HR Audit:

An Emerging Tool of Human Resource Management

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Abstract

Like any audit, the Human Resource Audit is also a systematic formal process, which is designed to examine the strategies, policies, procedures, documentation, structure, systems and practices with respect to the organization’s human resource management. It systematically and scientifically assesses the strengths, limitations, and developmental needs of the existing human resources from the larger point of view of enhancing organisational performance.

HR audit is an important management control device. It is a tool to judge organisations performance and effectiveness of HR management. 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. HR audit is very much useful to achieve the organizational goal and also is a vital tool which helps to assess the effectiveness of HR functions of an organization.

1.1 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.

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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 HR audits.

The human resource audit is based on the premise that human resource processes are dynamic and must continually be redirected and revitalized to remain responsive to the ever changing needs. 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.

1.2 Objectives and Research Methodology

Objectives of the study

i. To understand the need and benefits of Human Resource Audit

ii. To examine the approaches to HR Audit

iii. To evaluate the HR Audit process

Research Methodology

Research methods can be classified in different ways, the most common distinction is between the quantitative and the qualitative approaches (Myers, 2007\textsuperscript{1}). Quantitative approaches were originally used while studying natural sciences like: laboratory experiments, survey methods and numerical methods. A qualitative study is used when the researcher wants to get a deeper understanding on a specific topic or situation. Myers (2007)\textsuperscript{2} stated that the qualitative approach was developed in social sciences in order to support the researcher in studies including cultural and social phenomena. Sources included in the qualitative approach are interviews, questionnaires, observations, documents and the researcher’s impression and reactions. The chosen approach is qualitative.


\textsuperscript{2} Ibid
**Qualitative research** typically takes the form of in-depth interviews with a small number of respondents. These interviews may be done one individual at a time, or in groups. Individual interviews have the advantages of providing very rich information and avoiding the influence of others on the opinion of any one individual. Individual interviews are very expensive and time consuming, however, and as a result, it is not likely that any one research program will interview large number of individuals.

### 1.3 Results and Discussions

The American Accounting Association’s Committee on Human Resource Accounting (1973) has defined Human Resource Accounting as “the process of identifying and measuring data about human resources and communicating this information to interested parties”. HRA, thus, not only involves measurement of all the costs/investments associated with the recruitment, placement, training and development of employees, but also the quantification of the economic value of the people in an organisation. Flamholtz (1971) too has offered a similar definition for HRA. They define HRA as “the measurement and reporting of the cost and value of people in organizational resources”.

It is an analytical, investigative and comparative process. It gives feedback about HR functions to operating managers and HR specialists. It enables to know about the effectiveness of personnel programmes. It further provides feedback about how well managers are meeting their HR duties. It provides quality control check on HR activities. It refers to determine the effectiveness and efficiency of HRM.

A Human Resources Audit is a comprehensive method (or means) to review current human resources policies, procedures, documentation and systems to identify needs for improvement and enhancement of the HR function as well as to assess compliance with ever-changing rules and regulations. An
Audit involves systematically reviewing all aspects of human resources, usually in a checklist fashion.

**Process of review include:**

- Hiring and Onboarding
- Benefits
- Compensation
- Performance evaluation process
- Termination process and exit interviews
- Job descriptions
- Form review
- Personnel file review

The purpose of an HR Audit is to recognize strengths and identify any needs for improvement in the human resources function. A properly executed Audit will reveal problem areas and provide recommendations and suggestions for the remedy of these problems. Some of the reasons to conduct such a review include:

- Ensuring the effective utilization of the organization’s human resources
- Reviewing compliance in relation to administration of the organization
- Instilling a sense of confidence in management and the human resources function
• Maintaining or enhancing the organization and the department’s reputation in the community

• Performing “due diligence” review for shareholders or potential investors/owners

• Establishing a baseline for future improvement for the function

Because of the multitude of laws affecting each stage of the employment process, it is extremely important for an employer to regularly conduct an HR analysis of their policies and practices.

**Need for Human Resource Audit**

Human Resource practices and functions have a far reaching impact on the employees morale and performance, which in turn, affects the overall performance of the organisation. This is why they are claimed to be closely related to a business’s ‘balance scorecard’ through “productivity, people, and processes” (Ulrich). Given its criticality, a regular assessment of the HR function, like that of finance function, becomes essential for sustaining organisational health and growth. The need for such assessment is even greater in today’s dynamic and, at times, turbulent, environment, where human resource management needs continuous up-gradation and re-alignment.

In order to perform this emerging role effectively, the HR function has to continually assess:

i. Whether it is adding tangible value to the organisation through its strategies, policies, processes and practices?;

ii. Whether it is doing so at a competitive cost?; and
Whether it is doing so in a manner that is satisfying to its people, acceptable to the society and the law, and, from a long term perspective, sustainable?

Answers to all these questions need regular HR Audit. Moreover, HR Audit becomes significantly critical in situations of Merger or Acquisition.

Benefits of Human Resource Auditing

There is several advantage of using human resource accounting. These include

i. Foresee the changes,

ii. Provides different methods of testing,

iii. Increase productivity,

iv. Brings high return,

v. Helps individual employee to aspire,

vi. Provides scope for advancement,

vii. Throws light on the strength and weaknesses of existing workforce and,

viii. Helps potential investors to judge a company.
Besides these, human resource audit has many advantages. Human resource audit helps to find out the proper contribution of the HR department towards the organization. It enhances the professional image of the HR department of the organization, reduce the HR cost, motivate the HR personnel, find out the problems and solve them smoothly, provides timely legal requirement. Human resource audit has effective Performance Appraisal Systems and Systematic job analysis. It has smooth adoption of the changing business attitude.

**Approaches to HR Audit**

According to William Werther and Keith Davis, there are five approaches for the purpose of evaluation.
(1) Comparative Approach:

Under this approach auditors identify one model company and the results obtained of the organisation under audit are compared with it.

(2) Outside Authority Approach:

In outside authority approach a benchmark is set to compare own results. A standard for audit set by outside consultant is used as benchmark.

(3) Statistical Approach:

Under statistical approach the statistical information maintained by the company in respect of absenteeism, employee turnover etc. is used as the measures for evaluating performance.

(4) Compliance Approach:

Under compliance approach the auditors make a review of past actions to determine to see whether those activities are in compliance with the legal provisions and in accordance with the policies and procedures of the company.

(5) MBO Approach:

Under MBO approach specific targets are fixed. The performance is measured against these targets. The auditors conduct the survey of actual performance and compare with the goals set.

AUDITING PROCESS

The Auditing process is a function of the objectives and the scope of the Audit, the nature of the organisation and the level of involvement of the top management. Though this process may vary from organisation to organisation, it essentially follows the stages described below:
1) **Briefing and orientation:** This is a preparatory meeting of key staff members to:

i) discuss particular issues considered to be significant

ii) chart out audit procedures, and

iii) develop plans and programme of audit

2) **Scanning material information:** This involves scrutiny of all available records and documents pertaining to the personnel as well as personnel handbooks and manuals, guides, appraisal forms, material on recruitment, computer capabilities, and all such other information considered relevant.

Human Resource Audit is the critical analysis of the existing human resource management within the organization. To be able to do that, the audit will have to be served with the data that is quantitative, authentic as well as comprehensive. In other words, the success of this stage of human resource planning solely rests upon the manner in which personnel records and other information are maintained. Hence, the quality of the HRIS becomes critical.

3) **Surveying employees:** Surveying employees involves interview with key managers, functional executives, top functionaries in the organizations, and even employees representatives, if necessary. The purpose is to identify and enumerate issues of concern, present strengths, anticipated needs and managerial philosophies on human resources.

4) **Conducting interviews:** The key issue here is to list the pertinent and probing questions. The decision on these questions depends on the scope and purpose of the Audit as well as on the culture of the organisation. The skill of the interviewer lies in getting relevant and correct information without threatening the interviewees.
5) **Synthesising:** The data thus gathered is synthesized to present the:

i. current situation

ii. priorities

iii. staff pattern, and

iv. issues identified.

Similarly, future needs are identified and appropriate criteria developed for spotlighting the human resource priorities and specific recommendations made.

6) **Reporting:** Like planning meetings for briefing and orientation, the results of the audit are discussed within several rounds with the managers and staff specialists. In the process, the issues get further crystallized. Based on the findings and the discussion during the meetings, then a final report is prepared and presented formally to the Management. This report should include, the “state of the organisation” report, the assessment of effectiveness and efficiency of various areas covered by the Audit, a legal compliance/ areas of concern report, and critical recommendations for improvement.

### 1.4 Conclusion

To summarize, Human resource audit denotes people and the processes that are responsible for efficient working in organizational functions. Human resource audit can qualify its effectiveness within an organization. Human Resource audits may achieve many objectives, such as ensuring legal compliance; helping maintain or improve a competitive advantage;
establishing efficient documentation and technology practices; and identifying strengths and weaknesses in training, communications and other employment practices.

HR audit saves money by identifying and correcting inefficiencies and compliance problems. This process allows a company to get a general thought of where it stands so that it can rectify any potential problems and plan for the future. Human Resource Accounting benefits the company to determine how much investment it has made on its employees and how much return it can anticipate from this asset.

References


