

Human Resources Audit

XYZ Group

Commercial in Confidence V1 Nov 2012



About iHR

iHR Australia is Australia's leading provider of integrated human resources solutions. Since 1998 we have worked assisting organisations to create and manage productive, rewarding and lawful workplace cultures.

iHR Australia has a team of experienced consultants across Australia, South East Asia and New Zealand and provides services to professional organisations, representing some of the regions' highest profile private, not-for-profit and government brands.

What we do

iHR Australia offers a comprehensive suite of services encompassing:

- Workplace Investigations
- Workplace Relations / Industrial Relations
- Employer Advisory and Consulting
- Training
- Online Training

How we work

iHR is able to provide your organisation with flexible access to our experts in the following ways:

- Short-term
- On demand
- Consulting
- Projects
- Onsite partnering
- Outsourcing

The iHR approach

iHR seeks to understand your organisation, its drivers, its culture and its objectives. We tailor our solutions and services according to your specific needs, particular environment and operating framework. We ensure that our deliverables are sustainable and can be self-driven and managed.

iHR Australia is not a part of, or affiliated with, an employer association or government agency. We guarantee that our advisors and consultants operate with the highest level of integrity and ethics to provide independent advice in the best interests of your organisation.

We encourage all clients to visit our social media sites and leave feedback about your experience. Please follow the links at www.iHRAustralia.com.



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Disclaimer:

This audit report has been produced in good faith with information provided by the organisation. iHR accepts no liability for information or advice contained in this document that may be deemed incorrect because of that information provided during and for the audit.

Section 1: Executive Summary

Approach

The audit methodology involved unstructured general discussion and structured survey questioning of a sample including individuals from staff and management and a review of the human resource policies provided by XYZ Company.

Items Assessed

The Audit report provides an assessment of the following:

1. Potential Legal Liability for Directors and Managers relative to the HR function
2. Management Capacity
3. Maturity Level of the HR Functions

Results

Area	Target Rating	Result
Potential Legal Liability	95% +	46%
Management Capacity	85% +	49%
Maturity Level of the HR Functions	Level 3 or above	Level 1

Key Findings

Generally, the Human Resources function at XYZ Company requires significant attention and is at a low level of maturity. The HR function focuses on fulfilling mandatory HR requirements, and does not have a documented HR strategy or plan. Of most concern is that areas of legislative compliance have been neglected, exposing the organisation and its directors to a liability risk. The knowledge of staff and management in relation to their legal responsibilities is insufficient and requires immediate attention.

Key Recommendations

The initial requirement of XYZ Company should be the creation of a human resource plan addressing the recommendation in this report. Consideration should be made for a dedicated resource to ensure that the plan is developed and implemented.

Our recommended actions are listed at the end of each section within this report.

Section 2: Introduction

The workplace is increasingly volatile and competitive. Changes occur at a rapid rate. Businesses outgrow their original structure, expand and new employees succeed original owners. Development, implementation and maintenance of procedures and policies are an essential tool in a company's armour of protection. 'People' are the single most important asset to any company. They can ensure the delivery of high quality service – or not. Planning, time and resources must be allocated to develop and implement good human resource practices. This Audit report provided an overview of the organisation performance against key HR functions and offers recommendations for the organisation's HR function to improve its level of HR maturity.

HR Function

The HR function within an organisation is involved in the following activities:

- Legislative Compliance
- Benefits and Compensation
- Training and Staff Development
- Recruitment
- Strategy
- Employee Engagement
- Performance Management

Stages of HR function maturity

The benefit an organisation receives from the HR function typically depends on the maturity level of the HR function. At each successive level of maturity, the HR function improves their business alignment, talent management capabilities, organisational efficiencies and overall business impact. In 2011, Bersin & Associates released a model that defines four levels of HR function maturity.

Level 1 - Compliance-driven HR Services

The HR function focuses on fulfilling mandatory HR requirements, and does not have a documented HR strategy. Many opportunities for improvement.

Level 2 - Fundamental HR Services

The HR function has a strategy and consistent, efficient services. Focus on improving processes and creating HR depth.

Level 3 - Strategic HR Department

The HR function likely works in partnership with the business to achieve aligned goals. Focus on whole business integration of HR systems, processes, communication.

Level 4 - Business-integrated HR

The HR function is likely to be high performing, mature and integrated with business strategy. Focus on continuous improvement.

* Source: Bersin & Associates Research Bulletin, Vol 6, Issue 37, 2011

Section 3: Process

iHR has undertaken an audit of your Human Resource policies, procedures and practices to provide an assessment of your risk factors and feedback on Human Resources Management (HRM) effectiveness. Particular emphasis is placed on potential legal exposure and cost. It is our aim to provide you with advice about appropriate preventative measures to decrease your risk and cost and offer ideas for improving the organisation's general approach to human resources.

The audit methodology involved unstructured general discussion and structured survey questioning of a sample, including individuals from staff and management and a review of the human resource policies provided by XYZ Company.

The report is an assessment of:

1. Potential Legal Liability for Directors and Managers relative to Employee Issues

Financial cost arising from failure of company employees or contractors to comply with legislative requirements governing the working environment.

2. Management Capacity

The ability of management to anticipate and avoid risks within the workplace as well as apply effective practice in the management of employees. Management capacity has a strong relationship with being able to attain a productive and “healthy” workplace culture.

3. Maturity Level of the HR Function

At each successive level of maturity, the HR function improves their business alignment, talent management capabilities, organisational efficiencies and overall business impact.

The audit report consists of observations and recommendations on the following HR activities:

1. Legislative Compliance
2. Strategy
3. Performance Management
4. Benefits and Compensation
5. Training and Staff Development
6. Recruitment
7. Employee Engagement

Section 4: Legislative Compliance

Introduction

This section of the report deals, in the main, with those policy areas in which Employers (and Directors) are most at risk in terms of pecuniary fines or other penalties, adverse publicity and / or reduced performance.

Whilst the analysis is directed to those areas, we also comment on other policy areas that we see as requiring further attention in the overall interests of your business.

The company does not appear to have developed policies and procedures and thereby exposes itself, its Directors and Managers to serious risk of penalty. This report deals with each of the major areas of risk and also canvasses other areas where experience shows us policies ought to be prescribed.

Equal Employment Opportunity

There is a raft of Federal and State legislation dealing with discrimination in employment identifying some 17 separate prohibited grounds, all of which need to be identified and understood. Significant penalties can be imposed on companies that breach discrimination law, irrespective of intent.

In addition this is an area of possible vicarious liability ie. the employer is responsible for actions of employees.

It is therefore essential that XYZ Company develop policy which:

- identifies all of the prohibited attributes and all current relevant legislation
- explains what constitutes discrimination and harassment
- advises process for making complaints
- warns of the consequences for breach

Harassment and intimidation is unlawful on the basis of sex, race and disability and we strongly advise developing and including policy in this area. In certain circumstances the reverse onus applies ie. the company will be presumed to have breached its obligations.

It is critical to ensure that EEO principles are applied at all stages of employment from selection to termination and at all levels so procedures and practices must be detailed. Clear, non-threatening procedures for dealing with complaints need to be established and employees need to know that the Company will not tolerate them being intimidated or disadvantaged in any way for having made a complaint. Employees should also be advised of their rights to pursue complaints outside of the Company.

In the audit process, managers and employees alike expressed some disquiet in applying this policy. That concern will no doubt be allayed by the Company appointing an EEO officer, who should have some seniority within the Company and be seen as empathetic to employees and an Investigations Officer, who should be seen as independent of Management.

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However the disquiet also indicates a need for both education and training in the application of the principles to specific work situations.

iHR recommends:

1. That policy be developed to encompass the matters raised in this report
2. The appointment of an Equal Opportunity Officer and an Investigations Officer
3. That a training program be developed and implemented for managers and staff regarding their EEO responsibilities

Termination

The Workplace Relations Act gives most employees a right to pursue claims for unlawful or unfair dismissal resulting in possible reinstatement or compensation.

Whilst your award and EBA may deal with the subject, mere compliance with them is not enough to defeat a claim. The Commission is concerned with the process of termination to ensure there has been a “fair go all round”. Satisfying this test involves establishing that the employee was aware of his obligations. Accordingly, any successful termination process begins at first engagement (and as we will discuss subsequently) involves proper selection, induction, performance management and disciplinary procedures.

Non-award staff have rights of access too and their contracts of employment do not override the requirements of the Act with respect to notice etc.

Accordingly, policy and procedures need to be developed in this area encompassing:

- A commitment to termination as the last resort
- A commitment to natural justice even in the case of summary dismissal
- Adequate notice
- Setting authority levels for the exercise of dismissal powers
- Recognition of additional rights in the case of redundancy.

This also provides an opportunity to refine the types of behaviour that would constitute serious misconduct, justifying instant dismissal. This is an area in which staff indicated a lower level of knowledge. This may point to the need for a greater emphasis in the induction process too.

Our survey showed that Managers were not confident of their ability to terminate staff based on non-performance and employees have a poor knowledge of what constitutes grounds for instant dismissal. Training is proposed in these areas.

iHR recommends:

1. The development of policy with respect to issues identified, and
 2. Attention be given to training in this area
-

Section 5: Strategy

Introduction

This section of the report deals, in the main, with the existence and application of practices considered to be effective in ensuring a productive and well-managed organisation where the HR function supports the overall business strategy. The results of this section reflect the management capacity of the organisation as it relates to the HR function, along with its ability to prevent and manage employee issues with legal ramifications. This section also comments on the maturity level of the HR function.

HR Plan

The organisation's HR function focuses on fulfilling mandatory HR requirements and does not have a documented plan or strategy exists. As noted elsewhere in this report, some mandatory requirements are not being adequately fulfilled thereby exposing the organisation, its Directors and Managers to serious risk of penalty.

iHR recommends:

1. The development of a Human Resources plan addressing the recommendations outlined in this report
 2. Consideration of the appointment of a Human Resources Manager to oversee the creation and implementation of the Human Resources plan
-

Section 6: Performance Management

We note that the Company has utilised a staff appraisal system, but suggest that it requires modification to enhance its value to both the Company and employees.

Properly understood and applied, a performance management system addresses the full range of an employee's conduct rather than whether or not he or she has met some productivity measure.

It should be seen and used as a means of affirming positive aspects of the employee's contribution to the enterprise and identifying and correcting negative aspects. In this latter respect, it supports disciplinary and termination processes.

It should also involve goal setting for the development of the employee.

Employees expressed uncertainty as to how the Company would handle non-performance and indicated little attention to feedback. We note this was a recurrent theme in your own climate survey.

Policy and procedures need to be developed to govern the use of the system for counselling purposes.

It can also be a helpful indicator of persons suffering stress – an increasing reason for claims for compensation.

iHR recommends:

1. The development of a performance management policy.
 2. 2. Communication of the policy to all managers and staff
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Section 7: Training and Staff Development

At this stage, XYZ Company appears to have no formal approach to staff development issues. Whatever staff development that has occurred appears to have been somewhat ad-hoc. A number of respondents emphasised this as an issue, suggesting that they felt their skills and knowledge requirements were not always recognised by the company.

We strongly advise that the best investment in training be achieved through a planned approach, which must prioritise and schedule the training intervention. A simple annual training plan should be developed, along with individual training plans.

There are three training areas in which the organisation must invest. These are:

1. **Inherent requirements** eg. Requirements that are essential to undertaking the key aspects of the position.
3. **Group requirements** eg. Requirements such as management compliance and safety issues that a group of employees need to know.
4. **Professional development.** This will be based on succession planning and raising individual potential. A formal succession plan will ensure that a program is implemented to bring higher achievers through the organisation.

As already discussed, XYZ Company needs to further develop the induction process, which is important from both a legal and cultural perspective. One school of thought is that 80% of an employee's perception of the company is formed in the first 8 hours of employment. This emphasises the importance of a succinct and well thought out induction process.

iHR recommends:

1. An annual training plan (as part of the human resource plan), as well as individual development plans (as part of performance appraisal) should be developed, investing in inherent requirements, group requirements and professional development.
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Section 8: Recruitment

Introduction

This section of the report deals with matters relating to the recruitment of staff, including:

- Employment Arrangements
- Induction Process

Employment Arrangements

We have sighted letters of appointment that appear to be the only written evidence of employment contracts. In our view, they require overhaul.

- The terms should include provisions in relation to authority to deduct for overpayments and for the recognition and acceptance of Company policies.
- In the absence of policy statements, the letters should specify the conditions for taking leave – annual, long service, sick etc
- It should be understood that the current construction requires positive action by the Company if probationary employment is not to automatically convert to permanent employment
- The periods of notice specified for termination may not be effective as greater periods may be required under the Workplace Relations Act – ie the letters of appointment may be misleading
- Grounds for instant dismissal should be identified
- A Restrictive covenant should be included for certain employees

We have not sighted forms of application for employment. We recommend their use to ensure inadvertent discrimination is not practised and to secure the applicant's confirmation of his or her capacity to perform the requirements of the position.

iHR recommends:

1. Amending the letters of appointment as above.
2. The adoption of application for employment forms appropriate to the purpose.

Induction Process

This is the first step towards ensuring an employee is aware of his/her obligations as well as his/her rights and forms part of the chain of evidence of due process in the case of any contested dismissal. For that reason, it is recommended that an induction policy be developed.

We recommend the inclusion of a checklist of steps in the induction process as a means of providing consistency. We note there is an induction form used for some employees currently, but it is deficient in a number of respects and ought to be used universally.

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It should encompass such matters as:

- Explaining the employee's position description, which should identify accountabilities, not just tasks
- Explaining the performance review mechanism
- Presenting an employee handbook explaining Company policy and procedures and securing an acknowledgment of receipt
- Identifying the Company's code of conduct, including examples of actions which may give rise to summary dismissal

iHR recommends:

1. The development of policy and procedure in line with the above
 2. The creation of an induction checklist.
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Section 9: Employee Engagement

Our survey indicates morale below target levels, however this is understandable considering the uncertain work environment at XYZ Company. What is a critical issue is that the sample of managers did not indicate confidence in dealing with morale issues. Therefore, it will be a long-term challenge for the organisation to build morale. This will most likely require a mixed strategy combining reward and recognition and feedback programs.

In contrast to the 'perceived morale' result, an unusually high percentage of staff indicated a positive view of the Company as an employer. This was consistent with a high percentage of staff also perceiving that most of management was approachable. It should be noted that sometimes such results can indicate an unwillingness to express criticism of the company. The interviewers indicated that this may have been the case with a couple of respondents.

From these indicators, the negative perceptions of morale most likely extend from uncertainty rather than any direct hostility toward management. However, anecdotal evidence provided by a number of respondents at the floor level indicates a certain degree of tension between a particular supervisor and some reporting staff. There appears to be issues related to the leadership and communication style of this individual and we suggest there is a need for intervention. Another point of note was that a number of respondents indicated that they believed that while senior management was approachable there was not always follow through on matters brought to their attention.

Overall there appears to be a strong need for a human resource plan and a coordinated approach to developing more structured channels of communication, leadership skills and skills/knowledge development framework for each individual. The result of this is very likely to be greater productivity and a staff perception that XYZ Company is a committed employer.

iHR recommends:

1. Human Resource and development plan
 2. More structured communication channels between management and staff
 3. More structured approach to staff development including individual development plans linked to a simple appraisal system
 4. Regular staff surveying to monitor morale
 5. Leadership training or mentoring for key leaders in organisation
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Section 10: Summary of Recommendations

The table below summaries the recommendations from each section of this report.

Legislative Compliance

1. The development of policy with respect to issues identified, and
 2. Attention be given to training in this area
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Strategy

3. The development of a Human Resources plan addressing the recommendations outlined in this report
 4. Consideration of the appointment of a Human Resources manager to oversee the creation and implementation of the Human Resources plan
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Performance Management

5. The development of a performance management policy.
 6. Communication of the policy to all managers and staff.
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Training and Staff Development

7. An annual training plan (as part of the human resource plan) as well as individual development plans (as part of performance appraisal) should be developed, investing in inherent requirements, group requirements and professional development.
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Recruitment

8. Amending the letters of appointment.
 9. The adoption of application forms for employment appropriate to the purpose.
 10. The development of policy and procedure for inductions
 11. The creation of an induction checklist.
-

Employee Engagement

12. Creation of a Human Resource and development plan
 13. More structured communication channels between management and staff
 14. More structured approach to staff development including individual development plans linked to a simple appraisal system
 15. Regular staff surveying to monitor morale
 16. Leadership training or mentoring for key leaders in organisation
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