ABSTRACT

Human beings are the most precious part of the organization. Effective utilization of human resources depends upon the human resource audit practices of an organization. A human resource audit is a tool for evaluating the personnel activities of an organization. The audit includes one division or an entire company. It gives feedback about the human resources function to operating managers and human resource department. It also provides feedback about how well managers are meeting the human resources duties. In short, the audit is an overall quality control check on human resource activities in a division of company and an evaluation of how their activities support the organization strategy. Thus this paper focuses on human resource audit practices on the performance of employees in selected IT Industries in Chennai. It also focuses on Human Resource Audit Approaches and Human Resource Benefits with reference to IT Industries.

Keywords: Human Resource; Audit Practices; Performance; Employees; IT Industry; Approaches

INTRODUCTION

Human capital is an essential component of the market value as well as brand value of every organization. HRD Audit presents the first-ever comprehensive approach to evaluating and re-designing human resource development (HRD) function and interventions, and maximizing their contribution to business goals and human capital formation.

OBJECTIVES OF THE STUDY

1. To understand the concept of Human Resource Audit practices
2. To study the approaches of Human Resource Audit practices
3. To examine objectives of Human Resource Audit practices in IT Industry
4. To analyse the Benefits of Human Resource Audit practices
5. To identify the steps in Human Resource Audit practices in IT firms
6. To assess the SWOT analysis of Human Resource Audit practices in IT Firms
What Is Human Resource Auditing?

Human Resource Audit means the systematic verification of job analysis and design, recruitment and selection, orientation and placement, training and development, performance appraisal and job evaluation, employee and executive remuneration, motivation and morale, participative management, communication, welfare and social security, safety and health, industrial relations, trade unionism, and disputes and their resolution. HR audit is very much useful to achieve the organizational goal and also is a vital tool which helps to assess the effectiveness of HR functions of an organization.

Definition

The American Accounting Association’s Committee on Human Resource Accounting (1973) has defined Human Resource Accounting as “the process of identifying and measuring data about human resources and communicating this information to interested parties”. HRA, thus, not only involves measurement of all the costs/investments associated with the recruitment, placement, training and development of employees, but also the quantification of the economic value of the people in an organisation.

Flamholtz (1971) too has offered a similar definition for HRA. They define HRA as “the measurement and reporting of the cost and value of people in organizational resources”.

Approaches to Human Resources Audit

The following approaches are adopted for purpose of evaluation:

- Comparative approach
- Outside authority approach
- Statistical approach
- Compliance approach
- Management by objectives (MBO) approach

Comparative Approach: In this, the auditors identify Competitor Company as the model. The results of their organization are compared with that Company/industry.

Outside Authority Approach: In this, the auditors use standards set by an outside consultant as benchmark for comparison of own results.

Statistical Approach: In this, Statistical measures are performance is developed considering the company’s existing information.

Compliance Approach: In this, auditors review past actions to calculate whether those activities comply with legal requirements and industry policies and procedures.

Management by Objectives (MBO) Approach: This approach creates specific goals, against which performance can be measured, to arrive at final decision about organization’s actual performance with the set objectives.

Objectives and Benefits of Human Resource Auditing: A periodic HR audit can qualify its effectiveness within an organization. HR audits may accomplish a variety of objectives, such as ensuring legal compliance; helping maintain or improve a competitive advantage; establishing efficient documentation and technology practices; and identifying strengths and weaknesses in training, communications and other employment practices.

Objectives of The Human Resource Audit In IT Industries: To review the performance of the Human Resource Department and its relative activities in order to assess the effectiveness on the implementation of the various policies to realize the Organizational goals.
1. To identify the gaps, lapses, irregularities, short-comings, in the implementation of the Policies, procedures, practices, directives, of the Human Resource Department and to suggest remedial actions.

2. To know the factors which are detrimental to the non-implementation or wrong implementation of the planned Programmes and activities.

3. To suggest measures and corrective steps to rectify the mistakes, shortcomings if any, for future guidance, and advise for effective performance of the work of the Human Resource Department.

4. To evaluate the Personnel staff and employees with reference to the Performance Appraisal Reports and suggest suitable recommendations for improving the efficiency of the employees.

5. To evaluate the job chart of the Human Resource Managers, Executives, Administrative Officers, Executive Officers, Recruitment Officers, whether they have implemented the directives and guidelines for effective Management of the Human resources in their respective Departments.

**Benefits of Human Resource Audit:** Several benefits associated with Human Resource audit are listed below. An audit reminds member of HR department and others its contribution, creating a more professional image of the department among manager and specialist. The audit helps clarify the department’s role and leads to greater uniformity, especially in the geographically scattered and decentralized HR function of large organisations. Perhaps most important, it finds problems and ensures compliance with a variety of laws and strategic plans in an organization.

- Identifies the contribution of Human Resource department to the organization
- Improves the professional image of the Human Resource department.
- Encourages greater responsibility and professionalism among member of the Human Resource department.
- Clarifies the HR department’s duties and responsibilities.
- Stimulates uniformity of HR policies and practices.
- Finds critical HR problems.
- Ensures timely compliance with legal requirements.
- Reduces human resource cost through more effective Human Resource procedure.
- Creates increased acceptance of needed change in the Human Resource department.
- Requires thorough review of Human Resourcedepartment’s information system.

Besides ensuring compliance, the audit can improve the department’s image and contribution to the company. Operating managers may have more respect for the department when an audit team seeks their view. If the comments of manager are acted on, the department will be seen as being more responsive to their needs. And since it is service department, these actions may improve its contribution to organizational objectives.

Conducting a thorough review of the “current state” of HR practices and results will help the HR consultant assess the effectiveness of the operations as well as the alignment of specific practices with strategic organizational goals, and legal compliance.

Usually an HR compliance audit will consist of two key elements:
1. Evaluation of the organization’s operational HR policies, practices and processes and their effectiveness in achieving strategic organizational goals related to activities such as: employee relations, retention, performance management, hiring, training, etc.

2. Assessment of current HR metrics for reasonableness and results. These metrics might include indicators such as time to fill a new position, turnover, employee satisfaction, etc.

Steps in Conducting HR Audit in IT Firms

DEFINING THE SCOPE OF AUDIT

CHOOSING THE RESEARCH APPROACH

SELECTING THE RESEARCH DESIGN AND DATA COLLECTION

ANALYSING DATA, EVALUATION AND PREPARING REPORT

Who should conduct HR Audit?

The audit can be conducted by internal managers as external HR/Management expert or by labor law expert. Whoever in charge of audit should have excellent knowledge of HR policies and should be able to maintain a checklist to check the existing policies with its present requirements. An audit conducted by outside HR expert adds value to the whole process apart from giving an insight into the whole issue.

The Process

An Audit involves systematically reviewing all aspects of human resources, usually in a checklist fashion.

Sections of review include:

- Hiring and Orientation
- Benefits
- Compensation
- Performance evaluation process
- Termination process and exit interviews
- Job descriptions
- Form review
- Personnel file review

As the audit process has grown in complexity, more HR organizations have moved to enlist assistance from an external HR consultant to lead their audit process. Engaging with the consultant, the organization will first clarify the scope and the purpose of the audit.

There are several types of audits that can be structured to occur on a rotational basis, or in one big project. Naturally the constraints of time, budget and staff will help to dictate what is right for your organization. Examples of the types of audits to consider might include:

Compliance – As expected, this audit focuses on how well the company is complying with current federal, state and local laws and regulations. This audit may also anticipate and make recommendations for processes that will be impacted by pending legislation; and may include a review of compliance with the company’s Code of Ethics.
Best Practices – This audit compares the current practices of the organization with those of companies identified as having exceptional HR practices.

Strategic – Takes an overall view of HR functions and the strengths and weaknesses of each. This audit aligns with the organization’s strategic goals.

Function-Specific – Targets a specific function of HR, i.e., Job Classification and Descriptions, Personnel Records, I-9 Documentation, etc.

After the scope is confirmed, the consultant will begin to work with the HR Director or Manager to gain access to all documentation related to the scope. For example, the consultant will most likely review current copies of the:

- Employee Handbook
- HR Operations Manual
- HR Policies and Procedures Manual
- Personnel Files
- I-9 Files
- Affirmative Action Plan
- Orientation materials
- HR forms, such as employment application, disciplinary notice, time reporting documents, requests for training, etc.
- EEOC claims

The review of the related documentation will aid the consultant in targeting specific files and practices the consultant will audit through personal interviews and/or observations of actual employer/employee interactions. In addition, the review of these documents will assist the consultant in completing the questionnaire to be used in one-on-one interviews to gather manager and employee understandings of policies and practices. Depending on specific needs of the organization, the consultant may decide to do an on-line survey to gather specific information relative to the audit, or may find it appropriate to conduct focus groups to gather data.

Once the data is collected, the consultant will analyze the various elements in evaluating the HR organization and its practices against the audit objectives. In addition, the consultant will note any gaps between the current state and benchmarked practices and recommend steps the organization should consider for making improvements.

The purpose of an HR Audit is to recognize strengths and identify any needs for improvement in the human resources function. A properly executed Audit will reveal problem areas and provide recommendations and suggestions for the remedy of these problems. Some of the reasons to conduct such a review include:

- Ensuring the effective utilization of the organization’s human resources
- Reviewing compliance concerns with a myriad of administrative regulations
- Instilling a sense of confidence in management and the human resources function
- Maintaining or enhancing the organization’s and the department’s reputation in the community
- Performing “due diligence” review for shareholders or potential investors/owners

Establishing a baseline for future improvement for the function
Taking Action

Once the consultant has presented the audit findings to the HR professionals and senior management, the next step is to aid the team in developing a roadmap of actions to be taken to close the identified gaps. Audit results should also be shared with the members of the HR team, and employees in general, so they are aware of what came out of the audit – what’s working, and areas identified for improvement.

Checking Employees Practices in IT Industries

The audit needs to cover every area of practices, For example:

1. Leave calculation
2. Goals and objectives
3. Personnel documentations
4. Job analysis & descriptions
5. Recruitment process
6. Salaries, surveys and scales
7. Benefits, allowances & entitlements
8. Data protection
9. Annual appraisals & Salary Revision
10. Organisational chart

SWOT Analysis

All information can be summarized into a simple swot analysis as follows:

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>OPPORTUNITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined Recruitment Process</td>
<td>Reduce Bureaucracy</td>
</tr>
<tr>
<td>Good manual records</td>
<td>Training and skills development</td>
</tr>
<tr>
<td>Computerized HR systems</td>
<td>Improve information</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>WEAKNESSES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of payroll integration</td>
<td>line managers own systems</td>
</tr>
<tr>
<td>Poor training record</td>
<td>Inconsistent HR applications</td>
</tr>
<tr>
<td>Too operational</td>
<td>Use of external consultants</td>
</tr>
</tbody>
</table>

HR Audit Feedback

After reviewing HR functions, roles, & activities and Audit Team provided feedback base on recommendations and observations & evaluations and findings in

- HR Operations
- HR Effectiveness
- HR Strategies
- HR Services
- HR Development
Benefits of HRA Systems in TCS

There are further improvements in the systems & services needed as given below:

- Maintaining updated Resume
- Contract employees should be hire for short term projects
- Seperate place for personnel files
- Goals and objectives should be updated Quarterly
- For hiring and promotions who holds the final authority
- Separation process needs more clearance and transparency
- Functional heads should review screened resumes
- Employees must be aware of with Quality Policy, Timing & Mission and vision of the company.
- More report formats need to add in HRIS&HRMS
- More focus required on succession planning
- Forms for reimbursement need to introduced
- Employee hand bood updating on yearly basis
- To improve the entire communication system

Infosys Used the Lev And Schwartz Method To Value Human Resource

According to this model the present value of future earning capacity of an employee, from the time of joining the organization till retirement was estimated. Infosys used this model based on the following assumption. An employee’s salary package included all benefits, whether direct or otherwise, earned both in India and in a foreign Nation. The additional earnings on the basis of age group were also taken into account. The method is as follows. All the employees of Infosys were divided into five groups, based on their average age each group’s average compensation was calculated. Infosys also calculated the compensation of each employee at retirement by using an average rate of increment. The increments were based on industry standards, and the employee’s performance and productivity. Finally the total compensation of each group was calculated. This value was discounted at the rate percent per annum which was the cost of capital at Infosys to arrive at the total human resources of Infosys.

Benefit experienced By Infosys by valuing its human resources.

1. Infosys could determine whether its human asset was appreciating over the years or not. This information was important for the company as its success depended solely on the knowledge of the employees.
2. The company could also use this information internally to compare the performance and productivity of employees in various departments.
3. HRA also helped Infosys to decide the compensation of employees. The company ensured that it compensated each employee according to his/her net worth.
4. HRA also helped Infosys in identifying and retaining valuable employees.
5. It helped organization to take managerial decisions on the availability and the necessity of human resources.
Conducting HR audit is the first crucial step in improving the service of the function. It collects facts and evidence of actually what you do and identify what you need to do. The audit helps the department to clarify roles and steps. It is impossible to improve everything in one step.

CONCLUSION

It is concluded that Self-development, Skill development and Self-evaluation are good predictors for Individual performance. Moreover, Growth & Development and Strategic control measures are good predictors for organizational performance. Further it is concluded that Venturing into new business and verticals, Attitude of the top management towards organizational and human capital development are the key discriminate factors among the Practicing HRA IT companies. This study suggests the IT firms to focus more on conducting fair and transparent evaluation with the trained and skilled person. Companies have to take immediate steps for Establishing training institutes, design and development of training programs and standardising procedure & counseling to retain their employees and get the competitive advantage.

REFERENCES