ESSENCE OF HUMAN RESOURCE AUDIT: AN ANALYTICAL STUDY

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ABSTRACT: The human resource is the most important asset of an organization, which helps in achieving competitive advantage. In order to response to the changing work environment, human resource personnel must determine ways to justify their performance and operational workload. Human resource audit supports an organization to review and critically analyze the effective performance of employees and human resource functions. A human resource audit is a methodical process that aims to investigate the underlying policies, strategies, systems, techniques, documents, functions, and practices of an organization with respect to its human resource management. The purpose of this study is to review the concept and essentials of Human Resource Audit. The current study is a desk-research in type and constructed on the basis of secondary data, attempts to review the existing literatures of human resource audit from different viewpoint. The human resource audit has distinct application in a diverse area of an organization such as human resource functions, managerial compliance, employee satisfaction, corporate strategy and human resource climate. Organizations should conduct human resource audit regularly setting and following a set of principles, where the auditors would enjoy full freedom in entire audit process. The thorough and objective evaluation of a human resource audit can generate information necessary to the successful improvement of the entire human resources of an organization.

Keywords: Effective HR Audit; HR Auditor; HR Functions; Human Resource Audit; Managerial Compliance.

INTRODUCTION

Human resources perform a vital role in achieving the strategic objectives and goals of an organization (Deb, 2009, p. 458). Human resource management is the process of qualitative development of people who is the resources, sources and end-user of all goods and services (Aquinas, 2006, p. 2). Top managers started realizing that the most spirited and costly assets of an organization are their human capitals and other resources are useless without human resources (Durai, p. 577; Aquinas, 2006, p. 20). The human resources of an organization assist in achieving competitive advantage (Deb, 2009, p. 458). Only physical and monetary resources can neither increase efficiency nor contribute to the anticipated rate of return on investment (Aquinas, 2006, p. 13). In the post-industrial economy, many countries of the advanced world believes intellectual properties and human resources are the core assets while plants and equipment were pondered to be the core assets in the industrial economy (Flamholtz, 1999, p. 3). Robert Owen, the father of personnel management, viewed (as cited in Aquinas, 2006, p. 20) that the returns from investment in human resources would be much higher than that of machinery. The evolution in productivity of an organization mostly depends on the abilities of human resources how they respond to the innovations in technology and environment. Human resource audit plays a very effective role to maintain consistent performance of a diverse group of individuals.

Audit, a very familiar term commonly used in business field, is an effective assessment of managerial control (Aquinas, 2006, p. 162). The audit incorporates the methodical and regular investigation of managerial practices and activities as against objectives and strategies, legal
necessities and occupational standards of an organization. Audit is most customarily associated with applied in diverse context such as corporate governance, public sector efficiency and environmental management system (Power, 1994, p. 13). Auditing of financial records and transactions is a pretty usual practice in business. Organizations care much about the financial performance and give preference to the financial programs that relate in generating money; and audit of those accounting or financial concerns are well established in business (Sharma & Goyal, 2013, p. 401). Limited companies are bound by law to conduct formal financial audit (Campbell et. al., 2002, p. 49). Although human resource is another vital resource input and, is evenly or in some settings, more important than financial resources (Campbell et. al., 2002, p. 49; Evans et. al., 2011, p. 75), and the effective management of human resources support an organization to attain sustainable competitive advantage (Deb, 2009, p. 458), the programs concerning people are hardly given the same measure.

The resources of an organization consist of all assets and organizational practices, competencies and company attributes, knowledge, information etc., through which the organization implements strategies and improves its effectiveness and efficiency (Barney, 1991). The effectiveness of human resources of an organization basically depends on HR audit that provides necessary input into the potential future strategies (Campbell et. al., 2002, p. 49), and appraises the existing policies, techniques and customs of human resource with an aim to recommend means in which they can be better developed (Dev, 2009, p. 458). Human resource audit is a vital tool in attaining an understanding about the human resources of an organization (Campbell et. al., 2002, p. 49). It provides a justification of the skills, capabilities and performance of all the workers of an organization.

1. CONCEPT OF HUMAN RESOURCE AUDIT

Galford (1998) argues that there is no strategic accountability of human resources beyond the smooth operation of administrative activities. Medina (2006) reasons human resource is a principal competitive weapon and an audit can ensure full utilization of its potentials (259). Rudhani (2013) states that every problem is related to the human problem and if human problems are determined and resolved, rest of the problem can be resolved inevitably (p. 532). A gap can befall in any part of human resource management and the simple calculation of this gap is human resources required for the anticipated strategy minus present-day state of the human resources of an organization (Campbell et. al., 2002, p. 49; Evans et. al., 2011, p. 75). Human resource audit is considered a powerful tool to identify this gap, can recommend corrective actions also. Although the concept of HR audit brought into the timeline in 1980’s, the practices of HR audit has already started boosting substantially (Phillips et. al., 2001, p.5). As the financial audit deals with various monetary transactions and issues, human resource audit deals with programs and issues related to the people, their functions and the human resource philosophy of an organization (Durai, 2010, p. 566). The human resource audit is actually a process of investigating policies, strategies, systems, documentations and practices with regard to the functions of human resources of an organization (Durai, 2010, p. 566). It involves the analytical experiment and assessment of programs, systems and procedures to the degree of human resource management (Aquinas, 2006, p. 162). HR audit is an exploratory, problem-solving and comparative activity (Philips et, al., 2001, p. 5), which examines and evaluates the policies, procedures and practices to administer the effectiveness of human resource management (Rao, 2005, p. 33; Ulrich, 1997).

The utilization of human resources can be effective only if the problems of human resources are identified and solves properly (Rudhani, 2013, p. 505). Frangos and Fitzenz (as cited in Kusumastuti, 2011) reasons that the department of human resource will never realize its complete promises until it can determine the roles it plays in generating organizational value. Human resource audit support an organization exposing the effectiveness of its various HR functions (Philips et, al., 2001, p. 5).
Decent practices of human resources benefit the organization in inviting and retaining the best people (Aquinas, p. 13). The effectiveness of HRM of an organization is not up to the standard as it should be, due not to have a unifying basis to direct it (Flamholtz, 1999, p. 17). HR accounting can suggest a basis to assist managers utilizing their human resources effectively and efficiently (Flamholtz, 1999, p. 18) and HR audit helps ensuring the effective performance of the employees and managers (Batra, 1996). It reviews the formal and casual systems and practices of an organization to conclude whether these systems meet existing and anticipated needs, and whether they provide necessary legal protections (Harris, 2002).

Human resource audit is pretty worthy to realize organizational goals; and also is a vibrant tool that supports in assessing the effectiveness of various HR functions of an organization (Aswathappa, 2005, p. 612). HR audit is an analysis by which an organization traces its current state and determines the ways to improve its HR functions (Dessler & Varkkey, 2011, p. 395). It provides feedback about the various functions of human resource management to operating managers and human resource specialists. HR audit actually a total quality control check on HR activities in a division or company, and an assessment of how these activities support the strategy of the organization (Figure 1) (Aswathappa, 2005, p. 612).

Human resource audit intents to motivate executives and managers instituting best suited diagnostic techniques of assessing performance against target and objectives established from the needs and experience of their own unit, section or department (Werther & Davis, 1996, p. 560). The basic objectives of a human resource audit is to measure how efficiently human resource functions are implemented by the HR department (Durai, 2010, p. 566), to uncover the strengths and weaknesses of the human resource systems (Richman, 2013), and to gain competitive advantage by rocketing effectiveness and efficiency of an organization (Saiyadain, 2009, p. 465). According to Gray (as cited in Khurana et. al., 2009-10, p. 174), the objectives of personnel or HR audit are to evaluate the extent to which established policies and strategies are realized, to help the enterprises in isolating gaps between set objectives and actual outcomes, and to devise corrective action plans. Phillips et. al. (2001) reason that human resource audit evaluate the efficiency and the continuation of HR practices at comparatively low costs (p.13). Moreover, HR audit helps to ensure uniform HR policies and procedures, identify various HR problems, find the contribution and inspire superior responsibility and professionalism among HR people to the organization, and ensure convenient compliance (Aswathappa, 2005, p. 612).

The policies and regulations vis-à-vis financial audit are well settled, but not of the audit regarding human resource (Sharma & Goyal, 2013, p. 404), which leads numerous problems be raised before or during the process of HR audit. A HR audit can be expensive and time-consuming depending on the extent of the audit, by whom and how proficiently the audit is conducted (Harris, 2002). Although the records like employee costs, numbers, skill surplus or shortage can be signified in numerical terms, HR audit can not quantify many measures like staff morale, motivation or job
satisfaction properly (Evans et. al., 2011, p. 76).

2. APPLICATION OF HUMAN RESOURCE AUDIT
The changing nature of globalization trend and technological advancement constantly direct changing the shape and environment of business and organizations. The effectiveness criterion can measure the changes in the value of the human resources of the organization (Flamholtz, 1999, p. 17). Human resource audit instructs management with the valuable and necessary information about the current state of the human resources of an organization (Campbell et. al., 2002, p. 50). It is an indispensable factor to measure the performance and the effectiveness of human resources (Ulrich, 1997).

In addition to the financial audit, a diverse area of an organization can be audited, which involve various functions of human resources (Colter & O’Connor, 2012; Saiyadain, 2009, p. 465), managerial compliance (Saiyadain, 2009, p. 465; Yadav & Dabhade, 2014), employee satisfaction (Borowska-Pietrzak, 2011), corporate strategy (Aswathappa, 2005, p. 618) and human resource climate (Jha, 2013). Human resource audit has applications in all of the HR functions such as human resource information systems (Saiyadain, 2009, p. 475) that include records keeping, HR planning, job analysis and compensation management (Aquinas, 2006, p. 166-167); staffing and development (Deb, 2009 p. 459; Aquinas, 2006, p. 167) that include recruitment, selection, training and development, career development and promotions (Aquinas, 2006, p. 167); and organization control and evaluation (Olalla & Castillo, 2002) that include performance appraisal system, labor-management relations and human resource control (Aquinas, 2006, p. 166). HR audit makes these functions business driven, expand diversifications and promotes professionalism among human resource employees in an organization (Chanda, et. al., 2007, p. 135).

The various policies and procedures of human resource vis-à-vis health compliance, professional safety and security issues are simply known as managerial compliance. HR audit aims to analyze health compliance, occupational safety and security issues of the workers at an organization (Glendon et. al., 2006, p. 341). Besides, compliance audit reviews organizational procedures to ensure that the organization follows corresponding rules and regulations (Appah & Binaebi, 2013; Medina, 2006, p. 261). Shiri (2012) found that perfection in safety aspects and legal compliance brings transparency in the department of human resource. Intervention from the state side is increasing in controlling manpower management with a view to protect the interest of employees and offer them with favorable working conditions, compensation, benefits etc. (Jha, 2013). HR audit thoroughly examine entire policies and processes of HR, including compliance with the laws, rules and regulations of the land (Saiyadain, 2009, p. 465). In addition to that, human resource audit investigates whether the policies, processes and practices of human resource comply with the rules and regulations or not (Richman, 2013), and uncovers if the managers and supervisors overlook the policies or laws.

Elton Mayo revealed (as cited in Aquinas, 2006, p. 21) that productivity of an organization is largely associated with employee satisfaction, and thus management must highlight and pay greater attention on employee satisfaction. Employee satisfaction signifies the complete attitude of an employee expressed toward his or her job, covers the basic interests and requirements of workers, and indicates the extent of his or her satisfaction to the job. HR audit contributes in learning how well these interests and needs of employees are met or in what extent the workers are satisfied (Colter & O’Connor, 2012). If the requirements of the employees are not met, organizations more likely to suffer high increase in absenteeism and turnover. Human resource audit ascertains the necessary information regarding remunerations, benefits, administrative assistance and other job related matters (Colter & O’Connor, 2012), which assists to take actions required for making the employees happy, holding the qualified workers and reducing turnover.
3. **CONDUCTING A HUMAN RESOURCE AUDIT**

The purpose and process of HR audit varies from organization to organization depending upon its size, geographic exposure and nature of activity (Evans et. al., 2011, p. 75). Organization can exercise its own system to conduct a HR audit depending on its size, objectives, location and end users (Durai, 2010, p. 571). Though the extent and scope of human resource audit varies (Pajak, 2012), a number of steps are followed in undertaking the different activities of HR audit. Durai (2010) suggests eight steps for HR audit: determining the audit objectives, constructing a rough audit plan, collecting background data, setting the standards and techniques of data collection, finalizing the audit plan, collecting complete audit data, generating audit report, and instituting actions based on report (p. 571).

Aswathappa (2005) offers four steps of HR audit: determining audit scope, choosing audit approach, conducting HR research and evaluation report (p. 618), whereas Dessler and Varkkey (2011) mention eleven points (p. 398). The author develops five most significant steps of an HR audit, which are developing an audit plan, selecting the audit team, collecting the HR data, analyzing the data and, concluding and reporting.

![Fig 2. Phases of Human Resource Audit (Developed by the Author)](image)

a) **Phase 1: Developing an audit plan**

The process of human resource audit simply starts with fashioning an integrated audit plan, which involves designing and developing HR policies, strategies, procedures, systems and practices based on the requirements and available resources of an organization. A specific timetable and thorough checklists about numerous HR policies and procedures should be constructed in the planning stage. Dessler & Varkkey (2011) mention three illustrative areas of HR audit checklist, which are personal files, wages and hour compliance, and headcount (p. 398). The checklist incorporates the following questions:

- What policies, procedures and practices should be audited?
- What records (e.g. personal file, HR functions, managerial compliance) should be audited?
- What trends should be tracked?
- What analysis should be made?

b) **Phase 2: Selecting the audit team**

After developing the audit plan, the next and most challenging task of an organization is to select an audit team. Selection of auditor or auditors has vast impact on entire audit process. The nature and extent of an audit team basically associated with the size and nature of the organization. The human resource auditors must be individuals of high integrity and knowledge (Durai, 2010, p. 2010), well-trained and capable in conducting HR audit. Auditors can be chosen internally or externally. An ideal internal audit team most likely involves managers and supervisor across the firm, demonstrating different roles and functions.

c) **Phase 3: Collecting the HR data**

In the third stage of HR audit, the auditors start proceeding actual audit activities. In this stage, the auditors collect data required to measure the present HR strategies, procedures and practices following the designed checklists and time frame. Deb (2009) identified a set of tools to collect data for the purpose of HR audit such as interview, surveys, historical analysis of external information, HR experiments and international audit (p. 462). Besides, necessary HR data can also be gathered through other tools like workshop, observation and analysis of secondary data. The sources of
secondary data include worker manuals, annual reports, published remuneration surveys, employee confidentiality reports, affirmative action plans, absenteeism and turnover reports, cost per hire reports, employee grievances, corporate charts, compliance reports, operating budgets, training calendars and other publications. Data for a more exclusive audit can be collected by the assessment of managers’ performance, self-evaluation, and surveys and interviews. Depending on the time, the nature of data and the size of the target groups, one or more tools can be applied to collect the required data.

d) Phase 4: Analyzing the data

Once the necessary data are gathered, the auditors evaluate the current policies, strategies, procedures, systems and practices, and compare those against the set standards. The auditors should analyze the collected data with an eye toward readiness for change and identify potential motives for the challenges to change.

e) Phase 5: Concluding and reporting

An audit must understandably communicate its findings, conclusions and their implications, and suggestions for improvement to the respective stakeholders. After analyzing the data, a number of gaps are revealed. In the audit report, the auditors constitute recommendations to close those gaps so that it helps to improve the organizational goal. The audit report must be produced in a certain format containing a set of elements (see recommendations).

4. APPROACHES OF HUMAN RESOURCE AUDIT

Human resource audit though can be conducted once a year (Durai, 2010, p. 567), a comprehensive HR audit might be carried out in every two to three years (Sharma & Goyal, p. 401). The methods or approaches of HR audit can be classified from different perspective. Walker (as cited in Durai, 2010, p. 576) endorsed two approaches on the basis of role and usefulness of HR audit such as internal and external approaches. Internal approach focuses on the cost-benefit of the various HR functions measured in terms of productivity and overall costs of an organization, while external approach emphasizes on evaluating the contribution of the HR functions to the organization external performance (Durai, 2010, p. 576). Human resource audit can also be categorized in three ways based on the individuals accompanying with audit processes: the self-directed team approach, the task force approach and the external consultant approach (Durai, 2010, p. 576). The self-directed team approach refers to a team within the organization, which audits different activities of HR. In task-force approach, a task force is formed in combination of people from different departments with diverse expertise to undertake HR audit activities and in external consultant approach, an organization hires external HR specialists to conduct HR audit (Durai, 2010, 576-577).

Deb (2009) and Aswathappa (2005) advocate five methods or approaches of HR audit that are most commonly used in conducting HR audit, such as comparative approach, outside authority approach, statistical approach, compliance approach and management by objectives (MBO) approach (p. 461; p. 617). Auditors can apply any one of these approaches while conducting a human resource audit.

Comparative approach: In comparative approach, the auditors choose and use another department or company as the model (Aswathappa, 2005, p. 617) that has sound and better practices. Comparative method is typically used to contrast the results of specific programs or activities. This method, also branded as ‘best practices’ approach (Deb, 2009, p. 461), is frequently used in respect with HR planning, compensation management, turnover and absence. It supports in identifying the areas where improvement is required.

Outside authority approach: The HR audit approach in which the auditors apply earlier research findings or the standards set by an outside consultant as a benchmark (Evans et. al., 2011, p. 76) to conduct audit is defined as outside authority approach.
Statistical approach: Statistical approach of HR audit depends on statistical measures of performance that are drained from the current information about the functions of an organization. For example, by following absenteeism and turnover (Aswathappa, 2005, p. 617) rate of an organization from one period to another, the auditors can communicate and analyze the data to determine how well human resource or operating managers control these matters. These data help auditors to appraise the performance.

Compliance approach: In compliance approach, the auditors review early practices of an organization to determine if those practices comply with legal requirements, strategies, policies, documentations and procedures of the organization (Deb, 2009, p. 462). In this approach, the auditors often measure a sample of job, discipline, wages and salaries, and appraisal systems of employees.

Management by objective (MBO) approach: Operating managers and specialists set objectives in their area of responsibility in MBO approach. They constitute unambiguous goals against which the performances would be assessed (Aswathappa, 2005, p. 617). And the auditors measure the actual performance and compare it with the set objectives.

5. SUGGESTIONS FOR AN EFFECTIVE HR AUDIT
Before conducting HR audit, organizations must plan and register a set of principles to carry out the audit activities e.g. setting specific objectives and standards of HR audit, budgeting and establishing realistic time frame (Spognardi, 1997) for each audit activity. Apart from these, organizations may consider the following issues in conducting human resource audit.

- HR audit should be conducted with respect to the future needs of an organization, and the facts, feelings and perception of all stakeholders should be taken into consideration (Swarajyalakshami, 2005, p. 385).
- 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 (Durai, 2010, p. 567).
- 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. According to Appah (as cited in Appah, 2011) independence in auditing refers to hold an unbiased position in the performance of data collection, data analysis and results discussion in the audit report. No external interfere should be made and any such initiative may abolish the objectivity of the audit.
- Audit is considered highly confidential both from employee and employer viewpoint. Therefore, the organization must govern confidentiality agreement with the auditor so that he does not unveil any information to any third party.
- The organization should also negotiate with the auditor in how the audit functions and report will be communicated to the respective stakeholders.
- The HR auditor should categorize who is liable for each activity, define the objectives required by each activity, analyse the policies and procedures used to attain these objectives and prepare a comprehensive report (Deb, 2009, 459).
- The analysis should be done scientifically (Chanda et. al., 2007, p. 136) and the auditor should avoid journalistic approach in preparing the HR audit report. The report must be constructed based on findings (Sharma & Goyal, 2013, p. 403) and comprising a set of elements such as
The results of HR audit must be shared with the corresponded employees to make them aware of their areas of strengths and weaknesses (Durai, 2010, p. 578).

The Human resource audit must not be considered as a one-time activity; rather it must be conducted on a regular basis (Durai, 2010, p. 578), and conducting a HR audit regularly and routinely can ensure employee discipline, commitment and increase efficiency.

Organizations should accept the weaknesses revealed in findings, and initiate constructive action plan to its improvement (Chanda, et. al., 2007, p. 135). Human resource department must come up with initiatives to diminish the areas requiring corrective actions.

6. REFERENCES


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