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**DETAILS OF PERFORMANCE AUDIT ORGANISATION
IN THE REPUBLIC OF KAZAKHSTAN**

Abstract. The article discusses one of the most effective mechanisms of state financial control which is performance audit. The article considers the types of performance audit of a quasi-public sector, shows how it differs from regular methods of state financial control, and identifies vulnerabilities of performance audit under the existing legislative, methodological framework. The authors provide the concept of performance audit according to audit standards adopted by the International Organisation of Supreme Audit Institutions (INTOSAI).

Key words: performance audit, financial control, public funds, performance audit phase, performance audit objective.

Introduction. The relevance of the article is owing to extensive range of definitions and types applied in performance audit of a quasi-public sector through investigation and detailed analysis of remarkably different and innovative properties compared to the previous state financial control methods. The relevance of the article is also owing to provided explanation and justification for the most criticised and edited performance audit paragraphs within the existing legislative and methodological framework and the relation between current status of performance audit and current development of state financial control. This work is relevant because it considers the performance audit in the context of contemporary development of state financial control.

Methods. The authors use general scientific and special methods such as system analysis, content analysis, comparative analysis, analysis and synthesis and systematic approach.

Results. The current context of a dynamically developing financial structure of the state makes the subsequent performance audit improvement a strong indicator of an impact on the quasi-public sector. This indicator also transforms into a factor for systematic reform of external financial control with the view to increase the budget utilisation efficiency. The performance audit development is a reasonable consequence of the state financial system development which also becomes a factor for reforming the system of external financial control with the view to increase the budget utilisation efficiency. It should be mentioned that performance audit reviews activities of public fund managers in detail to determine the budget utilisation efficiency and therefore to assess their competence in fulfilling their duties.

Consequently performance audit activities are aimed at analysing the budget utilisation efficiency, evaluating possible reserves for their growth and the reasonableness of spending, identifying deviations of actual and planned parameters and indicators in order to achieve the maximum positive social effect.

Ultimately, as a product of economic activity, there are results in the form of a product derived from the public fund utilisation. First, the most effective use of resources is when the actual cost of a resource unit is less than planned or less than the cost of a similar product or competitor's service. Second, budget utilisation efficiency is defined by the ratio of product output, the volume of rendered services and other activities of an audited entity and the material, financial, labour and other resources spent on obtaining these results. Moreover, it should be noted that the performance audit procedure is much more complicated compared to value for money audit.

In general, the performance audit methodology consists in implementing a certain set of procedures for obtaining evidence necessary for the conclusion / report on the budget utilisation efficiency. However,

the fact that the audit conclusion is based solely on the auditors' judgments makes this type of financial control vulnerable, since the factor of the subjective judgments of experts (auditors) is related to the limitations of the presented report. On top of that, only highly qualified specialists are able to ensure that industry-specific aspects are taken into account in each individual case. Any monitoring activity falls into three main phases which is planning, execution and reporting. This also applies to performance audit (table 1).

Table 1 - The phases of the performance audit of budget utilisation efficiency

Planning	<ul style="list-style-type: none"> ✓ Identifying audit topics; ✓ Planning a preliminary study; ✓ Gathering relevant background information and materials; ✓ Preparing a preliminary study report; ✓ Developing audit proposal.
Execution	<ul style="list-style-type: none"> ✓ Fieldwork on gathering information and factual data for forming audit evidence; ✓ Drawing conclusions and recommendations on the results of the audit; ✓ Discussing the results of the review with the client.
Reporting	<ul style="list-style-type: none"> ✓ Report drafting; ✓ Final report drafting; ✓ Approving and distributing the report.
Note: Based on [18]	

According to the auditing standards adopted by the INTOSAI, performance audit includes:

“*Audit of the economy* of administrative activities in accordance with sound administrative principles and practices”;

“*Audit of the efficiency* of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies”;

“*Audit of the effectiveness* of performance in relation to achievement of the objectiveness of the audited entity, and audit of the actual impact of activities compared with the intended impact.”[4]

Lima Declaration standards of the INTOSAI control guidelines recommends parallel application of performance audit and traditional monitoring of proper use of public funds, in order to evaluate the final results of government spending. Performance audit is aimed at improving the qualitative characteristics of the quasi-public sector of the economy and used as a form of financial control, creating mechanisms and methods for evaluating the performance of managing financial flows in the public sector economy. Thus, the performance audit has two major functions:

Control function which focuses on reviewing the activities of an audited entity;

Analytical function which focuses on searching and identifying cause-effect relationships in the activities of executive authorities managing public funds;

Synthetic function which focuses on developing and defining recommendations and proposals to improve the performance of an audited entity.

The feasibility of the performance audit lies in the qualitative improvement of the public funds management by providing full and verified information from reliable sources and a fair review of effectiveness of publicly funded entities.

Advantages of performance audit:

- Expanding the boundaries of financial control beyond the formal estimation of resource allocation to the improvement of the publicly funded entities;

- Comprehensive analysis of the possible reasons for inefficient budget utilisation;

- Creating conditions for anti-corruption activities in government by providing and widely disseminating information on budget utilisation;

- Providing the legislative authorities with the grounds to evaluate the effectiveness of a budget regulation process;

- Providing executive authorities with information and recommendations for improving the budget utilisation efficiency;

- Using early identified audit observations to influence the development of strategic decisions in financial policy. [4]

The performance audit of a quasi-public sector entity, which involves the implementation of an audit plan and programme in terms of conducting analytical and audit procedures at the site of a public audit entity, the public auditors shall:

- 1) Gather audit evidence of appropriate quality / format;
- 2) Conduct additional analytical and audit procedures if necessary, which are aimed at managing audit risk and (or) ensuring the collection of necessary evidence, including:
 - a. conducting counter audits;
 - b. evaluating of the facts revealed during the audit with a view to deviations from the indicators/audit criteria;
- 3) Prepare a report draft;
- 4) Discuss the audit results and report draft with public audit entity and (or) authorised bodies;
- 5) Prepare audit documentation;
- 6) Conduct audit quality-assurance procedures

Similar to the planning stage, the term of the audit depends upon resource availability, complexity and scope of the review.

The performance audit includes gathering and using physical, documentary, testimonial and analytical evidence.

While gathering audit evidence, it is necessary to ensure that the audit evidence is consistent with the qualitative characteristics.

The evidence base of the performance audits of a quasi-public sector entity should be documented. The form and content of relevant documentation should be determined by public auditors based on professional judgment.

Document review or review of primary documentation and reports. This type of review is aimed at collecting audit evidence of proper accounting of assets and control over their use (for example, determining the correctness of recognition and impairment of assets, evaluation of internal control effectiveness regarding to safekeeping of assets etc.). Generally, document review is the method of gathering information that is frequently used in compliance audits and financial audits, which allows public auditors to use available and appropriate audit reports for performance audits.

Observation is one of the most effective method of gathering audit evidence for performance audit of budget utilisation, which involves visual recording of certain events, actions or behaviour that occurred during utilisation of an audited public asset. Observation can be applied to all types of assets and activities.

Interview is one of the most common method of gathering information and audit evidence. This method involves talking to one (individual interview) or several representatives (group interview) of the public audit entity, authorised body or any other person involved in the management of the public audit entity. The main advantage of the interview is the ability to collect "unique" and (or) previously unknown and (or) undisclosed information. Through interviewing public auditors may establish existence of uneconomic, inefficient and ineffective management, find out the reasons for these deviations, and evaluate their impact.

Audit report on the economy, efficiency and effectiveness of a quasi-public sector entity requires analysing all gathered information, including audit evidence. At the same time, these analytical procedures are carried out in order to:

- 1) evaluate the quality of audit evidence;
- 2) compare the revealed facts with the indicators (criteria) of the audit.

The quality of audit evidence is analysed and evaluated using the methods of comparative analysis. In this case, public auditors compare the quality of the collected audit evidence for compliance with established and (or) recommended characteristics.

Generally, quantitative and qualitative methods of analysis are used to compare the revealed facts with audit criteria. In quantitative analysis, public auditors primarily use data that can be measured quantitatively.

For example, Table 2 presents quantitative data that can be analysed using benchmarking methods.

Table 2 - Application of the comparative analysis for performance audit

	Data on a public audit entity	Audit criteria indicators (or data on other entity of public, quasi-public or private sectors)
The level of depreciation of fixed assets used for core activities	45%	30%
The level of depreciation of fixed assets used for non-core activities	10%	20%
The average level of depreciation of fixed assets	$(45+10)/2=27.5\%$	$(30+20)/2=25.0\%$
Deviation in percentage	$25.0\%-27.5\% = -2.5\%$	
Note: Based on official data by Accounts Committee for Control over Execution of the Republican Budget [19]		

Identified deviation supported by audit evidence may indicate deficiencies in the economical, efficient and effective use of tangible assets at a public audit entity. Public auditors should consider that some audits may require more complex calculations (for example, a dynamic deviations comparison (Table 3), which in some cases may be performed duly by experts.

Table 3 - Application of the comparative analysis for performance audits (trend analysis)

	Data on a public audit entity	Audit criteria indicators (or data on other quasi-public entities)
First year		
The level of depreciation of fixed assets used for core activities	45%	30%
The level of depreciation of fixed assets used for non-core activities	10%	20%
The average level of depreciation of fixed assets	$(45+10)/2=27.5\%$	$(30+20)/2=25.0\%$
Deviation in percentage	$25.0\%-27.5\% = -2.5\%$	
Second year		
The level of depreciation of fixed assets used for core activities	47%	30%
The level of depreciation of fixed assets used for non-core activities	12%	20%
The average level of depreciation of fixed assets	$(47+12)/2=29.5\%$	$(30+20)/2=25.0\%$
Deviation in percentage	$25.0\%-29.5\% = -4.5\%$	
Third year		
The level of depreciation of fixed assets used for core activities	49%	30%
The level of depreciation of fixed assets used for non-core activities	14%	20%
The average level of depreciation of fixed assets	$(49+14)/2=31.5\%$	$(30+20)/2=25.0\%$
Deviation in percentage	$25.0\%-31.5\% = -6.5\%$	
Fourth year		
The level of depreciation of fixed assets used for core activities	51%	30%
The level of depreciation of fixed assets used for non-core activities	16%	20%
The average level of depreciation of fixed assets	$(51+16)/2=33.5\%$	$(30+20)/2=25.0\%$
Deviation in percentage	$25.0\%-33.5\% = -8.5\%$	
Note: Based on official data by Accounts Committee for Control over Execution of the Republican Budget [19]		

At the same time, deviations in the depreciation of fixed assets at a public audit entity show increase in comparison with a certain audit criterion or compared (best) practice during the analysed period. Identified deviation supported by audit evidence may indicate systematic deficiencies in the economical, efficient and effective use of tangible assets at a public audit entity.

Regression analysis. The performance audit of a public entity may also involve a regression analysis of quantitative data. This method makes it possible to determine the potential existence of a positive or negative relationship between different analysed variables (indicators), or indicate the absence of a relationship between the variables (indicators).

Table 4 - Application of the regression analysis for the performance audit (multi-factor analysis).
The following information is sourced from Accounts Committee
for Control over Execution of the Republican Budget (<http://esep.kz/rus>)

Indicator	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 at a public audit entity who are trained to use a new equipment. Their percentage of the total number of employees of the public audit entity	60	62	64	67	70	75	80
The level of assets profitability of a public audit entity, in percentage ¹	6.0	6.0	6.5	6.5	7.8	7.9	7.8
Correlation coefficient	0.90						
Indicator	1 st year	2 nd year	3 rd year	4 th year	5 th year	6 th year	7 th year
The validity coefficient of fixed assets of a public audit entity, in percentage	0.15	0.30	0.30	0.30	0.35	0.35	0.35
The level of assets profitability of a public audit entity, in percentage	6.0	6.0	6.5	6.5	7.8	7.9	7.8
Correlation coefficient	0.74						

Note: Based on official data by Accounts Committee for Control over Execution of the Republican Budget [19]

Conclusions. To summarise, the main difference between performance audit and any reviewing activity is that the first should go beyond the traditional audit report. The main objective of the performance audit is to assist audited entities in increasing their budget utilisation efficiency by following the recommendations provided by the audit. In this regard, the time period for adopting the given recommendations should also be considered as a special phase of performance audit –the adopting phase. However, this phase of the performance audit cannot be considered as a completed control activity. The information confirming effectiveness of the performance audit, especially the one on adopting recommendations, should be gathered. This information should be provided after a certain period of time, and this period should objectively be sufficient to adopt the recommendations. This phase should be considered as one that determines the socio-economic effect of the performance audit.

Discussions. Our analysis show that the performance audit is relevant, but it requires a more “reasonable approach”. By reasonable approach, we understand systematic preparation of the legislative, regulatory, methodological framework considering specific features of country’s development. Staff training is also important since the unregulated aspects will be left to auditors’ discretion. The fact that performance audit may require experts from various fields, the personnel responsible for the audit should be equally competent. Thus, only meeting the above challenges can prepare the current audit system for a new evaluation method.

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ҚАЗАҚСТАН РЕСПУБЛИКАСЫНДА АУДИТТИ ЖҮРГІЗУ ҰЙЫМДАСТЫРУДЫҢ ТИІМДІЛІГІ МЕН ЕРЕКШЕЛІКТЕРІ

Аннотация. Мемлекеттік қаржылық бақылау құралының ең бір пәрменді тетіктері - аудит тиімділігі. Аудит тиімділігінің түрлері квазимемлекеттік сектор осы жұмыста қарастырылды. Мемлекеттік қаржылық бақылау әдістерінің айырмашылықтары егжей-тегжейлі ашылған. Аудит тиімділігінің заңнамалық, әдіснамалық білім осал орындар белгіленді. International Organization of Supreme Audit Institutions (INTOSAI) авторлар берілген ұғымдар аудит тиімділігінің стандарттарына сәйкес қабылданған.

Түйін сөздері: тиімділік аудиті, қаржылық бақылау, мемлекеттік қаражат кезең тиімділік аудиті.

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ОСОБЕННОСТИ ОРГАНИЗАЦИИ ПРОВЕДЕНИЯ АУДИТА ЭФФЕКТИВНОСТИ В РЕСПУБЛИКЕ КАЗАХСТАН

Аннотация. Рассмотрен один из наиболее действенных механизмов государственного финансового контроля - аудит эффективности. В данной работе рассмотрены виды аудита эффективности квазигосударственного сектора. Подробно раскрыты отличия от привычных методов государственного финансового контроля. Обозначены уязвимые места аудита эффективности при имеющейся законодательной, методологической базе. Авторами, предоставлены понятия аудита эффективности согласно стандартам аудита, принятым International Organization of Supreme Audit Institutions (INTOSAI).

Ключевые слова: аудит эффективности, финансовый контроль, государственные средства, этап аудита эффективности, цель аудита эффективности.

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