

SECTION - B
MANAGEMENT AUDIT

Basics of Management Audit

9

This Module includes

- 9.1 Definition**
- 9.2 Nature and Scope**
- 9.3 Need for Management Audit and Reporting**
- 9.4 Audit of Management Process and Functions**
- 9.5 Establishing Reliability of Information**
- 9.6 Role of CMAs in Management Audit**

Basics of Management Audit

SLOB Mapped against the Module

To obtain in-depth knowledge about management audit processes to identify the scope of improvement at various functional areas of the organisation. (CMLO 2a, b)

Module Learning Objectives:

Management Audit is a future-oriented, independent, and systematic evaluation of the activities of all levels of management for the purpose of improving organisational profitability, efficiency and increasing the attainment of the other organisational objectives through improvements in the performance of the management function, achievement of program purpose, social objectives and employees' development. After studying this module, the students will be able to –

- ✦ Understand the Nature and Scope of the Management Audit.
- ✦ Understand the need and importance of Management Audit.
- ✦ Enumerate Management Audit Process and its functions.
- ✦ Identify the Role of CMAs in the Management Audit Process.

Basics of Management Audit

9

Two words can exactly answer the most pertinent question-why management audit is necessary for an organisation? They are **efficiency** and **profitability**.

There may be loopholes in the organisational structure, methods, and practices in the management of a business organisation that needs to be identified. An independent person (sometimes an internal employee) is assigned for the task who takes a neutral, non-biased view to point out the lapses in management techniques. This happens to be the prime aim of management audit.

In short, the role of a management auditor is to provide a critical appraisal of the business structure. The critical analysis thus becomes a pointer to necessary actions required to be taken to sort out the lapses, thereby promoting the overall efficiency of the workforce and enhancing business profitability.

Management Audit means an impartial evaluation of management performance beyond that implicitly provided by historical results.

- Burton

Management Audit may be more specifically defined as being an investigation of a business from the highest level downwards to ascertain whether sound management prevails throughout, thus facilitating the most effective relationship with the outside world and the most efficient organisation and smooth running internally.

- Leslie Howard

The Management Audit may be defined as a comprehensive and constructive examination of an organisation structure of a company, institution, or branch of Government, or any component thereof, such as division or department and its plan and objectives, its means of operation, and its use of human and physical facilities.

-William P. Leonard

Management Audit is a future-oriented, independent, and systematic evaluation of the activities of all levels of management for the purpose of improving organisational profitability and increasing the attainment of the other organisational objectives through improvements in the performance of the management function, achievement of program purpose, social objectives and employees' development.

- The Institute of Internal Auditors Inc.

A Management Audit is an independent review, analysis, and assessment of the competencies and capabilities of a company's management in carrying out the corporate objectives. The purpose of a Management Audit is not to appraise individual executive performance but to evaluate the management team's effectiveness with respect to work in the interests of all the stakeholders, maintain good relations with the employees, and uphold reputational standards.

Management Audit is the unique process appraising the performance of directors and managers or in other words appraising the performance of the management.

In a number of organisations, management audit is now a regular feature to examine and improve managerial effectiveness

There is as such no formal management audit committee for the board of directors. However, the board members assess the performance of management team individual executives by using quantitative information on like organic

sales, EBIT margins, segment margins, operating cash flows, cost rationalization and EPS and unquantifiable or intangible elements like efforts toward acquisition, integration, etc.

A Management audit is an assessment of how well an organisation's management team is applying its strategies and resources. A Management Audit is carried out by internal team as well as by outsourced agency, who evaluates whether management team is working in the interests of shareholders, employees, and the company's reputation.

Area of Management audit is beyond conventional audit. It is an audit of the overall performance of management. It covers planning, organising, coordination, processes and control, etc. Management audit detects and diagnoses the problem and suggests various means to avoid and resolve the problems. Management audits are often conducted before mergers, restructurings, bankruptcies, and succession planning etc.- they can identify weaknesses in a company's management.

Objectives of Management Audit:

- ⦿ It helps management in setting appropriate decision making.
- ⦿ It suggests management in getting desired results and revealing any defects and irregularities in the process of management.
- ⦿ Management audit helps the management in the effective discharge of their duties and responsibilities.
- ⦿ It helps in identification of process gaps and strengthening of controls.
- ⦿ Suggests appropriate cost effective implementation of plans.

Management Audit might address many important issues like:

- ⦿ Appropriateness of Organization Structure and reporting
- ⦿ Coordination among Departments to accomplish management objective
- ⦿ Suggesting a 'risk management' structure for better governance
- ⦿ Stakeholder management
- ⦿ Project evaluation including growth budget and appropriation methodology

Management Audit encompasses all areas where management decision making and actions are involved.

Qualities of Management Auditor:

The management auditor should have the following qualities:

- ⦿ A management auditor should have good knowledge and experience of all Managerial Functions.
- ⦿ An Auditor should have good knowledge of financial, cost statements analysis techniques.
- ⦿ She/he should know about economics and business laws, etc.
- ⦿ Understanding of Organisation structure and decisions taken by management the, working of the organisation and its problems is also required.
- ⦿ Thorough understanding of all processes and control aspects.
- ⦿ She/he should know and understand the objectives of the organisation very well.
- ⦿ She/he should understand planning, budgets, rules, and procedures to be applied in management reviews.
- ⦿ She/he should be well-versed with the entire production process.
- ⦿ She/he should have enough knowledge and experience to understand the reason behind the lack of coordination between different departments.
- ⦿ She/he should have the quality of giving practical and achievable solutions to the problems in the organisation.

Who is Qualified to Conduct Management Audit?

- 1) Cost Accountant , by virtue of his closure and more intimate association with industrial environment, would be in better position to undertake successfully the management audit.

Moreover, he is closely associated with the entire supply chain management.

2) Another question that requires an answer is :

- ⊙ Whether the management audit should be conducted by independent practising cost accountant or companies own cost accountants specially charged with this responsibility?
- ⊙ It is obvious that a company's own cost accountant however exalted he may be , cannot act with a full sense of independence, as an external auditor will be able to do.
- ⊙ But, he will have an advantage over his external colleague, in that, having worked with the company, he has a better grasp over the company's activities.
- ⊙ So long as the management audit is not prescribed by law, a company will have to make its own decision in this regards.

3) To the question-who should conduct a management audit? There can be another answer.

Instead of entrusting it entirely to a cost accountant – internal or external- we can as well think of a team consisting of –

An industrial or production engineer, a social scientist, an economist and a practising / own cost accountant.

This proposal has the merit that it will collect the experience and expertise under one roof and this collective wisdom will make a better job of management audit.

Need for Management Audit and Reporting

9.3

The reports on matters of policies and their implementation are very important to improve effectiveness, the efficiency of the management. Management Auditors advise the management on various matters related to the performance of functions/operations as well as of the organisation as a whole. It can be said management audit helps in improving the performance and efficiency of management.

Management audit is not compulsory under any law. No specific qualifications have been prescribed for the Management Auditor.

Advantages of Management Audit:

- ⦿ It helps management to make plans and policies with more objectivity.
- ⦿ It is beneficial for achieving the set objectives of the management.
- ⦿ It is helpful to management by providing input on process gaps and way forward to improve, evaluate the performance of management.
- ⦿ It is helpful to strategies resources and improvement planning.

Audit of Management Process and Functions

9.4

Management Audit Programme means the planning of the outlines for the whole process and procedures from the beginning to the end.

The programme can be designed in the following way:

- ⦿ To study the organisation structure
- ⦿ To understand decision making process and line of command.
- ⦿ To have a detailed understanding about discussion with the top management about the objectives and the plans.
- ⦿ To study the current policies adopted to achieve the desired objectives.
- ⦿ To discuss and decide the areas of improvement post review of operations.
- ⦿ To give recommendations for improvements required in areas of operation and decision making processes.
- ⦿ To study whether the control system of an organisation is in place, adequate and effective.

The report submitted by a management auditor should provide proper assessment of the management decisions and on ground implementation along with implications therefor. The management auditor should cover the following areas in his report:

- ⦿ She/he should highlight the areas of weakness and the suggest for improvement.
- ⦿ She/he should also review the Stakeholder relationship and benefits passed on to them for maintaining a cordial and desired relationship (Stakeholder management). She/he should cover the methods and procedures of production.

Functions of Management Audit:

Management audit is a difficult and complex task. It performs the following functions:

1. Management audit requires a tight rope walking with clear, identified roles to perform while dealing with top management.
2. It examines all the scope of work with respect to areas for review. In this regard, the auditor should help management in pinning down and inter-relating the performance standards and measurements with the ownership of responsibilities.
3. Management audit provides valuable suggestions to the management after proper evaluation.

The aim of management audit is apprising a function or department or activity with a view to judge how effectively and efficiently these are discharged with reference to :

1. The narrower departmental goals or objectives
2. In the broader and larger context of the company as a whole

Management audit is concerned with appraising / judging the effectiveness / efficiency of following functions / departments / activities (List is Illustrative and not exhaustive)

1. Marketing including selling and distribution
2. Manufacturing including Planned Maintenance, Capacity Utilisation
3. Procurement including Development of New Vendors
4. Project Management including its timely cost effective implementation
5. Inventory Control to ensure sustainable production / sales
6. Finance including arranging finance for working capital and for project capital
7. Research and Development to contribute to new product, process improvement, cost reduction etc
8. Insurance including adequate insurance for all assets against insurable perils
9. Personnel management including selection, recruitment, training, developments, motivation and retention of human resources.

Periodicity of Management Audit:

Another question which may be asked is : What should be the periodicity of such management audit ?

1. One extreme view would be that it should be an annual as in the case of financial audit / cost audit
This suggestion has the merit of simplicity and a certain correlation with statutory financial audit / cost audit.
2. But it ignores the fact that as the management audit is to cover a large area and it will involve appraisal of long term policies and plans, a year, is too short a period to survey.
3. A compromise on a period of 3/5 years seems to be more reasonable, though yearly follow up is not ruled out.

Organising An Audit:

Organising an Audit will involve :

1. Working out a plan or programme to ensure that all the important aspects that can be conceived are recorded in detail and omission is guarded against.
2. Selection of the most suitable personnel.
3. Clear identification of the purpose of audit.
4. Setting up of a tentative time-budget for each element shown in the plan or programme and also for analysis and report-writing.
5. Projections of costs, both direct and indirect to complete the assignment.

Direct Cost shall represent the remuneration of the audit employees.

Indirect Cost shall represent cost of time spent by other employees who participate in discussions, answering queries etc.

Time Schedule:

Time schedule is of utmost importance as it affects the cost of audit.

- The schedule can not be inflexible.
- For lack of flexibility would affect the quality of audit.
- Yet care is necessary to see that the schedule does not lose its meaning and turn into farce.

The schedule

Where, however, a specific problem area is to be tackled in the fire-fighting spirit, the dead line is automatically drawn and the cost consideration becomes less important.

Establishing Reliability of Information

9.5

Eventually the success as Management Auditor depends on the role played by the Team. Journey from ‘Police Man’ as normally conceived, toward ‘Policy Man’ depends to some extent also on the Management of the Organisation. ‘Tone at the top’ is very much required from management to help the management auditor in performing and accomplishment of management objectives/ desired goal. Despite having many advantages of management audit in the modern business world, it has faced criticism too. According to managers and accountants, it is just a vague concept that serves no material purpose. The management auditors usually pinpoint shortcomings of manager’s in action, therefore they hesitate to take initiative. It is believed that the normal practice of managers is to keep their records up to date instead of improving efficiency and reducing costs.

Organisational culture is an important factor for getting/fulfilling desired objectives through management audit team. It is healthy for a business organisation to have a business audit from time to time. A business owner would get an insight into:

- ⦿ Whether the management style is conducive to the business purpose?
- ⦿ Whether the company management has effectively been able to control overall business operations?
- ⦿ How good is the management team to nurture a healthy relationship with the employees and shareholders of the company?
- ⦿ Is the management team able to uphold the company’s reputation?

Management Audit primarily focuses on:

- ⦿ Assessing existing management policies.
- ⦿ Proper and rational utilization of resources.
- ⦿ Assessing the efficiency and efficacy of tactics and strategies behind current business plans.
- ⦿ Appraising overall team performance, rather than an individual.

Top Objectives of having a Management Audit are:

- ⦿ Clearly defined prime objectives of the organisation.
- ⦿ Ensuring a clear, lean and thin Organisational reporting structure. The setting of a well-defined organisational structure with clear-cut lines of reporting.
- ⦿ Goal setting process aligned with business objectivity.
- ⦿ Process benchmarking for improving effectiveness. Challenge existing rules and regulations to work out on effectiveness level.

- ⊙ Suggesting improvement measures for giving an impetus to business performance in the forthcoming months/ periods.
- ⊙ Suggesting ways to restructure the organisation and ensure high-quality service at all quarters.
- ⊙ More effective resource utilization planning.
- ⊙ Incorporating management information systems to reach production and work efficiency goals.
- ⊙ Identification of weak points or managerial inefficiencies with respect to core functional areas of the business, namely finance, sales, and production.

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.

What is meant by Management Audit Programme?

Management Audit Programme is a plan of action drawn in advance of starting actual audit.

It helps the management auditor to cover desired areas – either full-fledged one or limited to a specific area.

What factors should be considered for framing an efficient Management Audit Programme?

Factors to be considered are enumerated in the specimen Management Audit Programmed mentioned here under :

General Outline of the Management Audit Programme (A Specimen)

1. Name and Address of the Company
2. Operation (Unit or Section)
3. Dates or Duration of Audit
 - Planned
 - Revised (If Any)
 - Actual
4. Names of Auditors
 - Planned
 - Revised (If Any)
5. Discussed With
 - Planned
 - Actual
6. Reviewed By
 - Planned
 - Actual

Note :

1. Whether it is full fledged one or limited to a specific area, it is advisable to list down items of questionnaire and against each item of such questionnaire again it is advisable to jot down the sources from which information is to be collected e.g. interviews, board resolutions, plan and policy documents, manuals etc
2. Each item should be ticked and initialled as soon as it is attended to

Uses of Management Audit:

1. It ensures that management is getting adequate information for correct decisions
2. It ensures that management properly uses the information that it is getting
3. It substantially contributes for improvement of the entire communication system
4. It helps in designing and reviewing Management Information System (MIS) for decision making to help in co-ordination, motivation and control of the operations
5. It assists in analysing SWOT (Strength, Weaknesses, Opportunities and Threats) to the organisation and assists in making the organisation better.

Role of CMAs in Management Audit

9.6

Management Audit not having any statutory obligation, however, the Cost Accountant can perform Internal Audit as per the Companies Act, 2013 as well as can perform Management Audit also. A Cost Auditor can not perform simultaneously the role of Internal Auditor.

A Management auditor should have the following specific qualities:

- (i) Ability to understand and gauge business problems.
- (ii) General understanding of the organisation and its various processes at pre and post approval stage.
- (iii) Thorough understanding of the applicable Rules, Regulations and legal aspects. Expert knowledge on the principle of delegation of authority, management by objective, management by exception, management planning and control and the different budgetary systems, and those of internal control devices (viz. flow chart, the flow of work, analysis of work schedules, etc.).
- (iv) General understanding of different Laws - General Laws, Company Law, Tax Laws FEMA, etc. that affect the functioning of the whole of the organisation.
- (v) Background knowledge and subject matter expertise viz. about - Engineering, Statistics, Costing, Management Accounting, Financial Accounting, Industrial Psychology, Managerial Economics, etc.
- (vii) Focused, dynamic and result orientation. Tactfulness, perseverance, and lastly, pleasing and dynamic personality.

A Management Auditor may embrace the following aspects:-

Formulation of plan and policy:

She/he should ensure that “accounting, economic and other data needed by the management in constructing its basic policy framework” are provided supplied by the management services unit.

Decision-making process:

Validation of prior decisions, implementation gap and suggestion to re-design.

She/he should take into account the outcome of the decisions previously applied, and see that the decisions are based on management by objectives, management by exception, management information services.

Designing organisational authority structure:

She/he should assist in the flow of information among different functional managers (responsibility-wise).

Measuring and evaluating business performance:

She/he should concentrate on key functions or operations in the profit-making process.

Tax-planning and budgeting:

She/he should appraise the appropriateness of tax implications with respect to decision to invest/sell off, and those of different information and data needed for budgetary control and preparation.

Improving communication system:

Two-way communication provides better organisational culture. The management should ensure that decisions are cascaded down for proper implementation of objectives. The flow of communication also to move towards managers at the helm of decision making to ensure effective, timely and purposive decisions having buying in from rank and file as well as from managers of different levels of the Organisation.

A strong external communication channel is also a pre-requisite.

She/he should guide in the flow of internal communication (between various departments) to strengthen the organisation structure, and in the flow of external communication (e.g., market conditions, legal requirements, social accounting, competitors' standing, economic trends, etc.) to strengthen the progress of the business.

The role of a Management Auditor in the coordination (or harmonization) of the functions of planning, organising, controlling, and appraising business, is crucial.

A Management Auditor should have the following general considerations with respect to communication and reliability of datum to:

- ⦿ Indicate source of base, nature, and basis of datum.
- ⦿ Purposiveness of data for perusal. Stick to essential information; that is, not matters of general knowledge.
- ⦿ Avoid gathering data acquired during a previous study, except when a change in the data presents new evidence.
- ⦿ Obtain the complete details where cost is an important factor.
- ⦿ Look for irregularities, uncertainties, conflicts, and possible disagreements about plans, objectives, functions, systems, and operations.
- ⦿ Validation of datum collected.
- ⦿ Datum collection process and relevancy of datum collected.
- ⦿ Channels of communication and responsibility attached with such communicators. Be alert for weaknesses in organisation systems, methods, controls, operations, and personnel.
- ⦿ Role of system data administrator to avoid 'Garbage In, Garbage Out'. Substantiate all data by verification through actual observation, examination, or test checks.
- ⦿ Watch out for inaccurate, incomplete, inadequate, and unnecessary reports, forms and statements.
- ⦿ Determine compliance with policies and procedures by checking performance.
- ⦿ Seek out methods for improvement.
- ⦿ Note areas and functions for greater effectiveness in performance.
- ⦿ Be on the lookout for inadequate protective and preventive methods.
- ⦿ Determine whether or not responsibilities are being appropriately discharged.
- ⦿ Access control and data sharing process.

Look into the matters of cost-effective utilization of all resources- human, physical financial, and national, including the scarce resources and utilities of public nature.

- ⦿ Take note of fluctuations in production, work-loads, and services.
- ⦿ Communication channels and openness in the Organisation. Ascertain the ultimate use (i.e., utility aspects) of each activity, record, and report to determine value or necessity.
- ⦿ Information sharing among multiple locations of the entity and possibility of data loss, if any. Look for problems, bottlenecks, waste, unnecessary work or function, poor coordination, low morale, inadequate motivation, and other defects in all functions and areas under study.

To Sum Up:

A management audit is an independent and systematic analysis and evaluation of a company's entire business areas and related overall activities and performances therefor. It is a valuable tool used to measure determine the efficiency, functions, accomplishments, and achievements to move towards business excellency of the company.

The primary objective of the management audit is to identify gaps, errors in management objectives and activities, for suggesting improvement and possible changes. It guides the management to manage the operations most effectively and productively.

In other words, a management audit is involved in the evaluation and assessment of the management system and information in the various departments or the entire company. Its reach has been extended to review system and sub-system, authorization, procedure, accountability, quality of data generated, quality of personnel, etc.

A management audit is vast as compared to a financial review because it not only evaluates finance but also other features of a company. It has an efficiency for assessing management from top to lower level. A few main scopes of management audit is described below:

- ⦿ Assess the effectiveness of the Management- It audits the entire level of management of a company.
- ⦿ Evaluation of processes deployed.

Execution of Principals and Policies: It reviews whether the policies and the principles deployed by the company are effective and successful.

Suggest improvement based on such evaluation.

- ⦿ **Locate and Examine the Differences:** It helps to identify the differences in productivity and if the pattern set by the company is not fulfilled.
- ⦿ **Suggest for Improvement:** The management audit suggests improvement in areas, e.g. purchase, sale, finance, administration, human resources, etc.

Annexure - I

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:

- ⊙ Whether roles and responsibilities are assigned for administrative functions? Does the organisation have policies and procedures manual?
- ⊙ Whether policies and procedures are in place for monitoring activities?
- ⊙ Are members aware of the policies and procedures?
- ⊙ Are management committee meetings held at intervals prescribed by the constitution?
- ⊙ Is the annual report distributed to the members?
- ⊙ Is access to information regarding members limited to certain committee members?
- ⊙ Whether management decisions are articulated properly for carrying out responsibilities.
- ⊙ Whether functional reporting hierarchy is in place?
- ⊙ Whether administrative lapses are flagged and resolved immediately?
- ⊙ Are the computer files backed up on a regular / frequent basis (i.e., weekly / monthly)?
- ⊙ And the backup is stored in a different location w.r.t the main computer?
- ⊙ Is inward and outward correspondence monitored by the committee?

Finance:

- ⊙ Whether budgetary process and approval mechanism is in place? Are all transactions recorded?
- ⊙ Whether Cash Flow Statement prepared and reviewed by senior management on regular basis? Is a financial report produced for management committee and general meetings?
- ⊙ Whether financial goals are set with assigned responsibility for achievement? Is a process followed for approving expenditure?
- ⊙ Are multiple signatures required for monetary transactions?
- ⊙ Does the company have an annual operating budget?
- ⊙ Is the annual operating budget regularly reviewed?

Insurance:

- ⊙ 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
 - ▲ Event liability insurance
 - ▲ Contingency insurance
- ⊙ Whether the members aware of the insurance coverage and related policies?
- ⊙ Whether renewals are made as per timeline defined?
- ⊙ Whether Claims are made prudently as per stipulation in Policies?
- ⊙ Whether claims received accounted for with accuracy?

Policy:

- ⊙ Whether the Company having documented policy guideline for all critical areas of business?
- ⊙ Whether general coverage of multiple Rules and Regulations are looked into while framing Policy guidelines?
- ⊙ Whether the Policies are communicated/distributed to all employees?
- ⊙ Are the policies reviewed and monitored at regular intervals annually?
- ⊙ Whether updated guidelines are immediately brought to notice?
- ⊙ Are there policies on the following issues?
 - ▲ Harassment
 - ▲ Drugs
 - ▲ Alcohol
 - ▲ Coaching ethics
 - ▲ Child protection
 - ▲ Disabilities

Planning:

- ⊙ Whether a culture of action oriented (operational, marketing etc. including contingencies) planning process is in place? Does the company have a strategic plan or development plan?
- ⊙ Whether the entity company have a risk management plan?
- ⊙ Whether deviation against Plans are mapped and adequate 'root cause' analysis made to overcome such issues in future?
- ⊙ Does the company have an operational plan?
- ⊙ Does the company have a marketing plan?
- ⊙ Are the members aware of these plans?

- ⊙ Are the jobs completed in the time frame stated in the plans?
- ⊙ Are there adequate resources to implement the plans?
- ⊙ Does the company have an emergency evacuation plan?
- ⊙ Are the plans reviewed annually?

Personnel Management:

- ⊙ Whether the entity having a Human Resource Policy in place? Are the job descriptions accessible to the members?
- ⊙ Whether the company set appropriate codes of conduct? Is it applicable and made known to all?
- ⊙ Whether benchmarked practices are followed to retain resources and avoid attrition?
- ⊙ Do the committee members share responsibilities equally?
- ⊙ Whether a procedure to handle feedback and complaints available to address matters raised?

Contracts:

- ⊙ While entering into any Contract (long or short term), the evaluation and possible outcome/impacts are assessed?
- ⊙ Whether appropriate legal safeguard evaluated for any expected shortcoming or execution problems?
- ⊙ Whether Financial impact analysis carried out to pre-empt possibility of any breach? Is the company involved in any of the following contracts?
 - ♣ Employment
 - ♣ Lease
 - ♣ Membership
 - ♣ Sponsorship
- ⊙ Are the employees aware of the contracts and who they apply to?

Hazard Identification and Control:

- ⊙ Whether Industry specific 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
- ⊙ Whether appropriate declaration to relevant authorities made on hazardous operations? Are the work health and safety inspections carried out by qualified personnel?
- ⊙ Is any maintenance required from Government inspection carried within time frame?

- ⦿ Does the company have a maintenance schedule?
- ⦿ Is there a procedure for reporting maintenance needs?
- ⦿ Whether self-assessment carried out and result reported to responsible controller of the entity? Does the company carry out internal safety checks on a regular basis?
- ⦿ Are risk assessments created for events?
- ⦿ Is there a procedure for reporting accidents, injuries, and incidents?

Event Management:

- ⦿ Whether Risks and Mitigation planned against each and every Event planned? Are risk assessments conducted when planning an event?
- ⦿ Are all the risks identified?
- ⦿ Have appropriate steps been taken to reduce risks?
- ⦿ Are risk management procedures maintained and updated?
- ⦿ Are there suitable first aid personnel on site during events?
- ⦿ Whether a documented contingency plan in place documented?
- ⦿ Whether budgetary approval accorded with a note on positive outcomes of the event? Are permits sought to hold certain events?
- ⦿ Whether failure mode analysis carried out, in case of shortfall in outcome?
- ⦿ Is the manager in charge of permitting the event?
- ⦿ Is the feasibility and risk considered high priority when conducting an event?
- ⦿ Is a budget prepared for all events?
- ⦿ Does the company take responsibility for the participant's actions?
- ⦿ Has a "Code of Behaviour" been set?
- ⦿ Are players, member's etc. aware of the "Code of Behaviour"?

Legislation and Industry standards:

- ⦿ 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? Does the company comply with the government standard set?
- ⦿ Is the company aware of the government standards?
- ⦿ Whether a 'good governance' practice is circulated to ensure 'beyond compliance'? Are the employees aware of "Duty of Care"?
- ⦿ Whether legal experts are manned to ensure compliance issues?

Annexure - II

(1) Steps of management audit: Management reviews can be carried out for the area pre-planned or as directed from time to time. The steps of a management audit are:

1. Understanding of the objective and scope of the review. Select an area of operation of management.
2. Collection of appropriate document and datum to establish the context and outcome.
Discuss and appraise management about gaps and recommendations with respect to mitigation.
Issuance of formal report.
3. Determine whether the actual results meet the standards, norms, or targets. If not, why not?
 - (i) Is the target too difficult?
 - (ii) Is failure to achieve the target costing the organisation?
4. Establish what is done to ensure the achievement of the norms, targets, and standards. What steps are taken for:
 - (i) Planning
 - (ii) Operations, execution, and implementation e.g., use of up-to-date technology
 - (iii) Measurement of performance and controls.
5. Carry out a detailed investigation, collect evidence as well as a document for audit findings.
6. Report the findings of the audit and make recommendations.

(2) Management auditing procedure:

Audit procedures should be tailored to the specific needs of each situation examined. The process may be followed:

1. Clarity of understanding with respect to selected area. Make a preliminary survey of the activity under audit to obtain the necessary background and other working information for use in conducting the audit.
2. Responsibility owner and preliminary discussion to understand 'pain points'.
3. Data and document collection to align with audit objective/scope.
4. Thorough analysis in support of accomplishment of objective.
Study the basic charter or assignment of responsibility of the activity under audit (applicable laws and related legislative history in the case of a government activity) to ascertain the authorized purposes and related authorities of the activity and any applicable restrictions or limitations.
5. Review pertinent parts of the system of management control by studying the policies established to govern the activities under audit, testing the effectiveness of specific operating and administrative procedures and practices followed, and fully exploring all significant weaknesses encountered.
6. Identification of weakness, inaccuracy, process gaps and take it forward for discussion with process owner/responsible management representative/s.
7. Report on the findings of the audit work performed to those responsible for receiving or acting them together with the recommendations for improvement.

Techniques by which the auditor can identify problems areas warranting detailed examination and the source of her/his information are as follows:

(i) Identification of possible control weakness by survey

During the preliminary survey work, though practical working information is obtained on how the activity is supposed to function and how control procedures are supposed to work, key features or aspects can usually be identified that appear to be difficult to control effectively or be susceptible to abuse. For example, the key points in the purchasing process may be:

- (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. If about the total purchasing operation, the auditor concludes that these processes are the most critical from the standpoint of the need for good performance, he would be justified in concentrating his testing work on them.

(ii) Review of management reports

MIS (Management Information System) for various areas and Reports created and distributed for perusal by management from time to time.

System driven reports or generation with manual intervention for ensuring accuracy and comparison with prevalent situation. The auditor's review of internal reports which the management itself regularly uses to obtain information on progress, status, or accomplishment of work can be valuable sources of information on possible problem areas suggesting audit attention.

(iii) Review of internal audit

Using the outcome of other professional work, always having an issue of quality and depth of coverage. However, once ensuring the same; the Reports can be perused for understanding gaps and management actions against recommendations, if any, w.r.t the same. These reports can also be a valuable source of information on problem areas. Of particular interest to the management and auditor; are those reports which bring to light significant findings on which the management has taken no action. Inquiry into the reasons and justification for inaction in such cases should be made since these circumstances could throw light on weaknesses in the management system that have not previously been referred to the management for resolution.

(iv) Physical inspection

Physical inspections are carried out to ensure existence, quality of assets, usage, physical condition etc. Mishandling, change of location (transfer to other Unit/s) having higher implications to management. The organisation's activities and resources can be a useful way of identifying possible inefficiencies. Examples are excess accumulations, idle or little-used equipment, employee idleness, rejections of the product by inspectors (or customers), executive rework operations, or disposal of apparently useful materials or equipment.

(v) Test examination of transactions

Transaction testing methods are used to ensure prescribed rules/guidance being adhered to through selection of sample representing the universe. A very useful way to obtain practical insight into the efficacy of procedures is to pursue several transactions about the organisation's operations from initiation to final disposition. This kind of testing will provide the auditor with valuable information on the organisation's business transactions, the usefulness (or pertinence) of a prescribed procedure, the capabilities of personnel involved in the various operating phases, and possible weaknesses in procedures or practices that could represent an unnecessary drain on the organisation's resources (i.e., Ineffective or inefficient performance).

(vi) Discussions with the officials and employees

The management auditor can obtain valuable information on problem areas warranting audit attention through discussions with responsible officials in the organisation and other employees concerned. Even buying in and implementation of recommendations becomes easier for such clarity of understanding emanated out of discussion. The degree of success in obtaining useful information in this way is, in large part, dependent on the auditor's reputation for independent and constructive inquiry. If he is regarded with fear because of overly critical reporting in the past, this source of information may not be productive.

Testing procedures and practices

Testing procedures and practices first require some preliminary review work to obtain information on how they work and an insight into their effectiveness and usefulness. Based on such review, specific matters may be identified as problem areas on weaknesses needing further probing. The general factors to be considered by the auditor in his preliminary review work on management controls are:

- ⦿ Understanding of process flow.
- ⦿ Auditing in depth for selected transaction/s.
- ⦿ Auditing in and around computer.
- ⦿ Whether the policies of the organisation comply with its basic charter or grant of authority.
- ⦿ Whether the system of procedures and management controls is designed to carry out those policies and result in activities being conducted as desired by the top management, efficiently and economically.
- ⦿ Whether the system of management controls provides adequate control over the organisation's resources, revenues, costs, and expenditures.

Specific factors which may well be considered by the auditor in assessing the management control system and identifying problem areas warranting a more detailed audit include –

- ⦿ The use by management of standards or goals in judging accomplishment, productivity, and efficiency in the use of goods or services.
- ⦿ Lack of clarity in written procedures, misunderstandings, or inconsistent interpretations in the organisation may affect:
- ⦿ Capabilities of personnel.
- ⦿ Failures to accept responsibilities.
- ⦿ Duplication of effort.
- ⦿ Improper or imprudent use of funds.
- ⦿ Cumbersome or extravagant organisational patterns.
- ⦿ Ineffective or useful use of employees and physical resources.

This; the listing is indicative of the kinds of factors that an alert management auditor must keep in mind in all his work. The knowledge gained in a preliminary review that is conducted in recognition of these kinds of factors provides a solid basis for more detailed examination work that can lead to constructive improvements in the management system.

(3) Techniques of management audit:

Techniques employed by a management auditor in effectively discharging her/his responsibility depends on the area of review.

As for example, 'Financial performance related reviews' calls for use of 'Break Even Point', Make or Buy, Cost rationalization, Cost benefit analysis, Marginal Cost and Standard Costing etc.

(i) Accounting or economic techniques

- (a) Break-even analysis
- (b) Budgetary control including a flexible budget system
- (c) Cost management techniques indicating how an organisation's assets should be allocated over competing projects or to decide whether it is worth proceeding with the investment, keeping in view the proportionate value of expenditure on such projects.
- (d) Discounted cash flow and net present value methods.
- (e) Cost-benefit analysis.
- (f) Standard costing and marginal costing
- (g) Activity-based costing to test the relevance of costs to activities.
- (h) Quality analysis of company transactions.

(ii) Scientific techniques e.g. Linear Programming, Transportation and Assignment etc. are perused for desired outcome

- (a) **Computer Models:** There are many types of problems that can be solved on a computer e.g. decision on the material mix, product, mix, make or buy, etc.
- (b) **Network Analysis:** To analyze strings of tasks to arrange them in sequential or parallel order to complete the project in the shortest possible time.
- (c) **Mathematical programming for solving by heuristic (trial and error) techniques:** To determine the best material mix, best use of the organisation's transport fleet, the best mix of products to obtain, to maximize profits and optimum use of labour, finance, equipment, etc. Linear programming is usually effective when relationships vary in linear order whereas quadratic programming may be used when the variations are in the order of the square root of some other factors.

(iii) Statistical techniques are in use to point out comparatives, scenario planning etc.

- (a) **Activity Sampling:** It is one of the many ways in which the present workloads can be measured to obtain controls to be exercised by management.
- (b) **Monte Carlo Simulation:** In this, several variables are drawn from a large statistical population which has an equal choice of being selected and obtaining the best sample possible.
- (c) Exponential smoothing.
- (d) Inter-firm comparison.

(iv) Personnel techniques like interviewing, Training methods are perused for manpower and the quality related assignments

- (a) Attitude survey.
- (b) Ergonomic (Man-machine relationship).
- (c) Training methods.
- (d) Profitability and productivity measurement.

(v) General techniques

- (a) Statistical theory of management is an attempt to emphasize what should be the practical approach to a problem by –
- ⊙ Analysing the problem to establish the basic difficulties and factors involved.
 - ⊙ Establish management by objectives.
 - ⊙ Identifying the likely ways of tackling the problems in the light of objectives to develop a solution.
 - ⊙ Determine the key factors affecting management decision-making.
 - ⊙ Evaluating alternative courses of action
 - ⊙ Evaluate each alternative in terms of economy, efficiency, and best fit.
 - ⊙ Specifying the action required to exploit the situation to the best advantage of the organisation.
- (b) Brain storming
- (c) Transfer pricing
- (d) Management by objectives
- (e) Management by exception
- (f) Corporate planning
- (g) Information theory

(4) Management Audit Evidence:

Evidences are supporting documents in favour of review outcome. Evidences are collected from both internal and external sources as well as database analyzed. Unlike financial audits or other audits, there can be no fixed items of evidence to be checked by a management auditor. A management auditor has to rely more on his experience and acumen to identify areas of review and study, particularly areas of weaknesses to be overcome, strengths to be exploited, and risks to be properly covered.

The auditor's evidence comes from his discussions with the people concerned in the organisation, the survey, and reviews of various reports of the organisation, including internal audit reports, inspection reports or any investigation reports, physical inspection, test examination of various transactions, an inspection of important departmental files, monthly performance review statements, minutes and notes, and above all personal observations.

Evidence can be gathered either by sampling techniques or by going into full detail depending on what the samples reveal. The evidence should be such that an auditor can draw valid conclusions, duly verifying the same with the people concerned. It should be understood that a management auditor does not rely on a voucher as evidence, but shall fall back on various records, including vouchers as evidence for his audit, if the samples demand so. There is no area of restrictions for obtaining evidence.

(5) Management Audit Programme (MAP):

A management audit programme is an essential prerequisite to conducting the audit. The programme is the basic guide to Team members with allocation of area aligned with accomplishment of audit objective with a definitive time span allocation. Such a comprehensive list helps in reviewing the work and also ensures completeness i.e. without missing any check point as to control assessment of operations, adherence to statutes or value add. It is a plan of action drawn in advance of taking up the audit, and to help the auditor to cover the entire area of his function thoroughly.

She/he should lay down for himself a proper procedure to be followed to complete the work in time, giving thorough coverage to all aspects.

An efficient management audit programme shall comprise the following:

- (i) Review of the organisational objectives and plans
- (ii) Study of the policies and practices of the management
- (iii) A critical review of the organisational structure
- (iv) Study of the systems and procedures
- (v) Evaluation of operations
- (vi) Study of the efficiency of the use of physical resources available
- (vii) Exercise of proper management control
- (viii) Maintain a suitable monitoring system through a management information system (MIS)
- (ix) Check on adherence to the statutory obligation
- (x) Above all, review the efficiency of manpower handling, which ultimately results in the organisation's success.

An audit programme is laying down the path in its required details before conducting such an audit.

A management auditor shall shrewdly assess weak and risk areas in the organisation and deal with such areas in more detail. She/he has to lay down a programme by making a list of such weak and risk areas and follow them up in his audit.

(6) Management Auditor:

A management auditor is expected to offer special skills and expertise to his clients. He, therefore, has a special responsibility to exercise special care in the performance of his duties to ensure a positive response to his opinion to motivate action thereon.

A management auditor should be technically competent enough to handle the assignment with adequate knowledge. Thinking ability and unbiased approach is the key to success of a management auditor. Sometimes resources of different disciplines are selected for Management Audit, in the exercise of his audit function and formulation of his opinion based on such audit. He should be a person of independent thinking, who can maintain an unbiased view, without any influence, either financial, sentimental, or otherwise. He should be technically competent in the discharge of his duties, having education, training, and experience all around. The management auditor should be supported by a good organisation i.e. a team of people who can competently execute his audit.

Qualifications of Management Auditor

The prime qualification of a management auditor is to possess broad business experience in an allied profession such as accountancy, statistics, engineering, marketing, or administration. It is not possible that one person can possess all the specialized qualifications, but a special qualification in one field could have a respective view of the whole system. If a team of auditors is appointed it will be preferable to have people from different streams, because cross-fertilization of ideas from different business fields can be a stimulating factor. Management audit should aim at highlighting any team of administration or managerial efficiency or otherwise affecting the performance of the organisation.

The essential qualities of a management auditor are:

- (i) Ability to grasp the business problems.
- (ii) General understanding of the nature, purposes and objects of the organisation e.g. nationalized or Government-controlled organisations, etc.
- (iii) Ability to determine or assist the progress of the organisation.
- (iv) Knowledge of the principles of delegation of authority and control and the preparation of different budgets viz. cash budget, production budget, master budget, etc.
- (v) Power of grasping and understanding different internal control devices viz., flow chart, the flow of work, analysis of work schedule, use of a computer, etc.

- (vi) Sufficient knowledge about engineering statistical techniques, cost, and management accounting, general financial accounting, production planning, control, etc.
- (vii) General understanding of different laws viz. company laws, tax laws, and other economic legislations.
- (viii) Sufficient knowledge and experience in preparing various reports for submission to different levels of management including the top management.
- (ix) Tactfulness, perseverance, pleasing and dynamic personality.

(7) Management Audit Team – Organisation

A management auditor handling a large organisation continuously or several audits at the same time has to build-up a competent team of people, who possess the educational qualifications as well as requisite skill set to operate as attributed to a management auditor.

As a management auditor is concerned with all aspects of the business and the organisation, ranging from manufacturing to marketing and finance, the management audit team should be multi-disciplinary to make a multidimensional approach to the audit function.

A competent management audit team, internal to an organisation, could effectively be represented by seniors having prior exposure to the heads of various departments viz., production, materials management, maintenance, personnel, marketing, finance, industrial engineering, quality control, etc. areas. Such a team can competently lead and direct the audit to attain the organisational objectives.

(8) Audit Checklist:

A management auditor shall normally maintain an audit checklist to ensure completeness and quality assurance that she/he has not omitted any areas that require to be audited. The organisational areas covered fall under the broad Checklist can be prepared for all operational and business areas to be reviewed.

- ⊙ Planning
- ⊙ Organising
- ⊙ Staffing
- ⊙ Coordinating
- ⊙ Communicating
- ⊙ Directing
- ⊙ Motivating
- ⊙ Controlling and
- ⊙ Innovating

In these areas, an auditor should look for any weakness which may affect the efficiency of the organisation. Her/his checklist can be made area-wise and may be overlapping or complementary between different areas as follows:

- (a) Directorial weakness
- (b) Management weakness
- (c) Organisational weakness
- (d) Financial weakness
- (e) Systems weakness
- (f) Procedural weakness
- (g) Functional weakness
- (h) Operational weakness

- (i) Marketing weakness
- (j) Industrial relations weakness
- (k) Weakness in meeting social responsibilities, and
- (l) Security lapses etc.

Management Audit Report (MAR)

MAR is the reflection of the quality of review performed in various areas. It is important to prepare a good MAR. A good MAR can motivate the management and get the required results.

Characteristics of a good management audit report

The detailed characteristics of a good management audit report can be summarized as follows :

- (i) Pertinence
- (ii) Comprehensiveness
- (iii) Brevity
- (iv) Timeliness
- (v) Motivating
- (vi) Appropriate
- (vi) Data based to support outcome

Management Audit reports are often labelled as ‘exception reporting’. The deviations from laid down processes, unauthorized activities, performance deterioration, value destruction are normally dealt with in reports. Benchmarking of activities, industry norms and practices are also highlighted as ‘scope of improvement’. Fraudulent activities, reputational risk, system and control lapses are also forming part of reports. Corrective measures are suggested to rectify the position and address management concerns. The top policy executive is generally interested in four factors in operating statements – facts, the person responsible, deviations in actual performance from standards, and the effect of the result on the financial or physical status of the organisation.

The report must allow management to study comparisons, review organisation, and appraise the effectiveness of the executives. Departmental weakness can be quickly seen by the management if the report is properly prepared.

The management audit report should create awareness among the management of prudent management practices that can make the organisation come alive. It is a very important function of management audit to help the change management mindset.

Report discussion with management and buying in of suggestions for implementation in time bound manner improves governance and a hallmark of progressive management and Organisation.

A management audit report should also be discussed with the people concerned in various areas before reporting. Every point that is raised in the report should have the acceptance of the people involved in the concerned function. A report that indicates suggestions that had come from the people themselves would have a better than coming as a suggestion from the auditor.

The report should be drafted and structured so that it makes a logical presentation to the management and makes it easily readable. The report should contain not only the problems and defects in the working but also should come out with solutions as if given by the operational people themselves so that it gains immediate acceptance for implementation. A management audit report relies heavily on accepted managerial practices and feasible solutions.

Contents of the report

1. All the endeavours of the management auditor are epitomised in the report he renders finally to the management. If, however, the full worth of his efforts, insight, experience, and wisdom is to be brought home to the recipient of the report, it is obvious that it must be written in such a manner that the recipient will understand it clearly.

Thus, in writing a report, the needs of the recipient or the reader for clear and total understanding, must receive priority over all other considerations.

The report must therefore be lean, clear, simply worded but at the same time should not appear as a mere skeleton.

It is however true that a report cannot be complete enough to provide a firm basis for decision making without additional work and effort.

But it should contain all the information needed to define and support the conclusions or findings.

For this purpose, the use of tables, statements, charts, schedules and graphs may be necessary.

How to make use of these supplementary aids or exhibits is a matter of judgement based primarily on appreciation of the needs of the recipient and secondarily on experience.

Some may be incorporated in the body of the report itself, whilst others may appear as enclosures., duly referenced.

But in all cases, care must be taken to ensure that such exhibits are not prepared merely for their attractiveness or visual impact.

They must serve a definite purpose – either as an explanation or supporting the text of the report itself.

2. It may perhaps not be out of place to mention a few seemingly simple things which however do affect the effectiveness of the picture drawn i.e. the report rendered by the auditor.

It is needless to mention that faults such as ambiguity, monotony, lack of simplicity, careless punctuation, long sentences etc should be avoided.

3. But it may be worthwhile to stress the following points should be carefully observed.

- Planning the report – It is advisable to wait till the audit is completed
- Arrangement – Careful thought is necessary in arranging the matter
- Selection of meaningful data
- Use of paragraphs, headings etc
- Recommendations

4. It may be found useful to standardise the format of the management audit report.

Though standardisation can not be claimed to be a must, its several advantages:

Firstly, standardisation helps most auditors in drafting and writing a report.

Secondly, it facilitates reading by most recipients as they become accustomed to it.

Thirdly, it goes a long way in offsetting the feeling that the report is directed against me or my unit.

Supplementary

5. The following is the suggested format of the management Audit Report.

It is intended that the report will be accompanied by a brief letter.

a. Title :

- Name of the Organisation
- Period Covered by the audit report
- Dates of Audit
- Name and Addresses of Auditor

- b. Table of Contents :
 - Captions of Parts
 - Major Sections
 - Appendices
- c. Summary of Conclusions
- d. Body of Report
 - Details in support of each finding
- e. Appendices
 - Supplementary and supporting information in the form of tables, graphs, charts, exhibits etc.

Special Reports for Banks, Shareholders, Employees & Small Business

Sometimes, the reports have to be prepared and submitted for special persons or purposes. Salient features for these special reports are briefly discussed below:

(1) Reports for banks and creditors

The form and content of financial statements and schedules are important to the lender but explanatory notes to the statements and schedules are perhaps more important to them. They require accuracy in reports and confirmation of statements made, which should be properly verified and certified. Bankers are more oriented towards security due to their long-term expectation of debt servicing by the business. Hence, the reliability of the report is an important factor. All statements by the auditor should be clear and positive.

(2) Report to shareholders

The report is read by financial experts, bankers, tax authorities, public officials, and research people. The report should, therefore, be useful in analytical details for its user, and give full facts about the organisation's business. The report should also convey the right and correct message to a layman. The report is often used as a public relations exercise to improve relations with investors and to promote loyalty. In India, an auditor's report in the prospectus at the time of public issue is very important. Experts read "between the lines" of the auditor's report. It will ultimately reflect in the auditor.

(3) Reports to employees

Reports for employees are mainly prepared for a better understanding of the business, to dispel any misconceptions, counter charges by unions, or explain the need for continuance of the business in times of strike, competition, or sickness. The report to employees must gain the confidence of employees and earn respect for the statements. The report should consider the needs of employees, when the employee morale is low or when the relations with employees are strained. Auditor's views will be expected to be unbiased.

(4) Reports for small business

The form of annual accounts and other requirements under the Companies Act is the same for a large or a tiny private company. However, the management auditor should design his report in a very simple way as the report for a small business is specifically directed to a person or a small group of persons only. A great deal of reporting for small businesses is subjective, due to a lack of adequate data. This poses problems in analyzing and comparing data. Suggestions in the report must be based on a proper appraisal of the problem.

Conclusion: The report of the management auditor will leave a permanent impact on the user regarding his competence, integrity, and honesty. She/he should, therefore, make his observations and recommendations clear even if it may affect the job of any executives or affect the fortunes of a few people concerned or interested in the organisation. She/he cannot escape the duty to judge right and wrong. The best report is one that motivates the person receiving the report to act in the manner desired in the report.

Exercise

A. Theoretical Questions

⊙ Multiple Choice Questions

1. Management auditor should have a thorough knowledge of _____.
 - (a) Financial Accounting
 - (b) Production techniques
 - (c) Costing systems
 - (d) All of the above
2. A management auditor can recommend the most suitable system of flow of information _____.
 - (a) Internally
 - (b) Externally
 - (c) Internally and externally
 - (d) None of the above
3. Management auditor should be well versed with _____.
 - (a) Management by exception.
 - (b) Management by objectives.
 - (c) Principles of delegation of authority.
 - (d) All of the above.
4. Which of the following statements are true about management audit?
 - (a) The management audit is made compulsory and statutory.
 - (b) Management audit is a programme of one year.
 - (c) Management audit cannot be conducted by an independent person.
 - (d) No, time limit can be fixed for submission of the report under management audit.
5. Cost audit is a verification of cost records to estimate the _____ efficiency of a business.
 - (a) External
 - (b) Internal
 - (c) Both internal and external
 - (d) None of the above

6. The management auditor's work begins
 - (a) After the work of a statutory auditor ends
 - (b) Before the work of a statutory auditor begins
 - (c) Varies from firm to firm
 - (d) None of the above

7. Management audit is useful for
 - (a) Suggestion for targets
 - (b) Assistance to management
 - (c) Good staff relationship
 - (d) All of the above

• **State True or False**

1. Management auditors should be conversant with the nature of production activities in the organization.
2. Management auditing is a part of statutory auditing.

• **Essay Type Questions**

1. Discuss the scope of the management audit?
2. State the essential qualities required of a Management Auditor.
3. What are the objectives of a management audit?
4. Discuss the concept of evidence for Management Audit

Answer:

• **Multiple Choice Questions (MCQ)**

1	2	3	4	5	6	7
(d)	(c)	(d)	(d)	(b)	(a)	(d)

• **State True or False**

1	2
T	F