

6-1-2015

# Critical success factors for Human Resource audits

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## Recommended Citation

Andrews, Chris, "Critical success factors for Human Resource audits" (2015). *Bond Business School Publications*. Paper 880.  
[http://epublications.bond.edu.au/business\\_pubs/880](http://epublications.bond.edu.au/business_pubs/880)

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

**Johannesburg**

**South Africa**

**Pre-Conference Articles**

**Dr Chris Andrews**

**Part 1      Street Cred for HR - The Journey to Evaluating HR through Auditing**

Originally published in HR Future Magazine, May 2015, p.18

**Part 2      **Critical Success Factors for Human Resource Audits****

Originally published in HR Future Magazine, June 2015, p.16

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## Part 2 - Critical Success Factors for Human Resource Audits

Auditing is not a fad and can be traced back for centuries. The term audit comes from the Latin word 'audire' (to listen), hence an auditor's role is *to* listen to the records. The modern form of auditing can be clearly evidenced as early as 1827 at the Baltimore and Ohio Railroad in the United States (Flesher et al 2003). The foundations for auditing rely on both their independence and in effective evaluation techniques.

Auditors work within national standards, something that has been a more recent development in Human Resources (HR). The idea of auditing HR is not new, but detailed case studies are still not common. HR auditing is located both within and between each of these two fields. Be wary of writers who don't locate the topic within the professional practice of auditing.

So what is a HR Audit? It is an audit undertaken 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, and so forth) or a hybrid that incorporates elements of some or all of these elements.

But why do 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 gives 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 (never called self-audit, that's an oxy-moron). 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.

In my own performance audit case study (undertaken as part of my doctoral requirements) I teamed with the Audit Director to undertake an audit that was formally part of the annual auditing plan. The organisation's HR Department was well regarded and award winning, a fact acknowledged within their industry. But that doesn't mean they wouldn't benefit from a HR performance audit – the Director describing it as a deeper and more intensive experience than other forms of evaluation.

### Critical Success factors

So if we do decide to conduct a human resource audit what might be the critical success factors (CSF's)? CSF's are usually a limited number of variables that have a direct and significant effect on the success of the audit. Let's assume we understand the role of auditing and the auditing paradigm and move forward from there. The model suggested below broadly aligns with the work of Professor Stephen Teo (1997).

## **Commitment**

Senior staff commitment to using audit as the evaluation technique is a key factor. If they can't really see the benefits from an independent examination, then question why you are going down that track.

## **Clear purpose, careful planning**

The success of the audit will depend on the clarity around what is the purpose and intended outcome of the audit, certainty about what is being audited (and what's not) and the audit team sticking to that agenda. Planning has been described as the secret weapon of the auditor. Once the audit is agreed between the auditor and stakeholder then detailed fieldwork is planned to ensure sufficient evidence is collected to enable findings to be made. Be very wary of scope creep in auditing, just as you do with other projects. Incorporate a risk assessment into the audit planning, for example: include a strategic and high risk activity in the scope of the audit, not a low risk operational activity that is operating efficiently.

## **Dynamic Duo**

Dolenko (1990) suggested you do not have to be a human resources specialist in order to conduct an audit of this type but she found it was necessary to understand the importance of each HR function, the essential activities that comprise the function, and lastly the audit criteria that are used as a standard against which to measure performance. Based on my own performance auditing experience, a senior and experienced auditor combined with an independent HR Specialist who understands auditing is a well-rounded and professional combination. This combination was also suggested in the literature by Teo (1997). Be sure that your HR Specialist can evidence competence in auditing, as required by the relevant national auditing standards.

## **HR Standards**

If detailed HR standards do not exist at the industry or organisation level then these need to be developed and agreed between the auditor and the stakeholder before the fieldwork commences. *Don't start the game until you know where the goal posts are.* When developing standards, have regard to the size of the organisation and its maturity – these two factors will potentially affect 'what we would expect to see'. It is better to have national or industry standards developed and used as the base for the HR Audit, but remain open to amendments that might be required at the organisational level.

## **Evidence-based evaluation**

Auditors are the evaluation experts. What they are looking to collect is sufficient evidence to support the audit findings. This might involve detailed examinations of documents (contracts, policies, procedures, and so forth) interviews, surveys, inspections, client satisfaction interviews, benchmarking reports, senior management feedback, line management feedback amongst others. Those who are familiar with evidenced-based HR evaluations will know what to look for.

## **Superior Reporting & follow up**

Auditors do preliminary draft reports, and then draft reports very well. This enables everyone to know there are 'no surprises' when the final report is released. It allows the stakeholder an opportunity to make valid comments that explain the context of particular findings. It also allows the draft recommendations to be tested with the stakeholder for durability. The final report has stakeholder comments and suggested action-in-response. One advantage of audit is that the actions-in-response, when approved by an Audit Committee, have a greater chance of being funded. Auditors build into their audit cycle a follow up activity that checks to ensure there is action-in-response to audit recommendations. These follow-up reports also go to the Audit Committee.

## **Summary**

The critical success factors for HR Auditing follow a pattern that is not specific to human resources, but is also not well understood by many human resource practitioners. Commitment to auditing as the evaluation mechanism, audit planning, team selection, HR standard negotiation, evidence-based fieldwork, well rounded reports and audit follow up are my critical success factors for HR auditing.

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