

TOOLS AND METHODS USED IN THE STAGES OF THE HUMAN RESOURCES AUDIT PROCESS

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ABSTRACT

Carrying out the activity of an organization efficiently is the result of the correct implementation and coordination of resources in order to achieve the organizational objectives. Auditing is currently undergoing a massive transformation. While its role of providing independent services and assurance and consulting to organizations in ways that improve their operations has remained constant for decades and remains true today, how this has been accomplished has changed over time. The success of an organization is the result of proper planning and effective alignment of people, processes and technology. This article presents an overview of the necessary steps and the tools and methods used in carrying out an effective audit process.

KEYWORDS : *audit evidence, audit methodology, audit steps, audit tools, sampling.*

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1. INTRODUCTION

Economic, financial and technological changes, the globalization and increase of the competition are the challenges which organizations must learn to manage today. More than ever, companies must implement new tools in order to achieve a level of performance that will allow them to "survive" in an increasing and demanding environment.

The old concepts based on the technological ensemble or the systematic reduction of the labor force have shown their limits over time. C.H. Besseyre des Horts (1988) qualifies the human resource as "the only resource that differentiates the successful organization from the non -performing one. Anything else can be bought, learned or copied."

Since the establishment of the Institute of Internal Auditors (I.I.A.) in 1941, the profession has evolved to adapt its presence, purpose and approach to changes occurring in the fields of management and organizational behavior. Since the 1990s, internal audit has begun a transformation process that brings it more in line with the true needs of the organizations it serves and related stakeholders. Today, internal audit strikes a healthier balance between operational, reporting, compliance, information technology (IT), fraud and strategic topics. It now looks beyond the immediate fiscal year and looks more closely at long-term trends and future implications of current dynamics. An HR audit is a tool that helps a company determine that an HR department is performing as it should be and covering everything it is authorized to cover.

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2. TOOLS AND METHODS USED IN THE STAGES OF THE HUMAN RESOURCES AUDIT PROCESS

2.1 Audit Process

The term "audit" comes from the Latin verb "audire", which means, "to hear". Audit is as old as accounting and there are signs of its existence in all ancient cultures, such as Mesopotamia, Greece, Egypt, Roman Empire and India. Public responsibility represents one of the foundation of democracy. This has been recognized since the fourth century BC, when in Athens there were well-established procedures for keeping public officials liable for their actions and constant inquiries regarding their ability to lead. Recently, auditing has begun to include non-financial fields, such as safety, security, information system and environmental concerns. (Hay, 2014)

According to ISSAI, there are 3 basic types of audit: financial audit, compliance audit and performance audit.

To carry out any audit, a series of steps must be completed (Dille, 1994):

- Step 1 – *Preliminary planning* – Includes identifying a problem, identifying the audit team personnel, meeting the team, identifying the audit requirements and the type of audit and contacting the auditee
- Step 2 – *Study* – Includes focusing on the objectives, risk analysis and internal control evaluation, refining the objectives, developing the survey plan, coordinating with other auditors, reviewing and preliminary analysis, meeting the team, the "Go/No-Go" stage and developing the program of audit, with the identification of possible audit tracks.
- Step 3 – *Data collection*
- Step 4 – *Data analysis*
- Step 5 – *The audit report* – Includes the team meeting, drafting the preliminary report, independent review of the report, processing the final report.
- Step 6 – *Post-audit evaluation*

In the stage of preliminary planning, while assembling the team, the general auditing principles must be taken into account. The fundamental principles that the auditor must follow according to the IESBA Code are:

1. *Integrity* – The integrity of auditors lays the foundation for trust in their reasoning.
2. *Objectivity* – Auditors demonstrate the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Auditors make a balanced assessment of all relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
3. *Professional competence and due care* – Auditors apply the necessary knowledge, skills and experience in the provision of audit services.
4. *Confidentiality* – Auditors respect the value and ownership of information they receive and do not disclose information without proper approval or authority, unless there is a legal or professional obligation to do so.
5. *Professional conduct*. (Institute of Internal Auditors – I.I.A.)

In the case of an audit mission, the auditor's independence from the audited entity is considered to be in the public interest and is therefore provided for by the IESBA (International Ethics Standards Board for Accountants) Code. The IESBA Code describes independence as a notion that encompasses both independence in thought and perceived independence. The auditor's

independence from the entity protects the auditor's ability to form an audit opinion without being affected by influences that could compromise that opinion. Independence increases the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional skepticism. (IESBA, 2020)

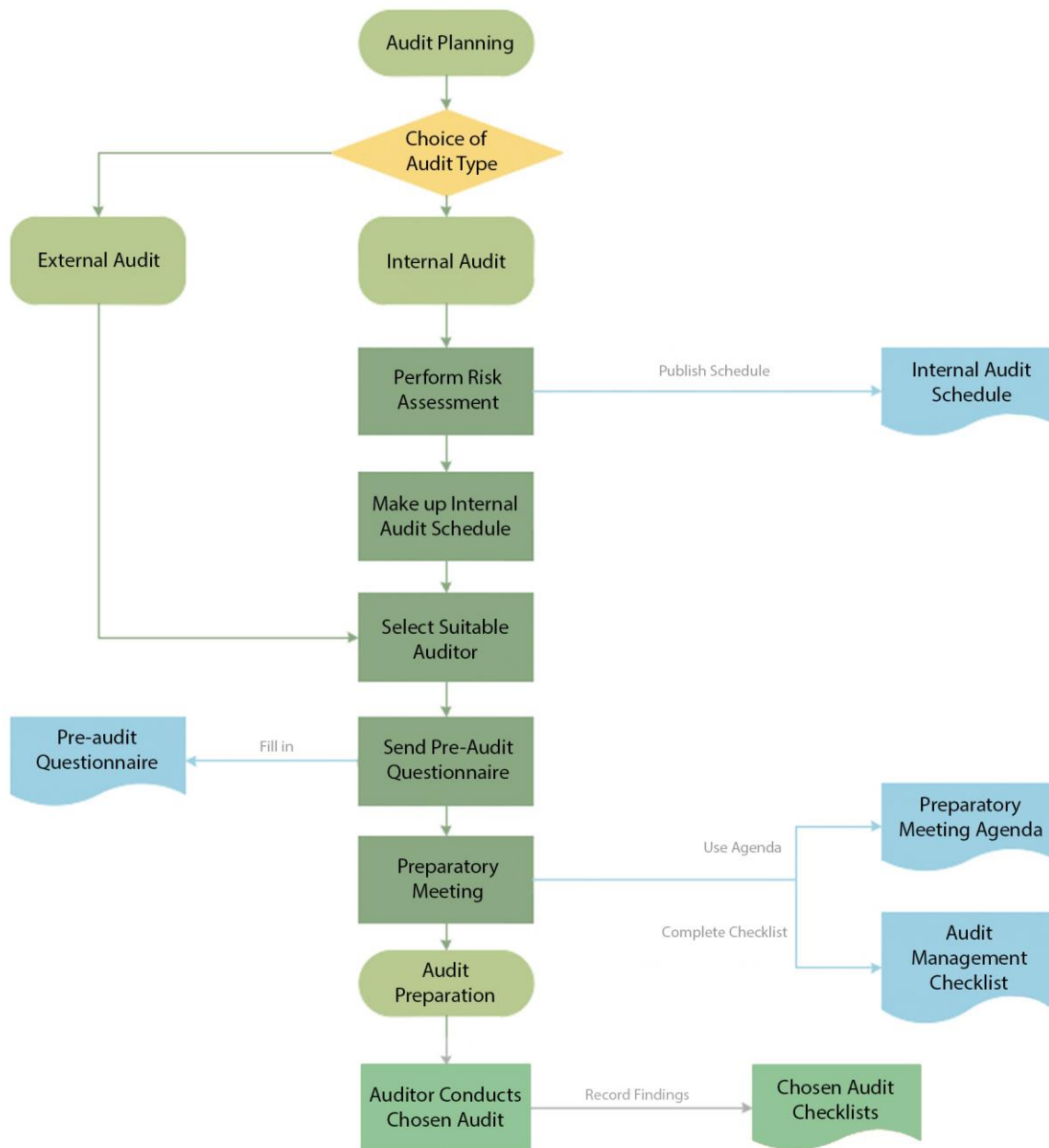


Figure 1. Audit planning process flowchart

Source: adapted from conceptdraw.com

In the data collection stage, a series of *audit instruments* can be used, which represent the technique or method used by the expert along the way to formulate a qualified opinion on the object of the investigation, in this case the human resources.

The audit tools are varied and can be classified, according to Marin (2011), in:

- General research tools: the interview, the questionnaire, the opinion investigation, the instant observation, the work day, the inspection, the test, the matrix of the discoveries, the consultation of the archives, the consultation of the databases.
- Managerial tools: diagnosis, SWOT, Electre, Matrix, Delphi, ABC methods, etc.



Figure 2. SWOT Method

Source: adapted from Pickton & Wright (1998)

- Specialized tools in investigating economic and social phenomena:
 - research of the balance sheet (rarely used in the human resources audit);
 - verification of the process of elaboration and substantiation of the budget;
 - determining the correlation coefficient;
 - determining the regression coefficient;
 - determining the specific indicators (regarding the fluctuation of the labor, the mobility by socio-professional categories, the employment and dismissal, the rotation of the positions, the advancement, etc.);
 - inventory.
- Specific potential evaluation tools:
 - Biographical methods: CV, biographical invention, Hough inventory (Accomplishment Record);
 - Qualitative methods: inspirational meetings, equality evaluation, guidance meeting, situational meeting;
 - Quantitative methods: aptitude tests, personality tests;
 - synthetic methods (combinations of qualitative and quantitative methods).

• Other tools:

Sociogram, sampling, scaling or comparison on scale, matrix of discoveries, extrapolation, scenarios, tests taken from the methodology of other sciences, etc.

The human sciences mainly use five fundamental methods of investigating the empirical universe: the experiment, observation (proper), the analysis of the documents, the interview and the investigation, the last four being variants of the observation, but which, due to the big differences between them, can be considered as self-standing methods. The collection of qualitative information is done with the help of instant observation methods, interview, opinion investigation, inspection, test, archives and databases, photography, sampling.

Instant observation requires the training of auditors who will make direct observations on the different processes, the behavior of management or the personnel of an entity, etc. while following a specific process or procedure and the careful examination of human behaviors and attitudes within the institution. It is a time consuming method since it is possible that not all the necessary conditions for research will be met at the desired time. As a method of data collection, observation has limitations, but produces precise results.



Figure 3. DELPHI Method
 Source: adapted from Davidson (2014)

The *interview* is a direct method of investigation consisting in the interview of the specially selected subjects in order to obtain information. Interviewing has its limits because participants cannot provide entirely honest or complete answers, depending on the level of confidentiality of the questions.

The *opinion survey* represents a complex tool that includes a set of interrogative approaches regarding the collection / verification / completion of information. Especially aims to gather the opinions that those involved formulate.

Sampling consists in determining a representative subpopulation on which the audit will be applied, the choice of investigated individuals having to comply with a series of statistical rules in order to be able to transfer, with a reasonable error margin and with an acceptable risk, the findings obtained on the sample of individuals at the population targeted by research. It can be statistical or non-statistical.

Testing is currently used in the human resources audit to validate the obtained test material and focus on its verification to obtain assurances that the information used to support the findings is complete, accurate and in accordance with reality.

Consulting archives and / or databases is a possible option along with other specialized approaches in the general audit.

The collection of quantitative information is achieved with the help of *questionnaires* (a set of written questions, formulated as coherent and unitary, which the auditor will ask the audited entity in order to obtain eloquent answers to evaluate the objectives pursued) and involves distributing them.

There are three types of questionnaires:

1. the standardized questionnaire for several organizations;
2. the standardized monoorganization questionnaire;
3. The adapted questionnaire.

All mentioned tools serve as means to help internal auditors identify the main cause of problems. RCA (root cause analysis) is a concept often mentioned by auditors, and for some, it is seen as a difficult goal. It is perceived as a result of high value, because non-identification of the main cause of a problem has consequences for the auditor and the analyzed process. If the recommendation to correct a problem addresses only the symptoms, rather than the source of the problem, the problem reappears.

2.2 Types of audit evidence

During the audit, auditors must base their work, conclusions and opinions on facts or information that support their opinions and which can be used to convince others that the practices and conditions are as mentioned. In other words, auditors gather evidence to support their work and convince others whether the conditions are satisfactory or not. There are different types of audit evidence that the auditors gather and evaluate during their analysis.

The evidence can be defined as the data and information that the auditors obtain during an audit to document the findings and to support opinions and conclusions. Much of the work of the audit team is to obtain, examine and evaluate the evidence. The validity of the evidence for audit purposes is established according to the nature of the evidence and the judgment of the audit team. In this sense, the audit samples differ from the legal evidence that are circumscribed by rigid rules. Evidence can be classified as follows: (Murdok, 2022)

1. *Analytical* – are obtained by analyzing or verifying information.

Analytical evidence can consist of:

- Calculations (whatever can be reduced to numbers)
- Comparisons with established standards, previous operations, other operations, transactions or performances, laws or regulations, legal decisions;
- Evaluations of physical, documentary or testimony information.

2. *Testimonies* – answers to questions. Important statements for the audit should be corroborated, when possible, with additional evidence. Moreover, the evidence obtained by means of testimony must be evaluated from the point of view of the person's objectivity or the possibility that they do not have access to all information.

3. *Documentation* – information created

Types of documents:

- internal: invoices issued, notes, reports (for example, production, inventory, puncture sheets), policy statements, procedures documentation;

- external: primary invoices, bank statements, confirmation statements, insurance certificates, credit reports, financial statements;
- combined: contracts.

4. *Physical* – are obtained by the direct inspection or observation of the activities of people, properties or events. Such evidence can be documented in the form of memoirs that summarize the inspected or observed aspects, photos, diagrams, maps or other types of physical evidence.

Work documents should contain details of the evidence and reveal how they were obtained. The evidence must be presented by following the rules of relevance, competence and sufficiency.

Evaluation of the information is done with the help of the *evaluation scales* presented as per the auditor's option. Numerical assessments for the answers received within a questionnaire can be used.

The *sociogram* is the instrument that highlights the intensity of the affective relations existing at a given time within a group of people.

Scaling is a technique that can substantiate a human appreciation that refers to various factors such as people, products, phenomena. In the human resources audit the main scales used are Thurstone scale, Lickert scale and Guttman scale. Other types of scales used include graphic evaluation scales and scales.

2.3 Sampling

For many controls tests, the auditor will have to determine the size of the sample to use for testing. Sampling, according to SAS no.39 represents the application of an audit procedure on less than 100% of the elements in a population and then forming an opinion about the entire population. (A.I.C.P.A., 2014).

Audit sampling can be judgement-based or statistical.

- Judgment-based sampling refers to establishing a proportion of elements based on the auditor's reasoning without using statistical procedures.
- The size of the sample in the statistical sampling is derived using the laws of probability.

In some cases, the most practical sampling is the selection of each X element in a list. (Kothari, 2004).

When performing the substantive tests of the details, the factors that would be considered when determining the sample size include the risk of significant distortion and the degree of insurance obtained from other procedures. When performing controls tests, the extent of the evidence needed to convince the auditor if the control is effective depends on the risk associated with the control, that is, the risk that the respective control will not be effective and, if it is not effective, the risk that a significant distortion may occur. As the risk associated with the tested control increases, so does the quantity of evidence that the auditor should obtain.

Sampling is the application of an audit procedure to less than 100% of the elements of a transaction class for the purpose of evaluating some characteristics of all the elements in the transaction class. There is always the risk that any conclusions drawn based on a sample will not be correct, unless the auditors examine 100% from a population. There is uncertainty about the audit results because the sampling results are based only on a small part of the population. The smaller the sample, the higher uncertainty; the higher the sample, the lower the uncertainty. The risk of sampling is the risk that the conclusion of the auditor based on a sample will be different from the conclusion that would be reached if the audit procedure was applied in the same way to the entire population. By using statistical sampling, the auditor can control and measure the risk that the sample will not be

representative for the population. The risk of sampling can be measured for statistical samples, but not for non-statistical sampling approaches. (Johnstone, 2014).

Until 1990, sampling was generally carried out in block, meaning that the policy was to take 100% of three representative months per year, selected to be the high, low and average months. But since 1990, other systematic or random sampling techniques have been adopted. Sampling is done because it is more effective than the test of 100% of the samples. By definition, any procedure that does not examine 100% of the articles in question is a sampling procedure.

There are many audit procedures that do not involve sampling, for example:

Question and observation:

- o Reviewing records for the accounting method and other information;
- o Respecting the accounting procedures;
- o Discussing the methods of accounting and reporting with the taxpayer;
- o Scan documents for possible problems.

Analytical review procedures:

- o Comparing records, reports and other information;
- o Recalculating or estimating amounts;
- o Reviewing trends in reporting;
- o Comparison of similar business.

2.4 Testing of evidence

Work documents should contain details of the evidence and reveal how they were obtained. The evidence must be presented by following the rules of relevance, competence and sufficiency. (Murdok, 2022)

A. Relevance

Relevance refers to the relationship between evidence and its use. The information used to prove or deny a problem is relevant if they have a logical and reasonable relationship with that problem. The information that is irrelevant should not be included neither as evidence nor included in the working documents. However, this requirement does not exclude adequate notes or observations in relation to other potential problems. The questions that test the relevance of the evidence include the following:

- Is the evidence related to factors such as status, criteria, effect or cause?
- Does the collected evidence make for a more credible finding, conclusion or recommendation?

B. Competence

Competence refers to whether evidence is reliable and the best possible by reasonable methods. As the analysis is planned and performed, the credibility and soundness of the evidence should be continuously evaluated. In collecting the foundation for working documents, audit teams should achieve "the best" possible evidence in relation to the goals of the review. The following presumptions are useful to judge the competence of the sample.

- Evidence obtained from an independent source is more reliable than that provided by the audited organization.
- Evidence developed in an internal control system is more reliable than that obtained when such a control is weak, unsatisfactory or non-existent.
- Evidence obtained by physical examination, observation, calculation and inspection is more reliable than the samples obtained indirectly.
- Original documents are more reliable than copies.
- Testimony obtained in conditions in which people can speak freely is more credible than testimony under compromising conditions (for example, if people can be intimidated).

C. Sufficiency

Sufficiency is the presence of sufficient concrete and convincing evidence to support the findings, conclusions and recommendations of the audit team. Determining the sufficient character of the evidence requires professional judgment. Sometimes two sources of evidence can conflict. To determine which is more accurate, the evidence must be judged impartially for significance and completeness. When appropriate, statistical methods should be used to establish sufficiency. An insufficient amount of evidence collected represents one of the main causes of audit deficiencies, representing ~ 80%. (Beasley, 2001)

2.5 Professional skepticism

Although the auditors are encouraged to use a conversational and participatory approach when they carry out their assessments, they must also remember that they have the task of checking the integrity of the information gathered and ensuring that their conclusions are solid. When they obtain and use evidence, auditors should show healthy professional skepticism and check the quality of the information gathered and used. Auditors should be sufficiently critical of the data received and reasonably verify whether the information is not manipulated or modified in ways that can compromise its quality. When there are doubts, the auditor must determine if these conditions make the test elements too unsafe. Similarly, auditors should approach interviews and meetings with sufficient skepticism, always trying to check the information provided, corroborate the testimony received and observing behavioral changes that could indicate deception. Corroboration may involve obtaining supporting documents to justify the statements made or find others to verify the accuracy of the statements received.

3. CONCLUSIONS

Audit is an essential element in the assistance of management in a prosperous organization. As financial and economic pressures are becoming more apparent on the management of organizations, it is more important than ever for auditors to develop solid audit techniques for detecting fraud and errors, in order to establish correct and complete conclusions and recommendations. During the audit, auditors must base their work, conclusions and opinions on facts or information that support their beliefs and which can be used to convince others. The tools necessary to carry out an audit are varied, and the choice of the most suitable for the activity is the prerogative of the auditor, based on their professional experience and judgment.

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