

## The Importance of Internal Audit in The Effective Management of Human Resources: The Case of ENAGEO

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### Abstract:

Given the strategic importance of the human resources function, managers use internal auditing as a tool to help a company or organization deal with human or social problems.

In order to understand the importance of the internal audit in the efficient management of human resources, we carried out a mission of internal audit of human resources within the company ENAGEO, subsidiary of the oil group SONATRACH.

This case study allowed us to confirm the positive contribution of internal audit to the improvement and efficiency of human resources management.

**Keywords:** Human Resources Management; Internal Audit; efficiency.

**JEL Classification Codes:** M12, M42, M50, M51, M54.

ملخص:

نظراً للأهمية الاستراتيجية لوظيفة الموارد البشرية، يستخدم المسؤولون التنفيذيون التدقيق الداخلي كأداة في الشركة أو المؤسسة للسيطرة على المشاكل البشرية أو الاجتماعية.

من أجل فهم أهمية التدقيق الداخلي في الإدارة الفعالة للموارد البشرية، قمنا بتنفيذ عملية تدقيق داخلي للموارد البشرية لشركة الوطنية للجيوفيزياء، فرع للمجمع البترولي سوناطراك.

أكدت دراسة الحالة هذه المساهمة الإيجابية للتدقيق الداخلي في تحسين وكفاءة إدارة الموارد البشرية.

كلمات مفتاحية: ك.م. ك.م. ك.م. ك.م. ك.م.

تصنيفات JEL: M12, M42, M50, M51, M54

### Résumé:

Etant donné l'importance stratégique de la fonction des ressources humaines, les dirigeants font recours à l'audit interne comme un outil permettant à une entreprise ou à une organisation de maîtriser les problèmes humains ou sociaux.

Afin de comprendre l'importance de l'audit interne dans la gestion efficace des ressources humaines, nous avons réalisé une mission d'audit interne des ressources humaines au sein de l'entreprise ENAGEO filiale du groupe pétrolier SONATRACH.

Cette étude de cas a permis de confirmer la contribution positive de l'audit interne à l'amélioration et l'efficacité de la gestion des ressources humaines.

**Mots clés :** Gestion des Ressources Humaines, Audit interne, efficacité.

**Codes de classification de JEL:** M12, M42, M50, M51, M54.

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## **1. Introduction**

The stakes of human resources management are very important. Indeed, decisions concerning human resources management can jeopardize the life of the company.

As a result, managers are looking for a specific tool that will allow them to identify the weaknesses and strengths of this function in order to improve its performance and ensure its survival. This tool is none other than the internal audit.

The human resources audit is a tool that enables the company to control human or social problems. Its mission is to study and analyze human resources management in order to identify all risk factors and to deduce recommendations aimed at reducing them in order to improve the proper functioning and efficiency of human resources management.

The objective of our research is to demonstrate the importance of auditing in the effective management of human resources through a case study. Thus our main problem is formulated as follows

"Does internal audit help to improve human resources management?"

To answer this question, we will first present the theoretical concepts of human resources audit and then carry out a human resources audit within the ENAGEO company, a subsidiary of the oil group SONATRACH.

## **2. The management of human resources**

Human resources (HR) are considered the most important but also the most difficult capital to manage in a company. These resources have characteristics that make the quality of their management essential for the good performance of the company (IFACI, 2013). They are complex because they concern the human factor, strategic because they are a lever of competitiveness and omnipresent because they concern all the people present in the company whatever their position.

Human resources management covers all management practices whose objective is to manage, steer and develop human resources and social relations with the aim of orienting and mobilizing them to achieve the company's objectives.

Cadin et al (2000, p.04) define human resource management as "a practice, it corresponds to a function of the firm, it brings together activities with a specific role to play in relation to the general mission of the organization, and also a discipline of the social sciences that helps to create and mobilize useful and necessary knowledge to deal with problems related to the regulation of work in the organization".

The management of resources covers five main areas, namely:

- Personnel administration;
- Human resources management and development;
- Organization of work and life at work;

- Social relations;
- Human resources management.

### **3. Audit of human resources**

Auditing is an independent and objective activity that provides an organization with assurance on the degree of control of its operations, provides advice to improve them, and contributes to creating added value. The audit helps the organization to achieve its objectives by evaluating, through a systematic and methodical approach, its processes (Renard, 2010, p.49).

A human resources audit consists of diagnosing human resources practices with the aim of identifying good practices and strengths already in place and alerting to weak points and problems that could jeopardize the company, thus providing a clear vision of human resources performance.

According to Vatier (1980, p.25), the human resources audit is considered to be "a management tool, an observation approach that tends to estimate the capacity of a company to master the human or social problems posed by its environment, and to manage those that it generates itself by employing the personnel necessary for its activity".

Indeed, the human resources audit is a true management tool (Vatier, 1995, p.35) for human resources managers. The examination it performs allows for an in-depth analysis of all aspects and functions of human resources in order to identify all the limitations and needs for developing and improving human resources practices at all levels, thus enabling the development and implementation of effective human resources management strategies, policies and practices to optimize them in order to achieve all company objectives.

#### **3.1 Specificities of the human resources audit**

The specific nature of the human resources audit is essentially based on the nature of the area being audited and the methods and techniques used in this type of audit.

Indeed, human resources auditing can be applied to the personnel function as a whole, to sub-functions (recruitment, salary, training, etc.), or to specific programs (absenteeism turnover, etc.). These elements have a qualitative character that the auditor is obliged to quantify in order to be able to make his analysis.

This same qualitative nature means that the information in the human resources audit is often based on opinions and perceptions, so the use of traditional interview techniques, opinion or attitude surveys is more frequent. This same specificity requires the internal auditor to justify himself in relation to the objectivity of the results presented.

### **3.2 The human resources audit process**

The human resources approach is a specific investigation and evaluation process carried out using a reference framework to detect disparities between standards and practices and thus formulate recommendations designed to anticipate malfunctions and deviations in human resources management and bring procedures into line with current standards.

According to Candau (1985, p.51), human resources auditing is an objective, independent and inductive approach that starts from facts and symptoms to trace their causes and reconstruct operations. It is an approach of observation, analysis, evaluation and recommendation based on a methodology and using techniques that make it possible, in relation to explicit references, to identify the strong points and problems induced by the employment of personnel, which leads to a diagnosis of the causes of the problems detected, an evaluation of the consequences and, finally, the formulation of recommendations.

The human resources audit process is the most important and complex to carry out. Indeed, the evolution of legislation, the social climate, the complexity and above all the lack of time do not always allow to have a clear vision of its human resources. If adjustments are not made on a regular basis, the risks will be numerous: absenteeism, work accidents, turnover, etc. Thus, in its human resources audit process, the internal auditor focuses mainly on the following points (Lazib, 2017, p.43):

- Specifying the company's human resources procedures based on a documentary analysis;
- Confronting these procedures with existing practices by observing how they work in real situations and by questioning the actors concerned;
- Evaluate the risks of human resources and propose corrective actions.

### **4. Research methodology and tools**

The role of the human resources audit is, based on an analysis of the company and the control systems set up by each department, to assess the efficiency and relevance of its operations, and to propose improvements and areas for improvement in order to contribute to the company's development.

The general objectives of this audit, which took place from February 1, 2020 to April 1, 2020, were to assess the degree of control of the process in terms of internal and operational control and to make recommendations likely to improve the quality of human resources management and the working conditions of the ENAGEO subsidiary's staff for the year 2019.

Within the framework of this empirical study, audit techniques (both quantitative and qualitative) were chosen to address the issue of our research.

With regard to qualitative tools and techniques, we first chose to conduct a pre-

survey on managers (the human resources director, the head of the training management department, the head of the career management department) to understand how the process works, the problems encountered in terms of human resources management as well as risk prevention measures and the internal control system. We also used interviews because they are an effective means of accessing individuals' representations and opinions.

With regard to quantitative tools, we opted for the internal control questionnaire carried out with the managers of the Human Resources Department (HRD) to detect any dysfunctions related to internal control.

We adopted the IFACI approach in the conduct and presentation of the audit results.

This audit mission was, of course, focused on the evaluation of the objectives of internal control, namely :

- The security of assets;
- The reliability of information;
- Compliance with regulations and procedures;
- The efficiency and effectiveness of operations.

And focused on the following areas:

**Employment:**

- Study the company's employment policy and check its harmony with the general policy;
- Appreciate the personnel management planning;
- To verify the existence and to study the system of management of competences;
- To study the recruitment policy of the Company;
- To study the management tools used by the function (job nomenclatures, job descriptions...);
- To analyze the level of the workforce and its adequacy with the activity and the needs of the company;
- Study the quality of the company's human resources (training/qualification, age, seniority...);
- Analyze the stability of employment and turnover.

**Training:**

- To appreciate the policy of the company as regards training;
- Ensure the balance between the company's interest and the staff's aspirations;
- Study the training management process and its effectiveness (determination of needs, criteria for selecting beneficiaries, choice of training programs and content, selection of trainers, training evaluation...);
- Analyze the volume of training carried out, its cost (in relation to the payroll and VA) in order to assess the company's training policy and also to assess the

proper use of the sums devoted to training.

**The remuneration system:**

- To study the system of remuneration of the company and to evaluate the level of the wage charges;
- Analyze the relative level of remuneration, its evolution and its breakdown;
- To study the incentive system practiced in the company (contract of objective, PRI; PRC), the variable part in the remuneration and its impact on the results of the company and on the motivation of the personnel.

**Working conditions:**

- Study the health and safety and other working conditions and their impact on staff motivation;
- Study the management of social works.

## **5. Results and Discussion**

Enter The results of the human resources management audit are as follows:

### **5.1. The strong points:**

- Gradual renewal of human capital
- Existence of a significant human potential

### **5.2. The weak points:**

#### **Weakness No. 1: No mastery of personnel planning management**

**Facts:**

- Personnel planning management consists of planning and monitoring recruitment plans in order to meet the needs of personnel structures in a timely manner;
- This mission, entrusted to the personnel planning department (theoretically), is not well mastered, particularly with regard to the time required for recruitment and the provision of human resources;
- The department's work consists of consolidating the human resources needs of the structures, and recruitment is in fact carried out by the operational departments;
- It should be noted that in the new organization, it has been decided to give this task back to the HR department for all executive recruitments.

**Causes:**

- Undeveloped organization of the department in charge of this activity and insufficient human resources;
- Recruitment difficulties and cumbersome administrative procedures (ANEM, publication in the press);
- Lack of upstream information circuit serving as a reference (work site workload plans, normative staff per structure, etc.).

**Consequences:**

- Insufficient personnel planning and management (planning and monitoring);
- Delays in recruiting and filling vacancies.

**Recommendations:**

- Strengthen the structure in charge of the staff management and planning;
- Implementation of an upstream information (collection) system;
- Updating and enriching the recruitment procedure.

**Weakness No. 2: Lack of forward planning of jobs and not updating the nomenclature of posts.**

**Facts:**

- Although the updating of the nomenclature of positions is defined in the missions of the Personnel Planning Department, the Personnel Planning Department has no job planning and the updating of the nomenclature only concerned the addition of the positions created in the organization. The reorganization of the job nomenclature has never been carried out.

**Causes:**

- Undeveloped organization of the department in charge of this activity and insufficient human resources;
- Absence of a precise definition of responsibilities for this mission.

**Consequences:**

- Absence of a forward-looking management of jobs;
- Obsolescence of the nomenclature of posts.

**Recommendations:**

- Reinforce the structure in charge of the staff management and planning activity (organization and human resources);
- Precise definition of responsibilities for this mission;
- Cleaning up and updating of the job nomenclature.

**Weakness No. 3: Absence of a formalized method for rating positions.**

**Facts**

The rating of positions consists of defining criteria for their classification and prioritization. These criteria are, among others:

- The level of training;
- The level of qualification;
- The complexity of the position;
- The level of responsibility.

The investigations carried out have revealed the non-existence of such a formalized system.

**Causes:**

- Insufficient formalization of the organization and management procedures;
- Failure to define responsibilities for this mission.

**Consequences:**

- Risk of error and poor rating of positions;
- Non-harmonization in the ratings carried out.

**Recommendations:**

- Development and implementation of a job scoring system;
- Definition of the responsibilities for carrying out this mission.

**Weakness N°4: Absence of skills management**

**Facts:**

Having become an indispensable approach in the management of human resources in modern companies, competency management is based on:

- The implementation of a personnel evaluation system;
- The elaboration of a reference frame of competences;
- The implementation of a career plan.

Also, it is accepted that a company does competency management if:

- The staff is given an appraisal reflecting its performance;
- The level of training expenditure in relation to the payroll is > 3%;
- Existence of regular interviews (evaluation, assessment, perspective);
- There is a direct or indirect link between the results of an employee's assessment and his or her continuing education;
- Existence of a link between the results of an employee's evaluation and his/her promotion;

There are two evaluation forms (ratings) in the company:

- The first is for the purposes of PRI and uses the following criteria as rating parameters:

**Table 01: Rating Criteria**

<b>No.</b>	<b>Rating Criteria</b>	<b>Weighting</b>
<b>1</b>	Quality and quantity of work	<b>25</b>
<b>2</b>	Seriousness and dedication	<b>20</b>
<b>3</b>	Efficiency	<b>25</b>
<b>4</b>	group working	<b>25</b>
<b>5</b>	Punctuality	<b>5</b>
	<b>Total</b>	<b>100</b>

**Source:** Made by us from the company internal documents



- The second one concerns the liability premium and does not define rating parameters, but provides for the agent to be given two ratings by two different assessors, Existence in the form of an amount to be granted.

We believe that the foundations of competency management are non-existent in the Company.

**Causes:**

- Undeveloped organization of the department in charge of this activity and insufficient human resources;
- Absence of a personnel evaluation system;
- Difficulties in implementing the Individual Development Plan (IDP) project.

**Consequences:**

- Absence of a career plan and lack of mastery of HR management planning;
- Absence of succession plans and lack of mastery of succession management.

**Recommendations:**

- Set up tools for the management of competencies, as defined by good practices, using external support, in the absence of internal expertise;
- Reinforce the structure in charge of the GPP activity (organization and human resources);
- Develop and implement a work plan for the activity.

**Weakness No. 5: Inappropriate use of fixed-term contracts**

**Facts:**

- Although the collective labor agreement stipulates that the employment relationship is, as a general rule, open-ended, and specifies the use of fixed-term contracts, the proportion of temporary staff remains high in the management and master's categories with 38% and 53% respectively in 2019;
- It is true that when we analyze the seniority of temporary staff, we find that 95% of temporary managers and 81% of Masters students have been working for less than 5 years in the company, but they are still significant cases (16 temporary managers and 79 Masters students have more than 5 years). It should also be pointed out that a permanent staffing operation is underway;
- On the other hand, an analysis of the workforce by structure and by status (temporary-permanent) shows that contractualisation is used even outside the site staff (Headquarters, DL, DSC) and in high proportions, i.e. 57%, 79% and 56% respectively.

**Causes:**

- Absence of a clear & formalized policy on permanent contracts;

- Turn-over.

**Consequences:**

- Sense of precariousness and lack of commitment;
- Reduction of the company's attractiveness in terms of employment.

**Recommendations:**

- Definition of a policy and clear objectives in terms of permanency (targeted positions, priorities, deadlines, etc.).

**Weakness No. 6: Low rate of implementation of training plans and insufficient training in the company's business line**

**Facts:**

- A review of the training balance sheets for the last three years (2017, 2018, 2019) has shown that the training objectives are far from being achieved (number of people trained) with low percentages of training including in the company's trade (geophysics and drilling). as shown in the tables below:

**Table 02: Rate of achievement of training objectives**

	2017			2018			2019		
	Planned	Achieved	%	Planned	Achieved	%	Planned	Achieved	%
Workforce	2,271	829	37%	985	516	52%	1,348	593	44%
Budget (KAD)	178,076	94,246	53%	235,685	69,880	30%	205,614	138,233	67%

**Source:** Made by us from company documents

**Table 03: Workforce trained by type of training**

TYPE OF TRAINING	2017		2018		2019	
	Trained workforce	%	Trained workforce	%	Trained workforce	%
Geophysics	125	15%	144	28%	70	12%
Hydraulic and Seismic Drilling	0	0%	34	7%	0	0%
Total continuous training	829	100%	516	100%	593	100%

**Source:** Made by us from company documents

**Causes:**

- Weakness in the formulation of the needs (the specifications) especially in the definition of the training content and the expected objectives. This weakness makes the task of the training department difficult and is the main cause of the unsuccessful tenders (non-response of service providers, non-conformity of offers). It should be noted that the HRD has designed a model for the expression of training needs by the structures. It is up to them to respect it;
- The training department is not well organized and human resources are inadequate (the new organization currently being implemented should make it possible to overcome these shortcomings). It should be noted on this point that some companies like ENTP have opted for the creation of a training department independent of the human resources department;
- Constraints related to the procurement procedure;
- Inadequacy of training centers in the company's business (the dissolution of NAFTOGAZ and the change in status of the National Gas Institute were two significant causes of non-achievement of training objectives).

**Consequences:**

- Unsuccessful training tenders;
- Slowness in the realization of training courses;
- Failure to meet the training needs of the structures.

**Recommendations:**

- Implement the new organization of the training department and provide the structure with qualified human resources and material resources;
- Require the structures to respect the framework developed by the HRD for the expression of training needs;
- Study the opportunity to sign multi-year training agreements;
- To study the opportunity to create a training center.

**Weakness No. 7: low level of compensation compared to the other group subsidiaries**

**Facts:**

- A Benchmark with the group's subsidiaries was carried out on the basis of the data we were able to collect. Although these data are not up to date, they are significant. Indeed, ENAGEO has a very low average annual salary compared to ENSP, ENTP and ENAFOR. It should be noted, however, that the bias introduced by the staff structure calls for a reinterpretation of these results. Indeed, if we take the same structure (socio-professional categories), the real difference with respect to ENSP and ENAFOR would be around 13% and 69% respectively. It should be noted that in financial terms, and particularly the

weight of the remuneration of the human factor, the Enterprise was in 3rd position, with a better performance than the ENSP.

**Causes:**

- Weakness in the Company's compensation policy (benchmark, ability to attract and stabilize skills);
- Weakness in the Company's compensation system and in its monitoring and upgrading.

**Consequences:**

- Low attractiveness of the Company in terms of compensation;
- Weakening of staff motivation;
- Turn-over.

**Recommendations:**

- Upgrading of the Company's compensation policy to attract and stabilize skills;
- Upgrading of the compensation system by giving greater importance to the incentive (variable) part and by improving the evaluation criteria;
- More in-depth evaluation and external supervision is desirable to shed more light.

**Weakness No. 8: Weakness of the incentive system (proportion of IPI-CPI and calculation system)**

**Facts:**

The analysis of the stimulation system IPI-CPI (Individual Performance Incentive-Collective Performance Incentive) identified the following deficiencies:

- Low PRI that do not make these two incentives a real motivational lever. In fact, with the calculation methods in force, this bonus have not exceeded 6% of personnel costs since 2008;
- The system for calculating the IPI and CPI is not adapted to a good reward for effort. In fact, for a rate of achievement of 80% of the objectives, the corresponding CPI rate is 5%, it is 25% for a rate of 100%, to rise to 60% for the achievement of 150% of the objectives;
- The IPI scoring system also has shortcomings, namely:
  - Limitation to 30% of the staff who can have 90% IPI. This parameter means that even if the employee has worked well, there is a 70% chance of not having the full score. This parameter, as we have seen, has made the task of scoring difficult for managers and has created tensions between some managers and their subordinates;
  - Inappropriate grading levels (3 levels: > 80%, 81-89% and 90%): According to the current IPI grading system, the effort made to go from

81% to 89% (the bulk of the progression range) is not felt and rewarded, which leads to discouragement. Therefore, we believe that a personnel rating system cannot be designed with such precision (discrimination) between grades. A linear progression would be more appropriate.

**Causes:**

- Obsolescence of the IPI-CPI system and lack of updating;
- Weakness of IPI rate.

**Consequences:**

- Weakened staff motivation;
- Impact on the social climate and labor relations.

**Recommendations:**

- Redesign of the incentive system by ensuring that the rates of performance bonuses and the rating system are improved, as recommended (linear evolution).

**Weakness No. 9: Living and working conditions to be improved**

**Facts:**

- Staff commitment and motivation cannot be guaranteed without good working and living conditions. Modern companies attach great importance to this aspect of the environment in which their employees work.
- In the company, this aspect has a number of shortcomings:
  - Exiguity of the offices;
  - Almost absence of play and entertainment areas (playgrounds and rooms, cyber space) at the level of the bases of life;
  - Living conditions to be improved in the building sites;
  - Low contribution of social works to the improvement of living conditions, particularly the cultural component;
  - Insufficient development of green spaces, access and roads: these aspects are not negligible because they represent the company's image and have a direct impact on the feeling of belonging of the staff and their motivation.

**Causes:**

- Low importance given to the environment and working conditions
- Prohibition to build in the south;
- Heavy administrative procedures;
- Failure to implement cultural projects such as sports hall, stadium layout, library and Internet room, etc.

**Consequences:**

- Impact on the well-being and sense of belonging of the staff;
- Impact on staff commitment and motivation.

**Recommendations:**

- Improvement of working and living conditions (to be budgeted and implemented), through:
  - The construction/design of workplaces (offices);
  - The development of play and entertainment areas (playgrounds and rooms, cyber space) at the level of basic living conditions;
  - The development of green spaces and paths;
  - Improvement of living conditions on construction sites;
  - A better involvement and contribution of social works to the improvement of living conditions, particularly the cultural aspect.

**6. Conclusion**

The With such a large workforce and the strategic role of human capital, the human resources management process occupies a central place within the Company.

The management of human resources is based on an organization to be improved and on human potential to be strengthened so that the process can become more effective and efficient based on:

- A more efficient forward planning management that will allow to respond in a timely manner to the needs of the different structures in terms of human resources;
- Effective and efficient skills management with career plans that meet the expectations of employees and the company;
- Rigorous job management;
- An efficient and dynamic resource management information system;
- An efficient and motivating remuneration system that reflects the image of the Company and the sector.

With regard to weaknesses (areas for improvement), it appears from this audit that they exist at the level of:

- the forward-looking management of jobs and skills: essential in a modern company, a system of management of jobs and skills must be implemented.

The prerequisites of this system are:

- the implementation of an adapted and effective personnel evaluation system with well-defined criteria;
- the development of a skills repository;

- the implementation of career plans;
  - the definition of links between training/promotion and the evaluation system.
- the information system: the information system is at the very heart of human resources management. The Company must make greater use of the possibilities offered by the computer tool (database system);
  - the compensation system: a major project to be launched to make up for the delay in the system, particularly in relation to the Group's subsidiaries. In this context, we propose to act on the incentive (variable) part of the remuneration to stimulate motivation (review of levels and rating system);
  - living and working conditions and internal communication to be developed to make it a lever for boosting staff motivation.

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