Perception of Human Resource professionals towards Human resource audit

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Abstract:

HR audit helps in assessing the role and contribution of the HR functions in the overall strategic planning of the organization. It assists the organization in the effective formulation of HR strategies which will align well with the overall corporate strategy. So, it is important, as there is hardly any research conducted to find out the perception of the HR professionals towards HR audit. This analysis can help the HR auditors to revamp the contemporary HR audit on the basis of the perception of the HR professionals.

Keywords: HR audit, perception, HR professionals, strategic HR, cross functional teams.

Introduction

Most organizations consider employees to be their most important assets and hence audits are becoming a greater part of managing those assets. A human resource audit aims at ascertaining the effectiveness of the HR department and its functions. The basic goal of an HR audit is to find out the HR interventions that will increase the firm’s competitive advantage. It also ensures the compliance of the HR department with the goals, plan and policies of the organization. It is certain that the HR policies are followed uniformly across the entire organization, it helps in determining not only the efficiency of the HR policies and practices but also their cost to the organization. It helps in assessing the role and contribution of the HR functions in the overall strategic planning of the organization. It assists the organization in the effective formulation of HR strategies which will align well with the overall corporate strategy.

It is similar to traditional auditing except that the latter focuses on financial functions while the former focuses on the HR functions of the organization. The information in an HR audit relates to the people, structures and HR philosophy of an organization. It covers HR functions like employee staffing, training and development, compensation, maintenance, including motivation, communication and leadership, safety and health, and industrial relations. It also focuses on the HR information system, HR research and record keeping, returns on HR investment and policies, procedure, and regulatory compliance. (Adler 2007)

The paper aims at analyzing the perception of the HR professionals towards HR audit. The analysis is based on primary survey.

Human Resource Auditing

The term human resource auditing borrows its title and rationale from accountancy, it also makes use of the system and methods of the social and scientific information. Human Resources Management Audit, measures of human resource outputs and effectiveness under the given circumstances and the degree of utilization of the human resources in the best possible manner conducive to the organization. The audit of human assets is analytical rather than prescriptive. It aims, to encourage professional managers and executives to develop their own ways of measuring performance against targets and objections developed from the experience and needs of their own particular unit, department and section. Executives should be encouraged to revise, adapt and apply the various diagnostic methods which are best suited to their own circumstances. (Abdul Aziz Arain, 2001)
Human resource audit is one of the methods of collecting factual information of management controls and activities based on an unbiased assessment of evidences making it objective rather than subjective and hence more reliable.

In Blackwell’s Encyclopaedic Dictionary of Human Resource Management (Huselid 2005 p.165), human resource audit is defined as:

‘… a series of systematic, formal procedures designed to evaluate the efficiency and effectiveness of the firm’s HR management system, compare its performance to relevant internal and external benchmarks, evaluate the appropriateness of this system for implementing the firm's strategic and operational objectives, and thereafter provide a framework for improving the way in which the firm manages people’.

**Literature review**

Auditing has evolved, becoming increasingly specific, until the term functional audit has emerged.

The HR audit is a functional audit. Thus, we can say that HR auditing consists of diagnosing, analyzing, evaluating, and assessing future lines of action within the framework of HRM.

HR auditing is a basic tool for the management of a company. Its objective is not only the control and quantifying of results, but also the adoption of a wider perspective that will aid in defining future lines of action in the HRM field. Thus, HR auditing must perform two basic functions [Cantera, 1995]. First, it must be a management information system whose feedback provides information about the situation in order to facilitate the development of managing processes or the development of HR. On the other hand, it must be a way of controlling and evaluating the policies that are being applied, as well as the established processes.

It can be understood that in order to secure the operative efficiency and user or client satisfaction, an appraisal of the results of the HR function is necessary. According to this approach, the results obtained can be valued from certain HR policies (an external type of measurement), or from the results of the policies or the policies themselves. The results can be valued through their cost (a measurement internal to the function) [Walker, 1998]. This would lead the company to consider some basic questions. Are adequate HR policies being developed? Are the desired results being obtained? To what extent do they add value to the company?

In the article titled “Human Resources Audit”, Marta Fossas Olalla and Miguel Angel Sastre Castillo, (2002), have analyzed the HR function from two perspectives: the evaluation of the implemented policies and the quality of human capital in relation to real competencies, and the capability to learn and develop new skills.

In the human resources literature it is often assumed within the methodology that the human resources department will be involved in the human resource activity assessment (e.g. McConnell 2001).

Auditing operates under a variety of universally applied auditing standards that set down established criteria for evaluation. In the absence of universal standards or ‘generally accepted management principles’ (Dolenko 1990) the standards used for an audit assignment must be agreed at the organizational level, ideally before the audit commences. Human resource professional bodies are still debating whether generally accepted human resource standards or practices could or should be developed (Meisinger 2005).

The auditor must understand the audit methodology and audit criteria used and must be competent to know the types and amount of evidence to accumulate to reach proper conclusions (Arens, Best, Shailer, Fielder & Loebbeche 2002).

The concept of self-assessment, with independent validation, occurs in the auditing literature (Karapetrovic & Willborn 2001a, Brune 2004). It has been suggested that a hybrid model for the evaluation of performance, which includes both auditing and self assessment, could enhance the advantages and eliminate the perceived faults of both tools (Karapetrovic & Willborn 2001b).

The various researchers mentions about the benefits of a human resource management audit. Human resource auditing not only offers independent assurance but according to Nankervis, Compton
and Baird (2005) the human resource audit also provides an opportunity to assess the financial advantages and disadvantages of human resource functions, benchmark the function, evaluate the effectiveness of the function, ensure compliance, establish standards, promote change and creativity, bring human resources closer to line managers, focus staff on critical human resources issues and to improve the quality, image and contributions of the human resource function. In addition it can indicate those areas of human resource practice that have the most potential for return on investment. According to Bratton and Gold (2001) the human resource audit can provide verifiable data on human resources, can clarify their duties and responsibilities, can identify critical human resource problems, can align human resource strategy with organizational strategy, can improve the status of human resources, reduce costs and improve the human resource management information system.

‘A human resource audit of your organization will provide clear direction for developing and implementing effective human resource strategies, practices and policies to further the overall goals of the firm’. (Dwyer 2002 p.3)

Ollala & Castillo (2002) describe three ‘approaches’ to a human resource audit including the legal approach, a ‘focus of the function’ approach (audits of specific human resource functions) and a strategic approach. Dolenko (1990) describes a compliance audit and a comprehensive audit (a Canadian descriptor). Mock (2004) describes the audit types as compliance, best practices, strategic and function specific 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: (Edwards, J., Scott, J.C. & Nambury, S.R. (2007).)

- **Compliance**: Focuses on how well the company 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 department’s and/or the company’s strategic plan.
- **Function-Specific**: Focuses on a specific area in the HR function (e.g., payroll, performance management, records retention, etc.).

The primary goal is to assess how efficiently the HR functions were performed by the HR department. (Devarajan Dasa ,2011) It is an independent, objective and critical examination, which gathers data about the people, process, structure and policies of an organization and establishes a benchmark for measuring the actual performance of the HR department.

The primary purpose of an audit is to ensure that the human resource management processes are aligned with the corporate strategies. HR audit needs to be done at various levels of organization. (Devarajan Dasa, 2011)

As the information for the department is issued by the top level management, it is essential to include top-level activities in purview of an HR audit. HR audit at top level usually focuses on issues relating to the designing of organizational structure, institution of reporting and accountability structure among the various levels of management.

The HR auditor must also examine and evaluate critically the extent to which middle level managers apply the HR policies and practices while dealing with the employees. The attrition rate of the department is affected to great extent by what middle level managers. An HR audit at this level may focus on issues concerned with the identification and description of authority and responsibilities of employees of various departments, preparation of job profile of staff members, and identification of possible HR cost-saving areas.
The HR audit is primarily concerned with the way the HR department is carrying out the activities assigned to it. It also assesses the competency levels of the staff of the HR department by assessing how well or how badly they performed their tasks and the net result of their actions. An HR audit at this level generally focuses on the design and development of various human resources policies and procedures and proper functioning of the human resources department.

**HR Audit Process (Rao, 1999)**

**a. Determining the objectives:**

The HR audit process involves making a decision regarding the objectives of the HR audit. The HR audit may attempt to know the efficacy of the HR policies, procedures and practices, the regulatory compliances by the HR department. At this stage, the organization can also decide to entrust the task of HR audit to internal HR specialists or to external consultants.

**b. Developing a rough audit:**

The HR auditor prepares a rough sketch about where he should begin, how he should proceed, which areas must be focused on and which sources must be used. A rough audit plan would help the auditor foresee the likely hurdles in the audit process. This kind of a rough audit also facilitates the determination of men, money and material required for the entire audit exercise. The auditor can also identify tentatively the sources to be tapped for gathering relevant information.

**c. Gathering data:**

Then, the auditor gathers information about the external and internal factors. Regarding the external environment, the HR auditor may seek information on the competitive positions of the organization, an industry overview and the regulatory environment within which the organization normally functions. The auditor may also gather specific information about the present competitive strategy of the organization, the labor market conditions and shifts, the intensity of competition, the long-term threats and opportunities for the industry and the organization, the environmental constraints in the form of statutory regulation, the political factors, the socio-cultural factors and their impact on staffing and other HR functions.

**d. Determining the Data Collection**

The organization decides the instruments of data collection like the interview schedule, questionnaire, documents reviews, focus groups and observation.

**e. Finalizing the Audit Plan**

On the basis of the background information gathered and the experience gained, the HR auditor may make final changes in the rough audit plan. After thoroughly revising the rough draft, the auditor should develop the tentative plan as the final audit plan. The final audit plan must have complete clarity on the audit objectives, the timeframe for auditing, the target departments and the people, the type of data needed, the data collection technique to be used for each sources and the cost of the intended exercise.

**f. Gathering the Complete Audit Data**

The data collection process is influenced by the scope and focus of audit, the end-user requirements and the ultimate application of results. The HR auditors may conduct interviews with the
senior management to gather the relevant information. The interview mode permits the auditor to interact with the management so that he can gain an insight into their thought and opinions about the various aspects of the HR management in the organization. As regards the line manager, the auditor may employ questionnaires and interviews both to assemble the necessary data.

g. Developing an Audit Report

After completing the review of relevant documents and personnel interviews at various levels, the auditor would begin the task of developing a comprehensive audit report. The audit report usually covers all the key areas of HR operation like hiring, training, compensation, it may also deal with other HR-related factors like regulatory environment, global HR strategy, functional utilization of HR, strategic KR planning and management, work environment, legal environment, socio-technical integration, job designs, internal and external relations, decision-making style, communication style, the degree of decentralization, and the human resource information system (HRIS).

Usually, the audit report provides information on three broad headings, namely the strengths of the existing HR system, the areas of concern to be addressed by the authorities, and the areas where more information is required for an effective audit in the future.

h. Act Based on the Audit Report

The entire purpose of the audit report would be served only if the recommendations of the report are implemented and executed. The actions may emerge in different forms like changing the HR Policies and practices, resting the priorities of the HR department and HR activities, realigning the corporate and HR strategies and initiating necessary action against the people for lapses and performance gaps.

Research methodology

The objective of the research is to analyze the perception of the HR professionals towards Human Resource audit. So, the sample of the study is HR professionals and the sample size is 200.

Hypothesis

1. HR auditing must perform two basic functions [Cantera, 1995]. First, it must be a management information system whose feedback provides information about the situation in order to facilitate the development of managing processes or the development of HR. On the other hand, it must be a way of controlling and evaluating the policies that are being applied, as well as the established processes.

So, the hypothesis formulated is that the HR audit report is used to assess how HR policies and practices impact individual and organizational performance

2. It is beneficial if HR is involved in the audit. It can help towards better management of the HR function. (http://www.strategic-human-resource.com/human-resources-audit.html)

So, the hypothesis is that only HR is involved in HR audit.

3. Legal compliance or certification is the most important motive for HR audit. (Ollala & Castillo (2002), Dolenko (1990), Mock (2004))

So, the hypothesis formulated is that Team of cross functional employees should not do the HR audit.


Hypothesis Testing

Hypothesis 1. The HR audit report is used to assess how HR policies and practices impact individual and organizational performance.

The table 1 shows that 60% of the HR professionals utilize the HR audit report data to assess how HR policies and practices impact individual and organizational performance, hence the hypothesis is accepted.

Table 1: The Use of HR audit report

<table>
<thead>
<tr>
<th></th>
<th>The HR department uses it for a quick review of the organization</th>
<th>The HR team uses it to facilitate internal diagnosis, discussion and action planning</th>
<th>The senior executive team might use it to assess how HR policies and practices impact individual and organizational performance</th>
<th>Applying for certification purposes</th>
</tr>
</thead>
<tbody>
<tr>
<td>N (%)</td>
<td>0</td>
<td>60</td>
<td>60</td>
<td>0</td>
</tr>
</tbody>
</table>

Hypothesis 2: Only HR is involved in the HR audit

The table 2 shows that none of the respondents perceives the HR staff as the only people involved in audit. Hence, the Hypothesis is rejected.

Table 2: Involvement in HR audit

<table>
<thead>
<tr>
<th>HR Staff</th>
<th>A cross-section of the organization’s staff, including line staff, middle and upper management</th>
<th>Internal Audit team</th>
<th>External Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>N (%)</td>
<td>0</td>
<td>60</td>
<td>40</td>
</tr>
</tbody>
</table>

Hypothesis 3: Legal compliance or certification is the most important motive for HR audit. (Ollala & Castillo (2002), Dolenko (1990), Mock (2004)).

The hypothesis is rejected as the table 3 shows that only 120 professionals consider ensuring compliance as the important motive in contrast to 160 who considers the improvement of HR practices as the important motive.

Table 3: Motive of HR audit

<table>
<thead>
<tr>
<th>Ensure compliance</th>
<th>δ Improve HR practices</th>
<th>δ Prepare for potential government audit or litigation</th>
<th>δ understanding of department’s environment and Correct errors</th>
</tr>
</thead>
<tbody>
<tr>
<td>N Valid</td>
<td>120</td>
<td>160</td>
<td>40</td>
</tr>
<tr>
<td>Missing</td>
<td>80</td>
<td>40</td>
<td>160</td>
</tr>
</tbody>
</table>

Hypothesis 4: Team of cross functional employees should not do the HR audit.
The hypothesis is rejected. The table 4 shows that 150 respondents favor HR audit task force to comprise of cross functional team of employees

Table 4: Involvement of cross functional team for HR audit

<table>
<thead>
<tr>
<th>Statistics</th>
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</thead>
<tbody>
<tr>
<td><strong>δ</strong></td>
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<tr>
<td>N</td>
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<tr>
<td>Missing</td>
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</tbody>
</table>

Hypothesis 5: The focus of HR audit is on strategic role of HR.
As table 5 shows that only 64 respondents perceive that focus of HR audit is on strategic role of HR, so the hypothesis is rejected.

Table 5: Focus of HR audit

<table>
<thead>
<tr>
<th>Statistics</th>
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<tbody>
<tr>
<td><strong>δ</strong></td>
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<td>N</td>
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<td>Missing</td>
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</tbody>
</table>

Other Findings
- Frequency of external HR audit is very less, as 60% of the organizations had it only 0-3 times in last 10 years.
  Only 20% had it 7-10 times and none had it more than 10 times in a year.
- 40% perceive that The HR team uses it to facilitate internal diagnosis, discussion and action planning.
- 40% perceive that The senior executive team might use it to assess how HR policies and practices impact individual and organizational performance
- 60% of HR professionals accept the need of both internal & external audit in the organization
- 80% considers that HR audit improves HR practices
- 60% also accepts that it ensures compliance
  60% considers that a cross section of the staff should be appointed as the internal auditor
- 40% wants it to be annually and 40% wants it to be half yearly
- Audit covers Review of internal policies and processes, Review of filing and tracking systems, Surveys and questionnaires of employees and managers on the effectiveness of the human resources operation in the department
- 40% uses interview, questionnaire and historical analysis respectively as Audit tool
- 60% of the professionals consider that the external auditor must have Expertise in integrated HR systems, Experience in HR systems implementation as a consultant or as an executive, Organization diagnosis and OD skills, Knowledge of the business and HR strategies, Prior experience in audit
All of them believe that audit helps to forecast the future needs of the organization 60% says it helps the HR function to be more business driven. 60% considers that the audit report should be shared with the employees.

Conclusion

The Gap exists between the perception of the HR professionals and the actual implementation of HRD audit. This can be because of lack of required awareness about the process. But the research also points out some important changes that might be incorporated in the HRD audit to strengthen the system e.g., it is evident from the research of the fact that HR professionals favor cross functional team to conduct HRD audit but the literature available does not focus on this aspect. It seems viable option to be implemented in the HRD audit. So, perhaps this is the time to revamp the HRD audit process.

References


Adler (2007) Start Your HR Audit With This Checklist. VOLUME 84 NO. 6, HR Focus.


