

Objective Evaluation: Other than environmental performance and compliance against specific regulatory matters, at times accreditation, certification, taking part in environmental survey etc. also comes up with enhanced objectivity. In addition to internal environmental audits, service of independent audit teams having specialized skills for repeat audits also resorted to. This is also required under many certification guidelines (e.g., ISO 14001).

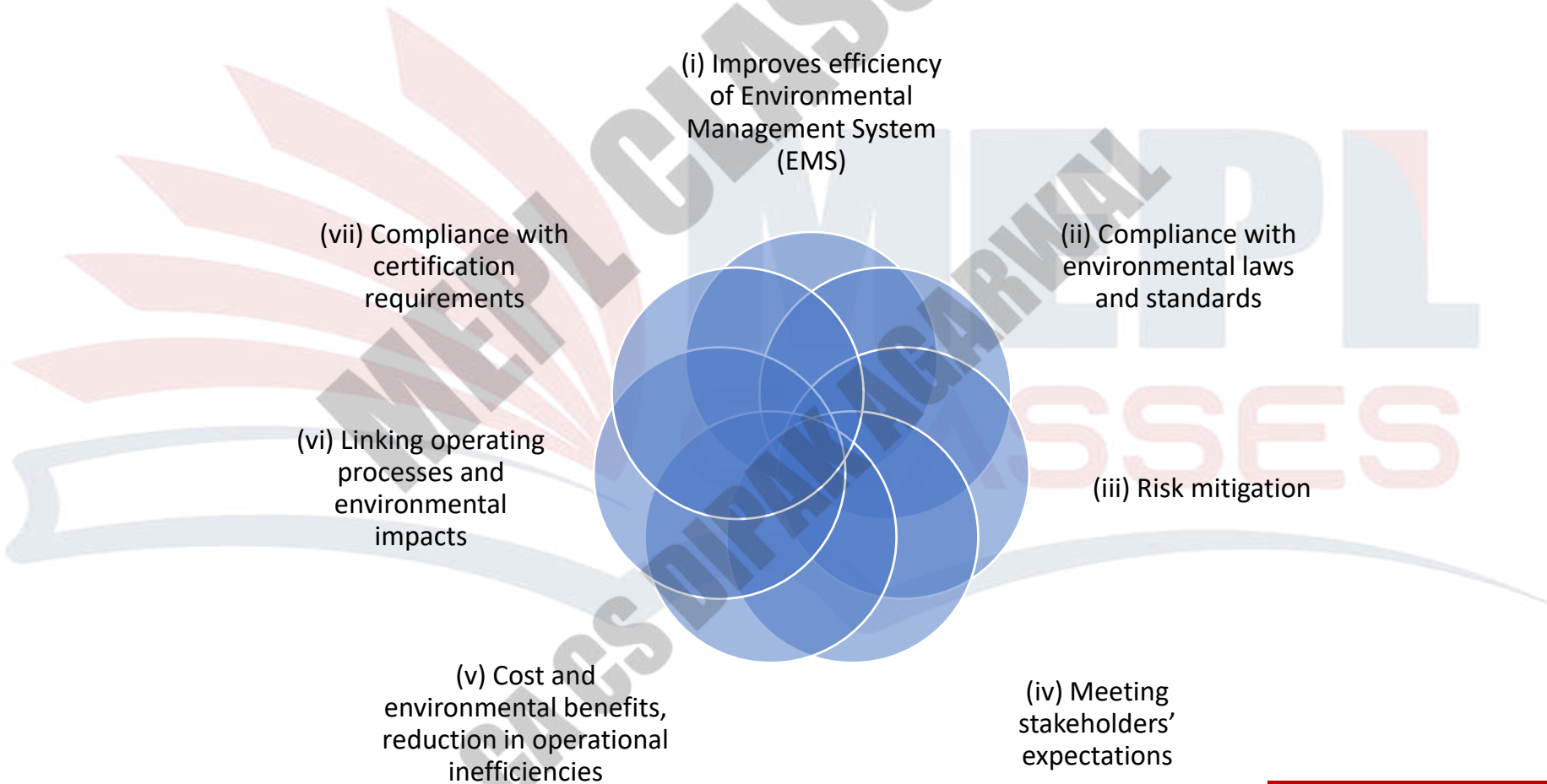
Environmental Performance: As mentioned before, the essence of any environmental audit is to find out how well the environmental management function performance in creating favourable impact and achieving organisational goal for environmental balance. The ultimate aim is to ensure that organisation's environmental performance meet the goals set in its environmental policy and also to ensure compliance with standards and regulatory requirements.

Objectives of Environmental Audit

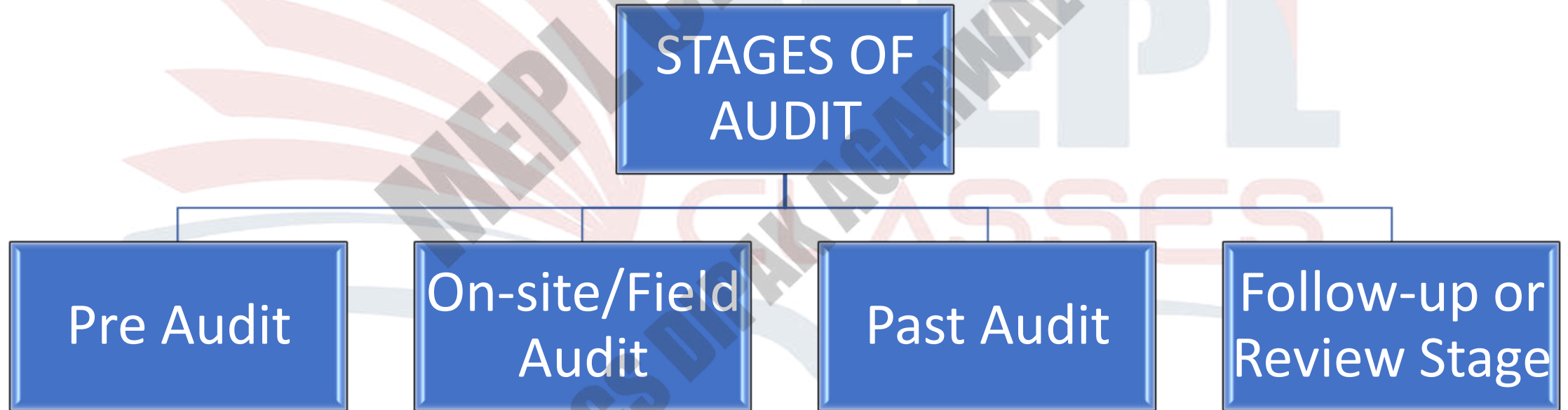
The following
are major
objectives of
environmental
auditing:

- (i) Determine and document compliance status.
- (ii) Help to improve environmental performance at operational facilities.
- (iii) Assist facility management.
- (iv) Increase the overall level of environmental awareness.
- (v) Accelerate the overall development of the environmental management control system.
- (vi) Improve the risk management systems.
- (vii) Protect the corporation from potential liabilities on breaches.
- (viii) Conservation policy and application guidance.
- (ix) Fund allocation (Capex and Opex) and utilization w.r.t environment protection.
- (x) Develop a basis for optimizing environmental resources

Benefits of Environmental Auditing

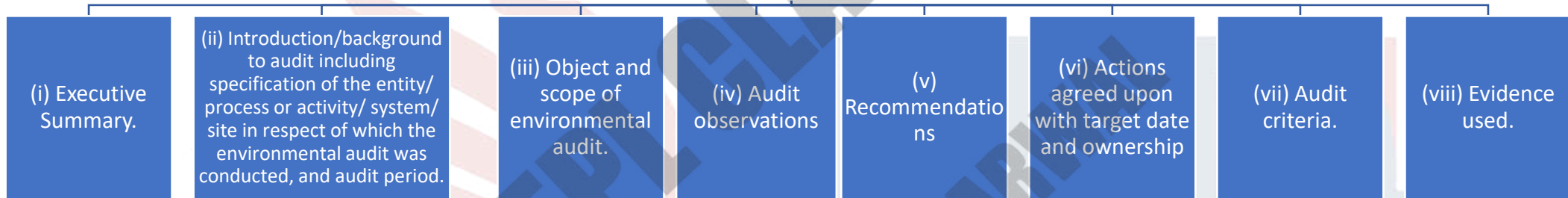


STAGES OF AUDIT



Contents of Report:

A standard Environmental Audit report should include the following

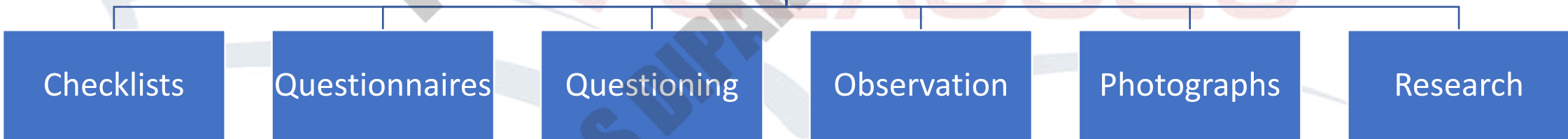


Status of conformity with internal environmental policies.



Tools and Techniques Used in Environmental Auditing:

Some of the tools which can be used in environmental audits are:



Audit of Energy and Utilities– Generation and Consumption

Electric/Natural Gas:

- Meter reading.
- Demand-based.
- Incorrect rate application.
- Incorrect tax.
- Multiplier/constant.
- Incorrect implementation of the contract.
- Incorrect application of tariff.
- Erroneous fees and taxes.

Water/Sewer:

Meter reading.

Multiplier/constant.

Incorrect
application of
surcharges.

Incorrect meter
usage.

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How Utility Cost Reduction Works

- **1. Ensuring accuracy of billing rates charged by service providers;**
- **2. Consumption recording accuracy;**
- **3. Regulatory compliances;**
- **4. Equipment age and power consumed.**

Energy Audit

Energy Audit is the key to a systematic approach for decision-making in the area of energy management. It attempts to balance the total energy inputs with its use and serves to identify all the energy streams in a facility. An industrial energy audit is an effective tool in defining and pursuing a comprehensive energy management programme. As per the Energy Conservation Act, 2001, Energy Audit is defined as “the verification, monitoring, and analysis of the use of energy including submission of technical report containing recommendations for improving energy efficiency with cost-benefit analysis and an action plan to reduce energy consumption”

Need for Energy Audit - In any industry, the three top operating expenses are often found to be energy (both electrical and thermal), labour, and materials. Hence, cost reduction in energy consumption is of paramount importance. Energy Audit will help to understand more about the ways energy and fuel are used in any industry and help in identifying the areas where waste can occur and where the scope for improvement exists. The Energy Audit would give a positive orientation to the energy cost reduction, preventive maintenance, and quality control programmes which are vital for production and utility activities. Such an audit programme will help to keep the focus on variations that occur in the energy costs, availability and reliability of supply of energy, decide on appropriate energy mix, identify energy conservation technologies, retrofit for energy conservation equipment, etc.

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Type of Energy Audit

The type of Energy Audit to be performed depends on –

- **Function and type of industry.**
- **Potential and magnitude of cost reduction.**

Thus, Energy Audit can be classified into the following two types.

- **1. Preliminary Audit.**
- **2. Detailed Audit.**

Preliminary Energy Audit Methodology:

A preliminary energy audit is a relatively quick exercise to

- Establish energy consumption in the organisation.
- Estimate the scope for saving.
- Identify the 'low hanging fruits' i.e. most likely and the easiest areas for attention.
- Identify immediate (especially no/low-cost) improvements/ savings.
- Set a 'reference point'.
- Identify areas for more detailed study/measurement.
- A preliminary energy audit uses existing, or easily collectible data.

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Detailed Energy Audit Methodology

A comprehensive audit provides a detailed energy project implementation plan for a facility since it evaluates all major energy-using systems. This type of audit offers the most accurate estimate of energy savings and cost. It considers the interactive effects of all projects, accounts for the energy use of all major equipment, and includes detailed energy cost saving calculations and project cost. In a comprehensive audit, one of the key elements is the energy balance. This is based on an inventory of energy-using systems, assumptions of current operating conditions, and calculations of energy use. This estimated use is then compared to utility bill charges. Detailed energy auditing is carried out in phases:

- Phase I - Pre-Audit Phase.
- Phase II - Audit Phase.

Phase I –Pre-Audit Phase Activities

The main aims of this visit are:

- To identify the main energy-consuming areas/plant Facilities to be surveyed during the audit.
- To identify any existing instrumentation/ requirement of additional metering facility at User Point from consumption trend e.g., KWh, steam, oil, or gas meters.
- To identify the instrumentation required for carrying out the audit.
- To plan with the time frame.
- To collect macro data on plant energy resources, major energy consuming centers.
- To create awareness on lowering consumption

Phase II- Detailed Energy Audit Activities

The information to be collected during the detailed audit includes –

- Energy consumption by type /source of energy (Thermal, Hydro, Gas based etc.), by department, by major items of process equipment, by Utilities, support functions etc.
- Material balance data (raw materials, intermediate and final products, recycled materials, use of scrap or waste products, production of by-products for re-use in other industries, etc.)
- Energy cost and tariff data.
- Generation and distribution of site services (e.g., compressed air, steam).
- Sources of energy supply (e.g., electricity from the grid or self-generation).
- Potential for fuel substitution, process modifications, and the use of co-generation systems (combined heat and power generation).
- Energy Management procedures and awareness training programs within the establishment.

The audit team should collect the following baseline data –

- Technology, processes used, and equipment details.
- Capacity utilisation
- Amount & type of input materials used.
- Water consumption.
- Fuel Consumption.
- Electrical energy consumption.
- Steam consumption.
- Other inputs such as compressed air, cooling water, etc.
- Quantity & type of wastes generated.
- Percentage rejection / reprocessing.
- Efficiencies/yield.

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Productivity Audit /Efficiency Audit

The term productivity, if simply put, may be 'output' divided by 'input'. 'Output' may mean goods as well as services. For 'input' we may come across diverse factors, such as men, materials, machines, land, capital, energy, organisation, and a host of others.

A critical examination of Efficiency Ratio, (that is, actual production in terms of standard hours to actual hours worked) and 'Activity Ratio' (that is, actual production in terms of standard hours budgeted production in terms of standard hours) may also form the content of productivity audit

Factory – Actual Production = 5000 units

- **Standard Hours = 10 hrs**
- **Budgeted Production = 6000 units**
- **Standard Hours = 10 hrs**

Actual / Standard = 5000 / 10 = 500

Actual / Standard = 6000 / 10 = 600

500 / 600 = 0.83



**Efficiency Ratio =
(Actual
Production/Std
Hrs)/(Actual
Production/Actual
Hrs)**

**Activity Ratio =
(Actual
Production/Std
Hrs) / (Budgeted
Production/Std
Hrs)**

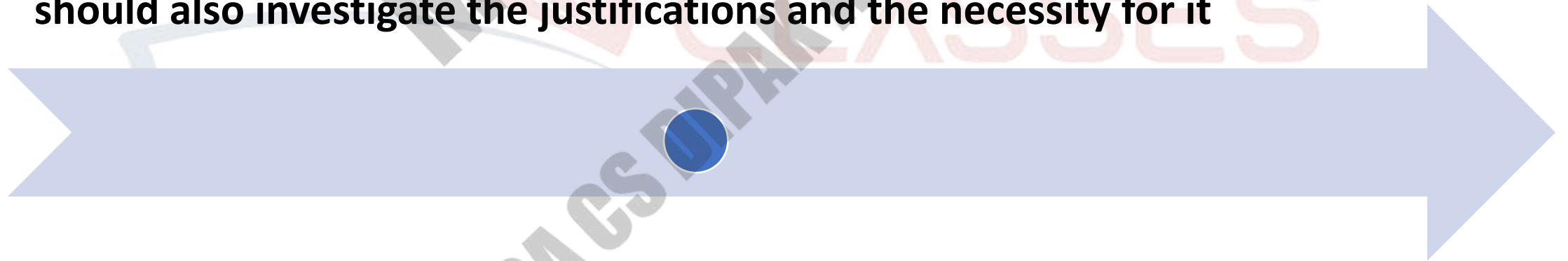
Problems of Productivity Audit

Productivity audit has to take care of and pay due consideration to these factorial inputs for measurement and evaluation

- Factorial inputs have got different units or yardsticks of measurement.
- Inter-dependence of the different inputs and their integrated nature of work for the common final aim of productivity measurement. That means labour productivity, machine productivity, material productivity, the productivity of management and organisation function are closely inter-woven and inter-related.
- As a corollary to the above, the solution of the series of simultaneous equations, even if done by a computer, becomes somewhat of a subjective process. A unique mathematical solution is difficult to be worked out to the entire satisfaction of an auditor.

Propriety Audit

Propriety audit may be defined as 'Audit concerning the decisions of the executives, with an emphasis on stakeholders interest, financial discipline, basically to get audit satisfaction that such decisions are within the frame-work of sanction, authority, rule, procedure and law made by a competent body. Propriety audit ensures that an expenditure incurred is duly sanctioned by an appropriate authority but should also investigate the justifications and the necessity for it



Canons of Financial Propriety

1. Benefits accrued should be more than the spent.

2. No authority should exercise its power of sanctioning expenditure to pass an order which will be directly or indirectly to his advantage.

3. Public money should not be utilised for the benefit of a particular person or section of the community unless:

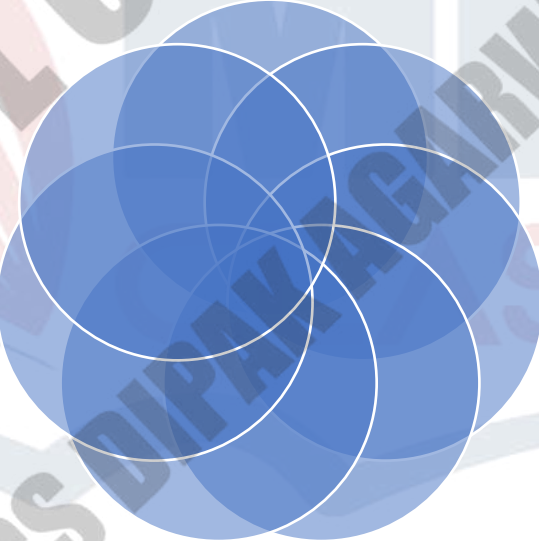
4. The amount of allowances (e.g., travelling allowances) granted to meet the expenditure of a particular type, should be so regulated that these are not on the whole sources of profit to the recipients.

(i) The amount of expenditure involved is in significant, or

(ii) A claim from the amount could be enforced in a court of law, or

(iii) The expenditure is in pursuance of a recognized policy or custom.

To assess the adequacy or otherwise of the effect of financial responsibilities, propriety, the audit should examine on the following broad lines:

- 
1. Whether the technical estimates or detailed programme and cost schedules are being framed and that the same are adhered to; if not, whether there are adequate reasons for excess, delays, etc., or whether these are occasioned by inefficient handling, wastes, etc. or due to incorrect preparation of original estimates.
 2. Whether there have been any serious avoidable delays in the progress of the schemes increasing the total cost of the scheme.
 3. Whether there has been any wasteful expenditure including that resulting from lack of co-ordination.
 4. Whether there have been any losses of recurring nature.
 5. Whether the performance and cost compare with the results obtained in respect of similar schemes in other areas.
 6. Whether physical targets have been achieved within the estimated or sanctioned time.
 7. Whether the ultimate objectives of the expenditure have been fulfilled



Propriety audit has its following limitations

1. In the decision-making process:

Since the auditor, examines and scrutinizes every decision for optimizing the spent; it often affects dynamism, progress and causes delay in decision making.

2. In compliance with Regulations:

Since the operations are rule bound, 'out of the box thinking process' crippled by the same and does not ensure the achievement of targets or objectives.

3. Timeliness:

The audit and its report, if delayed, will not be of much use. It will be a futile report on an unprofitable contract after incurring losses.

Presently the forms of organisation which is having the benefits of propriety audit are

(i) Government companies, such as the State and Central Government undertakings. The Comptroller and Auditor General of India has a right to conduct efficiency-cum-economy-oriented propriety audit, in addition to the statutory audit under his guidelines and instructions.

(ii) Under Companies Act both Chartered Accountants and Cost Accountants are empowered to perform Financial and Cost Audit respectively to ensure Companies are governed properly, which are propriety based.

(iii) In the case of Government Companies, the Comptroller and Auditor General of India conducts the propriety audit.

Corporate Social Responsibility (CSR) Audit

CSR is mandatory as per SEC 135 of the Companies Act 2013

Turn Over \geq 1000 cr. Or more

Networth \geq 500 cr. Or more

Profit \geq 5 cr. Or more

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CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. A company is responsible for providing more benefits than just profits for shareholders.

All types of CSR information disclosure are effected by the need for credibility. Some examples are:

- Employees, to provide confidence in systems, establish progress against targets and improve confidence;
- Specialists, including analysts, particularly rating agencies, government officials, and NGOs;
- Business partners, to strengthen the supply chain; and
- Communities, to establish credibility with neighbors and local organisations.

In a report entitled “The State of Sustainability Assurance” published by Accountability, some of the main points were that:

- (i) Sustainability assurance is seen as a key element in building the quality and credibility of sustainability reporting, despite huge variations in the approach adopted, different forms of assurance conclusion, and a lack of credibility amongst preparers and stakeholders;
- (ii) Investors, regulators, and other stakeholders will become a powerful driver of sustainability assurance;
- (iii) Effective sustainability assurance will involve multi-stakeholder teams and enable disclosed information to have a better focus on what is material.

Internal Auditors might be involved in CSR at various levels -

(i) Internal Auditors might facilitate or advise management on CSR self-assessment activities.

(ii) Internal Auditors might be involved in auditing CSR programs, either as individual components of the audit plan, or as a broad-based review of how CSR is managed, and whether the company is achieving its CSR objectives.

(iii) Internal Auditors might become involved in co-ordinating or participating in CSR Report verifications.

(iv) Proposed expenditure is made in areas demarcated /specified.

Internal auditors have an opportunity to make value additions to the Corporate Sustainability Reporting process of their organisation. They must have a good knowledge and understanding of prevalent CSR concepts. Important role internal auditors can play includes:

(i) Assist in the design/implementation of the CSR management system.

(ii) Perform limited scope audits requested by top management.

(iii) Perform compliance audits

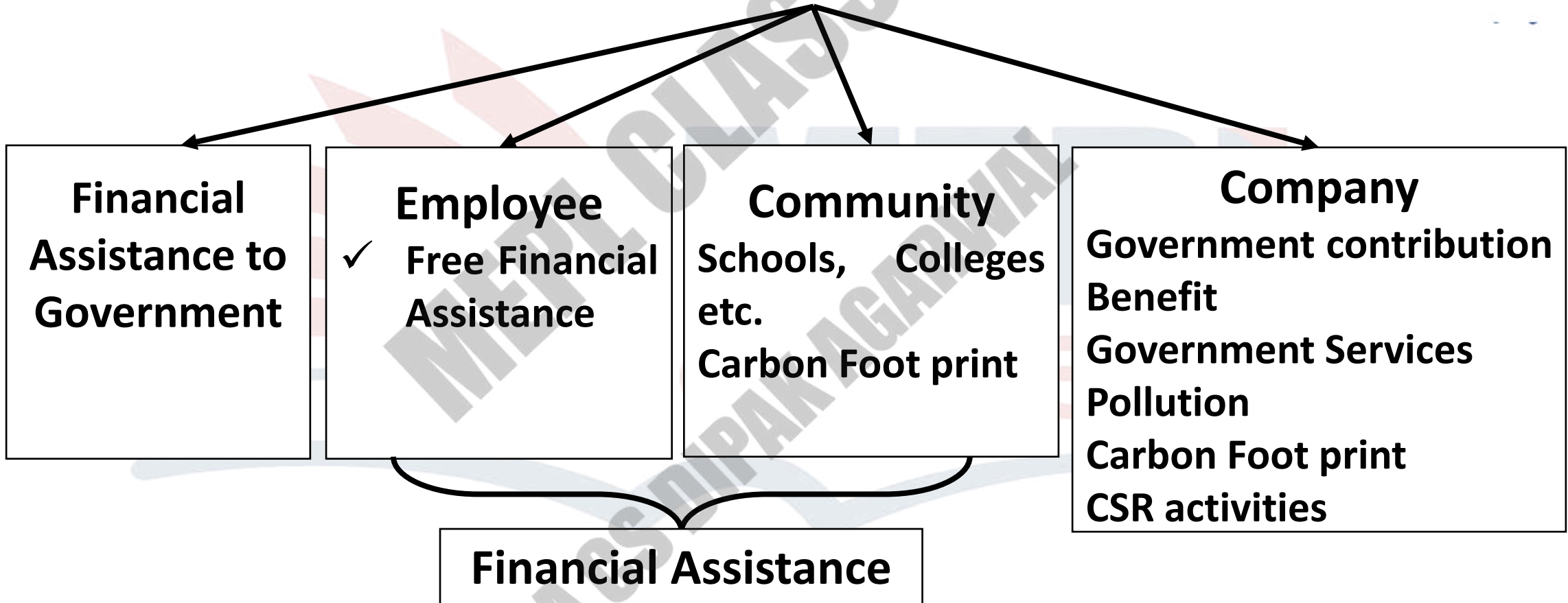
Economic Performance

(i) Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations, and other community investments, retained earnings, and payments to capital providers and governments.

(iii)
Significant
financial
assistance
received.

(ii) Financial
implications and other
risks and
opportunities for the
organisation's
activities due to
climate change.

Economic Benefit



Social Cost Benefit Analysis

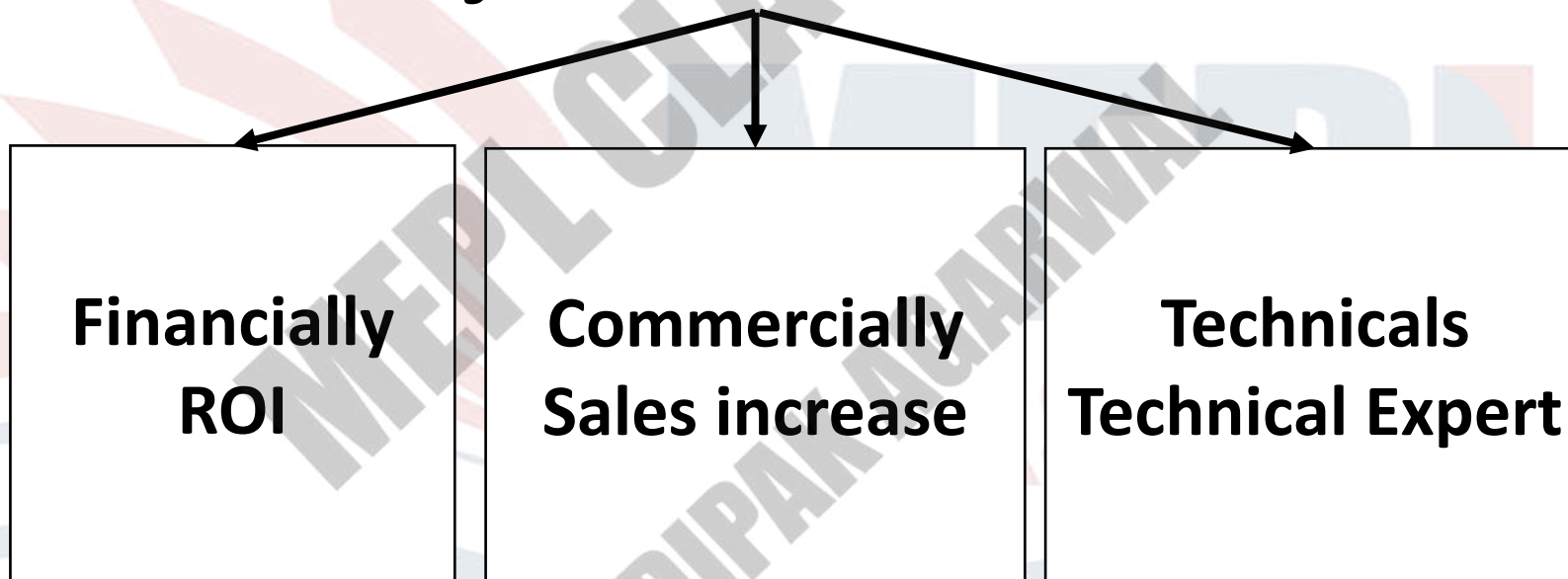
Social cost related Benefit obtained

Input	Output
Social cost incurred	Benefit obtained from the cost incurred



Cost	Sales	Other Cost
Cost of Production	Revenue	Other activities
Cost of Sales		<ul style="list-style-type: none">✓ School✓ Park✓ Employee Benefit✓ Seminar
Revenue – Cost = Profit		

Project is viable or not





Presently, the appraisal process of a private concern's project takes into account:

- Financial aspects i.e., viability based on return on investment, etc.
- Commercial aspects i.e., marketing plan and strategies, etc., and
- Technical aspects i.e., technical parameters of project specification.



Social

National Economy

Leather Manufacturing

Animal Skins

Viable - Endangered

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SCB Analysis

Purpose

- Future Social Cost & Benefit
- Flow of Cost & Benefit
- Net Benefit (Benefit - Cost)
- Analysis what things to do to achieve maximum Benefit

Elements

- Objective of Project
- Future Benefit
- Future Cost
- Net Benefit



SCB Analysis = Future Expected Benefit (-) Future Expected Cost = Net Benefit Arrived from the intended project

SCB Analysis Techniques

UNIDO			LITTLE & MIRRLESS	India Planning Commission
DCF Technique			L & M Method	Shadow Exchange Rate
IRR			Government hands income arise	Revalue
	<u>Input Cost</u>	<u>Output Benefit</u>	Uncommitted Social Income	
Y_1	500	600		
Y_2	600	800		
Y_3	700	900		
IRR = 10%				
Time Value / Annuity etc.			Free Foreign Exchange	



SCB Analysis Techniques

UNIDO

LITTLE & MIRRLESS

**India Planning
Commission**

India Country

Social Cost

Benefit

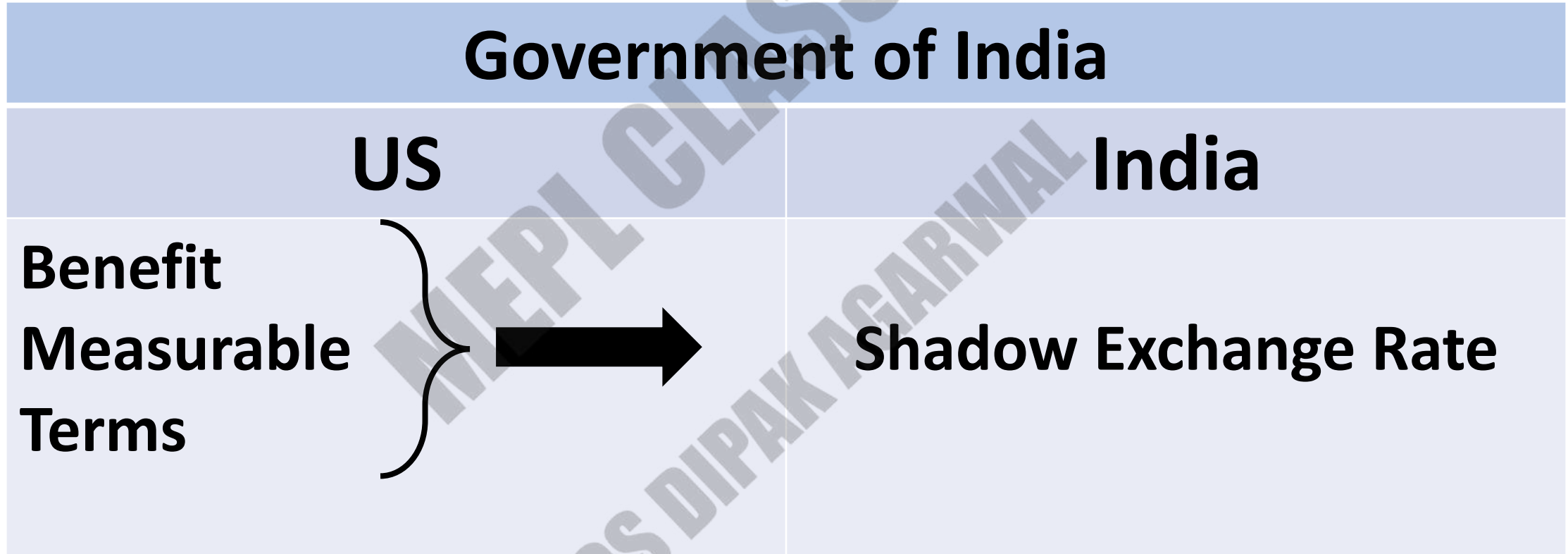
Cost Market Value

Developed Country

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Unido	L & M	IPC				
DCF Technique IRR Market value measure benefit accrue	Developing countries Social Cost is more they measure Benefit in comparison with Developed economy	Government hands Income generate ↓ Shadow Exchange Rate				
	Foreign Exchange	-				
		Shadow Exchange Rate				
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US	1 USD	10 USD				
Shadow Exchange Rate						





SCB analysis is analysis of viability of a future project undertaken by the government or company in respect of cost incurred and benefit accrued. Since India is a developing country and here the amount of social cost is always greater than benefit accrued so we have to rely on shadow exchange rate for introduction of any social project.

Corporate Image / Corporate Identity

- ✓ How a corporate interacts with the public / present itself to public.
- ✓ It is a reflection of an organization in the mind of stakeholders or society at large.
- ✓ Trademarks, Product Design, Advertisement, Public Relation, Employees who are in direct contact with customers Logo, Title.



Major Elements of Corporate Image

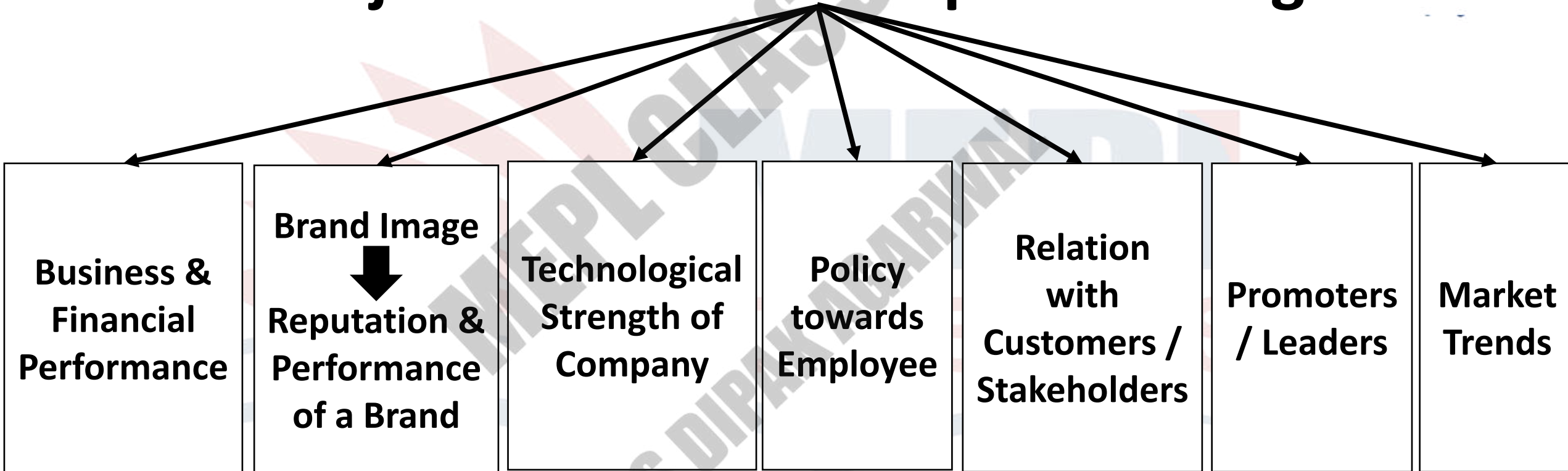


Image versus Images

Only in the best of cases does a corporation enjoy a single reputation. Different publics may have different views of the corporation depending on their different interests and experience with the organisation. A company's brand image may be very good but its reputation among suppliers is poor, because it bargains very hard, pays late, and shows no loyalty to vendors. A company may be highly regarded on Wall Street but may be disliked on the Main Street of cities where it has closed plants. A company may be valued for providing very low prices yet disliked for its employment practices or in different environmental performance. It is much more likely that a small business will have an all-around reputation for excellence than that a very large conglomerate will merit all-around praise. Smallness has its advantages.

At the Core: Business Performance

- The single most important factor in the corporate image is a Company's core business performance reflected through financial performance.
- A growing, profitable corporation with a steady earnings history will, for these reasons alone please its customers, investors, and the community in which it operates.
- Enron Corp., an energy trader, had a stellar reputation as the 7th largest corporation measured in revenues. It fell into bankruptcy almost abruptly on December 2, 2001; the Justice Department began to investigate it for fraud. Suddenly every aspect of the company that had been admired and lauded, its audacity, energy, profitability, innovativeness, entrepreneurial spirit, and so on took on opposite and negative connotations.
- The core business had failed; Enron's reputation imploded. No amount of corporate image polishing could have saved Enron's reputation after that.

Measuring the Corporate Image

- Corporations evaluate their image, much as politicians do, by the survey. They employ the methodology of marketing surveys used both in polling and in support of advertising.
- The theory of the corporate image holds that all things equal, a well-informed public will help a company achieve higher sales and profits, whereas a forgetful or poorly informed public may come to hold negative impressions about the company and may ultimately shift more of its patronage toward competitors.



Measuring of Corporate Image

POLL

Advertisement

Survey

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Words and Actions

- The example of Toyota is a case in which Toyota felt the need to communicate (“words”) something about its investments (“action”) in the United States.
- “A vast army of goodwill ambassadors.”



- **The company should communicate all their actions through the various channels of corporate images / communication such as Employees, Advertisement, Website, TV, Social Media etc.**

- **Higher the reputation of the company at the society at large – Better the business performance. (ways to reduce Reputational Risk)**
- **Brand Name**
 - **Website design**
 - **Quality of Product & Services**
 - **Vendor Payment**
 - **Employee relation**

Corporate Image

- Image of the company to the Society
- Relation of the company with the Public

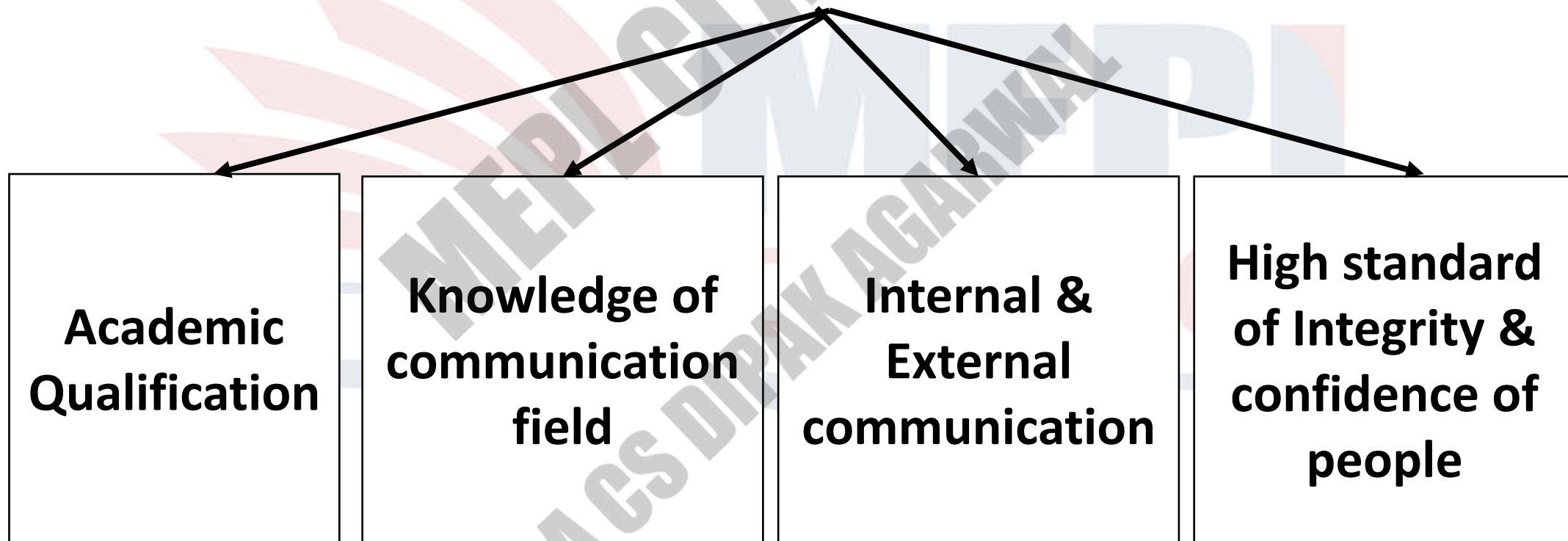
PRO/CCO – CEO/Chairman

Public Relationship Officer / Chief Communication Officer

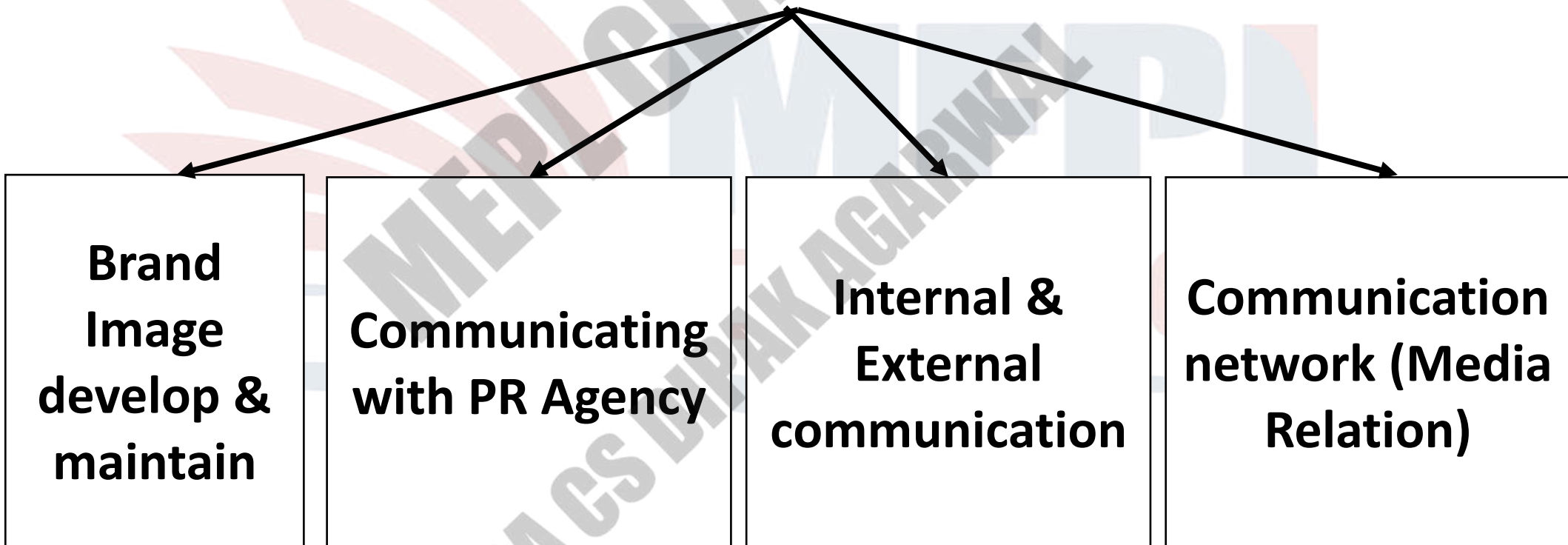
PRO/CCO

- Academic degree in communication (Degree in Mass Communication)
- Handle the information of the company both internally and externally
 - Media Relations

PRO/CCO:- Essential traits of PRO/CCO

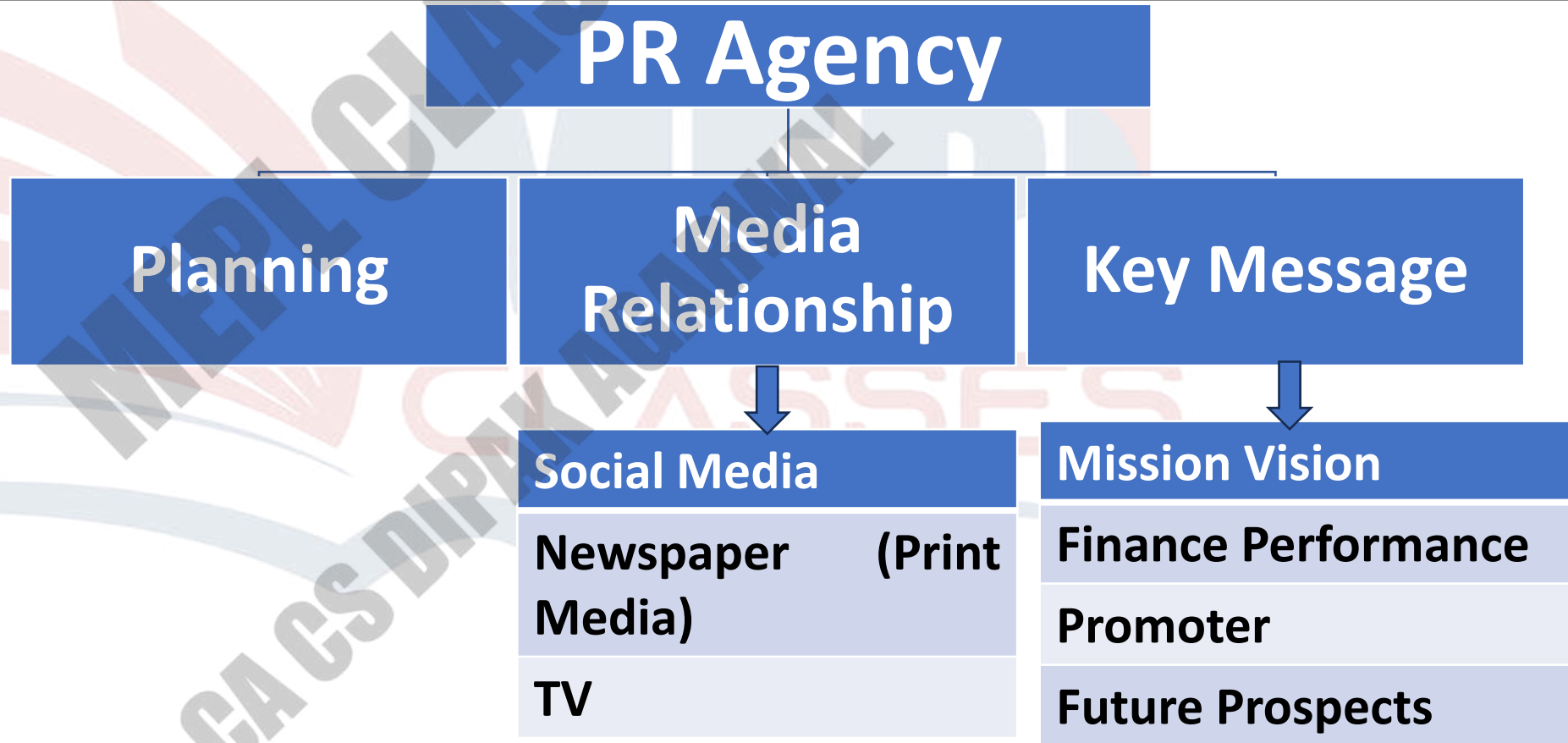


Responsibility of PRO



PR Agency:- These are PR service provider which helps in strategically planning & building Corporate Image.

Reliance:-



Types of Communication Relation

Investor Relation	Media Relation	Public Relation
<p>Communication of image is through the Financial Performance & returns achieved by the company</p>	<p>Communication of organization mission / vision / policies / practices through various types of media such as Mass Media</p>	<p>Communication of information by the organization with the help of various communication channel to the public to influence their perception</p>
	<p>Mass Media refers to Communication where information / communication is happening with large sections of people (large population) For Ex:- News Channel, News Paper, TV Ads, etc.</p>	<p>Ability to hear or become aware of something through senses</p>

Types of Communication Relation

Investor Relation	Media Relation	Public Relation
	<p>Mass communication is the process of spreading information to large number of people with the help of Mass Media</p> <ul style="list-style-type: none"> ➤ Advertisement ➤ TV News ➤ Newspaper ➤ Scoops (News Image) ➤ Publicity Stunts 	<p>i.e. by seeing a newspaper add → about a Discount</p>

Types of Communication Relation

Investor Relation	Media Relation	Public Relation
	(Persuasion oriented)	Experience the customer have at first interaction with the company
	Make someone to belief in something by speech or action	
	For Ex- TV Debate etc.	



**Customer Experience
is always perception
oriented**

They give feedback about their perception i.e. the communication which they made with the company / product with their sense

For Ex:-

- ✓ **Feel / touch of the I-phone**
- ✓ **Quality of Food products**

Too much of reliance on Media / Mass communication may lead to corporate defamation



Corporate Defamation means loss of image of the company to the society / stakeholders by an action by the person / individual / PR agent / Media relation officer.

Libel

“Publication” of a false and defamatory statement to injure the reputation of another person without any justification

Slander

False and defamatory statement by spoken words or gestures tending to injure the reputation of another person

Corporate Defamation means loss of image of the company to the society / stakeholders by an action by the person / individual / PR agent / Media relation officer.

Libel

For Ex:- Publishing News Article / Blog / Social Media Post containing wrong information

Printed / Published Statement

Slander

Just words spoken

Communication

Internal

Employees / Managers / Investors etc. with the help of various channels such as company's website, other internal publications such as notice, journal etc.

Organizational strategies, policies, procedures

External

Using external communication channel to communicate with stakeholders & communities

Product Design, Vision, Mission, objective, Financial Performance etc.

Audit check on Different Managerial function

Functions of Management

Administration Industrielle et Generale 1916

Henri Fayol (POCCC)

(1) Planning

Planning is a function of management that involves setting objectives and determining course of action to achieve the set objectives

Steps of Planning

Environmental Scanning	Forecast conditions	Future	Objectives establish	Course of action	Success of plan & corrective action
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Henri Fayol (POCCC)

(1) Planning

Types of Planning

Strategic Planning (SM) – SWOT Analysis

Operational Planning – Operations of the organization

(2) Organizing

It involves developing on organization structure and allocating human resource to ensure accomplishment of objectives



“Organizational structure / Organizational design”

Henri Fayol (POCCC)

(2) Organizing

On the basis of the design there is distribution of Job which are to be carried out for the achievement of goals or objectives



“JOB DESIGN”

(3) Commanding

L
e
a
d
i
n
g

Involves influencing others towards attainment of organizational objectives



Leadership skills to motivate the employees to do their work effectively for attainment of organizational objectives

(4) Coordinating

Lead from the front



Henri Fayol (POCCC)

(5) Controlling

It involves ensuring the performance does not deviate from standards

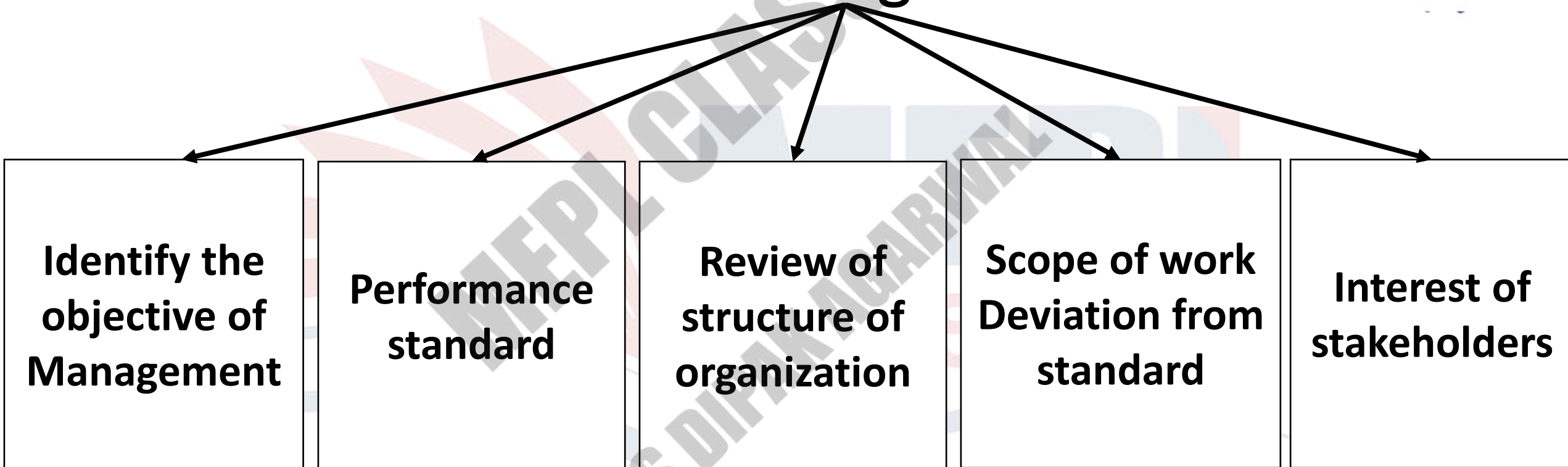
- Establishing performance standards
- Comparing actual performance against standard
- Taking corrective action when necessary

[This function does not involve controlling the behavioral aspects – Only work related activity – controls]

Two traditional control techniques are:-

- 1. Budget**
- 2. Performance Audit.**

Functions of Management Audit



Scope of Management Audit

- ✓ Organization Structure
- ✓ Operation effectiveness of Management
- ✓ Performance appraisal
- ✓ Goals / Policies / Objectives of Management
- ✓ Independently by expert

Management Audit covers the following Area

Management Audit & Its Scope

Studying the organization

Searching for performance shortcoming

Arrear of appraisal identified by
“American Institute of Management”

- 1) **Economic function vis-à-vis social responsibility**
 - It talks about the companies performance in social area
 - Community at large
- 2) **Corporate structure**
 - Internal Communication or flows of information internally
- 3) **Earning Growth & Business Prosperity**
 - Growth of earning on year on year basis
- 4) **Service to the stakeholders**
 - Risk minimization on investment
 - ROI
 - Capital appreciation



5) Research & Development

- Pharma industry

6) Constitution of BOD

- Quality of each Director & their contribution
- Role as an influencer
- Team work
- Trusteeship Role

7) Fiscal & Financial policies

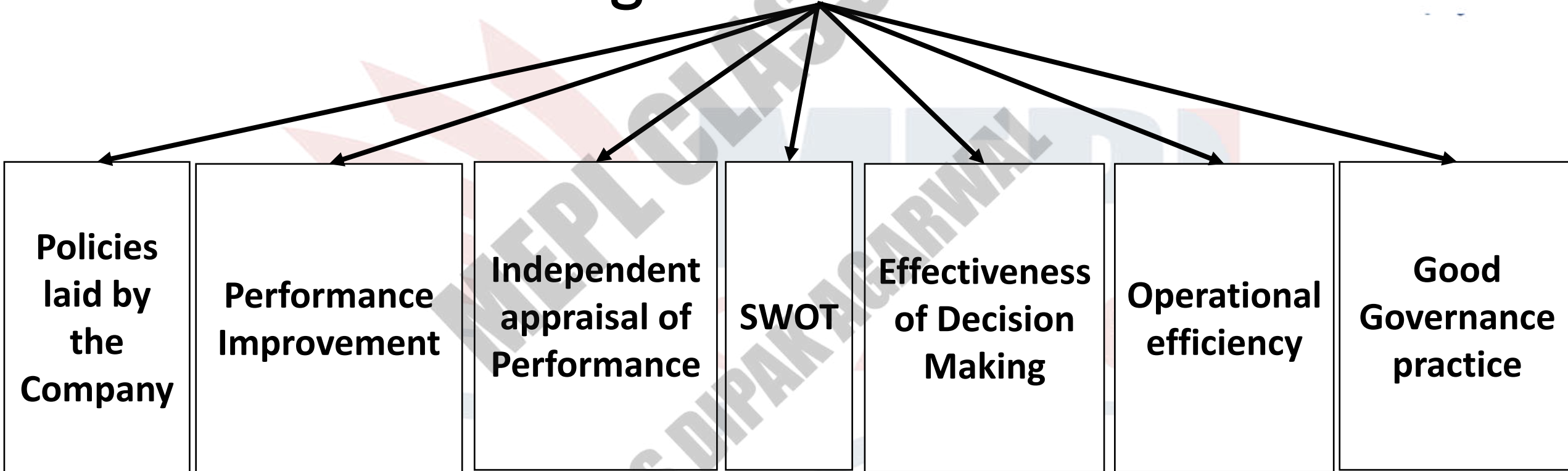
8) Operational effectiveness



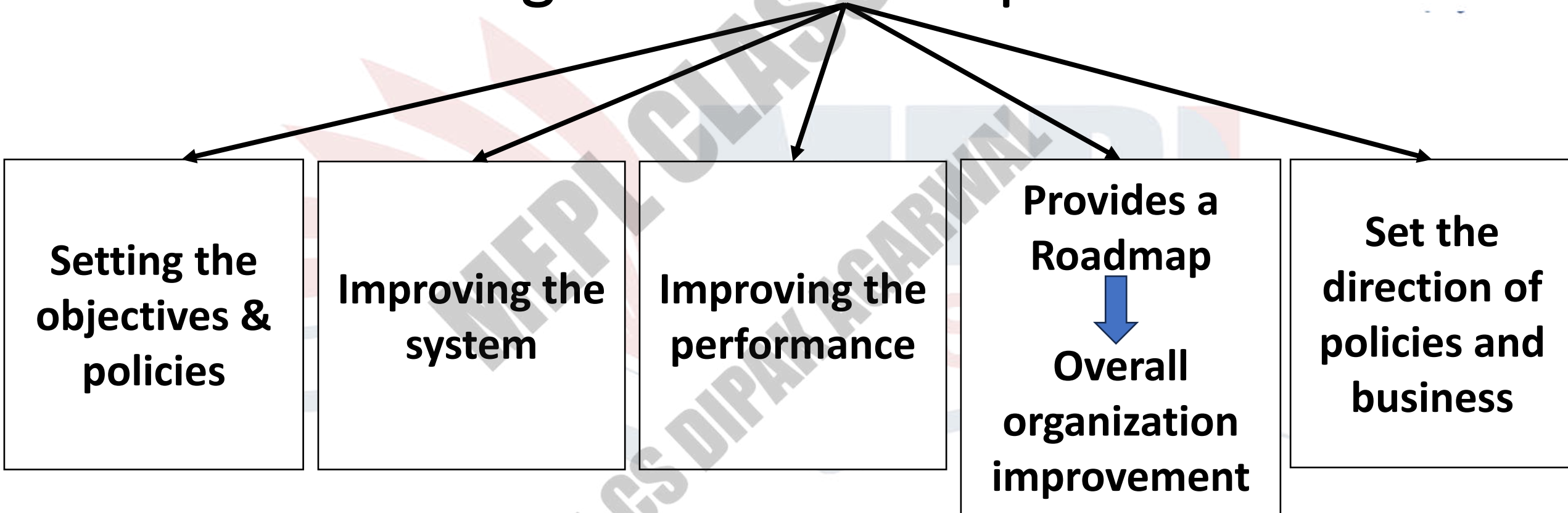
Objectives of Management Audit

1. The level of achievement of the objectives of the organization
2. The shortcomings and barriers to achievement
3. Control mechanism to pre-empt possibility of leakage or sabotage
4. To conduct efficient administration of the operations
5. Effective discharge of their responsibilities
6. The management the ways and means available to achieve the objectives
7. To guide towards improved performance
8. To improve operations and achieve operational excellency
9. The management efficiency

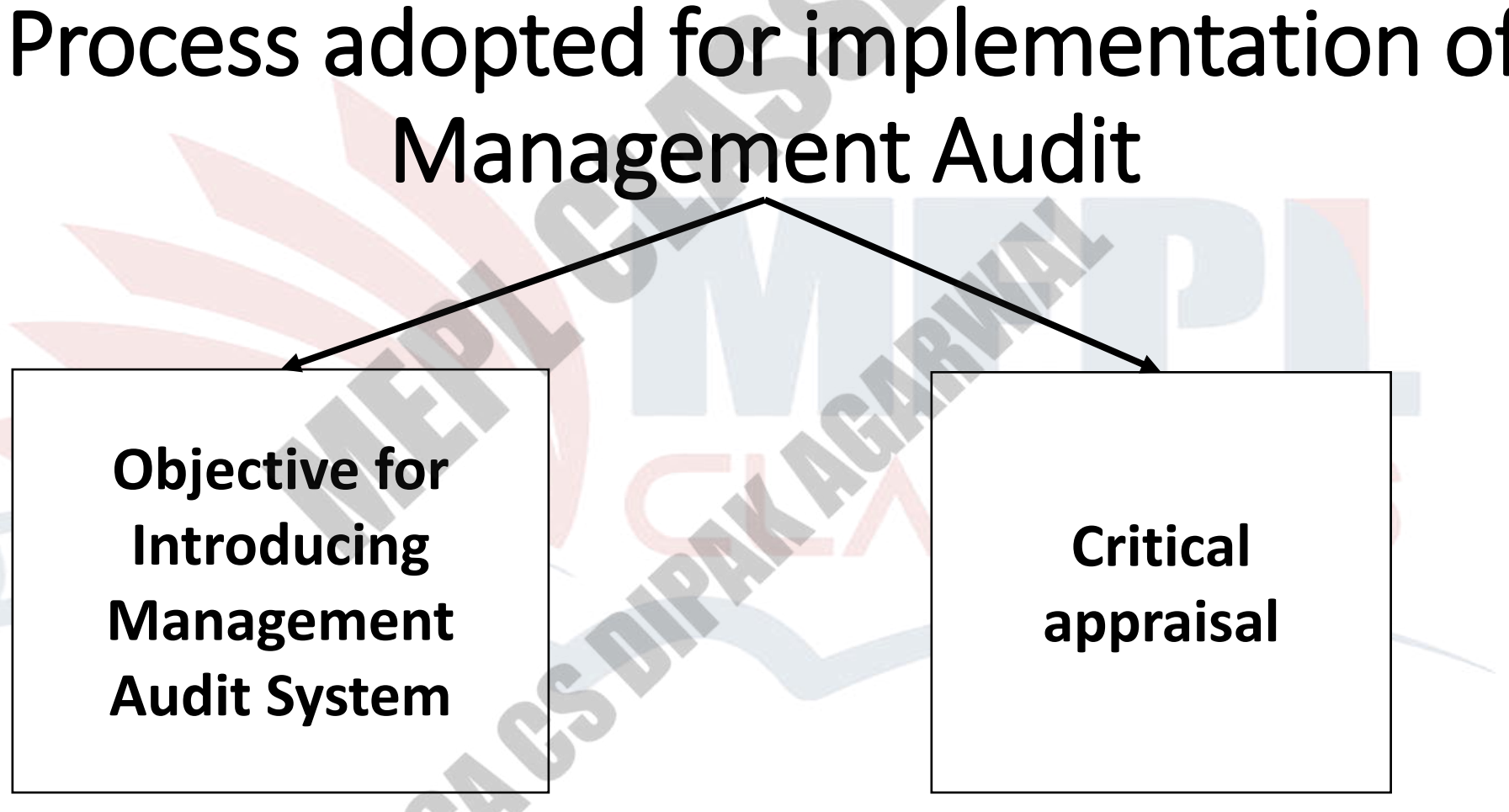
Management Audit Need



Management Audit Importance



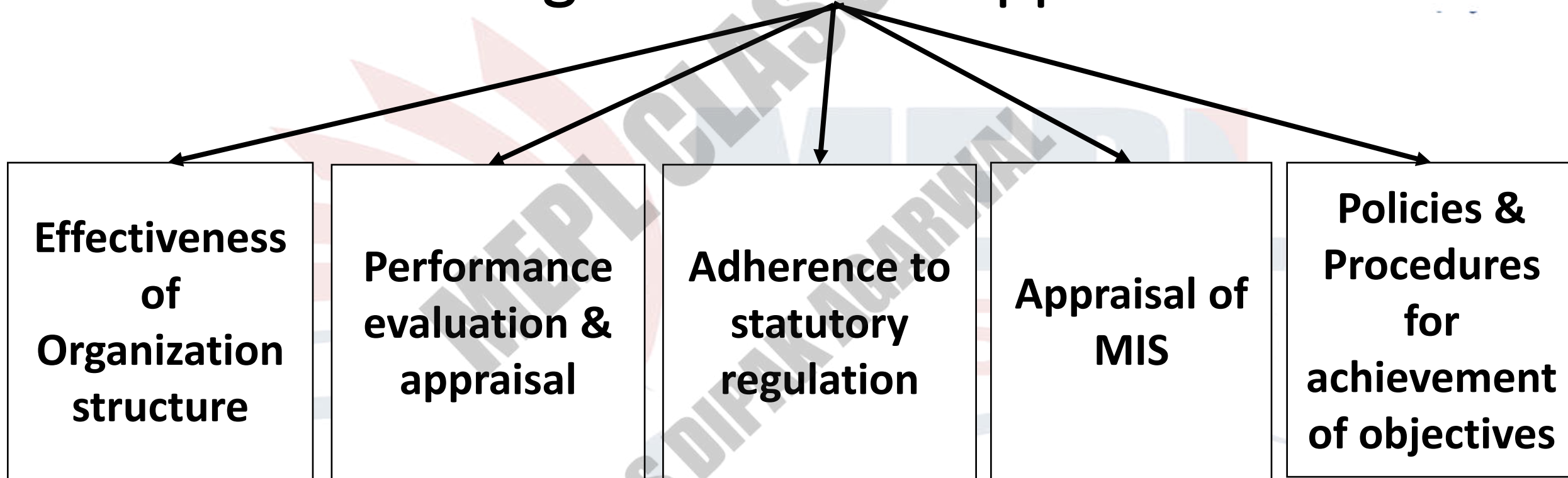
Process adopted for implementation of Management Audit



**Objective for
Introducing
Management
Audit System**

**Critical
appraisal**

Management Audit Approach



Checklist of Various Corporate Divisions / Departments

1. Strategic Business Planning

- ⊙ The SWOT for accomplishment of the goals
- ⊙ Whether SMART (Specific, Measurable, Achievable, Relevant, and Timeframe) set of Goals are in place and cascaded down function-wise for accomplishment?

2. Organizational Structure

- ⊙ The smooth decision making process with appropriate and adequate information movement
- ⊙ The employees are clear about their roles, responsibility and accountability

3. Finance & Accounting

- ⊙ Accounting function manned with qualified accountants
- ⊙ Company's accounting activities are carried out through accounting software
- ⊙ Accounting function, recording, supervision, approval, report generation etc.
- ⊙ Appropriate review mechanism is in place over the accounting activities

Checklist of Various Corporate Divisions / Departments

4. Tax

- ⊙ Tax calendar to monitor deposit, return dates against each of the applicable tax legislation
- ⊙ Tax law/rules-wise responsibility fixed to ensure compliances
- ⊙ Decided to contest against any query from appropriate revenue exchequer

5. Budgeting

- ⊙ Budgeting exercise carried out for all the major activities e.g. sales, purchases, advertisement, HR, Marketing, Training
- ⊙ Approval obtained for such budgets

6. Cash Management

- ⊙ Budget of inflow and outflow of Cash for business
- ⊙ surplus funds are invested /deployed efficiently

Checklist of Various Corporate Divisions / Departments

7. Pricing and cost-saving

- ⊙ The entity having a flexible pricing policy to address the market dynamics of demand, supply, competition, aggressive players' strategy and quality etc.
- ⊙ The entity having a product and/or price leadership position
- ⊙ 'Make or Buy' decisions are explored to gain advantages in rising plant cost scenario

8. Purchasing

- ⊙ Well defined authority structure for purchase decisions is in place
- ⊙ Costing Team, sales and manufacturing Team for price/ rate change of items
- ⊙ The purchases are made at the best available price

9. Marketing

- ⊙ Sales organization with defined goals /targets
- ⊙ To make its strategy, promotion activities and thwart competition

Checklist of Various Corporate Divisions / Departments

10. Risk & Insurance

- ⊙ Business risks analyzed and responded and opportunities explored
- ⊙ Whether non-transferable risks are reviewed regularly for appropriate cost-effective mitigation plan
 1. Evaluation of Purchase Management
 2. Evaluation of Personnel Management
 3. Evaluation of Production Management
 4. Evaluation of Research and Development Activities
 5. Marketing Audit
 - i. Evaluation of Sales Management
 - ii. Evaluation of Distribution Function

Whether non-transferable risks are reviewed regularly for appropriate cost-effective mitigation plan

1. **Evaluation of Purchase Management:** The primary objective of purchase management is to procure raw materials, packing material etc. of the requisite quantity of required quality at a reasonable cost at the right time.
2. **Evaluation of Personnel Management:** The main objective of personnel function is to create such conditions in the organization that the employees can put to their best performances. The personnel manager has to assess manpower requirement, selection, recruitment, training and development of individuals to get best out of the employee, and also to ensure favorable industrial relations, grievance redressal, discipline, wage settlements etc.

Whether non-transferable risks are reviewed regularly for appropriate cost-effective mitigation plan

3. **Evaluation of Production Management:** The main objective of production management is to turn out finished goods of requisite quality by making optimum use of men, machines, and methods. The productivity of such factors must satisfy the standards or norms set for the industry.
4. **Evaluation of Research and Development Activities:** A management auditor of a company can appraise and evaluate activities of research and development based on the following checklist:
 - a) The entity having a vision to achieve the above through R & D
 - b) Budget prepared for R & D spent
 - c) Appropriate Quality of people manned in R & D
 - d) The Board of Directors identify or endorse the broad “types of research” to be undertaken

Whether non-transferable risks are reviewed regularly for appropriate cost-effective mitigation plan

5. Marketing Audit:

Marketing audits may be horizontal or vertical. A horizontal audit (also known as a system-level audit) covers a major part of a marketing audit and evaluates a total appraisal of the marketing efforts of a company. The marketing audit encompasses the following areas:

1. Objectives: Target setting and methods for accomplishment of objectives in detail.
2. Programme: Appraising efficacy of marketing programs for achieving the objectives.
3. Organisation: Structure, roles of marketing department.

i. Evaluation of Sales Management

The main objective of the function of sales management is to create and develop market (customers) and take the 'pole position'.

The following questionnaire will help in evaluating sales management:

- a) SWOT for different geographical or Customer segment is carried out for planning the marketing effort
- b) Quality of product justifies 'price' and returns are bare minimum

ii. Evaluation of Distribution Function

- A. Distribution Function
- B. Capacity configuration
- C. Staging of inventory
- D. Transportation mode mix

ESG Audit

SEBI (Listing obligation & Disclosure Requirement) Regulation, 2015

May 21 issued notification for Top 1000 listed companies as per Market Cap

Sustainability is fast becoming a key priority for corporates around the world. Businesses today are expected to be more ethical and duty bound towards society.

ESG Audit

Mandatorily submit BRSR (Report) along with the annual report where they need to make disclosure about their fulfillment of certain ESG based parameters

FY – 22-23

ESG Audit

Mandatory compliance for top 1000 Listed Companies

Other than 1000 voluntary

Prior to this a report (BRR) – Business Responsibility Report – 2012 [Top 100]



How does India view ESG compliance?

- In 2013, India became the first country to mandate corporate social responsibility with the Companies Act of 2013.
- National Voluntary Guidelines (NVGs) on Social, Environmental, and Economic Responsibilities of Business released in 2011 before being included in the Companies Act 2013.
- The top 500 listed firms in India by market-cap were instructed by SEBI to disclose indicators of business responsibility and sustainability through Business Responsibility Reporting (BRR).
- In 2021, SEBI issued a circular containing details of new sustainability-related reporting requirements called the Business Responsibility and Sustainability Report (BRSR), which brings India's sustainability reporting to global reporting standards. BRSR is a departure from the BRR format.

CA CS DIPAK AGARWAL

What are the disclosure requirements under India's new ESG policy?

- SEBI issued a circular introducing the Business Responsibility and Sustainability Report (BRSR).
- The top 1000 listed companies by market capitalization.
- The RBC Guidelines are influenced by leading international standards, including the UN Guiding Principles on Business and Human Rights, UN Sustainable Development Goals, Paris Agreement, and International Labour Organisation (ILO) Core Conventions. The RBC Guidelines addresses key sustainability matters, such as business ethics and transparency, human rights, environmental safety, and fair labour practices.
- The reporting format is mandatory from FY 2022-23 but is voluntary for FY 2021-22.



9 Principles on which disclosures to be made in BRSR report as per SEBI

- Principle 1:** Businesses should conduct and govern themselves with integrity, and in a manner that is ethical, transparent, and accountable.
- Essential Indicators:**
- Details of fines / penalties / punishment / award / compounding fees / settlement amount
 - Details of anti-corruption or anti-bribery policy
- Leadership Indicators:**
- Processes to avoid / manage conflict of interests involving members of the Board / KMPs

9 Principles on which disclosures to be made in BRSR report as per SEBI

Principle 2: Businesses should provide goods and services in a manner that is sustainable and safe.

Essential Indicators:

- Sustainable sourcing
- Processes in place to reclaim products for reuse, recycle and safe disposal of products at the end of life

Leadership Indicators:

- Life cycle assessment
- Recycled or reused input material as percentage of total input material
- Reclaimed products and their packaging materials

9 Principles on which disclosures to be made in BRSR report as per SEBI

Principle 3: Businesses should respect and promote the well-being of all employees, including those in their value chains.

Essential Indicators:

- a) Gender and social diversity
- b) Turnover rates
- c) Median wages
- d) Welfare benefits to permanent and contractual employees
- e) Occupational health and safety
- f) Trainings

Leadership Indicators:

- Rehabilitation and suitable employment of employees / workers.

CA CS DIPAK AGARWAL

9 Principles on which disclosures to be made in BRSR report as per SEBI

Principle 4: Businesses should respect the interests of and be responsive to all its stakeholders.

Essential Indicators:

- Process for identification of key stakeholders
- Key stakeholder groups

Leadership Indicators:

- Using stakeholder consultation to support the identification and management of environmental, and social topics.
- Details of instances of engagement with and actions taken to address the concerns of vulnerable / marginalized groups.

9 Principles on which disclosures to be made in BRSR report as per SEBI

Principle 5: Businesses should respect and promote human rights.

Employees:

- a) Gender and social diversity
- b) Turnover rates
- c) Median wages
- d) Welfare benefits to permanent and contractual employees
- e) Occupational health and safety
- f) Trainings

9 Principles on which disclosures to be made in BRSR report as per SEBI

Principle 6:

Businesses should respect and make efforts to protect and restore the environment.

Essential Indicators:

- a) Resource usage (energy and water) and intensity metrics
- b) Air pollutant emissions Environment
- c) Greenhouse gas emissions (Scope 1, Scope 2, and Scope 3)
- d) Waste generated and waste management practices
- e) Impact on biodiversity

9 Principles on which disclosures to be made in BRSR report as per SEBI

Principle 7: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.

Leadership Indicators:

Details of public policy positions advocated by the entity

9 Principles on which disclosures to be made in BRSR report as per SEBI

Principle 8: Businesses should promote inclusive growth and equitable development.

Essential Indicators:

- a) Social impact assessments
- b) Rehabilitation and resettlement
- c) Corporate social responsibility

Leadership Indicators:

- CSR projects undertaken in aspirational districts
- Details of the benefits derived and shared from the intellectual properties owned or acquired by your company based on traditional knowledge shared
- Details of beneficiaries of CSR Projects

9 Principles on which disclosures to be made in BRSR report as per SEBI

Principle 9: Businesses should engage with and provide value to their consumers in a responsible manner.

Essential Indicators:

- Details of instances of product recalls on account of safety issues

Leadership Indicators:

- Channels / platforms where information on goods and services of the business can be accessed.

How big Indian companies are adapting to the ESG pivot:

- Many leading companies in India have begun to include environmental, social, and governance targets as a part of key result areas (KRAs) for Top Management.
- The move is influenced by an increasing push from investors to allocate capital that not only generates financial returns but is also invested in social good. Overall, non-financial factors increasingly become a marker of material risks and growth opportunities for investors.
- The pandemic and increasingly evident costs of climate change have elevated the importance of these discussions, with many boards devoting significant time in their strategy meetings to discuss ESG issues.



How India compares with other countries:

- To have mandated corporate social responsibility
- However, different countries have different approaches and beliefs when it comes to ensuring responsible business activity.



The United Kingdom:

- Companies are mandated to provide a report disclosing annual greenhouse gas emissions, diversity, and human rights under the Companies Act 2006 (Strategic and Director's Report) Regulations, 2013.
- Companies with a premium listing of equity shares in the UK also need to report on how they apply the main principles of the Corporate Governance Code, 2012.

European Union:

- The European Commission (EC) Directive on Disclosure of Non-Financial and Diversity Information (2013) is considered a major reporting instrument of the EU.
- It requires certain large companies and public-interest companies to disclose material environmental, social, and employee-related matters.

United States:

- The US Securities and Exchange Commission (SEC)
- The New York Stock Exchange (NYSE)

China:

- The Environmental Information Disclosure Act, 2008 mandates corporations to disclose environmental information.