

A Study of Human Resource Audit in Indian Business Organizations

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Abstract

Human resources are an important asset of an organization. Therefore, management and evaluation of human resources should be the top priority of business organizations. Human Resource Audit (HRA) attempts to evaluate the policies, procedures and practices of the organization to find out the efficiency and effectiveness of the human resource management. Every organization carries out accounting audit as a part of statutory regulations. However, organizations have no legal obligation to conduct HRA. Some organizations have enlightened management that they voluntarily accept the usefulness of HRA. HRA attempts to find out the future needs of the company after assessing the current activities and inputs. The paper aims to explore the different aspects of HRA. The researcher has resorted to descriptive study and has used secondary method of data collection. The study highlights the benefits of HRA as adopted by some business organizations in India.

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1. Introduction:

The employees in an organization are the prime resources that needs to be effectively allocated and engaged in various affairs of business. Many Indian companies are handling innovative practices to motivate and retain their talented pool. One of such practices is Human Resource Audit (HRA). HRA is a systematic process of evaluating the functioning, performance, and management of human resources in the organization.

HRA involves examining and reviewing the organization's existing policies, procedures and practices regarding recruitment and selection, orientation and

placement, training and development, job analysis and design, job evaluation, compensation, morale and motivation, employee health and safety, social welfare, industrial relations, etc. HRA is a comprehensive analysis of HR functions, systems, policies and procedures of an organization.

HRA enables the management to know the areas of strengths and weaknesses in respect of HRM. It helps the management to correct the weaknesses and consolidate the strengths. In

other words, it helps the management to improve the policies, procedures and practices of the organization relating to human resources. HRA can also be called

as Personnel audit.

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

“HRA is concerned with the gathering, analyzing information, and then deciding what actions need to be taken to improve performance”. --- **Storey and Sission**

According to **Eric Flamholtz**, *“Human Resource Audit is a systematic assessment of the strengths, limitations, and developmental needs of its existing human resources in the context of organizational performance.”*

“HR audit is a tool to measure an employer’s compliance with its legal obligations in managing its workforce and chart any corrective actions that might be needed” **Stephen**

F.Ruffino

HRA can be conducted for a department or for the whole organization. The audit can be conducted internally or with the help of an external consultant. An outside consultant is required to do HRA to lessen the biases and prejudices in the auditing process.

The major **objectives** of HR audit are as follows:

1. To check for alignment of HR functions and organization’s overall practices and procedures.
2. To evaluate implementation of policies.
3. To ensure the effective utilization of an organization’s human resources.

4. To identify gaps, lapses, irregularities, shortcomings, in the implementation of the policies, procedures, practices, directives of the human resource department and to suggest remedial actions.
5. To evaluate the performance of personnel staff and employees and reward their better performance.
6. To explore the areas for saving personnel costs and expenses.
7. To measure statutory compliances of HR activities as per law and other relevant agencies.
8. To maintain or enhance the organization’s and the department’s reputation in the community.

HRA offers several **benefits** stated as below:

- It provides verifiable data on the HRM function.
- It clarifies the HR function’s duties and responsibilities.
- It identifies critical HR problems.
- It helps align HR strategy with organizational strategy.
- It improves the status of HR functions.
- It helps reduce HR costs.

2. Statement of the Problem:

Employees are the backbone of any organization. The success and survival of any organization depends on its quality and quantity of human resources. So, reviewing the quality and quantity of human resources is of utmost importance for organizations. Human Resource Audit is a

systematic review of human resource functions, its strategic direction, structure and resources, systems and procedures, cost and capabilities, and ultimately, its contribution to the organization. Organizations have no legal binding to conduct Human Resource Audit like financial audit. Hence, the author throws light on different aspects of Human Resource Audit and its powerful influence on human resources in certain business organizations.

3. Objectives of the Study:

The author has determined the following objectives for the study:

1. To understand the scope of Human Resource Audit
2. To explain the process of Human Resource Audit
3. To highlight the approaches of Human Resource Audit
4. To state the implications of Human Resource Audit conducted by certain business organizations.

4. Research Methodology:

The author has undertaken descriptive research study and has used secondary sources of data collection. Secondary sources of data collection include literature from reference books, journals, and relevant websites. The researcher was involved in extensive literature survey relating to Human Resource Audit and the relevant cases of Indian business organizations practising Human Resource Audit.

5. Scope of Human Resource Audit:

It is necessary for the top management to establish the scope of HRA to make it successful. HRA may be partial or total. In case of partial HRA, HRA covers a few areas of HR, for example, compliance of managers and supervisors with the established HR principles and practices. In the comprehensive audit system, all HR activities such as human resource planning, employee hiring, training and development, performance management, employee well-being, safety and health, industrial relations and the like will be covered. Better results from HRA will be obtained when it is comprehensive.

HRA should have three aspects:

- **Systems audit:** This reviews the paperwork, records, documents, formats and files of human resource systems in the organization. The auditor checks whether the records are maintained manually or computerized.

- **Operations audit:** This reviews the operationalization of HR policies and principles

into practice. The auditor verifies whether the organizational goals and departmental goals integrate with each other, and that human resources put efforts to achieve these goals.

- **Climate audit:** This reviews the thoughts and opinions of the human resources

towards their roles and functions, role of HR department in employee induction program, and employee feedback.

A comprehensive scope of HRA includes all aspects of HRM which are as follows:

1. HR Policies and Principles:

HRA includes examining HR policies and

principles. The auditor checks whether the HR policies and principles are in tune with those of the organization. For formulating HR policies and principles, it is essential that the objectives of HRM functions are clearly defined. The human resource policies guide the human resource managers to take proper decisions in respect of various matters relating to human resources. HR principles are universal truth applicable to all organizations with respect to human resources. For example, principle of equity, principle of dignity of labour, principle of participation, etc. The audit may evaluate the extent to which various HR policies and principles have been formulated and the extent to which they are practised.

Various HR policies and practices may be audited by evaluating their:

- Consistency with the organizational objectives, strategies, and policies
- Consistency with the internal and external business environment
- Appropriateness in the light of organizational resources
- Appropriateness in the light of time horizon, and
- Feasibility and reasonableness

2. *HRM Functions:*

The major focus of HRA is on evaluation and review of various HRM functions relating to procurement, development, compensation, integration, maintenance and separation of human resources.

The core functional areas reviewed during

the audit may be:

- i. *Recruitment and Selection:* This includes review of recruitment methods, interview practices, tests conducted for candidates, employee referrals, considerations in succession planning, etc.
- ii. *Compensation and Benefits:* This includes review of standards and processes used to develop and communicate compensation policies and plans, consistency in pay plans and leaves, incentive plans and reward systems.
- iii. *Performance Management:* This includes review of managing employee performance, methods of performance appraisal, employee feedback and surveys, and employee rewards and punishments.
- iv. *Manpower Development:* This includes review of employee orientation program, training programs: method, frequency, delivery, and cost. It also includes the review of employee career development plans and paths formulated by the organization.
- v. *Industrial Relations:* This includes review of employee appeal and grievance procedures, dispute resolution techniques, disciplinary actions, and relationship with trade unions.

The audit should measure and evaluate:

- The degree to which HR functions are related to HRM objectives; and
- The degree to which HR functions are performed effectively.

3. *HR Compliance:*

HR compliance refers to the adherence to various HR plans, policies and procedures

by employees and adherence to legal requirements. HRA determines the extent to which employees adhere to various HR policies in dealing with their supervisors. The important and critical legal compliances for HRA are relating to:

- Fire safety measures
- Payment of minimum wages
- Payment of gratuity
- Provident fund
- Maternity benefits
- Sexual harassment at workplace, etc.

HRA verifies the extent to which there is compliance with the legal requirements as provided under various legal Acts relevant for management of human resources.

4. HR Climate:

HR climate is the work environment perceived by employees, that influence their motivation and behavior. It simply means the employee's perception about the internal environment of the organization. It consists of HR attitude towards job and the degree of personnel satisfaction. Quality of HR climate has a vital impact on motivation, job satisfaction, morale, and performance of human resources.

HR climate can be evaluated by various outcomes which are as follows:

- Degree of employee turnover
- Degree of employee absenteeism
- Degree of accidents
- Status of grievances and disciplinary

actions, and

- Findings of attitude and morale surveys

6. Process of Human Resource Audit:

HRA is conducted in different phases. Each phase should be meticulously reviewed and evaluated by the auditor, so that at the conclusion of the audit, the organization will have a very strong view of the health of the human resource function of the organization. The different phases in HRA are:

1. Pre-audit Information: This phase involves acquiring and reviewing of organizational policies, relevant HR manuals, employee handbooks, forms, reports and other information. A pre-audit information is requested to be compiled by the organization and provided to the auditor.

2. Pre-audit Self-assessment:

A pre-audit self-assessment form is asked to be filled by the organization. The self-administered yes/ no questionnaire asks a number of questions about current human resource policies and practices. The completion of this self-administered questionnaire allows auditors to identify key areas for focus during HRA.

3. On-site Review:

The next phase of on-site review, involves questionnaires, interviews, observation, informal discussions, surveys, or a combination of such methods to get the necessary inputs from the members of the organization. This phase involves an on-site visit at the client's facility interviewing staff regarding human resource policies and practices. A detailed

and in-depth human resource audit checklist is completed.

4. **Records Review:**

The records review phase requires detailed scanning of current HR records such as: employees' files, employee absenteeism and turnover statistics, notices, compensation claims, performance assessments, interview records, cost records, payroll data, performance evaluation reports, etc. During the on-site visit, a separate review is conducted of human resource records and postings. Employee personnel files are randomly examined as well as compensation, employee claims, disciplinary actions, grievances and other relevant human resource related information are checked.

5. **Audit Report:**

The information gathered is used to develop a human resource audit report. The audit program comes to an end with the preparation of the audit report. The audit report is a comprehensive description of HR activities, which includes both commendations for effective practices and recommendations for improving practices that are less effective.

The report may be clean or qualified. The report is qualified when the HR performance contains gaps. Where gaps are observed, remedial measures are suggested. The report is clean where the performance is fairly satisfactory.

The audit report categorizes action into three separate areas:

- urgent and important areas
- not urgent but important areas

- not urgent and not important areas

7. **Approaches to Human Resource Audit:**

The important approaches to conduct HRA are:

1. **Benchmarking Approach:** Benchmarking is the process of continuously comparing and measuring performance. Organizations can measure against "best in class" or against internal benchmarks. It may also be that auditors identify one model company and the results obtained of the organization under audit are compared with it. This approach is also called as '*Comparative Approach*'.
2. **Key Performance Measures Approach:** This approach is also called as '*Statistical Approach*'. Under this approach, the statistical information maintained by the company in terms of key performance measures are evaluated during HRA. These key performance measures are employee absenteeism, employee turnover, customer retention, employee training, new product development, etc.
3. **Compliance Approach:** Under this approach, the auditor reviews whether the past actions of the management are in compliance with the legal requirements and in accordance with the policies and procedures of the organization.
4. **MBO Approach:** Under this approach, the management sets specific targets. The auditor conducts a survey to check and compare whether the actual performance is as per the planned targets.

8. **Human Resource Audit in Business Organizations:**

Organizations are aiming at becoming an effective enterprise with high performance workforce profile by expanding their use of Human Resources. An effective and efficient use of HR will enable organizations to gain and sustain competitive advantage in terms of human resource cost, quality and delivery. In the current business scenario, it is human resources that is the major market differentiator of a company's success.

Human Resource Audit is one of the primary instruments for evaluating HR in a modern organization as a means to boost its performance. It can become an important intervention to rejuvenate the whole organization as it highlights critical issues in HR.

The author has stated certain aspects of Human Resource Audit of some Indian business organizations. The experience of the companies discussed below indicate that HRA can give many insights into a company's affairs. It can get top management of business organizations to think in terms of strategic and long-term business plans.

Aditya Birla Group:

Aditya Birla Group is an Indian multinational conglomerate having headquarters in Mumbai, Maharashtra. The Group operates in 36 countries into varied sectors like metals, pulp and fibre, chemicals, textiles, carbon black, telecom, and cement.

For Aditya Birla Group, the focus is on institutionalizing and embedding HRA and review procedures within each job. Periodic audits are conducted by peers whereby HR teams from cross business

audit another. In order to do this, experienced employees are given tool kits – which include checklists tailored to HR processes within the business. The objective is to provide platform for shared learning and highlighting local practices that are future best practices. HR audit has helped organization design build efficiency and productivity by rightsizing teams. Statutory and compliance audits are independent processes that are conducted by the internal and external audit teams. Critical HR areas audited are:

- the highest impact, for example hiring;
- areas where there is a potential for conflict of interest, for example job design, talent management, reward decisions;
- addressing grievances, for example sexual harassment, code of conduct of employees, employee complaints and others are crucial, and all forms important areas of audit.

HCL Technologies Ltd:

HCL Technologies Ltd. is an Indian multinational information technology service and consulting company, headquartered in Noida, Uttar Pradesh. The company has operations across 45 countries. It has several business lines, such as cyber security, digital and analytics, infrastructure management systems, engineering and R & D services.

HCL conducts HRA with the help of external consultants so that an objective perspective is provided on company's process design and allows for benchmarking against the best practices across the industry. The primary purpose of HR Audits is to ensure that the

organization's practices, policies, programs and processes are mature and meet their expressed intent. Besides this, the most important objective is to give an employment experience that allows people to be successful. The audits are conducted quarterly/ annually across multiple geographies. The entire gamut of HR functions is audited, which includes talent acquisition and development, rewards, performance management and career management among others. Processes with a financial (e.g. pensions) and statutory (e.g. immigration laws) implications are also frequently audited. Audits happen at multiple levels within the organization:

- At an individual level, people themselves certify their performance.
- At the functional level, there are a series of service and quality assurances.
- At organizational level, there is a service excellence construct which has a specific set of process reviews and process design checks.

TATA Motors Limited:

TATA Motors Limited is an Indian multinational automotive manufacturing company having headquarters in Mumbai, Maharashtra. It is a leading automobile manufacturing corporation having wide portfolio of cars, utility vehicles, trucks, buses and defence vehicles.

At TATA Motors, employees are provided with right opportunities to increase productivity, improve processes, and develop future leaders. HRA is conducted using the tool of balance scorecard to measure both organisational performance as well as

employee performance. This has enabled it to positively impact the overall employee lifecycle, including assessment, compensation and rewards management. Additionally, TATA Motors re-engineered its processes to further sharpen its operational efficiencies. This initiative has resulted in several benefits, which include:

- organisational agility
- process orientation
- standardised decision making
- streamlined governance

WIPRO:

WIPRO is an Indian multinational corporation that provides information technology, consulting and business process services. It is headquartered in Bangalore, Karnataka. HRA at WIPRO is conducted by an internal audit team led by the Chief Audit Officer. There are two main objectives of HRA at WIPRO:

1. To check the compliances with statutory laws and financial controls
2. To identify areas for long-term process improvements.

An extensive audit is conducted in three critical areas of HR function:

1. Payroll
2. Recruitments
3. Employee separation

HR audit practices have helped to improve their employee services, efficiency and control mechanisms. WIPRO HR audits aim at process

efficiency which covers the entire employee lifecycle – from hire to retire including compensation and payroll, recruitment, learning, performance management systems and retirement.

9. Conclusions and Suggestions:

Human Resource Audit requires the study of the HR systems within the organization. HRA is a process of examining policies, procedures, documentation, systems, and practices with respect to an organization's human resource functions. HRA is an important device of controlling the functions of HRM. HRA provides feedback about how well the managers are discharging their HR duties and responsibilities. It helps to determine the effectiveness and efficiency of HRM in an organization. By means of an audit, the company can determine its strengths and weaknesses in the area of HRM and plan accordingly to improve its processes and procedures related to the human resource function.

Human Resource Audit is an examination and verification of personnel related accounts and records; it increases the effectiveness of the design and implementation of HR policies and programs; and it is an important approach to human resource planning.

HRA reviews can help identify gaps in HR practices, and HR can then prioritize these gaps in an effort to minimize lawsuits and regulatory violations, as well as to achieve and maintain world-class competitiveness in key HR practice areas.

HRA checks the indicators of the quality of leadership, of motivation, of communication, effectiveness of

supervision and constant development of employees and managers. It is conducted to check whether the performance of managers has been fair in the overall interests of their organization.

The author suggests that an effective HRA systems shall be developed in every organizations. An effective HR audit helps in identifying the need for improvement and enhancement of the HR function. It also guides the organization in maintaining compliance with ever-changing rules and regulations. Thus, the author points out that HRA helps in analyzing the gap between 'what is the current HR function' and 'what should be/could be the best possible HR function' in the organization.

The author has suggested the following pre-requisites for HRA to be successful:

- ☐ HRA needs to be comprehensive covering all people related functions.
- ☐ The organization should engage the services of outside experts to conduct the audit.
- ☐ Results of the audit must be shared with all within the company.
- ☐ The organization needs to determine the periodicity to conduct HRA. How often audit can be conducted depends on the business plan and growth cycle of the organization. Where the business cycle is short-term oriented, audit may be needed quite often. When business is in the growth stage, audit can be infrequent. When the business is project specific, audit may be conducted soon after the completion of the project.

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