



April 2007

ARMICS "Sox" the Commonwealth

Just when you thought it was safe, we have a new acronym in state government. The Department of Accounts issued its Agency Risk Management and Internal Control Standards (ARMICS) in November of 2006. The new standards are part of the trickle down effect to governments from the Sarbanes-Oxley Act of 2002 (SOX). Although governments are not required to follow SOX, the Federal government has mandated risk management and internal control standards similar to SOX that we expect to impact state governments through new Federal grant program regulations.

The standards provide guidance to agencies for establishing and assessing agency internal controls in order to more effectively manage risk and maintain accountability. Agencies are required to implement the standard in phases and perform an annual assessment of agency internal control systems after implementation. We have recently received questions from the agencies we audit concerning the impact of ARMICS on our audits.

Should agencies try to use the APA's audit narratives to fulfill their ARMICS requirements? No, we develop our audit scope based on materiality and an agency's significant cycles and typically do not cover all fiscal processes. Our focus is also on risk to the Commonwealth, which is not the same risk that management may need to address. The APA will provide copies of any narratives documenting the agencies processes and controls upon request by the agency. However, this information does not fulfill the agencies responsibilities under ARMICS.

To correctly implement ARMICS, an agency must perform a risk assessment of its fiscal processes, evaluate whether there are sufficient controls to address any risks they identify, develop additional controls where necessary, and test its controls to determine whether they are effective. Therefore, we are stressing to agencies that they should use this information only as a starting point in their implementation process.

What is the impact of ARMICS on the nature and scope of our testwork? ARMICS has the potential to reduce the amount of time we spend auditing an agency. The auditing standards require us to gain an understanding of the agencies we audit including their risk assessment process and the controls they have developed to mitigate risk. Therefore, we will request and review the documentation you maintain supporting your implementation of ARMICS as part of our audit planning process. However, auditing standards require us to assess risk based on what you do and not what you say you do.

Therefore, the extent to which we use this information will depend on the quality and applicability of the assessments and documentation the agency develops in implementing ARMICS. Further, auditing standards require that we test controls relevant to the scope of our audit and on which we are relying during the audit. An agency's implementation of ARMICS and any review performed by DOA does not eliminate this requirement.

Since the agencies are not required to implement ARMICS until fiscal year 2008, this new standard will have limited impact on our 2007 audits. We will make inquiries regarding your progress toward implementing this standard.

Will the APA assist the agencies in implementing ARMICS? ARMICS is an extension of the agency's strategy planning process. In strategy planning, agencies identify risks, threats and other matters that can affect an agency's operations. ARMICS is converting those strategic issues into practical systems of internal control to minimize the agency's risks.

To maintain our independence and not to direct your strategic planning, we will limit our involvement in this process to providing information to the agencies such as our narratives and in answering questions concerning the results of our audits. The agencies should direct any questions concerning the implementation requirements and deadlines to the Department of Accounts.

We commend the Department's efforts in recognizing the public sector's increasing focus on internal controls and the concept of risk management and for placing similar focus at the state government level and encourage agencies to dedicate the time and effort necessary to successfully implement ARMICS.

To find out more information on the requirements of this standard please visit Accounts' website at www.doa.virginia.gov/AICCO/ARMICS/ARMICS_Main.cfm.