

External Control and Internal Control of Defense: trust and partnership for management improvement



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ABSTRACT

The external and internal controls have been intensively cooperating for the improvement of the Defense Sector. Overcoming obstacles of institutional and organizational nature, the control agencies are now focusing largely on the issues of the sector performance, while upholding the law. Positive results can be seen in the organizational development of the Defense internal controls and in the supervision of strategic projects of the Brazilian armed forces, including the relative development of nuclear propulsion submarines. The cooperation among control agencies contributes to the creation of an institutional environment suitable for achieving results more efficiently.

Key words: Defense, Control, improvement, cooperation, performance, efficiency.

1. INTRODUCTION

The Federal Court of Accounts of Brazil (TCU) and the internal controls have been cooperating intensively towards the improvement of the Defense Sector. Attentive to the foundations and requirements of control, in particular independence and reliability, the external and internal control agencies have been working together to ward off the risks of reckless or poor management, as well as to increase the achievement of



results ever more efficiently. The cooperation regarding the supervision of strategic programs and the measures for improving the Defense control institutions themselves point towards significant institutional gains resulting from supervision activities.

The present article, based on bibliographical and documental review, seeks to present the cooperative development of external and internal control agencies in the supervision of Defense and to identify relevant results. It starts by defining the foundations and requirements for exercising government control, moving to the discussion of the institutional aspects concerning the improvement of public administration, and to the fulfillment of the internal control mission to support the external control. It is also concerned about the organizational complexity of the Defense internal control in Brazil and with the importance of establishing mutual cooperation. Relevant results as to the improvement of the sector performance, the organizational restructuring of the Defense internal controls and the cooperation on the supervision of Navy and Air Force strategic projects have also been identified. We conclude that the cooperation is being adequately developed and that the obstacles encountered are being overcome.

2. CONTROL FOUNDATIONS AND REQUIREMENTS

Humberto Petrei identifies three pillars he names “control foundations”, over which the control

action should be supported. The first corresponds to the mechanisms design used to ensure the slightest deviation between citizens choices and government actions. The second refers to the dominant democratic concept in the western political-economic thinking, according to which the Legislative Power should permanently watch the acts of the Executive. The third, a result from the implementation of administrative and organizational sciences, refers to enabling those responsible for any organization to rely on an independent information system. These are the grounds, which consolidated, generate instances and mechanisms able to ensure the effectiveness of the control (PETREI, 1997, P.17).

With a view to establishing such foundations, two requirements should be associated. The first regards the independence of the control agencies and their teams. The second refers to the reliability of the information provided by those agencies.

3. INDEPENDENCE

Independence is an essential requirement for preserving the control agencies’ and auditors’ impartiality. The auditor should take the utmost care and diligence when carrying out the work and reporting his findings, and should be absolutely impartial regarding his statements According to Robert Mautz, from Illinois University, the process which an auditor

goes through before forming an opinion can be described as a result from the following considerations (MAUTZ, 1987):

- a. adequate information identification to be used in assignments within his jurisdiction;
- b. evaluation of the relative importance of the information collected during audit work;
- c. collection of necessary information or evidence to support positioning.
- d. deliberation of the information or evidence collected regarding validity, adequacy and sufficiency; and
- e. opinion formation, properly authoritative, as to the accuracy of the information.

4. RELIABILITY

Reliability is an essential requirement for the control agencies, both external and internal, to make their work a supporting basis for the administration actions. It is a central feature of the documents made available by the oversight agencies. It can be divided into three parts:

- **Oversight agency technical capability:** It is essential for perceiving the reports as tools for the promotion of better management results. This does not mean that only professionals with determined backgrounds or experiences should carry out the audit, but that the control agency should be competent enough to evaluate management in joint work. The multidisciplinary approach of the control agency teams is an important feature of qualification¹
- **Access to real data:** The information collected and used by the control agency should not be detached from legitimacy of the management acts and facts. This is an issue that can turn the analysis of Defense into a delicate situation when analyzing the Defense Sector. An adequate balance between transparency and confidentiality becomes necessary. Transparency is not supposed to impair typical confidentiality of certain information; however it should not be

acceptable that confidentiality in excess compromises the trustworthiness of the information on Defense management.

- **Public image of the control agency:** Decisive for establishing credibility of the information made available by the control. It is important to point out that there is a concrete relationship between public image and how independently the control agency acts towards performing its competencies.

5. EXTERNAL CONTROL AND PUBLIC ADMINISTRATION IMPROVEMENT

The external control of public administration in Brazil is exercised by the National Congress and assisted by the Federal Court of Accounts of Brazil (TCU). It is TCU's job, a Brazilian Supreme Audit Institution (SAI) and a technical branch of such control exerted by the Legislative Power, to establish a closer and long lasting relationship with the reality of the agencies and public entities. Aiming at ensuring transparency in public administration, TCU makes the results, produced by the use of public resources, visible to citizens. Such transparency contributes to its permanent improvement. More than any other organization in the political and administrative system of Brazil, TCU is able to address issues comprehensively, taking advantage of its privileged look at the public administration, assuming a truly institutional character.

Art. 70. Control of accounts, finances, budget, operations and property of the Union and of the agencies of the direct and indirect administration, as to lawfulness, legitimacy, economic efficiency, application of subsidies and waiver of revenues shall be exercised by the National Congress, by means of external control, and of the internal control system of each Power.

(...)

Art. 71. The external control, incumbent on the National Congress, shall be exercised with the aid of the Federal Court of Accounts (BRAZIL, 1998).

The mission of the Court, established as to control public administration to contribute to its improve-

ment for the benefit of society (TCU, 2011), reveals a modern notion regarding the modus operandi of the external control and its expected outcomes. The current definition replaces the previous, to ensure effective and regular management of public resources, changing the perception of a control agency dedicated to the correction of flaws, in favor of a notion dedicated to prevention. In particular, the mission description implies that the organization regards the contribution to administration improvement the best practice to implement good use of public resources. The agency's performance can be classified into eight different functions:

- **Inspecting:** It refers to TCU's actions related to audits, inspections, follow-ups and monitoring. Here, the court relies heavily on the support of the internal control.
 - **Consultative:** When TCU issues opinions about the accounts of the government, providing the National Congress with subsidies for its adjudication of such accounts.
 - **Information:** It concerns the provision of the information requested by the National Congress, its Houses and Committees. The exchange of information with the internal control is intense.
 - **Judicative:** When TCU pronounces judgment of the managers' and other responsible parties' accounts. This function is one of the most concrete aspects of the operations and for which the contribution of internal control is essential.
 - **Sanctioning:** When TCU imposes sanctions, provided by Law 8.443/92 (BRAZIL, 1992), which in conjunction with the judicative function, entails quite a visible dimension of the external control performance.
 - **Corrective:** It refers to the setting of deadlines for correction in case of irregularities, a dimension to which internal control cooperation plays a decisive role.
 - **Normative:** It concerns issuing normative instructions and acts, which end up guiding the performance of the internal control and the public resources management agencies themselves.
- **Ombudsman:** It is carried out upon receiving denunciations and petitions. Here, the internal control provides valuable support to the investigation process.

Supported by the internal control, the external control should act as guardian of the public interests, regarding the actions taken using public resources, to carry out these different functions. Particularly, concerning Defense, a theme not as close to the citizen as Education or Health, the control agencies tend to fully take the supervisory role. Such situation makes their responsibility to society even more critical. The TCU, so as to better perform its duties, favors preventive measures, emphasizing the pedagogical action, without giving up its sanctioning power. It has been increasingly seeking an institutional convergence, and greater presence among those under jurisdiction, always by means of the internal controls, sharing information and guiding the administrator's management actions.

6. INTERNAL CONTROL AND SUPPORT TO EXTERNAL CONTROL

The internal control is exercised based upon workshops of their own administration. It ensures, just as the external control does, transparency in public resources use; its performance is geared towards compliance with the law and regulations, as well as the organizational issue, and, has as its main distinguishing feature, a prevailing prevention action. Such action is accomplished by means of direct advice to the top manager of the administration and to its different sectors. Adopting the guidelines of the American Institute of Certified Public Accountants (AICPA) as well as customizing them, one can say that the internal controls of an organization should meet the following requirements:

- a. act preventively in the first place, given the absolute necessity for the public good to be provided and the narrow margin of error allowed;
- b. turn, constantly, to correct deviations related to pre-defined goals, to ensure adherence of the sector action to national planning;
- c. directly advise the president, and at the same time, be present in all levels of the

administration, to guide the matters concerning procedures correction; and

- d. prevail as a forum to management support to assist both the administration itself and the external control in performing its duties.

According to the Federal Constitution (BRASIL, 1988), the internal control should support the external control when exercising its institutional competency. The internal control units should act proactively to guide the managers they advise and keep TCU informed about the actions developed. This cooperation is inspired by trust and partnership between the two levels of control, which should always work together, with a focus on good use of public funds. The institutional positioning reflects the certainty that the internal control will support the external control and will assert itself as a privileged communication channel between external control and managers. There must be mutual information availability and complementarity of the actions developed in both instances of control.

7. ORGANIZATIONAL COMPLEXITY AND DYNAMISM OF THE DEFENSE CONTROL

The composition of the Defense internal control, in Brazil, is particularly complex. Such complexity stems from its multi-organizational structure. This feature demands an interagency coordination that is distinct from the one seen in other government areas. Four units make up the structure of the Defense internal control. One of them is linked to the Ministry of Defense (MD). As for the others, there is one linked to each of the three armed forces: the Secretariat of Internal Control of the Ministry of Defense (CISSET), the Brazilian Navy Internal Control Center (CCIMar), the Brazilian Army Internal Control Center (CCIEEx), and the Brazilian Air Force Internal Control Center (CENCIAR). Under the terms of the National Defense White Book (LBDN):

CISSET is responsible for exercising control and supervision of the financial programming, as well as recording the budgetary, financial and property management transactions. It controls and monitors the actions related to meeting the targets set by the Multi Annual Plan, the implementation of the budgetary government programs, the administrators' management and credit operations. (BRASIL, 2012, p.62)

The centers of internal control of the armed forces, while working under the CISSET coordination, can also directly report to TCU, the Federal Government external control institution. CISSET has functional prerogatives over the three armed forces internal control, without hierarchical subordination. This compromise between subordination and independence generates a matrix organization, which increases systemic complexity, but allows for shortcuts in inter-organizational relationship, which, properly used, can narrow the distance between the auditor and manager.

Besides matrix organization, another feature of the Defense internal control complexity is the high level of capillarity. Internal control agents radiate from the central structure, in the armed forces headquarters, to the farthest management units. The Army Command, in particular, maintains regional control units, which are intermediately positioned between the central structure of the control and the several management units – the so called Army's Control and Monitoring Agencies (ICFEx). Such capillarity is especially relevant for the control implementation among all public resource managers in the Defense Sector.

TCU, the Brazilian Supreme Audit Institution, recognizes that the environment for Defense control is both complex and dynamic. Such recognition includes an understanding that there is a differentiated need for organizational coordination concerning Defense, when compared to other government sectors. Likewise, the Court of Accounts recognizes the relevance and materiality of investment and cost expenses incurred by the MD and the Navy, Army and Air Force Commands. Finally, TCU is attentive to the sensitive complexity of the expenditure incurred in the Defense sector.

Emphasis is given to the high level of materiality of expenses. In 2013, the MD had the fifth largest budget among the country's entities, behind only the Ministries of Finance, Social Security, Education and Health. With a cost of R\$71.1 billion, the expenditure of the MD corresponded to 3.7% of the country's total expenses (TCU, 2014b, p.131). Those are very high costs and they involve resources sought by other government sectors, consequently the management should occur under strict legality and efficiency standards. Defense funding cannot be neglected, as it is a function of the State. The non-existence or expectation of war cannot lead to overlooking this issue.

The specificity of the expenses incurred in the Defense Sector also deserves attention. They consist of expenses of differentiated nature and, many times,

are difficult for society to understand. Such specificity is characterized by its high specialty, its low visibility and by its justification requirement.

- **High specialty:** Defense expenditure is not easily understood, and the understanding is almost always restricted to specialized departments. For a long time, the Defense Sector was kept away from the national policy main discussions, and it was characterized by a mistaken association between Defense, essential public service to be provided to society, and militarism, an inappropriate distortion in the social political relationship between the military and civilians. As a result of repeated mistaken interpretations, many people would accept that it is an unnecessary and unproductive cost to be avoided.
- **Low visibility:** Costs with Defense don't have the same visibility as those from other sectors, such as Education and Health, given the absence of direct impact over social well-being. The intensity of Brazilian social problems makes it difficult for more specific issues, such as Defense, to reach the same importance level in the political agenda. The effort to raise awareness of how important Defense is should be permanent.
- **Justification requirement:** The Defense Sector should be committed to the justification of its costs in a more intense way than other government sectors. The justification requirement – a feature that is closely associated to high specificity and low visibility – addresses the importance of showing society how crucial Defense is. Certainly, all government expenses need to be justified, but such requirement is particularly relevant with regard to highly specific costs, such as those of Defense.

8. FOCUS ON THE DEFENSE SECTOR PERFORMANCE

Due to the complexity and specificity concerning Defense expenditure, it is of utmost importance that the control structure take care of the sector performance issue. It is not, in any way, a question of neglecting the legality issue, which remains essential as far as management evaluation is concerned. How-

ever, it is a matter of raising the importance of a more efficient Defense spending to a higher level. Given the growing demand for more visible social spending by the government, it is unlikely that a significant increase in the MD budget should occur in the short term. Consequently, the available resources should be used in such a way as to obtain the best results. The Defense Sector legitimacy itself is closely related to the demonstration of sound management performance.

Nowadays, the control units are differently perceived by the managers. The reports are no longer seen as undue interference, but rather as tools to help improve the management. Waste reduction, task simplification, management support and information providing are requirements that have resulted from the introduction of the performance issue into management and control (SANTOS, 2007, p. 9; SUCHMAN, 1995, p. 567-569; HOCK, 1999, p. 42-45).

In Defense, as in other government action sectors, the expectation regarding control action has considerably changed. The control agencies should be aware that reflecting upon and satisfying the demands



of the economic and social structures of the country constitute crucial requirements for the organizations to acquire legitimacy. The Defense Sector legitimacy, just as in other sectors, is clearly related to meeting social expectations. In this sense, performance has become a key element. Managers and auditors should be aware of the need to build a new legitimacy, based on the effective delivery of goods and services to society (performance), since the simple addition of the procedures to the existing rules is not enough (compliance). The development of an active and efficient Defense system should be part of the external and internal control priorities.

Restructuring the Defense internal control system

The TCU guidelines regarding the restructuring of the Defense internal control system constituted an important cooperation measure. Based on Appellate Decision n° 1074/2009-TCU-Plenário, recommendations were sent to the agencies and their internal control units with a view to improving their action, as well as to bringing them closer to the agency's top authority, who should be directly advised. In summary, the structuring guidelines issued by the Court of Accounts recommended (TCU, 2009a):

- The development of the monitoring program for internal audit work quality.
- The detailed standardization of the internal control agencies audit activity.
- The hierarchical repositioning of the internal control agency so that it became directly subordinated to the Force Commander.

One of the results of such guidelines was the creation of the Navy, Army and Air Force Commands internal control centers and their organizational repositioning, which linked them directly to the commander of each Armed Force. In the Air Force Command, for example, the CenCIAr (Air Force Internal Control Center), which reports directly to the Air Force Commander, has replaced the previous Audit Under-Secretariat (Suaud), which was linked to the Air Force Finance and Economy Secretariat (SEFA). Similar changes have occurred in the Navy and in the Army, bringing the internal control closer to the agencies' top authorities, as well as leveling the Defense internal control organization chart – which has become more similar

to the ones in force in the other federal public administration agencies.

9. COOPERATION FOR SUPERVISING PROSUB AND PNM

Intense cooperation has been developed between TCU and the military internal controls with a view to supervising the main re-equipment programs. As far as the Brazilian Navy is concerned, it is the case of the permanent supervision of the important Submarine Development Program (Prosub) and the strategic Navy Nuclear Program (PNM). Those are large-scale programs, both in terms of budgetary-financial resources involved and the crucial importance for the Brazilian naval power.

The development of a submarine power, which is appropriately scaled to the dimensions of the Brazilian waters, and that constitutes suitable quality means, is at the heart of denying the use of the sea to the enemy. In order to fulfill this strategic naval power function, the Navy has been developing conventional and nuclear propulsion submarines, in addition to the necessary infrastructure for their operation. It is one of the most important national efforts for transferring technology. Prosub has been developing within the framework of a cooperation agreement between Brazil and France, with a schedule of resource release established up to 2024 (PODER NAVAL, 2011).

The amounts involved constitute a high level of materiality. Prosub alone should spend over €6.7 billion through to the conclusion of the program, and it is estimated that the individual construction cost of each conventional submarine should be €415 million. On the other hand, the construction of the nuclear propulsion submarine is almost three times higher. This, without taking into account the cost of the reactor: approximately €1.25 billion. The magnitude of Prosub led the MD and the Navy Command to invite TCU to follow all the steps of the program, with the purpose of making the process transparent (JOBIM, 2009). Important findings, recommendations and changes in actions and priorities have resulted from such supervision, which depends, essentially, on cooperation between the internal and external controls.

TCU has opened investigation procedures with a view to supervising, specifically, Prosub and PNM. Such procedures aim at knowing the program and analyzing its budgetary-financial dynamics. As far as Prosub is concerned, TCU has observed that the circumstances

under which the program was implemented did not allow for the involved agencies to count with adequate deadline conditions, access to information and preparation for negotiating the contracts, as well as for evaluating the risks and opportunities concerning the investments. As a result, a recommendation was issued to the Navy Command to establish indicators to measure the evolution of the technology transfer processes, as well as to evaluate the cost-benefit ratio. In special, the issue of encumbering the acquisition of equipment on the grounds of national industry capacity building has been highlighted by TCU (TCU, 2014a).

Another relevant issue addressed by TCU, with permanent support from CCIMar, referred to contractual risks resultant from delay in implementation. This is because Prosub is governed by an agreement with a national counterpart that provides for heavy fines in case the agreed deadlines are not met. Thus, the court of accounts has warned the agencies that carry out the program that delays can endanger the government initiative, and they may result in unacceptable loss to the Treasury and the Brazilian society (TCU, 2010). As a consequence, the Navy has been allowed to adopt measures to avoid the identified risks.

10. COOPERATION FOR SUPERVISING AIR FORCE PROGRAMS

As far as the Air Force is concerned, the cooperation between external and internal control has also resulted in important management guidelines. Such guidelines addressed issues related to airport infrastructure, air defense, air traffic control and safety, and to inter organizational coordination needed for the management of airspace policy. The focus on performance is evident from the series of decisions rendered which relate to the Program EMAer-32, regarding airports for military use and involving taxes that directly affect the citizen:

- a. Decision 036/2003-TCU-Plenário turned its attention to air transport users. It handled the relationship between Ataero and air ticket prices, and defined the need to elaborate clear indicators, capable of measuring and showing results (TCU, 2003).
- b. Appellate Decision 1255/2004-TCU-Plenário determined that the Air Force Command identify the above mentioned indicators in a

regionalized way, whenever possible, as an addendum to the nationally consolidated figures, with the purpose of making the program more transparent (TCU, 2004).

- c. Appellate Decision 162/2009-TCU-Plenário recommended that the MD acted in conjunction with the Air Force Command in order to demonstrate to the Federal Legislative Branch the benefits achieved with Ataero (TCU, 2009b).

Other Air Force programs and activities were audited by TCU, such as the Control System of the Brazilian Air Space (Sisceab); the F-X program, for acquisition of interception supersonic aircraft, and the H-XBR program, for producing helicopters for military use. In all cases, the cooperation between external and internal control has resulted in important recommendations with a view to a better organizational performance and to the improvement of efficient management. In the case of the H-XBR program, the court of accounts recommended that the Air Force acted more effectively in the industrial cooperation projects, so as to make sure that the Brazilian industry can hold the intellectual property rights of the absorbed technologies (TCU, 2014a).

11. CONCLUSION

TCU and the internal controls of the MD and the military have been intensively collaborating with a view to improving the Brazilian Defense. For the internal and external control of the Defense to occur, the work of the responsible agencies must develop an independent and reliable environment. Such requirements, as far as Defense is concerned, are highly critical in nature, due to the specificity of the sector. Independence should result in impartial positions, capable of contributing positively to the improvement of Defense. Reliability should turn the control into an effective support basis for the administration actions, by breaking down into three elements: technical capacity of the control agency, access to real data and public image of the control agency.

In Brazil, the Defense internal control is particularly complex. Such complexity results from the adoption of a multi organizational structure characterized by high capillarity, and which requires high standards of interagency coordination. The Ciset of the MD and the internal control centers of the military commands

are linked by matrix relationship, a middle ground between subordination and independence. Such matrix framework increases the systemic complexity, allowing for, at the same time, efficiency gains regarding inter organizational relationships. As for capillarity, different control agents relate to each other in order to reach the management units that are most distant from the administration center. TCU recognizes the need of differentiated organizational coordination in Defense, when compared to other areas of government action.

The materiality and specificity of the expenses incurred also contribute to the complexity of the Defense control. Bearing the fifth largest budget among the country's agencies and being responsible for 3.7% of the federal expenses, the MD incurs high expenditure, which requires strict legality and efficiency standards. Even though the country does not face imminent external war, neglecting its own Defense would mean overlooking public policy which is essential to the development of the other national activities. The State function character of Defense requires that the issue be addressed with due regard. As far as specificity is concerned, it is important to remember that the Defense sector expenditure is considerably differentiated in nature due to its high specialty, its low visibility and its permanent requirement for justification.

Finally, it is essential that the internal and external control cooperate with a view to improving the sector performance, by always merging the issues of performance and compliance when supervising the Defense Sector. Such alliance of organizations, methodologies and, most of all, institutional frameworks could contribute for the creation of an agile and efficient Defense system. The very institutional legitimacy of the Defense Sector depends on its ability to deliver to society the public good it is responsible for, in the most efficient way.

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NOTA

- 1 The General Accountability Office, in dealing with their teams' responsibilities, highlights the requirement that all audits should be carried out by staff, that as a whole, is able enough to do so (EUA, 1994).