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## UNIT 9 HUMAN RESOURCE AUDIT

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### 9.0 OBJECTIVES

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After reading this Unit you should be able to:

- understand the concept of human resource audit as distinct from financial and statutory audits,
- appreciate the need, purpose and scope of human resource audit, and
- develop a perspective on the know-how of human resource audit.

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### 9.1 INTRODUCTION

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Human Resource Audit is an addition to the various tools and concepts used for effective management of human resources. It has a vital role to perform – particularly in the service industry where the human resources are a part and parcel of the product or service that is being consumed. Hence, in this Unit, we introduce you to the basic concepts of human resource audit and the issues related to it.

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### 9.2 AUDIT

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Conventionally, the independent accountant, after completing an audit, is in a position to render a certificate covering his or her findings. Mention is made of the period covered by the audit. An assertion is included in the certificate, that a review has been made of the company's internal control system and of the accounting procedures followed. A brief statement of the scope of audit is made. Any qualifications that are applicable to the execution of the assignment or to the company's accounts are prefaced. Finally, the independent accountant renders his or her opinion regarding the company's financial statements and the basis on which the accounts have been kept. Professional ethics is observed by independent accountants. Material facts are neither missed or misstated.

Again, conventionally, during manpower audit disbursements made on account of payrolls are checked to underlying records. This may even require verification of employee's signatures on payroll receipts to the extent considered necessary. Record of the time of arrival and departure of employees is checked; so also the reports of the number of pieces turned out by piece workers. Payroll records covering bonuses and commission on sales to employees are subjected to scrutiny. Also, certain payroll deductions and contributions in accordance with several social security and welfare laws are checked to compliance and accuracy.

Other areas selected for scrutiny are:

- authorisations of additions to a company's personnel,
- sanctions to the grant of special bonuses and profits sharing distributions, and payment of compensations,
- compliance with wage regulations.

In the matter of quantum of audit and manner of selections, the auditor may introduce the elements of test check and surprise being left to his or her sole discretion.

It is a general practice for independent accountants to analyse the changes which took place in the company's personnel during the period covered by the audit. The net increase or decrease in the number of employees in any one function or function occupation is discussed with one of the company's senior executives in order to obtain the benefits of his or her comments regarding the situation.

Careful consideration is given by the independent accountant to the company's system of internal control and check, while determining the scope of the programme of audit. Obviously, much of the quantum and thrust of audit can be directly related to effectiveness of the company's internal control system.

The Managerial control implies two things — i) checks, and ii) measurements. Checks imply monitoring the working of various parts of the organisation by observing the working/by getting feedback information, and take corrective action wherever necessary. In the measurement process, control refers to standards measurement which are set in advance to determine how well the assigned functions are being performed.

While management can use a variety of means and measurement in control, in human resource management, audit is one of the most important devices and a significant step in the human resources planning process. Rather, it is considered as the first step in planning of human resources.

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### 9.3 THE NEED AND PURPOSE OF FORMAL HUMAN RESOURCE AUDIT

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**Human Resource Audit is a systematic assessment of the strengths, limitations, and developmental needs of its existing human resources in the context of organisational performance. (Flamholtz, 1987).**

Human Resource Audits give an account of the skills, abilities and limitation of its employees. The audit of non-managers are called **skills inventory** while the audit of managers are called **management inventories**. Basically, the audit is an inventory that catalogues each employees' skills and abilities which enables the planners to have a understanding of the organisation's work force. (**William B. Werther, Jr. and Keith Davies**).

The commonly understood audits are the established and regular accounting audits carried out in accordance with specific statutory regulations. However, in the case of human resource audits, there is no legal obligation, but enlightened managements have voluntarily accepted its usefulness depending upon the circumstances. The following circumstances may be cited as examples:

- felt concern by top management,
- compulsions of the external forces necessitating a situational audit,
- business changing significantly influenced by international business decisions affecting human resource management, and

- an urge on the part of human resource management professionals towards advancement of the practices and systems.

### **Human Resource Audit (HRA) : What it does?**

The premise on which the human resource audit is based is that opportunities are being missed by staying with the current approaches. It considers the human resource process as dynamic and that it must continually be redirected and revitalised to be responsive to the ever changing needs.

HRA is a sort of feedback on the duties and working of the managers and other employees of the organisation. It is a sort of quality control of the human resource of an organisation. HRA can be conducted for a department or the whole organisation. It gives a more professional image and helps in bringing out the problem not necessarily linked with the Human Resource division of an organisation. HRA helps clarify a department's role in an organisation and brings about more uniformity in action.

Human Resource Audit is the critical analysis of the existing human resource within the organisation. To be able to do that, the audit will have to be served with the data that is quantitative, qualitative, 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. It is from the base of the current situation that the human resource audit is to take-off in order that the future must be planned. Hence, the information needs of such a critical exercise must be met.

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## **9.4 SCOPE OF AND APPROACH TO HUMAN RESOURCE AUDIT**

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Every time a human resource audit is to be taken up, the **scope** is decided. The audit need not be exhaustive but may focus on a particular function of human resource management such as training and development, compensation, performance appraisal, etc. Nevertheless, the objective and approach of HRA – more or less – remains the same, regardless of scope.

In routine audits, auditors are engaged to verify the accuracy of financial information and the reasonableness of the accounting practices followed by an organisation. In the course of these audits, the auditors at times provide inputs that may serve as pointers to the state of affairs with regard to financial planning and accounting procedures, inviting attention of the top management.

Essentially, human resource audits are not routine. These are in fact, studies of unusual nature. The manner of conduct can be self-directed surveys, or task force within the organisation, or reserved for intervention by outside consultants.

The audit can be a one time affair or an occurrence after a regular interval or an ongoing audit function for operating units within the organisation. For example, in one company, the focus of audit was on analysing the extent to which managers and supervisors complied with established personnel policies and practices.

### **Outside Consultants and HRA : Some Perceived Advantages**

Many firms prefer to have independent consultants conduct the audit in order to obtain greater objectivity and impartiality in reporting. Consultants who have wider experience and specialisation in the particular field are asked for conducting HRA. Most of them possess an uncanny eye on details and data that might otherwise be looked as insignificant. They are supposed to act with impartiality and make judgements on what they review and analyse without risk of prejudice.

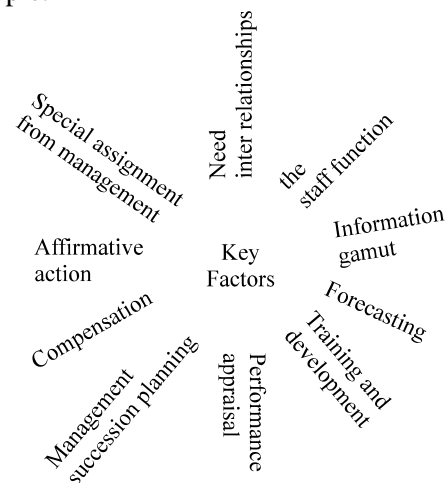
## 9.5 AUDITING PROCESS : ESSENTIAL STEPS IN HRA

Though the process would vary from organisation to organisation, generally it involves the following steps:

- 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 information pertaining to the personnel, personnel handbooks and manuals, guides, appraisal forms, material on recruitment, computer capabilities and all such other information considered material.
- 3) **Surveying employees:** Surveying employees involves interview with key managers, functional executives, top functionaries in the organisation, and even employees' representatives, if necessary. The purpose is to pinpoint issues of concern, present strengths, anticipated needs and managerial philosophies on human resources.
- 4) **Conducting interviews:** What questions to ask? The direction which audit must follow is based on issues developed through the scanning of information gathered for the purpose. However, the audit efforts will get impetus if clarity is obtained as to the key factors of human resource management selected for audit and the related questions that need to be examined.

The following model depicts the various key factors on which information needs during human resource audit need to be focussed. It is developed from the interview guide used in an electronics company. It covers a wide range of topics of profound interest relating to human resource management practices in the organisation.

The questions to be asked on these topics need to be framed very carefully. These questions may be developed by the interviewer/audit team on the following aspects as indicated against each topic.



HUMAN RESOURCE AUDIT : Key factors in human resource management  
Topics for Interview Questionnaire and the aspects to be covered

Topic	Related aspects to be covered
1) INFORMATION	Coverage Source Adequacy Gaps

2) FORECASTING	Methodology Reliability Testability Budgeting Time orientation Technology perspective
3) TRAINING AND DEVELOPMENT	Need assessment Selection criteria Levels covered and frequency Internal vs. external training Quality consciousness Changing needs Climate for self-development
4) PERFORMANCE APPRAISAL	Validity of appraisal process Fitness Benefits and/or drawbacks/problems know-how of appraising Clear objectives Uniformity in process Underlying benchmarks Consistency in ratings Linkages with pay Feedback to employees Changing needs
5) MANAGEMENT SUCCESSION PLANNING	Policy formulation Identifying key positions Availability of successors Matching future needs Responsibility for grooming and developing Handling non/poor performers
6) COMPENSATION	Appropriateness of policies Company philosophy Adequacy of rewards Nature of job descriptions Flexibility in job evaluation systems Control over costs Rationale of reward system Opportunities for improvement
7) AFFIRMATIVE ACTION	Efficiency of action programmes Lessons for future
8) SPECIAL ASSIGNMENT (other human resource functions)	Clarity Comments Activities' jurisdiction
9) NEED INTER-RELATIONSHIPS	Uniqueness Distinctiveness Presence and awareness of about company's human resource policy Clarity of objectives of human resource audit Future outlook on philosophy Capabilities of implementation
10) THE STAFF FUNCTION (the human resource staff)	Expectation from human resource staff Degree of satisfaction Adequacy Attitude and approach Capability and potential Suggestion for change

The process of the interview and the sequence of questions is often as important as their content. Another effective method is the 'focus interview'. A focus interview involves meetings between a trained interviewer and selected members of the organisation. Here the interviewer asks a variety of questions planned and prepared in the same fashion as the interview questionnaire explained earlier.

5) **Synthesising:** The data thus gathered is synthesised to present the

- current situation
- priorities
- staff pattern, and
- issues identified.

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

6) **Reporting:** Just as the planning meetings of briefing and orientation, the results of the audit are discussed within several rounds with the managers and staff specialists. In the process, the issues that get crystalised are brought to the notice of the management in a formal report. Follow-ups are necessary after an audit to see if the action plan used to solve problems found this the audit worked or not.

In conclusion, human resource audit is an important approach to human resource planning. It is practical because if correctly conducted, it should increase the effectiveness of the design and implementation of human resource policies, planning and programmes. A periodic and systematic audit helps human resource planners develop and update employment and programme plans.

#### Check Your Progress

1) Explain what you understand by HRA?

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2) What are the essential steps in HRA.

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## 9.6 LET US SUM UP

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Human Resource Audit is the critical analysis of the existing human resources within the organisation. It is a systematic review and assessment of human resource

management philosophies, policies, systems and practices. In terms of need, approach and procedures, human resource audit is different from the commonly understood accounting audits carried out in compliance of certain mandatory or statutory requirements. Similar to the case of Human Resource Planning, the success of Human Resource Audit is dependent. The reason for conducting a human resource audit is that it is from the base of the current situation that the future must be planned. Thus, an enormous amount of information needs to be available. But similar to the case of human resource planning, the success of this audit is dependent upon the availability of the quantitative as well as qualitative information and its use by the auditor. The purpose of human resource audit is to gather data about the organisation's human resource management and to use those data to make judgements about how its functioning, effectiveness, and requirements for future planning and development. The decision to conduct a human resource audit and its frequency would be guided by the top management's felt concern or, amongst other considerations, a desire on the part of the human resource professionals to advance the current practices and systems prevailing in the enterprise. The audit may be conducted by the management either 'in house' or by engaging an outside consultant in order to obtain greater objectivity in reporting.

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## 9.7 CLUES TO ANSWERS

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<b>Check Your Progress</b>
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- 1) Human Resource Audit is a systematic assessment of the strengths, limitations and developmental needs of its existing human in context of organisation performance. Study Sec.9.2 to expand the above answer.
- 2) The essential steps in HRA are:
  - i) Briefing and orientation
  - ii) Scanning material information
  - iii) Surveying Employees
  - iv) Conducting interviews
  - v) Synthesising
  - vi) Reporting

Study Sec.9.5 and expand the above answer.