

Human Resource Planning and Audit

Block

3

HUMAN RESOURCE AUDITING

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BLOCK 3: HUMAN RESOURCE AUDITING

The third block to the course, '*Human Resource Auditing*' covers the important aspects of HR audit. This block contains three units. The first unit introduces the subject of HR audit. The second unit deals with audit of HR competencies, strategies, systems and structure. The third and last unit of the block covers the process involved in the audit of HR functions.

Unit 11, *Basics of HR Audit*, provides an overview of the subject of HR audit by covering its importance, need, scope and benefits. The unit further outlines the objectives, and the limitations of HR audit. Further, the unit also covers the different approaches to HR audit followed by the methods used for the audit process.

Unit 12, *Human Resource Audit: Competencies, Strategies, Systems, and Structure*, moves the subject of HR audit forward to the components of competencies, and the various categories of competencies to be audited. This unit outlines the various aspects that cover the audit of HR strategies. This would include different systems and points to be reviewed in an audit. The various auditing methods / instruments for HR Systems audit are later described. This is followed by a discussion on the structural aspects of HR audit.

Unit 13, *Audit of HR Functions*, advances HR audit to the processes involved in the audit of HR functions. This unit starts with outlining manpower planning process, specifying objectives of audit of manpower planning and the process of audit of manpower planning. Next, it moves to HR function of compensation, components of compensation system, audit of the compensation function of HR, and the tools and methods of auditing compensation. This unit then elaborates on the audit of HR function of training and development, specifying the details of audit of training and development and the methods and techniques adopted in of HR function. After that, audit of performance management system is discussed, outlining the approach to audit and methods and techniques of auditing performance management. Finally, this unit deals with audit of employee relations, specifying the various audit aspects, methods, techniques of auditing employee relations.

Unit 11

Basics of HR Audit

Structure

- 11.1 Introduction
- 11.2 Objectives
- 11.3 Purview of HR Audit
- 11.4 Approaches to HR Audit
- 11.5 Methods of HR Audit
- 11.6 Summary
- 11.7 Glossary
- 11.8 Self-Assessment Test
- 11.9 Suggested Readings/Reference Material
- 11.10 Answers to Check Your Progress Questions

*“For every operation audited, know the mission ... the purpose...
the reason for being.”*

- Larry Sawyer

11.1 Introduction

As has been popularized by Larry Sawyer, organizational effectiveness can be measured through various tools. One such tool is human resource audit. It is a comprehensive method of objective and systematic verification of existing practices, documentation, policies, and procedures prevalent in the HR system of the organization. In the previous unit we have defined and discussed the meaning and importance of HR analytics. We have tried to align human resources to business, through HR analytics. We also discussed how HR analytics is used in HR planning, forecasting, and decision-making.

HR audit is a systematic review of all aspects of human resources. It involves a checklist, which ensures adherence to company policies and government regulations. It is a tool to discover and not to test. Good business practices are developed by systematic HR audit. The scope of HR Audit encompasses all HR issues relating to recruitment & selection, T&D, performance appraisal, compensation, etc. The effectiveness of HR function involves examining, and evaluating the policies, procedures, and practices of HR functions.

This unit focuses on HR audit issues, explains the approaches to HR audit and enumerates the methods of HR audit. It further examines how HRA facilitates effective management within the organization.

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11.2 Objectives

After going through this unit, you will be able to:

- Enumerate the objectives of HR audit.
- Illustrate various approaches to HR audit, to measure and assess organizational performance.
- Explain the scope of HR audit in assessing the effectiveness of HR functions of an organization.
- Enlist and explain the various methods of HR audit, to collect relevant information for knowing the effectiveness of organizations.

11.3 Purview of HR Audit

The Institute of Chartered Accountants of India (ICAI) defines audit as “an independent examination of financial information of any entity, whether profit-oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.”

Audit is the examination or inspection of various books of accounts by an auditor followed by physical checking of inventory to make sure that all departments are following documented system of recording transactions. It is done to ascertain the accuracy of financial statements provided by the organization. In the same way, in HR audit, all the documents and records related to HR will be audited. HR Audit is an effective tool for evaluating HR strategies, structures, systems, and competencies of companies, in the light of their short-term and long-term business plans. It is a process of examining policies, procedures, practices, systems, and structures of the organizations. The main aim of HR audit is to examine the gaps, between the required and available processes and procedures. The gaps can be minimized by adopting suggested mechanisms. Human Resource audit is a systematic way of accomplishing HR functions in an organization. This helps in achieving organizational goals and objectives, in a systematic way.

11.3.1 Definition of HR Audit

According to Sekhri, ‘a human resource audit is a systematic review of the human resource function, its strategic direction, structure and resources, systems and procedures, cost and capabilities, and finally, its contribution to the organization.’ A well-designed audit provides, a diagnostic tool to measure human resource’s performance against organization’s expectations and leading practices, and target areas that would benefit from improvement.

According to 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”.

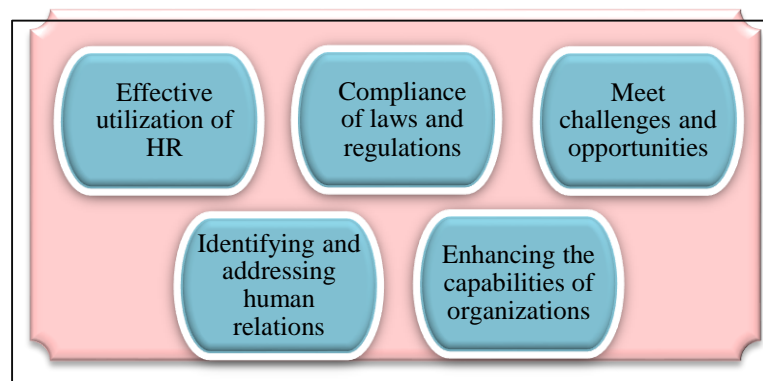
11.3.2 Need and Importance of HR Audit

Organizations need effective manpower to perform, for realization of organizational goals. Effectiveness can be assured through various tools. Audit is one of them. Human Resource Audit is a comprehensive method of objective and systematic verification of existing practices, documentation, policies, and procedures prevalent in the HR system of the organization.

Organizations prefer to conduct HR audit to ascertain the overall status of their organizations.

The need for Human Resource audit arises due to many reasons (Refer Figure 11.1):

Figure 11.1: Reasons for the Need for HR Audit



Source: ICFAI Research Center

- Effective utilization of human resources is very essential and this can be done through HR audit.
- Every organization has to comply with laws and regulations stipulated by regulatory authorities. HR audit ensures compliance of laws and regulations.
- HR audit ensures organizations to meet the potential challenges and opportunities that occur from time to time as HR audit monitors, evaluates, and recommends the changes required in the organization.
- As HR audit helps in identifying and addressing human relations, related issues and problems, its need is always felt.
- The recommendations suggested by auditors help in enhancing the capabilities of organizations, after those recommendations are implemented.

Importance of HR Audit

The importance of HR audit can be understood, when one looks at what HR audit is capable of doing.

- HR audit is a process of examining policies, procedures, documentation, systems and practices with respect to an organization's human resource functions.

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- HR Audit is SWOT analysis of HR systems. HR audit analyses the strengths and weaknesses of the organization and suggests solutions that could be brought out for enhancement of organizational performance.
- HR Audit is a diagnostic tool. It is not a prescriptive tool, but it diagnoses the problems within the organization. If the audit's recommendations are accepted and implemented, organization's vision and mission could easily be attained.
- HR Audit is the root canal of HR world. It can yield truly helpful information, to help implement change.
- HR Audit helps in implementing metrics and benchmark practices.

As such, an effective HR audit helps in identifying the existing gaps and helps in smooth functioning of HR systems. Exhibit 11.1 illustrates HR audit at Infosys.

Exhibit 11.1: HR Audit at Infosys

The HR Audit at Infosys examines the Human Right Policy Statement of Infosys that provides a broad framework to ensure that all employees are treated with respect and dignity and that a common set of principles apply to their business practices to ensure that Infosys does not condone human rights violations or abuses. The Supplier Code of Conduct of Infosys helps them to manage and address the issues of sustainable business in supply chains.

The key principles of the code of conduct that are examined in HR audit are:

Workplace diversity: Infosys aims to create an inclusive workplace and leverage the power of diversity for sustainable competitive advantage along with freedom of expression and association. The diversity and inclusion reports are audited and published annually.

Health, workplace, safety and environment: The company also has Health, Safety and Environmental (HSE) Policy in place which commits to conservation of resources, prevention of pollution, adherence to all applicable legislations and elimination of accidents, occupational illnesses and injuries at work. The reports of the same are audited at regular intervals.

Sustainability: The ESG Vision 2030 guides the efforts and the same are audited and published annually.

Data privacy: Data Privacy Office (DPO) directly reports to the Board, ensuring there is absolutely no conflict of interest in DPO playing an effective role to ensure privacy of its employees, candidates, visitors, customers and other stakeholders along with handling data subject rights and data breaches.

Living wages: Infosys ensures that all employees are paid higher than the minimum wages prescribed by governments, in various countries that it operates globally.

Contd....

Infosys is committed to ensure compliance to all their obligations globally and in doing so, believe that it is important to educate employees on their rights and responsibilities. They have created reference documents in the form of employee handbooks and policy portals that serve as a guide to employees on their benefit entitlements. These documents are reviewed regularly as a part of HR audit to ensure that they are updated regularly.

Source: <https://www.infosys.com/sustainability/resources/documents/human-rights-statement.pdf> (accessed on 27/6/2022)

11.3.3 Objectives of HR Audit

A systematic and continuous HR audit ensures effectiveness within an organization. HR audits accomplish a number of objectives:

- To review the performance of HR Departments and their activities, in order to assess their effectiveness, in the implementation of organizational strategies.
- To identify the gaps in implementation of the policies, procedures, practices, and directives of HR departments and suggest remedial actions.
- To know the factors related to non-implementation of planned programs and activities.
- To suggest measures to rectify the gaps for future guidance.
- To evaluate the performance appraisals of employees, to suggest suitable recommendations for improving their efficiency.
- To determine the efficiency and effectiveness of HR practices.
- To determine the extent of the value for money offered.

Thus, HR audits accomplish a variety of objectives, such as identifying gaps, suggesting measures to improve performance, establishing efficient documentation, and identifying strengths and weaknesses, in HR practices.

11.3.4 Scope and Limitations of HR Audit

HR audit is very useful in a HR Audit

Achieving the organizational goals and is a vital tool that helps to assess the effectiveness of HR functions in an organization. The scope of HR audit includes:

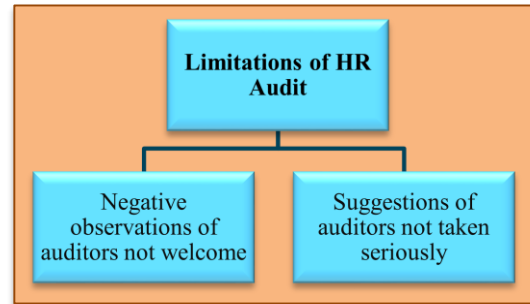
- Audit of all the human resource functions.
- Audit of compliance with personnel policies, procedures, and legal specifications.
- Audit of corporate strategy, regarding HR planning, staffing, information systems, remuneration, and other human resource activities.
- Audit of HR climate on employee motivation, morale, and job satisfaction.



Block 3: Human Resource Auditing

Limitations of HR Audit

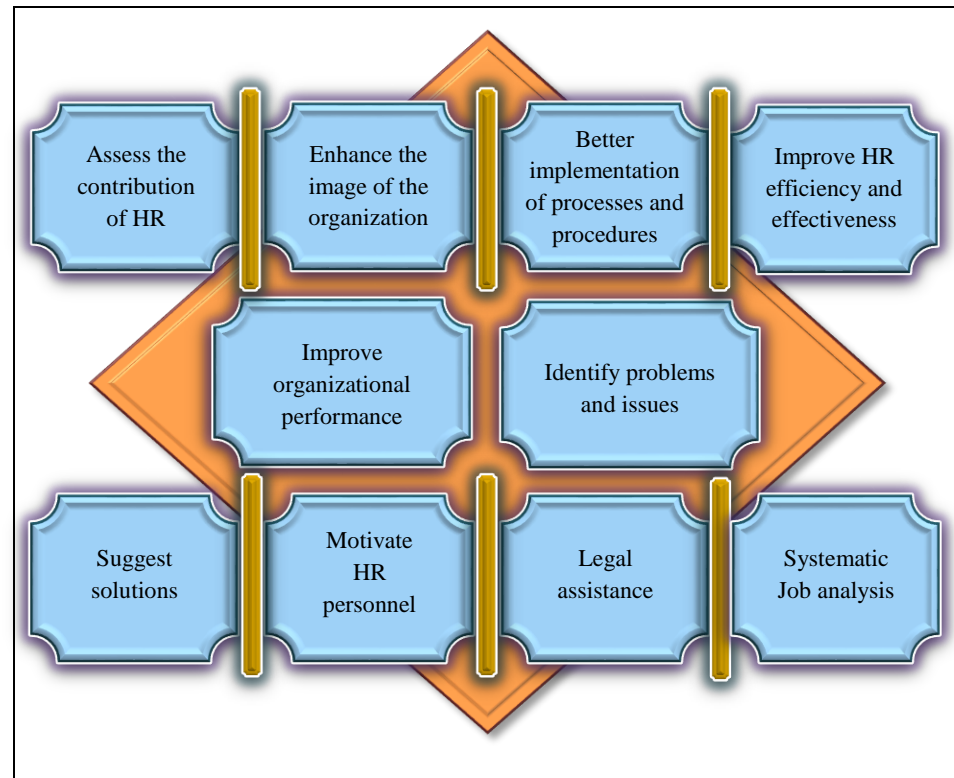
- If auditors make some negative observations on the availability of required facilities, dissatisfaction and arguments take place, resulting in unfriendly atmosphere.
- In many instances, companies and their CEOs are interested in the findings of the audit, but lack genuine concern in implementing the suggestions made by the auditors. In the process, the whole exercise of audit becomes futile.



11.3.5 Benefits of HR Audit

HR audit strengthens the performance of organizations, as audit identifies the gaps in the departments and suggests recommendations for improvement. Besides, the image of the companies also enhances, once they comply with the rules and regulations, as identified by HR auditors. HR audit examines all aspects in human resources and several benefits are associated with it. Important benefits of human resource audit are listed (Refer Figure 11.2).

Figure 11.2: Benefits of HR Audit



Source: ICFAI Research Center

- Audit helps in assessing the contribution of human resources towards the organization.
- Helps in enhancing the image of the organization.
- Audit leads to better implementation of processes and procedures.
- Audit improves the efficiency and effectiveness of human resource departments.
- Audit leads to competitive advantage of organizations, as the entire workforce is ably managed. Audit improves the overall organizational performance.
- Identifies the existing problems and issues in the organization.
- Suggests solutions to the problems and issues.
- Human resource personnel will be motivated, when their performance is recognized and even when errors are identified, they would like to improve performance.
- Timely legal assistance can be taken, for the non-compliant issues.
- Change in the right direction is possible after HR audit.
- Job analysis can be done in a systematic way.

HR audit examines all aspects of human resources, leading to improvements in productivity and increased competitive advantage and enhanced workforce engagement.

11.3.6 Steps in HR Audit

The process of HR Audit varies from organization to organization, but the generally followed essential steps (Refer Figure 11.3), in organizations for HR audit, are explained here:

Figure 11.3: Steps in HR Audit



Source: ICFAI Research Center

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- i. **Briefing and orientation:** This is the preparatory stage, wherein the staff members involved in the process discuss significant issues, chart out procedures, and develop plans and programs of audit.
- ii. **Scanning material information:** All relevant information with respect to audit is scrutinized.
- iii. **Surveying employees:** The top functionaries in the organization are interviewed to pinpoint issues of concern, present strengths, and anticipated needs and managerial philosophies on human resources.
- iv. **Conducting interviews:** The scrutinized information is processed for conducting interviews in all areas of HR.
- v. **Synthesizing:** The data gathered from interviews is synthesized, to present the current situation, priorities, staff pattern, and issues identified. Specific recommendations are made for future needs of the organization.
- vi. **Reporting:** A formal report, on all issues that emerged in the synthesizing stage, is prepared and communicated to the management.

In the end, a follow-up is done, to ascertain whether the recommendations given by audit team were implemented or not.

Check Your Progress - 1

1. Which, of the following, is not an objective of HR audit?
 - a. To review the performance of employees
 - b. To review the policies and procedures of HR departments
 - c. To suggest measures for improvement of organizational performance
 - d. To follow the essential steps of HR audit
 - e. To determine the efficiency and effectiveness of HR policies
2. Which, of the following statements, indicates the synthesizing step of HR audit?
 - a. Discussing significant issues
 - b. Scrutinizing information
 - c. Conducting interviews
 - d. Making recommendations
 - e. Scanning relevant information

11.4 Approaches to HR Audit

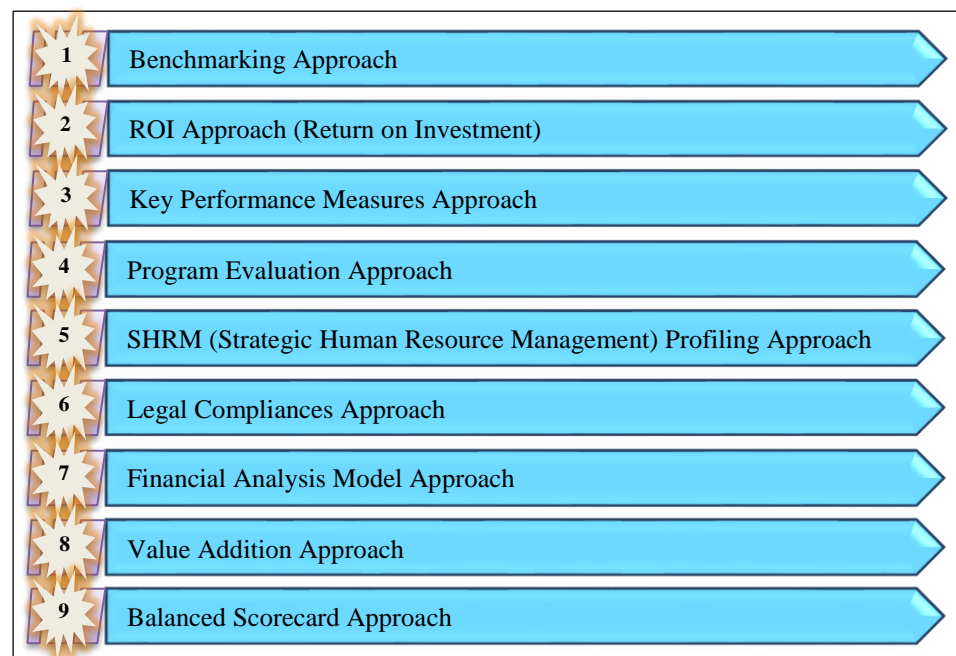
Before understanding the approaches to HR audit, we need to know why companies prefer to undertake HR audit:

- HR audit is undertaken by most organizations, to make their HR functions business-driven.

- Companies want to diversify their business opportunities both within the country and outside. HR audit has helped them to know their limitations and thereby enhance their capabilities.
- HR audit instills a sense of confidence among human resource personnel and management, to meet and overcome potential challenges that emerge.
- Organizations want to comply with prevailing rules and regulations but many a time they are not aware of the intricacies. Human Resource audit fills the gap.

There are several approaches to human resource evaluation. The most prominent of them, numbering 9 are discussed here (Refer Figure 11.4).

Figure 11.4: Approaches to HR Audit



Source: ICFAI Research Center

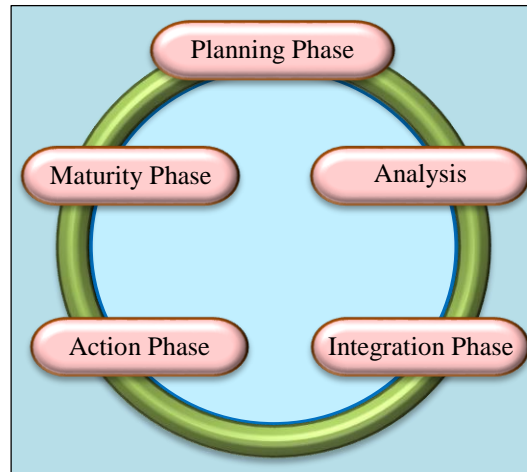
11.4.1 Benchmarking Approach

Benchmarking is the process of comparing and measuring performance against 'best in class' or against internal benchmarks. More than 80% of Fortune 500 companies use benchmarking, for reinforcing continuous change and improvement. In this approach, auditors identify a company, which has excelled in its performance and compare its results with that of the company being audited. Human Resource Benchmarking is a continuous strategic activity. The organization's procedures, product and service performances are measured against organizations that have achieved a recognized standard of excellence. It is a tool for assessment of HR processes, planning for the headcount, and calculation of ROI.

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Now each phase of benchmarking is explained (Refer Figure 11.5):

Figure 11.5: Generic Benchmarking Process



Source: ICFAI Research Center

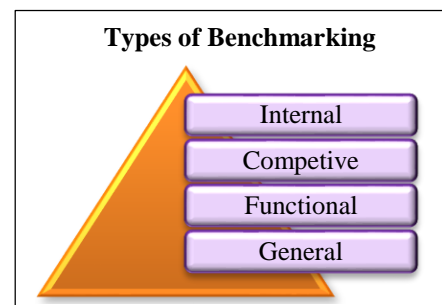
- In the planning phase, who and what to benchmark and how to collect data will be planned. Benchmarking team will be selected.
- In the analysis phase, opportunities for improvement will be analyzed. Who, why, and how they are better, will be assessed. Competitive gaps will be analyzed.
- In the integration phase, targets will be set to achieve best practices.
- In action phase, specific action plans and functional action plans will be developed. Progress will be monitored.
- In maturity phase, leadership position will be attained. Best practices will be fully integrated into processes.

Benchmarking is the measurement of an organization's internal processes and its performance in a systematic manner. All the phases explain how benchmarking helps in comparing business processes and performance metrics to industry bests and best practices from other companies. This comparison assists in developing plans for improvement and also for adapting best practices.

Types of Benchmarking

The different types of benchmarking are:

- **Internal:** Benchmarking within same group of companies
- **Competitive:** Benchmarking with direct competitors
- **Functional:** Benchmarking specific processes, with first class ones
- **Generic:** Search for the best practice.



Benchmarking is a widely used global management process, which is very helpful for organization development and success and the different types of benchmarking, as a whole, are very useful in achieving competitive advantage to organizations.

11.4.2 ROI Approach (Return on Investment)

The Institute of Chartered Accountants of India (ICAI) defines ROI as the percentage of return on funds invested in the business by its owner. It compares the earnings/returns /profit with the investment in the business.

Jack Phillips in his book, ‘Accountability in Human Resources management’ explains the importance of the contribution of Human Resources to the organization. According to him, ROI describes a cost-benefit analysis methodology. ROI is to be considered as a credible tool, to measure performance of human resources in numericals.

Calculating ROI: Jack Phillips and Patti Phillips explain how to calculate ROI in HR. According to them, ROI is calculated, taking into account the costs and benefits. It is calculated by dividing benefits with costs. In simple terms, $ROI = \frac{\text{Program benefits}}{\text{Program costs}} \times 100$.

Activity 11.1

A manufacturing firm of bicycles incurred a cost of ₹ 750000 for 1000 bicycles. They could sell each cycle for ₹ 1000. Calculate the (ROI) return on invest for 1000 bicycles.

11.4.3 Key Performance Measures Approach

Non-financial measures are also vital in measuring performance of human resources. Some key measures are- quality of output, customer satisfaction/ retention, employee turnover, employee training, R&D productivity and investments, new product development, market growth, and environmental competitiveness. These non-financial measures are useful in assessing organizational performance.

11.4.4 Program Evaluation Approach

Program evaluation can provide baseline data that can serve as benchmarks, against which to set improvement/measurement targets for the future. These can be applied for recruiting, career management, new employee orientation, training, succession planning, etc.

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11.4.5 SHRM (Strategic Human Resource Management) Profiling Approach

SHRM profiling process permits managers to assess the alignment of the organizations, with strategy and values, in coordination with employees. SHRM profiling helps to identify the barriers, such as poor coordination and teamwork, ineffective management, unclear strategy and priorities, etc., to strategy implementation and reformulation

11.4.6 Legal Compliances Approach

In this approach, audit ensures that companies are complying with the prescribed labor laws and applicable regulations. Audit verifies, whether the firm's policies, practices, and documents, with respect to hiring, retention, discipline, and post-employment are fair and legal. The three basic functions of audit conformity are:

- Companies are complying with their social obligations.
- Relationships between employees and company are based on legal statutes.
- Companies are fulfilling their financial obligations such as social security payments.

Example: Anti-bribery and Anti-corruption Policy at Infosys

Anti-bribery and anti-corruption (ABAC) policy and processes at Infosys are reviewed by audit committee of the board and management at regular intervals. They have adopted a whistleblower mechanism for reporting concerns about unethical behavior, actual or suspected fraud, or violation of the company's Code of Conduct and Ethics. This approach serves as an instance of legal compliance approach.

For details, check out <https://www.infosys.com/sustainability/resources/documents/human-rights-statement.pdf> (accessed on 27/6/2022)

11.4.7 Financial Analysis Model Approach

In this approach, efficiency measurements are made to determine the ways, in which resources are being used. For instance, measurements can be made for employee turnover, employee absenteeism, employee productivity, and intellectual capital, in financial numbers. Fitzenz proposed measurement on quality, efficiency, and service, by using five factors- cost, completion time, quantity, quality, and human reaction. It is possible, when cost of the measure is predetermined in monetary terms. In this way, human resource activities could be measured in financial terms.

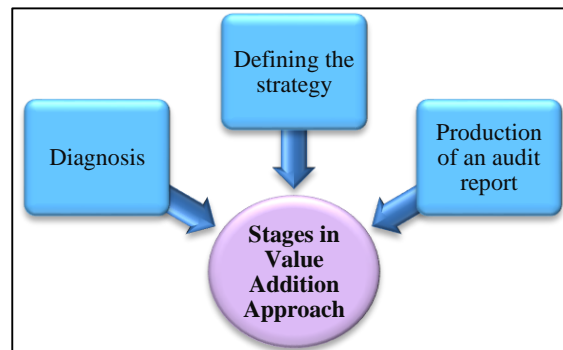
11.4.8 Value Addition Approach

What is value addition approach?

Hudson (2006) talks about a human resources audit approach, with the aim of optimizing the results of human resource audit.

Value addition approach involves three key stages, as shown in Figure 11.6.

Figure 11.6: Value Addition Approach - Stages



Source: ICFAI Research Center

- **Diagnosis:** A questionnaire is administered to know the level of maturity of human resources.
- **Defining the strategy:** Results obtained from the questionnaires are analyzed, to determine key development areas to optimize company's human resource management policies.
- **Production of an audit report:** Estimates, of financial and human investments required, are made to achieve the objectives.

11.4.9 Balanced Scorecard Approach

In the early 1990s, Kaplan and David Norton developed a new approach to strategic management and named it as 'balanced scorecard'. The balanced scorecard approach describes, what companies should measure in order to 'balance' the financial perspective. It is a management system, which clarifies the vision and strategy, and translates them into action.

The balanced scorecard suggests that organizations, in addition to financial perspectives, should also view from learning and growth perspective, business process perspective, and customer perspective.

Learning and growth perspective: This perspective states that while rapid technological development is taking place, the knowledge workers should be able to continuously learn for growth, which is essentially the foundation for success in an organization.

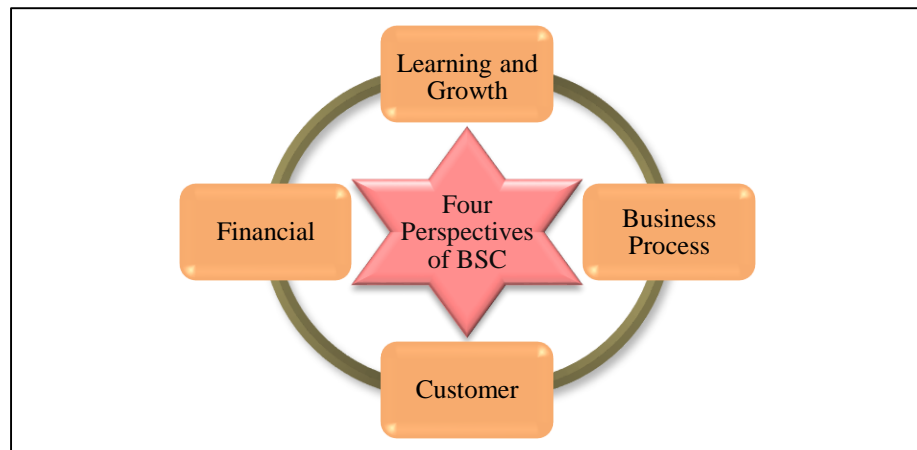
Business process perspective: This perspective deals with internal business processes. By using metrics, managers will be able to identify how well their business is running. According to Kaplan and Norton, the metrics could be developed only internally, as managers working in the organization alone will be able to develop and evaluate metrics.

Customer perspective: Customer focus and customer satisfaction are very vital for growth of any organization. If customers are not happy, they will look for some other suppliers and eventually business will be on decline.

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Financial perspective: There is always a need to analyze financial data. As far as possible, it is to be centralized and automated. If financial data is not handled properly, organizations decline. All the four perspectives are to be managed efficiently for the growth of the organization. Figure 11.7 depicts the four perspectives of Balanced Scorecard.

Figure 11.7: Balanced Scorecard



Source: ICFAI Research Center

All these approaches have been brought forward to evaluate the effectiveness of the HR function. Auditors may adopt any of these approaches or adopt a combination of them, depending upon the need and situation.

Check Your Progress - 2

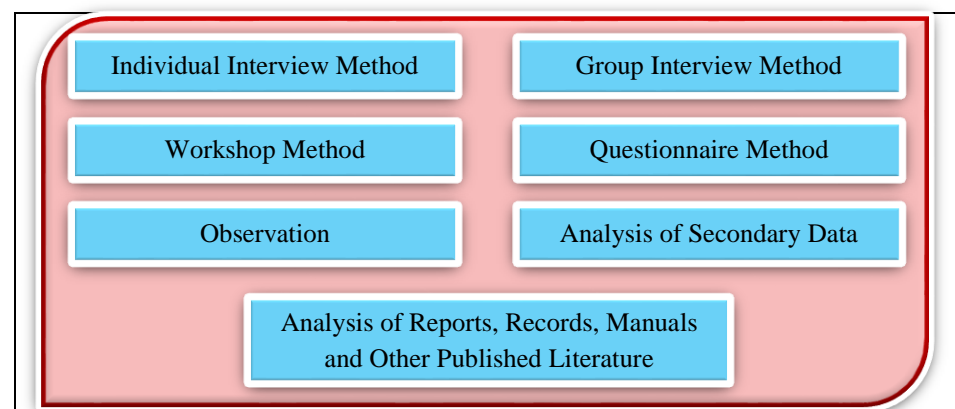
3. In which approach do auditors identify a company, which has excelled in its performance and compare its results, with that of the company being audited?
 - a. Balanced scorecard approach
 - b. Financial analysis model approach
 - c. Benchmarking approach
 - d. ROI approach
 - e. Legal compliance approach
4. In which approach do auditors ensure that companies are complying with the prescribed labor laws and applicable regulations?
 - a. Balanced scorecard approach
 - b. Financial analysis model approach
 - c. Benchmarking approach
 - d. ROI approach
 - e. Legal compliance approach

5. Which, of the following, is not a non-financial measure?
 - a. Return on Investment
 - b. Quality of output
 - c. Customer satisfaction
 - d. Employee turnover
 - e. Employee training
6. In which approach, measurements on quality, efficiency, and service are made, by using five factors- cost, completion of time, quantity, quality, and human reaction?
 - a. Balanced scorecard approach
 - b. Financial analysis model approach
 - c. Benchmarking approach
 - d. ROI approach
 - e. Legal compliance approach
7. Which, of the following perspectives, is not included in the Balanced Scorecard, as explained by Robert Kaplan and David Norton?
 - a. Financial perspective
 - b. Learning and Growth perspective
 - c. Employee perspective
 - d. Customer perspective
 - e. Business process perspective

11.5 Methods of HR Audit

HR Audit must cover the activities of the department and even extend beyond, because the people problems are not confined to HR department alone. HR audit requires use of a number of methods, which are generally used in combination. Figure 11.8 presents various methods of HR Audit.

Figure 11.8: Methods of HR Audit



Source: ICFAI Research Center

Block 3: Human Resource Auditing

11.5.1 Individual Interview Method

Top level management, senior managers, union leaders, departmental heads, some strategic clients, and informal leaders are interviewed individually. For Professionals of small companies, interviews can be extended with selected employees from different levels and functions. This helps in knowing the thought process of future plans of the company, expectations from HR audit, and obtaining sensitive information on working styles and culture.

11.5.2 Group Interview Method

Group interviews and discussions with the large company employees, facilitate collection of information about effectiveness of existing systems. The group comprises of 4 to 8 members of the same level, from cross functional areas.

11.5.3 Workshop Method

Workshop Methods i.e. Large-Scale Interactive Process (LSIP) is conducted, for a maximum of 300 participants, who are divided into small groups. They work on systems and conduct SWOT Analysis. HR Auditor compiles the data of the presentations made by the groups and submits the report to top management.

11.5.4 Questionnaire Method

HR Auditor collects the feedback on various dimensions of HRD like competencies, styles, and the implementation of various HRD systems, etc. through a questionnaire, from individuals or groups for HR Audit, which helps in benchmarking. Results are shown to the participants, before submitting the same to top management. The process is as or follows:

- Detailed questionnaire is prepared by HR Auditor.
- Individuals and groups assemble in a hall and the objective and process of HR Audit is explained to them. Then, questionnaires are distributed to them.
- The filled in questionnaires are submitted to the HR Auditor.
- The HR Auditor then compiles the feedbacks, makes observations, conclusions, and recommendations.
- Participants are informed of the audit results before submission to the top management. Model questionnaire is placed at Exhibit 11.2.

Exhibit 11.2: Model Questionnaire for HR Audit and Planning

Name of your company:

Industry, Sector:

No of Employees:

Managerial / Non-managerial

Contd....

1. Since how long are you working with this Company?
 - a. 0-5 Years
 - b. 5-10 Years
 - c. 10 to 15 Years
 - d. More than 15 Years
2. Rate each point of the following HR aspects on 1-5 Scale, one being poor and 5 being excellent.
 - a. Work standards
 - b. Work Pressure
 - c. Working conditions
 - d. Work allotment
 - e. Compensation
 - f. Job satisfaction
 - g. Motivation levels of employees
 - h. Culture and Climate of the company
3. Rate the concepts related to Hiring process of employees on 1-5 Scale, one being poor and 5 being excellent
 - a. External Sources
 - b. Internal Sources
 - c. Job description
 - d. Job analysis
 - e. Job specification
 - f. Selection Methods
 - g. Socialization of employees
 - h. Training methods
4. Rate the associated terms of HR Planning on 1-5 Scale, one being poor and 5 being excellent.
 - a. Involvement of employees in planning
 - b. Target allocation and achievement
 - c. Career planning
 - d. Utilization of human resources
 - e. Management of Financial resources
 - f. Meeting challenges
 - g. Succession planning
 - h. Retention strategies

Contd....

Block 3: Human Resource Auditing

5. Rate the concepts related to Audit Process on 1-5 Scale, one being poor and 5 being excellent.
 - a. HR filing
 - b. Hiring
 - c. Compliance to laws
 - d. Integrating Best practices
6. Rate HR department's performance in HR Audit & Planning Process on 1-5 Scale, one being poor and 5 being excellent.

Source: ICFAI Research Center

This type of questions are administered by auditors, to assess the performance of HR departments.

11.5.5 Observation

The other important HR audit methods are observation, analysis of secondary data, and analysis of reports.

Observation

In addition to these methods, auditors visit the workplaces to assess the prevailing conditions in the plant. They would have first-hand information on the availability of hospital, school, hygienic washrooms, canteen, living accommodation for employees, etc. These observations are made by auditors with predetermined check lists.

11.5.6 Analysis of Secondary Data

The data gathered by auditors, from the records of organizations on all aspects, is a rich source for knowing the adequacy of employees' needs and organizational facilities and infrastructure. For example, data collected on training methods and number of employees attending these programs, give insights for adequacy/ giving recommendations for improvement of training methods. Thus, analysis of secondary data is a good method for auditing.

11.5.7 Analysis of Reports

Published literature of the company such as annual reports, personnel handouts, circulars, magazines etc. help in auditing the organizational performance and capabilities.

These methods assist auditors to conduct audits effectively and efficiently.

Example: Integrated Annual Report 2021-22 of Infosys

Infosys adopted the Global Reporting Initiative (GRI) principles to disclose performance on non-financial aspects of the business and became the first IT company to publish sustainability performance in accordance with the GRI G4 (comprehensive) criteria in 2014. The Integrated Annual Report 2021-22 of Infosys Limited, provides quantitative and qualitative disclosures on material topics and their relationship with stakeholders. It also describes their strategy, leadership commitment and culture that celebrates people, performance and purpose. The Infosys Integrated Annual Report 2021-22 has been prepared in accordance with the International Integrated Reporting Framework, developed by the International Integrated Reporting Council (IIRC), the GRI Standards and SASB Standards. This report also includes the Business Responsibility and Sustainability Report (BRSR), prepared in accordance with the guidelines issued by the Securities and Exchange Board of India (SEBI).

For details, check out <https://www.infosys.com/investors/reports-filings/annual-report/annual/documents/infosys-ar-22.pdf> (accessed on 27/6/2022)

Activity 11.2

If an Audit Team wants to find out the number of training programs conducted and their effectiveness, which method of HR Audit would be most appropriate?

Answer:

Check Your Progress - 3

8. In which method of HR audit is Large Scale Interactive Process (LSIP) used?
- Observation
 - Questionnaire method
 - Workshop method
 - Individual interview method
 - Group interview method

Block 3: Human Resource Auditing

9. Which, of the following, is a limitation of HR audit?
 - a. HR audit is very expensive.
 - b. HR audit is time consuming.
 - c. HR audit is repetitive.
 - d. Implementation of HR audit is not genuine.
 - e. The findings of HR audit are not interesting.
 10. How do auditors examine the availability of hospital, school, hygienic washrooms, canteen, living accommodation, etc., for employees in the organization?
 - a. Observation
 - b. Questionnaire method
 - c. Workshop method
 - d. Individual interview method
 - e. Group interview method
-

11.6 Summary

- According to 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.
- The important objective of HR audit is to review the performance of HR Departments and their activities, in order to assess their effectiveness in implementation of organizational goals.
- HR audit is undertaken by most organizations, to make their HR functions business driven and to instill a sense of confidence among employees, to enhance their capabilities.
- All approaches to HR audit have been brought forward to evaluate the effectiveness of the HR functions. Auditors may adopt any of the discussed approaches or adopt a combination of those approaches, depending upon the need and situation.
- HR audit methods assist auditors to conduct audits effectively and efficiently.
- The important audit methods are Individual interview method, Group interview method, Workshop method and Questionnaire method.

11.7 Glossary

Attrition: Gradual loss of employees' overtime.

Balanced Scorecard: Provides a list of measures that balance the organization's internal and process measures with results, achievements, and financial measures.

Competency Mapping: Process of identification of competencies required to perform a given job or a role or a set of tasks successfully at a given point of time.

Crowd-sourcing: People can take up job from anywhere.

Employee Absenteeism: Voluntary or willful absence to work, without valid reason.

Employer Branding: Employer branding is about making sure that employees feel good about the place of their work.

HR Standards: Approach to develop and implement long term HR strategies, policies, and plans, for achieving organizational objectives.

11.8 Self-Assessment Test

1. Define HR Audit and state its objectives.
2. Discuss the need and importance of HR Audit.
3. Differentiate ROI Approach with that of Financial Analysis Model Approach.
4. Explain the Benchmarking Approach of HR Audit.
5. Illustrate the methods of HR Audit.

11.9 Suggested Readings/Reference Material

1. Debasish Biswas (2021). Human Resource Planning and Utilization, Crescent Publishing Corporation, First Edition.
2. Nishant Uppal (2020). Human Resource Analytics: Strategic Decision Making, Pearson Paperback, First Edition.
3. Pravin Durai (2020). Human Resource Management, Pearson, Third Edition.
4. Sekhri, A. (2016). Human Resource Planning and Audit. Himalaya Publishing House, First Edition.
5. T.V. Rao (2014). HRD Audit: Evaluating the Human Resource Function for Business Improvement, Second Edition, Sage Publications.
6. Swati Dhir, Suparna Pal (2021). Human Resource Analytics: Theory and Application Techniques, Cengage India, First Edition.

11.10 Answers to Check Your Progress Questions

1. (d) To follow the essential steps of HR audit

To follow the essential steps of HR audit is not the objective of HR audit.

2. (d) Making recommendations

In synthesizing stage, the data, gathered from interviews, will be synthesized to present the current situation, priorities, staff pattern, and issues identified. Specific recommendations are made for future needs of the organization.

Block 3: Human Resource Auditing

3. (c) Benchmarking approach

In benchmarking approach, auditors identify a company, which has excelled in its performance and compare its results with that of the company being audited.

4. (e) Legal compliance approach

In legal compliance approach, auditors ensure that companies are complying with the prescribed labour laws and applicable regulations.

5. (a) Return on Investment

Return on Investment is a financial measure, and the rest of the options are non-financial measures.

6. (b) Financial analysis model approach

In financial analysis model, measurement is done on quality, efficiency and service by using five factors-cost, completion of time, quantity, quality, and human reaction.

7. (c) Employee perspective

Employee perspective is not included in the Balanced Scorecard, as explained by Robert Kaplan and David Norton, and the remaining four are perspectives of Balanced Scorecard.

8. (c) Workshop method

Large Scale Interactive Process (LSIP) is used in the workshop method of HR audit.

9. (d) Implementation of HR audit is not genuine

One of the limitations of HR audit is its report is not taken seriously for implementation.

10. (a) Observation

Through observation, auditors examine the availability of hospital, school, hygienic washrooms, canteen, and living accommodation, etc., for employees in the organization.

Unit 12

Human Resource Audit: Competencies, Strategies, Systems, and Structure

Structure

- 12.1 Introduction
- 12.2 Objectives
- 12.3 HR Audit - Competency Components
- 12.4 Audit Aspects of HR Strategies
- 12.5 Audit Aspects in HR Systems
- 12.6 Auditing Methods/Instruments for Audit of HR Systems and Processes
- 12.7 HR Audit - Structural Aspects
- 12.8 Summary
- 12.9 Glossary
- 12.10 Self-Assessment Test
- 12.11 Suggested Readings/Reference Material
- 12.12 Answers to Check Your Progress Questions

“Be a yardstick of quality. Some people aren’t used to an environment where excellence is expected.”

- Steve Jobs

12.1 Introduction

As has been touted by Steve Jobs, organizations should deploy tools that would improve quality. HR audit is one of the tools that can enhance efficiency and organizational effectiveness. Human Resources (HR) audit is a formal method to review the functioning of the HR department of an organization. In the previous unit, the need and importance of HR audit is discussed. It goes in detail how HR audit is conducted and how auditors examine the documents and records related to HR to point out the existing gaps. It is a systematic review and assessment of HR management philosophies, policies, procedures, practices and approaches. It encompasses a comprehensive review of current HR policies, procedures, processes, alignment, documentation, and systems, to assess their efficacy and compliance with the prevailing rules and regulations.

This unit covers some specific areas of HR audit. Competency is the set of skills, attitudes and behaviours required to carry out the job effectively. Competencies may be divided into functional competencies and personal competencies.

Block 3: Human Resource Auditing

Functional competencies include technical, job knowledge, product knowledge, commercial awareness, etc. Personal competencies are communication skills, people orientation, achievement orientation, thinking and creativity skills, vision building, self-esteem, etc.

One of the main aspects, which forms part of HR audit relates to competency components. In this section importance, components, and methods of auditing competencies are explained.

12.2 Objectives

After going through this unit, you will be able to:

- Define competencies and components of HR audit
- Enlist the competency categories and the methods of auditing
- Illustrate HR strategies and identify the strategies to be audited and the methods of auditing
- Define HR systems, explain different HR systems and how to audit them
- Define HR structure and identify the salient features of such a structure
- Outline the indicators of a good and poor HR structure

12.3 HR Audit - Competency Components

Competency is the set of skills, attitudes and behaviours required to carry out the job effectively. Competencies may be divided into functional competencies and personal competencies. Functional competencies include technical, job knowledge, product knowledge, commercial awareness, etc. Personal competencies are communication skills, people orientation, achievement orientation, thinking and creativity skills, vision building, self-esteem, etc. In this section importance, components, and methods of auditing competencies are explained.

12.3.1 Importance of HR

Human resources are considered as strategic assets which enable creation of world class and competitive organizations. It is, thus, quite natural that HR planning and management are increasingly becoming a part of strategic planning and vision / mission of every organization. Considering the importance of HR, the functioning of the HR department requires to measure up to the expectations of the management and the employees. A regular evaluation of the functioning of the department is, thus, quite in order. This review of HR department is normally undertaken through an HR audit.

12.3.2 HR Audit

As per Dr. TV Rao, “HRD audit is a comprehensive evaluation of the existing human resource development strategies, structure, systems, styles, and skills, in

accordance with both short-term and long-term business plans of the organization. In HRD audit, the skills, styles, systems, strategies, structure are studied and analyzed using a variety of methodologies like interviews, questionnaires, available records, workshops, etc. This evaluation helps the organization in having a clear understanding of the lacunae and better align the HR processes with business goals". In simple terms, auditing is a diagnostic tool to assess the current state of functioning and to identify the gaps between current state and the expected performance.

An HRD audit helps evaluate:

- If competencies available are adequate to meet current and futures tasks.
- Culture and resources to develop the required skills/knowledge.
- The maturity levels of the systems.

12.3.3 Competencies

Competency is the ability of an individual to perform given tasks properly. It is a combination of skills, knowledge, and behavior. The focus is on behavior, which shapes an individual's ability to use knowledge and skills to perform a task. Competency may be considered as a determining factor of an employee's performance and, in turn, of the organization, to achieve its goals. Competency is, thus, a composite view of the ability of the employee to perform. The business environment is dynamic and thus the competencies necessarily undergo change with passage of time and customer requirements. It, thus, becomes necessary to evaluate whether the available competencies are aligned with the expectations. The HR competency categories that are normally assessed are discussed below:

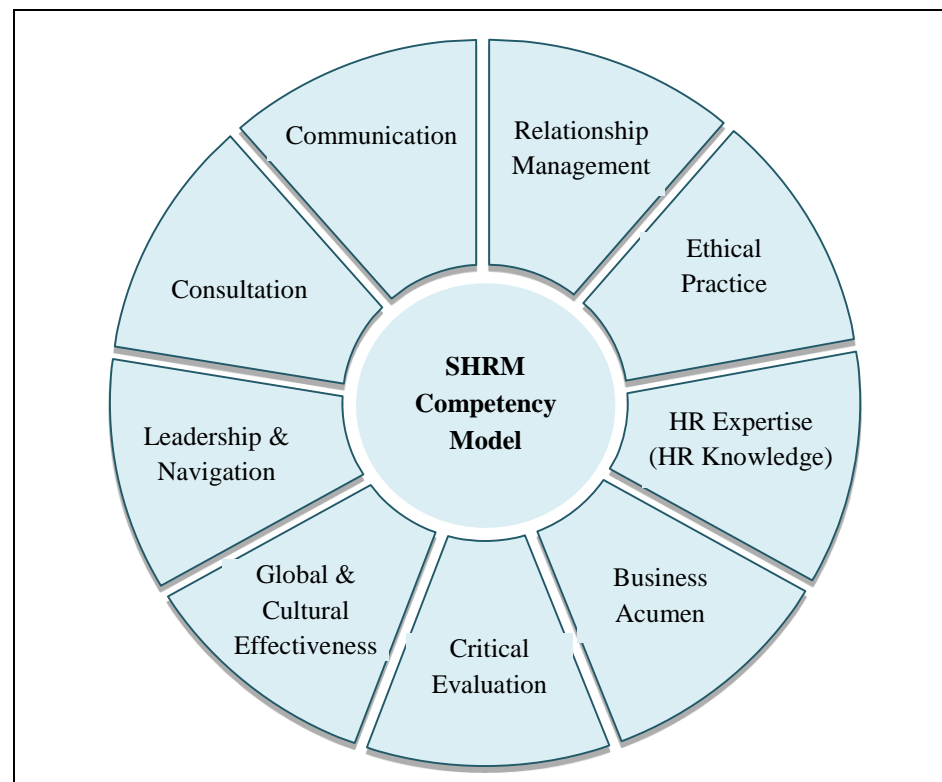
- *Communication:* Communication competency is about the ability to transmit information in a manner that the receiver understands the message in the context and way, in which the sender intends. Since managing involves getting some work done, it is essential that there is proper understanding between the sender and the receiver of the instructions/information. Communication competency is, thus, essential for proper functioning.
- *Strategic Thinking:* This competency includes ability to analyze and understand business and the organization, take appropriate decisions based on the analysis and find means of resolving problems/issues as they arise.
- *Global Awareness:* Understanding cultural issues of global business, appreciating impact of national and cultural differences, local customs/traditions and regulatory issues, political issues and their impact.
- *Leadership and Change Management:* Team management and spirit, relationship building, problem-solving, accepting and furthering change, communicating change issues, and negotiation.

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- *Functional Excellence:* Excellence in HR policies and administration, familiarity with HR issues, inter-personal sensitivity and empathy, resolving conflicts, coaching, and facilitating development and cultural sensitivity.
- *Personal Credibility:* Ability to honor promises/assurances, building trust among colleagues, and transparency in dealings.
- *Self-Management:* Self-esteem and confidence, self-learning, honesty and integrity, initiative and persistence, and balancing personal and professional demands.

Another perspective on the categories of competencies to be audited is given in Figure 12.1.

Figure 12.1: Categories of Competencies



Source: ICFAI Research Center

Example: What It Means to have a Decisive Boss like Elon Musk

The public image or personal credibility of the head of an organization impacts its staff.

For instance, Tesla Motors CEO Elon Musk is in news regularly often for his controversial remarks on politics, business and society that are polarising and thus tend to be divisive. For someone who leads companies with a huge workforce, such remarks can be counter-productive.

Contd....

Working in the down-line of a positive aura and positive image of the leader in society boosts the trust of the employees in the employer. High trust leads to high level of inclusion and results in better efficiency and a higher level of productivity.

Source: <https://hr.economictimes.indiatimes.com/news/workplace-4-0/what-it-means-to-have-a-divisive-boss-like-elon-musk/92267508> (Accessed on 2.7.2022)

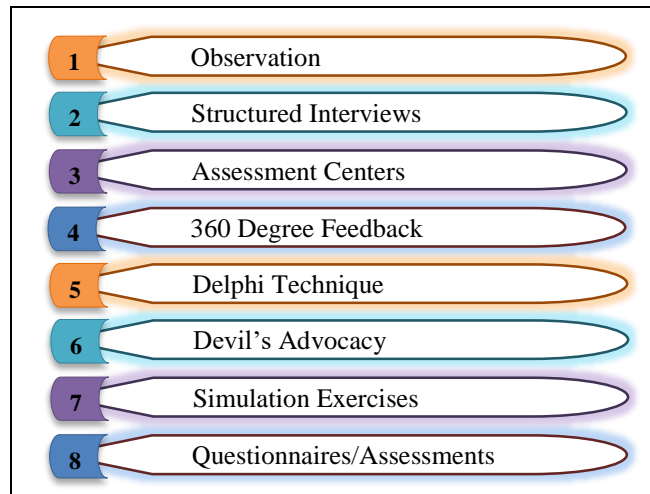
Check Your Progress – 1

1. Which of the following conveys the meaning of competency?
 - a. The ability of an individual to perform given tasks properly.
 - b. It is basically the IQ level of a person.
 - c. It relates to the skills that a person acquires.
 - d. The ability of a person to compete with his/ her colleague.
 - e. Behavioral characteristics of an individual.
 2. Which of the following is not an objective of HR audit of competencies?
 - a. Competencies available are adequate to meet current and futures tasks.
 - b. Culture and resources to develop the required skills/ knowledge.
 - c. The maturity levels of the systems.
 - d. Assess the processes followed in different functions.
 - e. Interview the HR manager on competencies of employees.
 3. Which of the following is not a competency part of audit?
 - a. Communication
 - b. Strategic thinking
 - c. Friendship
 - d. Leadership and change management
 - e. Functional excellence
-

12.3.4 Methods of Auditing HR Competencies

As brought out earlier, human resources are the primary assets of a business entity that bring in innovation and a competitive edge. It is thus incumbent to ensure that these assets are being managed well. Since managing HR is the main task of the HR department, there exists a need to assess whether the HR department personnel possess the required competencies to manage the employees well and ensure the expected performance. The main competencies expected of the department personnel were discussed above. The methods of assessing these competencies are discussed in Figure 12.2.

Figure 12.2: Methods of Auditing HR Competencies



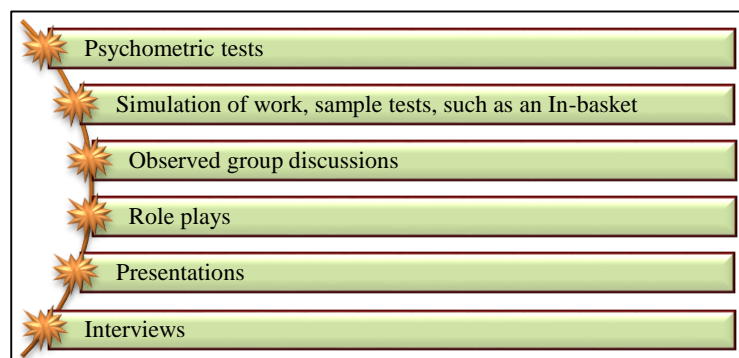
Source: ICFAI Research Center

Observation: One of the easiest and most common methods of assessing competencies is through observation of an employee performing his/ her work. The normal work environment, to which the employee is used to, makes this task easy, since the person is comfortable and used to it. This reduces the anxiety associated with assessments/ examinations. Observation, while performing routine tasks, provides relevant examples of competencies in different components of the tasks. However, as expected, any assessment brings in some degree of anxiety. However, this is reduced considerably when functioning in the person's normal environment.

Structured Interviews: This is another popular method of inquiry on the job-related competencies. The questions can be open ended to seek more information on activities and performance of the individual.

Assessment Centers: An assessment center is a process where candidates are examined to assess competencies using a number of evaluation techniques such as job simulations, interviews, psychological tests, etc. Some of the common methods used in Assessment center are shown in Figure 12.3.

Figure 12.3: Methods used in Assessment Center



Source: ICFAI Research Center

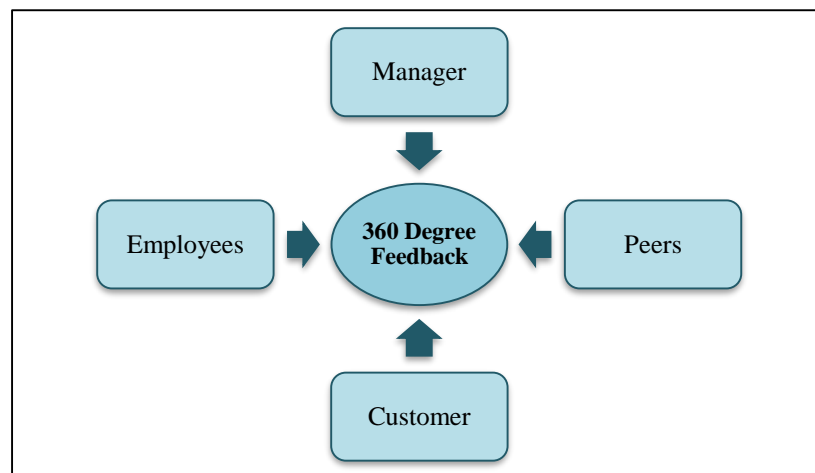
Assessment centres while being ideally suited for assessing behaviour, require the tests to be administered by professionals. They are expensive and difficult to arrange and manage all employees. They may be suitable for managerial levels.

360 Degree Feedback: This is a very powerful tool for obtaining information on the performance levels of the employees. It is a confidential technique, which seeks feedback on the individual's performance from all the stakeholders and internal/external entities the employees interact with. The method is work intensive and the compilation may also be somewhat cumbersome. However, online feedback and compilation may be used seeking answers/feedback to specific questions. The people involved in the 360-degree feedback may be:

- The employee's direct supervisor/manager
- Peers/colleagues
- Internal and external clients
- Subordinates
- Others depending on position of the individual

Figure 12.4 depicts the components of 360 degree feedback.

Figure 12.4: Sources for 360 Degree Feedback



Source: ICFAI Research Center

Delphi Technique: This is a technique involving subject matter experts and use of a consensus approach. Questionnaires are circulated and the solutions are perused, and feedback is given. Based on the answers, further ideas are sought. The process continues till a sort of consensus is arrived at. This is a lengthy procedure and is time consuming.

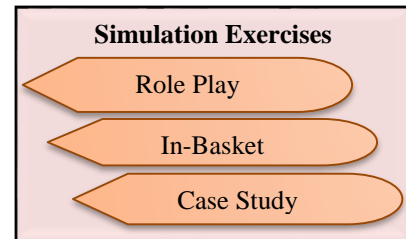
Devil's Advocacy: It is a group exercise in which a member is nominated as the Devil's Advocate. His job is to point out weaknesses and errors in the ongoing discussions. The role of devil's advocate is rotated to avoid the process becoming individualistic. Such identification of weaknesses in discussions on functioning helps to identify measures for improvement.

Block 3: Human Resource Auditing

Simulation Exercises: Simulation exercises exhibit real-life professional scenarios for an objective assessment of employees and candidates' competencies. They assess the competencies of candidates in resolving the problems and issues that arise in routine work life. Such simulation exercises bring out the competencies in work related situations.

The exercises may be:

- **Role Play** - In this, a work-related situation is identified in which the individuals are expected to play the role of the people involved. Role plays reveal a great deal of information on the participant's approach to dealing with work-related issues and situation, highlighting the competencies involved.



- **In-Basket** - This simulation involves the person receiving mails and memos on routine work-related matters to which he/ she is expected to respond. The responses and the manner of responding reveal the person's capabilities and approach.
- **Case Study** - Real life cases are discussed, and the answers and solutions provided by the participants reveal their approach and competencies.

Simulation exercises are powerful assessments of employees and help in evaluating their competencies.

Questionnaires/Assessments: Questionnaires may be circulated seeking responses which reveal the skills. Assessments, such as Psychometric, also reveal individual's behaviour patterns and beliefs.

As discussed above, there are a number of essential competencies required for effective functioning such as communication and strategic thinking, among others. These are audited, using tools such as observation, 360-degree feedback, etc., through interviews, perusal of documents, and analysis of answers to questionnaire.

Example: Improving Performance and Training

Performance-review data points out the training needs of the organisation. Google uses its performance-review data to identify certain must-have traits in its managers under Project Oxygen, a strategy devised to train future business leaders and inculcate best performance practices. As it was derived from a popular mandate which was employee feedback, it inspired other employees to follow suit; managers themselves accepted and acknowledged the need for scope of improvement in their management style and function as well.

Source: <https://www.hrkatha.com/features/how-performance-review-data-usage-can-be-maximised/> (Accessed on 2.7.2022)

12.4 Audit Aspects of HR Strategies

Strategy is the process of determining and articulating the organizations' vision, mission, values, goals and objectives. It is a course of action for realising business objectives. It also includes formulating and implementing plans to attain desired outcomes. HR strategies deal primarily with HR functions and these should be aligned to business strategies. In other words, HR strategies aim at attracting, retaining, developing, motivating and utilizing the competencies of employees for organizational development. For this to happen, we should understand the focus on which HR strategies revolve around and the techniques and methods HR managers adapt to realize these goals. In this section HR strategies and audit and methods/techniques of auditing are discussed.

12.4.1 Defining HR Strategy

A human resource strategy is a long-term plan for management of the organization's HR, to align with the business plan and achieve the organization's mission and goals. It sets the direction and policies in key aspects of HR management such as communication, development, hiring etc.

12.4.2 Focus of HR Strategy

The focus of HR strategies is to create sustained competitive advantage by management of HR by acquisition, development and alignment of skills and knowledge with the business goals. The strategies that are commonly audited are discussed below. Following are the HR strategies with respect to audit (Refer Figure 12.5).

Figure 12.5: Audit Aspects of HR Strategies



Source: ICFAI Research Center

Communication

Communication strategy involves the plans and policies on communication and passage of appropriate information to the employees, their families and the community or society at large. It furthers the company's objective of building up its image and brand. Maintaining continuous communication is not only the

Block 3: Human Resource Auditing

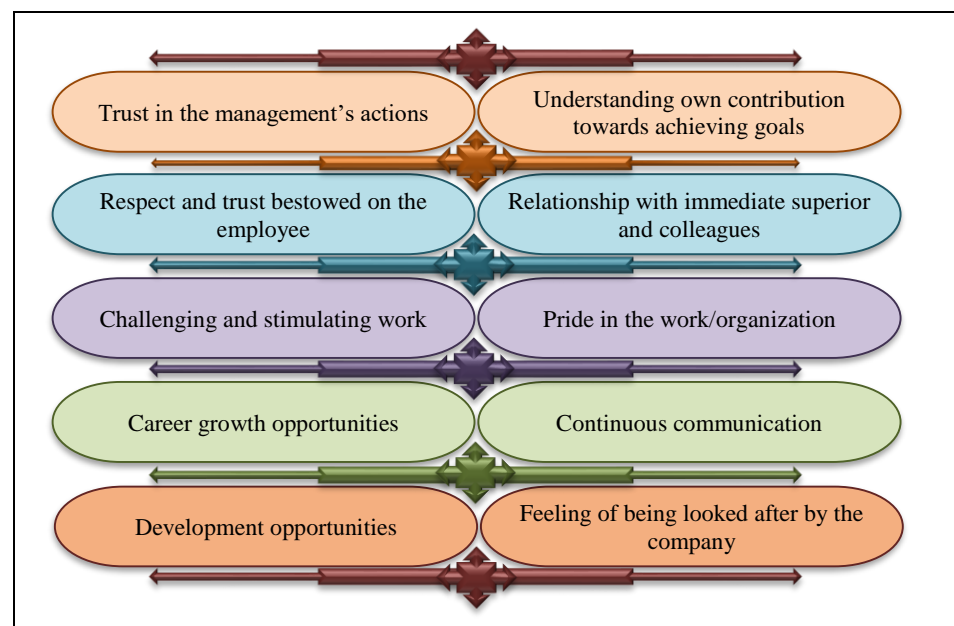
responsibility of the HR department but also requires the involvement of the line managers, who are in daily contact with the employees. The dimensions of the communication strategy involve:

- **Communication with Employees and their Families:** Employees need to be aware of the current and future plans and how they contribute towards achievement of the goals. Timely and proper communication builds trust between the management and the employees and goes a long way in improving the morale and loyalty. Communication with the families is also necessary since it provides support to the employees and brings awareness on the state of affairs.
- **Communication with the Community:** Regular communication with the community by sponsoring activities and conveying the progress of the company and its achievements, aids in building a good image of the company in the community and facilitates brand building. Such image building, in the community, has the added benefit of improving the standing of the employees in the eyes of the public which makes them proud of their work and this enhances loyalty to the company.

Commitment/Engagement

Engagement may be viewed as the heightened emotional connection of an employee with the organization. Such an emotional bond builds commitment to the company's mission and motivates the person to put efforts beyond the normal and goes a long way in improving performance. Factors that help in enhancing performance/commitment to the organization are given in Figure 12.6.

Figure 12.6: Factors that Enhance Commitment



Source: ICFAI Research Center

**Example: Mandatory Leave for MakeMyTrip Staff to get Over
WFH Fatigue**

MakeMyTrip, Indian online travel company, has introduced mandatory paid time off to its employees which will allow them to take paid time off for three working days before December 31, 2021. With employee privilege discounts, special deals and other value adds, the company offers specially curated, handpicked holiday options for its employees to choose from. Additionally, it has also introduced the Jumpstart Week with employee engagement activities to reinvigorate the workforce. The company will host group recreational activities and sessions involving not just the employees but also their families which include an interaction with India's tennis ace Mahesh Bhupathi, online cocktail making sessions with employee Happy Hours, and creative contests among other fun activities. The above-mentioned initiatives reflect the company's commitment towards their employees.

Source: <https://www.hrkatha.com/employee-benefits-welfare/mandatory-leave-for-makemytrip-staff-to-get-over-wfh-fatigue/> (Accessed on 2.7.2022)

Quality

Quality refers to the level of customer satisfaction produced by provision of a particular service. Customers for HR department are both internal recipients of its services such as the employees and the departments as also some external agencies. Quality brings goodwill and improved performance.

Aspects that may be looked at by audit may be:

- Quality consciousness among HR executives
- Quality certifications
- Feedback on services provided by department internally and by external customer

Entrepreneurial Spirit

Businesses sustain and grow largely due to entrepreneurial spirit of the employees. The aspects which nurture this spirit, are:

- Decentralization and autonomy of functioning and encouragement to new ideas
- Acceptance of risk taking and failures
- Organizational development programs and training opportunities

Building Culture

The major focus of culture is on Openness, Collaboration and Teamwork, Trust, Authenticity, Proactivity, Autonomy, Confrontation, and Experimentation (OCTAPACE).

Block 3: Human Resource Auditing

Aspects that may be looked at during audit are:

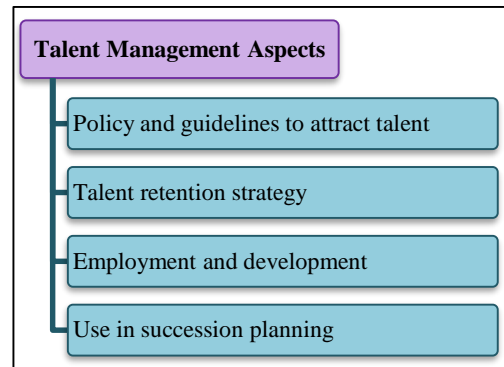
- HR policies supporting culture
- Policies, guidelines, and implementation
- Reinforcement of norms through various measures
- Feedback and corrective actions

Talent Management

Talent is the oxygen that sustains a company's competitive advantage. Management of talent is thus an important part of HR department's activities.

The aspects that may need to be perused are:

- Policy and guidelines to attract talent
- Talent retention strategy
- Employment and development
- Use in succession planning



Cost Reduction and Efficiency

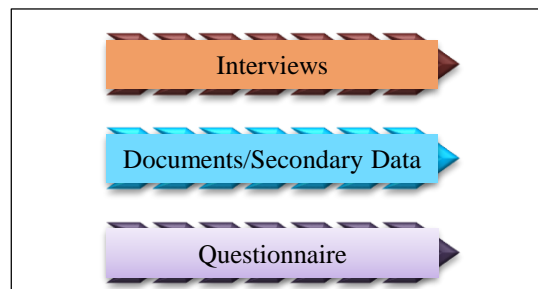
Focus on returns on investment leads to the need for efficiency and cost reduction. This aspect of audit may involve:

- Process efficiencies and implementation
- Coordination and synergy of functioning
- Review of performance and operations
- Implementation of plans

12.4.3 Auditing Methods/Instruments

The techniques for auditing HR strategies are presented in Figure 12.7.

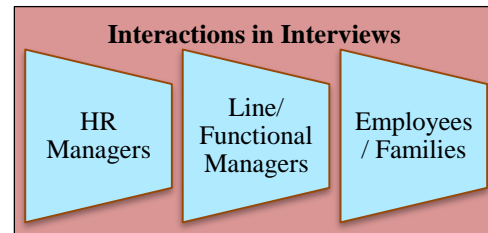
Figure 12.7: Auditing Methods/Instruments



Source: ICFAI Research Center

Interviews: Interviews and interaction with HR manager, line managers, randomly identified employees, and some families. The aim is to obtain information and views on:

- *HR Managers:* Existing mechanisms of communication with employees, families, and within departments. Problems/issues with current procedures, in-house newsletters/magazines, methods of communicating with the community, recent and ongoing social welfare projects, and future plans in this respect.
- *Line / Functional Managers:* Methods of communication, day-to-day activities/ work schedule, notice boards, meetings: frequency/attendance, and information on progress on points raised, any individual one-on-one meetings, safety meetings, grievance redressal mechanisms, problems/issues in communications, sponsored activities and participation of managerial staff.
- *Employees / Families:* Knowledge of company's current and future plans, interaction frequency with supervisors/managers, social/sponsored activities.



Documents/Secondary Data: Perusal of documents from company to employees, family members, and community leader/local organizations. The documents such as policy manuals, communication policies, notice boards, newsletters, magazines, correspondence, covering sponsored activities and undertakings such as gardens, parks, etc.

Questionnaire: Inclusion of relevant questions covering communication policy/ correspondence and activities in the audit questionnaire.

HR strategies cover aspects such as communication, talent management, culture, commitment/engagement among others. The techniques for auditing strategies include interviews with the HR manager, staff and line managers besides scrutiny of records and questionnaires.

Check Your Progress - 2

4. Observation, structured interview, and assessment centers are some of the means of auditing competencies. Which of the following are the other methods?
 - a. Simulation exercises, deep thinking
 - b. 360 degree feedback and Delphi technique
 - c. Traditional feedback and simulation exercises
 - d. Devil's advocacy and outdoor exercises
 - e. Essay writing and management games

Block 3: Human Resource Auditing

5. Which of the following is not an aspect of commitment/engagement of employees?
- Trust in the management
 - Respect and trust bestowed on the employee
 - Challenging and stimulating work
 - Employee's attendance and dress
 - Development opportunities

Activity 12.1

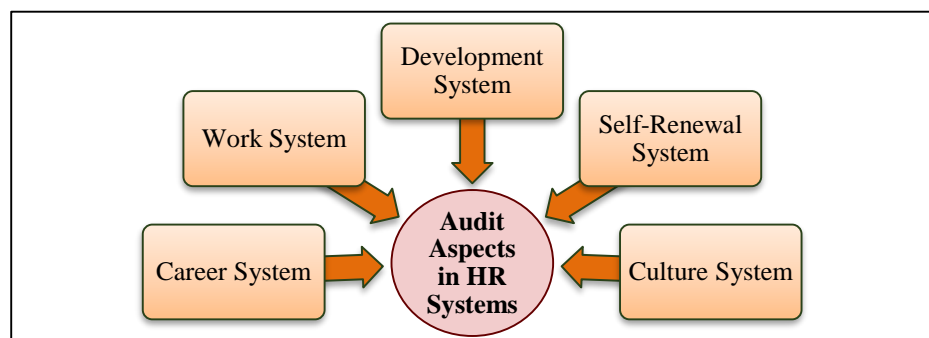
You are a part of an Audit team for audit of the HR department of Infratech Ltd. You are asked by the Audit team leader to identify the methods you would use to assess the competencies of the employees. What would you include in the list?

Answer:

12.5 Audit Aspects in HR Systems

A system is a set of principles or procedures, according to which things operate together or something is done as an organized scheme or method. Systems assist in doing things in a disciplined and professional manner, through planning and operations to achieve specific goals. The HR systems audit aims to assess which system is working effectively and which is not able to come to the expectations. Audit also tries to find which systems can be effectively used for improvement in sub systems. In this section career systems, work systems, development systems, self-renewal systems and culture systems are discussed (Refer Figure 12.8).

Figure 12.8: Audit Aspects in HR Systems



Source: ICFAI Research Center

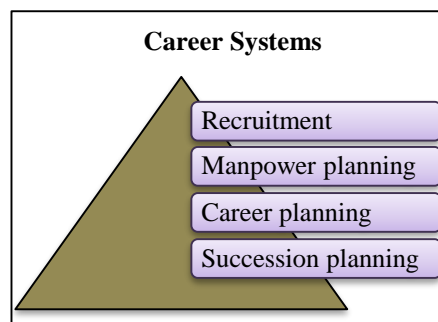
HR systems are aimed at ensuring that the required competencies are available for achieving the business goals and ensuring that the organizational environment and the culture are conducive for developing a committed workforce. HR functions are carried out through its systems and sub systems which help in achieving organizational excellence in all its operations.

An HR audit helps in assessing the processes, clarity on objectives, levels of participation, efficiency, and cost savings of the HR systems and subsystems. HR audit of systems, thus, evaluates the efficacy of the systems and helps assure the stakeholders that HR functions are being undertaken effectively. The HR systems that are normally audited are discussed below:

12.5.1 Career System

Systems involved in career and associated aspects cover:

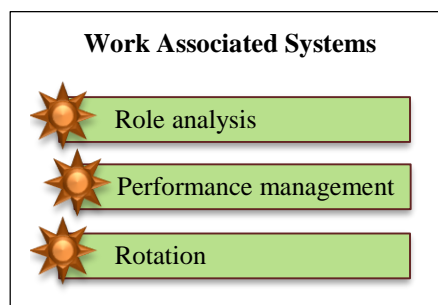
- **Recruitment:** This system covers identifying vacancies, analysing the job and competencies required, searching and attracting candidates and selecting the best available candidate for filling in the vacancy.
- **Manpower planning:** This covers the procedure followed, the techniques, involvement of the line managers, effectiveness of the planning, and the focus on competencies in the manpower planning process.
- **Career planning:** The process involved in career planning of individuals, identification of individual career paths, satisfaction of the employees about the process and impact on replacement in case of vacancies. Awareness of the employees about the processes involved.
- **Succession planning:** Process and extent of succession planning and identification of potential candidates and positions followed by development and training.



12.5.2 Work System

Work associated systems comprise the following:

- **Role analysis:** This covers clarity on expectations, continuous feedback, goal setting and dialogue on expectations and progress.
- **Performance management:** It refers to system of monitoring and measuring the performance of employees, performance planning,



Block 3: Human Resource Auditing

performance coaching, and performance appraisal. The dimensions to be audited would be aspects such as quality and methods of feedback, counselling and coaching, promotion, and the efficacy of the rewards system.

- Rotation: It involves movement of employees from one job to another for exposure and development of capabilities and competencies. Aspects of audit would be planning, implementation, evaluation, and reassessment.

12.5.3 Development System

This aims at assisting top management in determining the suitable person for a particular job by generating data about the employees and their potential for performing different higher-level roles. It assists in developing managerial skills in talented employees by providing necessary inputs.

- Training and Learning: The system covers training newly employed, and to familiarize and integrate newly employed persons into the organization. Points for audit are the training budget, its



- utilization, involvement of line managers in training, competency building, and assessment of the learning outcomes and the return on investment.
- Counselling: Audit would normally look at the presence of any formal counselling and mentoring system, involvement of senior management in the process, counselling on career paths, and assessment of potential, and specific strategies for groups of employees.
- Staff Development: Aspects which may be looked at by audit are any specific plans for staff development, identification of employees for training by line managers, and assessing outcomes of training.

12.5.4 Self-Renewal System

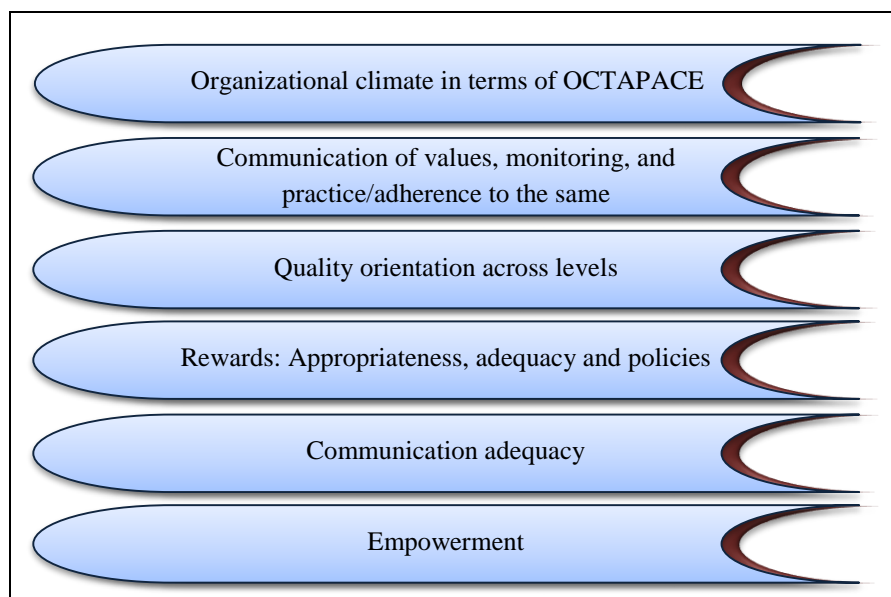
Regular changes are a part of any organization to adapt to market realities. This system deals with the approach by which managers and employees are involved in tackling change and being trained for it. Aspects, which may be audited are:

- Whether carried out in a planned manner
- Based on diagnosis of issues and problems
- Level of participation
- Use of action research
- Benefits of ODs
- Focus on competency building
- Organizational retreats

12.5.5 Culture Systems

The system covers the general values and beliefs of the organization and the employees towards work and each other. Audit may look at aspects such as articulation of the vision, mission, goals, values, beliefs and the communication of the same to all members of the organization, and the adherence to norms. (Refer to Exhibit 12.1) The components to be included in audit are presented in Figure 12.9.

Figure 12.9: Audit Components



Source: ICFAI Research Center

Exhibit 12.1: ABP Network - ‘Happiest Places to Work’ by Happyness.me

The country’s leading broadcaster, ABP Network becomes the first Indian news network to be certified as one of the Happiest Places to Work™ by Happyness.me for the year 2022.

The Happyness.me framework is underpinned by neuroscience, which not only measures what people think but also how they feel. ABP Network’s Happyness Quotient was substantially above the benchmark needed to be certified among the Happiest Places to Work. After the assessment, every ABP Network employee received an individual happiness report to help them set the context as to where they stand compared to others in the organization. The Happiness Assessment covers every employee in the organization without being restricted to a sample size, making it a wholesome experience.

Contd....

Block 3: Human Resource Auditing

The company endeavours to develop a distinctly positive culture that fosters collaboration, trust, and diversity that enhances both team performance and productivity substantially.

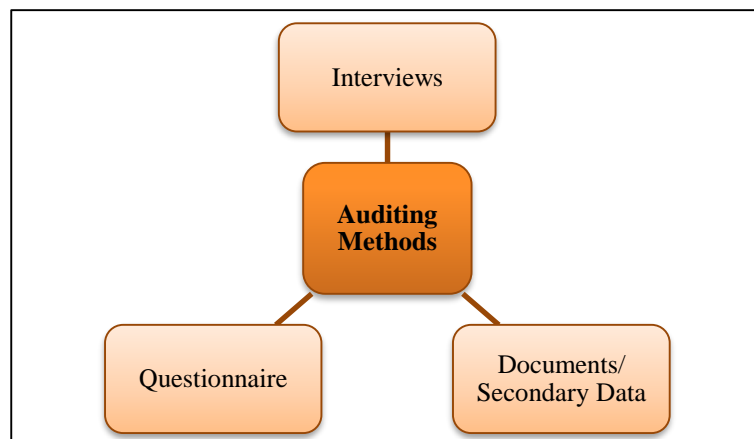
Ms. Namrata Tata, Managing Partner – House of Cheer Networks PVT LTD, said, “It’s heartening to see how organizations have started acknowledging the need for happiness and focusing on making emotions central to their organizational culture. We were amazed at the initiatives taken by the organization and the positive responses from the employees. We are looking forward to a long-lasting relationship and making this an annual assessment and helping the organization in seeding happiness to keep the needle moving.” The extremely competitive and high-pressure media industry is known for high attrition rates, but ABP Network’s effort in prioritizing employee happiness and wellbeing is commendable.

Source: <https://www.hrkatha.com/industry-news/abp-network-certified-as-one-of-the-happiest-places-to-work-by-happyness-me/> (Accessed on 2.7.2022)

12.6 Auditing Methods / Instruments for Audit of HR Systems and Processes

All HR functions and systems are process intensive. It is, thus, natural that audit would cover an assessment of efficiency, effectiveness, and awareness of all processes. The formalization and review of processes would be checked. The transparency, fairness, promptness of action/delays, and satisfaction level with HR systems, would thus form an important aspect of HR audit of HR systems. Other auditing methods are given in Figure 12.10.

Figure 12.10: Auditing Methods



Source: ICFAI Research Center

- **Interviews:** Interviews are one of the primary means of obtaining the required data/info for audit of HR Systems. Interviews and interaction would be planned with the HR manager, HR department staff, line managers, and

randomly identified employees. The aim is to obtain information and views on:

- **HR Manager and HR Staff:** HR Planning: Methodology, alignment with strategy, and participation of line managers; performance management: appraisal procedures, forms, methodology, identification of employees with high potential, career planning of employees, succession plans; regarding roles: check clarity, communication of expectations and coaching/mentoring, feedback process and procedures; training and learning: planning, needs assessment, identification of trainees, programs, involvement of line managers/senior management; development: identification of talent, plans for development and succession, job rotation, etc.; self-renewal: planning ODs, organizational retreats.
- **Line / Functional Managers:** HR Planning: Involvement, identification of HR requirements to achieve goals, problems of shortages/surplus; performance management: frequency, adequacy of forms, feedback regularity, setting of collaborative goals, team functioning, promotions; training/learning: involvement in training plans, content, identification of employees for training, impact of training; development: involvement in mentoring/coaching; self-renewal: involvement in OD planning and execution.
- **Employees:** Knowledge of company's HR policies, processes lengthy/short response times for action/info; performance management: fairness, collaborative goal setting, feedback and guidance, and satisfaction level; Training/development: awareness of opportunities for career/promotion, transparency, development opportunities adequacy.
- **Documents/Secondary Data:** Perusal of documents relating to HR planning, data collection, analysis, adequacy and effectiveness; performance appraisal: policies, communication, grievances/redressals. Development/training plans, budget allocations/expenditure, training program planning and conduct, talent identification, development plans, coaching/mentoring plans; organizational development: planning, research data, assessment of benefits; culture: policies covering values/matters of honesty/integrity, communication of policies, infringements, and action taken.
- **Questionnaire:** Inclusion of relevant questions covering HR planning, performance appraisal, training/development and culture/ OD.

As discussed above, the HR systems which are generally audited include the systems covering work, career planning, development, culture, and self-renewal. The audit techniques involve interviews with concerned individuals, a check of documentation, and questionnaires.

Block 3: Human Resource Auditing

Example: Performance Audit Report on Training & Capacity Building by Department of Telecommunications (DOT), Ministry of Communications, India

The Training & Capacity Building Division is entrusted with the work of deputation of telecom officers for domestic & long-term trainings, coordination for training activities with Department of Personnel and Training (DoPT) and coordination for training activities of National Telecommunications Institute for Policy Research, Innovations & Training (NTIPRIT) etc. HR Audit report states that despite severe limitations caused as a result of Covid-19 pandemic, 9 officers of the cadre were deputed to 3 long term training programs at IIM Bangalore, IIPA New Delhi, MDI Gurgaon. In Administration, Training and Swachh Bharat in addition to the above, 12 officers were deputed for short term training during the year in multiple areas such as Cyber Surakshit Bharat (Cyber Security) Training conducted by MeitY, Fundamental of Digital Marketing using Social Media Platforms, etc. This example serves as an instance for documents/secondary data that finds a mention in the auditing methods discussed above.

Source: <https://dot.gov.in/sites/default/files/Annual%20Report%202020-21%20English%20Version.pdf> (Accessed on 3.7.2022)

Check Your Progress - 3

6. Which of the following processes besides Recruitment and Manpower Planning, does Career system include?
 - a. Training and compensation
 - b. Culture and development
 - c. Career planning and succession planning
 - d. Induction and retirement planning
 - e. Work life balance and rewards
7. What does OCTAPACE in relation to Culture imply?
 - a. Openness, Cohesion, Trust, Authenticity, Process, Autonomy, Collaboration, and Experimentation
 - b. Opinions, Communication, Teams, Authenticity, Proactivity, Autonomy, Cohesion, and Engagement
 - c. Openness, Communication, Trust, Authority, Process, Autonomy, Confrontation, and Engagement
 - d. Opaqueness, Collaboration, Trust, Amity, Procedure, Autonomy, Confrontation, and Engagement
 - e. Openness, Collaboration, Trust, Authenticity, Proactivity, Autonomy, Confrontation, and Experimentation

8. Which of the following are the methods used for auditing HR systems?
- a. In-Basket exercises, Interviews, and Questionnaire
 - b. 360-degree feedback, simulation, and outdoor exercises
 - c. Interviews, Audit of Documents/ Secondary data, and Questionnaire
 - d. Psychometric tests, IQ tests, and Interviews
 - e. Deep thinking, Games, and interviews
-

12.7 HR Audit - Structural Aspects

The human resource structure is the framework within a human resource department that undertakes all decision-making functions within the organization. Dynamic organizations periodically review their structures to rejuvenate HR functions. Appropriate structures are required for smooth functioning of organizations. It is important for auditors to assess how flexible these structures are and know whether the salient features of structures are present to classify them as good or poor structures. All these things are discussed in this section.

12.7.1 Defining HR Structure

An organizational structure is a formal hierarchy of the employees and functions for streamlining operations and processes aimed at achieving organizational goals. The organization structure of HR departments would, thus, depend on its objectives and functions. It develops strategies for managing HR, provide the services necessary to support the HR and needs of the management. It aids the organization in achieving its goals by recruiting employees with key competencies and supporting them in accomplishing their tasks.

In this respect it:

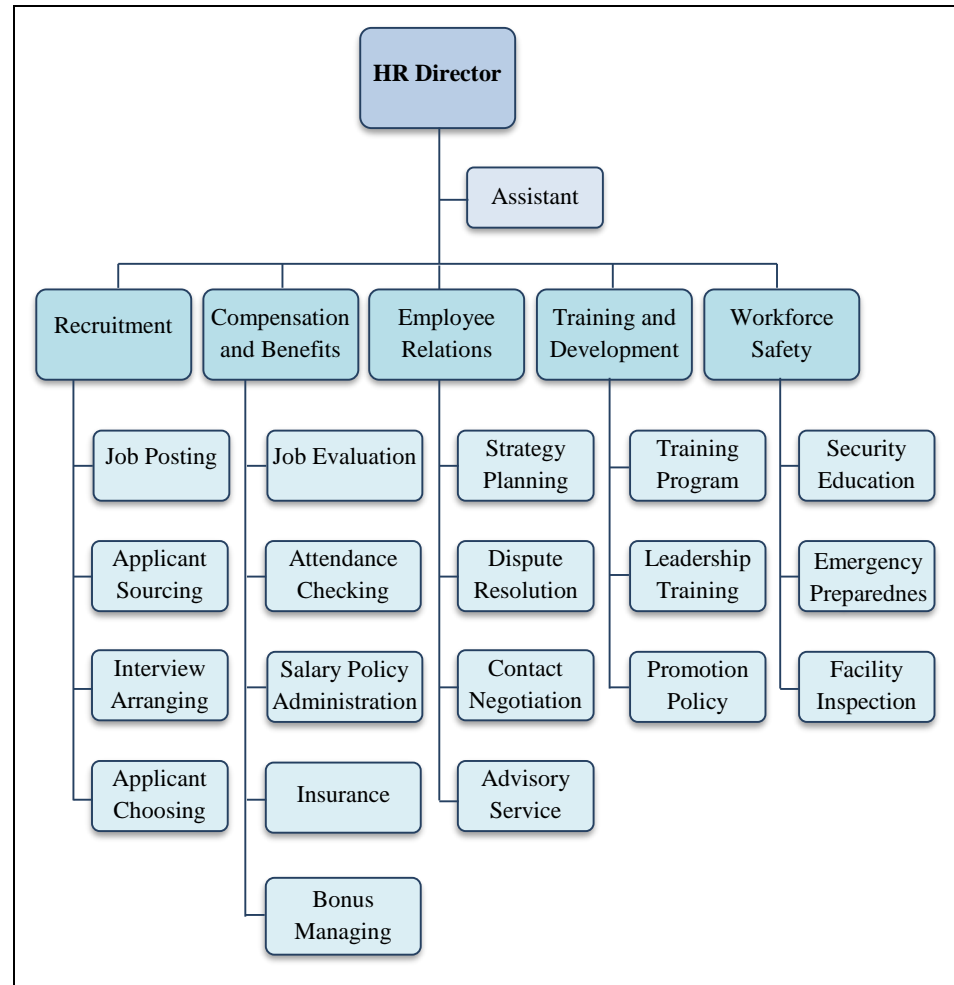
- Ensures fair and equitable treatment and consistent application of policies
- Facilitator in HR matters
- Partners in defining the HR policies

12.7.2 Organizational Structure of HR Department

HR structures vary between organizations and range from a full-fledged HR department in a company to a small HR set up with many functions being outsourced. HR functions are centralized at corporate level and at unit level the set-up is a small one.

A typical organization structure of a full-fledged HR department of a large company may be on the lines depicted in Figure 12.11.

Figure 12.11: Organization Structure of an Independent HR Department

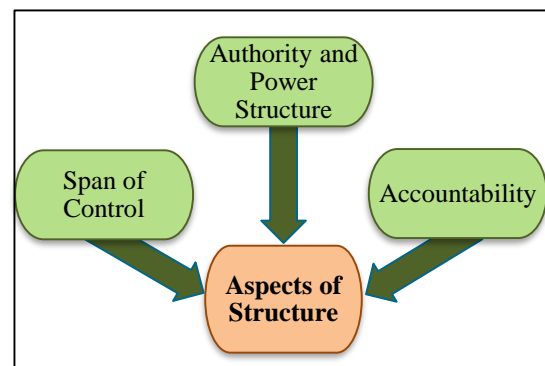


Source: ICFAI Research Center

12.7.3 Salient Features of Structure Looked at by HR Audit

The main aspects of structure that need the attention of the audit teams are:

- *Span of Control:* The span of control of the managerial staff is linked to the responsibilities and their delegation. In case the delegation levels are high, the span of control can be wide. If the functioning is more centralized, the span of control is generally narrow. This aspect is normally reviewed by the audit team.



Unit 12: Human Resource Audit: Competencies, Strategies, Systems, and Structure

- *Authority and Power Structure:* Another aspect that should engage the audit team is the authority and power structure. The structure is dependent on the level of centralization/ decentralization. In a decentralized structure, authority and power are pushed as far down the hierarchy as commensurate with the responsibility.
- *Accountability:* Accountability is an important aspect of an organization structure. The accountability must be clearly identified and has to be commensurate with the authority/power. This aspect would need to be checked as part of the audit.

12.7.4 Indicators of a Good Structure during Audit

A good HR departmental structure aids in organizational planning (processes, manpower planning & strategic planning), and functional effectiveness (discipline, performance management, development, training, supervision, and clarity of roles/responsibilities). The well-oiled and smooth functioning structure would be revealed during audit by the following indicators:

- Cooperation among employees
- Smooth functioning without any role or functional conflicts
- Communication and passage of instructions/ information horizontally and vertically in the hierarchy
- Clear definition of roles and responsibilities
- Ease of process implementation
- Clarity in relationship among employees and line of control/ responsibility
- Flexibility

12.7.5 Indicators of a Poorly Created HR Departmental Structure

During HR audit, the indicators of a poor organization structure would be revealed by the following indicators:

- HR strategy not aligned with corporate strategy such as in recruitment not focused on critical competencies.
- Compensation not aligned with market realities leading to inability to attract talent.
- Roles and responsibilities not clear leading to duplication of work, non-accountability in decision-making, multiple points of contact, and inconsistent processes.
- Costs of service delivery higher than similar organizations.
- Improper record maintenance.
- Excessive reliance on temporary or contractual staff.
- HR department considered as tactical and not strategic in nature.

The structure of an HR department depends on its roles and services that are provided by it. The structure needs to be flexible to meet the changing business

Block 3: Human Resource Auditing

needs. The normal aspects audited relating to structure are the span of control, authority and power, and accountability built into the structure. Indicators of a good structure are clarity of roles and responsibilities, cooperation, and ease of process implementation.

Example: Inside Amazon's Worst Human Resources Problem

Amazon's treatment of its huge workforce which is more than 1.3 million people and expanding rapidly faces mounting scrutiny. Labour activists and some lawmakers say that the company does not adequately protect the safety of warehouse employees, and that it unfairly punishes internal critics. In 2021, workers in Alabama, upset about the company's minute-by-minute monitoring of their productivity, organized a serious, although ultimately failed, unionization threat against the company. In June, a Times investigation detailed how badly the leave process jammed during the pandemic, finding that it was one of many employment lapses during the company's greatest moment of financial success. This serves as an instance for poorly created HR department structure.

Source: <https://www.moneycontrol.com/news/business/inside-amazons-worst-human-resources-problem-7626191.html> (Accessed on 3.7.2022)

Activity 12.2

You are an HR executive in an Infrastructure company, MGM Infra Ltd. You are appointed to be part of the HR Audit team. Your leader asks you to make a check-list for Audit of the HR structure of the company.

Prepare a check-list of the aspects you think should be audited and explain how will you execute the plan.

Answer:

Check Your Progress - 4

9. Which are the salient features of an organization structure of HR department, evaluated during audit?
 - a. Number of levels, Linkages between functions, clarity
 - b. Span of control, Authority and Power, Accountability
 - c. Span of control, Clarity of roles, Linkages
 - d. Authority and responsibility, Number of levels, Vacancies
 - e. Accountability, Finance department linkage, Reporting chain

10. Which of the following is not an indicator of a good HR department structure observed during audit?
- Cooperation between staff
 - Regular HR staff parties
 - Communication among staff across functions
 - Clear definition of roles and functions
 - Ease of process implementation
-

12.8 Summary

- Human resources are considered as strategic assets which enable creation of world class and competitive organizations. Human Resources (HR) audit is a formal method that reviews the functioning of the HR department of an organization.
- Competency is the ability of an individual to perform given tasks properly. It is a combination of skills, knowledge, and behavior.
- The HR competency categories that are normally assessed in audit are communication, strategic thinking, global awareness, leadership, and change management, and functional excellence.
- The methods of assessing these competencies are observation, structured interviews, assessment centers, 360-degree feedback, Delphi technique, Devil's advocacy, simulation, and questionnaire.
- Human Resource strategy is the long-term plan for management of the organization's HR to align with the business plan and achieve the organization's mission and goals. The focus of HR strategies is to create sustained competitive advantage by management of HR through acquisition, development and alignment of skills/knowledge with the business goals.
- The strategies that are commonly audited are communication, commitment/engagement, building culture, talent management, and cost reduction and efficiency. The methods of auditing strategies are interviews, questionnaire, and perusal of documents/records.
- A system is a set of principles or procedures, according to which things operate together or something is done as an organized scheme or method.
- The HR systems that are normally audited are career system, work systems, development system, self-renewal systems, and culture systems.
- An organizational structure is a formal hierarchy of the employees and functions for streamlining operations and processes aimed at achieving organizational goals. The organization structure of HR department would, thus, depend on its objectives and functions.

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- HR department structure must be flexible to adapt to changing environmental pressures. Salient features of HR structure are span of control, authority and power systems, and accountability.
- The main indicators of a good HR structure are cooperation among employees, smooth functioning without any role or functional conflicts, communication and passage of instructions/ information horizontally and vertically in the hierarchy, clear definition of roles and responsibilities, ease of process implementation, clarity in relationship among employees, and flexibility.

12.9 Glossary

Competency: The ability to perform the task successfully or competently.

Corporate Strategy: It encompasses a firm's corporate actions with the aim to achieve company objectives while achieving a competitive advantage.

Evaluation: The making of a judgement about the amount, number, or value of something.

Globalization: The process of opening and conducting business in countries other than the parent country.

Human Resources (HR) Audit: It is a formal method to review the functioning of the HR department of an organization.

Human Resource Strategy: It is the long-term plan for management of the organization's HR to align with the business plan and achieve the organization's mission and goals.

Organization Structure: An organizational structure is a formal hierarchy of the employees and functions for streamlining operations and processes, aimed at achieving organizational goals. The organization structure of HR departments would, thus, depend on its objectives and functions.

Succession Planning: Succession planning is a process by which individuals are scanned to pass on the leadership role within a company. The process ensures that business continues to operate efficiently without the presence of people who were holding key positions as they may have retired, resigned, etc.

System: A system is a set of principles or procedures according to which things operate together or something is done as an organized scheme or method.

Talent: It is the natural attitude of an individual.

Transparency: Operating in such a way that it is easy for others to see what actions are performed.

12.10 Self-Assessment Test

1. Define HR Audit. Which are the competencies that are normally audited as part of HR Audit?
2. Describe three methods used for HR Audit of Competencies.
3. Define HR strategy. Describe three HR strategies which are important.
4. What are HR Systems? Identify them and describe three such HR systems.
5. Define organization structure. What are the salient aspects of HR department structure?
6. Explain the indicators of a good and poor HR structure.

12.11 Suggested Readings/Reference Material

1. Debasish Biswas (2021). Human Resource Planning and Utilization, Crescent Publishing Corporation, First Edition.
2. Nishant Uppal (2020). Human Resource Analytics: Strategic Decision Making, Pearson Paperback, First Edition.
3. Pravin Durai (2020). Human Resource Management, Pearson, Third Edition.
4. Sekhri, A. (2016). Human Resource Planning and Audit. Himalaya Publishing House, First Edition.
5. T.V. Rao (2014). HRD Audit: Evaluating the Human Resource Function for Business Improvement, Second Edition, Sage Publications.
6. Swati Dhir, Suparna Pal (2021). Human Resource Analytics: Theory and Application Techniques, Cengage India, First Edition.

12.12 Answers to Check Your Progress Questions

1. (a) **The ability of an individual to perform given tasks properly**
Competency is the ability of an individual to perform given tasks properly. It is a combination of skills, knowledge and behavior.
2. (e) **Interview the HR manager on competencies of employees**
Interview the HR manager on competencies of employees is not an objective of HR audit competencies. The rest of all options are the objectives.
3. (c) **Friendship**
Friendship is not a competency for audit. The competencies which are normally part of an audit are: Communication, strategic thinking, leadership and change management, and functional excellence.

Block 3: Human Resource Auditing

4. (b) 360 degree feedback and Delphi technique

Besides observation, structured interview, and assessment centers, the other methods of auditing competencies are 360-degree feedback and Delphi technique.

5. (d) Employee's attendance and dress

'Employee's attendance and dress' is not an aspect that indicates an employee's commitment/engagement. Aspects that indicate commitment/engagement are: Trust in the management, respect and trust bestowed on the employee, challenging and stimulating work, and development opportunities.

6. (b) Career planning and succession planning

The systems forming part of career planning are: Recruitment, manpower planning, career planning, and succession planning.

7. (e) Openness, Collaboration, Trust, Authenticity, Proactivity, Autonomy, Confrontation and Experimentation

OCTAPACE in relation to culture stands for: Openness, collaboration, trust, authenticity, proactivity, autonomy, confrontation and experimentation.

8. (c) Interviews, Audit of Documents/Secondary data and Questionnaire

Interviews, check of documents/ secondary data, and questionnaire are the methods of auditing strategies.

9. (b) Span of control, Authority and Power, Accountability

The salient aspects evaluated about the structure of the HR department are: Span of control, authority and power, and accountability.

10. (b) Regular HR staff parties

'Regular HR staff parties' is not one of the indicators of a good HR structure. The main indicators are: Cooperation among employees, smooth functioning without any role or functional conflicts, communication and passage/instructions of information horizontally and vertically in the hierarchy, clear definition of roles and responsibilities, ease of process implementation, clarity in relationship among employees and line of control/responsibility, and flexibility.

Unit 13

Audit of HR Functions

Structure

- 13.1 Introduction
- 13.2 Objectives
- 13.3 Audit of Manpower Planning
- 13.4 Audit of Compensation
- 13.5 Audit of Training and Development
- 13.6 Audit of Performance Management – Performance Evaluation Report
- 13.7 Audit of Employee Relations
- 13.8 Summary
- 13.9 Glossary
- 13.10 Self-Assessment Test
- 13.11 Suggested Readings/Reference Materials
- 13.12 Answers to Check Your Progress Questions

“Audit findings are easy to come up with, successful change from a finding is true internal audit value.”

- Michael Piazza

13.1 Introduction

As has been propounded by Michael Piazza, the audit of manpower planning is a critical assessment of the existing manpower in an organization. This also helps in identifying the future requirements. In the previous unit, we discussed some specific areas of HR Audit. The coverage included audit of competency components followed by aspects covering the audit of HR strategies. Thereafter, audit aspects of HR systems were discussed. Lastly, we discussed the audit aspects of HR structure.

This unit takes the coverage of audit of HR functions. Audit of important HR functions would be covered starting with manpower planning. This would be followed by covering the important aspects of the audit of compensation which would also include rewards and benefits. Audit of training and development function would follow. Thereafter, the audit of the performance management system. This would include the objectives and the important aspects of the process of performance management. Lastly, the audit of employee relations would be discussed.

13.2 Objectives

After going through this unit, you will be able to:

- Illustrate the details of the HR Audit of Manpower Planning
- Describe the method of HR Audit of Compensation
- Outline the process of Auditing Training and Development
- Define Performance Management and describe the process of Auditing
- Explain Employee Relations and the methods of auditing the function

13.3 Audit of Manpower Planning

The audit of manpower planning is a critical assessment of the existing manpower in an organization. This also helps in identifying the future requirements. The process and the objectives along with the methodology and tools required for auditing are discussed in this section.

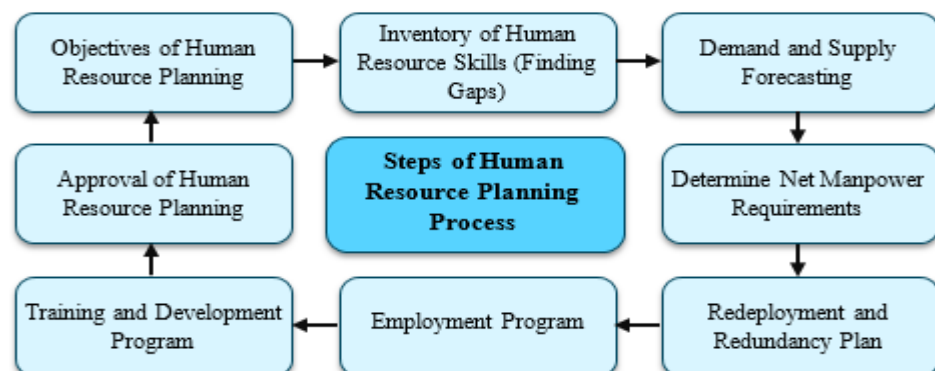
13.3.1 What is Manpower Planning?

Manpower (HR) planning aims at predicting the labour requirements of the organization in the future to meet the organizational goals and addressing the gaps, if any. It estimates manpower needs for the future keeping in mind long-term goals of the organization and compares it with currently available manpower. If there is manpower surplus, arrangements are made to absorb them internally in other roles. In case of deficiencies, further recruitment is planned taking into consideration various internal and external supply sources of manpower. The broad steps on manpower planning are as follows:

- Setting the strategic direction
- Conducting workforce analysis: Supply Analysis, Demand Analysis, Gap Analysis, Strategy Development
- Formulating Manpower Plan
- Implementing Workforce Plan
- Monitoring, Evaluating and Revising

Figure 13.1 depicts the Manpower Planning Process.

Figure 13.1: Manpower Planning Process



Source: ICAI Research Center

13.3.2 Objectives of Audit of Manpower Planning

Manpower planning is considered as the quantitative and qualitative measurement of work force required in an organisation. It also involves planning for the future manpower requirements. To achieve this, the objectives of manpower planning are framed in alignment with broad objectives of the organization. Broadly, the audit aims at ascertaining whether:

- The roles and responsibilities relating to manpower planning are clearly delineated.
- There are appropriate structures established to undertake the task of manpower planning.
- Processes that exist will ensure the required data is available for decision-making regarding manpower planning.
- HR planning information is available for decision-making by management.
- Processes and tools are available to support planning.
- Past plans have produced the desired results.

13.3.3 Methodology of Audit of HR Functions

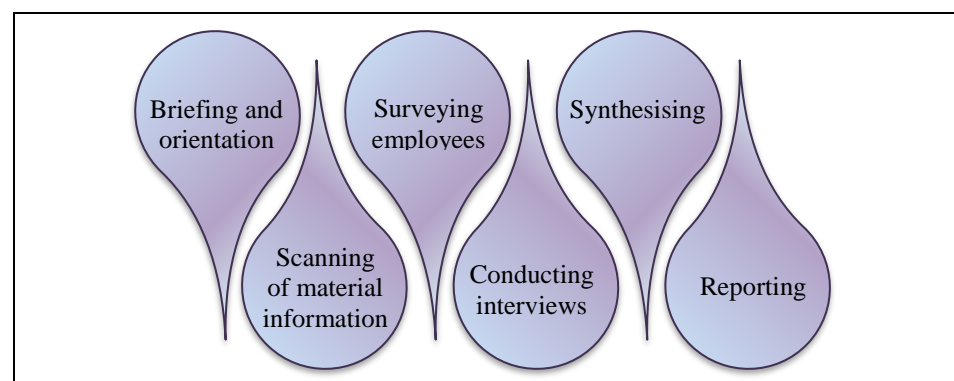
Methodology of audit is driven by four key principles advocated by the leading Consultant and Teacher David Ulrich. They are:

- Friendly systems and procedures are available for line management to perform people management role.
- Line management is working on the relationship between labour and management.
- Each business unit has an overall people management strategy.
- HR systems and procedures are run at optimal cost.

13.3.4 Manpower Planning Audit Process

Briefing and orientation, scanning of material information, surveying employees, conducting interviews, synthesizing, and reporting form the process of audit (Refer Figure 13.2).

Figure 13.2: Audit Process



Source: ICFAI Research Center

Block 3: Human Resource Auditing

The specific areas assessed would be:

- *Setting the Direction and Environmental Scanning:* Plans have considered market trends, technological developments, policies, business challenges, government policies, work-practices, turnover status, analysis of past trends, and their impact.
- *Demand Analysis:* Analysis of business plans, manpower demand based on business plans, analysis of competencies required in the future.
- *Current Manpower and Competencies:* Data on current manpower profile, data on employee skills, qualifications and experience, data on turnover/retirement, competency profiles of manpower.
- *Identify Gaps:* Gap between future requirement and current availability of manpower, current competencies and future requirements gaps, shortages/surpluses of manpower and competencies.
- *Supply Analysis:* Internal: Internal adjustment/transfers of manpower, extent of training possible for development of required competencies, development plans, retention and motivational strategies. External: State of labour market, industry related labour issues, sourcing of talent with required competencies vs availability.
- *Manpower plan:* In depth plan to meet manpower requirement, planning optimum utilization of HR, involvement of line departments in planning.
- *Monitoring and Evaluation Process:* Check the process followed to monitor the execution of the plan, evaluate progress, and revise in case of change of conditions.

Example: intelliHR - Human Resource Information System

intelliHR is a people management platform having in-built people analytics. The analytics features allow organizations to gain a first-hand view of their people's engagement and well-being through a wide range of easy-to-use interactive dashboards capturing insights across training investments, team sentiment, attrition, performance and employee satisfaction. This serves as an instance of Human Resource Information System that provides data for manpower planning audit.

For details, check out <https://intellihr.com/> (accessed on 24/6/2022)

Check Your Progress - 1

1. Which of the following is NOT a step in manpower planning?
 - a. Setting strategic direction
 - b. Workforce analysis
 - c. Performance appraisal
 - d. Supply, Demand, and Gap analysis
 - e. Prepare manpower plan

2. Interview of the HR manager is one of the methods for audit of manpower planning. Which are the other methods/ techniques?
 - a. Check of documentation / records, Interview of the CEO, speak to employees
 - b. Documentation / record check, questionnaire, interview of line managers
 - c. Questionnaire, interview of employees, observation
 - d. Questionnaire, interview of CEO, manuals check
 - e. Interview of line managers, employees, and questionnaire
-

13.3.5 Auditing Methods/Instruments for Audit of HR Systems

System, methodology, procedures, monitoring, feedback & corrective actions are audited through:

- **Interviews:** Interviews are one of the primary means of obtaining the required data/ info for audit of manpower planning function. Interviews and interaction would be planned with the HR manager, HR department staff, Line managers, and randomly identified employees. The aim is to obtain information and views from:
 - **Interview of HR manager:**
 - Involvement in formulating business plans/strategy, HR inputs from plans, conversion into manpower and competencies needed for goals achievement.
 - Methodology used for manpower planning, Sources of data and its authenticity and currency, Information on current manpower status from HR Information System or manual process, assessment of competencies and their validity, turnover and retention/separation strategies, benchmarking of compensation with industry standards, Involvement of line managers in planning.
 - Correlation of earlier plans with the results/corrective actions or changes in methodology.
 - **Interview of line managers:** Involvement in manpower planning, competency assessments of roles, correlation of manpower with roles/ skills to meet future goals.
 - **Documents/Secondary Data:** Reports/Analysis of working environment, work practices, labour market and laws, analysis of turnover and reasons for the same, analysis of manpower requirements based on business plans, Reports of departments, Retirement plans, Details of employees/competencies.
 - **Questionnaire Data:** Compilation of data from responses to questionnaires on manpower planning and inputs from employees, line managers and other stakeholders.

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Audit of manpower planning covers all aspects of how the function is undertaken, the adequacy and appropriateness of the processes and the overall efficacy of the manpower plans in meeting the organizational goals.

13.4 Audit of Compensation

Audit of compensation is yet another important dimension in HR audit. HR Audits are undertaken to ensure that the compensation structure of all categories of the employees are fair and comparable with market trends. Auditors check whether the payrolls used for rating purposes are accurate and in alignment with legal requirements. Purpose of audit of compensation, the types of rewards and benefits awarded to employees, and its components are discussed.

13.4.1 Compensation

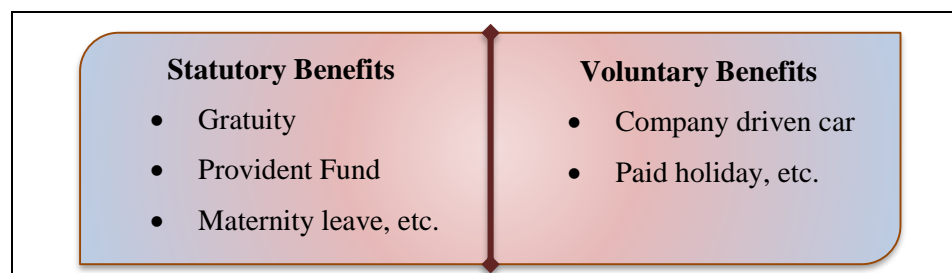
Compensation is viewed as a means of providing monetary value in exchange for the work performed by the employees. It is an essential aspect that contributes to employee satisfaction, engagement, and motivation, and forms a basis for recruitment. Compensation serves a variety of purposes for an organization which may include:

- Recruiting talent
- Improving morale and satisfaction of employees
- Rewarding good performance
- Achieving external equivalence of benefits
- Reducing turnover and encouraging loyalty

13.4.2 Rewards/Benefits

Employees receive monetary benefits (Refer Figure 13.3) besides salary which may include bonuses, profit sharing, overtime pay, etc. Such benefits may be categorized as statutory or voluntary. Statutory benefits are those which are mandated by law and whose denial could be challenged in the court of law such as gratuity, provident fund, maternity leave, etc. Voluntary benefits are not enforceable by law and are given at the discretion of the management such as company driven car, paid holiday, etc. Their purposes are to attract talent, retention of talent, motivating good workers and keeping employees happy. Many voluntary benefits may be non-monetary.

Figure 13.3: Monetary Benefits

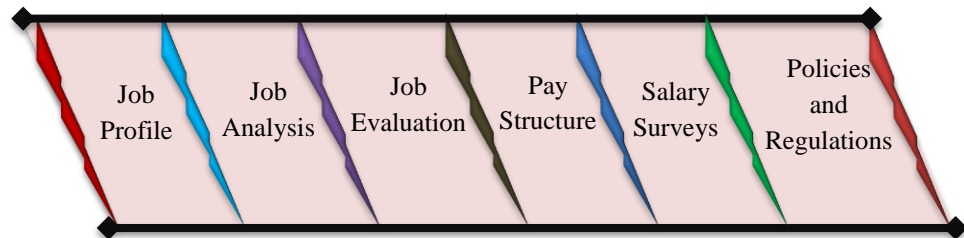


Source: ICFAI Research Center

13.4.3 Components of a Compensation System

Compensation would be considered as fair, if the process of defining it is systematic and formalized. The normal components of a compensation system are as given below (Refer Figure 13.4).

Figure 13.4: Components of Compensation System



Source: ICFAI Research Center

- *Job Profile:* This defines the responsibilities, requirements, functions, duties, location, and working conditions of the job. These profiles may be individual or as a job family.
- *Job Analysis:* It is the process of analysing jobs to develop job descriptions using techniques such as interview, questionnaire and observation.
- *Job Evaluation:* It is a method of comparing jobs for deciding compensation levels for specific jobs or components of jobs. The techniques used are ranking, classification, factor comparison, and point method.
- *Pay Structure:* Pay structures are used for standardizing compensation and include several grades with each grade having a starting salary and step increments up to the highest level.
- *Salary Surveys:* Surveys are used to compile data on market, salary levels, inflation, etc. These surveys may be conducted by specialized agencies and companies may purchase such reports.
- *Policies and regulations:* Organizations have their standardized processes and procedures, responsibilities etc. for compensation which are formalized as documents or policies.

13.4.4 Audit of Compensation

The primary aspects audited as far as compensation is concerned are:

- Is employee classification appropriate?
- Are labour laws complied with - such as minimum wages, overtime payment etc.?
- Compliance with other regulations such as provident fund, ESI, payment of wages/bonus acts.
- Is compensation competitive?

Block 3: Human Resource Auditing

- Internal equity.
- Linkage of performance with compensation.
- Sufficiency of benefits to attract talent.
- Are benefits in accordance with regulations?

Table 13.1 provides details of points which may form part of audit of compensation for manufacturing sector.

Table 13.1: Audit of Compensation and Benefits: Points to be Covered

1. <i>Record Making – Record-keeping</i>	<ul style="list-style-type: none">• Time records; Payroll records; Collective bargaining agreements, contracts; Training wage; Notice posting
2. <i>Minimum Wage</i>	<ul style="list-style-type: none">• State of local law; Training wage requirements; Deductions; Reporting, call-in, on-call; Training
3. <i>Overtime work</i>	<ul style="list-style-type: none">• Record of hours worked; Salaried employees; Exempt employees; State or local law; Time not worked; Scheduling, notice; Required overtime; Incentive pay; “Comp” time
4. <i>Equal Pay/Non-Discrimination Issues</i>	<ul style="list-style-type: none">• Segregated job categories; Pay differentials for women, minorities; Documentation for basis for differentials
5. <i>Required Deductions/Withholding</i>	<ul style="list-style-type: none">• Federal, state and local income tax withholding and forms; Unemployment taxes; Independent contractors; Leased/temporary employees
6. <i>Other Deductions</i>	<ul style="list-style-type: none">• State or local law; Policies authorizing deductions; Authorization forms
7. <i>Employee Appraisals</i>	<ul style="list-style-type: none">• Defined criteria; Consistency; Documentation; Minimize subjectivity; Record retention requirements
8. <i>Vacations, Holidays, Personal Leave, Sick Leave, Other Leaves</i>	<ul style="list-style-type: none">• Accurate and complete description; Qualification; Accumulation/vesting; Scheduling/work on holiday; Conditions; Forfeiture of pay; Carry-over; Level of compensation; Mandated leave
9. <i>Leaves of Absence/Disability</i>	<ul style="list-style-type: none">• Clear description; Non-Discrimination; Interaction with paid leave, worker’s compensation; Treatment of benefits; Veteran’s Reservists Rights

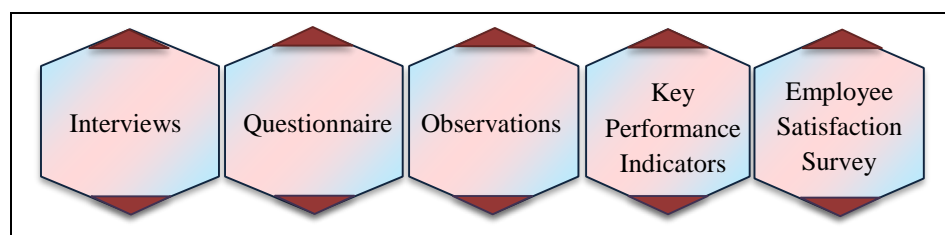
Contd....

10. Insurance Benefits	<ul style="list-style-type: none"> • Clear description; Consistency of all descriptions; Qualification; Flexibility to alter or eliminate program; Compliance with state and local law; Competent administration; Minimization of employer liability; Employee obligations; Coordination of benefits; Clear definition of when benefits terminate; Multi-employer plan
11. Pension Benefits & Deferred Compensation	<ul style="list-style-type: none"> • Qualified vs. Non-Qualified; Tax consequences; Multi-employer plans; Area for expert consultation only

13.4.5 Tools/Methods of Auditing Compensation

Human resources staff conduct periodic departmental audits to ensure that organizations comply with their rules and regulations and also adapt human resources best practices. Following are the important methods adapted for auditing employee compensation (Figure 13.5).

Figure 13.5: Important Methods for Auditing Employee Compensation



Source: ICFAI Research Center

- **Interviews:** Interview is a direct method of obtaining information and data on compensation. Such interviews provide feedback on issues concerning compensation and benefits. They also reveal level of satisfaction, the manner of administration and equity, fairness, and competitive nature of compensation. Interviews may be planned with HR manager/staff to elicit information on processes and determination of wages/benefits, line managers on satisfaction levels of workers, and the employees themselves to directly obtain their views/feedback.
- **Questionnaire:** Questionnaire may also be used to elicit feedback on the fixation of compensation, its disbursement, and other aspects.
- **Observations:** Levels of engagement and other aspects of employee satisfaction may also be revealed through observation of the functioning of employees.
- **Key Performance Indicators:** Audit can use Key Performance Indicators such as productivity, etc. to assess adequacy of compensation and other benefits since these should be linked to performance.

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- *Employee Satisfaction Survey:* An employee satisfaction survey helps the audit discover how employees feel about compensation offered and other related aspects. A satisfaction survey also includes a ranking system so that the intensity of the feelings on specific concerns become evident through analysis of the ranking.

Compensation is an important function of the HR department since it affects the satisfaction, morale and working of employees. The main aspects of compensation checked in audit are its appropriateness when compared to the market and job content, internal equity, fairness and the linkages with performance.

Example: How to Identify and Fix Pay Inequality at Your Company

The best way for company leaders and boards to ensure their organization is paying employees fairly is to start with a pay equity audit (PEA). In simple terms, a PEA involves comparing the pay of employees doing “like for like” work in an organization (accounting for reasonable differentials, such as work experience, credentials, and job performance), and investigating the causes of any pay differences that cannot be justified. Organizations such as Google, Adobe and Intel are celebrating the reason to achieve gender pay equity for its global workforce of 100,000+ employees and added stock-based compensation to their ongoing pay equity analysis.

Source: <https://hbr.org/2020/11/how-to-identify-and-fix-pay-inequality-at-your-company>
(Accessed on 3.7.2022)

Activity 13.1

You are part of an audit team for audit of the manpower planning function of the HR department of LV Infrastructure Ltd. You are asked by the audit team leader to make a check-list of the aspects you will be checking for this function. What would you include in the list?

Answer:

Check Your Progress - 2

3. Which of the following is not an objective of compensation?
 - a. Recruit talent
 - b. Improve employee morale
 - c. Reward good performance
 - d. Please shareholders
 - e. Reduce turnover

4. Which of the following is not an aspect of compensation checked in HR audit?
 - a. Is employee classification appropriate?
 - b. Are Labour laws complied with such as minimum wages, overtime payment etc.?
 - c. Compliance with other regulations such as Provident Fund, ESI, Payment of wages/bonus Acts.
 - d. Is compensation competitive?
 - e. Are all employees paid equal compensation?
 5. Which of the following are components of a compensation system?
 - a. Job profile, salary survey, inflation
 - b. Qualification/experience, job profile, job evaluation
 - c. Job evaluation, pay structure, profits
 - d. Pay structure, brand, profit
 - e. Salary surveys, job profile, experience
-

13.5 Audit of Training and Development

Audit of training and development aims to know the effectiveness of the training and development programmes in the organization. Organizations are able to make sure that the goals of the training programs meet the business goals of the organization. The key areas, components, process and objectives of audit of training and development are discussed in this section.

13.5.1 What is Training and Development?

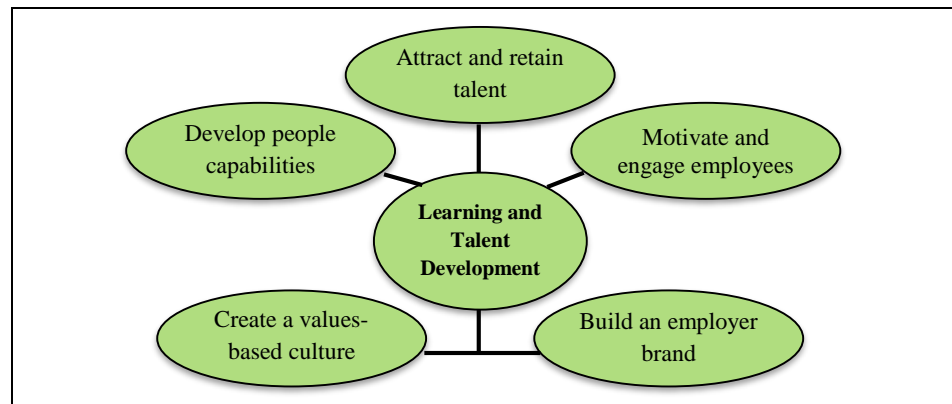
Business environment and business needs keep changing as customer preferences undergo changes and new technologies emerge. In such a fast-changing business world, there is ever existing need for the HR to be adequately equipped to cope with these changes and continue to satisfy customer demands. This is achieved through training and development measures instituted by organizations. Besides this, there is an essential requirement for new hires to be trained in their specific roles and also familiarize them with the company environment, policies and functioning. Broadly, training and development involves:

- Induction training
- Ongoing training
- Job enrichment
- Self-learning mechanisms
- Counselling and mentorship

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The key areas of training and development are depicted in Figure 13.6.

Figure 13.6: Five Key Areas of Training & Development



Source: ICFAI Research Center

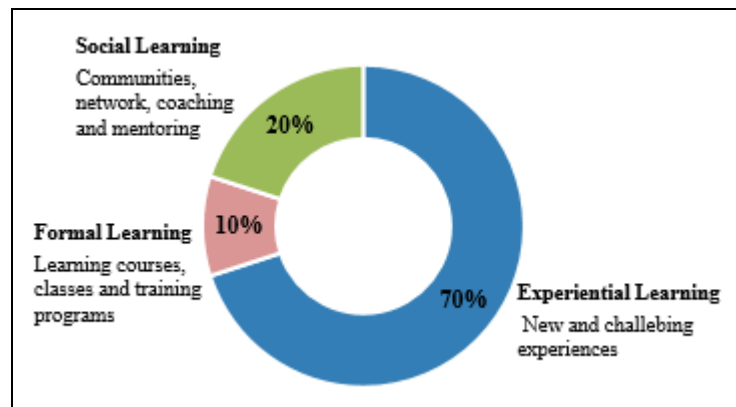
13.5.2 Components of Training & Development

The process and components of training and development are as discussed below:

- **Learning Goals:** The starting point of any training and development initiative is to clarify the goals, which are linked to the organization's business strategy. There is a need to identify the business outcomes, which are expected from the training and development programs. This will help in evaluating, whether the initiatives measure up to the objectives.
- **Needs Analysis:** This is the process of understanding, which aspects need improvement, in terms of knowledge, skills, and behaviour. The usual steps in this are:
 - Data on existing performance or behaviours that are to be improved/changed
 - Identify the gaps
 - Analyse the causes for the gaps
 - Implement solutions to address the gaps
- **Training Content and Support Tools:** The process, of addressing the identified needs, is through development of the desired content and support tools. Tools and content exist today in many forms. Some important points in this respect are:
 - Content is preferably user-generated.
 - Content is provided through mobile and cloud
 - Self-development or learning is preferred
 - Video content is more effective than pure text.
 - Gamification
 - Classroom training minimized
 - Minimal absence from workstation, i.e. training adjusted to avoid disruption of normal work.

- **Design:** The design of training is the next issue. Today, learning is becoming more collaborative, networked, social, and video-based. Learning and development are focusing on innovative designs and approaches such as the 70:20:10 model. This model is depicted in Figure 13.7.

Figure 13.7: The 70:20:10 Model of Learning & Development



Source: ICFAI Research Center

- **Delivery:** High-performance learning is about empowering employees to help them learn better. The aim is to create opportunities for employees to learn on their own through sharing knowledge, setting up communities and networking face to face and virtual collaboration.

13.5.3 Objectives of Audit of Training and Development

The Audit of Training and Development (T&D) function is aimed at answering the following questions:

- Does T&D process meet current business needs and help achieve the company's goals?
- Are the T&D performance improvement goals clear and measurable?
- How is T&D managed and run?
- Do line managers take training seriously?
- What is the process of sponsoring employees for training?
- Are the mechanisms oriented to self-development?
- Do new hires get training?
- Is training oriented towards skill development?
- What is the employee response to the T&D process?
- Is the T&D process cost-effective?
- What is the response of the T&D programs to changing business needs?

13.5.4 Evaluation Parameters for Audit of Training and Development

T&D (Training and Development) is a formal system of learning which enhances employee's knowledge, skill and attitude towards job and thus improves the

Block 3: Human Resource Auditing

productivity of employees. These are planned interventions based on a systematic assessment of the needs and ensuring that the T&D produces the required improvement which enables achievement of the company's goals and objectives. The aspects which would be normally evaluated by the Audit team would be:

- Identification of Training Needs: Systematic process, mechanism to assess needs formally, needs based on current performance and how current performance is assessed.
- Appropriateness of the training program: Suitability of program in terms of individual/organization, process of development of content, internal/external content development, involvement of employees and line managers.
- Training process, Planning of training, Motivation of training, E-learning process, Self-development facilitation.
- Post-training Activities and Requirements: Implementation of training plan, process of sharing, learning with others, collaboration, feedback process from learners and for trainer, feedback on quality of program.
- Learning Culture and Training Budget: Policies and documentation, policy awareness among line managers/employees, involvement of top management.
- Competencies of those handling Training Functions: Competency of training staff, mix of internal/external trainers and their qualifications/experience, measuring impact of training and development,
- Business Linkages of Training: Training alignment with business goals, cost control, budgets, perception of trainees and line managers on efficacy of training.

13.5.5 Methods and Techniques of Auditing

The methods and tools adapted for auditing training and development are discussed here (Refer Figure 13.8):

Figure 13.8: Methods and Techniques of Auditing



Source: ICFAI Research Center

- **Interviews:** Interviewing HR managers/staff, line managers and through analysis of secondary data, information is obtained.
- **HR Manager/Staff:** To obtain information on mechanism, to identify need for training, policy/process followed for selecting training programs/content, process of selecting external trainers/training institutes, preparation of training calendar, feedback from participants, training budget.
- **Line Managers:** Linking training to identified needs, involvement in deciding content, assessing quality of training.
- **Documents/Secondary Data:** Review of training needs, training calendar, content documentation, policy documents. Assess the process of measuring the effectiveness of training, adequacy of the method, and data recorded by the training department.
- **Survey of Perceptions:** Survey of participants in programs to understand their perceptions and the impact on development and work quality. The analysis of this data would reveal the effectiveness of training and development.

Training and Development are the tools to keep the workforce updated on the market trends and changing customer demands. Training and development are based on clear goals and the needs that arise from gaps observed between current capabilities and those needed to improve productivity and outcomes. Audit of this function involves ascertaining that the process of deriving the training needs is formalized and the content is developed, keeping in mind the end goals, based on the perception of the line managers. The content and methods of delivery must be in keeping with the requirement of the participants.

Example: Good Manufacturing Practice (GMP) – Auditing Personnel & Training System

Within the pharmaceutical industry it is agreed the number of people working at a site needs to be sufficient to ensure that the drug product manufactured, processed, packaged, or held is compliant with all necessary GMP and regulatory requirements. Personnel must be qualified and have the right attitude, training, and supervision to produce good quality. A suggested audit strategy is to:

- 1) Select employees with differing times of service and different job functions.
- 2) Review their training records for completion of all training requirements.
- 3) Observe them while they perform their duties.
- 4) Ensure that personnel are following procedures.

Source: <https://www.gmpsop.com/sample/Audit-003-Auditing-a-Personnel-Training-System-sample.pdf> (Accessed on 3.7.2022)

13.6 Audit of Performance Management – Performance Evaluation Report

The objective of Audit of the performance management and performance evaluation is to assess the overall performance management system in the organization. The audit report is intended to provide valuable information about the objectives, approaches and, methods and techniques of performance management and evaluation systems.

13.6.1 What is Performance Management?

It is the process of creating a work environment or setting, in which people are enabled to perform to the best of their abilities. Performance management is a whole work system that begins, when a job is defined as needed. It ends when an employee leaves your organization¹.

13.6.2 Performance Evaluation Report

A report based on the performance evaluation of an employee is a formal procedure, to measure an employee's work and results. The report helps to provide periodic feedback to employees, to make them aware of their performance and areas that may need improvement. The reports are retained for future reference. Organizations create their own format for performance evaluation, in which the individual's performance is documented for analysis, feedback, career planning, and development.

13.6.3 Importance of Performance Management

Performance management generally forms part of the organization's strategic management of HR. It is important, because of the following reasons:

- Performance management impacts the morale and approach of employees, since their compensation, promotion and rewards are normally linked to the appraisal.
- Informs employees about organizational goals and how they contribute to their achievement.
- Enables employees to develop their knowledge, skills and experience.
- Enhances job satisfaction and career opportunities.
- Validates the efficacy of recruitment procedures by assessing the performance of the new hires.
- Identifies gaps in competencies and enables training/development interventions.
- Ensures that organization's performance is achieved and improved upon.

¹ Performance Management, Chartered Institute of Internal Auditors, 2019 (accessed on 02.07.2022).

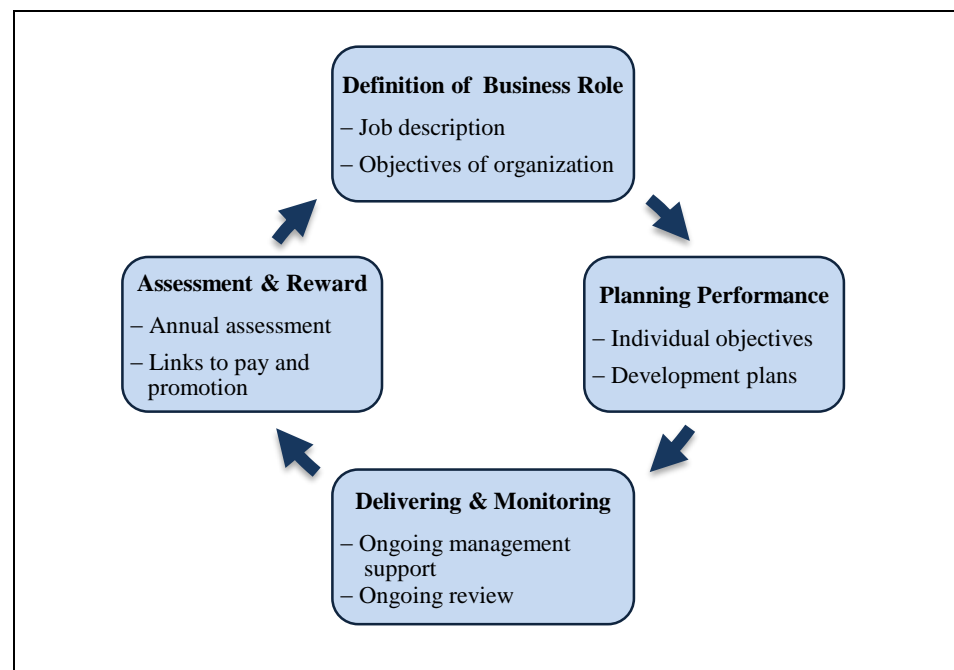
13.6.4 Performance Management System

The process involved in setting up of the performance management system involves the steps given below.

- Definition of and purpose of each job, outcome, and responsibility. Correlation with other jobs to achieve the company's goals.
- Identification of the goals/targets with measurable outcomes.
- Prioritization of tasks, responsibilities, and outcomes.
- Identification of the expected standards for all components of the job.
- Recording of the above and communicating these to the concerned employee.
- A regular dialogue providing feedback to the employee.
- Periodic, preferably quarterly, formal dialogue with employee to assess work outcomes, identification of gaps, if any, and means of addressing these gaps through training/development, coaching, etc. Feedback should be constructive and positive.
- Record of critical incidents to support an appraisal, based on facts and data.
- Feedback should be a 360-degree feedback.
- Provide formal opportunities for development, through coaching, mentoring, and counselling.

The performance management process is depicted in Figure 13.9.

Figure 13.9: Typical Performance Management Process



Source: ICFAI Research Center

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13.6.5 Scope of Audit of Performance Management System

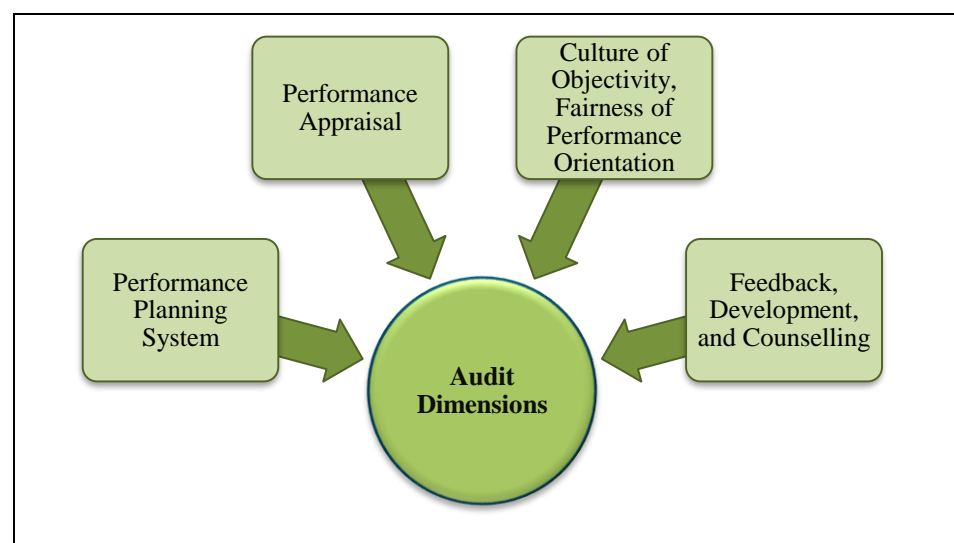
The HR audit of the Performance Management (PM) systems are to check whether:

- Policies and procedures of the PM process are formally documented.
- Policies and procedures are adequate and properly communicated to all managers and employees
- Policies and procedures are applied as designed and consistently across the office.
- Potential areas for improvement are appropriate.
- Performance management process is efficient.
- Objectives are measurable, achievable and challenging (SMART).
- Training & development has been effective.
- Under performance is appropriately managed.
- Performance related pay improves performance.
- The reward system encourages excessive risk-taking, beyond tolerance levels.
- Talent is appropriately managed.

13.6.6 Approach to Audit

It refers to system of monitoring and measuring the performance of the employees in the organization. It includes performance planning, performance coaching, and performance appraisal. The dimensions to be audited are presented in Figure 13.10.

Figure 13.10: Audit Dimensions



Source: ICFAI Research Center

- *Performance Planning System:* Documentation of policies/procedures, training and performance management system/appraisal, periodicity and feedback policies, schedule, clarity on format of appraisal, submission and exceptions, follow up on training and development activities, identifying the KPAs/KPIs, and clarity on accountability and responsibility.
- *Performance Appraisal:* Aligned with business goals, clarity on departmental, team, and individual goals/targets, target setting process, weightage for specific tasks, inclusion of behavioural aspects, setting standards, training on performance appraisal, providing opportunities for review/quarterly assessment.
- *Culture of Objectivity, Fairness of Performance Orientation:* Analysis of appraisals, discussions among appraiser and appraisee, follow up on appraisal for training & development, identification of factors hindering performance, policies on resolution of conflicts/differences, and an empathetic environment.
- *Feedback, Development, and Counselling:* System and procedures of feedback, documentation and follow up of performance feedback, seriousness of line managers, counselling and procedures for coaching/mentoring.

13.6.7 Methods/Techniques of Auditing

Methods and techniques of auditing performance management are discussed here. Interviews with HR Manager/HR Staff/Line Managers/Employees are intended to elicit details of:

- *Process/Policies:* Performance management documentation, policies, process of role setting, identification of KPAs/KPIs.
- *Goals/Target Setting:* Involvement of employees in setting goals/targets, communication of targets, revision/recalibration.
- *Communication/Transparency:* Procedure/process formalization, communication of policies/procedure.
- *Feedback:* Method of feedback, frequency, guidance, and training of appraisers.
- *Analysis of Performance Appraisal:* Determining gaps in competencies, process of addressing gaps, training and development activities following appraisal.
- *Linkages:* With compensation and rewards, promotion, succession planning.
- *Employee Satisfaction:* Conflict resolution policy, resolving differences, grievance redressal process.

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- *Documents/Secondary Data:* Policies/manuals of performance management and appraisal, Goal setting and target documentation, Layout of the Performance Appraisal Form: Adequacy, ease of understanding, coverage of all aspects: data analysis, record of feedback, follow up actions, and involvement of staff of Accounts/Training, etc.
- *Survey/Questionnaire:* To employees on performance management, covering points indicated above.

Performance management is a means of evaluating employee performance and associated activities that enable employees to possess the competencies necessary for achieving organization's goals. The audit consists of ascertaining formalization of the process, communication of the procedures, adequacy of the appraisal format, feedback process, and the manner in which conflicts/differences are resolved.

Example: Deloitte Joins Adobe and Accenture in Dumping Performance Reviews

Deloitte, the largest professional services network in the world, has recently decided to revamp its performance review cycle for a process with a special focus on fueling performance in the future rather than evaluating the past.

By recognizing, seeing and fuelling performance, employees at Deloitte hope that they will be able to support their annual compensation, quarterly performance reviews and frequent feedback processes. By using a purpose-built platform like Impraise, users are enabled to provide in-depth feedback on immediate performance, as well as more structured feedback moments – all in one place. This empowers everyone across the organization to share and receive feedback, but it also allows HR to maintain full visibility.

Source: <https://www.impraise.com/blog/deloitte-joins-adobe-and-accenture-in-dumping-performance-reviews> (Accessed on 3.7.2022)

Check Your Progress - 3

6. Which of the following, are the components of training & development?
 - a. Needs analysis, Learning outcomes, Training content
 - b. Instructors, Premises, Use of technology
 - c. Technology, Needs assessment, Delivery
 - d. Delivery, Qualification of trainer, Learning
 - e. Needs, Content, Selection of trainers

7. What does 70:20:10 ratio imply in relation to training?
- 70% contribution of trainer, 20% by participant, 10% by environment
 - 70% classroom, 20% outdoor, 10% at own time
 - 70% experiential learning, 20% social learning, 10% formal learning
 - 70% marks for exams, 20% viva, 10% assignment
 - 70% experiential learning, 20% own time, 10% internet

13.7 Audit of Employee Relations

Audit of employee relations is an effective tool for gathering information with respect to labor and employment relations' issues. This type of audit helps in solving legal aspects also. Here, objectives, issues, process and audit aspects and techniques of employee relations are discussed.

13.7.1 What are Employee Relations?

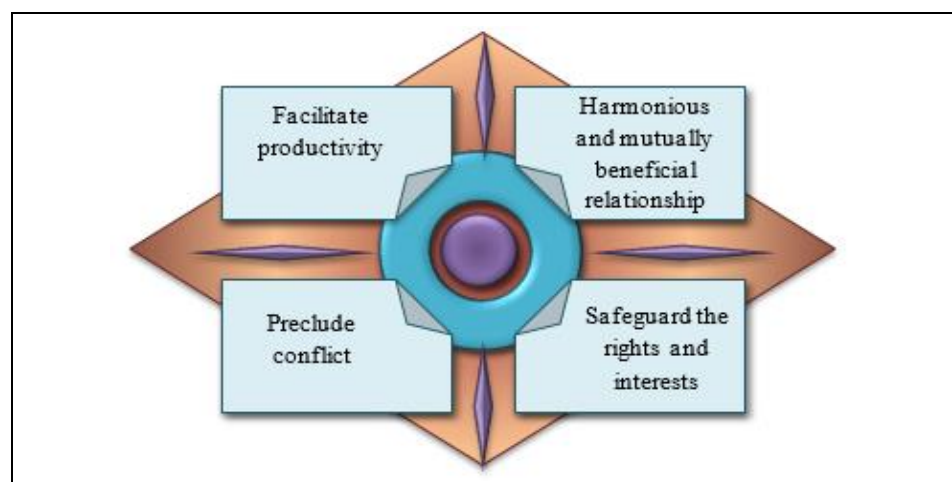
Employee relations are the reciprocal expectations and behaviours between employers and employees. Many of these expectations are formalized in the entity's human resources policy and procedures manuals and employee handbooks.

13.7.2 Objectives of Good Employee Relations

The objectives of employee relations (Figure 13.11) are to:

- Facilitate productivity
- Create a harmonious and mutually beneficial relationship between the employees and the management.
- Safeguard the rights and interests of both the employees and the management.
- Preclude conflict leading to stoppages or other such actions by employees.

Figure 13.11: Objectives of Employee Relations



Source: ICFAI Research Center

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13.7.3 Issues Related to Transfer of Employees

Employee transfer is a horizontal or lateral movement of the individual from one role to another. It may involve a change of job, department, unit or location. The transfer may or may not affect the employee's salary, status or responsibility. A transfer may be temporary or permanent and may be initiated by the organization or at the behest of the employee. Organizations must have a fair and transparent transfer policy which is communicated to the workforce. Transfers impact employee relations and may lead to relocation which may create personal issues and become a source of dissatisfaction. Transfer must be handled with care. Some of the reasons for transfers may be:

- For improvement of organizational effectiveness.
- To overcome changing work requirements.
- For development of talent or job rotation.
- For better employability of an employee
- To adjust workforce.
- For disciplinary purposes or for better employee relations in case of conflict.

13.7.4 Employee Relations Process

The basic phases of an employee relations process are:

- Identify employee relations issues which require policies and procedures.
- Establish and document all employee relations policies and procedures.
- Communicate policies and procedures to employees.
- Designate a staff person to handle employee relations problems.
- Review and update employee relations policies and manuals.

13.7.5 Audit Aspects of Employee Relations

The main aspects which form a part of any audit of the employee relations of a company, are listed below:

- Are policies and guidelines covering all aspects of employee relations documented as manuals?
- Are these policies communicated to all the employees? Are they available for perusal of employees?
- Are there instances of grievances and conflicts? Are they resolved satisfactorily?
- What is the structure and approach to collective bargaining over salaries and conditions of employment?
- Are policies and guidelines covering aspects such as wrongful termination documented and followed?
- Are disciplinary issues handled as per applicable laws and policies?
- Are performance reviews done regularly and records maintained and followed up through training/development?

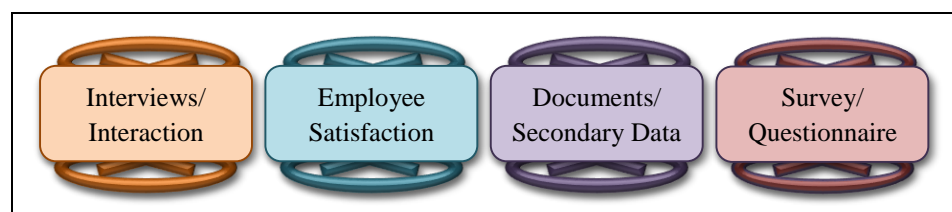
- Is there an 'open door' policy for employee complaints?
- Is sexual harassment policy documented and communicated to all?
- Are employees satisfied with the work environment?
- Are the work conditions or compensation etc. competitive and comparable to the industry standards?

The answers of these questions explain how audit of employee relations is conducted and responses will be included in the audit report.

13.7.6 Methods / Techniques of Auditing Employee Relations

The tools and techniques to conduct audit are given in Figure 13.12.

Figure 13.12: Techniques of Auditing Employee Relations



Source: ICFAI Research Center

- **Interviews/Interaction:** With HR manager/Person in-charge of Employee Relations/Line Managers/Employees. To elicit details about:
 - Process/Policies: Documentation and communication of policies/guidelines.
 - Instances of indiscipline, absenteeism, terminations, etc. and the trend over years.
 - Instances of grievances and the redressal process/time required for resolution.
 - Details of stoppages of work, lock-out, and other such instances.
- **Employee Satisfaction:** Survey of employee satisfaction level to understand engagement level, commitment, and comfort level and problems/ issues faced by employees.
- **Documents/Secondary Data:** Policies/manuals on Employee Relations. Communication of salient aspects to staff and employees.
- **Survey/Questionnaire:** The HR Manager/Line Managers need to answer the questionnaire given below to understand the level of employee relations.

Example: Policy on Prevention of Sexual Harassment of Women (Posh) in Tata Power

The Tata Power Company Limited is an equal employment opportunity company and is committed to creating a healthy working environment that enables employees to work in a harassment free workplace.

Contd....

Block 3: Human Resource Auditing

To prevent instances of sexual harassment, an Internal Complaints Committee (IC) has been appointed which comprises: 1. Presiding Officer: A woman employed at a senior level in the organization or workplace 2. At least 2 members from amongst employees, committed to the cause of women or who have had experience of social work or have legal knowledge 3. One external member from amongst non-governmental organizations or associations committed to the cause of women or a person familiar with the issues relating to sexual harassment, at least one half of the total members nominated being women.

Source: <https://www.tatapower.com/pdf/aboutus/Sexual-harass-policy.pdf> (Accessed on 3.7.2022)

Check Your Progress - 4

8. Which of the following does not form a part of audit of performance management?
 - a. Are the policies and procedures of the PM process formally documented?
 - b. Are policies and procedures adequate and properly communicated to all managers and employees?
 - c. Are policies and procedures applied as designed and consistently across the workforce?
 - d. Are employees playing games/sports?
 - e. Is the performance management process efficient?
 9. Which of the following is not an objective of employee relations?
 - a. Enable management and employees to meet socially.
 - b. Facilitate productivity.
 - c. Create a harmonious and mutually beneficial relationship between the employees and the management.
 - d. Safeguard the rights and interests of both the employees and the management.
 - e. Preclude conflict leading to stoppages or other such actions by employees.
 10. Which of the following are part of aspects audited about employee relations?
 - a. Manuals and policies, communication of policies, labour productivity
 - b. Collective bargaining, individual benefits, discipline
 - c. Cases of indiscipline, strikes, lockouts
 - d. Policies, Union elections, CEO's views
 - e. Compensation, rewards, strikes
-

Activity 13.2

You are part of an internal HR audit team for the audit of the performance management system of Avani Communications Ltd. What are the aspects you would check out to ensure that the performance management system is effective?

Make out a list for the team leader's approval.

Answer:

13.8 Summary

- Manpower planning aims at predicting the labour requirements of the organization in the future to meet the organizational goals and address the gap, if any.
- Audit methodology is driven by four key principles: 1. Friendly systems and procedures are available for line management to perform people management role. 2. Line management is working within the organizational system which guides the relationship between labour and management. 3. Each business unit has an overall people management strategy. 4. Systems and procedures are run at optimal cost.
- Manpower audit tools include interviews with HR manager, Line managers and HR staff, check of documentation/records and questionnaire.
- Compensation may be viewed as a means of providing monetary value, in exchange for the work performed by the employees. It is an essential component of aspects that contribute to employee satisfaction, engagement, and motivation.
- The primary aspects audited regarding compensation include classification, compliance with laws, compulsory contributions, equity, sufficiency, and linkage to performance.
- In a fast-changing business world, there is an ever-existing need for the HR to be adequately equipped to cope with these changes and continue to satisfy customer demands through training and development measures instituted by organizations.
- The Audit of T&D function is aimed at answering questions such as: Does T&D process meet current business needs and achieve the company's goals? Are T&D goals clear and measurable? How is T&D managed? Do line managers take training seriously? Are there mechanisms oriented to self-development? Is the T&D process cost-effective?

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- Performance management is the process of creating a work environment or setting in which people are enabled to perform to the best of their abilities.
- The dimensions of performance management to be audited are performance planning system's documentation of policies/ procedures, training on performance management system/ appraisal, performance appraisal and alignment with business goals, culture of objectivity, fairness of performance orientation and feedback, and development and counselling.
- Employee relations are the reciprocal expectations and behaviours between employers and employees, whether those expectations are formalized by federal and/ or state laws or are implicitly understood.
- The main aspects which form a part of any audit of the employee relations of a company are the following: Do documents/manuals cover all aspects of employee relations? Are these policies communicated to all the employees? Are there instances of grievances and conflicts, structure, and approach to collective bargaining? Are disciplinary issues handled as per applicable laws and policies? Are employees satisfied with the work environment?

13.9 Glossary

Compensation: Compensation may be viewed as a means of providing monetary value, in exchange for the work performed by the employees.

Competency: The ability to perform the task successfully or competently.

Compliance: Compliance is certification that the doer of an action or the manufacturer or supplier of a product meets the requirements of accepted practices, legislations, prescribed rules and regulations, specified standards, or terms of contract.

Employee Relations: Employee relations are the reciprocal expectations and behaviors between employers and employees.

Evaluation: The making of a judgement about the amount, number, or value of something.

Human Resources (HR) Audit: It is a formal method to review the functioning of the HR department of an organization.

Manpower Planning: Manpower (HR) planning aims at predicting the labor requirements of the organization in the future to meet the organizational goals.

Performance Management: Performance management is the process of creating a work environment or setting in which people are enabled to perform to the best of their abilities.

System: A system is a set of principles or procedures according to which things operate together or something is done as an organized scheme or method.

Talent: It is the natural attitude of an individual.

Transparency: Operating in such a way that it is easy for others to see what actions are performed.

13.10 Self-Assessment Test

1. Define HR Audit. Which are the aspects relating to manpower planning forming part of an audit?
2. What is compensation? What are the points regarding compensation normally audited?
3. Why is training and development important? How is this function audited?
4. What is performance management? Why is it important?
5. Which are the aspects of performance management forming part of its audit?
6. What are employee relations? What are the salient aspects of employee relations which should be audited?

13.11 Suggested Readings and Reference Material

1. Debasish Biswas (2021). Human Resource Planning and Utilization, Crescent Publishing Corporation, First Edition.
2. Nishant Uppal (2020). Human Resource Analytics: Strategic Decision Making, Pearson Paperback, First Edition.
3. Pravin Durai (2020). Human Resource Management, Pearson, Third Edition.
4. Sekhri, A. (2016). Human Resource Planning and Audit. Himalaya Publishing House, First Edition.
5. T.V. Rao (2014). HRD Audit: Evaluating the Human Resource Function for Business Improvement, Second Edition, Sage Publications.
6. Swati Dhir, Suparna Pal (2021). Human Resource Analytics: Theory and Application Techniques, Cengage India, First Edition.

13.12 Answers to Check Your Progress Questions

1. (c) Performance appraisal

Performance appraisal is not a step in manpower planning. The main steps in manpower planning are- setting strategic direction, workforce analysis, preparing manpower planning, and monitoring and evaluation of progress.

2. (b) Documentation / Record check, Questionnaire, Interview of Line Managers

The main methods / techniques for auditing manpower planning are Documentation / Record check, Questionnaire, Interviews of HR Manager and Line Managers.

Block 3: Human Resource Auditing

3. (c) To please shareholders

To please shareholders is not an objective of compensation. The objectives of compensation are to recruit talent, improve employee morale, reward good performance, reduce turnover, and enhance loyalty.

4. (e) Are all employees paid equal compensation?

‘Are all employees paid equal compensation?’ is not an aspect checked during audit of compensation. Aspects checked during such an audit are: Is employee classification appropriate? Are Labour laws such as minimum wages, overtime payment etc. complied with? Compliance with other regulations such as Provident Fund, ESI, payment of wages / bonus Acts, and Is compensation competitive?

5. (e) Salary surveys, job profile, job evaluation

Salary surveys, job profile, job evaluation along with pay structure, comparative structure, etc. are the main components of a compensation system.

6. (a) Needs analysis, Learning outcomes, Training content

Needs analysis, learning outcomes, and training content are the components of training and development. The other aspects are training material design and delivery.

7. (c) 70% experiential learning, 20% social learning, 10% formal learning

The 70:20:10 in training denotes that the best learning occurs through: 70% experiential learning, 20% social learning, 10% formal learning.

8. (c) Whether employees play games?

‘Whether employees play games?’ does not form part of aspects checked during audit of performance management system. Some of the aspects of performance management audited: Are the policies and procedures of the process formally documented? Whether policies and procedures are adequate and properly communicated to all managers and employees? Whether policies and procedures are applied as designed and consistently across the organization? and Is the performance management process efficient?

9. (b) To enable management and employees to meet socially

‘To enable management and employees to meet socially’ is not an objective of employee relations. The objectives are: Facilitate

productivity, create a harmonious and mutually beneficial relationship between the employees and the management, Safeguard the rights and interests of both the employees and the management, preclude conflict leading to stoppages or such other actions by employees.

10. (a) Manuals and policies, Communication of policies, Labour productivity

Manuals and policies, Communication of policies and Labour productivity are the aspects forming part of audit of the employee relations function.

Human Resource Planning and Audit

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