



On approval of the procedural standard for internal state audit and financial control over the performance of the efficiency audit by internal audit services

Unofficial translation

Order of the Minister of Finance of the Republic of Kazakhstan dated October 2, 2018 № 873 . Registered with the Ministry of Justice of the Republic of Kazakhstan on November 5, 2018 № 17690.

Unofficial translation

In accordance with subparagraph 2) of paragraph 2 of Article 8 of the Law of the Republic of Kazakhstan "On State Audit and Financial Control" **I HEREBY ORDER:**

Footnote. The preamble as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).

1. That the attached procedural standard for internal state audit and financial control over the performance of the efficiency audit by internal audit services shall be approved.

2. Pursuant to the procedure set by the legislation, the Department of Accounting and Audit Methodology of the Ministry of Finance of the Republic of Kazakhstan (Bekturova A. T.) shall:

1) provide the state registration of this order with the Ministry of Justice of the Republic of Kazakhstan;

2) within ten calendar days from the date of state registration of this order, direct a copy of it in electronic form both in Kazakh and Russian languages to the Republican State Enterprise on the Right of Economic Management "Republican Center of Legal Information" of the Ministry of Justice of the Republic of Kazakhstan for official publication and inclusion in the Reference Control Bank of Regulatory Legal Acts of the Republic of Kazakhstan;

3) post this order on the Internet resource of the Ministry of Finance of the Republic of Kazakhstan;

4) within ten working days after the state registration of this order with the Ministry of Justice of the Republic of Kazakhstan, submit the information on the implementation of measures envisaged by subparagraphs 1), 2) and 3) of this paragraph to the Legal Department of the Ministry of Finance of the Republic of Kazakhstan of

3. This order shall enter into force upon the expiry of ten calendar days after the day of its first official publication.

*Minister of Finance
of the Republic of Kazakhstan*

A. Smailov

"AGREED"

Chairman of the Accounts Committee
for Control over Execution of
the Republican Budget

_____ N. Godunova

" ____ " _____ 2018

Approved
by order № 873 of the Minister
of Finance of the
Republic of Kazakhstan
of October 2, 2018

Procedural standard for internal state audit and financial control over the performance of the efficiency audit by internal audit services Section 1. General provisions

1. This procedural standard for internal state audit and financial control over the performance of the efficiency audit by internal audit services (hereinafter referred to as the Standard) is developed in accordance with subparagraph 2) of paragraph 2 of Article 8 of the Law of the Republic of Kazakhstan "On State Audit and Financial Control (hereinafter referred to as the Law).

Footnote. Paragraph 1 as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).

2. The purpose of the efficiency audit performed by the internal audit services (hereinafter referred to as the IAS) shall be the formation of an independent, competent and objective assessment of the activities of the entity subject to state audit and the formation of recommendations for:

rendering assistance to the entity subject to state audit, state bodies, as well as other recipients of budgetary funds who are involved in managing and administering of the activity of this audited entity and (or) the trails of the state audit, in overcoming existing and / or potential system problems, deficiencies and violations;

improving efficiency, enhancing transparency and accountability of management and administration of the activities of the entity subject to state audit and (or) in the relevant direction of the state audit.

Footnote. Paragraph 2 as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).

3. For the purpose of these Standards, the following basic concepts shall be used:

1) working papers - documents reflecting the results of the performed audit procedures, as well as the audit evidence obtained and the conclusions made by the state auditor;

2) the efficiency of the use of financial and material resources - the ratio between the results of the performance of the entity subject to efficiency audit and the material and financial resources used for their production;

3) the effectiveness of the use of financial and material resources - the degree of compliance of the results of the performance of the entity subject to efficiency audit with the planned results;

4) expert - an individual or legal entity possessing special knowledge in the field of state audit, and (or) activities of the entity subject to state audit;

5) the economical use of state-owned property — the achievement by the entity subject to efficiency audit of the planned results using the smallest amount of budget funds and the state-owned property;

6) risk - the probability of an adverse effect of any factor on the entity subject to efficiency audit (action or event) that may lead to financial loss, damage, inability to implement the assigned function or program while ensuring the effective use of financial and material resources;

7) efficiency - the ratio of the results obtained to the planned ones, taking into account the resources used to achieve them;

8) efficiency audit indicators - absolute, qualitative, quantitative, relative or dynamic indicators, which are a criterion for assessing the achievement of goals or planned results in terms of efficiency, economy, productivity and effectiveness;

9) a system of internal control - a set of policies, processes and procedures, standards of conduct and actions of the entity subject to efficiency audit in order to ensure effective performance, allowing appropriate response to significant risks in terms of achieving the goals set before the audited entity, as well as the tasks, imposed on it in terms of efficiency, economy, productivity and effectiveness of the entity subject to the state audit.

Other concepts used in this Standard shall be applied within the meaning determined by the Budget Code of the Republic of Kazakhstan of December 4, 2008, the Law and other legislation of the Republic of Kazakhstan.

Footnote. Paragraph 3 as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).

4. All activities shall be subject to the efficiency audit:

in the state body, its departments, territorial divisions, subordinate organizations - for the IAS of the central state bodies, with the exception of the IAS of the National Bank of the Republic of Kazakhstan;

in executive bodies financed from local budgets and located in the territory of administrative subordination of the relevant region, cities of republican significance, the capital, their subdivisions, subordinate organizations - for the IAS of local executive bodies of regions, cities of republican significance, the capital.

Footnote. Paragraph 4 as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).

5. State auditors shall carry out effective communications throughout the process of conducting a state audit with officials responsible for conducting an audit event.

6. This Standard shall determine the sequence of actions of a state auditor in the process of performance of the efficiency audit and shall apply to officials of the IAS, assistants to the state auditor, individuals and legal entities involved in the performance of a state audit.

Footnote. Paragraph 6 as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).

7. The efficiency audit shall be carried out using a horizontal or vertical approach.

The horizontal approach shall imply the implementation of audit activities at several entities subject to state audit, which belong to the same level of government or are financed from the budget of the same level.

The vertical approach shall imply the implementation of audit activities at several entities subject to state audit, which belong to different levels of government or financed from budgets of different levels.

8. The selection of entities for the efficiency audit or a separate direction of its activity, shall be carried out on the basis of the analysis of the implementation of the development plan of the state body and the territorial development programs in conjunction with budget expenditures and the results of the performance assessment of the state body's activities conducted in previous years, the analysis of the results of the corporate governance assessment, management of state property, performance of indicators of the operational plan, budget programs, instructions of the head of a state body or akim of the region, cities of republican significance, the capital, appeals of legal entities and individuals, and other information.

The IAS shall carry out functional analysis of the implementation by the entity subjected to state audit of its functions, goals and objectives, set for the designated expected period, types of statutory activities (for quasi-public sector), their efficiency and effectiveness.

Footnote. Paragraph 8 as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).

9. When performing the efficiency audit, the steps, stipulated by the Rules of Internal State Audit and Financial Control by the Services of Internal Audit (hereinafter referred to as the Rules of Internal State Audit), approved by Order № 392 of the Minister of Finance of the Republic of Kazakhstan of March 19, 2018 (registered in the Register of State Registration of Regulatory Legal Acts under № 16689), shall be observed.

10. Working papers shall serve as a source of information and evidence of the results of the work performed by the state auditor.

Section 2. Organization of the efficiency audit Chapter 1. Preliminary study and planning of the efficiency audit

11. At the stage of preliminary study the group of state audit shall study (assess):

1) regulatory legal acts regulating the subject of a state audit or the activity of the audited entity;

2) the development plan of the state body, the program of development of the territories, the results of the assessment of the effectiveness of the activities of the state body, the performance of the indicators of the operational plan, budget programs, as well as other information;

3) goals, objectives and policies applied on the subject of a state audit or in the activities of the entity subject to state audit;

4) business processes, organizational structure, internal and external environment of functioning on the subject of state audit or in the activities of the entity subject to state audit;

5) internal systems of control for the subject of a state audit or in the entity subject to state audit, including information systems and systems of internal control and audit;

6) the reporting system applied on the subject of a state audit or by the entity subject to state audit;

7) upon the availability of the results of the previous state audit conducted by the external and internal state audit bodies, as well as the results of the control (supervision) conducted by the control and supervision bodies, measures taken by the entity subject to the state audit;

8) external sources of information (official statistics, materials of research institutes dealing with problems related to the subject of the program, mass media, information databases of the audited entity);

9) availability of primary information and other restrictions associated with conducting of audit procedures at subsequent stages of the efficiency audit.

Footnote. Paragraph 11 as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).

12. In order to ensure the quality of the efficiency audit, an analysis and assessment of the functioning of the system and means of internal control of the entity subject to state audit shall be made in the context of interrelated components defined by Article 57 of the Law.

For the selection of entities subject to efficiency audit or the separate area of its activities, a risk-oriented approach shall be applied, with the analysis and risk assessment associated with the achievement of the objectives of the organization and determining appropriate responses, where the following criteria shall be taken into account:

1) universal risks;

- 2) risks associated with external and internal factors, both at the level of the organization and at the level of activities;
- 3) assessment of the significance of the risk;
- 4) an assessment of the probability of risk occurrence;
- 5) assessment of the organization's readiness to accept risk;
- 6) development of the risk response actions;
- 7) availability of the control tools for detection or prevention;
- 8) additional criteria for state audit and financial control, determined by the state auditor on the subject of the efficiency audit.

13. Objectives, indicators, issues of the efficiency audit, approaches and methods for the performance of the efficiency audit shall be determined, whereas audit risks and ways of managing these risks shall be assessed, based on the preliminary study, analysis and evaluation of information on the subject of a state audit or on the activities of the entity subject to state audit.

14. On the basis of data from a preliminary study of the entity subjected to the state audit, the head of the state audit group shall develop a plan for the conduct of an internal state audit (hereinafter referred to as the audit plan), which includes the duration of the audit, the necessary resources, the entities subject to the state audit and its routes.

The nature and scope of the work on planning the efficiency audit shall depend on the size and complexity of the organizational structure of the entity subjected to state audit, the objectives of the state audit, and understanding the special aspects of the activities of the entity subjected to state audit.

The efficiency audit shall be carried out by the officials of the IAS, the level of professional knowledge, skills and experience of whom in summation, correspond to the nature, scale and complexity of the state audit.

State auditors shall take into account the main aspects of the significance of the work ahead, including such quantitative and qualitative factors as the objective, scale, subject and indicators of the efficiency audit.

Footnote. Paragraph 14 as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).

15. The indicators of the efficiency audit shall correspond to the following characteristics:
- 1) applicability - indicators are related to the purpose and issues of the efficiency audit;
 - 2) acceptability - the indicators are consistent with the requirements of the law or the opinion of independent experts;
 - 3) reliability - indicators are applicable by state auditors under similar circumstances to form similar conclusions, final statements and recommendations;
 - 4) objectivity - indicators are not biased and are based on complete and reliable information;

5) completeness - indicators are sufficient to achieve the goal of the efficiency audit;

6) usefulness - the use of indicators provides the identification of facts (data) for the formulation of reasonable conclusions, final statements and recommendations for improving the results of efficiency;

7) clarity - the indicators are formulated very briefly, contain a clear and not subjected to divergent interpretation.

16. When developing the indicators of the efficiency audit, the following risks shall be taken into account:

1) subjectivity - development of indicators if the information is incomplete and biased and in the absence of a comprehensive study of the area being inspected, the scope (area), including due to the lack of regulatory and methodological base and experience in the area being inspected (area);

2) the absence of independent expert opinion, qualified specialists in the industry, independent highly specialized experts, scientific developments;

3) the impossibility of quantitative and qualitative measurements of performance indicators due to the specifics of the scope (area) of the efficiency audit;

4) the lack of standards in the activities of the entity subjected to state audit, when performing an audit in a new area.

When developing the indicators of the efficiency audit, it shall be allowed to use the efficiency criteria and indicators in compliance with the methodologies developed to implement the System of Annual Efficiency Evaluation of Activities of Central State and Local Executive Bodies of Regions, Cities of Republican Significance and the Capital, approved by Decree of the President of the Republic of Kazakhstan № 954 of March 19, 2010

17. In order to ensure the compliance of indicators of the efficiency audit with the requirements set forth in paragraphs 15 and 16 of this Standard, the indicators of the efficiency audit shall be discussed with officials of the entity subjected to state audit and, if necessary, the experts shall be invited.

18. An adjustment or development of new indicators of the efficiency audit shall be allowed at subsequent stages of an audit event, if there are properly-prepared audit evidence with the compulsory inclusion of relevant references into audit documentation.

19. The planning process shall take into account the information obtained on the activities of the entity subjected to state audit through a continuous process of collecting and processing information. The information obtained at the subsequent stages of the efficiency audit shall complement the data obtained at the preparatory stage.

20. The audit program shall be drawn up taking into account the requirements of the Rules of Internal State Audit, which contains the indicators of the efficiency audit and detailed issues for each of the indicators.

The issues of the efficiency audit shall be the specification of the audit goal and shall provide a logical connection with the indicators of the efficiency audit.

Evaluation of the operation of the systems on business process management on the subject of the efficiency audit, evaluation of the achievement of planned results, analysis of the reasons for the failure to achieve the estimated results on the subject of the efficiency audit and their consequences shall be the compulsory issues included into the efficiency audit program.

21. The audit assignment shall contain specific program issues to be covered during the audit event, the timing of their consideration at each entity subjected to state audit, distributed among the participants of the audit group.

The control over the implementation of the audit assignment shall be imposed on the head of the state audit group.

Chapter 2. Audit procedures

22. The efficiency audit shall be carried out in the manner determined by this Standard and the Rules on the Internal State Audit.

23. The procedure for conducting the efficiency audit shall represent thorough and detailed examination of internal processes (business processes) in accordance with the purpose and subject of the audit to identify risks and evaluate them, as well as to collect sufficient and appropriate audit evidence that will be the basis for the findings and recommendations of the audit.

24. In order to obtain sufficient and appropriate evidence, state auditors shall conduct the following audit procedures:

- analysis of the studied documentation on the subject of efficiency audit;

- evaluation of the operation of the system of internal control of the entity subjected to state audit, in the direction of the subject of the efficiency audit;

- interview (survey) with persons related to the subject of the efficiency audit (officials of the entity subjected to state audit, contractors, recipients of government services and other natural or legal persons);

- observation and inspection (observation of a process or procedure performed by others);

- analytical procedures (comparing information for periods, comparing indicators of elements of financial statements, studying the relationship between the data of indicators of financial and non-financial information for the audited period, studying the relationship between elements of the subject of the efficiency audit);

- Inspection (verification of internal or external records, or documents, in paper or electronic form, or on other media, which provides audit evidence of varying degrees of reliability (depending on the nature and source));

- request and confirmation (in addition to other audit procedures, in the form of an oral or written request);

recalculation (verification of the arithmetic accuracy of documents or records);

repeated execution (control actions of the state auditor in relation to the management and employees of the entity subjected to state audit concerning the control tools used by them).

State auditors shall ensure the openness and clarity of audit procedures performed at all stages of the performance audit.

25. Based on professional judgment, state auditors shall conduct the efficiency audits in the manner that reduces the risk to an acceptable level, ensuring reasonable confidence in the sufficiency, acceptability and reliability of audit evidence.

26. When conducting the efficiency audit, audit evidence shall be analysed by a state auditor in compliance with the subject and purpose of the efficiency audit.

27. Professional judgment shall be used in determining the nature, type, method of collecting and ensuring the quality of the audit evidence collected that serves as the basis for the conclusions, final statements and recommendations of the bodies of state audit and financial control.

Chapter 3. Systematization of the revealed facts and preparation of the audit report

28. The revealed facts on the subject of the efficiency audit shall be evaluated for the compliance with the indicators of the efficiency audit.

The person responsible for the audit event and the members of the performance audit group shall hold a joint discussion of the results, with the participation of representatives of the entity subjected to state audit and (or) other organizations involved in managing the activities of the audited entity, and systematizing them by:

1) ranking of the revealed facts according to relevancy and significance;

2) finding out whether facts are a fragmentary case or are a sign of a systemic problem

;

3) clarifying the awareness of the management of the entity subjected to state audit on the revealed system problems and determining the necessity for other parties to participate in removing the revealed shortcomings and implementing recommendations for improving the performance of the entity subjected to state audit;

4) determining the causes of occurrence and the influence of the identified facts on the subject of the efficiency audit or the activities of the entity subjected to state audit.

Systematization of the identified facts shall imply their correlation with the corresponding indicators of the efficiency audit and the issues of the efficiency audit.

29. The facts revealed during the performance audit shall be the evidence of:

1) highly efficient activity (there are positive deviations of the actual values characterizing the subject of the efficiency audit or the activity of the entity subjected to state audit from the indicators of the efficiency audit);

2) effective activity (the actual values characterizing the subject of the performance audit or the activity of the state audit object correspond to the performance audit indicators);

3) inefficient activity (there are deviations for the worse of the actual values characterizing the subject of the efficiency audit or the activity of the entity subjected to state audit from the indicators of the efficiency audit).

30. Each revealed fact shall be confirmed by reliable and sufficient audit evidence. The information generated from the audit event shall include answers to the issues of the Audit Program and, if necessary, an audit opinion regarding the causes and consequences of deviations from the performance audit indicators.

31. The audit report shall be formed taking into account discussions with representatives of the entity subjected to state audit and (or) other organizations involved in the management of the entity subjected to state audit, according to the form in Appendix 7 to the Rules of the Internal State Audit.

32. The audit report prepared on the basis of the efficiency audit, shall necessarily contain an assessment of the compliance with the indicators of the efficiency audit and concise answers to all the issues of the efficiency audit.

33. Findings and conclusions included into the audit report shall contain the results of the cause-and-effect analysis, including the reasons of inefficiency in the activities of the entity subjected to state audit, and the consequences of deviations from the indicators of the efficiency audit, taking into account the absence of the need to refer to the norms of regulatory legal acts when describing deficiencies, problems, risks of failing to achieve results and committing violations and other information, as well as the need to reflect the identified reserves to improve the subject of the efficiency audit or the activities of the entity subjected to state audit.

34. The audit report shall include both identified violations and (or) shortcomings, as well as positive achievements in the subject of the efficiency audit or in the activities of the entity subjected to state audit.

Chapter 4. Drawing up the report on the results of the internal state audit and monitoring over the implementation of recommendations

35. The compilation and submission of the internal audit report shall be a key stage of the efficiency audit, through which the IAS assists the improvements in the studied area of public administration and (or) the activities of the entity subjected to state audit.

Footnote. Paragraph 14 as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).

36. The report on the results of the internal audit, the decision (executive order) on elimination of violations and consideration of recommendations shall be drawn up and sent to the entity subjected to state audit in the manner and within the time provided for by the Rules for Conducting the Internal State Audit.

37. Monitoring of documents adopted on the basis of the results of the performance audit shall be carried out in the manner prescribed by the Law and the Rules for Conducting the Internal State Audit.

38. If necessary, the IAS shall carry out an audit event on the implementation by the entities subjected to the state audit of recommendations formed on the basis of the efficiency audit conducted for a certain period of time.

The state auditors who were directly involved in the efficiency audit and (or) other state auditors of the IAS shall be involved in the performance of audit and analytical procedures for the implementation of the results of the efficiency audit.

Footnote. Paragraph 38 as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).

39. Within five working days from the date of receipt of information (supporting documents) from the entity subjected to state audit, the person responsible for conducting an audit event shall monitor the implementation of recommendations for the timeliness and completeness of their implementation by the entity subjected to state audit.

In the case of full consideration of recommendations and elimination of violations by providing compensation to the budget, restoring by performing work, providing services, supplying goods and (or) reflecting of the revealed amounts of violations on the account, as well as bringing the guilty persons to responsibility, a certificate of completion of the audit event shall be drawn up pursuant to the form approved by the Rules for Conducting the Internal State Audit, and signed by the head of the group of state audit.

Footnote. Paragraph 39 as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).

40. The head of the IAS shall report to the head of the central state body or akim of the region, cities of republican significance, the capital on the results of the efficiency audit and the influence of implemented recommendations on the internal procedures, business processes for the enhancement of operating efficiency, achievement of direct and final results of the entity subjected to state audit.

Footnote. Paragraph 40 as amended by the Order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated 18.09.2023 № 989 (shall be enforced upon expiry of ten calendar days after the day of its first official publication).