
UNIT 21 HUMAN RESOURCE AUDIT

Structure

- 21.0 Learning outcome
- 21.1 Introduction
- 21.2 Aspects of HR audit
- 21.3 Audit Relationships
- 21.4 Designing Information Systems for HR Audit
- 21.5 Approaches to HR Audit
- 21.6 Components of the Audit Report
- 21.7 Conclusion
- 21.8 Key Concepts
- 21.9 References and Further Reading

21.0 LEARNING OUTCOME

After reading this Unit, you should be able to:

- Understand the nature, importance and scope of HR audit;
- Describe the approaches to HR audit; and
- Design information systems for HR auditing.

21.1 INTRODUCTION

Human Resource (HR) audit is an important aspect of the human resource management. It is now receiving a great deal of attention from HR practitioners. HR audit is used as a tool for review of the effectiveness of human resource practices. It is a tool for evaluating the personnel activities of an organisation. It gives feedback about HR functions not only to operating managers but also to HR department about how well operating managers are meeting their HR duties. In brief, audit is an overall quality control check on HR activities in a public organisation and an evaluation of how these activities support overall organisational strategy. HR audit also helps clarify organisational and management goals. Since the appropriateness of organisational goals and objectives set to be achieved can be questioned in relation to the problems being addressed, HR audit provides procedures for evaluating goals and objectives. Audit may result in efforts to restructure management practices and goals. It may also contribute to the craft of new policies emergence of and potential solutions. HR audit concerns the consideration whether a previously adopted policy alternative should be replaced with another or persisted with given the imperatives of efficiency and economy.

Thus, HR audit is an effort to analyse organisational goals and practices and improve upon personnel performance. K. Aswathappa (2002) has mentioned ten benefits resulting from HR audit:

1. Identification of the contributions of the HR department to the organisation;
2. Improvement of the professional image of the HR department;
3. Encouragement of greater responsibility and professionalism among members of the HR department;
4. Clarification of the HR department's duties and responsibilities;
5. Stimulation of uniformity of HR policies and practices;
6. Finding solution of critical personnel problems;
7. Ensuring timely compliance with legal requirements,;
8. Reduction of HR costs through more effective personnel procedures;
9. Creation of increased acceptance of the necessary changes in the HR department, and;
10. A thorough review of the department's information system.

Systematic audit can help build strong rapport between the department and operating managers, and can reveal outdated assumptions that should be changed to meet the department's objectives and future challenges. Further, planned assessment creates discipline in personnel staff and encourages them to move away from intuitive techniques to a more rigorous assessment of the likely benefits to be achieved.

According to Gray (1965), "the primary purpose of personnel audit is to assess how various units are functioning and how they have been able to meet the policies and guidelines which were agreed upon and to assist the rest of the organisation by identifying the gap between objectives lay out and results achieved. The end product of an evaluation should be to formulate plans for corrections or adjustments." Thus, audit helps the management evaluate how well its policies as a whole are pursued and identifies trouble areas that require particular attention.

21.2 AREAS OF HR AUDIT

The scope and subject areas of HR audit are very wide. It represents a 'whole man approach,' in that it assumes that the management of human resources involves much more than the practice of selecting, training and firing employees. The field of human resource audit includes : (a) Recruitment and selection, (b) Training and development, (c) Promotion, transfer, and career development, (d) Performance appraisal and job evaluation, (e) Morale and discipline, (f) Salary, rewards and benefits, (g) Personnel policies, procedures and programmes, (h) Employer – employee relations, and (i) Research.

The HR management audit allows rating the extent to which an organisation has basic HR activities in place and how well they are being performed. In deciding upon rating, there is need to consider how other managers and employees would rate the activities. The total scope provides a guide for actions that will improve HR activities in the organisation. Robert Mathis and John Jackson (2000) give the following chart for HR audit.

The following figure contains a checklist of HR audit which can be of great help to HR management.

Figure: Sample HR Audit Checklist

Instructions: For each of the items listed below, an organisation can be rated using the following scale:

VERY GOOD (complete, current, and done well)	3 points
ADEQUATE (needs only some updating)	2 points
WEAK (needs major improvements/changes)	1 point
BASICALLY NONEXISTENT	0 points

Chart for HR Audit

I. Legal Compliance

1. Equal employment opportunity requirements
2. Immigration reform
3. Health and safety
4. Wage and hour laws
5. Employment-at-will statements
6. Privacy protection
7. ERISA reporting/compliance
8. Family/medical leave

III. Maintaining Human Resources

- 14 Formal wage/salary system
- 15 Current benefits programs/options
- 16 Employee recognition programs
- 17 Employee handbook/personnel Policy manual
- 18 Absenteeism and turnover control
- 19 Grievance resolution process
- 20 HR record-keeping/information system

II. Obtaining Human Resources

9. Current job descriptions and specifications
10. HR supply-and-demand estimates (for 3 years)
11. Recruiting process and procedures
12. Job-related selection interviews
13. Physical exam procedures

IV. Developing Human Resources

21. New employee orientation program
22. Job skills training programs
23. Employee development programs
24. Job related performance appraisal
25. Appraisal feedback training of managers

- Total Points

HR AUDIT SCORING

Evaluate the score on the HR audit as follows:

- 60-70 HR activities are complete, effective, and probably meeting most legal compliance requirements.
- 45-59 HR activities are being performed adequately, but they are not as complete or effective as they should be. Also, it is likely that some potential legal risks exist.
- 30-44 Major HR problems exist, and significant attention needs to be devoted to adding and changing the HR activities in the organisation.
- Below 30 Serious potential legal liabilities exist, and it is likely that significant HR problems are not being addressed.

It is easy to announce policies but difficult to ensure their compliance. Promulgation of progressive policies such as promotion, on the basis of merit and nondiscriminatory hiring, may not be enough. Such policies are rarely self-enforcing, and some sort of auditing is required to ensure that they are implemented on a uniform basis.

It may be mentioned here that it is the top management's function to make regular check-ups. But top management is often too busy handling immediate problems and hardly has the time to carry out the function unaided. Consequently, standards decline gradually, causing long-term damage. Often the fall and deterioration of standards is so gradual that it might be difficult to adequately monitor them.

In the public sector, the policy states that all promotions are to be based on capability, irrespective of length of service. But a strong union frequently puts pressure on the management to promote senior employees. The tendency is felt in public organisations and all promotions go to the most senior employees. Apparently, merit and capability appear to be no longer significant factors.

Further it is observed that line management often defers action until a serious crisis erupts. A staff group like personnel, who have the technical resources and the perspective to ask potentially embarrassing questions on a regular basis, performs an important function. Regular audit identifies specific areas that require attention. This makes it possible to detect significant trends before they take the shape of crises. In addition, regular audits keep subordinates regularly alert as to what is expected of them.

Auditing Organisational Health

Auditing is equally important to assess the 'organisational health'. Increasingly, HRD departments are being asked to audit overall effectiveness of an organisation's human resource utilisation. A healthy organisation is one which is able to develop the hidden talents and capacities of its personnel and provide career and promotional opportunities to them to fulfill their ambitions for attaining rewarding positions. Relevant here, as measures include the amount of human resource development practices being undertaken, the percentage of personnel who avail themselves for voluntary educational programmes and changes in the skill levels of the personnel.

Standards of Accountability

In most public sector undertakings, a system of Memorandum of Understanding (MoU) has been introduced for the purpose of improving organisational performance. The emphasis in this instrument is on achieving the negotiated and agreed objectives (P.E. survey, 2002-03). Managers expect to be held to the memorandum of understanding for enforcement of standards of accountability. In effect, the MoU establishes a target and at the end of the target period, both management of the public enterprise and the government compare the expected standard of performance with the actual level of achievement. Shortfalls, if any, are indicators that further investigations and remedial actions are required. In the human resources arena, managers may have standards for

such objectives as hiring of employees, training, labour productivity and overtime utilisation. Actual achievements have to be assessed against such set standards.

Policy Implementation Audit

A policy pronouncement has little meaning if it is not implemented in true spirit. Personnel also get involved in auditing some aspects of the manager's job particularly those which have been the subject of top management policy pronouncements. To meet the management's objective of paying its employees, salary and other benefits, the HRD department must regularly compare its pay scales with wages paid by other companies.

Similarly, when top management decides that women are to receive equal considerations for promotions in administration, implementation of such policies will depend on continued audit and surveillance. To take another example, universities provide sabbatical leave to teachers for engaging in meaningful research. If not properly audited, such sabbatical leave by teachers may come to be used simply to take up teaching assignments to earn extra money. Similarly, government undertakings may encourage managers to provide employees, reasonable time off with salary to participate in community service activities such as family planning drive or literacy drive. It is easy to understand why this policy needs to be monitored and audited. Ethical standards may need to be enforced as a matter of organisational policy. Time and cost pressures may compel the manager to reject requests from subordinates for time off with pay to participate in community activities that seem to interfere with the employee's immediate job. If granted, the same would need to be monitored.

Cost - Benefit Comparisons

Audit is also undertaken to assess whether the management's policies are sensible and effective and whether the policies are really achieving the results consistent with costs. Budget is a good example of such comparison. Often budgets are made without a study of the actual needs given for various activities. They are often incremental in nature and substance, that is, the executive agencies who draw them up assume that the next year's allocations will most likely be a percentage above the previous year's figure. Increasingly, however, management has begun asking whether the unit performance is comparable with costs and where funds can be shifted to obtain better performance.

In case of human resource, there is need for continuous scrutiny to ascertain: (i) whether the resources going into any given programme are producing results of greater value than cost involved; and (ii) whether the resources used in one programme could produce more for the organisation, if all parts were redirected to other programmes. Clearly, if more money is spent on selection, better candidates can be considered by the organisation. Therefore, budgets must be regularly audited to find if possible reallocations of funds might produce greater returns to the organisation. Ideally, no expenditure should be made unless it increases the value of human assets. The human resource department can perform the critical function of alerting the top management to the broad range of human resource implications of the policy in question.

Absenteeism Record

Absenteeism can be regarded as an indicator of organisational health. The Department of Human Resources watches absenteeism to analyse the employee's dislike for the job or

the bosses in question. It has been observed that absenteeism is generally higher in industries where the work is long and where workgroups are large.

Turnover Rate

Turnover rate (quit rate) is another measure for direct observation of how well things are progressing. It is a measure of changes in the work force overtime. The figure in turnover can be affected by the selection of new employees, lay offs and voluntary resignations. Resignation factor is obviously the most critical to a management concerned with auditing organisational health.

It is observed that turnover tends to be higher in organisations that are larger, have longer workweeks and higher absenteeism rates. Similarly, turnover tends to be lower if there is relatively high unemployment, workers are more experienced, and also older, also, When business is booming and the labour market is tight (when there are lots of jobs and relatively few unemployed), capable human resource is hard to recruit. Large organisations may pay handsome salaries and have lower quit rates and high-paid employees may also have lower quit rates. Quit rates have been seen to be relatively high in private sector and low in public sector.

Attitude Surveys

Attitude surveys are techniques employed to determine how personnel feel about their jobs, bosses, management programmes, organisational climate and organisational change policies, personnel policies, etc. Surveys attempt to elicit more detailed answers through 'open-ended' questions.

These attitude or morale surveys reveal 'illnesses' if any, afflicting organisational health though not the exact source or nature of the problem. (Likert, 1965)

Monappa and Saiyadain (1978) provide a number of yardsticks and indices for the purpose of evaluation, viz. "... averages in the levels of employee turnover or absenteeism; cost figures or each major activity or function; accident frequencies; grievances; suggestions; internal data indicators wage and salary surveys employees' state insurance scheme statistics, productivity indications for certain jobs and or machines, staffing and manning tables, job analyses and descriptions; evaluation data regarding selection instruments".

Company Records Measures

Even without the use of surveys, the organisation produces information that can be reassessed by staff experts with a view to obtaining measures of personnel effectiveness relating to scrap records, number of accidents, strikes and grievances, and suggestions from employees, customers and shareholders.

21.3 AUDIT RELATIONSHIPS

In many organisations often, staff managers are also placed in the position of appraising the work of line managers and reporting their findings to the upper management. Personnel may audit how well line managers keep payroll costs in line or how well they

utilising training resources. Personnel auditing thus discloses excessive and costly turnover that may be afflicting organisational practice.

There are four more elements that could be considered prerequisites in HR auditing.

First, successful personnel managers learn that they are more effective in bringing about improved performance if they discuss the results of their evaluations with the manager before sending them to the higher management. This affords the manager the opportunity to improve his performance before the boss learns of performance 'lag'. Instead of pressure technique, the staff report becomes a device to help the manager remove or reduce defects in operations and meet the standards established as desirable by the top management. To that purpose, HR audit creates healthy relationships between the staff and line groups.

Second, personnel are asked to associate line managers in data collection and interpretation processes from the beginning. It is important that line is afforded a voice in deciding what data should be gathered and how it should be disseminated. Often, personnel distribute the data to the managers concerned without commenting. Here itself, supervisors themselves are encouraged to interpret and give meaning to data collected.

Third, line managers will be ready to accept a staff controls report if they can see how its contents will help them achieve their objectives, and if it is timely, personnel's chief job is to help the line management detect and handle its own problems. Here, the line's motivation to learn rises as it acknowledges there is a problem to be tackled.

And finally, the extent to which personnel develop impersonal, quantitative measures reduces the staff line conflict that usually afflicts the auditing process.

21.4 DESIGNING INFORMATION SYSTEM FOR HR AUDIT

Human resource audit is a difficult exercise. It requires the designing of an effective human resource information system to be effective. The most important issues related to the HR information system may be:

(a) Collecting data

In collecting data, often there is the problem of bias if the same is done by managers or individual supervisors on their own performance. For example, if supervisors who report their own department accident records may be tempted to suppress or hide potentially embarrassing incidents. Generally, it is observed that data collected by outsiders, consultants and university based researchers appear more credible than insider reports.

(b) Asking questions of the data

Data, which is to be collected, should provide useful information to enhance organisational effectiveness. Often the data is found to be misleading. Therefore, for most purposes, trend comparisons may be preferable.

(c) Interpreting the data

Looking at the quantity and quality of data, it is the responsibility of the HR department to assist the management in analysing and data interpreting the data.

(d) Stimulating remedial action

Most organisations in the public sector are seen generating more than the adequate quantity of data. But the main purpose is to stimulate remedial action. In some cases, the action may require consultation between the supervisor and the higher management. In some other cases, it might be useful to have the staff responsible for data collection with the line management in jointly arriving at an agreement regarding the implications drawn from data. Without such participation, there can be serious misinterpretations of data.

Here, it may be mentioned, that generating data is costly even with computers. Its quality can overwhelm, line managers who may be deluged with more data than they can profitably use. Therefore, considering the cost of data collection, only the data relevant to human resource audit should be collected. Further if the organisation practices a policy of decentralisation, the central office staff will be limited primarily to an advisory function, although it may also perform occasional auditing tasks to assure the top management of largely harmonious industrial relations. Line managers will be more willing to accept an audit report if its expert contents to help them achieve their objectives better.

It is critical for the HR department to develop a working relationship with the line particularly the top management that balances any constraining forces with timely participation and sharing. As auditors, personnel managers should consider difficulties each manager faces in meeting the standards set for his unit by the line management.

21.5 APPROACHES TO HR AUDIT

Auditors may adopt any of the five approaches for the evaluation purpose:

- (i) The comparative approach, (ii) The outside consultant approach, (iii) The statistical approach, (iv) The compliance approach, and (v) The management by Objectives - MBO approach, (Werther and Davis, 1996)

I. Comparative Approach

In the comparative approach, the auditors attempt to identify another firm or company as the model. They collect and analyse data of their own company and compare it (data) with those of the model company.

II. Consultant Approach

One way to improve the organisation's performance is to use certain effective standards developed by an outside consultant. These standards are used by the auditors as benchmarks for comparative purposes.

III. Statistical Approach

In the statistical approach, certain statistical measures of performance are developed based on the company's existing data. Examples of such measures are absenteeism and accident rates. These data aid auditors in assessing the positive and negative experts of company's performance.

IV. Compliance Approach

Under the compliance approach, auditors review past results and actions to determine if those activities comply with the legal norms and the company's policies and procedures.

V. Management by Objectives (MBO) Approach

The 'management by objectives' (MBO) approach entails specification of goals against which performance is assessed. By this approach, managers set objectives in their specific areas of responsibility and auditors assess the actual performance by comparing it with the objectives.

The methods for evaluating and disseminating data take the form of:

- (i) Comparison between time periods;
- (ii) Comparison of organisations (even among and between public and private organisations);
- (iii) Trend lines, frequency distributions and statistical correlations;
- (iv) Ratio analysis (labour cost variances); voluntary turnover rate;
- (v) Classification of data (amount of absenteeism, scrap records, time lost in accidents); and;
- (vi) Graphical or pictorial displays.

21.6 COMPONENTS OF THE AUDIT REPORT

After auditing the policies, practices and required areas of the human resource management, a report has to be prepared for consideration of the line or the top management. The report may be presented in the following order:

- i. Table of contents;
- ii. Preface or introduction giving a statement of objectives, scope, research methodology and techniques of the HR audit;
- iii. A summary of the conclusions and recommendations of the HR audit;
- iv. The main report with analysis of data of each section or department concerned;
- v. A Summary which is general comprehensive in nature and more in comparison to the brief prepared at the beginning of the HR audit report;
- vi. An appendix containing supporting data, which might be too voluminous to appear in the body of the audit report.

21.7 CONCLUSION

The preceding pages analyse the meaning, importance and role of the human resource audit. Auditing helps the top and line management evaluate how well its policies on a whole are working. It appraises the overall effectiveness of an organisation's human resource utilisation. It stimulates the subordinates to pay particular attention to the areas assigned highest priority by top management. Regular human resource audits make it possible to detect significant trends before they generate crises. Besides, regular audits make the whole personnel control process less threatening. Thus, human resource audit helps identify policies and practices that need to be modified or changed in response to the changing circumstances.

21.8 KEY CONCEPTS

Absenteeism: Absenteeism is the number of days a worker does not report for work. The rules of the organisation specify and determine absenteeism. Sanctioned leave does not count for absenteeism

Attitude Surveys: Attitude surveys involve research techniques which are used to determine the feelings of employees about their jobs and organisations. Such surveys are vital for better craft of management policy based on policy inputs articulated and also gain insight into employee grievances, expectations and general organisational culture outlook.

Turnover: Turnover is a measure of change in the work force over time. Surveys are needed to find out the reasons why employees chose to leave the organisation or prefer employment in some other organisation. High turnover rates indicate lack of success on the part of an organisation.

21.9 REFERENCES AND FURTHER READING

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21.10 ACTIVITIES

1. Define "human resource audit" and discuss its role in human resource management.
2. Discuss the objectives of the human resource audit. Identify the data to be collected for purpose of human resource audit.
3. Explain the components of HR Audit Report.