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PERFORMANCE AUDIT FOR STATE PROGRAMMES IN THE REPUBLIC OF KAZAKHSTAN

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Abstract. *This study is necessitated by a detailed analysis of the types of audit, in particular, the performance audit of the quasi-public sector. The purpose of this study was to investigate one of the most effective mechanisms of state financial control – performance audit. The main research methods included the method of system analysis, the method of analysis and synthesis, and the method of the system approach. It was pointed out that the performance audit constitutes a detailed audit of the activities of persons who manage the received public funds, aimed at determining the effectiveness of the use of budget funds as an indicator of their competence in performing the functions assigned to them and the tasks set. The main difference between a performance audit and any control activity is that it should not end with the conventional preparation of a report on its results. The obvious vulnerabilities of the performance audit were also identified with the currently available legislative and methodological framework, and its concepts were presented in accordance*

with the audit standards adopted by the International Organization of Supreme Audit Institutions. As a result, the study proved the relevance of the concept of performance audit, but it requires systematic preparation of the legislative, regulatory, and methodological framework, taking into account the specific features of the country's development.

Keywords: *performance audit, financial control, public funds, stage of performance audit, purpose of performance audit.*

Introduction

There is no unambiguous definition of performance audit in the scientific literature. The bodies that have developed standards, methodologies, methods of performance audit, as well as many scientists have given several definitions, although they do not contradict each other. However, all definitions of the term, albeit different, have common goals, such as: evaluating cost-effectiveness, efficiency and effectiveness; systematically studying the activities of a government organisation, programme, activity or function that provides information to increase public accountability and facilitate decision-making; publishing confidential information through an independent party. Among the objectives of performance audits, some authors distinguish two that are particularly important (Desmedt et al., 2017; Johnsen et al., 2019; Parker et al., 2019): performance improvement and transparency of evaluation. Auditors should make recommendations and share their findings to improve the performance of the audited entity. They should then identify poor results and other obscure aspects. Before starting to analyse specific goals, it is necessary to clarify the term “performance audit”. On the one hand, performance audit is considered as an alternative form of conventional audit. On the other hand, performance audit is considered to be a misnomer. These two positions are derived from the comparison of the role of the conventional auditor and the performance auditor. Conventional government auditors examine the legality of government transactions and the correctness of financial statements. Instead, performance auditors examine the cost-effectiveness, efficiency and effectiveness of government operations and whether government organisations have achieved the expected and intended results. In summary, the task of the conventional public auditor is only to check, while the performance auditor gives an assessment. Many performance measurement practices have been provided for private organisations, and their application in the public sector should not occur without taking into account that these two sectors are not interchangeable. Another feature of public organisations is the multiplicity of goals, which are often opposite and vague, and principles. Taxpayers, users, and citizens usually have different interests: this is why the concept of efficiency was developed to reconcile these different perspectives (Torres et al., 2019; Vasiliauskienė and Daujotaitė, 2019; Gusarov, 2020). Public and private organisations have different flexibility (Łąka et al., 2020).

In the public sector of the Republic of Kazakhstan, audit is related to the means by which goals are set and achieved. It also includes actions that ensure the credibility of the public sector organisation, establish fair service delivery, and ensure the proper

conduct of public officials, which reduces the risk of corruption in the state. Audit is the cornerstone of good public sector governance. By providing an unbiased and objective assessment of how responsibly and effectively public resources are being used to achieve the intended results, auditors help public sector organisations achieve accountability and integrity, improve operations, and build trust among citizens and stakeholders (Korzeb, 2021; Melnyk, 2020). The role of the public sector auditor supports the responsibilities of oversight, analysis, and foresight. Oversight determines whether public sector organisations are doing what they are supposed to do and serves to detect and deter corruption in the state. Insight helps decision-makers by providing an independent assessment of public sector programmes, policies, operations, and outcomes. Foresight identifies trends and emerging issues. Auditors use tools such as financial audits, performance audits, investigations, and consulting services to perform each of these roles (Korzeb and Niedziółka, 2020; Korzeb and Niedziółka, 2021; Kalaur and Moskaliuk, 2020).

The relevance of this study is explained by the extensive scope of application of the basic definitions and types of audits of the quasi-public sector efficiency due to the identification and detailed analysis of considerably different and innovative properties compared to the methods of state financial control used to date. The rationale for the mentioned relevance is to explain and justify the most criticised and corrected points of the performance audit in terms of the existing legislative and methodological framework in the context of the causality of the current role of the performance audit in the realities of the modern development of state financial control. This study is relevant because it considers the concept of performance audit in the context of the modern development of state financial control.

Materials and Methods

To achieve the stated purpose, the authors have chosen the following areas: to reinterpret the term “audit”, to fill it with content that corresponds to the essence of this phenomenon in the system of modern practical coordinates and the structure of public relations in society; to specify the essence of public audit as a system institution for evaluating the effectiveness and efficiency of public administration; to define the main tasks and subject-object features of public audit of management decisions and activities of public authorities; to clarify the socio-regulatory role of public audit in the context of civil society development; to update the tasks of professional training of senior management personnel of a new generation capable of analytical activities in the public sphere, and to introduce innovative methods of auditing the activities of public authorities of the Republic of Kazakhstan.

General scientific and special methods were used in the course of this study: the method of system analysis is a methodology of the theory of systems, which lies in research of any objects represented as systems, their structuring and subsequent analysis. The main feature of system analysis is that it includes not only methods of analysis (from Greek “ἀνάλυσις” – the division of an object into elements), but also methods of synthesis (from Greek “σύνθεσις” – the combination of elements into a single whole). The main goal

of system analysis is to detect and eliminate uncertainty in solving a complex problem by finding the best solution amongst the existing alternatives. System analysis helped analyse the stages of a performance audit of public funds, identify its strengths, and identify its features and types. Content analysis is a method of qualitative and quantitative study of the content of messages in order to obtain reliable information about social reality. The use of this method involves the algorithmised selection of certain content elements in the text, their classification in accordance with a pre-developed scheme, the subsequent calculation of the selected content elements and the quantitative presentation of the results. Using this method, it was possible to identify the main functions of performance audit, described earlier by other authors. The comparative analysis method constitutes a powerful and versatile tool that expands the ability to understand and describe political processes and changes in any country in accordance with the existing reality, concepts, and goals facing any political system. Using a comparative analysis, the advantages of various methods of performance audit were identified, as well as features that were not previously described by other authors. In addition, the study employed the method of a systematic approach. This allowed analysing the data obtained due to the theoretical and practical basis and identifying the features of the organisation of the performance audit of public sector funds.

Results and Discussion

In the modern conditions of the dynamically developing financial structure of the state, the subsequent improvement of the performance audit constitutes a rather considerable indicator of the emerging consequences in the quasi-public sector. Furthermore, this indicator is also being transformed into a factor of reforming the system of external financial control towards improving the efficiency of using budget funds. The development of performance audits is usually an adequate consequence of the state financial system development and becomes a factor in the reform of the external financial control system towards improving the efficiency of the use of budget funds.

Ultimately, as a product of economic activity, there are results in the form of a product derived from the use of public funds. Firstly, the most efficient is the use of resources, where the actual cost of a unit of resource would be less than originally provided for or less than the cost of similar goods or services of a competitor provided by the market. Secondly, the effectiveness of the use of budget funds is identified by the indicator of the ratio between the output of products, the volume of services rendered and other results of the activity of the audited organisation and the material, financial, labour, and other resources spent on obtaining these results. Thirdly, of most significance is the effect of the resources spent, which is impossible both to calculate and to go unnoticed – it is an improvement in the quality of life of the population. Moreover, the performance audit procedure is much more complicated than the cost-effectiveness assessment and often defies mathematical calculations (Borowski et al., 2016; Sukhonos et al., 2021).

In general, the effectiveness audit methodology lies in a certain set of procedures for obtaining evidence necessary to form an opinion/report regarding the effectiveness

of the use of public funds. Notably, since the conclusions will be based solely on the auditors' opinions, this type of financial control is vulnerable, because the limitations of the presented report include the factor of subjective judgments of experts (auditors). Furthermore, only a high level of qualification of specialists will ensure the consideration of the industry specifics in each particular case. In the course of any control event, three main stages are carried out: planning, direct implementation, and preparation of a report on the results. This also applies to performance audits (Nikiforova et al., 2017).

According to the auditing standards adopted by the International Organization of Supreme Audit Institutions (INTOSAI), performance audits include the following: 1) economy audit of administrative activities to ensure the programme in accordance with proper administrative principles and practices; 2) efficiency audit of the use of human, financial, and other resources, including the verification of information systems, performance measurement and monitoring systems, as well as procedures for eliminating detected inconsistencies and shortcomings; 3) effectiveness audit of activities in terms of achieving the goals set by the programme under review, as well as impact audit, that is, comparing the actual impact of a particular programme or policy with the planned one (Performance audit, 2015; Lennik, 2017; Slobodanyk and Halas, 2020).

Based on the standards of the "Lima Declaration" of the INTOSAI control guidelines, the performance audit is recommended to be applied in parallel with the conventional control of the targeted use of public funds in order to assess the final results of government expenditures. Due to the fact that the performance audit is aimed at improving the quality characteristics of the quasi-public economy sector operation and is a form of financial control, it is aimed at creating mechanisms and methods for evaluating the effectiveness of financial flow management in the public sector economy. Thus, the main functions of the performance audit include the following (INTOSAI professional documentation system, 2020; Gørrissen, 2020; Svärden, 2019):

1. A control function based on the verification of the activities of controlled objects, an analytical function that lies in searching and identifying the causality in the operation of executive authorities that manage funds from the state budget and its results.
2. A synthetic function based on the development and determination of recommendations and suggestions for improving the effectiveness of the control object. The feasibility of the performance audit lies in the quality improvement of the public resources management by providing complete, confirmed information from reliable resources and an objective picture of the effectiveness of the organisations involved in the budget process. The advantages of the performance audit include the following (Performance audit, 2015): 1) expansion of the boundaries of financial control beyond formal estimates of resource allocation to improving the economic facilities that develop them; 2) comprehensive analysis of possible causes of inefficient use of budget funds; 3) creation of conditions for combatting corruption in government bodies by providing and widely disseminating information on the use of budget funds; 4) provision of legislative authorities with the opportunity to assess the effectiveness of decision-making on the regulation of the budget process proceeding

from the previously identified data; 5) provision of executive authorities with information and recommendations to improve the efficiency of resource use; 6) impact on the development of strategic decisions based on early audit observations and notes in the field of financial policy (Performance audit, 2015).

When conducting the performance audit of a quasi-public sector entity, which involves the implementation of the plan and programme of the audit event in terms of conducting analytical and audit procedures immediately at the object of the state audit, state auditors, as persons authorised for this purpose, must engage in the following: 1) collect audit evidence of appropriate quality/format; 2) if necessary, conduct additional analytical and audit procedures aimed at managing audit risk and/or ensuring the collection of necessary evidence, including conducting counter-audits and evaluating the facts identified during the audit for deviations from the indicators, namely, audit criteria; 3) draft an audit report; 4) conduct discussions on the identified facts and the draft audit report with representatives of the state audit object and (or) authorised bodies; 5) properly issue working audit files; 6) quality control procedures for conducting an audit event (Karybaev and Zhamkeeva, 2019; Haferkorn, 2018; Skoromtsova, 2019).

Similar to the planning stage, the duration of the audit event stage is determined depending on the availability of resources, the complexity, and scale of the upcoming procedures. Performance audits collect and use physical, documentary, witness, and analytical evidence. When collecting audit evidence, it is necessary to ensure that the audit evidence meets the quality characteristics (Karybaev and Zhamkeeva, 2019; Yakimova, 2017; Yakimova and Radomsky, 2017; Golubka, 2018). The evidence base of performance audits of a quasi-public sector entity should be documented. The form and content of the respective documentation should be determined by the state auditors with the use of professional judgment.

Documentary audit or an audit of the data contained in the primary documentation and other financial statements are performed to gather audit evidence regarding the proper accounting of assets and control over their use (for example, determining the correctness of the recognition and impairment of assets, evaluating the effectiveness of internal control performed to ensure the safety of assets, etc.). In general, documentary audits constitute the information-gathering method most commonly used in compliance and financial audits, which allows government auditors to use the relevant audit reports, if available, for the purposes of performance audits. Surveillance is one of the most effective ways to gather audit evidence for the purposes of performance audits of the use of state assets, which involves the visual recording of certain events, actions, or behaviours that occurred during the use of the audited state asset. Surveillance can be applied to all types of assets and activities.

Interviews are one of the most common ways to gather information and audit evidence. This method involves conducting a conversation with a representative (individual interview) or simultaneously with several representatives (group interviews) of the state audit object, the authorised body, or any other person involved in the management of the audited state asset. The main advantage of the interview is the ability to gather “unique” and/or previously unknown and/or undisclosed information. Apart from establishing the

facts of uneconomical, inefficient and ineffective management, state auditors can also use interviewing to identify the reasons for these deviations, as well as to assess their possible consequences.

To form an audit opinion on the economy, efficiency, and effectiveness of the activities of a quasi-public sector entity, all the information gathered, including audit evidence, is subject to analysis. Therewith, these analytical procedures are performed to assess the quality of audit evidence and compare the revealed facts with the audit indicators (criteria) (The Economist's Encyclopaedia, 2017). The quality of audit evidence is analysed and evaluated using comparative analysis methods. In this case, the state auditors compare the quality of the audit evidence gathered for compliance with the established and/or recommended characteristics. As a rule, quantitative and qualitative methods of analysis are used to compare the revealed facts with the audit criteria. When applying quantitative analysis methods, government auditors primarily use data that can be quantified (Auditing Basics, 2013). Table 1 presents quantitative data that can be analysed using comparative analysis methods.

Table 1. Application of the comparative analysis method for the purposes of performance audit of asset efficiency in the Republic of Kazakhstan

	Data on the object of state audit	Audit criteria values (or data on other entities in the public, quasi-public, or private sectors)
The level of depreciation of fixed assets used for the operating activities	45%	30%
The level of depreciation of fixed assets used for the side activities	10%	20%
Average depreciation of fixed assets	$(45+10)/2=27.5\%$	$(30+20)/2=25.0\%$
Deviations, %	$25.0\%-27.5\% = -2.5\%$	

Source: Accounts Committee..., 2020

In the presence of supporting audit evidence, the established deviation may indicate shortcomings in the economical, efficient, and effective use of tangible assets at the object of state audit. State auditors should take into account that the purposes of individual performance audits may require more complex calculations (for example, comparing deviations in dynamics), which in some cases can be competently performed with the involvement of experts (Table 2).

Table 2. Application of the comparative analysis method for the purposes of performance audit of assets (trend analysis) in the Republic of Kazakhstan

	Data on the object of state audit	Audit criteria values (or data on other entities in the quasi-public sector)
<i>First year</i>		
The level of depreciation of fixed assets used for the operating activities	45%	30%
The level of depreciation of fixed assets used for the side activities	10%	20%
Average depreciation of fixed assets	$(45+10)/2=27.5\%$	$(30+20)/2=25.0\%$
Deviations, %	$25.0\%-27.5\% = -2.5\%$	
<i>Second year</i>		
The level of depreciation of fixed assets used for the operating activities	47%	30%
The level of depreciation of fixed assets used for the side activities	12%	20%
Average depreciation of fixed assets	$(47+12)/2=29.5\%$	$(30+20)/2=25.0\%$
Deviations, %	$25.0\%-27.5\% = -4.5\%$	
<i>Third year</i>		
The level of depreciation of fixed assets used for the operating activities	49%	30%
The level of depreciation of fixed assets used for the side activities	14%	20%
Average depreciation of fixed assets	$(49+14)/2=31.5\%$	$(30+20)/2=25.0\%$
Deviations, %	$25.0\%-27.5\% = -6.5\%$	
<i>Fourth year</i>		
The level of depreciation of fixed assets used for the operating activities	51%	30%
The level of depreciation of fixed assets used for the side activities	16%	20%
Average depreciation of fixed assets	$(51+16)/2=33.5\%$	$(30+20)/2=25.0\%$
Deviations, %	$25.0\%-27.5\% = -8.5\%$	

Source: Accounts Committee..., 2020

Therewith, in comparison with a certain audit criterion or compared (best) practice, the deviations in the level of fixed assets depreciation at the state audit object during the analysed period increase. In the presence of supporting audit evidence, the established deviation may indicate systematic shortcomings in the economical, efficient, and effective use of tangible assets at the object of state audit.

Quantitative data within the framework of performance audits of the use of state assets can also be analysed using regression analysis methods. These methods allow identifying the possible existence of a positive or negative relationship between various variables (indicators), or indicating the absence of a relationship between the analysed variables (Table 3) (Yegorova and Zezyulin, 2010; The Economist's Encyclopaedia, 2018).

Table 3. Application of the regression analysis method for the purposes of performance audits of the use of state assets (multi-factor analysis)

Indicator name	1 st year	2 nd year	3 rd year	4 th year	5 th year	6 th year	7 th year
The number of employees of the state audit object who have been trained in the use of new equipment, % of the total number of employees of the state audit object	60	62	64	67	70	75	80
The level of return on assets of the state audit object, %	6.0	6.0	6.5	6.5	7.8	7.9	7.8
Correlation coefficient	0.90						
Shelf life of fixed assets of the state audit object, %	0.15	0.30	0.30	0.30	0.35	0.35	0.35
The level of return on assets of the state audit object, %	6.0	6.0	6.5	6.5	7.8	7.9	7.8
Correlation coefficient	0.74						

Source: Accounts Committee..., 2020

Conclusions

1. In summary, it can be concluded that the main difference between a performance audit and any control activity is that it should not end with the conventional preparation of a report on its results.
2. The main objective of the performance audit is to assist the audit entities in improving the efficiency of their use of public funds by implementing the recommendations developed based on the results of the audits. In this regard, the period of time required for the implementation of these recommendations should also be considered as a special stage of the performance audit – the stage of implementing its results.
3. However, this stage of the performance audit cannot be considered as a completed control activity. It is necessary to obtain information on the effectiveness of the performance audit, in particular with regard to the use of the recommendations of the auditors. This information should be provided after a certain period of time and this period should be objectively sufficient to implement the recommendations. It is this stage that should be considered as the stage of determining the socio-economic effect obtained from the use of the performance audit results.

4. As the analysis suggests, the concept of performance audit is relevant, but requires a more reasonable approach. A reasonable approach implies systematic preparation of the legislative, regulatory, and methodological framework with consideration of the specific features of the country's development. Equally important is the training process, since the non-regulated part will be based solely on the auditors' judgments. Given the fact that, if necessary, subject matter experts will be involved, the persons authorised for audit should be no less competent. Therefore, only upon solving the above problems can the audit system be ready for a new assessment method.

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