

Actual Problems of Audit in the Republic of Kazakhstan

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ABSTRACT

The purpose of the research is to examine the current problems in the system of audit in the Republic of Kazakhstan. Analyzing both national regulatory legal acts and data from the Agency of Statistics of the Republic, the features of external public audit and internal state audit tasks were examined. Moreover, the dynamics of violations revealed by the Accounts Committee during 2013-2015 is presented. Thus, the authors show the considerable part of detected contraventions is accounted for violations in the budget funds expenditure and in the misuse of state assets. Experience of organization of appropriate control bodies in advanced as well as in developing countries was excluded. The paper proves the importance of complex audit system as a part of state strategies of economic competitiveness improvement.

KEYWORDS

Audit systems, financial control institutions,
budgetary spending regulation, joint audit,
the Accounts Committee, the Republic of Kazakhstan.

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Introduction

State policy related to the improvement of quality of financial audit is one of the key aspects of state regulation of the economy (Guan, 2014; Habib & Bhuiyan, 2016). Moreover, global financial crisis prompted questions about the scope and effectiveness of the external audit in enterprises (Bekiaris, Eftymiou & Koutoupis, 2013; Petcu, David & Simionescu, 2015).

Can note the low quality of state services in the Republic of Kazakhstan (RK) as well as inefficient use of budget funds are the most urgent economic problems (Maidyrova, 2013). Mentioned factors can be defined as leading causes of corruption (Satpayev, 2014).

Moreover, the research held by International Budget Partnership showed the Open Budget Index for the Republic of Kazakhstan is 48 points out of 100 possible (Bolgov, Chugunov, & Filatova, 2015). Thus, the efficient management of the use of budget funds, state assets and quasi-public sector entities ought to be adjusted (Dyatlov et al., 2016).

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Currently an effective system of audit is regarded by Kazakh authorities as one of the leading factors influence the national competitiveness in global economy (Amagoh & Bhuiyan, 2010).

Despite that, the reports of the Accounts Committee show there are no systemic connection between such control functions as Presidential Administration, the Government, the Ministry of National Economy, and local control bodies (Ibrayeva & Nezhina, 2013).

Methodological Framework

Works on the problems of accounting methodology and state financial control served as a theoretical basis of the study.

The analysis contravention of laws concerning state audit principles regulation was conducted, including:

- Law of the Republic of Kazakhstan № 392-VI "On the state audit and financial control" dated November 12, 2015;
- The Republic of Kazakhstan President's Decree of June 18, 2009 № 827 "On the System of state planning in the Republic of Kazakhstan" (with alterations and amendments from 11.01.2016);
- Nursultan Nazarbayev to the people of Kazakhstan. Strategy "Kazakhstan 2050". New Political Course of the Established State, December 14, 2012.

The international practice of audit and forecasting production, accounting, control and analysis as well as international standards of financial statements were examined.

Data for analysis were taken from the Agency of Statistics of the Republic of Kazakhstan and from the reports of Accounts Committee of the RK.

Results

Public relations connecting with the state audit, financial control, and the powers of control bodies in the RK are regulated by the Law of the Republic of Kazakhstan № 392-VI "On the state audit and financial control" dated November 12, 2015.

Thus, the purpose of state audit is the effective management of the use of budget funds, state assets and quasi-public sector entities.

Can note state audit is divided into the following types:

- external public audit (related to the verification of the efficient lawful management of Kazakh financial, natural, human, information resources etc. in order to control the quality of living conditions and ensure the national security of the country);
- internal state audit tasks (connected with the state planning systems of the Republic of Kazakhstan, the reliability and accuracy of financial information, the features of public authorities responsibility as well as the quality of public services and preservation of state assets).

Moreover, the enactment also distinguishes three subtypes:

- audit of financial statements;
- compliance audit;
- performance audit.

The first subtype concerns both the validity and reliability of financial statements of the RK. The second is about the analysis of the object's state audit for effectiveness and productivity. The third kind is related to the implementation of acts concerning the subjects of quasi-public sector.

All these principles are partially duplicated in the President's Decree № 827 "On the System of state planning in the Republic of Kazakhstan" of June 18, 2009. The aforementioned document also defines the duties of state audit institutions. Accordingly, state regulation in the field of public audit and financial control in the Republic of Kazakhstan ought to be under control of the President of the Republic of Kazakhstan, the Government of the Republic, the Accounts Committee and the authorized body for public internal audit.

Presently special attention is focused on the implementation of development strategies and national development plans of the Governing holdings, national holdings and companies, where the state is a shareholder. Furthermore, the impact of the activities of the subjects of quasi-public sector on the sectors of the economy and social sphere is actively examined.

Despite that, the legal framework does not guarantee the effectiveness of state control levers. Thus, some problems occur in the process of transition to an innovative type of economy. With that, contrary to the statements of Strategy "Kazakhstan 2050" (2012), regulatory authorities of the Republic of Kazakhstan use the principles inherent to Post-Soviet countries.

The orientation of the state policy of the RK on the improvement of quality of audit can be proved by the participation in the international organizations for the state financial audit and control, namely:

- Council of supreme bodies managers for financial control of states-members of the CIS (since 2000);
- Economic Cooperation Organization Supreme Audit Institutions (2004);
- European Organization of Supreme Audit Institutions (since 2003);
- International Organization of Supreme Audit Institutions (2000);
- Asian Organization of Supreme Audit Institutions (2000).

With that, the poor quality of tax and customs administration and decrease in tax discipline of managing subjects was established by the Accounts Committee in 2015. The shortage on tax revenues in comparison with 2014 has increased by 30,5 billion tenge.

Planned targets on republican budget proceeds on 28 codes of budgetary classification are not executed for the sum of 78,7 billion tenge. With that, in 2015 the proportion of irregularities significantly increased in the use of state assets (Agency of Statistics of the Republic of Kazakhstan, 2016).

Analyzing the structure of violations revealed by Auditing Commission for 2013-2015, can note that presently the significant share of revealed violations is accounted for violations in the budget funds expenditure as well as in the misuse of state assets (see figure 1).

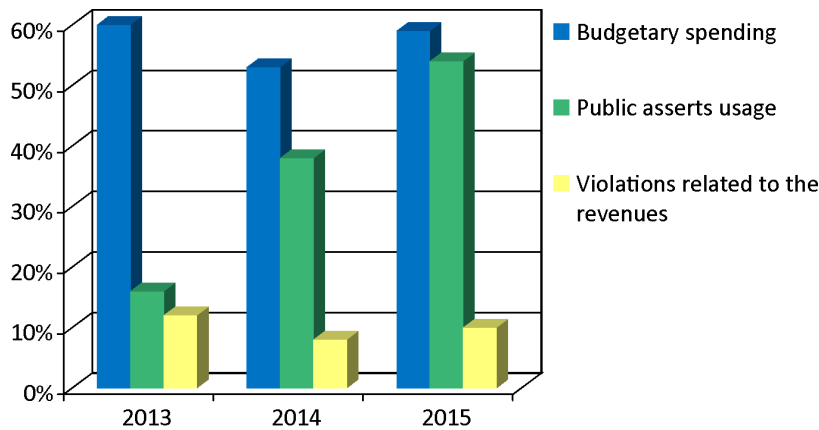


Figure 1. Violations revealed by the Accounts Committee (2013-2015)
 Source: Agency of Statistics of the Republic of Kazakhstan, 2016

We suppose the possible reasons of inefficient system of audit are excessive bureaucratization typical for post-Soviet countries as well as the lack of clear and unified accountability system. Regarding the Law "On the state audit and financial control" we can note that list of audit indicators should be supplemented. Furthermore, these indicators should be considered not only as quantitative but also as qualitative characteristics.

Discussion

We share the opinion of those economists who argue that the lack of close cooperation of state audit institutions with the population through public organizations is one of the main problems (Vivchar, 2016; Kydyrova et al., 2016). In such conditions, the financial control bodies cannot systematically receive a reply from the society.

Can add that the practice of joint audit is now common in developed countries. But this direction of the state policy remains incomplete. Thus, the law of Denmark does not specify how the audit works or audit fees are to be shared between different auditors (Thinggaard & Kiertzner, 2008).

In contrast, joint audit has been mandatory for all companies of France preparing consolidated financial statements since 1984 (Audousset-Coulier, 2012).

The experience of some developing countries such as India and Kuwait also shows the governments implement mandatory joint audits mostly for specific types of companies – banks, listed or state-owned companies (EC, 2011).

Conclusion

To sum up, the system of audit is regarded as a part of state economic policy in the Republic of Kazakhstan. Based on the appropriate legislation of the RK as well as international principles of audit system organization the types and the subtypes of public audit and financial control were defined. Foreign countries experience proves the practice of joint audit is presently common. The statistics from the reports of Accounts Committee during 2013-2015 show violations in the budget funds expenditure and in the misuse of state assets require an immediate response of state control institutions. The authors also describe

possible reasons of inefficient system of audit in Kazakhstan and propose the solutions. The practical value is that the study can be useful for the improvement of public audit system and relevant legislation not only in the RK, but also in other transition economies.

Disclosure statement

No potential conflict of interest was reported by the authors.

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