

HR insights

HR Audits

What is an HR Audit?

An HR audit is an objective, systematic review of a company's HR policies, procedures, strategic direction, structure, resources, and ultimately, its contribution to the organization. Such an audit offers the opportunity to protect the company, establish best practices and identify areas for improvement, and can help evaluate whether specific practice areas are adequate, legal and/or effective.

HR audits are essential for companies to ensure that they are avoiding any legal or regulatory liability associated with their HR policies and practices. In addition, audits can also provide the opportunity to benchmark a company's strategies and practices against the best practices of other companies in its industry.

Types of Audits

There are various types of audits, each designed to accomplish specific objectives. Here are some of the more common types:

- **Compliance.** Examines how well the company is complying with federal, state and local laws and regulations.
- **Best Practices.** Compares company practices to those of companies identified as having exceptional HR practices, to help a company maintain or improve its competitive edge.
- **Strategic.** Assesses the systems and processes within the company to determine whether they align with the

HR department's and/or the company's strategic plan.

- **Function-Specific:** Focuses on one specific area within the HR function (payroll, performance management, etc.).

Steps of an Audit

Follow these general guidelines for conducting an audit.

1. **Determine the scope and type of the audit.** It may be appropriate to

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conduct a comprehensive review of the entire HR department and its function; conversely, there may be targeted areas that make more sense for review.

2. **Develop the audit questionnaire.** An audit typically employs a questionnaire to evaluate specified areas. It will help guide the audit team in scrutinizing the designated areas for review, and also may include interviewing HR employees or department managers. See below for sample questions to include in an audit.

3. **Collect the data.** Using the questionnaire as a roadmap, the audit team conducts a thorough, extensive review.
4. **Benchmark the findings.** Comparing the company's findings to other firms in the industry can offer valuable information in determining the company's competitiveness among its peers and for developing best practices for the future.

5. **Provide feedback about the results.** After the audit, it is important to report findings to the HR department and senior management, including findings, analysis and recommendations.
6. **Create action plans.** Audits are counter-productive if their results are not translated into action. Using recommendations from the audit team, HR and senior management must plan to implement changes as needed to improve efficiency, compliance or productivity.

7. *Foster a climate of continuous improvement.* Doing one audit is not enough for a company. It is necessary to subscribe to an attitude of continuous evaluation and improvement. It may be helpful to designate one person to stay up-to-date on legal and regulatory issues that may affect the company, as well as to keep track of internal processes to quickly identify problems.
- For what functions is the HR department responsible? (Payroll, benefits, salary administration, recruitment, training, labor relations, safety, strategic planning, others?)
 - Should the HR department be responsible for all of the functions listed above?
 - Should the HR department be responsible for any functions not listed above?

Sample Questions

Organization and Structure:

- Is there an organizational chart?
- Does the chart include both employees' names and position titles?
- Does the chart show reporting relationships?
- Is the chart updated as changes occur?
- As the needs of the organization change, does its structure change?

HR Department Organization:

- Is the department sufficiently staffed for the industry and the size of the organization?
- Is the budget in line with other organizations of similar size and industry?
- Has the company been involved with any employment lawsuits?
- If there have been suits, what were the outcomes?
- Is there a job description for each position in the department?
- To what position does the top HR position report?
- Does the HR department have a mission statement?
- Is the HR mission statement consistent with the mission and vision of the organization?

Functions of the HR Department: