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Fundamental Issues with Human Resource Auditing

By Dr Chris Andrews

What entitles us to correctly call an evaluation of human resources a “HR Audit”?

Professor Susan Nutley (2000) observed that ‘defining what an audit is and, conversely, what it is not’ was fraught with difficulties. Professor Alan Clardy (2004) observed that the term audit was used ‘rather indiscriminately’ in the literature so that ‘most any kind of study of human resources is considered an audit’. Clearly a human resource audit needs to be properly defined and separated from those activities that are *not auditing*. Clouding this is the auditing profession itself; for example they widely use the term ‘review’ within the context of professional auditing.

So let’s define HR Auditing: A HR audit is an audit undertaken of human resources or within an aspect of human resources. Inherently placed within this definition is an understanding of what auditing means to that profession.

The key issues for audits are: auditing independence, the scope and audit method, audit reporting and audit assurance (rather than management assurance). In addition, an auditor needs to be recognised as having achieved professional competence.

For clarity, the fundamental issue for auditing is independence. Let’s be blunt - self-audit is an oxymoron – since it lacks the independence required of auditors. Call it self-evaluation or self-assessment but don’t use the term self-audit. A second aspect of professional auditing is the type of audit conducted. Many of you will be familiar with financial audits, compliance audits, operational and special purpose audits. A performance audit, one example of an operational audit of HR, can be a future orientated examination considering the issues of efficiency, effectiveness and economy (the 3e’s).

If you have undertaken basic auditing training you will understand that auditors follow a rigorous audit process, use specific audit methods and compile audit reports in a particular way. There is more: auditors have records that are kept in a consistent format so that the audit can be replicated in the future, and they have action-in-response obligations to follow through with. Importantly their work often reports to a Board level Audit Committee.

From the description outlined above, is the activity you currently undertake really a HR Audit? If not, you might want to rethink the descriptor. If you were to mislead those reading and relying on your HR Audit Report it might prove costly.

HR Standards

Auditors are evaluation experts and they rely heavily on standards in so many ways. If you are going to conduct a compliance audit you need to have standards in place. Try undertaking a performance audit without standards - the very first recommendation an auditor would make would be that standards need to be developed. In order to conduct a performance audit of HR, you need to be able to clearly articulate what you expect to see (especially in outcome terms). To an auditor standards are fundamental.

HR Auditing Reading List

Whenever I see an article on HR Auditing I look for the signs of an auditing professional.

The professional practice orientation, the importance of the scope description, audit method, the understanding of the role of standards, the competence and background of the auditor and the genuine auditing publications they use as a reference point in the bibliography. Two illustrations will serve to highlight some contemporary issues. First, consider the title 'Auditing Your Human Resources Department'. Does that evoke a clear message that HR Auditing is not a form of self-evaluation? Perhaps not.

Second, 'Auditing Human Resources', an auditing association publication. In this document is HR auditing properly defined and *what is not* HR auditing crystal clear? Is the requirement for independence absolute? Would the average HR reader be able to distinguish between *management assurance* and *audit assurance*?

The clear message to authors wanting to write about HR Auditing is they need to understand that it is located both within and between the fields of human resources and auditing. Considered in this way the importance of auditing to HR Auditing is highlighted. By crossing discipline boundaries, mixing auditing methods and independence with the evaluation of human resources, we can positively identify future-orientated performance improvements (Andrews 2008).

HR Metrics & Measures

The evaluation of HR is made more difficult by the 'spice rack' (Sumser 2016) nature of the profession. There are literally hundreds of things HR could do, and no consensus on what they should do. This vagueness spills over into the HR metrics and measures space – it is relatively easy to identify 300 metrics and measures but there is little to guide what really matters. Here auditing professionals can assist by helping HR professionals to understand the elements of performance, and how to measure them. If you set the criteria correctly the 300 measures can be *winnowed* down to those that really matter. It also focuses attention on building new metrics and measures that HR can report on within the criteria adopted. To evaluate performance auditor's look to the three key areas of **efficiency**, **effectiveness** and **economy** (the 3e's). While performance auditors view **equity** through the prism of effectiveness, it is also possible to segment this as a fourth 'E' when conducting a performance evaluation of HR.

Just how can we *winnow* HR metrics and measures?

As an example, if we set the criteria as reporting on: **effectiveness** (rather than efficiency, or economy), **outcomes** (rather than inputs, processes or outputs) and with attention directed to a specific **audience** (i.e. appropriate to senior management or board level) then we have just a few HR metrics and measures that meet this criterion. Organisations wanting to add more evaluation measures appropriate to this criterion would need to adopt specific objectives relevant to their business that report on those elements of performance that make a real difference. They could do worse than consulting a properly trained HR performance auditor for advice on these evaluation issues.

Summary

If you are conducting a HR Audit, it should be clearly recognisable as such to an auditing professional. If you are conducting a HR Management Review, then don't make the mistake of calling it an audit. If you want to report on HR performance or impact then make sure your metrics and measures are relevant to the evaluation task, and to the intended audience.

So, name something that auditors have that HR does not?

Hints: they have independence, national auditing standards, a future-orientated performance auditing methodology, a complex understanding of corporate risk, the ear of the Board, they are evaluation experts, they are a well-regarded profession with high visibility

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