HUMAN RESOURCE AUDIT - AN OVERVIEW

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Abstract: The concept of Human Resource Audit is emerged from the practice of yearly finance and accounting audit, which is mandatory for every organization. This audit serves as an examination on a sample basis of practices and systems for identifying problems and ensuring sound accounting principles are followed. Similarly, a Human Resource Audit serves as a means through which an organization can measure the health of its Human Resource function. HR Audit is emerged as one of the important tools for evaluating Human Resource Management in 1960’s. It is well practiced in Western developed countries. But in India there is no full audit like a financial audit of the Human resource activities in an organization. Today in India only 4 out of 100 companies have dedicated HR resources for HR audits. Even many employees working in the HR department don’t know the basic concepts about HR Audit, because HR Audit is a not a statutory obligation. So this article deals the overall view of HR Audit like conceptual background of HR Audit and how HR Audit is distinct from financial audit, the nature and scope of HR Audit, the objectives and approaches of HR Audit, the procedure involved in HR Audit, the different types of HR Audit, tools used for HR Audit, the challenges, benefits and limitations of HR Audit.
Keywords: Financial audits, HR audits, Evaluating HRM, Statutory obligation, Organization.

Introduction

The word “audit” comes from the Latin verb audire, which means, to listen. Listening implies an attempt to know the state of the affairs as they exist and as they are expected/promised to exist. Auditing as a formal process is rooted in this feature of listening. Consequently, it is a diagnostic tool to gauge not only the current status of things but also the gaps between the current status and the desired status in the area that is being audited. Auditing has been a routine exercise in the area of finance, especially because it is a statutory obligation. However, in case of Human Resource, there is no legal binding to adopt auditing. Some of the companies nevertheless prefer to have Human Resource audits.

Human Resource Audits are not routine practices aimed at problem solving, instead of directly solving problems, HR audits, like financial audits, help in providing insights into possible causes for current and future problems. The findings of these audits aid decision making in the organisation and are usually internal documents that need not necessarily be shared with the public.

Human Resource Audit means the systematic verification of job analysis and design, recruitment and selection, orientation and placement, training and development, performance appraisal and job evaluation, employee and executive remuneration, motivation and morale, participative management, communication, welfare and social security, safety and health, industrial relations, trade unionism and disputes and their resolution.

Definitions of Human Resource Audit

“Human resource audit refers to an examination and evaluation of policies, procedures, practices to determine the effectiveness of Human Resource Management.” - G.Seybold

“HR Audit is a systematic assessment of the strengths, limitations, and developmental needs of its existing human resources in the context of organizational performance.” - Flamholtz
“A human resource audit is defined as an investigative, analytical and comparative process that attempts to reflect the effectiveness of the human resource functions.” - Jack J. Phillips

“HR Audit is concerned with the gathering, analyzing information, and then deciding what actions need to be taken to improve performance.” - Storey and Sisson

Nature of Human Resource Audit

An HR audit is a tool for evaluating the personnel activities of an organization. The audit may include one division or an entire company. It gives feedback about the HR functions to operating managers and HR specialists. It also provides feedback how well managers are meeting their HR duties. In short, the audit is an overall quality control check on HR activities in a division or company and an evaluation of how these activities support the organization’s strategy (see below Figure).

Scope of Human Resource Audit
The scope of HR audit depends on the size of an organization and the problems being faced by the management and areas where improvements are expected. However the following may be treated as the general scope of audit. For the audit to be comprehensive, it must review all the major areas, such as HR planning, job analysis, compensation, recruitment, selection, training and development, performance appraisal, welfare measures and industrial relations etc. The best way to begin the HR audit is based on past audit reports, or based on functions carried out by the department, the controls in place and the policies and procedures followed in each case. The HR audit team will seek to identify:

- Who is responsible for each activity
- Determine the objectives of each activity
- Review the policies and procedures used
- Prepare an audit report commending proper objectives, policies and procedures
- Develop an action plan to correct errors in objectives, policies and procedures
- Follow up on the action plan at a later stage, to see if it solved the problems found through the audit

Significance of HR Audit

HR function has emerged as a key factor in organizational performance and business success. HR audit helps in taking stock and refining HR policies, procedures and practices aimed at organizational effectiveness. The study indicates that HR audit increases the efficiency of Human Resource function, gives opportunity to align the HR practices with the organizational strategy, identify improvement areas, and fine-tune the HR current practices in sync with organizational strategies.

Objectives of Human Resource Audit

- To review the performance of the Human Resource Department and its relative activities in order to assess the effectiveness on the implementation of the various policies to realize the Organizational goals.
- To identify the gaps, lapses, irregularities, short-comings, in the implementation of
the Policies, procedures, practices, directives, of the Human Resource Department and to suggest remedial actions.

- To know the factors which are detrimental to the non-implementation or wrong implementation of the planned Programmes and activities.
- To suggest measures and corrective steps to rectify the mistakes, shortcomings if any, for future guidance, and advise for effective performance of the work of the Human Resource Department.
- To evaluate the Personnel staff and employees with reference to the Performance Appraisal Reports and suggest suitable recommendations for improving the efficiency of the employees.
- To evaluate the job chart of the Human Resource Managers, Executives, Administrative Officers, Recruitment Officers, whether they have implemented the directives and guidelines for effective Management of the Human resources in their respective Departments.
- To seek answers to such questions as ‘What happened’? ‘Why did it happen’? or ‘Why did it not happen’? In following implementing policies practices, practices and directives in managing human resource and to improve, qualitative performance of personnel department.

**Approaches of Human Resource Audit**

Prof. K. Aswathapa, Weather and Davis have identified the following approaches which are adopted for the purpose of evaluation.

Auditors may adopt any one or combination of the below five approaches for the evaluation purpose:

**I. Comparative Approach:** In the comparative approach, the auditors attempt to identify another firm or company as the model. They collect and analyse data of their own company and compare it (data) with those of the model company.

**II. Outside Authority or Consultant Approach:** One way to improve the organisation's performance is to use certain effective standards developed by an
outside consultant. These standards are used by the auditors as benchmarks for comparative purposes.

III. Statistical Approach: In the statistical approach, certain statistical measures of performance are developed based on the company's existing data. Examples of such measures are absenteeism and accident rates. These data aid auditors in assessing the positive and negative experts of company’s performance.

IV. Compliance Approach: Under the compliance approach, auditors review past results and actions to determine if those activities comply with the legal norms and the company's policies and procedures.

V. Management by Objectives (MBO) Approach: The 'management by objectives' (MBO) approach entails specification of goals against which performance is assessed. By this approach, managers set objectives in their specific areas of responsibility and auditors assess the actual performance by comparing it with the objectives. The methods for evaluating and disseminating data take the form of: (i) Comparison between time periods; (ii) Comparison of organisations (even among and between public and private organizations); (iii) Trend lines, frequency distributions and statistical correlations; (iv) Ratio analysis (labour cost variances); voluntary turnover rate; (v) Classification of data (amount of absenteeism, scrap records, time lost in accidents); and; (vi) Graphical or pictorial displays.

Types of HR Audits

An HR audit can be structured to be either comprehensive or specifically focused, within the constraints of time, budgets and staff. There are several types of audits, and each is designed to accomplish different objectives. Some of the more common types are:

- Compliance. Focuses on how well the organization is complying with current federal, state, and local laws and regulations.
• **Best practices.** Helps the organization maintain or improve a competitive advantage by comparing its practices with those of companies identified as having exceptional HR practices.

• **Strategic.** Focuses on strengths and weaknesses of systems and processes to determine whether they align with the HR departments and the organization's strategic plan.

• **Function-specific.** Focuses on a specific area in the HR function (e.g., payroll, performance management, records retention).

**HR Audit Process**

The HR Audit process is conducted in five different phases. Each phase is designed to build upon the preceding phase so that at the end of the audit, the organization has a very strong overview of the condition of the HR function. These phases include the following:

**Pre-audit information:** This Phase involves acquiring and reviewing relevant HR manuals, handbooks, forms, reports and other information. Pre-audit information requires is forwarded to the client, who compiles the necessary information and submits it for a review to the auditors.

**Pre-audit self-assessment:** In order to minimize the time spent during the subsequent portions of the audit, a pre-audit self-assessment form is sent to the client. The self-administered ‘yes/no’ questionnaire asks a number of questions about current HR policies and practices. The completion of this self-administered questionnaire allows auditors to identify key areas for focus during the HR audit.

**On-site review:** This phase involves a visit to the client’s facility and interviews with the staff regarding HR policies and practices. A very in-depth HR audit checklist is completed.

**Records review:** A separate review is conducted of HR records and postings. Employee personnel files are randomly examined as well as compensation, employee claims, disciplinary actions, grievances, and other relevant HR related information are checked.
Audit report: The information gathered is used to develop an HR audit report. The audit report categorizes action needs into four separate areas, namely,

(a) **Urgent and Important (UI),**

(b) **Not Urgent but Important (NUI),**

(c) **Not Urgent and Not Important needs (NNI), and**

(d) **Important Opportunities needs (IO) are sorted out.**

With the help of this classification scheme, the management can prioritize its steps.

**Methods or Tools of HR Audit**

1. **Individual interview method:** In this method top management is asked questions about the HR policies and procedures in the company.

2. **Group interview method:** This method involves top management and senior HR professional’s interview to gauge relevant information for the Audit.

3. **Workshop method:** This method involves conducting a workshop to know about the HR system in an interactive manner and also suggesting changes to it.

4. **Questionnaire method:** Questionnaire is distributed to employees to know about their perceptions about the HR system and get an understanding that if the procedures and rules followed by the company are fair.

5. **Observation:** Observation of the day to day working and checking if rules and regulations are being followed.

**Who will conduct HR Audit?**

Human resource audit can be carried out by the internal HR specialists of an organization or external specialists with expertise in HRM, fundamental knowledge in law and auditing and high credibility. Regardless of internal or external auditor, organizations need to check the background of the auditor before assigning the audit tasks. The auditor
should enjoy full independence in conducting the audit activities. No external interfere should be made and any such initiative may abolish the objectivity of the audit.

Where it is conducted internally, four things are extremely important

- Unless the scope of the audit is very limited, the audit should be conducted by a team and not an individual.
- The team should represent a cross-section of the organization’s staff, including the line personnel, middle and top management, and those responsible for HR functions.
- The team should be trained in survey techniques and data analysis; and
- The organization culture should be trust based and open; otherwise, the information given will be distorted and the whole organization will becomes in accurate.

Many organizations prefer to engage independent consultants to conduct the audit. This is done primarily with a view to obtain greater objectivity and impartiality in diagnosis and reporting. Moreover, consultants are expected to have wider experience and specialization in the field. Audit conducted by outside HR consultants adds value to the whole process apart from giving an insight into the whole issue.

Using the external consultants has the following general advantages

- Independence and more objectivity
- Experience in other organizations: potential comparisons
- Professional authority
- Keep the audit process free from the charges of personal bias and victimization

Frequency of HR Audit

There is no uniform norm regarding how often the HR Audits should be conducted in an organization. Generally, it differs in case of different organizations depends upon

- The purpose of audit
- The periodicity of changes in the external business environment
The frequency of changes in the strategies, policies, and personnel within the organization

The rapidity of technological changes which are expected to impact the psychology of people

The speed of change in the legal, socio-economic and political conditions

The management has to, therefore, arrange for regular annual audit of almost all the personnel policies and practices. Certain indicators like absenteeism and employees’ grievances should be audited at the end of every month/quarter depending upon the magnitude of the issues.

**Challenges during an HR audit**

There are a number challenges that may arise during an HR audit. These include:

- A general reluctance by employees to voice their opinions due to fear of reprisals.
- Fear from employees that the audit is an assessment of their individual performance.
- Fear from employees that the output of the exercise may cause a loss of jobs or change their job roles.
- Employees see in this an opportunity to raise other business related issues that are not related to the HR audit hoping that they can be addressed during the process.
- Employees trying to influence the outcome of the audit.
- Lack of willingness to share.

**Benefits of Human Resource Audit**

Several benefits associated with Human Resource audit are listed below. An audit reminds member of HR department and others its contribution, creating a more professional image of the department among manager and specialist. The audit helps clarify the department’s role and leads to greater uniformity, especially in the geographically scattered and decentralized HR function of large organisations. Perhaps most important, it finds problems and ensures compliance with a variety of laws and strategic plans in an organization.

- Identifies the contribution of Human Resource department to the organization.
• Improves the professional image of the Human Resource department.
• Encourages greater responsibility and professionalism among member of the Human Resource department.
• Clarifies the HR department’s duties and responsibilities.
• Stimulates uniformity of HR policies and practices.
• Finds critical HR problems.
• Ensures timely compliance with legal requirements.
• Reduces human resource cost through more effective Human Resource procedure.
• Creates increased acceptance of needed change in the Human Resource department.
• Requires thorough review of Human Resource department’s information system.

Limitations of Human Resource Audit

• Rules and regulations are not specific like financial audits
• Only comparison is possible with regard to past ratios, rate of turnover etc.
• Organization itself cannot be taken as standard for comparison
• There may be tendency to turn the survey in to a fault finding process
• The HR audit may create more troubles than solutions
• HR audit is held due to directives/fancies of the CEO or top management, it can lead to negative results
• HR audit does not give an evaluation of the individuals, but it essentially focuses upon units and systems.

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