

# Human Resource Audit in Banks: Concept, Status and Readiness- Bangladesh Perspective

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## *Abstract*

*Human Resource (HR) Audit is a mean by which an organization can measure where it currently stands and determine what it has to accomplish to improve its human resources function. The basic goal of an HR audit is to find out the HR interventions that will enhance the firm's competitive advantage. It also ensures the compliance of the HR department with the goals, plan and policies of the organization. HR audit helps to determine not only the efficiency of the HR policies and practices but also to reduce their cost to the organization. The study aims to identify the current status and the readiness of banks regarding introduction of HR audit in the banking sector of Bangladesh. The study concludes that HR audit can be introduced in the banking sector of Bangladesh for effective formulation of banks' HR strategies and to achieve superior use of HR.*

**Key Words:** Human Resource Audit, Human Resource Management, Human Resource Information System, Job Analysis, Performance Appraisal

## **1. Introduction:**

Human Resource Management (HRM) has evolved over the years as a strategic partner in organizational success. As the HR functions have undergone a paradigmatic shift, graduating from administrative managers to strategic consultants, the transition has been quite challenging for many practitioners (Laabs, 1997). The changing nature demands the HR professionals to participate and contribute fully to their companies as true strategic business partners. In today's competitive climate, companies operate within the confines of a heavily-regulated employee environment. The scope of the HR function includes establishing and administering a host of policies and practices —many of which involve compliance implications- that significantly influence the productivity and profitability of the enterprise. Sometimes HR department are not sure whether they are doing everything they should be doing so as to perform at the highest possible level to provide effective delivery. (Amy, 2010)

Human Resource Audit is a process of examining policies, procedures, documentation, systems, and practices with respect to an organization's HR functions. The purpose of the audit is to reveal the strengths and weaknesses in the organization's HR, and issues that need resolution. HR Audit means the systematic verification of job analysis and design,

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recruitment and selection, orientation and placement, Training and Development (T&D), Performance Appraisal(PA) and job evaluation, employee and executive remuneration, motivation and morale, participative management, communication, welfare and social security, safety and health and disputes and their resolution. HR audit is very much useful to achieve the organizational goal and is also a vital tool which helps to assess the effectiveness of HR functions of an organization.

HR audit "is a tool for evaluating the personnel activities of an organization. The audit may include one division or an entire company" (K. Aswathappa, 2006). It gives feedback about the HR functions to operating managers and HR specialists. It also provides feedback about how well managers are meeting their HR duties. In short, the audit is an overall quality control check on HR activities in a division or company and an evaluation of how these activities support the organization's strategy

The HR Audit can be considered as a type of functional audit. Thus, as a first approach, one could say that HR auditing consists of diagnosing, analyzing, evaluating, and assessing future course of action within the framework of Human Resource Management (HRM). HR auditing is a basic tool for the management of a company. Its objective is not only the control and quantification of results, but also the adoption of a wider perspective that will aid in defining future lines of action in the HRM field. Thus, HR auditing must perform two basic functions. First, it must be a management information system whose feedback provides information about the situation in order to facilitate the development of managing processes or the development of HR. Secondly, it must be a way of controlling and evaluating the policies that are being applied, as well as the established processes. Thus HR audit analyzes the current and future scenario of HR incorporating Human Resource Information System (HRIS). Correspondingly HR audit incorporates some important issues of employees, such as, employee health and safety, employee relations, benefits and compensations etc.

However, a bank should consider some comprehensive employee related issues in HR audit such as recordkeeping, recruitment, performance appraisal, training and development etc. Bank's strategy should be at the middle when deciding issues of HR audit and then a bank should consider its HR strategy. In every issue, HR audit team will collect detailed information on such issues for example, as employee health and safety issue, employees working condition, work load, health hygiene, and safety in the work place etc. If HR audit team finds some inconsistency at the workplace, then the audit team is supposed to bring these issues to the attention of the management for corrective measures.

Organizations that periodically review their HR practices may create stronger and more effective relationships with their employees and achieve better business results.

**Figure 1: Issues in HR Audit.**



**Source:** Developed by the author.

Conducting an HR audit creates visibility and promotes alignment to the organization's strategic plan. It provides various benefits to the organization. Some of these are as follows.

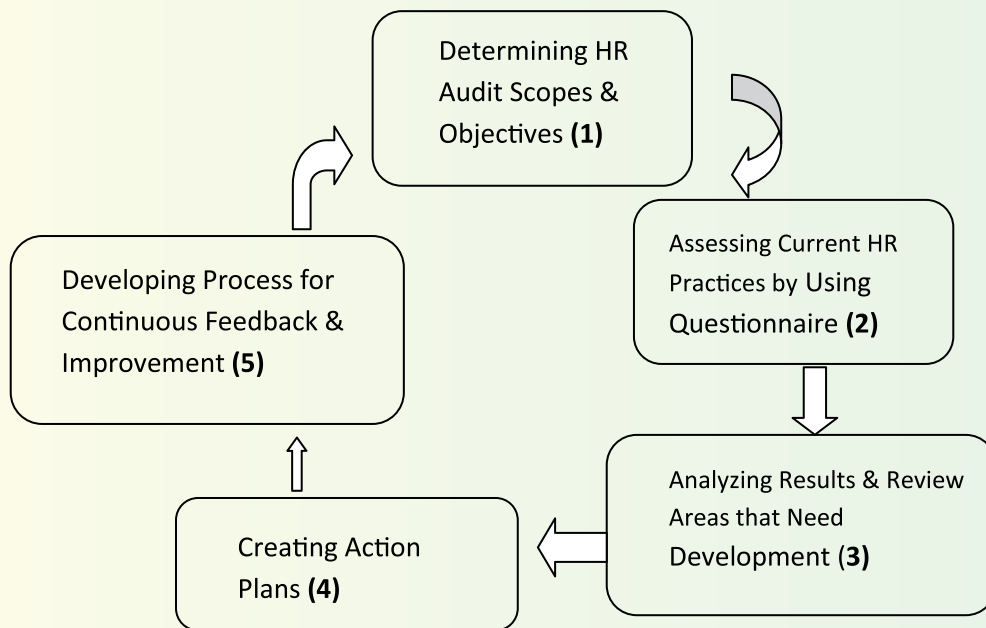
- It helps to find out the proper contribution of the HR department towards the organization.
- Development of the professional image of the HR department.
- Motivation of the HR personnel.
- Find out the HR problems and solve them smoothly.
- Provides timely legal requirement.
- Sound Performance Appraisal Systems.
- Systematic job analysis and Smooth adoption of the changing mindset.

Despite significant benefits of HR audit, still commercial banks of Bangladesh are not practicing HR audit to any significant extent. However, bank management now feels that effective employee participation and their efficient use in the organizational activities are essential for the success of the organization. Thus HR audit can play a vital role in achieving the benefits of HR audit.

The HR audit process may consist of five steps. At the initial stage, a bank has to decide the HR audit scopes and its objectives. Depending on the size of the bank, the auditor may be an individual or a group. An ideal audit team might consist of managers and supervisors from across the organization, representing diverse levels and functions. After determining

the HR audit objectives and scope, the HR audit team will collect data about the current HR practices and policies throughout the organization using questionnaire.

**Figure 2: HR Audit Process**



**Source:** Developed by the author.

After assessing current the HR practices, the HR audit team will review the HR audit results and they will develop a list of important issues for discussion with management for making effective use of the HR audit information. This should be done as soon as possible after the completion of the audit.

At the fourth stage, HR audit team will develop and implementation action plans with management. This step ensures that issues raised by the audit team are broadly discussed and understood by management and managers will accept responsibility for implementing indicated change. Managers participating in this step should be selected on the basis of the nature and scope of the issues identified by the audit.

Finally, the auditors or team transfers the responsibility of the results of the audit to the management. However, depending on the implementation plan, the auditor or team may maintain responsibility for follow-up to oversee the progress of implementation. Documentation is also required for follow-up of HR audit or as a roadmap for a future HR audit.

## 2. Literature Review

The term human resource auditing borrows its title and rationale from accountancy, and also makes use of the system, methods and information. Human Resources Audit can be defined as "a systematic assessment of the strengths, limitations, and developmental needs of its existing human resources in the context of organizational performance" (Flamholtz, 1987). Human Resources Audit, "measures human resource outputs and effectiveness under the given circumstances and the degree of utilization of human resource outputs and effectiveness under the given circumstances and the degree of utilization of the human resources in the best possible manner conducive to the organization" (Abdul Aziz Arain, 2001).

The audit of human assets is analytical rather than prescriptive. It aims, "to encourage professional managers and executives to develop their own ways of measuring performance against targets and objective developed from the experience and needs of their own particular unit, department and section. Executives be encouraged to revise, adapt and apply the various diagnostic methods which are best suited to their own circumstances" (Willion B. Werther & Keith Davis, 1996).

The human resources audit may act as a catalyst for departmental and Organizational Development

(OD) (Igalens, J. 2000). More precisely, it is a fast and simple procedure (Aswathappa, 2006). On the other hand, it is the auditor's responsibility to determine the extent to which performance may be

detailed and defined. The audit ensures the management of human resources within the company, the internal control system and conformity with the legislation (Marin, 2011).

HR audit must perform two basic functions. First, it must be a management information system whose feedback provides information about the situation in order to facilitate the development of managing processes or the development of HR. On the other hand, it must be a way of controlling and evaluating the policies that are being applied, as well as the established processes. The results can be valued through their cost (Walker, 1999). The things that get measured get managed (Kaplan & Norton 2008). HR Audit is very much helpful to face the challenges and to increase the potentiality of the HR personnel in the organization. It involves a company's strategic actions to take an intensely objective look at its HR policies, procedures and practices.

Due to expansions and competition in the business, the management may in particular intend to reduce the cost without deteriorating quality, which is possible by eliminating waste, avoiding breakdowns, bottlenecks and by utilizing fully the human resources, along with other factors of production, for which human resource audit can be a useful tool and assistance for better and improved management controls. It is an independent appraisal

study of various management levels to ensure the fulfillment of the organizational objectives, policies, and procedures. Human resource audit in its scope is beyond the conventional audit. The human resource audit is more clearly defined as "a method to evaluate the efficiency of human resource at all levels throughout the organization, in order to ascertain whether sound management prevails throughout, and to recommend its effectiveness where such is not the case" (Willion B. Werther & Keith Davis, 1996).

The HR manager himself or herself is interested in knowing his or her department's effectiveness. It is not that the department is dependable. Errors do happen. Policies and practices become outdated. By auditing itself, the department finds problems before they become serious. Done correctly, the evaluation process can build a strong rapport between the department and operating managers, and it can reveal outdated assumptions that can be changed to meet the department's objectives and future challenges (T.V. Rao & Udai Pareek, 1997). Systematic assessment instills discipline in the personnel staff and encourages them to move away from intuitive techniques to more rigorous assessment of the likely benefits to be achieved. Further, "a personnel function must establish credibility with the management by justifying its programs and clearly demonstrating how it contributed to the attainment of organizational goals" (Pareek, 1997).

T.V.Rao (1999), reported that HR audit is a great deal of work as been in India regarding the use of HR as an organization development intervention and is a unique feature of Indian organizations. HR audit has following result. The audit in several organization resulted in established several original system and process, such as potential and performance appraisal, career planning, training, monitoring. Formulation of clear cut polices including promotion policy communication policy reward and reorganization policy, etc. Helps in development trust, collaboration and teamwork. Human orientation gets injected into business process with opportunities for growth and development provided to all employees in team of their work leading to higher level of role efficacy. Audit should also analyze if the personnel policies are in alignment with the general objectives and the global strategy of the company. It must also translate the HR strategy into plans and programs. Thus appears a new element of the audit of HR, the strategic audit. Schuler (1999), defines it as "the evaluation of the adaptation of the HR policies and practices in their support of the company's general strategy."

HR audit has been practiced by different types of organizations such as bank, multinational companies, universities, corporate houses etc. In the banking sector, human resource audit is gaining popularity. Managerial attention at the bank has therefore been focused on the need to continually invest in people, provide them with the right incentives to perform better for professional and career development. The Reserve Bank of India (RBI) has embarked on its biggest ever human resource audit programme to take a complete re-look at its man management practices. The central bank is facing challenges on the manpower front from various directions such as retirement and skill up gradation. State Bank of India

(SBI) has become 'Employer of choice' by undertaking human resource audit.

In Bangladesh commercial banks are trying to develop and sustain a work environment in which employee is empowered, is provided with opportunities for professional growth and is recognized and rewarded for the contribution towards achievement organizational objectives.

### **3. Objectives of the Study**

Considering the above background, the study is an attempt to see the present status of Human Resource Audit in the banking sector of Bangladesh. Moreover, the study also tries to identify the readiness of banks to introduce Human Resource Audit and finally to recommend some suggestions regarding HR audit in banks.

### **4. Methodology of the Study**

Both primary and secondary data have been collected for the study. Primary data have been obtained through a sample survey. The respondents were from different commercial banks in Bangladesh including central bank. The design of the questionnaire (Annexure 1) involved a combination of both open and close-ended questionnaires. A total number of 106 bank officials of Human Resource Division (HRD) from 23 banks have been interviewed. Banks were selected based on stratified sampling techniques. The author interviewed bank officials of twenty two commercial banks, covering 3 Newly Corporatized Bank(NCB), 13 Private Commercial Bank(PCB), 4 Islamic Bank (IB), 2 Foreign Commercial Bank (FCB) and Bangladesh Bank(BB). For theoretical framework of the study, relevant articles, journals, text books and research work were consulted.

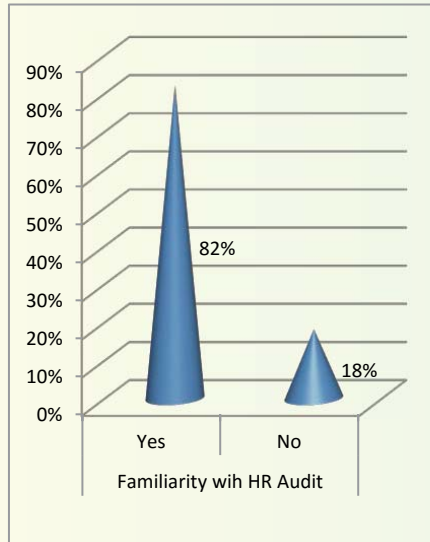
The data was analyzed by applying statistical formulae which are graphically presented through charts, figures and image etc. The study suffers from some limitations such as sample size, and narrow scope. However, the study suggests in-depth study on this issue in future taking large sample size with wide scope.

### **5. Analysis and Findings**

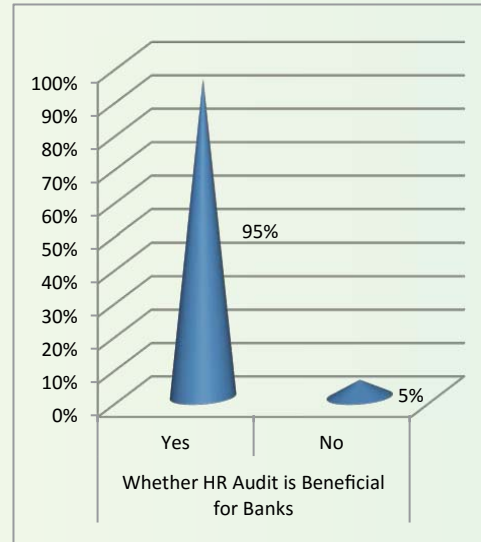
In order to know the current status of HR audit and the readiness of banks the study conducted a primary survey and some important findings are given below:

**5.1 Current Status of HR Audit in Banks:** The study tries to identify whether bank officials are familiar with HR audit concept and whether HR audit is beneficial for the banks. The study finds that 82% bank officials working in the HR division are familiar with the concept of HR audit and 95% bank officials believe that HR audit is beneficial for banks. This indicates that bank officials of Bangladesh are quite familiar with HR audit concepts and its potential benefits for the banks.

**Figure 3:** Response of the Bank Officials About the Familiarity with HR Audit.



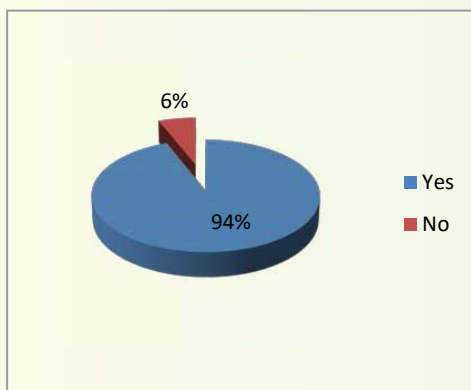
**Figure 4:** Response of the Bank Officials About the Benefits of HR Audit.



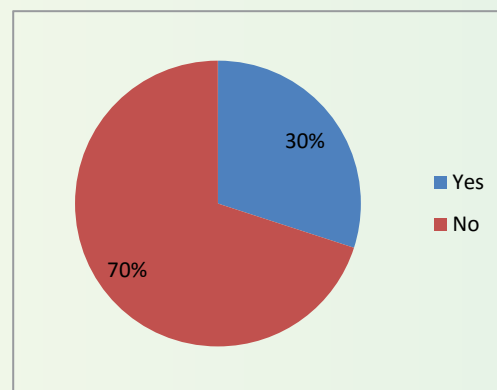
**Source:** Survey Data

The study tried to identify whether HR audit should be introduced by the banks and whether banks of Bangladesh conduct HR audit. Survey finds that 94% bank officials believe that HR audit should be introduced by their respective banks and 70% commercial banks of Bangladesh do not conduct HR audit. Thus there is a great scope to introduce HR audit in the banking sector of Bangladesh.

**Figure 5:** Response of the Bank officials About Introduction of HR Audit in Banks



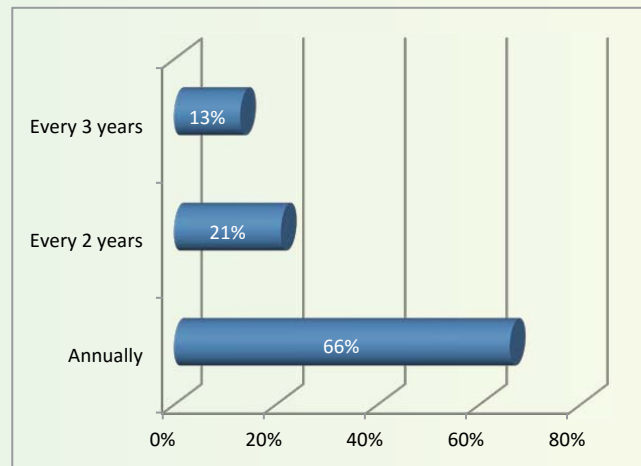
**Figure 6:** Whether Banks of Bangladesh Conduct HR Audit?



**Source:** Survey Data

The study finds that 30% banks have already introduced HR audit in their banks, so the study also tried to know how often a bank conducts HR audit. It has been found that 66% banks conduct HR audit annually, 21% banks conduct HR audit after every 2 years and 13% banks conduct HR audit after every 3 years.

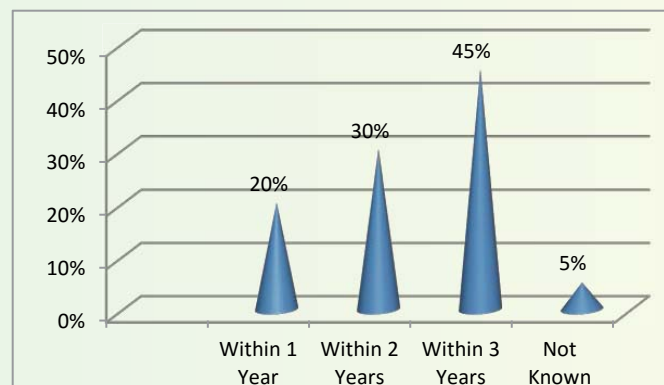
**Figure 7: How often does a bank conduct HR audit?**



Source: Survey Data.

Within how many years banks will introduce HR audit? In reply to this question the study finds that 20% banks will introduce HR audit within 1 year, 30% banks will introduce HR audit within 2 years, 45% banks will introduce HR audit within 3 years and 5% banks do not know their time frame. Therefore the study finds that a noteworthy number of bank have plan to introduce HR audit within few years which is a positive sign for the commercial banks of Bangladesh.

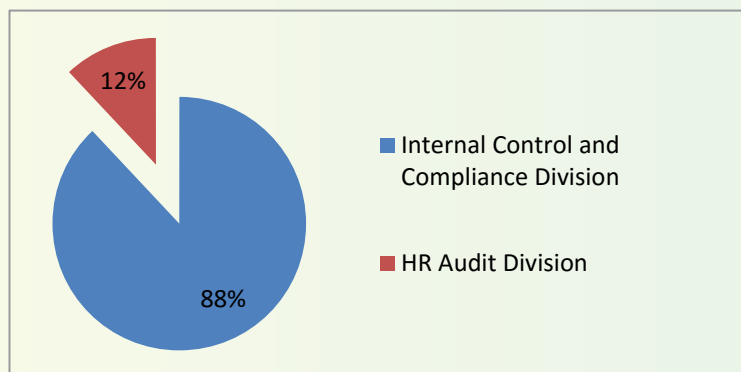
**Figure 8: Within How Many Years Banks will Introduce HR Audit.**



Source: Survey Data

It has been observed in the study that 30% banks of Bangladesh conducts HR audit. Hence, the study also tries to find out which department conducts HR audit in banks. In the study 88% bank officials report that HR audit is conducted by the Internal Control and Compliance Division and 12% bank officials report that HR audit is conducted by the HR Audit Department. A significant number of banks conduct HR audit through their Internal Control and Compliance Division (ICCD). From here we can get the message that banks do not conduct HR audit in a professional manner. As HR audit is a new concept so it should be conducted by professional HR audit experts.

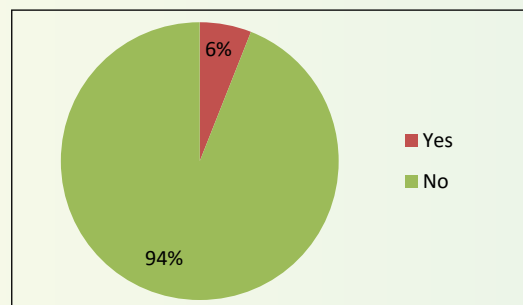
**Figure 9:** Department Conducting HR Audit



**Source:** Survey Data

As to whether banks take assistance from other organization to conduct HR audit, 94% bank officials replied that, their banks do not take any assistance from other organization to conduct HR audit and only 6% banks take assistance from third part to conduct HR audit. From this we can assume that banks are trying to conduct HR audit internally. Nevertheless, to conduct HR audit initially banks can take assistance from professional organizations.

**Figure 10:** Assistance from other Organization to Conduct HR Audit



**Source:** Survey Data

**5.2 Qualifications of the HR Auditors:** HR audit should be conducted by professional HR auditors to get the real benefits of HR audit. However, the study finds that most of the cases HR audit is conducted by the Internal Control and Compliance Division of banks. Keeping that in mind the study also included an open ended question, namely in your opinion, what should be the qualification(s) of HR auditors? Reply received from the bank officials against this question are summarized below.

- I. HR auditors should have specialized knowledge of HR.
- II. HR auditors should be certified HR professional.
- III. Having Masters in Business Administration (MBA) with major in HR.
- IV. Chartered Accountant (CA) with HR certification such as Post Graduate Diploma (PGD) in HRM.
- V. HR auditors should have sound Knowledge about Human Resource Information System.
- VI. Auditors having sound knowledge about HR policy, guidelines, HR planning, labor law, income tax etc.

**5.3 Suggestions Regarding Introduction of HR Audit in Banks:** The study sought suggestions from the bank officials about introduction of HR audit in their banks. Some of the suggestions are given below.

- I. Proper monitoring is needed for HR audit i.e. banks must ensure that HR audit team will perform their job with professional care and in a responsible manner.
- II. HR audit should be started from the root level at least annually. All bank officials human resource related activities from branches to head office should be audited.
- III. HR department should play a proactive role about the findings of the HR audit i.e. HRD should take prompt decisions based on the recommendations of the HR audit team.
- IV. Initially, HR audit may be outsourced to professional organizations, as banks of our country are not completely ready to introduce HR audit.
- V. Bangladesh Bank may compel banks to introduce HR audit as some banks are not eager to introduce HR audit.
- VI. Proper training is needed for the HR audit team members as well as for the management of banks for better understanding about the concept and possible benefits of HR audit.
- VII. Strong employee database is required to introduce HR audit in banks, as HR audit is linked with the employee database.
- VIII. Every bank should have a sound policy about HR audit.

**5.4 Challenges of HR Audit:** So far in the banking sector Bangladesh, HR audit is not that much practiced, a few banks have started HR audit with the help of the Internal Control and Compliance Division of banks. HR audit can be structured to be either comprehensive or specifically focused, within the constraints of time, budgets and staff. The study also identified some challenges with the response of the bank officials. Some of the challenges of HR audit are given below.

- I. **Lack of knowledge about HR audit concept:** As HR audit is a new concept in Bangladesh, so lack of clear idea about HR audit is one of the major challenges to introduce it in the banking sector of Bangladesh. However bank officials, board members and other stake holders should have a sound idea about HR audit.
- II. **Disinformation about HR audit:** In case of introduction of HR audit in banks sometimes there is chance to spread out rumor that employees may lose their job after HR audit or new policy may be taken based on the findings of the HR audit. In that case employees should be convinced that findings of the HR audit will be used for the betterment of the employees.
- III. **Cost involvement:** Introduction of HR audit will increase the cost of the banks, especially for the large banks having many branches and manpower. However, banks should consider the possible benefits of HR audit against the cost.
- IV. **Lack of efficient manpower in HR audit team:** Shortage of efficient manpower is another significant challenge of HR audit. Usually audit team members do not have HR background, so banks should develop manpower for HR audit team. Initially HR audit team members may need training from abroad to gain expertise in this area.
- V. **Auditors may be biased:** If vital decisions are taken based on the findings of the HR audit, in that case HR auditors may be biased. So HR auditors should act diligently with professional care. Cross checking may be needed in some vital areas of HR audit.
- VI. **Lack of Human Resource Information System (HRIS):** HR audit needs support from information technology. HR audit is linked with human resource information system. Human Resources Information refers to the systems and processes at the intersection between human resource management (HRM) and information technology. But many commercial banks of Bangladesh do not have efficient HR database. Therefore, banks should develop complete HR database initially to introduce HR audit in banks.
- VII. **Change management:** Change is a constant in today's workplace. Skill as an employee or manager will be assessed by how well managers handle change management in their organization. Accordingly, introduction of HR audit will also bring some changes in the organization so change management is also considered as one of the major challenges in introducing HR audit in Banks.

## 6. Conclusion of the Study

Human resource is an integral part of any organization. A well-run and well managed HR department can increase employee morale, reduce employee turnover and help a business run smoothly and in many cases remain competitive. Employees should be seen as the most valued asset of a company and treated accordingly. Because of this, to make sure an HR department is operating to its best capacity, it is important to run a periodic HR audit. An HR audit can be done through self-assessment, internally, or can be done by hiring a professional audit company. An HR audit report will pinpoint where there are weaknesses or risks in the HR department and help to address these. To introduce HR audit in the banking sector of Bangladesh, it is recommended that every bank should have a sound policy guideline on HR audit. Bangladesh Bank can also play a significant role in this issue. The results of the study may be helpful to introduce HR audit in the banking sector of Bangladesh. Finally, it can be said that commercial banks of Bangladesh have ample scope to work in this area.

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## Annexure 1

### Human Resource Audit in Banks: Status and Readiness of Banks

#### Questionnaire

**Name of the Respondents:**

**Name of the Bank:**

1. Are you familiar with the term Human Resource Audit in Banks?

Yes  No

2. Do you think Human Resource Audit is beneficial for the banks?

Yes  No

3. Do you think Human Resource Audit should be introduced by your bank?

Yes  No

4. Does your bank conduct Human Resource Audit?

Yes  No

4.1 If yes, please mention, how often your bank conducts Human Resource Audit?

Annually  Every 2 Years  Every 3 Years  Others

4.2 If No, Does your bank have any plan to introduce Human Resource Audit?

Yes  No

4.2.1 If Yes When? .....

5. Please name the department of your bank conducts Human Resource Audit.

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6. Does your bank take any assistance from other organization to conduct HR audit?

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Yes  No

6.1 If yes, please mention, the name of the organization(s).

7. In your opinion, what should the qualification(s) of HR auditors?

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8. In your opinion, what are the problems or challenges banks may face in introducing HR audit in our banking industry?

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9. Do you have any suggestions regarding introduction of Human Resource audit in the banking sector of Bangladesh.

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