“HUMAN RESOURCE AUDIT: AN EFFECTIVE TOOL FOR PERSONNEL ADMINISTRATION”

Dr. Renu Sharma #1, Ms. Gaytri*2

# Assistant Professor, Department of Commerce, S.D. College, Ambala Cantt

* Assistant Professor, Department of Commerce, Government P.G. College, Ambala Cantt

Abstract— HR audit is a comprehensive evaluation of the current HR strategies, structure, systems, styles and skills in the context of the short and long term business plans of a company. It is a periodic review to analyze the effectiveness of personnel management and to determine the steps required for more effective use of human resources. It attempts to find out future HRD needs of the company after assessing the current HRD activities and inputs. In the last few years the author along with his colleague Udai Pareek pioneered in India, a methodology for auditing the HRD function called HRD audit and implemented it in many companies. HR Audit undertakes the systematic search of the effectiveness of personnel policies and programmes and to reveal the extent to which management has been successful in personnel identification with the organization and their acceptance of the organisational goals. It examines the system of recruitment, selection, training, development, allocation and utilization of human resources in the organization.

Keywords— Audit, HR Policies and Strategies

I. INTRODUCTION

Control is one of the important functions of management and management control can effectively be enforced through audit. Human resource audit is concerned with the critical examination of the organization’s performance in its management of the human resources. HR audit is a comprehensive evaluation of the current HR strategies, structure, systems, styles and skills in the context of the short and long term business plans of a company. It is a periodic review to analyze the effectiveness of personnel management and to determine the steps required for more effective use of human resources. It attempts to find out future HRD needs of the company after assessing the current HRD activities and inputs. In the last few years the author along with his colleague Udai Pareek pioneered in India, a methodology for auditing the HRD function called HRD audit and implemented it in many companies.

II. DEFINITIONS OF HR AUDIT

In the words of Dale Yoder, “Personnel audit refers to an examination and evaluation of policies, procedures, and practices to determine the effectiveness of the personnel management”.

According to Edwin. B. Flippo, “The personnel audit is a systematic survey and analysis of all operative functions of personnel with a summarized statement of findings and recommendations for correction of deficiencies”.

Therefore, HR audit is the systematic examination and evaluation of policies, procedures and practices to determine the effectiveness of human resource management.

III. OBJECTIVES OF HUMAN RESOURCE AUDIT:

Following are the objectives of the HR Audit:

1) To undertake the systematic search of the effectiveness of personnel policies and programmes and to reveal the extent to which management has been successful in personnel identification with the organization and their acceptance of the organisational goals.

2) To examine the system of recruitment, selection, training, development, allocation and utilization of human resources in the organization.

3) To check the indicators of the quality of leadership, of motivation, of communication, effectiveness of supervision and constant development of employees and managers.

4) To find out the deficiencies and shortcomings in the management of human resources.

5) To verify whether the HRM objectives have been achieved or not.

6) To evaluate to what extent the line managers have implemented the guidelines of the HRM.

7) To provide the continuous feedback to improve the performance of its personnel.

8) To control the rising labour costs and to capture the increasing opportunities for competitive advantage in human resource management.
IV. NEED OF HR AUDIT

There are various reasons why companies want to undertake HR Audit, some of which have been stated below:

1) To Make HR Function Business Driven: HR audit is undertaken by most of the organizations to make HR systems and processes more relevant to business goals. Over a period of time business changes may have taken place for a variety of reasons including environmental changes. Organisational restructuring may have necessitated meeting the changing environmental demands and opportunities. Such changes should be accompanied by appropriate changes in the work force. Companies go in for HR audit to examine the HR function and to make the appropriate changes and to ensure that HR function is aligned with business goals and strategies.

2) Improvement in HR Function: HR audit is needed to take stock of things and to improve HR function for expanding, diversifying, and entering into a fast growth phases. Many good organizations in India, after liberalization has entered into a competitive phase. These are those organizations which saw a lot of opportunities both within the country and abroad. In the light of these new opportunities, some of the organizations felt that they had not paid attention to their human resource due to the constraints of the past. They used to recruit employees at low salaries and on the basis of their contract rather than competence which had become their weakness in the present. Thus companies felt need to take stock and see the direction in which they should move.

3) Promoting Professionalism: HR audit is needed to promote the professionalism among the employees and to switch over to professional management. With the world becoming the global village, some companies started realizing the importance of skill development and professionalism among the employees. In order to include professionalism they wanted to take stock of their human resources and therefore undertook an HR audit.

4) Improvement in HR Strategies: Some organizations found from their experience that there are some unique problems with the employees like high designation conscious, low level of team work, tendencies to unionize, lack of trust on management, low energy level etc. These companies rely heavily on their HR departments to change the situation. Their experience was not as positive as desired, so they decided to undertake an HR audit.

5) For Growth and Diversification: A few organizations wanted to diversify and expand into new areas after their initial success and building core competencies in certain areas. They even undertook the initial steps using their existing staff to handle new projects. They were not sure whether it will work out and whether they were moving in the right direction. So they adopted HR audit.

6) Change of Leadership: Some organizations undertook HR audit as their HR manager was leaving and they needed to recruit new HR manager and reorient the entire HR department. Therefore, a change in the CEOs and other top management members may also prompt HR audit.

7) Dissatisfaction with the Particular Component: Organizations undertook HR audit more as a necessary, comprehensive review to their needs generated from their dissatisfaction with one or two subsystems of HRD. In some companies HR audit is used as a means to improve communications, in other companies appraisal was the starting point, and the third type of companies use HR audit for review of their training practices. In all the these cases the influencing factor for initiating and using HR audit has been visionary either at the top level or at the board level who has more holistic view of the organization.

V. AREAS OF HUMAN RESOURCE AUDIT:

HR audit can be undertaken in any aspect of the management of human resources in the organizations. The HR audit is basically conducted for evaluating the policies, procedures, programmes and results of the human resource management.

A. Human Resource Policies and Strategies Audit:

The HR audit starts with the evaluation of HR strategies and policies and whether they are in alignment with the overall organisational policies and strategies. This audit examines the relationship between the employer and the employees. This audit attempts to judge the coverage of human resource policies. This audit provides the answers to the following questions:

1) What are the organization’s HR policies?
2) How are these policies formulated?
3) What is the channel of communication of these policies?
4) Whether the people at various management levels understand these policies?
5) Whether these policies are in alignment with the organisational policies?

B. Human Resource Programme Audit: Human resource policies are implemented through human resource programmes. HR programme state how the personnel programmes are to be carried out. The result of this audit reveals that how well the HR policies have been implemented. The auditor also ensures that HR programmes and procedures are consistent with the HR policies. This audit provides answers to the following questions:

1) What are the standard human resource practices and procedures?
2) How these practices and procedures are formulated?

3) What is the method of communication of these practices and procedures?

4) Whether these practices and procedures are consistent with the human resource policies?

5) What control tools exist in the organization, which could ensure the uniform application of these procedures and practices?

C. Human Resource Results Audit: The analysis of the effectiveness of human resource policies and programmes lies on the results achieved through them. For example the audit of human resource planning reveals whether the manpower needs were accurately estimated or not. Similarly the performance evaluation reveals the effectiveness of selection procedures. In this the audit of accomplishments of current management is undertaken. Following are the main points for auditing the HR results:

1) Human resource auditor depends largely upon the human resource records and reports supplied by the HR department, so these should be properly maintained in the organization.

2) Personnel statistics is used for the calculation of ratios by the personnel auditor. This statistic may relate to new lines, voluntary quits, terminations, bio data of employees, number of accidents and absenteeism.

VI. HR AUDIT PROCESS

HR audit should proceed as a process involving various steps which should be followed in sequence because HR audit is a function. These steps are as follows:

A. Appointment of Auditors:

The first step in the process of HR audit is the appointment of auditors who will undertake the audit. Two alternatives are available for this purpose i.e. either internal employees can act as auditors or the external auditors can also be appointed. The benefit of external auditors is that they are independent and are not influenced by the organisational practices and culture. The auditors should have the following qualities:

1) Experience of the fundamental principles and dynamics of human resource management to appreciate the various HRM functions and their relation with the organisational functions.

2) Attitudes and aptitude for evaluation.

3) Excellent interactive skills and tendency undisclose personal sensitive information of Audittees.

B. Coverage of HR Audit:

In this step the scope of the HR audit is defined which should be known to the organization as well as to the auditors. Therefore, the top management should decide the various HR functions which are required to be audited. The coverage or area of HR audit should be decided after considering the cost involved in the audit and the benefits which are likely accrue from the audit.

C. Specifications of Standards:

This is the most important step of HR audit. The standards are required to be set as a measurement criterion. Various approaches are available for setting the standards. These approaches are proposed by Werther and Davis and these are as follow:

1) Comparative Approach: In this approach the HR performance of the organization is compared with another organization known as a model.

2) Outside Authority Approach: In this approach the standards are prescribed by the various consultants and rating agencies which are used as the benchmarks.

3) Statistical Approach: Various statistical tools can be used to measure the performance which is available in quantitative form.

4) Compliance Approach: In this approach the performance is measured in terms of legal compliances as required by the various laws.

5) MBO Approach: In this approach performance is measured in terms of objectives of a function set and the actual performance achieved.

Any of the approach can be used but it should be made clear and specific before the collection of the information.

D. Collection and Evaluation of Information:

After establishing the standards the information about the various specified areas is collected. This information can be obtained through the Human Resource Information System of the organization. Additional information may be collected through the personal contacts. This information is then compared with the standards and conclusions can be drawn about the various aspects of HR audit.

E. Preparation of Audit Report:

On the basis of the collected information and its evaluation, the audit report is prepared by the auditors, which includes the factual information. This auditor also indicates the shortcomings wherever found in his report. Measures are also suggested by the auditor to overcome the shortcomings in his report. This report is submitted by the auditor to the management for the necessary actions.

VII. AUDIT REPORT:

Audit report is prepared by the auditor after examining the policies, programmes and results. The auditor submits his written report to the top management containing findings, conclusions, and recommendations. There is no prescribed Performa for the human resource audit and the overall form and
style of report depends upon the auditor. This report is meant for the management but information about the certain parts of the report is also made available to the employees’ e.g. morale survey and safety survey report. The report should be submitted within a reasonable time after the audit is over. The following items are included in the report:

1) Contents Table
2) Preface giving a brief statement of the report.
3) Conclusions and Summary: It is the main body of report, which is mainly read by the most of the executives.
4) Each department is separately covered in the report. A separate section may be given for each department.
5) Summary: It is general in nature and is relevant to all the persons concerned. The matters which are reported to the top executives.
6) Supporting data that might be too voluminous to appear in the body of the report is included in the appendix.

REFERENCES