

TRENDLINES

The Employers' Association's monthly whitepaper on essential Business/Human Resources practices

The Employers' Association (TEA) delivers reports for businesses that contain relevant and up-to-date information based on our work with hundreds of employers each month. TEA is known to produce a number of essential benchmark survey reports every year and we also compile data and observations that provide organizations practical perspectives on important business trends.

Human Resources Audit

What you should know

As a Human Resources professional, you have access to a wealth of information in order to take care of your organization's day to day HR issues. There are whitepapers, newsletters, associations to become part of so you can glean their resources, mentors and coaches to learn from, metrics to create and track, and applying lessons learned from past experiences to resolve new opportunities as you encounter them. When you need to know that your HR department is functioning at its highest level, however, and want to be sure you have crossed all the "T's" and dotted all the "I's," you should conduct a **Human Resources Audit**. A thorough analysis of all your HR Policies and Practices can ensure compliance with all the legal and regulatory requirements of the field (and specifically your industry) that may be overlooked on a day-to-day basis.

What we know

Audits are a tool

An "Audit" is defined as being:

1. An examination of records or financial accounts to check their completeness and accuracy.
2. An adjustment or correction of accounts.
3. An examined and verified account.
4. A thorough examination or evaluation.

As with any audit, it is a good idea to have a neutral third party that is professional, trusted, and ethical perform the review and report findings to Management. TEA has performed HR Audits for many member organizations in our West Michigan community but regardless of whom you choose to perform this critical task you should reach out to a qualified professional able to examine the scope and necessity of records and documents kept, the efficiency of the processes followed when performing a wide variety of functions and confirmation that employees AND the organizations needs are being met. An HR Audit is similar to a strategic plan in that one must build upon strengths, identify weaknesses, address threats, and seize upon opportunities within the work environment when documenting procedures and comparing practices to legislated requirements.

The HR Audit involves information gathering, evaluation, analysis and creating an action plan or strategy from the results. An HR Audit can be conducted based on the scope of the objectives and it can be accomplished in "steps," "degrees," or "levels" depending upon how thorough an organization wants to be.

There are different types of audits available. Similar to surveys, an HR audit can be done internally to compare HR at your organization to another organization of similar size or industry (benchmark) OR contracted with an

outside consultant to conduct the audit (external) and generate appropriate reports. Since consultants do these audits frequently, they have a much broader perspective and can provide more objective data – usually in less time – than if you had tried to conduct one yourself.

Audits can be conducted on internal statistics (turnover, absenteeism, engagement, etc.) comparing internal data departmentally, by location (if multiple), job function, seniority date or supervisor’s name, etc. Another type of audit would be to focus on goals or objectives – did the department do what it set out to do? Were hiring goals reached? Was absenteeism controlled as predicted? It will depend on your organization as to which type will fit your culture the best in order to support your organizations growth plans of production and culture.

When to do an HR Audit

Conducting an HR Audit can be a cumbersome task and take time but some events can trigger a review of the HR function more than others. Some of these reasons would include:

1. When there has been a change in management or a change in ownership it can be most helpful to review how responsibilities have been handled and to evaluate if a process (or all processes) still fits the intent or culture of new management (or determine if it should be revised).
2. Laws change frequently. Conducting an HR Audit annually can ensure that regulations have not changed OR be used to identify what needs to be modified.
3. Widespread pandemics. It is overwhelming when we think of how COVID-19 has impacted the HR function over the last two years. Most HR and employment processes have had to change due to working conditions and regulations – it is better to anticipate and plan for change rather than to reflexively respond to it. When (if?) the pandemic settles down, HR in many organizations might want to consider an HR Audit to determine where they are and where the HR function is headed and what is needed to get there smoothly and successfully.
4. An HR Audit can include a review of current compensation rates against benchmark data and determine steps to alleviate any wage compression that might be happening (this would not have to be as thorough as a full compensation study). Even before COVID-19 hit employers were having a difficult time recruiting and hiring and as a result entry level wages began to increase.
5. Regulations are frequently tied to organizational growth. As organizations grow, their processes change and these modifications need to be reviewed and assessed from time to time. An example could be that a product line changes and companies can require new skills within the workforce. What training might be necessary for employees to successfully execute these new skills? (What is the cost, where will it take place and when?) How do these new skills integrate with current skills/processes? How does HR have to adapt in order to recruit new employees for different lines of business? Does your HR staff have the experience to recruit these new employees or to find the necessary training programs to up-skill the current workforce? An HR Audit can help plan for such developments.

HR Audits are an investment

HR Audits are a comprehensive instrument that, when utilized, can support an organization on its way to higher success by discovering potential weaknesses, building them into strengths, minimizing threats and creating new opportunities for growth and development. All of this takes strategy, time, organization, and support.

Human Resources is an area that touches each and every other area of the organization. Every area has employees, people who get the work done, and HR generally has contact with every one of those employees. HR can participate in a survey to get the reports, or can write a handbook or develop a compensation study,

but those projects only cover specific aspects of the HR function. An HR Audit is the ONLY instrument that can become an overall assessment of your HR function and one should be conducted regularly to make sure that the strengths are properly leveraged and the opportunities can be readily addressed.

What it means

There are many different areas included in an HR Audit from pre-employment all the way through resignation/termination. Each area will have a different impact on the overall assessment. Some audits can assign points for each question and “score” the audit, others do more of an overall assessment of the specific task areas being reviewed. Going through the audit process allows the organization to see the “big picture,” offering the opportunity, once analyzed, to document how well the HR department is performing (OR identify areas that must be addressed). The results from an HR audit allow managers to better understand the effects of their decisions, the decisions made by those around them and the rationale for some of the “regulatory issues” that often seem like additional work but that are required for an organization to remain in compliance. As an HR Audit should not be done with the intent of “getting someone” or used as the basis for corrective action, a thorough report can become a “teachable moment” in which all involved can benefit and gain. The ability to compare data from one function to another, and from one department (possibly) to another becomes very clear and helps to better define how to update goals and objectives all around.

What you can do

Once you have completed an HR audit you are able to create a list of what functions are being done well and which functions might have room for improvement. You should be able to prioritize the list of what needs improvement (based on either ease of resolution or impact upon the organization) so as to guide your action steps. Do not ignore the list of what is going well. That list needs to be monitored as well so that none of those items slide over to the “needs improvement” list AND individuals responsible for the processes can receive the appropriate recognition for their work.

Remain flexible. Business conditions can impact items on the list and require you to re-prioritize. While you might be on track with your hiring goals for a defined period you may take on a new line of business or have a catastrophic event that causes you to reduce your staff. Having the results list from an HR audit will save time and energy by directing HR priorities but an audit is not a static document. As conditions change the way that HR is expected to operate will also (necessarily) change.

The good report might identify different concerns in different areas of the organization. If one department is having high turnover or having problems attracting talent an HR audit can often help to identify practices or environmental concerns that could impact the way that different areas of the company operate. Knowing the issues allows us to bring together the managers of the areas having less issues with those having more concerns to discuss what, if anything, are they doing differently. Technology is expensive, but might an under-performing area be provided with better technology? This may allow the opportunity to create a group to look into new software and create the business case for the expense.

An audit can identify many areas of concern (AND allow for the recognition of many things that are being done right). Conducting an HR audit is a great tool to evaluate your department’s and your organizations risk management practices – it is always easier to fix a problem before it happens than it is to react to a negative outcome, change the processes that led to it then implement new processes. We are here to help you become more operationally excellent – give us a call at 616.698.1167 to discuss how an HR Audit could make your organization more profitable, innovative and a better place to work.