



International Journal of Economic Research

ISSN : 0972-9380

available at <http://www.serialsjournal.com>

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Volume 14 • Number 7 • 2017

Some Issues of State Audit and Ways to Address Them

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ABSTRACT

This article considers the problem of the assignment of the same functions and powers to the external and internal levels of state financial control and the lack of clear differentiation at the legislative level, which leads to the overlapping of activities of control authorities, reduction of the efficiency of their operations and increase of the administrative burden on control objects. The analysis shows that the existing problems both in the legal and regulatory framework governing the system of state financial control and in its organizational structure lead to the low performance of tasks by relevant authorities and the inefficient use of possibilities inherent in the system of state financial control. An effective system of state audit and financial control should provide objective and reliable information on the use of budget funds.

JEL Classification: H83, M42, K10.

Keywords: State financial control, state audit, international financial reporting standards in the public sector, international audit standards.

Due to the lack of a uniform policy of formation and organization of the state financial control system, there is no tendency to increase the level of financial discipline and effective organization of management of public funds and state assets in the country.

The existing problems both in the legal and regulatory framework governing the system of state financial control authorities and in its organizational structure lead to the low performance of tasks assigned to the relevant authorities and the inefficient use of possibilities inherent in the system of state financial control.

In addition, the insufficient level of theoretical and practical training of controllers is one of the key problems of the state financial control system, affecting the efficiency of the relevant authorities, especially in the period of transition to International Financial Reporting Standards in the public sector and International Standards on Auditing.

The main purpose of the system of state financial control authorities is to identify, eliminate and prevent violations of the budget and other legislation of the Republic of Kazakhstan by control objects. A control subject includes budget funds and other state assets. The system of state financial control in the country is represented by two levels of authorities with the total number of 2,037 people:

- external control exercised by the Accounts Committee – 141 people (7% of the total number) and the Audit Commission – 654 people (32%);
- internal control conducted by the Financial Control Committee (FCC) – 816 people (40%), the Internal Control Service of central executives – 176 people (9%) and local executives – 250 people (12%), respectively.

With regard to the results of the functional analysis of competences of state financial control (SFC) authorities, an annual strengthening of overlapping due to the blurred concepts of “internal” and “external” SFC has been established involving the assignment of non-relevant functions to the FCC. Thus, the overlapping of competences between the FCC and the Accounts Committee can be seen in the following areas, as reflected in Table 1.

The overlapping of competences between the FCC and the Audit Commission is also evident in the areas shown in Table 2.

The assets of quasi-sector subjects, state emergency budget funds, tax revenues, the National Bank’s assets, including those of the National Fund, remain beyond the FCC control. Thus, the main activity of the FCC overlaps the areas of work of the Accounts Committee by 77%, and the Audit Commission – 87.5%. State financial control authorities have exercised the same types of control in accordance with the Budgetary Code of the Republic of Kazakhstan since December 4, 2008.

The assignment of the same functions and powers to the external and internal levels of state financial control as well as the lack of clear differentiation between them at the legislative level leads to the overlapping of activities of control authorities, reduction of the efficiency of their operations and increase of the administrative burden on control objects. Since there is no unified vertical structure of external state financial control authorities, it is difficult and almost impossible to provide a full external assessment of the budget. Under these conditions, the control measures of external state financial control authorities covered 3,564,400 million tenge or 40.7% of the state budget in 2011, and 3,839,449 million tenge or 41.4% – in 2012. In one fiscal year alone (2012) the Construction Management of the city of Astana was subjected to financial control 22 times with a total duration of control measures of more than 300 days, of which by the Accounts Committee – once, the FCC - eighteen times, the Audit Commission for the city of Astana – three times. Similarly, the Construction Management of the East Kazakhstan region was subjected to financial control 15 times with a total duration of 199 days, of which by the Accounts Committee – four times, the FCC – nine times, the Audit Commission – twice (Working papers of the Accounts Committee., 2013).

Table 1
Analysis of the overlapping of competences between the FCC and the Accounts Committee

<i>Functional areas</i>	<i>Accounts Committee</i>	<i>FCC (on a nationwide scale)</i>	<i>Overlapping nature</i>
1. Revenue budget	control over the completeness and timeliness of revenues to the republican budget (item 9 of Art. 141 of the Budgetary Code)	control over the activity of control objects on the matters relating to the completeness and timeliness of non-tax revenues to the republican budget (item 5 of Article 143 of the Budgetary Code)	In terms of non-tax revenues
2. Expenditure budget	control over compliance of the use of budget funds, including target transfers and credits related grants, public and government-guaranteed loans, budget co-financing of concession projects as well as guarantees and state assets with the legislation of the Republic of Kazakhstan (item 5 of Article 141 of the Budgetary Code)	control over compliance of the use of budget funds with the legislation of the Republic of Kazakhstan (item 1 of Article 143 of the Budgetary Code)	100%
3. State assets	control over compliance with the legislation of the Republic of Kazakhstan on public procurement when using budget funds and state assets (item 11 of Article 141 of the Budgetary Code)	control over compliance with the legislation of the Republic of Kazakhstan on public procurement (item 3 of Article 143 of the Budgetary Code)	100%
4. Assessment of budget execution (program documents) and analysis of the impact of government authorities and quasi-sector subjects on economy	control over the use of budget funds allocated for compliance with financial and economic justification by quasi-public sector entities (item 24 of Article 141 of the Budgetary Code)	control over the use of budget funds allocated for compliance with financial and economic justification by quasi-public sector entities (item 6-1 of Article 143 of the Budgetary Code)	100%
5. Financial accounting	control over effectiveness by areas of activities (item 2 of Article 141 of the Budgetary Code); assessment of the implementation of strategic plans of central government authorities, state and budget programs (item 4 of Article 141 of the Budgetary Code)	control over effectiveness by areas of activities (item 2-1 of Article 143 of the Budgetary Code)	100%
6. Compliance with FCC standards	control over the reliability and accuracy of accounting and reporting maintained by control objects (item 3 of Article 141 of the Budgetary Code)	control over the reliability and accuracy of accounting and reporting maintained by control objects (item 2 of Article 143 of the Budgetary Code)	100%
7. Retraining and advanced training	control over compliance with FCC standards (item 19 of Article 141 of the Budgetary Code)	control over compliance with FCC standards by internal control services (item 12 of Article 143 of the Budgetary Code)	in terms of internal control services
	organization of retraining and advanced training of employees of the state financial control system (item 23-2 of Article 141 of the Budgetary Code)	organization of retraining and advanced training of employees of internal control services (item 13 of Article 143 of the Budgetary Code)	in terms of internal control services

Compiled by the authors based on data from <http://adilet.zan.kz>

Table 2
Analysis of the overlapping of competences between the FCC and the Audit Commission

<i>Functional areas</i>	<i>Audit Commission</i>	<i>FCC (at the local level)</i>	<i>Overlapping nature</i>
1. Revenue budget	control over ensuring the completeness and timeliness of revenues to the local budget as well as the correctness of the return and (or) offset of unduly (wrongly) paid amounts of revenues to the local budget (item 9 of Article 142 of the Budgetary Code)	control over the activity of control objects on the completeness and timeliness of non-tax revenues to the local budget (item 5 of Article 143 of the Budgetary Code)	in terms of non-tax revenues
2. Expenditure budget	control over compliance of the use of local budget funds, including those allocated from the upstream to the downstream budget in the form of targeted transfers and budget loans, related grants, loans of local executives, state assets with the legislation of the Republic of Kazakhstan (item 5 of Article 142 of the Budgetary Code)	control over compliance of the use of republican budget funds with the legislation of the Republic of Kazakhstan (item 1 of Article 143 of the Budgetary Code)	100%
3. Assessment of budget execution (program documents) and analysis of the impact of government authorities and quasi-sector subjects on economy	control over compliance with the legislation of the Republic of Kazakhstan on public procurement (item 19 of Article 142 of the Budgetary Code)	control over compliance with the legislation of the Republic of Kazakhstan on public procurement (item 3 of Article 143 of the Budgetary Code)	100%
4. Financial accounting	control over effectiveness by areas of activities (item 2 of Article 142 of the Budgetary Code); assessment of the implementation of strategic plans of local government authorities and budget programs, territory development programs (item 4 of Article 142 of the Budgetary Code)	control over effectiveness by areas of activities (item 2-1 of Article 143 of the Budgetary Code)	100%
	control over the reliability and accuracy of accounting and reporting maintained by control objects (item 3 of Article 142 of the Budgetary Code)	control over the reliability and accuracy of accounting and reporting maintained by control objects (item 2 of Article 143 of the Budgetary Code)	100%

Compiled by the authors based on data from <http://adilet.zan.kz>

An increase in the number of control checks does not always affect the strengthening of financial discipline, as evidenced by the results of control in the Construction Management of the Atyrau region, which was subjected to state financial control 11 times in 2012. Despite this, the external control of the Accounts Committee, held in late 2012, found violations amounting to 4.4 billion tenge (Working papers of the Accounts Committee., 2013).

International experience in the sphere of functioning of the SFC system (based on the example of the United Kingdom, Latvia, Kyrgyzstan) indicates the concentration of activities of internal SFC authorities within a specific government body, which has the internal control (audit) service as well as subordinate and accountable institutions. The existing superstructure above them in the form of a central authority on internal SFC carries out exclusively their coordination and methodological support. In this connection, a central authority on internal SFC is limited, fixed and has no branched territorial offices.

The activity of internal SFC authorities is aimed at preventing violations of the budget legislation and providing recommendations to improve the internal procedures of functioning of the relevant government authority, including its achieving strategic objectives (preliminary and current control).

External SFC authorities carry out mainly follow-up control on the basis of records of the government authority summarized and approved by the executive branch for a specific period and correlate its results to the situation established for the same period in the economy (or a separate segment of the economy) and society. The results of the assessment conducted by external SFC authorities form the basis of changes in the mechanisms of government control of related processes (especially at the legislative level).

This approach to building the SFC system makes it possible to eliminate the overlapping of powers between financial control authorities and to refocus the work of external SFC authorities to the assessment of influence of government authorities' work organization on the economy of the state.

Currently, the ongoing process of reforming the current system of state financial control and conceptual approaches to the implementation of state audit is the most pressing issue. Address of the President of the Republic of Kazakhstan Nursultan Nazarbayev to the People of Kazakhstan "Kazakhstan-2050" Strategy: New Political Course of the Established State" noted: "Our objective should be to create a state audit system based on the most advanced examples of world experience" (Address of the President of the Republic of Kazakhstan., 2012).

In accordance with this message, there was developed the Concept of State Audit Implementation in the Republic of Kazakhstan approved by Government Resolution No. 609 as of June 18, 2013. The Concept defines the understanding and the main approaches to the gradual reform of state financial control and the implementation of state audit with further expansion of its functional areas.

The development of Kazakhstan's society and the emerging obligations of the new format before the state apparatus require the functioning of a strong public administration system.

With regard to international experience, one can note that the leading form of independent control in the advanced economies is auditing. It is always necessary to have such an institution that will assess the existing state financial control system and determine the areas for its further effective development. In international practice, this role is performed by state audit.

Currently, positive results have been brought by the adoption of the Law of the Republic of Kazakhstan dated November 12, 2015 No. 392-V “On State Audit and Financial Control”. In general, state audit for Kazakhstan is seen as a holistic and independent assessment of the effectiveness of audit objects, covering financial matters and all areas of their activities with the presentation of recommendations based on the identified weaknesses and proposals for risk management. An effective system of state audit and financial control should provide the Head of State, the Parliament, the Government of the Republic of Kazakhstan and the public with objective and reliable information on the use of allocated budget funds and state assets in accordance with the principles of legality and efficiency as well as on the effectiveness of government authorities.

The introduction of state audit in the Republic of Kazakhstan, according to the above-mentioned Concept, will be implemented in stages.

The first stage: 2013-2014 – the creation of a legislative and methodological base for state audit in compliance with the relevant guidelines of the Declaration of Lima and international state audit standards; the definition of powers of state audit and financial control authorities.

The second stage: 2015-2017 – the establishment of a state audit system. In this period, it is planned to: create the authorized body for internal audit; integrate the unified information system of state audit authorities with the system of «electronic government» and information databases of other government agencies; introduce a state auditors' certification system.

Since 2018, all state audit authorities will function in accordance with state auditing standards. State audit should become a full and effective institution of the state and the public.

The system of state financial control will be designed to identify violations and take response measures, and state audit will be introduced as a management assessment, aimed at improving and increasing the efficiency of the audited entity.

State audit should not only admit certain inconsistencies but also identify the reserves and potential of the use of public financial resources more efficiently. State audit will also assess the quality of government authorities and financial management organizations.

In the context of the implemented reforms, the Accounts Committee for Control over Execution of the Republican Budget alone adopted 24 legal acts with regard to the implementation of the Law of the Republic of Kazakhstan “On State Audit and Financial Control”. In the period from 2016 to 2021, more than 30 documents are planned to be prepared. There is also a procedure for certifying individuals, who apply for the qualification of state auditor, that provides the confirmation of specialized knowledge of state audit authorities and financial control employees as well as the interview with the National Commission on Certification of State Auditors (Financial and economic journal “State Audit”, 2016).

In the period of August-September 2016 alone, the National Commission interviewed 345 employees of the Accounts Committee, regional audit commissions, audit commissions of Astana and Almaty, the Committee for Internal State Audit of the Ministry of Finance and internal audit services. Based on the results of the National Commission, 307 candidates gained the qualification of state auditor, and 38 candidates were refused (Internet resource of the Accounts Committee...).

Following the implementation of the Concept, the Committee for Financial Control of the Ministry of Finance was transformed into the Committee for Internal State Audit of the Ministry of Finance by Government Resolution No. 264 “On Some Issues of the Ministry of Finance of the Republic of Kazakhstan” dated May 3, 2016 (Information and legal system...).

Thus, summarizing the process of reforming the system of state financial control, one should note that as a result of the aforementioned legal measures, the implementation of state audit should mean not the eradication of the current state financial control system, but its harmonious entry into the implemented state audit system.

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