

Developing and conducting a human resource management performance audit: case study of an Australian university.

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Abstract

Human resource auditing crosses the boundaries between human resources management and auditing. The main message from this study is that a human resource management performance audit can be a suitable method for evaluating the contribution of human resource activities to organisational objectives, assessed on the basis of value for money. The case study demonstrated that a human resource management performance audit can identify areas where additional value can be obtained from an already valued, well regarded and award winning human resource department. The human resource management performance auditing methodology is set down in the Australian auditing standards (Australian Auditing Standards 806 & 808) and assumes a professional practice framework for auditors. A human resource management performance audit is future orientated and can identify areas for organisational improvement.

Where the literature on human resource auditing is not grounded in auditing, it is flawed. Dolenko (1990) outlined a methodology for applying auditing techniques to human resource management but later literature is clouded by alternative commentary that defines human resource auditing in quite different ways (Clardy 2004). The literature on human resource auditing should be reviewed to ensure that it is firmly grounded in auditing. This research is aimed at bridging a gap in both knowledge and practice.

The study presents as a worthwhile area for research since the researcher takes existing and authoritative standards for the professional practice of auditing and applies them to a modern, well regarded and valued human resource department. By clarifying the key elements of a human resources management performance audit and then demonstrating the audit in a case study this research makes a contribution to the theory and practice of human resource management performance auditing.

CERTIFICATION OF DISSERTATION

I certify that the ideas, experimental work, results, analyses and conclusions reported in this dissertation are entirely my own effort, except where otherwise acknowledged. I also certify that the work is original and has not been previously submitted for any other award, except where otherwise acknowledged.



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GLOSSARY

ACHS	Australian Council on Healthcare Standards
AHRI	Australian Human Resources Institute
ANAO	Australian National Audit Office
AS/NZ	Australia & New Zealand
AUQA	Australian Universities Quality Agency
AUS	Australian Auditing Standard
AUQA	Australian University Quality Agency
Bond	Bond University, Gold Coast Queensland
BSI	Business Service Improvement (QUT)
DFAT	Department of Foreign Affairs & Trade
IIAA	Institute of Internal Auditors Australia
IIA	Institute of Internal Auditors
HEFCE	Higher Education Funding Council of England
OAG	Office of the Auditor General (Western Australia)
PSC	Public Service Commission (Federal - Australia)
MOPP	Manual of Policies & Procedures (QUT)
QUT	Queensland University of Technology
SHRM	Society for Human Resource Management
SOPAC	South of Pacific Area Conference (IAA)
USQ	University of Southern Queensland

*Auditing is a discipline born of
the need to measure those factors
in business that determine
success or failure.*

Art Cornwell, 1995

CHAPTER ONE - INTRODUCTION

1.1 Background

Human resource auditing is located both within and between human resource management and auditing. This study focuses on the use of performance auditing to evaluate the contribution of human resource management activities, as defined in the audit scope, to an organisation's current and future objectives.

The word audit comes from the Latin, 'audire' (to listen). Auditing has existed for centuries and can be traced to ancient Egypt, Babylon and Rome. The auditor's role was to 'listen' to the records and the notion of an independent outsider 'looking in' is central to auditing (Burrowes and Persson 2000). It is not the function of an auditor to take the role of management; the audit role is one of examination and of critiquing management systems and procedures (Clardy 2004). The literature on human resource auditing has been described as 'flawed' with the term audit used 'indiscriminately so that almost any kind of study of human resources can be considered an audit' (Clardy 2004). In this study the term 'human resource audit' describes the professional practice of auditing applied to human resources management activities, while the term 'review' is used to describe other forms of human resource evaluation.

Through a review of the literature undertaken in Chapter Two and through a case study detailed in Chapter Four performance auditing is examined as a suitable method for evaluating the contribution of human resource management activities to current and future organisational objectives, assessed on the basis of value for money. The case study was conducted within the parameters of the Australian auditing standards to identify areas

where additional value for money can be obtained from an already valued, well regarded and award winning human resource department.

1.2 Research issue

The search for evidence of the decisive impact of human resources on organisational success has been described as ‘the ... search for the Holy Grail’ (Boselie, Dietz & Boon 2005, p. 67). In this context the reassessment of an existing but unpopular method for evaluating human resource activity had the potential to make a worthwhile contribution to the body of knowledge. Discussion on the application of the national performance auditing standards to the evaluation of human resource management occurs in the Australian literature (Teo 1997) but practical examples are rare. In seeking to evaluate human resource management activities the issue to address was ‘whether an examination grounded in performance auditing could usefully evaluate the contribution of human resource management activities to an organisation’s current and future objectives’.

1.3 Justification for the research

There is a research gap surrounding the nexus between auditing and human resource management in relation to human resource auditing. This leads to confusion for human resource practitioners: in topic definition, in understanding the different types of audit, and in human resource practitioner knowledge of the professional practices of auditing. The lack of case studies in the Australian context ensures that human resource management performance auditing as an evaluation method is unnoticed by most human resource professionals. This research makes a contribution to both auditing and human resources management by examining the theoretical nature and the practical value of a human resource management performance audit.

1.4 Brief overview of the methodology

The number of human resource performance auditors that can be identified in Australia is very small; a factor affecting the research design. Only two organisations advertise human resource auditing services in the professional directory of the Australian Human Resource Institute (AHRI 2007). No human resource management practitioners were identified that used an approach specifically grounded in the discipline of auditing. The performance audit methodology is set down in the Australian auditing standards and assumes a professional practice framework for auditors. The case study highlighted practical considerations and raised issues relevant to the conduct of a human resource management performance audit. The outcomes of the research were presented to various auditing practitioner forums, including the Asia-Pacific Conference of Internal Auditors (SOPAC) 2006.

1.5 Delimitations of the scope

The research was limited to the Australian context using auditing standards for which there may not be an international equivalent. It was based on one in-depth case study, with the conclusions described in various practitioner forums. The lack of identified performance auditing specialists operating across human resource management activities made quantitative analysis difficult and effectively limited the research design. It is noted that the Australian auditing standards in relation to performance auditing are under review but they are not expected to significantly change in a way that would affect the validity of the research outcomes. The evaluation of alternatives to human resource auditing was beyond the scope of this study but is foreshadowed as a potential research extension.

1.6 Structure of the study

The background to the study is discussed in Chapter One. A literature review is undertaken (Chapter Two) which provides an insight into the existing state of knowledge. Within the literature a methodology for evaluating performance grounded in auditing is identified, although it appears to be rarely used in practice. The research methodology is discussed in Chapter Three and the limitations of the research design identified. The case study is then described in detail (Chapter Four), including examples of working documents, with the audit outcomes detailed in a formal (and client directed, confidential) audit report. The results of interviews with key stakeholders provide insights into human resource management performance auditing as an evaluation method. In Chapter Five the case study and the literature are jointly discussed and the implications analysed. In the final Chapter (Six) the research findings and conclusions are detailed and areas for further research identified.

1.7 Summary

This study considers performance auditing as a suitable method of evaluating the contribution of human resource management activities to current and future organisational objectives, assessed on the basis of value for money. The literature review identifies the existence of the methodology but published examples of human resource management performance audits are rare. The performance auditing methodology is then tested in a case study, with promising results. The approach suggested in this research is grounded in auditing and is also universal. According to the Australian Auditing Standard (AUS 806) it can be applied to all performance audits conducted: in the public or private sector, by an internal or external auditor, and as a one-off project or as part of an ongoing engagement. Given the scope of the performance auditing standard the type of organisation, its size, and its location within Australia does not limit

its potential use. Importantly, it is future orientated and can indicate areas for business improvement while also examining the risks associated with human resource management activities.

By crossing discipline boundaries and mixing auditing methodology with the evaluation of human resource management this study highlights an evaluation method that deserves further research attention. The work of Khan (2005) would suggest a similar approach may be applied in the international arena.

CHAPTER TWO - LITERATURE REVIEW

2.1 Introduction

This study focuses on the evaluation of human resource management activities using auditing methodology. Human resource auditing is located both within and between each of the fields of human resource management and auditing. This research has two parent disciplines: auditing and human resource management. Auditing is described as an investigative and information processing activity, which evolved in response to the need for independently verified stewardship reports (Parker, Ferris & Otley 1989). Within the discipline of auditing a human resource audit is a functional or activity audit conducted within or across a range of defined auditing types (see section 2.8). A human resource performance audit is one type of audit, generally located within the audit sub-type of operational auditing.

Human resource management emerged from traditional personnel management in the 1980s. Traditional personnel management was viewed largely as involving the performance of basic staffing functions, often conducted without regard to other organisational activities and without alignment to organisational objectives. Human resource management as a profession evolved as an extension of the traditional personnel role into a more effective organisational activity. Within the field of human resource management a human resource audit is one method of evaluating or assessing activities. This is not a clear sub-grouping; human resource evaluation is not systemically identified in modern textbooks. However, there is evidence in the literature of the grouping of human resource auditing with other human resource evaluation methods for the purposes of discussion and comparison (CCH 2007).

The researcher argues, after an examination of the literature, that a performance audit conducted using the relevant Australian auditing standards could be a suitable method for evaluating the contribution of human resource management activities to current and future organisational goals. The human resource management performance audit methodology is set out in the Australian standards (Australian Auditing Standard 'AUS' 806 & 808) and assumes a professional practice framework for auditors. These standards can be applied to both public and private organisations (AUS 806 p.4; AUS 808 p.4). A human resource management performance audit is a future orientated examination, designed to add value to an organisation.

Auditing has identified qualities that separate it from other forms of evaluation. Audit methodology is evidenced based, acceptable to a variety of potential stakeholders and operates within an independent assurance paradigm. The profession of auditing has detailed rules and processes for conducting an audit and these are detailed in the professional practices frameworks adopted by auditors (e.g. IIA 2006a).

An accepted definition of human resource auditing has proven to be elusive with many writers either not offering a definition or offering a definition without firmly grounding that definition in auditing. A key construct emerging from the study is that human resource auditing involves the application of auditing theory and practice within the area of human resource management, with the activities to be audited determined by the audit scope. Where the literature on human resource auditing is not grounded in auditing, it is flawed. In particular the requirement for independence is fundamental to auditing. There are also a number of practical issues that occur in human resource management auditing (refer to section 2.14) which need to be understood within the context of the professional practice of auditors.

This chapter commences by considering the literature on human resource auditing to uncover key elements of auditing. There is a need to reconcile the literature between the two dominant fields of study to reveal subtle but significant differences in the approach taken by each. The tendency of human resource management writers to confuse the term ‘auditing’ with ‘review’ is highlighted. Key constructs for human resource management auditing emerge and the concept of managerial assurance is firmly separated from independent audit assurance.

2.2 Human resource management

The Society for Human Resource Management, based in the United States but worldwide in its focus, describe human resource management on their website as “the formal structure within an organization responsible for all the decisions, strategies, factors, principles, operations practices, functions, activities and methods related to the management of people” (SHRM 2007a).

In relation to human resource management it is observed that “every manager is an human resource manager” (Mathis and Jackson 2003 p.5) and that human resource management involves “all management decisions” (Fisher, Schoenfeldt & Shaw 2003), emphasising that human resource activities can also be undertaken by line managers. Mathis and Jackson (2003 p. 816) define human resource management as:

The design of formal systems in an organisation to ensure effective use of human talent to accomplish organisational goals.

The definition offered by Mathis and Jackson is preferred since it exhibits an outcome orientation: human resource management contributes to the achievement of organisations goals. This definition is adopted for the purpose of this study with an amendment. In the Australian Auditing

Standard 806 (Performance Auditing) performance can be evaluated through efficiency, and/or effectiveness and/or economy (see section 2.8). Consistent with that standard the definition adopted is:

The design of formal systems in an organisation to ensure the efficient, effective and economic use of human talent to accomplish organisational goals.

The justification for adopting the revised definition is to clearly identify that the performance auditing standard has three dimensions, described in the auditing literature as “the three E’s” (Craven & McNulty 1994 p.5). Khan (2005) recognises that the three concepts are overlapping but each provides a contributing insight when considering performance.

2.3 Strategic human resource management

There are identified differences between human resource management and strategic human resources management that need to be understood by an auditor (Teo 1997). Strategic human resources management evidences the integration of human resource management with other management activities of the organisation and with the strategic planning and organisational objectives as a whole. It should be possible, when operating under a strategic human resource management framework, to identify and examine the critical human resource issues that will determine the success of the organisation. An auditor who considers the stated human resources management objectives but not the fitness of those objectives to achieving the organisation’s objectives might miss the opportunity to further enhance organisational performance. Some of the suggested areas for audit consideration include: the linkages between human resource management and strategic management processes, the role of human resource practitioners, the business knowledge and technical expertise of human resource practitioners, the level of fit

(internal, external, vertical and horizontal) with strategic management processes and the managerial style toward employee representatives (Teo 1997).

2.4 The context of auditing

The context of auditing firmly establishes the boundaries for this study, highlighting ‘what is’ and ‘what is not’, auditing. The significant issues that emerge are audit independence, audit reporting and audit assurance (rather than management assurance). The word audit comes from the Latin verb *audire* – to listen; the auditor’s role was to ‘listen to the records’ (Burrowes & Persson 2000 p.85). Burrowes and Pearson give the example of two scribes independently making records of what was consigned to a warehouse, with these being reconciled by a third and independent scribe, to ensure the integrity of the records (2000 p.85).

Auditing has been defined as:

... the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be performed by a competent, independent person.

(Arens, Best, Shailer, Fielder, Elder, & Beasley, 2005, p.12).

Mauzz and Sharaf (1993 p.246) regard independence as ‘an essential auditing standard’. ‘Independence’ is also reflected in the professional practices framework of the Institute of Internal Auditors who define (internal) audit as:

...an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It

helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance procedures.’

(IIA, 2006 p.1)

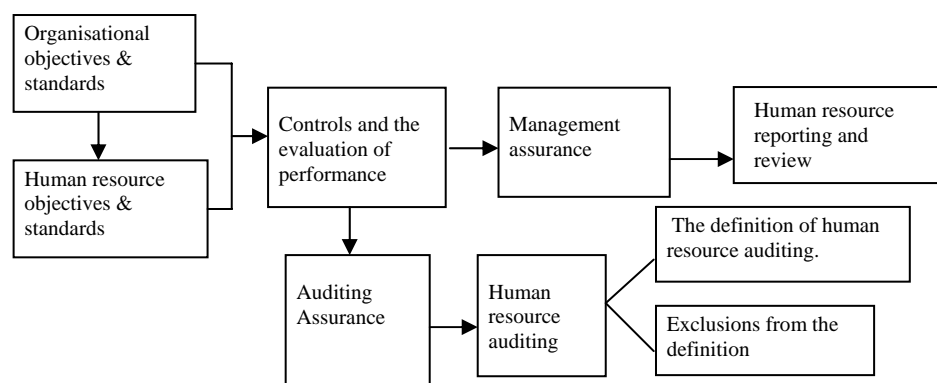
A defining characteristic of audit is its reporting structure; auditors may report administratively to management but formal audit reporting is usually structured to minimise management interference by making the internal audit department answerable to a person with sufficient authority to guarantee its independence (Adams, Grose, Leeson and Hamilton 1997). The Institute of Internal Auditors’ *International Standards for the Professional Practice of Auditing* emphasise independence, objectivity, proficiency, risk and standards in the conduct of an audit (IIA 2006a). Auditing is not to be a process of managerial self-review, although this may be used to inform the auditor in the course of an audit assignment. The professional practices framework of the Institute of Internal Auditors and national auditing standards set out the proficiency requirements of an auditor in conducting an audit assignment.

Turning to the issue of assurance, first it is necessary to understand the importance of controls. Control is an essential aspect of management (Stoner, Collins and Yetton 1985; Samson & Daft 2005). In this context the task of *controlling* is to ensure that management actions are carried out or implemented according to a plan or goal (Siegel & Shim 2000). If part of the organisation is on the wrong track, managers try to find out why and set things right. To assure is to make certain; in carrying out their functions management generally act to assure themselves that, for example, the financial position is sound, that legal compliance is achieved and that performance is on track to achieve the stated organisational objectives. Assurance is therefore also an essential management activity.

Control is defined by the Institute of Internal Auditors as ‘any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved’ (IIA 2006a p.16). The responsibility for the development and implementation of an internal control structure rests with an organisation’s directors and management (Adams et al 1997). Management must ensure they are in control and that organisational objectives and goals will therefore be achieved; this responsibility cannot be shifted to auditors. The task of auditors is the process of examining and critiquing management systems and procedures in order to provide independent assurance that controls are operating and are reasonable.

The conceptual map (Figure 1), which links organisational objectives with audit assurance, begins by identifying an organisation’s objectives and standards for performance. In order to ensure these objectives are achieved, controls and methods of evaluation are put in place to monitor and evaluate progress. These are reviewed by managers who must satisfy their own stakeholders that they are aligned with the organisational objectives and performance expectations. Progress against objectives can then be

Figure 1 Conceptual map depicting management and audit assurance



Source: produced for this study

evaluated by management (managerial assurance) and/or by auditors (audit assurance). If management is the single-loop process of keeping performance to plan, auditing is described as the double loop process of critiquing management systems and procedures (Clardy 2004).

Human resource management activities must also be monitored and controlled to ensure the organisation's performance goals are achieved. The controls and the evaluation of performance in human resource management areas can be assessed by management (through managerial assurance) and also by auditors providing independent audit assurance. Human resource auditing offers the opportunity to independently examine human resource management activities for: adherence to accounting standards and an organisation's financial control requirements; compliance, risk, performance, and for agreed purposes (see section 2.7). A human resource audit may have more than one of these areas as a focus, depending on the audit scope.

2.5 What human resource auditing is not

A human resource audit is not a form of management assurance undertaken in relation to the human resource management activities of an organisation. There is a risk that human resource practitioners may claim to be undertaking a human resource 'audit' when they are actually undertaking a 'review'. This can present legal issues (it can be misleading and might also be deceptive conduct) or insurance issues (particularly professional indemnity insurance coverage) and should be avoided (Bernhardt & Andrews 2006). For the purpose of this study a management assurance or consulting activity may also be designed to add value and improve an organisation's performance but this activity lies outside of human resource auditing and would more accurately be described as a human resource review.

2.6 Previous definitions of human resource auditing

Nutley (2000 p.22) observed that ‘defining what an audit is and, conversely, what it is not was fraught with difficulties’ and that in the literature on human resource management audits ‘the term is interpreted in a variety of ways’. Clardy (2004 p.129) described the literature on human resource auditing as being ‘flawed in several ways’. In his view the term audit was used ‘rather indiscriminately’ in the literature so that ‘most any kind of study of human resources is considered an audit’ (p.129). In addition Clardy observes there was an absence of information about the practical aspects of undertaking a performance audit of human resource management activities. A number of authors do not offer a definition of human resource auditing including Matthewman (1993), Batra (1996), Spognardi (1997), Schuler and Jackson (1999), McConnell (2001), Dwyer (2002) and Schuler, Budhwar and Florkowski (2002). According to Dolenko (1990) there is little that is especially different about auditing human resource management other than recognising that it involves the people dimension.

Subtle problems emerge from the definitions offered in the literature. The context of the definition is often lost with few authors explicitly recognising the audit assurance paradigm. Often the term auditor may be substituted or interchanged with reviewer, assessor and consultant, fatally blurring the lines between auditing and managerial assurance. Many definitions also ignore the issue of the type of audit under consideration, leading to further uncertainty. Three definitions are considered and the outcomes are summarised in Table 1.

First, the Society for Human Resource Management defines ‘audit’ on their website as ‘a systematic assessment of a company’s management, finances, operations, controls and scope in which policies and procedures are carried out’ (SHRM 2007a). The use of the term ‘assessment’ is not qualified and could lead a human resource manager to equate an audit with a review.

Table 1 Definitions of human resource audit

Author	Society for Human Resource Management (2007)	Blackwell (2005)	Phillips (1996)
Definition of human resource audit	The process of assessing human resource programs and services to determine effectiveness or efficiency.	A series of systematic, formal procedures designed to evaluate the efficiency and effectiveness of the firm's HR management system, compare its performance to relevant internal and external benchmarks, evaluate the appropriateness of this system for implementing the firm's strategic and operational objectives, and thereafter provide a framework for improving the way in which the firm manages people.	An investigative, analytical and comparative process that attempts to reflect the effectiveness of the HR function.
Is the auditing context clearly identified? (e.g. independence, technical work in the form of evidence gathering etc).	The independent assurance context is unclear. The technical work to be undertaken is unclear.	The independent assurance context is unclear. The technical work to be undertaken is unclear.	The independent assurance context is unclear. The technical work to be undertaken is unclear.

(continues)

Source: produced for this study

Table 1 Definitions of human resource audit (continued)

Author	Society for Human Resource Management (2007)	Blackwell (2005)	Phillips (1996)
Is the activity grounded in auditing standards and professional practise frameworks?	The activity is not explicitly grounded in auditing standards or practices.	The activity is not explicitly grounded in auditing standards or practices.	The activity is not explicitly grounded in auditing standards or practices.
Is the scope of work clear from the definition?	'Human resource programs and services' is used to establish a potentially broad scope of enquiry.	The use of the term 'HR management system' is potentially ambiguous.	The use of the term 'HR function' is potentially limiting.
Does the definition provide for different types of audit?	Not obviously	Not obviously	It appears limited to the concept of effectiveness
If not provided within the definition, is the explanation notated (se section 2.6) to ensure the proper context of auditing is understood by the reader?	Not found.	Not found.	Not found.

Source: produced for this study

Nutley (2000), quoting Power (1997), describes the generally accepted ingredients of audit practice as being: independence, technical work in the form of evidence gathering and the examination of documentation, the expression of a view based on the evidence, and a clearly defined objective of the process. It is only after the term audit is understood that the concept of human resource auditing can be defined.

The definition of human resource auditing offered by the Society for Human Resource Management is ‘the process of assessing human resource programs and services to determine effectiveness or efficiency’ (SHRM 2007a). Again the term ‘assessment’ is used without explaining the auditing context or paradigm, and for that reason the definition is flawed. Also, the definition does not recognise different types of audit.

Second, in Blackwell’s Encyclopaedic Dictionary of Human Resource Management (Huselid 2005 p.165), human resource audit is defined as:

‘... a series of systematic, formal procedures designed to evaluate the efficiency and effectiveness of the firm's HR management system, compare its performance to relevant internal and external benchmarks, evaluate the appropriateness of this system for implementing the firm's strategic and operational objectives, and thereafter provide a framework for improving the way in which the firm manages people’.

In this definition the context of auditing is not obvious and the scope of the activities and the type of audit is not clear. The definition also appears directed toward a human resource performance audit (efficiency and effectiveness). As a definition it might not, for example, adequately explain a financial audit of human resource management, a compliance audit of human resource management or a risk-based audit of human resource management. The type of audit under consideration (see section **2.7**) is important to the definition.

Third, human resource auditing is described by Phillips (1996 p.37) as ‘an extension of traditional auditing, historically considered in relation to the financial practices of the organisation’. Phillips defines a human resource audit as ‘an investigative, analytical and comparative process that attempts

to reflect the effectiveness of the HR function' (p.37). The problem with this definition is that the auditing context can be lost, independence is not indicated, it fails to acknowledge different types of audit, and the audit scope is limited to the 'HR function'. Phillips noted that the scope of human resource auditing was increasing with a trend toward functional audits of areas within human resource management. The trend toward functional audits is also reflected in the observations of an Australian human resource practitioner who reflected that in many instances a functional audit was 'what the client really wanted' (Evans, 2004, pers. comm., 27 July). The overall conclusion reached by Phillips was that "In short, it (auditing) is essential and important, yet falls short of a valid approach to measuring the contribution of the (HR) function" (1996 p.38).

In order to define human resource auditing the reader must first understand auditing. For the purposes of this study a suitable definition of auditing would be:

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be performed by a competent, independent person. (Arens et al, 2005, p.12).

It is important to reaffirm that it is not the responsibility of an auditor to take on the task or responsibilities of management. However, in critiquing management systems and procedures the auditor may provide guidance based on their skills, knowledge and experience or documented better practices, especially in the area of controls. Management should then act in response, deciding whether or not to adopt the audit findings or audit recommendations.

2.7 Defining ‘human resource management audit’ for this study

Consistent with the description of human resource management auditing as a functional activity (Ollala & Castillo 2002), for the purpose of this study it is properly described as auditing applied to human resource management, or an aspect of human resource management, as determined by the audit scope. The following definition is adopted:

A human resource management audit is an audit undertaken of human resources management or within an aspect of human resource management.

Inherently placed within this definition are the context of auditing and the concepts of auditor independence, of different audit types for different purposes (or an audit covering multiple objectives) and the need to ground the activity in auditing standards and professional practice frameworks. When using this definition care must be taken to ensure that the reader is aware of the context of auditing and a notation to that effect would prevent uncertainty.

For an auditor the definition of human resource management is explained in the audit scope and therefore does not require general definition. The scope of the audit is set in the audit assignment plan and this can be organisation wide, it may be directed at the function of human resources, it may take in the human resource management functions undertaken by line management or be directed at selected human resource functional activities, for example learning and development.

2.7.1 Defining a ‘performance audit of human resource management’ for this study

With ‘audit’ and ‘human resource management audit’ defined, the next definition that is required for this study is the definition of a ‘human resource management performance audit’ in the Australian context. Since there is a national auditing standard covering performance auditing (see section 2.9) the definition adopted for this study is drawn directly from that standard:

‘A performance audit of human resource management examines human resource management or an aspect of human resource management to determine its effectiveness, and/or efficiency and/or economy’ (Adapted from the Australian Auditing Standard 806).

A more detailed discussion of human resource performance auditing occurs in Section 2.8. Before proceeding there are two relevant issues to consider which set the context for that discussion: the name given to the overall activity and an explanation of the different types of audit.

2.7.2 The name used to describe the activity

The issue of whether this activity (human resource management auditing) was properly labelled was raised in 1989. One of the key questions was said to be ‘whether this type of investigation was indeed auditing’ (Glynn, Gray, Murphy & Vickerstaff 1989 p.40). At that time the alternative names suggested for the activity were a review or an evaluation. The question of why we would bother to use auditors for human resources management audits was raised by McBrayne (1990) who commented that the shortcomings identified in an audit of manpower planning could have been

picked up within the department (by line managers within the unit) or with the aid of consultancy, inspection or review services. McBrayne went on to detail three key reasons for suggesting auditors for the task rather than reviewers. These were that auditors had the time allocated to undertake the audit (when often the human resource department did not have time for such reflection), they had audit technique and they were independent (McBrayne, 1990, pp. 374-5).

The question of the 'name' to use for human resource auditing activity was raised by Bargerstock (2000 p.3) who discussed alternative names including 'review', 'assessment' or 'service improvement system.' After concluding that each organisation undertaking an audit must decide the appropriate name to fit its culture Bargerstock proceeded to adopt the label 'audit' for simplicity. This reasoning should be rejected. Auditing is a distinct activity with a long and distinguished history of independent assurance and auditing activity should not be considered interchangeable with other forms of managerial assurance.

2.7.3 Types of audit

There are different types of audit which are used to provide different types of assurance and have different objectives. Clardy (2004) describes three types: financial, compliance and operational audits and this categorisation is supported by the professional auditing literature (IAA 2006b). Operational audits cover a broad field including an audit of: performance, value-added, risk, and systems and controls (IAA 2006a). An individual audit assignment may cover elements of more than one audit type so that, for example, an audit of human resource management might examine compliance, risk and performance. The focus of each audit is established in the audit assignment plan. In addition to these three general types of audit, in the Australian context, there are audits conducted for specific purposes. Specific purpose audits include 'agreed upon procedures' reviews under the

Australian auditing standards (Australian Auditing Standard 904). For the purpose of this study the general categories proposed by Clardy (2004) were adopted. Before proceeding to consider performance auditing in further detail a short diversion is necessary to consider category differences in the literature surrounding the different types of audit.

2.8 Discursus: types of audits

There is a lack of agreement on the ‘types’ of audits found in the literature, especially in relation to human resource management audits. Nutley (2000) considers six ‘pure’ audit types (systems audit; compliance audit; performance audit; user satisfaction audit; value-added audit; and strategic contribution audit). Nutley correctly indicates that many human resource audits are likely to be ‘hybrids’ incorporating elements of more than one type depending on the audit objectives and what is found during the fieldwork phase. In addition a number of labels arise in the context of human resource management that do not clearly relate to auditing assurance: cultural audits, skills audits, workforce audits, health and safety audits and energy efficiency audits, to name a selection (CCH 2007).

Ollala & Castillo (2002) describe three ‘approaches’ to a human resource audit including the legal approach, a ‘focus of the function’ approach (audits of specific human resource functions) and a strategic approach. Dolenko (1990) describes a compliance audit and a comprehensive audit (a Canadian descriptor). Mock (2004) describes the audit types as compliance, best practices, strategic and function specific audits. A summary of the various audit types described in the literature and the related authors are summarised in Table 2. Where the audit type is not specifically described by the author but can be implied from the commentary this element is also identified in the table.

Table 2 Audit types and author perspectives

Human Resource Management Audit types found in selected HR Literature	Clardy (2004)	Nutley (2000)	Ollala & Castillo (2002)	Dolenko (1990)	Mock (2004)
Financial	Yes	Implied	Implied	Implied	Yes
Legal/ Compliance	Yes	Yes	Yes	Yes	Yes
Strategic Contribution	Implied	Yes	Yes	Implied	Yes
Systems/ Controls	Implied	Yes	Implied	Implied	Implied
Focus of the Function	Implied as training and development audit specified	Implied	Yes	Yes; as various functions are detailed.	Yes
Value added	Implied	Yes	Implied	Implied	Implied
Best practices	Implied	Implied	Implied	Yes	Yes
Comprehensive or Operational Audit	Yes	Implied	Implied	Yes	Yes
User satisfaction	Input to an audit	Yes	Input to an audit	Input to an audit	Input to an audit
Performance Audit -Value for money	Yes, as operational audit	Yes	Implied	Yes, as comprehensive audit	Yes, as comprehensive audit

Source: produced for this study

Financial audits

A (financial) *audit* can be described as an official examination and verification of accounts and records, especially of financial accounts (Delbridge 1982, p.79). It involves an examination of the auditee's accounting records by an independent certified public accountant to formulate an audit opinion (Siegel & Shim 2000). The auditor must follow auditing standards and generally accepted auditing procedures, with a

sample of source documents examined to substantiate the legitimacy of transactions.

The traditional financial audit of payroll, covering (for example) segregation of duties, reconciliation of payments, verification of staff and their entitlements, leave liabilities and leave transactions is well known to human resource management practitioners. A human resource management audit does not displace the traditional financial audit since the scope, stakeholders, target report audience and audit personnel may not be the same. The accounting audit of elements of human resource management remains an essential part of an organisation's audit program. There are national standards covering financial auditing and there have been calls for the development of further accounting standards in relation to human resource management areas (Appelbaum & Hood 1993) but these areas are outside the scope of this study.

Compliance audits

In the Australian context compliance reviews are covered by the Australian standard known as Compliance Programs (AS 3806-2006). The objective of the standard is to provide principles and guidance for organisations that are designing, developing, implementing, maintaining or improving a compliance program. Compliance in this context covers legal requirements, industry and organisational standards and codes, the principles of good governance, codes of conduct and accepted community and ethical standards. The emphasis is on establishing a compliance program which includes twelve nominated compliance principles covering the commitment to compliance, the implementation of the program, monitoring and measurement and continual improvement. Effective controls are needed to ensure compliance obligations are met and that critical points of risk of compliance failure are addressed. A compliance audit can assess the effectiveness of controls by critiquing management

systems and procedures (Clardy 2004). A self review of compliance is not a compliance audit but it can provide the basis for validation by a competent, independent auditor in a testing program that meets the generally accepted practice standards for auditing.

Operational audits

A working definition of operational auditing is provided in the training manual issued by the Institute of Internal Auditing as:

‘the application of good business practices, logical audit techniques, a management perspective and common sense to the evaluation of business issues’. (IIA 2006, p. 2-3)

This definition is broad but in practice there are boundaries to the types of activity usually undertaken in operational auditing. The general types of operational audits are said to be a risk-based approach, a value for money approach and a value cost (or business process improvement) approach (IIA 2006b). These three types can be used separately or in combination with each other in the context of the function being audited. This type of audit has one key differentiating factor – it can be future orientated. Operational auditing begins with the auditor looking at a business from the manager’s point of view, and their underlying mission, vision and objectives for the organisation. It is therefore necessary for management to have clearly described their: vision, mission, goals, and expected performance standards in order to provide a clear purpose and standards against which management activity can be examined by the auditor. This does not always occur in practice.

Risk based audit

A risk based approach stresses the importance of clearly defined business

objectives and then describes how to assess risk, perhaps using a risk/control matrix. The 'people risk' (Esperson 2005) has traditionally belonged to human resource managers with basic risk management for the human resource professional involving the identification of risk and then the treatment of risk by transfer, absorption, elimination or reduction (Ritzky 2002). With the rise of line management responsibility and specialised risk management functions, human resource practitioners can now work with others to address the issues involved in assessing and responding to people risks. In an annual assessment of risk in Australian organisations, Aon Consulting identified human resource risk as within the top ten risks for organisations and it typically rates in the top five (Aon 2005, Donaldson 2007). A key risk in human resources is the financial risk (fictional or 'ghost' employees, salary overpayments, leave liabilities, workers compensation claims etc) associated with a significant organisational cost and this is usually covered in the traditional financial audit. Examples of other human resources risks would be those associated with compliance, the potential for litigation from staff or staff representatives, the potential for loss of key personnel, productivity losses through avoidable absences, employment contracts that specify uncompetitive terms and conditions and occupational health & safety and workers compensations claims.

Esperson (2005) used a risk matrix based on the 'COSO' framework that identified people risk based on responses from participants during a risk assessment exercise undertaken in the Institute of Internal Auditor's seminars on 'auditing your human resource function'. COSO is one of two significant approaches to risk management used in Australia. The term COSO is the popular name of the Committee of Sponsoring Organisations of the Treadway Commission's Enterprise Risk Management Framework which provides an international recognised approach to risk management.

An alternative framework for considering risk in the Australian/New Zealand context is the relevant standard on Risk Management (AS/NZ 4360:1999) produced by Standards Australia. The standard provides a generic guide for the establishment and implementation of the risk management process involving establishing the context and the identification, analysis, evaluation, treatment, communication and ongoing monitoring of risks. The standard may be applied to a wide range of activities or operations of a public, private or community enterprise.

Performance audits (including value for money audits)

If a performance audit in the Australian context addresses the criteria of efficiency, effectiveness and economy, it can be described as a value for money audit. Where a single category is audited it is more likely to be known as an audit of that category (e.g. an efficiency audit or an effectiveness audit). The value for money approach is used to describe a situation where an audit of human resource management, or an aspect of human resource management, is undertaken with a view to evaluating performance on the basis of efficiency, effectiveness and economy (adapted from the Australian Auditing Standards 806 & 808).

The early history of value for money auditing (as one type of operational audit) is evidenced during the period after 1827 at the Baltimore and Ohio Railroad in America (Flesher, Samson & Previts 2003). It is important to note that performance audits have a long and accepted history and are not a recent phenomenon. According to Batra (1996) the primary purpose of the human resource audit is to help management plan and control the use of human resources effectively and efficiently. Batra justifies the conduct of a separate human resource audit in order to ascertain whether or not performance of the managers has been true and fair and in the overall interests of the organisation they serve.

In a recent guide to performance auditing Khan (2005) indicates that performance auditing must take a macro view of the systems and procedures in organisations rather than individual transactions. It should assist organisations by ensuring appropriate information is generated to assess value for money. It is future orientated and examines activity in the context in which it occurred, appreciating the circumstances of decision-making rather than resorting to hindsight wisdom. One of the impediments to performance auditing is ‘the absence of clear, objective and agreed audit criteria’ (Khan 2005, p.15). While the objectives are examined for efficiency, effectiveness and economy these three concepts are interlinked and may even have a trade-off effect. According to Khan the auditor should recognise that it may be difficult to distinguish clearly between an economy issue and an efficiency issue but if the issue is preventing management receiving full value it should be reported.

Value cost or business improvement process audits

The value cost or business improvement approach uses a variety of tools to recommend process improvement through internal audit consulting activity (IIA 2006b). This approach uses process flowcharts and analytical tools to map business processes in order to demonstrate process ownership and accountability, to demonstrate the actual process and sub-processes, to identify control points and measures and to aid process improvement. This activity can be especially useful when the time taken and costs are identified in process steps since it then allows for the improvements in processes resulting from the examination to be quantified.

Specific purpose audits

As previously described specific purpose audits describe audits requested and/or agreed-upon for a particular purpose, such as a specific fraud investigation. There can be a number of reasons for requesting a particular

audit and they may involve elements taken from financial, compliance and operational auditing. An audit conducted of human resource system data prior to the introduction of a new software system is an example. In this instance there are procedures for conducting the audit which aims to ensure data integrity in the new system. In Australia an agreed-upon procedures audit can be conducted under the Australian auditing standard (AUS 904). Mergers and acquisition activity can also prompt a special type of audit that has relevance to human resource practitioners (Coult 1999).

Reconciling the types of audits

It is possible to re-organise the audit types suggested in the human resource management literature into the more traditional audit categories of financial audit, compliance audit and operational audits, with the category of operational audits expanded to include some of the audit types listed in the human resource literature. The revised table of audit types offered is set out in Table 3 for consideration but it is not intended to be exhaustive.

Discursus summary

There are a variety of human resource audit types described in the literature and a discussion of human resource management auditing must take account of the type of audit under consideration. These may appear under different descriptors but the significant types are financial, compliance, operational and special purpose audits. The level or focus of the audit is set in the audit scope and can encompass, for example, organisation wide human resource management, the human resources department, or one or more human resource functions. The next section will discuss performance auditing, in the Australian context, in greater detail.

Table 3 Suggested human resource management audit types using traditional audit categories

Human Resource Audit types	Explanation
Human Resource Financial Audit	The traditional financial audit applied to the human resource area against accounting, auditing and organisational standards.
Human Resource Compliance Audits	An audit undertaken against legal and regulatory requirements, codes, policies etc. (See Compliance Programs AS 3860).
Human Resource Operational Audits	<p>Strategic audits (especially examining alignment with organisational objectives and critical human resource issues for business success). These issues will also be covered by effectiveness audits.</p> <p>Performance audits (one or more of efficiency, and/or effectiveness and/or economy audits; includes value for money audits).</p> <p>Risk audits (See AS/NZS 4360)</p> <p>Value cost (or process improvement) audits</p> <p>‘Other audits’, specifically of an operational nature</p>
Special Purpose Audits	<p>Audits conducted under agreed upon procedures (e.g. AUS 904).</p> <p>Merger and acquisition activity generating human resource management audit mandates.</p>

Source: produced for this study

2.9 Performance audits of human resource management

Performance has been defined as ‘the organisation’s ability to attain its goals by using resources in an efficient and effective manner’ (Mathis & Jackson 2003 p. 819). As previously indicated a third dimension of performance, economy, is also included in the Australian Auditing Standard. Economy, often described as ‘the alternative cost’, can be relevant to the benchmarking of human resource management and to the outsourcing of human resource activity.

A performance audit of human resource management is one type of operational audit, involving an examination of the performance of various human resource management activities, as defined in the audit scope. A ‘performance audit’ under the Australian auditing standards means an audit to assess economy and/or efficiency and/or effectiveness (AUS 806). Under that standard the following specific definitions are used (pp.4-5):

Effectiveness *means the achievement of the objectives or other intended effects of activities.*

Efficiency *means the use of financial, human, physical and information resources such that output is maximised for any given set of resource inputs, or inputs minimised for any given quantity or quality output.*

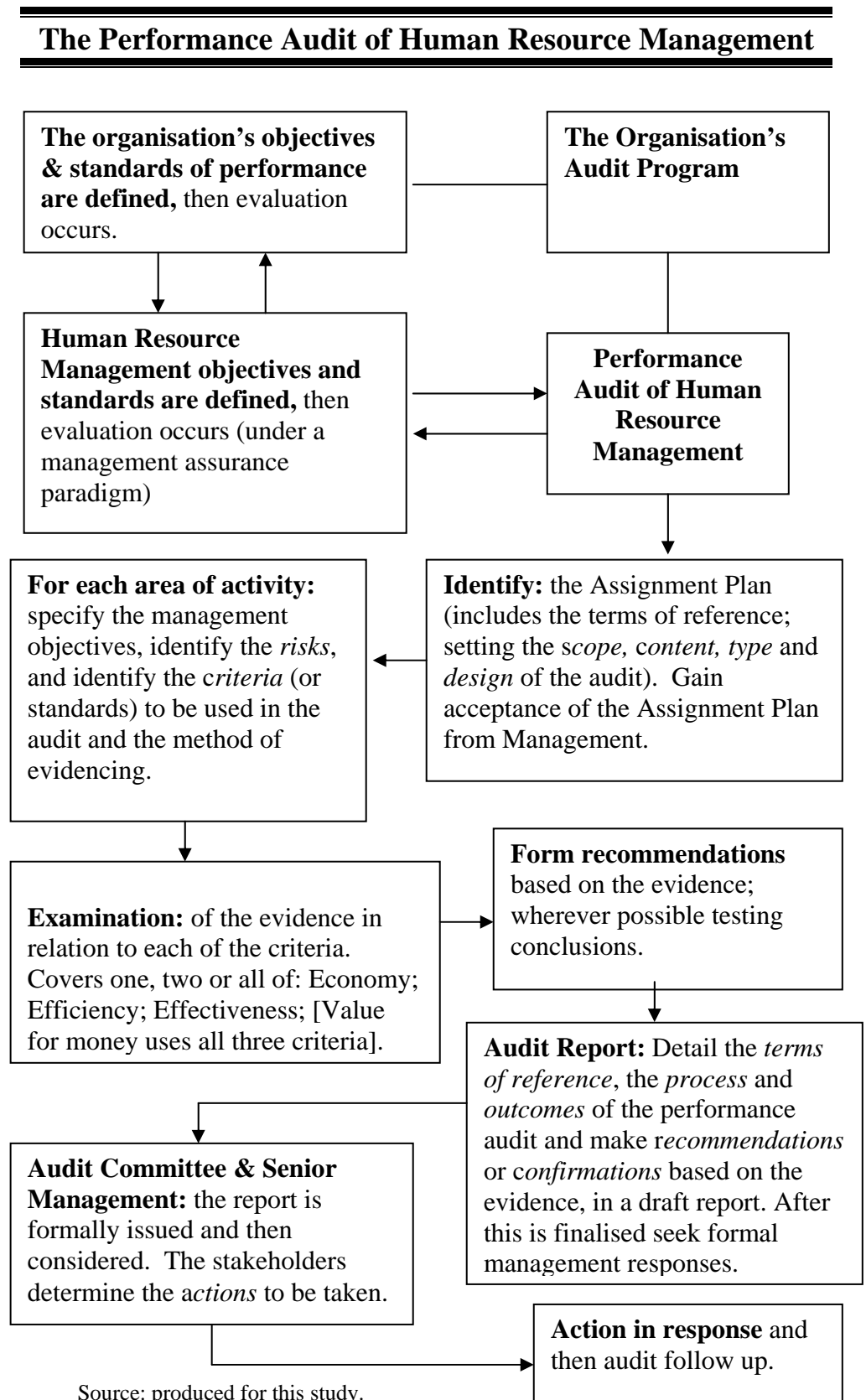
Economy *means the acquisition of the appropriate quality and quantity of financial, human, physical and information resources at the appropriate times and at the lowest cost.*

According to Craven & McNulty (1994 p.7) there is some evidence that “it appears that human resource managers are concerned with effectiveness and the auditors and economists are concerned with economy and efficiency”. The auditing standard indicates that the three dimensions are relevant to an evaluation of performance. When the three concepts of efficiency, effectiveness and economy are combined, auditors refer to the outcome as a ‘value for money’ audit.

The concept of conducting a performance audit of human resources in the Australian context is not new (Teo 1997) but there is a lack of information and practical advice on how to conduct such an audit and the issues auditors might face. The time, cost and benefits of a performance audit of human resources have not been identified in published reports except for one example in the public sector (ANAO 1997). According to Dolenko (pers. comm. 21 June 2007), in reference to the Canadian experience, human resource management performance audits are rare. In Australia, O’Leary identified the issues of: audit independence, cost/benefit decisions, and the establishment of adequate measurement criteria as problems to be overcome in establishing a performance audit framework (O’Leary 1996).

The performance auditing model (Figure 2) starts with the organisation’s objectives and the standards of performance expected to be achieved. From this can be drawn both the implications for human resource management and the evaluation criteria for both management and for a performance audit of human resource management. Where objectives or standards are not sufficiently defined these should be agreed before the audit begins. Once a decision is taken to conduct a performance audit the audit scope (e.g. human resources across the whole organisation, the human resource department or selected human resource activities), the stakeholders for the report, the variety of audit (attest or direct reporting; see section **2.13.7**) and the evaluation criteria will be developed in the Audit Assignment Plan.

Figure 2 The human resource management performance audit



The requirements for the contents of the assignment plan are set out in the Australian auditing standards. Once the assignment plan is agreed with management then detailed planning begins for the fieldwork.

The audit may require a variety of examination methods including the analysis of reports, the analysis of data, interviews, surveys, benchmarking and risk assessments. Templates for the fieldwork can be developed which set out the matters for detailed testing. Evidence is gathered to support recommendations contained in the report. Where management has also identified the issue a *confirmation* of action required can be issued. It is important to highlight examples of better practice in the audit report to provide a sense of balance and to maintain a positive working relationship with the audited area. The draft report is referred to the head of Human Resources for comment and then formally issued for management response. The final report, including the management response, is then issued to the stakeholders. There is an expectation of action-in-response (Nutley 2000) and that an audit follow-up will occur to ensure matters have been dealt with appropriately.

2.10 Review of the human resource auditing literature

There are a number of uncommon characteristics in the approach to the topic taken in the human resource literature compared to that found in the auditing literature. The differences are subtle but important and when combined illustrate quite different ways of approaching human resource auditing. The definitions of 'audit' and 'human resource audit' are different, as are the descriptions of audit types.

The need for audit independence, a fundamental auditing requirement, is not consistently recognised in the human resource management literature. Also, auditors must provide their reports to the audit committee as well as to senior management, so adverse audit findings are more likely to be appropriately considered.

The differences extend further: the use of consistent methodology, the emphasis placed on risk, the description of performance, the role of self assessment, the emphasis on standards and in the training requirements. Each of these is considered in turn. Human resources practitioners are described as lacking consensus about methodology (Clardy 2004) while auditors have approached the topic consistently and in line with standard auditing method. In the auditing context Dolenko (1990) evidenced clear and consistent thinking using a methodology grounded within the auditing profession. In contrast, there are claims that the procedures for conducting human resource audits tend to be incomplete or superficial (Clardy 2004). Auditing methodologies strive to be rigorous, evidence based and with attention to detail in evidence gathering and in reporting.

The rising importance and the explicit focus on risk has been a gradual shift for auditors over time with the profession now firmly risk based (Esperson 2005). The assessment of risk is not yet embedded thinking for human resources practitioners when approaching a human resource audit however there is evidence of authors considering risk issues in the context of auditing areas of human resource management (Clardy 2004).

The criteria used in assessing performance in the human resource context is described as efficiency and effectiveness (SHRM 2007a) whereas auditors more frequently consider performance in the context of efficiency, effectiveness and also 'economy'. The issue of self audit or self assessment is dealt with differently depending on the professional orientation. In the

human resources literature it is often assumed within the methodology that the human resources department will be involved in the human resource activity assessment (e.g. McConnell 2001). In the auditing literature, while auditors have developed self assessment methodologies (such as control self assessment and performance self assessment), there is still a requirement for validation by an independent auditor operating under the professional practices framework in order for it to be correctly termed an audit.

Auditing operates under a variety of universally applied auditing standards that set down established criteria for evaluation. In the absence of universal standards or 'generally accepted management principles' (Dolenko 1990) the standards used for an audit assignment must be agreed at the organisational level, ideally before the audit commences. Human resource professional bodies are still debating whether generally accepted human resource standards or practices could or should be developed (Meisinger 2005). In the absence of universal standards, organisational standards must be developed but often these are not explicit, complete or comprehensive. The issue of having standards remains as a point of difference. Evaluation criteria are an essential prerequisite for an audit; what was expected is assessed against what was found.

Audit reports have different key stakeholders, with the human resource literature generally informing senior management while for auditors the stakeholder for audit reports is usually the Audit Committee or the Board, as well as senior management. In an audit assignment there is an expectation of 'action in response' to the audit and each audit will attract a follow up from the audit team to ensure the recommendations receive action (Nutley 2000) while human resource review reports are not required to ensure responsive action.

There are differences in the training of auditors and human resource practitioners. An auditor will receive specific instruction in the techniques of evaluation and in auditing methodology during their undergraduate studies or during their first audit assignments. In performance auditing the professional practices framework requires trained and competent auditors and general audit courses covering performance auditing can be found in most Australian capital cities. In contrast, outside of the Auditing standards there is no requirement for the training of human resource practitioners in order to conduct a human resource 'audit'. While the professional practices framework of auditing requires trained and competent auditors there is no requirement for human resource practitioners to be trained to conduct such an evaluation. The essential differences observed between the two literature groups are summarised in Table 4.

2.11 Constructs identified from the literature

There are a number of constructs for the topic of human resource auditing. The first is that human resource auditing must be independent - the requirement for independence in auditing is fundamental. A second construct is that there are different types of audit and these must be carefully considered as the examination requirements will vary between audit types and the audit outcomes will vary depending on the assignment objectives. These include a financial audit, a compliance audit, an operational audit and an audit conducted for a specific purpose.

The third construct is that a performance audit in the Australian context has universal application through the Australian auditing standards and that standard should be used as the basis for performance auditing assignments. The fourth construct relates to standards - the auditor will look first to national standards or generally accepted management principles and once these are determined, or if these are absent, then the auditor will look to establish the standards to be used in the audit at the organisational level.

Table 4 Differences in perspectives between human resource management and auditing

Issue	Human Resource Management	Auditing
Definition	Human resource auditing is defined in many different ways.	Auditing is clearly defined; an audit of human resources is a functional or activity based audit selected from one or more of the standard audit types.
Types of audit	There are many different approaches or types of audit described in the literature including strategic/effectiveness audits, legal/compliance audits, focus of the function, user satisfaction, systems audit, performance audit, value-added audit; a variety of human resources issue or activity audits (e.g. equity audit, skills audit, qualification audits, cultural audits etc)	Financial, compliance, operational (including performance, risk and process based) and specific purpose audits. Many of the types of audit described in the human resource literature are examples of different types of operational audits.
Independence	Not an explicit requirement under many definitions.	Mandatory under national standards and the auditing professional practices framework
Critical stakeholder and reporting line	Senior management	Primarily the audit committee; senior management as a stakeholder for audit reports; auditors report to management on administrative issues
Process	Procedures for conducting an audit tend to be incomplete or superficial (Clardy 2004)	Methodologies have rigour with attention to detail in evidence gathering and reporting.
Risk based	Not always; but can be evidenced (Clardy 2004)	Risk is a significant factor in auditing methodology

(Continues)

Source: produced for this study

Table 4 Differences in perspectives between human resource management and auditing (continued)

Issue	Human Resource Management	Auditing
Performance Criterion	Efficiency & Effectiveness (SHRM 2007a)	Efficiency & Effectiveness & Economy (AUS 806)
Self audit/assessment The use of the term self audit is to be discouraged (it is an oxymoron).	Often assumed; e.g. McConnell (2001)	Permissible but requires validation by an independent auditor. It is the process of validation that turns a self assessment into an audit.
Standards or criteria	Absence of universal standards; organisational standards may often not be explicit nor complete.	Prerequisite for an audit; what is expected is assessed against what was found. National standard covering performance auditing of management functions.
Outcomes	Report with recommendations.	Report with evidence based recommendations and an expectation of action in response (Nutley 2000)
Training of Auditors	No mandated requirement for training. No specific training programs evidenced in human resources publications.	National standards and professional practice framework requires trained and competent auditors. Training programs available in the U.S. on HR auditing.

Source: produced for this study

As part of the audit methodology the standards to be used in an audit will be agreed with the auditee, ideally before the audit commences.

The fifth construct relates to the importance auditors attach to risk, since risk assessments will generally inform and assist in determining the selection of the auditable activities in the audit plan, the matters thought material for examination priority and in relation to the risk assessments attached to recommendations.

Auditors operating under a professional practices model are required to be competent and experienced and have knowledge of the organisation under review. Similarly subject matter specialists require knowledge and competence in auditing under the Australian auditing standards. The sixth construct therefore relates to auditor training. Both auditors and subject matter specialists must be competent in audit under the Australian auditing standards and this is usually evidenced by some form of structured training. These key constructs are detailed in Table 5.

Table 5 Key constructs for human resource auditing

Key Constructs
The need for independence
There are different types of audit for different purposes.
Performance should be considered on the basis of efficiency, effectiveness and economy.
Standards must be developed and agreed organisationally if national or industry standards are absent.
A consideration of risks, along with objectives and standards, are part of the audit process.
Competence in auditing is required by the national standards and the professional practices framework for auditing.

Source: produced for this study.

There are clear implications for this study arising from the literature review. First, human resources practitioners would benefit from a better understanding of audit philosophy, theory, definitions, methodology and processes; and from combining a risk based approach with strategic human resource management. Second, a published example of a human resource performance audit in the Australian context, demonstrating the consideration of organisational strategic objectives and human resource objectives, standards and risks would add value to the body of knowledge. Third, the identification of the potential challenges and issues in conducting a human resources performance audit would inform human resource practitioners, auditors and other interested stakeholders. Fourth, a performance audit conducted under the Australian auditing standards would provide an organisation with the opportunity for independent audit assurance whereas other forms of human resource evaluation can only provide management assurance.

By conducting the research section of this study it is hoped that human resource practitioners and others will be able to better understand the potential of human resource management performance auditing, operating under national auditing standards and the professional practices framework, to contribute to the achievement of an organisation's stated objectives.

2.12 Can human resource management auditing contribute to the overall effectiveness of an organisation?

One of the key problems with the acceptance of human resource management auditing as an evaluation method has been the claim that 'there is little direct connection between the information in the audit and the overall effectiveness of the organisation' (Phillips 1996; CCH 2004). This comment warrants scrutiny since it was often repeated without acknowledging the potential contribution of different types of audit. A compliance audit, for example, might not be expected to achieve this

outcome. There is no clear reason to suggest that a human resource management performance audit designed to test effectiveness could not achieve this objective.

If the audit went further and examined the efficiency and economy of human resource management activities then there is a robust platform, based on an accepted national auditing standard in the Australian context, to assess the current and future contribution of human resources to the organisation. It would appear that the performance audit methodology does have the potential to contribute to effective organisational performance.

The alternative argument to Phillips, that a human resource audit could provide evidence of the contribution of human resources to the organisation's business direction, is offered by Dwyer (2002 p.3):

‘A human resource audit of your organisation will provide clear direction for developing and implementing effective human resource strategies, practices and policies to further the overall goals of the firm’.

2.13 Benefits of a human resource management audit

Human resource auditing not only offers independent assurance but according to Nankervis, Compton and Baird (2005) the human resource audit also provides an opportunity to assess the financial advantages and disadvantages of human resource functions, benchmark the function, evaluate the effectiveness of the function, ensure compliance, establish standards, promote change and creativity, bring human resources closer to line managers, focus staff on critical human resources issues and to improve the quality, image and contributions of the human resource function. In addition it can indicate those areas of human resource practice that have the most potential for return on investment. According to Bratton and Gold

(2001) the human resource audit can provide verifiable data on human resources, can clarify their duties and responsibilities, can identify critical human resource problems, can align human resource strategy with organisational strategy, can improve the status of human resources, reduce costs and improve the human resource management information system.

2.14 Cost and alternatives to a human resource management audit

An authoritative estimate of the time taken to conduct a typical human resource performance audit and the range of potential costs was not disclosed in the literature review for this study. In one example a human resource audit was considered to take up to one year (CCH 2004). The cost of a human resource audit will vary according to its scope, its objectives, the availability of information in an auditable form, whether the audit uses internal or external auditors, the use of subject matter specialists and the level of co-operation afforded to the audit panel. This list is illustrative and is not intended to be exhaustive. The time taken to complete the audit will also vary although a competent auditor would be able to scope this at the organisational level. Alternative evaluation methodologies would include a management review, a consultants review, human resource accounting, benchmarking, quality reviews, program evaluations, cost/benefit evaluations, a balanced scorecard approach, a profit centre approach, attitude surveys, an index of effectiveness, management by objectives evaluations, business process analysis and employee feedback (CCH 2007; Nankervis et al 2005). Each of these can provide at least one element of managerial assurance but only auditing offers an evaluation that provides independent audit assurance. Many of the types of evaluation listed above can also be incorporated into a performance audit assignment plan.

2.15 Audit issues relevant to a human resource management performance audit

Since an understanding of auditing methodology is required in order to test the effectiveness of performance audits of human resource management the following sections are relevant to the design of the research methodology in Chapter Three and to the conduct of the case study in Chapter Four. A suitable starting point for considering human resource auditing would be the research work produced by Dolenko (1990) for the Institute of Internal Auditors Research Foundation. This monograph outlines a methodology for auditing human resources management which was developed in conjunction with a broad range of public and private sector human resource and auditing specialists. It is a universal model, applicable to all organisations and industries. Compared with later audit practice it has less emphasis on risk assessment than would be expected but this reflects the time period in which it was developed.

The seven functions recognised by Dolenko were human resource planning, staffing, training, performance appraisals, employee relations, compensation and benefits and human resource information systems. In addition a further section dealt with the management of the human resources function. For each human resource function a list of essential activities and corresponding audit criteria were developed. These criteria were based on the literature and on the advice of practitioners. The audit criteria was described by the project panel as good management practices since they were said to have been 'accepted by most practitioners'. The essential qualification was then added that they should be modified to suit the circumstances of the individual audit clients. An extract of Dolenko's description and audit criteria for human resource planning is reproduced in Appendix 1. In this example Dolenko describes the need for human resource planning and then sets out 'what is expected to be seen'.

Audit planning, as described by Dolenko, is divided into three phases. These are a survey phase, a verification phase and a reporting phase. The survey phase is used as a preliminary assessment to determine the scope of the audit. Once a decision on scope is made the audit criteria are reviewed in conjunction with management and then the audit program is developed. The verification phase may involve selective interviews, data, reports, questionnaires etc. Auditors are encouraged to concentrate on areas where the recommendations may make a difference to future practices, a reminder that this type of audit is future orientated.

In summary, Dolenko produced a timely monograph in 1990 which described human resource auditing within the overall framework of auditing practice. The monograph describes two major types of audits (in addition to financial audits) and details the audit methodology. It provides detailed criteria for seven functional areas within human resources and one management area. There is evidence of the use of the Dolenko model in industry; Pacific Bell based their internal 'Standards for Business Control' on the Dolenko categories and audit criteria (Pacific Bell 1994). With the overall framework for a human resource audit provided by Dolenko we turn to specific issues that arise in the context of a performance audit of human resources.

2.15.1 Independence

The professional practices framework requires an auditor to be independent and to avoid actual or potential conflicts of interest. The requirement also extends to the selection and appointment of subject matter specialists and experts engaged as part of the audit (see section **2.14.3**). The topic of audit independence is covered in detail in the Australian auditing standards and in the professional practices frameworks for auditors (IIA 2006a).

2.15.2 Internal or external auditors

Debate surrounds the benefits of using internal or external auditors. Internal auditors often possess greater knowledge of the organisation and will often be cost effective compared to external auditors. External auditors offer further independence and potentially may have had greater exposure to a broad range of business practices. For the purposes of this study a human resource management performance audit can be conducted using either internal or external auditors (Australian Auditing Standard 806). Internal auditors are well positioned to conduct a human resource performance audit or to validate an internal self assessment undertaken by the human resource department but may lack experience in either performance auditing and/or audits of human resource activity. External audit firms are likely to have access to experienced performance auditors.

2.15.3 The use of subject matter specialists

The performance auditing standard contemplates the use of a person or firm possessing special skill, knowledge and experience in a particular field other than auditing. For the present purpose these may be a specialist in the field of human resource management (or the aspect of human resource management under review) who joins the audit panel, or a subject matter expert. When specialists join the audit team they require an understanding of the basics of auditing sufficient to understand and apply the Australian auditing standards in the context of their responsibilities (AUS 806). How this is to be achieved is not stated but some form of basic auditing training would potentially demonstrate this requirement. Experts may come from a distinct field (e.g. industrial law) and provide independent reports but may not necessarily join the audit team. Avoiding conflicts of interest, adhering to the expected standards of conduct, documentation of the scope of the involvement, the methodologies and reporting relationship must all be covered in the expert's engagement terms under the auditing standards.

There is support in the literature for performance auditors including human resource specialists as subject matter experts in a human resource management audit. As previously identified Craven and McNulty (1994) described auditors as tending toward a concentration on compliance, efficiency and economy, while human resources practitioners were described as having a tendency toward evaluating effectiveness. The combination can be seen as complimentary and value adding. Hyland and Verreault (2003) suggest the combination of a risk management approach adopted by internal auditors and a human resource function that acted strategically was found to have the highest *value-creating* combination for organisations. The authors argued that ‘by combining a strategic approach to human resources with a risk management approach to internal audit, companies should be able to set themselves apart from others and capitalise on the value generated by (the) progressive management of people’ (p.475). This suggests the combination of an auditing practitioner with a human resource management subject matter expert might benefit a human resource management performance auditing assignment.

2.15.4 Auditing standards

Auditing and accounting standards are the guidelines that financial auditors follow when examining financial statements and other data. Auditing standards are usually promulgated by authoritative bodies or by government regulatory bodies (Siegel & Shim 2000). In Australia the Auditing and Assurance Standards Board is an independent statutory body setting enforceable and advisory auditing and assurance standards. The absence of national standards for human resources in Australia is a significant issue in the context of human resource auditing but it is also a worldwide issue. In 2005 the Society for Human Resource Management based in the United States advised its members worldwide that it was exploring ‘whether or not

generally accepted HR standards or practices could or should be developed' (Meisinger 2005).

The lack of reference standards for an audit is significant as without agreed standards the audit should not proceed. When standards cannot be agreed it will be reported as an audit finding, with a recommendation for management to develop appropriate standards. There are two universal standards in Australia covering human resources. One standard covers an organisation's Code of Conduct (AS 8002 – 2003) and a second deals with Employment Screening (AS 4811 – 2006).

The Australian Public Service developed a model framework for the management of human resources (PSC 1992) that was used by the Australian National Audit Office as the basis for the conduct of an audit in 1997 (ANAO 1997). In the literature on benchmarking McKinnon, Walker and Davis (2000) provide a sample framework for evaluating human resources within Australian universities.

2.15.5 Auditing checklists

There are also generic checklists available for conducting an evaluation of many human resources activities. These checklists are often either universal or industry based and can be used as a useful starting point for either a review or an audit of human resource activities. One early example was the publication of the original *How to Audit the Personnel Department* produced by AMACOM (1977), a division of American Management Associations. In 1986 a second edition was released with the title changed to *How to Audit the Human Resources Department* (AMACOM 1986). This work was updated again in 2001 with John H. McConnell as editor to become *Auditing Your Human Resource Department – a step by step guide* (McConnell 2001). This publication provides a useful series of checklists that cover most areas of human

resource activity. Although the title purports to deal with auditing, the methodology is scoring rather than evidence based. The use of the word 'Your' in the title suggests the possibility of self assessment by human resources staff. It is noted that this publication does not describe or define auditing within the context of an independent assurance paradigm.

Another early example of a useful checklist was Biles and Schuler's *Audit Handbook of Human Resource Practices: Auditing the Effectiveness of the Human Resource Functions* (1986). Once a checklist of activities is identified human resource practitioners can use the information as a diagnostic tool to assist the evaluation of human resources under a management assurance paradigm. They can also be adapted by auditors to formulate audit questions or to base inquiries in areas not covered in management reporting. The checklists can be common to both the managerial assurance paradigm and the auditing paradigm although audit checklists are not normally written as statements that are answered as 'how true' or 'how desirable', the methodology used in Biles and Schuler (1986).

As previously identified McKinnon et al (2000) provide a useful format and checklist for a limited range of human resource activities in an Australian university using a self-assessment and check assessment process, designed primarily for benchmarking purposes. In 2004 the Higher Education Funding Council for England supported the development of a self-assessment test for university personnel activities which produced a checklist of key human resource activities (HEFCE 2005). Cambridge Strategy Publication's twelve part series *The Portfolio of Human Resource Audits* makes it explicit that they are a set of self assessment tools for the human resource function (Cambridge 2007) but could also provide useful inputs to an audit tool. There are also practitioner authored human resource audit programs available on auditing related websites (such as www.auditnet.com or the discussion groups of the website www.theiaa.org).

2.15.6 Auditor training

There are no mandatory qualifications in Australia for an individual to undertake a human resource audit. Thus the field is open to auditors and non-auditors alike. However, under the Australian auditing standards the auditor must have adequate skill, competence and knowledge to undertake an audit (Australian Auditing Standard 806) and comply with the ethical requirements and practices of professional auditors. The conduct of the audit must be in accordance with the performance auditing standard so it is unlikely that a non-auditor without basic training in audit would meet the standard expected. The auditor must understand the audit methodology and audit criteria used and must be competent to know the types and amount of evidence to accumulate to reach proper conclusions (Arens et al 2002).

2.15.7 Attest or direct reporting audits

An *attest* audit examines the statements made or implied by management (Adams et al 1997) to enable a formal statement to be made by the auditor, after thorough examination and consideration, as to whether the statements fairly present the position (Siegel & Shim 2000). The Office of the Auditor General for Western Australian described (in their on-line annual report) an attest audit as ‘work performed to enable an opinion to be expressed regarding a report about financial or performance matters prepared by the party who is accountable for the financial transactions or the performance summary’ (OAG 2007). In this case the examination commences with a report from the responsible manager but this does not prevent the auditor examining areas outside the report that are within the scope of the audit. It can mean that managers take the opportunity to accentuate the positive aspects of performance and attempt to minimise the negative, in order to guide the auditors away from areas where scrutiny of management performance may not be in the manager’s immediate interests.

In contrast, a *direct reporting* audit is an auditor prepared examination and report based on what the auditor regards as being the most important activities for examination. This enables the auditor to determine the areas for examination without limitation, provided they are within the scope of the audit. The Office of the Auditor General for Western Australia describes a direct reporting audit as ‘an examination resulting in a written report being prepared where the party responsible for the matter examined has not been significantly involved in initiating or preparing the report.’ (OAG 2007) The potential advantage is a greater level of assurance that the important activities have been examined according to fully justified criteria. The potential disadvantage of this approach is that it requires more work on the part of the auditor to determine what activities should be examined and requires justification for the areas selected and for the areas not selected for examination. The OAG definitions are set out in Table 6.

Table 6 Attest or direct reporting audits

Attest Audit is work performed to enable an opinion to be expressed regarding a report about financial or performance matters prepared by the party who is accountable for the financial transactions or the performance summary.

Direct Reporting is an examination resulting in a written report being prepared where the party responsible for the matter examined has not been significantly involved in initiating or preparing the report.

Source: Office of the Auditor General of Western Australia 2007

2.15.8 Self-Audit: an oxymoron

The evaluation of one’s work may be ‘as old as work itself’ but the concept of self audit is an oxymoron, since the essential paradigm of auditing must

be independence (Karapetrovic & Willborn 2001a). Various authors use the term self audit when the activity should be more appropriately described as self assessment. There is a subtle terminology difference. Self auditing is, by virtue of lacking independence, an oxymoron but self assessment is not. Traditional audits are never 'self', but rather independent of 'self' (Karapetrovic & Willborn 2001a, p.27). Put directly: self audit lacks independent validation and is therefore not auditing.

The concept of self-assessment, with independent validation, occurs in the auditing literature (Karapetrovic & Willborn 2001a, Brune 2004). It has been suggested that a hybrid model for the evaluation of performance, which includes both auditing and self assessment, could enhance the advantages and eliminate the perceived faults of both tools (Karapetrovic & Willborn 2001b). In the attest model (refer section **2.14.7**) the auditor examines the statements made by management in relation to the auditable area and is therefore based on self assessment but also retains independent validation. Self assessment is a valid construct within a managerial assurance paradigm which can then be validated using independent audit assurance.

In summary, various authors use the term self audit when the activity would be more appropriately described as self assessment. Whilst the difference might be subtle it goes to the core of the auditing philosophy and the use of the correct terminology advises stakeholders of the real status of the activity. The need to undertake self assessment when risk is identified but formal audits are unlikely is a useful proposition (Clardy 2004). To add greater value to self assessment it would be useful if it was conducted using the same methodology and standards that an auditor would use in similar circumstances. For clarity, a performance self assessment in the Australian context could be undertaken using the relevant Australian auditing standard as a framework for the review.

2.15.9 Human resource audit practitioners

There are only a small number of specialist human resource management audit practitioners in Australia and the methodology employed may not always be grounded in auditing. There is also a lack of training opportunities; neither the Australian Human Resource Institute (AHRI) nor the Institute of Internal Auditors Australia (IIAA), run training programs devoted to human resource auditing. This situation can be contrasted with the United States where human resource audit training programs are conducted by the Institute of Internal Auditors (IIA) within that country (www.theiia.org).

2.15.10 Examples of human resource auditing in Australia

Teo (1997) identified the potential contribution of auditors to the evaluation of strategic human resource management using a methodology grounded in the developing field of performance auditing under the Australian auditing standards. Internal auditors were to be involved in the evaluation process which might take three forms: an audit approach; an analytical approach; or a multiple constituency approach. The evaluation would be based on evidence of efficiency, effectiveness and economy in determining whether the organisational objectives had been accomplished. Teo argued for internal auditors to assist human resource practitioners and senior management in assessing human resource effectiveness. This suggests the combination of a performance auditor and an independent human resource specialist might make useful recommendations that could contribute to organisational performance.

In 1997 the Australian National Audit Office (ANAO 1997) conducted a performance audit of human resource management at the Department of Foreign Affairs and Trade (DFAT) to examine, amongst other things, the efficiency and effectiveness of DFAT's practices against identified good

practice and the Public Service's human resources management framework. The audit examined four of the six functions listed in that framework including human resources planning, staffing practices, performance management and human resource development. DFAT employed 4200 people and operated in some 86 locations around the world. The audit cost was estimated at \$A415,000 (this included overseas visits and benchmarking) with an elapsed time of seven months and a fieldwork component covering five months. This remains one of the few human resource audits publicly available but its usefulness is reduced as it is based on the Commonwealth public sector human resource management framework which is not found in other areas of government or in private enterprise.

2.15.11 Value for money

For an activity to be worthwhile to an auditor it must provide value for money. This is taken to mean it must be effective, economic and efficient; known in auditing as the three 'E's (Craven & McNulty 1994). For example, in the context of training expenditure the expenditure is effective if it achieves its objectives without taking account of cost, it is economic if it achieves the most desired objective at the least cost and it is efficient if it gives the highest net present value when other uses of the funds are considered (Institute of Internal Auditors 1986, cited in Craven & McNulty 1994). The Australian auditing standard does not specifically mention value for money but its concentration on efficiency, effectiveness and economy is evidenced. Khan (2005) recognises the concept but also reflects that there is a terminology 'jungle' surrounding performance auditing. What appears reasonably clear is that to demonstrate value for money all three elements (efficiency, effectiveness and economy) must be examined.

There is some criticism of the value for money approach when used as a tool for evaluating educational systems in the United Kingdom (Elliot 2002). These relate to the potential confusion of outputs with outcomes, the tendency to focus on economy and efficiency at the expense of evaluating effectiveness and a claimed tendency of the process to destroy trust. A careful analysis of this type of criticism might indicate problems with the implementation of the methodology rather than the methodology itself.

2.16 Areas for further research

This study is based on auditing in the Australian context and it would also be useful to consider the same issues in other countries using their national auditing standards. The original article by Dolenko (1990) suggests there are generally accepted human resource principles and it would be useful to test this assumption. The proliferation of checklists and award criteria for human resource management suggests there could be common elements and this might be usefully tested across industries and international borders. There is also a need to consider the alternative methodologies to human resource performance auditing in further research.

2.17 The gap in knowledge

The literature review resolves many of the 'what' questions of human resource auditing. The detail of 'how' to conduct a future orientated human resource management performance audit remains to be explained. The potential of human resource auditing to contribute to organisational success will need to be demonstrated before human resource practitioners and auditors can be expected to give the topic greater attention. The literature review presents a method of evidencing the contribution of human resources on value for money criteria, but it appears to be rarely found in practice. Human resource auditing is still not well known or understood as a method of evaluation by human resource practitioners but the topic is an

emerging area of interest in the context of evaluating the contribution of human resources to the achievement of an organisation's objectives.

2.18 What needs to be tested?

There are few published examples of a human resource management performance audits in the Australian context. The audit experience, the cost of an audit, the time required to undertake an audit, the potential of a performance audit to contribute to organisational effectiveness and the observations of key stakeholders should be tested. Such a study would provide the practical orientation and evidence that is required to challenge the prevailing view of human resource auditing as not having a direct connection with organisational effectiveness.

2.19 The benefits or contributions of this study

By applying the results of the study it is hoped that human resource practitioners will be able to better understand the potential of human resource management auditing to offer a contribution to an organisation's future performance. Through publication of a the literature review, the offer of new definitions, the publication of a practical example of a performance audit and the observations of stakeholders, this study will provide the basic building block for practitioners and academics to understand the essential constructs of human resource management auditing and in future to distinguish these from other evaluation methods. Once human resource management performance auditing is understood researchers will be better placed to evaluate the methodology against alternatives.

2.20 Summary and conclusions

The study has identified an independent, future orientated and universal method for examining the contribution of human resource management to organisational performance. The key contribution of this Chapter includes providing new definitions, establishing key constructs and increasing awareness of the differences between audit and review. The audit evaluation criteria identified allows for the adaptation of generally accepted management principles to incorporate specific organisational standards.

The literature review indicates that the contribution of human resource activities to organisational objectives can be approached from a value for money perspective incorporating the criteria of efficiency, economy and effectiveness. In Australia the performance auditing standards have not been systematically applied to a published human resource management performance audit and few specialist human resource management auditors can be found. The study suggests that the practical demonstration of a human resources performance audit in the Australian context could provide answers to the remaining 'how' questions not covered during the literature review (how long? how much? how useful?). The lack of case study material on human resource management performance auditing in the Australian context presents problems for both researchers and practitioners.

CHAPTER THREE – RESEARCH METHODOLOGY

3.1 Introduction

In Chapter Two the literature on human resource auditing and human resource management performance auditing was examined and then developed into an outline of key constructs for the topic area. In this chapter the issues involved in selecting the research design are considered and a research methodology selected and justified. The research question is determined and the limitations of the research method are considered. The research stages and timetable are established along with the ethical requirements. The researcher then determined that a case study methodology was preferred within this research context.

3.2 Research question

The business problem to be addressed in this research was the performance evaluation of human resource management through auditing. It had been claimed that there was ‘not a direct link between (human resource) audit results and the organisation’s overall effectiveness’ (CCH 2004; Phillips 1996). Whether a performance audit of human resource management can be effective (or not) in evaluating human resource activities and contributing to organisational effectiveness needed to be tested and the outcome evaluated against reference criteria. The research objective was therefore to assess human resource management performance auditing as a method for evaluating the contribution of human resources to an organisation. There are four different stakeholders directly involved in the evaluation: the head of the human resource function; the senior executive responsible for human resource management; the auditor and the researcher.

3.2.1 The principal research question

The principal research question is framed in the following terms:

Is a performance audit of human resource management a suitable method for evaluating whether human resource activities are contributing to an organisation's performance?

There were two key parts to this study: first, to undertake an audit using the national auditing standards and professional audit practices and second, to evaluate the potential contribution of human resource management performance auditing as an evaluation method.

3.3 Definitions

For the purposes of this paper the following definition of auditing was adopted.

‘Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be performed by a competent, independent person.’ (Arens et al, 2005, p.12).

This definition was used in the Australian context and clearly establishes the need for independence in auditing.

3.3.1 What is human resource auditing?

Within the context of auditing the definition of human resource auditing proposed in this study indicates the functional scope of the audit. The definition offered for the study was:

‘A human resource audit is an audit undertaken of human resource management or within an aspect of human resource management’.

3.3.2 What is human resource management performance auditing?

The definition of a performance audit of human resource management in the Australian context is adapted from the criteria contained in the Australian auditing standards for evaluating performance (AUS 806 & AUS 808). The suggested definition was:

‘A performance audit of human resource management examines human resource management or an aspect of human resource management to determine its effectiveness, and/or efficiency and/or economy’.

3.4 Research design

In conducting research a particular paradigm is adopted, seen as a set of basic beliefs that deal with first principles. Alternative paradigms were considered and one found to be more appropriate. Positivism and postpositivism were rejected based on their underlying assertions: that the inquirer is a disinterested party, that knowledge consists of verifiable hypothesis that can be accepted as facts and that the aim of inquiry is explanation followed by prediction and control. In this research the researcher was not independent of the study but a key part of the audit team, the aim of the study was not designed to predict outcomes but to offer

assurance to stakeholders that the performance audit methodology was sound. Constructivism was rejected for its lack of attention to method; the audit methodology is a key aspect of the study and one of the key differentiators of auditing from other forms of human resource management evaluation. In the proposed research a *critical theory* paradigm was considered appropriate as the observer had a level of participation in the proposed evaluation and the study gained insights as time passed (Denzin & Lincoln 2005). The performance audit would involve the researcher in direct auditee interviews and the extensive use of both non-numerical and numerical information in an effort to evidence audit recommendations. Critical inquiry involves a meta-process of investigation which questions currently held values and assumptions and challenges conventional social structures (Gray 2004).

The first principles in a selected paradigm include the ontology, the epistemology and the methodology. The ontology deals with the nature of reality. The reality we are seeking in performance auditing is to provide a level of independent and evidence based assurance to key stakeholders while also providing future orientated recommendations for improving the organisations performance. These are observed by an interested party and occur within a historical reality shaped by social, political, industrial, economic and organisational values which are crystallised over time, consistent with critical theory (Denzin & Lincoln 2005).

Epistemology deals with the nature of the relationship between the researcher and the object of inquiry, in this case the auditee organisation's human resource management activities and the individual interviewees. The researcher was a source of potential influence in the research and was to be actively involved in the conduct of the audit as a member of the audit team. Although auditing strives for objective truth through evidence based enquiry, findings can also be value-mediated, consistent with critical theory (Denzin & Lincoln 2005).

Turning to methodology, the initial choice is between a predominantly quantitative or qualitative method. Quantitative research methodologies involve testing concepts with distinct variables, where data is precisely measured and where theory is largely causal in nature (Neumann 1994). Qualitative research is appropriate where the researcher faces a small number of non-representative cases with largely unstructured data and a desire to develop an initial understanding of the topic to inform the development of relevant theory and practice. The problems associated with using a quantitative methodology in this research were first, the small number of identified human resource management auditors and second, the observation that very few (if any) of these appear to have adopted auditing methodologies and audit based standards of professional practice. A survey methodology was considered but as the literature review developed it became clear that the potential population involved would be very small. Surveys collect data on a limited range of topics from many people but in this instance an adequate sample could not be identified. Human resource management auditing using auditing methodology would prove to be a niche area, sparsely populated. These influences pointed toward using a qualitative methodology for the research.

The research objective involved exploring the topic area and becoming immersed in the data (Neumann 1994). In the data collection phase the potential for precise replication was considered to be low as each organisation has a current context, a legal background, historical factors in its development, a sector orientation and financial funding variables. The intended research was exploratory in nature, where identification of the context is critical (Neumann 1994). A positivist paradigm does not place emphasis on context and was therefore considered inappropriate for the intended research (Yin 1994), while non-positivists acknowledge the link between the research and the researcher as a source of potential influence in the research. If the researcher was a formal part of the audit team such an

influence should be recognised in the research design. A non-positivist design and an open system is the more likely context for human resource management performance auditing within an organisation.

In summary, a critical realist paradigm was considered appropriate due to the level of participation of the observer in the proposed evaluation (Neumann 1994). The performance audit would involve the researcher in auditee interviews and the extensive use of both non-numerical and numerical information in an effort to evidence audit recommendations.

3.5 Support and justification for a qualitative design

The key context problem for the study was the lack of practitioners with identified performance auditing expertise operating in the field of human resource management auditing. The research would need to rely on the depth of inquiry rather than attempting to ‘saturate’ the topic or use extensive quantitative data to build a coherent picture. In addition to initiating the project and contributing concepts from the literature, the researcher was to be involved in the performance audit panel, discovering the key decision points, identifying the practice implications and studying the techniques used by auditors to perform a human resource management performance audit. Numerous writers have described the concept of human resource auditing but few have attempted to demonstrate the techniques in practice and then evaluate the methodology. The influence of the researcher on the performance audit, as a subject matter specialist in human resource management, can be expected and the invitation to join the audit panel recognises and anticipates such influence.

3.6 Selection of the type of qualitative research

According to Creswell (1998) there are five qualitative research traditions (biography, phenomenology, grounded theory, ethnography and case study)

that can be considered across various dimensions in order to select the appropriate form for study. Biography, phenomenology and ethnography were each considered inappropriate. Of the remaining types grounded theory and case study were each considered. Grounded theory would have been appropriate if there was an extensive list of human resource management audit practitioners from which to select an interview sample and if we were seeking to develop a theory of human resource management auditing. In the current context the literature review disclosed what auditing was, the types of audits that could be conducted and the national auditing standard applicable to performance audits. The proposed study was applied research, seeking to test whether the identified methodology could contribute to organisational success, rather than theory testing.

A case study is as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident (Yin 1994). Case study is often used to provide detailed context and content descriptors relevant to the study area (Rosenberg & Daly 1993). Of the five qualitative traditions the case study was determined to be the most appropriate. The research design in this study needed to start from the extant knowledge and use this as a basic building block. Although there is initial interest in the 'what' question the focus shifted to the practical 'how' question, consistent with case study methodology.

Kyburz-Graber (2004) highlighted the need for research rigour in conducting case studies. Four criteria are identified as relevant to case studies: having a strong theoretical base and case-study protocol; triangulation in methods and procedures; the documentation of the case-study and the case study report and finally designing a chain of evidence. A careful reading of these requirements identifies clear overlap with auditing methodology in protocols, triangulation, documentation requirements, ethics and in examining activities using evidence based

methods. The usefulness of case study methodology in human resource research is highlighted by Hussey (2005).

The principal sources of data in the case study were to be found in the form of: words from documents sourced in the literature review; from individual or group practitioner interviews; from observations drawn during fieldwork; from written reports and through contributions from specialists drawn from both human resource management and auditing. Stakeholder feedback from individuals or groups would inform, develop and refine the audit assignment plan and allow for different stakeholder perspectives for the evaluation of the methodology. The explorative case study goes beyond description and tries to provide an understanding of the case against the background of its context (Kyburz-Graber 2004).

Internal validity does not normally arise with descriptive case studies (Gray 2004) however the external validity of the case study method could present difficulty (Yin 1994) since the case study may not have generalisability to other organisations. This occurs where data collected in the case study may not be representative of the population or that the population is considered too small for replication to be of value (Gray 2004). In this instance the research uses a universal evaluation framework that can be applied across all organisations and the emphasis is on whether the methodology could provide a contribution to the organisation's performance.

3.7 The number of case studies

The degree of difficulty in identifying more than one case study organisation (within a suitable industry and location) willing to undertake a formal performance audit using the researcher as a subject matter specialist was a practical consideration. The literature had suggested a human resource audit could take up to one year to complete (CCH 2004). The potential elapsed time for the fieldwork, the requirement for depth in the

enquiry and the practical considerations of researcher time off work, distance and cost suggested a concentrated, single case study for the research design.

The use of multiple case studies was considered (Perry 1998) but ultimately it was determined that a single case study would be undertaken. The primary justification was the depth required during the case study in order to evaluate the methodology. It would take considerable work at the host organisation to ensure that the examination properly tested the auditing methodology. A second justification was that a universal criterion had been identified in the literature review in the form of a national auditing standard. In theory the audit could be replicated in the future at any organisation but it would be important to acquire an in-depth understanding of the decision points and the factors that influenced the conduct of a performance audit assignment.

Since the same criteria would apply to a performance audit of another organisation it was sufficient to discover if the methodology *could* provide a suitable evaluation framework for human resource management activity. The actual results (i.e. audit recommendations) in the case study were less important to the researcher but critical to the stakeholder perception of the value and worth of the performance audit. The researcher had undertaken a human resource audit previously and was aware of the operational parameters of such a case study but had not previously operated under an auditing paradigm and therefore the internal auditor's direct supervision through the audit process was required. It would require the researcher to focus on the technical aspects of the audit and not just the case study issues.

3.8 The type of case study

The type of case study is one where a single case (one organisation) is used but there are a number of units of analysis. The units of analysis can be

drawn from the organisation's objectives, from risk assessments and from the critical human resource management issues identified by relevant stakeholders. Data collection will involve the compilation of a range of evidence from documentation, survey, from records, from interviews, by direct observations and from researcher observation to form a coherent picture.

3.9 Case study selection considerations

The performance auditing standards require a subject matter specialist to have knowledge of the organisation under examination, to understand the auditing process and to possess the required knowledge and competence in the speciality. There were three industries where the researcher had spent considerable time. These were media, health and tertiary education. From a practical perspective an organisation selected from one of these areas and an organisation located in south east Queensland, was preferable. Considerable time and travel would be required over a sustained period and this introduced potential constraints.

The selection of the case study organisation would also be important for another reason; care must always be taken to ensure auditing is independent. This eliminated Bond University (the employing entity of the researcher) and the University of Southern Queensland (the research entity). The selected organisation cannot have a direct connection with the researcher and there should not be a conflict of interest preventing the audit engagement. The study proceeded by selecting an organisation for study and then obtaining the agreement of the key stakeholders. The type of audit to be conducted was determined based on the organisation's own needs. The audit assignment plan was then drafted and agreed with fieldwork commencing according to the operational requirements of the organisation.

3.10 Data analysis techniques

A wide variety of methods are used in undertaking a performance audit. These include observation, interviews, surveys, content analysis, data testing, sample testing, benchmarking, performance assessment, risk assessment and document matching, to name a few. During the audit planning phase, auditors must decide on the appropriate techniques to use in order to provide assurance and to support the audit recommendations.

Direct observation is a primary method of examination during an audit. Auditors are trained to observe body language, to look for inconsistent or partial answers to questions and to probe for root causes of problems. The 'walk through' (Curtice 2004) is an accepted audit technique that relies on the power of observation and the casual engagement of staff in discussion. Many audit issues are uncovered by listening to staff talk about their work area. Data testing is ongoing in audit, usually by means of a sample selection with appropriate validation. Interviews are used to seek information, to test data reliability and to discover potential issues, causes and solutions. Depth interviews use a relatively unstructured approach but attempt to provide an extensive coverage of the topic area (Zikund 2003). Existing staff surveys may be examined by the auditors or new surveys undertaken as part of the audit. A survey of the key clients is often conducted in performance auditing when there has not been one undertaken by the activity under review. Content analysis (Zikund 2003) can also be used in auditing as well as numerical testing, sample testing and benchmarking. Where management have assessed performance these reports can be examined as well as the reports of other internal or external audits. Previous risk assessments can be used and updated during the audit process.

The role of the auditor is one that relies on proper research method to inform evidence based audit recommendations. The use of particular data

analysis techniques is considered in the audit planning phase but this may be modified during the audit, provided it is within the audit scope. When issues arise in an audit a new data analysis technique often needs to be incorporated to adequately test the matter under review.

3.11 How to determine what type of audit will be conducted?

For the purposes of testing the research objective a performance audit was determined to be the appropriate type of audit to test the contribution of the human resource management to an organisation. A finance or compliance audit of human resources based on historical performance will more than likely provide an indirect link between the audit results and future organisational performance. A future orientated audit of performance is the appropriate type of audit to test the research question but it must also be justified at the case study site. The audit history at the organisation, the requirements of the organisation's Audit Committee, the organisation's strategic objectives, risk assessments and the priorities of senior management will influence the design of an audit program. Audit programs are usually set out annually although special audits can be conducted outside of this program. The process of ensuring a performance audit is appropriate is undertaken in audit assignment planning and detailed in the audit assignment plan.

3.12 How to determine the activities to be examined?

Modern auditing is based on sampling and risk assessment rather than full transaction testing. The selection of auditable activities and the justification for the exclusion of other activities must be transparent and is generally documented in the audit assignment plan. Initially the researcher compiled a listing of the potential human resource management activities for examination in a human resource management performance audit by collating material from the literature review, by consulting various human

resource workbooks (Biles & Schuler 1986, McConnell 2001) and by examining a human resource industry awards assessment manual (AHRI 2004). A content analysis, which involves systematically identifying repeated characteristics (Gray 2004), was used to narrow the range of key auditable activities into potentially significant headings.

The work of Hyland and Verreault (2003), where the authors proposed a strategic approach to human resources combined with a risk management approach to audit, was useful in suggesting the criteria for selection of the auditable activities. Auditors use a formal process of examining objectives and assessment of the risk associated with activities in order to decide what areas to audit. The structure of the draft audit tool was also developed from the literature and then offered to the case study organisation as a starting point for consideration. The fieldwork documents would be developed with human resource practitioners from the host organisation to ensure agreement is achieved on the standards used to assess performance, consistent with the approach suggested by Dolenko (1990).

3.13 Research timetable

The proposed case study was planned to commence in the early months of 2005, immediately after the identification and the approval of the case study organisation. The first half of the year would concentrate on the compilation, extracted from the literature, of the audit template designs for a human resource management performance audit. The fieldwork would then be conducted mid year with the results prepared for internal assessment in the third quarter of 2005 and the case study finalised by the end of that calendar year. This schedule was considered to be viable based on the existing knowledge but operational rather than design issues would ultimately delay each stage. The final audit report to the organisation was delivered in May 2006.

3.14 Ethics

The approval of the USQ Ethics Committee was obtained once the case study organisation and the research design was finalised. The research occurred at both the organisational level and at an individual level for some key stakeholders. Data confidentiality would be maintained and privacy respected in accordance with the requirements of the USQ Ethics Committee rules and the host organisation's own directions. The case study data was held off-site in a secure area. In making conference presentations to inform practitioners of the outcomes of the research the approval of the host organisation would be sought for material to be disclosed in the public domain.

The researcher, as a member of the audit team, was a potential source of influence, bias and/or conflict of interest. This was addressed in the fieldwork by the host organisation interviewing the researcher, before commencing the work, to satisfy itself that when undertaking the role of subject matter specialist the researcher understood the requirements of the national auditing standard, understood auditing theory and practice and did not hold pre-conceived bias or strong views about the auditee or any participating individuals. The researcher also undertook specific skills training in operational auditing including: interview skills, maintaining independence and objectivity, audit team planning, techniques for communicating and the practise of interview techniques, in a course conducted by the Institute of Internal Auditors Australia.

Participants in a qualitative study should: have their interests protected, have their identities protected, individually understand clearly the objectives of the study, have the right to privacy and have reports related to the study available for their scrutiny (McMurray, Pace & Scott 2004). Participants in the audit fieldwork were therefore advised that the audit was for both organisational and research purposes, their consent to participation

was obtained and they were also advised that consent may be withdrawn at any time without reason.

In the case study process ethical issues were considered and taken into account in the research design. The first issue arose during the conduct of the case study audit, when the participants were interviewed and their viewpoints obtained. This was dealt with using informed consent forms, set questions and providing responses that did not identify individuals without their consent. The case study operated within the professional practice of auditing and the host organisation's own policies and procedures for internal audits. The draft audit report was made available for scrutiny and comments from participants and the final audit report would not be disclosed outside of the organisation. A summary of what could be identified to the public was agreed with the researcher. The second point was in the process and drafting of the Performance Audit Report. This process was overseen and managed by the organisation's Director of Efficiency & Audit with an emphasis on evidenced based recommendations within the practice guidelines of the Australian Auditing Standards. The third ethical issue arose when senior organisational staff evaluated the methodology for the purposes of the research. Informed consent, set questions and the opportunity to review the draft interview report enabled those participants to understand the research and to have their interests protected.

3.15 Risk assessment

The principal risk to the project was the difficulty in identifying a suitable case study organisation that was willing to be part of the research. Once a suitable organisation was identified there was a risk of the non co-operation of individuals in the study. The prospects for individual and organisational acceptance were enhanced by the endorsement from USQ for the research and by the researcher summarising the potential benefits for the

organisation and for individuals who participated. For an individual the potential experience gained from participation was a significant motivator as it would be unlikely they would have had a similar opportunity in the past or could anticipate one arising in the future. The workload of an individual might prevent them from adequately participating in the audit but this risk was minimised by a long lead time before the fieldwork commenced and by building-in reasonable blocks of scheduled time. Overall these risks were considered to be manageable.

3.16 Research outcomes

There are a number of potential outcomes of the research. First, the research will show how a human resource management performance audit is different from a review or evaluation. The process and sequence of conducting a human resource management performance audit will be demonstrated. Where there is an absence of national or industry standards, appropriate standards for each human resource activity will be established and agreed with the auditors. Second, a listing of the potential auditable activities and those actually selected at the host organisation will be identified, with appropriate justifications. Third, the research will also provide tentative conclusions about the role of auditors in the examination or validation of human resource management performance. The researcher will also consider whether organisations that conduct a human resource management performance audit can expect to obtain a contribution to future organisational performance. Fourth, the study will allow tentative propositions to be developed surrounding auditor and human resource understanding and awareness of the topic area. There is a potential training implication for both human resource management professionals and for auditors; each must demonstrate knowledge and competency in human resource management performance auditing. Finally, the study has relevance to risk management practitioners and other stakeholders since the

performance audit will have human resources practitioners and auditors examining the key human resource risks relevant to the organisation.

3.17 Audit stages

In undertaking a performance audit the key stages were: preliminary planning; agreement to the audit assignment plan; fieldwork involving analysis and assessment of human resource activities and the process of drafting and finalising the audit report. In the planning phase the auditors must select the key human resources management activities that should be audited as well as justifying why other activities would not be audited. Issues to be considered also included the composition of the audit team, selection of the audit type, clarification of the audit scope, consideration of the standards to be adopted in the audit, the selection of audit data collection techniques, conducting a risk assessment and the potential availability and validity of evidence.

Once the audit assignment was agreed the focus would shift to the activities selected for audit and the criteria to be adopted for the examination. The organisational objectives, the human resource management objectives, the timelines and priorities as well as the criteria for evaluation and evidence of performance would be considered. Where appropriate, evidence of good practice and internal and external benchmarks were examined. The audit scope would need to decide on whether the audit would address the economy, and/or efficiency and/or effectiveness of the human resource management activities (AUS 806). The fieldwork phase involved deciding on who to meet, timeframes and what specific activities would be targeted for examination. The audit involved data collection and decisions on whether to undertake surveys or further interviews. There is a constant need to ensure the performance audit is within the scope of the assignment as 'scope creep' is apparent in many audits.

The drafting of the audit report occurs in two stages. A draft report is provided for discussion with the Human Resource Director and revised before being issued as a 'formal draft' report. Once the formal draft report is issued a process of revision and correction occurs or further evidence sought. The formal comments of the department are sought in relation to audit recommendations and these are included in the final report. The final report is then issued to the persons detailed in the audit assignment plan.

Once the case study was completed (i.e. the final version of the human resource audit report had been issued) research attention turned to the evaluation of human resource management auditing as a methodology. The evaluation considered whether the methodology was considered appropriate from the perspective of the immediate stakeholders, whether the audit results were valued, whether the audit process was worthwhile, whether the audit outputs provide a practical contribution to future organisational performance, whether the audit methodology was cost effective, whether the time taken for the audit was reasonable and finally whether the audit methodology was accepted by the identified stakeholders as a comprehensive examination taking into account the case study environment.

3.18 Limitations to the study

This study was undertaken to provide insights and to gain a further understanding of the topic area and to assess the potential for human resource management performance auditing to contribute to organisational performance. The limitations to the study included the emphasis on the Australian experience, the use of a single case study, the difficulty in locating human resource management audit practitioners for testing of the concepts and the time line over which the study is undertaken.

The intention was to model an audit framework in the Australia environment. The literature review covered global sources but the performance audit was conducted under the Australian auditing standards which generally do not have an international equivalent. This presented a potential limitation on the relevance of the case study to the international community. However the literature review did identify similar criteria (but not formal auditing standards) for performance auditing in the international arena (Khan 2005).

The single case study design potentially affected the weight that can be attached to the case study outcomes. Since the location, jurisdiction and the type of organisation are unique this might have influenced the generalisability and extendibility of the research conclusions. The human resource activities identified as auditable in the research process may not be generalised but the process of selection can be. The recommendations of this human resource management performance audit may not be replicatable but the methods and processes used in the performance audit to reach those conclusions will be.

Potentially a key problem with this area of research is the lack of human resource management audit practitioners in Australia. While there are practitioners undertaking activities labelled 'human resource audits' the actual number of such audits conducted using audit methodology is quite low. Single function activity audits rather than a performance audit of multiple human resource management activities are more prevalent and often an audit of one human resource management activity is what might be requested of the auditor (Evans, pers. comm., 27 July 2004). The limitation of a human resource management performance audit to one human resource activity limits the scope of the audit to demonstrate a strategic contribution.

This study would have benefited from the identification of a larger body of practitioners who could have provided an opportunity to test some of the

constructs and practice implications arising from the literature. The lack of knowledge of performance auditing by human resource management practitioners was evident when discussing the topic in various human resource management forums.

The time line for the research spanned the period from 2002 to 2007. Such an extended time frame raises issues of the relevance of the source data and the timeliness of the research outcomes. The usefulness of the performance audit framework was tested in practitioner various forums (conferences, guest speaker engagements and articles; these are detailed in Chapter Five) to ensure the outcomes were still relevant at the time of publication.

3.19 Potential for extension

A potential extension to the research would be in the area of developing standards for the professional practice of human resource management in the Australian university sector. The combination of general audit templates (sourced from the literature), the self assessment standards from the U.K. and the forty four odd members of the university human resource benchmarking group would suggest a project to develop standards for the professional practice of human resource activity.

3.20 Summary and conclusions

This research addressed the topic of using performance auditing to evaluate the contribution of human resource management activity to an organisation's performance. Human resource auditing had been discussed in the literature but this form of evaluation has not generally been adopted by human resource management practitioners. There is not a recognised pool of human resource management auditors operating within the boundaries of professional auditing practices, which would have been desirable for research purposes. The case study method was chosen for the

depth of inquiry it would provide within the research environment. The research design would provide direct evidence of how to conduct a human resource management performance audit in the Australian context and also illustrate the decision points and issues that arise during the course of the audit. This research would provide template designs suitable for use as a starting point for a performance audit of human resource management in the Australian context.

In Chapter Four the case study organisation is detailed. The first section details the acceptance of the research proposal at the host organisation, the audit assignment plan, the fieldwork and then selected results from the final audit report. The Chapter includes draft templates taken from the literature and a copy of the final internal audit assignment plan. A second, confidential section deals with the actual audit recommendations and contains a full copy of the final audit report. At the request of the case study organisation this section cannot be published in the public domain.

CHAPTER 4 – CASE STUDY PART A

4.1 Introduction

This chapter covers the selection of the case study organisation, the process of securing agreement on the scope of the audit work, the audit planning, the fieldwork and the audit outcomes. This case study demonstrated that a human resource management performance audit can identify areas where additional value can be obtained from an already valued, well regarded and award winning human resource department. Due to auditee confidentiality restrictions, the final audit report and the audit recommendations cannot be included in the public domain. [Case Study Part 4B is therefore a confidential section which can only be made available to the dissertation supervisors and examiners].

By tracing a human resource management performance audit from start to finish it is possible to uncover issues with the use of performance auditing methodology, evidence the key decision points and to learn more about the benefits and limitations of this method of evaluation. Once the audit was completed the key audit clients (the audit department, the responsible senior executive and the human resources department) were able to evaluate the methodology and provide comments on the performance auditing process. Overall the performance audit of human resource management was worthwhile and found to represent value for money.

4.2 Selection of the case study organisation

The literature review identified independence as a key attribute of auditing and therefore it was necessary to select a case study organisation that was not directly associated with the researcher. This eliminated the organisation for which the researcher was working and the organisation through which

the research was being conducted. Since regular meetings and fieldwork were required, geographical limitations were also relevant. The organisation should ideally have an audit function capable of conducting a performance audit of human resources. The role of the researcher on the audit panel would be that of a subject matter specialist and it would therefore be useful if the background of the researcher was also within the industry in which the case study is conducted.

The preference of the researcher was to undertake the case study in a university environment. There are three universities located within a reasonable travelling distance. Of these the Queensland University of Technology (QUT) was considered to be ideal. QUT are the organisers of the Australian Universities' HR Benchmarking Group which provide comparative data to the sector on a range of people and organisational parameters. QUT's Human Resource Department had achieved professional recognition from the Australian Human Resource Institute (AHRI) in the form of an 'Excellence in People Management' Award (2004), represented in the Queensland category and hence are a well regarded human resource function.

The Director of the internal audit section at QUT (Ms Seema Patel) is well regarded within the professional association (the Institute of Internal Auditors Australia). She had gained specific experience in performance auditing while working outside the university environment. This would be especially important as the researcher had not previously undertaken a performance audit and knowledge of the performance audit methodology would be a key success factor. The internal procedure for undertaking audit assignments at QUT was documented in the university's Manual of Policies & Procedures (MOPP). The third element that suggested QUT was that the Registrar, to whom the Human Resources Department Director reported, was formerly the Human Resource Director at QUT and had a broad

understanding of human resource management review methods through her own participation in reviews in the university sector.

4.3 Approval for the case study

When approached in December 2004 the Human Resource Director at QUT (Mr Graham MacAulay) responded cautiously; QUT had recently been through the AHRI assessment for the Excellence Award and were also due to be audited by the sector quality agency in April 2005. Following the initial meeting with the researcher a presentation was made to the human resource Executive Committee. Discussion surrounded the nature of the audit, the audit panel, confidentiality, the timeframe, the quantity of work involved and the potential benefits to QUT. The research issues of client confidentiality, informed consent and the voluntary nature of participation were outlined. After this meeting QUT human resources tentatively agreed to proceed.

A meeting was then convened between the researcher, the Human Resource Director and the Director, Efficiency & Audit, (this title was applicable at that time to the head of internal audit), to discuss the potential for the case study to proceed. The Audit program for 2005 had already been approved and so the proposed audit would need to be accommodated as an extra and additional activity. Despite this the Director was keen to consider the proposal. At this meeting the proposal was discussed and further refined, based on QUT's own internal audit requirements. In particular the timing of the audit needed to accommodate operational issues within the university and it was tentatively planned for fieldwork to occur in September – November 2005. The two QUT Directors then raised the concept of a human resource management audit with the Registrar at QUT, Dr Carol Dickenson, and as a result QUT were formally approached to be part of the case study in February 2005.

The Vice-Chancellor of QUT, Dr Peter Coaldrake approved the participation of QUT and the researcher was formally notified by letter dated 3 March 2005. Participation was subject to confidentiality restrictions in relation to the information published concerning QUT. Significantly, QUT had agreed to allow the audit to proceed as a formal part of the QUT Audit Program. The active support of the Human Resources Director and the Director, Efficiency & Audit are regarded as significant factors in gaining approval for the case study to proceed.

4.4 Background to the host organisation

In 2005 QUT had 40,000 students enrolled with approximately twelve per cent recruited from overseas. The university has an extensive history dating from 1849 when the Brisbane School of Arts was established. QUT was created in January 1989 by the redesignation of the former Queensland Institute of Technology. In May 1990, QUT amalgamated with the Brisbane College of Advanced Education (BCAE) which specialised in courses in arts, business, education and social sciences. The institution resulting from the amalgamation of BCAE with QUT retained the title Queensland University of Technology (www.qut.edu.au).

In line with the Australian university sector the human resources department at QUT offered a centralised service with a combination of both a functional and client service structure. A significant proportion of expenditure was devoted to people related costs (59% of total expenditure in 2004) with the human resources department reporting to the Registrar. The Human Resources Department budget exceeded \$4.1 million and had a staffing complement, including project staff, of 62 full time equivalents. The Executive comprised the heads of significant human resource functions and met on a regular basis as a management group. The significant functional roles within human resources covered the Directorate, Corporate

HR (which included policy, workplace relations and workforce planning), HR Client Services (which included income generation activities, organisational development and advisory Services), Superannuation & Systems and finally Health & Safety Services. The structure of the human resource department at QUT is detailed in Appendix 2. Payroll was not a human resources activity or responsibility at QUT.

4.5 Audit history of the human resources department at QUT

An internal or external performance audit of human resources had not been conducted at QUT although financial audits, compliance assessments, quality assessments, industry assessments and managerial assurance had been undertaken. Annual external (financial) audits and internal audits conducted in other areas of QUT had not revealed material problems with the human resources department. Financial audits typically tend toward a concentration on personnel administration (leave liabilities, correct accruals etc) rather than on the performance evaluation of human resources activities.

A compliance audit had previously been undertaken in line with the relevant Australian Standard (AS 3806-1998 Compliance Programs). A financial audit had been undertaken by external auditors being the Queensland Audit Office. An attest-type industry review of the human resource department had proceeded (conducted by AHRI) and a quality audit was planned (to be conducted by AUQA). A human resource IT systems audit had previously been conducted as part of a broader IT audit and human resource business processes were to be reviewed in a separate 'Business Service Improvement' (BSI) review to be conducted under a managerial assurance paradigm (i.e. not through internal audit).

4.6 Timelines and process

Due to operational requirements at the university the fieldwork was planned to be undertaken in the second half of 2005. The practice of auditing involves a sequential round of auditee consultation, negotiation and agreed documentation with the audit program often planned annually in advance. In relation to the performance audit process the series of steps were planned and tentative dates allocated. The draft Internal Audit Assignment Plan was the subject of consultation with the Registrar and the Human Resource Director. Once consultation concluded, detailed fieldwork planning and preparation commenced with the objective of designing the working documents and preparing the interview templates and survey instruments. The standards to be used in relation to the human resource management activities would need to be agreed. Fieldwork could then commence leading to a Preliminary Draft Report. After a round of consultation with the auditee this would be formally released as a Draft Report for management comments. After receiving and considering the management comments the final report would be released. After the audit an auditee evaluation for quality assurance purposes would be completed and an audit follow up visit scheduled after the report's release. The original plan was to finalise and issue the report in December 2005 but internal delays meant this time frame was extended. Table 7 outlines the audit process with the actual dates indicated for reference.

4.7 Draft internal audit assignment plan

In March 2005 the process of drafting the Internal Audit Assignment Plan commenced. This is an essential stage in the audit and establishes its objectives and the scope of the audit. 'Scope creep' is a key issue in auditing with pressure to extend the audit into areas not contained within the original scope of the audit. The Audit Assignment Plan is used to

Table 7 The audit process and the actual timelines

Draft Internal Audit Assignment Plan	March – April 2005
Consultation with Registrar and auditee	
Internal Audit Plan Finalised	May 2005
Detailed Fieldwork Planning Preparation (ongoing until fieldwork commenced)	
Agreement on Standards	Ongoing from September until December 2005
Fieldwork	October - December 2005
Preliminary Draft Report	January 2006
Consultation with auditee	January – Feb 2006
Draft Report and auditee consultation	February 2006
Final report	May 2006
Audit evaluation for Quality assurance	June 2006
Audit follow up	May 2008

Source: produced for this study

define and limit the audit scope to guard against scope creep. The Plan describes the audit methodology and provides justifications for the selection of the key activities to be audited.

4.8 Audit planning

An initial audit planning meeting was held at QUT on 22 March 2005 between the researcher and the Director, Efficiency and Audit. The type of

audit to be conducted was considered from a financial audit, a compliance audit and a performance audit. It was determined that this audit should not duplicate areas that had been covered as part of recent audit history. This effectively eliminated consideration of a financial audit and a compliance audit and therefore a performance audit was proposed and adopted.

The meeting then considered the Australian Auditing Standard on *Planning Performance Audits* (AUS 808) and *Performance Audits* (AUS 806) and the requirements set out in the QUT Internal Audit methodology. The headings set out in the standard were considered in turn, particularly in relation to: the audit mandate, the audit scope and objectives, risk, the issue of auditability, the use of a subject matter specialist (the researcher) as part of the audit panel, the need for audit criteria and the timetable for the audit plan and fieldwork.

The potential choice between an *attest* audit (responding to management assertions) and a *direct reporting audit* (an auditor prepared examination and report) was considered (see section **2.13.7**). It was noted that the AHRI assessment and the AUQA quality audit both responded to assertions by the human resources department. After discussion it was felt that given this history an auditor prepared report was to be preferred (i.e. a direct reporting audit).

A performance audit focuses on efficiency and/or effectiveness and/or economy and formal definitions are set out in the auditing standards. *Efficiency* means the use of resources such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity or quality of output. *Effectiveness* means the achievement of the objectives or other intended effects of activities. *Economy* means the acquisition of the appropriate quality and quantity of resources at the appropriate times and at

the lowest cost (AUS 806). *Value for money* in this audit had the three components: efficiency; effectiveness and economy. In relation to the issue of audit sample it was determined that audit resources should be directed to those human resource areas identified in the QUT Blueprint (the strategic plan) and/or identified in broader QUT risk assessments. A selection of three to four key human resource management activities was considered to be a sufficient sample for testing.

Consideration was then given to the relevant internal documents. These included the strategic planning document known as the QUT Blueprint. It also included the People and Culture Plan (2005 – 2009), the Human Resources Strategic Plan (2005 - 2009), The Human Resource Department organisational chart, risk assessments, recent external and internal audit reports, the AHRI awards criteria, the QUT Manual of Policies and Procedures, the Human Resource Department external website and the QUT intranet site (restrictions on access applied). The human resource section of the QUT portfolio submission to the AUQA quality audit and the most recent annual report were also reviewed.

Consideration was given to a number of documents provided by the researcher. These included the audit of human resource management conducted by the Australian National Audit Office (ANAO 1997) and in particular the human resources model used in that audit. The Benchmarking Manual for Australian Universities (McKinnon et al 2000), the UK People Management self assessment tool for universities (HEFCE 2005), the AUQA Content Analysis of Institutional Audit Reports (Martin 2003) and a content analysis of AUQA reports in relation to human resource management for the period 2002 – 2004 produced by the researcher (unpublished). Relevant literature included a recent article on risk assessment in the ‘people process’ (Esperson 2005) and a model of Strategic Human Capital Management (GAO 2002).

4.9 Audit Objectives

The objectives of the audit were discussed in detail and finally determined as:

- 1) To evaluate, from a value for money perspective, whether the human resources department was actively supporting the delivery of QUT's strategy and services.
- 2) To examine the efficiency, effectiveness and economy of the role of QUT's human resource department in three to four key HR activities.
- 3) To undertake a case study of the process of performance auditing at QUT, specifically in relation to an audit of the role of the human resource department.

The third objective related both to the researcher's requirements and to a desire on behalf of QUT to build the branding of the human resource department and internal audit. This would potentially occur through presentation of the case study at professional conferences in both auditing and human resource management forums.

4.10 Scope and scope limitations

The performance audit was to be future orientated with a focus on the time period from March 2005 (the date of audit planning) forward until December 2010, the end of the current strategic planning period. It would be focussed on the Human Resources Department activities rather than human resource management at the university level. This enabled the audit to fit within the overall audit program and to keep QUT resource commitments to a manageable level. It also allowed the researcher to gain performance auditing experience within a contained audit environment. The task of evaluating human resource management at the university level

remains a challenge for the future. The fieldwork was carried out at a particular point in time and observations necessarily reflect that time period. It was recognised in Audit Planning that some data, such as the alternative cost of service delivery, would not be readily available.

4.11 Audit panel and confidentiality

The audit would be conducted by the Director of the internal audit unit along with the researcher who would take the role of subject matter specialist. The auditing standard (AUS 808) requires a specialist to have both knowledge and competence in auditing and possess professional competence and objectivity. In addition to his own knowledge the researcher undertook basic auditing training with the Institute of Internal Auditors to obtain a better understanding and technical knowledge of auditing. The researcher, at the time of the audit, was a certified member of the Australian Human Resource Institute with greater than three years experience in the university sector and thus exhibited both expertise and business knowledge as required by the auditing standard. The connection between the researcher and the human resource department was a professional association through the university human resource benchmarking network run by QUT. The Director, Efficiency & Audit closely questioned the researcher to determine objectivity in the assignment, particularly a preparedness to detail findings that might not be welcomed by the human resource department.

The researcher was asked to sign a confidentiality agreement in the standard format required by the QUT Internal Audit Section prior to commencing the audit. Consistent with other human resource audit literature (Glynn et al 1989; Nutley 2000), specific details of the final audit report would be subject to publication restrictions. This was an important

consideration since there needed to be a balance between disclosure for the purposes of the research, promotion at conferences and confidentiality for the case study organisation. One practical outcome was that QUT requested the right to specify the final audit report contents as confidential, allowing it to be presented to the dissertation supervisors and the examiners but not published in the public domain. This limitation was discussed with the researcher's supervisors who agreed that this request could be accommodated by having a confidential section within the dissertation (Chapter 4B). A significant amount of fieldwork was to be undertaken by the researcher with quality assurance provided through the direct and indirect supervision of the Director, Efficiency and Audit. Progress against the audit plan was monitored and reported to the QUT Registrar by the Audit Director. A client rating form was used to assess the perceived effectiveness of the audit for internal quality assurance purposes.

4.12 Type of audit

In a direct reporting audit the audit panel select the activities for audit and prepare for the audit independently rather than responding to the assertions of the Human Resource Department. This form of audit involves more work for the audit panel but it is harder for the Department to steer the panel in their preferred direction. Accentuating the positive and downplaying potential negatives is a standard approach for management who are subject to audit examination. The Audit Panel sought to examine the performance of the department by selecting the areas for examination rather than responding to management assertions. In later interviews the Human Resources Director acknowledged this was a key decision point (described in a post audit interview, later in this Chapter).

The audit was planned in accordance with AUS 806 and AUS 808, the standards relevant to performance auditing in Australia. Since there are only a very limited number of national standards for the practice of human

resource management the criteria for the examination would need to be developed and agreed with management during the detailed planning phase of the audit. The criteria would be examined in the context of the Department's objectives and the risks for nominated activities. A standard format was adopted for the working document which clearly identified the focus of the audit (economy, efficiency and effectiveness) and the criteria agreed with the Human Resource Department. A draft report would be produced for stakeholder comment with the final report issued in accordance with QUT internal audit requirements to the Vice-Chancellor, the Registrar and the Audit and Risk Management Committee.

4.13 HR activities selected for audit

The strategic planning document, the QUT Blueprint, examined the period going forward to 2010. The Blueprint estimated an increase in student numbers of 25% over the period from 2003 to 2010. A shift in the demographics of students was also outlined (for example, growth at the Kelvin Grove campus and in postgraduate coursework programs). From these observations and the specific issues identified in the Blueprint document the Audit Panel concluded that workforce planning, recruitment and retention activities and organisational change processes would be key factors in achieving the organisation's human resource management objectives.

The Audit Panel noted that the academic workforce in Australia is ageing and a key concern for higher education was ensuring that a skilled and experienced workforce is available. The age profile of QUT staff was identified as a strategic issue and the need for an 'influx of new people' also identified (QUT Blueprint p.5), to meet the expected increase in students. Consequently workforce planning had strategic importance for the

organisation. The role of the human resource department in guiding workforce planning and action was regarded as a critical human resource success area for QUT. The second area selected was 'Key Recruitment & Retention Activities'. Staff attraction and retention are specifically identified as key issues for QUT in the Blueprint (p.5). The role of the human resource department in promoting and practicing active retention and key recruitment activities was seen as a critical success area for QUT. The third area identified for examination was organisational change. Implicit in the QUT Blueprint was an expectation of change over time. Organisational change was identified by the Audit Panel to be problematic in many Australian universities with criticism levelled at both the pace and the bureaucratic nature of change processes. The role of the human resource department in facilitating the process of change was considered by the Audit Panel to be a critical human resource success area for QUT.

The final area selected by the Audit panel was 'critical human resource issues for QUT success'. To ensure that key stakeholders are informed and fully aware of the human resource issues at QUT it was important to ensure that the human resource department focused on identifying those human resource issues that were critical to the organisation's success. By monitoring and reporting on critical human resources issues facing QUT the human resource department inform senior management, the QUT Council and key internal stakeholders of those areas of practice in people management that are seen as critical to the success of the QUT Blueprint. This form of reporting has been described as human capital management (Kingsmill 2003).

The areas that would not be specifically audited included Health & Safety Advisory Services, Superannuation, HR IT Systems, HR business processes, the HR departmental structure within QUT and HR projects.

The justifications for not selecting these areas for auditing varied. Health & Safety is a specialist area that may also be located outside the human resource department, most notably as part of a risk management function. An audit of this activity is frequently undertaken using experts in compliance, risk and technical advisors. It was noted that an audit of this area often stands alone from a human resource management audit. Payroll was not a part of the human resource department at QUT. Consistent with the UK People Management Assessment Tools (HEFCE 2005), payroll was not regarded as a human resource activity for the purposes of human resource management auditing. Payroll is typically audited in a financial audit and had been subject to both internal and external audits at the site. As previously identified the Human Resource IT system had been audited in prior years. Business processes were to be assessed separately as part of the Business Service Improvement (BSI) project.

4.14 Risk assessment

It is a requirement of audit planning at QUT that risks are identified for each activity selected for audit. Potential risks and risk ratings were identified in preparation for the fieldwork by the Audit Panel and these would be confirmed in discussions with the auditee. The auditing standard does not specify risk ratings but this is a necessary requirement for QUT and professional practice. The risk exposures were to be rated as high, moderate or low risk. For the purposes of this audit the audit panel determined that a high level of risk exposure would be impacting on 'efficiency, effectiveness and economy' and ultimately contributing towards the non achievement of the stated objectives and should therefore be addressed as a matter of urgency. A moderate level of risk exposure would potentially have a major impact on 'efficiency, effectiveness and economy', ultimately undermining the achievement of the stated objectives

and should therefore be addressed promptly. A low level risk exposure would have a minor impact on ‘efficiency, effectiveness and economy’ and on the achievement of stated objectives but nevertheless should be addressed. In summary, a high rating would risk non-achievement, moderate could have a significant impact and low would have some impact but it was not critical. These criteria are set out in Table 8.

Table 8 Risk ratings used by the audit panel

<p>High level risk exposure impacting on efficiency, effectiveness and economy, ultimately contributing towards the non achievement of stated objectives and should therefore be addressed as a matter of urgency.</p>
<p><i>Moderate</i> level risk exposure having major impact on efficiency, effectiveness and economy, ultimately undermining the achievement of stated objectives and should therefore be addressed promptly.</p>
<p><i>Low</i> level risk exposure with minor impact on efficiency, effectiveness and economy, and on the achievement of stated objectives nevertheless should therefore be addressed.</p>

Source: produced by the audit panel during the case study

4.15 Human resource issues facing QUT

The combined prospect of an ageing workforce profile, a lack of new academic staff coming into the profession and the projected growth in student numbers makes it foreseeable that ensuring adequate staff to meet demand would potentially provide a medium to high risk exposure for QUT. Workforce planning would need to detail the number and type of

employees required in the future (Dolenko 1990). Once plans are developed they must also be actioned and a focus on the recruitment challenges and ways to ensure staff retention are required. Human resource practitioner experience in other sectors, especially health in the late 1990's, has shown that active recruitment and retention strategies can make a significant difference.

The strategic plan outlines a changing environment for QUT over time. The structural and operating environment for managing organisational change was therefore considered to be an important parameter (and potential constraint) on achieving the strategic objectives. Where the process of organisational change was unduly restrictive or the ability of the organisation to actually achieve change is limited, there is a key risk that university objectives will not be met. The audit panel regarded this as a high risk.

Human capital management literature points to a need for human resources to focus on the critical human resource issues for organisational success. The identification, analysis, reporting and controlling of these issues would assist the university to meet its strategic objectives and a failure to do so is considered to have a high risk exposure. These considerations are described in Table 9.

4.16 Audit timetable

The confirmation of the auditable activities was scheduled to occur at the end of May 2005. The detailed criteria for the examination phase was to be agreed by 30 August 2005, with fieldwork due to commence in September 2005 and scheduled to be completed by the end of November 2005. This time frame reflected the operational requirements of QUT. The Audit

Table 9 Risk assessment of human resource activity

Audit Risks	Level of Risk	Description
Workforce Planning	Medium/High	Key skill supply shortages, especially in academic areas, will limit the ability of the organisation to achieve the strategic objectives. Alternatively the cost of labour may rise significantly as sector demand increases competition in a tight labour market.
Recruitment & Retention	Medium/High	The delivery of university services is contingent on having qualified and experienced staff available at the right time. Once the ideal staffing profile has been determined through workforce planning the recruitment and/or retention activities must deliver value-for-money outcomes in a timely way. Experience in other sectors (eg health: nursing shortages) has shown that active recruitment and retention strategies make a difference.
Organisational Change	High	The structural and operating environment for managing organisational change is an important parameter (and potential constraint) on achieving strategic objectives. Where the process of organisational change is unduly restrictive (bureaucratic, time consuming, costly) or the ability of the organisation to actually achieve change is limited there is a key risk that university objectives will not be met.

(Continues)

Source: Produced by the audit panel

Table 9 Risk assessment of human resource activity (continued)

Audit Risks	Level of Risk	Description
Critical HR Issues	High	Key stakeholders need to be informed and fully aware of the current and future human resource issues at QUT. It is important to ensure that human resource reporting is focused on clearly identifying and analysing those human resource issues that are critical to the organisations success. Unless the key stakeholders clearly understand and appreciate the human resource areas that are critical to organisational success, resource allocation decisions and organisational priorities are likely to be allocating resources to the wrong areas.

Source: Produced by the audit panel

Director had indicated that the time necessary to complete the audit from the start of planning until the issuing of the final report should not ordinarily take more than three months.

4.17 Summary of the internal audit assignment planning

The Audit Panel methodically considered the requirements of the Australian Auditing Standards for performance auditing and then examined key internal documents including the strategic plan, the people and culture plan and the HR Departmental Plan. It was fortunate that these documents were detailed and the selection of auditable areas was made easier by having clarity in the organisation's objectives. From this analysis four activities were selected for examination as they were considered by the Audit Panel to be strategically important to the future success of QUT and represented a risk to the organisation if performance expectations were not

met. A key question in the minds of the Audit Panel was the strategic role of the human resource department in achieving QUT's Blueprint objectives. The available documentation and the internal knowledge of the Audit Director revealed a valued human resource department organised along both client focused and functional lines.

4.18 Consultation and acceptance of the internal audit assignment plan

Once the Audit Assignment plan was drafted, the Registrar and the Human Resource Director were consulted. The draft assignment plan was discussed in detail with the main change being to include Learning and Development activity as a focus area and also to expand the scope to include occupational health and safety training as a part of this focus area. The request to include these came from the human resource department and reflected an interest in evaluating these two areas by the Executive Committee members. After discussions with the QUT Registrar it was felt that an evaluation of learning and development could have been incorporated into the four nominated activities for examination. However the Audit Panel accepted the suggested changes to promote co-operation but were not convinced that these activities should have been included in the Internal Audit Assignment Plan.

The Internal Audit Assignment Plan was signed off by the Human Resources Director in June 2005. The plan confirms the audit objectives, scope and the specific activities selected for examination. The agreed approach for the audit was a future orientated performance audit conducted under Australian Auditing Standards. The attitude to be adopted by an auditor in a performance audit is specified in the auditing standard as one of 'professional scepticism ... recognising that circumstances may exist which could cause the information in relation to performance to be materially misstated' (AUS 806 p.6). The next and most significant task would be to identify suitable criteria to enable the audit panel to assess the matters

subject to audit. A full copy of the QUT Internal Audit Assignment Plan (with names removed for confidentiality) is attached as Appendix 3.

4.19 Detailed fieldwork planning

The Audit Panel then met to discuss the format to be used for a detailed assessment of each of the selected activities. To assist this work a template was created based on the standard QUT audit worksheet and from information taken from Crockett (1989) on operational auditing. The proposed template provided columns detailing the area for examination, the QUT Human Resources objectives and their key risks, the detailed standards used if these were explicit or the current evaluation criteria (the means by which the human resources department monitors performance or controls progress toward the objectives) and finally how the human resources department judged their own performance in relation to the criteria. In addition the template provided rows that allowed for these columns to be addressed against the headings of economy, efficiency and effectiveness. A copy of the worksheet is provided as Appendix 4.

The detailed worksheets used in this audit were developed from the literature and then modified to suit the organisation by the section managers. The process of developing the criteria is consistent with the approach suggested by Dolenko (1990) although the original drafts were not described to the auditee as generally accepted management principles. During the literature search to develop each worksheet, the researcher found that many articles, checklists and criteria could be analysed and then grouped into 'what we expect to see' descriptions. Documents evidencing good or better practice in human resources (e.g. Standards Australia 2004) were particularly useful.

An essential part of performance auditing is the specification of the standards to be used by the audit panel and against which the auditee is to be measured. It is important to agree on the standards and this is a significant issue for human resource performance auditing. If audit standards are not evidenced at the organisational level and cannot be otherwise agreed between the auditors and the auditee then the Audit Panel cannot proceed to the fieldwork phase. The absence of a standard and/or the inability to agree on standards with the Audit Panel would potentially result in an audit finding that advises the circumstances and then the Audit Panel would recommend that standards be developed before fieldwork commences. Where the standards proposed by the auditee are not accepted by the Audit Panel detailed reasons must be documented and provided in the audit report.

At QUT the Audit Panel was concerned that the working papers structured information in a format that had not previously been used by the Human Resources Department. The Department was required to provide, for each of the activities selected for audit, the objectives, risks, standards for evaluation and the available evidence with the option to provide details under the headings of efficiency, effectiveness and economy. To assist the Department, two worksheet samples were provided (learning and development, and workforce planning) which had been completed by the researcher based solely on the literature. These samples were provided electronically and the Department then requested samples for the other nominated areas.

4.20 Agreement on standards

The process of gaining agreement on the standards to be used lasted longer than the fieldwork activity and the length of time required should not be underestimated. Even with sample templates, the specification of the objectives, risks and evaluation criteria was a difficult task for two of the

three section managers. Discussions with audit professionals confirmed this is a common issue for performance audits. Due to time limitations, fieldwork interviews commenced prior to the final agreement on the evaluation criteria, and these work activities proceeded in tandem. To avoid unplanned delays Audit Panels should consider allowing additional time to complete this task and should pay close attention to the ability of the auditee to specify performance standards. Preparatory work by the Human Resources Department on the standards for the assessment of human resource activity is suggested, to avoid a bottleneck developing that delays the fieldwork section of the audit.

4.21 Fieldwork

An initial meeting between nominated staff in the functional area being audited and the Audit Panel was arranged to discuss the audit templates and to assist with explaining the background and nature of a performance audit. The subject matter specialist conducted these meetings and was available to answer follow up questions. The voluntary nature of participation, the right to withdraw from the research and the use of the report for academic purposes was highlighted.

Even with the samples drawn from the literature and after meetings with the subject matter specialist some areas struggled to complete the templates. The Audit Panel had allowed two weeks for this activity but this was extended to allow all areas additional time to complete the task. Input sheets were due 6 September 2005 and were received on time for workforce planning, critical human resource issues and OH & S training.

In the case of the 'Critical HR areas for QUT success' the subject matter specialist facilitated the finalisation of the template in a working session with the HR Director. In the case of 'Workforce Planning' the sample template was adopted with minimal changes. The researcher had not

anticipated this task would be difficult but it proved to be a key problem point in the audit. From later discussion with internal audit practitioners it appears that the inability to detail objectives, risks, standards and evidence of performance is not uncommon in performance auditing. The information for Learning & Development, Organisational Change and Recruitment and Retention was not received until 31 October 2005.

Nine interviews of senior managers were conducted by the audit panel using the pro-forma templates developed for the purpose. A copy of the template is included in Appendix 5. In addition, the opportunities to discuss issues of concern or to provide details of good practice were offered. The assignment plan also allowed for the Audit Panel to make contact with 'other relevant QUT officers when required to fulfil the audit objectives' but this was not ultimately required.

The audit panel closely examined the objectives of the strategic plan and the people and culture plan to determine organisational priorities that had human resource implications. These were discussed with senior managers in interview to clarify expectations and to obtain details of the expected performance standards. The Audit Panel sought qualitative or quantitative information from the Human Resources Department which might describe and illustrate the type of work undertaken in relation to the auditable activities and to provide information on comparable statistics or evidence of management analysis or examination of an auditable area. This was also an opportunity for the department to showcase areas of activity to the audit panel for potential commendation. One very good example of such information was the Learning & Development Annual Report, a comprehensive document detailing the activities of the Learning and Development Unit with statistical information and an evaluation of progress.

In the area of change management a listing of projects in which the Human Resources Department had participated was provided. There was considerable discussion on the role(s) of the department in organisational change projects and this was (at the time of audit) being documented in more detail. Workforce planning documentation was evidenced in the form of detailed plans and a computer based presentation that detailed macro trends in the sector and in the employment markets. This was useful as a university level analysis document. A report prepared by QUT human resources, detailing the results of a benchmarked report on their performance against other universities was also reviewed.

The Audit Panel sought details of the relevant budget and expenditure for the auditable activities. There were significant difficulties in examining the budget in the selected areas as the budget and expenditure were consistently aggregated. A comparison for the purposes of costing the areas under the headings efficiency, effectiveness and economy would require a significantly more detailed reporting model than that found at QUT. A forensic examination of the actual costs was considered by the audit panel but ultimately considered to be beyond the scope of this examination. The addition to the Audit Panel of an experienced data analyst would have assisted the work of the panel to search and analyse the data and should be considered for future performance audits.

The Audit Panel reviewed the details of the QUT staff survey and the actions taken to address issues of staff concern. The panel also examined the results of a human resource department client survey. The Audit Panel designed a draft survey to be conducted as part of the audit to aid the examination process. The target audience were the key stakeholders and clients of the human resources department across the university. This survey did not proceed since the data sought to be collected was not required to evidence the audit findings, reflecting consensus between the stakeholders and the department on the issues requiring action.

Where an audit panel identifies an area where a recommendation would normally be made but the department is both aware and planning to address that issue a 'recommendation' might be inappropriate. In these circumstances the auditor and auditee may elect to jointly 'confirm' the item as an issue. During the course of the fieldwork it became apparent that some issues were acknowledged as not having been formally developed although various elements were observed in practice. For example, despite the elements of a branding strategy being evidenced there was not a documented employment branding strategy in place. Overall during this audit three of these 'confirmations' would be agreed with the auditee in the final report.

4.22 Preliminary draft and draft audit report (January - April 2006)

The Audit panel met in January 2006 to discuss the preliminary draft report. This draft is prepared for discussion with the auditee but is not formally issued to the department. Separating minor issues from the significant recommendations and ensuring adequate evidence existed (as required by the auditing standard) was challenging and the experience of the Audit Director was invaluable. The panel also prepared the confirmations, those areas where the Department agreed with the audit panel, for the draft report. The format of the report followed the auditing standard and QUT's own reporting guidelines.

The preliminary draft was discussed with the Human Resources Director and the suggested changes involved minor corrections, a request for the inclusion of explanatory issues (e.g. detailing funding constraints) and for a request to review how the recommendations were presented. The feedback from the Human Resource Director was that he was 'comfortable' with the report and that it contained 'no surprises'. The addition of selected additional areas for positive comment was discussed. The art of writing

audit recommendations in a positive way was challenging for the researcher but would improve with experience and additional training. At the end of this discussion nine areas of good practice had been identified, there were eighteen areas where a recommendation would be made and three areas where a confirmation of an agreed finding was detailed. The draft audit report was finalised and sent to the Human Resource Director for (formal) management comments in April 2006 with a copy also provided to the Registrar. Internally the draft report was discussed by the Human Resource Executive and between the Director and the Registrar. With only minor changes and agreement to the recommendations the draft report was then finalised.

4.23 Final audit report and audit follow up

The final report was issued to the stakeholders nominated in the Audit Assignment Plan in May 2006. In an audit assignment there will be factors that limit the scope of the analysis. In this instance there was a lack of available data that might enable more detailed conclusions in relation to the efficiency, effectiveness and economy of the audited human resource activities. The auditee department also held a view on the concept of economy: that human resource activities were often functions that should not be outsourced and therefore the testing of alternative costs was not required.

In relation to the specific objectives of this audit the panel found that the Human Resources Department was providing a valued service, was responsive but needed to be more pro-active. In the view of the panel greater value for money could be obtained from existing resources while at the same time maintaining client service levels. The department's efficiency (especially timeliness) was acknowledged as an issue and would be addressed in the parallel 'business service improvement' project being conducted through the Registrar's office. The issue of economy, especially

whether or not services should be compared against alternative service delivery models, was referred to the University for further consideration. The effectiveness of the department was hampered by issues relating to the alignment with the strategic objectives of the university in terms of the direction, timing and priority of issues to be addressed.

The audit panel also noted that management data collection and reporting in the Human Resource Department was not designed or suited to analysing activities on the basis of value for money. This was primarily due to data aggregation in the activities under review which did not allow for costs to be easily investigated. An example of this was attempting to discern the cost per participant associated with occupational health and safety training. While the department believed the cost was well under the cost of alternative suppliers, this type of analysis was not easily undertaken given the way data was collected and reported. In order for a comprehensive consideration of the three concepts (efficiency, effectiveness and economy) data collection and reporting need to be reconsidered and this would assist the department in demonstrating its value to QUT.

Confidentiality restrictions prevent discussion of the eighteen specific recommendations contained in the Final Audit Report but each was accepted by the Department. The auditors concluded that greater value for money was obtainable from a valued and responsive human resource department and this conclusion was accepted by the department. At the conclusion of the audit the auditee was requested to complete a standard evaluation form for quality assurance purposes. The audit was rated using a five point scale and received positive ratings of 'five' (excellent) for planning, communication and staffing and 'four' (good) ratings for execution, and timing and reporting. The overall rating was four out of five (good). The comments section mentioned the need to amend the draft report to ensure a balance of environmental or context factors in the audit report and to illustrate operational constraints. The auditee acknowledged

the final report 'provided an appropriate balance'. The Audit panel regarded the evaluation as fair and reasonable. A follow-up audit visit was planned and will occur in May 2008 to confirm progress with the recommendations. A follow up visit is standard audit practice at QUT to review action-in-response and the researcher has agreed to participate in this part of the audit cycle.

4.24 Researcher conducted interviews (July – September 2006)

A structured interview questionnaire was prepared in order to assist with the evaluation of the performance auditing methodology. Three interviews were conducted: with the Registrar, the Human Resources Director and the Audit Panel Director/Director, Efficiency & Audit. The evaluation of human resource management auditing covered the areas determined in the research methodology. These were: whether the methodology was appropriate to the organisational environment; whether the audit outputs were valued; whether the outputs provided a practical contribution to future organisational performance; whether the report was grounded in the available evidence; whether the methodology was cost effective; whether the time taken was reasonable; and finally whether the audit methodology was accepted as a legitimate examination taking into account the circumstances of the case study.

The Director of Efficiency & Audit, Ms Seema Patel, has participated in a wide variety of evaluations using alternative methodologies. Her overall self assessment gave this audit 'seven out of ten' and she commented that it was an 'effective example of a performance audit'. It was a 'high level audit' that dealt with the strategic issues and priorities of the department and was well received by the department and the university. She saw the future orientation of a performance audit as being distinctly different from other types of audit and requiring specialist skills and experience from the

auditors. The teamwork on the audit panel was good and the final report was seen to be balanced and provided a good review of the area.

The lack of standards was a major issue and more work on human resource management standards would be required for the audit to add greater value. The lack of focus on standards for the professional practice of human resources was a discussion point and the Director found the Society of Human Resources Management debate on 'whether generally accepted HR standards or practices could or should be developed' (Meisinger 2005) lacked an appreciation that for audit purposes standards are required either at this level or at the organisational level.

It was also observed that the university senior management needed to provide greater clarity of their actual expectations to the human resource department. If the audit was repeated, the Director suggested the panel would need to drill down to one more level of analysis (examining the expenditure, processes and staff viewpoints in greater detail) but overall she regarded the report as having stopped at the appropriate point. The Director confirmed Dolenko's view that the audit should concentrate on the areas that make a difference and that the audit should stop once the panel has sufficient support for its recommendations. The need to include risk exposure in the performance auditing methodology was also confirmed. This should cover both the risks associated with the stated objectives and also the risks of not reaching the stated objectives. It was noted that when objectives are unclear the underlying risks may not be properly identified. The decision to conduct a direct reporting audit (rather than an attest audit) was confirmed as appropriate in the circumstances.

The Director felt that where the audit was part of the planned annual audit program the performance audit process should take no more than three months and estimated the indicative cost at between \$30,000 to \$40,000 Australian dollars when the audit was conducted by internal audit and

\$75,000 to \$80,000, when conducted by external auditors. The value of having a subject matter specialist who understood auditing methodology was confirmed as a contributor to the perceived success of the audit. Since these cost estimates represented approximately one per cent of the annual human resource budget and should occur only each three to five years it would appear to be a good investment if the report resulted in worthwhile outcomes for the organisation. The Director confirmed that in talks with the Registrar the value of the report to the organisation had been confirmed.

In relation to the performance auditing methodology it was felt the selection of activities for audit was a crucial step and deserved greater coverage to guide audit panels. For auditors to express an opinion on value for money all three concepts of efficiency, effectiveness and economy must be examined. It was felt the performance audit of human resource management should address areas in the strategic plan where human resource issues were not being addressed adequately. The concept of a pre-audit internal evaluation undertaken by the Department using the same criteria as performance auditing was discussed, perhaps along the lines used by auditors in approaching control self assessment (Hubbard 2006). The efficiency benefit would be to ensure objectives, risks and standards were in place for the start of the audit examination.

It was noted that the relevant auditing standards apply to both public and private organisations but there was some discussion about whether or not 'economy' was less relevant in the public sector. The use of a multi-disciplinary team (i.e. including a subject matter specialist) was valuable although it was observed that there could be difficulty sourcing practitioners that were also trained in auditing. Finally there is a perceived need to update the original Dolenko (1990) article to guide auditors undertaking a performance audit of human resource management.

The Human Resources Director, Mr Graham MacAulay, had experienced a wide variety of evaluation methods including external consultant reviews, internal corporate review, industry quality reviews, professional reviews for award purposes, benchmarking activities and the recent human resource management performance audit. He found the recent performance audit to be the most in-depth and challenging with ‘a rigorous methodology that offers credibility and provided practical and useful outcomes’. The immediate usefulness of the report was a differentiator from some of the other evaluation methods.

The direct reporting audit meant that the choice of topics for audit was with the auditor and therefore offered the Department less opportunity to ‘skew the results’. The fieldwork was conducted in a way that allowed the Director to keep his ‘distance’ and enable objective evaluation. The Director reflected that the audit methodology was ‘more work’ than other methods of evaluation but also offered greater practical value. The knowledge and experience of the subject matter specialist on the audit panel was regarded as a contributor to the success of the audit. The Director observed that overall staff were ‘happy’ with the audit process and were positive about it offering guidance for the future. The Director commented on the ability of the Audit Panel to manage the internal (to the department) ‘political’ aspects of the exercise, perhaps made easier by using a rigorous methodology.

The cost of conducting the audit was estimated at \$50,000 which was a relatively small amount when compared to the department’s annual budget. On this basis the Director found the performance audit was worthwhile and represented value for money since it provided ‘significant input to our future plans’. The university had provided additional resources to assist with implementing the report which was a tangible sign of its acceptance of the audit recommendations. The overall time taken for this audit was an issue but this was affected by the late inclusion of the audit in the annual

program and QUT's own operational requirements. With hindsight and a better understanding of the performance audit process the Director agreed with the Director, Efficiency & Audit that the performance audit should be able to be completed over three months of elapsed time.

The Registrar, Dr Carol Dickenson, was interviewed in her role as a senior executive and represented the organisation for the purposes of assessing this methodology. Dr Dickenson is experienced in conducting reviews of human resources activities, was the former Human Resource Director at QUT and occupied the position of reporting manager with regard to the human resource department. The Registrar found the methodology to be suitable as a 'major' mechanism for review but organisations would need to consider how often to conduct the audit and how it fits into the broader review cycle (audit, management reviews, quality reviews, benchmarking etc). A five year time frame for performance audit visits was considered appropriate.

According to the Registrar, the Audit Committee received and accepted the report and then moved straight on to a discussion of how the university would respond to some of the issues raised, particularly the need for balance between strategic and operational activity. A future orientated workshop to discuss this balance and the audit recommendations was proposed by university management and accepted by the Audit Committee as an appropriate response.

The Registrar noted that a performance audit involved a similar amount of work to a review process but provided a more rigorous methodology and independence from the department. The transferability of the concepts underlying performance auditing into a review process was discussed and it was possible to include these in a review's terms of reference. There was a discussion on whether auditors generally would have the skills to conduct a performance audit and it was observed that a majority of auditors would be

more comfortable with financial and systems or internal control types of audits. Internal audit has a significant workload focused on assurance, process improvement, risk, fraud prevention and internal controls and therefore had limits on their capacity to undertake performance audits. The benefits to QUT included that the report was a catalyst for action and as an input device to future planning. The Registrar also estimated the cost at around \$50,000. Overall the performance audit of human resource management activities was considered to be in-depth and added value to QUT. As such the exercise was regarded as worthwhile and represented value for money.

4.25 Researcher Observations

The environment for conducting a performance audit of human resources at QUT in 2005 was just right. A valued human resource department was interested in improving performance and an internal audit department was willing to consider a performance audit in addition to their published audit program. The organisation was also willing to participate in the case study for research purposes. This should not be underestimated – according to the Director, Efficiency & Audit, the performance audit would not have occurred without the researcher having made the approach and having contributed as a subject matter specialist. Even with a successful audit outcome it is unlikely to lead to significant interest in conducting performance audits, reflecting the volume of work of the internal audit department in other areas. On the basis of the case study it would be reasonable to conclude that performance audits of human resource management have the potential to make a worthwhile contribution to organisational success.

4.26 Conclusions

This case study was undertaken as a formal performance audit of human resource management activities using the Australian auditing standards, the professional practices framework of the Institute of Internal Auditors and the internal audit procedures of QUT. The Human Resources Director described the final report as a 'really useful document which will assist us greatly in our planning and improvement processes'. The Audit Committee of QUT accepted the report and it has been passed back to management for action in response. A follow up visit will be made by the Audit Panel in May 2008 to assess progress.

It is noted that the case study occurred within a cooperative organisational culture where both human resource and internal audit staff were genuinely interested in the human resource performance audit outcomes. There were already detailed strategic plans covering human resource areas with a future orientation and there were experienced audit staff available and willing to participate in a performance audit.

The following chapter will discuss the implications of the research and outline the process of presenting the audit outcomes and observations to practitioners at conferences. This was designed to promote the methodology and also to test the perceived practicality of the performance auditing approach.

CHAPTER 4 – CASE STUDY – PART B

The use of a confidential section in this paper was agreed with QUT in order to meet the confidentiality requirements of the case study organisation. At the request of QUT this section cannot be published in the public domain. The section included a full copy of the final performance audit report. It was made available on a restricted basis, with permission, to the research supervisors and to the examiners.

CHAPTER FIVE – CASE STUDY DISCUSSION AND IMPLICATIONS

5.1 Introduction

The case study revealed that one type of audit, a performance audit of human resource management, could provide a future orientated view of human resource activities and therefore directly address the issue of contribution to an organisation's performance. By examining the three concepts of efficiency, effectiveness and economy the performance audit can assess value for money and provide recommendations aimed at improving future organisational performance. The concepts outlined in this study have been formally presented to practitioners through auditing conferences, human resource writing and at various practitioner events. Overall the concepts were found to be robust although there were potentially significant operational issues to be faced including a lack of auditors skilled and experienced in performance auditing and insufficient information on the costs and benefits of performance auditing compared with alternative methodologies. The final sections of this chapter detail the presentation of the research at various practitioner events.

5.2 The case study outcomes

The case study research was designed first to demonstrate how to conduct a performance audit of human resources using the national auditing standards and utilising techniques common to the professional practice of auditing. Second, it was designed to evaluate the methodology and in doing so identify time and cost parameters. The selected case study organisation was chosen on the basis of its potential to undertake a performance audit, its location and because it was an award winning and valued human resources department willing to undertake a performance audit using the researcher as

part of the audit panel. It was also not directly connected with the researcher (although it might be described as a competitor organisation to the researcher's employer) and so audit independence requirements were met. The performance audit formed part of the official audit program at the host organisation and the audit was accepted by the Audit Committee and ultimately gained the support of senior management. This ensured the performance audit provided a suitable depth of inquiry for research purposes.

The eighteen audit recommendations were accepted by senior management and action-in-response was evidenced, including additional resourcing to implement those recommendations. According to the Director of the Human Resource Department, the senior manager to whom the position reported and the internal auditor, the performance audit provided a valued and worthwhile contribution. Although there were some modifications that could have improved the audit the researcher was satisfied with the audit as a test of the performance auditing methodology. The results were later presented to various audit conferences with particular interest from practitioners in relation to methodology, the depth of the examination, standards, time taken to complete, perceived costs and benefits, areas for audit concentration, risk and the use of subject matter specialists.

5.3 Issues arising from the case study

The decision to conduct a human resource performance audit will need to be justified; it is not inexpensive and it takes time. It is a comprehensive methodology that has a long history and is found acceptable by multiple stakeholders. However, practitioners competent in performance auditing are not common and other auditing issues (eg risk, compliance, controls and other operational audits) may take precedence. The lack of understanding amongst human resource practitioners of what an audit actually is presents as a significant issue.

Once a decision to undertake a performance audit of human resources is made there are still multiple decision points. Would it focus on performance or will it be a hybrid audit also focusing on compliance and risk? Inevitably even a performance audit will touch on these topics. What human resources activities will be selected for auditing? Is there sufficient detail in the organisation's strategic plan to be able to chart the organisation's future direction and to identify the critical human resource issues for organisational success?

In Chapter 2 (section 2.3) it was noted that Teo (1997) advised auditors to look at the strategic role of human resources, with some of the areas for audit consideration including: the linkages between human resource management and strategic management processes, the role of human resource practitioners, the business knowledge and technical expertise of human resource practitioners, the level of fit (internal, external, vertical and horizontal) with strategic management processes and the managerial style toward employee representatives (Teo 1997). Not all these issues were covered in the case study as some were not relevant to that organisation's performance audit. Nevertheless there exists a broad range of issues that a human resource performance audit might potentially cover. From the literature and the case study organisation's own approach the combination of strategic objective and risk was used to determine what should be audited and to justify those areas that would not be included in the audit.

The case study highlights the issue of the human resource standards to be used for an organisational audit. Dolenko (1990) believed that there were generally accepted human resource principles but this view is not replicated in later human resources literature. With an absence of national human resource standards in Australia there is considerable pre-audit work to undertake to ensure that organisational standards are sufficient to enable a performance auditor to undertake the examination. The organisation's

management information and reporting capacity, in areas contemplated by the auditing standard, will also be an issue. There is the potential to group human resource benchmarks, measures and metrics according to the efficiency, effectiveness or economy categorisation to assist performance auditors (and others) in analysing human resource activity.

A useful way of presenting standards could be in the format adopted in the self assessment test (HEFCE 2005). This covered, for each selected activity, the context of the activity, the inputs, processes, outputs, outcomes and risks. It would also be useful to specifically identify the organisation's strategic objectives in relation to each nominated human resource activity.

There is a need for further work on rating scales in relation to assessing risk in human resource activities. The work of Esperson identifies risks in human resource activities and it would be useful to combine this with the work of others (eg Clardy 2004).

The use of a subject matter specialist as part of the audit panel worked in the case study and the combination of an auditor and human resource specialist was also supported in the literature. The audit concept of economy appears to require further explanation in the context of auditing human resource performance; this found support both from the case study and from the literature.

5.4 Trial of the case study concepts to practitioners

The central elements of this research were been presented to practitioners in invited presentations. Auditors that have considered the case study have generally expressed interest in the potential for conducting performance audits of human resource management areas in their own organisations.

In May 2006 the researcher was invited to attend and present to the South of Pacific Area Conference (SOPAC), the annual international gathering of

the Institute of Internal Auditors from the south pacific area. The presentation session was on human resource auditing entitled 'HR Auditing or Auditing HR?' The session dealt with many of the issues raised in this study, especially the differences in literature and thinking between human resource management and auditing, the issue of self assessment, the QUT case study (in terms approved by QUT) and human resource management performance audits. The session was attended by approximately 110 people with very encouraging interest in the topic. This was the first opportunity to explore the topic with audit professionals and the responses to the material presented were positive with the most significant comment noting the lack of experienced performance auditors.

In August 2006 the researcher contacted the editors of the subscription guidebook 'Human Resource Management' produced by CCH Australia (a Walters Kluwer publication). The substance of the communication was to highlight potential errors in commentary on human resource auditing. The editor duly responded and then agreed to update the section of the commentary dealing with human resource audits (Harmsworth, pers. comm. 16 August 2007). The revised commentary includes a section that advises that an audit of human resources can focus on a number of areas such as the overall state of human resources in the organisation, the performance of the human resources department, particular human resources policies and procedures and how well people are managed in different parts of the organisation. The original reference to an audit taking up to one year was removed. Regrettably the section still fails to inform practitioners that auditor independence and competence is a necessary requirement and does not mention the national performance auditing standard.

In October 2006 an interview with the researcher was published in the monthly magazine of the Australian Human Resource Institute (AHRI). The article (Bernhardt & Andrews 2006) was entitled 'You call that an audit?' and dealt with the issue of whether much of the material on human resource

auditing was actually auditing. This article advised practitioners conducting a human resource audit that they should be capable auditors who operate under the Australian auditing standards. Where the activity was not auditing the readers were advised to consider calling the examination a 'review' or assessment' rather than an audit, for both legal and insurance reasons.

In November 2006 the researcher was invited to conferences in both Sydney and Melbourne to speak at a jointly organised conference dealing with Audit & Risk Management. The conference organisers were CPA Australia (one of two significant accounting bodies) and the Institute of Internal Auditing in Australia. The invited topic was 'How do you ensure you are obtaining value for money from your HR Department' and covered the performance auditing literature and the case study outcomes. Interestingly a number of participants were unaware of the Australian auditing standards for performance audits. Aside from the interest in auditing human resource management the potential application of the method when evaluating other areas of an organisation was discussed.

The researcher presented a session at the 2006 University Human Resource benchmarking conference in Melbourne in November 2006, attended by 80 representatives from 45 universities, discussing the role of benchmarking in developing standards for human resource practice in that sector. By invitation from the QUT Director of Human Resources the performance auditing case study was also outlined. There was good interest in the concept of performance auditing as it applies to human resource management. The conference delegates and the organising group agreed to a request from the researcher to consider a project to develop standards for university human resource management activities.

By invitation from the Institute of Internal Auditors Australia (Queensland Branch) the researcher and Ms Seema Patel from QUT addressed the March

2007 monthly meeting of internal auditors in Brisbane on the topic of 'Human Resource Auditing – A performance audit of human resource activity' (Andrews & Patel 2007). The session was attended by audit practitioners and again there was interest in the overall approach, in obtaining copies of the audit assignment plan and in the costs and benefits of the performance audit. In April 2007 the researcher jointly presented a session (with the conference sponsor) in Melbourne to an audience of 80 human resource and payroll specialists on the topic of 'How do you ensure the human resource function is providing value for money?' Once again the topic was well received and there was interest in the methodology, the cost/benefits and the time taken to undertake the fieldwork.

The case study outcomes have been presented in various human resource management and auditing forums over a twelve month period with national and some limited international exposure. There has been interest in the topic area and an acknowledgement that auditing is different from other forms of evaluation. Quite a few auditors that have examined the (non confidential) case study material have expressed interest in the potential for conducting performance audits of human resource management in their own organisations.

5.5 The assessment of human resource management performance auditing as a methodology for evaluation and improvement

There are pressures which suggested the need for an objective evaluation framework for human resource management. In 2006 the human resource management function was rated as the worst performing of all business functions according to a survey conducted by The Economist Intelligence Unit and reported in HR Magazine (Donaldson 2006). A second pressure arises from an environment where risk management is increasingly important; human resource management appears in the top ten business risks and is therefore deserving of close scrutiny (Aon 2005). The

influence of the governance requirements of the Sarbanes-Oxley Act on the Australian subsidiaries of U.S. companies has also created renewed interest in independent assurance of management activity.

In this context a universal evaluation framework that can be applied within an organisation regardless of sector, size, industry or the size of the human resource function, is timely. The literature review identified a universal evaluation framework in the form of a performance audit that can examine the potential contribution of human resource management to the organisation and that also helps to identify business risks. The case study, according to the host organisation, represented a valuable, cost effective and worthwhile outcome. Even with this endorsement, the Director of Audit and Efficiency at QUT considered it unlikely that the incidence of performance audits would necessarily increase in the case study organisation's audit program. The current program was already full and the demands of risk and compliance issues are a high priority. Finding the time to develop performance auditing skills amongst the internal auditors would be difficult and the cost of external performance auditors can be prohibitive.

CHAPTER SIX – CONCLUSIONS

6.1 The implications of the research

This Chapter draws conclusions in relation to the research question and provides guidance on common issues in conducting human resource audits. Previously authors had suggested that there was ‘not a link between (human resource) audit results and the organisation’s overall effectiveness’ (Phillips 1996, CCH 2004). The research was designed to consider whether a performance audit of human resource management could be an effective method for evaluating the contribution of human resource activities to an organisation’s success.

The literature review revealed differences between the approach to human resource auditing in the auditing literature and the approach to human resource auditing in the human resource management literature. In the human resource literature the term audit is said to be ‘used indiscriminately so that most any kind of study of human resources is considered an audit’ (Clardy 2004, p. 129), with little apparent regard for the essential need for independence and competence in auditing. By following the auditing literature the study takes a different pathway, where human resource management auditing is seen as an example of a functional audit, undertaken within the Australian auditing standards and the professional practices framework for auditors. When undertaking an audit assignment auditors do not adopt the role of management but alternatively present a critique of management systems and performance using standardised and accepted, evidenced based methodologies. Independence is part of the auditing philosophy and underpins all auditing activity.

6.2 The literature on human resource auditing

The literature relating to human resource auditing had definitional problems, conceptual problems and exhibited general disarray. Chapter Two identified human resource auditing as one of the methods for evaluating human resource management but in practice it is not a favoured method, despite having the capacity to contribute to future organisational performance. The conceptual map illustrated the importance of controls in ensuring that management focus on achieving organisational objectives and for evaluating whether performance expectations are likely to be met. In the context of controls performance auditing attempts to provide both assurance to audit stakeholders and also to provide future orientated recommendations for improving an organisation's performance.

6.3 What is auditing, in the context of human resource auditing?

The definition of human resource auditing used in this study was:

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be performed by a competent, independent person. (Arens et al 2005, p.12).

Only when auditing is properly understood can human resource auditing be defined.

6.4 What is human resource management auditing?

The definition of human resource management auditing indicates the functional scope of the audit. The adopted definition was:

‘A human resource management audit is an audit undertaken of human resource management or within an aspect of human resource management’.

6.5 What is human resource management performance auditing?

A performance audit of human resource management in the Australian context can be adapted from the criteria contained in the Australian auditing standard for evaluating performance. The definition used was:

‘A performance audit of human resource management examines human resource management or an aspect of human resource management to determine its effectiveness, and/or efficiency and/or economy’.

A performance audit is a future orientated examination performed under the Australian auditing standards which address one or more of the issues of efficiency, effectiveness and economy in organisational activities. The audit is conducted in line with the professional practices framework of auditors which require both independence and competency in auditing. Where the three concepts of efficiency, effectiveness and economy are examined the term value for money may be used (Glynn 1985). Interestingly Arens et al (2005) do not discuss the concept of value for money although a significant section of their textbook is devoted to performance auditing. The authors mention the issue of ‘economy’ but only in connection with government audits, which does not reflect the approach taken in the Australian auditing standards. The issue of an appropriate rating scale for risk in performance auditing is also an area requiring further clarification.

There are issues for auditors in undertaking a performance audit. The concept of value for money, of economy and of risk ratings in performance audits feature as issues requiring further clarification and which make it more difficult to provide definitive answers to human resource management practitioners. There is much still to do to anchor human resource management auditing in the auditing literature. The research objective was to assess the suitability of human resource management auditing as a method for evaluating human resource management. Arising from the case study there are also a number of practice implications for human resource management auditing.

6.6 The approach to an audit, or the type of audit?

One issue in the literature requiring clarification was the issue of the ‘approach’ to an audit (Olalla & Castillo 2002). Arguably the discussion on ‘approach to audit’ can be alternatively categorised as different ‘types’ of audit. Auditors recognise three major types of audit (financial, compliance, and performance or operational audits). Within operational auditing there are sub categories including risk audits, performance audits and value cost audits (IIAb 2006). A further audit type, an agreed procedures audit, covers audits with specific procedures agreed by the stakeholders. While human resource literature suggests there are up to six ‘pure’ human resource audit types (Nutley 2000) the suggested categories are not incompatible with the standard audit types. It is suggested by the researcher that, consistent with the auditing literature, we categorise audits by *type* rather than *approach*. The presence of hybrid or multi-type audits is supported by the literature (Nutley 2000) and the case study experience.

6.7 Why conduct a performance audit of human resource management?

A performance audit of human resource management offers independent assurance and a time for reflection on a major organisational expense, a major area of risk and an opportunity to examine a potentially strong contributor to future organisational success. The future orientation of performance auditing (unlike other types of audit) ensures it is relevant to the planning needs of the organisation and the emphasis on evidence based examination provides credibility. The use of accepted audit techniques – including those based on national auditing standards – combined with audit independence and competence, offer a unique contributor to organisational planning and the control environment. The quality of each examination, the skills and competence of the auditor and the potential costs and benefits of a performance audit will need to be addressed individually at the organisational level.

The evaluation of the contribution of human resource management in organisations is problematic (Donaldson 2005) with a strong emphasis on the measures and metrics to be used in justifying human resource activity. There is less discussion on the appropriate framework for undertaking the performance evaluation. The Australian auditing standard on performance auditing provides a suitable framework because of its universal application and its acceptability to multiple stakeholders. The type of benefits to be obtained from a performance audit include discovering areas for future improvement, clarifying human resource objectives and goals, aligning human resource plans with strategic plans and priorities, highlighting the critical human resource issues for organisational success, rechecking key assumptions, clarifying senior management expectations, establishing organisational standards and informing risk assessments. Hussey (2005) comments in the context of a strategic audit of human resources that greater commitment from top management and a demonstration of the value of

human resource management to the organisation are potential outcomes from human resource auditing.

6.8 Audit independence and reporting

One of the powerful advantages of auditing lies in its independent reporting structure, usually reporting to the Audit Committee. This independent reporting structure combined with the auditor's role in critiquing management systems provides the platform for an objective, evidenced based report to be heard and to make a difference. Self assessment activity should not be confused with an audit report by a qualified, independent and experienced performance auditor. The need for independence in auditing is one of the features of the audit philosophy and a key reason for stakeholders to have confidence that the report can be relied upon. Human resource bodies such as the Australian Human Resource Institute and the Society for Human Resource Management might consider adopting a practice standard for human resource management auditing and then providing member education about the correct use of the term 'audit'.

6.9 Auditor professional practice framework

A significant factor in auditing is the professional practices framework for auditing professionals covering attribute standards and performance standards (e.g. IIAa 2006). Attribute standards cover independence and objectivity, proficiency and due care, continuing professional development, quality assurance and assessment, and a code of ethics. Auditors are encouraged to report that activities are conducted in accordance the international standards for the professional practice of auditing. Performance standards cover planning, communication, reporting, controls, governance, engagement issues, audit objectives and scope, detailed procedural guidelines and reporting on risks. This framework clearly sets out the auditing role and its relationship with management and the Board. When followed it offers independence, objectivity and evidence based audit

reporting. The framework is backed by a comprehensive international training program ultimately leading to the designation of Certified Internal Auditor.

6.10 Auditing criteria (for human resource management audits)

The issue of audit criteria or standards is a key area for further discussion for human resource management professionals. The question posed by the Society for Human Resource Management to members (Meisinger 2005) on whether the society 'could or should develop generally accepted human resource standards or practices', should be revisited. From the auditing literature, Dolenko, who was working on behalf of the Institute of Internal Auditing Research Foundation, clearly believed this could be evidenced and should form the starting point for developing organisational standards for audit purposes. It is noted that national standards exist in Australia for organisational codes of conduct and employment screening. Consideration could be given to the establishment of practice standards for human resource management on a 'what do we expect to see basis'. Deviations from expectations should be approached on an 'If not, why not basis', where the burden of explanation shifts to the organisation when departing from the standard.

The self assessment test for human resource areas (HEFCE 2005) and the work of benchmarking authors in the university sector in Australia suggest that generally accepted principles are possible. Since auditors are essentially defining 'what we expect to see' at a national level and then considering and modifying expectations to suit the organisational environment an auditor would consider this to be a desirable body of work. Publications such as McConnell (2001) and Cambridge's human resource audit series (2007), both of which detail many areas of human resource practice for examination, provide evidence that universal standards can be used as a useful starting point for organisational examination.

6.11 Performance auditing issues: skills and priorities

Discussions with audit professionals reveal a lack of auditors experienced and trained in performance auditing under the Australian auditing standards. The Institute of Internal Auditors runs a training program on operational auditing covering the concepts of efficiency, effectiveness and economy but this does not cover the Australian standards for performance audits. The issue of auditor skills in performance auditing emerges as a significant issue for the future of human resource management performance audits. A second issue also emerges from the case study organisation, that of audit priorities. A human resource management performance audit may prove to be desirable but with a full program of compliance, risk, operational and other issues at the organisational level it may not be given a high priority.

6.12 The audit concept of economy

There is evidence in the literature that human resource managers are more concerned with effectiveness and that auditors and economists are more concerned with economy and efficiency (Craven & McNulty 1994). There is also evidence from the case study that human resource managers have difficulty with the concept of economy and do not see the need to routinely evaluate alternative costs for human resource activities. There is some evidence from professional areas that human resource management audits concentrate on efficiency and effectiveness but not the third area, economy (SHRM 2006a). Khan (2005) presents the three concepts as overlapping and observes that it is not always easy to see the differences. For the purpose of this study 'economy' addresses a key parameter of human resource evaluation – that of the alternative cost of different service delivery models and is a very useful construct for examining strategic human resource areas such as the outsourcing of human resource activity. If economy is seen as part of the efficiency aspect of performance care must be taken to ensure it is adequately covered in the audit examination.

6.13 Pre-assessment, prior to audit validation

It is reasonable to suggest that self assessment (Clardy 2004), undertaken in line with the national auditing standards, with subsequent auditor validation, might provide a useful way forward for time poor internal audit departments.

In the context of a performance audit of human resource management in Australia self assessment should progress using the same format as the performance auditing standard and be assessed against the same criterion. This process may be facilitated by auditors in the same way as they undertake facilitation for control self assessment. The potential usefulness of the activity would be that it would ensure that organisation's strategic human resource objectives are adequate for later examination, it would define the standards used for performance assessment, it would clarify the critical human resource issues for organisational success and ensure that data collection and reporting was geared to reporting on performance using the criterion in the national auditing standard. The absence of training programs in performance auditing and the alternative priorities of auditors would appear to be barriers to this type of activity.

6.14 Costs and Benefits

This case study has provided estimates of cost and time, also the perceived value of a human resource management performance audit, with the aim of informing the task of evaluating the performance auditing methodology. The estimated cost of the performance audit was in the order of \$A40,000 - \$A50,000 while the estimated time taken was three months (and is unlikely to take more than six months) in a scheduled audit program. Within most organisations the internal audit department will be able to provide indicative costs for a human resource performance audit. The accounting costs and benefits should be further explored but also the economic costs and benefits. The assurance benefits to an organisation of being able to

determine whether human resource management activities are delivering value for money, based on a national auditing standard and conducted using an evidence based methodology, should not be ignored.

6.15 To audit, or review?

The approach taken by McBrayne (1990), that the short-comings found in an audit could also be picked up within the department by line managers, or with the aid of consultancy, or inspection and review services is valid. But these forms of managerial assurance cannot provide auditing assurance and are not bound by the professional practices framework of auditors. The reporting line of auditors is to the audit committee as well as to management and this independence from senior management is a key differentiator. Auditors rely on standards and in the case of performance auditing in Australia the performance audit will be based on a national standard. It is unlikely that managers would adopt the same approach in a performance review although they would do well to examine audit methodology as an aid to better review practice. What sets auditing apart is the accepted national standard, the professional practices framework, the formal assignment plan, audit technique and auditing standards, the reporting lines for auditors and finally auditor independence and competence.

6.16 Alternative evaluation methods

A formal evaluation of the alternatives to human resource management auditing is beyond the scope of this study. Whichever methodology is adopted its value is enhanced if we can use the same methodology across organisational types, industries, professions and geographical areas. The selected methodology should have a history of delivering relevant outcomes so that the emphasis is on the outcomes of the audit rather than on how the study was conducted. Ideally the methodology should be readily accepted

by key internal stakeholders (boards, chief executives, senior management, line managers, staff and shareholders) and to key external stakeholders (investors, institutions, and industry, government, unions, professional and quality assurance bodies). The methodology should use consistent criteria for the evaluation but also allow for individual organisational differences. Where possible the methodology should be based on national standards and itself deliver value for money.

In terms of human resource management evaluation the methodology should allow for the clear identification of the 'critical human resource issues for organisational success'. It would assist if the method encouraged clear expectations from senior management of the role and responsibilities of the human resource department, and led to or clarified organisation specific human resource objectives, risks and standards. A variety of assessment methods should be available including benchmarking, human resource metrics and accounting measures and ratios. It should encourage staff and human resource stakeholder surveys. It should examine both the assessment of strategic capacity and the operational efficiency of human resources. The methodology itself should be evidenced based. For an evaluation method to have credibility it should be independent of influence from the human resource department but provide for their input on draft recommendations. The individuals conducting the assessment should be competent in examination techniques. Arguably this research provides evidence that human resource management performance audits conducted under the Australian auditing standard will meet these requirements.

The literature on human resource management auditing should clearly set out the difference between an audit and other forms of evaluation. The practitioner bodies operating in the human resource management field have a professional duty to ensure member understanding of the essential attributes of human resource management auditing. The distinction between human resource management auditing and a human resource

management review should form part of academic and practitioner learning and development activities. A distinction in the literature between the professional practice of auditing and other types of human resource management reviews would assist human resource professionals, auditors and the stakeholders of audit reports to understand the basis on which the audit reports are produced and give confidence that an audit is independent, objective and conducted under the relevant Australian standard.

There will be those who continue to describe their work as ‘auditing’ when it is more accurately described as a review. For these practitioners it would be advisable to include a disclaimer that clearly describes the paradigm, the methodology and the standards used in the evaluation. There are good reasons for making this recommendation, including potential legal liability, insurance issues and intellectual honesty to the readers of the final product. The alternative might be for auditing professionals to reclaim the high ground and clearly and directly indicate to other professionals that auditing is more than managerial assurance and that the use of the term should be consistent with the principles of adequate disclosure.

6.17 Self assessment

The use of checklists by auditors is common practice and leads to the next obvious step that human resource management practitioners can obtain the checklist and then assess themselves. Note the careful use of terms – self assessment is an appropriate term but self audit is an oxymoron. In much of the human resource literature the words ‘self audit’ could be substituted by the term ‘self assessment’ to provide a clearer description of the underlying activity. Self assessment deserves a prominent section in this study due to its history of distracting human resource management professionals from what is ‘auditing’. Popular book titles, such as ‘Auditing Your Human Resources Department’, should be reconsidered to avoid the implication that ‘you’ can undertake an audit.

6.18 Internal or external auditors

There are advantages and disadvantages to using internal or external auditors but a detailed consideration of this issue is outside the scope of this study. In the case study internal auditors provided an effective and efficient method of conducting a human resource management performance audit but an external audit team could also have undertaken the assignment. The cost of an external audit team is likely to be higher than an internal audit team and therefore utilising external auditors will require justification.

6.19 Human resource theory implications

This research suggests that human resource management auditing should be firmly grounded in the field of auditing. When this proposition is accepted then it is open to human resource managers to also recognise and perhaps adopt the major types of audits found in the auditing literature. The original and pioneering work of Dolenko (1990) covering human resource auditing could be updated especially in the areas of audit types, risk, stakeholder analysis, human resource metrics, performance auditing methodology and computer based audit systems and technology.

6.20 Human resource management performance auditing practice implications

This study charts the performance audit process and provides sample worksheets and templates to guide human resource and audit practitioners. The issue of generally accepted human resource management principles should continue to be explored. A research project might be undertaken to identify and draft human resource management practice standards, perhaps developed in conjunction with a recognised standards body (such as Standards Australia) and confirmed through a validation exercise. It could

be useful to link the work on human resource metrics to the concepts of efficiency, effectiveness and economy. The risk descriptors used in human resource management performance auditing also need to be considered. Finally the organisation of education and training programs for Australian auditors that address the topic of the performance audit of human resource management would be timely.

Once it is determined that a human resource management performance audit is to be undertaken under the relevant Australian Standard the methodology will be well understood by experienced performance auditors. The lack of experienced and competent performance auditors may be a barrier and so consideration to the training requirements for performance auditors would be timely.

The use of independent subject matter specialists should be considered. While it is possible to audit areas without an in-depth understanding of each discipline, the addition of a subject matter expert provides additional credibility and reduces the opportunity to 'bluff' the auditors in practice areas for which they are not trained. In a performance audit where recommendations are to be made for change to suit future operational requirements the subject matter specialist can provide a useful reality check. It is important and required by the auditing standard that subject matter specialists understand the role of auditing. An untrained or inexperienced subject matter specialist may inadvertently attempt to go beyond the audit role and stray into management assurance or consulting activity.

Practitioners should recognise the potential desirability of doing pre-audit work on human resource management standards and risks, to ensure human resource management objectives are clear, senior management expectations are well documented, human resource risks understood and that the reporting on human resource management areas is able to address

performance issues. Audit professionals should consider the minimum training requirements to ensure that human resource management practitioners can be trained in the basics of performance auditing if they want to have a pool of subject matter specialists to work on performance audit panels.

6.21 Implications for a human resource management review

For those conducting a review of human resource management under a managerial assurance paradigm are there elements of the auditing process that might be adapted for the purpose? It certainly appears possible to design a human resource management review process utilising audit principles that address the issue of value for money. This will involve a clear criterion for performance, acceptance of the need for standards for professional practice to be established before a review takes place, the training of managers in use of the performance standards and consideration of the composition and profile of the review team. The use of draft reports produced for comment, descriptions of scope limitations, the emphasis on identifying and classifying risk, the insistence on audit standards and the variety of examination methods (literature reviews, surveys, interviews, statistics, reports, benchmarks, forensic accounting and computer based analysis techniques) have potential application in management reviews. Consideration also needs to be given to the role of a human resource management audit in a broader review program that might cover financial audits (internal and external), performance audits, consulting reviews, quality reviews, self-assessments, and management reporting over a longer term cycle.

6.22 Limitations of the study

The first and major limitation of this research was the use of a single case study from which to draw conclusions. The research objective was to

assess human resource management auditing as a method for evaluating human resource activity. The case study indicated that human resource auditing has the potential to provide a worthwhile and valued contribution. The usefulness of the results of an individual audit will depend on a number of factors including auditor skills and competency and the availability of data and reports in a suitable format. The second limitation was that the research was primarily restricted to the Australian context, especially with regard to the national auditing standard on performance auditing. While similar concepts appear in other countries (Khan 2005) there is no international auditing standard for performance auditing. The third limitation relates to the case study environment itself. The conclusion on the issue of value for money was largely qualitative rather than quantitative, due to a lack of data to assess performance in the way contemplated by the auditing standard. Therefore the quantitative valuation of the additional value for money obtainable could not appear in the audit panel's report. The audit panel necessarily relied on the qualitative views of human resource performance, including that of the Human Resource Director, in order to form their conclusion. In future audits it would be preferable to quantify the expected increase in value in addition to this qualitative perspective.

The difficulty in sourcing human resource management auditing practitioners for interview, questionnaire and concept testing produced a limitation to the study. This was partly offset by testing the concepts at Australian auditing and human resource management conferences. The final limitation is the time frame over which the research is conducted. The case study commenced in 2005 and reflects the auditing methodology and standards in place during that period. The Australian auditing standards relating to performance auditing are expected to be reviewed from 2007.

6.23 The research question and conclusion

The principal research question was framed in the following terms:

‘Is a performance audit of human resource management a suitable method for evaluating whether human resource activities are contributing to an organisation’s performance?’

There were two key parts to the study: first, to undertake an audit using the national auditing standards and the professional practice framework of audit, and second, to evaluate the potential contribution of human resource management performance auditing as an evaluation method.

Within the limitations noted in this study and on the basis of the case study undertaken as part of this research it is reasonable to conclude that a performance audit of human resource management can be an effective method for evaluating the contribution of human resource activities to an organisation. Other audit types identified in the literature (financial audits and compliance audits) are not designed to produce this outcome. The time estimates that previously appeared in the literature for conducting a human resource management audit (CCH 2004) should be treated with some caution. It is feasible to suggest a human resource management performance audit could be completed within three to five months.

6.24 Extension of the performance auditing methodology

The methodology used in the research, which applies the national performance auditing standard to a single management function (in this case human resource management) to assess value for money, can be repeated across other organisational activities. If a performance audit of human resource management can provide a positive benefit to an organisation then researchers and organisations might consider applying the

methodology to other areas of business, especially where there has historically been difficulty in evaluating the contribution of the activity. The widespread business practice of conducting reviews with specified terms of reference has an alternative – the performance audit. When faced with governance issues, complex legislative requirements, significant risks and other drivers of the need for independent assurance to the Board, the demand for performance auditing could increase.

6.25 Future research

One logical extension to the research would be the comparison of the cost and benefits of undertaking performance auditing against other forms of human resource management evaluation. The logical and somewhat linear nature of the performance auditing activity would tend to suggest that a suitably designed computer program with standard templates would greatly assist audit teams to reduce the time taken and the costs of a human resource management performance audit. The integration of the evaluation framework in performance auditing with the work on human resource measurement and metrics would also provide a useful contribution. Essentially this would involve considering each human resource activity from a performance perspective under the criterion of efficiency, economy and effectiveness. For each category leading and lagging measures could be identified that would inform the performance analysis. Since it would also facilitate a conclusion on value for money the extended research would provide a framework in which to apply ratios and measures in a consistent way.

It would also be useful to gauge the extent of training and experience of auditors in performance auditing. It is noted that in Australia training programs on performance auditing under the national standards are not readily identified. The extent of practitioner knowledge and experience would be useful to know since there is a prima facie case that any

significant increase in performance auditing would encounter an immediate skill barrier.

The issue of developing generally accepted standards for human resource management activity is a serious one for performance auditors. Without these each audit panel will need to develop standards at the organisational level. The researcher approached QUT on this issue and the Universities Human Resource Benchmarking group and QUT have now secured funding of \$1.36M for a 'Human Resource Standards' project, to commence in 2008.

6.26 Research contribution

One of the methods of demonstrating an original contribution to the literature is to cross discipline boundaries and to use different methodologies. In this research the literature on human resource auditing and the literature on performance auditing have been examined, combined and then practically applied. The definitions offered for human resource auditing in the literature have been reconsidered and new definitions proposed which recognise the essential elements of auditing and acknowledge there are different types of audits.

The case study has applied prior knowledge in a way that was identified by Teo (1997) but has not been evidenced through changes in the practice of performance auditing or in the practice of human resource management evaluation. While interest from auditors has been good since the research was first introduced into public forums the interest from human resource practitioners is slower – perhaps the idea of a formal performance audit of human resource management activities is a rather daunting prospect. Australian human resource practitioners and academics wanting to evaluate human resource management using a universal methodology that is consistent with national performance auditing standards should consider the

approach to human resource management performance audits outlined in this study. International practitioners may not have an equivalent to the Australian performance auditing standard but they will generally be able to examine performance in a very similar way, as evidenced in the auditing literature over the past two decades (Glynn 1985, Khan 2005).

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Appendices

Dolenko (1990), extract of the section on workforce planning

Human Resource Planning

Human resources planning is the process of analysing an organization's future staffing needs and developing plans that will satisfy those needs. The objective of the process is to ensure that the organization has sufficient staff members with the appropriate skills in place to achieve its objectives. In large organizations, it is not at all uncommon to find that considerable time and attention is devoted to preparing detailed strategic and operational plans. The final step in the planning process - identifying the number of people and the skills required to carry out operational plans - is often ignored.

In our experience, the most effective human resources planning takes place when an organization is required to downsize - not when it is in a growth mode. When organizations are forced to reduce their staff size, more attention is paid to how the best employees can be retained, and which positions or activities are essential to the organization. The challenge most human resources practitioners face is convincing their organizations to prepare human resources plans when there is no threat to the organization. Why bother when everything appears to be fine? There are some good reasons for taking the time to do human resources planning.

- An organization may be experiencing difficulty in meeting its operational objectives. There can be many reasons for this, but one reason may be a poor attempt at matching skills with job duties. Another may be an inequitable workload distribution.
- An organization may be incurring inordinately high operational costs because of extensive use of overtime, contract, or consulting resources.
- An organization may have been too busy to notice that many of its management staff are nearing retirement age. Replacing several senior staff members at the same time is very difficult and can lead to operational problems and increased costs.

These are all potential problems that are addressed through human resources planning.

Human Resources Planning Framework

Human resources planning is conceptually a simple process. However, it requires managers to 'look into a crystal ball' and make some predictions about the future. Because the future is always uncertain and can be affected by changes in the economy, political events, demographics, and many other factors, the results of the predictive process cannot be expected to be precise, particularly over longer timeframes.

To minimize the guesswork, human resources planning must be carried out by managers who understand the plans and operations of the organization. Market analysts and others can provide assistance by supplying and explaining information about expected changes in the market, and the expected availability of specialized skills. Human resources specialists can provide information on staff turnover, retirements, and performance assessments that can help managers plan for the future. The human resources planning framework consists of four essential activities, each of which is described briefly below:

Demand Forecasting- involves estimating the number and type of staff that will be needed in the future. It should be based on strategic or business plans and should consider the introduction of new products, services, and programs, new or alternative methods of service delivery, new clients to be served, future location of offices, and facilities.

Supply Forecasting - involves estimating the number of people that will be available from internal and external sources in the future, in terms of skills required and performance level desired. Supply forecasting should consider projected retirements, resignations, separations, promotions, ability to promote from within, and the ability of the market place to provide the required skills.

Comparison of Supply and Demand - involves analyzing the environmental factors and supply and demand forecasts, and identifying issues, opportunities, and constraints which could contribute to future shortages or surpluses in human resources.

Action Planning - involves determining priorities, and preparing plans to deal with

human resources issues through such activities as recruitment, succession planning, transfers, training, relocation, separation, alternate work arrangements, and so forth.

[Human Resources Planning] Audit Objective and Related Criteria

Objective: To determine whether the human resources planning process results in the identification of the number and type of employees needed in the future to accomplish organizational objectives.

Criterion 1 - Demand Forecasting: The demand for human resources should be forecast.

- 1.1 The human resource implications of changes in strategic objectives and priorities, organizational and technological change, changes to legislation, new government directives/initiatives, new or revised products, services or programs, or changes in service delivery should be identified.
- 1.2 The number, type, level, and location of human resources required to carry out organizational objectives and operational plans should be identified.
- 1.3 The determination of human resource requirements should be based on work measurement techniques where feasible; on historical trend analysis, and managerial judgment when work measurement techniques are not appropriate.

Criterion 2 - Supply Forecasting: The future availability of human resources should be forecast.

- 2.1 Current, accurate inventories of basic employment data for all employees should be maintained.
- 2.2 Relevant career data inventories, including information on experience, skills, and promotion potential for critical occupational groups and levels should be maintained.
- 2.3 The forecast of human resources availability should be based on the analysis of turnover statistics, retirement profiles, promotion potential, and other relevant data, including information on availability of human resources from external sources.

Criterion 3 - Comparison of Supply and Demand: The demand for human

resources should be compared with information on the future availability of existing resources to identify shortages and surpluses, opportunities, and constraints.

- 3.1 Environmental factors affecting the supply and demand of human resources should be analyzed.
- 3.2 The impact of identified shortages and surpluses should be considered in the preparation of operational and financial plans.

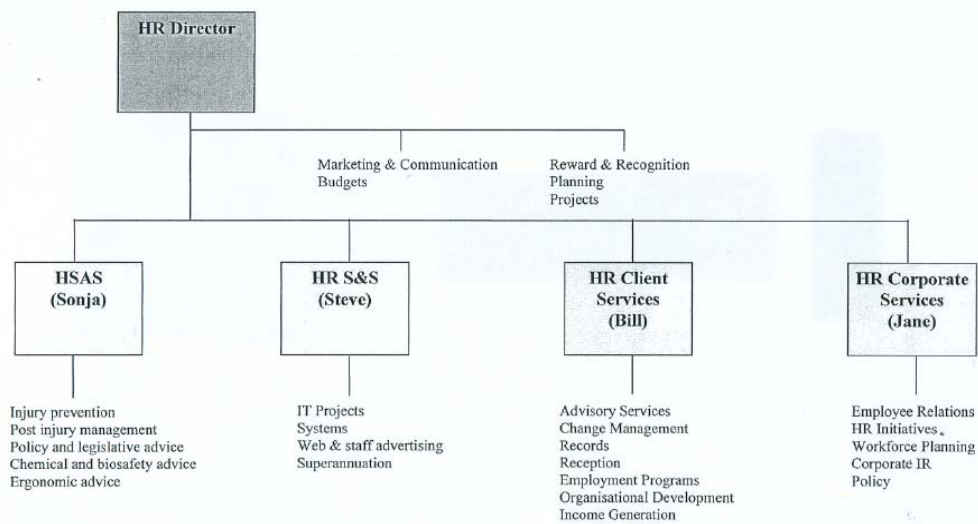
Criterion 4 - Action Planning: Action plans should be prepared to address imbalances in the numbers and/or skills of human resources which have been identified.

- 4.1 Action plans that include activities such as staffing, separation, training, development, and relocation should identify the costs of implementation, the implementation timeframe, and the individuals responsible for implementation.
- 4.2 The implementation of action plans should be monitored on a regular basis and the results assessed to ensure objectives are being met and to identify modifications to the plans that may be required.

Appendix 2

QUT Human Resource Department Structure

HR Department structure April 2005



QUT Internal Audit Assignment Plan



Internal Audit Assignment Plan

Auditable Area

The Human Resources Department, a function reporting to the Registrar within QUT.

Timing

The planning process for the audit commenced in March 2005 with the audit fieldwork planned to commence in September 2005.

Introduction

Background

This audit was formally proposed to QUT in January 2005 by a doctoral researcher (Chris Andrews) who is researching human resource auditing. Following meetings with Human Resources and later jointly with Internal Audit the request to conduct an audit at QUT was supported by both the QUT Director, Human Resources and the QUT Director, Efficiency and Audit. Ultimately the project was approved by the Vice-Chancellor and the Registrar of QUT and confirmed by letter to the researcher dated 3 March 2005.

At a research level this audit is being conducted to test and then demonstrate a formal performance audit process, using the relevant Australian Auditing Standards and QUT's Internal Audit Guidelines, for undertaking a human resource audit in a host organisation in the Australian context. The application of professional internal auditing processes to human resources is not common practice in Australia.

For QUT a significant proportion of expenditure is devoted to people related costs (59% of total expenditure in 2004). Managerial self-assessment of human resources indicates they are delivering valued services but it is timely for QUT to consider whether or not it is obtaining 'value-for-money' in a work area that is integral to the achievement of the objectives outlined in the QUT 'Blueprint'.

Audit Confidentiality

The researcher signed a confidentiality agreement in the standard form required by the QUT Internal Audit Section prior to commencing the audit plan.

Audit History

A specific audit of human resources has not been conducted in the past five years and it is considered timely to do so. Annual external (financial) audits and internal audits conducted in other areas of QUT have not revealed material problems with the human resources department. It should be noted that finance audits typically tend toward a concentration on personnel administration (leave liabilities, correct accruals etc) rather than human resources functions.

Other relevant background information includes:

- The organisation has conducted regular health and safety audits as part of regulatory compliance with the relevant legislation.
- As part of a broader approach to compliance the human resource department undertook a self assessed legal compliance review (consistent with Australian Standard AS 3806-1998 Compliance Programs) in 2004.
- External auditors have reviewed the financial accounts of QUT in March 2005 for the 2004 Calendar year.
- During 2004 the Human Resource Department at QUT was nominated, assessed and awarded an Australian Human Resource Institute (AHRI) Award for Excellence (Queensland).
- Human Resources are also currently being quality audited through the Australian Universities Quality Agency audit process; the audit was conducted in April 2005.

Audit Planning

An audit planning meeting was held at QUT on 22 March 2005 between the researcher and the Director, Efficiency and Audit. The type of audit to be conducted was considered from a financial audit, a compliance audit and a performance audit. It was determined that this audit should not duplicate areas that had been covered as part of recent audit history. This effectively eliminated consideration of a financial audit or a compliance audit and a performance audit was proposed and adopted.

The meeting then considered the parameters set down in Australian Auditing Standard (AUS) 808 (Planning Performance Audits) and AUS 806 (Performance Audits) and the requirements set out in the QUT Internal Audit Methodology. The headings set out in the AUS standard were considered in turn, particularly in relation to the audit mandate, the audit scope and objectives, risk, the issue of auditability, the use of a subject matter specialist (the researcher) as part of the audit team, the need for criteria and the audit plan and audit program.

The potential choice between an *Attest* audit (responding to management assertions) and a *Direct Reporting Audit* (an auditor prepared examination and report) was considered (see AUS 806, Performance Auditing). It was noted that the AHRI assessment and the AUQA quality audit both responded to assertions by HR management. After discussion it was felt that given this history an auditor prepared report was to be preferred (i.e. a direct reporting audit).

In relation to the issue of audit sample it was determined that audit resources should be directed to those HR areas identified in the QUT Blueprint and/or identified in the QUT risk assessments.. A selection of three to four key HR areas was considered to be a sufficient sample.

Consideration was then given to the following QUT documents:

- QUT Blueprint 2003.
- People and Culture Plan (2005 – 2009).
- Human Resources Strategic Plan (2005 - 2009).
- The HR organisational chart.
- QUT Risk Assessments.
- Recent External & Internal Audit reports (for the past two years).

- The AHRI Awards criteria.
- The Manual of Policies and Procedures (MOPP).
- The QUT HR Website and the intranet site (restricted access applies).
- The HR section of the QUT portfolio submission to the 2005 AUQA Audit.
- The 2003 QUT annual report.
- The 2005 Climate Survey Report

Consideration was also given to the following documents provided by the researcher:

- The audit conducted by the Australian National Audit Office (DFAT) in 1997, in particular the Public Service Commission APS HR model used.
- The McKinnon Benchmarking Manual (2000) for Australian Universities.
- The UK People Management self assessment tool for universities (HEFCE 2004).
- The AUQA Content analysis of Institutional audit reports (2003) and a content analysis of AUQA quality reports 2002 – 2004 produced by the researcher.
- A recent IIA article on risk assessment in the ‘people process’ (Esperson 2005).
- An audit conducted by the Government Audit Office in the US in relation to Human Capital Management (GAO 2002).
- The following documents were considered relevant to the audit (but were not yet available):
- the 2004 QUT Annual Report.

Human Resources at QUT (including an assessment of risk)

The structure of the Human Resources Department at QUT is detailed in Attachment A (now dissertation Appendix 2, QUT HR Structure). The HR reporting line is through the Registrar. The HR Executive comprises the heads of significant HR functions and meets on a regular basis as a management group.

The significant functional roles within Human Resources encompass:

- HR Directorate
- HR Policy, Planning & Workplace Relations

- HR Client Services
 - Income Generation
 - Organisational Development
 - Advisory Services
- HR Superannuation & Systems
- Health & Safety Advisory Services

Audit Objectives

The objectives of the audit are:

1. To evaluate, from a value-for-money perspective, whether the human resources department is actively supporting the delivery of QUT's strategy and services.
2. To examine the efficiency, effectiveness and economy of the role of QUT's human resource department in three to four key HR activities.
3. To case study the process of performance auditing at QUT, specifically in relation to an audit of the role of the human resource department.

Scope

The strategic planning document, the QUT Blueprint, examines the period going forward to 2010. The audit will be future orientated, with a focus on the time period from March 2005 (the date of audit planning) forward until December 2010, the end of the current strategic planning period.

The audit history reveals a functional and valued human resource department organised along both client focused and functional lines. The design of the human resource service is a centralist human resource function with a key service point nominated for client areas. This design is typical of university human resource department structures in Australia.

The QUT Blueprint estimates an increase in student numbers of 25% over the period from 2003 to 2010. A shift in the demographics of students is also outlined (for example growth at the Kelvin Grove campus and in postgraduate coursework programs). From these observations and the specific issues identified in the Blueprint document we can reasonably conclude that workforce planning, recruitment and retention activities and organisational change processes will be key factors in achieving the organisations human resource objectives.

The specific areas (and justifications for selecting these areas) to be included in the audit scope are:

1. *Workforce Planning, and the resultant Action Plans*

The academic workforce in Australia is ageing. A key concern for higher education is ensuring that a skilled and experienced workforce is available. The staffing profile of QUT is identified as a strategic issue and the need for an 'influx of new people' is identified (Blueprint p.5) to meet the expected increase in students. Consequently workforce planning and the staff profile have strategic importance for the organisation. The audit will also examine strategies for the regeneration of the workforce to provide the skill sets required in the future. This has implications for Learning & Development, particularly workforce capabilities. The role of the department in planning for the replacement of staff is also identified as an issue for consideration. The role of the human resource department in guiding workforce planning and action is a key success area at QUT.

2. *Key Recruitment & Retention Activities*

Staff attraction and retention are specifically identified as key issues for QUT (Blueprint p.5). This also encompasses the areas of reward and recognition, employment branding and positioning as a preferred employer. The role of the human resource department in promoting and practicing active retention and key recruitment activities is a key success area at QUT.

3. *Organisational Change*

Implicit in the QUT Blueprint is an expectation of organisational change over time. Organisational change is identified by the Audit Panel to be problematic in many Australian universities with criticism levelled at both the pace and sometimes bureaucratic nature of change processes. Ideally change processes should differentiate between routine and significant changes. The areas of Workplace Relations and HR Learning & Development have a key role to play in change management processes. The role of the human resource department in pro-actively facilitating the process of change is considered by the Audit Panel to be a key success area for QUT.

4. *Critical HR Issues for QUT Success*

To ensure that key stakeholders are informed and fully aware of the human resource issues at QUT it will also be important to ensure that the human resource department focuses on identifying and reporting on 'the human resource issues that are critical to the organisations success', for example the effectiveness of HR Learning and Development programs and criteria developed by HR management to assess its effectiveness.

By reporting on key HR issues facing QUT the human resource department inform Senior Management, Council and key internal stakeholders of those areas of practice in people management that are seen as critical to the success of the QUT Blueprint. In the literature this form of reporting has been described as human capital management (Kingsmill, 2003). The audit will focus on those aspects of human resource reporting that identify 'a strategic approach to people management that focus on the issues that are critical to organisational success.

The areas that will **not** be specifically audited (but these may be covered peripherally) include:

- Organisational Development
- Health & Safety Advisory Services
- Superannuation
- HR IT Systems and underlying business processes
- The HR Departmental Structure within QUT
- HR Projects

The justification for the not selecting these areas for auditing:

The following general issues are first acknowledged:

1. Health & Safety is a specialist area that may also be located outside the human resource department, most notably as part of risk management. It is acknowledged that an audit of this function is undertaken using expert advisors. A functional audit of this area may stand alone from a human resource audit.
2. Payroll is not a part of the human resource department at QUT. Consistent with the UK People Management Assessment Tools, payroll is not regarded as a human resource function for audit purposes. Payroll is typically audited in a financial audit and has been subject to both internal and external audits.
3. HR IT Systems are considered to be a specialist audit area that has previously been audited in the context of other internal audit assignments. Typically these systems are audited in conjunction

with audits of other IT systems rather than as a key part of a HR Audit.

The following organisation specific issues are acknowledged:

1. A compliance audit has been undertaken in line with the relevant Australian Standard.
2. A financial audit has recently been undertaken at QUT by external auditors being Queensland Audit Office.
3. The recent audit history points to (attest-type) industry and quality audits of the human resource department having been planned or conducted within the last twelve months.
4. The area of Organisational Development was considered for inclusion as a key area for audit after discussions with the Human Resource Executive and later with the Registrar. It is noted that the strategic aspects of Learning & Development will be considered in relation to Workforce Planning, Attraction and Retention, Organisational Change and Critical Issues for QUT Success. In that context the key areas remain as the four originally proposed.
5. The human resource department at QUT appears valued for its current service offerings.

Summary

The areas selected above for audit were considered by the Audit Panel to be strategically important to the future success of QUT. The key question in the minds of the Audit Panel is the strategic role of the human resource department in achieving the QUT's Blueprint objectives.

Approach

The audit will be planned in accordance with AUS 806 and AUS 808, the standards relevant to Performance Auditing in Australia. Fieldwork will be planned and undertaken to enable an examination appropriate to each criteria which will be developed and agreed with management during the detailed planning phase of this audit.

A standard format will be adopted for the working document which clearly identifies the focus of the audit (economy, efficiency and effectiveness) and the criteria adopted and agreed with the Human Resource management. A draft report will be produced for stakeholder comment with the final report issued in accordance with QUT Internal Auditing requirements to the Vice-Chancellor, the Registrar and the Audit and Risk Management Committee.

The Audit will be conducted in accordance with the standards for the professional practice of Internal Auditing (IIA) and the requirements of Internal Auditing at QUT.

Key Audit Risks

It is a requirement of the audit planning phase that key audit risks are identified. In this context the following areas of potential risks have been identified which will be confirmed during the fieldwork:

Audit Risks	Level of Risk	Description
Workforce Planning	Medium/High	Key skill supply shortages, especially in academic areas, will limit the ability of the organisation to achieve the strategic objectives. Alternatively the cost of labour may rise significantly as sector demand increases competition in a tight labour market.
Recruitment & Retention	Medium/High	The delivery of university services is contingent on having qualified and experienced staff available at the right time. Once the ideal staffing profile has been determined through workforce planning the recruitment and/or retention activities must deliver value-for-money outcomes in a timely way. Experience in other sectors (eg health: nursing shortages) has shown that active recruitment and retention strategies make a difference.
Organisational Change	High	The structural and operating environment for managing organisational change is an important parameter (and potential constraint) on achieving strategic objectives. Where the process of organisational change is unduly restrictive (bureaucratic, time consuming, costly) or the ability of the organisation to actually achieve change is limited there is a key risk that university objectives will not be met.
Critical HR Issues for QUT Success	High	Key stakeholders need to be informed and fully aware of the current and future human resource issues at QUT. It is important to ensure that human resource reporting is focused on clearly identifying and analysing those human resource issues that are critical to the organisations success.

Audit Risks	Level of Risk	Description
		Unless the key stakeholders clearly understand and appreciate the human resource areas that are critical to organisational success resource allocation decisions and organisational priorities are likely to be allocating resources to the wrong areas.

General Administration

The Audit Panel

The Audit Panel will consist of the QUT Director, Efficiency and Audit (Ms Seema Patel), and a human resource specialist (Mr. Chris Andrews).

Chris Andrews is currently a doctoral researcher in human resource auditing with 20 years of practical experience in human resource management, the last two in university human resource management. He is a financial member of the Institute of Internal Auditors Australia.

Quality Assurance

A significant amount of the fieldwork will be undertaken by the researcher with quality control provided through the direct and indirect supervision of the Director, Efficiency and Audit. Progress against the audit plan will be monitored and reported to the QUT Registrar on a regular basis.

Timetable

Audit planning commenced in March 2005 and the first meeting to discuss the audit objectives and scope was held in April 2005. This draft Assignment Plan will be issued to the Director, Human Resources for comment and discussion. The HR Executive is scheduled to consider the audit brief in May 2005. The confirmation of the areas of audit is scheduled for the end of May 2005. The detailed criterion for the examination phase is scheduled to be completed and agreed by 30 August 2005. Fieldwork will commence in September 2005 and is scheduled to be completed by the end of November 2005.

Key Audit Contacts

Internal Audit Director, Efficiency and Audit (Ms Seema Patel)

[External] Human Resource Specialist (Mr. Chris Andrews)

Human Resources Human Resources Director

QUT Management Registrar

Staff to be contacted during the audit.

The following staff have been identified in the audit planning phase:

Position	Name	Relevant to audit area
Vice-Chancellor	(all names have been deleted from this copy)	All
Registrar		All
Human Resources Director		All
Workforce Planning Mgr		Workforce Planning; Recruitment
Organisational Development		Organisational Change
Recruitment & Retention		Recruitment, Workforce Planning
Critical HR Issues for QUT Success		HR Reporting

Other relevant QUT Officers may be consulted or interviewed during the audit where required to fulfil the audit objectives.

Recipients of the Final Audit Report.

A copy of the Final Audit Report will be provided to:

- The QUT Audit & Risk Management Committee
- The Vice-Chancellor
- The Registrar
- The Human Resources Director
- The Researcher (to be used in relation to the research but with agreed confidentiality restrictions).

Sign Off

I have read the plan for the Audit of the role of the human resource department in selected strategic areas and I am satisfied that the objectives and scope meet the expectations for this audit.

Signed:

Position: Director, Human Resources QUT

Date: __/__/2005

Template (sample) for internal audit worksheet

Internal Audit Working Documents: Human Resources Audit

NB: Provided as a sample document, for discussion purposes only. The sample material has been drawn from [Workplace Planning literature](#).

Definitions:

Economy: Means the *acquisition* of the appropriate quality and quantity of financial, human, physical and information resources at the appropriate time and at the lowest cost. Involves ‘choosing the right approach and appropriately resourcing the activity’.

Efficiency: Means the *use* of financial, human, physical and information resources at the appropriate times and at the lowest cost. Involves ‘doing things right’. People management strategies are efficient if they achieve the desired outcome in a cost-efficient manner (ANAO).

Effectiveness: Means the *achievement* of the objectives or other intended effects of activities. Can be described as ‘doing the right thing’. People management strategies are effective if they achieve their desired outcomes (ANAO).

NB: The format of the following table has been adjusted to suit the printing requirements of this dissertation. The original was produced in a landscape format.

Area of Examination	Detail the HR objectives and key risks	Detail the standards used or the current assessment criteria in use	Detail the means by which HR monitor performance and/or the achievement of the objectives	Detail how HR judges its own performance in relation to this criteria
<p>Workforce Planning, and the resultant action plans</p> <p>Definition:</p> <p>‘Workforce Planning is a continuous process of shaping the workforce to ensure that it is capable of delivering organisational objectives now and in the future’ - Aust. National Audit Office, 2001).</p> <p>‘Turnover costs are conservatively estimated at between 0.75 and 1.5 times an employee’s salary’ – Mercer</p>	<p>Objective :</p> <p><u>Sample Only:</u> To partner with Line Managers in workforce planning activity, and then to provide the Managers with a prospective quantitative and qualitative profile of the ‘Future Desired Workforce’, matched against the current workplace profile over time; to scenario plan and then monitor the implementation of the changes necessary to reach the stated goals through active recruitment,</p>	<p>Role Clarity for the activity:</p> <p><u>Sample Only:</u> The role and accountabilities of human resources are clear, therefore the roles of line managers are also well defined (detail, where, how, and date of agreement)</p> <p>Assessment:</p> <p><u>Sample Only:</u> The activity is assessed on the basis of: the accuracy of the assumptions underlying the workforce planning model (context), the predictability (e.g. expressed in confidence levels) of the outcome of the model at</p>	<p><u>Sample Only:</u> A Workforce Planning Report is issued (state to whom) on a (state timeframe) basis with updated context and operating assumptions and projections for the selected forecast period.</p> <p>The report analyses deviations from past projections and updates current predictions with stated scenarios.</p> <p>Action plans are updated (by whom) as a result of the Report and approved by (state approving position).</p>	<p><u>Sample Only:</u> The assessment of this activity is currently under review. In the past the assessment of this activity has been based on:</p> <p>Inputs (FTE, budget, cost of workforce planning software).</p> <p>Outputs (Reports detailing trends in population, workforce, technology, productivity, competition, work organisation changes, etc)</p> <p>Outcomes (Accuracy of projections; Formal Action Plans introduced, usefulness of the Reports in university</p>

<p>Cullen Egan Dell, quoted by ANAO, 2001.</p>	<p>retention and change management strategies.</p> <p>NB: The justification for this activity is the alternative cost of not undertaking detailed planning and the associated risks (it is worth providing some detail here).</p> <p>Risks: <u>Sample Only:</u> The significant risks associated with this activity are: (a) Incorrect assumptions in the planning phase (b) Line manager acceptance of the importance of planning (commitment) (c) Planning is not actioned (d) Plans</p>	<p>a future date under stated scenarios (detail more than one), and the level of acceptance/use of the service by work areas (state the method of assessment, frequency and use of the report).</p> <p>Qualitative: <u>Sample Only:</u> The key context or influencing factors and the potential impact of these on QUT are identified (state how) and their actual effect is monitored and reported (state how, when and where). The assumptions underlying the workforce planning model are therefore explicitly informed by changes in the operating environment. Scenarios allow for contingency planning.</p> <p>Quantitative: <u>Sample Only:</u></p>	<p>HR monitor the usage and usefulness of the workforce planning activity to Managers through ... (detail)</p>	<p>forward planning).</p>
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	do not inform Business Decisions.	<p>Key statistical data is used to monitor the context and update the assumptions underlying the model on a (state time frame) basis. Projections are made with associated levels of confidence.</p> <p>Action Plans: <u>Sample Only:</u> Plans must be actioned to reach outcomes. State how this occurs and the process of reaching agreement with line managers. Plans must deal with a variety of factors (capability, attraction, retention, training, change management etc) and have stated goals and timeframes. Progress should be monitored and reported (state how, when, to whom).</p>		
Economy Means the <i>acquisition of</i>		<u>Sample Only:</u> The service delivery	<u>Sample Only:</u> The assessment	State how this assessment

<p>the appropriate quality and quantity of financial, human, physical and information resources at the appropriate time and at the lowest cost.</p>		<p>model for workforce planning is evaluated for economy against:</p> <ul style="list-style-type: none"> a) similar university services, and/or b) outsourced providers and/or c) alternative technology solutions. 	<p>criteria for Economy is that the selected service delivery method is providing at least the equivalent output and/or outcomes as the identified alternatives, for a similar level of input.</p>	<p>occurs in practise.... eg Managerial Assessment.</p>
		<p>A strategic review of Workforce Planning alternatives has occurred in the last five years; the recommendations of the review have been reported.</p>		
<p>Efficiency Means the use of financial, human, physical and information resources at the appropriate times and at the lowest cost</p>		<p><u>Sample Only:</u> The efficiency of workforce planning is assessed against:</p> <ul style="list-style-type: none"> a) The cost of similar services in the same context (benchmarking) b) Historical performance over time (demonstrate). c) Stated performance parameters (detail) 	<p><u>Sample Only:</u> The assessment criteria for Efficiency is that: the service delivery method is operating in a productive manner (detail). This assessment is undertaken on the basis of:</p> <ul style="list-style-type: none"> a) Managerial Review (detail) b) Line Management assessment (detail) c) Key operating 	<p>State how this assessment occurs in practise.... eg Managerial Assessment.</p>

			statistics (detail) d) Other (detail)	
		An operating report has been produced in the last five years analysing the performance of the Workforce Planning unit.		
Effectiveness Means the <i>achievement</i> of the objectives or other intended effects of activities		<p><u>Sample Only:</u> The effectiveness of workforce planning is assessed through:</p> <p>Managerial Review against the stated objectives (detail),</p> <p>The actual predictability of the workforce plans (detail)</p> <p>The level of acceptance of workforce planning by Managers (detail how this is measured).</p>	<p><u>Sample Only:</u> The assessment criteria for Effectiveness is that the activity is achieving its stated objectives in an timely manner. This assessment is undertaken on the basis of:</p> <p>a) Managerial Review (detail) b) Line Management assessment (detail) c) Key operating statistics (detail) d) Other (detail)</p>	State how this assessment occurs in practise.... eg Managerial Assessment.
		<p>Key context factors are identified and their impact on assessed and reported.</p> <p>Key Demographic data is</p>		

		<p>captured and analysed on the basis of the impact on the operating environment.</p> <p>Workforce data is incorporated into business reporting mechanisms (eg Critical Issues for organisational success).</p> <p>Workforce Capabilities have been identified for the future workforce.</p> <p>Future business directions have been examined as scenarios in workforce planning.</p> <p>Workforce Plans and Workforce Action Plans are 'living documents' informing business plans for Line Managers.</p>		
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Sources: www.aruspex.com.au, www.anao.gov.au , www.gao.gov

Ref: HR Audit Worksheet Workforce Planning 15 August 2005

Appendix 5

Senior management interview template

Human Resources Audit – Senior Manager Interview Objectives:

HR Role Clarity (pro-active or other, strategic or other, customer service orientation, areas for commendation, areas for improvement, alignment with critical areas for QUT success, testing of core functions).

Area	Generic Question
(A) HR Role (clarity)	What role does the Human Resources Department need to take to ensure QUT success? What risks are involved with HR Department activity?
(B) Critical HR issues for QUT success	What, in your view, are the areas of critical priority in Human Resources?
(C) Employment Branding	What are the key reasons that attract and retain staff (known as the value proposition)?
(D) Service Delivery Model	Recruitment is a key aspect of the human resource function. Is it a core function? Should key aspects of HR be tested for 'economy' against external delivery models?
(E) HR Department Competencies	In a recent review of the HR profession* emphasis was placed on HR Managers having a broad business background to enable credible input into senior decision-making processes. In your view does the HR Department have a credible understanding of the key business issues facing QUT?
(F) Developing a performance culture	How are under-performance issues addressed in your area? Is the development of a performance culture at QUT progressing to your satisfaction? What specifically could HR prioritise to improve the performance culture at QUT?
(G) Workforce Planning	What are the key determinants of the staffing profile? Specifically, is the staff profile budget driven or driven by strategic workforce planning and the QUT Blueprint?
(H) Regeneration	Should QUT have specific targets for future staffing – overall (academic/professional; staffing mix); and/or for each work area? How do you ensure you <i>retain</i> your very best staff? Do you plan in advance for replacing key staff that might leave your areas of responsibility?

	Do formal learning and development programs at QUT assist with attitudinal change in your work areas?
(I) Building Research Capacity	How is HR contributing to building the research capacity at QUT?
(J) Recruitment	In relation to a recent key vacancy in your area - did the process include a review of the future staffing profile?
(K) Organisational Change	Consider the formal change process (policy, planning and implementation) at QUT - is it successful? What role does HR play in the change process?
(L) Learning & Development	How does the formal learning and development program operate? Can you comment on the OH & S training program provided?
(M) Overall	In what areas do HR perform well? In what areas could they improve?
(N) Recruitment	Are all your recruitment Panel Chairs trained? Should training be offered in giving feedback to unsuccessful candidates? Should HR review recruitment advertising for value-for-money? Should HR review temporary staff (e.g. sessional academics) recruitment for value-for-money and for risk? Should HR review specialised search agency recruitment for value-for-money?
(O) Organisational Change	Have you experienced time problems in obtaining HR assistance on organisational change?
(P) Learning & Development	Comments or Issues?
(Q) OH & S Training	Comments or Issues?
(R) Critical Issues	Is industrial relations a critical issue?

* Sheehan, Holland & De Cieri (2005)

10 November 2005