**Agency Risk Profiles, ICOR and OMB Circular A-11**
By Thomas Brandt, President, Association for Federal Enterprise Risk Management (AFERM)

OMB's most recent update to Circular A-11 included some minor, but important information regarding the inclusion of agency Risk Profiles in strategic review discussions as well as how agencies should address the changes set forth last year in the revision to OMB Circular A-123, Appendix A (Management of Reporting and Data Integrity Risk) in relation to internal control over reporting (ICOR).

Updated annually, OMB Circular A-11 instructs agencies how to prepare their budget submissions. It not only provides detailed guidance to executive departments for preparing and submitting the President's budget and executing the budget, but it also describes the Administration's requirements for agency strategic plans, annual performance plans and reports.

The 2018 update to OMB Circular A-123, Appendix A expanded internal control reporting requirements from just financial reporting to all reporting objectives – moving from internal control over *financial* reporting (ICOFR) to internal control over reporting (ICOR) – a change that initially was viewed as exponentially expanding the workload of agency risk and control functions that would now be faced with the challenge of providing assurance over all facets of agency reporting.

While the revised Appendix A guidance recommended that agencies use a "risk-based" approach in developing and implementing their ICOR plans, the update to A-11 offers some helpful clarification about what that meant. Per A-11, "agency management should apply their analysis of risk in the agency's risk profiles across a portfolio view of the agency's objectives when deciding where internal controls will be most effectively applied to those reporting objectives where inaccurate, unreliable, or outstanding reporting would significantly impact the agency's ability to accomplish its mission and performance goals and objectives." (A-11, Section 240.27).

For agencies concerned about how they would marshal the time and resources needed to provide assurance over all reporting, the A-11 guidance provides a course of action that can be used to reasonably scope the focus of its control and assurance activities only to those areas where material reporting errors or deficiencies would impact achievement of the agency's mission objectives. While the A-11 guidance provides welcome relief, agencies should be sure to carefully consider and document their rationale and approach for ICOR, in accordance with the A-11 guidance, in order to have sufficient rationale to respond to GAO and IG inquiries or audits of their implementation of the ICOR requirements.

Another key update in A-11 involves agency Risk Profiles, which the 2016 update to OMB Circular A-123 required agencies to develop as part of their implementation of Enterprise Risk Management (ERM). To date, agencies have been encouraged, but not required, to include a discussion of top risks from their ERM Risk Profile in their annual strategic review discussions with OMB. Starting with 2019, however, the guidance in A-11 has changed "**should**" to "**will**" (A-11, Section 260.23) – meaning it is no longer optional for agencies to include and discuss key findings from their ERM Risk Profile in their Summary of Findings submissions to OMB.

This one-word change in language, while subtle, is a very important step forward in ensuring that ERM is integrated into agency strategy and performance processes. Many agencies that have acted to implement ERM in accordance with A-123 will be ready to satisfy this requirement. For those agencies that have yet to establish an ERM program and have not developed an agency risk profile, hopefully the A-11 update will provide the necessary prompt for doing so.

**About AFERM:** The Mission of AFERM is to advance the practice of Enterprise Risk Management (ERM) in the federal government through thought leadership, education and collaboration. Agencies or practitioners seeking help in setting up and implementing ERM programs are encouraged to join AFERM – see AFERM.ORG for more details.