Abstract
An organisation cannot build a good team of working professionals without good Human Resources. Human Resource Audit is a cyclic review to determine the competence and efficiency of Human Resource Management. Human Resource efficiency tools such as HR audit are concerned with the examination and evaluation of the policies, procedures and practices with reference to the human resource of the organization. Although there is no legal obligation to conduct HR Audit, it is considered important for improving the performance of human resource, controlling the cost of labour and meeting the challenges of the trade union. In addition to recognizing areas of legal risk, audits often are intended to provide a company with information about the competitiveness of its HR strategies by looking at the "best practices" of other companies in its industry. An HR audit involves understanding issues and finding clarifications to inconvenience prior to the stage of being termed as unmanageable. It is a prospect to assess what an organization is doing right, as well as how things might be done differently, more efficiently or at a reduced cost. The entire process of HR auditing is broadly segmented 4 phases i.e. pre-audit information, on-site review, records review, and audit report. The initial three phases involve wide-ranging collection of quantitative as well as qualitative information whereas the last stage implies the proper drafting and concluding the collected information. A well-executed HR Audit will divulge gap areas that can potentially lead to costly legal disputes and governmental fines. The Human Resource Management's climate has an impact on employee motivation, morale and job satisfaction.
1. INTRODUCTION

‘Human resources’ also alternatively called as ‘Human Capital’ is the group of people who make up the workforce of an organization, business sector, or economy. Valuable employees are held in an organization and also certain aspects such as organizational culture, policies, benefits, compensation, and employee relation are maintained with the aid of human resource management. HR sets up strategies, produces policies, systems, standards and procedures. Pioneering economist John R. Commons used the term "human resource" in his 1893 book *The Distribution of Wealth* but did not further build upon it. The scholar fraternity’s first use of "human resources" in its modern form was in a 1958 report by economist E. Wight Bakke. The term began to become more developed in the 19th century.

An organisation cannot build a good team of working professionals without good Human Resources. The key functions of the Human Resources Management (HRM) team include recruiting people, training them, performance appraisals, motivating employees as well as workplace communication, workplace safety, and much more. Valuable employees are held in an organization and also certain aspects such as organizational culture, policies, benefits, compensation, and employee relation are maintained with the aid of human resource management. HR sets up strategies, produces policies, systems, standards and procedures. Any subject matter may be audited. Audits provide third party assurance to various stakeholders that the subject matter is free from material misstatement. The term is most frequently applied to audits of the financial information relating to a legal person. An audit is a systematic and independent examination of books, accounts, statutory records, documents and vouchers of an organisation to ascertain how far the financial statements as well as non-financial disclosures present a true and fair view of the concern.

2. MEANING AND DEFINITION OF HR AUDIT

The word “audit” originates from the Latin verb audire, which means, to listen. Listening involves an attempt to be familiar with the state of the affairs as they exist and as they are assured to exist. Auditing as a formal process is ingrained in this attribute of listening. It is a basic investigative tool to estimate not only the current status of things but also the gaps between the current status and the desired status in the area that is being audited. Human Resource Audit is also a methodical formal process, which is intended to scrutinize the strategies, policies, procedures, documentation, structure, systems and practices with respect to the organization’s human resource management. It systematically and scientifically assesses the strengths, limitations, and developmental needs of the existing human resources from the larger point of view of enhancing organisational performance.

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”. The human resource audit is based on the foundation that human resource processes are dynamic and must continually be revitalized to remain responsive to
the ever changing needs. Human Resource Audits are not routine practices aimed at problem solving. Instead of directly solving problems, HR audits, like financial audits, help in providing insights into possible causes for current and future problems.

HRA, thus, not only includes 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. An effective HR audit helps in recognizing actual need for enhancement and enrichment of the HR function. It clearly directs the organization in maintaining conformity with ever-changing rules and regulations. HR audit, therefore, helps in analyzing the gap between ‘what is the current HR function’ and ‘what should be the best possible HR function’ in the organization. Owing to the multitude of laws involved and impacting each stage of the employment process, it is tremendously vital for an employer to recurrently conduct an HR analysis of their policies and practices. This helps to identify regulatory compliance issues if they exist and evade pricey fines and lawsuits, if otherwise ignored. Human resource audits are a fundamental means of avoiding legal and/or regulatory liability that may arise from a company's HR policies and practices. In addition to recognizing areas of legal risk, audits often are intended to provide a company with information about the competitiveness of its HR strategies by looking at the "best practices" of other companies in its industry. The shifting scenario of HR management demands that HR professionals contribute fully to their companies as proper strategic business partners. An audit will help a company understand whether its HR practices help, hinder or have little impact on the organization's business goals. The audit also helps quantify the results of the department's initiatives and provides a roadmap for necessary changes.

3. FOUNDATION OF HR AUDIT

The usually carried out audits are the recognized and common accounting audits in accordance with precise statutory regulations. Nevertheless, in the case of human resource audits, there is no legal obligation, but enlightened managements have voluntarily accepted its usefulness depending upon the circumstances. Accordingly, an HR audit involves understanding issues and finding clarifications to inconvenience prior to the stage of being termed as unmanageable. It is a prospect to assess what an organization is doing right, as well as how things might be done differently, more efficiently or at a reduced cost.

In today's competitive ambience, companies function within the boundaries of a profoundly regulated employee environment. These comprise of dealing with innumerable complex laws and regulations. The scope of the HR function includes establishing and administering a host of policies and practices—many of which involve compliance implications—that significantly influence the productivity and profitability of the enterprise. Human resource audits connect a company's strategic behaviour to take a deliberate look at its HR policies, procedures and practices. This type of inclusive review of the company's existing situation can help to categorize whether specific practice areas or processes are adequate, legal and/or effective. The results attained from this review can facilitate to
identify gaps in HR practices, and these gaps can then be prioritized for concentration in an effort to minimize lawsuits and/or regulatory violations, as well as to achieve and maintain world-class competitiveness in key HR practice areas.

![Diagram of Key Factors HR Audit](www.whatishumanresource.com)

**Figure 1: Key Factors HR Audit**

The principle of an HR Audit is to identify strengths and recognize any needs for development in the human resources function. An appropriately performed Audit will reveal problem areas and provide recommendations and suggestions for the remedy of these problems. The foremost objectives behind carrying out an HR Audit are –

- Ensuring the efficient utilization of the organization’s human capital.
- Making out the best possible use of internal resources and maximizing the effectiveness of human capital in the organization.
- 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.
- 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.
- Instilling a sense of confidence in management and the human resources function
- Maintaining the organization and the department’s reputation in the community.
- 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.
- To know the factors which are detrimental for the wrong implementation of the planned programmes and activities.
- To evaluate the Personnel staff and employees with reference to the various reports and suggest suitable recommendations for improving the efficiency of the employees.
An audit reminds members of HR department and others its contribution, showing up a more professional representation of the department amongst managers and other specialists. The audit helps elucidate the department’s responsibility and leads to better uniformity, particularly in the geographically scattered and decentralized HR function of large organisations. Therefore most important, it finds problems and ensures compliance with a variety of laws and strategic plans in an organization.

4. PROCESS OF HR AUDIT

The top management has to clearly ascertain the terms and scope of the audit precisely before the external firm to make the audit successful. This includes defining the exact purpose of audit, viz. examining compliance with legal requirements and organization’s policies, identifying problem areas to avoid crisis situation with appropriate planning, analyzing ways to better serve the needs of relevant parties – employees, partners or society, measuring the work processes, seeking HR related opportunities available within the organization, dealing with situation of merger and acquisitions, etc.

Principal components of the HR system which are generally audited comprise – documentation, job descriptions, personnel policies, legal policies, recruitment and selection, training and development, compensation and employee benefit system, career management, employee relations, performance measurement and evaluation process, termination, key performance indicators, and HR Information Systems (HRIS). The entire process of HR auditing is broadly segmented 4 phases i.e. pre-audit information, on-site review, records review, and audit report.

The initial three phases involve wide-ranging collection of quantitative as well as qualitative information. The method for compilation of information depends upon the size of the target audience, availability of time and type of data to be collected. The pre-audit information phase includes a review of the organization’s policies, HR manuals, employee handbooks, reports, etc. which form the basis of working in the organization. The next phase of on-site review, involves questionnaires, interviews, observation, informal discussions, surveys, or a combination of such methods to get the necessary inputs from the members of the organization. The records review phase requires detailed scanning of current HR records, employees’ files, employee absenteeism and turnover statistics, notices, compensation claims, performance assessments, etc.

An HR audit reviews an organization’s critical human resources functions to determine the organization’s observance with state and federal regulations. The HR Audit can be executed in the following steps –

- Determine the scope
- Develop a plan
- Gather and analyze the data
- Produce a report

They are elaborated as –

- Determine the scope
The primary step of performing an HR audit is to define the range and extent of the audit. If the HR audit is been conducted for the very first time, a broad review of the entire policies and procedures framework is advantageous. Moving ahead, organization may decide to conduct audits that focus on precise HR functions, which are believed to be very basic yet critical like payroll maintenance, leave policies etc. The subsequent key task is to formulate a team for HR audit; team members might comprise of representative from each HR discipline, such as compensation and benefits, recruitment and selection, training and development, employee relations and safety and risk management.

- **Develop a plan**
  The next assignment is to develop a plan for conducting the audit. Categorize the objective of the audit, assemble the audit team and create a timeline for completing the audit. Identify area of the audit that is contingent upon the completion of another area. For example, if the employee relations segment of the audit requires information from finished portions of the compensation and benefits portion, establish the order in which specific areas must be completed. A preparatory meeting of key staff members has to be arranged for the briefing of the audit. This would include discussions on – the selection of particular issues considered to be significant, charting out exact audit procedures as per need of the organization and developing strategy and outline with a proper schedule of audit.

- **Gather and analyze the data**
  Collect HR process documents and standard operating procedures, if they exist. Any documentation and records connected to how HR staff process employee requests, applicant information, medical or health information and payroll matters. In case of outsourcing of HR functions, assemble information from outsource providers and determine reliability with in-house functions. In this case also obtain information from the internal staff associate who administers the outsourced functions and scrutinizes the providers for quality assurance. The data would also aimed to be collected through proper detailed interview sessions with the related HR team comprising of key managers, functional executives, top functionaries in the organisation, and even employees’ representatives, if necessary. The aim would be to pinpoint issues of concern, present strengths, anticipated needs and managerial philosophies on human resources. The audit team should also review current and potential legal conducts.

- **Produce a report**
  After all of the essential information has been analyzed, the final phase is to draft a report with the findings of the audit. This report must clearly record the strength and weaknesses established during the audit, as well as propose recommendations to overcome instances of noncompliance. Similar to the planning meetings, the drafted outcomes of the audit are to be discussed through numerous rounds with the managers and staff specialists. Through this step, the issues that get crystallized are brought to the notice of the management in a formal report. The audit report is a complete narrative explanation of HR activities that includes both recommendations for effective practices and suggestion for improving practices that are less effective. An identification of both good and bad practices is more objective and encourages wider acceptance of the report. An audit report contains several sections.
Usually it is confined to 3 sections viz. One part is for line managers, another is for managers of specific HR functions, and the final part is for the HR managers.

5. BENEFITS OF HR AUDIT

When a company institutes itself in the marketplace, it relies upon its employees to facilitate this activity. Employees characterize one of the most important assets a company has; protecting that fundamental category of assets is the responsibility of the human resources department. Depending on the requirements of the respective company, HR audits assess the department's effects, services and its place in the achievement of company goals and objectives. To assess the proficiency of a company's human resource department, senior management may necessitate an HR audit.

Senior management can utilize the audit report for making the essential transformations and evaluate its general approach to the human resources function. The management team can choose the general purpose for the audit, which may be singular or multipronged. A well-executed HR Audit will divulge gap areas that can potentially lead to costly legal disputes and governmental fines. It is desirable to accomplish an HR audit once every year. One of the major objectives can be to evaluate the human resource function in context of employee retention. Moreover, conducting an HR Audit after a noteworthy alteration in the organization (such as reconstruction, expansion, or deduction in force), will facilitate identification of precise practices and emphasize function that essentially necessitate a tedious task of modification. Few of the major benefits of HR Audit are—

- HR audit which would be intended on an inclusive basis, leads to progress in quality of products and services marketed by the organization, with long term benefits.
- It identifies the contributions of the HR department.
- It improves the professional image of HR department.
- It can analyze failures and assign responsibilities logically. It alleviates the organization from politics, blame-game and excuses for non performance, bringing in a new culture of professionalism.
- It encourages greater responsibility and professionalism amongst members of HR department.
- It classifies the HR department's duties and responsibilities.
- It stimulates uniformity of personnel policies and practice.
- It identifies critical personnel problems.
- It ensures timely compliance with legal requirements.
- It reduces human resource costs.
- Identify the unwritten practices and the ascertainment whether there are any legal risks associated with those practices
- Gauge whether procedures and practices are user friendly and what changes can be made to help assure broader compliance
- Identify opportunities for new policies or procedures that will help minimize risk
- Determine whether record-keeping practices are being followed
6. CONCLUSION

HR audit consequently is a comprehensive review of all human aspects of an organization such as quality and numbers, structure and systems, skills and attitudes, and how appropriate are they, for short term and long term goals of the organization. This evaluation should endorse that all aspects of HR is in line with the vision and mission statements of the organization. Unfortunately, today’s work environment focuses more on getting things done without working on the inner problems of individuals. The significance of a HR audit is that it recognizes the importance of creating the right environment and thereby facilitating long term productivity improvement. It scrutinizes all aspects of human resources and hence, can activate spectacular enhancement. The most perceptible assistance would be improved productivity more than offsetting the cost of the audit. A successful HR audit will conclude in a well-organized report. Whether an audit is completed progressively or in single go, the imperative thing is to have a process in place that ascertains the time and funds spent on generating detailed HR programs does not go in vain because they are out-of-date, insufficient, or simply are not followed. In the present competitive business atmosphere, the companies in diverse industries are struggling to improve their competence level to survive in the market. The performance of an organization can be enhanced only through improved employee performance. Recruitment, training, compensation, conflict management and motivation all these are common functions of Human resource management. All these functions/activities have to be reviewed and evaluated in order to ensure the efficient HR policies and management system. The Human Resource Management's climate has an impact on employee motivation, morale and job satisfaction.

7. REFERENCES

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