Module 11 · Management Audit in Different Functions P17 · 11.1–11.11

SM pp. 495–533, exercise 534–540. **41 marks in 7 papers. Every December paper has had a Module 11 Q7(b)** (Dec'23 personnel development, Dec'24 corporate development, Dec'25 environmental audit), CSR came long twice, and **energy audit sits in the MQP and the postal paper but has never been asked**.

Paper	Question	Paper	Question
Jun'23	Q8(a) **benefits of CSR + how the internal auditor contributes** (9) · MCQ **360° feedback**	Jun'25	—
Dec'23	Q7(b) **evaluating personnel development** · MCQ consumer service audit examines management's responsibility to consumers	Dec'25	Q7(b) **benefits of environmental auditing**
Jun'24	—	Jun'26	—
Dec'24	Q7(b) **corporate development audit: four dimensions + scope** · Q6(b) **CSR + internal auditors in a CSR audit**	Dec'26?	MQP Q6(b) **energy audit** · postal Q7(a) **energy audit + functions of the energy auditor** · postal MCQ consumer service audit

DEC'26 PREDICTION

- **Energy audit** (11.7): about 30% in all (Q7(b) 15% + Q6(b) 15%). Learn the definition (EC Act 2001), the five functions of the energy auditor, preliminary vs detailed audit, specific energy consumption.
- Q7(b) is shared with Module 10 (about half each). Module 11 candidates: personnel development (10%), productivity audit (10%), corporate development, consumer services, environmental (5% each). CSR audit as Q6(b): 5%.
- MCQ facts: 360° feedback · consumer service audit = part of **social audit** · CSR thresholds 500 / 1000 / 5 crore · 2% · **30 days** to the Unspent CSR Account · assurance = **three parties**.

MAP OF THE MODULE

Topic	Exam
11.1 corporate objectives and culture · 11.2 corporate services audit	essays only
11.3 corporate development audit	Dec'24
11.4 personnel development · 11.5 consumer services	Dec'23 (+ MCQs)
11.6 environmental audit	Dec'25
11.7 energy and utilities	**MQP, postal**
11.8 productivity · 11.9 propriety · 11.11 social cost-benefit	never
11.10 CSR audit	Jun'23, Dec'24

11.1–11.2 Corporate objectives and culture · corporate services audit

- A **business objective** is a **measurable step** with a time frame and resources; a **goal** is a broad, general outcome ("become the largest maker of bicycles" = goal; "increase sales by 2.5% each quarter" = objective). Small-business objectives: **profit maximisation** (ethically), **survival**, **growth** (economies of scale). Objectives can clash (governance vs profiteering; long-term investment hits short-term cash). [SM 495–496]
- **Culture** has no accepted definition; it rests on assumptions about human behaviour, legacy, the relation to the environment, appropriate emotions, effectiveness. Shared values: outcome, people and team orientation, attention to detail, stability, innovation, **praising failure**, aggressiveness; degree of **hierarchy** (high, moderate, low), urgency, people vs task orientation, functional orientation, **sub-cultures**. [SM 496–498]
- **Managing culture**: identify "artifacts" → convene employee groups from all levels → test the underlying assumptions → share findings → a **culture management action plan**. Founders' beliefs often go unchallenged though they may be outdated. [SM 499]

- SM WORDS **"Corporate Services"** = the service-oriented obligations of a corporate entity to **consumers, employees, shareholders, fellow businessmen, community and State**; the scope is a critical examination of the services rendered and of the enterprise's **awareness and responsiveness**. [SM 500]

Group	Scrutiny and evaluation criteria
Consumers	quality products, right quantity, price, place, time
Employees	pay, safety, welfare, industrial relations
Shareholders	safety of investment, fair return, capital appreciation
Community	social cost and benefit (social audit), public relations
Fellow businessmen	business ethics, fair trade dealings
State	spirit of the law, fair trade, taxes, service in emergencies

Means (customer relations, wise use of scarce resources, real social needs, fair prices, new products, stable employment, pre-empting legislation) → evaluation (better quality of life) → ends → **long-term profitability**. Questions: what a business **may**, **can**, **wants to** and **should** do. [SM 500–501]

11.3 Corporate development audit · Dec'24 Q7(b)

- **SM WORDS** Corporate development covers **potential** (structural build-up) and **kinetic** (organisation in action) aspects. The audit "approaches the structure and process of organisation, both in its potential and its transformation into kinetic energy": **unless an enterprise is structurally well equipped it cannot perform** its functions (size, technology, investment, product-mix, diversification, delegation, development of people). Being a going concern, it is a **continuous exercise**. [SM 502]
- Components: objectives (long, medium, short term) and plans (strategic, tactical, decisive) → **organisation development** (structural, functional, coordination, accountability) and **management development** (portfolio, succession, quality, personal development; personnel planning, industrial relations, participation); operation / system audit supports it. [SM 503–504]
- **Characteristics**: a multi-disciplinary team; planning and validation of decisions are the prime mover; achievements, failures, threats are the pointers; communication through a **"Point of Contact"**. External and internal environments. It assures that forces work for betterment, motivation and coordination are understood, and planning, coordination, motivation and control are discharged in the right spirit. [SM 505–506]

MODEL ANSWER · DEC'24 Q7(b): FOUR DIMENSIONS + SCOPE

Four essential dimensions: [SM 502–503]

1. **Regularity**: the different parts of the body corporate are under **constant watch**.
2. **Systematic check**: assessing the **changing requirements** of the corporate body in the context of forces from within and outside.
3. **Review**: assesses **past performance**, its quality and contribution to corporate goals; examines **deviations** and suggests measures.
4. **Appraisal**: examines whether the character and quality of the **goals match the resources employed against the attainments**; suggests the future course: **nothing is taken for granted, even goals**.

Scope (micro and macro): [SM 504–505]

1. **Corporate planning and policy**: long-term; strengths and weaknesses; product, production, finance, personnel, managerial **succession**.
2. **Corporate forecasting** (medium and short term): link of corporate plans with industry plans; market share; factors (demand, trends, competition, economy); match with national plans.
3. **Corporate strategy**: long term = will it survive as a viable entity? Short term = strategy on existing lines. Four dimensions of a strategic audit: product lines and competitive position; R&D and operations; financial analysis and management; top management.
4. **Corporate externalities**: economy, industry structure, technological obsolescence, socio-political-cultural environment.
5. **Corporate internalities**: organisation, management and personnel development and their sub-systems.

11.4–11.5 Personnel development · consumer services audit · Dec'23 Q7(b), MCQs

MODEL ANSWER · DEC'23 Q7(b) "HOW DO YOU EVALUATE PERSONNEL DEVELOPMENT?"

- The best, most loyal employees often **started near the bottom** and rose with their manager's help, support and encouragement: that is employee development; a well-managed company has **systems** for it, and managers trained in **coaching, feedback, mentorship**. [SM 507]
- **What managers should do**: delegate responsibility; honest, candid feedback; suggest specific development opportunities; motivate for risk and reward; show true **L.E.A.D.E.R.S.H.I.P.** (loyalty, empathy, accountability, determination, encouragement, respect, selfless, humble, integrity, passion). [SM 507]
- **Formal strategies**: general and specific **training**, soft skills (communication, negotiation, leadership) and hard skills (coding, accounting); **psychometric studies** for leadership roles. **Informal**: on-the-job training, **shadowing**, mentorship, coaching promising employees. [SM 507]
- **Performance evaluation**: annual appraisal against the **KRA**; goal setting; periodical review and mid-term changes; the aim is **feedback**. Tools: **rating scales** (numerical, ratings placed on a **bell curve** to find top performers); **360° feedback** (managers, subordinates and peers rate from every angle; wide view, but risky if the employee is unpopular or a supervisee is unhappy); **Management by Objectives** (actual vs objectives agreed the prior year, e.g. sales). [SM 507–508]

*Jun'23 MCQ: feedback from managers, subordinates and peers "from every angle" = **360° feedback mechanism**.* [SM 508]

- **Customer service** = the experience customers get when they interact with an organisation (business to business and business to consumer). Principles: respect for requirements, commitment, clear and accessible information, **well-trained customer-focused staff**, clear communication, earliest resolution of complaints, use of feedback. Good practice: surveys by independent parties, service levels vs targets, focus groups, results acted on, governance forum with **board-level updates**, KPIs, colleague feedback, all complaints and social media analysed. [SM 509]
- **Audit specifics**: is there a complaint registration process? a dedicated team? a documented complaints policy? is customer **WOW (wish on worth)** measured? any legal action for failing customers? are complaints **tracked** (patterns)? [SM 510]
- **Role of internal audit**: reasonable assurance to the board over customer service and complaint resolution; use risk metrics, complaints, product recalls, resolution time; include customer service in risk assessment and cyclical audits; satisfaction index; **Cost of Poor Quality (COPQ)**. Challenges: internal audit seen as "black and white"; conflict over how a complaint should be resolved; no direct access to customers; failure to judge requirements, missing data, unclear legal position. [SM 510]
- **SM MCQ keys**: consumer service audit examines management's **responsibility towards consumers** (= Dec'23 MCQ, postal) and is part of **social audit**. [SM 540]

11.6 Environmental audit · Dec'25 Q7(b) benefits

- SM WORDS Environmental audit is an **independent evaluation of policy and principles, systems, procedures, practices and performance** of a business relating to the environment. **ICC (1989)**, the accepted definition (also EMAS): **"a management tool comprising a systematic, documented, periodic and objective evaluation** of how well environmental organisation, management and equipment are performing, to help safeguard the environment by facilitating management control of environmental practices and assessing compliance with company policies". Also US EPA; CBI (1990): not "green-washing", a total strategic approach. [SM 511]
- **Features**: role of management (part of internal control; capex proposals); **EIA** predicts impacts of **upcoming projects** whereas the audit looks at **existing operations**; systematic and replicable; documentation; continuous review (root cause of deviations); objective evaluation (ISO 14001 needs independent repeat audits); environmental performance. [SM 512]
- **Objectives**: (i) determine and document **compliance status**; (ii) improve performance at facilities; (iii) assist facility management; (iv) raise **awareness**; (v) develop the environmental management control system; (vi) improve risk management; (vii) protect from **liabilities**; (viii) conservation policy; (ix) **fund allocation** (capex, opex); (x) a basis for optimising resources. [SM 513]
- **Four stages**: **pre-audit** (background, objectives, scope, criteria, team, **protocols**, inform the facility, desktop review) → **on-site** (opening, facility tour, inspection and evidence, interviews, findings, **exit conference**) → **post-audit** (final evaluation, major / minor findings, report to the Audit or Risk Committee) → **follow-up** (action plan with owner and date). [SM 514–516]
- **Report contents**: executive summary; background; objective and scope; observations (conformity, good practices, environmental costs and liabilities, staff awareness, overall status); recommendations; agreed actions with dates; criteria; evidence; isolated vs **chronic** problems. **Tools**: checklists, questionnaires (protocols), questioning (not interrogation), observation, photographs (with approval), research. [SM 516–517]

MODEL ANSWER · DEC'25 Q7(b) BENEFITS OF ENVIRONMENTAL AUDITING (SM ORDER)

1. **Improves the efficiency of the EMS**: assesses its performance, finds deficiencies, basis for improvement plans and corrective action.
2. **Compliance with environmental laws and standards**: the most important benefit, **cost-effective compliance**; avoids reputational risk.
3. **Risk mitigation**: a risk management tool for compliance with legislation.
4. **Meeting stakeholders' expectations**: reassures them; reputation as a **good corporate citizen**.
5. **Cost and environmental benefits**: cost-effective solutions (water treatment plant, solid waste equipment, alternate fuel), less operational inefficiency.
6. **Links operating processes to environmental impacts**: continual improvement, sustainability.
7. **Certification**: a step towards **ISO 14001**, Energy Star, LEED, FSC, Chlorine Free Products Association.
8. **Employees' awareness** of policy, health hazards, risks.
9. **Assists decisions**: an environmental database, investment decisions, competitive advantage, accreditation.

[SM 513–514]

11.7 Energy and utilities audit · MQP Q6(b), postal Q7(a) · the unasked favourite

- **Utility audit** = audit of utility expenses (electricity, gas, water / sewer): billing errors and savings, consumption monitoring. Electricity / gas checks: meter reading, demand basis, wrong rate or tax, multiplier, contract and tariff errors; water: meter reading, multiplier, surcharges, meter usage. Cost reduction depends on billing accuracy, consumption recording, compliance, **equipment age and power consumed**. [SM 518]
- SM WORDS **Energy Conservation Act, 2001**: energy audit is **"the verification, monitoring, and analysis of the use of energy including submission of technical report containing recommendations for improving energy efficiency with cost-benefit analysis and an action plan to reduce energy consumption"**. It balances total energy inputs with their use; it **assesses the usage**

MODEL ANSWER · KEY FUNCTIONS OF THE ENERGY AUDITOR (POSTAL Q7(a))

1. **Quantify** energy costs and quantities.
2. **Correlate trends** of production or activity to energy cost.
3. Identify **major energy-consuming equipment and processes**.
4. Identify **obvious inefficiencies and energy wastes**.
5. Identify areas for **further detailed investigation**.

[SM 520]

- **Types** (depend on industry and potential savings): **preliminary** = quick: establish consumption, estimate savings, find the **"low hanging fruits"** and no / low-cost savings, set a reference point, areas for detailed study,

pattern and **identifies saving opportunities**; it is the **1st step** of any energy management programme. [SM 519]

- **Phases**: analysis of historical consumption and cost data; preliminary audit (major consumers, obvious waste, priority areas). **Specific energy consumption** = energy per unit of production: monitors efficiency, sets targets, a standard, better cost allocation; a rise = loss of efficiency (ageing equipment, low production, breakdowns; or running beyond normal capacity; product-mix changes). [SM 519–520]
- **Measures**: short term (attitude of employees, routine maintenance); medium term (small investment on the fluid network, large on engineering); long term (interconnection of processes, changing the process principle). [SM 520]
- **Need**: energy, labour and materials are the three top operating expenses; it orients cost reduction, preventive maintenance and quality control; energy mix, conservation technology, retrofits; **"the translation of conservation ideas into realities"**. Primary objective: reduce **energy per unit of output** or operating cost; a **bench-mark** for managing energy. [SM 520–521]

uses existing data; **detailed** = full implementation plan, most accurate savings estimate, an **energy balance** compared with utility bills; in two phases. [SM 521]

- **Phase I, pre-audit**: an initial site visit (about one day): aims, economic guidelines, major consumption data, site drawings, a tour; to find main consuming areas, existing and needed **metering**, instruments, time frame, macro data, awareness. **Phase II, detailed**: checks at nights and weekends too; report of energy inputs and outputs by department, efficiency of each step, improvements with cost and **payback**, recommendations for engineering and feasibility studies. Data: consumption by source and department, material balance, tariffs, site services (steam, compressed air), sources of supply, fuel substitution and **co-generation**, energy management procedures; baseline: technology, capacity utilisation, inputs, water, fuel, electricity, steam, wastes, rejection %, yields. [SM 521–523]
- It answers **what to do, where to start, when to start, at what cost, and for what benefits**; helps cost optimisation, pollution control, safety. [SM 523]

11.8–11.10 Productivity and propriety audit · CSR audit · Jun'23 Q8(a), Dec'24 Q6(b)

- **Productivity** = output ÷ input (men, materials, machines, land, capital, energy, organisation); overall productivity needs **factorial productivities**. Content: **efficiency ratio** (actual production in standard hours ÷ actual hours worked) and **activity ratio** (actual production in standard hours ÷ budgeted production in standard hours). Express it by the major input (output per unit of raw material or electricity; labour by number, man-hours or wages; plant = capacity utilisation; capital = profit as % of capital employed). **Problems**: inputs have different units; inputs are inter-dependent; no unique mathematical solution. [SM 524–525]
- **Propriety audit**: audit of executives' decisions for **stakeholders' interest and financial discipline**, within sanction, authority, rule and law; it also investigates the **justification and necessity** of spending. Canons (benefit more than spent; no sanction to one's own advantage; public money not for a person or section unless insignificant, enforceable in court, or policy / custom; allowances not a source of profit). Examines estimates and excesses, avoidable delays, wasteful spending, recurring losses, comparison with similar schemes, targets on time, objectives met. **Limitations**: slows decisions; rule-bound thinking; useless if late. Used in government companies (C&AG) and in cost and financial audit. [SM 526–527]
- **Social cost-benefit analysis**: identifying and assessing benefits and costs of alternatives for economic and social goals; project appraisal ignores social costs (a labourer taken from agriculture). Purposes: measure future benefits, costs, net benefits, choose the best project. Essentials: objectives, benefits, costs (direct, indirect, imputed), present value. Techniques: **UNIDO** (social IRR), **Little and Mirrlees**, **Indian Planning Commission** (shadow exchange rate). [SM 532–533]

Other SM MCQ keys (SM 539–540): management auditor needs knowledge of all of financial accounting, production, costing · recommends information flow **internally and externally** · versed in MBE, MBO, delegation · **no time limit** for the management audit report · cost audit judges **internal**

MODEL ANSWER · CSR + THE INTERNAL AUDITOR (JUN'23 Q8(a), DEC'24 Q6(b))

Meaning: **s.135** + **Schedule VII** + the CSR Policy Rules, 2014 give the framework (SM MCQ 16: all three). Rule 2(1)(c): CSR includes projects in Schedule VII, or projects by the Board on the **CSR Committee's** recommendation under the declared CSR Policy. CSR is **corporate self-regulation** built into the business model, ensuring compliance with the spirit of the law, ethics and international norms: a company must give **more than profits** to shareholders. [SM 528]

Benefits: externally a **positive image** and respect among peers; internally **loyalty and trust** of employees; credibility with employees, specialists (analysts, rating agencies, government, NGOs), business partners (supply chain) and communities. [SM 528]

Internal auditors' involvement: (i) facilitate or advise on CSR **self-assessment**; (ii) **audit CSR programmes**, singly or as a broad review of whether CSR objectives are achieved; (iii) coordinate or take part in **CSR report verification**; (iv) check spending is in the **specified areas**. Roles: help **design and implement the CSR management system**; limited-scope audits for top management; **compliance audits**. Standards: **ISAE 3000** (assurance other than audits of historical financial information, IFAC) and **AA1000** (principle-based sustainability assurance). [SM 529]

- **Applicability** (preceding financial year): net worth **₹ 500 crore**, or turnover **₹ 1000 crore**, or net profit **₹ 5 crore** → CSR Committee of **3** or more directors, at least **1** independent (unlisted / private without IDs: none; a private company with **2** directors: both; foreign company: **2** persons). Committee: formulate policy, recommend amount, monitor. Board: approve and disclose the policy (website), ensure at least **2 %** of the average net profits of the **3** preceding years is spent, else give reasons; prefer **local areas**; net profit u/s **198**. [SM 529–530]

efficiency · management auditor's work begins **after the statutory auditor's ends** · useful for all of targets, assistance, staff relations · Leslie R. Howard: **highest level downwards** · corporate planning: **SWOT** · assurance: **three parties** (practitioner, responsible party, intended users) · no fixed evidence: relies on **experience and acumen** · report to the **management of the concern** · CSR applies to **every company**; turnover **₹ 1,000 crore**. [SM 539–540]

- **Schedule VII**: hunger and poverty, education, gender equality, environment, heritage, armed forces, rural sports, **PM CARES**, incubators and R&D, rural development, slums, disaster management. Routes: directly; own foundation; section 8 company or registered trust; others with a **3**-year track record; pooling with other companies. Unspent amount → **Unspent CSR Account within 30 days** of the year end (SM MCQ 20). [SM 530–531, SM 540]

⚠ SM MCQ 18 KEY IS WRONG · AND TWO RULES THE SM LEAVES OUT

SM MCQ 18 asks the **net worth** threshold and keys "₹5 crore"; the SM's own text (SM 529) and s.135 say net worth **₹500 crore** (₹5 crore is **net profit**). Not in the SM: since 2021, if the CSR obligation is up to **₹50 lakh** no CSR Committee is needed (the Board acts); unspent money not for an ongoing project goes to a Schedule VII fund within **six months** of the year end.