

Auditing

B.com. IV Semester

Unit IV

Topic: Management Audit

MANAGEMENT AUDIT



- PURPOSE
- SCOPE
- ADVANTAGES
- DISADVANTAGES

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Meaning

Management audit is a method of independent and systematic evaluation of the management activities at all levels of management to ascertain the functions, efficiency and achievement of the management (i.e. policies) as compared to standards set by the company.

According to L. R. Howard, "Management audit is an investigation of business from the highest level downward in order to ascertain whether sound management prevails throughout, thus facilitating the most effective relationship with outside world and smooth running of internal organization."

Objectives

- ❖ **Verify Efficiency-** It aims at increasing productivity at all the levels of management and execution of policies.
- ❖ **Give Recommendation to Increase Efficiency-**The management audit marks the incapacibilities in various levels of management and provides suggestions to enhance the efficiencies.
- ❖ **Evaluates the Potential of Policies and Planning-** It audits and evaluates the policies and planning structured by the management and judge if its appropriately implemented.
- ❖ **Increase Profit-** It helps to increase the profit margin by providing solutions to maximize the company's resources in a valuable way.

Scope

- ❖ **Calculate the Effectiveness of the Management-** It audits the entire level of management of a company.
- ❖ **Execution of Principals and Policies-** It reviews whether the policies and the principals deployed by the company is effective and successful.
- ❖ **Locate and Examine the Differences-**It helps to identify the differences in productivity and if the pattern set by the company is not fulfilled.
- ❖ **Suggest for Improvement-** The management audit suggests improvement in areas, e.g. purchase, sale, finance, administration, human resources, etc.

Advantages

- ❖ **1. Evaluates Efficiency of the Management:** Management audit is a method of independent and 'systematic evaluation of the management activities at all levels of management to ascertain the functions, efficiency and achievement of the management (i.e. policies) as compared to standards set by the company.
- ❖ **2. Scrutiny of the Plans, Policies and Procedure:** Management audit helps to determine how the management has implemented their plans, policies and procedure to reach the organizations goal.
- ❖ **3. Helps for Correction of Plans, Policies and Procedure:** Through management audit, it is possible to change or revise the plans, policies and procedure as per needs of the company.
- ❖ **4. Aids for Decision Making:** Management audit asses the ability of the managers to take important decisions and helps them to rectify the defects.

- ❖ **5. Helps to Get Loan:** Financial institutions who gives huge loan to the organizations are interested to know the efficiency of the management and the profitability.
- ❖ **6. Helps to Get Subsidy:** Before granting subsidy by the government, to any entity they are interested to know the efficiency and functioning of the management. Management audit helps in this matter.
- ❖ **7. Helps to Increase Profitability:** Management audit helps the management to increase profitability by giving remedies to maximize the organization's resources in an efficient way.

Limitations

- ❖ The management audit is audit of the management, by the management, and for the management. The management auditors are selected by the management itself. Such auditors may or may not be able to handle the job assigned to them.
- ❖ The management auditors are generally familiar with the organization and the staff and employees. The personal aspects cannot be overlooked in such audits.
- ❖ Time and cost constraints may limit the scope, operation and extent of such audits.

Difference between Cost Audit and Management Audit

BASIS	COST AUDIT	MANAGEMENT AUDIT
Meaning	It is a verification of cost records to measure the internal efficiency of a business.	It is intended to develop the relationships with the outside world and internal efficiency of a business.
Objectives	The cost auditor checks the cost accounting records.	The management auditor investigates objectives and actions of the management.
Requisite Qualification	The cost auditor should be a person with the requisite qualification to conduct the cost audit.	The management auditor may be a person having good knowledge of the management control, production planning and control etc.
Statutory Obligation	The cost audit is made compulsory and statutory in many organizations.	The management audit is not a statutory obligation for any concern.
Tenure	It is a program of one year and the report is to be submitted every year.	It covers a wide area having its scope of all the management activities.
Auditor	Only independent Chartered Accountant or Cost Accountant can perform the work of cost audit.	It can be conducted by any independent person having good knowledge of management.
Report	To submit a report under cost audit, the time limit is fixed by the statute under which it is conducted.	No time limit can be fixed for submission of the report under management audit.



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YOU