

## A Theoretical Outline of Human Resource Audit

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### ABSTRACT

*The Human resource audit is a systematic and scientific analysis of strengths, limitations and developmental needs of existing human resources in a broad perspective of improvising institutional performance. The study of Human resource audit is evolved from the practice of annual finance and auditing which is necessary for every institution. The human resource audit like other audits is a formal discipline designed to analyze, observe the methods, policies, documentation, processes and practices with regard to the organizations Human resource management. In 1960's Human Resource audit evolved as an important tool for assessing the human resource management. In other way human resource audit is one of the ways to analyze the health or worth of human resource functioning of an institution or organization. In our country full human resource audit is not in practice. Till now four of hundred companies are only having proper human resources for Human resource audit. Even people working in human resource department don't have the basic knowledge of human resource audit, because human resource audit is not a statutory obligation. Here in this article we will have a overall glance of human resource audit like background of the Human resource audit and how it is distinct from financial audit, nature and scope of human resource audit, its goals, objectives, approaches and strategies involved in human resource audit, types of human resource audits, tools used for human resource audit, challenges, benefits and limitations of human resource audit.*

**Keywords:** Financial audit, Human resource Audit, Organization, statutory obligation

### INTRODUCTION:

The term audit is derived from a Latin verb "Audire" which means "To listen". Listening entails an attempt to know the condition of the organization as it exists. Hence auditing is a analytical tool to measure the current status of things happening in an organization and also helps to trace out the gaps between present and expected status of an organization which is being audited. Auditing is a routine exercise in the area if finance.

Human resource audit is an independent evaluation of human resource functioning of an organization. According to Gary "The primary purpose of human resource audit is to know how far different units of the organization are functioning and how far they are capable of meeting the policies and guidelines, approved upon". It also helps to analyze and identify the gap between goals and results and thereby assists the remaining departments to reach the expected results. Human resource audit should be conducted in a strategical and systematic way so as to implement the changes to improve the efficacy of human resource function and adds value to firm.

Human resource audit is not a routine function to focus on problem solving as a substitute of directly problem solving. Human resource audit helps in providing imminent to possible causes for current and future issues. Human resource audit is a systematic approach for checking, verifying job formats, analysis, recruitment, selection, orientation, placement, training and development, performance appraisal, job evaluation, employee and executive remuneration, motivation, participative management, communication, employee welfare and social security, health and safety, industrial relations, trade unionism and disputes and their resolution. Human

resource audit aids to take proper decision in identifying problems and rectifying them which play a major role in the firm or organization.

### **Human Resource Audit Definitions:**

“Human Resource Audit refers to an examination and evaluation of policies, procedures, practices to determine the effectiveness of human resource management”. \_ G. Seybold.

“A Human Resource Audit is a systematic assessment of the strengths, limitations and developmental needs of its existing of resources in the context of organizational performance.” \_ Flamholtz.

“A Human Resource Audit is defined as an investigative, analytical comparative process that attempts to reflect the effectiveness of the human resource functions.” \_ Jack J. Philips.

“Human resource audit is concerned with the gathering analyzing information and then deciding what actions need to be taken to improve performance.” \_ Storey and Sisson.

“Human Resources Audit, “measures 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. “ \_ Abdul Aziz Arain.

### **The evolution of Human resource audit:**

In general human resources audits have evolved from a simple checklist do's and don'ts and also a checklist of periodic confirmatory action plan to a comprehensive, sustainable process. Evolution is a progression of change. So many changes in the practice of human resource management and human resource audit had taken place in the past 25 years. Not only in the human resource practices have many changes been evolved in the human resources auditing values as well as in the tools used. The two main pillars of human resource audit are;

1. Human resource audit is an integral part of the organizations, internal controls, due diligence and risk management.
2. Human resource audit is a fundamental activity of strategic management.

So many scholars and researchers developed and found many process, procedures and strategies of Human resource auditing and accountancy for human resources assets. It was noticed that the expenditure on human capital formation was regarded as a charge against the revenue of that particular period as it doesn't involve physical assets. In the way of progression more human resource audits are conducted of human resource rather than by human resource.

Philips et.al., (2001) Human resource audit was considered as a powerful tool and technique to identify that gap and recommended to take corrective actions. The concept of Human resource audit brought into the decade of 1980's and the human resource audit practices started substantial boosting.

### **Nature of Human Resource Audit:**

Human resource audit is a powerful tool of evaluation of individual functioning of an organization. It consist separate unit or includes entire institution. Human resource audit reveals us how perfectly the functions of an organization are going on. In a word human resource is an overall quality control check of human functioning and activities in an organization.

### **Human resource audit scope:**

The human resource audit scope depends upon the dimensions of the firm and management expecting change in the firm. For comprehensive Human Resource audit, the audit must be including all the major areas of organization like Human resource planning, job analysis, compensation, recruitment, selection, training, development, performance appraisal, welfare measures and industrial relations, etc. the perfect method of starting the human resource audit is purely based on the previous human resource audit reports and or relayed on the activities and functions carried out by the individual sectors. Human resource auditing personnel carries out the following investigations.

1. Who is the responsible for individual activity or function in the specific department?
2. Formulating the objectives of each activity in the each department.
3. Checking and verifying the current policies and procedures followed by the individual department and the entire organization.
4. Prepare and audit report commending proper objectives, policies and procedures of the organization.

5. Develop a proper suitable action plan to rectify errors in objectives and policies and procedures of the organization.
6. Evaluate and follow up on the action plan at a lateral stage to know the states of the solved problems which are found through the human resource audit.

### **Human Resource Audit Significance:**

The overall organizational functioning and the level of its success can be estimated by a key factor called human resource functioning. Human resource audit helps in taking stock and polishing human resource policies, methods, practices focused and aimed at efficacy of the organization. Human resource audit will improve the efficiency of human resource activities and functions. It also gives wide range of opportunities to align the human resource practices with organizational strategy.

### **OBJECTIVES OF HUMAN RESOURCE AUDIT:**

1. 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.
2. 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.
3. To know the factors which are detrimental to the non-implementation or wrong implementation of the planned programs and activities.
4. To suggest suitable measures and corrective steps to correct the mistakes shortcomings if any, for future guidance and advise for effective performance of the work of the human resource department.
5. To evaluate the personnel staff and employees with reference to the performance appraisal reports and to suggest suitable recommendations for improving the efficiency of the employees.
6. 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.
7. To seek answer to such questions as “What happened”? “Why it happen”? Or “Why it did not happen”? In implementing the policies, practices and directives in managing human resource and to improve, qualitative performance of personnel department.

### **Approaches to Human resource audit:**

Human resource audit can be conducted once in a year in any organization. Comprehensive human resource audit can be conducted once in every two or three years.

Prof. K. Aswathappa, Weather and Davis identified some kind of approaches for the purpose of evaluation.

- Comparative approach
- Outside authority approach
- Statistical approach
- Compliance approach
- Management by objective (MBO) approach

### **Comparative Approach:**

Here the data of one's own company is compared with the data of another company which is selected as a model company.

### **Outside authority or consultant approach:**

In this kind of approach the effective standards and standard operating procedures were set by a third person or outer consultant who is not actually the part of the organization. Those standards are used by auditors as a benchmark for comparative purposes.

### **Statistical approach:**

In this type of approach statistical measures are undertaken from the company's existing data, for instance measures such as absenteeism and accident rates etc., this data enables to auditor for analyzing positives and negatives of company performance.

**Compliance approach:**

In this approach Human resource auditors views the past results, activities etc., whether they are in compliance with legal norms and check for statutory obligations of company's policies and procedures.

**Management by objective (MBO) approach:**

In this approach two things were mainly compared goals and objectives set by the managers in an organization and the performance of individuals in their particular sectors. The methods for evaluating and disseminating data would take in the form of

- i. Comparison between time periods
- ii. Comparison of organizations
- iii. Trend lines, frequency distribution and statistical correlation

**Human Resource Audit Types:**

Human resource audit can be either comprehensive or specifically focused within the constraints of time budget and staff. There are many types of audits and each one of them are compiled in a way to fulfill different goals. Some of the common types are:

- a. **Compliance:** It deals with how far an organization is running in accordance with federal, local laws and statutory regulations.
- b. **Best Practices:** It deals with the measures of improving and inculcating competitive advantage by comparing one own organizational practices with those having exceptional Human resource practices.
- c. **Strategic:** Stresses on their own strengths and weakness of systems and processes to know whether they align with human resource departments and organizations strategic plan.
- d. **Function – Specific:** It is confined to a specific area in Human resource function.

**Process of Human resource Audit:**

Human resource audit is conducted in 5 different phases. Each phase is formulated in such way that it should build the preceding phase. Hence at the end, the organization has a very long abstract of its Human resources functioning. These phases have the following steps:

- i. **Pre audit information:** Here the auditors acquire and examine the relevant data like manuals, handouts, forms, reports and other information regarding human resource functioning of an organization. Pre audit information is necessary to forward the client who compiles the data and submits for a review to the auditors.
- ii. **Pre audit self assessment:** To minimize the time spent on different sectors of audit, a pre-audit self-assessment is given to the client. Self administered yes/no questionnaire asks a number of questions about current Human resource policies and practices. These questions enable the auditors to identify the weak and key areas to focus during the Human resource audit.
- iii. **On-site Review:** This involves personnel visit to the client's firm and interacting with the staff and emphasizing about the human resource policies, practices and functioning.
- iv. **Records review:** A separate review is conducted for Human resource records and postings. Employee personnel files are checked properly including cross check of compensation, employee claims, disciplinary actions, grievances and other relevant human related information.
- v. **Audit report:** All the information gathered is put forward to develop audit report. Audit report categorizes actions needs in four separate areas namely:
  - a. **Urgent and Important (UI)**
  - b. **Not Urgent but Important (NUI)**
  - c. **Not Urgent and Not Important needs (NNI)**
  - d. **Important Opportunities needs (IO)** are sorted out.

**Human resource audit tools and methods:**

- i. **Individual interview method:** Here questions regarding Human resource policies and procedures are given to the individuals.
- ii. **Group interview method:** Head of the organization and senior Human resource professionals can involve and conduct interview to gauge relevant information for Human Resource Audit.
- iii. **Workshop method:** workshops are conducted to know the system of human resource and suggestions changes in it.

- iv. **Questionnaire method:** Employees were given the handouts of questionnaire and from the answers they will conclude whether the policies and practices are followed by the company are in just or not.
- v. **Observation:** Keen observation of daily work and perusalizing whether any violation of rules and regulations were there are not.

**Who will conduct the Human Resource Audit:**

Human resource audit can be performed by an internal Human resource specialist who is expertise with the knowledge of Human resource management, statutory company laws, auditing and high credibility. No matter whether auditing is done by a internal specialist or external specialist they need to verify and examine the background of auditor before assigning the audit task. The auditor should be given full powers and rights no external force or interference should be made as it spoils the initiative and objectivity of audit.

Four things are very extremely important to conduct internal audit.

- Audit should be conducted by a team not individual unless it is very limited.
- The team should involve cross section of organizations staff viz., the line personnel, middle and top management and those responsible for human resource functions.
- Team should be trained in techniques of surveys and data analysis.
- The culture and tradition of an organization should be trust based and open otherwise the information given will be distorted and the whole organization becomes inaccurate.

Many companies prefer to engage independent consultants to conduct audit. This is done in order to achieve greater objectivity and impartiality in examining and reporting. More over audit conducted by outside human resource consultants adds value to the whole process apart from giving insight to whole issue. Hence consultants are expected to have wider experience and specialization in the field.

Using the external consultants has the following general advantages.

- Freedom and more ambiguity
- Potential comparisons
- Professional authority
- Audits devoid of personal bias and victimization are maintained.

**Frequency of Human Resource Audit:**

It differs based on different organizations. There is no rule for how often to conduct audits. Mainly depends on:

- Purpose of conduction
- Manipulations in business trends.
- Extent of changes in process, policies and personnel in the institution.
- The speed of technologies which are influential on the mindset of people.
- The speed of change in legal, socio-economic and political conditions.

**Challenges faced by the human resource audit team during HR audit:**

While conducting human resource audit many hurdles may arise like:

- A general attitude of employees not freely expressing views due to fear of appraisals.
- Fear of audit imaging that it's their own performance analysis
- Employees may fear about their job or change of their job roles if they give output.
- Taking audit as a grant they may discuss other business related issues.

**Benefits of Human Resource Audit:**

Many benefits are listed out. An audit reveals the contribution of employees and Human resource department thus giving a special prominence of the department among manager and specialist. Audits are more helpful in scattered and decentralized human resource functions of large firms. Audit gives a clear picture of department's roles and leads to greater uniformity. Mostly audit gives the feedback of the present problems and ensures compliance with various laws and strategic plans in an organization.

- It gives the contribution of human resource department to organization
- Improves to professional potentiality of human resource department.
- Encourages responsibility and professionalism among individual of human resource department.
- It gives clear picture of duties and responsibilities of human resource department.
- Initiates uniformity of human resource policies and practices.

- Finds critical problems of human resource.
- Assures the periodic compliance with legal requirements.
- Reduces cost of human resource through more effective procedures.

**Limitations of Human Resource Audit:**

- Regulations and rules are not specific.
- Only comparisons to past ratios, rate of turnover etc., are possible
- Organization itself is not considered for comparison
- There may be a tendency to turn the survey into a fault finding process.
- Audit may give more trouble than solutions
- Human resource audit helps due to directives of CEO or top management; it can lead to negative results.
- Human resource audit doesn't do any analysis of the individuals, but it essentially focuses upon units and systems.

**CONCLUSION:**

For any self-esteeming organization for higher aspirations the human resource effectiveness and an effective human resource audit system is needed. Human resource audit in particular is an efficient tool for analyzing performance of an organization and or managing necessary changes. Hence human resource audit should be enriched from time to time by a better description and a higher grade of performance is expected. In any organization employees are the real and biggest asset and play a prominent role in achieving organizational goals, aims and objectives. Hence the senior management should consider the efficiency of human resource department functioning. Many organizations work for minimum employee turnover and Human resource department plays a key role in employee retention and should ensure that skilled employees are recruited and trained. Scientific approach needed to be evolved to manage cost, revenues and quality of Human resource system. This approach will create source for further development of human resource effectiveness evaluating theory and creation of a design for executions in organization.

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