

# State Controlling as an Efficient Management Tool of the Republic of Kazakhstan Economy

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Received: November 14, 2014 Accepted: February 24, 2015 Online Published: May 22, 2015

doi:10.5539/ass.v11n14p104

URL: <http://dx.doi.org/10.5539/ass.v11n14p104>

## Abstract

This article defines the principal directions for the improvement of the state controlling over the application of public funds. It is a transition from the cost budgeting method to the result-oriented budgeting (ROB) and improvement of financial control by means of introduction of the performance audit tools.

**Keywords:** economic development, financial resources, budget and fiscal policy, state control, controlling over the application of public funds, fiscal audit, performance audit

## 1. Introduction

The present-day stage of social and economic development of the Republic of Kazakhstan is characterized by instability of the world financial system, by continuing crisis of the global economy and by intensification of grand challenges connected to the advance of geopolitical dangers. The author mentions that an efficient development of the Republic of Kazakhstan economy requires a transition to a more active budget and fiscal policy, oriented first of all on the achievement of the results and not on the costs. Controlling over the application of public funds aimed at the improvement of the public financial resources management plays a significant part in this process.

The existing system of the public financial control has a primary aim of detection cases of rules violation and of improper use of the budget resources by means of multiple inspections conducted in order to punish violators.

The problems of a system phased approach to the restructuring of the existing system of the public financial control are being actively discussed today in the Republic of Kazakhstan. Regulatory framework is being formed and developed in accordance with international standards and best practices; the unified methodological and procedural frameworks are being created; organizational system of the public financial control is being improved.

The main outcome of the conducted work is supposed to be the switch of the public financial control to international audit standards, the creation of institutional and methodological framework of government control over the application of public funds, and also the raise of efficiency and transparency of controlling and analytical activity of government authorities.

However, regardless the implemented measures, the problem of creation of the public financial control system that would be unified, plainly structured in status, functions and competencies and the problem of its improvement are still topical.

## 2. Methods

Public financial control is subdivided into external and internal.

An internal public audit is aimed at the control over the achievement of final results of public authorities' activity, over the accuracy and authenticity of financial accounting, over the efficiency of public institutions, over the abundance by budget legislation. In the narrow sense internal audit predetermines the practical inspection of the process program of managing public funds, human, physical and other resources by every executive.

The major purpose of external audit is to control that national resources are efficiently used for the improvement of the population life quality and for the maintenance of national security. Broadly defined the external audit covers the legal power of the country's government to control and to estimate the implementation of the national budget.

Control activities are held in the form of inspections and monitoring which could be integrated or subject, total or selective, field or office (applicable only for monitoring).

Inspection is an integrated (complete or selective) study of primary accounting documents. It does not include studying of supplemental materials: other reports about financial and operating activities, indirect data about the subject under examination (up to the information from media or the Internet), interviews with representatives of the subject under examination and with invited experts. But these very methods start to play the more important part in the activity of supervisory authorities. It is important not only to elicit and to record the particular violations, but also to understand their reasons and to formulate the guidelines for their correction.

Monitoring is a less strict form of a control activity that allow introduction of supplementary information into the research.

The more modern method of financial control is being used lately, it is audit. It includes more analytical work and has some significant distinctions from the inspection and from the monitoring as well. The organization and processes of application of public funds, results of their application, activity of the institutions that use public funds are subjected to the examination and analysis during the performance audit.

### 3. Results

The level of life has increased due to the fast economic growth of the last years that relies on high oil prices and its production volume. However the present-day international situation characterized by intensification of grand challenges connected to the advance of geopolitical dangers, continuing crisis of the global economy and instability of the world financial system has a negative influence on the economic growth of the Republic of Kazakhstan.

Economic growth slowdown from 6.0% in 2013 to 4.7% in 2014 is predicted because of the decrease of internal and external demand especially in Russia, China and Europe, of continuing tension in the region and because of the reduction of oil prices (Table 1).

Table 1. Individual economic indexes, 2011–2015

Index	2011	2012	2013	2014	2015
Growth of real GDP	7.5	5	6	4.7	4.8
Budget balance of National Administration Sector, % to GDP	5.9	4.5	5.2	4.3	4.1
Debt of National Administration Sector, % to GDP	10.4	12.4	13.3	13.6	14.3
Trade balance, in % to GDP	23.8	18.7	15	15.7	13.2
External debt, in % to GDP	66.6	67.3	66.3	73	74.3
Consumer-price inflation	8.3	5.1	5.8	6.9	6.1

The decrease of the total budget balance from 5.2% GDP in 2013 to 4.3% GDP in 2014 and 4.1% GDP in 2015 is expected. The reason is an economic growth slowdown and significant buffer funds.

It is also worth mentioning that despite some increase of national and external debt in the forecast period these indexes remain at the safe level that affirms quite stable debt situation of the region.

Exacerbation of the Russia-Ukraine crisis and further reinforcement of sanctions against Russia give rise to external dangers of progressive economic advance of the Republic of Kazakhstan in the short-run. Kazakhstan is quite vulnerable because of the close relations with Russia (especially in the Customs Union) and also because of potential secondary effects in Europe caused by gas export from Russia.

As for the domestic market the basic dangers here is a retraction or a delay of implementation of structural reforms aimed at the encouragement of economic growth and in particular of the reforms ensuring the market stability including reforms that concern enterprises management and competitive capacity of universities.

The excessive inflationary pressure is expected in the region and according to the forecasts the inflation will rise from 5.8% in 2013 to 6.9% in 2014, mainly because of the decline in nominal exchange rate/depreciation of currency and advance of food supplies prices. If the inflationary pressure remains the same the nation's leadership will have to take measures for strengthening and modernization of monetary policy. For that purpose it is necessary to control monetary market operations and liquidity more effectively. It is also necessary to possess clearly defined directory rate, to intensify macroeconomic analysis and forecasting and to increase the quality of regular informational reports about the policy direction.

Nursultan Nazarbaev the President of Kazakhstan has declared about the beginning of an extensive economic program in his message to the people of the republic in November 2014. The National Fund is going to allocate up to 3 billion dollars annually for the period from 2015 to 2017 for the economy development and for realization of structural reforms.

In the nearest 3-5 years the National Fund and multilateral development banks could provide up to 7% of GDP budgetary support. This support is expected to increase the economy potential by means of infrastructure modernization, encouragement of the private sector and activating of financial sector.

The country's government has to ensure accurate and concerted work, efficient application of the resources allocated by the National Fund for the economy development. A commission specially appointed by the president will exercise control over the efficient application of these resources.

The qualitative state management should become one of the supporting factors of the sustainable economy development, of the population life quality improvement and of the advance of the country's competitive capacity in general.

Gradual integration into the world community requires the advance of competitive capacity of the government authorities. In this regard the upholding of national interests requires more efficient budget funds management and reinforcement of the financial and executive disciplines in the country.

Efficiency of the state financial control could be ensured only in case if it is represented by effectively functioning bodies. The main function of the financial sphere is imposed on the Counting Committee of the Republic of Kazakhstan that conducts the audit of the budget funds expenditure.

The Law of the Republic of Kazakhstan "about the introduction of changes and additions to some legislative acts of the Republic of Kazakhstan concerning the questions of improvement of the external state financial control" was passed at the end of June 2011.

According to provisions of the law there were created audit committees as independent state institutions in regions and cities Astana and Almaty. These committees report to maslikhats of the corresponding administrative-territorial entities and conduct external state financial control at a local level.

This law is aimed at the improvement of the efficiency and quality of the held control activities, at the involvement of professionally trained and highly-skilled specialists, at the elimination of the direct dependence of audit committees from the local authorities, at the optimization of national revenues, at the increase of efficiency of reporting to maslikhats and finally at the improvement of local financial discipline.

The draft law "about public audit and financial control" was introduced to the Parliament of the Republic of Kazakhstan in December, 2013. This law covers the questions of cooperation between public audit bodies and public financial control bodies that include:

- creation of the common material database for public audit and public financial control;
- creation of the risk management system based on the unified principles and approaches;
- information distribution by means of the informational system of legislative statistics bodies regarding the inspections of public audit bodies and public financial control bodies;
- mutual recognition of audit reports.

However it is worth mentioning that the existing system of public control is far from perfect and does not completely correspond to the needs of a management process. For example, the existing control system does not include preventive measures of violations in the budget process and of the inefficient use of budget funds.

Traditional public financial control over the budget implementation by public financial control external authorities in the Republic of Kazakhstan is exercised by methods of the financial audit.

However according to the experience of the developed countries the conduction of the financial audit is not an effective method of control over the efficiency of budget funds. This method does not give the opportunity to evaluate the application of public funds and the efficiency of budget funds application by the executive authorities in the long time lag.

Financial audit conducted by the Counting committee of the Republic of Kazakhstan indicates that the country's economy suffers significant losses because of the low financial and budget discipline. There are some data characterizing this process in the Table 2.

Government authorities make systemic violations of the requirements of the budget and other legislations, they also fail to achieve some indexes of strategic and policy documents.

Absence of the appropriate coordination of efforts of primary government authorities and of local executive boards to the fulfillment of the strategic plan results in inefficient application of allocated transfers. For example, in the year 2013 43.2 billion tenge of the nation budget remained undrawn, 62.6 billion tenge from the budget were not used by the subjects of the so-called public sector, 26 billion tenge of allocated transfers were returned in the revenue of the national budget.

Table 2. Indexes of the detected financial violations in the Republic of Kazakhstan during the 3<sup>rd</sup> quarter of 2013-2014

Index	3 quarter of 2013	3 quarter of 2014	dev. in %, times
Volume of funds under control	495 716.4	410 467.6	- 17.2%
Total amount of the detected violations, among them:	79 545.9	167 559.8	+2.1 times
- financial violations	51 569.6	133 627.4	+2.6 times
- procedural violations	27 976.3	33 932.4	+ 21.3%
Number of the detected procedural violations,	53	221	+4.1 times
Sum of the detected financial violations per 1 object (without violations at objects under moratorium and without procedural violations)	613.9	2 905.0	+4.7 times

#### 4. Discussion

Today in the Republic of Kazakhstan there are no uniform approaches to the organization of the activity and to the recording of received results there is no integral system of the public control authorities. This results in the growth of an administrative load on the subjects under control and in the intensification of duplication elements followed by the fail to drastically increase the efficiency of budget funds application in the country. Little attention is paid to finding reasons for financial violations, to the studying of problems during planning and application of the budget.

Besides there is a lack of the statistical information required for the objective and comprehensive diagnostics of the financial and economic situation in the country. The most problematic spheres are: the Republic of Kazakhstan balance of payment statistics, money and credit statistics, budget statistics scope and also national accounts. Official statistics of Kazakhstan as well as of many other countries does not include the important parts of the public sector. Budget accounts of the Kazakh government include transactions of the national government and of local authorities but does not include non-budgetary funds (RKNF as well) and transactions of NP sector.

At the same time official authorities take into consideration the necessity of the accurate monitoring of some quasi-fiscal operations. In this context recently there were two important political changes. First of all it is the introduction of monitoring facilities over the upper limits of an external debt of the bigger public sector. Secondly it is the foundation of “Bayterek” (national development group with total assets for about 6 percents of GDP) for the purpose of separation of quasi-fiscal and commercial operations in the NP sector. Despite these improvements the increase of budget scale is of primary importance for the conduction of fiscal policy based on the complete information.

The new administrative model requires the comparison of financial resources application vector with the permitted deviation from the desired course of transformations. This model is embodied in the controlling concept or in other words in the integrating and coordinating administrative system that provide methodological and tool support of the decision making.

The creation of the controlling system of public funds is conditioned by the present political and economic reforms that are aimed at the significant improvement of the population life quality and at the control of corruption in the sphere of budget funds application.

Controlling is a scientific discipline studying the development of theoretical and methodological basis for the technologies of control over social and economic systems.

The object of the controlling study are methods, techniques and tools of the economy, planning, recording and accounting, control, analysis and formulation of administrative decisions.

The subject of controlling is theory, methods and tools of measurement in social and economic systems for administrative purposes (Measurement aspects: resources, functional areas, processes, administration system elements).

Experience of the controlling system implementation at the micro level proves that controlling facilitates the solving of problems common for all administrative spheres – at the enterprises, in regions, at the industrial level, on the national economy scale. Therefore the task is to define the directions of the controlling method adaptation to the conditions of national administration of economy.

In the context of national administration this notion has the following definition: controlling is a complex system of analysis and evaluation of the efficiency of public funds application based on the computer data accumulation and processing that promotes administrative decision making.

Controlling over the application of public funds aimed at the increase of efficiency of public financial funds administration is of primary importance in the modern conditions of the Republic of Kazakhstan economic development.

The primary goals of the controlling over the application of public funds in the Republic of Kazakhstan are:

- Optimization of public funds management process;
- Enhancement of the role of public finances in the management system of economic and social processes;
- Rise of the authority's responsibility for the results of its activity.

The basic functions of the controlling over the application of public funds are:

- Expert and analytical – studying of interaction between social and economic processes and public finances management;
- Controlling and analytical – internal and external control over the programs implementation;
- Synthetic – formulation of recommendations according to the results of activities held.

Introduction of the controlling system over the application of public funds is aimed at increase of budget expenses efficiency. Principal directions for the improvement of the Republic of Kazakhstan controlling system should be the following:

- 1) Transition from the cost method of budget formation to result-oriented budgeting (ROB).

Adoption of the plan of the Republic of Kazakhstan strategic development before the year 2020, introduction of the result-oriented budgeting and transition of the national authorities to International standards of financial accounting in the public sector needs the improvement of the activity of the public financial control authorities, including the implementation of international audit standards and of a more extensive use of the advanced international experience. These conditions impose the biggest importance on the efficient activity of the public financial control authorities on the analysis and evaluation of the correctness and efficiency of application of the budget funds and national assets.

ROB model presupposes an objective approach to the budget preparation. Management by objectives is one of the most efficient methods of public finances management and of handling the systemic problems of the society. Provided that the opportunities for budget revenues growth are limited it is impossible to constantly increase the budget expenses. That is why while preparing the budget it is necessary to take measures for the increase of budget expenses efficiency.

Transition to the preparation and implementation of the “objective budget” is included in the Concept of the new budget policy of the Republic of Kazakhstan, accepted in June 2013. The legal basis for the transition to the result-oriented budgeting was laid in the new Budget Code of the Republic of Kazakhstan that was accepted in 2008.

Today the necessary regulatory and legal framework is still in the process of development, it is being approbated in order to introduce changes to some managerial processes. The disadvantage of this variant is an increasing volume of work caused by two forms of budget preparation – traditional and objective. The objective budget has a new planning tool in its basis that is national programs (NP).

Taking into account the transition to objective budget the Republic of Kazakhstan Counting Committee, Financial Control Committee of the Republic of Kazakhstan Treasury Department give preferences to the conduction of the performance audit using such methods of public financial control as monitoring and efficiency evaluation.

In general we can make a conclusion that objective budgeting and transition to the development and implementation of NP is a reasonable continuation of the undertakings for the budget expenses efficiency increase and promotes the ideas of ROB. NP favors the competition for budget funds and increases the government responsibility for their implementation.

## 2) Improvement of the public financial control system.

The result-oriented budgeting (ROB) conditions the necessity to step outside the bounds of control over the distribution and accounting of budget funds (fiscal audit), because it is not enough anymore for the effective state management. Budget expenses control priorities shift from the control over the targeted use of funds to the control over the implementation of target indexes of social and economic efficiency.

The performance audit which is popular in economically developed countries is one of the methods aimed at the improvement of administrative authorities' activity, increase of their efficiency and quality of work. Financial control over the efficiency of expenditure of budget funds and public property that is called "performance audit" began its development in the public financial control of the developed countries in the 70<sup>th</sup> of the last century.

The performance audit has a purpose to check the efficiency and productivity of the national policy. Its primary task is not so much the revealing of financial violations as the determination of a significant result from the use of public funds and the formulation of recommendations for the improvement of the budget process and the existing legislation.

The performance audit provides objective, transparent and reliable information about work of public authorities, it gives opportunity to formulate the useful recommendations regarding the increase in efficiency of public finances management.

The performance audit includes economy, productivity and efficiency audit: economy is related to the cost minimization, productivity is related to gaining the maximum volume of production/services with the given resources, and efficiency is related to the achievement of set tasks and goals.

Introduction of the efficient systems of financial control and audit in the Republic of Kazakhstan will become a hindrance for the expansion of bribery; will increase the level of the society awareness about anti-corruption measures. The performance audit will give opportunity not only to register corruption incidents but will also help to prevent them. That is why the large-scale implementation of the performance audit as a powerful anti-corruption and management tool is of great significance for the development of the federal anti-corruption strategy in the Republic of Kazakhstan.

In order to achieve this result it is necessary to improve the regulatory control over the performance audit and to exclude contradictions between regulatory and legal documents and methodology of its conduction on national and regional levels.

Today the conduction of the performance audit is inevitably connected to a number of legal difficulties and also to problems conditioned by the existing practice of the public and municipal financial management in the Republic of Kazakhstan. It is necessary to make a detailed regulatory and legal framework, detect and remove defects of the existing legislation and also to conduct anti-corruption examination of the corresponding documents if required.

## 5. Conclusion

According to the global experience controlling over the application of public funds is an effective tool of the state management of the country's economic development. Efficient controlling over the application of public funds ensures the protection of the society financial interests and provides the citizens' welfare and stability of the government.

In order to solve the long-standing problems of the social and economic development of the Republic of Kazakhstan, to enter a new high-quality level of the development it is necessary to perform a transition to a more active budget and fiscal policy to a policy that is oriented on the result first of all and not on costs. Controlling plays an important part in this process. It is based on the set of measures of a controlling character and also on informational, methodological, expert and analytical support of the state management that ensures an intergovernmental coordination of the implementation of national programs and projects.

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