Management audit means the audit of the management process. It implies the existence of a tool which will, from time to time, exercise a reconnaissance over the 'modus operandi' of management itself, the word management used in the broadest sense of the term. It involves an appraisal of the activities of an organisation. These activities may be classified in terms of the various steps constituting the management process viz., planning, organising, staffing, direction and control or it could be associated with managerial functions in an organisation viz., marketing, production, finance and auxiliary, but important functions like personnel, procurement, research and development and management information systems and electronic data processing. Management audit can also be conceived of in terms of the managerial process in each management function like 'marketing planning and control', 'production planning and control', 'financial planning and control', and so on. In actual practice the various steps of management inter-mesh although the individual functions retain their identity. However, these separately identifiable functions will have to undergo due co-ordination if the organisation is to be prevented from the dangers of insulated, isolated and individual departments. In fact, coordination is so important that the technicalities involved in individual identity in an organisation have to be sacrificed a bit, to ensure overall organisational stability and balance. Thus, no production manager can afford to ignore the need to conform his activity with marketing operations. The vice-versa is equally true. If individual entities say production or marketing tend to operate as separate, unconnected entities, organisational malfunctioning is inevitable. Hence many schools of thought on 'management' have listed coordination as one of the items involved in the managerial process along with planning, control etc. Thus, management audit may be defined as an attempt at assessing the effectiveness and adequacy of 'management' or evaluating the various steps in the management process and the management functions.

Management Audit—I

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WHY MANAGEMENT AUDIT?
The anatomy of an organisation posits as many problems as human beings. The anatomy of human beings has a concept of 'mental health' and 'physical health'. It has voluntary and involuntary responses and reflexes action. Certain aspects are controllable given a state of health, and others tend to be uncontrollable and demand treatment. Good health makes more and more parameters controllable. Weak health implies limited resistance power.

Likewise an organisation also has a concept of health. The health refers to the qualitative aspects, a la corporate citizen, manifest in terms of social image adherence to high ethical standards in internal and external dealings, acts of philanthropy which benefit the poor, or quantitative aspects like the effectiveness and efficiency of the corporate philosophy, strategy and other related practices employed in the overall management of the wealth-producing resources of a business.

Quantitative dimension refers to the extent of excellence or otherwise measured by the result-resource ratio.

The fundamental objectives underlying management audit may then be laid down as a tool which reviews from time to time the health of an organisation. An ex-post review will reveal the organisational health, signal diseases or their symptoms. It will also highlight the good health enjoyed by the organisation or any segment of the organisation.

However, the past becomes history. It can tell us whether there was a parity between the intended health and actual health. The past is gone and sunk. The future is ahead. Any management tool should, necessarily, guide the future course of action. Management audit by its adequately discreet but sufficiently curious review should be able to perform two critical functions:

* assess the retrospect operations for its qualitative and quantitative integrity; and
* identify the prospective
Management Audit is an attempt to check the qualitative and quantitative dimensions involved in the health of an organisation or any segment thereof.

Operations needed to retain the high attainments of the past or restore the future performance to acceptable levels.

If management audit is restricted to the first aspect, namely the analysis of past, then it is an end in itself. It may bring psychic satisfaction to the members of an organisation but that's all. In this sense, management audit becomes an end in itself. If the tentacles of management audit extends itself beyond historic jurisdictions into futurity, which is its legitimate domain, management audit is not an end in itself. The analysis of the past provides a base to plan corporate strategies, styles and other instruments of management policy employed in the conduct of business. Management audit in this context is a means to an end. It facilitates the evolution of rehabilitation strategies when the audit reveals an unsatisfactory organisational health. Such strategies may be defensive or offensive depending upon the culture of the organisation, the present stamina within the business and the intended rate of rehabilitation. Management audit also signals good organisational health and conditions of prosperity. This facilitates the communication of the need to sustain the various practices of management which have contributed to the high stamina. In fact, management audit should, in such cases, suggest strategies which result in augment of the total synergistic effects.

**HOW MANAGEMENT AUDIT?**

This is an exercise in evolving a modus operandi of the management audit. The various facets of corporate management, subjected to management audit, include the steps in management (planning, organisation, coordination and control), the functional areas of management (production, marketing, finance, personnel, procurement, research and development and management information systems) and the profile of the organisation as a corporate citizen. It is the purpose of this paper to address itself to the audit of the managerial process which includes corporate planning, corporate organisational structure and corporate control process.

Corporate planning, like all planning, is defined as a conscious direction of resources to pre-determined ends. The ends represent the organisational objectives. The strategy is the means employed in the attainment of the organisational goals. Audit of objective is the starting point.

Organisational objective can be oriented or expressed in favour of one function instead of another.

Management audit in this regard should invite a critical look into the justification for this partial flavour.

Quite a few of the companies continue without taking cognizance of the 'partial flavour'. Management audit, operated in an unbiased and objective fashion should identify this one-sided flavour of corporate plan and ensure that —

- if the same style continues it is in fact beneficial to the organisation; and
- if the organisation is likely to suffer a change is recommended.

Just as some companies are 'marketing prone' others are 'production biased'. These companies, thanks to some historic reasons or organisational personalities, tend to place an all-out emphasis on the 'product'.

Today corporate strategy in the consumer goods industry is essentially 'marketing oriented'. It is expressed in terms of 'market share', 'market growth rate', 'market segmentation', 'milking the brand' and 'launching of products' at a time and in a manner which favourably cuts across the intended market segment. The consumer oriented industries and the pharmaceuticals industries in particular fit very well into what Drucker says — “Marketing is the distinguishing, the unique function of the business"
The R & D is so vehemently emphasised that the prolific results of the laboratories are dumped into the market, in the form of new and improved products. The sophistication of the product is taken too far and is totally out of line with the needs of the cultural pattern of the local community. The incremental cost of sophistication exceeds the benefits in any case for society. But, even for the company it does not augur well to continue with products improvement which may not always be satisfying. Thus, such organisations suffer from want of balance.

Management audit should be able to locate such acute bias in planning flavour and ensure that future planning cycles are not coloured by such imbalances. These illustrations throw light on the areas of corporate planning warranting audit. The next item in the corporate planning is the planning process itself. Management audit should evaluate the ‘modus operandi’ of the planning process. The following aspects have to be audited — ‘a priori planning versus a posteriori planning’, ‘periodic planning versus continuous planning’, ‘short range planning versus long range plans’, and physical planning versus financial planning.’

Management audit has to ascertain the effectiveness and adequacy of the basic concepts of the organisation’s corporate planning process.

The historic operations, which are structured on given concepts, will reveal the impact which the planning process has had on the business. Thus, a priori plan, which includes giving targets from the top and expecting the members of an organisation to show results consistent with prescribed goals may or may not be effective. If the organisational culture has been tuned to accept the existing process as a ‘fait accompli’ then all that management audit has to do is to see that the conditions are conducive to get peoples cooperation, which includes absence of resistance in respect of the goals set by a static tool. Because it denies change. However, there has to be an evaluation of the impact of the existing strategy versus the possible potential of alternative strategies. It is quite possible in this context, that the alternative namely ‘a posteriori planning’ will be a better recipe to elicit goal directed behaviour. Management Audit has to weigh at the time of audit the historic impact of existing style of goal setting as against the alternative style and make recommendations which accommodate change in the method of planning.

The next aspect of planning relates to frequency. Planning at one extreme can be based on a single fixed target and set of data leading to the establishment of goals at various levels in the organisational structure. Once, the goals are set, no revisions are made. It is a policy decision to have only periodic planning. Now, here is again a situation for the management audit team to test the efficacy of the technique and more so the attitudes which contribute to the such plans. There is nothing wrong with ‘periodic planning per se’. But, it has to get a kind of clearance for its ability to keep the organisation in good condition and its potential to continue its good historic performance. When conditions in an environment are in a state of flux, periodic planning tends to be obsolete rather fast. Unless, the technique employed to draw plans have a built in potential to re-furbish plans by a process of re-alignment of expectations, planning will not be meaningful.

Corporate planning is an exercise which has to bring results to the organisation. Plans have therefore to be up-to-date and realistic in relation to the conditions around business.

Management Audit has a task here of identifying the relevance of periodic planning and replacing it by continuous planning. It implies a continuous vigilance over parameters affecting corporate functions and formal induction of the altered characteristics of all or important parameters with a view to evolve realistic and up-to-date plans. This choice, between periodic plans and continuous plans, is crucial, because it affects the frequency of planning in terms of formal inclusion of changes into plans and also the overall resources required for planning in terms of intelligence and communication pattern within the organisation to sustain frequent passing on of relevant, up-dated information.

The next important consideration is the extent to which one should make a dent into futurity. And, its corollary the extent to which one should not make a dent into future.

The recipes discussed above have their own merits. In the first kind, there is a possible danger of too much emphasis on short run gains, because the gains appear even in their routine magnitude to be a bonanza. There is little attention paid to the long range prospects. This may be beneficial to those constituents which are favoured to be the recipient of the returns. But the qualitative dimension, including the survival of the firm/industry in the long run is
adversely affected. Thus, the style of planning, with respect to the use of resources — ‘present consumption’ versus ‘abstinence in favour of future reward’ will be an important point for consideration in management audit.

The best example of long-range plan in lieu of present consumption is the Indian economy itself. Our then planners and political leaders, following the pattern of economic development, which Soviet Russia adopted to fulfill certain objectives, not really applicable to India, chose to place the main emphasis on industrial development, particularly in the heavy sector. Thus, over twenty six years of planned development only 22% of the total public sector outlay was spent on agriculture and irrigation while nearly 60% went to industry, mining, power, transport and communications.

The impact of the continued neglect of immediate needs of basic necessities was “that the number of people living below the poverty line, as defined by the Government, itself, is greater today than at the beginning of planning in fact greater than the whole of our population in 1947”.

We can say that national planning style was abstaining from present consumption in favour of future returns. This planning style, of course an important recipe of planning at the national level and the firm level, has to be appraised for its effectiveness and adequacy in the context of two facts:

* Will the alternative recipe not be better and therefore advisable?
* It is fair to expect people, for no fault of theirs, as citizens, consumers, employees, shareholders etc. to wait for long periods of time for their reward.

Thus, when management styles of planning are audited this lacunae of excessive sacrifices involved and hardships entailed can be corrected by inducting a sense of balance between the timing and quantum of input and output.

Management audit has an important task of monitoring the tendencies of plans, which are seemingly alright but have a built-in adverse content.

Yet another kind of tendency is to have at all points of time a short sighted view of things. Thus, over the years many important segments of the corporate sector have been operating rather rigid corporate plans, particularly with respect to price and markets and to some extent even the product lines. Plans have hardly existed to advise management on the need to evolve altered strategies in a changing environment.

There was since 1967 a change from seller’s market, to a buyer’s market. Ever since then, there has been a constant need to alter the pricing formulae operated by enterprise. The style of management on the price front had to be adjusted to accommodate resistance.

But, the changing circumstances were not followed by flexible policies. Instead, enterprise continued with plans, which had pricing policies consistent with the former market situation. Thus, there was a malfunctioning within the firms and also on the without. In the first instance, there was a need for plans to have a built-in flexibility to foresee the economic situation. Granted that this is not possible always, an ex post review should, via the management audit, recommend appropriate response action. The same is true of the market segmentation process. The usual intention of market segmentation is a matter of expediency. It facilitates identification of custo-

One strategy of planning is to go in for short-sighted projects fetching quick returns and keeping everyone concerned happy: customers, employees, shareholders, Government and ‘management itself’. The product quality and price may be tactically geared to suit the immediate functional needs with no prospect of qualitative improvement in the product for want of a long-range plan. The customers benefit in the immediate period and do not really bother about their longer-range needs of improvement in the quality of life via corporates services to them. In a similar manner the returns to each factor are structured to suit the short-run requirements in lieu of long-run prospects. In the alternative we have the long-range brand of planning. People look into the future not in terms of years, but in terms of may be a decade or may be even posterity. This kind of a plan demands sacrifice from all engaged in the arduous task of putting such plans into action. The returns to various entities are likely to flow into future periods after a lapse of some gestation period. It involves sacrifice of present consumption for some time, in favour of a hopeful, probabilistic though, future reward. Such companies are characterised by policies which involve parsimony, none too attractive returns to factors, conservative dividend policy and a growth pattern related to projects which are capital intensive with long gestation periods.
Management audit has to remember that the highest synergy potential, positive and negative, dwells in the human resources. Therefore, audit has to ensure that these energies are being skilfully employed in proper places and effectively deployed over the entire organisation. Skill and dexterity are needed to monitor and mentor the human assets of an organisation. Management audit, in this context, is an opportunity to review the quality of the organisational structure, nay the quality of the human energies, and use it as a barometer to measure the potential of the organisation to achieve the organisational objectives, today, and, more important, meet the needs of the future.

When decisions are taken, and it leads to unfavourable chain reaction, usually a scapegoat is identified. The burden of the responsibility for the mistaken decision is placed on the scapegoat. Management audit has to locate these kinds of cultural pattern and suggest a structure where the authority allotted is commensurate to the responsibility shouldered.

will contribute to the smooth attainment of organisational objectives, and of course, vice versa i.e. an improper blend resulting from an ill arranged scheme can have a noxious impact.

The general practice is to present the intended pattern of relationship (upward, downward and across) between the personnel inter se, in the form of an organisational chart. But, that is the starting point. It is only a means to an end. Management audit has to ensure that the organisational structure is lively in its form and active in its content to tackle the existing and emerging exigencies encountered by business. In order to review this dimension of the organisational structure various aspects have to be examined in the process of management audit. They include —

- centralisation and decentralisation;
- lines of authority and responsibility;
- span of management and chain of command; and
- activity analysis and decision analysis.

Modern principles of management, in view of the growing size of the corporation in the national economy, almost vows by decentralisation, so that the decision centre and the affected centres are as close as possible. Management audit has to, given an existing format of the organisational structure, evaluate two issues:

- are the said principles, centralisation or decentralisation, adhered to; and
- is a revision of organisational policy regarding centralisation/decentralisation warranted to meet the end objective of future performance.

Centralisation implies concentration of decision making power into the hands of a few or an individual in some cases. It implies, ipso facto, the shift of the decisional centres away from the area affected by or concerned with a decision. The top management give the verdict on every matter and that tends to be the rule of law. In many Indian businesses houses although professional management is making a dent into the existing organisational structures, centralisation is almost the rule of law. There is no doubt that in some cases
the organisational size may justify centralisation. Or put it the other way, decentralisation may not be all that necessary. As a recipe, centralisation may be producing the desired results. If that is so, the first issue to be evaluated is taken care of. There is a parity between the intended and actual format of the organisation. And, the second issue does not arise.

But, in many situations, and this is today an ubiquitous problem, it is just not possible to continue with centralisation. Because, change is so rapid, that new and special professional skills are needed to run the same business in its existing and emerging form. Management audit has to look into the compatibility (or incompatibility) of the existing organisational structure (centralised say) to meet the needs of business and make appropriate recommendations which can lead to timely response action. Thus, under Indian conditions, management audit has a special mission which involves advocating transition from centralised structures (family-based units managed by locally evolved recipes viz., ‘bania buddhi’) to decentralised structures where the decisional centres are shifted down in the level to the point where the impact of the decision is actually felt, into the hands of the people possessing professional talent.

Accepting decentralisation as a starting point, management audit has to look into the ‘de jure’ and ‘de facto’ structures. Decentralisation may be accepted in principle and also inducted on paper into the organisational charts and manuals. But, ‘de facto’, the forces of re-centralisation may be rather too strong to be easily warded off in favour of a decentralised structure. The reasons, based on the experience and observation of facts in industry are:

- top management attitudes which perfunctorily accept decentralisation;
- peevish attitudes of the subordinate managers which results in voluntary surrender of power and paves the way for decentralisation;
- certain functions requiring centralised pattern of operations due to an emergency continue to remain unchanged.

Management audit has a distinct role to play in this situation in identifying the disparity between de jure and de facto organisational structures, ascertaining the causes of the disparity and initiating appropriate remedial action. The remedial measures include:

- training programmes for changing the attitudes of top management and subordinate managers — one to give power the other to accept power;
- restructuring organisational pattern:
  (i) decentralised where decentralisation is superfluous or centralisation is urgently warranted; and
  (ii) centralised to decentralised if the intention of centralisation was temporary and it is being unduly prolonged.

In a leading business house which is progressive in the acceptance of professional management, there is Mr. X who is a Chief Executive. Mr. X is used to operate in a centralised pattern. His skills are deficient to perform certain specialists task. Yet, he insists on the same. The specialists work and his general duties are channelled through his office. New talent recruited at lower levels, are frustrated by the Chief Executives unwillingness to part with authority. Although, top management (owners) believe in professional management and delegation of authority and responsibility, they are not able to do anything far. The turnover of professional talent in the organisation is of high order. Management Audit recommendations have however had no impact on Management decision regarding Mr. X.

The next principle which management audit has to take care of is the adherence to the basic rules of the game depending on whether there is a federal decentralisation or functional decentralisation. Both are complementary and management audit has to ascertain any prevailing conflicts in the views about the principles.

Another, point relates to the extent to which the lines of authority and responsibility should be clearly defined. Authority and responsibility have to be distributed in the right quota at the right places. This permits the effective practice of responsibility and accountability. The managers have to take the decision within the framework of the overall organisational objectives and they will be held responsible for it. In many structures, responsibility is easily identified but when it comes to parting with authority, there is a lot of resistance. This is an imbalance and conceptually an untenable practice. Yet it is rampant not only in the form of an incorrect equation but also in the form of ‘witch hunt’.

The imbalance just described also has a corollary which is more devastating. In the above mode of operation, there has to be someone who has decision

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making power without any responsibility because of the 'scapegoat concept'. This happens when decentralisation is advocated in theory but centralisation is in operation in practice. This structure, coupled with voluntary recentralisation can be a dangerous organisational disease which precludes the induction of professional management within the business. It saps the energy potential of the human assets of an organisation. It destroys morale, disturbs the mental health, disrupts positive motivation and demoralises the organisation. It, to reiterate, reinforces recentralisation (voluntary because of the top management) and voluntary because subordinate managers are scared and entertain, from within, a potential threat of being the next scapegoat. They voluntarily refrain from being decision makers. Otherwise each would easily preside over the liquidation of his own empire. Such organisations continue all right. But their vitality and stamina are sapped. Management Audit has to monitor this aspect by locating the disease in the first instance because it is conspicuous by its invisibility. Having located the disease, it is imperative to voice effectively the concern for the same so that timely response action is initiated.

Therefore, Management Audit has to seek answers to critical questions:

Who reports to whom?
How much authority is delegated and how the managers are accountable?
If the de jure answers and de facto practices relating to the above questions are not acceptable, audit should recommend change.
Management Audit has to examine, next, the physical format of an organisation i.e. the height and the breadth. In an organisation these are simultaneously in conflict and also complementary. For a same quantum of operations, the height is inversely proportional to the breadth.

If the structure is tall, the number of levels increases i.e. there is a long chain of command. The span of management will be, relatively though, narrow. In these kinds of structure the transmission of information from one layer to another takes time. The contents of the communication can also be distorted as it moves from one level of management to another. A narrow span also indicates the ineffective use of human energies which can manage a wider span without loss of control over one's own performance or that of the subordinates. And the greatest loss entailed in tall structures is the adverse motivation caused by the distance between the lowest level and the top-most position in the organisational structure. Management in a short structure has its own salient features. The number of levels in the organisational structure is relatively reduced, thus improving the position of aspirants of top posts in the organisation in terms of distance to be covered.

Management Audit—2

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It allows for speedier and less distorted communication thus improving the quantity and quality of work. However, if the structure is tall, the span has to be, relatively again, wide. This may exceed the individuals capacity to monitor the people who report to them. But that is as the structure should be.

Management audit has to locate the excesses which prevail in respect of the tall/short structures in an organisation and accordingly recommend revision of the organisational chart. However, care has to be taken that the revised structure in remedying the ills of the earlier lop-sidedness, does not entail a new set of worse kind of problems in view of the relocation of personnel in the organisational chart.

Yet another task which has to be undertaken by the management audit is the 'activity analysis'. The change in business environment alters the order of importance of the variables affecting business performance today as well as in the future. The organisational chart has to give conspicuous emphasis to those functions which are likely to affect the performance of business in view of the importance of the function. Thus, if a company is going in for fresh placement of securities in the capital market, the 'institutional finance' becomes an important function and needs conspicuous emphasis with a separate person and label in the organisational structure. A leading company going in for fresh issue of capital has revised, its structure for this portion of the transaction. It has given this function a conspicuous role suited to its current importance. Again, when companies go in for expansion, liaison with the various agencies (licensing authorities — central, state and municipal; financial institutions — supra-national, national, state, commercial banks, local, land development banks; stock exchange authorities and a variety of other institutions) to cope up with the farrago of laws, assumes central importance.

The concept of a 'project manager' emerges and a new position gets created in the structure.

The lack of balance in the organisational structure, discussed in the paragraphs on corporate planning, gets corrected at least to some extent. Marketing oriented companies have to take cognisance of the importance of production. Technology oriented companies have to give due accommodation to marketing. Thus, Activity Analysis helps to locate key factors affecting business performance and contributes to the effectiveness of the organisational structure. Management audit has to include in its audit programme an activity analysis aimed at molding the format and thereby the perspective of the organisation.

The next important function is the decision analysis. There can be several possible classifications and this tends to cause considerable confusion. Yet, a point of departure needs to be made so that there can be organised and scientific method of
placing responsibility and evaluating managerial performance. Thus, we can have ‘operating decisions’ which concern the day to day functioning of business and ‘strategic decisions’ which influence the image and profile of business in the long run. Once, this classification is adopted as a convenient starting point any problems encountered in the use of the classification can be surmounted. The decisional centres responsible for the decisions can then be audited for the qualitative and objectivity content of its decision. A satisfactory audit on the objective aspect alone goes a long way in favour of boosting managerial performance in terms of morale and organisational character.

Some excellent cases provide insight into the importance of decision audit. Both relate to personnel decisions. An important task for management audit is to make an objective assessment of the correctness of the location of people in particular responsibilities and the presence of the right quantity and quality of human assets. In many organisations, professionally managed ones, the policy of introducing talent in the organisation is ad hoc, random, subjective and governed by vested interests. This is the greatest harm which can be done to any organisation.

First, take a look at the location of people in the structure. People who are showing results, let us say in production or general administration are pushed for the heck of it into ‘Marketing’ (say). The entire purpose of selecting the person originally for a skill in production is defeated. Granted, there is a concept of managerial ability in a generic sense, pushing a person into function X because he has failed in Y is rather dangerous. An unwanted person put in an important function can destroy the importance of the function and may be the organisation.

The specialists are promoted into command positions. We have an odd situation where a Yogi is forcefully converted into a Commisar. The organisation

* in view of the mantle of leadership entailing administrative work the organisation is ‘Sans Specialist’s Special Service’.

* In view of his predominantly specialist skill the organisation is sans adequate administrative abilities in the chosen Yogi convert into Commisar.

Management Audit has to locate such potential organisational poison which can sap the strength of the human assets and ipso facto the stamina of the organisation.

**CORPORATE CONTROL PROCESS**

The Control process of an organisation is another strategic segment demanding close attention via a management audit. It is strategic because for any control period (nth period say) control represents the consumption of the managerial process. It is therefore an useful base for the inauguration of the managerial task for the \((n+1)^{th}\) period. There is a link which has to be properly established and taken advantage of. Control is also important because for a nth control period it indicates whether the intended objectives were achieved or not and for the \((n+1)^{th}\) period it paves the way for structuring the managerial activities in a fashion which can improve the strengths identified and eliminate the weaknesses revealed in an earlier management control cycle.

Management Audit has to evaluate the control process. This will include, amongst other things, a study of the steps in the control process and the control philosophy adopted by an organisation.

The control process includes the following steps:— establishment of standards, provision of actuals, measurement of variance and response action.

Management audit has to ensure that the steps in the control pro-
If standards are obsolete, they may be updated so that the performance measurement, in terms of variances, is meaningful;

If updating is absent, the performance measurement shall be done only after taking cognisance of the obsolescence in standards.

However, it should be noted that in certain areas, updating is deliberately not done because the continuation of the historic norm has heightened the expected norms and this has paid off very well without, so far causing any casualties on the human front. Thus, management audit is used as a tool to keep the control process pragmatic.

From time to time, depending upon the problems encountered by the business a particular role becomes important because the survival of the business, its future existence, depends on the successful operation of the tasks involved in that key critical function.

Likewise there is an opposite philosophy which recommends the use of standards as a tool to motivate people into good or super performance. Standards may be set at a less tight level or even loose level.

'Tight standards' or 'loose standards' operated consciously require an audit for its relevance in the context of future performance, based, of course, on historic credentials. If the existing recipe is giving the desired results, fine. But, if the intended goals are not being achieved a revision of policy is needed to evolve a locally tenable alternative recipe. A generally acceptable philosophy of the level of standards is that it should be difficult to achieve but not impossible to attain.

In some companies the level of standards subconsciously exists at either tight or loose level. This is because of the choice of base employed in setting standards. Management audit has to reveal the incoherent character of the representative year chosen for the setting of standards, so that the adverse impact on the company can be prevented.

The extremes of unrealistic tight standards or its opposite, namely loose standards should be avoided. The level of the standards is also influenced by the control philosophy of the organisation, quality of the subordinate managers and other personnel, and the general structure of attitudes of the people. Management audit has to evaluate the extent of the conform-
timely information. Thus, if instead of monthly reports there was feedback once a week, the nth week's data can be used for the (n+1)th week instead of data being available at the (n+4)th week with a probable use for (n+5)th to (n+8)th week. Also, revision of targets is possible wherever necessary.

But the ideal control process is one which can identify, however approximately, the anticipated deviation ex ante so that there is time to salvage the potential deviation at some price. In a leading engineering industry idle capacity was a constant problem. At the end of the accounting period, the cost account would come out with a detail report on the statistics of idle capacity and causes for the same. The report had but limited use for subsequent cycles. A management audit revealed that if the information about the idle capacity is available ex ante, i.e. at the start of the budget period, ways and means of salvaging the anticipated variance could be made. The management initially reluctant in view of the novel and unusual nature of the control concept, ultimately accepted the recommendation. Underutilisation of capacity fell by 50 per cent in the first year and 75 per cent by the end of the third year. Formerly, underutilisation of capacity hovered around twenty to thirty per cent. Today it is not more than ten per cent. The company is able to salvage its capacity by innumerable methods like price reduction, sub-contracting capacity, product diversification etc.

Management Audit has to instill concepts of forward planning and control which can motivate enterprise to surge ahead in the task of managing the business.

Another, aspect of control demanding audit is the philosophy of the organisation with respect to the flow of control directives within the organisational structure. One philosophy includes the imposition of targets and response action from the top. The responsibility for initiating the response action rests with top management, while subordinate managers have to implement the directives of top management. This is a style of management with its own merits and demerits. Indian companies operating the 'PARTHA' SYSTEM practice this style of management.

The mysterious speed with which information is assembled on a daily basis to report today's performance by tomorrow speaks volumes about the indigenously developed recipe on the speed of the feedback. The company has not so far experienced an adverse reaction on account of the control philosophy. As an alternative there is the management style where subordinate managers, provided with a feedback, initiate their own response action which includes either continuation with existing decisions or a change in favour of methods which can improve performance. The former is known as the Management by Subordinate Appraisal and the latter is labelled as management by self appraisal. Management by Subordinate appraisal hinges on the assumption that the personnel have to be coerced, controlled, directed and threatened with punishment, if the intended goals are to be attained. Management Audit has to evolve some yardstick which can measure the results produced by the above strategy and recommend appropriate response action which should tell management whether the existing recipe of control should be continued or not.

Management Audit has also to ensure that controls do not lead to dissipation of human effort in the organisation. In a leading business house managed by local entrepreneurs the controls to start with were of an informal nature. The informal control included targets and comparisons of actuals with standards. However, an audit of the control process revealed that this did not work very satisfactorily. Hence a formal budgetary control system was installed. Then, the company experienced that all executives were suddenly too involved with budgets, actuals and variances. Detailed controls was costing the company the entire executive effort which should be engaged in perspective planning. So, management audit recommended that senior managers should involve themselves less in budgetary details and more in long range corporate planning. Monitoring budget details may be left to the operating personnel. Operating managers were to be allowed to take their own corrective actions after a self-appraisal. Thus, Audit in this case helped the phased evolution of the control process keeping in mind the very fundamental dictum of control— "Cost of Control should not exceed its benefit."
A Chapter meeting was held on the afternoon of Saturday, 21st January 1978 at the Hotel President to discuss the exposure draft received from the Institute of Internal Auditors Inc., Florida, on Professional Standards. The meeting was chaired by the Chapter President, Mr. B. P. Vaidya. Notice of this meeting had been sent to all the members as well as the participants of the seminar on Internal Audit held recently at the Hotel President in December 1977. The meeting was attended by about 50 members as well as non-members.

The members noted that internal auditing is an independent appraisal function established within an organisation for the purpose of serving that organisation by examining and evaluating activities and communicating audit results. Internal audit may be concerned with any activity within the organisation. Consequently, the practice of professional internal auditing goes beyond examining accounting controls, records, and financial statements. The expanding scope and continuing growth of internal audit demands for standards to guide and measure performance. Such standards are now being promulgated and serve to:

- impart an understanding of the role and responsibilities of internal auditing at all levels of management, boards of directors, related professional organisations and society at large;
- establish the basis for the guidance and measurement of internal audit performance;
- upgrade the quality of internal audit work and the effectiveness of internal auditors; and
- unify the practice of internal auditing.

The members noted that the standards being developed refer to Audit Committees of Board of Directors which will have authority over and responsibilities for all activities in an organisation. Internal auditors should be issued a formal statement of purpose, authority and responsibility as approved by management and accepted by the Board of Directors specifying their scope of work and establishing their independence. This policy statement should also specify that internal auditors have no authority over or responsibility for the activities they audit.

The Professional Standards now being developed are concise statements of what is expected of internal audit department and internal auditors. These include:

- Independence of the internal audit department and objectivity of internal auditors.
- Professional proficiency of internal auditors and their exercise of due professional care.
- Scope of internal audit work.
- Performance of internal audit work.
- Management of the internal audit department.

Throughout the world internal auditing is performed in diverse environments which vary greatly in purpose, size and structure within different organisations. Therefore, these standards have to be implemented in varying ways. Nevertheless, compliance with the concepts enunciated by these Standards is essential before the responsibilities of internal auditors can be met.

A summary of these Standards is reproduced below:

INDEPENDENCE—Internal auditors should have independence.

Organisational Status—The organisational status of the internal audit department should be sufficient to permit the accomplishment of its audit responsibilities.

Objectivity—Internal auditors should act objectively in performing audits.

PROFESSIONAL PROFICIENCY—Audit tasks should be carried out with professional proficiency and due professional care.

The Internal Audit Department:

Employment procedures—The technical proficiency and educational background of candidates for internal auditing positions should be appropriate for the tasks they will perform.

Disciplines and Skills—The internal audit department should possess collectively the disciplines and technical skills needed to carry out its responsibilities.

OFFICE BEARERS OF THE BOMBAY CHAPTER

President: Mr. B. P. Vaidya
Vice-President: Mr. A. S. N. Vadoliwala
Vice-President: Mr. S. M. Ahmad

Secretary: Mr. N. T. Reshamvala
Joint Secretary: Mr. G. V. Sampat
Treasurer: Mr. H. A. D'Silva
Human Relations and Communications—Internal auditors should be skilled in dealing with people and in communicating effectively.

Continuing Education—Internal auditors should maintain technical competence through a program of continuing education.

Supervision—Internal auditors should be properly supervised.

The Internal Auditor:
Compliance with Standards of Conduct—Internal auditors are responsible for complying with the standards of conduct accepted by their profession.

Due Professional Care—The internal auditor is to exercise due professional care in carrying out internal auditing responsibilities.

SCOPE OF WORK—The full scope of an internal audit encompasses the measurement and evaluation of all controls and performance.

Integrity of Information Systems—Audits should be made of the means used to identify, measure, classify, and report financial and operating information to ensure its integrity.

Compliance with Policies, Plans, Procedures, Laws and Regulations—Audits should be made to determine the degree of auditee compliance with those policies, plans, procedures, laws and regulations which have or could have a significant impact on operations and reports.

Economical and Efficient Use of Resources and Safeguarding of Assets—Auditors should assess the economy and efficiency with which resources are employed and assets are safeguarded.

Adequacy of Operating Objectives and Goals and the Effectiveness of Results—Auditors should be made to determine whether operating objectives, goals and associated control procedures are properly established and the degree to which desired results are achieved.

PERFORMANCE OF AUDIT WORK—Audit work should include planning the audit, examining and evaluating information, communicating results and following up.

Planning the Audit—Audit work should be adequately planned.

Examining and Evaluating Information—Adequate information should be collected, analysed, interpreted, and documented to support audit results.

Communicating Results—The results of the audit work should be adequately reported.

Following Up—The internal auditor should follow up to be sure that appropriate action is taken on reported audit findings.

MANAGEMENT OF THE INTERNAL AUDIT DEPARTMENT—The internal audit department should be properly managed.

Purpose, Authority, and Responsibility—A policy statement of purpose, authority and responsibility should be developed for the internal audit department.

Planning—The director of internal auditing should develop plans to carry out the responsibilities of the internal audit department.

Policies and Procedures—The director of internal auditing should provide written polices and procedures to guide the audit staff.

Personnel Management and Development—A program should be established for managing and developing the human resources of the internal audit department.

Quality Assurance—A quality assurance program should be established and maintained.

The meeting concluded at 5.00 p.m. after high tea.

HAVE YOU PAID YOUR FEES
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Please rush your cheque drawn in favour of “The Institute of Internal Auditors, Bombay Chapter” for Rs. 125/- to:
Mr. Herbert D’Silva,
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SAN FRANCISCO
SITE OF 1978 INTERNATIONAL CONFERENCE
THEME: GOLDEN GATEWAY TO THE WORLD OF AUDITING

The 37th International Conference of the Institute of Internal Auditors will be held at the Fairmont Hotel, San Francisco, California, on June 18-21, 1978. The Conference Committee would like to know of Members of Chapters in India who intend to attend this Conference, as they would like to give special recognition to delegates from Overseas Countries. Those members who plan to attend this Conference, could write for advance information to the Programming Committee, C/o. Mr. Orion Hill, General Auditor, Wells Fargo & Co., 475 Sansome Street, San Francisco, California 94104, U.S.A.

The Conference program includes subjects like:
— Questionable Business practices.
— Economic pressures and the multinational corporation.
— The Internal Auditor and the Law.
— Motivation and the Internal Auditor.
— The world of dual-career family.

CRIME DOES NOT PAY

Inspector Patwardhan of the Criminal Investigation Department of Maharashtra Police gave a very enlightening and informative talk to the members of the Bombay Chapter of the Institute at the Cricket Club of India, Churchgate, Bombay, on 14th December 1977

Chapter members who were present at Inspector Patwardhan’s talk and many who were unfortunately not able to be present that day, have requested that the programme Committee schedule another talk in February/March 1978. Members will be advised by post if Inspector Patwardhan agrees to talk to us for a second time. (See last page)
But the changing circumstances were not followed by flexible policies. Instead, enterprise continued with plans, which had pricing policies, consistent with the former market situation. Thus, there was a malfunctioning within the firms and also on the without. In the first instance, there was a need for plans to have a built-in-flexibility to foresee the economic situation. Granted that this is not possible always, an ex post review should, via the management audit, recommend appropriate response action. The same is true of the market segmentation process. The usual intention of market segmentation is a matter of expediency. It facilitates identification of customer, product and market characteristics so that the organisation responds promptly to any changes needed in the relationship with customer, design of the product etc. However, segmentation has had a narrow connotation of being a marketing strategy to penetrate with a view to hold on and milk the customers and the market ad nauseum and, if possible, ad infinitum. As a result, corporate plans have failed to take stock of things in the right perspective and organisations have suffered for this lack of perspective. Both the pharmaceutical industry and the textile mills are equally responsible for this kind of biased planning. Hardly any attempt is made to really enter into the national market where there is escape for selling, albeit at a lower not unremunerative, price. Short sighted approach has already meant economic imbalance for the textile industry. The pharmaceutical industry has yet to meet the wrath of narrow marketing policies may narrow corporate plans.

In any case an objective management audit should be able to locate these deficiencies in the corporate planning process and future cycles of planning should be recommended appropriate response action.

CORPORATE ORGANISATIONAL STRUCTURE:

The audit of the 'planning process' has to be followed by an audit of the organisational structure. The organisational structure is a key factor affecting business performance. It is represented by an organisational chart which is a plan or arrangement of human energies (skills plus attitudes) which run the organisation. It needs no knowledge of the principles of modern management, to say that a proper blend of human energies will contribute to the smooth attainment of organisational objectives, and of course, vice-versa i.e. an improper blend resulting from an ill arranged scheme can have a noxius impact.

The general practice is to present the intended pattern of relationship (upward, downward and across) between the...
whether the critical factors have been identified, whether the information is relevant and has been tailored to the needs of management, whether only good information is communicated and unpleasant information is held back, what is the follow up action on the basis of information generated, whether management information system is used purely as a blame opportune mechanism, whether the managers do find the management information system useful, whether information is expressed only in rupees and in figures and no descriptive information is available. Whether reports reach in time, whether the future plans are based on current information, whether the system is operated economically, is the process of planning itself participative and whether the budgets that are fixed are real plans or merely expenditure control mechanism.

We must dismiss one idea from our mind straight away and that is, only figures are management information. Again we must dismiss one more idea from our mind and that is that only what is published in reports what appears in writing is relevant true information. Why? There might be issues which you can indicate by a feel, you cannot say what exactly the figure, you can indicate by a feel and the feel is a very important component of management information. I will give you an example of this. In a very large nationalised bank, the customer service seems to be of very poor order and the critical success factors for that bank I have identified is customer service and employee moral. Now you cannot know the employee morale from your management information system in the normal sense you are used to looking at and that is the thing which is determining whether the bank will fail or succeed. You cannot again know the quality of customer service though that is the main thing which is determining again whether the bank will be a success or a failure. This bank has very large number of branches. They receive several complaints from the customers. Now the complaints sometimes may be formal and put down in writing and sometimes they may not be formal. Even if they are formal, just like our internal auditor's report going to the bottom of the draw the complaints are also going to the bottom of the draw. The Manager is going to say well I am going to draw my salary what does it matter. If this branch is not running well, I will go to another branch. So we know that he is not going to sit down and analyse under which heads what are the complaints. We said alright, we put a table for him. From him we record what are the possible reasons for complaints, possible reasons could be discourtesy, delay in service, overcharging, poor environmental condition. These could be the reasons and there could be some more. We said O.K. you put this down together. On this side we will give you a blank column. Below that the total will be 100%. You put down your feels of customer dissatisfaction on each of these categories and if you don’t like percentage you put A.B.C.D whichever way you like it or some descending or ascending order. You will see months after months the higher percentage tends to fall in a particular category. You can definitely go and identify what is going wrong there. Suppose the customer dissatisfaction is because of delay in service, you sit down and analyse what are the reasons for the delay. Now this is very important in Management Information System. In Management information, we do come across areas which cannot be quantified, only the feelings can be expressed. Here again it will be sometime just plain and simple descriptive writing saying that this is the problem with the employees and that is very relevant. That is the part of management information system. It may not be possible to put it in a structural format, still it is a part of management information system because you must realise one thing i.e. when we are talking about commercial organisation there is a relationship between input and output. But if you talk of organisations like educational institutions, how are you going to develop or evaluate management information system in that context. All the factors are qualitative. When you talk about the health programme of the Government, how are you going to ascertain as to how the programme has been effective? You know you cannot measure prevention of cholera and you cannot measure the efficiency of the number of cholera cases reported. So when you are appraising the system, I mean looking at the whole system, you will find that there are several unnecessary reports.

Evaluation is not there. They will say O.K.—management want this report and here is the report. But they also know that the top management does not use the reports. So does not matter, let us fill it up. There are no meetings held to evaluate the performance and you will normally discover that most of the suggestions and information is not really relevant. It is not relevant and the question you posed earlier about the concerns and anxieties becomes useful to find out exactly what is relevant.

People think the information they receive determine their status. You will have to convince a lot of people right here that the information received does not mean raising or lowering of status. That is why in many companies you find a full booklet is prepared every month containing all performance reports for senior executives and very few of them go through it—you can be sure about it. Now I tried to probe into the matter. Do you know—what happens when you sit down in a meeting and suddenly the performance appears to be bad? Chairman starts shooting questions—"what about your development progress." "You are asking me only—that fellow has not produced so much tons of coal, why should you blame me only?" This kind of things usually goes on in the performance review meetings. In other words, we carefully try to go through the other man’s performance report, each person going through the others but nobody goes through his own performance report. Right! This again is a very important factor to be considered—not to be taken very lightly.

In performance report, it is very essential to classify the cost on the basis of the controllability. That means you look at them as variable cost, controllable cost and fixed
Personnel inter se, in the form of an organisational chart. But, that is the starting point. It is only a means to an end. Management audit has to ensure that the organisational structure is lively in its form and active in its content to tackle existing and emerging exigencies encountered by business. In order to review this dimension of the organisational structure various aspects have to be examined in the process of management audit. They include —

* centralisation and decentralisation;
* lines of authority and responsibility;
* span of management and chain of command; and
* activity analysis and decision analysis.

Modern principles of management, in view of the growing role of the corporation in the national economy, almost vouch for decentralisation, so that the decision centre and the affected centres are as close as possible. Management audit has to,

* evaluate two issues:

  * are the said principles, centralisation or decentralisation, adhered to; and
  * is a revision of organisational policy regarding centralisation/decentralisation warranted to meet the end objective of future performance.

Centralisation implies concentration of decision making power into the hands of a few or an individual in some cases. It implies, ipso facto, the shift of the decisional centres away from the area affected by or concerned with a decision. The top management give the verdict on every matter and that tends to be the rule of law. In many In Indian business houses though professional management is making a dent into the existing organisational structures, centralisation is almost the rule of law. There is no doubt that in some cases the organisational size may justify centralisation. Or put it the other way, decentralisation may not be all that necessary. But, a recipe, centralisation may be producing the desired results. If that is so, the first issue to be evaluated is taken of. There is a parity between the intended and actual output of the organisation. And, the second issue does not arise.

But, in many situations, and this is today an ubiquitous problem, it is just not possible to continue with centralisation because, change is so rapid, that new and special professional skills are needed to run the same business in its existing and merging form. Management audit has to look into the incompatibility (or incompatibility) of the existing organisational structure (centralised say) to meet the needs of business and take appropriate recommendations which can lead to timely response action. Thus, under Indian conditions, management audit has a special mission which involves advocating transition from centralised structures (family based units managed by the head of the family) to decentralised structures where the decisional centres are shifted down in a level to the point where the impact of the decision is actually felt, into the hands of the people possessing professional talent.

Accepting decentralisation as a starting point, management audit has to look into the 'de jure' and 'de facto' structures. Decentralisation may be accepted in principle and also inducted on paper into the organisational charts and manuals. But, 'de facto', the forces of re-centralisation may be rather too strong to be easily warded off in favour of a decentralised structure. The reasons, based on the experience and observation of facts in industry are:

* top management attitudes which perfunctorily accept decentralisation;
* peevish attitudes of the subordinate managers which results in volunary surrender of power and paves the way for decentralisation; and
* certain functions requiring centralised pattern of operations due to an emergency continue to remain unchanged.

Management audit has a distinct role to play in this situation in identifying the disparity between de jure and de facto organisational structures, ascertaining the causes of the disparity and initiating appropriate response action. The remedial measures include:

* training programmes for changing the attitudes of top management and subordinate managers — one to give power the other to accept power;
* restructuring organisational pattern:
  (i) decentralised to centralised where decentralisation is superfluous or centralisation is urgently warranted; and
  (ii) centralised to decentralised if the intention of centralisation was temporary and it is being unduly prolonged.

In a leading business house which is progressive in the acceptance of professional management, there is Mr. X who is a Chief Executive. Mr. X is used to operate in a centralised pattern. His skills are deficient to perform certain specialists task. Yet, he insists on the same. The specialists work and his general duties are channelled through his office. New talent recruited at lower levels, are frustrated by the Chief Executives unwillingness to part with authority. Although, top management (owners) believe in professional management and delegation of authority and responsibility, they are unable to do anything so far. The turn-over of professional talent in the organisation is of a high order. Management Audit's recommendations have however had no impact on Management's decision regarding Mr. X.

The next principle which management audit has to take care of is the adherence to the basic rules of the game depending on whether there is a federal decentralisation or functional decentralisation. Both are complementary and management
audit has to ascertain any prevailing conflicts in the views about the principles.

Another point relates to the extent to which the lines of authority and responsibility should be clearly defined. Authority and responsibility have to be distributed in the right quota at the appropriate places. This permits the effective practice of responsibility accounting. The managers have to take the decisions, within the framework of the overall organisational objectives, and they will be held responsible for it. In many structures, responsibility is easily identified but when it comes to parting with authority, there is a lot of resistance. This is an imbalance and conceptually an untenable practice. Yet it is rampant not only in the form of an incorrect equation but also in the form of 'witch hunt'.

The imbalance just described also has a corollary which is more devastating. In the above mode of operation, there has to be someone who has decision making power without any responsibility because of the 'scapegoat concept'. This happens when decentralisation is advocated in theory but centralisation is in operation in practice. This structure, coupled with voluntary centralisation can be a dangerous organisational disease which precludes the induction of professional management within the business. It saps the energy potential of the human assets of an organisation. It destroys morale, disturbs the mental health, disrupts positive motivation and demoralises the organisation. I, to reiterate, reinforces centralisation (involuntary because of the top management) and voluntary because subordinate managers are scared and entertain, from within, a potential threat of being the next scapegoat. They voluntarily refrain from being decision makers. Otherwise each would easily preside over the liquidation of his own empire. Such organisations continue all right. But their vitality and stamina are sapped. Management Audit has to monitor this aspect by locating the disease in the first instance because it is conspicuous by its invisibility. Having located the disease, it is imperative to voice effectively the concern for the same so that timely response action is initiated.

Therefore, Management Audit has to seek answers to critical questions:

Who reports to whom?

How much authority is delegated and how the managers are accountable?

If the de jure answers and de facto practices relating to the above questions are not acceptable audit should recommend change.

Management audit means the audit of the management process. It implies the existence of a tool which will, from time to time, exercise a reconnaissance over the 'modus operandi' of management itself, the word management used in the broadest sense of the term. It involves an appraisal of the activities of an organisation. These activities may be classified in terms of the various steps constituting the manage-
ofe have the long-range brand of planning. People look into onse future not in terms of years, but in terms of may be a decade or may be even posterity. This kind of a plan demands ntribute from all engaged in the arduous task of putting such ots into action. The returns to various entities are likely to flow in the future periods after a lapse of some gestation itiod. It involves sacrifice of present consumption for some nce, in favour of a hopeful, probabilistic though, future aeward. Such companies are characterised by policies which involve parsimony, none too attractive returns to factors, ifservative dividend policy and a growth pattern related to espects which are capital intensive with long gestation periods.

Management audit has to remember that the highest energy potential, positive and negative, dwells in the human sources. Therefore, audit has to ensure that these energies are being skillfully employed in proper places and effectively deployed over the entire organisation. Skill and dexterity are needed to monitor and mentor the human assets of an organisation. Management audit, in this context, is an opportunity to review the quality of the organisational structure, the quality of the human energies, and use it as a barometer to measure the potential of the organisation to achieve the organisational objectives, today, and more important, meet the needs of the future.

When decisions are taken, and it leads to unfavourable chain reaction, usually a scapegoat is identified. The burden of the responsibility for the mistaken decision is placed on the scapegoat. Management audit has to locate these kinds of cultural pattern and suggest a structure where the authority allotted is commensurate to the responsibility shouldered.

(Continued from Page : 19)

A more fruitful avenue for establishing audit committees and recognising their true worth could be realisation the part of leaders in industry and commerce in India the role that such committees can play. Once enlightened leadership is available to take the lead in meaningfully establishing audit committees in their own organisa- ons, the chambers of commerce in the country can play n useful role in furthering education of the concept. A range number of chartered accountants are on boards of various companies in the private sector. They can help in introducing the concept of audit committees to the exten extent their co-directors are willing to go along. Once the concept of audit committees catches on, it will have its momentum, its impact upon controls, the services that the auditors, independent and internal, render, in terms of quality of service. The essential educative process will have to start by selling the concept to the people who are de facto owners in large organisations and who are willing to give benefit of the audit committee concept to their organisations.

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Mr. B. P. Vaidya, President of the Bombay Chapter at the inauguration at Hotel President on 16th December, 1977. (L. to R. Mr. B. T. Kapadia, Mr. N. T. Reshamwala, Mr. A. S. N. Vadoliwala, Mr. B. P. Vaidya, Mr. S. L. Agarwal).

A VIEW OF THE PARTICIPANTS

FLASH

NEXT CHAPTER MEETING
FRIDAY MARCH 17
6.15 P.M.

Cricket Club of India, (Governor's Pavilion)
Dinshaw Vachcha Road, Bombay 400 020.

SPEAKER : Mr. A. G. Patwardhan,
Inspector of Police CID

ON
CRIME DOES NOT PAY (PART II)