

9-17-2015

Organisational Effectiveness: The Role and Benefits of Human Resources Auditing

Chris Andrews

Bond University, chris_andrews@bond.edu.au

Follow this and additional works at: http://epublications.bond.edu.au/business_pubs

 Part of the [Human Resources Management Commons](#)

Recommended Citation

Chris Andrews. (2015) "Organisational Effectiveness: The Role and Benefits of Human Resources Auditing" The Third National HR Standards Conference: South African Board for People Practices. Johannesburg.Sep. 2015.

http://epublications.bond.edu.au/business_pubs/878

Third National HR Standards Conference
South African Board for People Practices
September 17, 2015

Johannesburg

South Africa

Dr Chris Andrews

**Organisational Effectiveness: The Role and benefits of Human
Resources Auditing**

Conference Paper

Presenter Contact Details:

candrews@staff.bond.edu.au

Organisational Effectiveness: The Role and Benefits of HR Auditing

Introduction

Auditing is just one of the evaluation methods that can be adopted when examining the effectiveness of Human Resources; however it is not normally the favoured method. It does have a lot to offer, not the least being independence, external recognition and external validation.

There are two things that have driven my research interests over the last 15 years - **HR Performance Auditing**, and later **HR Standards**. Along the way I looked into **HR Frameworks**, examined the links between *benchmarking and standards* and mapped *HR benchmarking measures* against an **Input-Process-Output- Outcome Framework**. This is the reverse sequence of the way it would normally progress but, having started with the performance audit of a well-regarded HR Department, I had the advantage of knowing what the *endgame would* look like.

What I wasn't expecting in my research was that much of the literature written on the topic of HR Auditing wasn't located within the field of auditing. I have said previously that HR Auditing sits both within and between the fields of human resources and auditing.

HR Standards are required as the basis for professionally auditing human resources. *They are not optional*. However, what they look like, how they are used and how they are applied in a given context are negotiable for an audit assignment. In the ideal world HR Standards would have been developed and agreed at the national or industry level and then adapted to suit the organisation under review. If the standards for a performance audit cannot be agreed then the audit should not proceed – the recommendation from the auditor would be for the auditee to develop HR performance standards as a priority.

In researching HR Auditing I wanted to develop an evaluation methodology that would be acceptable to a Board, Senior Management, that analysts in the financial sector would accept, that was applicable to any industry and at any location, which could be used in the public or private sectors, and was open to replication. The methodology needed to be future orientated. It should add value to any HR Department, especially to an already well regarded HR Department. The methodology should be evidence-based and cater for different organisational histories, maturity, missions and priorities. Auditing must be independent; it is the defining characteristic of this method of evaluation.

The context of our session today is framed within that experience.

Main Message

My main message to you is that South African HR Professionals are definitely on the right track with national HR standards, and HR Auditing based on those standards. The message to you is one of encouragement – the move to establish HR Auditing capability outside of each organisation is a positive and welcome initiative. But you need to understand just how good it is and how to make it work for you – in order to promote HR as a leading, future oriented profession that adds value to organisational performance.

The Last Decade (2005 – 2015)

There is ample evidence that HR has not made the credibility gains that the profession would have thought possible. For example in 2005 we had Fast Company explaining: *Why we hate HR*, and in 2015 Harvard Business Review's cover was proclaiming: *It's time to blow up HR and build something new*. If what occurred across the decade wasn't the answer we must look elsewhere. In my opinion HR professionals need to focus more attention on outlining our understanding of the HR framework (what's in, what's out and how it all fits together), HR Standards, HR Auditing and HR performance auditing. These are the things that offer a positive way forward for the profession.

Effectiveness

The title of this session means something specific to an audit professional. We are looking at organisational effectiveness as one component of performance. It is possible to be efficient and economical in our delivery of HR services but to still be *ineffective* in delivering organisational performance. According to Khan (2005) effectiveness involves:

- The extent to which the organisational objectives were achieved and outcomes realised.
- Ensuring the costs of reaching these objectives were as expected, or within the range of acceptable results.
- Analysing the causes of failure to achieve the objectives.
- Isolating external factors which helped or hindered the achievement of objectives.
- Reporting on the monitoring or reporting system that tracks progress toward the achievement of organisational objectives.

A performance auditor, when assessing the contribution of the HR department in today's and tomorrow's business world would want to look at the three E's collectively, not just effectiveness. To deliver organisational performance you need to be effective, efficient and economic (the three E's). Sometimes effectiveness is summarised by the statement '*doing the right things*'. Efficiency is summarised as '*doing things right*'. Economy is generally thought of in terms of alternative cost: is there another way of doing the activity that provides a better outcome?

The Role of HR Auditing – Evaluation, Assurance and Risk Assessment

So what is a HR Audit? It is an independent *evaluation* of human resource activities, or within an aspect of human resource activity. Inherently placed within this definition is the auditing paradigm: the need for independence, standards against which the evaluation will be made, using evidence based evaluation techniques and professional competence in auditing. A human resource audit is *not* an alternative form of management assurance – it is not the function of an auditor to take over the role of management.

There are different types of audit and often a human resource audit can be a specific type (compliance, risk, financial management, current and future performance, agreed-upon activities, amongst others) or a hybrid that incorporates elements of some or all of these elements.

In HR there are probably 400 things that you could concentrate on – so how do you make sure you are 'doing the right things'? HR contributes to Organisational Performance in two different ways: HR

provide a whole-of-organisation approach to improving people-based issues and HR also runs a service operation focused on providing our key clients with dedicated, professional HR services.

To judge HR's overall performance we need to consider both aspects of this contribution. If we have done the right things, if we have done them the right way and we have achieved the best possible outcome, we will have done our duty and can be proud of our organisational achievements.

HR Review/HR Auditing Matrix

This matrix sets out a number of potential evaluation scenarios involving HR Standards; the connection with Internal and External Audit can be regarded as key areas for future development. It is these connection points with professional auditors that offer the best pathway for having HR Standards recognised and adopted by professional auditors. To have that happen would herald a significant advance in the national and international standing of the HR profession.

Review Type	HR Review against Organisational Standards	HR Audit against Sector Agreed Standards	HR Performance Audit against National Auditing Standards (where they exist)
Internal Self-Assessment by HR (Management Assurance)	Common	Example SABPP HR Standards	Self-assessment only
Internal Management Review (Management Assurance)	Common	Example SABPP HR Standards	Not applicable.
Internal Audit by professional audit – Independent Audit Assurance	Common	You can do this using SABPP HR Standards	Potential area for development. For example: QUT University Case Study (Andrews 2008)
External Management Review – Independent Management Assurance	Common	SABPP HR Audit Unit	Not applicable.
External Audit undertaken by Professional Auditors – Independent Audit Assurance	Less Common	Potential area for future development	Potential area for future development

Source: produced for this paper

The role and benefits of HR Auditing: Recognition, and an independent Evaluation of HR based on agreed HR Standards

The role of HR audit is firmly anchored in evaluation and assurance.

Why would we use auditing as the evaluation technique when you can undertake a Management Review instead? According to McBrayne (1990) auditors will have time allocated to do the task (when HR practitioners often do not), auditors are independent, and they use developed and tested audit techniques. It's the independence that provides the greatest hope, since it has proven hard to promote HR from within the function. In the lead up to an audit we can conduct a self-assessment, or self-review. Senior Management might also more readily provide funding for the actions to be taken in response to the audit when it comes in the form of an audit report presented to the Audit Committee.

The benefits of HR Auditing include: external, independent validation; external recognition; a future orientated examination against both national and organisation specific criteria; the use of modern auditing evaluation techniques; and a pathway to promote the HR profession to the broader community. Having HR standards reduces inconsistency and HR Auditing further reinforces the consistent application of those standards.

The promotion of HR

There is an old saying that I believe goes along the lines of: *anybody can promote anybody but themselves*. HR needs someone on the outside actively promoting our standards and our professionalism. Who will it be? It needs to be an independent body with credibility, serious about looking into the performance of HR.

In a very recent publication – *The Rise of HR* - from the Human Resources Certification Institute (2015) one of the major insights into the future of HR relate to '*viewing HR from the outside in*' (HCRI 2015). Surely that is the role of a performance auditor.

'Looking Outside-in' fits well with an external, independent, performance evaluation conducted by a trained auditor, using Auditing Standards and professional methods to undertake the review. I'm not sure that's what the authors in *The Rise of HR* had in mind but it neatly describes what an auditor would do – *listen to the records from the outside*.

Future Areas for Extension

1. One of the expansion areas for HR Standards is in Big Data, shared experiences (benchmarking) and analytical capacity (Deloitte: 2015). HR Standards are now being pushed by those seeking to compare complex data across very large populations, for example hospital networks.
2. One of the key future opportunities is to have professional auditors recognise the national HR Standards by:
 - Working toward having the HR Standards and competency frameworks recognised by Internal Auditors as a starting point for the organisational evaluation of HR.
 - Integrating these into HR auditing training for internal and external auditors.
 - Developing a case study database/library showcasing the outcomes of effective collaboration between internal auditors and human resource professionals.

Summary

South African HR professionals have all the ingredients in place to independently evaluate Human Resource performance. You have an agreed HR Framework which shows how it all fits together. You have Standards for the major HR activities. You have established an HR Audit capability to test yourselves against those standards and to independently assess progress. I am aware of your ongoing work in establishing key metrics and measures that address organisational outcomes. The challenge remains to engage with auditing professionals to have the HR Standards accepted and adopted by both internal and external auditors.

Congratulations on what you have achieved so far, and I look forward to hearing more of your cutting-edge work in the future.

Dr Chris Andrews

17 September 2015

References:

Andrews, C. (2008) *Developing and conducting a human resource management performance audit: case study of an Australian university, University of Southern Queensland*, available online at: <http://eprints.usq.edu.au/4297/>

Deloitte: Human Capital Trends Report (2015), a free download publication from Deloitte University Press, accessed from <http://www2.deloitte.com/us/en/pages/human-capital/articles/introduction-human-capital-trends.html> accessed in July 2015.

Fast Company (2005) *Why we hate HR*, accessed online at: <http://www.fastcompany.com/53319/why-we-hate-hr> accessed 24 August 2015.

Harvard Business Review [Cover Illustration](2015) *It's time to blow up HR and build something new*, and related articles in that issue, July-August 2015.

HCRI (2015) *The Rise of HR: wisdom from 73 thought leaders*, Human Resource Certification Institute, accessed 27 July 2015 from <http://hrleadsbusiness.org/rise-of-hr-e-book> (free download).

Khan, M. A. (2005) *A Practitioner's guide to performance auditing: concepts and methodology*, First edition, accessed 15 July 2015. The second edition of this work can be purchased here: <http://www.pleier.com/pacd2.htm>