

Conducting an HR Audit

Do you know whether your Human Resource practices are helping, hindering or having little impact on what your company is trying to accomplish? Organizations routinely conduct internal and external audits of their accounting function. The audit evaluates company practices against industry standards and legal and regulatory requirements. Similar review and analysis can be applied to the human resource function. An HR audit can evaluate the effectiveness of human resources, comparing an organization's current practices against industry best-practices, reviewing compliance with relevant employment laws and regulations, and identifying "gaps" between what the organization needs vs. what HR is delivering.

Why Should You Conduct an HR Audit?

Have you ever wondered whether that turnover report you supply to senior management is worth all of the time and effort? Do they even look at it? Or, have you thought to yourself, I wonder if the way I am handling FMLA leave is technically correct, given all of the changes in the last couple of years? An HR audit can provide solid answers to these types of questions. One of the main reasons to undergo an audit is to review current policies and practices to ensure they are meeting the needs of the business. The audit process will actually entail asking management if the services they receive from the HR function are helping them run the business. Management will also be asked if there are any additional services or assistance they need from HR that they are not currently getting.

Compliance review is another key reason to audit the HR function. We all know that the pace of change in the HR arena has been fast and furious. Have you been keeping up with all of the changes? Are your policies, forms, and practices all compliant with current regulations? The audit process can help you focus on making sure that everything is up to date.

Has your organization has gone through organizational change in the last year or two, such as a merger, consolidation, opening a new location, or conducting a reduction in force? If so, this is a good time to take a moment to consider if the HR function has changed with the business to continue to meet its needs and to ensure that all practices are in compliance.

As companies increasingly do more with less, which often means HR also feels the squeeze. You may have had to downsize your HR department, or the headcount in the company has increased but you have not been allowed to add HR staff. Are the HR resources you have available being used in the best way? For example, in an HR department of 4 employees, should your organization have one manager, one generalist, and two trainers? Or perhaps your organization really needs two recruiters instead of two trainers. An audit can help you determine exactly what the right compliment of HR staff is for your business.

Determining the Scope of the Audit

Once you have committed to undertaking an audit, you will need to decide what areas the audit will cover. An all-encompassing audit would look at policies, forms and tools, employment records, the employment process (from recruiting to onboarding), job descriptions, compensation, training and development, retention and succession plans, benefits, the performance management process, discipline and termination, posting requirements, immigration, and human resource staffing. The audit can also look at key metrics, such as turnover, cost per hire, spans of control, salary compa-ratios, and more.

If this list seems overwhelming, you may want to consider limiting the scope of the audit, or breaking it into manageable segments. The deciding factors regarding the scope of the audit should be centered on the current status of the business and the strategic plan. You may want to focus the audit on a key segment of the function that is struggling, such as recruiting and selection, or performance management and discipline.

Never Conducted an Audit? That's Just One Good Reason to Outsource it!

Now that you think an HR audit sounds like a good idea for your organization, you are probably thinking, "How do I fit this in with everything else I have on my plate?" Certainly one option is to do an in-house audit. One of the primary benefits of a do-it-yourself audit is that you know your organization better than any outsider (you know where the skeletons are hidden!). As with most DIY projects, conducting the audit yourself will save you money...no third party fees. You can also set your own schedule, and go at your own pace. You also maintain maximum control over the process, and to some extent, the outcomes.

On the other hand, audits are very time consuming. When will you really be able to fit it in? Outsourcing your audit provides several benefits. Most importantly, you get the credibility and validity of a third party, expert opinion of your HR practices. They can give you a fresh perspective on your processes and policies. Since a good audit includes gathering feedback from stakeholders, allowing a third party to conduct interviews with employees and management will allow for a level of confidentiality. Stakeholders may tend to be less candid if you ask them directly if your HR department is meeting their expectations! Also, outsourcing the audit will consume less of your time. Finally, a third party auditor could continue to be an ongoing resource to you for questions and issues you have going forward.

Whether conducted in-house or by an outside party, an HR audit can provide an opportunity to examine the HR function in your organization and offer useful feedback to improve the department's contribution to the success of the organization.

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