

Contrasting Roles and Responsibilities – Corporate Compliance and Internal Audit

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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 roles and responsibilities of the corporate compliance and internal audit functions. There is no attempt to address the merits of having separate or combined corporate compliance and internal audit functions. Whether the functions are separate or combined, the roles and responsibilities remain essentially the same for each function, though each approach provides reciprocal advantages and disadvantages to an organization, which can best be summarized as follows:

- With separate compliance and internal audit functions, collaboration is more challenging, but functional independence is assured.
- In combined compliance and internal audit shops, collaboration is assured but functional independence is more challenging.

The Focus Group categorized the different roles and responsibilities for comparative purposes. This categorization and comparison is summarized in a matrix as Exhibit A to this article. Twenty-two comparative categories were identified: requirement, purpose, reporting, internal authority, span of responsibility, professional standards, high level focus, primary focus from a risk standpoint, activity focus, relationship to management, training responsibility, auditing, monitoring, expertise, impact on internal audit plan, impact on compliance plan, risk assessment, follow-up, investigation, hotline, information systems, and internal controls. This of course highlights the complexity of attempting to discern the roles and responsibilities, though once addressed it's actually quite easier than it seems.

When looking at the first several categories of roles and responsibilities, especially related to formal standards, the Focus Group identified that **internal audit has more history as a profession and its work is governed by formal standards** for the conduct of its work. Thus, internal audit has been accepted and understood by industry boards and executives before corporate compliance programs were conceived. While corporate compliance and internal audit certifications and codes of ethics exist, corporate compliance activities are not yet governed by widely acknowledged standards. From this context then the roles can best be identified, understood and applied by looking first at similarities and then at uniqueness.

Similar Roles and Responsibilities

Corporate compliance and internal audit functions are best served by being independent of the operations they assess. To achieve independence, proper governance, lines of reporting and authority, organizational placement and organizational access are key to the success of both functions. Since both compliance and audit are focused on helping the organization achieve responsible and effective corporate governance and ethics, best practice corporate compliance and internal audit functions should:

- Report functionally to the organization's board, typically through an audit or compliance committee. This reporting relationship provides each function with the necessary authority to effectively address their responsibilities.
- Function relative to a board-approved program or charter. A board-approved charter documents the established authority.
- Report administratively to the organization's CEO. This reporting relationship ensures that functional administration and resource allocation is not inappropriately influenced by operational areas subject to corporate compliance and internal audit activities.
- Have access to the entire organization per board direction, typically identified in the board-approved program or charter. Compliance and internal audit professionals must have open access to the records and personnel of the organization to ensure unbiased results.
- Recognize and communicate that management is responsible for compliance, and corporate compliance is not. Management is responsible for ensuring its activities comply with applicable laws, rules and regulations. This fact should be identified in the board-approved program or charter.
- Recognize and communicate that management is responsible for internal controls, and internal audit is not. Management is responsible for ensuring that appropriate internal controls are implemented to meet organizational mission and strategic objectives. This fact should be identified in the board-approved program or charter.
- Have the authority to conduct investigations. In many cases, compliance and audit collaborate to conduct investigations. Depending upon the nature of the investigation, either function may work on their own or in collaboration with other functions like human resources, information technology, legal and security.

Both functions are also cost centers of an organization, that is, functions that are not designed to contribute directly to the financial bottom line. While both functions often identify cost-saving or revenue-enhancing opportunities, neither should carry that as their primary role. Since they are cost centers, functional resources are limited. Both functions best serve their organizations with these limited resources by fulfilling their responsibilities through focus on the priority or highest risk areas.

Risk assessment is a key component of both functions. Risk assessment involves the application of a methodical process for identifying key risks that face the organization. Both corporate compliance and internal audit address corporate level risk, governance and control. As defined by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

Each function addresses corporate level risk, governance and control and a risk assessment helps each function prioritize resources to effectively address the most important matters. However, the compliance risk assessment is focused on regulatory and other compliance related matters and the internal audit risk assessment is focused on internal control related matters, including controls that

affect compliance. Because there is some overlap, coordination of planning efforts typically improves the risk assessment results thereby benefiting both functions as well the organization.

The Focus Group issued a previous article that specifically addressed the completion of a compliance risk assessment. You may reference that article for additional details.

Unique Roles and Responsibilities

Exhibit A identifies in detail by category the uniqueness of each function.

Conclusion

Corporate compliance and internal audit share similar roles and responsibilities, while also maintaining specific, unique roles and responsibilities. These roles and responsibilities are not structured the same in all organizations and, in some cases, are combined. Regardless of how your organization structures these important governance functions, corporate compliance and internal audit are most effective when they work in a collaborative manner, one that includes joint planning and coordination of risk assessment efforts to review for overlapping areas, coordinated reporting to management and the board on significant issues, and shared involvement in key compliance related committees, task forces and other working groups. Understanding the similarities and differences as summarized in this article should help to ensure such collaboration is deliberate and effective.

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. The Focus Group welcomes your feedback and requests to address particular matters related to auditing and monitoring. Please submit your request directly to any member of the focus group.

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