

Office of the Auditor General of Canada

Auditing the Management of People

**An Approach to the Identification
and Selection of Audit Issues**

1997

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I. Purpose and Scope of This Guide

The purpose of this audit guide is to help the auditor develop an understanding and awareness of management-of-people issues within the context of the entity that they are examining. The guide is aimed at assisting in the identification and assessment of the risks associated with an entity's ability to maintain a sound framework, systems and practices for the management of people, and the impact that potential weaknesses in this area may have on the entity's achievement of desired results (outputs or outcomes).

Applicability. The guide can be used in all types of value-for-money audits undertaken by the Office, including special examinations.

Prerequisite. The auditor must have an in-depth understanding of the entity, including its objectives, the critical success factors and the risk profile associated with its cost-effective achievement of expected results.

Approach. Given its purpose, this guide concentrates on describing a management-of-people model rather than constituting an audit model as such. Auditors are assumed to know audit theory and techniques. In the end, the auditor has to choose which relevant areas of the model, if any, should be included in the audit scope. The choice should be based on the auditor's knowledge of the entity and on professional judgment to what parts of the proposed management-of-people model are critical to achieving the results expected for the entity or activity being audited.

The model. The management-of-people model used in the guide should be treated holistically, that is, integrated fully with the overall management system. Management of people is not to be seen as a separate function in a staff relationship with other management activities at the "sharp end" of the business.

II. The Audience for This Guide

This guide is intended for the use of the trained VFM audit practitioner and project manager. The intent is to provide a comprehensive basis for critical thinking and analysis to identify management-of-people issues that are relevant to the audit objective and scope, and to decide if functional assistance might be warranted.

III. How to Use This Guide

Read the guide. This is a guide intended to promote critical thinking. It is not a checklist or a tool kit. So consider how best to use it to meet the scope and objectives defined for the audit. If necessary, adapt the guide to your needs and ignore areas that are not relevant, and supplement the model where it makes sense to do so.

Use the information already available. Gather as much intelligence as possible on desired results, critical success factors, risks, weaknesses and controls associated with the entity or its field of operation. Sources may include reports on previous attest audits, VFM audits, studies, special examinations or, where relevant, academic research and surveys of best practices.

This guide provides no answers. Instead, it raises questions aimed at sparking original and lateral thinking. It is designed to help the auditor make connections that ultimately will ensure that the audit is properly scoped, effective and efficient.

IV. A Management-of-People Model

A. Introduction

Over the years, auditing has evolved from a transaction-driven to a systems-based approach, and then into results-based and risk-based auditing. Audits dealing with management of people have also evolved out of this same pattern. Initially their focus was on payroll transactions and the systems used to process them. With the advent of the *Auditor General Act* of 1977 and value-for-money auditing, the audit focus shifted to other personnel systems -- such as human resource planning, training and job evaluation -- and their effect on, for example, the productivity of public servants or the cost of managing the payroll. From 1983 on, however, a series of studies conducted by the Office, notably *Constraints to Productive Management in the Public Service* (1983), *Well-Performing Organizations* (1988) and *Values, Service and Performance* (1990), seemed to point to factors other than personnel systems that had significant impacts on the performance of public sector organizations. In addition, there was increasing dissatisfaction with systems-based auditing. For example, a survey of practices conducted in 1988 revealed that:

- management of people was considered in value-for-money audits only if payroll cost was material;
- when human resource issues were examined, the focus was often on traditional “personnel” functions, (staffing, job evaluation, compensation, etc.), with few tangible results in relation to the time and effort spent;
- findings related to the management of people were dissociated from other audit observations and reported separately, and cause-effect relationships were not always evident;
- insufficient consideration was given to the management of people as a critical and integral part of managing an organization to achieve results;
- scoping sometimes failed to identify critical management-of-people issues having a significant impact on the results of the audit entity; and
- there was a tendency to steer clear of so-called “softer” issues, such as the nature of the organizational climate and the quality of the leadership or direction provided by entity management.

Today, there is recognition that management-of-people issues need to be more integrated with other issues in value-for-money audits, and that rather than simply auditing processes audits should focus mainly on those aspects of the management-of-people framework, systems and practices that impact on the entity's results. There are several reasons justifying this shift. For one, the nature and focus of management in organizations has changed: there is more acceptance

of the critical importance of managing people well to achieve results. Furthermore, successful organizations, enterprises and ventures of all kinds, whether in the public or the private sector, tend to deal with human resource issues in a more strategic comprehensive and fully integrated way, rather than as a staff-oriented function somewhat incidental to core business activities.

For all these reasons, there is a need for a revised approach to auditing management-of-people issues.

This guide, which describes the revised approach, has two parts:

- a brief section setting down fundamental or basic principles and tenets on which the revised approach to auditing management-of-people issues is constructed; and
- a concise description of the management-of-people model at the core of the approach, followed by a more detailed description of a number of “families of outcomes” that can be expected in organizations where the management of people is effective and efficient. For each “family of outcomes”, criteria are proposed, supplemented with potential questions for consideration. For each “family of outcomes” a short list of possible symptoms, performance indicators, or prompts is provided. This list is aimed at assisting the auditor in determining if there might be an audit issue in the specific “family of outcomes” being considered for inclusion in the audit. Finally, for each “family of outcomes”, where appropriate, examples drawn from experience are also provided.

B. Some Fundamental Principles in Managing People

- People are key to effectiveness.

Organizations are essentially people working together to achieve an objective. People manage the other resources (capital, information, equipment, time, etc.) used by any organization. If people are directed and managed effectively, used efficiently and provided with the proper incentives, they will achieve results. It is only through people that desired results are achieved.

- The management of people is every manager's responsibility.

Managing people effectively and efficiently is the responsibility of every manager in the organization. It is not solely the responsibility of the human resource department or personnel units. It is managers who must organize people and provide them with direction and feedback on their performance. Managers also play a determining role in creating a productive and stimulating work environment.

- The management of people has to be integrated into all aspects of the entity's business.

Achieving results requires that all resources of the organization -- people included -- are managed effectively. Thus, management-of-people issues cannot be dissociated from other issues. Among other things, a proper resource mix is critical to any organization and trade-offs have often to be made (between make or buy, technology or people, for example). A labour-intensive organization

that ignores technology, for instance, will not likely survive in a competitive environment, even if people in that organization are well managed. So, while managing people well is a necessary condition for any organization's results and success, it is not sufficient; other conditions must also be met.

- A clear, well-defined model for management of people can be constructed.

Traditionally, textbooks on human resource management have focussed on personnel functions and systems. At the same time, management literature and Office studies on such matters as well-performing organizations, values, service and performance have demonstrated the importance of good “management-of-people” practices, such as providing direction or recognizing and rewarding good performance. Furthermore, management-of-people in the public service differs in some fundamental ways from managing people in the private sector, most notably because the legal and administrative framework is different. For example, labour relations in the core public service are not governed by the same principles, and hiring practices must be more transparent and in accordance with the “merit principle”. Thus, in the public sector the government seeks to achieve not simply program objectives but also “social” objectives such as fairness, equity and representation.

A comprehensive “management of people” model requires that all three elements -- the legal and administrative framework, the personnel systems and the management practices -- be considered when assessing management-of-people issues in an organization. It must be emphasized, however, that while this guide proposed a generic basic model there is no one best way or unique approach to managing people. Managing people in a research environment, for example, may have different requirements than managing people in an industrial or manufacturing setting.

C. Some Fundamental Principles in Auditing Management-of-People Issues

- The management-of-people model proposed in this guide is not an audit model.

Unless the auditor intends to assess all aspects of human resource management in a given organization, the model proposed in this guide should not be used as an auditing model. Instead, it is intended to assist auditors in their thinking process for identifying risks or selecting management-of-people issues of potential significance for the entity or activity they are auditing. Appropriately used, the model should add value to the process that must take place in order to formulate questions about management-of-people practices, human resource systems and the appropriateness of the existing legislative and administrative framework to the entity's cost-effective achievement of results (outputs and outcomes). The model does not provide answers but rather suggests questions to consider. It is by no means prescriptive.

- The scoping and selection of people issues should be results-based and risk-based.

Management-of-people audit issues should be results-based and risk-based; that is, business-driven. The audit should focus only on aspects of human resource management that are consistent with the audit objective and essential to achieving business or program results and, where appropriate, other government objectives. The audit scope should be set by selecting key areas from the *management-of-people model* that have a significant impact on achieving

business, program or government objectives for the entity. Occasionally, and depending on circumstances, audit work may also focus on specific human resource systems -- such as job evaluation or human resource information systems -- either because they are the object of the audit or because of the high cost associated with such systems. In most instances, the audit of human resource systems will require specialized functional expertise.

D. The Management-of-People Model in Summary

The management-of-people model proposed here has three basic elements.

1. The Human Resource Management Framework

Managers are not free to manage people any way they like. Whether in the private or the public sector, managers have to operate within a more or less rigorous legislative and administrative framework established by Parliament or, in the federal government, by central agencies. For example, in the federally regulated private sector, companies have to abide by the terms of the *Canada Labour Code*. In the core public service, a number of Acts and Regulations and Treasury Board and Public Service Commission policies and directives set important parameters for managing people in departments and agencies. For example, managers in the core public service must comply with various acts such as the *Public Service Employment Act (PSEA)*, the *Financial Administration Act (FAA)*, the *Public Service Staff Relations Act (PSRA)*, the *Official Languages Act (OLA)* or the Work Force Adjustment Directive (WFAD). Managers in Crown corporations, even if generally less constrained than managers in the core public service, must also take into account an external framework that includes various legislative requirements such as those contained in the *Canada Labour Code*, including Health and Safety Regulations, in the *Official Languages Act* or in the *Public Service Compensation Restraint Act* and many others, including provisions governing the management-of-people explicitly set out in their enabling legislation. Whether from the perspective of a company, Crown corporation, department or agency, the sum of these policies, directives and guidelines constitutes the external human resource management framework.

In addition to this external human resource management framework, managers also have to comply with a number of policies, directives and guidelines specific to their company, department or agency covering a wide range of subjects. For example, a federal department or agency may want to more specifically tailor central agency guidelines on employment equity or some aspects of the government's post-employment guidelines. The sum of the policies and guidelines specific to the company, departmental or agency constitutes the internal human resource management framework.

Thus, in managing people, managers in the private as well as the public sector, whether a Crown corporation, a department or an agency, must take into account the requirements of both the external and the internal framework. Exhibit 1 provides a listing of key elements of the human resource management framework found in most organizations.

Exhibit 1: KEY ELEMENTS OF A HUMAN RESOURCE MANAGEMENT FRAMEWORK

By definition the *human resource management framework* should include all parameters set externally or internally that shape or frame management-of-people activities in the entity. Thus, the list provided in this exhibit is by no means, not exhaustive.

LEGISLATION, REGULATIONS, BY-LAWS

Includes legislation and regulations governing human resource management, such as the *Financial Administration Act*, the *Public Service Employment Act*, the *Public Service Staff Relations Act*, the *Canada Labour Code*, the *Official Languages Act*, the *Public Service Superannuation Act*, the *Canadian Human Rights Act*, the *Compensation Restraint Act*, the *Employment Equity Act*, and the *Privacy Act*. It also includes all regulations adopted in the context of these legislations, for example, by the Treasury Board, the Public Service Commission or the Public Service Staff Relations Board. Legislation and Treasury Board policies, directives and guidelines applicable to departments and agencies are available in a CD-ROM format.

The enabling legislation for Crown corporations often contains specific provisions on the management-of-people. These provisions may deal with matters such as the hiring, suspension or dismissal of staff, the determination of pay and other allowances, the status of employees including for superannuation purposes, conflict-of-interest situations and the roles and responsibilities of corporation officials or the board of directors in relation to these functions.

GOVERNMENT/DEPARTMENT/AGENCY POLICIES

Includes general government human resource policies as well as specific policies or directives such as the Conflict of Interest or Post-Employment guidelines, the Work Force Adjustment Directive and other similar directives. It also includes collective agreements and other employment contracts signed by the government, departments or Crown corporations that are binding, such as temporary help contracts, personal services contracts, employee leasing or contracting-out arrangements. Orders-in-council or Treasury Board decisions or, in the case of Crown corporations, decisions by boards of directors should also be included.

VALUES

Includes the broad principles espoused -- explicitly or implicitly -- and championed by the organization, such as service to the public, the provision of high-quality products and services, respect or caring for people. Values are generally aimed at focussing efforts as well as fostering ownership, pride, commitment and loyalty across the organization. Values condition employee behavioural though organizational values may at times conflict with personal values.

STRUCTURE/ROLES AND RESPONSIBILITIES

This includes the structure and the work design adopted by the organization (centralized or decentralized, by function or product, etc.) It also includes the structure and roles and responsibilities in human resource management including the role of the Human Resource Directorate (the personnel division) with regard to this activity.

AUTHORITY/CONTROL FRAMEWORK

Includes the formal delegation of authority for decisions concerning personnel and the control mechanisms in place to ensure that this authority is properly exercised within parameters set. It also includes reviews and audits such as audits by the Canadian Human Rights Commission (for employment equity), the Public Service Commission (for staffing or on behalf of the Treasury Board), the Commissioner of Official Languages or inspections under the Canada Labour Code for ensuring compliance with health and safety regulations. It also includes relevant audits or reviews by the internal audit/evaluation unit(s) of the organization. It finally includes external audits or special examinations conducted by the Office or requested by the organization or the government.

2. The Human Resource Management Systems

To assist and at times to control managers in their management of people, organizations often set up human resource systems that should, when properly designed, facilitate the management-of-people from a strategic perspective and for the cost-effective achievement of results or objectives while supporting good management-of-people practices. Such systems are normally defined in accordance with traditional personnel-function activities; for example, human resource planning system; hiring (and de-hiring or downsizing) system; career development system; compensation system; performance management system; learning (formerly training) system; etc.

Exhibit 2 lists key human resource systems found in most large organizations.

Exhibit 2: KEY HUMAN RESOURCE SYSTEMS AND CRITERIA FOR ASSESSING THEIR SUITABILITY AND INDICATORS OF POTENTIAL PROBLEMS

This exhibit provides a general criterion for each of the key human resource systems. A list of indicators indicating potential problems in relation to each system is also provided. Since many human resource systems are interconnected, the auditor should use caution; indicators may not reveal cause-effect relationships.

HUMAN RESOURCE PLANNING SYSTEM

Criterion. There are adequate action plans -- resulting from the analysis of accurate, complete and timely information -- integrated with strategic and business plans to accommodate the stocks and flows of people with the necessary talent to meet operational requirements and achieve intended results in a timely and cost-effective way.

Indicators of potential problems. Objectives not met because of insufficient resources; high labour cost compared with similar organizations; inappropriate knowledge/skills mix; poor productivity ratios; high vacancy or turnover rates; repetitive and costly downsizing initiatives; absence of badly needed knowledge/skills for key activities; incompetence or obsolescence of knowledge/skills in key functions; significant actual or anticipated shortages of staff; delays in acquiring needed staff impacting on service delivery; lack of continuity in key functions; shortages of qualified candidates for key functions; rapid increase in the average age or years of experience of staff; lack of available statistics on staff profile. Inadequate ratios for certain types of employees (i.e. permanent/temporary, etc.), absence of succession planning for key positions resulting in vulnerability.

HIRING/DEHIRING SYSTEM

Criterion. The proper mix (permanent, temporary, contract, etc.) and number of people with the talent (knowledge, skills, aptitudes, attitudes and potential) necessary to perform the current and future tasks to achieve desired results are recruited and hired/dehired in a timely and cost-effective way.

Indicators of potential problems. High vacancy rate for key positions; high cost of recruitment; high cost of training; inability to staff positions; significant delays in staffing key positions; high turnover rates, notably among recent recruits; high incidence of reported or perceived poor performance or products; incompetence of staff in key functions; frequent behaviour or attitudinal problems; repetitive and costly termination of staff through downsizing or other means.

TRAINING/LEARNING SYSTEM

Criterion. People are systematically provided with the opportunity to acquire the needed knowledge and skills to perform current and future tasks, in order to achieve the expected performance and results and to constantly improve their performance and that of the organization.

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**Exhibit 2: KEY HUMAN RESOURCE SYSTEMS
AND CRITERIA FOR ASSESSING THEIR SUITABILITY
AND INDICATORS OF POTENTIAL PROBLEMS (Continued)**

Indicators of potential problems. Lack of training opportunities; frequent or serious work accidents or incidents; low productivity; poor quality of products or services; incompetence or obsolescence of knowledge/skills; lack of qualified candidates for promotion to key positions; meagre (or excessive) training budgets or training programs compared with similar organizations; no clear link between training programs and organizational objectives.

CAREER DEVELOPMENT SYSTEM

Criterion. The organization's needs for people with the necessary talent to achieve results in the long term are met through the provision of planned developmental opportunities --such as assignments and work experiences and through support to career-planning activities of individuals with relevant potential and career aspirations.

Indicators of potential problems. Shortage of qualified internal candidates for promotion; absence of support mechanisms for career development; high turnover rate, notably key people leaving for lack of career development opportunities; inability to recruit in spite of attractive compensation and labour market availability; external recruitment always used to fill senior or key positions; high ratio of people on assignment/work experience not returning afterward.

PERFORMANCE MANAGEMENT SYSTEM

Criterion. People -- individuals, teams or work units -- are constantly meeting or exceeding the performance expected of them and, through the periodic provision of relevant feedback, training, support and incentives, are motivated to continuously improve their performance and that of the organization. **Indicators of potential problems.** Results achieved differ significantly from those expected in nature, quantity or quality; people not knowing what performance is expected of them or what performance they and their team/work unit are achieving; no performance expectations set by management for individuals, teams or work units; absence of financial and non-financial reward and recognition programs; absence of clear links (or incongruence) between financial and non-financial incentives available to employees, teams and work units and short-term and longer-term results; poor productivity.

ORGANIZATIONAL DESIGN/JOB EVALUATION SYSTEM

Criterion. The organization design supports the effective and efficient performance of work activities and the optimum use of people to achieve expected results, and job design and job evaluation practices provide a sound basis for compensation decisions and job satisfaction.

Indicators of potential problems. High ratio of managerial, support staff or functional experts to line/operational personnel compared with similar organizations; inefficient or expensive operations; high cost of product/service compared with industry standards; long delays in getting timely decisions; people not understanding or not knowing how their work relates to organizational objectives; low level of job satisfaction; high turnover of staff performing certain functions; formal or informal complaints about pay inequities; significant rates of error in the performance of certain functions; high level of absenteeism; perceptions of inequities in workloads among units or employees.

COMPENSATION AND INCENTIVE SYSTEM

Criterion. Compensation, including financial and non-financial incentives, permits the attraction, retention and motivation of people with the necessary talent for the effective performance of activities and the cost-effective achievement of desired results in the short and long terms.

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**Exhibit 2: KEY HUMAN RESOURCE SYSTEMS
AND CRITERIA FOR ASSESSING THEIR SUITABILITY
AND INDICATORS OF POTENTIAL PROBLEMS (Continued)**

Indicators of potential problems. Difficulty in attracting key personnel; high turnover of staff for better compensation; absence or perceived lack of sufficient links between compensation and results in the short or long term; pay levels significantly lower or significantly higher than in similar organizations; high cost of product or service; low productivity; compensation policy not known, compared with similar organizations; high level of reclassifications without visible links to change in work content; no criteria or criteria not known for merit pay; non-congruence between merit pay and results achieved; exceptional efforts not recognized or rewarded.

HEALTH/SAFETY SYSTEM

Criterion. People are adequately protected from serious threats to their physical integrity, their physical and mental health, and their safety and security and, when appropriate, timely and cost-effective assistance is provided to employees in need.

Indicators of potential problems. Frequency and severity of workplace-related injuries or diseases; high absenteeism for medical reasons; high level of near-accidents; threats to health and safety of workers not known with certainty; lack of appropriate measures in place to deal with potential accidents/injuries; incidents or accidents not investigated; complaints or bad reports from external inspectors such as Labour Canada or the Fire Marshall; absence of a union-management structure to deal with health and safety issues; absence of corrective action on previous reports.

EMPLOYEE/LABOUR RELATIONS SYSTEM

Criterion. Employee/labour relations are managed in the context of operational and business plans and strategic goals and objectives set for human resource management, to ensure the commitment and dedication of employees to the attainment of intended results in the short and long terms while providing for job satisfaction and a good balance between work and other activities.

Indicators of potential problems. Significant/frequent legal or illegal work stoppages or work disruptions; upward trends in days lost due to work disruptions/stoppages compared with the industry or similar organizations; high level of employee grievances or complaints to management or external agencies such as the Public Service Commission, the Canadian Human Rights Commission and significantly higher cost of operations than in other similar organizations; ratio of time spent by managers in arbitration/grievance process compared with operations; inefficiencies; percentage of grievances/complaints appeals won/lost by management; poor work climate or confrontational work environment; systematic leaks of confidential or organization-sensitive information; poor morale; high absenteeism.

EQUITY/ETHICS SYSTEM

Criterion. The work environment, human resource systems and management practices are free from unfair, unjustified, illegal discrimination while positive behaviour is reinforced and any unacceptable behaviour is dealt with appropriately and promptly.

Indicators of potential problems. Number of formal or informal complaints of discrimination or other illegal or unacceptable behaviour such as harassment; absence of policy or process to deal with unacceptable behaviour; expensive settlements of complaints; unacceptable behaviour related to the performance of high-risk duties not identified; incidents not appropriately dealt with or lack of corrective action, poor image of the organization due to scandals or numerous leaks of facts or allegations of inappropriate behaviour or wrongdoing.

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**Exhibit 2: KEY HUMAN RESOURCE SYSTEMS
AND CRITERIA FOR ASSESSING THEIR SUITABILITY
AND INDICATORS OF POTENTIAL PROBLEMS (Continued)**

HUMAN RESOURCE INFORMATION SYSTEM(S)

Criterion. Decisions about human resources -- affecting individuals or people in the organization as a whole -- are made on the basis of analyses of accurate, relevant, complete and timely information.

Indicators of potential problems. Decisions or plans concerning people frequently reversed, modified or not carried out; expected results for human resource management not achieved; frequent after-the-fact reaction to foreseeable human resource problems; no cost-effective rationale for key human resource decisions such as extremely costly downsizing initiatives; significant unintended effects following human resource decisions; incongruent or inconsistent decisions about people; significant delays in making key human resource decisions.

3. The Management-of-People Practices

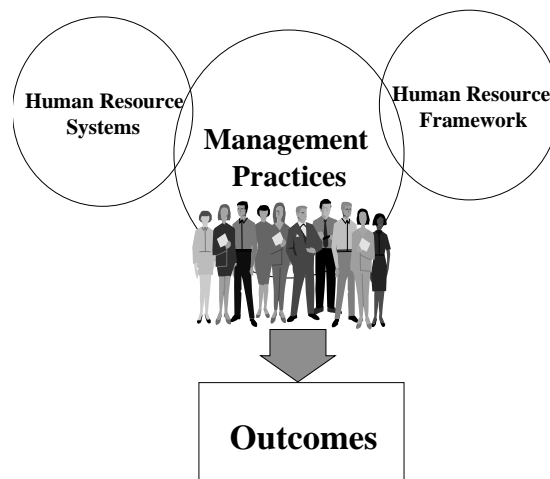
Managers in any organization, through their relationship with employees and by their daily decisions, are the most determining factor in the quality of human resource management. The management-of-people really occurs at the interface between managers and the people working with them. For example, it is managers who provide people with direction and feedback on their performance. Managers also play a determining role in the creation of a productive and stimulating work environment. It is also managers who communicate information to employees and who must listen to their concerns so that senior management can take them into consideration. Management practices are at the core of managing human resources. Exhibit 3 lists management-of-people practices normally carried out by managers.

Exhibit 3: EXAMPLES OF MANAGEMENT-OF-PEOPLE PRACTICES

Hire staff	Provide feedback
Organize work	Recognize good work
Assign tasks	Reward performance
Provide direction	Encourage employees
Set goals and objectives	Take disciplinary measures
Communicate	Recommend people for promotion
Coach employees	Identify potential of individuals
Control work	Arbitrate or resolve conflicts
Assess performance	Approve leave and other requests
Write performance appraisals	Bring employees' concerns to management
Provide training opportunities	Model desired behaviour
Provide tools and support	

In any organization, all three key elements -- management-of-people practices, the human resource management framework and human resource systems -- interact and overlap significantly. For example, human resource systems and management-of-people practices should normally be consistent with legislation or government regulations. Similarly, management-of-people practices should be congruent with systems put in place by management, while respecting the spirit and letter of the legislative framework. Management practices are thus influenced by the nature and extent of the organization's human resource systems, while the systems and the practices must be consistent with the legislative and administrative frameworks governing the management of personnel. Each of the three elements interacts with the others, affecting a number of outcomes that will be described later in some detail. Figure 1 provides an illustration of the model with its three elements in relation to outcomes.

Figure 1: A Management of People Model



E. Intended Benefits of Using the Proposed Model

By using the management-of-people model proposed in this guide and by focussing only on management-of-people issues that affect the results of the entity being audited, a number of benefits should flow:

- only significant or critical management-of-people issues will be included in the audit scope;
- management-of-people issues will be fully integrated with other program or management issues being examined, and the focus will be on risks to the cost-effective achievement of the audit entity's goals and objectives;
- where relevant, “soft” issues will be considered;

- the link with results and risk will permit a determination of the extent to which management-of-people practices and human resource systems actually support the cost-effective achievement of the audit entity's goals and objectives; and
- where relevant and necessary, issues concerning the appropriateness of the external or internal human resource framework, including legislation or policies, will be raised when and where they may unduly constrain or conflict with program objectives or cost-effectiveness. Exhibit 4 provides an illustration of the application of the model in one entity and some of the resulting findings.

**Exhibit 4: AN APPLICATION OF THE HUMAN RESOURCE MANAGEMENT MODEL:
FINDINGS RESULTING FROM THE STUDY
OF HUMAN RESOURCE MANAGEMENT
IN THE YUKON TERRITORIAL GOVERNMENT (1993)**

... We found that many of the issues -- and in some cases solutions -- have been known for a long time but that little or no corrective action has been taken. In our opinion, this is caused by:

- A legislative and administrative framework and practices that fail to recognize:
 - the significant increase in size, complexity of the YTG notably the increase in the number of programs and services provided to Yukoners, resulting in the need for more flexible, adaptable and innovative approaches to human resource management;
 - the corresponding increase in the number of policies, programs, rules and procedures and jurisprudence dealing with increasingly complex and important human resource issues, such as collective bargaining and employment equity and their impact in an era of ongoing fiscal restraint; and
 - the key role that departments and agencies must play in resource management, to deliver programs to Yukoners efficiently and effectively and to meet government objectives.
- Inadequate leadership from central agencies and departments that fails to:
 - provide strong, clear and consistent direction and guidance in terms of vision, goals, objectives, policies and priorities for human resource management;
 - establish adequate mechanisms to co-ordinate the development of human resource policies and systems to ensure that there is a better balance between the "corporate" needs of the YTG and the needs of departments, and to integrate human resource policy and system development with expenditure management and the management of other resources such as information technology; and
 - to enable or "empower" departments, managers or employees through the delegation of authority compatible with responsibilities and the establishment of effective accountability mechanisms.
- The absence of a performance management culture as illustrated by the absence of a rigorously managed change process, meaningful performance standards and indicators, and review and evaluation mechanisms for continuous improvement.
- The failure to fully recognize the link between sound management-of-people practices and efficient and effective program delivery to Yukoners. Improvements in services are a function not of rules or systems but of belief, reinforced through day-to-day decisions and actions, that properly-led, competent, empowered and well-motivated employees are the key to a better and more effective and efficient Yukon public service.

F. Putting the Model to Use: Four Key Questions

The proposed human resource model, when optimally tuned and linked to the audited entity's mandate, mission, objectives and goals recognizes people as a key and critical resource for achieving organizational effectiveness and efficiency. It also recognizes that management-of-people practices, relevant human resource systems and the human resource framework must be consistent with each other and congruent with the cost-effective achievement of the entity's goals and objectives. The key issue for the auditor is the choice about which parts - or their components - of the proposed human resource model are relevant to the audited entity. Auditors must decide what management-of-people practices, what human resource systems and what part of the human resource management framework are critical to the entity's cost-effective achievement of goals and objectives - that is, key to its business. The auditor's ability to make the right choices is a function of understanding the business, identifying key success factors and conducting a risk analysis.

In this context, four basic questions need to be answered:

- 1. What critical management-of-people activities or issues can significantly affect the effective and efficient operation of the audited entity and the expected results?**

For each of these critical activities or issues:

- 2. Are the external and internal human resource frameworks in place for this program adequate to ensure that results will be achieved in a timely and cost-effective way?**
- 3. Are the human resource systems supporting the management-of-people practices required to ensure that results will be achieved in a timely and cost-effective way?**
- 4. Are the management-of-people practices of managers adequate to ensure that results will be achieved in a timely and cost-effective way?**

If, upon examination, evidence demonstrates that the answer to these questions is yes, the auditor should be able to safely assume that human resources are being managed with due regard to efficiency and effectiveness within the parameters set .

G. The Cost-Effective Management of People: The Outcomes

If organizations manage people well, a number of outcomes normally should be achieved. A corollary is that if such outcomes are not achieved, there likely are significant weaknesses in the way people are managed, either because the human resource management framework or practices are inadequate or because the human resource management systems are not supportive of the management-of-people practices necessary to achieve of the expected results cost-effectively. These “families” of outcomes can be defined as follows:

Quality of leadership and supervision

The work force is led by a cohesive, competent and sufficiently stable management team providing clear direction, modelling the values espoused by the organization and exercising sufficient supervision and control over the work of employees.

A sustainable, competent work force

The work force has the mix profile (of permanent, temporary and contract personnel) and the knowledge, skills, aptitudes and attitudes to accomplish the various tasks necessary to achieve results in a timely and cost-effective.

An adaptive and learning work force

The work force is given opportunities to acquire work experiences, knowledge and skills and to learn from experience and experimentation, so as to improve its performance over time while adapting to changing circumstances.

A productive work force

The work force is organized and managed to make the best use of available knowledge and skills for the timely and cost-effective achievement of expected results.

A work force accountable for results

The performance of the work force -- at the individual, team or corporate level -- is periodically assessed against expectations and reported to the appropriate authorities; if necessary, adjustments are made.

A safe and enabling work environment

The work environment is safe -- from a physical as well as from a psychological or emotional perspective -- and fosters the motivation and commitment of employees to achieve results and improve performance, while taking into account their need for job satisfaction.

An ethical work force

The work force behaves in a manner consistent with the nature of the organization, the tasks carried out and the values espoused, so as to avoid unacceptable behaviour -- such as real or apparent conflict of interest -- that might negatively affect the organization's image or credibility, or harm individuals, groups of individuals or other organizations.

Key human resource assets are safeguarded

Key human resource assets -- know-how, skills, intellectual property or expertise -- constituting unique characteristics of the organization or a competitive advantage are adequately safeguarded against loss.

The next sections describe in somewhat greater detail each “family of outcomes” and the implications. For each family of outcomes we have a short introduction to the subject matter; and we propose a criterion, identify potential indicators of problems that can be associated with this outcome, and suggest questions for the auditor to consider. Where available, we provide illustrations of findings from previous audits.

V. Quality of Leadership and Supervision

A. Introduction

Effective leadership and supervision by management is key to achieving results. For this reason it is not rare to see organizations devoting time and effort to developing a strong, cohesive and experienced management team. For example, activities such as developing competency profiles and sophisticated assessment centres for managers, attractive and effective executive compensation packages, and executive development and succession planning programs are considered critical activities in most large organizations.

In assessing the quality of leadership and supervision in an entity, the auditor should be concerned with management's ability to provide direction and a vision of the organization's future. The auditor should also be concerned about management's ability to work cohesively at building the organization to produce expected results, and to mobilize the energies and talents of a diverse workforce to that effect. Exhibit 5 provides an illustration of some of the effects of an inability to provide effective leadership.

**Exhibit 5: THE INABILITY TO PROVIDE EFFECTIVE LEADERSHIP
AND SOME OF ITS EFFECTS**

(We have noted)...while there is wide support for the vision ... there is much less support for some of the specific measures adopted by management to achieve the vision, and significant concerns about the way these measures were being implemented.....Frequent iteration or significant modifications in the definition of the vision and key operating concepts have contributed to inefficiencies and to real or perceptions of confusion creating a sentiment of a lack in confidence in management's willingness or ability to realize the vision. There is also a high degree of anxiety among staff and concern about the rate of change...

The auditor should also consider the experience, strength and stability of the management team, since significant weaknesses at that level, such as excessive turnover, can often seriously affect results in the short or longer term. For example, in a study of Special Operating Agencies (SOAs) it was reported that short tenure of deputy ministers and heads of agencies prevented the establishment of solid accountability relationships and clear objectives for such organizations. Exhibit 6 provides an illustration of concerns raised in relation to developing a strong management capability in scientific research establishments and the effect on the quality of management of research activities.

It is not sufficient for management to provide clear direction. One key responsibility of management is exercising adequate supervision and control over the work of employees to

ensure that results will be achieved within the parameters set for the type and nature of its operations.

(Note: Other important aspects of leadership are also covered in other parts of this guide, such as managing performance, providing a safe and enabling environment, etc.)

Exhibit 6: DEVELOPING A STRONG MANAGEMENT CAPABILITY: NOT A PRIORITY

We also found that, in spite of many recommendations to that effect, developing a strong management capability is still not a priority in most of the research establishment visited. We noted a relationship between the level of efforts made by research establishments to improve their management capability, and the quality of the management of research and development activities

B. Criterion

The work force is led by a cohesive, experienced and sufficiently stable management team providing clear direction, modelling values espoused by the organization and exercising sufficient supervision and control to ensure that results will be achieved in a timely and cost-effective way.

C. Indicators of Potential Problems

Lack of continuity; too-frequent major reorganizations; lack of accountability for results; loss of corporate memory or expertise; high level of confusion or insecurity among staff; inefficiencies; major projects being abandoned or significantly delayed; challenges to management's credibility with employees/stakeholders or clients; different results achieved from those expected; inappropriate activities carried out without management's knowledge; unacceptable behaviour not being addressed; absence of competency profile for management positions; absence of succession planning; high turnover; "turf battles".

D. Questions for Consideration

Do employees clearly know where the organization is heading, what the privileged organizational values are and what goals/results are to be achieved?

Is management modelling the values it espouses (i.e. "walking the talk", delivering on what has been promised, etc.)? Are management actions and decisions consistent with statements it has made?

Does the management team have the experience, the skills -- including people-management skills, such as listening skills-- and the stability required to effectively manage the organization and to achieve results?

Are employees confident that the vision or goals and objectives set will be achieved?

Is management cohesive and working as a team?

Given the risks, is management exercising adequate supervision and control over the work of employees?

VI. A Sustainable, Competent Work Force

A. Introduction

A sustainable, competent work force is one that, among other qualities, has a proper mix of people in a variety of employment relationships (i.e. permanent, temporary, contract personnel or partnerships) to meet variations in demand for products or services, or to meet special needs on an ad hoc basis. It is also one that possesses the competencies and behaviours -- such as knowledge, aptitudes, skills, values, attitudes, and mindset needed to achieve expected results in a timely and cost-effective way.

Toward that end, employees must meet all the current and future requirements and other related standards associated with the performance of their job or function. Exhibit 7 provides a list of global competencies and can help auditors determine which competencies are critical to the audited program or activity.

It must be noted however that the possession of the right knowledge, aptitudes and skills is not, in itself, sufficient to produce high performance. Other factors may also play an important role. For example, achieving high performance requires that employees be committed to the organization and its work and motivated to perform their tasks and achieve results.

B. Criterion

The work force has the mix profile (i.e. permanent, temporary or contract personnel), and the knowledge, skills, aptitudes and attitudes necessary to accomplish the various tasks needed to achieve results in a timely and cost-effective way.

C. Indicators of Possible Problems

Service expectations not met, or not likely to be met in the future; inability to perform certain key tasks; inappropriate mix of staff for duties performed; high termination costs; significant mistakes, errors or omissions in the performance of duties; high level of user complaints or dissatisfaction with service or product; significant number of perceived poor performers; absence of competency profiles; absence of strategic human resource planning; absence of training or development strategies; little or no training opportunities; statements of qualifications used for recruitment and hiring either too general or too specific in relation to needs; inadequate compensation levels compared with similar organizations; efforts to acquire business-related knowledge and skills not recognized or rewarded.

Exhibit 7: GLOBAL COMPETENCIES – A MODEL

Principles and Values

Objectivity, transparency, equity, competitiveness, discernment, efficiency, selectivity, business-orientation, loyalty, ethics

Competencies and Skills

Thinking Skills. Self-learning, global thinking, strategic thinking, innovation, analytical skills, decision making

Communication Skills. Capturing attention, listening skills, writing skills, ability to convince

Human Relations Skills. Respect for others, information sharing, teamwork, networking, persuasiveness, ability to obtain consensus, sensitivity, ability to resolve conflicts

Personal Skills. Assurance, innovation, flexibility, self motivation, self improvement

Organizational Skills. Ability to manage resources, ability to plan, ability to deliver results, ability to assess performance, ability to use available information

Service-Orientation Skills. Partnering skills, service orientation, consultation skills, ability to determine needs, focus on excellence

Technical/Operational Skills. Demonstrated know-how, computer skills, specific technical skills, ability to work with numbers, office skills

Business-Orientation Skills. Ability to use financial information, respect for given framework, business management skills, decision-making skills, ability to generate revenues, business acumen

Human Resource Skills. Team-management skills, motivator, ability to generate commitment, participative, ability to organize work, team-building skills, mentoring, develop skills and potential. ability to provide feedback, manage and appreciate diversity, caring

Leadership Skills. Creating a shared vision, achieving the vision, facilitate the achievement of objectives, managing change effectively, creating a healthy work environment, inspirational, putting knowledge of business to use

Personal Characteristics

Extroversion, conscientious, amiable, emotional stability, open-mindedness

Physical Characteristics

Strength, coordination, balance, dexterity, flexibility, precision, height, reflexes, stamina, visual acuity, hearing, sensory skills, acuity of smell

Psycho-physical Capabilities

Vitality, resistance to stress, energy, healthy, alert, ability to concentrate

Source: Public Service Commission

D. Questions for Consideration

Have core competencies needed for the timely and cost-effective achievement of results been adequately defined in terms of knowledge, attributes, skills, attitudes, values and behaviours?

- Are there periodic assessments/reviews of the actual work force profile in relation to the desired profile? Are gaps being addressed?
- Is the work force managed in a way to ensure that the organization will have the work force profile it will need in the future? For example:
- Are recruitment and hiring strategies adequate to ensure that the people hired by the organization will have the desired competencies, values and motivation to perform and to achieve desired results in the short and long terms?
- Do the recruitment and employment strategies provide for an adequate and continuous mix of various categories of workers (permanent, temporary, casual or contract, etc.)?
- Are appropriate strategies -- such as recruitment, hiring and termination/retirement strategies -- in place to create a flow and turnover of staff appropriate for the nature of the work to be performed now and for the organization's future requirements?
- Are the potential talents of the work force identified and developed in a way that takes into consideration the organization's long-term needs, as well as the needs and aspirations of employees?

Do workers currently employed have the necessary competencies to accomplish their tasks efficiently and effectively and to achieve desired results?

Do terms and conditions of employment -- including compensation and other benefits -- allow for the nurturing and the maintenance of overall work force competency?

Do the corporate culture and the performance recognition and reward systems (intrinsic and extrinsic) recognize competency and personal development initiative as factors to be encouraged and promoted?

VII. An Adaptive and Learning Work Force

A. Introduction

A pervasive, increasingly important and ever-present responsibility of managers is to ensure that their organizations adapt to changing conditions and circumstances, learn from experience and innovate to improve performance over time. Managers thus have to envision, plan, manage and implement change that will result in improved economy, efficiency and effectiveness -- and improved performance by employees -- in the future.

Implementing and managing change is a difficult task in any organization, but is particularly difficult in public sector organizations. For example, legislation, organizational boundaries, cultural impediments, functional or public interest versus client/customer perception of problems, public policy considerations and the characteristics of the budgetary process may significantly constrain the ability to change or to effectively manage change. For example, in 1992 the Office commented on the need to reconcile innovative practices for improved services with the existing parliamentary control framework.

Conventional wisdom holds that change is a continuous process. This is true, but meaningful *change projects* must have a beginning, middle and end. Without a goal or target and quantitatively measured milestones along the way, efforts at change to improve performance against objectives may quickly become slogans without substance. Furthermore, substantial change requires a structured process to bring it about.

The literature of change management suggests principles and practices that seem to increase successful outcomes. These principles and practices can provide auditors with lines of inquiry where, with careful analysis, professional judgments might usefully be reached. Exhibit 8 summarizes some of the key principles identified in the literature for the successful implementation of change. Exhibit 9 summarizes some pitfalls often associated with change management.

To implement change there are a number of *things* or *dimensions* that can be acted upon or used as leverage to effect change. Changes in any or all these dimensions impact greatly on the way employees do their work. The dimensions that can be used as leverage to effect change include:

- *Clients*

There may be different ways the organization may or should view and segment its client base.

- *Products and services*

There may be changes to the scope and variety of products and services and to delivery mechanisms that demand shifts in the way things get done; for example, outsourcing.

- *Business processes*

Better ways of getting the job done may need to be implemented, and processes or activities that don't add value or cost too much may need to be eliminated.

- *Structure and facilities*

Physical and organizational configurations may need to be modified or radically changed to fill gaps in the way business is conducted.

- *Technologies*

Efficiency and effectiveness may require shifts in technology used for logistics, information dissemination and product and service creation and delivery.

- *People and Human Resource Systems*

There may be a need for different kinds of people, or different knowledge, skills, values, attitudes and behaviour may be required of people. Because shifts in culture often necessitate placing value on other things than in the past, new or different ways of rewarding effort and performance must also be found.

High-performance organizations generally address change in all of its dimensions taking both the internal and the external perspective into account.

Also, do so with a core team that is given responsibility for managing and facilitating change from start to finish. The team members should be diverse in skill and personal style and they should be “movers and shakers”, viewed by others as role models and as trustworthy, thoughtful leaders.

Another ingredient of successful change projects is solid project management with strong regular monitoring and measurement of progress. Performance measures are important for two reasons. First, they convey a strong message about what is considered important (what is measured gets done!). Second, if correctly conceived, communicated and understood, performance measures greatly facilitate the successful implementation of change.

High-performance organizations often aim at becoming *learning organizations* where responsiveness and adaptation are cultural and a characteristic of employee behaviour, and where change is a permanent feature.

B. Criterion

The work force is given opportunities to acquire work experiences, knowledge and skills and to learn from experience and experimentation, so as to improve its performance over time while adapting to changing circumstances.

C. Indicators of Possible Problems

Impact on entity of foreseeable change not known or assessed; results achieved different from expectations; obsolescence of program, product or service or technology; lack of systematic consultation with clients and other stakeholders on changing needs; employee input not solicited in change initiatives; absence of recognition and rewards for innovative practices; systemic and significant opposition to change from many sources, including key players; reasons for change not known or understood; lack of clear objectives for major change initiatives; absence of effective structure and process for managing significant change initiatives; absence of programs to deal with resistance to change; confusion among stakeholders about the direction and nature of the change; high level of stress or insecurity about the future.

Exhibit 8: KEY PRINCIPLES OF CHANGE MANAGEMENT

Confront reality. The notion that what we have built will continue to flourish is seductive. However, reality is that new models arise, making current practices less effective.

Focus on strategic contexts. Know where to invest in change - where to seek improved performance. Focus, through thorough analysis, on areas where the payback is greatest.

Summon a strong mandate. Change must be supported by a strong mandate from senior management, amplified by the voice of the client.

Set scope intelligently. Scope that is too limited may achieve nothing. Setting the scope beyond the sphere of influence of the change “champion” may bring about failure. Focus on measurably improving performance where it matters.

Build a powerful case for change. The need for change is not equally obvious to all people -- including employees. Consequently, the case for change must be strong and worked toward relentlessly.

Let the client drive change. The needs of clients, rigorously examined, are a powerful driver for change.

Know the stakeholders. Powerful individuals and groups -- including employees -- have stakes in change. The needs and motives of diverse stakeholders need to be segmented, understood and prioritized.

Communicate continuously. The case for change and the style of communication must resonate with all stakeholders and in particular those who have to change. Clear, succinct messages will be understood. Honest messages will be believed.

Reshape performance measures. Build the vision, then design new measures consistent with change strategies and goals. Dismantle old measures if necessary.

Use all the levers of change. Large-scale change can be achieved only when all the levers of change are brought to bear in a co-ordinated way.

Think big. Small thinking dominates many projects, with predictable results. People need to feel free to “take the lid off the box”, to surface some ideas that may not work in order to come up with a few that will.

Leverage diversity. Draw on multiple sources, disciplines, cultures and types of people. Frequently, it is difficult to think of sources “outside the box” because we built it and, at the time, it was a good box.

Build skills. Invest in human capital. Broaden the technical, problem-solving, decision-making and leadership skills of those “in the trenches”. Make skill building a performance measure for all employees.

Plan. Develop a documented and detailed action plan for change, covering all major actions including changes in processes, systems, people, culture, structure and training needs.

Integrate change initiatives. An unplanned patchwork of change initiatives will promote bitter competition for resources, confuse employees and reduce positive impact. Therefore, maintain a consistent, integrated rationale for the whole pattern of change.

Adapted from *Better Change: Best practices for Transforming Your Organization*, Price Waterhouse 1995, published by Irwin, New York, NY.

Exhibit 9: PITFALLS OFTEN ASSOCIATED WITH CHANGE MANAGEMENT

Lack of commitment from senior levels. Actions speak louder than words. Many change initiatives have failed because people at senior levels are not perceived to “walk the talk”. There is a need for visible commitment from senior levels --- through unequivocal actions -- that they are serious about having the desired change take place. Consistency over the long haul is a test of that commitment.

Failure to deliver early, tangible results. There is a need for some quick results even if only to keep hope and enthusiasm alive. Making huge investments that entail long delivery times without some quick results is a fundamentally bad idea.

Drowning in detail. Talking about future achievements in meticulous detail loses the audience. Simplifying the complex makes the vision visible to those most affected.

Expectations and communication poorly managed. In times of change rumours can spread like wildfire. Furthermore, initial expectations may be unrealistic or too high . Expectations need to be managed and communication that favours direct face-to-face dialogue between those responsible for implementing change and those being subjected to it are generally considered more effective than other forms of communication.

Everything is high-priority. Life is full of choices and so, too, are change projects. Everything cannot be equally important.

Old performance measures block change. Even if what gets measured is no longer relevant, it may still continue to get done! Performance measures should at the very least be critiqued and disassembled if necessary.

Competing projects may jeopardize successful change. People do not need to be pitted against one another to protect turf, programs or even change methods and approaches. But this can happen if an overall rationale for apparently disparate change projects is not established and communicated. Change projects need to be managed strategically and in a co-ordinated manner.

Public/client needs not considered. Few organizations systematically analyze what the public/client wants in terms of performance. That they listen to public/client needs may go a long way toward explaining the effectiveness of some organizations.

Employees not heard. Getting buy-in through involvement of employees in the creation and implementation of change seems obvious, but many failed change projects exhibit a failure to have done so.

Senior management wants to help but doesn't know how. Not having a champion from the top who is committed to the success of the project increases the risk of failure. Good intentions are not enough! Getting involved sometimes means letting go. Not letting go can send the wrong message and the projects may fail.

Conventional wisdom can kill. Better change means sound, thoughtful analysis based on facts, not just blindly going with the flow of the latest management fad. For example, empowering without providing the goals or the right knowledge and training can be disastrous.

Team composition. Failure to have a talented, diverse, respected team made up of stakeholders can cause failure that often shows up too late to fix.

“What's in it for me?” is unclear. Change is personal. Nobody changes for the good of the organization . People --including employees are more likely to accept and support change if they see a positive outcome for them.

D. Questions for Consideration

Do those people most likely to be affected by the contemplated change -- including employees -- accept the need for change?

Is it clear what needs to be modified or, alternatively, has the problem been well defined and agreed upon?

Are appropriate strategic targets and clear objectives set for major change initiatives and is the timing right, considering both the internal and external environment -- including the political environment?

Is there a clear representation to, and understanding by, stakeholders -- including employees -- of the case for change, the nature of the proposed change and the measures that will be used to determine how successful change will be?

Is the legitimacy of those vested with responsibility for leading the change process established and accepted by stakeholders -- including employees?

Do the approach and methods proposed for change initiatives have an established and credible track record with employees and other stakeholders?

Have people inside and outside the organization been adequately prepared for change?

Have those leading the change initiative identified the obstacles to change -- including concerns of employees?

Are there appropriate programs for dealing with resistance to change -- including resistance from employees -- with a view to minimizing those factors and exert pressure in the right direction?

Has a critical mass of supporters for the contemplated change -- including those among employees -- been achieved? Are there adequate measures to ensure that this critical mass will be sustained and nurtured?

Are there clear accountability mechanisms for the management of the change process and the achievement of the desired change?

Is there a sufficiently detailed action plan for major change projects? For example, do plans deal adequately with financial implications, responsibilities for implementation, and mechanisms for supervision, co-ordination, monitoring and control?

Are the people leading the change initiative empowered with sufficient authority to achieve the desired results?

Are adequate progress and results-based reports generated and communicated to the various stakeholders -- including employees?

Are reports and reactions analyzed with a view to making communication more effective, identifying problems and lessons learned and pointing in new directions or adjusting the pace if necessary?

Are employee motivation and morale sustained throughout the change project? How adequate are the measures established for this purpose?

Where there is more than one major change project under way, are the change projects being managed from a strategic perspective and are the various projects adequately integrated and coordinated?

Do stakeholders -- including employees -- perceive that change is being managed efficiently and effectively?

Change as a learning opportunity

Are people in the organization encouraged to learn from experience -- including mistakes and failures-- and to find innovative ways of improving performance?

Do employees see change as an opportunity instead of a threat?

Are people actively encouraged to learn new skills, to experiment, to participate in pilot projects or to make suggestions?

Are the results of individual learning or "best practices" being disseminated throughout the organization?

Is the organization receptive to a diversity of views and new ideas from employees, as well as from outside the organization?

Is the organization "benchmarking" best practices to learn from others?

Are employees seeking to discover and deal with the causes of problems rather than with the symptoms?

Are people in the organization periodically questioning and reassessing the purpose of the organization, its relationship with clients/customers and ways it can improve?

VIII. A Productive Work Force

A. Introduction

"Productivity" can be an umbrella term to include a multitude of concepts related to organizational improvement. For example, it can be used to mean *quality*, *excellence*, *growth*, *competitiveness*, or even *effectiveness*. But it also has a narrower and more specific definition.

In its narrower interpretation, productivity can be defined as the relationship between the inputs to a process and the outputs of that process. A slightly broader and perhaps more useful view

expands this definition to include an ongoing concern among individuals for improving productivity. When goods or services are delivered cost-effectively and the people responsible for that delivery are motivated to strive for continuous improvement, that work force is said to be “productive”. As used here, productivity is a values-laden force for improvement over time that recognizes the inevitability of a constantly changing environment. Under this concept, there is no ultimate level of productivity that, when achieved, is forever to be regarded as an arrival point. Productivity becomes simply striving always to do things better.

Thus, while at the process level productivity clearly embraces concepts of economy, efficiency and effectiveness, it is more useful, helpful and realistic to treat it as also requiring the additional dimension of people committed to the ongoing pursuit of quality improvement.

Productivity improvement does not occur in a vacuum. It is an outcome of systematic, customer-focussed and results-driven strategic planning and consistently applied measurement, monitoring and reporting of achievements.

Systems and practices that instil and promote improved productivity have the following characteristics:

- *stakeholder developed* (i.e. customers, suppliers and employees at all levels) with a strong customer and results focus;
- *upstream and downstream* measurement of all key processes;
- *technically sound and tested* measures that are well understood and communicated;
- *balanced* non-financial and financial measures (e.g. client satisfaction, quality indicators, material use and adherence to schedule) that provide insight to people at various levels in the organization;
- *consistent data gathering* at all levels of the organization;
- *benchmarking* that is systematically planned and carried out;
- benchmarking is a process for evaluating products, services and work processes of organizations that are recognized as representing best practices;
- *feedback to employees* at all levels on the performance as measured;
- *empowered employees* able to act and to change processes; and
- *gain sharing* that provides incentives and motivation.

Simply measuring productivity does not cause improvement. The right kind of measurement opens up the organization to self-analysis that is visible, objective, fair, equitable and therefore healthy and constructive for the people affected. An organization that measures itself will tend to have: lower costs; quicker response time to customers; more demanding service standards; bolder, more confident employees; better integration of processes both internally and with

external stakeholders and suppliers; greater ability to challenge costs and promote added value; and a clearer plan for the future.

(Note: Auditor's are encouraged to consult the audit guide on Efficiency issued by the Office, as there are important links among productivity, efficiency and human resource management.)

B. Criterion

The work force is organized and managed to make the best use of individual and collective knowledge and skills, and is provided with the information, tools, authority support and incentives necessary to achieve timely and cost-effective results.

C. Indicators of Possible Problems

High unit cost due to higher labour cost than in similar organizations; worker productivity lower than in similar organizations; individual or team productivity not measured when it could be; "client" or user satisfaction not known or not measured; absence of financial and non-financial incentives for exemplary performance; employees not provided with adequate tools, training, information -- including level of performance achieved -- and the authority to make timely decisions; significant differences in collective agreements compared with similar organizations; high ratios of managers to operational personnel or of functional specialists compared to operational personnel; higher cost of functional units than in similar organizations; more time-consuming and costlier processes than in other organizations.

D. Questions for Consideration

Is productivity valued in the organization?

Where productivity is important, is it measured in a consistent, systematic way?

Are there mechanisms for feedback to employees?

Can employees make the changes necessary to improve their performance or that of their work unit? (Are they empowered?)

Are productivity measures comprehensive, generally complete, well understood and taken seriously?

Were steps taken to test the productivity measures appropriate?

Do productivity measures include both the level of performance and overall trends?

Are there sanctions and rewards related to productivity performance?

Does the organization know how well it is performing in relation to specific activities or processes compared with similar organizations.

IX. A Work Force Accountable for Results

A. Introduction

A modern definition of accountability might be : *A relationship based on the obligation to demonstrate and take responsibility for performance in light of agreed expectations.* This definition contains a number of implications:

- Two or more parties are involved in a relationship or agreement towards some end.
- The relationship involves a requirement by one or more of the parties.
- It implies being proactive in reporting on and answering for what has been accomplished and to do so in an appropriately visible forum.
- It focusses attention on performance-based management concepts and the results being achieved, including due process, fair treatment, etc.
- There is not a blind or mechanical comparison made between actual performance and expectations; circumstance need to be taken into account.
- There is an agreement or an understanding (such as an often unstated understanding of integrity and honesty) between the parties as to what is to be accomplished.
- The relationship is meant to cover the wide range of what may be expected in an accountability relationship, from achieving specific results to meeting broader objectives, and adhering to common values.

Accountability is a basic tenet of modern organizations. For example, in a business organization the board of directors is accountable to the shareholders for the performance achieved. Within the organization, managers are accountable to the Chief Executive Officer who, in turn, is accountable to the board of directors for the management of the organization.

There are thus two dimensions to accountability: external and internal. Although they may relate to different sets of results and performance indicators, both the external and the internal dimensions of accountability will be found in every organization.

Accountability is also a basic tenet in the public sector. For example, accountability is a fundamental principle of our parliamentary system of government. According to this principle, the government is accountable to Parliament for its actions. Thus, ministers are individually and collectively accountable to Parliament for their own actions but also for those of people working in departments and agencies over which they have direct authority. This is the external dimension of accountability.

There is also an internal dimension to accountability in public sector organizations. For example, within government there are also various and complex accountability mechanisms governing relationships between public servants, the deputy minister, the minister, Treasury Board ministers, the prime minister and, through them, departments and central agencies. For example, under the *Financial Administration Act* (FAA), it is the role of the Treasury Board ministers to

establish personnel policies and each department is accountable for their implementation and application.

For accountability to work effectively, a number of conditions must be met. These conditions include:

- clarity of roles and responsibilities;
- clarity of performance expectations;
- balance of expectations and capabilities;
- credibility of reporting; and
- reasonableness of review and adjustment.

Finally, accountability must be vested in specific, clearly identifiable *people* -- individuals or a specific group of individuals (board of directors, etc.). Without this people dimension, accountability quite simply, cannot exist.

B. Criterion

Roles, responsibilities and performance expectations of the work force -- at the individual as well as the team or the corporate level -- are clearly defined and consistent with capabilities, the performance achieved is reported and reviewed and if necessary, adjustments are made.

C. Indicators of Possible Problems

Results achieved significantly different from what was expected; different interpretations of roles and responsibilities; performance expectations not clearly defined or not agreed to; absence of credible reporting of performance; significant gaps between responsibilities and performance expectations and the authorities and tools provided; people not willing or ready to accept responsibility for results; inappropriate measures of performance.

D. Questions for Consideration

Is accountability an important value of the organization?

Is the organization meeting the legislative and other external requirements for the management of people (submitting timely and appropriate reports, meeting the requirements for health and safety or employment equity, respecting the government policy on compensation restraint, treating people with fairness and equity, etc.)?

Is there a clear accountability framework for assessing performance and measuring the achievement of results -- including those expected for the management of people -- within the organization? Consider:

- Are roles and responsibilities for results -- including for the management of people -- clearly defined (for example, are the roles and the responsibilities of managers and the personnel department clear)?
- Have performance expectations been agreed to and communicated clearly -- including expectations for the management of people?
- Do people know and understand and accept their responsibilities, the performance expected of them, and how their performance will be measured?
- Do managers and other employees have sufficient authority to achieve expected results -- including the organization's expectations for people management?
- Is performance periodically measured and reported? Does it include performance in relation to expectations for the management of people?
- Does the performance management system focus on critical performance instead of on micro details or simply on process?
- Is performance -- including performance in the management of people -- reviewed and sanctioned (i.e. recognized/rewarded or, if unsatisfactory, dealt with appropriately)?
- Are there effective implicit and explicit financial and non-financial incentives for improving performance?

X. A Safe and Enabling Work Environment

A. Introduction

A healthy work environment reinforces good relationships, respect for the individual and diversity of values; accommodates differences; and encourages effective communication. It is safe, fair, and free of discrimination and harassment. It fosters the professional satisfaction and growth of each employee, thus enabling people -- individually and collectively -- to work to their full potential to achieve desired results.

The work environment is influenced by a number of factors, including the type of leadership exercised by management, the strengths and weaknesses of the work force - including its overall competence - and physical work conditions. For example, the type of leadership being exercised can significantly impact on the extent and the nature of employee involvement and participation in decision making. It can also affect the degree of people's empowerment and motivation. The competence of the work force influences its capacity to achieve desired results and its ability to change, and, consequently, its reaction to both internal and external factors. Physical work conditions affect individual needs and comfort, and health and safety considerations. In short, the work environment is the result of a number of combined influences, each profoundly affecting the other.

Evaluating the quality of the work environment is made easier if broken down into five sub-elements such as:

- health and safety;
- employee involvement and participation;
- empowerment;
- performance recognition; and
- morale.

B. Criterion

The working environment is safe -- from a physical as well as from a psychological or emotional perspective -- and fosters the motivation and commitment of employees to achieve results and to improve performance, while taking into account the needs of individuals for job satisfaction.

C. Indicators of Possible Problems

Frequent and serious accidents, injuries or work-related diseases; high number of incidents or near misses; risks to health and safety not identified; absence of a consultative structure / process to deal with work environment issues; higher level of absenteeism than in similar organizations; high turnover of key personnel or inability to recruit high-calibre candidates in spite of adequate compensation; improper balance between responsibilities and authorities; high level of complaints, grievances or appeals; lack of adequate tools, information or training for employees to perform certain important tasks; low productivity resulting in high cost for service or product; excessive centralization of authority resulting in long delays before decisions are made; no real information on status or work climate; evidence of working to rules.

D. Questions for Consideration

Health and safety

Is the work environment healthy, environmentally friendly, and safe, and does it provide for acceptable levels of risks to the physical as well as the psychological and emotional well-being of employees, taking into consideration the nature of the work performed?

Do the work environment and working conditions meet the legislative requirements for health and safety -- e.g. the requirements of the Canada Labour Code, where applicable -- and environmental concerns?

Are the organization's expectations and commitment in this regard clear?

Does the organization monitor and analyze its performance in relation to the frequency/severity of accidents, absenteeism and other performance indicators associated with the work environment?

How does performance compare with that of similar or well-performing organizations?

Are necessary corrective actions taken and improvements made?

Are there mechanisms in place to capture and deal with employee concerns or complaints about various aspects of the work environment? Are these mechanisms effective and perceived as such by employees?

Employee involvement and participation

Are employees involved in aspects of policy development and strategy formulation (including the determination of organizational goals and objectives), particularly those likely to affect them?

Do quality improvement initiatives -- including soliciting suggestions, running quality circles and implementing change -- include the active involvement and participation of employees?

Do employees have adequate input to performance appraisals, promotions, career planning?

Empowerment

Is there a balance between responsibility assigned and capability of performing?

Is there an adequate balance between authority and responsibility?

Is there a climate supportive of delegation, initiative and innovation?

Does the work environment/organizational climate encourage, motivate and lead workers to commit to the achievement of goals, objectives and desired results?

Does the organization provide adequate tools -- including equipment, training and development and learning opportunities -- to support the empowerment of employees?

Performance recognition

Do employees feel that their work is valued and recognized, and that they contribute to tangible results such as products and satisfaction of client/customer needs?

Is performance -- individual and collective -- recognized and in a timely manner or rewarded adequately by management?

Are poor performance and problem employees dealt with appropriately and in a timely manner? Are they perceived by employees to be so?

Morale

Does the organization/division of work provide employees with a challenging, interesting and adequate variety of tasks that taps their brains and challenges their knowledge and skills while providing for learning opportunities?

Are there efficient and effective communications and working relationships or a co-operative climate among employees or groups of employees, and between employees (and their elected representatives in the workplace) and management?

Are people -- individually and collectively -- committed to the purpose of the organization and are they working in partnership with other stakeholders to that effect?

Is the work environment respectful of people and free of discrimination?

Does the work environment provide for the fair and equitable treatment of all workers?

Are the individual and collective needs of the work force for a satisfying work environment taken into account?

Are human considerations factored adequately into management decisions and actions in a balanced way?

Are there adequate flexible work arrangements (e.g. telework, flextime, etc.) to permit employees to balance their work and family responsibilities?

Are surveys or other adequate methods used periodically to measure employee satisfaction? If so, are they well designed, kept confidential, independently analyzed, openly reported and acted upon where necessary?

XI. An Ethical Work Force

A. Introduction

Citizens expect integrity from their government and public servants. Integrity is of particular importance in establishing and maintaining a relationship of trust between the public and the government, its institutions and public servants. This trust is particularly imbedded in the strong belief that public servants will consider the public interest well above self-interest in all their actions and activities. The behaviour of public servants -- how people act and how their actions are perceived -- should be appropriate to the nature of the business, as well as in accordance with the values and principles governing management in the core public service and in Crown corporations.

Ethics are concerned with any situation in which there is a potential for damage to an individual, a group of individuals or an organization -- including its image and credibility. Ethical behaviour implies the existence of identifiable and acceptable social norms and expectations that may be derived from broad principles such as prudence and probity, or prescribed explicitly by instruments such as policies or codes of conduct. In procedural terms, it is a process of determining reasonable standards of ethical conduct for a given activity, as well as a process that tries to resolve actual or potential conflicts arising in practice.

Ethical issues cover a wide range of activity, from fraud and breach of trust -- which are offences under the Criminal Code -- to conflict of interest, harassment of employees, post-employment activities and many others. Traditionally, governments have used a wide variety of instruments to explicitly ensure that public servants know what behaviour is expected of them, or to signal what behaviour might be inappropriate or unacceptable. These instruments include legislation, codes of conduct, policies and guidelines and oaths of fidelity and secrecy. Other public service values that govern behaviour, such as prudence, probity and due care, are intrinsic to the notion of public service and are derived from the Charter of Rights, the *Canadian Human Rights Act*, common law and broad general principles of moral conduct.

Exhibit 10 presents some of the principles contained in the *Conflict of Interest and Post-Employment Code for Public Office Holders*.

**Exhibit 10: KEY PRINCIPLES OF CONFLICT OF INTEREST
AND POST-EMPLOYMENT GUIDELINES**

Ethical standards. Public office holders shall act with honesty and uphold the highest ethical standards so that public confidence and trust in the integrity, objectivity and impartiality of government are conserved and enhanced.

Public scrutiny. Public office holders have an obligation to perform their official duties and arrange their private affairs in a manner that will bear the closest public scrutiny, an obligation that is not fully discharged by simply acting within the law.

Decision making. Public office holders, in fulfilling their official duties and responsibilities, shall make decisions in the public interest and with regard to the merits of each case.

Private interests. Public office holders shall not have private interests, other than those permitted pursuant to the code, that would be affected particularly or significantly by government actions in which they participate.

Public interest. On appointment to office, and thereafter, public office holders shall arrange their private affairs in a manner that will prevent real, potential or apparent conflicts of interest from arising but, if such a conflict does arise between the private interests of a public office holder and the official duties and responsibilities of that public office holder, the conflict shall be resolved in favour of the public interest.

Gifts and benefits. Public office holders shall not solicit or accept transfers of economic benefit, other than incidental gifts, customary hospitality, or other benefits of nominal value, unless the transfer is pursuant to an enforceable contract or property right of the public office holder.

Preferential treatment. Public office holders shall not step out of their official roles to assist private entities or persons in their dealings with the government where this would result in preferential treatment to any person.

Insider information. Public office holders shall not knowingly take advantage of, or benefit from, information that is obtained in the course of their official duties and responsibilities and that is not generally available to the public.

Government property. Public office holders shall not directly or indirectly use, or allow the use of, government property of any kind, including property leased to the government, for anything other than officially approved activities.

Post-employment. Public office holders shall not act, after they leave public office, in such a manner as to take improper advantage of their previous office.

In a number of instances the government has put in place organizational structures or created positions to deal with specific issues. For example, the government has created the position of Ethics Counsellor to advise parliamentarians and the prime minister, and the position of Assistant Registrar to deal with potential conflict-of-interest situations and the registration of lobbyists. Exhibit 11 attempts to group some ethical issues associated with types of activity.

It is recognized that behaviour in organizations generally can be conditioned by a number of factors related to the external environment -- such as the industry's -- or to the internal environment -- such as the structure and the control systems -- and to management.

Exhibit 11: SOME ETHICAL ISSUES BY TYPES OF ACTIVITY

General Management

Breach of trust
Whistleblowing
Use of insider information
Improper use of information/equipment/property
Improper use of authority
False claims
Theft
Fraud

Human Resource Management

Nepotism
Discrimination
Harassment (sexual or otherwise)
Anti-union activities
Abuse of authority
Threats of violence
Breach of confidentiality and privacy
Bargaining in bad faith
Abuse of job-related benefits

Marketing

Deceptive advertising
Product misrepresentation
Sex/race exploitation
Breach of consumer privacy
Improper outside employment activities

Contracting/Sales

Price fixing
Deception/misinformation
Acceptance of gifts/entertainment
Bribes/kickbacks

Inappropriate bidding practices
Gifts/entertainment
Return of favours/reciprocity with friends
Contract splitting
Inappropriate political or administrative interference

Finance

Discriminatory lending criteria
Misleading debt rescheduling
Predatory foreclosures
Collusion
Insider trading
Conflict of interest
Lack of independence
Lack of prudence and probity
Improper personal financial interest

Information systems

Disclosure of private information
Copyright infringement
Illegal intelligence gathering
Improper out-sourcing arrangements

Policy Advice/Policy-making

Leaking documents
Improper comments about government policy
Improper advantage flowing from official information
Improper partisan political activities

B. Criterion

The work force behaves in a manner consistent with the nature of the organization, the tasks carried out and the values espoused, so as to avoid unacceptable behaviour -- such as real or apparent conflict of interest -- that might negatively affect the image or credibility of the organization, or harm individuals, groups of individuals or other organizations.

C. Indicators of Possible Problems

Number of informal or formal complaints to the appropriate authorities about unacceptable behaviour; no risk assessment of unacceptable behaviour; absence of policies to deal with

unacceptable behaviour; policies inadequate or not enforced; absence of evaluations to determine effectiveness of policies; costly settlements of complaints as a result of court decisions or out-of-court settlements; lack of follow-up to ensure compliance; lack of, or timid, disciplinary action in response to serious infractions/breaches; leaks of confidential or sensitive information; whistle-blowing incidents.

D. Questions for Consideration

Is there significant risk of unethical or inappropriate behaviour associated with the activities of the audited organization ?

Has the organization identified and communicated to employees what is considered appropriate and inappropriate or unacceptable?

Has the organization put reasonable measures or safeguards in place -- such as structures, processes, procedures (including selection and hiring procedures) and training -- to ensure that people behave appropriately?

Can managers and employees recognize and deal with unethical behaviour if it occurs, or if a complaint is made to them about it?

Do employees and other stakeholders believe that the level of integrity/honesty is high in the organization?

Are there incentives in place to remind and incite employees to behave appropriately or to report inappropriate/unethical behaviour or alternatively, to discourage them from behaving inappropriately?

If necessary, do people believe they can bypass the normal hierarchy to report inappropriate behaviour to a higher authority?

Do employees and other stakeholders believe they can report unethical behaviour to the appropriate level of authority without fear of reprisal?

Do people believe that management will indeed take appropriate action if warranted?

Are people charged with responsibility for handling or investigating complaints, or for providing advice, sufficiently independent and objective and perceived to be so?

Is the process for dealing with complaints or allegations of unethical behaviour fair and impartial and perceived to be so?

Is timely and appropriate corrective action taken if necessary?

Does management conduct monitoring or periodic reviews to determine how effectively the systems in place to deal with behavioural issues are working?

XII. Protection of HR Assets

A. Introduction

The work force is the generator of intellectual property and the custodian of the corporate memory and collective knowledge, expertise or know-how, experience, values and skills of the organization. These traits shape the organizational culture and personality. Together, these traits constitute the human resource assets of an organization. They are what makes one organization different from another, even when the two operate or compete in the same field -- as is the case, for example, with sports teams, accounting firms, banks, car makers and government departments. Partly because of this, the work force nowadays is recognized by an increasing number of managers and human resource experts as an important source of competitive advantage. Some experts even go so far as to say that the work force can become the most important of all sources of competitive advantage, partly because it is unique and thus cannot be replicated. At the Royal Canadian Mint, for example, high-quality engraving and the technical skills necessary to refine gold rated .9999 pure are two of the critical skills that have a significant impact on its ability to compete with other gold or numismatic coin producers of the world. Neither of these skills can be obtained easily on the labour market. The Mint has to ensure that it will not lose this know-how to competitors and that it has continued access to people with those rare skills.

Human resource assets, like physical assets, need protection and sustenance. They must be jealously guarded, nurtured and developed to ensure that the organization not only will be able to deliver the desired results now and in the future but also will continue to keep the key characteristics that give it its “personality” and its uniqueness; and that it will continue to be successful in the light of new emerging realities.

Protecting human resource assets requires first of all, that people be *culturally* valued as key assets to be managed wisely. This is a state of mind that needs to be held by all management and staff. Protecting human resource assets also require that management make deliberate and conscious efforts to identify the critical human resource assets of the organization, and that these assets be managed appropriately. For example, if sensitive information or intellectual property is considered a key asset by an organization, it needs to be safeguarded against loss or theft by ensuring that it is properly stored; that it is available to people only on a “need to know” basis; that there are measures in place to guarantee that an employee will not destroy it, disclose or sell it to other organizations. Management is thus expected to put in place mechanisms such as rigorous and effective reference and security checks before hiring new employees; effective controls on the movements of employees in buildings during, before and after working hours; and effective termination clearance procedures.

B. Criterion

Key human resource assets -- know-how, skills, intellectual property and expertise -- that constitute unique characteristics of the organization or a competitive advantage are adequately safeguarded against loss.

C. Indicators of Possible Problems

In spite of high level of intellectual content, absence of risk assessment or protective measures against loss; absence of succession planning or replacement candidates for critical positions -- including management positions; high-tech products not selling well in spite of proven usefulness; innovations not patented; absence of reference or security checks for candidates for critical or highly sensitive positions; unsecured access to buildings or offices or files; inadequate disposal of sensitive information/equipment that is no longer needed; inadequate orientation training of staff in the organization's way of doing things.

D. Questions for consideration

Are there human resource assets critical for this organization? (Consider things such as: intellectual property, know-how, experience, expertise, knowledge, skills, values or ethics.)

Has management identified these human resource assets as critical?

Are managers and employees managing these human resource assets as critical assets?

How appropriate are the measures to protect, safeguard or effectively manage these critical elements? For example:

- Are reference checking, personnel and physical security measures appropriate to the nature of the business and the sensitivity of information generated or available?
- Are there appropriate measures to ensure an adequate and timely supply of people with critical skills and experience?
- Does management know how the organization is performing in relation to these critical human resource assets? Are the assessment, monitoring and reporting mechanisms adequate?
- If necessary, is corrective action taken to ensure that the organization will not be vulnerable?