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Abstract: Human resource management (HRM) has undergone a formidable evolution since its inception. The role of HR managers has broadened with multiple responsibilities aligned with the output of the organization. The journey has taken them to the business partner’s protagonist and connected them to each and every aspect of the functions of the business. This is possible as they are quick in their approach and equipped with available information about the functioning of various operations through innovative modern technologies. To be effective in the system, HR managers need to evaluate the results engendered by the design and implementation of HR policies and procedures through HR Audit. It includes analysis and valuations of the HR policies and their level of fit with the strategy of the firm, and the characteristics of human capital. It is imperative that HR Audit should be advanced enough to evaluate strength and weakness of the HR systems of the enterprise. It must also be in position to suggest improvements in area of concerns of the HR system. Since HR managers are the major stakeholder of HR systems and HR audit outcomes, the researchers are making an attempt to understand perception of HR managers about the human resources audit (HRA) function’s evolution to match its pace with the fast-changing HR systems.

Keywords: HR Audit; HR effectiveness; HR evolution; HR systems

1. Introduction

The historical role of Human Resources function has changed spectacularly since its inception in the early 1900s. Formerly, from a clerical function, Human Resource as a role has grown to become strategic business partner in planning and attaining organizational policies and goals. Today’s business climate puts the obligation on the HR department to accept the challenge of doing more with less, while contributing value towards business objectives. Additionally, HR also has to address the rapidly changing conditions affecting employees and their dynamic needs. Hence, the functions need to be flexible, backed with knowledgeable practitioners. So, there is always the need for improved and evolved systems and processes. This can best be done by setting a formal HR Audit process that evaluates and suggests improvement with respect to entire HR gamut of the organization.

The concept of Human Resource Audit has emerged from the practice of yearly finance and accounting audit, which is mandatory for every organization. This audit serves as an examination of practices and systems for identifying problems and ensuring sound accounting principles and policies for the organization. Similarly, a Human Resource Audit serves as a means through which an organization can map the health of its Human Resource functions. It is a process that diagnoses, analyzes, evaluates, and assesses the systems, principles, policies, and procedures set within the HR function. HR Audit is a strategic endeavor to revisit HR policies, procedures, and practices, to find gaps and bring about suitable upgraded systems. HR Performance issues are addressed in a strategic HR audit that answers whether the HR policies and procedures are aligned with the larger strategic objectives and goals of the organization or not. On the similar lines Pravin Durai et al (2014) stated that HR effectiveness 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. It is a periodic review to measure the efficiency and effectiveness of Human Resource Management. Whereas Oeri Lydia Moke & Willy Muturi (2015) claim that Human Resources Audit measures, human resource outputs and effectiveness under the given circumstances and the degree of utilization of human resource skills in addition to the above.

HR Audit specifies the conditions that should be met and then determines whether conditions have or have not been met. Once an HR Audit is conducted, a company will know exactly what needs to be done to ensure its legal compliance. The purpose of HR Audit is to see how well HR function is performing and which areas need attention. It is done by comparing the departmental goals with the achieved results. HR Audits typically are conducted as “walk-throughs” in the workplace itself. The HR department uses a multiple pointer checklist defining the “must haves” to ensure that a company is legally compliant under the required laws of the land.

The purpose of an HR Audit process is not only to recognize the strengths of HR function but also to identify any needs for improvement in the same area. A properly executed HR Audit process will reveal problem areas and provide recommendations and suggestions for the remedy of these problems.
HR Audits are essential to safeguard the effective utilization of the organization’s human resources deployed across various functions. K. Vijayaragavan and Y. P. Singh (2007) stated the HR Audit is proper planning and management of human resources within the organizations and is essential to increase the capabilities, motivation, and overall effectiveness of personnel. It also reviews compliance requirements in relation to administration of the organization. This instills a sense of confidence in management and the human resources function run in the organization, also helps in maintaining or enhancing the organization and the department’s reputation in the HR community. Sadhana Kumari (2017) also suggested that 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. As, HR department is mostly engaged in providing service, these actions may improve its contribution to organizational objectives. It can be inferred upon that, HR Audit is also about performing “due diligence” review for existing policies, procedures and practices establishing a baseline for future improvement for the function and overall organization.

Because of the multitude of laws that affect each stage of the employment process, it is extremely important for an employer to regularly conduct HR Audits of their policies, systems, processes, and practices.

HR as a function has witnessed tremendous growth over the years, aided by automated processes and new age technologies. Similarly, HR Audit processes and their tools have also evolved along with changes in HR Automation, in lieu of the changing requirements in the business scenario. While these tools, help to streamline processes and gauge HR effectiveness, they also find gaps in the HR Processes and Functions, leading to an improved and robust HR function. Further, Mahalingam (2014) said that the main function of HR Audit System facilitates to take specific actions that will help in minimizing employee turnover, effective orientation and training, better working condition, remuneration, benefits and opportunities for future advancement.

Thus, it can be summarized as suggested by M. Sangeetha, R. Murugalakshmi (2017), A Human Resources Audit is a comprehensive method (or means) to review current human resources policies, procedures, documentation and systems to identify needs for improvement and enhancement of the HR function as well as to assess compliance with ever-changing rules and regulations. An Audit involves systematically reviewing all aspects of human resources, usually in a checklist fashion. With this backdrop the researchers are trying to understand the Perception of HR managers about the human resources audit (HRA) function’s evolution to match its pace with the fast-changing HR systems with respect to modern organizational context.

2. Literature Review

The word “audit” comes from the Latin verb “audire”, which means, “to listen”. Listening implies an attempt to know the state of the affairs as they exist and as they are expected or promised to exist. Auditing as a formal process is rooted in this feature of listening. Consequently, it is a diagnostic tool to gauge 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. Auditing has been a routine exercise in the area of finance, especially because it is a statutory obligation. However, in case of Human Resource, there is no legal binding to adopt auditing (Coy, 2002).

As situation is changing rapidly in Human resource functions also Audit is needed to assess the gap and bridge it. Human resource audit is a process which is carried out periodically to understand the system of human resources, including monitoring and collecting information, the analysis and assessment on this basis of the efficiency and effectiveness of the implementation of the same. The main goal is to improve the employees’ performance and job satisfaction (Costel, 2004). Human resources audit requires the study of the human resources system within the organization of different hierarchical levels. Human Resource practices and functions have a far-reaching impact on the employees’ morale and performance, which in turn, affect the overall performance of the organization. Therefore, they are claimed to be closely related to a business’s ‘balance scorecard’ through productivity, people, and processes (Gupta 2008). Given its criticality, a regular assessment of the HR function, like that of finance function, becomes essential for sustaining organizational health and growth. The need for such assessment is even more in today’s dynamic, competitive, and complex environment, where human resource management needs continuous upgradation and re-alignment. Like any audit, human resource audit is also a systematic formal process, which is designed to examine 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 organizational performance. According to Yadav and Dabhade (2014), the human resource audit is based on the premise that human resource processes are dynamic and must continually be redirected and revitalized to remain responsive to the ever-changing needs. According to Ingalens (2004), the purpose of conducting a human resource audit is to support the overall business plan of the organization. Employees have a significant impact on the bottom line, so an audit of the HR function would be favorable. Audits can be limited in scope focusing on specific areas that may need attention such as hiring practices, compensation and/or benefits, or they may be more extensive looking at the HR function. As a whole, Higgins (2007) indicated that the process has three parts: to identify and prioritize management issues relating to human resources; identify gaps between the current practices and policies with that of the business objective; and to identify any legal difference and potential exposure. The researcher has also emphasized that audit should not be limited to...
accomplish the compliance part but rather take care of gaps that could really make a difference in one’s business over the long term. In order to maintain an equilibrium in the organization, it is essential to keep the quality of human resources, without whom the organization loses any chance of strengthening its position in the market and to eliminate further inauspicious events. This may be done through reorganization, elimination of structural subdivisions and developing the employees who cannot integrate in the change strategy (McConnell, 2003).

Through Audit, the HR team gets quantifiable understanding on how the organization is running or what changes must be implemented for smooth operations. According to Rajendran and Chandrasekaran (2011), HR Audits are overall quality control checks on Human Resource activities in an organization and an evaluation of how their activities support the organization strategy. Thus, HR Audits provide an insight to HR Managers/ professionals on their effectiveness of HR functions and must be suitable enough to evaluate and provide solutions to their various functional lacunae.

Ekta (2013) propagated that HR professionals accept the need of both internal & external audit in the organization. The researcher also suggested that HR Managers perceive that HR audit strengthens HR practices, ensures compliance, review of internal policies and processes with respect to effectiveness of the human resources operation in the organisation. It has also been observed that gap exists between the perception of the HR professionals and the actual implementation of HRD audit. It may be due to lack of required awareness or absence of well-defined audit process and negligence of top management on the issue.

In this way, the HR function is becoming a source of competitive advantage and is ceasing to be considered as a specialized and unrelated function that incurs high costs to the company. HR audit can significantly contribute to the quality improvement processes and employee satisfaction. However, a comprehensive audit will be most useful if an organization is ready to act on the findings and develop its human resource functions to a level where the full potential of HR to support the organization’s goals and objectives can be realized. Given its criticality, a regular assessment of the HR function becomes essential for sustaining organizational health and growth.. Since HR audit, has a key role to play in improving the utilization of HR resources, it is imperative for HR managers to understand its importance for the sustenance and growth of the department as well as organization.

Similarly, Human Resources Information Systems and Digital intelligence are rapidly transforming the workplace. Man, and learning machines are working closely together in neural networks, powered by an ever-increasing amount of data in the cloud and the use of big data and artificial intelligence to analyse and direct them. This force crosses a wide range of disciplinary and organizational boundaries and requires a massive shift in thinking about how to execute and operate and at the same time stay right within the boundaries of compliance and policies. In this VUCA world it becomes necessary for us to have a HR Audit process that has been well integrated within our current updated HR Systems. To understand the above scenario in better manner this paper aims to know the perception of how HR Professionals perceive the evolution of HR Audit function.

**Objective**
- To understand evolution of HR Audit Process
- To explore relationship between HR Audit and HR System effectiveness

### 3. Research Methodology

This is a descriptive study wherein the researchers are trying to describe & analyze the gathered data and to reach to a rational conclusion with respect to evolution of HR Audit process and its suitability to evaluate HR system effectiveness. The statistical population for the study includes HR Managers who are working as part of Human Resources Function. The study covered 105 HR Managers working in various organization across industries. Convenience sampling technique has been used for collecting the data for the purpose of this research. A questionnaire containing 10 questions was designed by exploring books periodicals, journals and interaction with HR professionals from various organizations of repute. The responses were collected on five-point Likert scale. The data collected was analyzed using Factor analysis. Factor Analysis is a method of data reduction in SPSS. The purpose of factor analysis is to reduce many individual items into a fewer number of dimensions. It does this by seeking underlying unobservable (latent) variables that are reflected in the observed variables (manifest variables). There are many different methods that can be used to conduct a factor analysis (such as principal axis factor, maximum likelihood, generalized least squares, unweighted least squares), There are also many different types of rotations that can be done after the initial extraction of factors, including orthogonal rotations, such as varimax and equimax, which impose the restriction that the factors cannot be correlated, and oblique rotations, such as promax, which allow the factors to be correlated with one another. The data has been analyzed under principal component method and rotated using varimax.

### 4. Results or Findings

**Table 1: KMO and Bartlett's Test**

<table>
<thead>
<tr>
<th>KMO and Bartlett's Test</th>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</th>
<th>Bartlett's Test of Sphericity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approx. Chi-Square</td>
<td>373.764</td>
<td>DF</td>
</tr>
<tr>
<td>Sig.</td>
<td>.000</td>
<td>.000</td>
</tr>
</tbody>
</table>

The above table (Table No 1) shows two tests that indicate the suitability of the data for structure detection. The Kaiser-Meyer-Olkin Measure of Sampling Adequacy that indicates the proportion of variance in the variables that might be caused by underlying factors. High values (close to 1.0) generally indicate that a factor analysis may be useful with the collected data. The obtained score of 0.832 indicates good level of sampling adequacy.

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Bartlett’s Test of Sphericity – This test’s the hypothesis that the correlation matrix is an identity matrix. Taken together, these tests provide a minimum standard which should be passed before a factor analysis (or a principal components analysis) should be conducted. Small values (less than 0.05) of the significance level indicate that a factor analysis may be useful with the data. In our case the significance value is 0.000 which clearly indicates that doing factor analysis will be useful for the collected data.

The Table No 2 gives the test of reliability score i.e Cronbach’s Alpha Score of the data collected via questionnaire which stands at 0.823. Which means the collected data is good and Reliable.

The above table also gives details of descriptive statistics, based on the derived Z values it is evident that HR Managers are optimistic about the implementation of Emerging Technologies AI, ML, Blockchain etc in the HR Audit function the same is evident from the derived Z values for questions 5 to 7 are greater than +1.96.

HR Managers are also highly optimistic that the HR Audit function requires upgradation to keep up with the fast pace at which HR systems have been developing the same is evident from the Z value derived from question No 3 i.e. 3.47.

HR Managers are neutral about the “Current HR Audit practices are important tools to measure the performance of the HR Function” and “HR Audits aid in achieving organizational goals” the same is reflected by the Z value of question 1 & 2 which lies between -1.96 and +1.96.

Table 2: Descriptive Statistics

<table>
<thead>
<tr>
<th>Questions</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Standard Error</th>
<th>Z Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current HR Audit practices are important tools to measure the performance of the HR Function.</td>
<td>1.20</td>
<td>0.71</td>
<td>0.07</td>
<td>1.68</td>
</tr>
<tr>
<td>HR Audits aid in achieving organizational goals.</td>
<td>1.17</td>
<td>0.66</td>
<td>0.06</td>
<td>1.78</td>
</tr>
<tr>
<td>HR Audits require up-gradation to keep up with the fast pace at which HR systems have developed.</td>
<td>1.66</td>
<td>0.48</td>
<td>0.05</td>
<td>3.47</td>
</tr>
<tr>
<td>HR Audits process can be technologically driven rather than the manual/ traditional processes.</td>
<td>1.49</td>
<td>0.69</td>
<td>0.07</td>
<td>2.14</td>
</tr>
<tr>
<td>Emerging technologies like AI, ML, Blockchain etc. can make the HR Audit function faster and more reliable.</td>
<td>1.54</td>
<td>0.71</td>
<td>0.07</td>
<td>2.18</td>
</tr>
<tr>
<td>Emerging technologies like AI, ML, Blockchain etc. make the role of HR auditor more strategic than operational.</td>
<td>1.43</td>
<td>0.66</td>
<td>0.06</td>
<td>2.15</td>
</tr>
<tr>
<td>Emerging technologies like AI, ML, Blockchain etc. reduce Auditor bias with more transparent operations.</td>
<td>1.60</td>
<td>0.78</td>
<td>0.08</td>
<td>2.05</td>
</tr>
<tr>
<td>HR Audit processes are well-equipped to handle Audits of techno savvy HR tools like ChatBots.</td>
<td>0.63</td>
<td>1.02</td>
<td>0.10</td>
<td>0.62</td>
</tr>
</tbody>
</table>

Cronbach's Alpha Score of the data collected 0.823

The Table No 3 gives the details of Total Variance Explained the details of the same are listed below:

a) Factor – The initial number of factors is the same as the number of variables used in the factor analysis. However, not all 8 factors will be retained. In this example, only the first three factors will be retained.

b) Initial Eigenvalues – Eigenvalues are the variances of the factors. Because we conducted our factor analysis on the correlation matrix, the variables are standardized, which means that the each variable has a variance of 1, and the total variance is equal to the number of variables used in the analysis, in this case, 8.

c) Total – This column contains the eigenvalues. The first factor will always account for the most variance (and hence have the highest eigenvalue), and the next factor will account for as much of the left over variance as it can, and so on. Hence, each successive factor will account for less and less variance.

d) % of Variance – This column contains the percent of total variance accounted for by each factor.

e) Cumulative % – This column contains the cumulative percentage of variance accounted for by the current and all preceding factors. For example, the third row shows a value of 76.370. This means that the first three factors together account for 76.370% of the total variance.

f) Extraction Sums of Squared Loadings – The number of rows in this panel of the table correspond to the number of factors retained. In this example, we requested that three factors be retained, so there are three rows, one for each retained factor. The values in this panel of the table will always be lower than the values in the left panel of the cumulative variance.

Table 3: Total Variance Explained

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
<th>Rotation Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
<td>Cumulative %</td>
</tr>
<tr>
<td>1</td>
<td>3.467</td>
<td>43.336</td>
<td>43.336</td>
</tr>
<tr>
<td>2</td>
<td>1.536</td>
<td>19.198</td>
<td>62.534</td>
</tr>
<tr>
<td>3</td>
<td>1.107</td>
<td>13.836</td>
<td>76.370</td>
</tr>
<tr>
<td>4</td>
<td>0.627</td>
<td>7.84</td>
<td>84.21</td>
</tr>
<tr>
<td>5</td>
<td>0.56</td>
<td>6.999</td>
<td>91.209</td>
</tr>
<tr>
<td>6</td>
<td>0.303</td>
<td>3.788</td>
<td>94.997</td>
</tr>
<tr>
<td>7</td>
<td>0.237</td>
<td>2.965</td>
<td>97.962</td>
</tr>
<tr>
<td>8</td>
<td>0.163</td>
<td>2.038</td>
<td>100</td>
</tr>
</tbody>
</table>
the table, because they are based on the common variance, which is always smaller than the total variance.
g) Rotation Sums of Squared Loadings – The values in this panel of the table represent the distribution of the variance after the varimax rotation. Varimax rotation tries to maximize the variance of each of the factors, so the total amount of variance accounted for is redistributed over the three extracted factors.

<table>
<thead>
<tr>
<th>Table 4: Rotated Component Matrix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component</td>
</tr>
<tr>
<td>Current HR Audit practices are important tools to measure the performance of the HR Function.</td>
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<td>HR Audit processes are well-equipped to handle Audits of techno savvy HR tools like ChatBots.</td>
</tr>
</tbody>
</table>

Table No 4 - This table contains the rotated factor loadings, which represent both how the variables are weighted for each factor but also the correlation between the variables and the factor. Because these are correlations, possible values range from -1 to +1. The value below 0.4 is suppressed which means SPSS did not to print any of the correlations that are 0.4 or less. This makes the output easier to read by removing the clutter of low correlations that are probably not meaningful anyway. From the same one can clearly list down the three most relevant factors for the collected data. Based on the Rotated Component Matrix, the 3 most important factors that explain 76.37% of the variance are as follows:
1) HR Managers are optimistic that Emerging technologies can enhance the HR Audit process.
2) HR Managers feel that HR Audit plays an important role in achieving organizational goals.
3) HR Managers strongly feel that the current HR Audit systems and processes need an upgradation.

Though HR auditing is not mandatory like financial auditing, yet, organizations these days are opting for regular HR audits in order to examine the existing HR system in line with the organizations policies, strategies and objectives, and legal requirements.

The researchers have found that the HR Managers perceive that the current HR Audit systems and processes require upgradation to keep up with the fast pace at which HR systems have developed. With the continuous changing, uncertain, and volatile environment HR managers do not find the system aligned with their requirements. At the same time they are very optimistic that Emerging technologies like AI, ML, Blockchain etc. can make the HR Audit function faster and more reliable. They are also confident that implementation of such Emerging technologies will make the role of HR auditor more strategic than operational. HR Managers envisage that the HR Audit function will become more transparent and overcome Auditor’s bias with the successful implementation of such emerging technologies.

It can also be inferred upon from the above research that technology can be a boon to the HR Managers. The HR professional must be cognizant of both the benefits and the pitfalls of the technological solutions. While the HR Managers are ready to embrace the emerging technologies in HR Audit, they also need to ensure that these emerging technologies are successfully implemented without hindering the current HR Systems.

5. Conclusion

Human Resource Audit is a comprehensive method of objective and systematic verification of current practices, documentation, policies and procedures prevalent in the HR system of the organization. An effective HR audit helps in identifying the need for improvement and enhancement of the HR function. It also guides the organization in maintaining compliance with ever-changing rules and regulations. HR audit, thus, helps in analyzing the gap between ‘what is the current HR function’ and ‘what should be/could be the best possible HR function’ in the organization.
References


