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Chris Andrews

Bond University, chris_andrews@bond.edu.au

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HR Performance Auditing: An Australian Story

'Auditing is a discipline born of the need to measure those factors in business that determine success or failure'.

Art Cornwall 1995

Summary

This explanatory paper covers some of the background to an Australian HR Performance Auditing Case Study (2005 – 2007). The case study was undertaken as a formal component of the 2005 Internal Audit plan for the host organisation, QUT University, located in south-east Queensland, Australia.

The literature on human resource performance evaluation identified HR Auditing as an existing (but unpopular) method of evaluating human resource activities. In reality most commentators had difficulty in explaining what HR Auditing actually involved and few differentiated the topic based on an independence criterion.

The study focused on the use of formal performance auditing methodologies to evaluate the contribution of selected human resource management activities to the organisation's current and future performance.

The activities selected for examination were chosen based on their potential strategic contribution and their risk profile, since those activities identified as central to future performance but with significant risk should be closely examined, in any future orientated performance audit.

At the time of the fieldwork the Society for Human Resource Management (SHRM) was consulting with their members on whether there was a need for HR standards. In formal auditing standards are key aspects of the evaluation of performance. It is noted that more recently SHRM (2014) has stepped back from a lead role in developing HR standards.

The case study found HR performance auditing was *a suitable method of evaluating the contribution of human resource activities to current and future organisational objectives.*

About the Author:

Dr Chris Andrews	Chris completed his doctorate in the area of human resource management performance auditing. In the course of his research he identified the related need for the development of HR standards and then pursued that topic in relation to the Australian university sector, where he works as the Director of Human Resources for Bond University. He can be contacted by email at candrews@staff.bond.edu.au .
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Introduction

The literature identifies human resource auditing as one method of evaluating human resource activities but it is not a generally favoured method. There is a risk that some activities undertaken under the label of human resource auditing are not actually 'auditing'. In 2004, Clardy (p.129) described the literature on human resource auditing as being 'flawed in several ways'. In his view the term 'audit' was used 'rather indiscriminately' in the literature so that 'most any kind of study of human resources is considered an audit'.

Let us be clear: auditing is a distinct professional activity with a long history of *independent assurance* and undertaken in line with the prevailing Auditing Standards. Auditors are required to be trained in the techniques of auditing under those standards. We can identify some key constructs for human resource auditing. There is a need for independence, there are different types of audit for different purposes, auditors rely on agreed standards for conducting an audit, a consideration of objectives and risk is part of the audit process and competence in auditing is required by the professional practice frameworks. In relation to performance audits, performance is usually considered on the basis of efficiency, effectiveness and economy (the three E's).

A standard methodology for conducting a comprehensive audit of human resources management was published in 1990 (Dolenko). There were three important components to the suggested methodology, first Dolenko recognised that personnel functions were undertaken in a series of activities, second that there are *generally accepted management principles* which can be used as audit criteria when assessing performance and third that 'there is a greater possibility that the personnel function will be efficient, economical and effective if it is carried out in accordance with these generally accepted management principles'. It was clear to Dolenko that standards were required for performance evaluation purposes.

A standard criterion with which to assess the performance of human resource activity (the equivalent of Dolenko's efficient, economical and effective criterion) was to be found in the Australian Auditing Standard for conducting performance auditing engagements (AUS 806 & 808; now ASAE 3500).

For auditors the way to evaluate the current and future human resource activity is set out in the relevant Auditing Standard. The methodology is universal; it can be applied to any organisation without regard to size, ownership, location or industry.

In 2005 the Society for Human Resources Management (SHRM) was still debating whether HR 'could or should develop generally accepted human resources standards or practices' (Meisinger 2005).

The author, in common with many in the auditing profession, felt this was the wrong question. The real issues were: what type of standards do we need, for what purposes were they required, how they should be developed and what should the final product look like.

Detail of the QUT University Case Study

QUT University is a large public university located in Brisbane, Australia. It had a student population of 40,000 students in 2005. The university could trace its origins back to 1849 when the Brisbane School of Arts was established. In 2004, the University received professional recognition from the Australian Human Resources Institute (AHRI) in the form of an 'Excellence in People Management' Award in the Queensland category. They were a well-regarded human resource function who led national benchmarking initiatives in the higher education sector.

The author approached the Human Resource Director of QUT University, Graham MacAulay, in December 2004 and after an internal dialogue tentative agreement was reached to proceed. The official audit program had been set for 2005 but the late inclusion of a performance audit of human resources had the active support of the Director, Efficiency & Audit, Ms Seema Patel. Without the efforts of these two professionals and the encouragement of the Registrar, Dr Carol Dickenson, the performance audit would not have been possible. QUT University were formally approached in February 2005, with the performance audit approved by the Vice-Chancellor, Professor Peter Coaldrake, in early March 2005. The audit team consisted of the QUT Audit Director and the external researcher. In preparation for the audit the researcher participated in formal auditing training conducted through the Institute of Internal Auditors Australia (IIAA).

In 2005, the Human Resource Department had a combined staff of 62 full-time equivalents and a budget of A\$ 4.1 million. For the University 59% of total expenditure was devoted to people related costs. Although they were already regarded as a well-functioning HR Department if a performance audit added value it would be a good demonstration of the use of this evaluation methodology.

In the absence of designated HR standards against which to conduct the evaluation the standards to be used in the performance audit would need to be agreed. This proved to be a very time-consuming exercise and should not be underestimated in planning an engagement. Sample templates were developed by the Audit Team which specified the objectives, risks and evaluation criteria for each activity. The internal managers responsible for each area of activity would then engage with the Audit Team to settle the evaluation criteria.

The areas to be audited (a direct reporting audit is where the auditors have the discretion to choose the areas to be audited) were selected using a strategic importance/risk management framework.

The areas selected for examination (and the associated risk ratings) were:

- Workforce Planning & Action (Medium/High)
- Key Recruitment & Retention Activities (Medium/High)
- Organisational Change (High)
- Critical HR issues for QUT Success (High)

After these were agreed the University and the host Department ask the Audit Team to add Learning & Development activities to the examination and this was agreed to promote co-operation. The Audit Team were not convinced the activity met the criteria for examination but were flexible in listening to the stakeholders.

The fieldwork consisted of formal interviews, staff meetings, the examination of management reports and the examination of relevant independent reports. Key statistics were compiled and areas selected for in-depth review. For example, in the Organisational Change activity one project was selected and the key stakeholders were interviewed. A survey of staff and key stakeholders was planned but did not proceed as there was a developed consensus between the Audit Team, the key stakeholders and the HR Department on the issues requiring action.

A preliminary draft report was issued by the Audit Team in January 2006 for discussion purposes. This is a report which is not formally presented but allows for discussion with the auditee. It served to separate out minor issues and clarify that sufficient evidence had been collected. Areas where positive comments could be made were discussed and agreed.

At the end of these discussions nine areas of good practice were identified, eighteen areas where a recommendation would be made, and three areas where a confirmation of a joint finding was detailed. Significantly the eighteen recommendations were accepted by the key stakeholders and the Final Report was presented to the relevant Audit Committee of the University. Confidentiality restrictions prevent a detailed discussion of the eighteen recommendations.

A follow-up evaluation of the Performance Audit was conducted after the event with a rating of 5/5 for execution, timing and reporting a rating of 4/5 for planning, communication and staffing. The overall rating was given as 4/5. A follow up visit was scheduled for early 2008 to review action-in-response to the recommendations. This type of follow up is standard audit practise in the audit cycle.

Conclusion

Human resource auditing crosses the boundaries between human resources management and auditing. The main message from this case study was that a human resource management performance audit can be a suitable method for evaluating the contribution of human resource activities to organisational objectives, assessed on the basis of value for money.

The case study demonstrated that a human resource management performance audit can identify areas where additional value can be obtained from an already valued, well regarded and award winning human resource department.

The human resource management performance auditing methodology was set down in the Australian auditing standards and assumes a professional practice framework for auditors. A human resource management performance audit is future orientated and can identify areas for organisational improvement.

Postscript: HR Standards

The criterion to be used in a HR Performance Audit is a key challenge as national, industry level or organisational standards often do not exist or are not developed with that purpose in mind. In the QUT case study standards were developed and agreed as part of the audit process.

HR standards should reflect '**what we expect to see**'. This aligns with Dolenko's concept of 'generally accepted management principles', which she also described as 'human resource audit criteria'.

The issue of a departure from what we expect to see is summarised in the statement:

If not, why not? The variance between what we expected to see and what we find needs to be explained.

But the departure may not be material, summarised in the statement:

If not, so what? There may be no significant implication for the variance; it is merely different from what was expected.

If we are attempting to evaluate performance and there are no HR standards in place – we should develop the standards as a first required step in any audit process. *You shouldn't start the game until you have the goal posts agreed.*

[In 2008 QUT University were successful in obtaining funding of \$1.36M for a sector wide project that looked at developing University HR standards, described here:

http://works.bepress.com/chris_andrews/6/].

Electronic Library

The full dissertation explaining this topic is available online at: <http://eprints.usq.edu.au/4297/>

The final documents for the (later) Australian Universities HR Advisory Standards project can be found online: <http://www.hrd.qut.edu.au/hrbenchmarking/wpp.jsp>

Two further examples of the adaption of high level HR standards (Workplace Planning and Industrial Relations) can be found online: http://works.bepress.com/chris_andrews/

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