

Human Resources Audit in Albania

Ingrid Konomi¹

Albana Gjoni²

Gerta Gogo³

Elona Fejzaj⁴

Klaudia Hoxha⁵

¹PhD, University of Tirana, ingridkonomi@gmail.com, ORCID:0000-0002-3702-1484

²Associate Professor, Agricultural University of Tirana, agjoni@ubt.edu.al, ORCID:0000-0001-7875-0387

³PhD, Agricultural University of Tirana, ggogo@ubt.edu.al, ORCID: 0000-0002-4945-9459

⁴Associate Professor, Agricultural University of Tirana, efejzaj@ubt.edu.al, ORCID: 0000-0002-8771-5521

⁵MSc, Agricultural University of Tirana, klaudiakh11@gmail.com, ORCID: 0000-0002-1693-9499

Abstract: The audit of human resources is one of the most important elements of the internal audit of every economic entity in Albania, but also an added value in the general management of these entities against the realization of their objectives. Human resources are one of the main resources used to achieve their main objective, which is the maximization of profits. There are several key factors that affect the performance of human resources within an economic entity, and the analysis of these factors is the focus of this study. These factors were analyzed by building a questionnaire that was addressed to a main target group that generated the main data of this study. The main goal is to measure the effect of each factor on the efficiency of the human resources audit.

Key Words: Human Resources Audit, Economic Entity, Efficiency

1. INTRODUCTION

Planning human resources needs is a very important process because it is about the fair and efficient use of people at work. It is very important for each company to plan how many workers it needs to perform the necessary jobs either for the production or service links. A bad planning of personnel needs can cost the enterprise in many aspects, but the main one is in the reduction of income or its bankruptcy, Ahmad Abujraiban, Gabriel J. Assaf (2022). On the other hand, good planning of human resources within a company can give opportunities to employees within it to plan their own opportunities for personal development as well as to plan professional advancement. Companies should systematically forecast labor supply and demand for the future period. It should also ensure the sufficient number of workers in the right places, referring to the formula "the right person in the right place", in order to achieve efficiency and effectiveness at work. Management should be one of the key elements of strategic and global planning for each company, there should be an integrative system of human resources in strategic development, C. K. Gomathy, Varun Reddy, Vikas Reddy (2022). The process of human resources management arises with the determination of policies regarding: hiring, training, evaluation of personnel performance, counseling, promotion, reward, and taking disciplinary measures. The human resources process begins with establishing rules for hiring, training, evaluating, consulting, promoting, compensating, and taking immediate action on employees. From

the moment the individual is hired as an employee, the main transaction affecting the financial account data is the payroll as the main salary transaction. The payment transaction usually begins with the employee performing several jobs and measuring the time spent on each individual's time card or time sheet. They must be checked by the supervisor before being sent to the payroll department. The data is then reviewed and sent to IT departments for processing. Finally, the salary is given to them, through deposit in the banks where each employee is registered, Shaban Mohammadi, Ali Shirzad, (2016). The basic functions of human resource management are:

Supervision: Personnel are supervised by managers in offices, operational departments within the institution. The supervisor is responsible for evaluating and approving the work time of the staff in charge.

Keeping working time: This function is carried out by controlling the working time of the personnel at the different operational levels by determining the accounts where the personnel expenditure and the typology of the expenditure will be included.

Salary calculation: It is the process of processing the information collected above and determining the gross salary, deductions for personal income tax obligations, social security and calculation of other obligations arising from the institution for labor relations. P

Payment: This process includes the payment of the staff's net salary to personal bank accounts. This

process ensures that the information obtained from the calculation process is accurate and contains no errors, Fredson Kotamena, Poltak Sinaga, Dylmoon Hidayat, Niko Sudibjo (2022).

These five critical components, which should be addressed in any human resources audit, are presented and discussed below in the Human Resources Audit Model:

Activities: The starting point of the HR audit process is the review of the organization's activity, which includes: tasks and activities that create or implement employment rules, application, procedures and relevant programs. The activities include those actions that are well defined by the legal declarations of the state and other employment rules, on the vacant positions of the organizations and the occupation of these positions.

Behaviors: Behaviors according to the context are management actions and behaviors that negatively or positively affect the implementation and effectiveness of the organization's rules, applications, procedures and programs that demonstrate the organization's commitment to determine its purpose and objectives. Behaviors are typically assessed using qualitative measures such as culture scans and employee productivity surveys.

General ledger account: Includes the process of recording and classifying in accounting books information related to the calculation of personnel salaries. The personnel management process should ensure a division of duties, as one of the main elements of the unit's control activities. The internal control system (KB) must ensure that the functions listed above are separate and provide assurance regarding the achievement of the objectives of the control system in relation to human resources management.

Risk assessment: risk assessment is the identification of current and/or future events that have the potential to cause loss, risk, or weaknesses, and management's willingness to accept these risks. Risk assessment is also the identification of events or conditions that create new opportunities for the organization to achieve its business objectives. Risk assessment provides management with information to make the right decisions regarding the allocation of the organization's employees, physical and financial capital, and effective ways to eliminate, mitigate, control, or transfer these risks.

Internal control: internal controls are the processes, tests and assessments that help ensure compliance, manage risks, identify fraud, and help ensure the achievement of organizational objectives. HR audit

activities include: 1) evaluations of the effectiveness and efficiency of managing HR processes, policies, practices, and procedures; 2) the reliability and accuracy of human resource management reporting, and 3) the level of compliance with: laws and regulations of the industry and professional standards, codes of conduct and ethics, organizational policies and budgets.

Results: Results are quantitative and qualitative measurements that measure and help evaluate the achievement of organizational goals and objectives. The payroll audit activity includes identifying the measures used by the organization to measure organizational and individual performance, evaluating results, comparing actual results against projected results, budgets, and internal and external standards, and a description of activities, behaviors, and internal controls that are necessary to maintain or improve future results, Avash Koirala, AK Mishra (2022).

2. Research Literature

The link between human resources and firm performance has dominated much of the debate within the HRM literature since the mid-1990s. Such research developed within the "best practices" paradigm to uncover a general link of high-performance or high-commitment work practices, Huselid (1995) and "best fit" studies that focus on aligning HRM strategies with organizational strategies and contextual conditions to create the highest possible performance of the firm, Thomas A. Wright, Elizabeth M. Doherty (1998); Lynda Gratton, Catherine Bailey (2003). Chien-Chang Yang, Carol Y. Y. Lin (2014), Huselid, (1995) have used some human resource management practices in his study which are; personnel selection, performance evaluation, compensation, job design, grievance procedures, information sharing, performance evaluation, participation in labor management, recruitment efforts, employee training criteria and promotion. His study, "The Impact of Human Resource Management Practices on Corporate Turnover, Productivity, and Financial Performance," studied the relationships between high-performance work practices systems and firm performance. Results based on a national sample of nearly one thousand firms showed that these practices have an economically and statistically significant impact on employee outcomes (turnover and productivity) and short- and long-term measures of corporate financial performance. Support for the prediction that the impact of high-performance work practices on firm performance is partially attributable to reciprocal relationships and links to competitive strategies was limited. Kiboi

(2006) conducted a study of management perception of performance contracting in state-owned corporations. Oresi (2005) studied employee performance management practices for court staff. Huselid (1995), Kiboi (2006) and Oresi (2005), despite the fact that one studied the private sector and the other two the state sector, they connect in one point, which emphasizes the great influence that discipline has in the HR department, the success of only one department implies maximization of the total value of the entire organization without a doubt. (Peter Boxall, John Purcell, 2003), states that the importance of resource-based theory is that it emphasizes the importance of Human Capital Management and provides a rationale for investing in people through resources, talent management and program development as a means of increasing organizational capabilities. In line with the theory based on human capital, the theory based on resources as Barney (1991) pointed out, can develop strategic capabilities and produce what Boxall & Purcell (2003) refer to as "Human Resource Advantage", which will it means, strategic fit between resources and opportunities, ensuring added value from the effective allocation of resources, investing in those people who have the ability to think and plan strategically in relation to the financial and managerial improvement of an organization. Grant (1991), states that resources and capabilities are the main considerations in formulating a strategy: they constitute the main sources of profitability. Barney (1991) suggests that Resource-Based Theory means a knowledge-based theory mixed with concepts from organizational economics and strategic management. It states that a resource should allow the organization to create and implement strategies that improve its effectiveness by meeting customer needs. Boxall (1996), states that the "Resource Based View Theory" aims to improve resource capabilities, achieving a strategic fit between resources and opportunities and also securing value from the effective allocation of resources. Resource-based theory provides a framework for considering the pool of human resources that may or may not be capable of performing a given job from the initial stage. This theory focuses on the analysis of strengths and weaknesses, paying special attention to the path through which the organization can develop its activity and on the removal of obstacles. Grant (1991), states that resources and capabilities are the main considerations in formulating a strategy: they constitute the main sources of profitability. Barney (1991) suggests that Resource-Based Theory means a knowledge-based theory mixed with concepts from organizational economics

and strategic management. It states that a resource should allow the organization to create and implement strategies that improve its effectiveness by meeting customer needs. Boxall (1998), states that the "Resource Based View Theory" aims to improve resource capabilities, achieving a strategic fit between resources and opportunities and also securing value from the effective allocation of resources. Resource-based theory provides a framework for considering the pool of human resources that may or may not be capable of performing a given job from the initial stage. This theory focuses on the analysis of strengths and weaknesses, paying special attention to the path through which the organization can develop its activity and on the removal of obstacles. Ahmed Seleim, Ahmed Ashour, Nick Bontis (2007), state that human capital represents the main factor of an organization, where intelligence combined with skills gives the organization its distinctive characters. It is indeed the knowledge and skills of individuals that create value, so the focus must be on the means to attract, retain, develop and preserve the human capital they represent. Davenport (1999), states that people have innate abilities, behaviors and personal energy and these elements constitute the human capital that they display in their work and that is unique. Armstrong (2009), states that Human Capital Theory consists of three concepts; the first, Intellectual Capital, which is defined as the stock and flow of knowledge available to an organization and is considered an intangible resource. The second concept is Social Capital which consists of knowledge derived from networks of relationships inside and outside the organization. Social Capital is defined by Putnam (1996) as the characteristics of networks of social life, norms and trust, which enable participants to act together in the most effective way to achieve common goals. The final concept is Organizational Capital which is the knowledge institutionalized by an organization and stored in the database manual, M.A. Youndt, Scott A. Snell (2004). The added value that people can contribute to an organization is emphasized in Human Capital Theory. Human capital theory is related to resource-based theory as developed by Barney (1991).

3. Material and Methods: The research problem will try to prove whether the human resources of a given entity are effective and whether they function properly and/or meet the HR criteria in order to achieve the goals of the organization. Human resources audit is a tool to measure the effectiveness of human resources and to provide accurate evidence and evidence for the proper

management of the latter. The hypothesis of this research is: Human resource auditing leads to the most effective measurement of the HR functions of an organization. In addition to the above hypothesis, which constitutes the main hypothesis on which this paper is based, there are several other hypotheses in the focus of this study which complement the proposal of connections between concepts. Such are:

If the HR are in accordance with the policies, procedures and legal provisions of the management, then we will have an increase in efficiency at work.

A good management climate affects the employee in better relationships with colleagues, morale and job satisfaction.

A periodic and fair performance evaluation brings motivation to the employee and efficiency at work.

Referring to the problem of this topic, concepts that originate from both theory and practice, analyze the relationship that exists between the dependent variable, the increase in effectiveness and efficiency at work, and the independent variables such as the effective measurement of the HR functions of an organization, the contribution that provide the management policies, procedures and legal provisions, from the HR management climate which in turn has an impact on the employee in terms of motivation, morale and job satisfaction. For more, we clarify the following:

The increase in effectiveness at work is the consequent concept for the phenomenon under study and is measured through the HR audit variable. The nature of this data will be handled in the form of a survey for different levels of management. Causative factors, or independent factors are:

Effective measurement of the HR functions of an organization. This indicator, as an independent variable, positively affects all the work processes of every employee of the organization, whether at a low managerial or high management level, thus increasing responsibility, correctness and initiative.

The contribution of management policies, procedures and legal provisions. Reflecting on the ability of the regulatory entities to improve the work of each employee, it is considered more than reasonable to highlight that all procedures and legal provisions help in a fairer and more effective management of the entire HR department, but not only. HR management climate. This is a factor that originates from theory and is suitable for this

research since a better and cooperative environment implies citizenship and altruistic behavior among employees, making everyone's work even easier and achieving the common goal, already mentioned a lot, of maximizing the value of the organization.

Motivation and periodic evaluation of the performance of the organization's employees. Although it may seem very subjective as a factor, motivation and reward are one of the key points of the key to effectiveness at work. Employees are always looking for a motivation and appreciation from the superior, however minimalist it may be. Periodic evaluation of performance is considered very important, and in our country the private sector has marked deficiencies in this direction, however, in the following, it will be tested through the survey how pronounced the problem is. This analysis of the factors causing the increase in efficiency at work remains within the framework of the theory, which does not explain exactly and in a logical flow the meaning of some numbers, if it is not addressed through a genuine analysis that can be in the form of a questionnaire, such as I considered it reasonable. Therefore, the importance of the statistics provided by the above-mentioned sources is more important if on their basis a tangible conclusion and result is given in response to the topic in question.

4. Result and Discussion:

The data used to deal with this issue are primary because they were created by the survey conducted with 155 people where only 119 of them were the right contingent for evaluation, but there are also secondary data as they were obtained from different sources of information. The data has been processed and the information that best suits each issue in particular with its specifics has been extracted. Below Tab1:

		Frequency	No of questions	Average	Standard Deviation	Cronbach's alpha
ef_pun	1. Negative	6.7%				
	2. Moderate	19.3%				
	3. Neutral	30.3%				
	4. Agree	30.3%				
	5. Strongly Agree	13.4%				
EF			5	3.36	1.02	.910
PPL			4	3.77	1.10	.931
KM			5	3.88	1.10	.942
MV			5	3.46	1.15	.941

The tendency for neutral and mostly agree responses is noticeable, as we used the Complementary log-log model. If we look at the Cronbach's alpha coefficient, it is greater than 0.70, which means that the independent variables (EF, PPL, KM, MV) best explain the relationship with the dependent variable. Ordinal regression analysis (ARO) shows whether the considered variables respond positively to the model and explain it precisely and logically. Regarding the influencing factors of efficiency at work, the average of the responses was calculated as their average; as below in the table. ARO gives us the estimate of the probability value statistic of the Chi-square test for the estimated regression. We see that the significance of this statistic suggests that the model is good (Chi-square significance = 0.000) less than 1%. The factors taken into consideration manage to fully explain the efficiency at work (internal reliability). From here we can proceed with estimating the regression coefficients and see if the considered factors are significant in the model. The next table below provides this information. Below Tab 2:

Model Fitting Information				
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	355.178			
Final	.000	355.178	1	.000

Link function: Complementary Log-log.

Referring to the data in the table below, we interpret the results of the variables. For us, the coefficients column and the Sig value column are important. β_1 is the regression coefficient that relates the efficiency at work to the effectiveness of the functions and is estimated at 1.449, which means that when the effectiveness of the functions changes by one unit, then it is expected that the efficiency at work changes by 1.449 units. In terms of its importance, it is evident that it is very high (0.000 or it can be said with 99.9% certainty). EF is a

statistically significant factor for the model, it has a positive sign, so the effectiveness of the functions results in an added value for the HR department at 99.9% levels. In the case of the PPL factor, we have a slightly different situation. It is a significant factor for the model, representing it at 90.6% levels (so higher than 70%) but with a negative sign. This may come as a result of the fact that the manager spends more time dealing with legal procedures and bureaucratic actions such as social and health contribution booklets that need to be completed, applications, training for employees, filling in time-sheets monthly, royalties, salaries, absences, etc. which take a considerable amount of time to prepare. Then we continue with the management climate as another factor which has been statistically significant for the model with a level of 91% and also with an evaluation coefficient of 0.466, positive. While the MV variable is insignificant for the model, the security level is not satisfactory, however, the evaluation coefficient is positive 0.29, so there is a fair relationship between efficiency at work and the fact that how motivated and valued employees feel. However, it is worth noting that this may have resulted from receiving a small amount of data. Increasing the number of respondents can improve this result. One of the other influencing factors is the level of management. Management level 1 is more important than 2, compared to the 3rd (refer to the appendix at the end), with a coefficient of 1.468 and 91.1% certainty. People who work at low management levels are more inclined to work efficiency than those at middle levels, this is because the drives and ambitions are always higher for those employees who expect to be promoted to more profitable positions. An insignificant factor is the years of work; however, we see a relationship between work-year-3 compared to work-year 4 (refer to the appendix) where it is shown that people who have 6-10 years of employment in an enterprise are more predisposed to be efficient than those with fewer years, add here experience and responsibility.

Organizations that have a number of employees 11-49 (no of employees 2), compared to those with less 1-10, (no of employees 1), are more organized and efficient (0.530 and 92.7% certainty) and this is logical and within expectations as market

experience makes them more successful in many ways. In the regions of Albania, compared to Tirana, HR departments function less, and therefore have very low efficiency. For more table 3:

		Koef Estimate β_i	Std. Error	Wald
Threshold	[empl = 1.0]	.753	1.297	.337
	[empl = 2.0]	2.859	1.320	4.689
	[empl = 3.0]	4.615	1.349	11.713
	[empl = 4.0]	6.340	1.397	20.584
Location	EF	1.449	.300	23.282
	PPL	-.335	.200	2.810
	KM	.466	.273	2.913
	MV	.029	.235	.015
	firm_age	-.005	.009	.375
	poz_pun	-.163	.312	.273
	[manax=1.0]	1.468	.862	2.901
	[manax =2.0]	.551	.327	2.835
	[manax =3.0]	0 ^a	.	.
	[years working=1.0]	-1.258	.460	7.472
	[years working =2.0]	-1.410	.427	10.921
	[years working =3.0]	-.746	.389	3.675
	[years working =4.0]	0 ^a	.	.
	[no empl=1]	.059	.487	.015
	[no empl=2]	.530	.296	3.205
	[no empl=3]	0 ^a	.	.
	[region=1.0]	-.478	.341	1.965
	[region=2.0]	.159	.514	.096
	[region=3.0]	-.141	.406	.120
	[region=4.0]	0 ^a	.	.

5. CONCLUSIONS

This study relied on a literature review and observation of the Albanian reality to answer the question of whether work efficiency depends on the proper functioning of the HR department. Theory suggests that we should expect evidence of a relationship with a positive direction between these two. However, the observation of the case of Albania resulted in two conclusions:

The first is related to the relationship between the effectiveness of functions and work efficiency, which is positive. Which means that, when the effectiveness of the functions increases, the efficiency at work is also expected to increase. This is also supported by the empirical analysis, where we distinguish the association of the evaluation coefficients and the level of reliability for the two

factors in question. The same situation is with the management climate. The second is related to the importance of legal policies and procedures as a factor that determines efficiency at work, which is unsatisfactory along with motivation and evaluation. This is a result outside the expectations and findings of the authors. The expectations were different, that these two factors were one of the main authors or contributors of work efficiency. However, it is worth noting that this may have resulted from receiving a small amount of data. Increasing the number of respondents can improve this result. The latter may constitute an issue for further and more in-depth addressing by other researchers in the future.

df	Sig.	95% Confidence Interval	
		Lower Bound	Upper Bound
1	.561	-1.790	3.296
1	.030	.271	5.447
1	.001	1.972	7.258
1	.000	3.601	9.078
1	.000	.860	2.038
1	.094	-.727	.057
1	.088	-.069	1.000
1	.903	-.433	.490
1	.540	-.023	.012
1	.601	-.774	.448
1	.089	-.221	3.156
1	.092	-.090	1.192

0	.	.	.
1	.006	-2.161	-.356
1	.001	-2.246	-.574
1	.055	-1.509	.017
0	.	.	.
1	.903	-.894	1.013
1	.073	-.050	1.110
0	.	.	.
1	.161	-1.146	.190
1	.757	-.848	1.165
1	.729	-.937	.655
0	.	.	.

Link function: Complementary Log-log. This parameter is set to zero because it is redundant.

5. REFERENCES

- Ahmad Abujaiban, Gabriel J. Assaf. (2022). Effect of Strategic Planning of Human Resources in. *Civil Engineering Journal*, 1725-1738.
- Ahmed Seleim, Ahmed Ashour, Nick Bontis. (2007). Human capital and organizational performance: A study of Egyptian software companies. *Management Decision*, 45(4), 789-801.
- Armstrong, M. (2009). *Armstrong's Handbook of Human Resource Management Practice* (Vol. 11th edition). Kogan Page Limited, London.
- Avash Koirala, AK Mishra. (2022). HR Analytics as an Effective Auditing Technique of Human Resource Operations. *Journal of Advanced Research in Operational and Marketing Management*, 5(2), 1-5.
- Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17(1), 99-120.
- Boxall, P. (1998). Achieving competitive advantage through human resource strategy: Towards a theory of industry dynamics. *Human Resource Management Review*, 8(3), 265-288.
- C. K. Gomathy, Varun Reddy, Vikas Reddy. (2022). The Impact of Human Resources Planning on Productivity. *International Journal of Scientific Research in Engineering and Management (IJSREM)*, 6(4), 1-6.
- Chien-Chang Yang, Carol Y. Y. Lin. (2014). Does Technical or Strategic HRM Provide a Better Explanation of Organization Performance? *iBusiness*, 6(2), 56-62.
- Davenport, E. (1999). *Implicit Orders: Documentary Genres and Organizational Practice*. Proceedings of the 10th ASIS SIG/CR, (pp. 45-64).
- Fredson Kotamena, Poltak Sinaga, Dylmoon Hidayat, Niko Sudibjo. (2022). Successful HR Audit: Is it Determined by Top Management. *JMK*, 24(1), 33-43.
- Grant, R. (1991). The Resource-Based Theory of Competitive Advantage. *California Management Review*, 33, 114-135.
- Huselid, M. A. (1995). The Impact of Human Resource Management Practices on Turnover, Productivity and Corporate Financial Performance. *Academy of Management Journal*, 38(3), 635-672.
- Kiboi, A. W. (2006). Management perception of performance contracting in state corporations. Nairobi: *Business Administration and planning*.
- Lynda Gratton, Catherine Bailey. (2003). The three-dimensional people strategy: Putting human resources policies into action. *Academy of Management Perspectives*, 17(3), 74-86.
- M.A. Youndt, Scott A. Snell. (2004). Human Resource Configurations, Intellectual Capital, and Organizational Performance. *Journal of Managerial Issues*, 16(3), 337-360.
- Oresi, E. M. (2005). Employee performance management practices a case of court registry staff in Nairobi.
- Peter Boxall, John Purcell. (2003). *Strategy and Human Resource Management* (Vol. 57).
- Putnam, R. (1996). *Social Capital: Measurement and Consequences*. In H. U. Kennedy School of Government. Kennedy School of Government, Harvard University.
- Shaban Mohammadi, Ali Shirzad. (2016). Risk Management: Evidence from the role of Auditors. *Journal of Multidisciplinary Scientific Research*, 4(1), 18-21.
- Thomas A. Wright, Elizabeth M. Doherty. (1998). Organizational behavior 'rediscovers' the role of emotional well-being. *Journal of Organizational Behaviour*, 19(5), 481-485.