



The 9th International Scientific Conference
**“DEFENSE RESOURCES MANAGEMENT
IN THE 21st CENTURY”**
Braşov, November 14th 2014



**AN EXPLORATORY RESEARCH ON AUDITING DEFENSE
PROJECTS**

Ebru CAYMAZ*
Muzaffer ÜNSALDI**
Fahri ERENEL***

* Marmara University, Department of Organization and Management, Istanbul, Turkey

** Strategic Research Institute (SAREN), Department of Defense Resources Management,
Istanbul, Turkey

*** Asst. Prof., (R) Brig.Gen. TU A, İstanbul Kemerburgaz University, Department of
International Logistics, Istanbul, Turkey

Abstract

Defense projects audit, which is a highly significant issue for a project success, should be considered different from standard processes although it includes business management and project management processes. In this type of process, financial regularity and legal conformity is perceived as first priority however audit is essential at every stage in transparently conducted projects. When the successful defense projects are examined it is seen that internal audit becomes more significant than external audit in order to ensure efficiency. Furthermore audit readiness emerges as an essential concept. In this study our main aim is to examine successful defense projects comparatively and present applicable methods for a successful auditing process.

Keywords: Audit, Audit Readiness, Defense Projects, Project Management.

1.Introduction

Project management has been a constant challenge for defense institutions throughout the world. It is a known fact the traditional approaches fail because they mainly concentrate on the relationships between two of the three elements of cost, performance and schedule. At this point, developing a dynamic model which allows cost, performance and schedule to interact and influence one another becomes highly significant. Successful implementation of this system leads a more dynamic audit process as well. As a result, a defense institution could manage all major projects successfully and minimize failure risk at the end of a more dynamic audit process.

In this study qualitative research methods are used. Legal documents and academic publishing related to both defense project management and project audit have been examined. Obtained data is analyzed by using the methods of document and discourse analyses. It is aimed to present applicable methods for a successful defense auditing process.

AN EXPLORATORY RESEARCH ON AUDITING DEFENSE PROJECTS

2.Literature Review

Project management can be defined as the process and activity of planning, organizing, motivating and controlling limited resources and procedures to achieve specific goals within estimated time. A project can be defined as “a temporary endeavor designed to produce a unique product, service or result with da defined beginning and end, undertaken to meet unique goals and objectives” [1]. On the other hand, project audit can be defined as an opportunity to uncover issues, concerns and challenges while executing the project. It is an important subject because project manager, sponsor and project team have an interim view of what needs to be improved to successfully complete the project. Also it helps organization to identify potential problems and necessary precautions to be taken, what it is to be done so that mistakes would not be repeated on future projects.

Project audit is divided as internal and external audit. Internal audit, although operating independently from other departments, is a function that reports directly to the audit committee. Key functions of internal audit are managing risks in an effective way and helping organization to achieve its objectives. The external audit is an independent body which resides outside of the auditing organization. The focus is on the financial accounts or risks associated with finance and are appointed by the company shareholders. The main responsibility of external audit is to perform the annual statutory audit of the financial accounts, providing an opinion on whether they are a true and fair reflection of the company’s financial position. For defense project experts, main attention should be directed to internal/external difference.

Main goal of conventional auditing perspective is to analyze financial efficiency of organizations. Finding out irregularities include ineffective monitoring, internal control deficiencies, stability and complexity of the organizational structures [2]. Financial management has its own impact on operations’ weakness and weaknesses not only affect the reliability of the department’s financial reports, but also adversely affect a department’s ability to assess resource requirements; control costs; ensure basic accountability; anticipate future costs and claims on the budget; measure performance; maintain funds control; prevent fraud waste, abuse, and mismanagement; and address pressing management issues [3]. Management could instead promote the internal review as an opportunity to identify strengths and seek improvements, not just fix the problems. Sharing responsibility for system maintenance and improvement, which needs training but also would help create an involved workforce [4]. Internal audit mainly focuses on compliance with the standards and contract requirements. The reason for the deficiency or lack of focus to improvement and effectiveness is attributed to the lack of management influence, strong influence of traditional corporate culture and lack of knowledge on the potential of audit as a predictive tool [5]. It also helps improvement with examine process rather than the people. Auditing process should be involved in identifying solutions and their implementation. Their participation will increase the positive value of the internal review process by solving real problems or finding better ways of doing things for the workforce [4].

Important part of internal audit process is quality management which focuses on prevention, continuous improvement and customer satisfaction. In order to implement a successful process, proactive principles should be adopted. In this way, reactive thinking

AN EXPLORATORY RESEARCH ON AUDITING DEFENSE PROJECTS

can be exterminated, defects can be eliminated and problems can be fixed. Also continuous improvement is required in production or service quality in timeliness and in costs [4]. Internal audit's task is to support management in unveiling and controlling key risks and, moreover, ensure the effectiveness of the internal control system. Thus, the quality of the internal audit process is supposed to contribute to the avoidance of critical developments and events within the company [6, 7, 8, 9].

The gap between auditing for compliance/conformance and effectiveness/performance is not caused by deficient standards, requirements, contracts, or processes. It is caused because there is generally a lack of a corporate structure to fix all solution to the ineffectiveness of the current internal quality audit process in the aerospace defense industry. Management support, auditors' training and experience, and comprehensive audit plans are key factors that organizations must address to have an effective internal audit. Most importantly, organizations must understand the capabilities of an effective internal auditing program to the overall organizational mission. The new audit approach should outline the following initiatives; adding value to the organization's bottom line through continuous process improvement, encouraging participation and corroboration by treating the person being audited as customer and encourage positive approach in audit reporting, incorporating risk management in audit planning [5].

New management strategies need better and proactive process of auditing too. It is needed not only to renew process but also transform audit outputs. In order to do that, organization should identify strengths, share responsibility, focus on process, make recommendations, solve real problems, prioritize findings and drive improvements. Internal auditing is for finding and correcting failures before external auditors for failure thoughts [4]. Internal audits role have both management theory and business practice theory. It is the key element of corporate governance and has a positive impact on efficient business practice. Value added factor is one of the most important objective of the internal audit function. Value added factor is revealing problems and complaints or precaution measures [10]. Besides that another benefits is eliminating non-valued added activities [5]. Organizational goals, strategies and risk can shape the attributes of value-adding internal audit [11]. As a result, internal audit should reveal organizations' strong and supportive sides not only shortcomings. Organizational aspects can reflect project process with leadership strategy and human-centered perspective. Moreover, success of defense projects increased with value-added strategy.

There are several factors which were found critically about succession. These are; urgency of need, quality of the follow up team, pre project preparation, quality of the development team and of its manager, professional growth and continuity, design policy of the developing organization, design considerations in the early phases of the development cycle and systematic use of methods to control schedule, budget, and performance [12]. For instance, one of the largest and most complex organizations in the world, the Department of Defense (DoD) faces many challenges in resolving its pervasive and long-standing financial management and related business operations and systems problems. DOD is required by various statutes to improve its financial management processes, controls, and systems to ensure that complete, reliable, consistent, and timely information is prepared and responsive to the financial information needs of agency management and

AN EXPLORATORY RESEARCH ON AUDITING DEFENSE PROJECTS

oversight bodies, and produce audited financial statements. To do that, organization focused on improving processes and controls supporting information most often used to manage operations, while continuing to work toward achieving financial statement auditability. To support these objectives, DOD established two priority focus areas: budget information and information pertaining to mission-critical assets [3]. Furthermore, DoD is working with the Defense Advanced Research Projects Agency (DARPA) and other agencies for greater defense projects. Experiencing of audit in these projects can make developing additional plans to increase efficiency and productivity, and to decrease costs [13].

3. Conclusion

It is a well known fact that organizations across the world are increasingly undergoing transformation, and it is clear that this trend will continue. And also it is obvious that defense institutions are affected by this transformation. Markets are no longer constrained by geographic or legal boundaries; which lead us to the fact that companies can not only expand globally, but also collaborate within and across organizations and initiate successful benchmarking processes. As a result, failure becomes unacceptable. In this new environment, ‘agility’ – the ability to move and react flexibly – has emerged as a key concept and it is also considered as one of the most significant terms in major scale defense projects.

A well-designed initiation phase is found as the most important factor for project success; organizational setup and project structure are not good predictors of project success; formal design and planning documents are instrumental in meeting estimated project time and budget constraints, as well as to ensure customer satisfaction from the end-product. Design changes during the execution of the project usually depend on the customer’s satisfaction, and may contribute little to the improvement of the end-products. A defense project manager needs to decide whether it is a single or multi task project, or a combined of them. And the other decision problem of success is the arms race. Besides, apparent problem with the ability of defense organization to manage its biggest acquisition programs according to original schedule and estimated cost does not only emerge from a lack of guidance on incorporating risk management plans into overall project plans. Improvements should be made particularly in the areas of risk planning for cost and schedule. And the greatest obstacle to incorporate and monitor a comprehensive risk management plan can be stated as the lack of accountability of contractors.

On the other hand with the help of project audit, particularly internal audit, lessons learnt can be identified that could improve the performance of a project. From this point of view, we can say that the earlier internal audit gets involved, the better it becomes. Most large-scale projects have a quality plan and a risk management strategy which is generally generated in the early stages of the project and understanding of the project’s lifecycle; its key benefits and objectives as well as main drivers can be adopted in this way.

In conclusion, internal audit’s involvement at early stage ensures greater alignment of the risk management principles to those of the organization itself. It also allows the

AN EXPLORATORY RESEARCH ON AUDITING DEFENSE PROJECTS

organization to establish and confirm its future development in this period of rapid transformation.

References:

- [1] Nokes, Sebastian, *The Definitive Guide to Project Management*. 2nd Ed.n. London (Financial Times / Prentice Hall):. ISBN 978-0-273-71097-4, 2007.
- [2] AICPA, AU Section 311 Planning and Supervision, 2006.
- [3] Khan, Asif A., *Department of Defense: Financial Management Improvement and Audit Readiness Efforts Continue to Evolve*, September, 2010.
- [4] Beecroft, GD, *Internal Quality Audits-Obstacles or Opportunities? Training for Quality*, 1996, 1-5.
- [5] Tubalado, DM., *Internal Quality Audit Program in the Aerospace Industry*, 2013, 47-67.
- [6] Ge, W, and S McVay, *The Disclosure of Material Weaknesses in Internal Control after the Sarbanes-Oxley Act.*” *Accounting Horizons*, 2005.
- [7] Eulerich, M, and J Theis, *Self-Perception of the Internal Audit Function within the Corporate Governance System—empirical Evidence for the European Union*, 2013, 57-69.
- [8] Krishnan, J., *Audit Committee Quality and Internal Control: An Empirical Analysis*, *The Accounting Review*, 2005, 649-675.
- [9] Verschoor, CC., *Reflections on the Audit Committee’s Role*, *Internal Auditor*, 2002, 26-35.
- [10]Mihret, DG, and GZ Woldeyohannis, *Value-Added Role of Internal Audit: An Ethiopian Case Study*, *Managerial Auditing Journal*, 2008, 21.
- [11]Tishler, A, D Dvir, A Shenhar, and S Lipovetsky, *Identifying Critical Success Factors in Defense Development Projects: A Multivariate Analysis*, *Technological Forecasting*, 1996, 151-171.
- [12]Kwak, Young Hoon, and Brian M Smith, *Managing Risks in Mega Defense Acquisition Projects: Performance, Policy, and Opportunities*, *International Journal of Project Management* 27: 812–20, 2009, 812–820.
- [13]Geiss, T. K., *The Pew Project on National Security, Energy and Climate, “Reenergizing America’s Defense, How the Armed Forces are Stepping Forward to Combat Climate Change and Improve the U.S. Energy Posture”*, 2009, 6-10.