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Performance audit methodology of governmental budget planning in foreign countries

Abstract. *The issue of effective regulation of public finances is obtained of importance at the present stage of the Republic of Kazakhstan development. The current period of development of budget law and the budget system is due to the implementation of budget reform, the introduction of program-targeted methods of budget forecasting, and result-oriented medium-term financial planning into the budget process.*

At the same time, legislative agencies and the scientific community pay great attention to the legal regulation of budgetary relations, as well as to the establishment of principles and mechanisms for the functioning of the budgetary system and the use of budgetary funds.

The ongoing changes in the economy make it necessary to clearly follow such principles of the budget system as efficiency and responsibility. Moreover, the need to realistically assess the situation, improve the quality of decisions made helps to strengthen responsibility, internal discipline in managing the processes of implementing decisions made and monitoring the work of the public sector. Thus, the study of the budget system, the budget process, the theoretical and legislative foundations, and the actual practice of the functioning of the budget mechanism, including the planning procedure, is one of the most pressing issues.

Keywords: *public finance, budget system, audit standards, performance audit, Lima Declaration, Supreme Audit Institutions, an international organization of supreme audit institutions.*

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Introduction

As part of the implementation of the audit standards of the international organization of supreme audit institutions (INTOSAI), during the conference of the International Congress of Supreme Audit Institutions in 1998 in the

city of Montevideo, it was decided to develop guidelines for the application of INTOSAI audit standards. It was decided to develop guidance on performance audit, which is significantly different from financial audit and therefore requires detailed explanation in separate guidance.

Methodology

The article uses a set of general scientific methods of cognition: observation, generalization, comparison, deduction and induction, descriptive and comparative analysis.

Discussion

The activities on the development of the draft guidelines were carried out for three years by the INTOSAI Auditing Standards Committee, which included the Supreme Audit Institutions of twenty-eight countries of the world.

The preliminary draft of the manual was sent to all INTOSAI members for comments after the Committee meeting in Stockholm in 2002, after which a final draft was prepared, which was approved at the Committee meeting in Bratislava (2003) [1].

These guidelines are a comprehensive document, with detailed reflection in it of such important aspects of the performance audit as:

- 1) detailed disclosure of the concept of performance audit;
- 2) principles and standards of performance audit;
- 3) guidelines for conducting and compiling reports on the results of performance audits.

The purpose of the performance audit guidelines is to:

- 1) description of the characteristics and principles of performance audit;
- 2) assistance to the auditors of the supreme financial control authorities (SAI) specializing in the performance audit, manage and conduct the audit effectively and effectiveness;
- 3) providing a framework for best practice in performance auditing;
- 4) creating the basis for further improvement of the methodology of performance audit and professional development.

The INTOSAI Performance Audit Manual contains the best practice of implementing this type of control, but, considering the specifics of SAI of countries around the world due to differences in traditions and spheres, each control authority needs to independently decide on the

application and use of the principles set out in the manual in its system of state financial control [2].

Results

The concept of the preliminary assessment is found in international documents of the international organization of supreme financial control authorities. Thus, in accordance with the guidelines of the Lima Declaration, preliminary control is the check of administrative and financial documents carried out before receiving information about infringements that have occurred (the Lima Declaration).

This declaration indicates both the positive and negative aspects of the implementation of preliminary control of the SAI. The advantage is that this type of control leads to prevent possible infringements before they occur. At the same time, the disadvantage is the overload in the activity of the supreme control authority and uncertainty about responsibility before the law. When checking the fact, the SAI may hold liable, compensate for the damage caused, take measures to prevent infringements in the future [1].

Meanwhile, the conduct of preliminary audits depends on the legislation, conditions, and requirements for SAI in a particular country. Whereas, conducting control in fact is the direct responsibility of the supreme control authority.

Preliminary controls are mentioned in the International Standards of Supreme Audit Institutions (ISSAI). So, in the ISSAI Standard 100 (paragraph 12) it is determined that the SAI can take part not only in audits (control activities), but also in activities aimed at improving public administration.

According to the ISO 200 Standard (paragraph 2.7), SAIS can provide technical assistance to Parliamentary committees that are responsible for reviewing the draft budget. At the same time, according to paragraph 2.8 of this Standard, the SAI, in cooperation with the legislative authorities, must maintain its independence from any political influence to ensure an impartial approach to the performance of its audit duties.

Table 1

Basic principles of auditing in the public sector according to the International Standards of the Supreme Audit Institutions (ISSAI)

| Standard number | Characteristic |
|--|--|
| of ISSAI principles 100 (paragraph 12) | SAI often carries out activities that are not strictly audited, but which contribute to better management. Examples of non-audit activities may include: (a) data collection without substantive analysis; (b) legal work; (c) the information task of the elected assembly [the legislative body] with regard to the examination of draft budgets; (d) the task of assisting members of the elected assembly in conducting investigations and accessing SAI databases; (e) administrative activities; (f) computer data processing functions. These non-audit activities provide decision-makers with valuable information and should be of consistently high quality. |
| ISSAI 200 (paragraph 2.7) | Special committees established under the legislature may be responsible for examining the comments contained in the reports and special communications of SAIs in the presence of ministers, delegates from the audited services and other representatives. A close link between the legislature and SAIs can be realized through budgetary investigations and technical assistance to parliamentary committees considering draft budgets. |
| ISSAI 200 (paragraph 2.8) | SAI may provide information briefings to members of the legislature on audits conducted, but it is important that SAI maintain its independence from political influence in order to be impartial in its auditing duties. This means that the SAI should not react or give the impression that it is responding to the wishes of individual political stakeholders. |

Table 1 presents the basic principles of auditing in the public sector in accordance with the International Standards of Supreme Audit Institutions (ISSAI) issued by the international organization of supreme audit institutions (INTOSAI).

ISSAI represents the fundamental principles for auditing public sector institutions and include:

- ISSAI 100 – Basic principles
- ISSAI 200 – General standards
- ISSAI 300 – Working standards
- ISSAI 400-Reporting Standards

According to the most important among them standard ISSAI 100 (Fundamental Principles in Government Auditing), the public audit includes compliance audit and performance audit.

Compliance audit covers the following areas:

- verification and evaluation of financial statements and documentation of reporting organizations and giving opinions on financial statements;
- certification of financial accountability of public administration as a whole;
- audit of financial systems and transactions, including assessment of compliance with legislation and other regulations;
- audit of internal control and internal audit systems;
- audit of compliance with ethical principles and a good faith approach when making administrative decisions within the audited organization;

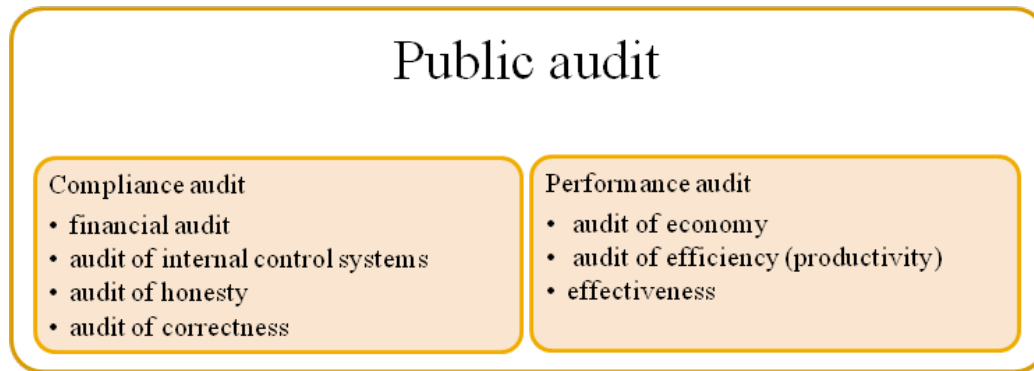


Figure 1 - Structure of the public audit according to ISSAI 100

- informing of any other matters arising out of or related to the audit that the Supreme Audit Institutions deem necessary to report.

Performance audit includes:

- efficiency of the use of human, financial, and other resources,
- the effectiveness of the management of regulation, organization, monitoring, and evaluation of state programs,
- compliance with the state program with the set goals and requirements,
- opportunities to achieve the goals of state programs in the least expensive ways.

Thus, a public audit is the check of the activity for its compliance with the formal requirements for the economy, efficiency, and effectiveness. Economy means reducing resource costs while maintaining proper quality.

The main point of efficiency is to get the greatest return on available resources. Efficiency is directly related to efficiency. The main question, in this case, is whether the resources involved are used most optimally and whether the same or similar qualitative results can be obtained with fewer resources. The issue of efficiency concerns the relationship between the quantity and quality of services provided and the cost of resources expended.

Effectiveness is the achievement of goals and objectives. Performance is primarily about the relationship between goals, objectives, results, and efforts undertaken. Will the goals be achieved through the resources expended and the actions were taken? Will the planned activities lead to the expected results of the program rather than any other consequences?

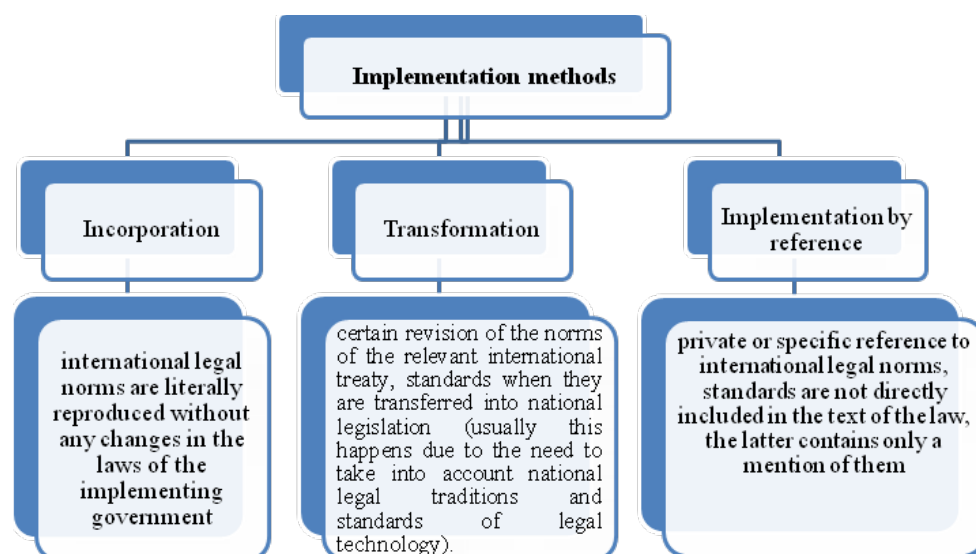


Figure 2 - Methods of implementation in the world practice

Table 2

Implementation of INTOSAI standards in foreign countries

| Country | Standards and methodological documents | Notes |
|-------------|---|--|
| Australia | AUS 806 Performance Audit AUS 808 Performance Audit Planning ASAE 3000 Performance Audit Performance audit planning and review National Audit Office of Australia | AUS - Auditing Standards ASAE- Audit Standards for Verification Works |
| Belgium | INTOSAI Standards and Guidelines INTOSAI | |
| UK | ISAE3000 is based on INTOSAI standards Performance Audit Planning, Management, NAO (UK), 1997 Performance Audit Handbook: Quality Assurance Guidelines for Conducting Performance Audits, NAO, UK, 2003 | ISAE- International Standard on Assurance Engagements |
| Germany | Audit Standards of the Institute of State Auditors German SAIS Audit Regulations (Amended September 2013) Best Practices-Efficiency / Efficient Analysis Best Practices – grants Cash expenses for construction projects | |
| Russia | (PAS 101-400) PAS 104 «Performance Audit» (Approved by the Resolution Boards of the Accounting Chamber Of the Russian Federation dated November 30, 2016) In 2013, the standard was approved: PAS 201 «Preliminary Audit of the Federal Budget Formation» | PAS- Public Audit Standards |
| Netherlands | The Court of Audit in 2010 decided to adopt INTOSAI standards, currently 80% corresponds to INTOSAI standards | NCA - Court of Audit of the Netherlands |
| USA | Standards of public audit (the so-called «Yellow Book»). | |

The question of performance evaluation consists of two parts. First, whether the goals have been achieved, and secondly, whether the results obtained are consistent with the policy.

To assess the extent to which the objectives have been achieved, evaluation criteria need to be developed. The goals of government programs are often abstract, and it is difficult to assess them. Evaluation should be carried out before the program activities and after the program.

The Supreme Audit Institutions of these countries in their activities carry out performance audits, during which the ISSAI 300, 3000, 3100

standards are essentially applied. In world practice, there are three methods of implementing world experience (Figure2):

Incorporation - in this case, international legal norms are literally reproduced without any changes in the laws of the implementing government.

Transformation - here there is a certain revision of the norms of the relevant international treaty, standards when they are transferred into national legislation (usually this happens due to the need to consider national legal traditions and standards of legal technology).

Table 3

Stages of performance audit and their content in SAIs of the studied states

| Stage name | Stage content |
|--|--|
| Audit planning | selection of the topic and object of audit; |
| | preliminary study of the object of audit; |
| | determination of audit objectives; |
| | determination of audit scope; |
| | selection of audit criteria; |
| | determination of audit approaches (methods); |
| | evaluation of the work performed within the SAIs; |
| | preparation of the audit program. |
| Audit Conducting | collect information and factual data to obtain audit evidence; |
| | develop audit evidence based on the data obtained; |
| | design and systematize audit documents; |
| | prepare preliminary conclusions based on the audit results; |
| | discuss and coordinate the audit results with the management of the audited entity |
| Report preparation | preparation of the draft report based on the audit results; |
| | approval of the draft report within the SAI and with the organization that was audited; |
| | approval of the final version of the report by the SAI management; |
| | submission of the report to the final recipients (Parliament, law enforcement agencies) |
| Control over the implementation of the proposals and recommendations | timely and systematic review of the actions of the audited organizations management for the implementation of the recommendations; |
| | evaluation of the reliability that management approved organizations measure corrects identified deficiencies; |
| | assessment of the complexity of the implementation of a proven organization recommendations based on the results of the audit; |
| | the decision on the need for further control measures under the inspection or final inspection after a certain period of time; |
| | determining a list of recommendations fully implemented proven organization. |

Implementation by reference is the private or specific reference to international legal norms, standards are not directly included in the text of the law, the latter contains only a mention of them. Thus, when implemented by reference, the application of the national legal norm becomes impossible without direct reference to the original source - the text of the relevant international treaty. When developing standards for conducting performance audits in foreign countries, the

method of incorporation or references is used. We have studied the experience of implementing INTOSAI standards in foreign countries. [3]. The results are presented in Table 2.

A comparative analysis of the existing regulatory and methodological framework for conducting an audit of the effectiveness of the studied countries reflected that the main fundamental approaches to determining the performance audit, principles, goals in the

studied countries are identical and, in general, oriented, and consistent with the ISSAI 300, 3000 and 3100 standards. As for the guidelines for conducting performance audits, the practical recommendations coincide with the stages of conducting performance audits at the same time, all available manuals do not specify certain criteria for conducting performance audits, except for the main ones - efficiency, economy, and effectiveness.

Another significant issue when conducting a performance audit is the issue of determining the efficiency criteria.

The main performance criteria as economy, efficiency, and effectiveness are discussed in ISSAI 300 and 3000. Because all the countries under study apply INTOSAI standards, similar criteria are applied in these countries [1].

It should be noted that the approach to determining the essence and economic content of these criteria, reflected in the INTOSAI standards, is applied in the methodological recommendations for performance audit developed by the Accounts Committee.

Regardless of national, legal features and experience of application in all the studied states, the performance audit consists of the following interrelated stages [4]:

- Planning;
- Execution;
- Reporting;

- Measures for the implementation of recommendations.

Table 3 shows the activities for each of the stages of the performance audit used by foreign countries.

The stages of the audit are identical in all studied countries. However, there are differences that relate only to the frequency of follow-up activities aimed at monitoring the implementation of recommendations.

Conclusion

Thus, according to the results of the study of the methodology for auditing the effectiveness of state budget planning, the following is proposed:

1. Due to the national characteristics of the Republic of Kazakhstan, the level of socio-economic development in the Republic of Kazakhstan, it is recommended to use the method of transformation of INTOSAI standards.
2. To conduct a performance audit of planning the republican budget, develop standards for conducting performance audits for planning.
3. The interpretation of the efficiency criteria should be preserved and implemented in the draft methodological guidelines for conducting performance audits for the governmental budget.
4. The performance audit for the planning of governmental budget should be carried out according to the experience of SAIs of foreign countries.

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Шет елдерде мемлекеттік бюджетті жоспарлау тиімділігі аудитінің әдіснамасы

Аннотация. Қазақстан Республикасы дамуының қазіргі кезеңінде мемлекеттік қаржыны тиімді реттеу мәселесі ерекше маңызға ие болып отыр. Бюджет реформасын жүргізуге негізделген бюджет құқығы мен бюджет жүйесінің дамуымен, бюджет процесіне нәтижеге бағытталған бюджеттік болжаудың және орта мерзімді қаржылық жоспарлаудың бағдарламалық-нысаналы әдістерін енгізу, заң шығарушы органдар мен ғылыми қоғамдастық тарапынан бюджеттік қатынастарды құқықтық реттеуге көп көңіл бөлінеді, сондай-ақ бюджет жүйесінің жұмыс істеуі, бюджет қаражатын қалыптастыру және пайдалану қағида-даттары мен тетіктерін белгілеу жөнінде ұсыныстар енгізеді.

Экономикадағы болып жатқан өзгерістер нәтижелілік және жауапкершілік сияқты бюджет жүйесінің қағида-даттарын нақты ұстану қажеттілігін қойып отыр. Жағдайды нақты бағалау, қабылданатын шешімдердің сапасын арттыру қажеттілігі қабылданған шешімдерді іске асыру процестерін басқарудағы жауапкершілікті, ішкі тәртіпті нығайтуға және мемлекеттік сектордың жұмысын бақылауға көмектеседі. Осылайша, бюджет жүйесін, бюджет процесін, бюджеттік тетіктің теориялық және заңнамалық негіздері мен жұмыс істеуінің нақты практикасын, оның ішінде жоспарлау рәсімін зерделеу ең өзекті мәселелердің бірі болып табылады.

Түйін сөздер: мемлекеттік қаржы, бюджет жүйесі, аудит стандарттары, тиімділік аудиті, Лима декларациясы, жоғары қаржылық бақылау органдары, жоғары аудит органдарының халықаралық ұйымы.

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Методология аудита эффективности планирования государственного бюджета в зарубежных странах

Аннотация. На современном этапе развития Республики Казахстан вопрос эффективного регулирования государственных финансов приобретает особую значимость. С развитием бюджетного права и бюджетной системы, обусловленным проведением бюджетной реформы, внедрением в бюджетный процесс программно-целевых методов бюджетного прогнозирования и среднесрочного финансового планирования, ориентированного на результат, со стороны законодательных органов и научной общественности большое внимание уделяется правовому регулированию бюджетных отношений, а также установлению принципов и механизмов функционирования бюджетной системы, образования и использования бюджетных средств.

Происходящие изменения в экономике ставят необходимость четкого следования таким принципам бюджетной системы, как результативность и ответственность. Необходимость реально оценивать ситуацию, повышать качество принимаемых решений помогает укреплять ответственность, внутреннюю дисциплину в управлении процессами реализации принятых решений и контролировать работу государственного сектора. Таким образом, изучение бюджетной системы, бюджетного процесса, теоретических

и законодательных основ и реальной практики функционирования бюджетного механизма, в том числе процедуры планирования, является одним из самых актуальных вопросов.

Ключевые слова: государственные финансы, бюджетная система, стандарты аудита, аудит эффективности, Лимская декларация, высшие органы финансового контроля, международная организация высших органов аудита.

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