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Street cred for HR - The journey to evaluating HR through auditing

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

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

When I first started looking at Human Resource Auditing the prevailing view was that it was good for ensuring that all of the components of a human resources program were in place and operating correctly. The problem was that it was not seen to provide a direct link between the audit results and the organisation’s overall effectiveness.

I was convinced that it should be possible to design an audit assignment that did provide a strong link to organisational effectiveness. I wrote a paper for an MBA assignment that followed that argument.

In my doctorate, supervised by Dr Simon Fry and Professor Ben Swanepoel, I wanted to develop a 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 should 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. Little did I know that the methodology already existed, patiently waiting for me to make that discovery.

I had completed an extensive literature review but the body of knowledge on HR Auditing was difficult to reconcile. Professor Alan Clardy (2004) put it well when we wrote that ‘the term audit was used indiscriminately so that almost any kind of study can be considered an audit’. My problem was that I was looking at it from the wrong perspective. What I needed to do was ask “how would an auditor do it”.

I joined a local professional body (The Institute of Internal Auditors Australia - IIAA) and attended formal auditing training. I asked about experts in human resource auditing but they could not suggest an Australian specialist. I discovered there was a relevant IIA publication by Marilyn Dolenko that had been written in 1990. I organised for a photocopy to be sent from the IIA headquarters in the U.S.A. since the publication was long ago out of print. Many years later I managed to buy a second-hand copy of the original monograph on Ebay for A$2 plus postage!

The monograph deals with generally accepted management principles (what we expect to see) as human resource audit criteria. What if we find that what we expected is not there? The auditor should seek to understand why the expectation was not met, and this leads to asking yourself “So what?” If the absence of that which was expected is not material, move on to something else.

Dolenko identified the potential tension between HR Managers and auditors: when someone who is paid to get it right has to deal with someone who gets paid to find out what is wrong, it spells trouble. She emphasised the need for a balance of positive findings (commendations) and the auditor holding a constructive, positive perspective concentrated on areas where the recommendations will make a difference to future practices. The auditor did not need to be a HR specialist, according to Dolenko.
How do you know when to stop looking for evidence? According to Dolenko it is when you have sufficient support for your findings. If the auditee knows about and admits the problem, making a recommendation rather than a finding may be more appropriate.

In the preface of the monograph is the statement: Auditors can play a key role in helping the organisation determine whether it is acquiring, motivating and utilising its staff to achieve organisational objectives and improve productivity and performance. Here was a clear statement that human resource auditing was potentially what I was looking for in an evaluation methodology. The discovery of an Australian Auditing Standard (then AUS 806 & 808) dealing with performance auditing sealed the deal. If a performance audit was conducted under the Australian Auditing Standard I would be likely to have the Board and analysts on side.

There is a small band of auditors that understand performance auditing conducted in line with the Australia Auditing Standards. I was extremely fortunate to meet Seema Patel, the Director of Efficiency & Audit at QUT University in Australia, and to have the direct support of the (then) HR Director at QUT, Graham MacAulay. QUT became the case study for the dissertation. The Audit team comprised Seema as the audit expert with me as the external human resources specialist and the Audit formed part of the annual audit Plan. This combination worked well, probably because of Seema Patel’s extensive auditing knowledge and experience and the positive expectations of the audit by the QUT HR Department. They knew they were good but also wanted to be better.

One of the significant areas we selected for the audit was ‘Crucial HR Issues for future success’. We were looking to see if these were identified, were well understood and there was consensus between the Board, Senior Management, the HR Department and the key clients surrounding their strategic importance and resource priority. Think of your own organisation and try to think how you would go on this criterion, it’s tough. It is worth the effort as the conversations and shared understandings that arise in the discussions build a useful consensus for future action.

The Final Report found the HR Department was providing a valued service but needed to be more pro-active and could obtain better results from existing resources. The Audit Committee accepted the report’s eighteen specific recommendations and three confirmations, and action plans were created to address each. Various post-audit interviews and follow up events occurred in line with good auditing practice. Overall, the HR Director concluded: “... it is a really valuable document which will assist us greatly in our planning and improvement processes.”

In summary, human resource auditing is very good for ensuring that all of the components of a human resources program are in place and operating the way they were designed, against standards previously agreed. These types of audits can cover different elements of strategic contribution, policy framework, operations, value added, timeliness, compliance, and key client satisfaction.

If you want to examine the HR Department’s current and future efficiency, effectiveness and economy (the three E’s) then a good performance auditor can show you the way to do it. Based on my own experience it is a searching examination that challenges even a well-regarded and award winning HR Department.

In 2006 IIAA invited me to speak at the South of the Pacific Area Conference (SOPAC) on the topic of human resource auditing. This is a major international event in the internal auditing calendar. Mine...
was a side session, one of four running simultaneously. (My most pressing concern was that no one would choose to attend a session given by a non-auditor). The session was well attended and I was able to share my own knowledge on human resource auditing while also meeting audit practitioners that confirmed I was on the right track.

**Article References:**
