The shift from volume to value catalyzed by the Affordable Care Act (ACA) and other sweeping changes in healthcare delivery and payment are reconfiguring virtually every aspect of the healthcare sector. The industry is in the throes of extraordinary change, and healthcare internal audit is playing an essential role in the transformation.

Reform-related concerns are exponentially expanding the scope and complexity of risk and regulatory compliance. These include the establishment of health information exchanges, population health management, reimbursement tied to clinical outcomes and accountable care organizations; the pressing need for cybersecurity; and a legion of non-ACA developments such as the implementation of the International Classification of Diseases, 10th revision (ICD-10).

As the healthcare industry evolves, internal audit must evolve in tandem to provide healthcare organizations with the "next generation" of risk coverage.

Unprecedented changes in healthcare have increased the scope and complexity of risk and compliance. To provide the depth of risk coverage needed, internal auditors must embrace a strategic approach to auditing based on: 1) a robust, comprehensive risk assessment extending beyond traditional boundaries to reach a greater number of clinical, strategic and operational areas; 2) an infrastructure based on data analytics; 3) flexible staffing and deep specialization to identify, appraise and monitor new and emerging risk areas; and 4) a culture that embraces risk management and internal audit.

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The introduction of a major element to the equation—outcomes—along with the burgeoning use of health information technology in every aspect of healthcare, requires healthcare organizations to provide coverage beyond traditional audit plan areas. Needed now is a more encompassing consideration of overall strategic risks that includes quality and performance measures, cybersecurity, non-acute and post-acute care, telemedicine, clinically
integrated networks, accountable care organizations and many other areas.

Healthcare internal auditors already are well aware of the need to play a larger role within healthcare organizations. They are aware that doing so requires them to team with and win the cooperation of colleagues in other disciplines. See the notes in the Association of Healthcare Internal Auditors’ 2015 report, “Priorities for Internal Auditors in U.S. Healthcare Provider Organizations.”

Needed now is a more encompassing consideration of overall strategic risk than the long-standing transaction-focused, volume-driven system of the past.

“Cybersecurity and overall IT risk management, for example, require cooperation among colleagues in IT, risk management, operations, legal counsel and other departments,” the report states. “Effectively addressing these multidimensional challenges requires internal auditors to work across a number of different internal functions and, often, with a number of external parties. This work boils down to persuading business partners throughout the organization to integrate risk considerations into every decision they make.”

Next generation skills
The ability to gain acceptance and function effectively in this collaborative, cooperative environment also entails replacing the traditionally linear approach to internal audit activities with a dynamic, strategy-driven method that identifies high-risk areas, anticipates emerging risks and adapts as new issues come to the fore.

The next generation internal auditor should have a fundamental understanding of the following:

- A robust, comprehensive risk assessment based on collaboration. Coupled with a broader view of risk to identify high-risk needs and issues to determine where within the organization risk management and internal audit time and resources should be directed.

- An infrastructure based on the deft use of sophisticated data analytics to support more efficient and effective coverage of traditional audit areas while creating a platform for coverage of new industry risks.

- Flexible staffing and deep specialization in new and emerging complex audit areas.

- A culture of understanding from governance to management and line operations about the need for proactive risk management and the important role played by each function and department, including internal audit.

A broader view of risk
Despite the volatility, pace and scale of change in the present environment, too many internal audit functions remain stuck in the past. The standard approach to internal audit in many organizations still tends to be tactical rather than strategic, resource-intense but limited in coverage, reactive rather than proactive and restrained by the skill sets of the staff.

This orthodox method manifests itself most within the risk assessment process, which is the foundation of an effective internal audit function.

Health systems frequently are caught in the traditional tactical mode. Often, internal audit does not appraise and monitor such important strategic initiatives as complex physician arrangements or compensation models, even though these initiatives may be at the core of the organization’s current strategic goals and objectives.
Another problem is a distinct, possibly turf-based separation between the internal audit function and the legal and compliance functions, in which internal audit appears to be forced to limit itself to the typical areas. The inability for key disciplines to work together as a cohesive unit prevents an in-depth, independent appraisal of legal and compliance activity from taking place.

As the healthcare industry evolves, internal audit must evolve in tandem to provide healthcare organizations with the “next generation” of risk coverage.

It is common for general counsel to consider internal and external legal review of physician arrangements, complex joint ventures, leasing transactions and other arrangements to ensure the terms of the arrangements are being followed. Independent monitoring frequently does not occur after these arrangements go into effect.

A plethora of competing concerns and complexity characterizes the current healthcare landscape. The situation calls for a flexible approach to internal audit rooted in strategic thinking and supported by the identification of true risks across the organization, unhindered by traditional internal audit boundaries.

Largely due to healthcare reform, traditional siloes—notably, barriers among clinical, operational and financial functions—are breaking down within hospitals and health systems.

Financial performance in healthcare, for example, has never been so closely interwoven with clinical performance. The connection between quality outcomes and evidence-based protocol implementation on the one hand, and an organization’s financial viability on the other, will only deepen as the provisions of the ACA continue to unfold. In short, creating interconnections among previously separate functions and departments has never been so critical an aspect of how healthcare organizations must think and operate.

In an environment such as this, the traditional boundaries between internal audit and other disciplines must bend, and the need for in-depth risk evaluation in nontraditional areas grows. Internal audit is a crucial component of the multidisciplinary mix.

The power of analytics
Assessing traditional transactional and financial controls will always remain a part of internal audit’s purview. However, an infrastructure based on the extensive and intelligent use of data analytics is needed to enhance the effectiveness and efficiency of this transactional monitoring.

Data-driven infrastructures allow internal auditors to devote more time and resources to assessing and addressing new and emerging risk areas and issues of high concern. These areas might include information security, the electronic medical record, health information exchanges, clinical protocols, sophisticated provider arrangements and flexible care delivery models.

“The Three Lines of Defense in Effective Risk Management and Control” is a 2013 position paper published by The Institute of Internal Auditors (IIA). It describes an infrastructure that harnesses technology and can empower internal audit (the third line of defense) to more efficiently and effectively monitor operational management (the first line of defense) and risk management and compliance functions (the second line of defense).

Strengthening internal audit’s capacity to appraise and monitor risk in real time analytics enables internal auditors to work more closely and strategically with the second line of defense risk management and compliance functions. This coordination between the second and third lines of defense can improve risk management globally within the organization and strengthen the organization as a whole.

Deep specialization needed
The generalist approach to internal audit staffing no longer carries weight in an environment of increasingly diverse and Byzantine risk exposure. To adapt, internal audit executives, managers, and departments must begin making intelligent use of specialists who reflect this growing range and complexity, as the organization needs them.

The comprehensive, robust risk assessment is a hallmark of the next internal audit generation.

The comprehensive, robust risk assessment, a hallmark of the next internal audit generation, will enter clinical, operational and strategic areas that frequently are not part of the existing internal audit skill set and knowledge base.

Next generation internal audit will cover the broader risks of the organization. These include such areas as quality
reporting and compliance related to a growing number of CMS standards. As a result, specialists with expertise in a multitude of domains are needed to produce business and process insights that reveal root causes of problems and lead to enduring improvements.

Traditional internal audit departments composed primarily of generalists will never have all the expertise they need to fulfill larger, more far-reaching roles as strategic team players. Next generation leaders, managers and departments must become comfortable with the idea of using internal or external subject-matter experts.

These specialists might include nurses, coding professionals, security experts, technology experts, physicians and other clinicians from both within and outside of the organization. If outcomes are part of the equation—and they are—then there has to be a focus on the accurate reporting on these outcomes. If cloud computing is part of the organization’s health information technology landscape, then adherence to appropriate security measures must be assessed and monitored.

**A cultural shift**

It is virtually impossible to discuss the next generation of internal audit without mentioning the importance of organizational culture. None of the concepts presented in this article can come to fruition in an organization that does not support robust risk management and value internal audit’s potential as a contributor to strategic advancement.

Despite the volatility, pace and scale of change in the present environment, too many internal audit functions remain stuck in the past.

A cultural shift led by senior leadership may be required in many organizations to give internal audit the prominence and authority it needs to perform effectively as an essential strategic business partner. The organization must embrace the function. Internal auditors, including the specialists described earlier, must be aligned with leaders and be present for significant discussions so they understand the organization’s strategic risk landscape and can execute the broader responsibilities of providing next generation audit services.

The most effective internal audit functions that we observe already operate at least partially from a next generation framework.

These internal audit teams conduct robust, comprehensive risk assessments that identify new and emerging concerns in a wider range of strategic, clinical and operational areas. They tap the expertise of appropriate specialists as needed to reach into these areas. They work with the Three Lines of Defense model, collaborating with the legal, finance and compliance departments. They sit at the table with senior executives, where they are recognized as a value-added function.

The inability for key disciplines to work together as a cohesive unit prevents an in-depth, independent appraisal of legal and compliance activity from taking place.

**Be a champion of change**

All internal auditors should be catalysts for the next audit generation. Work with your colleagues to identify opportunities to incorporate elements of next generation internal audit into your daily activities and ongoing work. You want to open management’s eyes to the possibilities and educate them on how greater risk coverage can strengthen the organization.

Explore the use of specialized expertise from inside or outside the organization to monitor important areas, support the organization’s strategic goals, identify ways to reduce costs, and deliver high-impact results. Collaborate with specialists in other areas, such as nurses with quality assurance expertise, coding professionals in health information management, or information technology security specialists.

**Conclusion**

The range and volume of risk and compliance issues spawned by the ACA, increased regulatory requirements, health information technology and other drivers require you to work across your organization as essential strategic business partners with executive leadership, department managers and stakeholders. To get there, you must embrace a strategic, data-driven approach to your function that is rooted in robust risk assessment, and flexible staffing that taps specialized expertise. **NP**