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## **Problems of identifying risks and managing them during the state audit of the activities of quasi-public sector entities**

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**Abstract.** *Conducting an audit of a quasi-public sector entity to identify the risks of the audited company is a risk analysis process to determine the magnitude of the impact (damage) from the implementation of the risk, the likelihood of its occurrence and the degree of controllability for further adoption of the most effective decisions on risk management measures. A common problem of the Kazakhstan economy is the unpreparedness of the leadership of most large companies, including the quasi-public sector, to perceive risk management as one of the integral elements of the production process management. The purpose of this article is to determine for the subject of the quasi-public sector a methodology for identifying risks, assessing them and managing them during the state audit. The measures identified by the audit described in the article allow timely identification of potential risks, carry out their assessment and take measures to minimize them in building and running a business.*

**Keywords:** *quasi-public sector, audit organization, public audit, risks, risk management.*

**DOI:** <https://doi.org/10.32523/2079-620X-2020-3-226-233>

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In the Republic of Kazakhstan, quasi-public sector entities include state enterprises, limited liability partnerships, joint-stock companies, national companies of which the state is a participant or shareholder, as well as subsidiaries, affiliates and other legal entities affiliated with them in accordance with legislative acts of the Republic of Kazakhstan.

Conducting an audit of a quasi-public sector entity in order to identify the risks of the audited company is a risk analysis process to determine the magnitude of the impact (damage) from the implementation of the risk, the likelihood of its occurrence and the degree of controllability for further adoption of the most effective decisions on risk management measures.

World practice has demonstrated in the last decade the active development of standardization processes in the field of risk management both at the national and international levels. This is confirmed by the national standards of Australia and New Zealand, Great Britain,

Canada and many other countries, as well as the standard of the Federation of European Risk Associations, the standard developed by the Committee of Sponsoring Organizations of the Treadway Commission (USA), and the group of international ISO risk management standards. These documents are general guidelines for use by all organizations, regardless of the specifics of work and risk situations [1].

Examination of the concepts of “risk” presented in foreign standards allows us to conclude that most of them consider risk from the point of view of uncertainty and the associated deviations from the expected results, thus adhering to the neoclassical theory. And only the authors of two documents (National Standard Canada, Standard of the Committee of Sponsoring Organizations of the Treadway Commission) adhere to the theory of risk identification, according to which it is considered from the point of view of danger and losses associated with it.

In the Republic of Kazakhstan, risk management is currently going through a period of its formation. New and previously created professional associations and organizations are re-created or continue their development, focused on solving individual problems in the field of risk management. Large Kazakhstani companies representing various sectors of the domestic economy are initiating the creation of corporate risk management systems. In these conditions, it becomes especially important the problem of forming a common understanding of the goal of risk management, the terminology used, the organizational structure and the risk management process itself, adapted to modern Kazakhstani conditions [2].

Companies all over the world and in Kazakhstan in particular are faced with certain obstacles to building an effective risk management system. The three most significant barriers of effective risk management include the lack of interconnection between functional units, the lack of a corporate culture of risk management and the inability to obtain an accurate assessment of the company's risks.

A common problem of the Kazakhstan economy is the unpreparedness of the leadership of most large companies, including the quasi-public sector, to perceive risk management as one of the integral elements of the production process management.

The purpose of this article is to determine for the subject of the quasi-public sector a methodology for identifying risks, assessing them and managing them during the state audit.

The audited organization is the joint-stock company "KazMunaiGas Onimderi" (hereinafter - KMGO), which is determined by a single operator for the retail sale of fuels and lubricants in the Republic of Kazakhstan. Thus, a number of problematic issues were resolved regarding the provision of a unified policy in the field of implementation and pricing; flexible response to changes in market conditions; simplification of decision making and control; optimization of managerial staff and administrative expenses; the creation of common standards for the service and

activities of gas stations; introduction of a single coupon and card systems for the sale of fuels and lubricants throughout the republic.

The purpose of the methodology for identifying and assessing risks, the selection of risk management methods is to determine the methods and tools for identifying and assessing risks, as well as the criteria for selecting risk management methods carried out as part of the audit of KMGO's risk management processes.

The steps in the risk management process can be considered. The risk management process at KMGO consists of the following stages:

1. Risk identification;
2. Risk assessment;
3. Calculation of the risk appetite level and own retention capacity (hereinafter -ORC) of KMGO of the total amount of unplanned losses for one year that KMGO may incur when risks occur and which together will not have a significant impact on the activities of KMGO
4. Building a risk map and prioritizing risks;
5. The choice of risk management methods, the development of an action plan for managing key risks;
6. Risk monitoring.

Risk identification involves the identification, description and documentation of risks that could affect the activities of the KMGO.

Risk identification is carried out by employees of KMGO structural divisions. Collection, processing, analysis, systematization of the information received on identified risks is carried out by the responsible subdivision.

A combination of different techniques and tools is used to identify risks. Events are identified both in terms of past experience and in terms of future possible events.

When using this method, risk identification based on the goals and objectives set, first of all, the goals of the business processes they supervise are determined by each KMGO structural unit.

The set goals identify potential events that may affect their achievement.

Consider the matrix of risks identified in the process of preparing separate financial statements formulated by the Department of Accounting and Reporting of KMGO.

Table 1

Matrix identified KMGO risks

Purpose of the control procedure	Control criteria	Risk description
Ensuring the submission of separate financial statements in formats approved by the parent company and / or legislative acts of the Republic of Kazakhstan.	Availability and reliability; Completeness and correctness of reflection in the corresponding period; Rights and Obligations (Approval); Presentation and disclosure; Compliance with the law.	The risk of separate financial statements not in the approved format.
Ensuring the timely formation of separate financial statements.		The risk of untimely formation of separate financial statements due to untimely closure of ledgers by responsible accountants.

In the table, we see the main objectives of the control procedures, control criteria during the audit and the identified risks that are present in the preparation of the separate financial statements of KMGO.

The responsible unit conducts targeted interviews with key KMGO employees to openly discuss existing and potential risks and ways to manage them.

Making decisions on risk management, taking into account historical information about the risks that have arisen, reduces the likelihood of their reoccurrence.

The loss database is a good basis for quantifying risks.

Information about all unforeseen (non-budgeted) losses, as well as about any events that could lead to unforeseen losses, including about past accidents and accidents, is provided by the structural units to the responsible unit.

When identifying and analyzing risks, scenario analysis, SWOT analysis, analysis of hazardous

factors and critical control points, analysis of cause and effect relationships, butterfly analysis, probability and consequences matrices, etc. are also used.

The next stage of the risk management process at KMGO, as described above, is risk assessment. Risk assessment allows KMGO to analyze the impact of potential risk on achieving the goals of KMGO.

Initially, risk assessment is carried out on a qualitative basis (expert assessment), then for the most significant risks a quantitative assessment can be carried out.

If the risks do not have reliable statistical information for modeling and are not quantifiable, as well as if the construction of models is not expedient from the point of view of costs, the risks are assessed only on a qualitative basis.

The quantitative assessment allows obtaining more accurate analytical data and is especially useful in developing methods for financing risks.

The risk assessment scale for frequency (probability) and the size of the impact of the

Table 2

The scale of the assessment of KMGO risk

Score	Frequency (probability)
1	Very rarely (once every 7 years or more), or the probability of occurrence is up to 5%
2	Rarely (approximately once every 5 years), or the probability of occurrence is from 5 to 25%
3	Periodically (every 3 years), or the probability of occurrence from 25 to 50%
4	Often (once a year), or the probability of occurrence from 50 to 70%
5	Very often (once every six months or more) or a probability of occurrence of over 70%

Table 3

## The scale of the assessment of KMGO risks in monetary terms

Score	Influence size	In monetary terms
1	Minor loss	up to 50 thousand US dollars
2	Noticeable loss	from 50 thousand US dollars to 100 thousand US dollars
3	Major loss	from 100 thousand US dollars to the size of the WM
4	Critical Loss	over WM, or up to 25% loss of equity
5	Catastrophic loss	total loss of profitability, or 25% loss of equity

risk are communicated to KMGO employees to conduct a qualitative risk assessment. For each of the identified risks, KMGO employees determine the frequency and size of the loss using the following parameters shown in tables 2 and 3.

For risks whose impact is difficult to assess in financial indicators (for example, personnel risks, reputation, non-compliance with product quality requirements, etc.), non-financial characteristics are introduced in comparable points.

The results are processed by the responsible structural unit, each risk is assigned a rating based on which a risk map is built.

The calculation of the risk rating is carried out as follows:

Risk rating = probability score × impact score.

Based on the calculated degree of risk, each risk is classified as follows:

- high risk- range of points from 15 to 25;
- average risk - a range of points from 4 to 14;
- low risk - a range of points from 1 to 3.

In the process of risk management audit at KMGO, the above risks were assessed as follows.

As can be seen from the table above during the audit of risk management in KMGO, the process of generating separate financial statements, not significant risks were identified.

The next stage of the risk management process at KMGO is the selection of risk management methods and the development of an action plan for the management of KMGO key risks.

Measures are being developed to manage each of the key risks, allowing to reduce the negative effect of unplanned losses and their likelihood or to receive financial compensation in case of unplanned losses.

Risk owners draw up a plan to reduce the degree of each risk in the area of high priority. When developing a risk reduction plan, various options for achieving the goal should be considered, taking into account the possible costs and effectiveness of the measures.

The risk mitigation plan defines specific measures, the timing of their implementation, the need for resources for their implementation, the responsible person who will act as the sole contact person in carrying out the agreed actions to reduce the risk.

A risk reduction plan can also be developed for medium and low priority risks, if the implementation of such a plan does not require resources to reduce the risk of higher priority.

According to the identified risks in the process of compiling separate financial statements of

Table 4

## Risk Assessment of the preparation of KMGO separate financial statements

Risk description	Frequency (probability)	Influence size	In monetary terms
The risk of separate financial statements not in the approved format	Very rarely (once every 7 years or more), or the probability of occurrence is up to 5%	Insignificant loss	up to 50 thousand US dollars
Risk of untimely generation of separate financial statements	Very rarely (once every 7 years or more), or the probability of occurrence is up to 5%	Insignificant loss	up to 50 thousand US dollars



The plan of measures to reduce the degree of KMGO risk

Risk description	Actions to eliminate them	Target dates	Responsible persons
The risk of separate financial statements not in the approved format	Approve the standard financial reporting formats used to present separate financial statements.	On a quarterly basis	Accountant responsible for preparing the separate financial statements.
Risk of untimely generation of separate financial statements	To approve the terms for the formation of separate financial statements and the calendar for the monthly closing of the period and the preparation of separate financial statements.	On a quarterly basis	Accountant responsible for preparing the separate financial statements.

KMGO, the following plan of measures to reduce the degree of risk was drawn up. It should also consider the possibility of developing plans to minimize risks of low and medium priority, potentially having the opportunity to grow to high priority risks in the next 3 years.

In addition, risk owners develop a plan of actions to eliminate the consequences of the risks that have taken place, which also determines the actions, the timeframe for their implementation, resource requirements and the person who will act as the sole contact person in carrying out the agreed actions to eliminate the consequences.

The choice of risk management methods is determined based on the level of probability and extent of damage upon the occurrence of risk, the possibility of sharing the risk with the counterparty, the possibility of financing the risk reduction measure, as well as the criterion of the effectiveness of risk management.

The distribution of ORC by risk is based on an analysis of the impact of each of the risks and the cost of accepting risks, that is, the more expensive the cost of accepting risks from external sources, the higher the share of own retention of a part of such risk.

At the expense of current cash flows or equity or at the expense of the reserve fund (in the case of its creation) is carried out their own retention of risks having a high frequency and low damage.

The founder company is the joint-stock company National Company KazMunayGas,

which takes part in the reinsurance of KMGO risks, which allows it to retain part of the insurance premiums. The conditions for participation in risk reinsurance are reflected in the internal documents of KMGO describing the process of organizing KMGO insurance coverage.

KMGO solves the issue of retaining some of the risks having a high and medium priority, the adoption of which in full is either impossible or too expensive, and determines the ways to accept the remaining part of the risk.

The boundaries of risk are determined at which it leaves the green area, and the risk is monitored in order to take immediate action in case of its transfer to another group.

Risk management is carried out using such a method in which management costs are lower than the potential benefit of using this method.

The potential benefit is defined as the difference between the amount of loss before applying the risk management method and the amount of loss after applying it.

The final stage of the risk management process at KMGO is the monitoring of risk management.

Risk management monitoring is the control of the dynamics of changes in risk characteristics and the effectiveness of the implementation of risk management measures.

Monitoring allows you to determine the risk status, find out whether the desired result has been achieved from the implementation of risk

Table 6

## Monitoring measures to eliminate the risks of KMGO

Risk description	Workflow (input data)	Risk owners	Execution	Execution
The risk of separate financial statements not in the approved format.	Financial reporting presentation forms approved for consolidation of a group of companies of JSC NC "KazMunayGas".	Department of accounting and reporting KMGO.	As of September 30, 2019, separate financial statements have been approved in accordance with the approved KMGO forms.	As of September 30, 2019, separate financial statements were approved in accordance with the approved forms of the KMGO.
Risk of untimely generation of separate financial statements.	Forms of presentation of financial statements of KMGO.	Department of accounting and reporting KMGO.	As of September 30, 2019, separate financial statements were approved on time.	As of September 30, 2019, separate financial statements were approved on time.

management measures, whether the information collected is sufficient to make risk management decisions, and whether this information was used to reduce the degree of risk.

Monitoring is carried out by the responsible department of KMGO by collecting reports of risk owners on the dynamics of risks and implementation of plans for the implementation of risk management measures. Based on the

monitoring results, the responsible unit quarterly submits a report to the KMGO Board, adjusts the measures being implemented, or develops additional measures to manage KMGO key risks.

Thus, the measures identified by the audit described above allow timely identification of potential risks, carry out their assessment and take measures to minimize them in building and running a business.

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### **Квазимемлекеттік сектор субъектілерінің қызметіне мемлекеттік аудит жүргізу кезінде тәуекелдерді анықтау және оларды басқару мәселелері**

**Аңдатпа.** Аудиттелетін компанияның тәуекелдерін айқындау мақсатында квазимемлекеттік сектор субъектісінің аудиті - бұл тәуекелден болатын әсердің (залалдың) мөлшерін, оның пайда болу ықтималдығын және тәуекелдерді басқару шаралары туралы неғұрлым тиімді шешімдер қабылдау үшін бақылау дәрежесін анықтауға мүмкіндік беретін тәуекелдерді талдау процесі. Қазақстан экономикасындағы жалпы проблема - көптеген ірі компаниялардың, оның ішінде, квазимемлекеттік сектордың басшылықтың өндірістік процесті басқарудың ажырамас бөлігі ретінде тәуекелдерді қабылдауға дайын еместігі. Осы мақаланың мақсаты квазимемлекеттік сектор субъектісі үшін мемлекеттік аудит кезінде тәуекелдерді анықтау, бағалау және оларды басқару әдістемесін анықтау болып табылады. Мақалада сипатталған аудит барысында анықталған шаралар ықтимал тәуекелдерді уақытылы анықтауға, оларды бағалауға және бизнесті құруда және жүргізуде барынша азайтуға мүмкіндік береді.

**Түйін сөздер:** квазимемлекеттік сектор, аудиторлық ұйым, мемлекеттік аудит, тәуекелдер, тәуекелдерді басқару.

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### **Проблемы выявления рисков и управления ими в ходе государственного аудита деятельности субъектов квазигосударственного сектора**

**Аннотация.** Проведение аудита субъекта квазигосударственного сектора с целью выявления рисков аудируемой компании представляет собой процесс анализа рисков, позволяющий определить величину воздействия (ущерба) от реализации риска, вероятность его возникновения и степень управляемости для дальнейшего принятия наиболее эффективных решений по мерам управления рисками. Общей проблемой казахстанской экономики является неподготовленность руководства большинства крупных компаний, включая квазигосударственный сектор, к восприятию управления рисками как одного из неотъемлемых элементов управления производственным процессом. Целью данной статьи является определение для субъекта квазигосударственного сектора методологии выявления рисков, их оценки и управления ими в ходе государственного аудита. Меры, выявленные в ходе аудита и описанные в статье, позволяют своевременно выявить потенциальные риски, провести их оценку и принять меры по их минимизации при построении и ведении бизнеса.

**Ключевые слова:** квазигосударственный сектор, аудиторская организация, государственный аудит, риски, управление рисками.

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