

# Audit of Human Resource Department



The human resource department is all the more important because companies want to attract, retain and groom top-class talent. One of the key challenges for an organisation is aligning the motivation, behaviour and goal of the very best individuals with the values and business goals of the organisation so that management by objective can be achieved. These days, businesses operate in a liberalised and globalised economy and being proactive to changes in business needs and environment is the key to survival and success. The challenges of HR department are frequent restructuring, retaining the good existing human resources, meeting the changing staffing requirements and constant innovations in appraisal and compensation. The auditor should ensure that demands on the HR department be integrated in the areas like recruitment, personnel information, training and integrated database of information on the human resources of the company and powerful tools that facilitate analysis and decision making. HR managers need to implement human resources information systems (HRIS) at a fast pace and the alternatives for implementing the HRIS are either building in-house systems or using packaged software.



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## Evolution of HR Department

HR department should transform itself to align with forward thinking practices and executive leadership must ask HR leaders some tough questions. Today's organisations cannot afford to have an HR department that fails to contribute.

Human Resources function was considered the last bastion of bureaucracy. Traditionally, the role of the Human Resource Department in many organisations has been to serve as the systematising, policing arm of executive management. Their role was more closely aligned with personnel and administration functions that were viewed by the organisation as paperwork.

In many companies, HR comes out of the administration or finance department because hiring employees, paying employees, and dealing with benefits were the organisation's first HR needs.

**The auditor has to review the HR function of a company, point out weaknesses and recommend improvements to assist the organisation realise the overall workforce optimisation and achieve its planned objectives. Moreover, HR audit is conducted to make the HR department to be proactive and effective in the organisation and it ensures that policies on HR are implemented in the organisation in the most economical and vigorous way.**

In this atmosphere, much of the HR role is changing. The role of the HR manager must parallel the needs of a changing organisation. Successful organisations are becoming more adaptive, resilient, quick to change direction and customer-oriented. Within this environment, the HR professional is a strategic partner and a change mentor.

### Strategic Partner

The HR department contributes to the development of and the accomplishment of the organisation-wide business plan and objectives. In today's organisations, to guarantee their viability and ability to contribute, HR managers need to think of themselves as strategic partners. HRD should have deep knowledge about the design of work systems in which people succeed and contribute.

The HR business objectives are established to support the attainment of the overall strategic business plan and objectives. This strategic partnership impacts HRD such as the design of work positions, hiring, reward, recognition and strategic pay, performance development and appraisal systems, career and succession planning, and employee development. When HRD is aligned with the business, the personnel component of the organisation is thought about as a strategic contributor to business success.

To be successful business partners, the HRD has to think like business people, know finance and accounting, and be accountable and responsible for cost reductions and the measurement of all HR programs and processes. It's not enough to get appointed in HRD but they will have to prove that they have the business savvy necessary for the organisation.

### Objective of HR Audit

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an overall workforce optimisation and achieve its planned objectives. Moreover, HR audit is conducted to make HR department to be proactive and effective in the organisation and it ensures that policies on HR are implemented in the organisation in the most economical and vigorous way.

### Scope of HR Audit

The scope of HR audit depends on the size of an organisation and problems being faced by the management and areas where improvements are needed. However, the following may be treated as the general scope of audit and it may vary from organisation to organisation depending upon the problems being faced by the organisation and areas where improvements are expected.

- (a) He should scrutinise the existing HR Policies and processes of the Organisation and suggest the improvements required.
- (b) He should scrutinise the personal files of the current employees and closed files and bring out shortcomings.
- (c) He should study the previous audit report and check for the action taken by the Organisation on the same.

### Methodology

An auditor begins the HR audit process with a business needs analysis that pinpoints specific performance improvement opportunities. This offers an insight into how an auditor can help the organisation realise an overall workforce optimisation and achieve its planned objectives. The auditor draws on a variety of diagnostic approaches such as on-site visits, interviews, surveys, in-the-field observation and documentation analysis.

The auditor makes sure that the procedures adopted are tailored to the needs of the organisation by a meeting with the management to understand the business strategy and pressing issues. He identifies gaps between objectives and activities and also recommends areas where improvements can be made.

The auditor provides the HR function with a much appreciated expert view of what it is doing well and where it can improve. He helps to align the HR function more closely with the real needs of the business. He makes sure that investments in HR in the organisation are directed where they are most needed.

### Steps Involved in HR Audit

#### *Step 1: Scope and purpose:*

Following are the scope of HR audit which may vary according to the needs of the organisation.

- a. He should prepare a Draft HR Audit scope and purpose, and obtain the Top management's direction and suggestions from HODs.
- b. He should prepare a final HR Audit Scope and Purpose and obtain concurrence of the Top management so that audit can be effective and useful to the management.

Step 2: Plan Audit:

- a. He should finalise the preliminary audit plan identifying the audit purpose, scope, methodology, the appropriate corrective action and follow up requirements, and audit database configuration.
- b. He should finalise the audit process and schedule.
- c. He should finalise database for capturing audit findings and prepare data collection documents.

Step 3: Perform Audit

- a. He should send an initial mail to HR head requesting documentation or information needed to perform audit.
- b. He should perform employee interviews, review of documentation or files and/or review documentation submitted in response to the initial letter.
- c. He should compile information gathered during the review process.
- d. He should discuss preliminary findings, circumstances that are unusual or outside the scope of the audit, and potential final report conclusions and recommendations with management and/or HR head, as necessary or appropriate.
- e. He should notify the Company of the preliminary findings and if applicable request additional information to support HR audit action or decision.
- f. He should review additional information received from company in response to the preliminary findings.

Step 4: Final Audit Report

- a. Prepare draft final audit report.
- b. Obtain concurrence on Draft final audit report from the top management.
- c. Prepare and submit final audit report.

Step 5: Follow-Up

- a. He should perform follow-up review of corrective actions required as per the final audit report.
- b. Prepare 'Follow-up audit report' for addition to final audit report.

Follow-Up on corrective action plans is generally

performed within 3-4 months following conclusion of an audit. The follow up process typically takes one to two months to complete.

Now, we will discuss in detail about the various aspects to be taken into account for conducting the HR audit. These are related to recruitment key results area training and development and performance management system and other areas of interest of management.

The HR Department of the organisation needs to work towards transforming itself into a Strategic HR Department and work towards creating an effective & result oriented work environment aligned to business goals.

**Recruitment**

There is always a need for reviewing the existing Recruitment Policy & Process and formulating & implementing the policy and processes for hiring of right talent. Auditor should check talent acquisition plan, recruitment channels and process.

In view of the above, the following measures may be suggested by auditor to improve the talent hiring standards of the Organisation:

- (a) **Talent:** There is always a need to induct a Talent Acquisition Team, headed by a Senior Manager, who will be responsible for setting up and implementing policy & procedure for hiring of right talent.
- (b) **Reviewing the Existing Recruitment Channel(s):** There is always a need to have a fair mix of recruitment through own HR Dept./Employee Referrals and hiring through Professional Recruitment Consultants.
- (c) **Reviewing Existing Recruitment Process:** There is always a need for emphasis on hiring talent as per the Job Description (JD) for the said position.
- (d) **Reviewing the Existing Interviewing Process:** There is always a need to put in force a credible

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interviewing process. The following aspects need to be incorporated :

The interview must be conducted by a panel of interviewers consisting of minimum two persons, an HR Manager and a Line Manager. The interview must be endorsed by each member of the panel on the 'Interview Assessment Sheet', which also needs to be formulated. Now these days, the companies can conduct behavioural profile analysis of the persons and the same may be used for recruitment, retention, motivation and development of talent. These analyses are conducted on a scientific basis with the help of software after getting the self description and other details from the person concerned.

Moreover, the management can understand an individual's natural behavioural styles, in-depth understanding regarding the way a individual will respond to problem solving needs and face challenges, influence others, respond to environment as well as what their responses will be to rules and procedures set by others in addition to their ability to self control their impulses and emotions.

There is a need to incorporate a system of conducting a written test to assess the attitudinal as well as technical skills of the candidates, specific to the job. This could be in the form of psychometric test for attitudinal skills and job proficiency test for technical skills.

The results obtained by the candidates in these tests are validated during a face to face interview.

### Job Descriptions

Auditor should emphasise a need to formulate JDs for each position in the Organisation. Formulation

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of comprehensive JDs will help in identification & hiring of right talent as also help in formulation of Key Result Areas (KRAs).

JDs must cover the following aspects:-

- (a) Job Responsibility.
- (b) Technical Skills.
- (c) Behavioural Skills.
- (d) Qualification Requirement.
- (i) Education.
- (ii) Professional.
- (iii) Age.
- (iv) Gender.
- (e) Salary Bracket.
- (f) Reporting Structure.

### Key Result Areas (KRAs):

Though KRAs have to be formalised for most of the positions, auditor should see a need to implement the same. Further, these need to be reviewed on a periodic basis to improve productivity and also bring in the accountability.

### Competency Mapping

To identify gaps in the desired competencies, Competency Mapping needs to be carried out, especially for Senior and Middle Management. Auditor on the basis of his checks can suggest the training to be planned for concerned employees to bridge the identified gaps.

### Training and Development

The company generally conducts training for the new joiners. Auditor should emphasise on the effectiveness of training in the organisation. There is need to conduct training, based on Training Need Analysis (TNA), on following aspects:-

- (a) Behavioural Skills
- (b) Attitudinal Skills
- (c) Team Building
- (d) Effective Selling Skills
- (e) Leadership Skills: For Senior and Middle Management to be able to drive the growth and profitability of the Organisation, training on Leadership Skills is the single most important aspect.

### Performance Management System

Auditor should insist on employees' self appraisal form to be filled by each employee to measure and evaluate each employee's job performance and

behaviour, as there is always a need for formulation & implementation of an effective, honest, unbiased, and scientific Performance Management System (PMS) for the organisation. The PMS must be conducted with the following aims:-

- To measure the performance of each employee for the year through an objective and scientific evaluation process.
- To provide honest performance feedback to the appraisee, his/her performance in a one to one meeting with the appraisee on the performance achieved *vis-à-vis* targets set.
- To identify gaps in performance and take necessary actions to ensure the achievement of organisational and individual goals.
- To identify appraisee's developmental need for future growth.
- To define a proper career planning process and spotting talent for future leadership.
- To provide inputs for determining the Compensation, Rewards & Recognition to management.

### Succession Planning

The auditor should emphasise the need for formulation & implementation of Succession Plan for each department of the Organisation. The Succession Plan must be announced to the employees to make it transparent.

Following aspects need to be linked with the Succession Plan:-

- (a) Promotion Policy.

- (b) Eligibility Criteria for each position (JDs).  
(c) Appraisal Policy.

This will help the company in creating qualified employees to take on the next higher position/designation in case of separation, thereby cutting down on the cost as well as man-hours required for hiring a new employee at that level.

### Reward & Recognition

It is very important for motivation of employees in any Organisation. Auditor should emphasise an Effective Reward & Recognition System in the Organisation. This will also help in reducing attrition.

- (a) **Annual Day/Department Get Together:**

Auditor should ensure celebration of Annual Day and having periodic department wise get together assists employees and Line Managers to get to know each other better and bring in team cohesiveness. This also provides informal forum to the management to check the pulse of employees in the organisation.

- (b) **Harassment and Grievance Handling:**

Auditor should verify the policy of Harassment and Grievance Handling and ensure that it is implemented.

- (c) **Circulation of Policies to the Employees:**

HR policies to be prepared and to be implemented must be approved by the management and be circulated to the employees.

### APPRAISAL AND PERFORMANCE SYSTEM of ABC Ltd.

Name of Appraisee:	Designation:	Dept.
Team Involvement as Leader/member of the following Teams:-		
Name of Appraiser:	Designation:	Dept.
Name of Reviewing Officer:	Designation:	Dept.

Major Assignments	Expected Results	Results Achieved

*Extra sheet may be added if required.*

### PERFORMANCE DIARY

Name: Designation: Dept. /Section:

DATE	NAME OF PERSONS INVOLVED	DETAILS OF CRITICAL INCIDENT/ ACHIEVEMENT

PROFESSIONAL DEVELOPMENT CARD								
			<b>QTR</b>			<b>DATE:</b>		
	<b>NAME-</b>			<b>Team Lead-</b>				
	<b>ATTRIBUTES</b>		<b>N.Imp: 1</b>	<b>Avg: 2</b>	<b>Good: 3</b>	<b>V.Good: 4</b>	<b>Excellent: 5</b>	<b>Total</b>
<b>(I)</b>	<b>DRIVE TO SUCCEED</b>							
1	<i>Self Starter</i>							
2	<i>Reporting also what is not done</i>							
3	<i>Completeness</i>							
4	<i>Focus on Priorities</i>							
5	<i>Timeliness</i>							
<b>(II)</b>	<b>TEAM WORK</b>							
1	<i>Participation</i>							
2	<i>Sharing of Ideas</i>							
3	<i>Sharing of Responsibility</i>							
4	<i>Openness to Others Ideas</i>							
<b>(III)</b>	<b>WORK PROCESS</b>							
1	<i>Organised</i>							
2	<i>Persistent</i>							
3	<i>Flexible</i>							
<b>(IV)</b>	<b>TECHNICAL SKILL</b>							
1	<i>Technically Sound</i>							
2	<i>Continuous Learning</i>							
<b>(V)</b>	<b>COMMUNICATION SKILL</b>							
1	<i>One to One communication</i>							
2	<i>Responsive to communication</i>							
3	<i>Presentation/Documentation</i>							
							<b>TOTAL (5)</b>	
							(%)	
	Prof's Signature:							
	Lead Signature:							

- (d) **Quarterly Appraisal:** The auditor should ensure that appraisal is carried out on Quarterly basis, as per the laid out policy. There should be performance appraisal and development system in the organisation and following format be filled to appraise the employee.
- (e) **Attrition Levels:** The Attrition Level in the company is a cause of worry as this tremendously increases the cost of hiring & retaining trained manpower. Auditor should ensure for a need for continuous efforts to reduce it.
- (f) **Employee Separation:** Separation in the organisation needs to be transparent and well defined parameters need to be laid down for different levels and types of employee Separation/Termination. The process of Full & Final settlement should be completed on time. This needs to be looked into and streamlined as it not only affects the employee morale; it badly affects the Company's image in the environment.
- (g) **Growth Path:** The Growth Path should be well defined and to be linked to the QRs for promotion, increments and Training needs. This is one of the most important policy documents and needs to be improved upon to incorporate the above mentioned aspects.
- (h) **Standard Operating Procedure (SOPs):** The required SOPs in line with the policies are to be made available. These need to be formulated and implemented.
- (i) **Exit Interviews:** The process of Exit Interviews should be in place, there is a scope of improvement and need for strict implementation. Following aspects be checked during audit:
- Signatures of Employees interviewed must be checked.
  - HR Head's comments and signatures must be checked.
  - Action taken on the relevant points raised by the employees must be checked.
  - Auditor should check the points raised by the employees leaving the Organisation and the action taken on relevant points.

### Conclusion

As of now, we all are aware of the importance of HR department for acquiring talent and achieving business goals, fulfilling business needs and helping in the process of decision making and to conduct HR audit



one should understand business strategy, pressing issues and diagnostic tools to be used for the benefits of its stakeholders.

HR being very dynamic in nature and it being the system requiring comprehensive participation of large group, the organisations keep on facing several hindrances in operating it even after installation of various HR packages and being equipped with highly skilled HR staffs. Auditor should find out the areas where improvements can be made and he should plan audit after knowing the scope and submit report and further do follow up so that efforts made by him give results.

Auditor should see the recruitment procedure, the process of job description, key responsibility areas, competency mapping, performance management system, succession plan, training and development of the employees. In the recent past, the need of HR audit has grown gradually in order to respond to the changing needs of the environment and the organisations have become able to give an attractive shape to the system of human resources through the process of HR audit.

HR audit is not only a tool to ensure the effectiveness of the HR system but also a mode of assurance to the people concerned with the organisation and the society as well. For the organisation to be able to utilise its one of the most critical resources in an optimised manner, conducting the HR audit becomes an integral process too. However, non-standardised HR audit can be less useful or may come out with no results. So, the HR audit should include proper plan and program as its core elements. ■