

Management Audit in Different Functions

11

This Module includes

- 11.1 Corporate Objectives and Culture**
- 11.2 Corporate Services Audit**
- 11.3 Corporate Development Audit**
- 11.4 Evaluation of Personnel Development**
- 11.5 Consumer Services Audit**
- 11.6 Audit of Environmental Pollution Control**
- 11.7 Audit of Energy and Utilities-Generation and Consumption**
- 11.8 Productivity Audit / Efficiency Audit**
- 11.9 Propriety Audit**
- 11.10 Corporate Social Responsibility (CSR) Audit**
- 11.11 Social Cost-Benefit Analysis Audit**

Management Audit in Different Functions

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, as the name signifies, attempts to evaluate the performance of various management processes and functions. It is an audit to examine, review and appraise the various policies and actions of the management on the basis of certain objective standards. After studying this module, the students will be able to –

- ✦ Know the Corporate Objectives and Culture.
- ✦ Explain the Importance of Personnel Development and its impact on the growth of the Organisation
- ✦ Differentiate between Productivity Audit and Efficiency Audit
- ✦ Determine the Importance and process of Corporate Social Responsibility Audit
- ✦ Identify the ways in which the Social Cost-Benefit Analysis Audit is useful for the organisation

Corporate Objectives and Culture

11.1

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

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.

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.

When we plan our business' future, we generate a list of potential achievements. We call these the goals. The actual steps we plan to take to get to those achievements are the objectives.

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.

Objectives are Specific, Not Goals

A business objective is more specific and easier to measure than a goal. All our basic tools that under lie our planning and strategic activities are our objectives.

Objectives serve as the basis for creating policy and gauging performance.

For example, making a profit is a business objective. Reducing the workforce, expanding abroad, or minimizing expenses are also business objectives. Expenses are what the business spends. Keeping track of expenses and outgoings can be a real chore.

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:

Profit Maximization

Profit maximization means making as much profit as possible, of course ethically.

Survival

‘Survival of the fittest’, so goes the saying. Survival is a short-term business objective but the same is true for long term also.

Growth

Just like human body, the growth should be all round. Turnover, Profitability, Profit volume, Market reach, Geographical spread, higher employee satisfaction, lower attrition, gaining Customer loyalty etc. all are examples of positive growth in business area. Some believe that growth is the only route to survival.

Furthermore, the bigger a company, the more it can benefit from economies of scale.

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.

Organisation Corporate Culture

Culture is a nebulous concept and is often an undefined aspect of an organisation. Culture differs Organisation to Organisation. Organisation culture depends values nurtured by the Promoters, Management and Employees. An employer must begin with a thorough understanding of what it meant by ‘culture’ specific to their organisation. Although extensive academic literature exists relating to the topic of organisational culture, there is no generally accepted definition of culture. Instead, the literature expresses many different views as to what organisational culture is. At the deepest level, an organisation’s culture is based on values derived from basic assumptions about the following:

Nature and Human behaviour: Different behavioural pattern determine the relationship with Customer, Employees and Society as a whole. Are people inherently good or bad, mutable or immutable, proactive or reactive? These basic assumptions lead to beliefs about how employees, customers, and suppliers should act, react and interact and how they should be managed.

Legacy and departure therefrom: Some big houses in India follow the legacy, which their patriarch demonstrated. True Leaders guide and demonstrate the vital principle. Sometimes, the departures are not liked by the next generation. However, modern thoughts, contemporary ideas can only provide a biz currency at the requisite point in time.

The Organisation’s relationship to its Environment: How does the organisation define its business and its constituencies?

- ⦿ **Appropriate Emotions:** Which emotions should people be encouraged to express, and which ones should be suppressed?

- ⦿ **Effectiveness:** What metrics show whether the organisation and its components are doing well? An organisation will be effective only when the culture is supported by an appropriate business strategy and a structure that is appropriate for both the business and the constituents.

Organisational culture can manifest itself in a variety of ways, e.g including leadership behaviour, communication styles, internally distributed messages aggression in setting targets , and corporate celebrations. Given that culture comprises so many elements, it is not surprising that terms for describing specific cultures vary widely. Some commonly used terms for describing cultures include aggressive, customer-centric, focused, innovative, ethical, research-driven, technology-driven, process-oriented, hierarchical, family-friendly, and risk-taking etc.

Since culture is difficult to define, organisations may have trouble maintaining consistency in their messages about culture.

Factors That Shape an Organisation’s Culture

Organisational leaders often speak about the unusual natures of their company cultures, seeing their domains as special places to work, but organisations such as Disney and Nordstrom, which are well-known for their unique cultures, are rare.

Most company cultures are not that different from one another. Even organisations in disparate industries such as manufacturing and health care tend to share a common core of cultural values. For example, most private-sector companies want to grow and increase revenues. Most strive to be team-oriented and to demonstrate concern for others. Most are driven, rather than relaxed because they are competing for revenue and market share. Some of the cultural characteristics that distinguish most organisations include the following.

Values

At the heart of organisations, cultures are commonly shared values. None is right or wrong, but organisations need to decide which values they will emphasize. These common values include:

- ⦿ **Outcome Orientation:** Emphasizing achievements and results.
- ⦿ **People Orientation:** Insisting on fairness, tolerance, and respect for the individual.
- ⦿ **Team Orientation:** Emphasizing and rewarding collaboration.
- ⦿ **Attention to Detail:** Valuing precision and approaching situations and problems analytically.
- ⦿ **Stability:** Providing Security and following a predictable course.
- ⦿ **Innovation:** Encouraging experimentation and risk-taking.
- ⦿ **Praising failure:** To nurture risk taking nature and innovative ideas, failures also praised.
- ⦿ **Aggressiveness:** Stimulating a fiercely competitive spirit.

Degree of Hierarchy

The degree of hierarchy is the extent to which the organisation values traditional channels of authority. The three distinct levels of hierarchy are “high”-having a well-defined organisational structure and an expectation that people will work through official channels; “moderate”-having a defined structure but an acceptance that people often work outside formal channels; and “low”-having loosely defined job descriptions and accepting that people challenge authority.

An organisation with multiple levels and layers hinders prompt decision,the so-called bureaucratic attitude. A balanced approach is always commendable.

Degree of promptness and Urgency

Promptness in responding to stakeholder requirements is the determining factor for entity's success. Urge to respond at a higher speed is the required cultural change, which any organisation can brace for. The degree of urgency defines how quickly the organisation needs to drive decision-making and innovation. Quick response to dynamic market scenario, is the best way to survive.

People Orientation or Task Orientation

Human face of the Organisation keeps employee moral high, which results in better performance and higher productivity. Employee participation in management decision making process also a morale booster for employees and demonstration of a good organisational culture. Organisations usually have a dominant way of valuing people and tasks. An organisation with a strong people orientation tends to put people first when making decisions and believes that people drive the organisation's performance and productivity. An organisation with a strong task orientation tends to put tasks and processes first when making decisions and believes that efficiency and quality drive organisation performance and productivity.

Functional Orientation

Functional orientation is a pre-requisite for employee performance and skill development in the related field. Every organisation emphasizes certain functional areas. Examples of functional orientations may include organisational business and related areas. For example, an innovative organisation known for its research and development may have at its core, a functional orientation toward R&D. A hospitality sector company, may focus on various operations or services provided to Customers, which need to be reflected in employee and management behaviour.

Employees from different functions in the company may think that their functional areas are the ones that drive the organisation. Organisational leaders must understand what most employees perceive to be the company's functional orientation.

Organisational Sub-cultures

Any organisation can have a mix of sub-cultures in addition to the dominant culture. Sub-cultures exist among groups or individuals who may have their rituals and traditions that, although not shared by the rest of the organisation, can deepen and underscore the organisation's core values. Sub-cultures can also cause serious problems.

For example, regional cultures often differ from the overall culture that top leadership tries to instill. Perhaps aggressiveness that is common in one area, may not mesh with a culture emphasizing team building or an organisation with a culture built around equality, may face trouble with newly acquired entity.

Creating and Managing Organisational Culture

Organisational culture tends to emerge over time, shaped by the organisation's leadership and by actions and values perceived to have contributed to earlier successes. Company culture can be managed through the cultural awareness of organisational leaders and management. Managing a culture takes focused efforts to sustain elements of the culture that support organisational effectiveness.

How Culture Develops

An organisation's customs, traditions, rituals, customer handling and general way of doing things are the manifestation of its culture; they are what one sees when walking into the organisation. The prevalent current organisational culture is usually due to factors that have worked well for the organisation in the past.

Founders typically have a significant impact on an organisation's early culture. Over a period of time, such behavioral norms developed are consistent with the organisation's values. For example, in some organisations, resolution of conflicts is hashed out openly and noisily to create widespread consensus, whereas in other places disputes are settled hierarchically and quietly behind closed doors.

Though culture emerges naturally in most organisations through strong cultures often begin with a process called "ethics and values. Once the culture is framed, an organisation may establish a values committee that has a direct link to leadership. This group makes sure the desired culture is alive.

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.

Leaders and managers within an organisation should approach culture management by initially gaining an understanding of the common traits found in all parts of businesses. Then, they should take the following steps to manage their organisation's 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.

Typically, shared assumptions and beliefs originate with an organisation's founders and leaders. Because those beliefs proved successful (otherwise the company would not exist and the leaders would not be in their positions), often they go unchallenged; however, those assumptions and beliefs might be outdated and may hinder future success.

Corporate Services Audit

Corporate Services’ is a generic term that implies service-oriented obligations of a corporate sector entity to different interest groups such as Consumers, Employees, Shareholders, Fellow businessmen, Community, and State.

Service-oriented responsibilities of a business concern are necessarily to be different in different circumstances and situations. For example, corporate services during periods of a country’s emergency (e.g., earthquake, war, etc.) are of great significance.

To cite another example, a corporate agreement to sell goods to a friendly country within the state legislation does not violate the canons of service-oriented business responsibilities, but a similar attempt to an alien enemy is certainly an undesirable service. So, the concept of the term is difficult to be defined within certain fixed parameters.

Scope of Corporate Services Audit

The scope of corporate services audit extends to the critical examination of the various aspects of services and their extent that have been satisfactorily rendered by a corporate body, and of evaluation of the degree of awareness and responsiveness on the part of such enterprise.

The performance of management towards consumers, employees, shareholders, community, fellow businessmen, and governments is separately studied and evaluated by a management auditor while conducting such an audit.

The approach of Corporate Services Audit

The concept of ‘corporate services audit’, according to some classical sociologists, is that its appraisal system should take into account the level of contribution business enterprises makes to society and its environment towards raising the quality of life through better product quality and services rather than profit maximization.

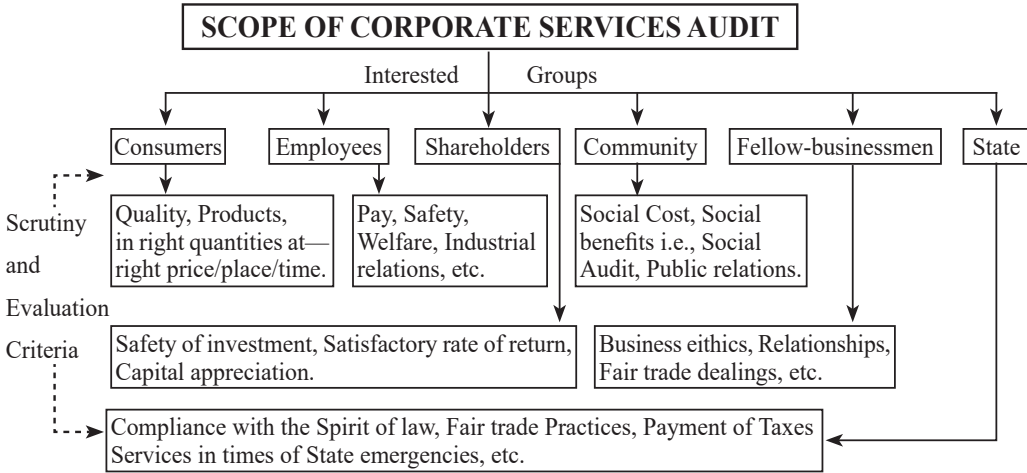


Figure 11.1: Scope of Corporate Services Audit

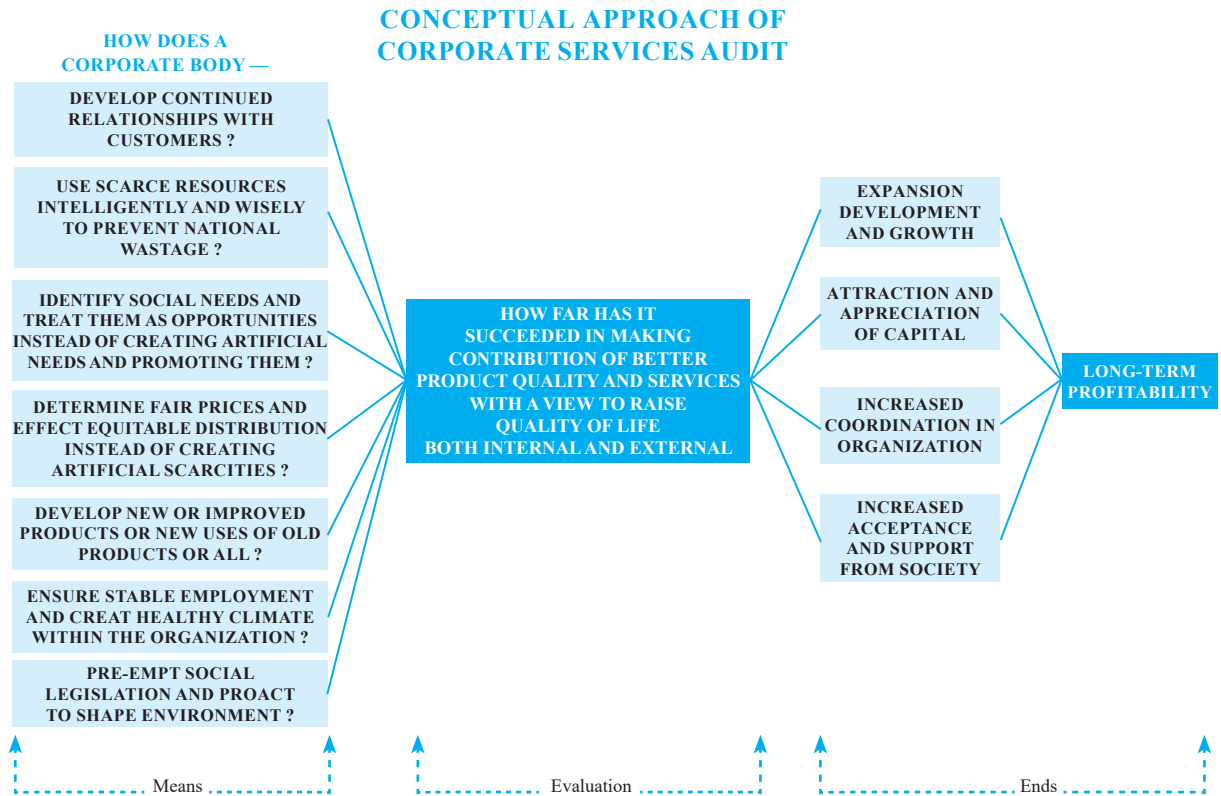


Figure 11.2: Conceptual Approach of Corporate Services Audit

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?

This audit attempts to distinguish between the ends (i.e., profits) and means (i.e., services) of business and provides a new dimension to the concept of the audit approach. Its conceptual approach can be best explained by a model, more or less along the lines of ‘social audit’.

The term 'Corporate Development' covers both potential and kinetic aspects. The structural aspects of a corporation are concerned with the build-up of the 'potential'. The 'kinetic' aspects are manifest in the organisation in action.

There are two elements of structural aspects:

- (1) Organisation as a synonym of the corporate structure itself and
- (2) Organisation concerned with planning the structures, departmentation establishing the lines of command, and so on. Thus, the corporate development audit, from the above points of discussion, covers the entire gamut.

In sum, corporate development audit "approaches the structure and process of organisation, both in its potential and its transformation into kinetic energy. The premise is that unless an enterprise is structurally well equipped it cannot perform the functions entrusted to it. Such structural equipment can be seen from different points of view such as size and magnitude of its operations, technology, employment, investment, product and product-mix, growth prospects in the existing lines and diversification, manning, pursuance of adequate and sensitive policies and problems of departmentation, a delegation of power and corresponding responsibilities to each position created in the organisation and mechanisms developed for both monitoring and applying centripetal forces to centrifugal movements, promotion and development needs of the people in the organisation, and other factors that have a direct bearing on different aspects of (a corporate) organisation understood in different ways.

Since a corporate sector is conceived of as 'a going concern' and its development is an endless process, the audit about corporate development is a continuous exercise based on continuous evaluation and monitoring of the external and internal environments of a business enterprise.

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.

Components of Corporate Development

The Components of Corporate Development Audit may be indicated by the charts (stage-wise) as follows:

Chart 1:

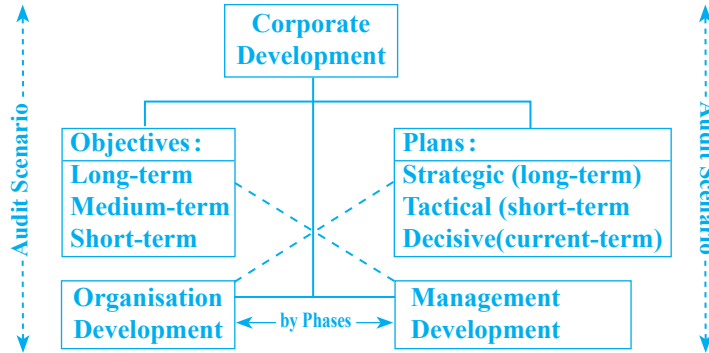


Chart 2:

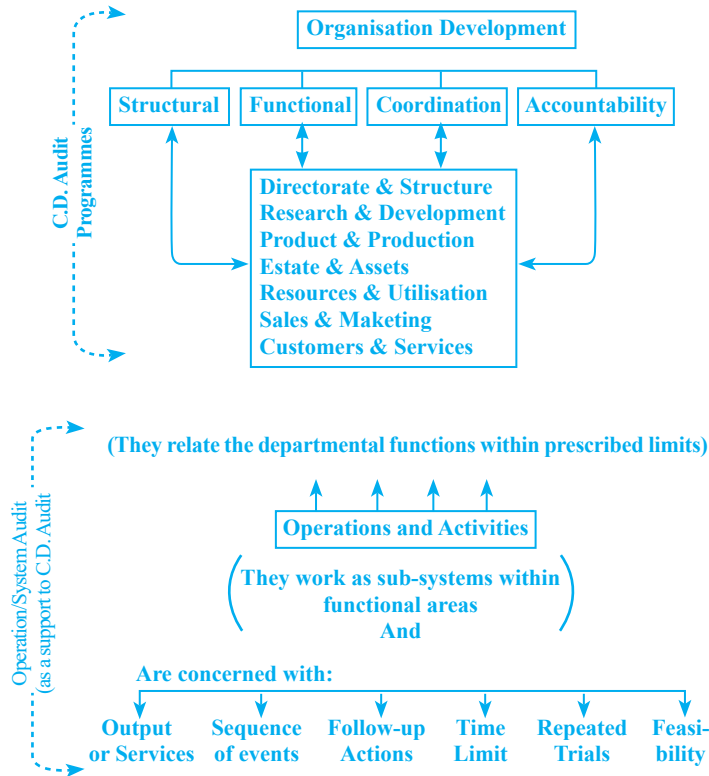


Chart 3:

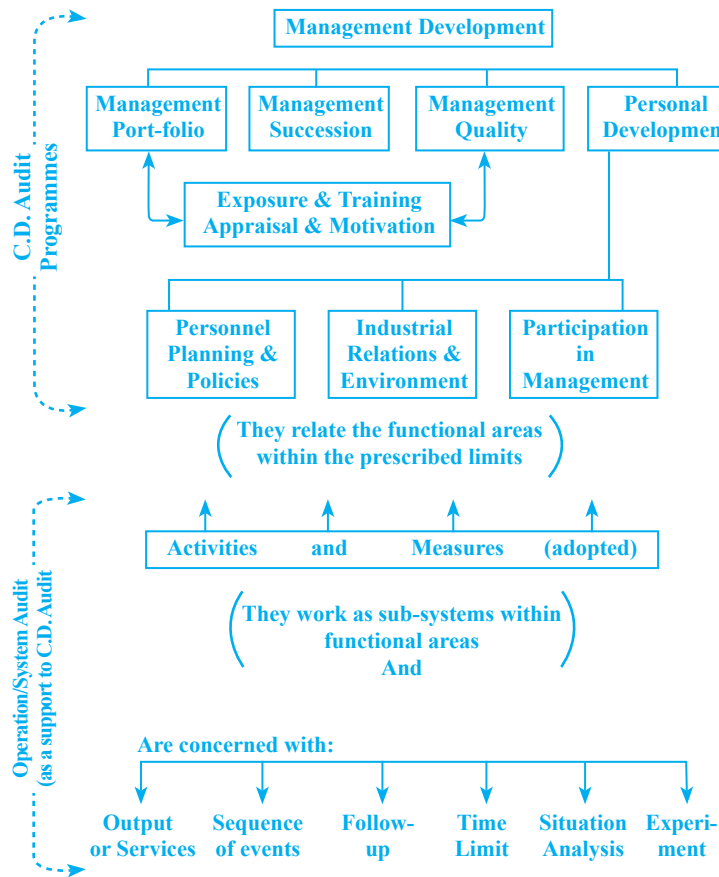


Figure 11.3: Components of Corporate Development

Scope of Corporate Development Audit

The scope of corporate development audit can be viewed from both Micro and Macro level.

The scope includes the following, among others:

1. Corporate Planning and Policy:

Planning is an exercise undertaken on a long-term basis even before the forecasts are drawn up. It requires examining the business enterprise and its whole environment in greater detail from the viewpoints of potential strengths and weaknesses. The possible audit areas are planning and policy issues on the product, production, finance, personnel, managerial-particularly ‘succession’, etc.

2. Corporate Forecasting:

Forecasts are usually medium-term and commonly short-term. The thrust of the audit is to ascertain by a review process:

- (a) The degree of co-relationship that exists between corporate plans and total industry plans.

- (b) The competitive market share position within that industry.
- (c) The factors for forecasts, such as supply and demand, industry trends, enterprise's competitive performance, general economic and political trends, financial standing about the competitors, etc.
- (d) How well the corporate forecasts match with national economic development plans.

3. Corporate Strategy:

For a long-term strategy, the auditor attempts to assess whether a corporate sector will survive as a viable entity. For short-term strategies, the auditor examines and evaluates how a firm analyses its ongoing strategy-the strategy of operations on existing lines.

Four broad dimensions are usually covered in any strategic audit, viz.:

- (a) Product lines and basic competitive position.
- (b) R & D and operating departments.
- (c) Financial analysis and financial management, and
- (d) Top management for each dimension, past achievements, present attainments, and future potential for each area are considered.

4. Corporate Externalities:

Certain elements external to a corporate firm have impacts on its policies and decisions. The audit, in this respect, seeks to evaluate the factors, such as economic environment, industry structure and corporate position, risk of technological obsolescence, socio-political-cultural environment, etc., which affect the growth and development of an enterprise.

5. Corporate Internalities:

The areas covered are organisation development, management development, personnel development, and their detailed sub-systems- which provide internal strengths or weaknesses to a corporation.

Characteristics of Corporate Development

A human body passes through different stages in life cycle i.e today's baby is tomorrow's youth and future's old man. Development of body, mind and soul is the prime symptom of living being. A body corporate is run by many minds and souls and volume growth, revenue growth, increase in employment opportunity etc. (success symptoms) are the factors attributable to development. Think of a reverse situation - sluggish sales, shrinking revenue, great resignation etc. are the symptoms of degrowth.

In a nutshell, **Corporate development** refers to the strategic decisions of an entity that strives to achieve organisational success and excellence.

The following characteristics deserve mention:

Understanding of sustainable corporate development and undertaking an audit in the area depends on the following:

1. Multi -directional and multi- disciplinary Team with appropriate exposure and experience can only be able to handle such a review.
2. Planning and decision-making process and validation of decisions are the prime mover of corporate development.

3. Achievement, failures, strength, weakness, inefficiencies, threats etc. are the pointers for review.
4. The discussion and communication need to be routed through 'Point of Contact', an empowered management representative.

The scenario, in general, can be seen from two broad aspects:

- (a) External environments-in relation to economic, political, technological, and socio-cultural-national as well as international.
- (b) Internal environments-in relation to internal management of resources like men, materials, machinery, money, etc., where a corporate body aims at revamping their operations concerning their own 'structural build-ups' to meet the challenges and threats posed by one or more of external environment forces.

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.

Corporate Board **“as a repository of the highest interests in the company, and a willing and able steering function through the troubled waters of the business oceans.”**

The involvement of the Board Of Directors (BOD) in many corporate entities has so far been only legalistic, at best marginal. However, entity culture and 'tone at and from the Top' determines the BOD roles, interest and involvement for the Organisation.

Evaluation of Personnel Development

11.4

The best, most loyal employees are often people who started near the bottom of the organisational chart and worked their way up the ladder with the help, support, and encouragement of their manager / employer. That help, support, and encouragement are all part of employee development. In a well-managed company, there are systems in place to provide appropriate development opportunities and resources. In addition, managers are trained to support their team members with coaching, meaningful feedback, and in some cases-mentorship.

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**)

Formal Employee Development Strategies

- A. Imparting general and specific training. Training on development of “Soft” skills (interpersonal communication, public speaking, negotiation, leadership skills, etc.) to “hard” technical skills (coding, accounting, systems administration, etc.) will improve ability of the people aspiring for self-growth.
- B. Psychometric studies to understand mentality to function in leadership roles, often also resorted to assess.

Informal Employee Development Strategies

In addition to formal employee development, many corporations offer informal development options. These often take the form of on-the-job training, shadowing, mentorship, or similar experiences that allow newer employees to learn from seniors. In addition, managers may choose to coach promising employees to prepare them for more challenging roles.

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.

Management by Objectives is a personalized evaluation technique that measures the individual employee's achievement by comparing the employee to objectives agreed upon the prior year. For example, the employee and manager may have agreed on a particular sales objective; at the end of the year, the employee's actual sales can be compared positively or negatively to the individualized objective.

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).

Good customer service is about understanding the needs of different customers, keeping promises and delivering consistently high standards.

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.

Approaching an audit of customer service

- ⦿ As with any engagement, the internal audit team working on the audit should spend time understanding the process and accordingly fix scope of the review.
- ⦿ Since large of market data and responses are collated good amount of analytics to be carried out.

Challenges for internal audit

There are some potential challenges internal audits may need to manage during an audit of customer services.

Internal audit's approach can often be seen as very black and white, which can be a direct opposite to the customer service approach; this can lead to unnecessary friction with audit clients and misunderstandings by internal audit.

At times there can be a conflict between the response the business takes to resolve a complaint and the approach internal audit thinks should be taken.

Other than accessing customer feedback and complaints, internal audit will most probably be unable to engage directly (secretly of course, if they intend to do) with customers as part of the audit to gain input.

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.

Audit of Environmental Pollution Control

11.6

Environmental audit is an independent evaluation of policy and principles, systems, procedures, practices in place and performance, and other elements of a business relating to the environment.

Some important definitions of the environmental audit are as follows:

- (a) According to US Environmental Protection Agency (EPA), “Environmental audit is a systematic, documented, periodic and objective review by a regulated entity of facility, operations, and practices related to meeting environmental requirements.”
- (b) The Confederation of British Industry (1990) defines environmental audit as, “the systematic examination of the interaction between any business operations and its surroundings. This includes all emissions to air, land, and water; legal constraints; the effects on the neighbouring community, landscape, and ecology; and the public’s perception of the operating company in the local area. Environmental audit does not stop at compliance with legislation. Nor is it a ‘green-washing’ public relations exercise. Rather it is a total strategic approach to the organisation’s activities.”
- (c) The International Chambers of Commerce (ICC) in its publication Environmental Auditing (1989) defines environmental auditing as “a management tool comprising a systematic, documented, periodic and objective evaluation of how well environmental organisation, management, and equipment are performing, to help safeguard the environment by:
 - ⦿ Facilitating management control of environmental practices; and
 - ⦿ Assessing compliance with company policies which would include meeting regulatory requirements.”

The definition given by ICC is unanimously accepted. Many leading companies follow the same basic philosophy and approach as given by this definition. The European Commission in its regulation on Environmental Auditing and Eco-management and Audit Scheme (EMAS) also adopts the ICC definition of environmental audit. The European Commission’s Eco-management and Audit Scheme (EMAS) defines an environmental audit as “a management tool comprising a systematic, documented, periodic and objective evaluation of the performance of the organisation, management system and process designed to protect the environment with the aim of:

- (i) Facilitating management control of practices that may have an impact on the environment.
- (ii) Assessing compliance with company environmental policies.”

Hence, an environmental audit may be defined as a means of assessing management role in exhaustive documentation and entity’s role in managing & controlling environmental impacts and compliances with environmental policies, standards, environmental laws and regulations.

Features of Environmental Audit

The following are the features of environmental audit:

- (i) **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.

This also includes evaluation of the adverse impact on the environment caused by economic activities (e.g mining, Coal Stock in the open, use of coal fired chimneys etc.) carried out by the organisation.
- (ii) **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.
- (iii) **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.
- (iv) **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.
- (v) **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.
- (vi) **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).
- (vii) **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

Prime objective of Environment Audit is to protect 'mother nature' and minimize the negative impact on environment for undertaking industrial activities. Regulatory requirements are mostly in place, however, mere compliance may not be fruitful in the longer term. Kyoto protocol on climate change and subsequent global conventions, dictates more to be done. At the national level, the main objective of the environmental audit is to see that the natural resources are properly utilized and proper steps have been undertaken to control or to prevent adverse effects of

production, development, and other activities on the environment. The aim is to ensure that the natural resources are utilized for industrial development and national progress and at the same time, to see that proper steps have been undertaken for maintaining the health, welfare of the community, and also for dispersal of harmful wastes and social risks.

At the corporate level, there are some environmental responsibilities facing companies like meeting regulatory requirements, cleaning up pollution that already exists, properly disposing of the hazardous material, disclosing to the investors the amounts and nature of the preventive measures taken by the management, operating in a way that environmental damage does not occur, and promoting a company-wide 'protect environment' attitude. To check the fulfillment of these environmental responsibilities and to ensure compliance against stipulations by the organisation, environmental audits are conducted. The environmental audit aims at evaluating and reporting key environmental performance measures like pollution control measures, energy conservation or waste management techniques, conservation of scarce natural resources, etc. The main objective of an environmental audit at the organisational level is to ensure the conservation of scarce natural resources and promote the use of clean technologies in industrial production and minimize the generation of pollution and waste.

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

By constructive environmental auditing, the following benefits can be derived:

- (i) **Improves efficiency of Environmental Management System (EMS):** Environmental auditing encourages an organisation to examine its operations constructively towards an effective EMS. It helps in assessing the performance of the EMS, identify deficiencies in the system, and provides the basis for environmental improvement plans. Based on the findings and recommendations of the environmental audit, management can take corrective actions.
- (ii) **Compliance with environmental laws and standards:** Status of adherence w.r.t environment rules and regulations can be monitored for upgrading governance process. Non-compliance may also lead to 'reputational risk'. The most important benefit of an environmental audit is that it ensures cost-effective compliance with environmental laws and regulations, industry guidelines and standards, and the company's environmental policies.
- (iii) **Risk mitigation:** There is a growing belief that environmental issues represent a source of risk in terms of unforeseen or foreseen reputational damage or similar other risks. It is the concern regarding environmental

risks which has led to the development of the field of environmental auditing. An environmental audit can act as an effective risk management tool for assessing compliance with environmental legislation, thereby, assisting the company in avoiding the related risks.

- (iv) **Meeting stakeholders' expectations:** Multiple stakeholders having varied interest and 'wish list'. Stakeholders have heightened expectations for a company's environmental performance. They are concerned about environmental responsibilities and protection of their interest. Conducting environmental audits will help in reassuring various stakeholders, enhancement of reputation of the company as a good corporate citizen; which indicates better stakeholder management.
- (v) **Cost and environmental benefits, reduction in operational inefficiencies:** Environmental auditing can highlight areas of improvement by recommending cost effective solutions for environmental issues e.g Water Treatment Plant, Solid Waste Handling Equipment, usage of AFR (Alternate Fuel) etc. By identifying operational inefficiencies, a company may be able to reduce its cost and/ or improve its environmental performance.
- (vi) **Linking operating processes and environmental impacts:** Aligning operating processes with environment related compliances and desired environmental improvement scope; not only enhances awareness among rank and file, also leads to better sustainability. By pinpointing both strengths and weaknesses in the environmental management and other operating systems relating to the environment regularly, an environmental audit encourages continual improvement.
- (vii) **Compliance with certification requirements:** Conducting an environmental audit can be an important step towards gaining companywide certifications like ISO 14001 or cradle to grave or product-specific certification from organisations like Energy Star, LEED, the Forest Stewardship Council, Chlorine Free Products Association, etc.
- (viii) **Increases employees' awareness of corporate environmental policy and responsibility:** Environmental audit demonstrates company's commitment to environmental protection. This in turn increases overall awareness of workers w.r.t potential health hazards, risks, and other needs.
- (ix) **Assists management in decision-making:** Environment Audit Reports can be perused by Management as tool for taking decisions on Investment, managing stakeholder expectations etc. Environmental audit provides an environmental database to assist management decisions, competitive advantage by raising corporate profile concerning environmental issues, obtaining various accreditation e.g ISO 14001.

Although different types of environmental audits examine different issues, all environmental audits should have four basic stages of activities: pre-audit, on-site, post-audit, and follow-up or review activities.

Stage 1: Pre-audit or Planning Stage:

A battle well planned is half won, same is applicable for environment audit also. A prior exposure is always beneficial for understanding the process and collection of relevant datum/ information. Internal Auditors of the entity and / or outsourced resources/firm having on different footings in this regard. Audit planning is vital to the success of the audit undertaken. The internal auditor must spend adequate time in planning, as this will result in better identification of important areas, potential problems, and proper assignment of work. During this stage of the audit, generally following steps are taken:

- (i) **Collect background information about the entity:** Collection of information about environmental policy document, and goals of the organisation w.r.t environment, relevant environmental laws, regulations, and standards governing the entity, persons responsible for carrying out environmental duties, and relevant compliances environmental budget, significant environmental matters like material costs, risk areas, etc.

- (ii) **Define objectives of audit:** Like any other audit assignment, goal setting is an important exercise for environment audit as well.
- (iii) **Define scope:** Outcome depends of defining scope of the assignment e.g. relevant laws, operational processes, location and period of coverage etc. What parts of a facility (operations) will be audited?
- (iv) **Choose audit criteria:** Against what will the facility be audited (e.g., for regulatory compliance audits, against what regulations or standards will the facility be audited?)
- (v) **Select the audit team members:** The audit team leader selects team members based on appropriate knowledge, expertise and experience. The team can consist of external consultants, internal audit staff, or a combination of both.
- (vi) **Develop audit plan and protocols:** Protocols are written guides for the auditors that outline the activities to be undertaken in conducting review of a given area under environmental audit. They often contain detailed information about audit criteria, such as applicable regulations. Computers are often used in creating audit protocols and in locating and sharing information between team members during the audit (e.g., regulatory databases are often utilized in creating audit protocols).
- (vii) **Inform the facility:** Arrangements for on-site visits and activities to be conducted with or without hampering the normal work schedule of auditee department/s need to be intimated prior to initiate the review.
- (viii) **Desktop review.**

Stage 2: On-site or Field Audit:

The following are steps involved in on-site or field audit:

- (i) **Application of desktop review outcome and/or query listing:** During introductory phase, the formal introduction stage, the team to appraise objectives of review and share their initial understanding from desktop review to initiate activities of facility walk through and assess results on spot. Communicate the objectives and methods of the audit to key facility personnel and schedule necessary meetings and interviews.
- (ii) **Facility tour:** Identify areas of concern for more detailed inspection, get a feel for the site, and modify the audit schedule accordingly.
- (iii) **Site/ facility inspection and evidence collection:** It is always expected that site representative team with hands on exposure in relevant topics/area to accompany the visiting team. The areas of concern based on desktop review and site visit exposure to be enquired for appropriate feedback. Established protocols should guide the inspection. The team may also wish to inspect areas of concern or interest that have been identified in the facility tour.

Relevant document /evidence also need to be collected from site to crystalize preliminary observations and Points Of Discussion (POD) at site/with site in-charge.

Inspect the entire facility (comprehensive inspection), therefore, sampling techniques may be an important part of determining the parts of a site to be inspected.

- (iv) **Evidence:** Collect sufficient, appropriate, and reliable audit evidence to check the activities, performance impacts, and reports.
- (v) **Interaction with job holders:** Interaction with responsibility holders will smoother the process of evidence collection and quick resolution of queries for more clarity. However, the interactions to be recorded to avoid any future mis-communication on the subject.

- (vi) **Sharing of findings and finalization of site visit report:** Findings are the result of the evaluation of evidence collected, visual inspection experience against audit scope and check-list. Exceptions, non-compliance, non-maintenance of record, difference between datum and records/evidence, commitments from site personnel etc. to be captured and presented to take it forward at appropriate level/s. It is important at this stage to review where the facility does not meet the audit criteria.
- (vii) **Closing/ exit conference:** This is a chance for auditees to identify misunderstandings and to be introduced to the findings of the audit team.

Stage 3: Post-Audit:

Steps involved in post-audit are as follows:

- (i) Post sharing of site visit outcome at the Corporate /Entity level with views of site incorporated, entity level feedback also considered for final version of the report. The final version acknowledged by Management taken into repository and presented to forums like Audit Committee, Risk Management Committee, environment monitoring organisations etc.

Final evaluation of findings: Findings must be backed by evidence. It is important to note areas of deficiency that were present during the previous audit, but are not yet corrected. Often findings are labelled as major or minor depending on the level and types of risks posed and the speed with which the audit team feels they should be addressed.

Stage 4: Follow up or Review Stage:

Action Plan emanated from the final report with responsibility owner and target date for complete implementation, are tracked on regular basis to measure progress and completion stage. Once completed, the action plan can be considered for a limited review to ensure flowing of desired impact. This also called the corrective action follow-up phase. While not technically part of the audit, the audit manager or team leader may be involved in developing a corrective action plan for addressing audit findings with the facility and reporting to senior management as to the progress of this plan.

Contents of Report:

A standard Environmental Audit report should include the following:

- (i) Executive Summary.
- (ii) Introduction/background to audit including specification of the entity/ process or activity/ system/ site in respect of which the environmental audit was conducted, and audit period.
- (iii) Object and scope of environmental audit.
- (iv) Audit observations
 - Status of conformity with internal environmental policies.
 - ⊙ Status of good environmental practices implementation.
 - ⊙ Measurement and recognition of all significant environmental costs, benefits, assets, and liabilities and identification of significant environmental risks and contingencies.

- ⦿ Level of staff awareness of operational issues relating to environmental performance; and
- ⦿ Overall status of environmental performance
- (v) Recommendations
- (vi) Actions agreed upon with target date and ownership
- (vii) Audit criteria.
- (viii) Evidence used.

The report must distinguish between isolated incidents and chronic problems.

Recommendations: It includes possible impacts of negative findings and suggested corrective action.

Tools and Techniques Used in Environmental Auditing:

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

- ⦿ **Checklists:** Checklists are very useful tools used to ensure that different tasks or topics are included in the assignment w.r.t scope. during the audit. They are very useful in specialized cases where a complex range of issues and questions need to be asked to ensure that nothing is missed.
- ⦿ **Questionnaires:** Audit protocols or audit questionnaires provide the basis and structuring for most audits. They are based upon checklist questionnaires but are more complex and include more detail and sometimes logistical information and data relating to the audit and the site being audited.
- ⦿ **Questioning:** Questioning is one of the most crucial aspects of auditing yet from a training and awareness point of view, it is often given the least attention. The purpose is information gathering in nature and not an interrogation. The questioner must, therefore, be sensitive to the perspective of the auditee and avoid making the questions accusatory, judgmental or aggressive.
- ⦿ **Observation:** Observation is a vital component of an auditing exercise. Observation is a disciplined activity that must be carried out in a very deliberate and controlled manner. The idea of looking at something twice is important because it is part of the process that checks that the observation is accurately noted, analysed, and recorded.
- ⦿ **Photographs:** These are a very valuable aid in the audit process. However, to use them, several important practical points must be borne in mind, the most important one is formal approval before using this technique.
- ⦿ **Research:** It is useful to try and undertake some background research and investigation into the site or company to be audited. Familiarization with the operations, products, raw materials reports, press material, newspaper articles, etc. all provides useful background information to supplement questioning sessions and help understand the operational processes.

Audit of Energy and Utilities – Generation and Consumption

11.7

A utility audit is an audit of utility expenses. Generally, these are electric, natural gas, and water/sewer expenses. Utility Auditors are looking for billing errors/saving opportunities and consumption monitoring, equipment designing, process improvement etc. with an objective of cost reduction and better process control.

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.

How Utility Cost Reduction Works:

Greatest concern for utility spent is high power tariff and consumption pattern. The cost reduction suggestion depends on the following:

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”.

Energy auditing is defined as an activity that serves the purpose of

1. Assessing usage pattern of energy of a factory or energy consuming equipment and
2. Identifying energy saving opportunities

It is the 1st step of any energy management programme.

Phases for Energy Auditing

1. Analysis of historical energy consumption and cost data
2. Preliminary Energy Audit with the objects to identify :

Major Energy Consumption equipment and processes

Obvious inefficiencies and energy wastes

Priority areas for further detailed investigation

Objective of Analysing Historical Energy Data

1. Identify trends in consumption pattern and costs
2. Evaluate specific energy consumption

Specific Energy Consumption

From the total energy consumption and production rate, one can derive the specific energy consumption i.e. energy consumed per unit of production.

Specific energy consumption analysis allows to :

1. Monitor the overall efficiency of the production process
2. Prepare an accurate energy target for the future in correlation with the planned production rate
3. Prepare a standard with which the results of the energy efficiency measures can be measured
4. Prepare better energy cost allocations in the future

Normally any increase in specific energy consumption value would be considered as loss in efficiency :

This could be due to various reasons such as :

- Aging of the equipment
- Low Production Rate
- Frequent Break Down due to poor maintenance

In some cases, when the production rate is beyond the normal capacity of the plant, this may also lead to higher specific consumption values.

Where a factory has different types of products, care should be taken during the analysis because any change in the shares of the different products may lead to considerable variations in the specific energy consumption.

Illustrative Steps during Energy Audit

1. Data Requirements
2. Data Analysis
3. Implementation of Energy Efficiency Measures

This may involve classification of Energy Efficiency Measures

(a) Short Term Measures

Immediate Psychological Actions Affecting the Attitude of the Employees

Routine Maintenance for Energy Conservation

(b) Medium Term Measures

Small Investment on the Fluid Network

Large Investments on the Engineering Aspects

(c) Long Term Measures

Large Investments on the Interconnection of Processes

Very Large Investments Involving Changes in the Functioning Principle of the Process

Key functions of the Energy Auditor

Following are some of the key functions of the Energy Auditor :

1. Quantifications of energy costs and quantities
2. To correlate trends of production or activity to energy cost
3. To identify major energy consuming equipment and process
4. To identify obvious inefficiencies and energy wastes
5. To identify areas for further detailed investigation

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.

In general, Energy Audit is the translation of conservation ideas into realities, by lending technically feasible solutions with economic and other organisational considerations within a specified time frame.

The primary objective of Energy Audit is to determine ways to reduce energy consumption per unit of product output or to lower operating costs. Energy Audit provides a “bench-mark” (Reference point) for managing energy in the organisation and also provides the basis for planning more effective use of energy throughout the organisation.

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.

- ⦿ Preliminary Audit.
- ⦿ 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.

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

A structured methodology to carry out an energy audit is necessary for efficient working. An initial study of the site should always be carried out, as the planning of the procedures necessary for an audit is most important.

Initial Site Visit and Preparation required for Detailed Auditing.

Familiarize with the site, and assess the procedures necessary to carry out the energy audit. An initial site visit may take one day and allows the Energy Auditor/Engineer to meet the personnel concerned.

During the initial site visit the Energy Auditor/Engineer should carry out the following actions:

- ⦿ Discuss with the site's senior management the aims of the energy audit.
- ⦿ Discuss economic guidelines associated with the recommendations of the audit.
- ⦿ Analyze the major energy consumption data with the relevant personnel.
- ⦿ Obtain site drawings where available – building layout, steam distribution, compressed air distribution, electricity distribution, etc.
- ⦿ Tour the site accompanied by engineering/production.

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

Whenever possible, checks of plant operations are carried out over extended periods, at nights and weekends as well as during normal daytime working hours, to understand requirement, if any.

The audit report will include a description of energy inputs and product outputs by the major department or by major processing function and will evaluate the efficiency of each step of the manufacturing process. Means of improving these efficiencies will be listed, and at least a preliminary assessment of the cost of the improvements will be made to indicate the expected payback on any capital investment needed. The audit report should conclude with specific recommendations for detailed engineering studies and feasibility analyses, which must then be performed to justify the implementation of those conservation measures that require investments.

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.

Existing baseline information and reports are useful to get consumption patterns, production cost, and productivity

levels in terms of product per raw material inputs. 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.

Hence, Energy Audit is an effective tool in defining and pursuing comprehensive energy management programmes. It has a positive approach aiming at continuous reduction in energy utilization. An energy audit provides an answer to the question – what to do, where to start, when to start, at what cost, and for what benefits?

Energy Audit helps in energy cost optimization, pollution control, safety aspects and suggests the methods to improve the operating and maintenance practices of the system. It is instrumental in coping with the situation of variation in energy cost availability, reliability of energy supply, the decision on appropriate energy mix, the decision on using improved energy conservation equipment, instrumentations, and technology.

Productivity Audit / Efficiency Audit

11.8

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.

Thus, each of these factors or elements comes within the arena of productivity audit, and for overall productivity audit, factorial productivities' audit is necessary.

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.

The concept of productivity is rooted in the production function but that does not mean that the audit of production function is productivity audit. Where Standards, the yardsticks for measurement and comparison, and the actual factor performances are (in physical or monetary terms) subjected to closer scrutiny and evaluation; may be understood as the core of productivity audit.

Productivity / efficiency should be expressed in terms of major input:

1. Say if Raw Material is a major Cost Components then Productivity should be express as
Output per Unit of Raw Material or Raw Material Per Unit of Output
2. If Electricity is a major Cost Component then, Productivity should be expressed as
Output per Unit of Electricity or Electricity Per Unit of Output
3. For Direct Labour Productivity
The definition of the term must be same for for all the units taken for consideration
So Direct Labour can be expressed :
 - In terms of no of direct labour
 - In terms of man hours
 - In terms of money i.e. value of wages
4. For Plant & Machinery
Capacity Utilisation as % of Installed Capacity
5. For Capital Employed
Profit as % of Capital Employed

Problems of Productivity Audit

The overall productivity, being the result of a contribution of different elements or factors, (such as—labour, raw materials, components, plant, machinery, organisation, management, etc.) has to be evaluated by paying due importance and attention to the results obtained out of these individual factorial productivities.

Thus, productivity audit has to take care of and pay due consideration to these factorial inputs for measurement and evaluation.

Broadly speaking, the following limitations or problems are associated with productivity measurement:

1. Factorial inputs have got different units or yardsticks of measurement.
2. 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.
3. 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 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, and to advise the executives either in preventing or reducing losses and increasing productivity or improving performance by timely reporting’. 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

The auditors, while conducting the propriety audit, should, in any case, ensure observance of the following.

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:
 - (i) The amount of expenditure involved is insignificant, 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.
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.

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.

In the case of limited companies, the shareholders are generally scattered all over the country. They do not have a real say or control over the conduct of the affairs of the company. The company is in the hands of the Board of Directors. The shareholders need assurance that their funds are properly managed.

Corporate Social Responsibility (CSR) Audit

11.10

Section 135 of the Companies Act 2013 read with Schedule VII thereto alongwith the Companies (Corporate Social Responsibility Policy) Rules, 2014 contain the framework for CSR which becomes applicable to a company (listed as well as unlisted) based on thresholds of Profits, Turnover and Net Worth.

Meaning of Corporate Social Responsibility

As stated in rule 2(1)(c) of the companies (corporate social responsibility) rules, 2014, ‘ corporate social responsibility (CSR) means and includes but is not limited to :

1. Projects or program relating to activities specified in Schedule VII to the Act, or
2. Projects or programme relating to activities undertaken by the board in pursuance of recommendations of the CSR Committee of the Board as per declared CSR Policy of the company subject to the condition that such policy will cover subjects enumerated in Schedule VII of the Act.

Corporate Social Responsibility (CSR) can be understood as the initiative of a company to assess and take responsibility for the environment and impact on social welfare. Corporate social responsibility is a form of corporate self-regulation integrated into a business model. 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.

The goal of CSR is to embrace responsibility for the company’s activities and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders, and all other members of the public sphere who may also be considered as stakeholders.

Thus, despite many definitions and different names, at the core they all point towards the same fundamental principle, i.e., a company is responsible for providing more benefits than just profits for shareholders. It has a role to play in developing sound corporate governance, fostering human rights, respecting cultural differences, and promoting fair trade.

Corporate Social Responsibility offers manifold benefits both internally and externally to the companies. Externally, it creates a positive image amongst the people for the company and earns special respect amongst its peers. Internally, it cultivates a sense of loyalty and trust amongst the employees in the organisational ethics.

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

1. Employees, to provide confidence in systems, establish progress against targets and improve confidence;
2. Specialists, including analysts, particularly rating agencies, government officials, and NGOs;
3. Business partners, to strengthen the supply chain; and
4. Communities, to establish credibility with neighbours 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.

ISAE 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the International Audit and Assurance Standards Board of IFAC addresses several broad principles, many of which are relevant to assurance on CSR reporting. ISAE 3000 addresses several important issues that are of general relevance to the assurance of non-financial information, e.g., planning and performing the engagement, using the work of an expert, obtaining evidence, and preparing the assurance report based on the concept of reasonable assurance. ISAE 3000 is used by many accountants as a basis for assurance on CSR/ sustainability reports.

The AA1000 Assurance Standard is a principle-based standard that provides an approach specifically aimed at full sustainability assurance. It provides a platform to align the non-financial aspects of sustainability with financial reporting and assurance. It provides a means for assurance providers to go beyond mere verification of data, to evaluate the way reporting organisations manage sustainability, and to reflect that management and resulting performance in its assurance statement.

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.

Applicability / Class of Companies covered of CSR Provisions

Every company meeting any one or more of the following conditions during any immediately financial year shall constitute a committee of its Board called Corporate Social Responsibility Committee:

1. Net Worth of ₹ 500 crore or more or
2. Turnover of ₹ 1000 crore or more or
3. Net profit of ₹ 5 crore or more

Constitution of CSR Committee

The Committee shall consist of 3 or more directors, out of which at least 1 director shall be an independent director.

Proviso to Sub-section (1) of Section 135 and Rule 5 provides that an unlisted company or a private company covered under sub-section of section 135 which is not required to appoint an independent director pursuant to sub-section (4) of section 149 of the Act, shall have its CSR Committee without such director

A private company having only 2 directors on its Board shall constitute its CSR Committee with 2 such directors

With respect to a foreign company covered under these rules, the CSR Committee shall comprise of at least 2 persons of which

- (1) 1 person shall be as specified under clause (d) of sub-section (1) of section 380 of the Act and
- (2) another person shall be nominated by the foreign company.

Functions of CSR Committee

CSR Committee shall

1. Formulate / recommend to Board, a CSR Policy indicating CSR Activities to be undertaken by the Company as specified in Schedule VII.
2. Recommend amount of expenditure to be incurred on CSR Activities
3. Monitor the CSR Policy

Functions of the Board

The Board shall

1. Approve the CSR policy and disclose contents in Board's Report and place on the company's website
2. Ensure that CSR Activities are undertaken
3. Ensure the CSR amount – i.e, at least 2 % of average net profits made during the 3 immediately preceding financial years is spent.

If it fails, the Board shall in its report specify the reasons for not spending the amount.

For spending the CSR amount, the company shall give preference to local areas and areas around it where it operates.

Average net profit shall be calculated u/s 198 (i.e. PROFIT BEFORE TAXATION)

SCHEDULE VII OF THE ACT

It prescribes CSR Activities relating to

1. Eradicating hunger, poverty, and malnutrition
2. Promoting education
3. Promoting gender equality, empowering women
4. Ensuring environmental sustainability
5. Protection of natural heritage, art and culture
6. Measures for the benefit of armed forces

7. Training to promot rural sports
8. Contrubution to PM CARES Fund
9. Contribution to incubators or reseach and delepment projects
10. Rural development projects
11. Slum area development
12. Disaster management

THE COMPANIES (CORPORATE SOCIAL RESPONSIBILITY POLICY) RULES, 2014

The Central Government has notified the Companies (Corporate Social Responsibility Policy) Rules,2014 containing

1. 9 rules
2. Format for Annual Report on CSR Activities

ROUTES THROUGH WHICH COMPANY CAN IMPLEMENT CSR ACTIVITIES

The company can implement its CSR activities through the following methods :

1. Company can directly spend CSR amount on activities as specified under schedule VII of Companies act,2013
2. Through its own non-profit foundation set-up so asto facilitate this initiative.
3. Through company under section 8, registered trust, society established by Centre, State Government or other entity established under an act of parliament or a state legislature
4. Through non registered organisations, trust, society provided that entity would need to have an established track record of 3 years undertaking similar activities
5. Collaborating or pooling their resources with other companies

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.
- (ii) Financial implications and other risks and opportunities for the organisation's activities due to climate change.
- (iii) Significant financial assistance received.

Social Cost-Benefit Analysis Audit

11.11

Social cost-benefit analysis has been defined in many ways.

“As a methodical and rational process of identifying, evaluating and assessing the benefits (outputs) and costs (inputs) associated with alternative activities which will effectively accomplish economic targets and social goals.”

Social cost-benefit analysis is a relatively new concept and as such, there is a divergence of opinion on various assumptions. It is a kind of economic measurement of costs and benefits of the private sectors' social responsibility performance designed in addition to the traditional financial and cost accounting.

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.

But it ignores the socio-economic aspect i.e., whether the project is socially desirable and worthwhile in the perspective of the national economy. The evaluation process does not consider the social costs-costs of external diseconomies (say, shifting of labour from one to another sector).

Examples:

The employment of one labourer by a commercial enterprise deprives society of the benefits it was receiving earlier from him engaged in other sectors of the economy (say, agriculture). Thus, the cost to the society (i.e., social costs) can be best defined by the benefits deprived through the use of any facility by an industrial sector.

Benefits can be defined by the goods and services contributed in real terms by such a sector. The real costs of scarce and surplus resources used in a project are opportunity cost and shadow price. So, the net benefit to society is the excess of benefits over costs (sum of input costs and social costs).

Purposes of SCB Analysis:

These are:-

- (a) To determine and measure the expected future economic and social benefits that may be derived from an intended project or activity.
- (b) To determine and measure the flow of future economic and social costs that would be incurred to accomplish the benefits.

- (c) To ascertain the net benefits as a result of the above assessment.
- (d) To decide as to which of the projects or activities will yield the maximum benefits about set economic standards and defined social goals for the national economy.

Basic Requirements (essentials) of SCB Analysis: Several elements are essential in undertaking an SCB Analysis.

These are as follows:

1. Identify and define the objectives of the project or intended activity.
2. Identify and measure the future benefits accruable -direct and indirect.
3. Identify and measure the relevant costs-direct and indirect (and imputed).
4. Ascertain the present value of net benefits including the choice of a discounting factor.

SCB Analysis Techniques:

About the analysis of projects for social profitability via SCB Analysis, the following techniques are available:

- (i) UNIDO Methodology.
- (ii) Little and Mirrlees approach.
- (iii) Indian Planning Commission methodology.

The approaches advocated by the above are the same in the sense that they consider distortions in values of foreign exchange, savings, and unskilled labour and carry out corrections in a similar way.

UNIDO method uses the equivalent consumption at the critical consumption level. By an application of the DCF technique, the social IRR (internal rate of return) can be calculated as the yardstick for measurement.

L&M method uses the uncommitted social income in free foreign exchange at the hands of the Government. This can be improved by the DCF technique.

Indian Planning Commission's Method uses the uncommitted social income at the hands of the Government but revalued at the shadow exchange rate.

To Sum Up:

Management audit is an emerging concept of auditing. Management audit is an act of evaluation with a view to provide appropriate suggestions to the management to help decision making process. It also refers to the existence of control system, compliance of rules and regulations etc.

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.
8. As per Leslie R. Howard, a Management audit is an investigation of a business from the _____ in order to ascertain whether sound management prevails throughout.
- (a) Highest level downwards.
 - (b) Lowest level upwards.
 - (c) Either (a) or (b).
 - (d) None of the above.
9. Important point in corporate planning is _____ .
- (a) Time and Work Study
 - (b) Imposing Control System
 - (c) Forecasting and goal setting.
 - (d) SWOT analysis.
10. Assurance engagements involve _____ .
- (a) Only Individual Parties
 - (b) Three separate parties.
 - (c) Contractor and Contractee
 - (d) None of them
11. The consumer service audit critically examines:
- (a) Outstanding payment of consumers.
 - (b) Price consumers are ready to pay for particular product/service

- (c) An appraise management of business enterprise of responsibility towards consumers.
 - (d) Demand of a product by consumers.
12. Consumer Service Audit is part of _____ .
- (a) Business Activity Audit
 - (b) Social Audit
 - (c) Service Audit
 - (d) None of Above
13. There are no fixed items of evidence to be checked by Management Auditor.
- (a) The statement is true.
 - (b) The statement is false.
 - (c) The statement is partly true.
 - (d) The statement is partly false.
14. Management Audit Report Submitted to:
- (a) Cost Audit Branch
 - (b) Audit Committee
 - (c) Central Government
 - (d) Management of Concern
15. There are no fixed items of evidence to be checked by Management Auditor. A Management Auditor has to rely more on _____ .
- (a) his experience and acumen.
 - (b) Auditors Working Paper.
 - (c) Physical Verification Sheet.
 - (d) Information Provided by Management.
16. Which of the following contain the frame work for CSR?
- (a) Section 135 of the Companies Act,2013
 - (b) Schedule VII of the Companies Act,2013

- (c) Companies (Corporate Social Responsibility Policy) Rules, 2014
 - (d) All of the Above
17. To which category of company, provisions of CSR is applicable under Section 135 of the Companies Act, 2013?
- (a) Listed Company
 - (b) Unlisted Public Company
 - (c) Private Company
 - (d) Every Company
18. As per Section 135 of the Companies Act, 2013, provisions of CSR is applicable to every company having Net Worth of
- (a) ₹ 3 crore or more
 - (b) ₹ 4 crore or more
 - (c) ₹ 5 crore or more
 - (d) ₹ 6 crore or more
- During the immediately preceding financial year
19. As per Section 135 of the Companies Act, 2013, provisions of CSR is applicable to every company having turnover of
- (a) ₹ 500 Crore or more
 - (b) ₹ 700 Crore or more
 - (c) ₹ 1000 Crore or more
 - (d) ₹ 1400 Crore or more
20. Within how many days from the end of the Financial Year, company has to transfer any unspent CSR amount to a special account known as Unspent Corporate Social Responsibility Account?
- (a) 10
 - (b) 20
 - (c) 30
 - (d) 40

⦿ **State True or False**

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

⦿ **Essay Type Questions**

1. As a Management Auditor of a large organisation, you have been asked to carry out the review of Marketing Policies as a part of Corporate Development. Prepare a questionnaire for carrying out such a review.
2. What is meant by “Corporate Services Audit”? Describe the areas of the “Corporate Services Audit”, the scrutiny thereof and evaluation criteria used in the Audit.
3. You are appointed by Mr. K who wants to join M/s DEF & Co., partnership firm as an investigating accountant. List out the steps involved in conducting the same.
4. Evaluation of the personnel function of an organisation by management auditor is by no means an easy task.

In your view what areas are to be covered and points to be kept in mind while assessing the personnel function of an organisation?

5. While performing an Information System Audit, the Management Auditor should make sure that various objectives are met. Briefly describe them.
6. M/s XYZ Ltd. engaged in manufacturing of engineering goods is consistently recording higher sales turnover, but declining net profits since the last 5 years. As a management consultant appointed to find out the reasons for the same, what are the points you would verify?
7. What do you understand by “Energy Audit”? Briefly state the functions of energy auditor.
8. What do you understand by Corporate Services Audit? Describe the areas of Corporate Services Audit, the scrutiny thereof and the evaluation criteria used in such audit.
9. “Management Audit and Operational Audit are complementary and supplementary to one another”. Discuss in brief.
10. Mr. Ram, being a CMA, certifies a financial forecast of his client which was forwarded to the client’s bank based on which the bank sanctioned a loan to the client. Does Mr. Ram attract provision for professional misconduct?
11. State four objectives of operational audit.
12. While performing an Information System Audit, the Management Auditor should make sure that various objectives are met. Briefly describe them.
13. Write short note on - Probable format of environmental statement.
14. What points should you consider as a Management Auditor performing CSR Audit?
15. What do you understand by environment audit and productivity audit?
16. “Management Audit team should be multidimensional”. Discuss.

17. Write short not on “Customer Costing in Service Sector”.
18. What are the Management Audit Questionnaires?
19. “The Cost Audit Reports can be termed as propriety audit”- Discuss.
20. You have been appointed as a Management Auditor by SBI Bank. The Bank has recently launched a scheme of ‘Gold Card’ issuing credit card to all savings account holders with average of ₹50,000/- in the account. How will you evaluate the internal control system in the area of credit card operations of the bank?
21. Discuss the risks that can be covered by a CSR Audit programme. Described the area covered by Corporate Services Audit.
22. A management audit team should be multidimensional. discuss.
23. What is Energy Audit?
24. What is “Consumer Services” Audit?
25. What to you understand by Corporate Strategy?
26. Draft an internal control questionnaire for ‘Account Receivables’.
27. Internal Audit is an independent appraisal activity within an organisation for review of operations as a service to management. Discuss.
28. You have been appointed as an internal auditor for M/s KBC Ltd which is a large manufacturing concern. You are asked to verify whether there are adequate records for identification and value of Plant and Machinery, tools and dies and whether any of these items have become obsolescent and not in use. draft a suitable audit programme for the above.

Answer:

⊙ **Multiple Choice Questions (MCQ)**

1.	(d) All of the above.
2.	(c) Internally and externally.
3.	(d) All of the above.
4.	(d) No time limit can be fixed for submission of the report under management audit.
5.	(b) Internal.
6.	(a) After the work of a statutory auditor ends.
7.	(d) All of the above.
8.	(a) Highest level downwards.
9.	(d) SWOT analysis: A SWOT - strengths, weaknesses, opportunities and threats analysis can help identify and understand key issues affecting the business.

10.	(b) Three separate parties: The parties are a public accountant in practice, a responsible party and intended users.
11.	(c) An appraise management of business enterprise of responsibility towards consumers: The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product-quality and services by making available the products and services of the right qualities at the right time, in right quantity, at the right place and right price.
12.	(b) Social Audit: Consumer Service Audit is an audit of public responsibility of business enterprise in relation to its customers and is a part of social audit. The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product-quality and services.
13.	(a) The statement is true: A Management Auditor has to rely more on his experience and acumen to identify areas of review.
14.	(d) Management of concern: Management audit undertakes examination of the effectiveness of management in controlling the total activities of the organisation in the accomplishment of the organisation objectives.
15.	(a) his experience and acumen: A Management Auditor has to rely more on his experience and acumen to identify areas of review. There are no fixed items of evidence to be checked by Management Auditor.
16.	(d) All of the Above
17.	(d) Evert Company
18.	(c) ₹ 5 Crore or more
19.	(c) ₹ 1,000 Crore or more
20.	(c) 30

⊙ **State True or False**

1.	True
2.	False