4.00 UTILITY OF MANAGEMENT AUDIT:

4.01 As already stated, to be of service to management and to improve the overall performance of management, management audit covers reviewing and appraising the soundness, adequacy and application of accounting, financial and operating controls, ascertaining the extent of compliance with established policies, plans and procedures, ascertaining the extent to which management has planned to achieve the objectives of the corporation, how far the objectives have been achieved and ascertaining the preparedness or readiness of the corporation to face the environment and the future. Finally, it also covers appraising the quality of performance in carrying out the various activities by the management.

4.02 The utility of management audit comes from its 4 important phases stated below:

   i) Familiarisation
   ii) Verification
   iii) Evaluation
   iv) Reporting

Through discussions at various levels, at the entry and exit stages and even in between, with managers and operating personnel, the auditor acquaints himself with the objectives, procedures and problems of the department, function or unit under review. He ascertains, by his discussions with the management, how it has laid
down its procedures and policies and how it acts or re-acts to meet its objectives as well as how it has specified the controls and procedures to correct the problems arising. He verifies during discussions with managers in the field, the usefulness of these controls and what their practical problems are.

4.03 By due examination and test, the auditor undertakes verification and learns whether the actual operations, including assignments or responsibilities, are in line with the objectives of the organisation and the plans laid down by the Department or function or unit management. Verification brings out the reality, compared to theoretical assumptions, while familiarisation brings out the theoretical assumptions and its applicability and utility for the corporation's objectives.

4.04 Through evaluation, which is the most critical of the four phases, the data and findings collected through familiarisation and verification phases are analysed to identify how far the right steps have been taken for attaining the objectives and how far these steps have gone to achieve these objectives and also to identify what are the deficiencies in the process and in compliance with the criteria or in general operations and controls that may warrant further action by the Department, function or unit management or at the Board level.

4.05 Reporting is the final phase where the review findings are summarised, in an appropriate report format. Inclusion of constructive recommendations is an important aspect of reporting. The contents of the report are not to be kept secret from the concerned department/function/unit executives. On the contrary, they are
to be reviewed with them in an exit conference. However, the report must be the own opinion of the auditor, arrived at after discussing the reaction of the management executives.

4.06 For successful management audit through the above four phases, quality of personnel doing the audit has to be above the requirement for traditional voucher or financial auditing. In fact, the verification part is not the most important part of this auditing; it is the evaluation part. As such, the auditor must be able to make judgements as to the scope and action on the findings. He must be able to offer his own suggestions for corrective action, in consultation with the management executives.

4.07 The function of management audit is purely a staff function, not line, reporting to the highest authority, appropriate with the management structure of the organisation. This gives them independence in their functioning and findings.

The objective of management audit must be the willingness to provide assistance to all levels of management and prove that it is in fact a management tool. Management audit may conveniently follow the organisational or functional lines as deemed appropriate. But, they should have enough latitude.

4.08 What distinguishes management audit from the statutory audit is characterised by approach and state of mind, as well as the skills
and professional background of the auditor. The methods may not be distinct or different, especially the verification phase of it. But, management audit represents application of talents, background and techniques of the auditor to the operating controls, to the operating plan and the operating achievement. The purpose is only one, namely, to improve the management and to be of utility to the highest level of management, beyond the constraints of merely fault finding or verification audit. It is ultimate in audit, where audit is a true management tool. An appropriately trained auditor, working with this criteria and having enough experience and latitude for making best judgement, is necessary to make the management audit a success.

4.09 Management Audit, in order to fulfil the role of management tool, requires clarity of purpose, its nature and value, on the part of those who implement it. The first element for consideration is whether there is a need for such a tool at all. If the need is not established it follows that the tool itself will be unnecessary.

4.10 Management Audit tries to fill the gaps which the operational audit and other audits leave, not fully meeting the requirements of many managements. Specifically, in the case of Public Enterprises, the need for management audit arises from the needs of the Government, which is responsible for reviewing the performance of public enterprises and also improving it. In many cases Government is not fully informed of the performance of these managements and conditions of these organisations, not to speak of appraising their performance and improving it. For this appraisal, information has to be furnished
fully and objectively from time to time. Naturally, in this context if the management is to be intensified and made creative and if the Government is to be dynamic and well informed, there is every need for a kind of modern audit for detection of the potential, practical problems and also of the opportunities for improvement.

4.11 Modern business, whether in public or private sector, has to develop appropriate techniques to cope with the future and the risks they take in doing so. Otherwise, objectives of the organisation cannot be met on a continual basis. Management audit is one of the satisfactory tools available to assist the management as well as stock holders in accomplishing these objectives, which also helps the management to overcome the problems caused by time, financial commitments, organisational deficiencies and changing communication requirements. Size also creates some problems with growth. However, neither the size nor the types of activity is a problem for installing sound management audit.

4.12 Management Audit, in particular, can overcome the following shortcomings in the appraisal system and information reporting system:

1) It is essentially a staff function which would be able to stand away from the existing management and look at the entire gamut of management activities, including objectives setting, standards, operating, controlling etc. It shall be able to look at the present as well as the future and determine the policy or the preparedness of the management to go into the future.
2) It provides, otherwise outstretched executives or managers, the opportunity to look into the problems in the department, unit or organisation, under their direction.

3) It assists the management and stockholders to evaluate the records, reports, controls and performance.

4) It appraises the state of compliance with policies, procedures and prescribed systems.

5) It evaluates effectiveness of controls, including those that are cost related or decision related.

6) It compares actual results with the desired results and identifies the variances and probable and proximate causes for these variations.

7) It determines work rules as intended.

8) It evaluates the management involvement and commitment through its activities and procedures.

9) It measures strength or weaknesses of the organisational structure.

10) It also evaluates measure or efficiency against such standards as have been established, either within the corporation for production, engineering and marketing or by others, including operational analysis procedures.
4.13 With the above objectives, management audit shall provide the management with a reasoned, independent report on its decisions and operational functions. Performed by fully qualified personnel it has an acceptable level of confidence with respect to its authenticity. It also gives the management timely reports and its findings, including recommendations for proper corrective steps necessary, or for engaging outside expertise, if need be, to review the function further and develop appropriate and corrective action. It strengthens confidence level of the management and assures the management that the risks to be taken in the administration and operational areas, are not in excess of the level agreed upon by the management or determined by the management. Incidentally management audit also provides a training ground for the top management, to analyse its functioning and plan for the future. All these can be accomplished and possibly at an economic cost, once the priority areas under management audit for the corporation are identified and the work entrusted to qualified management auditors.