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HUMAN RESOURCE ACCOUNTING & AUDITING**HARISH H N****ASST. PROFESSOR****DEPARTMENT OF COMMERCE & MANAGEMENT
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HASSAN****ABSTRACT**

Human is the core factor and which is required to be recognized prior to any other 'M's But till now an urgent need based modification is required while identifying and measuring data about human resources. In this paper my objective is to identify the extensive use of Lev & Schwartz model of Human resource accounting, in spite of several criticized from various sides regarding its applicability human resource audits are not routine. These are in fact, studies of unusual nature. The manner of conduct can be self-directed surveys, or task force within the organization, or reserved for intervention by outside consultants. Risk & Audit Management also enables risk and audit professionals to simplify the various functions of the legal and regulatory process and gain control, get insight and get the job done quickly and confidently while reducing risk, cutting costs, and establishing a viable long-term strategy for compliance success.

- To assess the way of presenting HRA information in the financial statement by selected companies
- To identify HRA methods and models (mainly the extensive use of Lev & Schwartz model) which are used to arrive at human resource value.
- How human resource are related with the other accounting variables for the purpose of human financial reporting in selected companies.

KEYWORDS

human resource accounting, auditing.

INTRODUCTION

Human Resource Accounting is Assigning, budgeting, and reporting the cost of human resources incurred in an organization, including wages and salaries and training expenses.

Human is the core factor and which is required to be recognized prior to any other 'M's but till now an urgent need based modification is required while identifying and measuring data about human resources. In this paper my objective is to identify the extensive use of Lev & Schwartz model of Human resource accounting, in spite of several criticized from various sides regarding its applicability. Further more, it also portrays the applicability in wide variety of organization of such model (some public sector units and IT based sector).

In HR parlance this would necessarily mean accounting of transactions involving employee salaries, employee training and such other expenditure depending on the company policy. Audit would be examination of such records.

Risk & Audit Management also enables risk and audit professionals to simplify the various functions of the legal and regulatory process and gain control, get insight and get the job done quickly and confidently while reducing risk, cutting costs, and establishing a viable long-term strategy for compliance success.

MEANING OF HUMAN RESOURCE ACCOUNTING

HRA has been defined by American Accounting Association's committee – "HRA is the process of identifying & measuring data about human resources & communicating this information to interested parties". According to Eric. G flamholtz HRA represents- "Accounting for people as an organizational resource. It is the measurement of the cost & value of people for the organization".

Human Resource Audit is an addition to the various tools and concepts used for effective management of human resources. It has a vital role to perform – particularly in the service industry where the human resources are a part and parcel of the product or service that is being consumed. Hence, in this Unit, we introduce you to the basic concepts of human resource audit and the issues related to it.

Although HR valuation has important implication for external financial reporting, in the contemporary economic scenario valuing HR has been greater significance for internal HRM decision.

Problem Statement: Understanding the way of valuation of human resources by using Lev & Schwartz model and how valuation of such asset are related with the other financial variables for financial reporting purpose.

REVIEW OF LITERATURE

In a study conducted by T.V.Rao (1999), is reported that HR audit is a great deal of work has been in India regarding the use of HR as an organisation development intervention and is a unique feature of Indian organizations. HR audit has following result.

The audit in several organizations resulted in established several original system and process, such as potential and performance appraisal, career planning, training, monitoring. Formulation of clear cut policies 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.

Nevado [1998] considers that the 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. Dolan, Schuler, and Valle [1999, p. 390] define it as "the evaluation of the adaptation of the HR policies and practices in their support of the company's general strategy." Brown [2000] considers that the measurements used to evaluate the company's personnel reflect neither its value nor its performance. This is why he proposes an alternate procedure that consists of creating a human capital index based on four elements that must be carefully studied considering their relative importance to the company: the number of years in the business or field, the level in the company (by job grade or organizational chart level), the number and variety of positions or assignments held, and the performance rating, which is subjective. It is the result of an evaluation of an employee's performance, which should include an evaluation by a superior and another of.

RESEARCH OBJECTIVES

1. To assess the way of presenting HRA information in the financial statement by selected companies
2. To identify HRA methods and models (mainly the extensive use of Lev & Schwartz model) which are used to arrive at human resource value.
3. How human resource are related with the other accounting variables for the purpose of human financial reporting in selected companies.

SCOPE OF AND APPROACH TO HUMAN RESOURCE AUDITING

Every time a human resource audit is to be taken up, the **scope** is decided. The audit need not be exhaustive but may focus on a particular function of human resource management such as training and development, compensation, performance appraisal, etc. Nevertheless, the objective and approach of HRA – more or less – remains the same, regardless of scope.

In routine audits, auditors are engaged to verify the accuracy of financial information and the reasonableness of the accounting practices followed by an organization. In the course of these audits, the auditors at times provide inputs that may serve as pointers to the state of affairs with regard to financial planning and accounting procedures, inviting attention of the top management.

Essentially, human resource audits are not routine. These are in fact, studies of unusual nature. The manner of conduct can be self-directed surveys, or task force within the organization, or reserved for intervention by outside consultants.

The audit can be a onetime affair or an occurrence after a regular interval or an ongoing audit function for operating units within the organization. For example, in one company, the focus of audit was on analysing the extent to which managers and supervisors complied with established personnel policies and practices.

THE NEED AND PURPOSE OF FORMAL HUMAN RESOURCE AUDITING

Human Resource Audits give an account of the skills, abilities and limitation of its employees. The audit of non-managers is called **skills inventory** while the audit of managers is called **management inventories**. Basically, the audit is an inventory that catalogues each employees' skills and abilities which enables the planners to have an understanding of the organisation's work force. (William B. Werther, Jr. and Keith Davies).

The commonly understood audits are the established and regular accounting audits carried out in accordance with specific statutory regulations. However, in the case of human resource audits, there is no legal obligation, but enlightened managements have voluntarily accepted its usefulness depending upon the circumstances. The following circumstances may be cited as examples:

- felt concern by top management,
- compulsions of the external forces necessitating a situational audit,
- Business changing significantly influenced by international business decisions affecting human resource management, and an urge on the part of human resource management professionals towards advancement of the practices and systems.

HUMAN RESOURCE AUDITING (HRA)

The premise on which the human resource audit is based is that opportunities are being missed by staying with the current approaches. It considers the human resource process as dynamic and that it must continually be redirected and revitalised to be responsive to the ever changing needs.

HRA is a sort of feedback on the duties and working of the managers and other employees of the organisation. It is a sort of quality control of the human resource of an organisation. HRA can be conducted for a department or the whole organisation. It gives a more professional image and helps in bringing out the problem not necessarily linked with the Human Resource division of an organisation. HRA helps clarify a department's role in an organisation and brings about more uniformity in action.

Human Resource Audit is the critical analysis of the existing human resource within the organisation. To be able to do that, the audit will have to be served with the data that is quantitative, qualitative, as well as comprehensive. In other words, the success of this stage of human resource planning solely rests upon the manner in which personnel records and other information are maintained. It is from the base of the current situation that the human resource audit is to take-off in order that the future must be planned. Hence, the information needs of such a critical exercise must be met. •

AUDITING PROCESS: ESSENTIAL STEPS IN HRA

Though the process would vary from organisation to organisation, generally it involves the following steps:

Briefing and orientation: This is a preparatory meeting of key staff members to:

- discuss particular issues considered to be significant,
- chart out audit procedures, and
- develop plans and programme of audit.

Scanning material information: This involves scrutiny of all available information pertaining to the personnel, personnel handbooks and manuals, guides, appraisal forms, material on recruitment, computer capabilities and all such other information considered material.

Surveying employees: Surveying employees involves interview with key managers, functional executives, top functionaries in the organisation, and even employees' representatives, if necessary. The purpose is to pinpoint issues of concern, present strengths, anticipated needs and managerial philosophies on human resources.

Conducting interviews: What questions to ask? The direction which audit must follow is based on issues developed through the scanning of information gathered for the purpose. However, the audit efforts will get impetus if clarity is obtained as to the key factors of human resource management selected for audit and the related questions that need to be examined.

CONDUCTING A HUMAN RESOURCES AUDITING

Employment law is an ever-changing field. Your policies and procedures must change with the laws if you hope to avoid litigation. Employers are aware that one of the best ways to avoid employee lawsuits is to have a comprehensive policy manual. That's good advice, but it's not enough. You must regularly conduct an employment law / human resources audit to make sure that your policies reflect changes in employment laws.

PRELIMINARY STEPS

There are two issues that must be considered before implementing an employment law audit:

- When should the audit take place? And,

- Who should conduct the audit?

Since the Municipality already utilizes a variety of employment-related practices and procedures, the audit should be conducted as soon as possible, if you have never audited such procedures before. After the initial audit, follow-up audits should be conducted annually. When putting together an audit team, include either in-house or outside legal counsel, a representative from Human Resources, and any other individuals needed to represent a cross-section of staff functions. All team members should be warned ahead of time regarding the handling of confidential information.

GOALS OF THE AUDITING

The review process should provide answers to several important questions regarding the application of Municipality's policies. The audit's goals are to determine whether your policies are being applied consistently, whether they are the norm for your industry and geographic location, and whether they are consistently communicated to all employees. The audit should also provide insight as to which individuals are responsible for the implementation and enforcement of policies. Finally, it should distinguish between policies that are applicable to nonunion employees, and the terms and conditions of employment for employees who are represented by a labour organization.

AREAS TO AUDITING

Most lawsuits can be traced to four distinct stages of the employment relationship: hiring, employee evaluation, employee discipline or termination, and post-employment. Therefore, your self-audit should target these areas. Sample audit questions from each of these four areas appear on the following pages. In addition to these four areas, your employment audit should also target state regulations. Here are a few examples. Review all your labour contract provisions for their impact on employees with disabilities.

- Review all job specifications for hiring and placement of employees.
- Review all employment applications for illegal questions dealing with employees
- Review and prepare all current job descriptions setting forth essential job elements.
- Review current facilities to ensure accessibility for individuals with disabilities.
- Review all pre-employment tests.
- Review all company or organization policies and procedures, in line with any statutory regulations or Acts, any applicable code of good practice in line with the Labour Relations Act 66 of 95 as amended, the Basic Conditions of Employment Act and the Employment Equity Act.

EMPLOYMENT PRACTICES AUDITING

In conducting your human resources audit, an employment policy or practice includes, but is not limited to-

- Recruitment procedures, advertising and selection criteria;
- Appointments and the appointment process;
- Job classification and grading;
- Remuneration, employment benefits and terms and conditions of employment;
- Job assignments;
- The working environment and facilities;
- Training and development;
- Work performance evaluation systems;
- Promotion;
- Transfer;
- Demotion;
- Disciplinary procedures and measures other than dismissal; and also dismissal

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.

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.

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.

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