



An indepth analysis of human resource policies and practices through human resource audit

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Abstract

Human element is the most important input in any organisation. The success or failure of the organisation depends very much upon the qualities of human resources. In the conventional accounting practice human resources has not been recognised as assets like physical and financial assets. This failure of conventional accounting leads to the development of Human Resources Accounting. It involves the measurement of cost incurred by organization to recruit, select, train and develop human resources. With the Human Resource Management gaining importance, it is widely accepted that the audit of human resources practices should be installed in organizations so as to ensure that HRM policies are in tune with the corporate planning and assess the efficacy of HRM policies. Human Resource Audit is a comprehensive evaluation of the current HRM policies, strategies, systems, structure and skills in the context of the short- and long-term business plan of the organization. It involves evaluation of future HRM needs of the organization after assessing the current HRM policies and activities.

Keywords: Human resource audit, management of human resources, manpower utilization, organizational performance, procedural manual

Introduction

Audit is an important test of managerial control. It involves examination and verification of accounts and records. Human resource audit implies critical examination and evaluation of policies, programmes and procedures in the area of human resource management. It is a periodic review to measure the effectiveness of human resource management and to determine the steps required for more effective use of human resources. Human resource audit involves a formal, systematic and in-depth analysis, investigation and comparison. The primary aim of human resource audit is to determine whether the human resource policies and practices are consistent with organisational objectives. It also reveals how effectively the human resource policies and programmes have been implemented. Human resource audit should not be confused with the measurement of employee morale. Morale surveys are only one part of human resource audit.

Concept of Human Resource Audit

The Human Resource Audit is a comprehensive method or means to review current human resource policies, procedures, documentation and systems to identify needs for improvement and enhancement of the HR function as well as to ensure compliance with ever-changing rules and regulations. We may say that this is an audit which involves systematically reviewing all aspects of human resource, usually in a checklist fashion.

An HR Audit is to recognize strengths and identify any needs for improvement in the human resources function. A properly executed Audit will reveal problem areas and provide recommendations and suggestions for the remedy of these problems. Some of the reasons to conduct such a review include

- Ensuring the effective utilization of the organisation's human resources,
- Reviewing compliance concerns with a myriad of administrative regulations,

- Instilling a sense of confidence in management and the human resources function,
- Maintaining or enhancing the organisation's and the department's reputation in the community,
- Performing due diligence review for shareholders or potential investors/owners,
- Establishing a baseline for future improvement for the function.

Objectives of Human Resource Audit

The main purpose of human resource audit is:

1. to review the system of acquiring, developing, allocating and utilising human resources in the organisation;
2. to evaluate the extent to which line managers have implemented the policies and programmes initiated by top management/human resource department;
3. to identify shortcomings in the management of human resources;
4. to evaluate the human resource staff.

Generally, no one can measure the attitude of human being and also their problems are not confined to the HR department alone. So, it is very much broad in nature. It covers the following HR areas

- Audit of all the HR function;
- Audit of managerial compliance of personnel policies, procedures and legal provisions;
- Audit of corporate strategy regarding HR planning, staffing, IRs, remuneration and other HR activities;
- Audit of HR climate on employee motivation, moral and job satisfaction.

Significance of Human Resource Audit

There is no legal obligation to carry out human resource audit. But enlightened employers voluntarily use it as a tool for evaluation and control of human resource function. Evaluation and critical review of human resource function is

no less important than that of accounting and finance functions. Therefore, human resource audit is used widely to check the organisational performance in the management of human resources. In recent years, the need for human resource audit has increased due to the following reasons:

1. A change has taken place in managerial philosophy. Managements now feel that employee's participation in the activities of the organisation and their identification with it is essential for successful making of the organisation.
2. As an organisation grows, continuous feedback is required to improve the performance of its personnel. Human resource audit provides the required feedback. It is all the more necessary in a diversified and decentralised organisation.
3. Trade unions have become more powerful and, are playing more active role in human resource management. They often question management's competence in industrial relations. Management can meet this challenge through human resource audit.
4. Human resource audit is becoming necessary due to rising labour costs and increasing opportunities for competitive advantage in human resource management.
5. In order to protect employee interest, Central and State Governments intervene more often and more extensively. Human resource audits can be helpful in avoiding such intervention.
6. Growing proportion of technical, professional and women employees creates more difficult problems in human resource management. Human resource audit is required to tackle these problems.

Scope of Human Resource Audit

The scope of human resource audit is very wide. It covers the management of people at all levels. It is not limited to a review of the performance of human resource department. Human resource audit can be conducted to evaluate the policies, procedures and programmes of human resource management. It can also be directed at the results (both achievements and failures) in the area of human resources.

Auditing Human Resource Policies

Human resource policies are broad statements of what should be done in the area of human resource management. The policy audit attempts to judge the coverage of human resource policies. It analyses the process of policy formulation, policy communication and policy change.

- **Policy Formulation:** The auditor should seek answers to these questions. Who establishes policy? Who suggest changes in policy? What type of research is carried on policy? Are employees consulted in the formulation of policies? etc.
- **Communication of Policy:** The way policies are communicated to employees should be examined. Wherever policies are written in the form of a manual, the auditor should review the policy manual. He should find out whether it is easily available to and understood by the staff.

- **Consistency of Policy:** Policy audit must reveal whether human resource policies are consistent with the organisational objectives and current thinking. There should be no contradiction between different policies.

Thus, policy audit provides answers to the following questions:

What are the company's human resource policies?

How are these policies formulated?

How are these policies communicated?

How will people understand these policies?

Are these policies consistent with organisational objectives and current thinking?

Auditing Human Resource Programmes

Human resource programmes are the means for implementing human resource policies. Human resource programmes state how the human resource activities are to be carried out. Audit of human resource programmes helps to reveal how well the human resource policies are implemented. For instance, evaluation of job descriptions, application blank, selection tests and employment interviews may record the need for revision of either of these because they have become outdated.

The human resource auditor must ensure that human resource procedures and practices are consistent with the human resource policies. He should also find out whether any deviation from the established human resource programme has taken place.

Thus, audit of human resource programmes seeks answers to the following questions:

What are the standard human resource procedures and practices?

How are these procedures, and practices drafted?

How are these procedures and practices communicated?

Are these procedures and practices consistent with human resource policies?

What controls exist for ensuring uniform application of these procedures and practices?

Approaches to Human Resource Audit

There are four major approaches to human resource audit:

1. In the comparative approach, the results of the organisation are compared with those of the model company. Benchmarks for comparison may be decided by an outside consultant.
2. In the statistical approach, statistical measures of performance such as absenteeism and turnover rates are used to assess performance.
3. In the compliance approach past actions are reviewed to determine if these comply with law and the company's policies.
4. In the MBO approach specific goals against which performance can be measured are developed. Actual performance is compared against these goals.

Fig 1 shows the process of human resource audit covering four main areas.

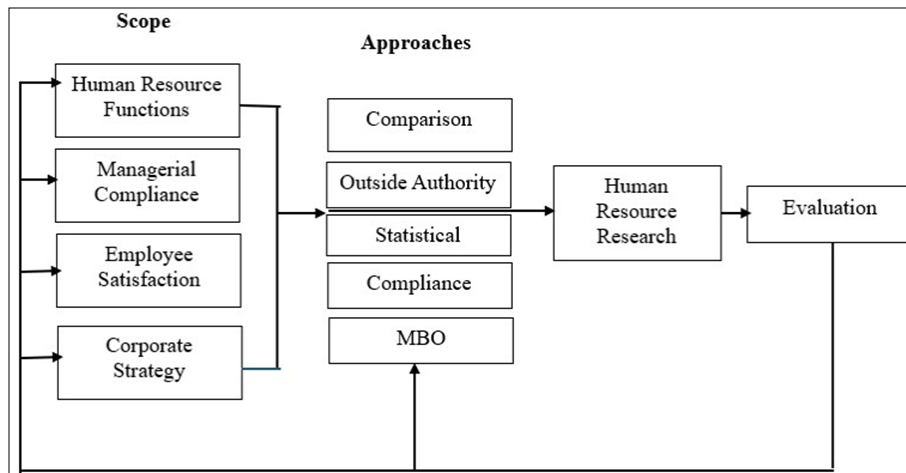


Fig 1: Process of Human Resource Audit

Audit of Human Resource Results

The real test of human resource policies and programmes lies in the results achieved. Comprehensive policy statements and elaborate procedural manuals are useless unless they yield good results. For instance, the audit of manpower forecasting may reveal that the manpower needs were not accurately estimated and as a result there is shortage of technical staff. Performance evaluation of new employees may indicate the effectiveness of selection procedure. Analysis of employee performance before and after training reveals the effectiveness of the training programme. Comparison of the employee's pay scales with those in similar organisations will throw light on the effectiveness of wage and salary structure. Data on labour turnover, absenteeism, accidents and grievances can be analysed to identify their causes and to suggest measures required to control the manpower utilisation. Attitude and morale survey may be conducted to know the behavioural reactions of employees. While auditing results the human resource, auditor depends largely on human resource records and reports supplied by the human resource department, He should, therefore, ensure that these records and statistics are properly and accurately maintained.

In the audit of results, the human resource audit may calculate ratios and percentages from human resource statistics. Such measurement will reveal useful trends in manpower utilisation. Human resource statistics may relate to new lines, voluntary quits, terminations, bio-data of employees, number of accidents and grievances, absenteeism and turnover data, transfers and promotions, etc. For example, the ratio between outside recruiters and promotions from within will reveal the recruitment policy of management.

Some complex problems may arise in the audit of results. The new wage plan may ensure equal pay of equal work but pay scales may not be comparable to industry levels. A stream-lined grievance procedure may have reduced the grievance handling time without reducing the number of grievances filed.

Audit Report

After examining and evaluating human resource policies, programmes and results the human resource auditor should submit a written report containing his findings, conclusions and recommendations. This report is called audit report. There is no prescribed format of the report in case of human

resource audit. The overall form and style of audit report is received by the human resource auditor.

Human resource audit report is meant mainly for the top management. However, certain aspects of the report, e.g., attitude survey and safety survey may be made available to employees. The report should be based solely on the findings and it should be submitted within a reasonable time after the audit work is over. The following items should be included in the report:

- Table of contents.
- Preface giving a brief statement of the objectives.
- Summary and conclusions which is the main body of the report. This may be the only part of the report which the top executives will read. Therefore, recommendations should be given along with the factual information or findings.
- The report may be treated as proper in which each major decision or department is separately concerned. A separate section may be given for each department.
- Summary is general in nature and is relevant to all the persons concerned. It does not include the matters reported to the top executives.
- Appendix contains supporting data that might be too voluminous to appear in the body of the report.

Conclusion

Human resource audit is comparatively a new area of audit. Therefore, the human resource auditor has no body of laws, regulations and standard practices to guide him. In case of financial audit, the qualifications of the auditor and the standard auditing practices have been laid down by the Institute of Chartered Accountants of India. This is not the case for human resource audit. The human resource auditor has to depend upon his judgement and records available with the organisation.

Moreover, human resource audit may become a fault-finding exercise. Wherever, certain deficiencies are detected, the management and workers may start blaming each other. To avoid such troubles, forward looking approach is required. The focus should be on removing the cause of mistakes so that the same are not repeated in future.

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