

Compliance Today – March 2019 Performance auditing and compliance functions

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When most people think of auditing, they think of external and sometimes internal auditing, both being focused on financial results and financial internal controls.

A third type of auditing, performance auditing (earlier known as operations auditing)^[1] has great promise for improving the compliance function, and also the operations of the provider. Performance auditing can be applied to a wide range of business practices and regulatory compliance targets, because it focuses on effectiveness, efficiency, and compliance.

Performance auditing was pioneered and has been enhanced by the federal General Accountability Office (GAO) as well as private sector internal auditors and consultants. The GAO uses performance auditing to evaluate everything from military procurement efficiency to social service program effectiveness. GAO developed a common set of tools to evaluate the performance of people and hardware across a wide range of government programs.

Performance auditing differs from financial auditing in intent, scope, procedures, and reporting. Performance auditors need not be independent from the company or highly trained audit practitioners.

Defining performance auditing

The General Accountability Office defines performance auditing as:

2.09 Performance audits are defined as engagements that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action...^[2]

Substitute “practice” for “program” and performance auditing instantly becomes relevant to medical practice management.

The GAO goes on to explain, “2.10 Performance audit objectives may vary widely and include assessments of ... effectiveness, economy, and efficiency; internal control; compliance; ... These overall objectives are not mutually exclusive...”

The emphasis on efficiency and effectiveness distinguishes performance auditing from financial statement audits and compliance procedures. Many of the techniques and procedures are used to do parallel compliance auditing procedures, and some compliance projects lend themselves to performance studies, thus allowing

double value from the work.

Lindberg and Cohn's classic definition of performance (operations) auditing^[3] highlights the focus of performance auditing:

- The appraisal is regular and systematic.
- A comparison is made with industry standards and company policies.
- The “auditors” are not specialists in every area being audited.
- Management finds out if its aims and desires are being carried out; and
- Deficient areas are identified.

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