

The Implementation of Management Audit within a Quality Management System – a Case Study

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Abstract

The leveling of former Algerian „socialist companies” - which have known, during nearly a half of a century, a management of autocratic type - is today a very heavy task. The management auditors and consultants must practice a continuous dialogue with all company’s structures and stakeholders in order to proactively involve them in a management audit. The management audit could become a very useful tool for our private and public companies, too, allowing them to apply the most efficient management techniques instead of former passive-repressive system (mostly based on penalty or sanction threats).

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JEL Classification: M42, M11

Introduction

Countries under socialist economy system have inherited companies with numerous weaknesses in terms of management. These dysfunctions can be, in part, explained by a complete absence of competitive environment during more than fifty years and even more for the USSR’s companies. In fact, companies of the socialist old bloc were in monopolistic or oligopolistic situations that didn’t push them in any way to improve the quality of their products and services or to reduce their costs. More seriously than that, they were for more than a half of a century artificially protected from any concurrence in terms of products or services coming from outside because of a protectionism which was close to autarchy. Also in chronic and permanent shortage situations, the marketing function was atrophied. The management of these companies was of centralized and old type.

This study proposes the leveling of these companies through the implementation of a system of management integrated by the management control assessed by a management audit. We therefore propose the implementation of a more modern management system within these companies and which uses different internal, divisionary and international benchmarking in order rise their level at the level of more efficient companies into the globalize world in which we live. But at first, what is the management system? The management audit within the framework of decentralized management “has the mission to insure the conformity between the results of the activities and the organizations’

objectives” Strategic planning of 5 to 10 years and then MTEP of 3 to 45 years, the annual plan and finally budgetisation. The SP comes under the GD of the company, and it is the same for the Medium Term Economic Plan which is a strategic tool.

The audit management must necessary be situated within the framework of an integrated and decentralized management and attends two essential roles [L.M.Constantinescu, 2006]:

- *An Active or a Priori control*: in case where prevention and correction actions are taken before (a priori calculation) the consequences of certain decisions make themselves felt. Calculation of variances and sub-variances during the annual plan with corrective measures before the end of the plan or more exactly of the different plans. The sub-differences calculation allows refining the performance of a company in order to distinguish the exogenous variables from the endogenous ones. In fact, in the hydrocarbons sector, as it is the case for SONATRACH these last years, what is presented as an improvement of the financial results is often caused by the increase of the price of the barrel whereas the physical exported quantities have decreased.

- *A posteriori or reactive control*: when the results are known a posteriori and then definitive, and that the correction can be made only on new operations, so for future plans (N+1...N+n). This implementation of the integrated management system will face many obstacles in particular from the personnel and the supervisory staff who will express their resistance and refusal to change and acquired situations. It concerns the transfer from a centralized authoritarian management to a system based on decentralized and participative responsibility centers. The a priori control is an important characteristic which makes sure that the company uses the more recent management techniques in all its functions. In management, to trust its personnel is good, but to control it is better. In big organizations, the function is wider and more specialized.

1. Audit management

1.1. The management auditor's mission

The management auditor is the responsible person of the management information system of the company. **He is:**

- *The receiver of the system of information and his mission* is following:
 - the definition and qualification of the different responsibility centres. Costs, profits and investments centres;
 - the construction of the information analytic network;
 - the establishment of standards and their periodic revision **since norms are evaluative**;
 - the elaboration of different control panels and performance indicators.
- *The manager of the information system to coordinate and to insure* the circulation of information.
- *The driving force of the information system* to perform the following missions of:
 - information and communication to the decision maker of the company;
 - advising the responsible of the centre;
 - participating at the management of conflicts between units.

The profile of the management auditor in the decentralized management

As the required profiles by petroleum companies in their advertisements are long and utopian, some qualities can be reasonably required and appreciated in the future inspector who must necessarily make training within all the departments:

- Professional qualities: technical and economic polyvalence with 3 to 5 years experience;
- A good technological knowledge: comprehension of the productive, distributive and services processes, costs centers and profit centers. Insistence must be done on the fact that a management auditor must be polyvalent, i.e a technician of the sector and a financial;
- Capacity of observation: the construction of an analytic network, identification of cost factors;
- Empathy: the capacity of an individual to put himself at the place of any other, the imagination of effects and behavior related to the introduction of a qualitative or quantitative performance indicator for an actor;
- Dialogue: discussion with actors of different functions of the petroleum company, the management auditor being the interface of the GD and the different functioning and operational structures of the company;
- Pedagogy: the control panels' presentation under a synoptic shape, precision of cost calculation works;
- The use of colored graphics, pyramids, cheese shaped and pictograms allows a better reading;
- Discretion: The duty of reserve is applied here through the confidentiality regarding the information system and also in the treatment of element. The management auditor is the only person, with the PGD, who has access to information of all the structures (transversally and verticality).

In practice, we can identify some qualities that are very determinant of the assigned roles attributed to the management auditor.

- To master the profession (energy production) in terms of information.
- To have the adequate relationships capacities those are necessary for the procedures animation and manager assistance.
- To contribute to the transformation of the company by associating the operational structures while fixing the realistic objectives.

Today, the management auditor has as role of auditing the strategy department. We talk about a strategic management auditor who guarantees the rational allocation of resources and the creation of the value which is found in the depth of the company's strategy. The strategic management auditor has a function of coupling the organization with the environment, and has to ensure that the chosen strategy is implemented in a pertinent way with the aim to achieve the finalities of the company. As a result, the strategic management auditor has the profession of a provisional management.

1.2. Management auditor difficulties

A. Main success criteria by the management auditor

In a company, the management auditor efficiency requires to:

- Know the internal functioning of the organization in order to adapt in it the inspection implementation.

- Anticipate on the evolution of his environment by the integration of the spatial and temporal dimensions through the implementation of different commercial, competitive, technological evolutions according to Porter's grill.

- Evaluate all the possible combinations between actual resources and its potential ones in order to achieve the strategic objectives (Strategic Plan and MTEP).

- Standardize some practical calculation as the periodic calculation of differences and sub-differences to favor the follow up, the evaluation and the measures said of corrections.

- Dispose of a concrete language, a contractual framework and an execution discipline in order to allow each user to understand what is asked for and what others do.

- Rely on site men (petroleum operational personnel) and to make of the daily change that it impels avoid the negative cultural brakes and favors network and group functioning.

B. Obstacles to the management audit implementation

Frequently, the management auditor comes up against:

- *The attempt of the general direction of the petroleum company :*

- to want to pilot all the dimensions of the strategy, SP, MTEP, ANNUAL PLANS, BUDGETISATION;
- to ask the management auditor to control all what is technically complex and impossible in the petroleum chain.

- *Arbitrary structures of the organization in the centre of responsibility and whose interchanges* [Chiujdea S. Popa, Constantinescu L.M., Nită, Bălăsescu, C., 2011]:

- are based on bilateral relations bringing maneuver margins and wastes;
- report badly the transversal activities and ignore the network effort;
- make the affectation of a margin impossible or a dysfunction on an operation to which many entities have participated.

- *Unsatisfactory exercise conditions, contradictory imperatives :*

- the objectives are not clearly defined;
- the activity is not repeated enough to capitalize an experience;
- the previsions and the measure of ratio because many ratios are less reliable;
- the practices must be positioned while giving the actors autonomy;
- it isn't easy to isolate the place and the moment of the decision to define the best solution.

C. Difficulties to apprehend the organization performance in the petroleum chain :

The management audit feels a big difficulty to implement the pertinent indicators to count the performance of the petroleum chain in all its dimensions.

To measure the intrinsic performance imposes a previous collective reflexion to define what we mean by performance and leads to:

- practice comparisons between the determined periods in time or concurrent in space (Benchmarking).
- use stable performance synthetic indicators with a level-headedness of the quantifiable characteristics.

It's advisable not to mix up:

- the apparent performances and the real performances.
- the individual performances and those of a group of the organisation.

- the performances at a given moment and its evolution through time.

Other forms of the control

A POSTERIORI CONTROL: the control assimilated to verification intervenes when the task is achieved. It consists in the verification that the results are in accordance with the objectives or standards. The budgetary control, thanks to which we periodically measure the differences between the provisions and the achievements, helps also to make sure that the obtained performances do not go away from the numbers fixed initially in the plans. In programs and budgets the same statistical controls of conformity are ranged among this type of tools. Such control forms after the action convenes well to frequently repeated operations. It is also applied to non repetitive operations, to unique projects when the unfolding of the task is planed with precision. The control of the strategy convenes to the tactic when it concerns to appreciate the results.

2. The audit management and other forms of control in the framework of an integrated management

The management audit coexists and it's in interaction with other mechanisms of regulation: internal control; internal audit; execution control; operational audit.

The audit word becomes from the English word "to audit" which **means: to check, to control and to supervise**. Through time, this word has taken the meaning of diagnostic, advice and the contribution of different services to organization chart. Consequently, the audit covers a very large field of activities.

The internal control: the internal control is a more global process implemented and supervised by the general direction to conserve and to control the organization chart. It is in that case in charge of the implementation of all the necessary securities in order to make sure that:

- the taken decisions to ensure the best performances to the organization are correctly applied;
- the behaviors of all its members is in accordance with the procedures or to accepted principals, to law and regulation in force, and follow the direction of the strategic objectives;
- the protection of the patrimony and the quality of the information are guaranteed;
- the conditions for the flexibility and the reaction are gathered in permanence to ensure a maximum quality of the services given in internal as in external.

The internal audit controls the internal control process, i-e the process that conditions the quality of the organization chart services. It questions on its effectiveness and reliability, on its aptitude to detect and correct the dysfunctions, to cover the totality of the operations and to ensure their coherence. It is internal and has as mission:

- to analyze and realize for the manager through a specific internal audit department which communicate its information only to the managers. An auditor implements the control procedures, their application and their appropriateness to objectives;

- to observe and listen the personnel ;
- to find the incoherencies and the weaknesses of the practice;
- to rely on an internal control questionnaire;
- to test the application method of the procedures and their effectiveness.

The internal audit of the accountancy and financial statement is the more frequent.

Conclusions

The leveling of the socialist companies - which have known during nearly a half of a century a management of a centralized type - is a very heavy task. All the basic functions of a company - such as purchasing, manufacturing, accounting, marketing, sales and human resources management – were inadequate for today's global market competition.

Few former socialist companies of Algeria have established partnerships with some occidental partners in order to benefit immediately from their managerial “know how”/ „savoir faire”.

We found that the implementation of an integrated management system could be an effective alternative, i.e. the best future solution for millions of companies which look for leveling their competitiveness on the global market without establishing expensive partnership with occidental firms.

The integrated management system implementation provides to an appropriate management audit subsystem as well as the involvement of qualified and certified management auditors and consultants.

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