

Tutorial Notes

Class: B.Com (Hons.) Semester III (CC-5)

Subject: Auditing and corporate Governance

Topic: Management Audit definition, Scope, Objectives, Advantages, and
Difference between management audit and Cost Audit.

Prepared by: Dr. Aftab Alam

Faculty of Commerce, Karim City College, Jsr.

Management Audit

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."

As per **Taylor and Perry**; "Management auditing is a method to evaluate the efficiency of management at all levels throughout the organization, or more specifically, it comprises the investigation of a business by an independent body from the highest executive level downwards, in order to ascertain whether sound management prevails through and to report as to its efficiency or otherwise with recommendations to ensure its effectiveness where such is not the case."

Scope of Management Audit

The scope of management audit is much wider than financial audit because management audit evaluates not only financial audit but also other aspects of the business. It is the method of evaluating the total efficiency of the management from the top level to the lowest level. Therefore, the main scope of management audit is:

1. Evaluate the Efficiency of the Management: Management audit evaluates and appraises the efficiency of the management at all levels.

2. Implementation of Principles and Policies of the Management: Management audit review whether principles and policies formulated by the management have been successfully implemented or not.

3. Find Variances: It detects the variances in efficiency with the standards set by the management.

4. Analyze the Reasons for Variances: Management audit analyze the reasons for inefficiencies of the management for not fulfilling the targets.

5. Recommend Suggestions for Improvement: It gives suggestions for improvement in the areas e.g. production, sales, purchase, finance, human resources, administration etc.

Objectives and Need of Management Audit

Management audit is the total audit of the management i.e. reviews how the policies of the management have been implemented and its efficiency to execute the policy. Therefore, the scope is much greater than financial audit, as it examines the all aspects of the management. Management audit has some objectives. These are discussed below:

1. Verifying the Efficiency: Management audit aims at to assess the efficiency at all levels of management and implementation of policies.

2. Gives Suggestion for Increase in Efficiency: Management audit highlights the inefficiencies in different areas of management and gives his valuable suggestions and means to improve the efficiencies.

3. Asses the Effectiveness of Planning and Policies: Management audit examine and evaluates the plans and policies and judge whether planning and policies are properly implemented.

4. 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.

5. Helps to Co-Ordinate Activities: Management audit detects the interrelationship among the activities, evaluates the authority and responsibility and gives valuable suggestions for improvement of co- ordination among the activities and the employees.

6. Gives Valuable Advice: By scanning the management efficiency and detecting the weak spots of different levels of management, the management auditor gives valuable advice to the top management regarding different policies and future course of action.

Advantages or Importance of Management Audit

There are several advantages of conducting management audit of an organization. When an organization grows in its volume and activities, there is a need for management audit for evaluating efficiency and effectiveness of the management at all levels of the organization. The advantages and importance of management audit are discussed below:

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 give huge loan to the organizations are interested to know the efficiency of the management and the profitability. Management audit certainly gives a guide to them.

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.

Difference between management audit and cost audit

Management Audit	Cost Audit
It is optional for the company	It is directed by central govt., therefore compulsory for the co.
It can cover all aspects of management, viz. planning, organizing, control etc.	It covers all aspects of particular product for which audit is specifically ordered.
It is carried out to evaluate the efficacy of the control system in the organization.	It is carried out to evaluate the efficacy of the costing system of specified product.
It is intended to review all managerial aspects of the company so as to enhance efficiency and efficacy of the entire system.	It is intended to review examination and appraisal of cost accounting records so as to ensure true and correct cost of production.
The scope is pretty wide as it includes review and appraisal of the decision taken by the management.	The scope is narrow to activities relating to a particular product and includes review and appraisal of cost accounting system.
Can be conducted by the suitable person acceptable to the management.	Can be conducted by the cost accountant appointment by BOD after approval of the central govt. qualification of the cost accountant is specified in section 233(B) of the companies act 1956.
No fixed periodicity	Periodicity is as per directive of central Govt., it is conducted on year to year basis.
Report is submitted to the top management.	Report is submitted to the central Govt., with a copy to co.
The copy of report need not be circulated to the shareholders of the co.	The copy of report can be circulated to the shareholders of the co. only when it is so desired by the central Govt.