

MANAGEMENT AUDIT: IS THAT USEFUL?

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Abstract

Management audit is termed as the evaluation of the efficiencies and inefficiencies in discharging of management functions. Management audit in itself, as the name implies, not only checks and evaluates the managerial functions but also suggest the management how to improve these so as to achieve the targets in the current competitive business environment. The current paper considers the objectives and scope of management audit in present scenario.

Keywords: *Management Audit, goal, functions and functional areas of management.*

Introduction

Profit earning is the major objective of the business. To assess the financial position and profitability of a business, financial statements are prepared and to ensure the accuracy and authenticity of the financial information, financial audit is done. This financial audit is mandatory throughout the world. As this auditing is confined to financial aspect of business and in the era of competition every business wants to perform well so as to remain in the market. Here emerges the concept of management audit. Management audit is mainly concerned with the appraisal, assessment or evaluation of all the functions of management. Keeping in mind the profit earning target of management, management audit focuses on weakness, inefficiencies or inability in discharging of the functions and functional areas of management. In the modern age of cut throat competition an organization can stay in the market if it provides the quality products at competitive price. Management audit helps the management to evaluate and find where the scope of cost reduction and control lies. Since it is a process of evaluating and assessing the overall working of all the management functions and functional areas of management by experts, scope remains for overcoming of shortcomings and revamping of policies and strategies.

Objectives of Management Audit

Following may be considered as the main objectives of management audit:

- To formulate goals: It is the objective of management audit to check the reliability, realizability and the feasibility of the goals of an organization. If, after checking, it is recovered that the goals of the organization in question are somewhere lacking, the management audit team may help the management in reformulation of its goals.
- To evaluate organisation structure: An efficient organisation structures is a guarantee to achieve the targets. Management audit evaluates the existing organisation structure and assess the suitability of that in fulfillment of those.
- To warrant goals achievement: Management audit warrants the achievement of goals by pinpointing the loopholes such as inefficiencies, inefficacies, inability and so on in performance of management functions. Ways to plug these loopholes assist the management to achieve its goals efficiently by improving the discharge of managerial functions.

- **Right man at the right job:** This may be one of the objective of the objective of the management audit to increase the efficiency of human resources as the person assigned a wrong job may proved to be excellent for another job. So management audit helps the management in this case by depicting the efficiencies, abilities etc. of the existing staff and re-allotment of work according to their strengths. Even the audit may suggest outsourcing or employment of experts where needed.
- **To suggest improvements:** Management audit after evaluating the existing policies, strategies , procedures, processes and practices suggests the improved way to achieve the targets. Even if needed, then the drastic strategic changes may be suggested e.g. use of innovative technologies, production, marketing, purchase strategies etc.
- **To evaluate internal control system:** Management audit with an objective to evaluate the internal control system not only does the critical evaluation of the control system but also suggest the measure to improve it.
- **To ensure the compliance of legal and regulatory provisions:** Management audit considers the legal and regulatory provisions with respect to the organization in hand and reports whether these provisions are being complied with or not.
- **To reduce cost:** Management audit helps the management by suggesting the following of cost reduction methods. This in return helps the organization to have competitive advantages over the competitors.
- **To make MIS more effective:** Management audit also assess the current information system in the organization. The team of experts helps the management in making the MIS fully effective so as to get full competitive edge.

Scope of Management Audit

Management audit has a vast scope and includes all management functions and functional areas of management. Following may be considered in this regard:

- **Audit of planning function including objectives and strategic health:** Planning is the main and important function of management. Management audit scans the strengths and weaknesses of the objectives, relative plans and strategies of an organisation. When critical evaluation of these is conducted the management can have the view of actual performance of this function.
- **Audit of organizational structure:** Viable structure of an organisation has a positive effect on the financial strength of an organisation. By conducting management audit management can view the shortcomings in present structure.
- **Auditing of staffing function:** Right man at the right job is an essence of good management system. The management audit team may report Span of control, overstaffing, inefficiencies etc.
- **Audit of control function:** Control is the key to success. Organisation is having good objectives, plans, strategies, budgets, human resources etc. but is lacking at control function then it will be at loss. Management audit here helps the management by pinpointing the holes and ways to plug those as far as the control function is concerned.
- **Audit of production:** The management auditing team assesses the production function of an organisation. By evaluating the procedures, processes ,layout, efficiencies of available staff the management audit team may suggest the improvements and even may help in short term decisions like make or buy decision, full capacity utilization, storage and handling of materials etc.
- **Financial health:** Management audit gives suggestions to improve the financial health of a concern.
- **Audit of purchases:** An efficient purchase system makes an organisation cost efficient. Management audit evaluates the efficiencies of purchase system of an organisation and suggests improvements.
- **Budgeting and budgetary control:** Budgeting requires expertise for allocation of the financial resources. Wrong or faulty allocation makes an organisation sick. Management audit ensures th at the budgeting and budgeting control system is good and may suggest more improvements so as to attain the objectives.
- **Audit of marketing:** Marketing is the backbone of an organisation. In today's world of competition and globalised environment each concern has to follow hi-fi marketing strategy. As the most of consumers

- are not brand loyal, because of availability of numerous brands, companies have to follow an extensive marketing campaign. Management audit helps the management by critically evaluating the current marketing campaign, its viability, need and suggest improvements so as to have competitive advantage.
- Human resource audit: human resources are the main ingredient in the success of any company. Even having all factors in efficient position except human resources the organisation may have to face odd results. Human resource audit not only evaluate the division of work but also the inefficiencies and also suggest the way to overcome those.
 - Research and development outcomes: In the current scenario of global competition, a concern having excellent research and development department gets the edge over competitors. Management audit helps the management to evaluate the position of the research and development facilities and their outcomes. Further, if viable, outsourcing may be recommended by the audit team
 - Management information system: information and communication system is very important for the growth, development, efficient operations, realization of objectives, effective control and many more. Management audit assesses the usefulness of the current communication system and suggests the management to improve it make it compatible in current situation.

The list above is not exhaustive the management auditors may include anything in their conduct of audit which they think can improve the efficiency of the organisation.

Conclusion

Is Management auditing a futile exercise?

Many of the authors term management auditing as an expensive exercise. As we go through the objectives of management audit, if done, properly and subject to the expertise of the management audit team, the organisation will not be at loss at all. However the need and success of management auditing lies in the size of the organisation. Small and medium scale organizations are at lesser benefits as compared to large scale companies. These can engage highly experienced experts because they get more benefits in comparison to their costs incurred. As discussed earlier if functioning of the management is proper the concern will never feel defeated in realization of objective of profit earning. The persons against the conducting of management audit are of view that when compulsory financial audit is in operation there is no need to have such expensive exercise of management audit. No doubt financial audit is compulsory but its objectives are limited to report true and fair view of concern, detection of frauds, embezzlements, errors etc. This does not evaluate or assess all of the management functions. In European countries and even in India, many management audit firms are efficiently working. In today's compulsions like customer demand and satisfaction, technological development, cut throat competition internal as well as global, financial constraints, scarce resources every concern needs the evaluation of its working. Management audit does the same under one platform.

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