

International School of Economics



Ashirepbay B.

Mukhametrakhimov D.

Zhussupova D.

State of Internal Audit in Kazakhstan

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Supervisor: Junisbekova Z.

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Abstract

The effect of Internal Audit Services in Kazakhstan plays a considerable role, which needs more research and visibility. This is mainly because internal audits are known to positively affect the eradication of corruption, one of the key factors that interferes in the development of Kazakhstan. Furthermore, internal audit can affect the economy as a whole and have strong correlation with indicators such as CPI and FDI. Today, the relevance of Internal Audit in organizations is associated more with the mandatory regulation of the legislation of the Republic of Kazakhstan in Joint Stock Companies than with the awareness of the need for internal audit for the organization itself.

For this reason, the purpose of this study is to determine the state of the Internal Audit Services in Kazakhstan and factors influencing its development. Based on our hypothesis, we believe that today the Internal Audit Service in most Kazakhstani companies is at the development stage and is still far from being fully effective.

To test the hypothesis, we created a Google Form questionnaire in collaboration with the Institute of Internal Auditors. The questionnaire consists of 5 important sections such as information about study participants, characteristics of departments performing the functions of internal audit, the role of IAS in the organization, personnel management, IAS processes and additional questions related to the personal opinion of the respondents. Our study involved 61 respondents who answered all the mandatory sections.

The results of the study showed that there are organizations that are still dependent on the managing directors and, respectively, auditors can not be completely independent in performing audit functions. Slow development of IAS in some organizations is due to the lack of understanding by the senior executives and Board of Directors about the necessity of the

internal audit in organizations. This, in turn, leads to another issue of a small budget being allocated for the development of the Internal Audit Services.

Introduction

Any company pursues the goal of minimizing risks and improving business efficiency in order to maximize its profits, and internal audit can help in realizing this opportunity. According to Posokhina (2022), “internal audit helps an organization achieve its goals by using a systematic and consistent approach to assessing and improving the effectiveness of risk management, control and corporate governance processes” (p. 11). The growing interest in internal audit is associated with high-profile corporate scandals in the United States and Europe at the beginning of the 21st century. A striking example is the audit company Arthur Andersen and their client, Enron, whose top managers forged and manipulated reports. The results of this case were the obvious bankruptcy of both companies and multibillion-dollar losses. Consequently, it was concluded that an external audit can take place with failures and errors leading to serious consequences for the company (Sonin, n.d.). This case shows how important it is to have an internal audit in the company to create effective corporate governance.

Moreover, the effectiveness of the organization’s internal audit is important for the country’s general state of economy as it affects the inflow of FDI, particularly crucial for Kazakhstan. FDI refers to investments aimed at long-term control over the economic activities of the recipient company in another country. Since independence, Kazakhstan has attracted a significant amount of foreign direct investment (FDI). For example, in the first half of 2021, Kazakhstan attracted \$11.1 billion, which is 30% more than in the same period last year (Euronews, 2021). Internal control plays a big role in attracting foreign investors, as investors are more interested and willing to invest in companies and countries where internal control is

well developed. For this reason, it is imperative to understand the state of the IAS in Kazakhstan.

In addition, the state of internal audit partially reflects the levels of corruption within the firm and the country in general. According to Transparency.com (2021), Kazakhstan scored 37 points out of 100 in the corruption perceptions index (CPI) and took 102nd place out of 180 countries. In comparison with the global average CPI score of 43 points, it can be understood that Kazakhstan is a country with high levels of corruption. Based on Pellegrini and Gerlag's study called "The Impact of corruption on economic growth and its transmission channels", an increase in the corruption perception index by one standard deviation is associated with a decrease in investment by 2.46 percentage points, which reduces economic growth by 0.34 percent per year (2014). Moreover, corruption entails higher costs in the aggregate economy created by corrupt officials. These distortions include inefficient privatization and government contracts, delays in production, the issuance of licenses for low-quality goods and services, and illegal activities. In addition, corrupt officials may inflate contract prices, which in turn leads to higher taxes and spending cuts in order to increase or normalize the national fund (Rose-Ackerman and Palifka, 2016). The role of internal audit is to ensure that the management's attitude to corruption is extremely strict. Organizations should develop an anti-corruption code that will include an anti-corruption policy and recognize zero-tolerance regarding its application (Caratas & Spătariu, 2018). The audit helps to evaluate anti-corruption programs, anticipate risks and identify existing and potential incidents (Hanapiyah, Daud, Wan Abdullah & Sanusi, 2014). For this reason, internal audit in Kazakhstan should be standardized to a certain level which would help reduce the risk of corruption. It would improve the CPI and trust among foreign investors, thereby positively affecting the economic growth by attracting more FDI.

The purpose of this mixed research is to determine the state of internal audit services in Kazakhstan and pinpoint its potential problems. With the support of the International Institute of Internal Auditors in Kazakhstan, we have conducted a survey to address our research question. This survey covers questions on key aspects, such as processes and characteristics of IAS, the role that internal audit plays in a particular organization, and important issues related to personnel management aimed at studying the characteristics of employees, their activities before working in internal audit, and their certifications. After analyzing the responses from internal auditors who work in local companies, we describe the overall picture of the internal audit services in Kazakhstan.

Before presenting the results, it is important to give background on the entity with which we collaborated for this research. The International Institute of Internal Auditors was founded in 1941 in the USA and today it is a professional association in 150 countries. In Kazakhstan, compared to other developing countries, the official representation of the IIA was established quite recently in 2012 (Коллегия Аудиторов, 2012). IIA's mission is to develop the internal audit profession and support internal auditors in certain countries. Membership in the institute provides access to extensive information in the field of internal audit, training, and gives the opportunity to pass international accreditation (Институт Внутренних Аудиторов, n/d). Due to IIA's expertise and internal knowledge of major aspects in the work of the audit services, the collaboration with IIA will help our research to produce more reliable results and achieve an unbiased conclusion on the general picture of the state of internal audit in Kazakhstan.

In general, we have identified three interrelated reasons why internal audit might not be developing in Kazakhstan. First, there seems to be a misunderstanding of the goals of the Internal Audit Services in the companies of the survey respondents. Second, the executive management pressures and disallows for independent performance of the internal auditors,

leading to biased outcomes of audits. Last but not the least, the major obstacle standing in the way of internal audit development in Kazakhstan is the failure to allocate sufficient budget for the IA department, resulting in insufficient training of the IA employees. All of these factors, together and separately, contribute to defective progress of internal audit in Kazakhstan.

The next section lists out the questions we aim to answer and presents our hypothesis. Section 2 discusses the available literature on the state of internal audit services in Kazakhstan. Section 3 describes the methodology and section 4 presents and analyzes the results of the survey. Last sections conclude and suggest further developments of this topic.

1. Research Question & Hypothesis

In our research, we aim to understand the state of internal audit services in Kazakhstan and identify major problems. We answer the sub-questions such as:

- Do the internal auditors have sufficient skills to conduct an audit of business processes and what skills do they need to improve if they are insufficient?
- How does the organization support the internal audit department in its development?
- What difficulties may arise during the audit and how does this affect the audit itself?
- Do auditors use automation and how does this affect efficiency?
- What are the ways to improve internal audit in Kazakhstan?

We believe that today the Internal Audit Service in Kazakhstan is currently at a stage of development and has not reached the level of maturity.

2. Literature Review

The results of the study touch upon several problems related to the IAS in Kazakhstan and its effectiveness. Problems such as the lack of practical and theoretical knowledge and the lack of automation affect the speed and quality of work of internal audit in organizations

(Tovma, 2015; Tleubayeva, 2014; Pushkina, 2021; Bernat, 2011; Nurgaziyeva, n/d; Nazyrova, Keisov, Beisembayeva & Khankhozhin, 2021). According to most studies, one of the main problems is the lack of theoretical and practical knowledge, which in turn suggests that employees may lack certifications, as well as the fact that owners may not be interested in training employees. The second problem is that the IAS do not use software and this slows down the audit. All of the above issues lead to the fact that inefficient audits are carried out in organizations.

From the article "Development of internal audit in the Republic of Kazakhstan" (Tovma, 2015) the lack of theoretical and practical knowledge is aggravated by the weak financial and resource provision of internal audit and the lack of standardization of the audit business process. The author draws attention to the creation of standardization in Kazakhstan, which systematizes procedures and establishes uniform audit requirements, defining criteria for assessing audit quality. Tleubayeva S.A. (2014) says that the lack of available information comes from the owners' lack of interest in internal audits. In addition, low qualifications in the personnel of the internal audit service is caused by the fact that international qualifications, specifically trainings and exams, are conducted in English. This problem is exacerbated by the lack of replenishment of the profession with young personnel, since the programs of higher educational institutions do not provide the specialty "internal auditor" anymore, and Internal audit is only considered as part of the Accounting and Audit degree (Bernat, 2011).

Nurgaziyeva L.A. (n/d) in her research "Formation and development of audit in Kazakhstan" touches on the topic of outsourcing and the reason for its irrelevance. The irrelevance arises due to the lack of certified auditors and their insufficient professional level. In addition, outsourcing raises concerns about the confidentiality of information transmitted to third parties.

According to the results of the research “A comparison of internal audit trends in local companies and abroad” conducted by KAZGUU students Nazyrova, Keisov, Beisembayeva, Khankhozhin (2021), almost all (77.5%) employees of the Kazakhstani organization of internal audit services stated that they currently do not use specialized software to automate internal audit processes. The most popular reason is the non-obvious advantages of using such software tools at the cost of their implementation and use (52.6%). Indirectly, this can be explained by the fact that auditors mainly attract external specialists in the field of information technology and, as a rule, such specialists have their own software. The competitive advantage of IAS is the use of automation, which provides a fast, clear and high-quality audit result (Nazyrova, Keisov, Beisembayeva & Khankhozhin, 2021).

The review of literature shows that there is a lack of research examining the factors associated with insufficient level of practical and theoretical knowledge and lack of implementation of software tools or systems. We aim to identify these factors based on the survey conducted with the collaboration of IIA, boosting the reliability of our study.

3. Research Methodology

We used the mixed research method for our research. Starting from April 2022 jointly with the Institute of Internal Auditors in Kazakhstan, we conducted a survey using Google Forms to get the data. The questionnaire consists of 33 questions divided into 5 mandatory and 1 optional sections:

- 1) General information about the survey participants
- 2) Characteristics of departments performing internal audit functions
- 3) The role of the Internal Audit Service in the organization
- 4) Characteristics of internal audit staff
- 5) Internal Audit Service processes

6) Personal opinion of internal audit staff (voluntary section)

The survey was conducted among employees of an internal audit of Kazakhstani companies operating in various sectors of the economy.

We used case study research from PWC, Deloitte & EY on the topics of Investigation of the current state and trends in the development of internal audit, which was conducted jointly with the Institute of Internal Auditors (IIA) and the main articles mentioned in the literature review to design the questionnaire.

The survey was conducted from April 4 to May 15, 2022, and we received answers from 61 respondents who answered all the 5 mandatory sections. There was 1 additional section which was optional and consisted of 5 questions related to the personal opinion of the respondents, for which we obtained around 33 answers on average.

4. Results

In the course of our study, we tried to collect the opinions of IAS employees of large financial, industrial and other organizations regarding the current state and trends in the development of internal audit in Kazakhstan.

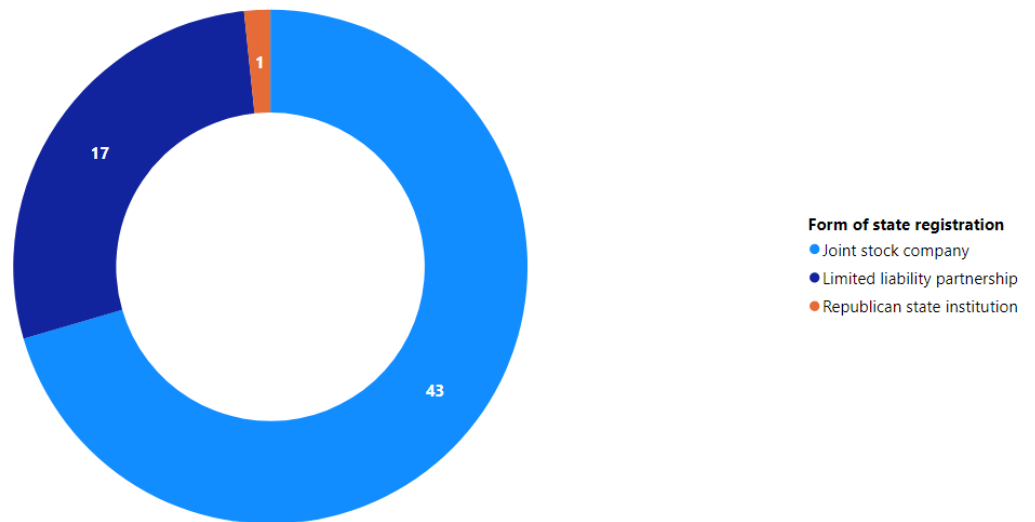
4.1 About the study participants

In this section, we present basic information about the participants of the study and their companies, such as the industry and the form of state registration, for further detailed analysis in the following sections.

Form of state registration of the organization. The graphs below show basic information about organizations of the IAS employees, who participated in our study. According to the

survey results, 43 respondents come from joint-stock companies, 17 work at limited liability partnerships and 1 respondent works at a republican state institution.

What is the form of state registration of your organization?



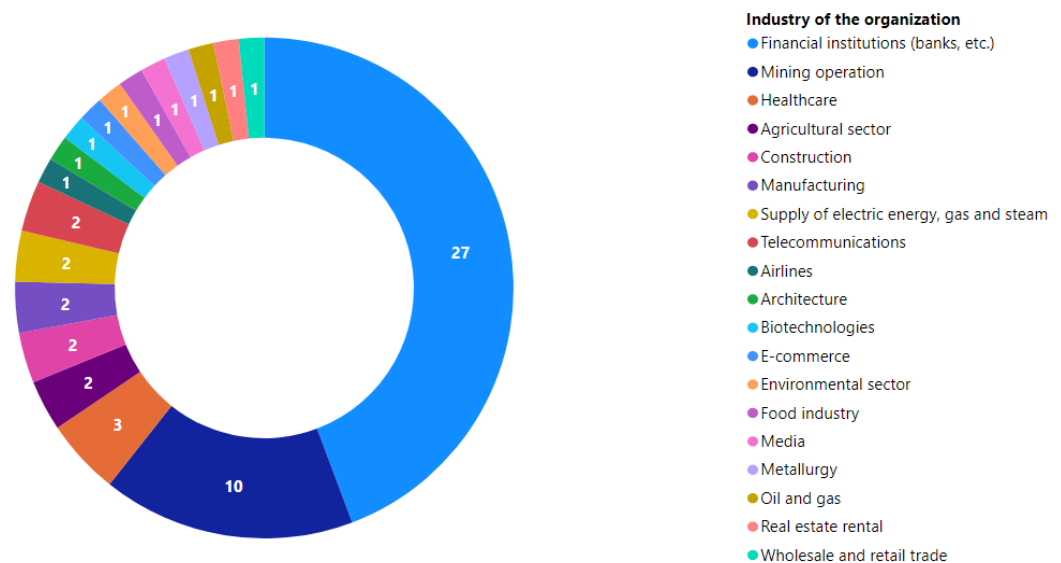
Industry of the organization. In total, during the study, data was obtained from 61 respondents from 19 fields of activity. The graph below shows main areas of activity to be financial institutions (27), mining operation (10), healthcare (3), agricultural sector (2)

organizations,

and

others.

What industry does your organization refer to?

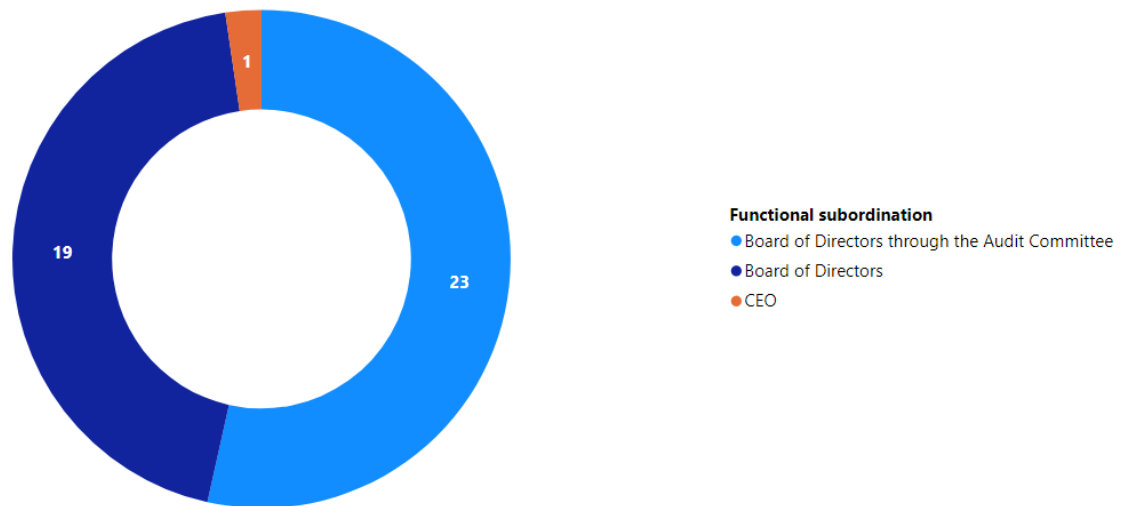


4.2 The role of the IAS in the organization

Subordination of internal audit. According to article 61, paragraph 3, the Law of the Republic of Kazakhstan on Joint Stock Companies, “the internal audit service is directly subordinate to the Board of Directors and reports to it on its work” (Закон «О внесении изменений и дополнений в некоторые законодательные акты Республики Казахстан по вопросам ограничения участия государства в предпринимательской деятельности», para.8.1, 2015). Therefore, in organizations with the status of a Joint-Stock Company, it is not surprising to find that the IAS is functionally accountable to the board of directors (19), or to the board of directors through the audit committee (23).

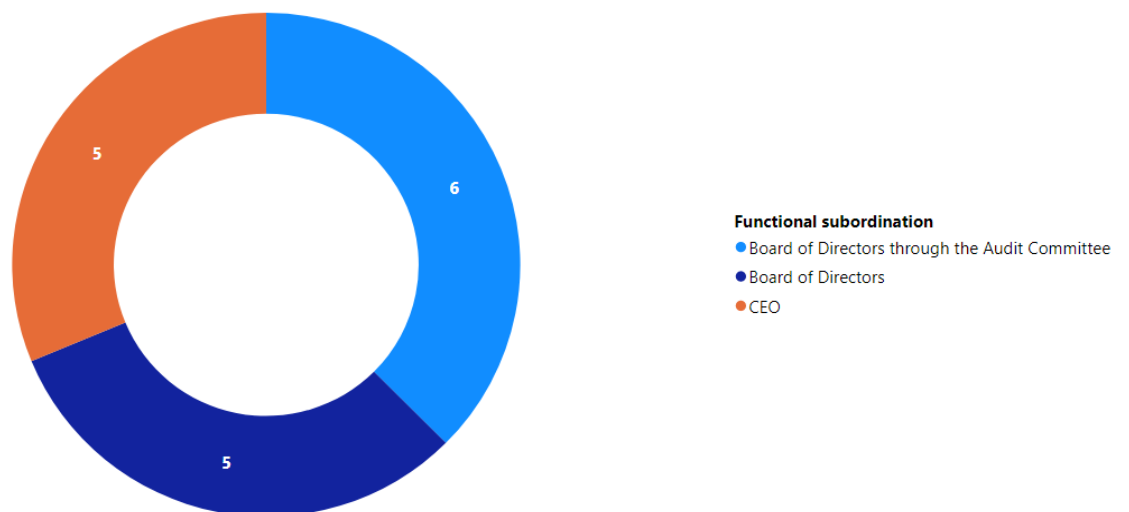
Nevertheless, it is worth mentioning that 1 respondent working for a joint-stock company claims to functionally report to the CEO. This would directly impact the independence and objectivity of internal auditors in the company.

What is the functional subordination of an internal audit in a JSC?



In the context of LLP companies, there is no law prescribing that IAS should be functionally accountable to the board of directors. Thus, in 5 organizations, internal auditors are accountable to the CEO, in 6 organizations to the board of directors through the audit committee. We find that the audit department reports directly to the Board of Directors in 5 organizations (only one-third of the LLP companies present in our sample).

What is the functional subordination of an internal audit in an LLP?

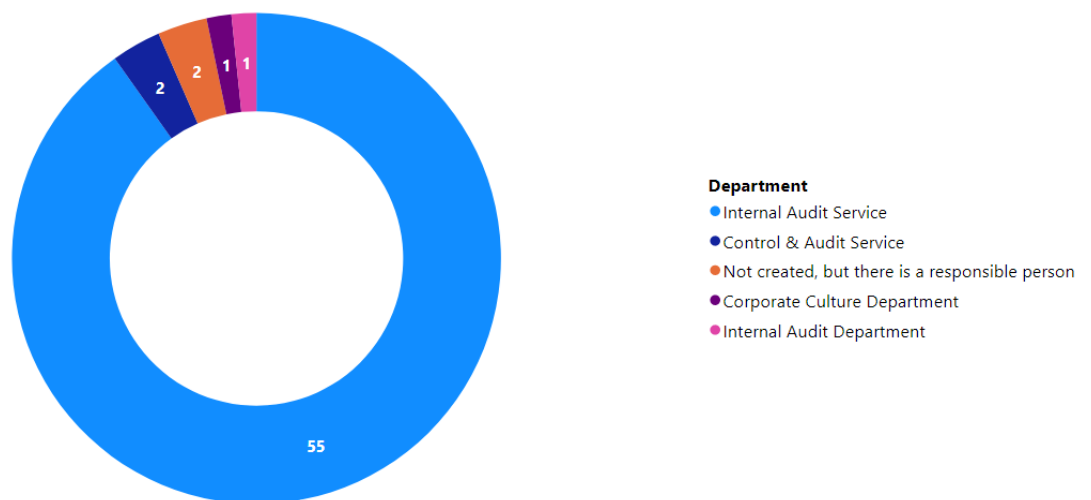


4.3 Characteristics of departments performing internal audit functions

In this section, we present information about the department performing the functions of internal audit as well as the relationship between the number of internal audit employees and the number of audits conducted.

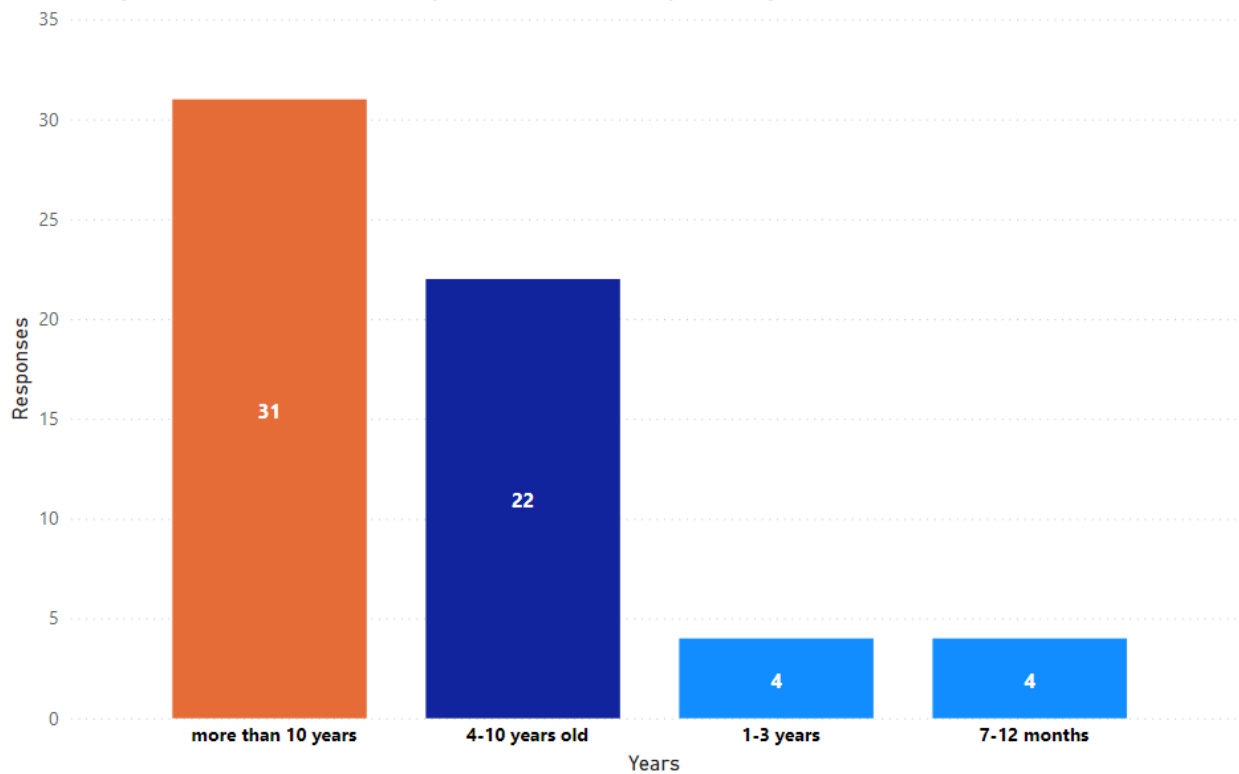
Department performing internal audit functions. According to the study, in 55 organizations, the internal audit functions are performed by the IAS. In two organizations, a department has not been created but there is a person responsible for internal audit.

Which department performs internal audit functions in your organization?



The existence of the internal audit department in the organization. According to the study, in 31 organizations, the internal audit department has existed for more than 10 years, in 22 organizations - from 4 to 10 years. 4 organizations have had their IA department from one to three years, while other four companies created it rather recently, ranging from 7 to 12 months before.

How long does Internal audit department exist in your organization?



Number of employees of the department performing internal audit functions. When setting up the IA department in the company, CEO's and the Board of Directors wonder about the necessary number of auditors required to conduct efficient audits in the company. In fact, this was confirmed to be the case by the chairman of the Institute of Internal Audit in Kazakhstan during the preparation of the survey.

The following graph shows information about the number of IAS employees. Most of the organizations, namely 41 organizations, have less than 10 employees in the department. Number of auditors ranges from 10 to 25 employees in 17 organizations, and 26 to 60 employees in 3 organizations.

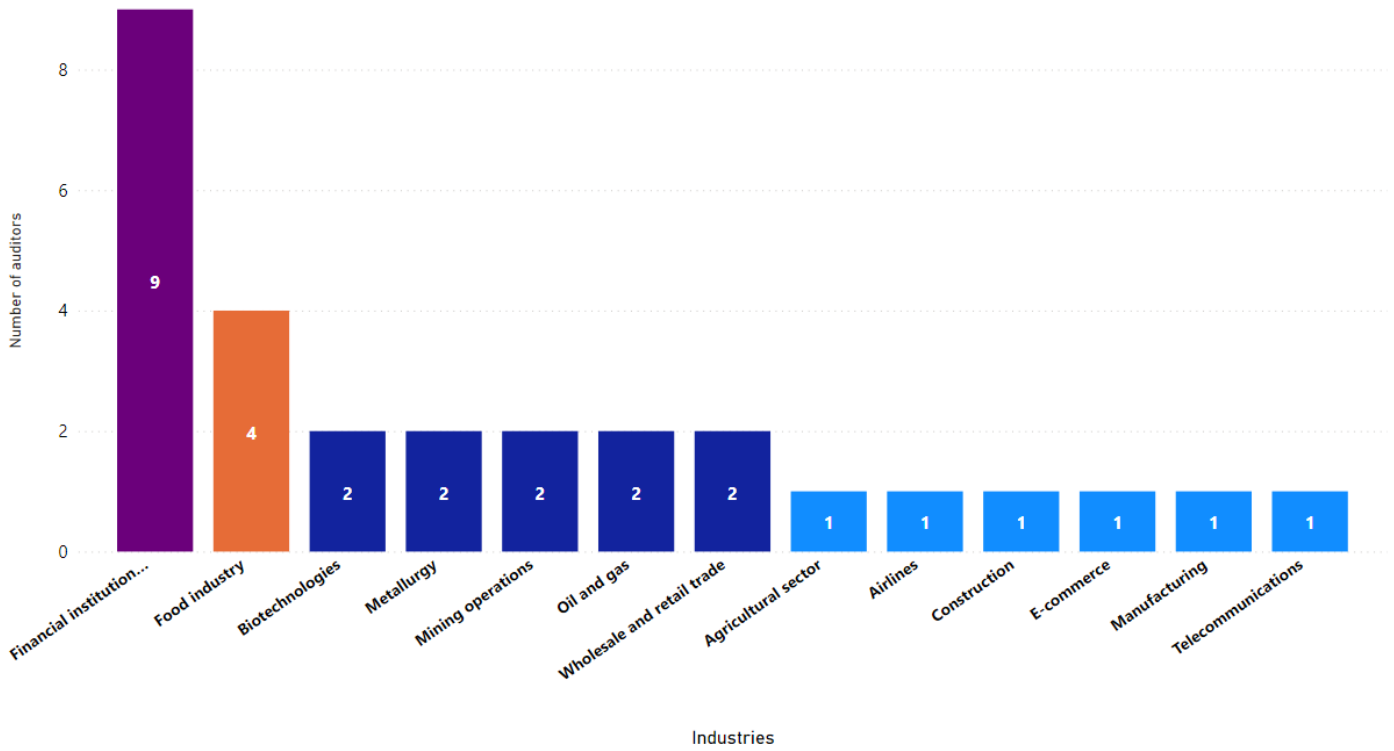
What is the number of employees of the department performing internal audit functions?



Additionally, we calculated the average number of auditors in relation to the number of employees in organizations of various fields. According to the data, where the number of employees in the organization is more than 1,000 people, the calculation of auditors was conducted per 1,000 employees.

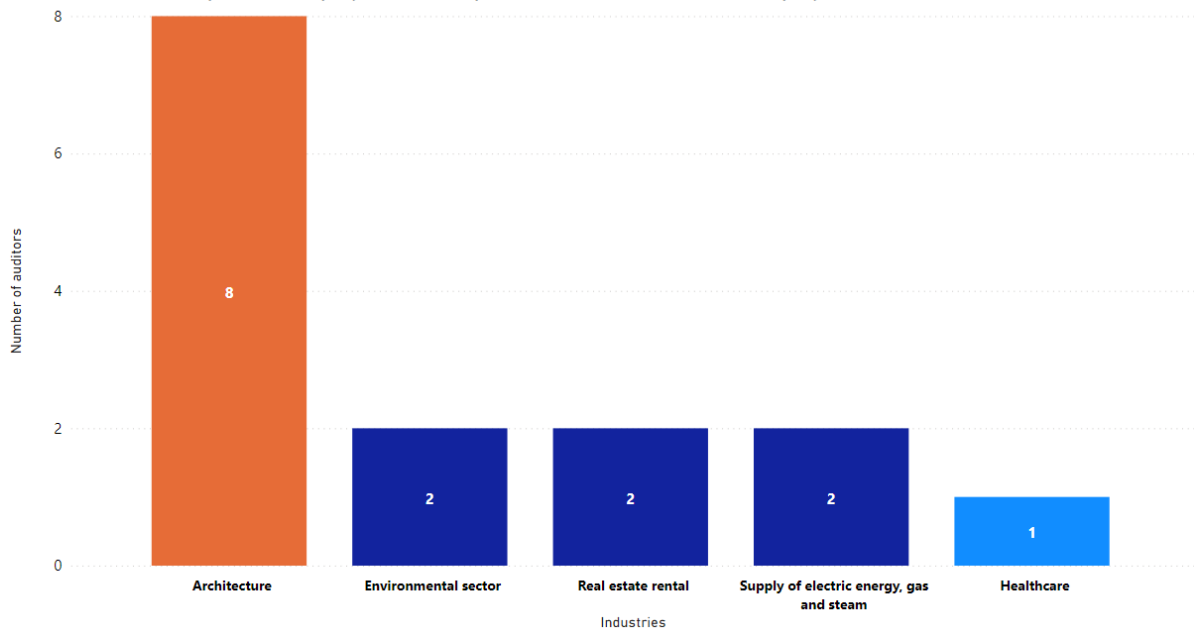
The number of auditors in the field of financial institutions is 9 auditors, in the food industry - 4 auditors, 2 auditors in the fields of biotechnology, metallurgy, mining operation, etc.

Number of auditors per 1,000 employees, in companies with more than 1,000 employees



In companies where the number of employees is less than 1,000 people, the calculation of auditors was carried out per 100 employees. Consequently, in the field of architecture there are 8 auditors per 100 employees, while in sectors such as the environmental sector, rental of real estate, supply of electric energy, gas and steam, there are 2 auditors per 100 employees.

Number of auditors per 100 employees, in companies with less than 1,000 employees

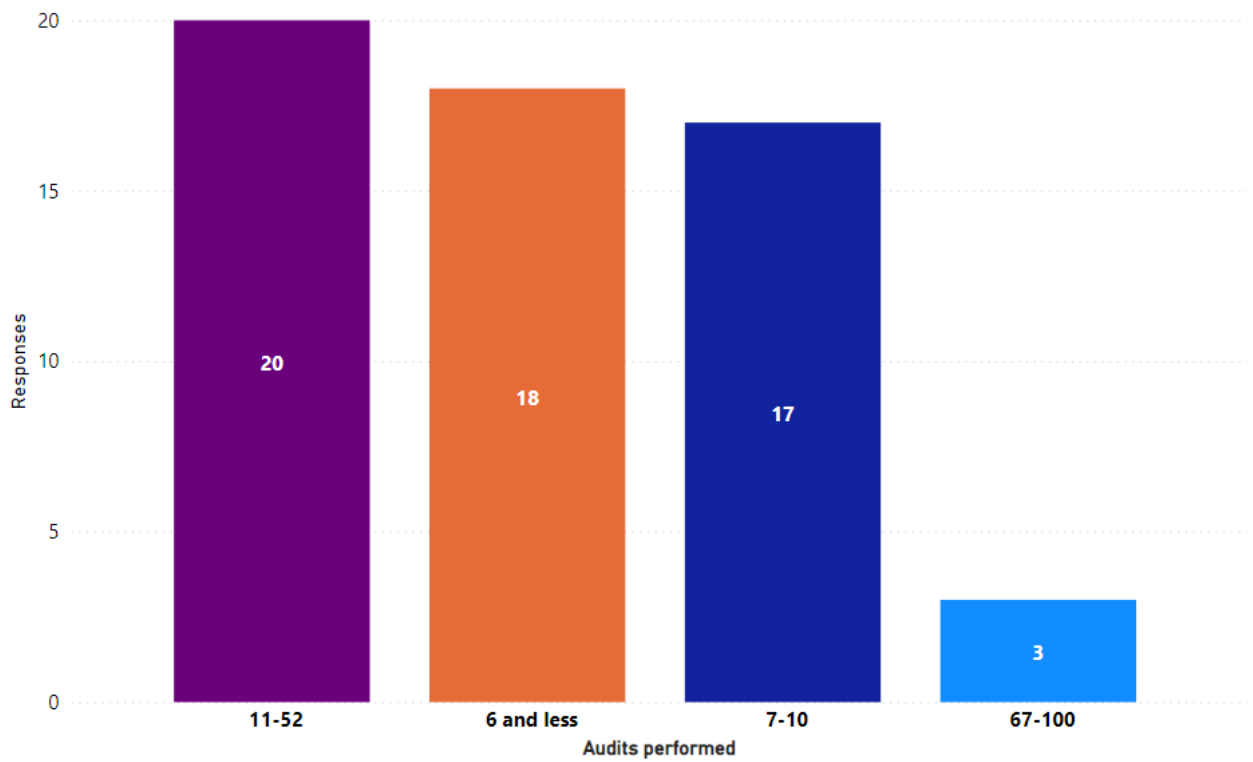


Overall, it seems that the quantity of auditors needed for the efficient conduct of audit cannot be specific, since the data shows that the number of auditors varies substantially across firms and sectors. What might be more relevant are the functional roles of team members as clearly described by I. Adizes in his PAEI Management Model (Producing, Administrating, Entrepreneuring and Integrating). The model states that the departments in organizations should be staffed with specialists from various industries, such as information technology, economics and finance, corporate governance, internal control and risk management, engineering and construction, labor and civil law, depending on the specifics of the work of a particular organization. As a consequence, the model dictates that specialists with complementary skills will conduct better-quality and more objective audits (Lobova, n/d).

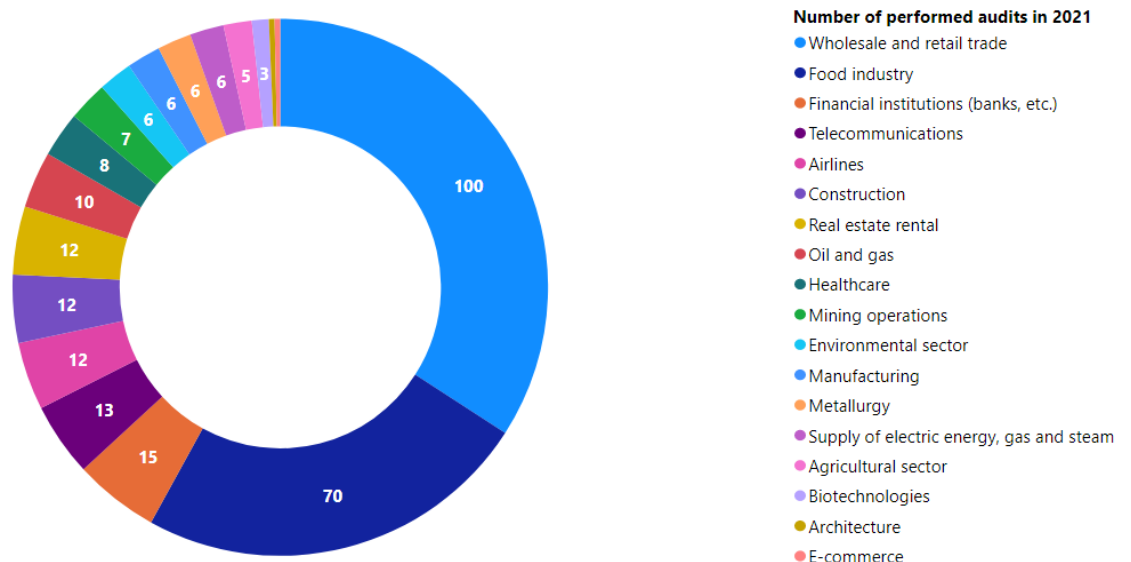
Number of audits conducted in 2021. According to the study, in 2021, 20 companies conducted from 11 to 52 audits, 17 companies - from 7 to 10 audits, and 18 companies conducted 6 or less audits.

The leaders in the number of audits conducted in 2021 are companies in the wholesale and retail trade, which have carried out 100 audits. This is due to the fact that there is a constant movement of goods in this industry. Consequently, such a number of audits are conducted to assess the market situation, sales dynamics, strengths and weaknesses of existing products. The food industry organization had 70 audits in the year since the manufacturing of products of plant and animal origin requires a thorough check of the sanitary and epidemiological condition, hygienic production modes and many other standards. With regards to the mining operation industry, companies from the sector of supply of electric energy, gas and steam have carried out up to 7 audits per year. Moreover, according to the study, 1 respondent from the manufacturing industry replied that this is confidential information, 1 respondent from the construction sector does not know how many audits were conducted during the year.

How many audits were conducted in 2021?

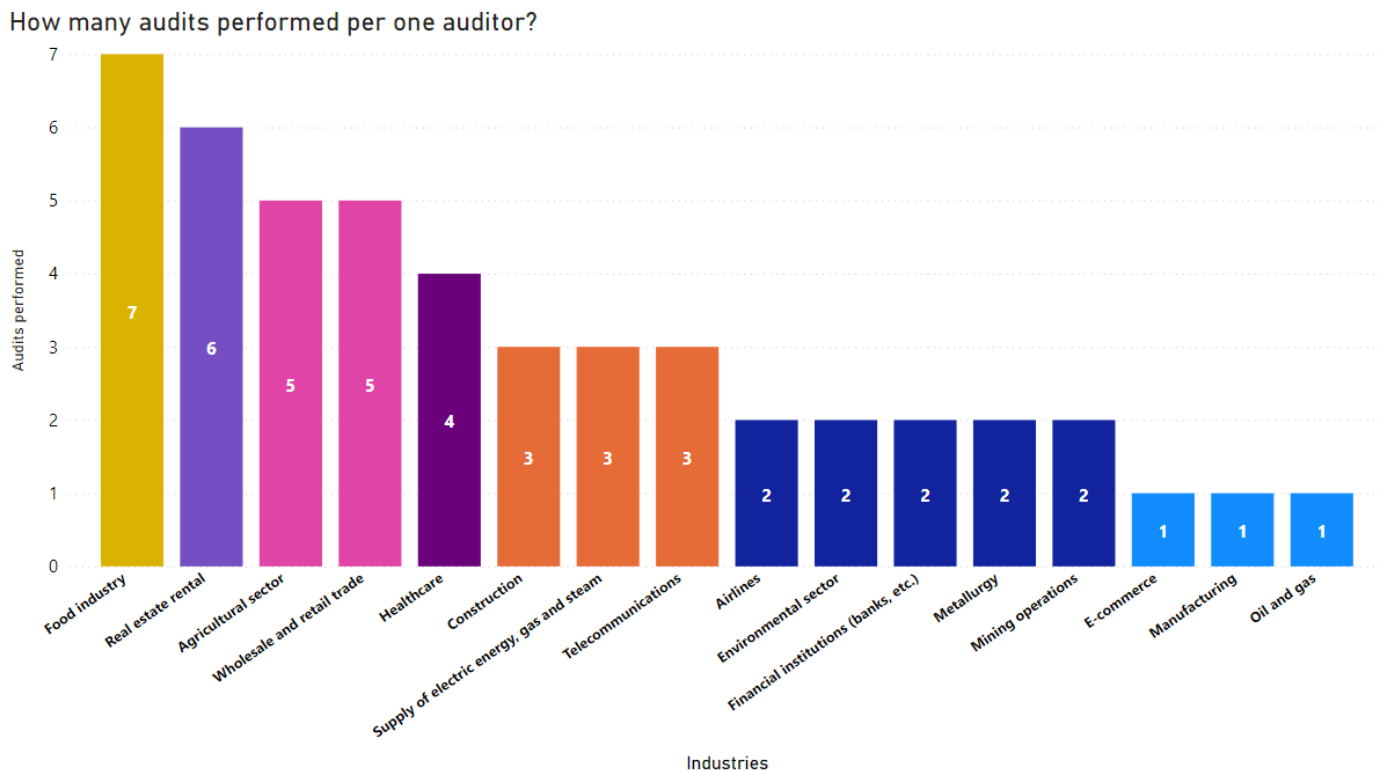


How many audits were conducted in 2021?



Audits performed per one auditor. As part of the study, we calculated how many audits are conducted per one auditor. We present this indicator since it might be interesting for

organizations to find out the number of audits conducted per auditor in different industries. In the field of the food industry, 7 audits are conducted per one IAS employee, in real estate rental - 6 audits, in retail and agriculture - 5 audits, in healthcare - 4 audits, and in such areas as e-commerce, manufacturing, oil and gas, 1 audit was carried out per 1 auditor.

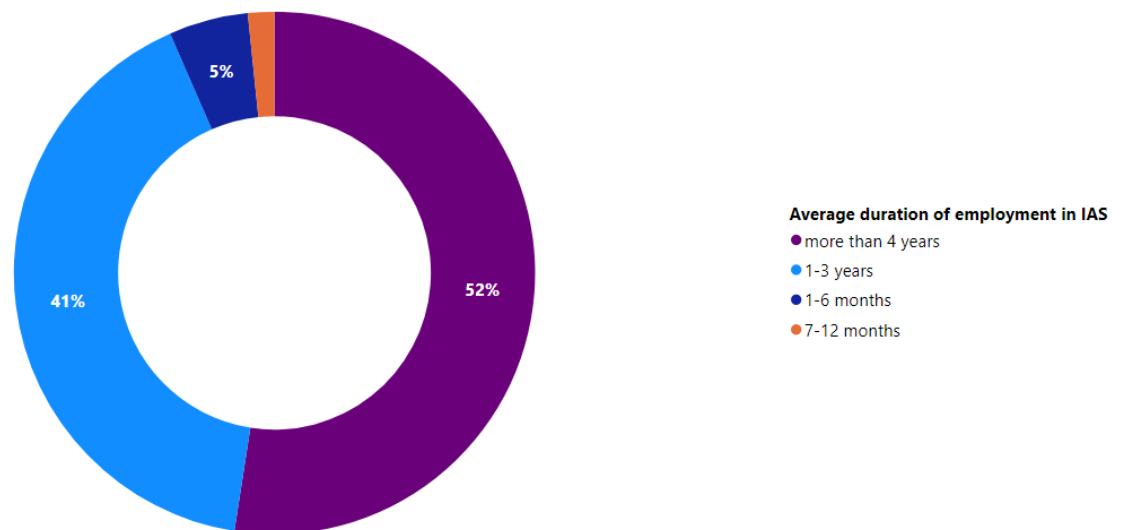


4.4 Personnel management

In this section, we present our analysis of the level of skills and expertise that Kazakhstani internal auditors possess. We expect that employees mostly have a background suitable for working in internal audit. Moreover, due to the fact that internal audit is developing in Kazakhstan, we expect that organizations have a desire to provide further training to improve the skills and certification of employees in internal audit departments. The purpose of this section is to determine how auditors can apply their theoretical skills acquired at the university and their further development in the IAS.

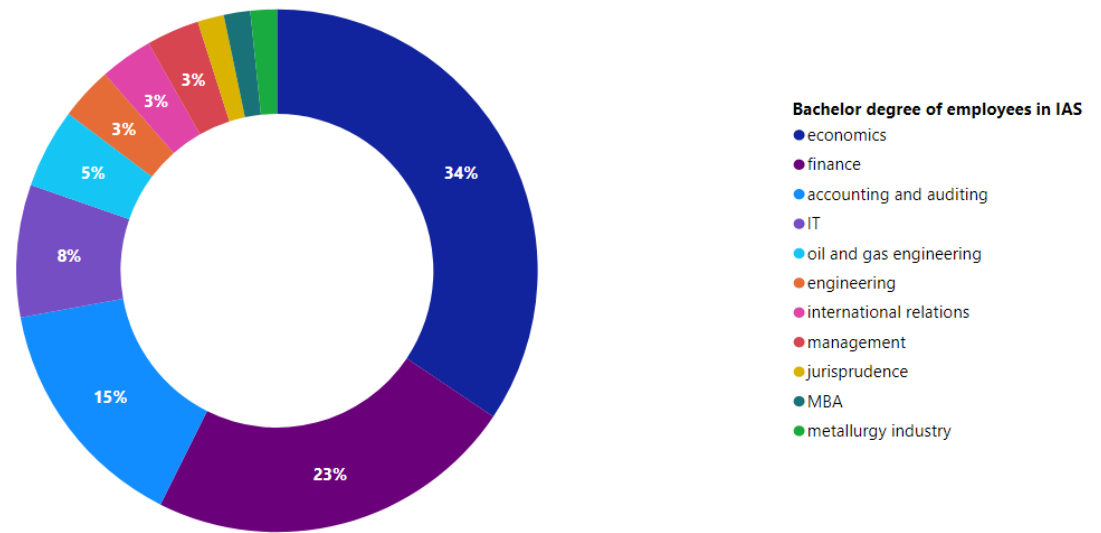
Average duration of work of employees of the internal audit service. According to the results of the study, more than half of the survey participants noted that they have been working in the IAS company for more than 4 years. Another 41% of respondents have an average professional experience of staff members from 1 to 3 years, and 5% have an average work seniority lasting from 1 to 6 months. Lastly, only one respondent has a working experience of less than a year.

What is the average duration of employment in internal audit department?

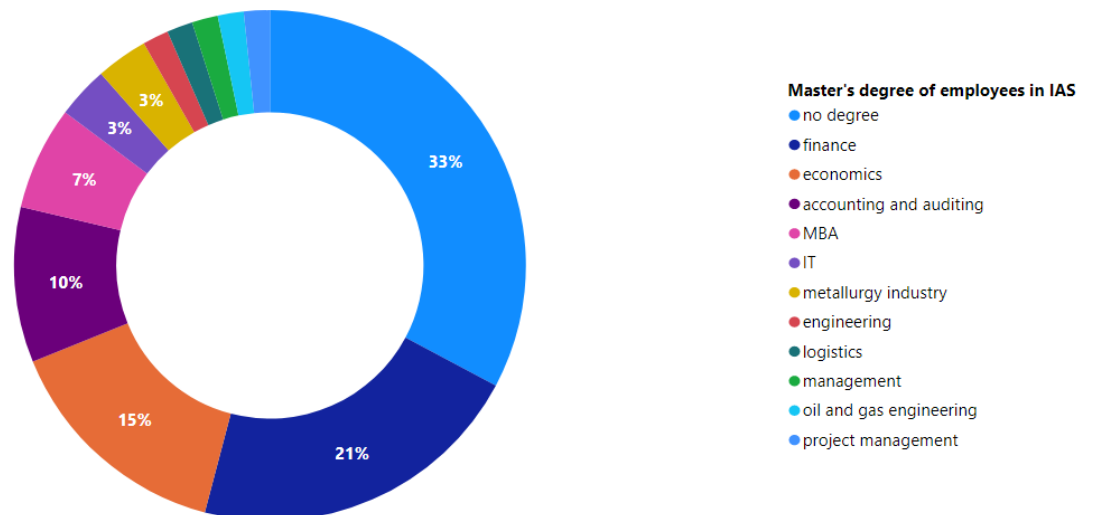


Bachelor's and Master's degree of IAS employees. In recent years, the internal audit service employees mainly came from the specialties of economics, finance, and accounting & audit as we expected (72%). In addition, there were answers such as engineering, metallurgy industry and oil and gas engineering, which is an unusual fact for the internal audit profession. One third (33%) of respondents did not receive a master's degree, while 46% of employees continued their studies in the economic sphere.

What is your bachelors degree specialty?

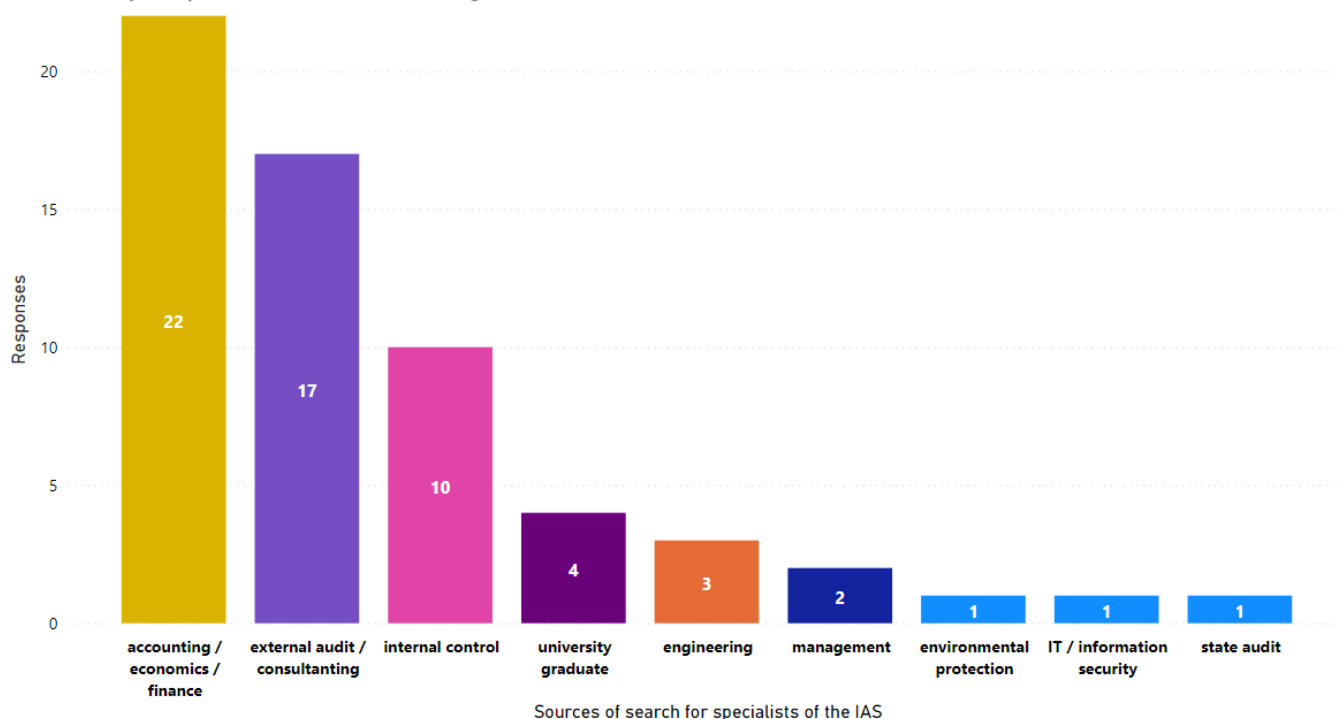


What is your masters degree specialty?



Sources of search for specialists of the internal audit service. In recent years, the internal audit service has mainly recruited staff among accountants, financiers and economists (22 answers). Moreover, attracting staff from the “Big Four” companies is the second highest recruitment resource for internal auditors (17 answers).

What was your profession before coming to IAS?

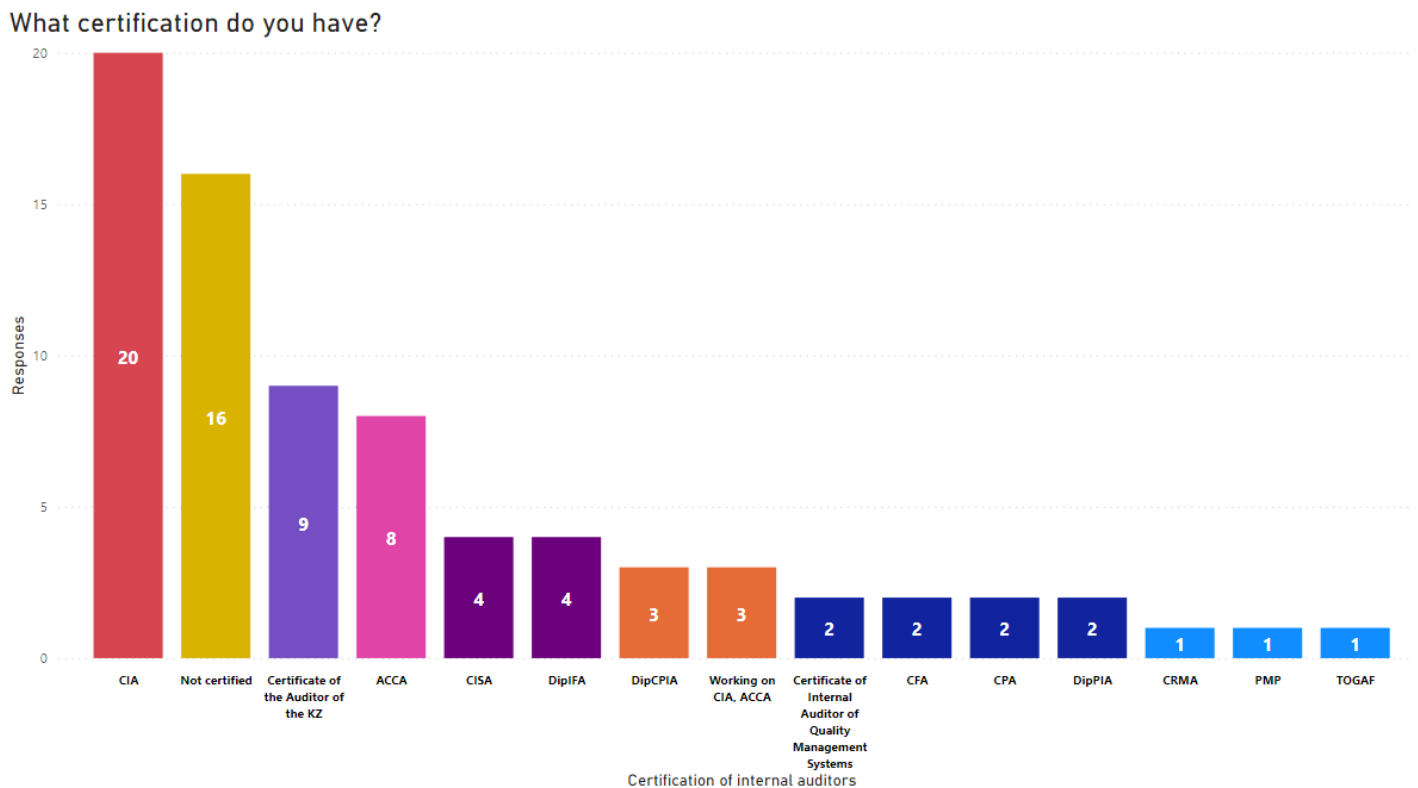


Certification of internal auditors. Certifications also play a significant role in determining the skills of internal auditors. We believe that since a considerable number of employees came to internal audit from Big4 companies in Kazakhstan, the majority of respondents will hold ACCA certification since Big 4 companies tend to give an opportunity to take these examinations.

According to the data obtained, 45 IAS employees have various certifications from different industries, including accounting, finance and management. It is worth mentioning that respondents could choose more than one answer.

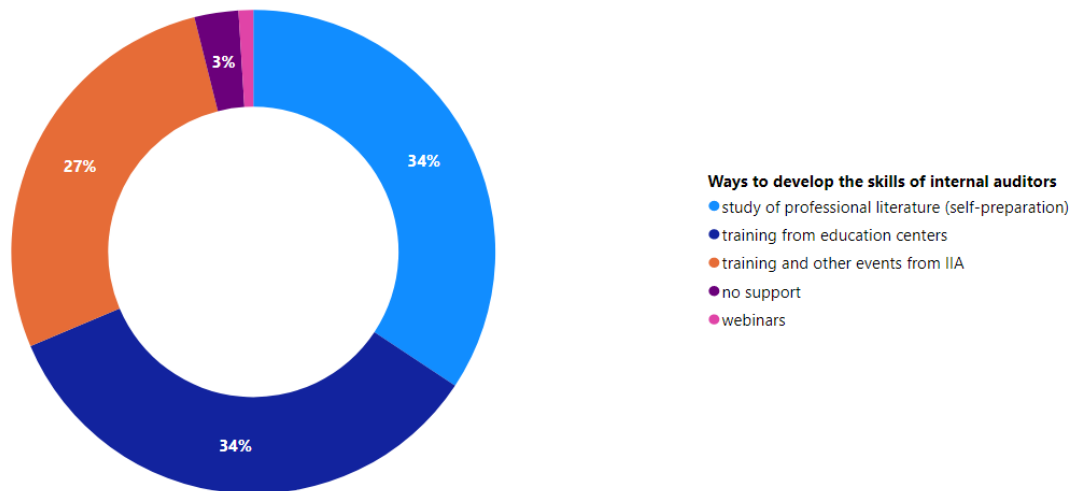
There is a predominance of CIA certification, which is held by 20 participants of the survey. Contrary to our belief, ACCA certification for accounting is held only by 8 internal audit employees. 16 respondents indicated that they hold no professional certificates in the IAS. Moreover, 9 employees have professional internal audit certifications separately recognized by the Republic of Kazakhstan - Qualified Auditor Certificate of the Republic of Kazakhstan,

American organizations - Diploma of Certified Professional Internal Auditors (3 respondents) and British organizations - Diploma in Professional Internal Auditor (2 respondents). In addition, we have received 10 responses, such as CISA, PMP, DipIFA, TOGAF, which are certifications of other industries.



Ways to develop the skills of internal auditors. According to the data obtained, 34% receive additional knowledge through training from education centers. The same percentage of employees are engaged in self-study and study of professional literature, and the remaining 27% gain practice from training sessions and other events from IIA.

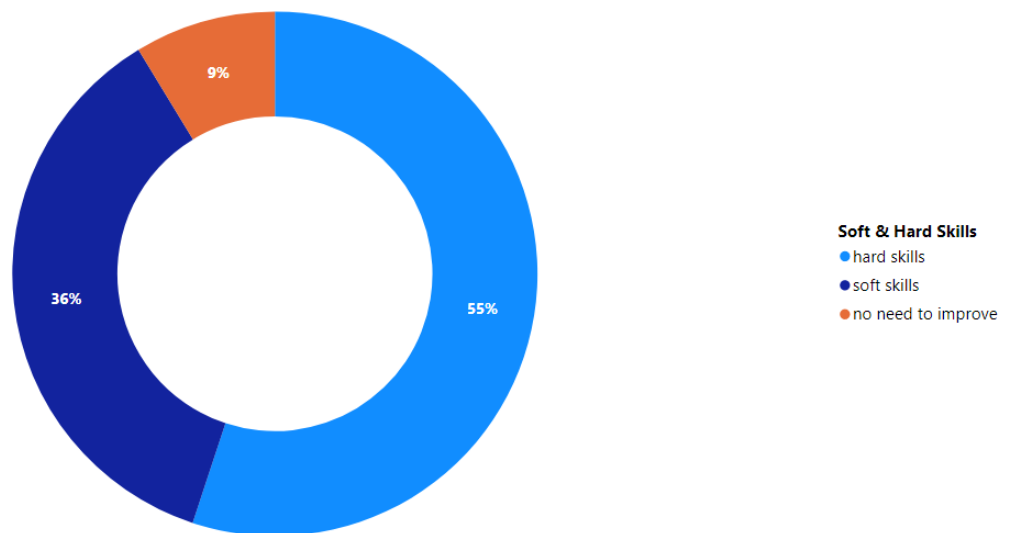
How does your organization support the acquisition of additional knowledge and skills in the field of internal audit?



Soft & Hard Skills. In 2020, due to COVID-19 and quarantine measures, organizations switched to a remote format of work. Based on this, we expect that most of the respondents will desire to improve their technical skills more, namely their IT skills, compared to bettering their soft skills.

Based on the analysis, it can be understood that more than half (55%) of respondents would like to improve their technical skills, such as Data Analysis, IT audit or SQL, Pentesterlab, Agile, Soft Focus software, which also confirms our expectations mentioned above. 36% of the respondents surveyed would like to improve soft skills, such as stress tolerance, time management, communication skills, negotiation and conflict resolution. Moreover, it is worth noting that 9% do not consider it necessary to improve abilities in certain areas.

What "soft" and "technical" skills would you like to improve?



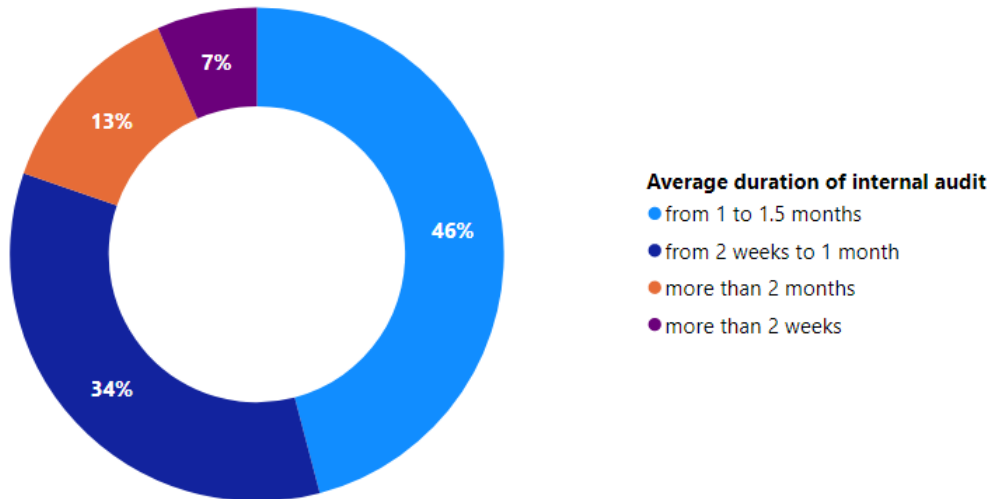
4.5 IAS processes

The purpose of this section is to define how certain aspects can affect the IAS processes and what difficulties may arise in the internal audit process.

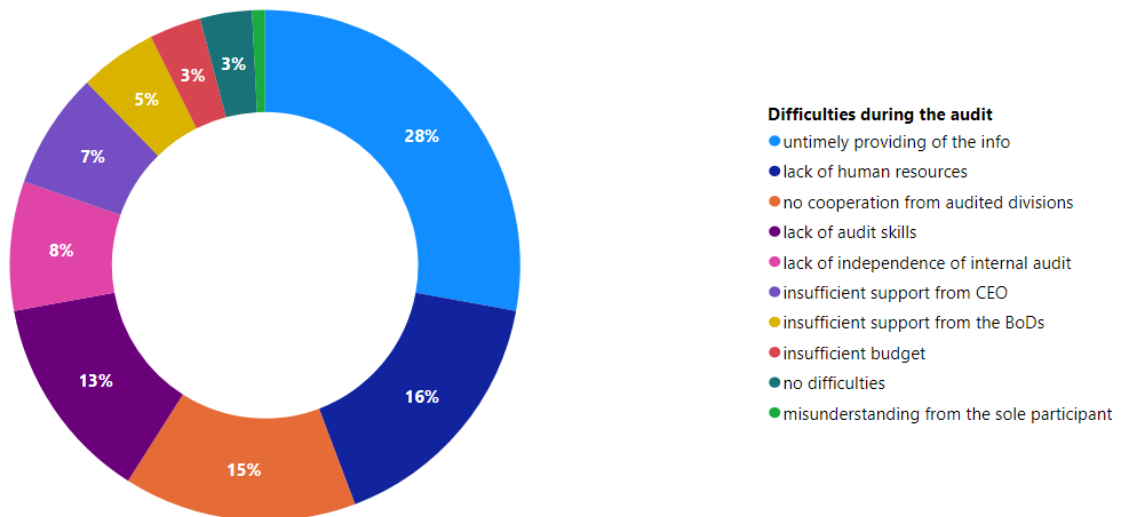
Average audit duration and difficulties. Almost half of the respondents (46%) replied that the average duration of an audit takes from 1 to 1.5 months. Also, 34% said that the duration of the audit takes from 2 weeks to a month.

During the analysis, we expected that factors such as untimely providing the necessary information by the audited departments, lack of human resources and the number of performed audits could affect the duration of the conducted audit. As a consequence, regardless of the duration of the audit engagements, 28% noted that over the period of audit one of the difficulties is the lack of timely providing of the needed information by the audited departments and 16% mentioned the lack of human resources. Additionally, it stands to mention that 15% indicated insufficient cooperation on the part of the audited divisions as one of the difficulties during the performance of the audit.

What is the average duration of internal audit?



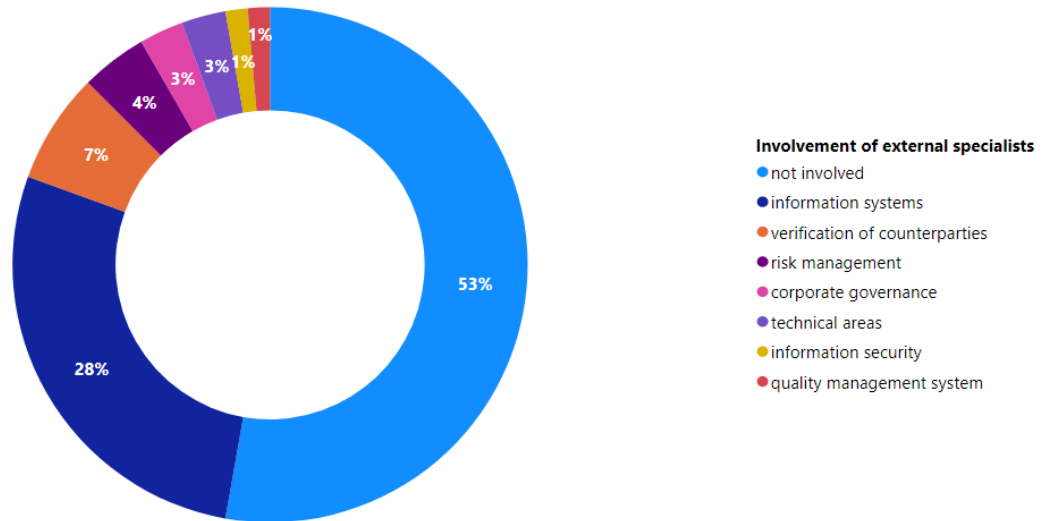
What difficulties arise during the performance of the audit?



Involvement of external experts. The survey results show that half of the respondents 53% do not attract external specialists. Meanwhile, 28% of respondents said that they involve external experts to audit information systems. It should be emphasized that of these 28% - 2 employees (8%) are IT audit employees. These indicators tell us that internal auditors might not have developed IT skills, which is further confirmed by the responses mentioned above in

“Soft & Hard Skills”, where 63% of the respondents stated that they wanted to improve their IT skills.

In which fields do you involve external specialists?

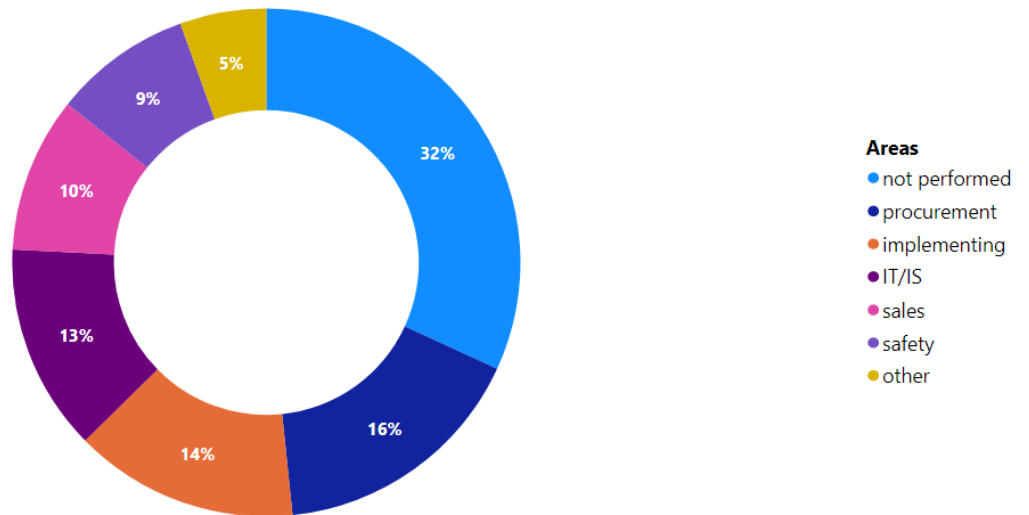


Continuous audit. According to Akulich (2015), in order to identify risks and fraud at an early level, IAS should switch to continuous audit and use data analysis on a permanent basis using softwares. Therefore, we expect that almost all organizations will use continuous audit.

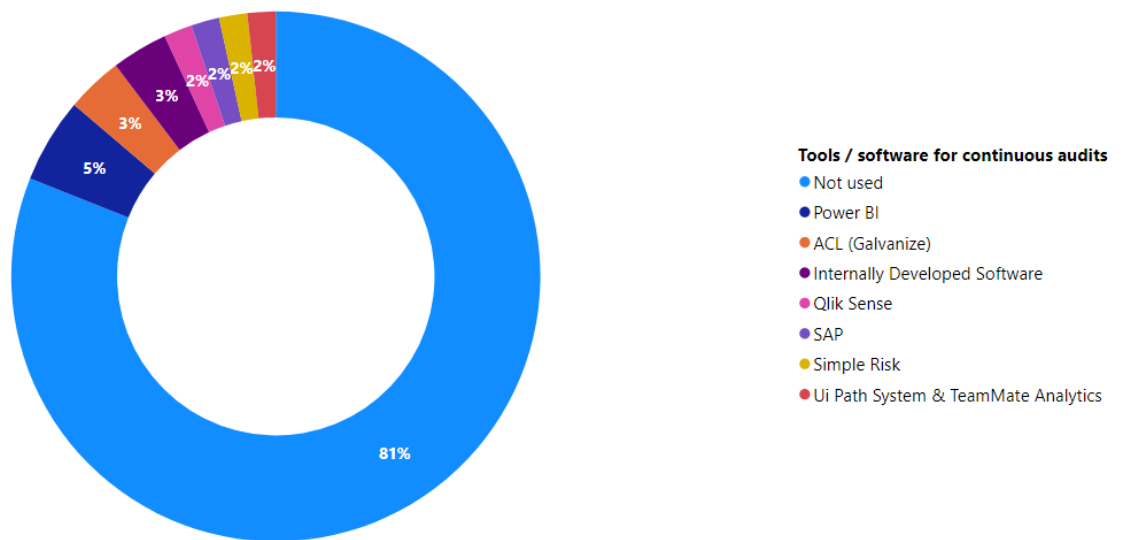
Based on the analysis, our expectations were not justified as most of the respondents (32%) noted that they do not conduct continuous audits using automation of the entire organization. Additionally, 16% answered that organizations conduct continuous audits in procurement and 13% in IT or in IS. It is also worth noting that 14% are planning or are in the process of implementing a continuous audit in the near future.

Furthermore, most of the IAS employees (81%), who conduct continuous audit, responded that they do not use any software for continuous audits, 5% use Power BI and 3% use ACL (Galvanize).

In which areas are continuous audits conducted (using automated IS) in your organization?



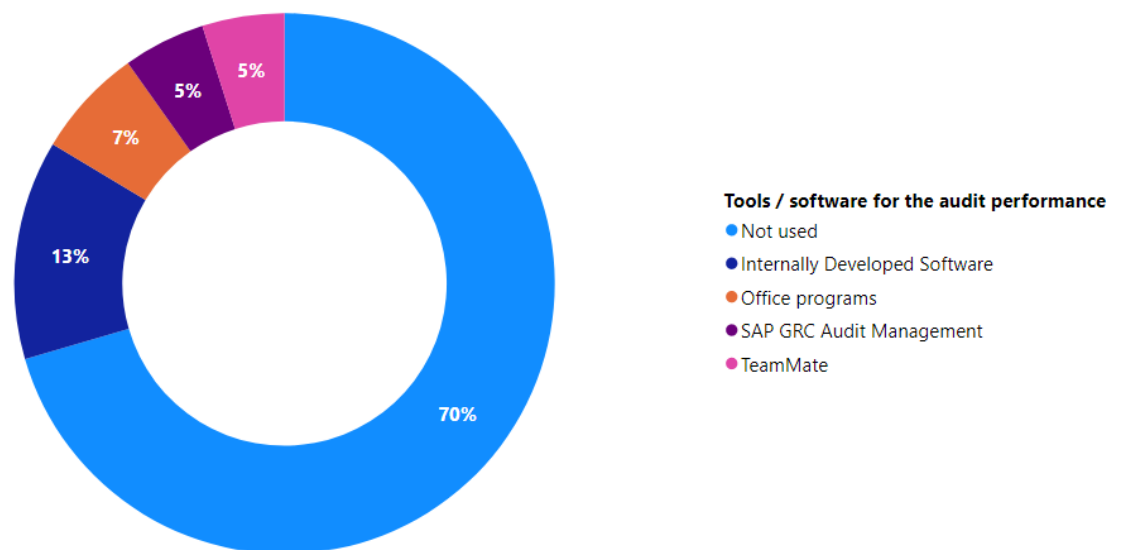
What tools / softwares are used for continuous audits?



Using Internal Audit software. Every year the trend of automation of business processes seems to be growing. From this perspective, we anticipated that most of the respondents would answer that they use automation in their activities. In this case, our expectations were not confirmed due to 70% of respondents saying that they do not apply software in the internal audit processes.

What we are interested in is the level of change in the use of software in the daily activities of the IAS. The spur for development in this direction could be the situation that developed in 2020, when employees switched to a remote format of work due to COVID-19. In order to see the changes between 2020 and 2021, we rely on the data of the research paper “A comparison of internal audit trends in local companies and abroad” from the authors Nazyrova, Beisembayeva, Keisov, and Khankhozhin (2021). Comparatively, the level of software used in the activities of the IAS seems to have changed marginally. To be more precise, in 2020, 78% of the respondents did not use automation tools, while in 2021, this figure slightly dropped to 70%. While the difference in the values could be due to differences in sample size or survey design, the results appear to indicate that organizations did not start implementing more or better software in the work of the IAS.

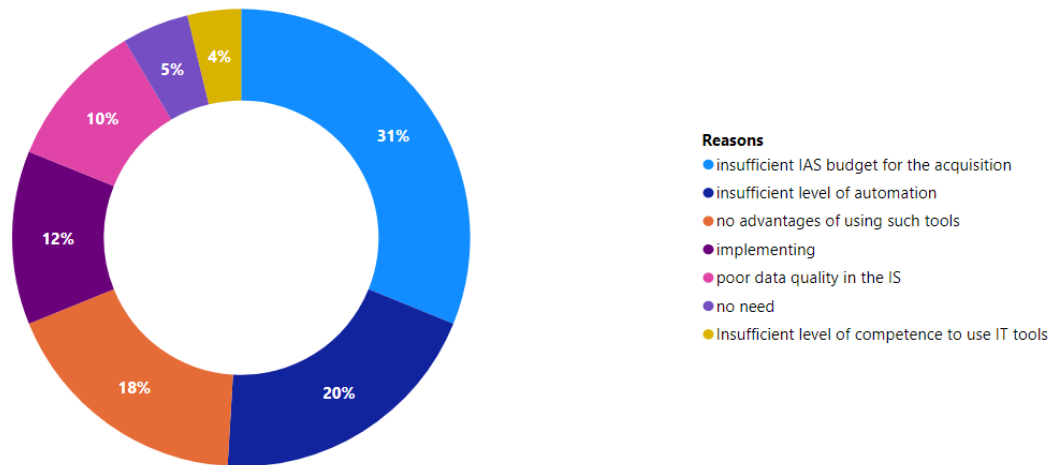
What tools / softwares are used to perform the activities of the IAS?



Reasons for non-use automation of audit procedures. The reasons for not using automation in internal audit are that the IAS budget does not allow to purchase or develop the necessary tools (31%), the insufficient level of automation of processes in the organization to

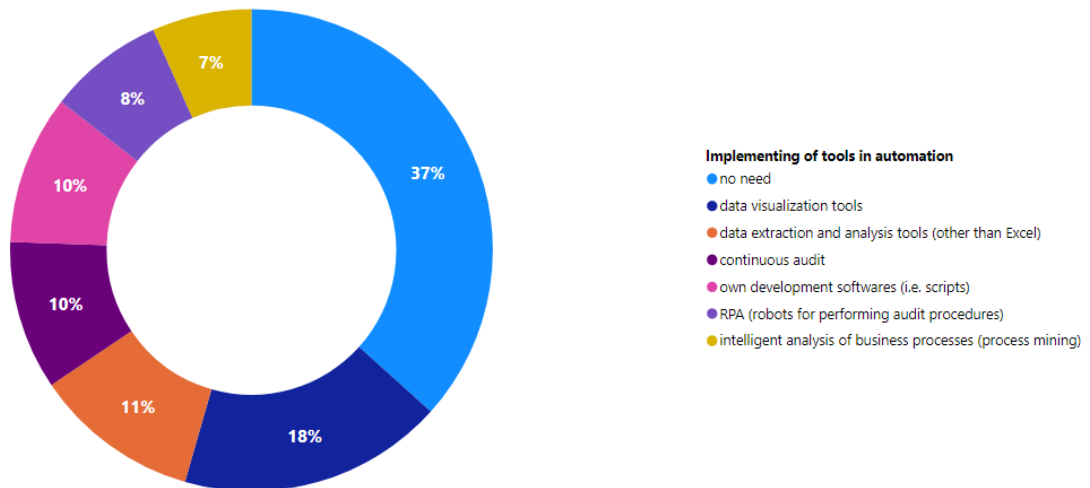
ensure the effective use of these tools (20%) and their non-obvious advantages of using compared to the costs of implementation and application (18%).

For what reasons the departments of IAS do not plan to use automation tools for individual audit procedures?



Planned automation tools for audit procedures. In order to understand the general picture and the future prospects for IAS in Kazakhstan, we asked the respondents what automation tools they plan to use in the next 3 years. 37% of the respondents said that at the moment they do not plan to use automation in their department. 18% of respondents mentioned data visualization tools (for example, Tableau, Qlik Sense, Power BI), 11% plan to use data extraction and analysis tools, while 10% rely on automation in continuous audit and in-house developed tools.

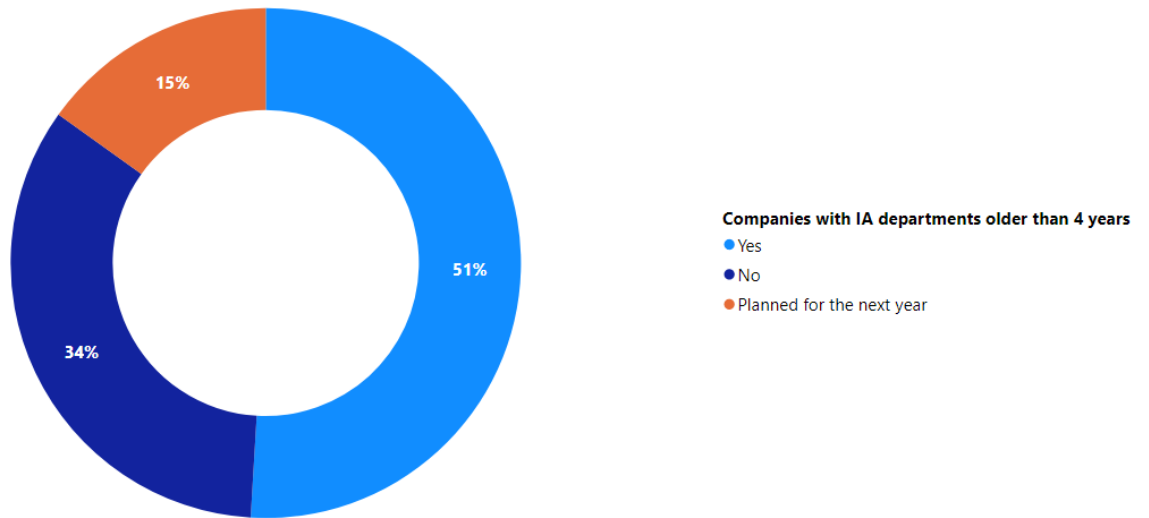
What tools of automation of audit procedures are planned to start using in the next 3 years?



Assessment of the quality of internal audit activities. According to Nick-Zade & Mukanova (2019), standard 1312 obliges organizations to conduct an external quality assessment at least once every five years. Companies seeking to comply with best practices will assess activity of IAS more often. However, companies in Kazakhstan are not required to follow the International Professional Practices Framework (IPPF). Nevertheless, we anticipate that companies with IA departments, which are at least five years old, adhere to international standards and have conducted an external evaluation over the past five years.

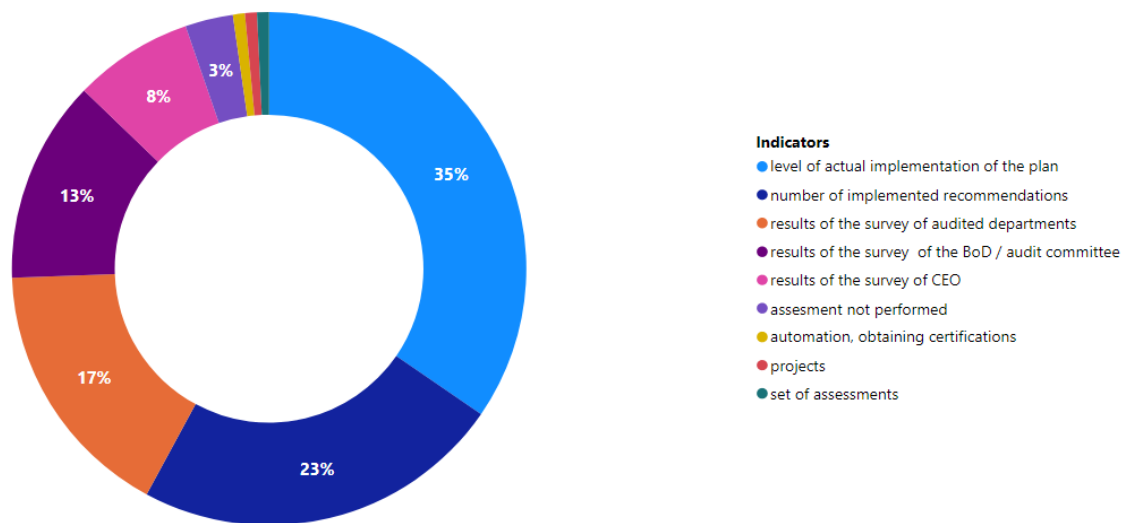
More than half of the respondents (27 respondents of 53) of companies, where the IA department has existed for more than 4 years, answered that they had an external assessment. Furthermore, 8 of these 53 respondents have planned an external evaluation to be conducted next year. Lastly, 18 organizations with IA departments older than 4 years have not conducted an external assessment over the last 5 years. Based on the above, we can confirm that the majority of the companies in Kazakhstan follow international standards even if they are not required to do so.

Has there been an external assessment of the IAS quality over the past five years?



Assessing the effectiveness of the IAS. Among the respondents who have had the external assessment of their department, almost half assess the work according to the degree of actual implementation of the plan (35%), 23% consider the number of implemented recommendations and 17% rely on the results of the survey of the audited departments.

What indicators do you use to evaluate the effectiveness of the department?

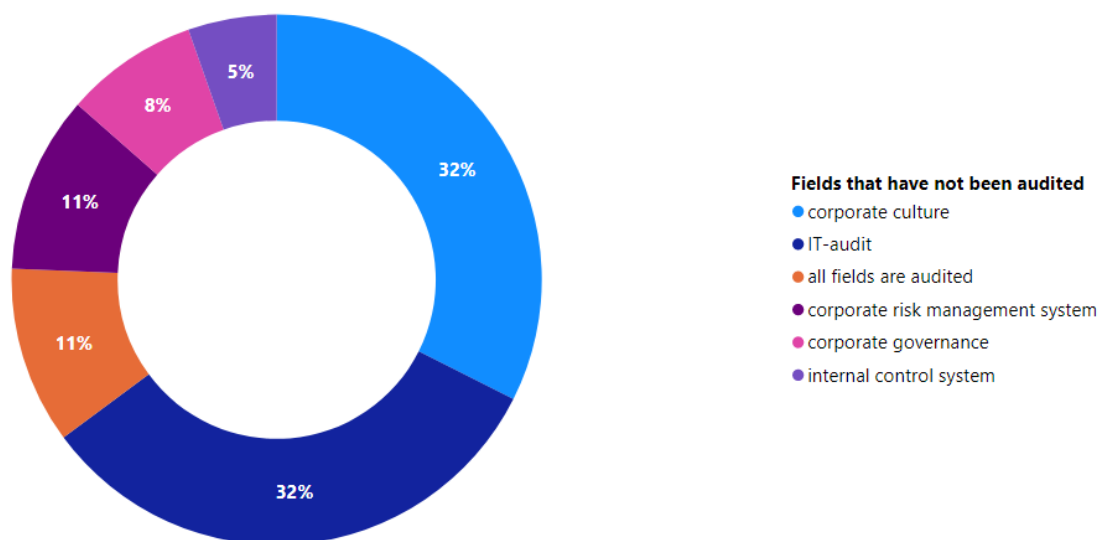


Areas that have not been audited. Consistent with the afore-mentioned expectation about lack of IT skills among internal auditors, we also anticipated that most likely organizations do not conduct audits in the IT field.

In the course of the study, 32% respondents answered that they do not conduct IT audits. The potential reasons for not conducting IT audits are lack of competencies, lack of IT auditors, priority of other areas, and no own IS.

As mentioned earlier, in section 4.4 on “Personnel Management”, 63% of respondents said they lacked IT skills, which could explain why respondents do not conduct audits in the IT field. Moreover, 70% do not use automation for the activities of their division which explains why departments of internal audits do not own IS, leading to no audits carried out in the IT field.

In which fields you do not conduct audits?



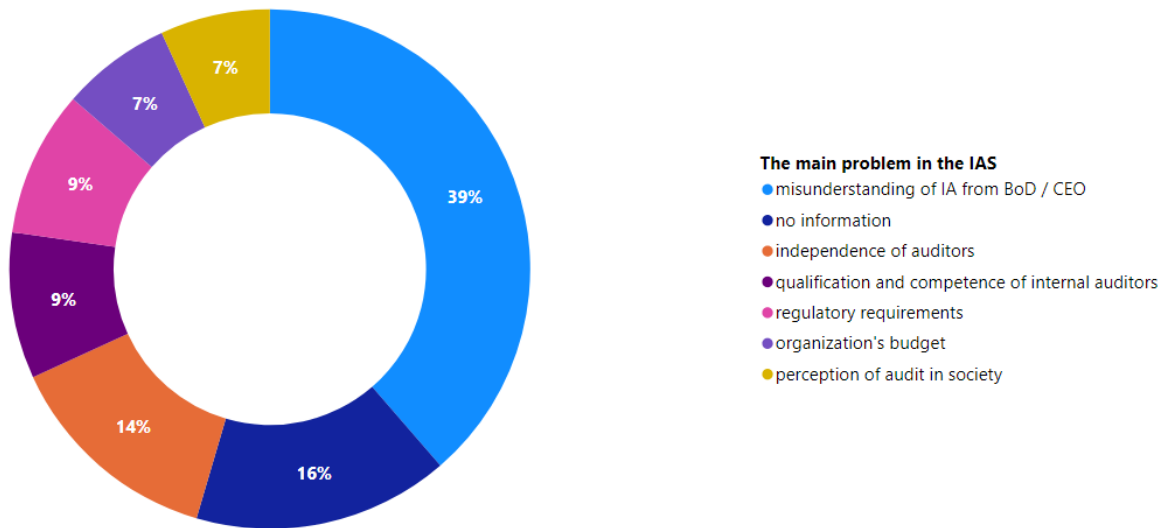
4.6 Personal opinion of IAS employees.

For more information, the respondents were surveyed about their opinions on the positive and negative factors in working in the IAS. Since this section was optional for respondents, on average 33 IAS employees answered each question.

The main problems in the field of internal audit today in the Republic of Kazakhstan.

Our first question asked about the main problem in the field of internal audit today in Kazakhstan. In this case, 43 respondents answered this question. 39% of respondents note that in organizations today there is a misunderstanding of the IAS from the Board of Directors or from Managing Directors. Respondents also point out that a lack of understanding of internal audit and its processes leads to the fact that a small budget is allocated for employees and, accordingly, wages for auditors are also low. For example, some of the answers were “Misunderstanding by business owners (shareholders) of the principles of internal audit and, as a consequence, the principles of internal control and risk management.”, “unwillingness to pay due attention to internal audit issues, including auditors' salaries. In most joint-stock companies in Kazakhstan, the IAS is only in order to close before the regulatory authorities.” In addition, 14% notice the independence of auditors from the CEO of the organization as one of the problems in this area. The key aspect is the functional subordination of IAS employees. As mentioned earlier, 4 companies report to the CEO. It is worth noting that this may negatively affect the independence of internal auditors and their work. For example, respondents answered that the IAS should be fixed at the legislative level so that the CEO does not influence the activities of internal auditors. Internal auditors should be independent from third parties other than the Board of Directors and Shareholders (Руководство по организации внутреннего аудита в АО НК «КазМунайГаз», 2011).

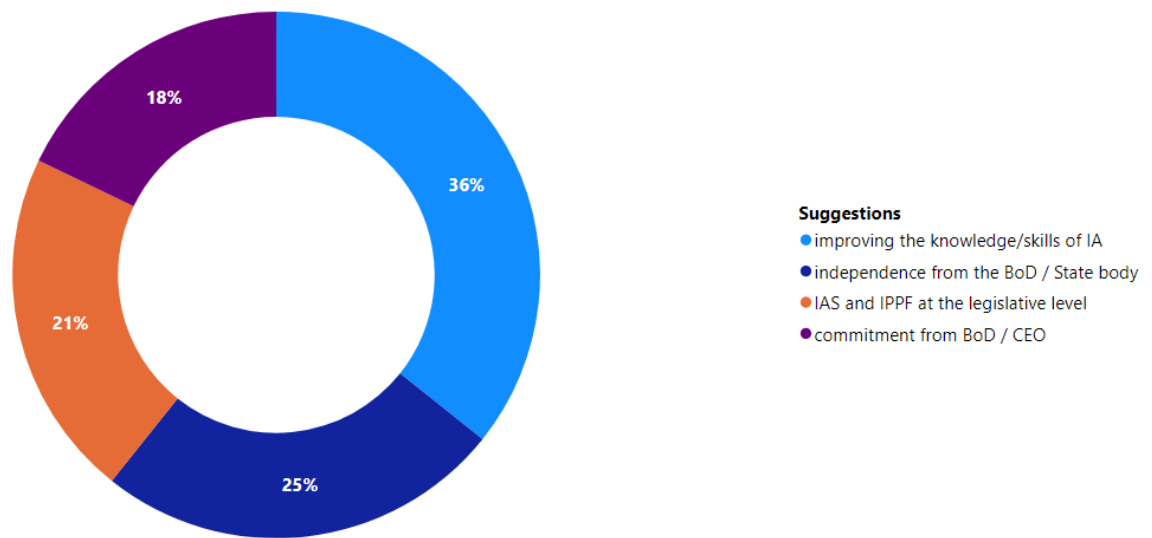
What is the main problem in the field of internal audit in Kazakhstan?



In addition to the above-mentioned problems in the development of internal audit, the article “How to evaluate the work of internal audit” by Korganbekova and Nick-Zade (2021) states that there are often misunderstandings between internal auditors and the Board of Directors in Kazakhstan. For instance, due to false expectations from the Board of Directors regarding the work performed by internal auditors, there may be a conflict of interests, which may sometimes include the dismissal of auditors. This factor reflects that the Labor Contract of the Republic of Kazakhstan does not reflect the specifics of the activities of Internal Auditors and does not protect their rights.

Suggestions to improve internal audit in the Republic of Kazakhstan. The next question was posed to our respondents to understand their opinion on how the above problems could be improved. 31 respondents answered to this question, of which the most common answers were improving the knowledge and skills of the IA (36%), increasing the independence of auditors (25%), the settlement of the IAS and IPPF at the legislative level of the Republic of Kazakhstan (21%) and the commitment of CEO and BoD’s (18%).

What would you suggest to improve internal audit in Kazakhstan?



12 IAS employees indicated the need for an increase in knowledge and skills in the field of IA. For example, organizations could give an opportunity to participate in international training sessions, exchange experience in this field, or implement mandatory completion of Certified Internal Auditor (CIA) courses for employees. One of the key factors is that auditors also gain knowledge in their field on their own. As mentioned earlier, employees are engaged in self-training (34%), receive training from training centers and receive training from IIA (28%). Based on this, it can be concluded that most respondents support or receive their knowledge by themselves.

6 respondents noted that in order to improve the state of internal audit, they want to be independent from the CEOs of their organizations. For example, such answers as “more independence, performance of direct audit functions” and “the legal basis for protecting internal auditors from pressure and competence” were noted.

Additionally, 8 respondents believe that internal audits should be fixed by law. In order to exercise control over the financial and economic activities of the company, the creation of an internal audit service in a public company is mandatory (Закон «О внесении изменений и дополнений в некоторые законодательные акты Республики Казахстан по вопросам

ограничения участия государства в предпринимательской деятельности», para.8.1, 2015). However, there is no law for an LLP that would prescribe the creation of an internal audit service. Respondents believe that it is also necessary to legislate the requirement of all IA services to comply with the principles and standards of the IPPF.

Involvement in the activities of IAS from CEOs and the Board of Directors also play a significant role, since they are the ones who allocate the budget for the IAS. 5 people replied that there is no interest from the CEO and the Board of Directors. If the top managers are not interested in internal audit functions, then internal audit will not develop accordingly. One of the respondents replied that “the effectiveness of the IAS is related to the interest of the Board of Directors and the audit Committee, and since there is no interest, the use of the IAS is merely formal.”

Korganbekova and Nik-Zade (2021) advise to hold educational sessions on internal audit for interested parties. They also state that it is essential to conduct a constant dialogue with the audited divisions in relation to the inspections carried out and with the BoD’s on a quarterly basis (Korganbekova & Nik-Zade, 2021). In addition, the authors point out the problem of internal auditors’ rights in the Labor code, because of which they propose to amend legislative acts. This issue was taken up by IIA in Kazakhstan and an appeal was sent to the Agency for Regulation and Development of the Financial Market and the Ministry of Labor and Social Protection (Korganbekova & Nik-Zade, 2021).

Prospects for the development of internal audit in the future. 35 respondents answered this question. The majority (23 respondents) believe that the prospect of internal audit is good, including 13 respondents who believe that while the prospect of development is good, it is subject to certain factors, such as:

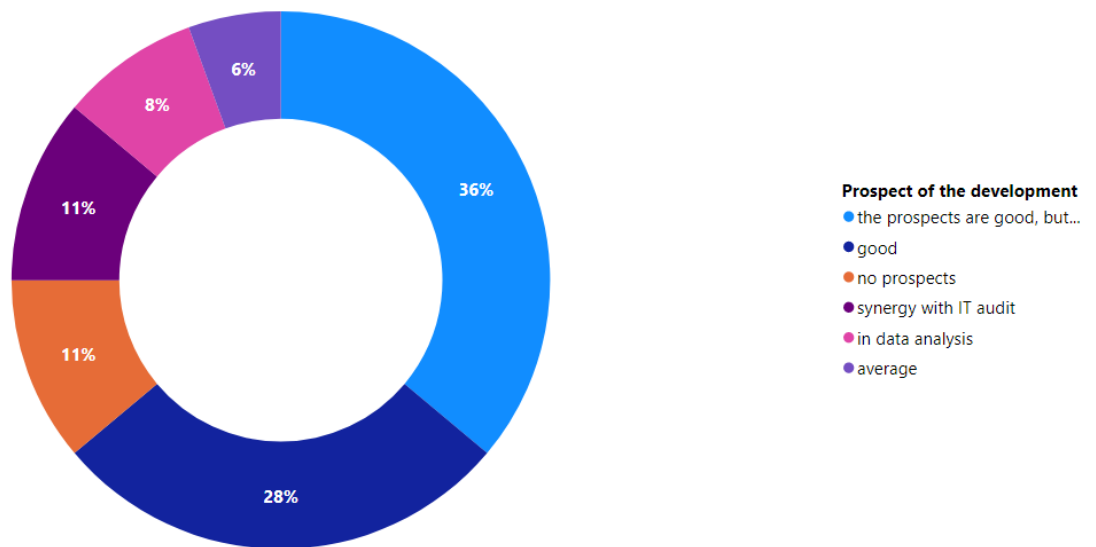
- improving automation
- improving automation of continuous audit

- market trends research
- improving the scope of activities
- improving understanding of the need for IAS
- the need for a control function
- increasing audit regulation and understanding of the need for IAS management and

BoD

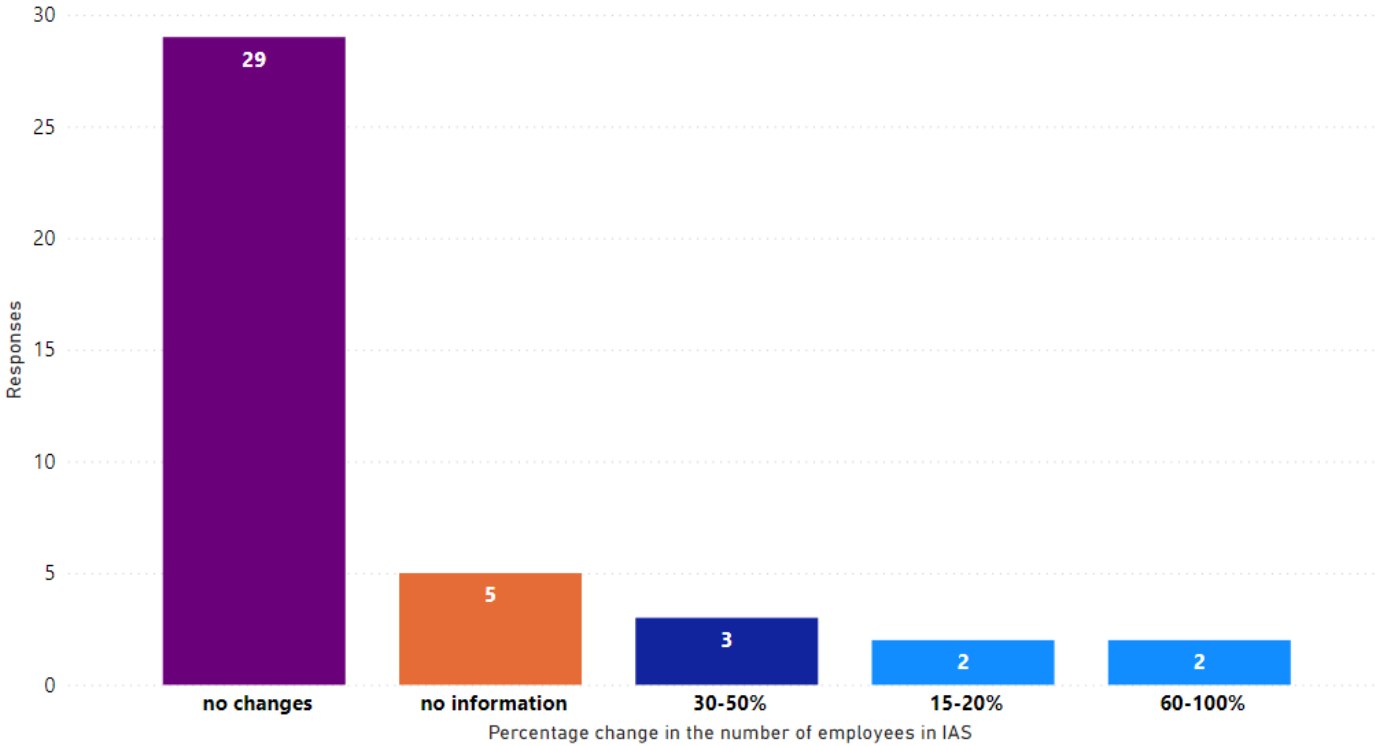
- compliance with international standards
- improving the qualifications of IAS employees
- potential transition to consulting audit
- potential transition to the role of a trusted adviser.

What are the prospects for the development of internal audit in the future?



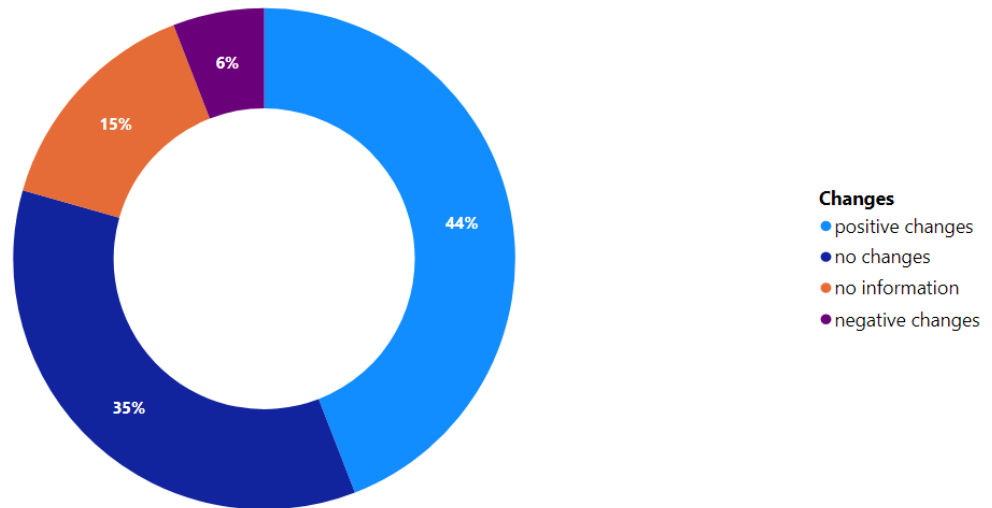
Percentage change in the number of employees in 2021. 41 respondents answered this question, of which 29 respondents noted that the number of employees in the IAS did not change from 2020 to 2021.

What is the percentage change in the number of internal audit employees in 2021 compared to 2020?



Major changes in the division in 2020 and 2021. In order to understand how effectively internal audit has developed over the year (2020-2021), we asked respondents to indicate the main changes in the departments. We divided answers into 4: positive answers, negative answers, no changes and no information about the changes. From the data below, 41% of the 34 respondents, who answered this question, stated that there were positive changes. Since 2021 was a pandemic year, the majority of organizations switched to a remote format of work. Due to the transition to the remote work method in organizations, the audit cycle has been reduced. Thus, having more available time, auditors can conduct additional audit engagements. Additionally, there were answers like distribution of obligations between the head of the IAS and the internal auditor, participation in training sessions, and creation of a separate Internal Audit Service.

What were the changes in the division in 2020 compared to 2021?



Conclusion

The purpose of this study was to determine the state of Internal Audit in Kazakhstan and make potential suggestions for improvement. With this goal in mind, we conducted a survey among the internal auditors and analyzed the responses and respondents' personal opinions. Overall, we find that key factors, which impede the development of IA in Kazakhstan, are disinterest from CEOs and Board of Directors, a lack of professional skills development with the support of the organization, problems with the legislation of the IAS for LLP, and the lack of automation.

First, we present the number of internal audit employees and the number of audits conducted in Kazakhstani companies. In general, according to the survey results, the quantity of audits conducted per auditors varies by industry sectors and firm types. It seems that organizations conduct internal audits as need arises, assuming that they adjust these needs to the demands of sector and firm-specific idiosyncrasies.

Secondly, as expected, lack of improving technical skills may further cause the slowdown in the development of internal audit in the Republic of Kazakhstan. It is interesting to note that one-third of the respondents choose an option of self-study or are trained by the

Institute of Internal Auditors. Accordingly, we might conclude that the organizations do not see the substantial necessity of budget allocation to internal audit employees and their training. Thus, IAS employees cannot improve their knowledge, exchange experience, and receive international accreditation at the expense of the organization. As far as the development of internal audit is concerned, it can only be effective if the CEOs change their attitude towards internal audit, understand its significance, and put more effort and resources into its development.

Thirdly, as it was noted earlier, there is a problem of disinterest among top managers in the activities of the IAS due that CEOs and BoD do not understand the main purpose of internal audit. Some respondents indicated that the Internal Audit Service only exists to be confirmed at the legislative level before being checked by a state body. The key factor here is that in the legislation of the Republic of Kazakhstan there is a law for a JSC that would oblige to create an IAS, but there is no law for an LLP. These factors may develop a conflict of interest between internal auditors and concerned parties.

Fourth, with the help of automation in the internal audit of an organization, it is possible to identify strategic risks and fraud cases at early stages of development. In our study, we assume that the use of automation and software show the level of development of IAS. The spur for development in this direction was the situation that developed in 2020 when employees switched to a remote format of work for the reason of COVID-19. Therefore, the use of IT procedures does not depend on the ambitions of the organization itself, but due to the influence of external factors, such as the transition to a remote format of work. However, according to the results of the study, most of the respondents replied that their organizations do not use automation tools to conduct continuous auditing. Thus, taking into account all the above factors, the level of automation and software usage is currently at the early stages of development.

Based on the above factors, we can say that today the Internal Audit Service in the Republic of Kazakhstan is at the level of development, and as we can understand, it is still far from being fully effective. However, despite the above information, we believe that with the slightest improvement of the shortcomings in the IAS in certain organizations, Internal Audit in Kazakhstan has the potential to improve and reach optimal levels of effectiveness.

Limitations and recommendations

Our research findings have specific limitations, which range from misunderstanding of the questionnaire to distortions in our study. Firstly, the respondents, answering the survey, incorrectly understood the essence of such a question as: “What is the number of employees of the department performing internal audit functions?” In this case, we excluded 3 respondents from the response analysis due to an incorrect response.

The following limitation is related to the number of responses to our survey. We expected to receive several responses from one industry, however, there were instances, where we received only one response per industry. Accordingly, this led to the fact that the results of our study could be biased. For example, we received sporadic responses from industries such as: Airline, Real Estate Leasing, Auditing, Biotechnology, Export Promotion Development Institute, Metallurgy, Oil and Gas, Wholesale and Retail, Food Processing, Engineering, Media, and E-commerce. As a result, we cannot rely on the opinions of one respondent from one field of activity, since the situation may be quite different in other organizations. Thus, for the most part, we relied on the responses and opinions from financial sector staff and oil and gas companies.

As a recommendation, we would like to advise the steps that should be followed in future studies. Firstly, in order to see improvements in internal audit, one should prepare two surveys and divide the respondents into two groups: internal auditors who once worked and internal auditors who work in the department performing internal audit functions at the

moment. Moreover, we did not have the opportunity to compare the results with those of last year since this is the first year that the study of the IAS state was conducted. Third, one should add questions to the survey to study the relationship of internal auditors with others, including the chief audit managers and senior management. This will allow the researcher to focus on the need to establish relationships between departments and to improve the effectiveness of internal audit in organizations. Fourth, one could study the root of the problem of why the company's managers and the Board of Directors are dismissive of internal audit. During our research, as mentioned earlier in the section 4.6 “Personal Opinions”, such problems as misunderstanding and pressure from managing directors were revealed due to the fact that they do not understand the objectives of internal audit. Consequently, we believe that by identifying significant problems, it is possible to help explain the importance of internal audit through IIA and master classes. Taking into account all the recommendations, we believe that the current problems in the internal audit will be studied in more depth and thereby the condition of the company and organization in Kazakhstan will improve, affecting the economy of the country as a whole.

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