PRACTICE AND PROSPECTS OF MANAGEMENT AUDITING IN THE KINGDOM OF SAUDI ARABIA

BY

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MBA/ADM I N/3 878/91 - 92

JULY, 2000

TITLE PAGE

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(G91 BA7149)

MBA/ADM1N/3878/91 - 92

A PROJECT SUBMITTED TO THE

DEPARTMENT OF BUSINESS ADMINISTRATION

AHMADU BELLO UNIVERSITY, ZARIA

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE

AWARD OF MASTER OF BUSINESS ADMINISTRATION

JULY, 2000

CERTIFICATION

This project entitled "*PRACTICE AND PROSPECTS OF MANAGEMENTS AUDITING IN THE KINGDOM OF SAUDI ARABIA" by MUHAMMAD UMAR AHMED* meets the regulations governing the award of the degree of Master in Business Administration (MBA) of the Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation in the field of management.

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Dedication

TO MY FATHER

Acknowledgement

First and foremost, I wish to express my gratitude to Allah for giving me the opportunity to successfully undergo this course of study.

I also wish to express my sincere feelings of appreciation to my supervisor Mall. Dalhatu Bashir Imam for his patience, support and guidance.

My thanks also go to my former employers, Habib Nigeria Bank Ltd. for their encouragement and cooperation during the period of my studies. I also wish to thank my friends and colleagues, too numerous to mention by name, who have in more ways than one made my period of study both worthwhile and beneficial.

Finally, my appreciation goes to my family for their patience and understanding.

Abstract

The research study is concerned with the subject of management auditing with particular reference to its prospects and practice in the Kingdom of Saudi Arabia. The research has among its objectives the appraisal of business organizations understanding of management auditing as well as the determination of the factors that contribute to a positive management audit result. Other objectives of the research study are the determination of the extent of the practice of management auditing in the Kingdom as well as the determination of the constraints that are facing such business organizations. Another objective of the research is to determine the means by which management auditing is being conducted by business organizations.

A number of hypotheses have been assumed by the researcher for the purpose of this research. The researcher assumed that business organizations do not have properly documented procedures and policies that govern the conduct of the organization. The researcher also assumed that business organizations face difficulties in conducting management auditing using their own staff and that they rely on external auditors for this function, the study also assumes that certain sectors of the economy are more involved in the practice of management auditing than others. Another assumption is that the management audit report does not reach the Board or the Chief Executive of the organization for study, consideration and follow-up on compliance.

Chapter one of the research introduces and discuses the subject of the study. The objectives and hypotheses of the research are stated as vvelf as the scope and limitations.

Chapter two covers the literature review and here the researcher discuses what has been written by other writers on the subject of management auditing. Sources of the literature were mainly from academic publications. In chapter three, the research methodology is discussed. Mere, the sources of data were mentioned as well as the means by which this data was obtained.

Chapter four contains a detailed report on the results of the research while chapter five contains a summary of the results, conclusion reached and the recommendations.

One of the most important results of the study was that only 20% of business organizations surveyed are practicing management auditing despite the fact that 100% of the business organizations are fully aware of the benefits of management auditing. The research study has also revealed the constraints that are facing business organizations in the conduct of management auditing and these include lack of qualified and experienced staff as well as the absence of management auditing manuals. The results have also shown that factors such as training and development, promotions and performance evaluation contribute strongly to the attainment of positive management auditing results.

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CHAPTER ONE

1.1 INTRODUCTION:

Over the past thirty years, the Kingdom of Saudi Arabia witnessed tremendous growth and development across the various sectors of its economy. A very sound infrastructural base was established in terms of transportation, communication and power networks. Other basic facilities were also put in place. This base formed the platform from which the industrialization of the Kingdom began. As the Kingdom is the world's largest exporter of crude oil, it is only natural that its industrialization programme focuses on processing further this raw product. Thus, the establishment of petroleum refineries and petrochemical complexes. These industries produced the chemical feedstocks for the secondary chemical processing industries. Alongside the industrial development and growth, there was also an accompanying demand for goods and services. This led to the growth in the volume of trade both within and outside the Kingdom.

While these developments were taking place in the Kingdom, events and developments were also unfolding on the world economic scene. Such events include the emergence of regional trading blocks, economic communities and international trading associations. Agreements leading to the establishment of the World Trade Organization have given a huge boost to the development and growth of international trade. This was achieved by the removal of barriers to trade such

as tariffs and by the opening of new markets on a reciprocal basis. The phenomenon of globalization has also reduced the world to a global village by eliminating borders and barriers to trade. The development of the Internet has led to its emergence as a powerful electronic commerce tool. Using the Internet one can purchase a product of service from another country without leaving his home.

In order to earn a share of this growing world trade, the Kingdom embarked upon a number of policies aimed at achieving this objective. One of such policies is the new investment law which allows foreigners to own 100% of the business. The Kingdom is also striving to join the World Trade Organization and by so doing will open its market to foreign goods and services and foreign markets will be opened to Saudi goods and services. These actions are aimed at achieving a higher volume of trade for the Kingdom in both foreign and domestic markets.

However, opening of markets and liberalising trade is not an assurance for the growth and development of trade for the Kingdom. For business organizations to be able to survive, grow and prosper, they must be in a position to compete in a market which is increasingly becoming global. Products and services are available from many different suppliers producing or operating from many different countries. Therefore, with such a scenario it becomes quite obvious that the ability to compete in such a market is very important. The ability to compete is in turn related to the efficient and effective utilization of resources in the production of goods or provision of service.

1.2 THE RESEARCH PROBLEM:

Without any doubt the opening of markets and liberalisation of trade provides an ideal opportunity for the development and growth of trade. At the same time it also exposes business organizations to threats from competitors who provide similar products or services. This kind of threat can come from either within or outside the Kingdom. Thus the question arises, in such a situation which firms will succeed and which will fail? What are the coping strategies to be adopted by business organizations? Is the ability of the firm to manage its resources in an effective and efficient manner a positive survival strategy? Furthermore, the Kingdom is now at a transitional stage regarding its accession to the World Trade Organization and thus the question may be asked, what preparations are business organizations doing to meet the challenges that accession poses?

The aforementioned situation and expected scenario generated in me a strong interest to research into the subject of management auditing by Saudi business organizations. This research study is expected to study in detail the current practice and future prospects of management auditing and answer questions related to it.

1.3 OBJECTIVES OF THE RESEARCH:

i) The study seeks to appraise business organizations understanding and expectations of management auditing as a tool for increasing efficiency and effectiveness.

ii) Another objective of the research is to determine the extent to which management audit is being practiced currently in the Kingdom of Saudi Arabia.

iii) The study also has as it's objective the evaluation of the expected and current benefits of management auditing to business organizations.

iv) Another objective of the research study is to determine, if any, the constraints that are facing business organizations in conducting management auditing.

v) The research study has also as its objective the determination of the means by which management auditing is being conducted by business organizations.

vi) The research study also has as its objective the determination of the factors that contribute to a positive management audit result.

vii) Finally, the research study aims to come out with recommendations based upon the results of the study.

1.4 RESEARCH HYPOTHESES:

The research hypotheses forms the basis of the field study. Therefore, the field study is conducted around the assumptions made for the purpose for the study. For the purpose of this research, the following are the assumptions:

i) The researcher assumes that the business organizations do not have properly documented procedures and policy statements that govern the conduct and operation of the organization.

ii) Another hypotheses or assumption is that the business firms face constraints in conducting management auditing using their own internal audit department.

iii) The third assumption is that business organizations rely on external auditors for conducting management auditing.

iv) Another assumption of the research study is that the management audit report does not reach the Chief Executive or the Board of Directors of the organization for study, consideration and supervision of compliance.

v) The researcher assumes that most business organizations do not fully appreciate the benefits of conducting management auditing.

vi) The research study assumes that certain sectors of the economy are more involved in the practice of management auditing than others and that the

more competitive the target market the more likely that the business organization would be involved in conduct of management auditing.

vii) The research assumes that with the imminent membership of the Kingdom into the World Trade Organization business organizations would focus more on management auditing as a means of improving effectiveness and efficiency.

viii) The researcher assumes that the larger the paid-up capital of the organization is the more likely that it would be involved in management auditing.

1.5 SCOPE AND LIMITATION OF THE RESEARCH:

As the title of the research implies, it aims at studying management auditing in the Kingdom of Saudi Arabia with particular reference to the major commercial and industrial centers which include Jeddah, Riyadh, Dammam, Khobar, Jubail, Yanbu and Madinah. The research covers the major sectors of the economy and has included small, medium and large sized business organizations.

However, due to constraints of time and distance only the cities of Jeddah and Riyadh were covered in the research study. It is worth mentioning that both are large commercial and industrial centers, in particular Jeddah is considered as the commercial capital of the Kingdom of Saudi Arabia.

The conservative nature of most business organizations made it difficult to obtain more detailed information about their operations, especially their internal audit reports and audited accounts. This situation bears a strong influence on the course the research took.

CHAPTER TWO

2.1 INTRODUCTION:

Of late, in attesting the financial statements to be presented to the shareholders, the accountants are more preoccupied with disclosure of more information like capacity utilization, raw materials consumption, stock management, etc., which in a way leads towards management audit. The figures reported in the financial statements exhibit the results of the company but they do not show why the management acted in the way they did. Moreover, the financial statements also do not reveal the constraints within which the management acted. It is therefore, expected that the new concept of management audit is to be developed so as to report the results more qualitatively than quantitatively.

"Value for money auditing" is a new phenomenon which has its emphasis on ensuring the economy, efficiency and effectiveness of an organization's transactions. Some of the most likely causes for the huge interest in value for money auditing include the following:

i) Greater demands for accountability particularly in the public/ nationalized industry sectors.

ii) Economic trends: recession Vs expansion.

iii) International/ global market changes which present irresistible demands for improved efficiency.

iv) Increasing sophistication in internal audit techniques.

However, the straight forward theoretical motive which underlies the widespread implementation of value for money procedures in the last decade is "the maximization of the utility which is resident in the economic resources which are at the disposal of the organization". The private sector would seem to be the natural home for this type of theoretical argument: this follows from the basic rule of finance theory concerning the necessity of maximizing net present values.

According to Milton Stevens Fonorow, the term "Auditing for Profit" was coined to differentiate the normal auditing of financial records and controls from an approach aimed at increasing the profitability of an operation. Audits for profit emphasize an examination of the caliber of line management, the appropriateness of their decisions, and the operating efficiency of a department or activity.

Background:

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Early movement into the field of management auditing was labelled as "Operational Auditing". Later the terms "Management Auditing" and "Auditing for Profit" appeared in the literature. All were used to describe the work that internal auditors performed as in-house professionals to help increase their company's profitability.

As internal auditing review systems developed, a distinction became apparent in the type of evaluation that was conducted. All internal auditing is basically

aimed at increasing profits, but the scope and direction of an audit review determines the name by which it is called.

Operational Auditing has come to mean a profit audit of the operating policies and procedures of a complete operation or department regardless of organizational lines and location boundaries. Management Auditing concentrates on a management review of the decision-making process within a particular operation or activity. No matter the title or the audit program used, the basic determinant is one of approach to an assignment. In an audit for profit the auditors place themselves in the role of major stockholders who are primarily interested in the profitability of the organization. Every production process, every sale, every purchase and all related activities are critically evaluated to determine whether any changes could be conceived that would result in an increase in profits.

The approaches which are labelled "Operational Auditing" and "Management Auditing" have more similarities than differences according to Milton Stevens Fonorow. Venables and Impey refuse to attempt to identify management auditing as separate from operational auditing. In their view, a management audit is simply an operational audit of the management process, management being a function like any other function.

According to Arens and Loebbecke, although operational auditing is generally understood to deal with efficiency and effectiveness, there is less argument on the use of that term than one might expect. Many people prefer to use

the terms management auditing or performance auditing instead of operational auditing to describe the review of organizations for efficiency and effectiveness. Those people typically describe operational auditing broadly and include evaluating internal controls and even testing those controls for effectiveness as a part of operational auditing. Others do not distinguish among the terms performance auditing, management auditing and operational auditing.

Thus it can be seen that many writers consider management auditing and operational auditing to be one and the same, while others believe that the line dividing the two is a very thin one indeed. For these reasons we would give consideration here to both operational auditing and management auditing.

2.2 FUNCTIONS OF MANAGEMENT:

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The word 'management' is its verb form refers to the managerial process. Within each level of management, how actually is a job done? To fulfil his responsibility, the manager has to plan his course of action, organize his setup according to plan, coordinate the various functions and continuously monitor whether the target is achieved or not and to take corrective action from time to time if the objective is not achieved.The functions of a manager have been identified and recognized right from the inception of the concept of scientific management and they are valid even today. These functions are planning, organizing, coordinating and controlling. Consistent with the objective, the course of action

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has to be planned in which case time is also an important element. Planning involves projecting one's thoughts into the future. The future is uncertain and the distant future is all the more uncertain. Once the future course is planned, the manager has to so organise his affairs that events take place according to the planned course. For example, in car manufacturing company if it has been planned to produce and sell 60,000 vehicles, the production and sales functions should be organized properly to achieve this objective. Coordination is the function of synchronizing the efforts of different executives so that their united efforts lead to the attainment of the stated objective. It is the effort to assure a smooth interplay of the functions and forces of all the different parts of an organization to the end that its purpose will be realized with a minimum of friction and a maximum of collaborative action. Control is the process of checking to determine whether or not things have moved according to plans; if not, to analyse the reasons and to take suitable corrective steps to ensure that events do take place as planned. By means of control, the manager makes certain that the enterprise's objectives and goals are being accomplished as planned. Managerial functions occur at all levels of management with reference to the responsibility relevant to that level of management. The functions have a chain sequence and they occur in the sequence in which they are mentioned. The functions are cyclical in their sequence i.e., one leading to the other.

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2.3 INDEPENDENT APPRAISAL OF MANAGEMENT:

In any industrial enterprise, big or small, resources are pooled for the purpose of generating further wealth. All these resources in the form of assets are quantifiable in terms of money. These are placed in the hands of the top management of the enterprise who are expected to put the resources to the best use in the interest of the industry and the economy as a whole. It is irrespective of whether an organization is in the public or the private sector. It is therefore essential to ascertain by an independent appraisal, as to how far the management has performed in fulfilling the tasks entrusted to them. It is not only necessary to know the actual results but to compare the results with the original targets to identify variations and to pinpoint the reasons for such variations. This exercise has to be carried out not only at the top level of management but at all levels, covering all the functions of management. This kind of appraisal cannot be achieved by a mere management information system or by certain employees of the company. This will be achieved by independent appraisal exercise which also involves forming opinions and expressing judgment.

This exercise at the macro level is an appraisal of the top level of management. Different sections of society tend to judge the performance from their own angle and arrive at their own conclusions. The state however has to strike a balance between various forces and arrive at a balanced appraisal system. The performance of public sector undertakings has to be evaluated keeping in view the current social and economic environment. Profitability alone will not be the

criteria for performance appraisal but it will also be a good measure of performance.

As regards the private sector industries, they are also not exclusively motivated towards profitability. They have also multifarious objectives. These have been spelt out by the eminent management expert Peter F. Drucker as follows:

1. Market standing.
2. Innovation.
3. Productivity.
4. Physical and Financial Resources.
5. Profitability.
6. Manager Performance and Development.
7. Worker Performance and Attitude.
8. Public Responsibility.

In fact, the Economic Times alongwith the Harvard Business School Association of India have instituted National Awards for the best corporate entities in the private sector in the country. For this appraisal, the following factors were taken account; Gross surplus ratio percentage; sustainable growth rate percentage;

net profit or return on net worth percentage; creation of value percentage, cash flow as percentage of gross assets.

According to Prof. S. K. Bhattacharaya, an eminent management consultant, the absolute rupee figures or related percentages have very little to tell us about the quality of performance without some bench mark relating to the industry and market potential; the dependence on financial statement figures for appraisal is deceptive; ROI analysis is incredible and historical cost statements are deceptive and meaningless. On the other hand, it is necessary to base the appraisal on both the qualitative as well as quantitative factors which include:

1. The policy regarding recruitment and training of executives;
2. The programme of executive development;
3. The degree of decentralization and delegation of authority;
4. System of appraisal of executives and incentives provided to them;
5. The research effort;
6. The degree of awareness of social problems and the company's actual contribution in this regard;
7. The pay scale and the difference that there is between the pay of different executive at different levels.

Apart from the macro level appraisal, as referred to above, in both the sectors there is also need for micro level appraisals which involve performance of divisional management as well as function wise performance like production, marketing, finance, etc. The appraisal of micro level is described hereunder as "operational audit" whereas the macro level appraisal is known as "management audit". Conceptually, however, macro and micro level appraisals are described collectively as management audit.

2.4 SEEDS OF MANAGEMENTS AUDIT:

Management audit begins when a statutory financial audit ends. The statutory financial audit has a lot of limitations and therefore, there is need for an independent appraisal of managerial performance at various levels including the top most level. The thought of management audit and arisen some decades back, about the 50's. A reputed writer on principles of management, Theo Haimann has mentioned in his book, *Professional Management,* about the voluntary appraisal exercise initiated by many corporate bodies in western countries in the 1950's.

In connection with control of overall performance, management audits are becoming increasingly significant. Just as most companies make it a point to have their accounts audited at least once a year, some of the more progressive companies have recognized the importance of management audits. These audits are substantially different from those performed by public accountants and are not

concerned with the verification of financial data. They are performed either for the top management, for the stockholders, or for other owners. Management audits provide a device for surveying the management of the enterprise critically and objectively from the broadest possible point of view. They start where the balance sheet audits leave off and are concerned with the examination of the organization and the operations of the enterprise from every aspect. At times, such an audit is undertaken by the management itself and even more frequently outside help is called up on.

The author had also indicated that ultimately management audit will become a reality with the growing number of professional managers, the continuing separation of ownership from management, and the wider distribution of share holders. In this connection the author states:

"Although there is no indication that a certified management audit will become a reality in the near future, the increasing number of management audits performed by outside consultants can be taken as an indication that eventually it may reach that point. The growing number of professional managers, the continuing separation of ownership from management, and the wider distribution of stockholders will sooner or later make a certified management audit mandatory just as they have made mandatory an audit by a certified public accountant. A prerequisite to this development is that there need to be generally recognized principles of management and a theory of management (not excluding a flexibility of view point) and that these consultants making the certification have achieved

professional status with its necessary professional training and proper accreditation."

The author has very clearly foreseen the need for management audit and the kind of situation prevailing in the corporate sector today. The time has now come for a certified management audit as contemplated by the author five decades ago.

2.5 OPERATIONAL AUDITING:

Financial auditing concentrates on the past; operational auditing is concerned with the future. Financial auditing verifies profits; operational auditing tries to increase them. Financial auditors point out areas of improvement but do not become associated with decisions; operational auditors suggest improvements and help make the suggestions work. Financial auditors review decisions after the fact; operational auditors are members of the management team helping to make decisions, though all decisions remain the responsibility of line management. Financial auditors generally review all operations at a given location; operational auditors review a function, wherever it is in operation. Management expects that an operation audit review will not only verify records but will also lead to more efficient operations, a reduction in costs, prevention of losses and an increase in profits.

According to Arens and Loebbecke, three major differences exist between operational and financial auditing: purpose of the audit, distribution of the reports, and inclusion of nonfinancial areas in operational auditing.

The major distinction between financial and operational auditing is the purpose of the tests. Financial auditing emphasizes whether historical information was correctly recorded. Operational auditing emphasizes effectiveness and efficiency. The financial audit is oriented to the past, whereas an operational audit concerns operating performance for the future.

For financial auditing, the report typically goes to many users of financial statements, such as stockholders and bankers; whereas operational audit reports are intended primarily for management. Because of the limited distribution of operational reports and the diverse nature of audits for efficiency and effectiveness, operational auditing reports vary considerably from audit to audit.

Operational audits cover any aspect of efficiency and effectiveness in an organization and can therefore involve a wide variety of activities. For example, the effectiveness of an advertising program or efficiency of factory employees would be part of an operational audit. Financial audits are limited to matters that directly affect the fairness of financial statement presentations.

Effectiveness and Efficiency:

Effectiveness refers to the accomplishment of objectives, whereas, efficiency refers to the resources used to achieve those objectives. An example of effectiveness is the production of parts without defects. Efficiency concerns whether those parts are produced at minimum cost.

Before an operational audit for effectiveness can be performed, there must be specific criteria for what is meant by effectiveness. An example of an operational audit for effectiveness would be to assess whether a governmental agency has met its assigned objective of achieving elevator safety in a city. Before the operational auditor can reach a conclusion about the agency's effectiveness, criteria for elevator safety must be set. For example, is the objective to see that all elevators in the city are inspected at least once a year? Is the objective to ensure that no fatalities occurred due to elevator breakdowns, or that no breakdowns occurred?

Like effectiveness, there must be defined criteria for what is meant by doing things more efficiently before operational auditing can be meaningful. It is often easier to set efficiency than effectiveness criteria if efficiency is defined as reducing cost without reducing effectiveness. For example, if two different production processes manufacture a product of identical quality, the process with the lower cost is considered more efficient.

Types of Operational Audits:

There are three broad categories of operational audits: functional, organizational, and special assignments. In each case, part of the audit is likely to concern evaluating internal controls for efficiency and effectiveness.

i) Functional:

Functions are a means of categorizing the activities of a business, such as the billing function or the production function. There are many different ways to categorize and subdivide functions. For example, there is an accounting function, but there are also cash disbursement, cash receipt, and payroll disbursement functions. There is a payroll function, but there are also hiring, time keeping, and payroll disbursement functions.

As the name implies, a functional audit deals with one or more functions in an organization. It could concern, for example, the payroll function for a division or for the company as a whole.

A functional audit has the advantage of permitting specialization by auditors. Certain auditors within an internal audit staff can develop considerable expertise in an area, such as production engineering. They can more efficiently spend all their time auditing in that area. A disadvantage of functional auditing is the failure to evaluate interrelated functions. The

production engineering function interacts with manufacturing and other functions in an organization.

ii) Organizational:

An operational audit of an organization deals with an entire organizational unit, such as a department, branch, or subsidiary. The emphasis in an organizational audit is on how efficiently and effectively functions interact. The plan of organization and the methods to coordinate activities are especially important in this type of audit.

iii) Special Assignments:

Special operational auditing assignments arise at the request of management. There are a wide variety of such audits. Examples include determining the cause of an ineffective Electronic Data Processing system, investigating the possibility of fraud in a division, and making recommendations for reducing the cost of a manufactured product.

2.6 MANAGEMENT AUDITING:

Management auditing has been defined as: forward–looking evaluation of management activities by internal auditors to improve organizational economy, efficiency, and effectiveness through improvements in the performance of the management function". A management audit is concerned with the ability of

management to manage effectively. Management auditing tends to focus on such issues as corporate strategy, high-level management and planning and control.

Venables and Impey refuse to attempt to identify management auditing as separate from operational auditing. In their view, a management audit is simply an operational audit of the management process, management being a function like any other function. They do, however, identify the questions the internal auditor should ask when reviewing the areas of corporate strategy, the formulation of corporate plans and the dissemination of such plans throughout the organization, the implementation of monitoring systems and the use of corrective action. Each of these is an important part of the management's overall function.

Audit Questions On Corporate Plans:

i) Corporate policy in terms of planning criteria and parameters should be well-defined and should be clearly communicated to the management of every function.

ii) Functional heads should have delegated authority so as to accept full commitment to their own budgets and to be held fully accountable to achieving them.

iii) A detailed programme with time schedules for completion of each stage of the planning round should be agreed by all functions and issued with reasonable notice before work starts.

iv) Market forecasts should be properly complied and endorsed with senior management authority.

v) The management of every key function should be familiar with the forecasts and with the basis upon which they have been prepared.

vi) Each functional budget should be subject to critical examination and approval by senior management.

vii) Each budget should identify bench marks as key monitoring points to test if performance is on course at pre-determined review dates throughout the budget period.

viii) Historical information bases from which budgets are compiled should be valid and the rationale for the projections should be sound.

ix) Monitoring system should incorporate:

a) reliable and effective data collection, processing and reporting methods

b) regular management review of variances

c) effective action to correct adverse trends or take advantage of new opportunities.

The top level management will have to take important strategic decisions, which will have far reaching consequences on the destinies of the company. Their operational action is less, but their managerial action is more. As we go down the further levels of management, we find the proportion of operational responsibility increasing and managerial responsibility decreasing.

2.7 FINANCIAL AUDIT, COST AUDIT AND MANAGEMENT AUDIT:

The word 'audit' if used without any qualifying adjective is understood to refer to financial audit as required under the Companies act. Such an audit, with the help of mechanical checking of accounts and direct verification of balance sheet items, is concerned more with establishing the accuracy of the financial statements and with attesting of the financial statements reported as showing a true and fair view. Financial audit can thus be defined "an exploratory critical review by an independent public accountant of the underlying controls and accounting records of a business enterprise that leads to an opinion of the propriety of the financial statements of the enterprise." The main objective of financial audit is to conduct an examination of a company's financial statements to determine that they present a true and fair view of the financial position of the company as on a specified date and of the results of its operations for the period then ended . They have to further satisfy the condition that the financial statements so certified have been prepared in conformity with generally accepted accounting principles applied on a consistent basis.

Major drawbacks of financial audit are:

1. Being primarily a post mortem exercise, there is no scope for application of foresight.

2. The audit is procedure and rule oriented i.e., compliance with the legal requirements becomes a primary consideration.

3. It can hardly be taken as a management tool due to the annual reporting involved without a periodic examination and reporting.

Due to constraints on time and the need for complying with legal formalities, it is not possible to transform a statutory financial audit into a Management Control Tool, though it may be possible to sharpen the tools and techniques of auditing to review and achieve the objectives better. Cost Audit in the present form also does not fulfil the void of management audit. As a statutory reporting exercise, cost audit is concerned with annual reporting to the government with regard to cost of production of a particular product only. This reporting is also in the prescribed form and lacks the much needed liberty to the professional with regard to reporting. Cost audit not being a concurrent exercise does not serve as a sound control mechanism. Further, cost audit is concerned more with the routine operations rather than with top management operations and decision making. If cost audit is carried out on a voluntary basis by managements it can take the shape of an operational audit but even so it cannot become a management audit. It is however, necessary to recognize that cost audit has the potential for transforming

into management audit. The thought that management audit should be a concurrent exercise leads one to examine whether there is a similarity between internal audit and management audit.

2.8 FEATURES AND LIMITATIONS OF INTERNAL AUDIT:

Internal auditing was defined by the Institute of Internal auditors in 1947 as follows: Internal auditing is an independent appraisal activity within an organization for the review of the accounting financial and other operations as a basis for protective and constructive service to the management. It is a type of control which functions by measuring and evaluating the effectiveness of other types of control. It deals primarily with accounting and financial matters by it may also deal properly with matters of an operating nature.

In 1957, the concept of internal auditing was enlarged to include other areas of management by removing the restriction placed in the aforesaid definition by the words "deals primarily with accounting and financial matters." The enlarged scope viewed internal auditing as a tool of assistance to all levels of management, whether financial or operating, connected with business activity. In the modern business environment where the business organization is larger and more complex, the gap between the top management and the individual operations becomes wider. In the circumstances, the enlargement of the scope of audit as an aid to management is considered necessary to keep a close liaison between the top

management and the operating levels to ensure smooth operation of the business. The internal auditor, according to the Institute of Internal Auditors should, therefore, be concerned with every phase of business activity so as to be of service to management. He should assist all the members of management in the effective discharge of their duties by furnishing them objective analysis, appraisals, recommendations and pertinent comments on the activities reviewed. The specific activities of an internal audit service include verification, analysis and appraisal aspects. They also deal with controls, policies, assets, accounting and statistical data and personnel performance. Thus, the modern concept of internal audit covers not only the traditional functions but also extends to areas like evaluation of operational efficiency and checking of systems and procedures for ensuring accuracy and reliability. Since the internal audit is an objective review and appraisal activity, the internal auditor should be free to review and appraise policies, plans, procedures and records. Consequently, the organizational status and the support given to the internal auditor by the top management will determine the range and value of services which the management will be able to obtain from him. However, the review and appraisal does not relieve any one in the organization of the responsibilities assigned to them. To ensure complete objectivity, the internal auditor should not be made responsible for development and installation of systems and procedures for preparation of records. Moreover, the head of the internal audit department should be responsible to an officer of sufficiently high rank and authority to ensure broad coverage of activities and effective action on his findings or recommendations.

Internal audit marks a distinct stage of development in auditing. It emphasizes the need for a reliable accounting system and related internal control so that in every probability the financial statements produced from the system can be as reliable as the system itself. With this development, the internal auditors concentrate on the ascertainment, testing and evaluation of the accounting systems. Such an approach reduces the detailed checking of the accounts by the statutory auditor. Internal audit, as in the case of financial audit, also developed in two stages. The present stage of system based audit described above is, in fact, the second stage of development. As already noted, internal audit was confined to a mere clerical activity. Gradually, its scope was widened to include the examination of whether (a) cash and other properties of the company were protected and accounted for; (b) the procedures laid down by the company were followed, and (c) financial reports were factual. This activity proved to be of service only to the financial management of the company. The second stage further broadened the area of operation so as to be of service to the operational management as well. Under the new concept, the internal auditor could analyse and verify the reliability of the statistical statements furnished to the operational managers and could determine whether the company's operating policies and programmes were being followed and whether there were sound and adequate controls on overall business operations. (Note the variation in the two definitions from the Institute of Internal Auditors).

The growth in the size of the organizations has led to decentralization and delegation of responsibilities, policies, planning targets and programme of action, appointment of executives, receiving reports to gauge the performance, etc. Internal audit in such cases is an essential adjunct to provide the top management with objective information as to whether the policies and programme as established are being carried out. Though Internal Audit is a concurrent exercise it has its limitations and cannot be a substitute for management audit. Normally, Internal Audit is carried out by the employees of the corporation. This strikes at the very root of independent appraisal. Internal Audit is also carried out by outside accounting firms. In such cases it is a voucher based verification exercise which is not the subject matter of management audit. Internal audit sometimes is carried out as a formality rather than as a real appraisal exercise. Internal audit is confined to middle level or lower level operations and does not extend its scope to top management appraisal. Moreover, there is no comparison of actual with the targets, analysis of variations etc. It is by and large a supplement to financial audit. At best, if internal audit is carried out by an inter-disciplinary team consisting of independent professionals, it can take the place of operational audit but not beyond that.

2.9 INTERNAL AUDITOR AND STATUTORY AUDITOR:

The matters of interest common to both internal and external audit are to ensure (a) adequacy of accounting system (b) effective system of internal checks and (c) verification of assets and liabilities, etc. The nature of work carried out by

both the auditors is to ensure a proper compliance of legal requirements. Both the auditors extract information by examination and checking of accounting records, by means of observation, enquiry and comparison of statistical statements.

The basic difference between the two audits lies in their status and responsibility. The internal auditor is appointed by the management and hence, he has to report to the management. The scope of his activities take a shape from the perception of the management which appoints him and hence may vary from organization to organization. The Internal Auditor is of concrete and constructive assistance to the management in the efficient running of operations. The statutory auditor on the other hand is appointed by the general body and is independent of the management. The statutory auditor is merely concerned with the truth and fairness of the financial statements presented to the members of the company. The approach of the internal audit, however, is to look into the needs of the management for effective control and efficient operations of the business. This distinction shows the enlargement of the scope of the internal audit and marks distinct development in auditing function.

The common interests and differing responsibilities of the internal auditor and the statutory auditor call for a close cooperation and co-ordination among the two to avoid duplication of work so that the efforts of both can be directed towards the well being of the organization. The work of the statutory auditor is reduced by placing reliance on the work of the internal auditor but the responsibility to report to shareholders vests indivisibly in the statutory auditor alone. The statutory

auditor may place reliance on the work of the internal auditor but the extent of reliance can be determined on the basis of the following criteria:

1. The scope and objectives of the internal audit function;

2. The degree of independence of the internal auditor which depends upon the ability of the internal auditor to carry out his work and report on matters vital to management control;

3. The extent of professional care taken by internal auditor. This depends on the planning of internal audit work, procedures for controlling individual assignments, adequate arrangements for reporting and follow up, existence of audit manuals, etc.

4. Technical competence of the internal auditor based on training, experience and proficiency;

5. The quality of the internal audit reports, the response of the management to the reports and the action taken by the management on the report;

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CHAPTER THREE

3.1 RESEARCH METHODOLOGY:

Methodology is a study of the different steps involved in the successful conduct of a research.

This research is a study of the understanding, practice and prospects of management auditing by business organizations in the Kingdom of Saudi Arabia. The sources of information were wide and varied and included published company data, questionnaire, interviews with company employee's and literature obtained from books on the subject of the research. The data are therefore classified into primary and secondary data according to the nature of the source.

3.2 SECONDARY DATA:

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This is data that was obtained from existing literature such as business textbooks with special reference to literature on auditing, accounting and management. Other sources of secondary data include company publications such as audited accounts and reports. Secondary data helped me gain an insight into the various different aspects and methods of management auditing. From the secondary data I was also able to assess the depth and extent of management audit reports being reflected in company financial statements and reports.

3.3 PRIMARY DATA:

Data expressly collected for a specific purpose is known as primary data. In this research study primary data was obtained by the use of a questionnaire and by conducting of interviews. Using the combination of these two methods ensured that I was able to obtain exactly the information I needed. This method also eliminates any misunderstanding in the flow of information.

For this research I distributed a total of 100 questionnaires to various business organizations of differing sizes and activities, located in Jeddah and Riyadh. Out of these, 50 questionnaires were fully completed and submitted to the researcher and they formed the basis of the field study.

CHAPTER FOUR

4.1 RESULTS AND ANALYSIS:

Q1. Does the organization conduct management auditing exercises?

	Number	Percentage
Yes	10	20
No	40	80
Total	50	100

Out of the 50 respondents received, 10 of them indicated that they do conduct management auditing exercises while 40 stated that they do not conduct management auditing exercises. In percentage terms, these are 20% and 80% respectively. This shows that the great majority of business firms are not engaged in management auditing.

Q2. In which sector of the economy does the organization operate?

	Total Number	Total %	Percentage Auditing	Percentage Non-Auditing
Construction	4	8	50	50
Manufacturing	18	36	—	100
Marketing & Distribution	6	12	33	67
Service	22	44	27	73
Total	**50**	**100**		

4 or 8% of the respondents are engaged in the construction sector of the economy and of these, 50% of them conduct management auditing exercises while the other 50% do not. This result reflects the relative importance being attached to management auditing by the construction industry.

18 or 36% of the respondents are from the manufacturing industry and all of the respondents are not engaged in management auditing exercises.

6 or 12% of the respondents are from the marketing and distribution sector of the economy and of these 33% of them are engaged in management auditing exercises while 67% are not.

22 or 44% of the respondents are engaged in the service sector of the economy and of these 27% conduct management auditing exercises while 73% do not. From the results it can be seen that the construction industry has the highest level of management auditing which is 50% and this is followed by the marketing and distribution sector with 33%. The service industry has 27% while the manufacturing sector has not reported any management auditing exercise.

Q3. What is the organizations paid-up capital?

Paid Up Capital	Number	%	% Auditing	% Non-Auditing
Up to SR. 100,000	—	—	—	—
SR. 100,001 to SR. 499,999	2	4	—	100
SR. 500,000 to SR. 1 Million	6	12	33	67
Above SR 1 Million to SR 10 m	10	20	20	80
Above SR. 10 m	32	64	19	81

2 or 4% of the respondents have paid-up capitals of less than SR. 500,000 and all of them do not conduct any management auditing exercises. 6 or 12% of the

respondents have paid up capital of between SR. 0.5M and SR. 1.0M and of these, 33% conduct management auditing while 67% do not do so. 10 or 20% of the respondents have paid-up capitals of between SR. 1M and SR. 10M and of these, 20% are engaged in management auditing exercises while 80% are not. 32 or 64% of the respondents have paid-up capitals of more than SR. 10M and of these only 19% conduct management auditing exercise while 81% do not engage in management auditing exercise.

Q4. What is the level of competition in the target market?

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	Number	%	% Auditing	% Non-Auditing
Highly competitive	40	80	33	67
Fairly competitive	10	20	—	100
Uncompetitive	—	—	—	—
Total	**50**	**100**		

40 or 80% of the respondent indicated that they are operating in a highly competitive target market and of these, 33% of them are conducting management auditing exercises while 67% are not. 10 or 20% of the respondents stated that

they are operating in a fairly competitive environment and non of them is conducting any management audit.

Q5. Would there be more emphasis on management auditing as a result of the Kingdom's imminent membership of the WTO?

	Number	%	% Auditing	% Non-Auditing
Yes	16	32	50	50
No	—	—	—	—
Unsure	34	68	6	94

16 or 32% of the respondents stated that they expect there to be more emphasis on management auditing as a result of the Kingdom's imminent membership of the World Trade Organization. Of this number, 50% are already engaged in the conduct of management auditing exercises while 50% are not. 34 or 68% of the respondents are unsure if there would be greater emphasis on management auditing as a result of membership into the WTO and of this number only 6% are currently conducting management auditing.

Section I

Q1. Please indicate the availability or otherwise in your business organization of the following.

	Available		Unavailable	
	Number	**%**	**Number**	**%**
Updated Org. Chart	34	85	6	15
Staff job descriptions	34	85	6	15
Mission Statements	30	75	10	25
Operating Manuals/guides	22	55	18	45
Staff Appraisal System	20	50	20	50
Responsibility/ Authority	30	75	10	25
Newsletters or Circulars	34	85	6	15

Of the 40 respondents that do not conduct management auditing programmes, 34 or 85% of them have updated organizational charts while 6 or 15% do not have it. Another 34 or 85% of the firms have staff job descriptions while 6 or 15% do not have them. 30 or 75% of the respondents stated that they have mission statements while 10 or 25% do not have it. 22 or 55% of the respondents indicated that they have operating manuals or guides while 18 or 45% stated that they do not

have them. 20 or 50% of the respondents stated that they have a staff appraisal system in the organization while another 20 or 50% stated that they do not have it. 30 or 75% of the respondents have specifications of responsibility and authority while 10 or 25% do not have them. 34 or 85% of the respondents indicated that they have newsletters or circulars while 6 or 15% do not have.

Q2. Which of the following do you consider as constraints to your organization in the conducting of management auditing?

Reason	Number	%	Most % Important	Less % Important	Least % Important
Financial Costs	16	40	25	37.5	37.5
Lack of qualified & experienced staff	40	100	65	30	5
Absence of operational framework for audit	38	95	26	63	11
Doubtful benefit to org.	—	—	—	—	—
Marginal benefit to org.	—	—	—	—	—

Out of the 40 respondents who do not conduct management audit, 16 or 40% stated that financial costs are a constraining factor and of these 25% stated that it is the most important factor while 37.5% said it is less important and 37.5% said it is the least important factor. 40 or 100% of the respondents considered lack of qualified or experienced staff as a constraining factor. Out of these 65% consider

it the most important factor while 30% consider it less important and 5% consider it the least important. Non of the respondents indicated that doubtful or marginal benefits to the organization as being a constraint

Q3. By conducting a management audit of your organization, how would you rate the expected improvements in terms of efficiency and effectiveness?

	Number	%
Very High	4	10
High	36	90
Very Low	—	—
Unchanged	—	--

Among the respondents that indicated that they are not conducting management auditing exercise, 4 or 10% stated that by conducting management auditing exercises they expect to register very high improvements in efficiency and effectiveness. 36 or 90% stated that they expect high improvements. No respondents indicated that they expect low or very low improvements in performance. Also, no respondent indicated unchanged performance levels.

Q4. Which of the following methods do you believe is suitable in terms of cost and effectiveness for your organization if you were to conduct a management audit? Number your choice according to importance with 1 being the most important.

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	1		2		3		4	
	No.	%	No.	%	No.	%	No.	%
Organization own internal audit dept.	34	85						
External auditors	4	10	6	15				
Management consultants			2	5				
Finance/ accounts dept.	2	5	2	5				

34% or 85% of the respondents stated that using their organizations own internal audit department is their choice of a suitable method of conducting a management audit. 4 or 10% of the respondents indicated that using external auditors is their most important choice while 6 or 15% stated that it is the second most important method. The use of management consultants has been considered as the second most important method by 2 or 5% of the respondents. The use of finance or accounts department is considered as the most important option by 2 or 5% of the respondents while another 2 or 5% of the respondents consider it as the second most important choice.

Section II

Q1. How would you rate the contributions of management auditing exercises to improvements in efficiency and effectiveness in your organization?

	Number	Percentage
Very High	6	60
High	4	40
Low	—	—
Very Low	—	—
Nil	—	—

6 or 60% of the respondents indicated that management auditing exercises contributed very highly to improvements in efficiency and effectiveness while 4 or 40% stated that these contributions were high.

Q2. Who conducts management auditing for your organizations?

	Number	Percentage
Internal Audit Dept.	6	60
External Auditors	8	80
Management Consultants	—	—
Finance/ Accounts Dept.	—	—

6 or 60% of the respondents depend on their own internal audit department for the conduct of management auditing while 8 or 80% of the respondents make use of the services of external auditors. Some of the respondents use a combination of both.

Q3. How often is management auditing conducted in your organization?

Frequency	Number	Percentage
Twice in a year	10	100
Once in a year	—	—
Once in two years	—	—
Rarely	—	—

All of the respondents stated that management auditing is conducted twice in a year.

Q4. What kinds of difficulties do auditors/ consultants face when conducting management auditing of your organization?

Difficulties	Number	Percentage
Lack of cooperation from managers	—	—
Unavailability of updated records	—	—
Inaccessibility to records	—	—
Incomplete records	—	—
No difficulties faced	10	100

10 or 100% of the respondents stated that their auditors or consultants do not face any difficulties when conducting a management audit of the organization.

Q5. To whom is the management audit report submitted in your organization?

	Number	Percentage
Member of the Board of Directors	6	60
Chief Executive Officer	2	20
Financial Controller/Manager	2	20
Departmental Heads	—	—
Other designated staff	—	—

6 or 60% of the respondents stated that the management audit report is submitted to a member of the Board of Directors while 2 or 20% stated that it is submitted to the Chief Executive Officer. Another 2 or 20% stated that is submitted to the Financial Controller.

Q6. In your organization who is responsible for supervising the compliance with the management audit report?

	Number	Percentage
Member of the Board of Directors	2	20
Chief Executive Officer		
Financial Controller	8	80
Audit Department	—	—
Departmental Heads	—	—
Other designated staff	—	—
External Auditor/ Consultant		

2 or 20% of the respondents stated that a member of the board of directors supervises compliance with the management audit report while 8 or 80% stated that is the financial controller.

Q7. How often are management audit reports made available to the affected managers for their comments/ compliance?

	Number	Percentage
Always	10	100
Sometimes		
Rarely		
Never		

10 or 100% of the respondents stated that the management audit reports are always made available to the affected managers for their comments or compliance.

Q8. What is the frequency of repeat objectives?

	Number	Percentage
Very High	2	20
High	8	80
Low		
Very Low		
None		

2 or 20% of the respondents stated that the frequency of repeat objections is high while 8 or 80% stated that it is low.

Q9. To what extent does the organization enforce disciplinary action against managers in cases where negligence and/ or non-compliance with laid down procedures is established?

	Number	Percentage
Very High	4	40
High	6	60
Low		
Very Low		

4 or 40% of the respondents stated that the enforcement of disciplinary action against managers is to a very high extent while 6 or 60% stated that it is to a high extent.

Q10. How often does your organization provide training and development to its managers with the aim of improving efficiency and effectiveness?

	Number	Percentage
Frequently	6	60
Rarely	4	40
Never		

6 or 60% of the respondents stated that their organization frequently provides training and development to its managers while 4 or 40% stated that they rarely do so.

Q11. To what extent do you believe that the following factors contribute to positive management audit results?

	Very High		High		Low		Very Low	
	No.	%	No.	%	No.	%	No.	%
Training and Development	10	100						
Promotions and Increments	10	100						
Performance Evaluation	10	100						
Conducive work environment			8	80	2	20		
Incentive Programmes			8	80	2	20		

10 or 100% of the respondents indicated that training and development contributed to a very high extent in positive management audit results while another 10 or 100% of the respondents stated that promotions and increments also contributed to a very high extent. 10 or 100% of the respondents stated that performance evaluation contributed to a very high extent in positive management audit results. 8 or 80% of the respondents stated that conducive work environment contributed to a high extent while 2 or 20% stated that it contributed to a low extent in positive management audit results. Incentive programmes have been indicated by 8 or 80% of the respondents as contributing to a high extent while 2 or 20% stated that the contribution is low.

CHAPTER FIVE

5.1 SUMMARY OF THE RESULTS:

One of the most important results of the field research was that out of a total of 50 business organizations that were surveyed, only 10 or 20% were engaged in management auditing exercises. 40 or 80% of the respondents consider themselves as operating in a highly competitive environment and of these 33% do conduct management auditing exercises. This result shows that most of the business organizations are in a situation that calls for the application of management auditing as a tool for improving efficiency and effectiveness and thereby positioning them to compete more favourably in the market .

The results also show that 16 or 32% of the respondents believe that the Kingdom's imminent membership to the WTO would result in greater emphasis on management auditing. Out of this figure, 50% are presently conducting management auditing and the other 50% are not. The relatively low number of respondents who believe that membership of the WTO would result in greater emphasis on management auditing may be attributed to the fact that there are very few public awareness campaigns on the effects of WTO membership on business organizations in the Kingdom. This is confirmed by the fact that 34 or 68% of the respondents are unsure of the effects of WTO membership on management auditing .

The survey has shown that the constraints facing business organizations that do not exercise management audits include and most importantly, the lack of qualified and experienced staff. Other reasons are the absence of an operational framework for the audit and the financial cost of such an exercise.

Of significance is the fact that 50% of the respondents from the construction sector indicated that they conduct management auditing and this is the highest result for any sector of the economy. This result reflects the high importance being attached to management auditing by the construction sector ,

An important result of the study was the revelation by all the organizations that do not conduct management audit that they expect high improvements in efficiency and effectiveness by conducting such audits. This shows that there is a very high degree of awareness of the benefits of management auditing by business organizations that are not currently conducting management auditing. Regarding the choice of auditors, most organizations stated that they would use their own internal audit department for such exercises.

Regarding the organizations that practice management auditing, all of them stated that such exercises have contributed to a high extent in improvements to efficiency and effectiveness and that such exercises are conducted by either the internal audit department or the external auditors or by a combination of both. The frequency of the management audit exercise has been reported to be twice in a year

by all of the respondents. 60% of the respondents who are involved in management auditing stated that the report is submitted to a member of the Board of Directors while 20% stated that it is submitted to the Chief Executive Officer. The other 20% stated that the report is submitted to the Financial Controller or Manager.

Another interesting observation was that 80% of the respondents indicated that the Financial Controller is responsible for supervising the compliance with the management audit report while only 20% reported that this task is assigned to a member of the Board of Directors.

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Training and development of managers is being provided frequently in 60% of the organizations that are engaged in management auditing while 40% of the respondents indicated that this is rarely so.

Finally the result of the study has shown that factors such as training and development, promotions and increments and performance evaluation contributed in a very high manner to positive management audit results.

5.2 CONCLUSION:

The results of the research study has shown, among others, that some of the assumptions made by the researcher have been proven to hold true while others have not. The assumption that business organizations do not have properly

documented procedures and policy statements has been proven to be incorrect to a large extent. The result of the research has shown that most business organizations do have to a large extent documented policies and procedures that govern and guide their operations.

The hypotheses made by the researcher that business organizations face constraints in conducting management audits has been proven to be correct. The major constraints identified by the study includes lack of qualified and experienced staff, absence of operational framework for management auditing and financial costs.

The assumption that business organizations conducting management auditing rely on external auditors for this exercise has been shown to be only partially true as the internal audit department also participates to a large extent in the conduct of management auditing exercises.

My assumption that the management auditing report does not reach the Board of Directors or the Chief Executive Officer has been proven to be incorrect. In 80% of the cases the report does reach the Board or the Chief Executive.

The results of the research have shown that contrary to my assumption, all the business organizations do indeed fully appreciate the benefits of conducting management auditing. This shows that my assumption has been incorrect.

The assumption that certain sectors of the economy are more involved in management auditing than others has been proven to be correct as exemplified by the construction sector. Also, business organizations that are operating in highly competitive markets reported higher rates of management audits, which proves that the assumptions made do hold true.

The assumption that the larger the paid up capital the more likely that the organization would be involved in management auditing has not been proven to be correct. Organizations with medium sized paid up capitals reported the highest rates of management audits.

One of the most significant results of this research study is the fact that only 20% of the business organizations in the Kingdom do conduct management auditing exercises. However, what is equally significant is the fact that the other 80% do fully appreciate the benefits of conducting management auditing exercises. Infact, all the respondents stated that if they were to conduct management auditing of their organization, they expect the improvements in efficiency and effectiveness to be high. However, the major crippling factors that are facing such organizations are the lack of trained and experienced staff as well as the absence of an operational framework for the audit.

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Competitiveness and the imminent membership of the Kingdom into the WTO are driving factors that will push business organizations towards embracing the culture of management auditing practices. This is easily understandable

because competition and opening up of markets allow only for the survival of the fittest and this can be achieved by being more efficient and effective.

Organizations that conduct management auditing make use of their internal audit department or external auditors and in some cases, a combination of both. The frequency of the audit has been reported to be twice in a year.

The submission of the audit report in 60% of the cases is to the Chief Executive Officer. This goes to show the great importance being attached by the organization to this report. However, the same cannot be said for the follow-up or supervision of the compliance as in 80% of the cases, this responsibility is left to the financial controller. If this were a financial audit such a situation would have been ideal but as this is not a financial audit, the situation is far from ideal.

The enforcement of disciplinary action and training and development programmes for managers without doubt go a long way in ensuring that laid down procedures are observed and managers are abreast with the latest methods and techniques for efficient, effective and economic productivity.

Management auditing results are affected by such factors as performance evaluation, promotions and increments as well as training and development which also affect employee morale and thus the quality of output.

It can therefore be said that while business organizations do fully appreciate the benefits of management auditing , few are practicing it. Factors such as lack of qualified and experienced staff as well as the absence of operational frameworks or manuals contributed greatly to the low level of management auditing activities among business organizations. If these obstacles could be overcome the prospects of management auditing in the Kingdom would indeed be very bright as more and more business organizations would embrace the culture of management auditing.

5.3 RECOMMENDATIONS:

In order to spread the practice of management auditing among business organizations and to be able to obtain the best possible results from such exercises, I am recommending the following:

i) Supervision of compliance with the management audit report should be assigned to an executive committee headed by a Board member or the Chief Executive. This action will result in emphasizing the great importance being attached to the compliance and the affected managers will take the task with more seriousness.

ii) The task of management auditing can be handled by the internal audit department of an organization, however, the involvement of external auditors is strongly recommended. The external auditors may jointly undertake the auditing task with the internal auditors or they may carry out their own

independent appraisal from time to time. I am recommending this so that the external auditors can serve as a check to the internal auditors.

iii) Managers should be continually trained and developed so that they keep abreast of the latest developments that will ensure efficient and effective output. Training courses could be arranged and carried out in-house or they could be external, depending upon the facilities available.

iv) Internal Auditors should be trained in the science and art of management auditing so as to enable them handle this task in a professional way that will ensure positive and progressive results. This training can be in the form of short courses or seminars that are arranged by professional audit firms. This training will make more auditors and accountants skilled in the task of management auditing.

v) Operational framework or guide for the conduct of management auditing should be made available to business organizations and interested auditors or accountants. This operational framework will serve as a guide in the carrying out of the audit and ensure that is within some set standards.

vi) Management should be held accountable for the results of a management audit. Infact, the appraisal of the management team should be on the basis of the outcome of the management audit. With such a system management will work hard to ensure a positive management audit result is achieved.

vii) Public awareness campaigns on the effects of WTO membership on business organizations in the Kingdom should be held regularly. This campaign will enlighten business organizations on the full impact of WTO membership and thus pave the way and prepare them for management auditing as a tool for facing this new challenge .

APPENDIX

Questionnaire

1. Does your organization conduct management auditing exercises?

   a) Yes. ☐

   b) No. ☐

2. In which sector of the economy does your organization operate?

   a) Construction ☐

   b) Manufacturing ☐

   c) Marketing and Distribution ☐

   d) Service ☐

   e) ..... Other (Please specify) ☐

3. What is your organization's paid–up capital?

   a) Up to SR. 100,000. ☐

   b) Between SR. 100,001 and SR. 499,999 ☐

c) Between SR. 500,00 and SR. 1,000,000 ☐

d) Between SR. 1,000,001 and SR. 10,000,000 ☐

e) Above SR. 10,000,000. ☐

4. What is the level of competition in your target market?

a) Highly Competitive ☐

b) Fairly Competitive ☐

c) Uncompetitive ☐

5. Would there be more emphasis on management auditing as a result of the Kingdom's imminent membership of the WTO?

a) Yes ☐

b) No ☐

c) Unsure ☐

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If your answer to (1) above is No, then answer section I only and If your answer is yes then proceed to section II.

Section I

1. Please indicate the availability or otherwise in your organization of the following:

		Available	Unavailable
a)	Updated Organization Chart	☐	☐
b)	Staff Job Descriptions	☐	☐
c)	Mission Statements	☐	☐
d)	Operating Manuals/ Guides	☐	☐
e)	Staff Appraisal System	☐	☐
f)	Specification of Responsibility and Authority	☐	☐
g)	Newsletters or Circulars	☐	☐

2. Which of the following do you consider as constraints to your organization in the conducting of management auditing?

a) Financial Costs ☐

b) Lack of Suitably Qualified and Experienced staff ☐

c) Absence of Operational Framework/ Guide for Management Auditing ☐

d) Doubtful Benefits to the Organization ☐

e) Marginal Benefits to the Organization ☐

3. By conducting a management audit of your organization, how would you rate the expected improvements in terms of efficiency and effectiveness?

a) Very High ☐

b) High ☐

c) Low ☐

d) Very Low ☐

e) Unchanged ☐

4. Which of the following method do you believe is suitable in terms of cost and effectiveness for your organization if your were to conduct a Management Audit? Number your choice according to importance with 1 being the most important.

a) Organization's own Internal Audit Department.

b) External Auditors

c) Management Consultants

d) Finance/ Accounts Department

Section II

1. How would you rate the contributions of Management Auditing exercises to improvements in efficiency and effectiveness in your organization?

   a) Very High ☐

   b) High ☐

   c) Low ☐

   d) Very Low ☐

   e) Nil ☐

2. Who conducts Management Auditing of your organization?

   a) Internal Audit Department of the Organization ☐

   b) External Auditors ☐

   c) Management Consultants ☐

   d) Finance/ Accounts Department of the Organization ☐

3. How often is Management Auditing conducted in your organization?

   a) Twice in One Year ☐

b) Once in a Year ☐

c) Once in Two years ☐

d) Rarely ☐

4. What kinds of difficulties do auditors/ consultants face when conducting management auditing of your organization?

a) Lack of Cooperation from the Managers ☐

b) Unavailability of Updated Records ☐

c) Inaccessibility to Records ☐

d) Incomplete Records ☐

e) No Difficulties Faced ☐

5. To whom is the Management Audit report submitted in your organization?

a) Member of the Board of Directors ☐

b) Chief Executive Officer ☐

c) Financial Controller/ Manager ☐

d) Department Heads ☐

e) Other Designated Staff ☐

6. In your organization who is responsible for supervising the compliance with the Management Audit report?

a) Member of the Board of Directors ☐

b) Chief Executive Officer ☐

c) Financial Controller ☐

d) Audit Department ☐

e) Department Heads ☐

f) Other Designated Staff ☐

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g) External Auditor/ Consultant ☐

7. How often are Management Audit reports made available to the affected managers for their comments/ compliance?

a) Always ☐

b) Sometimes ☐

c) Rarely ☐

d) Never ☐

8. What is the frequency of repeat objections?

a) Very High ☐

b) High ☐

c) Low ☐

d) Very Low ☐

e) None ☐

9. To what extent does the organization enforce disciplinary action against managers in cases where negligence and/ or non-compliance with laid down procedures is established?

a) Very High ☐

b) High ☐

c) Low ☐

d) Very Low ☐

10. How often does your organization provide training & development to its Managers with the aim of improving Effie icy and effectiveness?

a) Frequently ☐

b) Rarely ☐

c) Never ☐

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11. To what extent do you believe that the following factors contribute to positive management audit results?

	Very High	High	Low	Very Low	None
a) Training and Development					
b) Promotions and Increments					
c) Performance Evaluation					
d) Conducive work environment					
e) Incentive Programmes					

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