

RESEARCH ARTICLE

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Specifics of the Implementation of PPP Standards: Analysis of the State Audit on the Example of Foreign Practice

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Abstract

The necessity to develop a state policy in the field of rational use of regional assets is due to the need to overcome the consequences of the economic crisis in the context of the introduction and development of effective application of international auditing standards in our country. This makes it possible to understand the requirements of the standards better, as well as accelerate their implementation into domestic audit practice. The study identifies the principles and strategic goals of public policy. In order to work successfully with the private sector, public authorities need to understand the fundamental principles and goals underlying PPPs clearly. Under PPP agreements, private sector contractors become long-term service providers rather than just initial developers of assets, combining the responsibilities of designing, creating, operating and possibly financing assets to provide services needed by the public sector. The article concludes that all the considered models of public policy development generally follow a common algorithm for making political decisions: interests - priorities - risks - goals - resources - decisions. Models define universal characteristics that are characteristic of policy-making processes. In conclusion, it is noted that in the process of developing and implementing state policy in the field of rational use of regional assets, it is necessary to take into account that its main role should not be in the distribution of income between regions but in creating conditions for involving regional assets in production processes through their rational use, in order to increase the economic activity of regions and the quality of life of their population.

Keywords: Economy, Assets, Public Policy, Regional Assets, Primary Production and Processing, Political decisions, Efficiency, Subjects Public Policy

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1. INTRODUCTION

The relevance of this topic is the fact that, at present, the realities of the present time dictate requirements for the development of internal PPP standards and methodologies for conducting state audits in order to achieve maximum effect and increase the efficiency of public funds, determine the method of financing for risk sharing at all levels of project implementation. One of the ways to achieve these goals is to integrate universal international auditing standards. However, their implementation in our country requires considering a number of economic and legal features inherent in Kazakhstan's conditions. Highlighting the specifics of the application of international auditing standards in our country allows us to understand the standards' requirements better and accelerate their implementation into domestic auditing practice. This work aims to make proposals based on international practice to improve the domestic practice of organizing and interpreting PPP processes based on international reporting standards. This requires a clear understanding of elementary distinctions in conceptual aspects. So the property benefits and rights belonging to the state can be divided into having a material form and not having one. The first is real estate, including land plots and movable property. Since we have determined that the concept of state assets should be associated with the possibility of obtaining income from their use, all listed things should correspond to this attribute as assets (Staniewski & Awruk, 2015).

In addition, one of the tasks of this work is to identify aspects of the state audit process that can help increase confidence in auditors and, accordingly, ensure the reliability of their conclusions and, as a final result, make it possible to correct errors in the implementation of certain operations in the process of implementing state projects. So, audited institutions should increase their employees' awareness and perception of the ethical framework and culture. The survey results show that this can be done by ensuring that ethics training contains practical recommendations based on real examples and by improving communication with staff on ethics issues. Particular attention should be paid to whether employees know how to report any problems related to unethical behaviour and increase their sense of security. When the auditor agrees to an assignment offer, the subject is to confirm the reliability of financial statements or other financial information (Huang et al., 2020; Stefan, 2019).

It is essential to know that the State's assets can be defined as property and goods and rights that have a valuation, are owned by the State, or are controlled by it, from which it is expected to receive income in the future. Based on the definition of state assets and the provisions of regulatory legal acts, several types of state assets can be distinguished to determine the most effective ways to manage them. A special purpose audit is carried out on a mandatory basis annually with the reflection in the audit report of the movement of budget funds from the administrator of the budget program to the final recipient of budget funds when the subjects of the quasi-public sector use budget funds in the form of:

- 1) budget loans;
- 2) loans (state and state-guaranteed loans, as well as loans attracted under the guarantee);
- 3) budget investments (formation and (or) increase in the authorized capital of legal entities, creation and (or) development of state assets through the implementation of budget investment projects);
- 4) state concession obligations;
- 5) related grants;
- 6) state assignment and state order, with the exception of state-owned enterprises that carry out their activities in the field of preschool education and training, healthcare, as well as organizations that provide a guaranteed amount of free medical care and organizations that implement a defence order.

The second group – intangible objects are property, as a rule, rights of obligations, money, etc. These rights can be defined as the rights of the claim (payment of money, transfer of property, the performance of works, and provision of services (Hay et al., 2008; Charkhabi et al., 2013). We have assigned money to the second group, although the issue of money in the legal literature is ambiguously resolved. The controversy taking place on the pages of scientific, legal publications allows us to distinguish two main directions of the definition of non-cash money, namely: the definition of the dual nature of money and the possibility of recognizing non-cash money as material objects or rights, depending on the form, this position is expressed, for example, as well as the denial of the dual nature and the statement of certainty, the unambiguity of the nature of money (Kovalev, 2010).

So, the primary purpose of the study is to development of proposals to achieve maximum effect and increase the efficiency of public funds, determining the method of financing for risk sharing at all levels of project implementation.

2. LITERATURE REVIEW

According to Block et al. (2018), the biggest problem of PPP is that maintaining it can be even more challenging. Most PPPs define trust as a continuous process that affects personal relationships and takes much time. When maintaining a PPP, trust may be lost if a new participant joins, participants are inactive or use the services that the PPP offers without participating in any of the defined responsibilities.

In many PPPs, the whole process of building trust starts from the very beginning. In many cases, it happens that participants, as a rule, change their place of work or are assigned new tasks, so they no longer attend PPP meetings. This means trust is only sometimes continuous and, in most cases, unstable. This was pointed out by many experts whose trust is built mainly due to common work experience and long-term cooperation. The budget concept is fixed as follows: the budget is a centralized monetary fund of the state intended for financial support of the implementation of its tasks and functions.

Since we associate these actions with strategic state corporate entrepreneurship, it should be noted that the income from the capital invested by the state does not always represent financial revenues to the budget. Strategic management differs from conventional management in that it solves tasks that are not always related to obtaining financial returns but allows to solve tasks that imply benefits in the future and on the scale of the whole country's economy (Huang et al., 2020).

The implementation of strategic tasks by the state is carried out, including with the help of budgetary funds. In this regard, in the Budget Code, the achievement of goals, the solution of specific tasks and activities of strategic, medium-term programs and development plans of the republic or region is associated with the concept of budget development programs. Budget development programs are budget programs, the results of which directly affect the degree of achievement of the goal, the solution of tasks and activities of strategic, medium-term programs, and development plans of the republic or region aimed at obtaining economic benefits or socio-economic effect (Article 34 of the Budget Code of the Republic of Kazakhstan).

Further, it is necessary to agree with the opinion expressed Khudyakov that, having left the budget (as a monetary fund), money does not lose contact with it, the targeted nature of the use of this money is predetermined by the budget, which gives rise to specific responsibilities for the legal entity – the owner of such money, and control over the use of these funds is covered by the concept of budget control (Khamzin et al., 2019).

Since the connection with the budget of the property allocated to a legal entity is not lost (and it manifests itself in the conduct of public administration and control over their use, as well as in

the transfer of amounts of income from use to the budget), to the extent that the state's equity participation in legal entities is, ultimately, the financial assets of the state.

As Savin et al. (2016) claimed in legal terms, it is essential to emphasize the connection of the state's financial assets with the definition of budgetary funds, which makes it possible to use methods of state regulation and control in the field of management of these assets.

Further, material objects can also be divided (according to the degree of transfer of their value in the production process to the cost of the finished product and use in the production cycle) into fixed assets and working capital (Staniewski & Awruk, 2015; Cervone et al., 1991).

The allocation of fixed assets is of legal importance for the organization of the asset management process of the state since several transactions with property constituting fixed assets of state legal entities and legal entities with the participation of the state are subject to coordination with the authorized body (Grodach et al., 2017; Wintoki et al., 2012).

Thus, the primary property rights and benefits that makeup state assets are considered. It is shown that for most of the state's property, the connection with the budget is relevant, which means that the legal regime of these assets is associated with a particular order of formation, distribution and use, and budget control. Also, as part of the assets of the state, fixed and current assets have been allocated to consider further the features of the legal regime of fixed assets assigned to state legal entities and legal entities with the participation of the state.

3. METHODOLOGY

This study was compiled considering the scientific results and conclusions made and conducted by scientists of Kazakhstan and foreign countries within the framework of activities related to developing state audits for particular purposes. When writing this study, scientific reports, publications of international organizations and relevant studies were used, which form the theoretical and methodological basis in the PPP and audit research field. A wide range of sources was used in this study, such as monographs, scientific articles and case studies that were developed by academia and organizations (Sarhan et al., 2019; Human Rights Council, 2019). When writing the article, the information of research by modern authors on the improvement of methodologies and the development of international auditing standards and PPP requirements, information from international organizations and their reports on this research topic, publications of reputable scientific publications and journals, and professional publications were analyzed.

The article proposes the following calculation for establishing trust between public-private, private-property and public-public organizations. When writing the article, the classical general scientific methodology for assessing the development of a particular purpose audit using PPP was used, namely general and unique methods of scientific analysis, such as induction and deduction, analysis and synthesis, a systematic approach, a graphical method - visualization of the results. While writing this article, the analytical research methodology was applied, which is based on a systematic approach. Well-known concepts, models and comparative analyses are also used. The scientific and methodological apparatus of the study included a causal relationship and a constant analysis of the changes taking place in this direction.

The establishment of trust between public-private, private-private and public-public organizations was recognized as one of the funds calculated according to the following formula (Ownership Structure and audit quality, 2019):

$$\begin{aligned} \text{VAT} &= \text{PRE} - 0,75 * \text{PRE}, \text{ if } \text{DP} > 0,75 * \text{CO}; \\ \text{VAT} &= \text{UP TO} - 0,75 * \text{UP TO}, \text{ if } \text{DP} > 0,75 * \text{AE}; \\ \text{VAT} &= \text{BEFORE the accident}, \text{ if the } \text{DP} < 0,75 * \text{BEFORE}, \text{ where:} \\ \text{SPLM} &= \text{net cash outflow}; \end{aligned}$$

PRE – cash outflow;
DP – cash inflow.

Cash outflow is calculated according to paragraph 75 of the Regulations, and cash inflow is calculated according to paragraph 76 of the Regulations. Cash outflow is calculated as the sum of cash outflows during the calendar month following the date of calculation of the liquidity coverage ratio, using the outflow coefficients set out in the Table of Cash Outflows and Inflows of the bank following Annex 13 to the Standards for the following Obligations of the bank:

- cash outflows on deposits of individuals with a maturity of no more than 1 (one) month or during the calendar month following the date of calculation of the liquidity coverage ratio, as well as on-demand deposits;

- cash outflows on obligations (on deposits, loans, securities, with the exception of other accounts payable) to legal entities, small business entities that are not secured by the bank's assets, do not have a certain term of execution or the term of full execution of which is no more than 1 (one) month, or during the calendar month following the date of calculation of the liquidity coverage ratio, including at the initiative of legal entities, small businesses;

- cash outflows on obligations (on deposits, loans, securities, loan transactions, except for other accounts payable) to legal entities secured by the bank's assets, the term of which is no more than 1 (one) month or during the calendar month following the date of calculation of the liquidity coverage ratio;

- additional cash outflows on conditional and possible obligations that have a full execution period during the calendar month following the date of calculation of the liquidity coverage ratio, or regardless of the period of their full execution, if the fulfilment of obligations is provided for during the calendar month following the date of calculation of the liquidity coverage ratio.

Also, based on the results, proposals were made to improve the audit of special purposes.

4. FINDINGS AND DISCUSSION

The budget concept is associated with the receipt and expenditure of state assets. The concept of state assets is broader than the concept of the budget and budget funds. Not all state assets are reflected in the budget, but only those in motion during the fiscal year. We need to determine budget funds from the position of identifying when funds become budgetary or cease to be such.

The budgetary funds allocated for the formation of the authorized capital of a legal entity with the participation of the state formally cease to be state funds from a legal position and become the funds of the legal entity itself. Therefore, the moment of allocation determines the moment of their expenditure from the budget. On the other hand, the state transfers these funds while retaining property rights to them, which often results in the ability to control their use, manage them, and, accordingly, receive income from their use. The income received on the invested capital to be transferred to the budget also constitutes budgetary financial assets from the moment they are allocated to the budget.

As shown in Figure 1, a particular purpose audit is conducted based on a special purpose audit agreement concluded between the audited entity (customer) and an audit organization that meets the requirements established by the legislation of the Republic of Kazakhstan on auditing, state audit and financial control.



FIGURE 1. Audit quality structure

Note: compiled by authors

Any unethical behaviour of employees and members of EU institutions and bodies attracts high public interest and reduces confidence in EU institutions. Any weakness in this regard can lead to reputational damage to the image of the EU and its institutions. Unethical behaviour is also associated with the risk of corruption and fraud.

An inevitable conclusion is that, to a large extent, the audited institutions have implemented adequate ethical frameworks for staff and members with the possibility of improvement, including legal requirements and procedures to ensure them (including investigative and sanctions mechanisms). We have discovered that there is no single ethical framework for the EU.

A stable state policy and an effective system of state audit are the main mechanisms and prerequisites for achieving the tasks set by the state. These factors are inseparable and cannot be analyzed in isolation from the public administration system. The state needs clearly defined goals. The desired results and the resources needed to achieve these results must be determined in advance. Further development of the public administration system will follow the set goals, taking into account strictly established responsibilities and competencies. If every public sector employee feels like part of a single well-oiled clockwork, then the government will work like a clock showing the exact time. However, this is possible only if the mechanism is programmed to perform the necessary functions leading to achieving the goal. All mechanism elements should receive information about the task and the processes aimed at their implementation. In turn, the watchmaker needs to ensure that all the mechanism's necessary elements (preferably without decorative accessories) are in place and in working condition. If the clock is still running inaccurately, the mechanism is working inefficiently or not following the task (see Table 1).

Like a clockwork mechanism, the mechanism of public administration should be tested to determine the reasons for the failure to perform a particular task: incompetence of personnel, lack of professionalism, organizational mistakes, selfish interests, etc. In recent years, there has been a marked increase in cooperation between the public and private sectors in developing and operating environmental and transport infrastructure.

TABLE 1. The subject of state assets, as well as from the provisions of regulatory legal acts

No.	Ethical requirements	Code of Ethics of Professional Accountants [Parts A and B), mandatory
1	Task content	it must comply with the requirements for accounting and other information provided by the management of the audited entity during the audit. This information should, for example, meet the criteria of materiality, relevance, identifiability, comprehensibility, reliability, as well as comparability.
2	Object	must meet the objectives of this task. This aspect implies that users of financial statements are interested in information about the audited entity and its activities. The information provided to the auditor should allow for obtaining audit evidence to form conclusions about its reliability.
3	The need to verify compliance	The audited financial statements are prepared in accordance with the instructions and other administrative documents on the presentation and disclosure of information adopted by the organization, as well as the concept of preparing financial statements used in the organization. The auditor must ensure that all the requirements for the presentation and disclosure of information in the financial statements in terms of its relevance and completeness have been met.
4	The need for access	formation by the auditor of a reasonable opinion that there are no material misstatements. Disclosure of the nature of audit evidence on which the auditor should rely
5	The need to prepare a written report	the content of this report must comply with the requirements of applicable auditing standards

Note: compiled by source Adilet (2017)

In the European Member States, this was partly the result of the privatization of utilities, the development of large multinational utility operators and a general review of how public spending is carried out, including recent restrictions on spending limits following the Maastricht Criteria, requiring diversification of funding sources.

While the initial projects were often in the water and road sector, with the construction of toll roads (which gives a clearly defined financial return); there is a growing recognition that PPP mechanisms can be used to meet the needs for infrastructure and services in various sectors.

The success of PPP projects, the growing availability of private sector funds capable of adopting a higher risk profile, and the general global trend towards the privatization of utilities have led to attempts to introduce the concept of PPP into the transforming economy of the candidate country.

In addition, there is a growing understanding that cooperation with the private sector in PPP projects can offer a number of advantages, including:

The acceleration of infrastructure provision of PPPs often allows the public sector to transfer initial capital expenditures into current service payments. This allows projects to be implemented when the availability of public capital may be limited (either by government spending restrictions or by annual budget cycles), thereby attracting much-needed investments.

Faster implementation – allocation transfer of responsibility for design and construction to the private sector, combined with payments related to the availability of services, provides significant incentives for the private sector to implement capital projects in a shorter construction time.

Growth slowed in 2022, mainly due to the negative spillovers from the war in Ukraine. Figure 2 demonstrates the following social assistance and benefit share.

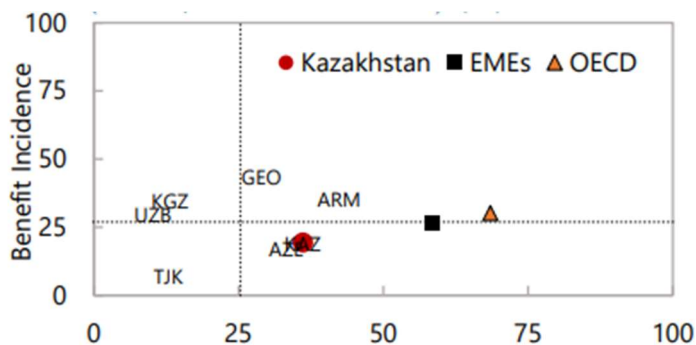


FIGURE 2. Social Assistance Coverage and Benefit Share

Note: compiled by sources Miah, et al. (2019), Cambodia (2021)

It reached 3.4% yoy in H1, from 4.1% in 2021. Retail sales growth slowed to 1.2% yoy in the same period. Investment grew by 3.6% yoy in H1 as FDI rebounded in the oil and gas sector after two years of decline. On the supply side, manufacturing and services both contributed to growth.

A sharp increase in international oil, gas and metal prices was a boon to exports, driving a trade balance improvement and flipping the current account into a surplus in H1 2022 (of US\$6.6 bn, compared to a deficit of US\$2.8 bn in H1 2021).

Consumer price inflation reached 16.1% yoy in August, almost double the rate a year earlier, driven by rising food costs. The authorities tightened monetary policy, imposed price caps on staple products, and limited fuel and utility price increases. Since January, the tenge exchange rate against the U.S. dollar depreciated 10%.

The goal is to optimize, not maximize, the transfer of risks to ensure that the best returns are achieved. The best incentives for execution - The allocation of project risks should encourage the private sector contractor to improve the management and efficiency of any particular project.

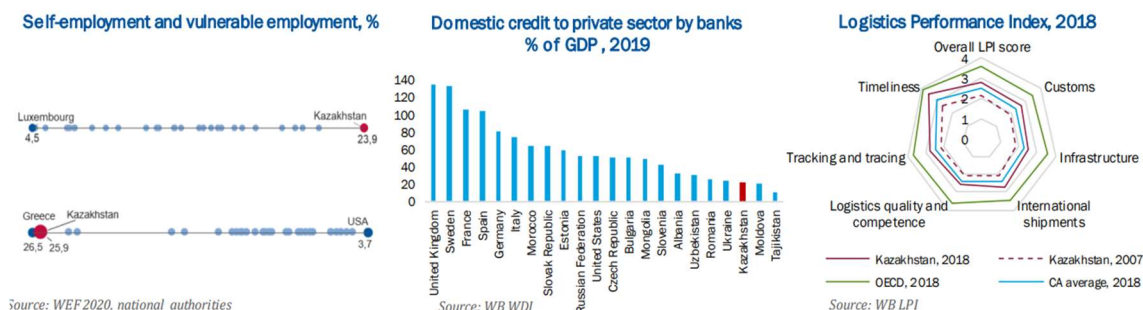
In most PPP projects, full payment to a private sector contractor will only be made if the required service standards are met on an ongoing basis.

Improving the quality of service - international experience shows that the quality of service achieved within the framework of PPP is often better than with traditional procurement. This may reflect better integration of services with ancillary assets, improved economies of scale, innovation in service delivery, or performance incentives and penalties typically included in a PPP contract.

Generating additional revenue - The private sector may generate additional revenue from third parties, thereby reducing the cost of any government subsidy required. Additional income can be obtained through spare capacity or the sale of excess assets.

According to Figure 3, adequately designed, PPPs can substantially benefit consumers and taxpayers. The potential benefit amount, however, will depend on the type of project being implemented and the contract's exact terms governing the PPP. It is important to note that public authorities have a crucial role in managing and regulating PPPs during their design, construction and operation. PPPs also require effective contract monitoring procedures to ensure that contractual obligations continue to be fulfilled in terms of quality and timing.

Foreign countries were selected for the study based on their positive experience of applying modern approaches in evaluating state bodies' activities. It should be noted that the Canadian Management Accountability Framework (MAF) was used when developing the Assessment in Kazakhstan. In addition to MAF, the Common Assessment Framework (CAF), a standard quality management tool developed for the public sector based on the excellence model of the European



Source: WEF 2020, national authorities

Source: WB WDI

Source: WB LPI

EBRD Investment Activities in Kazakhstan (as of end- 2021)			
Portfolio	€2,917m	Active projects	125
Equity share	4%	Operating assets	€1,703m
Private Sector Share ¹	60%	Net cum. investment	€9,123m

FIGURE 3. Kazakhstan – EBRD Snapshot

Note: compiled by authors

Foundation for Quality Management (EFQM/ European Foundation for Quality Management), is widely used in many European countries. So, in 2019, the CAF2021 model was adopted, emphasising digitalization, sustainable development, innovation, interaction, cooperation (participation) and diversity. On the introduction of integrated public services, we have studied the experience of New Zealand, which in 2012 carried out the reform "Result10" to solve cross-cutting problems through the interaction of several government agencies. As for innovations in the public sector, one of the leaders of the government is South Korea, which took second place in the UN e-Government Rating in 2020 (see Table 2).

TABLE 2. Assessment of the maturity of e-government

No.	Indicator	Value
1	Customer orientation	Availability of online services Convenience of receiving services Information about public services Obstacles in obtaining public services Mobile friendliness (feedback)
2	Transparency	Transparency of the procedure for providing the service Personal consultations of representatives of government agencies
3	Cross-border mobility	Accessibility of cross-border services. The convenience of using services in cross-border territories
4	Key support factors	Electronic Unique Identification (eID) Electronic documents (documents) The principle of one account (Single Sign On) Information Security (eSafe)

Note: compiled by authors

The 2018-2019 fiscal year report included four key evaluation areas: service management, service standards, online services and customer satisfaction. The introduction of new indicators is aimed at assessing the promotion of the e-government maturity model, and its performance, increasing the emphasis on using composite indicators for providing reliable data sources. The

European Commission has developed indicators and indicators for assessing the maturity of e-government. In 2016, 34 EU countries were evaluated using this methodology, including Switzerland, Sweden, the Netherlands, Austria, France, Bulgaria, Latvia and others. The basic indicators include User Centricity, Transparency, Cross-Border Mobility and key support factors (Key enablers).

In the conditions of COVID-19, thanks to the implemented state measures, people were able to access public services through websites and other electronic applications easily. To assess the effectiveness of law enforcement agencies in interacting with citizens, several indicators are successfully used in the United States, Great Britain and Singapore. Whereas in Kazakhstan, not all of their departments are included in assessing the effectiveness of law enforcement agencies, which requires new approaches in determining the criteria for effectiveness based on the specifics of their activities. The Management Accountability Framework (MAF) is a key oversight tool used by the Treasury Canada Secretariat to ensure effective governance, accountability of federal departments and agencies, and allocation of resources to achieve results. Every year, the Treasury of Canada Secretariat evaluates the performance of 10 elements of the MAF, distributes points, and identifies priority sectors for improving management, which the organization will gradually develop in the next 12 months. All information, including the evaluation methodology, the evaluation and its results in each direction, are available on the MAF website. An analysis of reporting and the results of a survey of civil servants are used to assess MAF. The survey is conducted every three years on the condition of anonymity, using a combined method of collecting information. In particular, the respondent is offered a choice of an online questionnaire or the opportunity to fill out a questionnaire on paper and send it by mail. This makes it possible to obtain data on the level of employee involvement in all government agencies and identify problematic points of interaction between management and performers. In the MAF methodology, out of 7 management areas, 4 are the main ones, and 3 are specific areas. So, "Service Management" refers to a specific direction.

5. CONCLUSIONS

In the decade-long period, the policy of industrial and innovative development of the Republic of Kazakhstan is focused on the development of the manufacturing industry, taking into account the long-term policy laid down in the Strategic Development Plan of the Republic of Kazakhstan until 2025. At the same time, in the Strategic Development Plan of the Republic of Kazakhstan until 2025 (as amended until February 2021), it is indicated that export support and support for increasing labor productivity will be strengthened for enterprises investing in the development of the manufacturing sector. The key criterion will be the growth of added value. One of the main reasons for reforming accounting in the public sector is the need to apply unified reporting forms that could become universally recognized and understandable for a wide range of users — general-purpose financial reports, i.e. public. Such reports meet the requirements of all external user groups without considering the individual needs of each of them. Taxpayers, legislature representatives, creditors, suppliers, media representatives, and employees often do not have access to specially prepared information. The need for external users to read the reports of public sector bodies is primarily explained by the public nature of information on government revenues and expenditures.

The EU experience is interesting because when assessing the level of consumer orientation, the "mystery shopper" method is used, allowing you to assess the quality of public service provision anonymously. Here, the convenience of receiving a service implies the availability of the location of service centers for citizens. Thus, the overall goal of a PPP is to structure the relationship between the parties so that the risks are borne by those who are best able to control

them, and the increased value is achieved through the use of the skills and competencies of the private sector. The social unrest in early 2022 has provided a new impetus for structural reforms. Key priorities announced by the authorities are to raise economic growth and inclusion by promoting economic diversification, private sector development, and improved governance. The authorities are also committed to reducing greenhouse gas emissions by 15 per cent in 2030 (relative to the 1990 level) and achieving carbon neutrality by 2060. Given the multiplicity of reform needs, a Supreme Council for Reforms, chaired by the President, was created to strengthen reform prioritization and implementation.

In order to work successfully with the private sector, public authorities need to clearly understand the fundamental principles and goals underlying PPPs. Within the framework of under PPP agreements, private sector contractors become long-term service providers rather than just initial developers of assets, combining responsibilities for design, creation, operation and, possibly, financing assets to provide services needed by the public sector. As a result, central and local government agencies are increasingly involved as regulators. They focus resources on service planning, performance monitoring and contract management rather than direct management and service delivery. As a result, the State mission is carried out through the private sector.

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