

# HR Audit: A Contemporary Issue

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**Abstract – Human resources or HR is an integral part of any company. A good HR department will keep the company running smoothly, successfully hiring appropriately qualified staff and letting others go legally, help deal with employee grievances, meet legal employment requirements, use best practice employment guidelines and much more. A well-run and managed HR department can increase morale, reduce employee turnover and help a business run smoothly and in many cases remain competitive. Employees should be seen as the most valued asset of a company and treated accordingly. Because of this, to make sure an HR department is operating to its best capacity, it is important to run a periodic HR audit. Similar to a financial audit, an HR audit is a way to diagnose problems in a company's HR department. An HR audit can be done through self-assessment, internally, or can be done by hiring a professional audit company, to undertake an audit. An HR audit and the subsequent HR audit report will pinpoint where there are weaknesses or risks in the HR department and help address these. In this paper we find out need and advantages of HR Audit.**

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## INTRODUCTION:

Prompt advancement in product / service and process technology, many operations in the manufacturing and service industries in recent years require competitive HR practices.

HR planning is all about good management; good strategic management; good business management and particularly good people management. It is important that you put thought and careful planning into your human resource practices. And the purpose of the HR Audit is to conduct a more in-depth analysis of the HR function to identify areas of strength and weakness and where improvements may be needed. Conducting an audit involves a review of current practices, policies, and procedures, and may include benchmarking against organizations of similar size and/or industry.

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. 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 Human Resource audits. 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.

## MEANING:

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.

A complete Human Resources Check up, including administration, employee files, compliance, handbook, orientation, training, performance management, and termination procedures. The intended outcomes include minimizing your liability exposure and introduction or enhancement of human resource best practices.

Most businesses routinely perform annual audits of their financial policies, practices and recordkeeping to make sure there are no irregularities in their financial systems. Whether conducted by employees within the organization or by outside consultants, these comprehensive financial reviews help veterinary practices assess their financial statements with a reasonable degree of assurance that the businesses are performing within budget and consistent with financial projects. Comparable to a financial audit, a Human Resource ("HR") Audit is a diagnostic tool for practices to assess the health and compliance of their personnel human resources" policies, procedures and protocols. An HR audit is a performance evaluation for the entire human resources department, from corporate to field level. This annual review lets human resources display its effectiveness in contributing to the firm's strategic objectives. Whether a practice employs 5 or 500 employees, this comprehensive review can help owners and managers avoid the significant legal and/or financial penalties for not complying with the vast array of complicated employment laws while ensuring their procedures are adequate and effective. In essence, an HR Audit involves identifying issues and finding solutions to problems before they become unmanageable or lead to litigation. It is an opportunity to assess what a practice is doing right, as well as how things might be done differently, more efficiently or at a reduced cost.

### REDEFINING THE ROLE OF HR:

The historical role of Human Resources has changed dramatically since its inception in the early 1900s. What began as a primarily clerical function is now a strategic partner in planning and attaining organizational policies and goals. Today's business climate puts the onus on the HR department to accept the challenge of doing more with less, while contributing value toward business objectives. Human resources also has to address the rapidly changing conditions affecting the type of employees required and their changing needs, so the function requires flexible and knowledgeable practitioners. HR strategic planning has become an integral part of doing business and it is important that human resource professionals be both professionals in the field *and* competent business persons.

In order to walk the talk of being a "business partner," HR managers have to provide real evidence that they are having a strategic business impact. Management is often asking, "How are we doing?" However, this is not always an easy question to answer. This is especially so, when it is difficult to obtain some type of objective measuring tool to determine how well a certain HR function is performing.

To legitimize the claim of being "business partners", HR managers must clearly demonstrate how HR services can accomplish the business objectives set forth by the organization. The HR function is often

overlooked for audits/measurement tools, to assess its effectiveness and legal regulatory compliance. However, the HR Audit is a process that sets the stage for a true transformation in HR strategy and services. It links HR systems and services to organizational objectives while focusing on the business needs of internal customers.

### REASON FOR CONDUCTING HR AUDIT:

The purpose of the HR Audit is to conduct a more in depth analysis of the HR function to identify areas of strength and weakness and where improvements may be needed. Conducting an audit involves a review of current practices, policies, and procedures, and may include benchmarking against organizations of similar size and/or industry. Areas that should be audited include, but are not limited to:

- Legal compliance
- Record-keeping
- Compensation/pay equity
- Employee relations
- Performance appraisal systems
- Policies and procedures/employee handbook
- Terminations
- Health, safety and security

Legislation affecting all aspects of Human Resources is constantly evolving and the legal ramifications of noncompliance impact the HR department, the organization, and its employees. An HR Audit can help to ensure legal compliance while measuring the effectiveness of HR programs. There are many reasons why an HR Audit should be conducted, and the results can be used for multiple purposes. At a minimum, the results of an audit help you to determine what needs to be done, how these changes will impact the bottom line of your organization, and how to prioritize problem areas in terms of significance. A periodic HR audit can qualify its effectiveness within an organization. HR audits may accomplish a variety of 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. The objectives of HR Audit are:

- 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.

- 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.
- To know the factors which are detrimental to the non-implementation or wrong implementation of the planned Programmes and activities.
- To suggest measures and corrective steps to rectify the mistakes, shortcomings if any, for future guidance, and advise for effective performance of the work of the Human Resource Department.
- To evaluate the Personnel staff and employees with reference to the Performance Appraisal Reports and suggest suitable recommendations for improving the efficiency of the employees.
- To evaluate the job chart of the Human Resource Managers, Executives, Administrative Officers, Executive Officers, Recruitment Officers, whether they have implemented the directives and guidelines for effective Management of the Human resources in their respective Departments.
- Apart from it the reason for conducting an HR audit is to find out how effective and efficient the organization's HR activities are and to determine the areas for improvement and identify changes. An HR Audit in effect includes five different components.

### Functional Audit

This aspect of the HR audit examines:

- Your HRD systems and procedures, encompassing training and development, organization development and career development.
- Whether your HRD systems and procedures are aligned with the HRM systems and procedures to promote competence, confidence and performance. This includes job design, HR planning, performance management systems, selection and staffing.
- Fairness and consistency in compensation and benefits, employee relations and your HR record keeping, particularly in regard to providing timely management information.

### 1. Service Audit

This aspect of the audit activity looks at the service responsiveness and reliability of the HR function. This will include an assessment of such things as response times, willingness to help line managers/staff, and the knowledge of the HR staff etc.

### 2. Compliance Audit

This assesses the degree to which HR is compliant with the relevant legislation – e.g. Labour Laws, etc. This part of the audit will assess whether the required policies, practices, and procedures exist, and to what extent management and labour have been trained to enact these codes of best practice.

### 3. Financial Management Audit

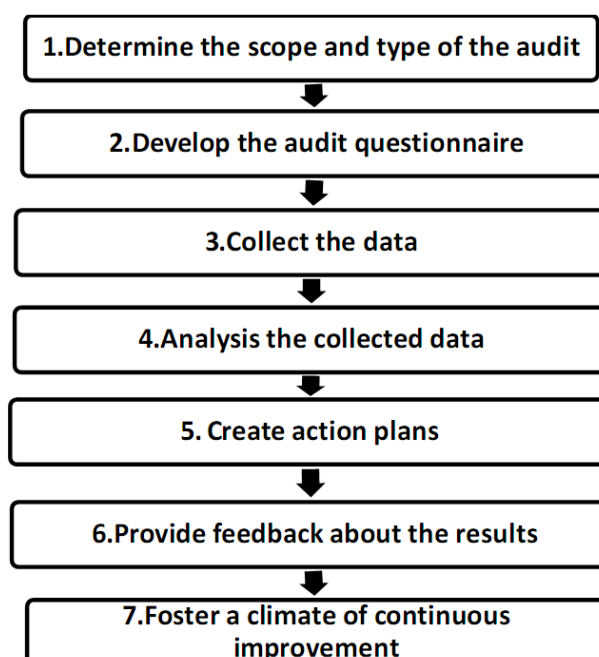
A comprehensive audit of HR systems and procedures needs to go beyond the inspection level. Basic financial ratios/scorecard measures appropriate for a staff function like HR need to be put in place to audit the efficiency of the various HR functions.

### 4. Strategic Audit

Each organization should have an overall people management strategy that aims to increase the value of employees to the business. The strategic audit will examine whether the HR strategy, policies and processes are aligned with and support the achievement of the business's mission and objectives.

### THE HR AUDIT PROCESS:

The HR Audit process would vary from organization to organization. The general process of conducting an audit includes seven key steps, each of which is discussed in detail below:



## Diagram of the Process of HR Audit

### 1. Determine the scope and type of the audit

To uncover the needed information, it is important to determine exactly what areas should be targeted for review. If the organization has never audited its HR function, or if there have been recent significant organizational or legal changes, the audit team may want to conduct a comprehensive review of all HR practice areas. On the other hand, if concerns are limited to the adequacy of a specific process or policy, the audit focus should be limited to a review of that particular area.

### 2. Develop the audit questionnaire

Whether conducting a comprehensive audit or an audit of a specific practice, it is important to invest sufficient time in developing a comprehensive document that elicits information on all the subjects of the inquiry. A list of specific questions must be developed to ensure that the questionnaire is complete.

### 3. Collect the data

The next phase includes the actual process of reviewing specific areas to collect the data about the company and its HR practices. Audit team members will use the audit questionnaire as a roadmap to review the specific areas identified within the scope of the audit.

### 4. Analysis the collected data

To fully assess the audit findings, they must be compared with HR benchmarks. This comparison will offer insight into how the audit results compare against other similarly sized firms.

### 5. Create action plans

It is critical actually to do something with the information identified as a result of an audit. The company must create action plans for implementing the changes suggested by the audit, with the findings separated by order of importance: high, medium and low. It actually increases legal risk to conduct an audit and then fail to act on the results.

### 6. Provide feedback about the results

At the conclusion of the audit process, the audit team must summarize the data and provide feedback to the company's HR professionals and senior management team in the form of findings and recommendations. Findings typically are reduced to a written report with recommendations prioritized based on the risk level assigned to each item. From this final analysis, a roadmap for action can be developed that will help determine the order in which to address the issues raised. In addition to a formal report, it is critically

important to discuss the results of the audit with employees in the HR department, as well as the senior management team, so everyone is aware of necessary changes and approvals can be obtained quickly.

### 7. Foster a climate of continuous improvement

At the conclusion of the audit, it is important to engage in constant observation and continuous improvement of the company's policies, procedures and practices so that the organization never ceases to keep improving. This will ensure that the company achieves and retains its competitive advantage. One way to do this is to continuously monitor HR systems to ensure that they are up-to-date and to have follow-up mechanisms built into every one of them.

## APPROACHES TO HUMAN RESOURCES AUDIT:

The following approaches are adopted for purpose of evaluation:

Comparative approach

Outside authority approach

Statistical approach

Compliance approach

Management by objectives (MBO) approach

### Comparative approach

In this approach, the auditors identify Competitor Company as the model. The results of their organization are compared with that Company/industry.

### Outside authority approach

In this approach, the auditors use standards set by an outside consultant as benchmark for comparison of own results.

### Statistical approach

In this, Statistical measures are performance is developed considering the company's existing information.

### Compliance approach

In this, auditors review past actions to calculate whether those activities comply with legal requirements and industry policies and procedures.



## Management by objectives (MBO) approach

this approach creates specific goals, against which performance can be measured, to arrive at final decision about organization's actual performance with the set objectives.

### **Benefits of Human Resource Audit:**

Several benefits associated with Human Resource audit are listed below. An audit reminds member of HR department and others its contribution, creating a more professional image of the department among manager and specialist. The audit helps clarify the department's role and leads to greater uniformity, especially in the geographically scattered and decentralized HR function of large organisations. Perhaps most important, it finds problems and ensures compliance with a variety of laws and strategic plans in an organization.

- Identifies the contribution of Human Resource department to the organization
- Improves the professional image of the Human Resource department.
- Encourages greater responsibility and professionalism among member of the Human Resource department.
- Clarifies the HR department's duties and responsibilities.
- Stimulates uniformity of HR policies and practices.
- Finds critical HR problems.
- Ensures timely compliance with legal requirements.
- Reduces human resource cost through more effective Human Resource procedure.
- Creates increased acceptance of needed change in the Human Resource department.
- Requires thorough review of Human Resource department's information system.

The findings of the HR Audits aid decision making in the organisation and are usually internal documents that need not necessarily be shared with the public. Moreover, unlike Financial Audits that time. These are in fact, studies of an unusual nature. The manner in which the Audit is conducted could vary from self-directed surveys to interventions by outside consultants. Human are routine, regulated and standardised, Human Resource Audits are non-routine and may be designed to cater to the unique needs of the organisation at a particular point in Resource auditing is something that many companies do

annually, just as they audit their financial information. This gives them an accounting of their workforce and the efficiency with which the organization as an entity deals with its people, from recruiting to firing. Human Resource auditing can be likened to a person going to the doctor for a general check-up to stay well. The process allows a company to get a general idea of where it stands so it can better correct any potential problems and plan for the future.

### **HR AUDIT IN INDIA:**

Indian industrial organisations are gradually realizing the benefits of HR audit to their business in short run and long run. Since there is no legal compulsion many Indian firms ignored HR audit. However recent factors like rising cost of human resource, pressure to reduce the cost of production due to increased competition and other business's challenges acted as an eye-opener for many firms of realizing the utility of HR audit. The awareness created by employer's association like CII (Confederation of Indian industries) through seminars and conferences has also led to the popularity of HR audit. In fact the CII southern region offered fee based HR audit of its member companies. CII would carry HR audit to examine the various practices followed by the companies and based on their performance they are awarded by certificates.

The HR auditing is not limited to private firms or service organizations alone. Even Public sector manufacturing organizations have understood the importance of HR audit. As a result of it, Oil and Natural Gas Corporation limited (ONGC) has included an HR audit as one of the major parameter for performance evaluation.

### **CONCLUSION:**

When it comes to physical health, prevention of problems is far better than waiting until a problem arises and trying to cure it. The same holds true for human resources auditing. Preventing problems is much easier than trying to fix them after the fact. Good Human Resource planning and auditing can help prevent those problems, and save companies money and difficulties.

The HR Audit can be a powerful lever of change in our department and organization. In one sense it is simple, in that each step can be completed fairly quickly and with ease. Also, the degree of detail and definition of performance is within the control of the audit developer. At time passes, the Audit enriches itself through better definition development and higher levels of performance expectations. It takes on a systems approach because it is comprehensive, inclusive of all traditional HR practices, yet accommodating to the uniqueness of company cultures and business initiatives.

Finally, it moves HR professionals into an active state of defining their direction, making sense of their choices, and contributing to the business in a more definitive way. Certainly, companies that complete an HR audit for compliance and cost reasons will enjoy an improved employment climate and a healthier bottom line. Organizations that opt to gain maximum benefit, however, also will use the HR audit to ensure that HR practices are linked to and play a vital role in the company's strategic planning and execution. In Indian companies conditions the HR audit is still in the infant stage and may take time to get due importance and recognition in the entire sector.

An HR Audit is like an annual health check-up, it plays a vital role in instilling a sense of confidence in the Management and the HR functions of an organisation.

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