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## ANALYSIS ON AUDITING PRACTICES AND THEIR EFFECTS ON HUMAN RESOURCES: A CASE STUDY OF SELECTED FIRMS IN NAIROBI COUNTY

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### ABSTRACT

*Auditing is a global practice that is exercised both in public and private companies. Increasingly, businesses, governments and various profit making organizations are engaging in integrating social and professional objectives. This is done in an endeavor to ensure an independent examination and expression of an opinion on the financial statements and the human resource capacity of their organizations by an appointed auditor. The purpose of appointment may not necessarily be to comply with any relevant statutory obligation. Human resources is one main part of any organization that calls out for auditing as accountability is required among employees. Such auditing may be done on two fronts. At the onset, it may be done by an internal auditor and another one conducted by an external auditor. Their practice modes are bound to have an effect on human resources hence this research.*

### KEYWORDS

auditing practices, human resources.

### ABBREVIATIONS USED

ICAI	–	Institute of Chartered Accountants of India
HR	–	Human Resource
HRA	–	Human Resource Audit
HRM	–	Human Resource Management
PCAOB	–	Public Company Oversight Board

### INTRODUCTION

#### 1.1 BACKGROUND OF THE STUDY

Auditing can be defined as an evaluation of a person, organization, system, process or a product. The term most commonly refers to audits in accounting but similar concepts also exist in project management and human resource management (Hira, 1998).

Human resources can be defined as a set of individuals who make up the workforce of an organization, business sector or an economy. 'Human capital' is sometimes used synonymously with human resources, although human capital typically refers to a narrow view, i.e. the knowledge of individuals embodies and can contribute to an organization. Likewise, other terms sometimes used include manpower, talent, labor, or simply people. From the corporate vision, human resources are viewed as assets to the enterprise and must be audited if the firm is to remain competitive (Aswathappa, 2006).

According to Cleland and Bruno (1996), a human resource audit is a comprehensive method (or means) to review current human resource policies, procedures, documentation and systems to identify needs for improvement and enhancement of the HR function as well as to ensure compliance with the ever-changing rules and regulations. An audit involves systematically reviewing all aspects of HR, usually in a checklist fashion.

HR audits in private companies are more than an audit activity that solely covers and presents evidence of compliance. They are increasingly expected to look behind and beyond the organizations' assertions of sound and proper HR management practices and to assess the assumptions being made, to benchmark the organization's process and practices and to provide the necessary consultative services that help the organization achieve its business goals and objectives (Werther and Keith, 1996). The auditors always present and submit an audit report to authority of the organization, which may be clean or qualified. The clean report indicates the appreciation of departments' function, but the latter one represents the gaps in performance and therefore contains remarks and remedial measures. HR audit is very much helpful to face the challenges and to increase the potentiality of the HR personnel in the organization.

#### 2.0 REVIEW OF LITERATURE

This review summarizes information on auditing practices and aspects of human resources. It covers the works by various scholars. It takes into cognizance the theoretical review, empirical review and research gaps.

##### 2.1 THEORETICAL REVIEW

The goal of an audit is to express an opinion of the person, organization or system in question, under evaluation based on work done on test basis (Millicamp, 2002). According to Hubbard (2003), auditing involves the use of processes which are sets of questions asked or directions given by the auditor. When the specific objective of any one process is achieved, the process is ended and another can be used. By doing this, the subject is said to be able to free themselves from unwanted barriers that inhibit their natural abilities.

An audit must adhere to generally accepted standards established by governing bodies (Kumar, 2009). These standards assure third parties or external users that they can rely upon the auditor's opinion on the fairness of financial statements on which the auditor expresses the opinion, including human resources. Though internal auditors are not considered independent of the company they perform audit procedures for, internal auditors of publicly traded companies which include most private companies are required to report directly to the board of directors or sub-committee of the board of directors and not to management, so to reduce the risk that internal auditors will be pressured to produce favorable assessments.

##### 2.2 EMPIRICAL REVIEW

Human resource audits ensure that policies and procedures are fair and consistent across the organization and strengthen employee satisfaction. By maintaining a satisfied and productive workforce, an employer lessens the expense associated with costly turnover of staff. Losing one employee is estimated to cost a company 50-150% of the lost employee's salary in time and money spent to replace the employee (Hittinger, 2007).

Auditing, specifically the internal auditing, has become an indispensable control mechanism in both public and private organizations (Cohen and Sayag, 2004). Yet very few academic studies have been conducted on the effectiveness of IA. The current exploration study aims to build a conceptual understanding of the effectiveness of IA in organizations.

### 2.3 CRITIQUE OF THE EXISTING LITERATURE

he premise on which the human resources audit is based is that opportunities are being missed by staying with the current approaches. It considers the HR process as dynamic and that it must continually be redirected and revitalized to be responsive to the ever-changing needs. Aswathapa (2006), has failed to recognize this.

In their work, Werther and Keith (1996), failed to consider the criticality involved in the analysis of the existing HR within the organization during HRA. They failed to realize that for effective analysis and assessment of HR, the audit will have to be served with the data that is quantitative, qualitative, as well as comprehensive.

### 3.0 IMPORTANCE OF THE STUDY

The findings of this research are expected to benefit a number of stakeholders. The managers of various private companies can use the research findings and recommendations to formulate better strategies and procedures to improve on auditing, especially on human resources in order to reap the right benefit from it. Although the study has been done on the framework of private firms, public firms will also benefit from it as private and public companies share a lot when it comes to functions like auditing and human resource management. Auditors will also benefit from the study as will researchers and academicians.

### 4.0 STATEMENT OF THE PROBLEM

Over years, there has been a major concern globally for organizations to develop the professional image of all the departments of the organization. This has led to managers trying many techniques and formulating various strategies and policies to help enhance the same, and one of the practices that eventually came forward to help bring out and maintain this professional image was auditing (Kamau, 2012).

This study involved analysis of all the factors surrounding human resource audit function, a very crucial function in any firm's operations. Private firms particularly embrace this function to ensure better human resource departments. Effective human resource audit can in turn be enhanced through careful analysis on various auditing practices and how they affect human resources in private firms hence the basis of this research.

### 5.0 OBJECTIVES OF THE STUDY

#### 5.1 GENERAL OBJECTIVE

The general objective of this research was to analyze the various auditing practices that take place in private firms and find out how they affect matters relating to the management and the development of human resources.

#### 5.2 SPECIFIC OBJECTIVES

The specific objectives of this study were:

1. To analyse the various duties of auditors in private firms.
2. To analyse the importance of auditing on human resources in private firms.
3. To investigate the role of both internal and external auditing in ensuring effective human resources, and find out how they relate.
4. To identify the procedures and strategies used by auditors in planning and executing their duties in effecting accountability among employees.

### 6.0 RESEARCH METHODOLOGY

#### 6.1 INTRODUCTION

This highlights the methodology used in this research. It covers the research design, study population, data collection methods and procedures; data analysis methods; and research ethical issues.

#### 6.2 RESEARCH DESIGN

The research was descriptive. A descriptive research is that which includes surveys and fact finding enquiries of different kinds (Neuman, 1994).

#### 6.3 TARGET POPULATION

The target population comprised of both top and middle level managers. Ten auditors, both internal and external and 24 operational employees in each of the 3 selected private firms in the county were chosen randomly for study.

TABLE 6.1: TARGET POPULATION

Respondent	No.	Percentage (%)
Managers	6	15
Auditors	10	25
Employees	24	60
Total	40	100

Source; Nairobi Bottlers Ltd, Lolwe Autioneers Ltd, Ongata works Ltd (2013)

#### 6.4 SAMPLING DESIGN AND SAMPLE STUDY

The sample size was selected to represent the various business units. The sample size selected was 3 private firms where the questionnaires were administered to the employees, reflecting 60% of the total target population. The selected samples were representative of the target population.

#### 6.5 DATA COLLECTION

The data for this research work was obtained essentially from primary and secondary sources. Primary sources are those that give data having been collected afresh and for the first time. Secondary sources on the other hand are those whose data has been collected and passed through the statistical process (Ojany and Ogendo, 2011).

### 7.0 RESULTS AND DISCUSSION

#### 7.1 RESPONSE RATE

Table 7.1 below shows that there was a relative return rate of 88% compared to that 12% who failed to return the questionnaires. This is within the pre-determined response rate required for the study to be valid and effective. It further shows that the respondents were positive giving their views on the topic under study.

TABLE 7.1: RESPONSE AND NON-RESPONSE OF ISSUED NUMBER OF QUESTIONNAIRES

Response	questionnaires	Percentage
Issued	25	100
Returned	22	88
Not returned	3	12

Source: Research Data, 2013

#### 7.2 AUDITING PRACTICES AND PROCEDURES

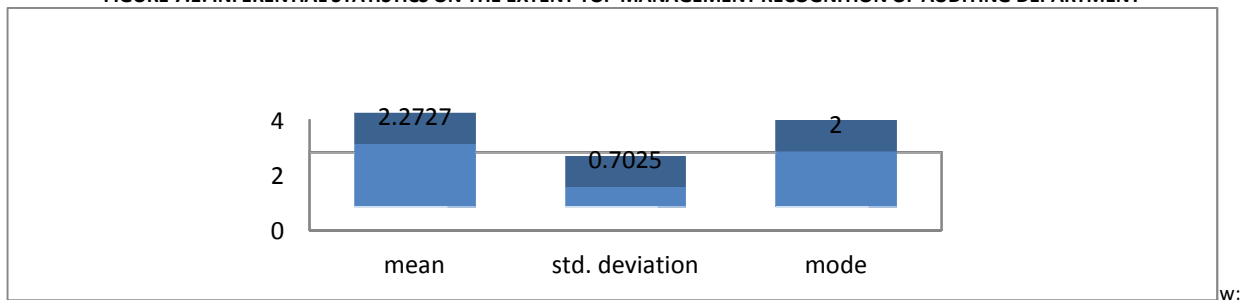
##### 7.2.1 Top Management Recognition of Auditing Department

The research sought to establish the level of recognition of the auditing department by the top management. This was necessary in finding the importance laid upon auditing in private companies by the management of those companies. Thirteen point six percent of the respondents said that the top management recognizes auditing department to a small extent. Forty five point five percent said that the recognition of the auditing department by the top management is



moderate and 40.9% (9) said the extent of recognition was big. The mode was 2.00 and the mean was 2.2727 and with a standard deviation of 0.7025 which shows that most respondents were clustered around the mean as there was no significant deviation from the mean. This means that most respondents were of the opinion that auditing department recognition by the top management is moderate although a good number also rated the recognition to be high.

FIGURE 7.1: INFERENCE STATISTICS ON THE EXTENT TOP MANAGEMENT RECOGNITION OF AUDITING DEPARTMENT

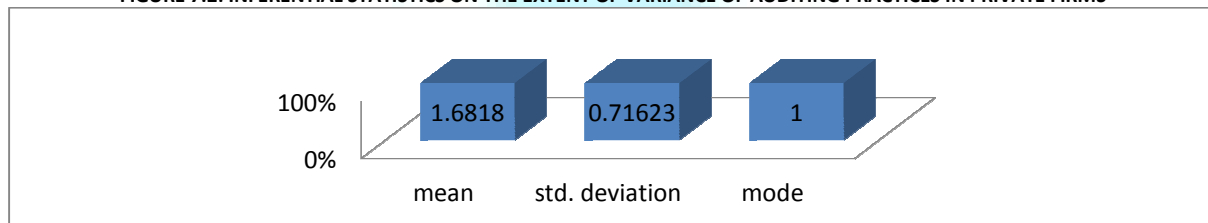


Source: Research Data (2013)

7.2.2: Variance of Auditing Practices and Procedures

The research sought to know the extent to which various auditing practices and procedures varied from one private firm to another. This would help determine the extent of uniformity of these practices in private firms. Forty five point five percent said that the practices and procedures varied to a low extent, 40.9% (9) said that the practices were moderate in variance and 13.6% (3) said that the extent to which the auditing practices and procedures varied was high. The mode was 1.00 and a mean of 1.6818 with a standard deviation of 0.71623. This shows that most respondents clustered around the mean and were of the opinion that the extent to which the auditing practices and procedures varied among private firms was low.

FIGURE 7.2: INFERENCE STATISTICS ON THE EXTENT OF VARIANCE OF AUDITING PRACTICES IN PRIVATE FIRMS

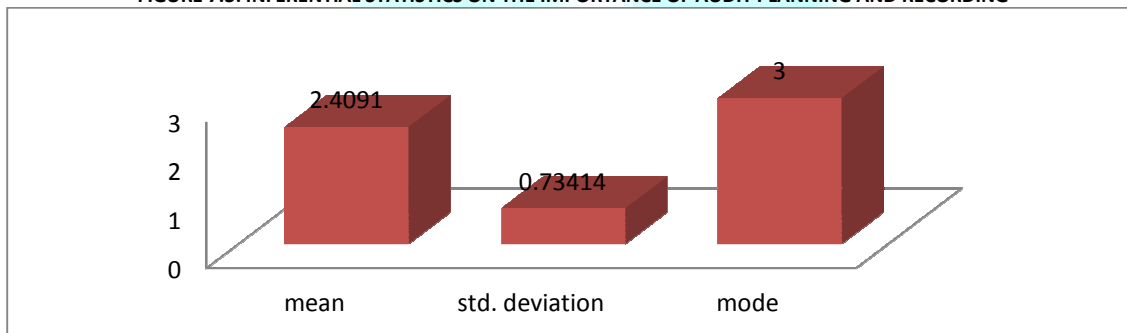


Source: Research Data (2013)

7.2.3: Importance of audit planning and recording

The research enquired about the importance of audit planning and recording in executing the audit function. This would help determine the emphasis needed to be put in this audit planning and recording. Thirteen point six percent of the respondents said that the importance of audit planning and recording in executing audit function was to a low extent. Thirty one point eight percent said that importance was moderate and 54.5% (12) said that audit planning and recording were of much importance in executing the audit function. The mode was 3.00, a mean of 2.4091 with a standard deviation 0.73414. These statistics show that most people rated the importance of audit planning and recording to be of a high extent. Most people were clustered around the mean as there was no significant deviation from the mean.

FIGURE 7.3: INFERENCE STATISTICS ON THE IMPORTANCE OF AUDIT PLANNING AND RECORDING



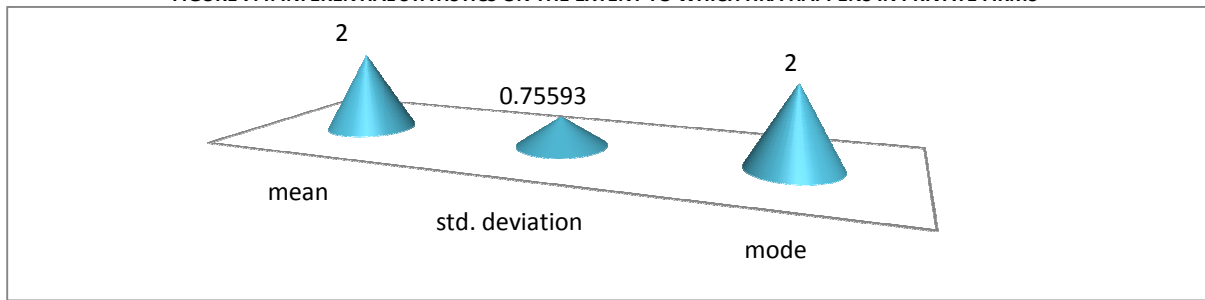
Source: Research Data (2013)

7.3 HUMAN RESOURCE AND AUDITING

7.3.1: Frequency of Special HR Auditing

The research wanted to establish from the respondents if special auditing for HR department happens in their firm and if it does the frequency and extent of its happening. Knowledge of this would help the research know the importance laid upon HR auditing in private firms. Forty five point five percent of the respondents answered that the extent of special auditing happening in their firm was moderate. Twenty seven point three percent rated the extent of HR auditing as low and the other 27.3 (6) rated it as high. The mode was 2.00 and also the mean was 2.00 and with a standard deviation of 0.75593. This clearly shows that majority of the respondents were of the opinion that the extent of special HR auditing is moderate as the deviation was not significant enough to show otherwise. Majority of the respondents clustered around the mean.

FIGURE 7.4: INFERENCE STATISTICS ON THE EXTENT TO WHICH HRA HAPPENS IN PRIVATE FIRMS

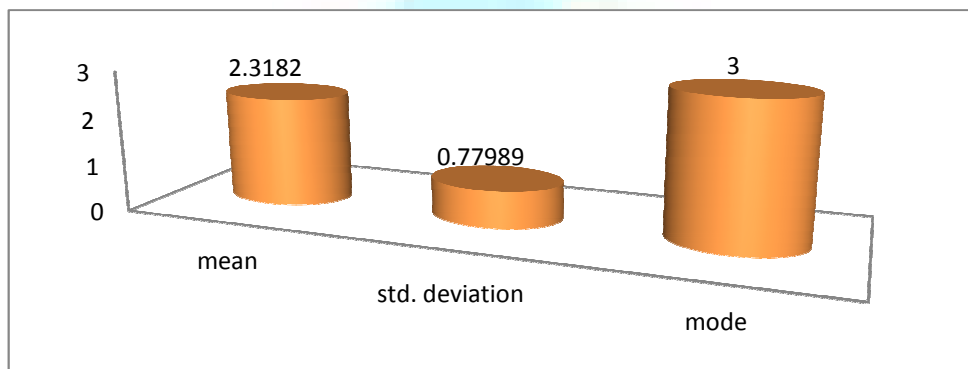


Source: Research Data (2013)

### 7.3.2: Impact of HR Auditing on Employee Recruitment

The researcher sought to know from the respondents the extent to which HR auditing affects recruitment of employees in their firms. This would certainly help establish the importance of HR auditing to employees. Eighteen point two percent of the respondents answered that HR auditing had small impact on recruitment of employees in their firms. Thirty one point eight percent said that the impact was moderate and 50% (11) said that HR auditing has big impact on recruitment of employees. The mode was 3.00, the mean was 2.3182 and the standard deviation was 0.77989. This shows that most of the respondents clustered around the mean with the opinion that HR auditing has significant impact on recruitment of employees. The deviation from the mean was not significant enough to indicate otherwise.

FIGURE 7.5: INFERENCE STATISTICS ON THE EXTENT TO WHICH HR AUDITING AFFECTS EMPLOYEE RECRUITMENT



Source: Research Data (2013)

## 8.0 FINDINGS

### 8.1 SUMMARY

Of all the respondents that played role in completing the study, 40.9% said that the auditing department received much recognition from the top management while 45.5% said that the recognition was moderate. Another 13.6% said that the recognition of the auditing department by the top management was small. Asked the extent to which the auditing practices and procedures in their firms vary from those of other private firms, a majority of 45.5% said that there is little variance, 40.9% said the variance is moderate and 13.6% said that auditing practices and procedures in their firms highly varied from those in other firms.

### 9.0 RECOMMENDATIONS

- Private firms should hire the services of both internal and external auditors for better and more reliable results in determining the truthfulness and fairness of financial statements.
- HR auditing should be carried in all private firms as it serves to ensure fairness and professionalism in employee recruitment and the fact that it also ensures effectiveness and regulatory compliance.
- Organizational status should be kept at its best as according to the study, it affects auditing practices which in return ensure truthfulness and fairness of financial statements and accountability and professionalism.
- Audit planning and recording should be encouraged in private firms as it ensures smooth audits and future references.
- Auditing and specifically human resources auditing should have significant recognition and support from the top management as smooth running of the organization and profitability will be ensured by enabled auditing department free from constraints.
- Auditing and specifically human resources auditing should have significant recognition and support from the top management as smooth running of the organization and profitability will be ensured by enabled auditing department free from constraints.

### 10.0 CONCLUSION

From the study the researcher concludes that auditing is indeed vital in general running of private firms. Most respondents agreed to the fact that auditing brings a significant effect on management of their firms. Audit planning and recording is vital if the audit function has to be successful and effective. The top management should give support to the auditing department just like it does to finance, accounting, HR and other organizational departments.

### 11.0 LIMITATIONS

The following limitations were faced during the study.

- As the study needed enough funds to be properly executed, financial problems invited setbacks that were a threat to good completion of the research. The researcher therefore sought aid from family and friends and economized the available funds for successful completion of the research.
- Some of the firms were sparsely located. This brought about logistic challenges in collecting questionnaires.

### 12.0 SCOPE FOR FURTHER RESEARCH

Suggestions for further research ought to be to establish the effects of auditing practices on other organizational departments other than human resources.

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## APPENDIX

## QUESTIONNAIRE

Instructions: Kindly tick appropriately in the box or fill the space provided.

## PART I: RESPONDENT'S PROFILE

1. What your gender
  - a. Male
  - b. Female
2. What your age group?
  - a. 21- 30
  - b. 31 - 40
  - c. 41 –50
  - d. 51 – 60
3. What is your level of management?
  - a. Top level
  - b. Middle level
  - c. Operational level

## PART II: APPROACHES TO AUDITING PRACTICES AND THEIR EFFECTS ON HUMAN RESOURCES

For each question below, tick the appropriate box to indicate your opinion relevant to each of the questions in this section and write your opinion in the gaps provided where necessary

**A. Auditing practices and procedures** To what extent does your organization's top management recognize the auditing department as compared to the other departments? Big Moderate Small

1. Give a brief explanation .....
2. How does auditing in your firm compare to that in public firms? .....
3. To what extent does the auditing practices and procedures in your company vary from the ones in other private firms? High Moderate Low
4. If yes, what in your opinion is the main difference?.....
5. To what extent does the organizational status affect the auditing practices and procedures in your firm? High Moderate Low
6. Give a brief explanation .....
7. To what extent is audit planning and recording vital in executing the audit function? High Moderate Low
8. To what extent does auditing affect the general management in your firm? High Moderate Low
9. Specify some affected departments.....

**B. Human resource and auditing**

1. To what extent does special auditing for the human resource department happen in your organization? High Moderate Low
2. If high, at what frequency does it happen in one financial year? Specify Varying
3. In your opinion, do you find human resource auditing as important to your firm? Yes No
4. If yes, why do you think so? .....
5. Do you consider anything that comes with human resource auditing as negative? Yes No
6. If yes, what and why? .....
7. To what extent does human resource auditing have an impact on recruitment of employees? Big Moderate Small
8. In your opinion, does practice of auditing on the human resource department of your firm ensure effectiveness and regulatory compliance? Strongly agree Agree Disagree
9. How do the general auditing practices in your firm affect the HR department in your opinion? .....

**C. Internal and external auditor**

1. What kind of an auditor serves your firm? 1. Internal 2. External 3. Both
2. If an external auditor serves your firm, at what frequency does he visit the firm in a year to perform his duties? 1. Once 2. Twice 3. Others
3. Does the auditor audit all the departments in your organization? Yes No
4. If not all, can you specify some of the departments he carries his audit on .....
5. To what extent does the outcome of the internal and external auditors often differ? Great Moderate Small Don't differ
6. If there is a difference, what do you think makes the outcomes differ? .....
7. In case of an internal auditor, at what frequency does he give report on his audits? Weekly Monthly Others
8. How complicated are the procedures used by your firm in auditor appointment? Little Fair Much

THANK YOU FOR YOUR PARTICIPATION

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With sincere regards

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