

HR Audit Guidebook: Steps to Conduct an Audit of the Human Resources  
Function

Stephanie Kindt Esq.

Prepared for Greater Valley Forge SHRM

April 19<sup>th</sup>, 2016

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## Overview of the Human Resources Audit

Spring-cleaning for Human Resources Managers includes an HR practices audit. Conducting an internal audit will identify any problem areas and allow correction to occur before issues arrive and before the auditor knocks on your door. Conducting an HR Audit is a show of good faith. Good faith is an established legal principle that can limit your risk of fines and lawsuits. Good faith means you are “evincing honesty, fairness, full communication of any hidden issues or information, and an absence of intent to harm other individuals or parties to the transaction. There are established legal precedents for reducing and/or eliminating damages based on good faith efforts to identify and correct issues.

A Complete HR Audit Process Includes:

- Evaluation of all operational HR policies (recruiting hiring, performance management, training, leave management, termination, employee retention, compensation and benefits)
- A review of HR indicators (turnover, employee satisfaction, absenteeism rates, complaints and lawsuits)
- Assessment of how well the organization’s mission/vision/core values are integrated into the day-to-day execution of your processes.

If you are not ready to tackle a complete HR audit you can narrow the process to focus on a particular area such as compliance or performance management practices. The basic process for conducting a complete or targeted audit is the same:

1. Commit to Conducting the Audit
2. Collect and analyze the data
3. Report the findings & recommendations

Once the audit is complete, it is critical to implement changes and report on the results. If you are not committed to addressing the needs identified during the audit process do not begin the process. There can be legal ramifications, a potential impact on morale as well as poor use of resources.

## Step #1: Commitment

### ► Engage stakeholders

The first step in engaging stakeholders, is to identify them. Any individual or organization that is impacted by the delivery of HR Services to your organization is a potential stakeholder. Understanding who the stakeholders are, their level of influence and decision making authority is key to a successful implementation. Engaging all stakeholders is very likely impossible, however their identification and classification at the early stages is critical. Conduct a stakeholder analysis and determine categories of stakeholders that are relevant to your business structure. Decision makers, influencers, key partners, and consumers of your HR services. Some stakeholder will fall into more than one category.

### ► Confirm Scope of Audit

The organization contemplating an HR Audit need to determine the value of conducting an audit and how the data will be utilized. Clarify the scope of the audit and whether or not there is a specific areas of focus. It may be that an initial assessment of the overall operations of the HR function is needed in order to determine the high priority areas of focus. For example the HR function may be aligned strategically with the business strategy, its recruiting, hiring and performance management systems all designed and implemented with a clear link to business results. However there may be issues with policy, benefits or compensation that is affecting morale, performance and job satisfaction. In this case the focus should be on taking a closer look a compensation practices.

Communicate to all stakeholders and participants of the process, communicate the exact steps in the audit process and purpose of conducting an audit, as well as the plan for communicating the results. Ensure all parties are aware of and trust the process as well as the individuals conducting the audit.

A cautionary note: Finding out what is insufficient and inadequate is the first step toward improvement. If deficiencies are identified, it's important to take steps to correct those. Organizations should take that first step only when they are ready to act on the findings, and to make necessary improvements in their HR skills, processes, and systems.

## Step #2: Data Collection & Analysis

### ► Refine audit questions

The word “audit” comes from the Latin verb *audire*-to listen. Listening is used here in a broader sense than just listening with our ears. It includes using our eyes, as well, when we search for answers to important organizational or functional issues. Developing a systematic set of questions to take the place of eyes and ears can be tedious. Avoiding significant omissions and preventing duplication are key. The answers to the auditor's questions must lend themselves, to the extent possible, to quantitative analysis. For example, the auditor may start with an open-ended question and immediately follow with some specific and quantifiable follow-up questions. The respondent's answers, when plotted, should illustrate both strong and weak performance points. In order to measure the net contribution of any one factor to output, it is useful to determine what might or would happen to output if all other inputs remained the same.

### ► Collect and analyze the data

Once you have determined the type and scope of the HR Audit and written a comprehensive list of questions you are now ready to collect relevant documentation for initial review & create interview list. Collecting information can be laborious and time-consuming. Depending on the size of the target audience, the available time, and the type of data to be collected, it may be necessary to use and blend the strengths of a number of different data collection methods. Such methods include interviews, questionnaires, a review of relevant records, observation, or a combination of these methods. Sources from which HR data can be obtained for auditing purposes include: human resources policies, the HR mission statement, employee handbooks, affirmative action plans, employee surveys, absenteeism and turnover studies, cost per hire studies, employee lawsuits, bulletin board notices, organization charts, published salary surveys, EEO compliance reports, classification studies, operating budgets, and workers' compensation claims. Sources of data for a more specific auditing purpose, say, staff performance, might include manager assessments, self-assessments, and surveys and interviews.

A typical functional/operational audit process consists of a series of questions covering eight primary components:

1. Roles, head count, and HR information systems (HRIS)
2. Recruitment
3. Documentation
4. Training, development, and career management
5. Compensation and benefits
6. Performance measurement and evaluation
7. Termination and transition
8. Legal issues and personnel policies

Disclaimer: Sample questions and HR audit instructions are offered for informational purposes only and should not be construed as legal/professional advice. If used, your organization should tailor to best fit the organization's specific circumstances. Please seek appropriate legal/professional assistance if needed.

The focus is on how HR activities and tasks are actually performed in the organization. Consolidate the information you collected. Compare the results with market surveys. Determine which practices are good/popular/effective/competitive. Determine which practices need improvement. Recommend specific improvements referring to the results of both the Effectiveness audit and the Regulatory compliance audit. Justify the recommendations. Determine how to measure whether the improvements are successful.

- ▶ Benchmark results against internal and/or external measures

Depending on the type and scope of the HR Audit a look outside the organization to compare industry standards provides useful data. Whether you are looking at compensation analysis reports, organizational structures, job description templates or other organizations HR strategic documents, it yield validating data to report recommendations, or reasons for differentiation of your systems and processes. Selecting the organizations to benchmark is an important process. Seek to ensure that selection criteria are agreed upon and are consistent with the purpose of your audit.

### Step #3: Report and Recommendations

- ▶ Report the findings & recommendations

Draft and present initial report to select stakeholders and modify as needed prior to presentation to executive team. Data and recommendation should be validated prior to finalization of report. Ultimately, to be useful, an audit must clearly communicate its findings and their consequences. To the extent that management can “see” the benefits of any suggested changes-and believes that the cost of acting is reasonable-the likelihood that changes will be implemented is higher. Participation in the planning and execution of the audit build credibility among senior executives/decision makers on the validity of the report and findings. Depending on the type and scope of the audit a process to determine priority recommendations to address may be required.

## Appendix

### Strategic Leadership Audit

Organizations are facing complex and unpredictable competitive landscape, one that is filled with new, global, aggressive and technologically advanced competitors. Former models of leadership and goal setting are no longer relevant, S.M.A.R.T. goals (specific, measureable, achievable, results driven, time bound), have been replaced by Planning in VUCA environment (volatile, uncertain, complex, and ambiguous). It is crucial to define the leadership needs required to achieve an organization's mission and vision. Taking a close look at the current leadership talent in comparison to the talent required by the mission and vision is critical to business success. Without it organizations risk having blind spots.

What are leadership blind spots? Leadership blind spots are often manifested as repeated patterns of ineffective behavior or resolutions to change behavior that seem to fall short of the goal. Everyone has blind spots. Individual leadership blind spots can translate into organizational blind spots.

A strategic leadership review creates an opportunity to examine the current skill sets, emotional intelligence, and style preferences of the senior leadership team. It creates an opportunity to identify those blind spots and determine what is needed most for the organization. The process involves survey work, interviews and team sessions, whereby individual strengths are revealed and potential blind spots identified on both the individual and organizational level. This information becomes incredibly relevant when looked at in relation to the areas were the organization is experiencing its biggest challenges.

Research shows that most leaders concentrate on goals, what they intend to accomplish; yet they forget to set priorities, or plan for how they will communicate those goals. & priorities. Additionally many leaders are unaware of their own communication style or emotional intelligence. What happens when you deliver the message but no one is listening? The most effective leaders are aware of both their strengths and weaknesses to avoid their blind spots.

#### Goals of the Strategic Leadership Review

1. Assess individual leadership styles of senior leadership.

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2. Review and confirm styles individually, and as it relates to the styles/preferences of other leaders/members of leadership team.
3. Identify the overall leadership style preference and brain map, including emotional intelligence, and how each member works within the group to communicate, collaborate, delegate when required.
4. Detailed analysis of leadership strengths and gap areas integrated into the strategic plan of the organization and translated into leadership development goals and objectives, including recommendations for hiring criteria, succession planning and suggestions on maximizing the identified strengths of the existing leaders.

Gaining insights and understanding of differing styles and brain patterns will strengthen the relationships between and among the senior leadership as they work together to grow the organization.

#### Strategic Leadership Review Process

**Step 1:** Communicate & Welcome each leader to the process

**Step 2:** Each leader completes the MBTI survey online and forwards results.

Each leader completes the NeuroPQ online questionnaire.

**Step 3:** One on one meetings are scheduled to complete the MBTI Best Fit Type and Neuro PQ assessment tool. Each leader is provided an in depth 5 page + report that describes their brain patterns, style preferences, and cognitive strength areas.

**Step 4:** Agenda & date set for Strategic Leadership Team Session w/ input/feedback provided from each participant

**Step 5:** Hold Strategic Leadership Team Session

**Step 6:** Summarize key learnings, strengths, gap areas discussed during session

Key Learnings are crafted into a strategic leadership plan covering hiring processes, succession planning, organizational structure/design and communication strategies.

## Sample Stakeholder Interview Questions

Typical interview questions to gather business and HR strategy information might include the following:

- Which initiatives/projects are currently being deployed in support of the strategy?
- Which business objectives do the current HR initiatives/projects address?
- When was each initiative/project started?
- What are the objectives of each initiative/project?
- Who is impacted by each initiative/project? How?
- What are the interdependencies between the initiatives/projects?
- What are the costs for each of the projects and their duration? For example: costs could include technology (purchase or build), resources, advisory services, and/or training.
- What maintenance costs will be incurred to support the project once implemented?
- What metrics will be used to identify success for the project and how will the results be communicated?
- When was the HR strategy last reviewed/changed?

## Sample Document Review List

HR Audit Initial materials list;

Employee handbook  
Organizational chart  
Mission/Vision  
Strategic plan  
HR Strategic plan  
Orientation materials  
Training strategy  
Training schedules/program outlines  
Current job descriptions  
Current Compensation Model/salary ranges  
Bonus plan documentation  
Executive Compensation Structure  
Recent Compensation Analysis  
Recent Audit Reports

Documentation of HR processes

- job posting/ process
- interview process/application forms
- selection method/criteria or competencies utilized
- response letters
- performance appraisal process & forms
- job ladders, succession plans

Information on current HRIS systems

- Payroll service contract
- PTO tracking policy
- Personnel file policy

#### Links to Sample HR Audit Questions/Processes

1. HR Function Optimization - KPMG

<http://www.kpmg.com/IN/en/Documents/HR-Function-Optimization.pdf>

2. International Public Management Association for Human Resources

<http://ipma-hr.org/sites/default/files/pdf/hrcenter/HR%20Audit.pdf>

3. SHRM

<https://www.shrm.org/hrcompetencies/pages/effectiveness.aspx>

4. Colorado based – Sensible Human Resources Consulting LLC

<http://www.coloradononprofits.org/wp-content/uploads/samplehrauditchecklist.pdf>