

MANAGEMENT AUDIT OF HR POLICIES IN BANKS: A DESCRIPTIVE STUDY

Rukhshinda Begum

Department of Commerce, University of Karachi

rukshinda.b@uok.edu.pk

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Corresponding Author: *
Rukhshinda Begum

Abstract

Purpose: Management Audit is a critical area of audit where policies rather than financials are evaluated. This study therefore evaluates the current state of management audit with respect to human resource policies and their impact on the performance of banks in Pakistan. The purpose of this research is to make necessary modification in policies, securing human resources and allowing better performance in terms of higher profitability and reduced risks.

Method: A detailed study has been made for four major categories of banks (Government Owned, Private, Foreign and Islamic) in Pakistan. Six Banks (NBP, MCB, UBL, HBL, SCBL and MBL) are selected through stratified random sampling and data from the bank officials has been obtained through self-administered structured close-ended questionnaires. Related head office departments of banks and other sources are approached through direct/unstructured interviews from executives of these departments. All the data collected through questionnaires has been analyzed using statistical software SPSS and Microsoft excel whereas qualitative analysis are made on the data collected through interviews.

Findings: The study is based on a descriptive analysis and discovered the significant relationship in between management audit, effectiveness of HRM and the performance of banks with respect to HRM policies.

Practical Implications: This study is helpful to bring about policy initiatives that if implemented correctly may produce strong positive impact on the banking industry of Pakistan.

Novelty/Originality: This study is one of its kinds that has been conducted on management audit in the banks of Pakistan.

INTRODUCTION

Financial system is indispensable for a territory in order to control money supply, supporting the industrial, agricultural and services sectors and managing wealth to create a balanced economy. Financial sector in general, and banking in particular is an essential source for the economic development of a country (Ishaq, Karim, Ahmed and Zaheer 2016). Similarly, banking is one of the largest industries in the services sector of Pakistan's economy that is governed by the State Bank of Pakistan under theegis

of prudential regulations. The financial sector of Pakistan and the banking industry specifically has gone through various phases of its development. The critical side that demands the tightest regulations and continuous improvement in banking policies is the money laundering and terrorist financing these days. Well-operated and convenient system of banking is vital to transform savings into investments thus leading towards the growth of economy. This core function of banks supports in creating liquidity into

the market. This liquidity is created through managing the portfolios of deposits and advances taking into consideration their respective maturities. Moreover, banks create liquidity in market simultaneously making their own financial position illiquid that is through conversion of their short term liabilities into long term loans (Sabahat, 2017). Hence, there is no doubt to state that banking sector needs long lasting strength and growth that is only possible with the continuous transformation of policies through assessment of existing ones and introducing updated/new policies. Therefore, besides, financial audit, there is an extensive need for the management audit in this vital sector of economy. Assurance and control are two aspects of the quality management. Audit function is related to area of quality assurance that is basically providing trust that committed quality will be fulfilled. Audits provide valuable information to management supporting them to minimize the risks inherent in decision making (Russell, 2005).

A complete audit includes three broad areas known as Financial, Management/ Operational/ Performance and Program auditing (Staats, 1971). The study in hand confers the substance of paramount interest for the businesses in today's world that is termed as Management Audit. The audit of management systems evaluates if the procedures and their implementation are in the right direction of the organizational objectives. The positive consequences of management audits need to be matched against the costs associated with the same (Russell, 2005).

This study covers the area of management audit in banks. Management Audit is in fact assessing and ensuring the effectiveness and accuracy of decisions made by the banks' management. For instance, if the banks involve themselves in CSR activities then it will enhance their reputation in public. Now the management has to decide where and how much to spend under corporate social responsibility. Three areas comprising Governance, Risk Management and Control are used to be handled in the banking sector. Governance is maintained through Standard Operating Procedures (SOPs) and implementation of these SOPs is ensured via Risk Management. Later on, deviations from the SOPs, if any, are identified and tried to be removed by means of sophisticated control techniques.

Management audit can be defined as an objective and independent appraisal of the effectiveness of managers and the effectiveness of the corporate structure in the achievement of company's objectives and policies. Its aim is to identify existing and potential management weaknesses within an organization and to recommend ways to rectify these weaknesses (*CIMA Official Terminology*).

Management Audit is an organized analysis and examination of management competencies in terms of its policies, decisions and actions in order to carry out organizational objectives. It basically covers the review of all managerial aspects.

Problem Statement and Gap Analysis

Internal controls have remained the key to survive and flourish for every business and of course the banking industry too in this era of technological advancements. Existence of these controls is ensured through policies those are developed and implemented by management. Increasing rate of cyber-crimes, money laundering, frauds and non-performing loans hurt the banks' profitability in longer run. Heavy penalties by the State Bank of Pakistan due to money laundering in banks further causes reduction in profitability. Hence, there seems the need to evaluate banks' policies and ensure their true implementation. This task is performed by the auditors who are responsible to audit management and their policies. This type of audit is termed as management audit that is expected to ensure efficient utilization of resources and thus the improved profitability.

Audit quality has been found to be positively related to the management of real earnings in highly leveraged firms with the lower cash flows. Contributing to the agency theory, these findings direct that the quality of audit may reduce the conflicts of interests between shareholders and managers (Le, 2025). Wang & Liang (2025) also studied and found the significant positive relationship between audit quality and the firm value with the mediating effects of risk management. Strength of this relationship further increases in complex environments for example higher financial restraints and acquisition of higher level of digital transformation. However, Abrahams & Phesa (2025) draw attention to the global decline in the number of

auditors. This situation raises concerns about the assurance industry's growth, quality of the audit being conducted and trust of public over the same.

Musa (2024) performed a review of literature and found that management audit significantly contributes to the effective human resource management in a company. However, no empirical study yet found to be conducted on the same area over the banking industry of Pakistan thus providing an opportunity to work over the same.

Considering the importance of Management Audit and availability of limited literature in this area; this study is conducted to explain the relationship in between management audit of human resource policies and the profitability and resource utilization in the banking sector of Pakistan.

Literature Review

Discussions over management audit from some bank officials and auditors prior survey have divulged that there are some differences of opinions or understanding with respect to its definition and implementation specifically in the banking sector of Pakistan. It has been observed that this concept is not well understood by all employees working in banks though they sometimes get distressed by the policies and decisions of management. Hence, the literature for this topic has been studied and arranged methodically in order to have a clear view of what management audit and its whereabouts are.

History of Audit demonstrates the same as one of the oldest professions as its beginnings were found in Babylon, Greece and Ancient Egypt. The concept of Management Audit formally introduced in 1285 in England and 1887 in US. Flawed decisions of several companies like Enron and WorldCom resulted in their failure, financial loss and the bankruptcy eventually. It was mainly due to the reactive nature of audit that used to be conducted after the occurrence of events. Hence, management audit as part of internal audit focuses on all the decisions made by management in financial as well as the operational area. These decisions and their results are evaluated in order to mitigate the risks of bankruptcy. Management Audit examines all the components of organization, existing problems and provides solution for the same. It also focuses on the relationship, rights and responsibilities in between board of directors,

audit committee and the CEO. The chairman of audit committee should also possess the leadership skills. Furthermore, the government's involvement through laws and regulations is indispensable in order to enhance reliability of audit in organizations. Moreover, independence of audit and board is must so that they could have meetings independent from the CEOs in order to ensure transparency (Zerelli, 2015).

A Management Audit is an examination of how well the organization is being managed. Its purpose is to assess all aspects of management to ensure that all areas are being managed actively, to identify opportunities for improvement and to capitalize on these opportunities. A voluntary management audit brings surprising results because it is conducted by ones who are affected thus are better able to identify the problems as well as solutions for the same. Hence, such an audit can come up with the true objective of audit. Management audit is a five stage process including orientation, fact finding, analysis, development of conclusions & recommendations and presentation & report preparation. Managements used to be resistant with management audit generally. However, the involvement of management in such audits may reduce this resistance and is perceived to be their intention to improve operations and ultimate performance (Conley, 1985).

Management Audit is needed to check how well the workers and supervisors understand the policies and overall objective of firm. It helps them understand the strengths and weaknesses of the organizational structure. One of the key reasons for the failure of organizational objectives is inappropriate supervision by middle management. This is because they are not completely aware of the management policies and their overall objectives for company. Thus, they are not capable to be a proper link between management and the workers from whom these objectives are to be attained. Hence, careful disclosure of management audit to the managers at every level is a requisite for desired results. Audit of management if appropriately conducted uncovers the reasons behind employees' misunderstanding and their lack of interest in the work being performed. Proper application of management audit may convince the workers in a way that they have real stake in the organization. Various people work for the betterment of the department in

which they are placed not for the overall organization because they are not aware of the overall objective of organization. Moreover, sometimes the departmental policies are not integrated. This result of specialization actually needs management audit (Creaghead, 1949). The concept of Management Audit was termed in William Leonard's 1962 book and its momentum was enhanced in 1972 upon GAO's Standards for Audit of Governmental Organizations, Programs, Activities and Functions. The main objective of management audit is to ensure that those responsible for the organization are successful in achieving organizational goals and to identify grounds for improvement. For this purpose, the performance of management is evaluated against stipulated standards. Important factors required to be focused while planning for a management audit are the team composition, scope of audit, methods to be adopted and the reporting requirements. This audit should identify both strengths and weaknesses of organization. Surveys from the employees and citizens and having responses of their attitudes serve as an integral component to strengthen the results of Management Audit (Lloyd, 1982). Thierauf writes in his book Management Auditing: A Questionnaire Approach (1980) that management audit evaluates the quality of managers in terms of their ability to achieve desired objectives. Management Audit is based on a forward looking approach that examines the deficiencies of management and propose required changes to be made.

Management Audit & the Human Resources

Sangeetha and Murugalakshmi (2017) studied specifically the Human Resources Audit that is a part of Management Audit. As per this study, Human Resource Audit is a comprehensive technique to systematically review all aspects of human resources including existing human resource policies, procedures, documentation and systems to identify needs for improvement of HR function as well as to assess compliance with ever-changing rules and regulations. Audit becomes essential if company wants to be competitive in both internal and external environments so that strengths and weaknesses could be identified and handled accordingly. Hence, it plays a vital role in achieving organizational objectives. Another study by Dasa (2011) reveals that the

fundamental goal of an HR audit is to find out the HR involvements that will increase the competitive advantage of the firm. It also assesses the contribution of human resource department and its policies in overall growth of the firm. The role of the HR audit in firms is to rationalize the managerial control over HR activities including human resource functions like recruitment, training, appraisals and other activities like policies, procedures, regulations etc. Since, human resources are considered to be the key assets for most of the organizations, hence, this control over human resource activities will ultimately result in achieving overall objectives of the firm. The importance of human resources and thus control over their activities is specifically increased with the growth of services sector. However, again the support from top management is necessary for conducting HR audits. The persons involved in HR audit, if the same is being conducted by internal audit of the firm, need to be highly reliable, conversant and valuable. Moreover, services from the external audit firms may also be acquired in special cases if the risk of biasness is there. HR audit is executed at various levels of organization from top level to the lower one. The process of HR audit is comprised of several steps including goal setting, audit planning, data collection, drafting report and achievements.

Theoretical Framework

Endaya and Hanefah (2013) argue that the less attention has been paid to the theoretical framework or the contribution of theories in the effectiveness of internal audit. Hence, following section discusses the involvement of some basic theories in internal audit.

Agency Relationship and Management Audit in Banks

Agency theory is a sensible explanation related to the current economic conditions encompassing inherent conflict of interests (Almeida, 2013). Agency theory is related to resolve problems that may exist in agency relationships because of unaligned goals or different risk aversion levels.

The function of audit exists to monitor and substantiate performance of management. Since, conflict may arise because management performs as an agent of board of directors and shareholders and thus can work for their own benefit without considering the

shareholders' wealth. Hence, audit is basically the agency cost that is to be born in order to ensure the fairness of management's performance (Jahera, Jr. and Colbert, 1988). These issues may also arise in banking because the bank employees are assumed to be the trustee of public money and are held responsible to take the intensive care on their part. Trust is the key to survive and succeed in this sector. Hence, management audit may identify the weak areas of management where they are unable to fulfill their responsibility for the people. Resultantly, it becomes easier to overcome these weaknesses and sustain their existence. This study also determines what further policy initiatives can be taken if the concept of management audit is not being utilized appropriately.

Relevance of Contingency and Stewardship Theories in Internal Audit

Findings of Badara (2017) are in support to consider the stewardship theory and contingency theory for internal audit usefulness. Caldwell, Hayes, Karri and Bernal (2007) define the ethical stewards to be ones perform duties for stakeholders in order to maximize their wealth. However, Donaldson and Davis (1991) also support stewardship theory. The authors define the presence of stewardship theory, as opposed to the agency theory, where the position of roles amongst management, shareholders and board of directors is shared in order to maximize the shareholder benefits. Endaya and Hanefah (2013) shared the findings of study that the concept of effective internal audit may be implemented in organizations subject to the support of organizational members besides the characteristics of auditors and the performance of internal audit department being there. Hence, the study includes the application of contingency theory that was developed by Fiedler, F. E. (1967). As per this theory, leaders' attributes are dependent or contingent upon some other/mediating variables. According to Saud and Marchand, (2012), support from the top management enhances the efficiency in auditor's performance and increases their contribution in mitigating risks.

Statement of Hypothesis

The most debated area in the banking industry is internal controls these days. From this study, it has been observed that the concept of management audit

is not new. However, the study and consequences of management audit in banking sector of Pakistan remained nearly untouched so far. Therefore, the same is selected and hypothesized for this study as follows.

H₁: Lack of appropriate conception and Implementation of Management Audit for Human Resource Policies has been effecting the utilization of resources and performance of organizations in the banking sector of Pakistan

Research Methodology

This research is a descriptive study mainly based on employee responses to find the level of employee satisfaction for various components of human resource policies in banks. These components include working environment, team work, behavior of line manager, behavior of top management, relationship among colleagues, interdepartmental relationships, training and development, employee participation in decision making, increment criteria, promotion policy, rewards, leaves, medical facility, financing facilities, combination of authorities and responsibilities assigned, job rotations and intra-bank transfers. These responses are analyzed through descriptive statistics.

Moreover, interviews from internal auditors, external auditors and other key employees of banks and observations of other related personnel and banking environment in Pakistan have also been made to endorse survey findings. The data collected is both quantitative and qualitative in nature that provides a comprehensive understanding of management audit in banking sector of Pakistan. This research is conducted through responses from bank employees and other related individuals and institutions in their actual environment. Therefore, the same ensures high quality of data collected.

This research is also a correlational study where relationship amongst management audit of various policies, utilization of organizational resources and profitability of organizations in banking sector of Pakistan has been observed. As a unique feature of correlational research, no manipulation is made in any of the variables of this study mentioned above. Bank employees, internal auditors and external auditors are not informed about the actual hypothesis and real

purpose of research in order to have their unbiased responses.

Subject and Sampling

This study is an empirical research that is comprised of both quantitative and qualitative information. This information has been collected from various sources in order to make analysis for the decision of acceptance or rejection of hypothesis. These sources of information/data are being discussed below along with the sampling technique that is applied for each source.

Banks

Banks are the most important source of data for the study under consideration. These are divided into five categories including Private, Government Owned, Foreign, Islamic and Specialized Banks as per State Bank of Pakistan.

Former four categories are considered for this study whereas specialized banks have not been taken into consideration because they do not deal with normal clientele and normal banking services as other four categories do. The target population is comprised of the banks in Pakistan because this research is based on a study conducted for the banking sector in Pakistan. Stratified Random Sampling is used with sample size of 20% to select banks where each category is treated as strata. Hence, total 6 banks (National Bank of Pakistan, MCB Bank Limited, United Bank Limited, Habib Bank Limited, Standard Chartered Bank (Pakistan) Limited and Meezan Bank Limited) are selected from the whole population of 31 banks in the four categories. From these six banks, a number of 200 bank employees is selected for survey on prorata basis.

Audit Firms

Another important source of data is external audit firms that are responsible to conduct audit of banks and development financial institutions (DFIs) in Pakistan. Scope of external audit has now been enhanced from statutory audit to some other advisory services for financial institutions. The firms of external audit in Pakistan are divided into three categories (A, B, C), as per SBP BSD Circular No. 03 dated February 24, 2003.

The target population of audit firms is category "A" because of their eligibility to conduct audit of all banks irrespective of their size and volume. This category is comprised of 15 firms. Simple random sampling is applied with sample size of 10% on target category. However, obtaining responses from the audit firm currently conducting the audit of any bank selected in the sample is preferred.

State Bank of Pakistan

State Bank of Pakistan (SBP) being the regulator of banks and DFIs in Pakistan has been approached in order to seek valuable insights from related experts. Banking inspection department of State Bank of Pakistan that is responsible to review banks is focused for this purpose.

Research Instruments

The above mentioned sources have been approached through the use of following instruments/ techniques in order to collect required data.

Survey is conducted through self-administered structured closed-ended questionnaires. These questionnaires are responded by bank employees who are in officer and executive cadres. Opinions are obtained from 200 employees of selected banks. The questionnaires are covering general aspects related to bank policies and audit of the same in banks. Specifically the questionnaire is developed in a way to have an idea about human resource management policy. This policy is reviewed based on the satisfaction level of employees for the factors including working environment, team work, management attitude towards employees, interpersonal and interdepartmental relationships, training & development for employees, employee participation in decision making, criteria for promotions, increments and rewards, leave medical and financing facilities, authorities and responsibilities assigned to employees, job rotations and intra-bank transfers.

Interviews are conducted from the heads/executives of internal audit department and the head of corporate banking operations division in different banks, to obtain opinions from the side of bank management engaged in making policies and ensuring their implementation.

Interviews are also conducted from the EY and KPMG (the firms in Category A above that is eligible to conduct audit of all banks and DFIs) in order to have an idea about management audit, internal controls, policies and implementation of those policies all over the banking industry.

Valuable insights from the State Bank of Pakistan being regulatory authority for all banks are also gained through direct unstructured interview from a panel comprising joint directors and deputy directors of Banking Inspection Department.

Results & Discussion

All the information/ data collected is analyzed using quantitative or qualitative techniques based on the type of data. The data that is collected from the questionnaires is tested through descriptive statistics including means and coefficients of correlation via Microsoft Excel and statistical software SPSS. In addition, qualitative analysis have been made for the information obtained through interviews of related experts. Moreover, there is a considerable proportion of observations throughout the period of data collections. These observations are noted when made and analyzed qualitatively.

Human capital is basically the collection of productive skills, health, expertise and ability that the workforce

retains. This capital like physical one is the result of investment decisions by firm's management and affect the productivity of organization. Both direct and opportunity cost is involved in such investments and the true benefit may only be realized when the return against these investments exceeds the costs incurred. (Goldin, 2014).

Organizations rely on specific assets with respect to their nature of business and human resources are the strategic assets in a service industry. Hence, policies relating to the same are required to be developed with specialized knowledge and skills of the individuals involved. The study in hand covers the banking industry of Pakistan. Hence, discussing human resources, their policies and audit is unavoidable.

Strength of human resource management policies and impact of management audit for the same is being elaborated through multiple aspects as follows.

HR Policy and Employee Satisfaction

There are various components related to human resources. Employee responses obtained from the bank employees regarding their level of satisfaction for organizational policies.

Table 1

HR Policy and Employee Satisfaction

Factors	Minimum	Maximum	Mean	Mean Expressive
Working Environment	1.00	5.00	1.8300	Satisfied
Team Work	1.00	4.00	1.8750	Satisfied
Behavior of Line Manager	1.00	5.00	1.9050	Satisfied
Behavior of Top Management	1.00	5.00	2.1500	Satisfied
Relationship among colleagues	1.00	5.00	1.8200	Satisfied
Interdepartmental Relationships	1.00	5.00	2.1800	Satisfied
Training & Development	1.00	5.00	2.1850	Satisfied
Employee Participation in Decision Making	1.00	5.00	2.5450	Indifferent
Criteria for Increments	1.00	5.00	2.6800	Indifferent
Promotion Policy	1.00	5.00	2.7200	Indifferent
Performance Rewards/Bonuses	1.00	5.00	2.5550	Indifferent
Bonuses other than performance	1.00	5.00	2.6550	Indifferent
Leave Facility	1.00	5.00	2.1500	Satisfied
Medical Facility	1.00	5.00	2.3450	Satisfied
Financing Facilities	1.00	5.00	2.2450	Satisfied
Authorities Sanctioned	1.00	5.00	2.3350	Satisfied
Responsibilities assumed	1.00	5.00	2.2000	Satisfied
Job Rotations	1.00	5.00	2.3750	Satisfied

Intra-bank Transfers	1.00	6.00	2.5150	Indifferent
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Source: SPSS Results of survey questionnaires

As per the above portrayal in Table 1, on average the employees found to be satisfied with working environment, team work, behavior of line & top management, mutual relationship amongst colleagues, interdepartmental relationship (for instance relationship of branch officers with credit management department, centralized operations department, treasury etc.), training and development i.e. being provided to the employees by management, leave facility, medical and financing facilities. On Average, the employees are also satisfied with the job rotations in bank, authorities given to them and the responsibilities assigned.

Nevertheless, bank employees are observed to be indifferent for their participation in decision making means they are not appropriately involved whenever a significant decision is made on bank level. For example, the new transaction recording and reporting system was introduced in some banks and implemented without involving the operational staff who were the ultimate responsible for transactions execution. This lack of involving employees in decision making caused serious operational issues those prevailed for years after implementing the new system.

Employees are also indifferent in their opinion for the human resource policies related to increments, promotions, rewards and the intra bank transfers. This lack of interest in showing their level of satisfaction uncovers that these policies are not employee friendly as per their perception. For instance, in almost all bank employees are required to be transferred from their existing roles and placements to the new roles and new placements after every three years. While observed during the survey, this movement usually occurs very frequently means even before completing the maximum period of three years. Moving employees to the other roles

and placements at one side reduces risks of forgeries and improves their competencies for different roles. While on the other hand causes lowering the employee productivity when they are shifted from their comfort zone.

Likewise, in almost all banks, bell curve strategy is used for appraisals. As per this approach, most of the employees are required to be rated 'average', even performing above average. Whereas, a very few proportion of employees is to be categorized as performing above average and the minimal to be the excellent performers. On the other side, some of the employees at left side of the bell curve are required to be forcefully categorized below average.

Besides, the crucial disclosures being reflected from the above discussion, the research hypothesis where the relationship between management audit of human resource policy and bank performance is required to be extracted; is tested through spearman correlation among variables in the study as follows.

Relationship b/w HRM Policy Components and Performance Effectiveness

Due to the changing world scenarios and technological advancements, the pre-requisite for employers is to motivate and persuade employees through which they could maintain their competitive lead (Löfqvist, Barbouti and Tariq, 2014). For this purpose, they need to regularly evaluate their human resource policies and make necessary amendments therein. Hence, as per responses received through questionnaires, the relationship in between multiple components of human resource policy and their impacts on human resource management division as well as on the overall bank performance is expressed via spearman correlation and is being depicted below.

Table 2

Correlation between HRM Policies, Effectiveness of HRM Division and Effectiveness of Bank

S. No.	Variable-1	Variable-2	Correlation Coefficient
1	Increments Policy	Effectiveness of HRM Division	.287**

	Increments Policy	Overall Effectiveness of Bank	.311**
2	Promotion Policy	Effectiveness of HRM Division	.266**
	Promotion Policy	Overall Effectiveness of Bank	.279**
3	Rewards/Bonuses Policy	Effectiveness of HRM Division	.215**
	Rewards/Bonuses Policy	Overall Effectiveness of Bank	.252**
4	Training & Development Policy	Effectiveness of HRM Division	.244**
	Training & Development Policy	Overall Effectiveness of Bank	.283**
5	Leave Facility	Effectiveness of HRM Division	.290**
	Leave Facility	Overall Effectiveness of Bank	.346**
6	Medical Facility	Effectiveness of HRM Division	.289**
	Medical Facility	Overall Effectiveness of Bank	.315**
7	Job Rotations	Effectiveness of HRM Division	.267**
	Job Rotations	Overall Effectiveness of Bank	.269**
8	Staff Financing Facility	Effectiveness of HRM Division	.230**
	Staff Financing Facility	Overall Effectiveness of Bank	.347**
9	Intra-bank Transfers	Effectiveness of HRM Division	.278**
	Intra-bank Transfers	Overall Effectiveness of Bank	.277**

****Correlation is significant at the 0.01 level (2-tailed).**

Source: SPSS Results of survey questionnaires

Increments

The above representation of spearman correlation coefficient between the change in policies made as per audit's advice related to the salary increments, performance of human resource division (HRD) and overall banking performance is significant (Table 2). Hence, the quicker is the implementation over auditor's suggestions related to increments, the more effective will be the performance of human resource division and overall performance of bank.

Promotions

Promotion is basically the elevation in role the employee is performing into the organization. Phelan and Lin (2001) indicate that the system of promotion has vital impact on the organization and effectiveness of this system depends on several factors such as environment where tasks are to be performed, structure of organization, observing frequencies, performance measures and the job knowledge. Again, as per the employee responses, the correlation of rapidity in updation of promotion policy if highlighted by the audit, with the performance of HR division and with overall performance of bank is found to be significant (Table 2).

This significance is supportive to the fact that if well-deserved employees are timely promoted through appropriate criteria considering all the key factors then they will result in overall effective performance of bank.

Rewards/Bonuses

Rewards and bonuses are the techniques of positive reinforcements for employees. Presence and the appropriate application of these rewards is one of several organizational practices in order to improve performance of employees and the organization. Properly rewarded employees usually remain with the organization for relatively longer period of time and are proved to be more productive. These rewards may be of several types including intrinsic rewards, extrinsic rewards, social rewards or a combination of these rewards. Hence, if appropriate management of rewards is not executed then it will cause reduced employee productivity and thus the poor organizational performance (Salah, 2016).

The results of this research conducted for banking sector in Pakistan endorse the results of above study. Significant correlation is observed between rewards and HRD performance as well as between rewards and the overall performance of bank.

This significant correlation conforms that if policies related to rewards/ bonuses are updated whenever

suggested, then the performance of human resource management division along with the inclusive organizational performance will become effective (Table 2).

Training & Development

Human capital results in creating distinction between top performing organizations and the average performers. Therefore, continuous training and development of employees is mandatory in order to keep them updated with the changing requirements and advanced technologies (Nda and Fard, 2013). Corresponding to this study, significant correlation is verified in between training & development policy, human resource effectiveness and the organizational performance (Refer Table 2).

As per SBP officials, trainings are provided to the employees at the time of recruitment. However, after recruitment, they are not continuously trained in respective areas that restricts their growth and thus the organizational productivity and profitability. Due to the limited staff in branches, the efficient workers are usually avoided to be sent for such trainings in order to manage routine workload at branches. Though, this scenario is being changed but at a very slow pace and need improvement.

Leave Facility

Work-life balance policies are recommended for employees in banks in order to enhance their satisfaction and commitment to the job that will affect their productivity. Leave facility for multiple family matters is one of these policies (Mukururi and Ngari 2014). Likewise, significant positive correlation is found in leave policy with HRD effectiveness and with the organizational performance in the banking sector of Pakistan (Refer Table 2).

Medical Facility

Intrinsic rewards besides the extrinsic ones also induce employee engagement with the organization. One of the intrinsic rewards is medical facility for employees and their dependent family members (Aamir, Jehanzeb, Rasheed and Malik (2012). The appended position proves significant positive correlation of Medical Facility with that of the HRM

division effectiveness and overall bank's effectiveness (Refer Table 2).

Job Rotation

Mohsan, Nawaz and Khan (2012) analyzed the impact of job rotations on employee involvement in the job and motivation. The author demonstrated that employee involvement in job can be increased a little through job rotation. Nevertheless, this study adds some more insights through discovering the strong positive relationship of job rotation with HRD effectiveness as well as with the effective performance of banks (Refer Table 2).

It is additionally observed regarding the above concept during survey that employees are usually unaware of the policies or they are just limited to one specific area i.e. absence of true rotation. This aspect is also endorsed by the directors and deputy directors in State Bank of Pakistan in a detail discussion over human resource policies in banks. It is further stated by them that this is actually the extensive drawback of human resource policy. Respective managers do not want to rotate employee on different functions where they are first needed to be trained. Rather, they are moved to different place in the same capacity in order to meet the rotation policy of bank. For example, a cashier is moved as cashier to other branch in order to remove his/ her over stay in the same branch. He/she is not rotated to other functions so that true purpose of job rotation i.e. job enrichment may be accomplished. Even, SBP just review whether the place is changed.

Another drawback of unfair rotation policy is observed during survey. Employees are usually not elevated before working for few years in a department or branch. Once, they do spend a time period and are considered eligible for elevation to some higher position then they get overstayed as per bank policy and are not elevated due to their overstay status. On the other side, if they are moved to remove objection of over stay and to comply with the bank's rotation policy, they become the new employee for the other place/department/branch and are not considered for promotion up till a considerable period when their potential reflects in front of their new in-charge/ line manager. This treatment causes dissatisfaction among employees and effect their productivity.

Staff Financing Facility

Significant positive correlation is found amongst the financing facilities provided to the employees, effective performance of human resource division and the whole performance of banks in Pakistan (Table 2). The result of the study are somehow likely to the study conducted by Aamir et al. (2012), where it was concluded that besides other incentives, the credit facility should also be allowed to employees with minimum interest charge.

Intra-bank Transfers

Frequent transfers of employees from one location to another cause adjustment problems for them and result in their dissatisfaction with job (Kamal and Sengupta, 2008-09). However, the employees are required to be dislocated or transferred from one place to another after three years. Even, somewhere they are neither rotated to different job assignment nor elevated to any enhanced position if stayed after completing three years at same place. This policy is basically implemented to reduce the risks of frauds that may occur if an employee remains intact with the same location/branch/department for a relatively longer period in a financial institution like bank. Nevertheless, frequent transfers of bank employees from one branch/location to another are observed during the survey. Moreover, the issues of overstayed staff are also observed at some places. Statistically significant correlation is found between the employee transfers and bank performance according to employee responses (Refer Table 2).

Hence, decisions about transfer of employees are very critical. At one end, these may result in reduced employee productivity due to their dissatisfaction with dislocation. While, on the other side, the employee retention at similar place for a longer period of time may cause financial losses due to the risk of frauds.

In view of the above discussion about the results obtained for human resource management policy in banks, we are in a position to support research hypothesis H_1 in a way all the components discussed above are positively correlated with the performance of human resource management and with the whole performance of banks in Pakistan. Hence, every component of HR policy requires discrete attention for formulation as well as for the bank wide implementation of the same. Some HR related policies are not as good but not amended as the same

do not fall under the minimum criteria set by SBP. For example, rotation policy, bell curve policy of appraisal etc. However, if they are amended will surely bring fruitful results for the banks and for the overall financial sector of the economy.

Conclusion

Banking industry is one of the prominent sectors of Pakistan's economy and requires specific attention due to the increasing challenges of competition, money laundering, cyber-crimes and a considerable portfolio of non-performing loans. In previous few years, banking system in Pakistan has been moved into a new phase of development and facing various issues, where economic uncertainty, political instability and technological challenges remain the main problems. It demands strengthen controls that are only possible with continuous monitoring and removing deviations. Management audit fulfills this purpose as it not only identifies the problems rather assists management to resolve the same. External and internal audits should be integrated in a way that external audit reviews the working and results of internal audit before starting their own review rather than starting from the scratch. Audit is basically the cost that is paid to ensure that the performance of management is fair and in errand of other stake holders. In this sense, management audit may be termed as agency cost in order to minimize the conflicts of interests among stakeholders. On the other side, internal audit is also related to the stewardship theory as internal/management auditors are supposed to work for the benefit of stakeholders and to maximize the shareholders' wealth.

The bank under government sector found to be more inclined towards hiring outsourced/ contractual staff in order to fill in the vacant positions of retired employees. Whereas, outsourcing observed to be less preferred by private and foreign banks in Pakistan. Bank employees, on average, found to be satisfied with working environment, team work, behavior of line & top management, mutual relationship amongst colleagues, interdepartmental relationship, training and development i.e. being provided to the employees by management, leave facility, medical and financing facilities. They are also satisfied with the job rotations in bank, authorities given to them and the responsibilities assigned. Nevertheless, bank

employees are observed to be indifferent for their participation in decision making means they are not appropriately involved whenever a significant decision is made on bank level. This lack of employee involvement in decision making sometimes resulted in serious operational issues those prevailed for years. Employees are indifferent while responding the queries related to increments, promotions, rewards and the intra bank transfers. This lack of interest uncovers that these policies are not employee friendly every time. This fact is also reflective from the interviews conducted. Significant correlation is identified among various components of human resource management policy and the overall bank performance. Hence, the satisfaction level of employees with human resource policies will result in their motivation and productivity of course.

The results of the study as discussed above are in support of the research hypothesis (H_1) that the lack of appropriate conception and Implementation of Management Audit for Human Resource Policies has been effecting the utilization of resources and performance of organizations in the banking sector of Pakistan. Conclusively, if the policies are not evaluated and cause penalties by the State Bank of Pakistan then it will not only result in the financial loss as well as the reputational loss. Hence, management audit is necessary to ensure that the available resources are being utilized in appropriate manner and avoiding the expected penalties thus enhancing the overall effectiveness.

Recommendations

In view of the results identified and concluded in the above sections, following are observed to be the key steps that may result in efficiency and enhanced productivity of banking sector in Pakistan.

- Awareness should be developed in employees for the importance of policies and need of their understanding for various bank policies. For this purpose, specific training courses may be arranged in staff training centers of banks and periodic tests for the same may also be conducted in order to refresh the policy areas.
- True rotation of job should be ensured in order to enhance quality and worth of human capital. True rotation refers making all the employees of

banks enable to work over multiple assignments, varying tasks and in different departments/branches/units.

- Training and development should not remain specific to the assignment that the employee is currently performing. Rather they should be trained in all areas of banking operations. These trainings should not remain limited to in-house trainings rather should also include ex-house trainings so that employees can be able to learn through interaction with other employees in banking sector and the persons working in financial institutions other than banks.
- Management should involve employees in audit process. Audit rating along with the observations raised by auditors should be shared with employees in order to overcome the weaknesses and to avoid these objections in future. This objective may be attained through assigning compliance of audit observations/ objections through the related employee working on the assignment related to that observation. These observations should also be revealed to the employees to whom the particular assignments is to be given or has recently been allocated.

Practical Implications

Banking is one of the leading sectors of the Pakistan's economy and has been continuously going through with reforms in terms of regulations and modifications. In previous few years, banking system in Pakistan has moved into a new phase of development and facing various issues in the same. Regulatory compliance is one of the key challenges for this industry. Meeting regulatory compliance requires strong internal controls, assessment of existing policies along with their implementation and necessary revision and addition of policies. Hence, Management Audit may contribute in the accomplishment of these tasks and strengthening this huge sector of the Pakistan's economy.

Limitations and Opportunities for Future Research

Though, best possible efforts are exerted to come up with the true findings for the study. However, like all other researches, this study is also limited to some

considerable aspects that may be covered in future studies.

This study addressed the aspect of human resource policies in bank. It provides opportunities for future research on management audit related to credit policies, trade policies and multiple operational policies in banks.

This study is based on descriptive statistics. Conducting the same through advance statistical techniques like structural equation modelling may help in gaining some new insights.

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