acquuired, much premium is paid for the quality of its human resources. The basis of paying such a premium is valuation of human assets. It may be mentioned that many companies in IT and BPO sector have changed hands in India.

Human Resource Management Audit

The term 'audit' has been derived from Latin word *'auditus'*, meaning a hearing. Thus, audit is a hearing of review resulting in a systematic evaluation. The meaning of audit in accounting term is well known where it is defined as the verification of accounting data for determining the accuracy and reliability of accounting statements and reports. From accounting, this concept has been used to management audit and social audit. In management audit, it is divided in two parts : (*a*) One is the management function audit covering planning, organising, staffing, directing and controlling; (*b*) The other is a management decision audit dealing with the quality of decisions in the areas of long-range and company-wide planning covering various functions—marketing, production, personnel, accounting and finance. In the context of HRM, it may be defined as follows :

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

Thus, HRM audit is concerned with the evaluation of effectiveness of various HRM activities with the view to identify what should be (or should not be) done in the future in the light of such an evaluation.

Objectives of HRM Audit

The importance of audit in accounting is so important that it has been mandatory for certain types of organisations (company form of organisations), and the audit is conducted by outsider, independent qualified personnel. Besides the external audit, companies undertake auditing on their own. In the case of management audit including HRM audit, there is no such compulsion but various companies undertake such an audit on their own because it provides various information which is quite useful in developing better systems for managing human resources. The basic objectives of HRM audit are as follows:

1. To evaluate the total HRM programmes in the light of the organisational objectives and programmes and the objectives of HRM;
2. To seek explanation and information on such questions as 'what happened' and 'why did it happen';

3. To evaluate the extent to which line managers have implemented various HR policies and programmes that have been developed and initiated; and
4. To evaluate the total performance of HR department.

Benefits of HRM Audit

There are various benefits which emerge from HRM audit. These benefits may be seen in the context of how HRM audit provides feedback for measuring the achievement of HRM objectives and consequently, the organisational objectives as shown in Figure 6.2.

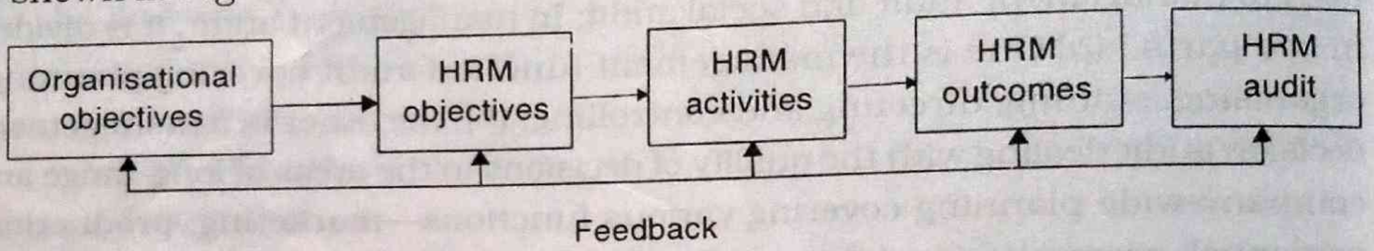

FIGURE 6.2 : Linkage of HRM audit with organisational and HRM objectives

Werther and Davis have identified the following benefits of HRM audit:

1. Identification of the contributions of the HR department to the achievement of organisational objectives;
2. Improvement of the professional image of HR department;
3. Encouragement of greater responsibility and professionalism among members of the HR department;
4. Clarification of HR department's duties and responsibilities;
5. Stimulation of HR policies and practices;
6. Finding critical human resource problems;
7. Ensuring timely compliance with legal requirements;
8. Reduction of HR costs through more effective procedures;
9. Creation of increased acceptance of the neccessary changes in the HR department; and
10. A thorough review of HR department's information systems.[14]

[14]William B. Werther and Keith Davis, *Human Resources and Personnel Management*, New York: McGraw-Hill, 1996, p. 561.

Scope of HRM Audit

Organisational practices regarding the subject matters of HRM audit may vary. However, a comprehensive scope of HRM audit includes all aspects of HRM which are as follows:

1. HR strategies and policies,
2. HRM functions,
3. HR compliance, and
4. HR climate.

HR Strategies and Policies. The starting point of HRM audit should be an evaluation of HR strategies and the way these are in tune with those of the organisation. For formulating HR strategies and policies, it is essential that the objectives of HRM functions are clearly defined. The audit may evaluate the extent to which various HR strategies and policies have been formulated and what their qualities are. Various HR strategies and policies may be audited by evaluating their:

1. consistency with the organisational objectives, strategies and policies;
2. consistency with the environment;
3. appropriateness in the light of organisational resources;
4. appropriateness in the light of time horizon; and
5. workability.

HRM Functions. The major thrust of HRM audit is on evaluation and review of various HRM functions relating to acquiring and employing human resources, developing human resources; compensation management, integration and maintenance of human resources and industrial relations. The audit should measure and evaluate these functions in the following context:

1. the type of HRM functions performed;
2. the degree to which these functions are related to HRM objectives; and
3. the degree to which these functions are performed effectively.

HR Compliance. HR compliance refers to the adherence to various HR strategies and policies by line managers and adherence to legal requirements. In this context, evaluation revolves around the following:

1. the extent to which line personnel adhere to various HR policies in dealing with personnel working under them; and
2. the extent to which there is compliance with the legal requirements as provided under various legal Acts relevant for management of human resources.

HR Climate. Quality of HR climate has important impact on motivation, job satisfaction, morale and performance of human resources. HR climate can be evaluated by various outcomes which are as follows:

1. degree of employee turnover,
2. degree of employee absenteeism,
3. degree of accidents,
4. status of grievances and disciplinary actions, and
5. findings of attitude and morale surveys.

Process of HRM Audit

HRM audit is a function and, therefore, it should proceed as a process involving various steps which must be taken in a sequence. These steps are as follows:

1. Determination of standards against which various aspects of HRM will be measured,
2. Collection and evaluation of relevant information to know the factual position, and
3. Preparation of audit report.

However, before taking auditing, the question of who will conduct audit, is the most important issue. Another issue is the determination of HR areas to be audited. If both these issues are added to the above steps, the entire audit process will be as given in Figure 5.3.

FIGURE 5.3: HRM audit process

Appointment of Auditors. The first step is the appointment of auditors to conduct audit. There are two alternatives for the appointment of auditors. Either internal personnel can act as auditors or there may be external auditors. The advantage in appointment of external auditors is that they are independent and are unlikely to be influenced by organisational practices and culture. However, if it is not possible to appoint external auditors, a committee of managerial personnel drawn from different departments may be appointed. The persons appointed as auditors must possess the following qualities:

1. expertise in the fundamental principles and dynamics of human resource management to appreciate the various HRM functions and their linkages with other organisational functions;
2. attitudes and aptitudes for evaluation;
3. vigilant, cautious and methodological in evaluation;
4. excellent interactive skills; and
5. tendency to undisclose personal sensitive information of auditees.

Coverage of HRM Audit. In the case of accounting audit, the scope of audit is well defined which is known to the organisation as well as to the auditors.

However, this is not the case with HRM audit as it is not legally mandatory.

Therefore, the top management of the organisation should decide the topics of HRM which would be audited, whether the entire aspects of HRM as we have identified earlier or only the selected items which appear more important and relevant. The coverage of area should be carefully dilineated after considering the cost involved in audit and benefits that are likely to accrue from this.

Specification of Standards. This forms the actual step of HRM audit. Standards have to be set as a measurement criterion against which a fact is classified as desirable or undesirable. Werther and Davis have suggested five approaches against which actual performance may be measured. These are: comparative approach, outside authority approach, statistical approach, compliance approach and management by objectives (MBO) approach. In the comparative approach, the HR performance of the organisation is compared with another organisation known as model. In the outside authority approach, standards prescribed by various consultants and rating agencies can be used as benchmark for comparison. In the statistical approach, various statistical tools can be used to measure performance which is available in quantitative form such as employee turnover, absenteeism, etc. In the compliance approach, the performance may be measured in terms of legal compliances as required by various laws. In the MBO approach, performance is measured in terms of objectives of a function set and the actual performance achieved. Generally, a combination of various approaches is adopted. Whatever approach is adopted, it must be made clear and specific before the information collection.

Collection and Evaluation of Information. After establishing the standards, information about the various areas specified is collected. If the organisation has well-established HR information system, various information is available from this source. Additional information may be collected through personal contacts. After the relevant information is collected, this is compared with the standards established and conclusions may be drawn about the various aspects of HRM audit.

Preparation of Audit Report. Based on the information and its evaluation, the auditors prepare audit report which includes all factual information, indicating the shortcomings wherever found. The report may also contain measures for overcoming various shortcomings. The report is submitted to top management for its assimilation of various HRM practices and to take suitable actions wherever necessary.