

A LITERATURE REVIEW OF PREPARATION OF HUMAN RESOURCE AUDITING AND ITS CHALLENGES

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ABSTRACT

The growth of the company lies in the effectiveness of the work performed by the organization's personnel. The report generated on tracking the company's areas of investment, expenses in providing salaries, compensation, benefits, hiring, training, and development is found with the help of auditing performed by skilled accountants or reputed accountant firms. Human capital plays a vital role in maintaining the company's lifeblood. Thus, this study helps in knowing the process of performing the audit by using an effective tool for internal audit and in determining the problems that can cause damage to the organization, and the identified problems are simultaneously addressed to prevent the organization from financial damage by performing an audit.

Keywords: Audit, Accounting, Organization

INTRODUCTION

Accounting is generally used in every area to record the financial transaction of the company for the improvement of their business whereas in HR accounting tracks and maintains the cost incurred for employees, including performance, compensation, benefits, and for training and development. HR accounting is mandatory in every organization who concentrated on the performance of the employee and looks for the area of the requirement for growth., in addition to monitoring the employee performance HR professional are also in the position to track the success of recruitment and efforts taken for retention and the initiatives taken to improve the morale of the employee and their satisfaction. Human resource accounting is the accounting method that measures the cost and value of people to the organizations. It entails calculating the expense paid by both the public and commercial sectors for hiring, training, and developing personnel and determining their economic worth. In the context of an organization, HRA functions for Several purposes, according to Likert(1971): It provides information for managerial choices about gaining, distributing, growing, and sustaining human resources and it also enables managerial staff

to effectively monitor the utilization of HR; It offers a solid and defective foundation for human asset control; And it aids in the growth of organizational principles.

HUMAN RESOURCE ACCOUNTING DEFINITIONS

Recognizing the expenses and accounting of the employees in the organization, cost spent on recruitment, selection, hiring, training, etc. (Prarthana Kot) The process of reporting the cost incurred in an organization for human resources, assigning, and budgeting, the cost of wages, salaries, and training development is the process of Human resource accounting. Human resource accounting is the study of the expenses related to recruiting, educating, compensating, and providing improvements to employees, in addition to their impact on the profitability of the company. Human resource accounting is described as "the procedure of gathering and analyzing information regarding employee resources and distributing that data to interested parties" by the American Accounting Association's Committee in 1973. Therefore, HRA not only entails measuring all expenses/investments related to hiring, placing, training, and developing employees but also includes calculating the financial worth of the workforce within an organization. Similarly, Flamholtz (1971) provided a definition of HRA. "The evaluation and disclosure of the expenses as well as worth of individuals in organizational resources" is how they define HRA. HRA committee of the American Accounting Society exclaimed that the method of collecting and evaluating the data of the employees and presenting this to knowledge intrigued individuals. Human resource management auditing is a technique for identifying and disclosing expenses in a company's human resources that are not already considered in conventional accounting practice. In essence, it's a computerized system that alerts authorities about changes in the organization's human resources over time - Woodruff. A term that includes a variety of suggestions that aim to shed light on and highlight the critical part that knowledgeable, skilled, and committed employees play in the company's acquisition process and overall resources. - Davidson, Roman L Weel.

OBJECTIVES OF HR ACCOUNTING

1. To allocate a financial value to a company's human resources
2. By measuring the expenditure of hiring, educating, and keeping people, and also the financial significance of their abilities, Expertise, and experience. It aids organizations in estimating the economic worth of their staff members. Organizations may use this information more effectively allocate resources and choose where to invest in their investments.
3. To maintain control of the expenses related to managing human resources.
4. Organizations can use cost tracking to identify areas where they can reduce costs and increase efficiencies such as recruitment costs, expenses spent on training, employee salaries, and benefits.
5. To assess the efficiency of human resource management procedures.
6. To provide cost-value detail so that appropriate leadership judgments may be made about the acquisition, allocation, development, and maintenance of personnel for the purpose to meet enterprise objectives in an economical manner.
7. To analyze human resources and determine if they are being maintained, exhausted, or valued.
8. Support the creation of administration concepts and wise decisions concerning the future by categorizing the economic effects of distinct practices.
 - Overall, it makes it easier to value personnel, record that value in the ledger of accounts, and disclose that value in the income statement.

RESEARCH GAP

This article concentrates on the process or steps carried out for conducting Human Resource Auditing. This study tracks where the quality of work lags due to financial crisis and the challenges faced to

maintain the ledger accounts of the company to make wise financial decisions and bridge the gap in the HR policy framework.

REVIEWS OF LITERATURE

A study by G. S. Batra (1996), for the framework of accountancy valuing human capital to be full, it needs to conform to a comparable monitoring system. Therefore, an independent audit of human resources must be conducted after the submission of the HRA in order to verify the veracity and equitable treatment of the manager's work performance relative to the company's overall interests.

According to Robin Roslender and Robin Fincham (2001), accounting scholars have grown more interested in evaluating and disclosing the value of knowledge, which has sparked a vibrant and in-depth discussion.

Punita Jasrotia (2002) asserts that while it has become typical for the majority of companies to display detailed data on their physical resources, such as industrial machinery and facilities, property and structures, vehicles, and workplace furnishings, there is additionally no official documentation regarding investments in people. The Indian IT sector has yet to adopt the human capital budgeting (HRA) development, which entails the assessment and disclosure of the expenses and worth of personnel as organizational resources. Even though investigation into HRA has already been done for many years, specialized HR cost-effectiveness approaches still remain in their infancy.

By using the Human Resources Assessment's evaluation of anticipated realizable worth, Flamholtz et al. (2003) discovered that an employee's engagement in an organizational advancement programme improved their worth to the company. The researchers also pointed out those HRA measurements gave top level management a different accounting approach to gauge the expense and contribution of workers to an organization.

In the opinion of Shraddha Verma and Philip Dewe (2004), additional study on valuing methodologies and modelling and the real-life applications of these is required by including the perspectives of human resource and accounting specialists in order to increase both the conceptual and actual degree of HRA.

Hai Ming Chen and Ku Jun Lin (2004) reported that today, human capital is crucial in helping many businesses create competitive advantages. Traditional accounting methods, however, classify all types of spending on human resources as expenses that are subtracted from revenues, enabling decision-makers to make incorrect assessments.

Avazzadehfath (2011) examined the potential stumbling blocks to the influence of accounting information for human resources on investment choices. Additionally, the best approach for evaluating human resources that were compatible with Iranian businesses in terms of the descriptive attributes of accounting information was investigated. It was discovered that the financial statements accounting for human resources (HRA) data releases were pertinent and had an impact on the best investment choices. The most efficient and acceptable approach for evaluating human resources in line with the state of Iranian businesses and institutions was discovered to be the original cost method.

Research by Compbell and Helleloid (2011) examined how international accounting businesses adopted IFRS in their organizational structures and HRM procedures. The research's conceptual structure served as its foundation. It was discovered that exists a requirement to participate in the discussion surrounding a potential IFRS adoption by the United States. It was claimed that if worldwide accounting regulations were implemented, it would be considerably simpler for employees to collaborate across borders and to satisfy legal demands for monitoring when the auditing process was carried out in various nations.

Badiyani (2012) discussed a brief overview and the prevalent methodologies of estimating the economic worth of personnel in the company. It has been determined that a company must view its employees as an asset. Progressive advances have been noted in the subject of human resource accounting and fresh

techniques and models were presented. Depending on their needs and nature, numerous organizations have been seen utilizing different models.

In a study on the idea of human resource accounting, Hosseini (2012) discovered that not everyone was aware of the advancement of human resources and its impact on various organizational operations and, to a greater extent, on economic and social growth. A set of competencies for applying expertise and abilities to program outcomes was discovered as part of the advancement of this investment. The characteristics incorporated in the competencies were originality, adaptability, the capacity to solve problems and form creative relationships with others, job creation, and complicated skills including understanding of different approaches to learning.

PROCESS OF HR AUDITING

Auditor Engagement: If employing internal staff members, it is preferable to officially hire people with a defined opportunity and choose nonpolitical or low-ranking individuals. In addition, orientation to auditing is required for audits conducted by internal personnel.

Collection of Information: Self-evaluation survey submission speeds up the audit procedure and enables improved planning for audits. **Access on-site:** The audit's on-site phase is its most crucial component. **Process for conducting a human resource audit:** There are many stages in the Human Resources auditing process. To provide the company with a highly positive view of the Human Resources department, each step is built onto the one preceding another (phase to phase). The overall procedure of carrying out an audit involves seven essential steps: deciding on the audit's nature and kind; developing the form; gathering the data; benchmarking the outcomes; providing comments on the results; creating operation plans; and fostering an environment of perpetual growth.

Auditing Software implementation: It is important for an auditor to handle the data for the improvement of the organization a digital tool using to identify the weaker sections of the company, inefficiency and other measure of corrective action. To perform the internal auditing efficiently there are some tools that are used wisely by the organization like safety Culture, SAP, TeamMate, Pentana by Ideagen, MetricStream, AuditBoard, Workiva, AuditBond, Ospring, Netwrix. On usage of this tools the internal audit of the company can be assessed, the effective handling of this tool process provides the attributes with accurate results that is alignment of the business, providing the awareness of risk, resource awareness about the interdepartmental relations and the capability of the employee, Adaptability. **The audit's range and methodology:** It is essential to decide precisely which regions ought to be the primary focus of the inspection to expose the required data. The team performing the audit can conduct a thorough evaluation of every one of the human resource practice sectors if the company has not previously inspected the human resources department or if there are any recent substantial organizational or regulatory changes. Furthermore, the audit must focus on that specific area for investigation of issues that are restricted to the adequacy of a certain procedure or regulation. **Creation of Audit Questionnaire:** The following phase should involve spending sufficient time creating a thorough paper that gathers data on all the official investigation's topics. To make sure the survey is thorough; a set of queries needs to be created.

Acquire the data: The real method for evaluating areas to gather information about the business and its personnel practices is included in the subsequent phase. Representatives of the auditing group will evaluate regions identified through the scope of the investigation using the audit questionnaires as a tool. **Comparison of the results:** A comparison of the outcomes of the Human resource results with the auditors should be made to derive a complete review of the audit. This contrast will show whether the inspection's findings stack up compared to those of other businesses of comparable size.

The proportion of the organization's entire workforce to human resources experts, managerial and administrative expenses, expenses per newly recruited personnel, etc. are examples of conventional information that may be locally standardized. The total number of days it takes to complete a post, the standard price of yearly benefits for employees, and absence rates are a few examples of benchmarks.

Comments on the outcome: The auditing firm must assess the information provided throughout this stage of the inspection procedure and provide the executive leadership team and the organization's human resources professionals with feedback in a series of results and suggestions. Results are often condensed into a written summary containing determined suggestions according to the potential danger level given regarding every topic. The last evaluation may be used to establish a structure to guide strategy that can assist to decide how to proceed with the challenges presented. With respect to official evaluation, it is crucial to discuss the audit's recommendations with the highest level of administration and staff in the human resources division so that people are aware of the necessary adjustments and permissions that may be quickly acquired.

Establish plans for operation: It is essential to assess the data discovered because of the inspection in this phase. The business must create measures with its recommendations broken down into three categories—high, medium, and low—to make the adjustments recommended by the audit. Conducting an inspection followed by failing to act on the findings really raises the risk of litigation.

Encourage an environment of perpetual enhancement: After the inspection, it is crucial to periodically evaluate and enhance the business's regulations, practices, and processes to ensure that the organization never stops getting better. By doing this, the firm will be sure to gain and keep its edge against rivals. It is important to continually track HR departments to make sure they remain up to date with the most recent data and have subsequent study methods included in each of them. To identify patterns in the organization associated with work concerns, it is also critical to monitor the audit's outcomes and modifications, shifts, grievances lodged, helpline issues, and personnel responses to surveys. Making decisions regarding where to spend money, time, and energy and implementing preventive actions is often made easier by identifying troublesome challenges, growing domains, or diminishing problem places.

CHALLENGES FACED IN HR AUDITING

The HR Inspection procedure nevertheless does not proceed without issues and difficulties. In order to guarantee every aspect that has to be examined is accounted for, human resources auditing is a laborious procedure that consumes time: One of the key concerns in an investigation involving human resources audit is the autonomous nature of the audit. The company or accountants that firms choose must be independent enough to carry out their duties. To ensure that the output accurately reflects the needs of your organization, businesses must collaborate with a trustworthy accounting firm. Reliability is necessary for the audit outcome. It must be the outcome of an impartial, independent assessment. After all, regardless of any errors discovered, they act as a foundation for the organization to develop. Organizations therefore shouldn't equate auditing and self-evaluate. An external to your system organization must conduct an audit.

The usage of internal audit software technology can bring high level of efficiency to the organization as well as its cost effective with reduction in time and effort used for the internal audit but in turn the most crucial factor of challenge is to provision of training of the various software or recruiting a analyst to perform the task effectively. No two businesses are alike. As a result, several approaches to auditing would be used. The organizational peculiarities of the firm must be taken into account while designing

these inspection techniques. The audit's focus additionally has to be agreed upon by all parties. The auditing process will require a lot of periods for large firms to complete, therefore there needs to be a well-planned timeline to prevent disrupting business activities. The audit firm(s) you intend to employ must be qualified to perform the auditing procedure. They must possess the understanding and expertise necessary to provide insightful suggestions based on the findings. Finding procedures that may be enhanced will be made much easier with the aid of an experienced auditor. They may also provide insightful suggestions for resolving the difficulties found. The audit of employees is laborious, as was already noted. Organizations must comprehend the importance of HR audit, though, since proper oversight of the company's workforce investment is crucial to the achievement of the business.

CONCLUSION

These days, accounting for HR is getting a lot of consideration. The economic worth of capital is not reported in the accounting record; despite the fact that employees constitute organizations is a most valuable asset. Accounting professionals argue that employees are not considered an organization's property; they can't be recognized as assets. The usage of various software tools to perform internal auditing is done to maintain good data storage, reduce the critical risk factors, and to get the work done with less effort and time. The truth is that a company's personnel resources are investments in its employees, not the employees themselves. It has been demonstrated to a certain extent that initiatives to analyze human resources in businesses have been fruitful. Determining the areas of difficulties with the help of inspection provides detailed identified problems. It is further considered for resolvment of the identified problem and the performance of the individuals working in the firm and overall company's growth can be potentially increased on regular auditing. For personnel accounting, there is still more study to be done.

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