

Appendix A to Circular A-123 Provides an Opportunity to Add Value in Agency Reporting

The flexibility introduced in the Office of Management and Budget (OMB) Appendix A to Circular A-123 (A-123A) provides an opportunity for agencies to change the compliance testing methodologies toward a systematic program, which is aligned with identified risks and adds value through the mitigation of those identified risks. Agencies are no longer constrained to focus testing on financial reporting controls. Rather, agencies are now encouraged to identify and assess the effectiveness of controls across the enterprise which have been developed and implemented to mitigate agency identified risks over the reliability of data included in significant reports used by management for decision-making. This allows the agency to understand the eco-system of internal controls over reporting to build a deliberate plan that adds value through controls and assessments around the agency’s most significant processes and risk areas. By looking at the entirety of agency reporting and not just financial reporting, leaders may find reporting that is required but does not add value to understanding the mission and also areas where adding controls will allow the agency to have more control over its data.

What Has Changed?

The revisions to OMB A-123A are significant. The revised appendix expands the focus of what agencies must consider to support their annual assurance statements. However, A-123A is less prescriptive than the previous version, providing agencies flexibility to focus resources on value-added activities. The table below highlights some of the primary changes.

	Historical	Future
Focus	<ul style="list-style-type: none"> Internal Control over Financial Reporting (ICOFR) 	<ul style="list-style-type: none"> Internal Control over Reporting (ICOR) External and internal, financial and non-financial reporting (i.e. operational/mission)
Materiality	<ul style="list-style-type: none"> Primarily through Quantitative and Qualitative Analyses 	<ul style="list-style-type: none"> Significance of the reports on decision-making
Scoping	<ul style="list-style-type: none"> Detailed risk assessments at the business process level 	<ul style="list-style-type: none"> Integration with ERM Risk Profile
Annual Reporting	<ul style="list-style-type: none"> FMFIA Assurances as of 9/30 A-123, Appendix A Assurances as of 6/30 	<ul style="list-style-type: none"> FMFIA Assurances as of 9/30

What Should My Agency Do Next?

Simple answer – develop a plan and solicit leadership support. Of course, it is not that simple to implement, but is critical for success. For most, this plan will be iterative while agencies continue to evolve their ERM and internal control programs. Key questions to ask while developing a plan are: What will my agency assess and how/when will we perform the assessment. Key considerations include:

- **How do we determine what reports are relevant?**

Consider your risk profile and whether it includes reporting risks, along with other reports that support decision-making to manage critical risks to your organization. Also consider reports related to strategic and performance objectives, reports already documented as part of the A-123A assessment, and legislative requirements.

- **How do we determine the materiality of the relevant reports?**

Consider whether the information within the reports relates to activities that will significantly impact internal and external stakeholder decision-making. When performing the assessment, consider controls not just over the reports, but also over the underlying data/information within the reports.

- **How do we incorporate information technology as part of our assessment?**

Consider the controls over the systems/applications used to generate critical data inputs and outputs used for developing relevant and significant reports. For most agencies, this may require assessing IT general and application controls of mission/operational systems that house information that feeds into the significant reports.

- **How do we leverage other assessments?**

Consider how business unit managers are obtaining comfort over the operations in their purview and assess the applicability of these activities to confirm control effectiveness. For example, does the Procurement office perform periodic reviews of contracts to confirm compliance with the Federal Acquisition Regulation and internal objectives (i.e. small business contracting); does the agency perform FISMA compliance assessments over its systems; and do these assessments provide agency leadership with the information necessary to support the annual assurance statement.

Conclusion

While the flexibility of the Appendix may leave agencies feeling that the requirements are broad and additive, by spending time up front, taking a deliberate approach and looking at the full eco-system of reporting, controls and assessment activity, agencies have the opportunity to enhance data quality, address significant risks and enhance resource allocation based on its own determination rather than a preset list of requirements.

How Guidehouse Can Help

With over 1,600 professionals working in over 20 locations across the country, Guidehouse, formerly known as PwC Public Sector LLP, continues our long tradition of delivering innovative management, technology, and risk consulting to our clients. We are actively working with our A-123 clients to define a plan to address the new requirements and supporting the implementation – allowing our clients to move forward with confidence. For more detailed information on our approach to addressing the revisions to Circular A-123, including Appendix A, please contact us.

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