Materia Administrative Auditing

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**Grupos: 53A / 83A**

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| **TEMA: Methods for Administrative Audit**  **Subtema: American Institute of Management** | **Clases: 21 to 24**  **Fecha: March 12th to 16th** |

**OBJECTIVE:**

Identify that there are different methods to perform an administrative audit to any department, area or division in an organization.

**INSTRUCTIONS**:

The following information corresponds to the method proposed by the American Institute of Management to perform and administrative audit. Read it and prepare a mental map with the points that you consider more significant.

**CONTENT:**

**INTRODUCTION**

To perform an administrative audit there are different methods recommended by several organisms in order to comply with certain specifications and assure the quality of the examination.

One of the organisms that issued proposals to carry out an administrative audit is the American Institute of Management.

**AMERICAN INSTITUTE OF MANAGEMENT METHOD**

The American Institute of Management presented relevant contributions in the evolution of the administrative audit. In 1959 the Institute publishes the work Manual of Excellence Management. It proposes a method to audit entities and nonprofit organizations, taking as its starting point the following aspects:

* Organizational structure
* Function
* Growth
* Financial policies
* Operational efficiency
* Overall administrative assessment

The American Institute of Management considers different types of enterprises or organizations according to their activity for instance: religious organizations, those dedicated to the education, hospitals, those with non-profit purposes and those with profit purposes.

According to this method, the main points to be audited are according to the type of organization. In each type of organization considers 10 areas to be reviewed.

For a profit organization, the program would be carried out as follows:

1. **Economic role**. It is difficult to determine the relative importance of economic activity, perhaps the best measure would ask: what individuals and groups would lose if the company disappeared?

2. **Formal structure**. Proper management is characterized by clarity exists in the authority and responsibility of each of its members, always balanced for efficiency. For decision making, executives must make the necessary communications and prevent the consequences of their instructions. The technical and organizational manuals are used as tools, but they are not the only factors, you should also consider the organization as a whole.

3. **Earnings**. Proper management generates good profits. To meet them, we use statistical trends. Profits should not remain static over time, because it would mean a setback due to the loss of purchasing power of the currency. The results in earnings should be compared with those of the competition, market capacity and business prospects.

4. **Attention to shareholders**. The shareholder representatives must maintain a balance between the needs of the business demand and requests from shareholders, which generally include:

* Avoid unnecessary capital risks
* Increase equity through reinvestment of profits
* Obtain reasonable dividends
* Keep shareholders informed of the 3 points above

5. **Research and Development**. This area provides new solutions to problems and proposes the future direction of the company.

6. **Board**. This group of people who are often distinguished executives and people who do not work in the company, examines company purposes and ensures continuity of operations.

7. **Financial policies**. To get attractive profits is essential stewardship of the money, and generally is one of the most important business. It should establish long-term financial policies, adopt depreciation methods, closely monitor the budget and avoid misuse of credit.

8. **Production efficiency**. The quality and price of products and services offered by the company is critical to achieving customer loyalty. Therefore, it is necessary to know the best methods to increase efficiency and consistently consider labor issues and human resource salaries within the production area.

9. **Distribution**. This area represents the engine of the activities of the company and requires perfect coordination with other areas of the organization. They should evaluate the selection and training of salespeople, sales support operations and pricing.

10. **Evaluation of executives**. The overall performance of the company depends on the decisions of its executive team, where mainly want to know: his ability, integrity and dynamism.

It is important to mention that the Institute established a scale to grade each of the 10 points. The scale considers 7,500 points as minimum and 10,000 points as maximum. Entities should evaluate each aspect and give the number that corresponds considering the result of the examination as well as the findings.

**HOMEWORK:**

Write two questions related to each area that the American Institute of Management consider important to perform an administrative audit, do it as if you were the auditor interviewing employees in a company.

Prepare it according to the specifications given in class for the development of homework.