



Highlights of [GAO-05-321T](#), a report to the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

Why GAO Did This Study

Internal control is at the heart of accountability for our nation's resources and how effectively government uses them. This testimony outlines the importance of internal control, summarizes the Congress's long-standing interest in internal control and the related statutory framework, discusses GAO's experiences and lessons learned from agency assessments since the early 1980s, and provides GAO's views on the Office of Management and Budget's (OMB) recent revisions to its Circular A-123.

GAO highlights six issues important to successful implementation of the revised Circular, specifically, the need for

1. supplemental guidance and implementation tools;
2. vigilance over the broader range of controls covering program objectives;
3. strong support from managers throughout the agency, and at all levels;
4. risk-based assessments and an appropriate balance between the costs and benefits of controls;
5. management testing of controls in operation to assess if they are designed adequately and operating effectively; and
6. management accountability for control breakdowns.

Finally, GAO discusses its views on the importance of auditor opinions on internal control over financial reporting.

www.gao.gov/cgi-bin/getrpt?GAO-05-321T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-6906 or williamsm1@gao.gov.

FINANCIAL MANAGEMENT

Effective Internal Control Is Key to Improving Accountability

What GAO Found

Internal control represents an organization's plans, methods, and procedures used to meet its missions, goals, and objectives and serves as the first line of defense in safeguarding assets and preventing and detecting errors, fraud, waste, abuse, and mismanagement. Internal control provides reasonable assurance that an organizations' objectives are achieved through (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with laws and regulations.

The Congress has long recognized the importance of internal control, beginning with the Budget and Accounting Procedures Act of 1950, which placed primary responsibility for establishing and maintaining internal control squarely on the shoulders of management. In 1982, when faced with a number of highly publicized internal control breakdowns, the Congress passed the Federal Managers' Financial Integrity Act (FMFIA). FMFIA required agency heads to establish a continuous process for assessment and improvement of their agency's internal control and to annually report on the status of their efforts. In addition the act required the Comptroller General to issue internal control standards and OMB to issue guidelines for agencies to follow in assessing their internal controls.

GAO monitored and reported on FMFIA implementation efforts across the government in a series of four reports from 1984 through 1989 as well as in numerous reports targeting specific agencies and programs. With each report, GAO noted the efforts under way, but also that more needed to be done. In 1989, GAO concluded that while internal control was improving, the efforts were clearly not producing the results intended. The assessment and reporting process itself appeared to have become the endgame, and many serious internal control and accounting systems weaknesses remain unresolved as evidenced by GAO's high risk report which highlights serious long-standing internal control problems.

In 1995, OMB made a major revision to its guidance that provided a framework for integrating internal control assessments with other work performed and relaxed the assessment and reporting requirements, giving the agencies discretion to determine the tools to use in arriving at their annual FMFIA assurance statements. OMB's recent 2004 revisions to the internal control guidance are intended to strengthen the requirements for conducting management's assessment of control over financial reporting.

GAO supports OMB's recent changes to Circular A-123 and in particular the principles-based approach for establishing and reporting on internal control. GAO also noted six specific issues that are important to successful implementation of OMB's revised guidance and discusses its views on the importance of auditor opinions on internal control over financial reporting.