

## ***Defining the Meaning of 'Auditing' and 'Monitoring' & Clarifying the Appropriate Use of the Terms***

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The focus group of Health Care Compliance Association (HCCA) and Association of Healthcare Internal Auditors (AHIA) members continues to explore opportunities to better define and explain auditing and monitoring, clarify the roles of compliance and internal audit functions as they address issues within their healthcare organizations, and develop guidance and reference materials on key aspects of health care auditing and monitoring processes. The *Seven-Component Framework developed by the AHIA-HCCA focus group* for compliance auditing and monitoring is comprised of the following activities:

- Perform a risk assessment and determine the level of risk
- Understand laws and regulations
- Obtain and/or establish policies for specific issues and areas
- Educate on the policies and procedures and communicate awareness
- Monitor compliance with laws, regulations, and policies
- Audit the highest risk areas
- Re-educate staff on regulations and issues identified in the audit

This article provides the focus group's view regarding the definition and appropriate use of the terms "auditing" and "monitoring."

### **A. Conclusion**

**While consisting of similar tasks, auditing and monitoring are separate concepts and activities.**

Typically used in tandem throughout the current healthcare industry, "auditing" and "monitoring" do not represent a single concept. The primary defining characteristics distinguishing auditing and monitoring are independence, objectivity and frequency. Auditing represents evaluation activities completed by individuals independent of the process on a periodic basis and monitoring represents evaluation activities completed by individuals who may not independent of the process on a routine or continuous basis. Auditing should thereby provide for a more objective assessment, at least in appearance.

### **B. Auditing & Monitoring Definitions**

**Auditing:** Auditing is a formal, systematic and disciplined approach designed to evaluate and improve the effectiveness of processes and related controls. Auditing is governed by professional standards, completed by individuals independent of the process being audited, and normally performed by individuals with one of several acknowledged certifications. Objectivity in governance reporting is the benefit of independence.

Typical characteristics of an audit include the following:

- Formal review governed by professional standards
- Completed by professionals independent of the operation
- Formal, systematic and structured approach
- Involves planning, sampling, testing, and validating
- Formal communication with recommendations and corrective action measures
- Documented follow-up of corrective actions
- Audit accountability is typically to the Chief Audit Executive and the Audit Committee

- Involves routine, formal communication to the Board and Management

**Monitoring:** Monitoring is an on-going process usually directed by management to ensure processes are working as intended. Monitoring is an effective detective control within a process.

Typical characteristics of monitoring efforts include the following:

- Often less structured than auditing, though audit techniques may be employed
- Usually completed by operations or compliance personnel
- Involves on-going checking and measuring
- Can be periodic spot checks, daily/weekly/monthly tests
- May identify the need for an audit
- Accountability for monitoring is typically to operations leadership
- Typically completed by department staff and communicated to department management
- If completed in relation to a compliance work plan, formal communication to Chief Compliance Officer and Compliance Committee
- May involve internal audit or compliance

### C. Usage of the Terms “Auditing” and “Monitoring”

Board and Management understanding of auditing and monitoring activities is important. Using the term audit, especially since the enactment of the Sarbanes-Oxley Legislation, has a specific meaning. If used improperly, inaccurate assumptions may be made regarding the type of work conducted and the reliability of the results.

Management uses monitoring tools and processes to verify that controls it has implemented are working on a routine basis and that business risks are being identified and addressed. However, because management is checking on their own operations, an inherent conflict is evident in that reporting may reflect what management prefers to report instead of what the actual results portray. Also, in many respects, operational personnel have a better understanding of the data and therefore may create the most appropriate and effective monitoring tools. However, those tools are not necessarily tempered by objectivity or the perspectives/ knowledge of an experienced auditor.

In this regard, the term “*auditing*” includes the term “audit.” The term “*monitoring*” includes the term “monitor.”

- *Auditing:* To be named an audit, the activity should have been completed by Internal Audit or another independent party with reporting responsibility to the CEO and/or Board. In this regard, compliance audit activities completed at the Direction of the Compliance Officer or Privacy officer that are reported to the CEO and/or Board may be properly labeled as audits.
- *Monitoring:* All other activities that support management efforts to ensure compliance, including certain activities completed as part of a compliance work plan, should be labeled monitoring.

### D. Why Distinction Is Important

Auditing and monitoring as a joint concept were introduced by the Federal Sentencing Guidelines and related Office of Inspector General compliance program guidance. Since many organizations also have internal audit departments, most of which predated formal compliance programs, this lack of guidance can create confusion among employees, management and the Board when they are used interchangeably. Separate definitions and term usage will minimize if not reduce this confusion.

The fifth requirement of the Federal Sentencing Guidelines is the existence of auditing, monitoring and reporting systems designed to detect criminal or non-compliant conduct. Even with the recently issued amendment to the Guidelines, specific requirements for auditing and monitoring are not

provided. Additionally, compliance program guidance provided by the Office of the Inspector General excludes explicit guidance in this regard.

However, two formal audit processes currently exist in the business world: financial statement auditing and internal auditing. Each of these types of auditing are governed by professional standards and represented by professions that existed long before corporate compliance plans were developed and implemented. In both cases, the concept of “auditing” is specific and includes the concepts of independence and objectivity. These standards, Generally Accepted Auditing Standards for financial statement audits and the Standards for the Professional Practice of Internal Auditing for internal audits, also refer to objectivity-related concepts such as due professional care and professional skepticism.

Additionally, both sets of standards refer to “monitoring” in the context of actions taken by management to ensure its controls function effectively.

Given this available guidance for audit, definitions for auditing versus monitoring can and should be established and communicated within an organization.

### **E. Where Auditing and Monitoring Intersect and Benefit Each Other**

Auditing and monitoring can benefit from each other. Auditors can use the results of monitoring efforts to identify risks, reduce audit duration or frequency, and/or focus more audit efforts in other areas. Monitoring is also part of the internal control structure evaluated by auditors.

Monitoring mechanisms can be driven and/or validated by audit tests and results. Also, monitoring methodologies can be reviewed by your audit department to ensure that a consistent approach for documenting efforts/results and reporting findings is in place.

Monitoring mechanisms are also typically applied by Corporate Compliance and Internal Audit as part of their ongoing risk assessment programs.

### **F. The Need to Retain Evidence of Auditing and Monitoring Efforts**

In discussions above regarding the Federal Sentencing Guidelines, we emphasized the importance of distinguishing between auditing and monitoring initiatives. It is important to develop a methodology for warehousing all auditing and monitoring initiatives over time to allow easy retrieval. Many facilities have implemented the use of the intranet and dashboard reporting to catalogue all efforts over time and map these efforts to specific departments, financial statement categories and risk areas.

### **G. About the AHIA/HCCA Focus Group**

The AHIA/HCCA focus group will continue to address compliance auditing and monitoring directives through white papers, articles and educational initiatives.

Members of the focus group are:

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