



# The Audit Component of Human Capital Management in Nigerian Organizations: A Public Sector Analysis

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**Abstract:** *The general objective of this study is to examine the audit component of human capital management in Nigerian organizations, as a public sector analysis. A specific objective of the work is to make recommendations on the way forward in the effective application of human capital audit as a mechanism of human capital management in the generic Nigerian public sector. Secondary sources of data were utilized in our analysis. Consequently, the work found a very strong linkage between the substandard audit component of human capital management in the country's public sector and the generic dearth of accountability in the Nigerian system. The dual-pronged recommendations of the study are in the following regards. The institution by all public sector organizations in the country an accounting information system that is interactive with the public, to enable the Nigerian tax payers make contributions on how these organizations meet or fail to meet the citizens' needs. Furthermore, the paper recommends the democratization of access to the career data of all public sector individuals in the country, irrespective of ranks, as a mechanism of keeping specific administrations and management organs (in the public sector) on their toes, to reduce the deficiencies in their human capital audit functions.*

**Keywords:** *Audit Function, Human Capital Audit, Human Capital Management, Public Sector*

## INTRODUCTION

The Nigerian public sector is profoundly distressed. And this supposition is considered plausible in this study in all the historical, empirical and extant contexts. Hence Casimir, Izueke and Nzekwe (2014, p.218) dejectedly opine that the Nigerian people have since lost trust and confidence in their public sector. Furthermore, a particularly pathological component of this disorder is the human capital element. Yet the people-factor is in very immense dimension critical to the success of every organization, inclusive of the public sector setting. Thus, according to Anuonye (2017, p.18) the greatest asset of every service organization is its human resource/capital. And the ability of an organization, especially public sector organizations to measure and manage its human capital in Nigeria has created problems in respect of the recruitment, training, retention, adequacy of value creation as well as development for the organization's growth. Additionally, according to Gresham and Andrusis (2002, p.1), an organization's people define its culture, drive its performance and embody its knowledge base. Hence, people are the ultimate drivers of success in any

organization - and yet government workforce-planning approaches are often lacking in such tendencies. Indeed, such workforce-planning approaches are usually devoid of effective audit components. Sometimes also the audit component of the human capital management designs is essentially non-existent.

How does the scenario above reflect the narrative of human capital management in Nigerian (public sector) organizations? The general objective of the study therefore is to examine the issue of audit component in human capital management of Nigerian organizations, with a specific focus on the public sector. The work is an interdisciplinary contribution, centered on the trajectories of the audit function in organizations, the accounting implications and the policy needs for catalyzing a culture of accountability in the Nigerian public sector. A specific objective of the study is to make recommendations on the way forward in the effective application of human capital audit as a mechanism of human capital management in the generic Nigerian public sector.

### **CONCEPTUAL ELUCIDATION: HUMAN CAPITAL AUDIT**

According to Lombardi and Laurano (2013, p.4), most organizations are unclear about the future of today's economy and its impact on organizational growth. This uncertainty they argue, forces them to make leaner and smarter decisions, particularly around talent. And to us in this study, this also introduces the audit necessity in human capital management. Hence, the audit function in human capital management is critically about what Lombardi & Laurano (2013, p.5) denote as talent acquisition, performance management and successful planning, a way of improving the quality of an organization's hire and the candidate's experience expectation. It is a talent management strategy (Lombardi & Laurano, 2013, p.6). Furthermore, to identify the gaps between the supply and demand for talent through strategic workforce planning is in the purview of human capital audit (Lombardi & Laurano, 2013, p.7). A human capital audit therefore is essentially a checklist or a systematic review of human resources functions (Scott, 2017, p.1).

Furthermore, what Lombardi and Laurano (2013, p.4) describe as the measuring and monitoring of workforce and talent initiatives, with an understanding of their impact on the bottomline, comes under the generic gamut of the audit component in human capital management. Scott (2017, p.1) further opines:

One of the primary purposes of human capital audits is to ensure that people's efforts are utilized effectively. Human capital audits serve to evaluate what currently works within an organization as well as identify areas that require attention. Human capital audits uncover potential problems in employee relations, acquisition and retention, compensation, benefits, performance evaluation and termination. Successful human capital audits set the foundation for the success of future organizational functions.

Human capital audit should indeed be embedded in the corporate culture of all organizations. Denison (1984, p.5) sees corporate culture as the set of values, beliefs and behaviour patterns that form the core identity of an organization. Human capital audit should therefore not be conceived as a mechanism for staff rationalization and downsizing. But a critical aspect of the managerial process with regards to human capital management. According to Scott (2017, p.1):

Human capital audits contain several components. Depending on the needs of the organization, human resources personnel may choose to incorporate some or all of the components. Human capital audits assess employee behavioral risks within an organization. These risks evaluate employee behaviors and attitudes towards absences, dishonesty, disengagement and conflicts. Human capital audits also define the acquisition and development of talent as well as the overall well-being of employees. Such audits help determine why some employees perform optimally while others perform poorly or leave the company. Human capital audits evaluate manager performance and how governance leads to poor performance and employee insubordination.

We further underscore the fact in this study that the human capital audit-function in organizations, shares conceptual and empirical management-similitude with workforce planning, human capital accounting, headcount analysis, skill gap analysis and others, in human capital management. Furthermore, the relationship between human capital audit and the usual concept of internal audit is in the following regard. According to Basioudis (2011, p.2), the role of the internal auditor is to provide an overall assurance to management that all key risks within an organization are managed effectively; so, that the organization can achieve its strategic objectives. And in the viewpoint of Scott (2017, p.1) above, successful human capital audits set the foundation for the success of future organizational functions and assess employee behavioral risks within an organization. Hence, the concepts and operational methodologies of internal audit and human capital audit are aimed at the achievement of the strategic objectives of an organization.

In general terms also, a regular audit (internal/external audit), according to Okolo (1987, p.28) places a moral check on the employees of an organization. And although the detection of fraud and errors is not a primary objective of such audits, fraud (particularly fraud of a continuing nature) will be discovered before it goes too far (Okolo, 2001, p.28). The human capital audit purposes of the organization are accordingly also served by the regular audit.

## **CONTEXTUALIZING THE PUBLIC SECTOR**

In the viewpoints of Bhatia (2008, p.323), in the “public sector”, the government administration, defense and similar public services, including commercial and non-commercial undertakings of the government shall be included. This concept of the public sector he argues is helpful when it comes to ascertain the role of the government in the working of the economy. Bhatia (2008, p.323) further emphasizes that public sector services may be divided into three parts:

- (i) Those services which are provided free of cost to the members of society (or where, that is more or less the intention) such as defense, administration, justice, law and order. These services tend to approach pure public goods;
- (ii) Those public services which are run and maintained by the Departments or as Departments. Examples are of postal services, education, certain public utilities, roads, bridges etc. These services

are financed and run on different criteria so that some of them may be in the nature of commercial undertakings also;

- (iii) Those public services which are provided not by the Departments but through means of autonomous or semi-autonomous bodies like firms, companies and corporations. These economic units, though owned by the government may have their own price policies according to different objectives and criteria.

Guta (2012, p.100) adds that the public sector represents all the activities and provided services, financed or heavily regulated by organizational entities of state, local or supranational authority. And as an indicator of the share of public sector in society, a measure almost general of approximation constitutes the share of governmental and local authorities' expenses in GDP. The indicator is used to measure the relative size of the public sectors in different countries (Guta, 2012, p.100). Then the public sector is defined in Pathirane & Blades (1982, p.261) to include government plus public enterprises. Furthermore, these authors acknowledged / opined that while it is clear that for most purposes, government and public enterprises need to be treated separately, it is also clear that in many countries there is widespread interest in the role of the public sector as employer, producer, spender, saver and borrower, thereby necessitating such amalgamated conceptualization of the public sector (Pathirane & Blades, 1982, p. 261).

Johnson (1999, p.1) highlights that the majority of the public sector is budget-financed. Consequently, the imperatives of human capital audit (and the regular audit function in organizations) are heightened in the public sector (as national funds are at stake and the need for accountability must continuously be emphasized). And in the final analysis, Pitzer (2006, p.4) sees the public sector as the national, regional, and local governments, plus institutional units controlled by government units, acknowledging although that problems may arise in relation to identification of the latter units and further clarification would be required/ recommended. Our understanding of the concept of public sector in this study is in tune with the position of Pitzer (2006).

## **HUMAN CAPITAL MANAGEMENT IN THE NIGERIAN PUBLIC SECTOR: PATHOLOGICAL ISSUES AND THE AUDIT NEXUS**

Human capital management is a strategic and planned approach to managing the most valuable assets of the organization, the workforce (Kucharčíková, Tokarčíková & Blašková, 2015, p.48). This of course includes public sector organizations. But the Nigerian public sector is reeling in sleaze. And the deficiencies of the sector are driven by human capital inadequacies which call for conscientious and continuous audits, devoid of ethnic bias. Essentially, the audit component of human capital management aims at combining workforce and talent data, with business data, to drive organizational growth and performance (Lombardi & Laurano, 2013, p.2). But the business data of the Nigerian public sector is critically deplorable. It is tainted by corruption and service failures. Driving organizational growth and performance in the sector therefore is synonymous with

public expectation for the personnel of the sector to detest corruption and serve the citizens and the nation's taxpayers with a sense of accountability.

Consequently, the absence of the human capital audit culture is basically part of the serious management pathologies in the Nigerian public sector. Hence, in this sphere of the Nigerian socio-economic and management divide, recruitments are made and positions occupied in perpetuity. Akindele (2005, p.12) identifies the incidence of corruption in the Nigerian public sector to include the following:

Giving and receiving of kick-backs for government contracts (done or undone), police insistence on taking bribes as a precondition for performing their duties and, bureaucrats' indulgence in the act of falsifying accounts, false declaration of assets, false declaration of age, falsification and forgery of certificate, perjurious inclination, violation of oaths of office, payment of money for governments' job not done.

Okwoli (2004) in Onuorah & Ebimobowei (2012, p.2) further argues that the Nigerian society is filled with stories of wrong practices such as stories of ghost workers on the pay roll of Ministries, Extra-ministerial Departments and Parastatals, frauds, embezzlements and setting ablaze of offices housing sensitive documents and corruption are found everywhere in the country. Then citing Egwemi (2012), Ibietan & Joshua (2013, p.53) depose that:

Some of the manifestations of corruption in the Nigerian public sector include solicitation or acceptance, directly or indirectly by a public official or any other person, of any goods of monetary, or other benefits, such as a (induced) gift, favour, promise or advantage for himself or herself or for another person or entity, in exchange for any act or omission in the performance of his or her public functions. The offering or granting, directly or indirectly to a public official or any other person for the purpose of illicitly obtaining benefits for himself or for a third party; to mention just a few.

We underscore the issue of false declaration of age in Akindele's study as a matter of continuing human capital audit concern in the Nigerian public service. These officers would remain in service and continue to perpetrate fraud in the system. Madumere & Okegbe (2014, p.2) thus highlight that every year in Nigeria, huge amounts are budgeted for capital and recurrent expenditure but at the end of the year, the authorities who are responsible for the disbursement cannot give account of their stewardship. Gresham & Andrulis (2002, p.1) describe the character of human capital management in deficient public sector locations as follows:

Recruitment practices attend to exigent needs and do not align with training strategies. Career management programs are not effective. Employee retention often focuses more on compensation issues than education and flexible work arrangements. Departing employees take with them valuable knowledge. And lessons learned

are not regularly captured or integrated into decision-making. This workforce-planning environment produces fragmented practices that hinder the ability for governments to achieve optimal outcomes.

We opine that Gresham & Andrulis might as well have been referring specifically to the Nigerian public sector, where recruitment practices only attend to exigent political needs and do not align with profound training strategies for effective service delivery. But according to Lombardi & Laurano (2013, p.5), in order to remain afloat, organizations (public sector organizations inclusive) must update their processes, to enable them respond to current workforce trends and shifts in workforce demographics. Such organizations must continuously engage in human capital audit. In addition to the foregoing, we highlight the truism that effective human capital management in the Nigerian public sector (the audit component) fundamentally requires the application of modern technology.

Organizations must have a view of “who” and “what they have in place today and “who” and “what’ they need for the future (Lombardi & Laurano, 2013, p.9). This of course does not only extend to public sector organizations but the national public sector in its generic connotation. But under the Nigerian scenario “who” and “what” is in place today and “who” and “what’ is needed for the future are extremely woolly conjectures. Thus the Nigerian public sector is playing in the global league devoid of its best possible team members. Additionally, very many of its stellar strikers are in foreign national leagues. The competitiveness of the Nigerian public sector hence remains immensely questionable. But in order to increase the competitiveness of countries (and companies) it is important to create conditions for people not to leave with their human capital and potential abroad, but they are motivated to remain in their country (Kucharčíková, Tokarčíková & Blašková, 2015, p.49).

Essentially, the pathological issues of the Nigerian public sector are human capital management issues. Such issues are centered on the immensity of corruption as perpetrated by the personnel of the sector and a monumental level of lack of accountability by the affected officers. This scenario is rendered more complicated by an apparent lack of will by the political authorities to confront the attendant challenges. And so in the words of Imhonopi & Ugochukwu (2013, p.84) an investigation into public sector operations in Nigeria, as represented by different institutions, reveals a polychromatic picture of deceit, skulduggery, shenanigans, cronyism, political corruption, economic vice, “kleptocracy” and compromise of quality and safety standards for filthy lucre.

## **CONCLUSION AND RECOMMENDATIONS**

Gresham & Andrulis (2002, p.1) had recommended a new workforce-planning approach, which strives to ensure that employees have the right information at the right time to make the right decisions. Human capital audit is critical to this workforce-planning approach. For instance, to disseminate the right information at the right time (in order to make the right decisions) may also require on the part of the workforce a basic condition of ability to apply the appropriate technological tool. It is the audit component of

human capital management that engenders this fundamental condition. And an aspect of the ideas is to leverage technology solutions, to obtain deep insight into workforce and talent needs, without which organizational performance suffers (Lombardi & Laurano, 2013, p.2).

Our dual-pronged recommendations are therefore in the following regards. The institution by all public sector organizations in the country of an accounting information system that is interactive with the public to enable the Nigerian tax payers make contributions on how these organizations meet or fail to meet the citizens' needs. In support of this proposal, Onuorah & Ebimobowei (2012, p.8) had highlighted that public managers are in a business that affects virtually every aspect of a person's life. And people, therefore, have a right to know, how the public managers are doing their business. According to Onuorah & Ebimobowei, the legislators need to take a lead in this regard and enact necessary laws making it obligatory for all public entities to report on their performance. Hence, public reporting on performance of departments or programs should be made mandatory. And in an era of technological wonders, such accounting information packages would not be herculean to develop. Furthermore, in the same regards, we propose in this study, the democratization of access to the career data of all public sector individuals in the country (irrespective of ranks). Whereby the specific administrations and management organs of these bodies are deficient in their human capital audit functions, the public would rely on the public data to keep them on their toes for the guarantee of efficiency and accountability in this dimension.

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