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Republic of Kazakhstan



Kazakhstan

Public Expenditure and Financial Accountability (PEFA) Assessment 2018

December 2018



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KAZAKHSTAN

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT REPORT

Based on PEFA 2016 Methodology

Project No.2018/395019/1

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Kazakhstan PEFA Assessment

Public Financial Management assessment following PEFA methodology for
Kazakhstan

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

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November 13, 2018

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CURRENCY and EQUIVALENT UNITS
USD 1 = 331 Kazakhstan Tenge (KZT) (May 2018)
Fiscal year = Calendar year

ACRONYMS AND ABBREVIATIONS

AC	Accounts Committee
CIPA	Committee on Internal Public Audit
COFOG	United Nations Classification of Functions of Government
CSA	Civil Service and Anti-Corruption Agency (under the President)
EU	European Union
FSED	Socio-Economic Development Forecast
GFS	(IMF) Government Finance Statistics
GoK	Government of the Republic of Kazakhstan
IFRS	International Financial Reporting Standards
IIST	Integrated Information System of Treasury
IMF	International Monetary Fund
INTOSAI	International Organisation of SAIs
IPSAS	International Public Sector Accounting Standards
KZT	Kazakhstan Tenge (National currency)
MDAs	Ministries, Departments and Agencies
MNE	Ministry of National Economy
MoF	Ministry of Finance
MoJ	Ministry of Justice
NBRK	National Bank of the Republic of Kazakhstan
NFRK	National Fund of the Republic of Kazakhstan
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PPP	Public-Private Partnership
RB	Republican Budget
RSE	Republican State Enterprise
SAFE	Strengthening Accountability and Fiduciary Environment
SAI	Supreme Audit Institution
SNG	Subnational Government
SPPC	State Property and Privatisation Committee
SOE	State-Owned Enterprise
SRC	State Revenue Committee
SHIF	State Health Insurance Fund
SSIF	State Social Insurance Fund
TSA	Treasury Single Account
WB	World Bank

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The authors of the report are John Wiggins, David Biggs and Meder Temirbekov. Gulnara Dussupova managed the assignment on behalf of the EU Delegation. The World Bank team comprised Moses Wasike, Alma Nurshaikhova, Garik Sergeyan, Aliya Kim, Arman Vatyan, Ahmed Merzouk, Nurbek Kurmanaliev, Shynar Zakir, and Gulmira Akshatyrova. John Otieno Ogallo, Johannes Stenbaek Madsen, and Holy Tiana Rame peer reviewed the report. Armanai Bekturova and Aziza Akimova coordinated the assignment from the Ministry of Finance.

EXECUTIVE SUMMARY

1. Kazakhstan, which has a population of about 18 million, has made enormous social and economic progress since it became independent in 1991. The economy grew at an annual rate of 6.6 per cent during the decade up to 2014, driven by the development of oil and gas and other mineral resources. Income per capita in US dollars multiplied by ten times during the period up to 2014, and poverty was reduced to 4 per cent of the population. A new capital city – Astana – with a population of more than a million inhabitants has been built in the centre of the country. The President has set the goal that Kazakhstan should become one of the 30 most developed countries in the world by 2050. Every effort continues to be made to provide a stable economic environment which will facilitate the flow of inward investment needed to develop other industries alongside oil, gas, and mining operations. Meanwhile, the economy continues to be dominated by the hydrocarbon sector, which accounts for at least 20 per cent of GDP and about 60 per cent of export revenue. Changes in world oil prices inevitably have a substantial impact on government revenue, making it very difficult to forecast. Agriculture continues to account for about 20 per cent of employment, but only 5 per cent of GDP.

2. During the period of rising oil prices up to 2014 Kazakhstan generated substantial fiscal surpluses held in the National Fund of the Republic of Kazakhstan (NFRK) and invested them to a large extent in foreign assets. Resources were thus available to increase public spending to counter the impact of the 2008 global financial crisis, and the 2014 collapse in oil prices. But the country's currency (Tenge – KZT), which had been kept at a rate of about 150 KZT to the US dollar (USD), had to be floated to stem the capital outflow occasioned by the contraction of the oil industry; since 2016 it has stabilised at around 330 KZT to the USD, and the inflation which resulted from the depreciation has now subsided to about 6 per cent. During 2015-17 the Government provided substantial help to the economy through additional investment in housing and infrastructure, and recapitalisation of the secondary banking system, financed in part by drawing on the accumulated reserves of the NFRK. Current medium-term fiscal plans are based on relatively cautious assumptions about future oil prices: if oil remains at its present (June 2018) level the result should be the accumulation of further surpluses provided the use of oil revenue is capped at two trillion KZT per year from 2021 onwards as expressed in present plans.

3. This assessment was initiated in March 2018. Where the performance ratings are based on three years of PFM statistics, the period is 2015-17, with 2017 as the most recent completed fiscal year. Administrative arrangements and practices are assessed as they were in the second quarter of 2018. The assessment focuses on the Central Government's Republican Budget (RB), covering subnational governments, which are responsible for about 40 per cent of spending on public services, and public corporations only to the extent required by the PEFA criteria. It is intended to contribute to ongoing Government planning of public services in pursuit of the Government's ambitious development objectives, taking into account the more turbulent economic environment of recent years, and complements the World Bank's (WB) 2017 Public Finance Review. It will need to be considered alongside the report of the OECD's Governance Review which was initiated shortly before the PEFA assessment began.

4. The PEFA assessment shows that the Government is able to maintain aggregate fiscal discipline in difficult times, and that taxation, financial control and payment and accounting systems all work efficiently. Investment planning is under effective central direction as is demonstrated by city development and infrastructure improvements achieved since 2000. However, as the WB review points out, the share of GDP absorbed by government expenditure is low compared with the OECD average, leaving much scope for improvement in health and education services. Strategic planning is well-established throughout Government, contributing

to a more strategic allocation of resources, but greater clarity is needed in demonstrating the links between policy instruments and objectives, with a fuller explanation of the performance targets and results. Medium-term forecasts cover only the three years immediately ahead, and there are no projections beyond that horizon which would demonstrate how fiscal sustainability is to be maintained, given the development of the Government's assets and liabilities.

5. Kazakhstan has devoted great efforts to the application of information technology to government operations of all kinds, so as to improve the efficiency of service delivery, and this remains a Presidential priority. It also seeks to achieve high standards in financial reporting in both government and corporate sectors. Because economic development has been driven by publicly-owned oil and gas operations, a high proportion of economic activity remains in Government ownership, notably but not exclusively through the three major state holdings. The Baiterek holding plays a particularly important role on behalf of Government in supporting the financing of industrial expansion and the provision of housing, almost entirely outside the Republican Budget. The use of corporate structures has been extended into wide areas of government activity which in other jurisdictions are normally undertaken directly by Ministries or Government agencies or fully transferred to the private sector. Public reporting by these Republican State Enterprises (RSEs) does not extend beyond making individual company reports available on a Government website.

6. There are other limits to the transparency of Government operations. Much of the documentation submitted to Parliament with budget proposals is not available to the general public, while only a summary is published of the external audit report on budget execution. Information is published about individual public procurements, but with no consolidated presentation of the overall picture. The emphasis has been on formal compliance with international standards rather than on partnership with Parliament and the general public in developing and presenting policy as is done in most OECD countries.

7. Recent constitutional changes have reduced the extent of exclusive Presidential authority. The Parliament now has an important role in the appointment of the Government, and the Accounts Committee (AC – the country's Supreme Audit Institution) now reports to the Parliament as well as the President. Public Councils have been established by each Ministry in order to widen the range of people consulted in the formulation of policy. However, the impact of these changes is limited by the narrow limits on the AC's resources imposed by the Government, and the difficulty encountered by NGOs concerned with the transparency of economic and fiscal policy in securing membership of the Public Councils.

8. Although there remains considerable scope for improvements in the transparency and accountability of public finance, significant progress has been made in these areas since the previous PEFA assessment in 2009. Strategic planning and results-oriented budgeting have been developed, and public investment planning systematised. Financial reporting has been developed, and responsibilities for internal financial control and internal and external audit redefined in a way consistent with good international practice. The Concept "On the new budget policy of the Republic of Kazakhstan" issued by Presidential decree in 2013 set the framework for policy up to 2020, with the objectives of establishing the foundations for budget balance and budget efficiency, and then ensuring fiscal sustainability in the longer term. Although this does not list a series of specific measures of PFM reform, a number of initiatives are under way which should yield improvements. There are plans to increase revenue by improving the efficiency of collection under the new code introduced in 2018, and by the introduction in 2020 of a universal obligation on residents to make an annual declaration of their income and assets, thereby restricting the scope of the informal economy. A new civil service pay system now

being piloted at both Central Government and regional levels should improve efficiency by making rewards more dependent on performance. The Civil Service and Anti-Corruption Agency (CSA) envisages that this will be applied at Ministry level as well as to individuals: thus a Ministry's total provision for the payment of bonuses to staff will depend on the achievement of its performance targets.

9. The introduction for the first time in 2017 of internal audit throughout Government as a service to management, directed in accordance with good international practice at improvement of systems for service delivery, should also contribute to better performance by Ministries in the execution of their functions. The process under way of moving progressively to consolidated Government financial reporting on an accruals basis offers the opportunity to improve the transparency and accountability of government operations, provided that the consolidation of the different elements – central and subnational governments, RSEs and State-Owned Enterprises (particularly the national holdings Samruk-Kazyna and Baiterek) is transparently presented.

10. Table A below shows the scores for each of the Performance Indicators and Dimensions. Indicators marked M1 base the overall score on the lowest score of any dimension (the Weakest link method); a + indicates that other dimension(s) received higher scores. For indicators marked M2 the scores are averaged (the Averaging method) according to a table in the PEFA Handbook.

Table A: Summary of Performance Indicator and Dimension Scores

Performance Indicators (Scoring Method)	Overall Score	Dimension Scores			
		1	2	3	4
Pillar I: Budget reliability					
1. Aggregate expenditure outturn	B				
2. Expenditure composition outturn (M1)	C+	C	C	A	
3. Revenue outturn (M2)	C	D	B		
Pillar II: Transparency of public finances					
4. Budget classification	D				
5. Budget documentation	B				
6. Central Government operations outside financial reports (M2)	D+	D	D	B	
7. Transfers to subnational governments (M2)	C	C	C		
8. Performance information for service delivery (M2)	C+	C	C	A	D
9. Public access to fiscal information	D				
Pillar III: Management of assets and liabilities					
10. Fiscal risk reporting (M2)	C+	C	A	D	
11. Public investment management (M2)	C+	C	A	D	C
12. Public asset management (M2)	C	B	D	C	
13. Public debt management (M2)	B	A	A	D	
Pillar IV: Policy-based fiscal strategy and budgeting					
14. Macroeconomic and fiscal forecasting (M2)	C	D	B	C	
15. Fiscal strategy (M2)	A	A	A	B	
16. Medium-term perspective in expenditure budgeting (M2)	B	C	A	A	C
17. Budget preparation process (M2)	B+	C	A	A	
18. Legislative scrutiny of budgets (M1)	B+	A	B	A	A
Pillar V: Predictability and control in budget execution					
19. Revenue administration (M2)	B+	A	A	C	B
20. Accounting for revenue (M1)	A	A	A	A	
21. Predictability of in-year resource allocation (M2)	A	A	A	A	A
22. Expenditure arrears (M1)	B+	A	B		
23. Payroll controls (M1)	C+	A	A	A	C
24. Procurement (M2)	C+	A	D	B	D
25. Internal controls on non-salary expenditure (M2)	A	A	A	A	
26. Internal audit (M1)	B+	A	B	A	NA
Pillar VI: Accounting and reporting					
27. Financial data integrity (M2)	B+	D	A	A	A
28. In-year budget reports (M1)	A	A	A	A	
29. Annual financial reports (M1)	C+	C	A	C	
Pillar VII: External scrutiny and audit					
30. External audit (M1)	D+	B	A	A	D
31. Legislative scrutiny of audit reports (M2)	B+	A	C	A	A

1 INTRODUCTION

1.1 RATIONALE AND PURPOSE

1. Over the past twenty years the economy and society of Kazakhstan have developed rapidly, benefitting substantially from hydrocarbon and other mineral resources. The country's ambition is to become one of the 30 most advanced and prosperous countries in the world by 2050. The Government aims to provide support for industrial diversification alongside the exploitation of minerals, and to ensure that the whole population has access to housing, health and education. In its relationships with citizens it seeks to make maximum use of the possibilities of digital technology. A previous PEFA assessment was undertaken in 2009, and the Government welcomed the assistance of the European Union and the World Bank in arranging a fresh assessment based on the new (2016) criteria, which measures progress in public financial management and provides a baseline for tracking future progress. This report complements a general review of public finance undertaken by the World Bank in 2017.

1.2 ASSESSMENT MANAGEMENT AND QUALITY ASSURANCE

2. The assessment has been commissioned by the European Union (EU), and is managed by the World Bank (WB) Governance Global Practice supported by the Strengthening Accountability and Fiduciary Environment (SAFE) Trust Fund, with the agreement of the Government of Kazakhstan (GoK). On the Government side work on the assessment has been coordinated by a Steering Committee of officials of the Ministry of Finance, the Ministry of National Economy, and the Accounts Committee (the supreme audit institution). The assessment team, presented by AECOM International Development Europe, consists of two UK-based international consultants, John Wiggins (team leader) and David Biggs, and a third consultant based in the Kyrgyz Republic, Meder Temirbekov. The criteria set out in the new PEFA Framework published by the PEFA partners in February 2016 have been used in this assessment. The draft Terms of Reference (ToR) were prepared by the Delegation of the EU in Kazakhstan, and sent for review to the PEFA Secretariat, the European Commission Directorate-General for International Cooperation and Development (DEVCO), and the World Bank (WB) on 8 January 2018. Following the receipt of responses from those consulted, the final version of the ToR was issued on 23 January 2018.

3. A first mission took place from 26-30 March 2018, in the course of which the team explained the evidence requirements to officials of the Ministries primarily concerned. Meetings were held with members of the Steering Committee, and some 25 officials, mainly from the Ministry of Finance (MoF) and the Ministry of National Economy (MNE), attended a presentation by the team on 29 March. The second mission to obtain evidence took place from 16 April to 5 May 2018. Meetings facilitated by members of the Steering Group were held with different Departments of MoF, including the Treasury Committee, the State Property and Privatisation Committee, the State Revenue Committee and the Committee on Internal Public Audit. The team also met senior members of the Accounts Committee, and the Civil Service and Anti-Corruption Agency under the Executive Office of the President, and officials of the Ministries of National Economy, Health, Education, Agriculture, Investments and Development, and Information and Communications. Officials generally explained administrative practices, referring as appropriate to the relevant laws and regulations, and provided specific information to the extent that it was publicly available. Meetings were also held with representatives of the National Holding Baiterek, the MoF Public Council and a Civil Society Organisation.

Accountancy firms advising on investment and taxation did not respond to requests for meetings. At the end of the second mission the assessment team presented their provisional scores, based on the information then available, to some 50 officials of all the Ministries and other organisations consulted. Further information was provided after the mission at the request of the World Bank.

4. A peer review of the Concept Note was conducted from 5-12 April 2018 by the World Bank Office in Astana. Those consulted were:

- Ms Arman Bekturova, Director, Department of Accounting and Audit Methodology, Ministry of Finance, Kazakhstan
- Mr Johannes Stenbaek Madsen, Head of Cooperation, Delegation of the European Union to Kazakhstan, Astana
- Ms Holy Tiana Rame, Senior Public Finance Specialist, PEFA Secretariat
- Mr John Ogallo, Senior Financial Management Specialist, World Bank.

5. A first draft report was submitted by AECOM to the World Bank and European Union Delegation on 28 June 2018. The draft, taking into account initial comments from WB and EUD, and translation into Russian, was submitted to the Government of Kazakhstan on 27 July, 2018. It was referred by WB to the PEFA Secretariat on 18 August. Comments were received during August and September from different sections of the GoK, and the response of the PEFA Secretariat was received on 6 September. This revised draft was submitted to the WB, EUD and PEFA Secretariat on 3 November 2018 and received PEFA endorsement on November 13, 2018. It was presented to the Government in December 2018.

1.3 ASSESSMENT METHODOLOGY

6. The main focus of this report is on the activity of the Central Government within the framework of the Republican Budget which is prepared by the Cabinet of Ministers, approved by both Houses of Parliament, and promulgated by the President of the Republic. Attention is also paid, in accordance with the PEFA Framework, to other sections of General Government including regional (oblast) and district (rayon) authorities, social insurance funds and state universities. Much of the country's industry remains in public ownership, managed through holding companies controlled by the Government. Contributions to public revenue and overall financial relationship with the Government are noted as appropriate in the report. Where a Performance Indicator or Dimension is scored on the basis of the most recent three years' experience, the period chosen is 2015 to 2017. Where the score is based on the latest situation, assessment is as at May 2018. All the 31 Performance Indicators in the 2016 Framework are assessed. The report also provides an analysis of changes in PFM performance since the 2009 assessment, using the (2005) criteria then in force. Kazakhstan as an upper middle income country is not eligible for external grants or soft loans from the principal development partners. The World Bank and other development partners are nevertheless providing loans on commercial terms together with technical assistance to foster industrial development and economic growth. The D indicators were treated as Not Applicable in 2009 and are not further considered here. The information used in preparing the report is derived from published fiscal reports, from information provided by and discussion with GoK officials, representatives of legislature, supreme audit institution, civil society and from reports prepared by the WB and the International Monetary Fund (IMF).

2 COUNTRY BACKGROUND INFORMATION

2.1 COUNTRY ECONOMIC SITUATION

1. Kazakhstan's economy has expanded rapidly over the last 20 years, driven mainly by hydrocarbon and other mineral developments. Industry (hydrocarbons, mining and manufacturing) currently accounts for about 35 per cent of GDP and 20 per cent of employment, agriculture for 5 per cent of GDP but 20 per cent of employment, and public and private services for 60 per cent of both GDP and employment. Hydrocarbon output accounted for 21 per cent of GDP and 62 per cent of exports in 2017 according to the WB April 2018 Country Snapshot. As is made clear in the first paragraph of the World Bank's 2017 Public Finance Review, income per capita in current money terms rose by ten times to nearly USD 13,000 in 2014 on the back of the oil price boom, and the number of people living in poverty (defined as receiving less than USD 5 a day in Purchasing Power Parity terms) fell to 4 per cent of the population. A substantial share of the large current fiscal surpluses earned during much of this period was retained in the National Fund of the Republic of Kazakhstan (NFRK), with most of it being invested in foreign assets. The Government has sought to foster diversified industrial development, encouraging inward investment and offering tax exemptions and soft loans, although limited to some extent by the maintenance until 2014 of a relatively high fixed exchange rate against the USD. The Government was thus in a position to respond to the 2014 collapse in oil prices by bringing forward major public expenditure programmes during 2014-17 – the “100 Concrete Steps” -- announced by the President in 2014, and the subsequent Nurly Zhol (infrastructure) and Nurly Zher (affordable housing) initiatives, financed in part from NFRK balances.

2. Although the hydrocarbon sector contracted each year from 2014-16, overall growth of the economy remained positive. However, the oil industry contraction and the currency depreciation led to an increase in the incidence of poverty to nearly 8 per cent in 2016, according to the April 2018 WB Country Snapshot. 2017 saw strengthening growth, which is likely to continue, based on expansion of hydrocarbon output and continuing support for industrial development, encouraged by a much more competitive, and now floating, exchange rate resulting from the 2014-15 devaluations. About a third of the economy, including much of the hydrocarbon sector, remains in public ownership, and the Government is committed to a continuing programme of privatisation, with capital receipts accruing to NFRK. Government and government-guaranteed debt, domestic and external, remains at a modest level, although much of the recent expansion has been financed by external borrowing, a considerable part of which is attributable to state-owned enterprises (SOEs) borrowing directly without guarantees. Table B summarises some main elements of the situation.

Table B: Selected Economic Indicators 2014-18

	2014	2015	2016	2017	2018 Proj.
GDP at current prices (KZT billion)	39,676	40,884	45,372	52,256	55,906
GDP (USD billion)	221.6	184.2	133.1	157.9	164.4
GDP real growth (%)	4.3	1.2	1.1	1.9	3.7
CPI (% increase, end of period)	7.4	15.6	8.5	7.1	6.0
KZT per USD	182	339	342	331	340
Population (million)	17.1	17.4	17.7	18.2	18.1
Income per capita (USD)	12,960	10,586	7,520	8,762	10,137
NFRK assets (USD billion)	73.2	63.5	61.2	58.3	60.7
Gross public debt (% of GDP)	14.5	21.9	19.7	20.8	17.8
Public external debt (% of GDP)	3.7	6.6	9.4	8.2	6.6
Total external debt net of intra-company debt (% of GDP)	35.2	30.8	42.9	39.5	36.1

Sources: IMF cr17/10 and cr18/277, GoK FSED 2018-22 Annex 1

2.2 FISCAL AND BUDGETARY TRENDS 2015-17

3. The main focus of this assessment is on the Republican Budget of the Central Government. Data are also consolidated for the State Budget which combines the Republican Budget with the budgets of all the subnational governments: the country is divided into 14 regions (oblasts) plus the cities of Astana and Almaty which have the status of regions, which are in turn divided into 159 districts (rayons). At the time of the assessment Shymkent city was still part of South Kazakhstan oblast. General Government as defined in IMF General Finance Statistics also includes other bodies controlled by Government whose revenue and expenditure are outside the budget – in the case of Kazakhstan the social insurance funds covering pensions, unemployment and (recently established) health. Table C summarises the revenue and expenditure of the State Budget, including NFRK but excluding social insurance funds, state universities and joint stock companies established by Ministries to carry out government functions.

Table C: Aggregate fiscal data – State Budget including NFRK 2014-18 (per cent of GDP)

	2014	2015	2016	2017	2018 Proj.
Total revenue	23.7	16.6	16.1	18.8	20.3
Oil revenue	11.3	6.6	4.1	6.2	7.6
Non-oil tax revenue	10.3	9.3	11.1	10.8	11.1
Non-tax revenue	2.0	0.6	0.8	1.7	1.5
Total expenditure and net lending	21.3	22.9	21.5	25.2	18.8
Current expenditure	16.9	19.3	18.0	21.3	15.9
Capital expenditure	4.2	3.2	2.8	3.3	2.5
Net budget lending and SOE and bank recapitalisation	0.2	0.4	0.7	0.6	0.4
Overall fiscal balance	2.4	-6.3	-5.4	-6.5	1.5
Non-oil fiscal balance	-8.9	-12.9	-9.5	-12.7	-6.1

Source: World Bank Public Finance Review 2017 and IMF cr17/108, KZ FSED 2018-22

4. As Table C shows, State Budget expenditure in Kazakhstan accounts for a much smaller share of GDP than is the case in most OECD countries where the share is generally of the order of 35-40 per cent. As a result, there is considerable scope for the improvement of public services, particularly in the health and educational sectors, if more revenue was available. In order to address the need for improvement of public services, and at the same time ensure that a significant part of the revenue from depletable hydrocarbon resources is saved for future generations, the Ministry of Finance’s Strategic Plan for 2017-2021 envisages an increase in (non-oil) tax revenue amounting to 9.2 per cent of GDP by 2025, to be achieved by broadening the tax base, reducing the size of the shadow economy, improving the efficiency of collection and eliminating unjustified tax exemptions. Meanwhile the Government’s approved Socio-Economic Development Forecast 2018-2022 envisages that the State Budget deficit will be reduced to 1.0 per cent of GDP by 2020, on the relatively cautious assumption of an oil price of USD 45 a barrel for Brent crude. In order to protect against the fluctuations in oil revenues, all the revenue accruing from hydrocarbon exploitation is paid into the NFRK, from which a “guaranteed transfer” is made each year into the Republican Budget. In accordance with the Concept of Managing NFRK adopted in 2016, the planned amount of this transfer in 2021 and onwards, two trillion KZT or about 3.0 per cent of GDP, is almost the same as the forecast of NFRK receipts, which would imply a non-oil fiscal deficit of 4 per cent of GDP in that year. If the oil price remained at its current (May 2018) price of more than USD 75 per barrel, a return to the substantial fiscal surpluses which accrued during the period up to 2014 would be expected.

5. The Government’s overall approach to the development of the country is set out in the Strategic Plan Kazakhstan 2025 adopted at the end of 2017. This Plan envisages reforms in seven areas covering the development of human capital, technological advance to achieve greater competitiveness, strengthening of the rule of law, regional development and urbanisation, the modernisation of public consciousness, and greater efficiency in the public

sector. Economic growth is to be strengthened by productivity growth in existing industries, the expansion of export-oriented production, and the development of efficient new industries. This Plan has been complemented by five social initiatives announced in the spring of 2018, covering increased provision of affordable housing, a reduction in the tax burden on low earners, increased access to better quality higher education, easier access to finance for small and medium-sized enterprises (SMEs), and the construction of a gas pipeline to Astana.

6. Table D shows the economic classification of State Budget expenditure. Because a considerable proportion of public services is provided under contract by Republican State Enterprises (RSEs), which are bodies owned by government ministries but constituted as companies, the amounts shown for wages and salaries may be seen as understated, while those for goods and services are overstated, as compared with the normal situation where such services are provided directly by public bodies whose revenues and costs are fully reflected in the budget.

Table D: State Budget Expenditure by Economic Classification 2014-17 (per cent of GDP)¹

	2014	2015	2016	2017
Total current and capital expenditure	21.3	22.9	21.5	25.2
Total current expenditure	16.9	19.3	18.0	21.3
Wages and salaries	2.8	2.8	2.9	2.7
Goods and services	5.9	6.2	6.1	6.2
Interest payments	0.6	0.7	1.1	0.9
Transfers to individuals	3.8	4.1	4.2	4.5
Other transfers	3.8	5.5	3.7	7.0
Capital expenditure and net lending	4.4	3.6	3.5	3.9

Source: World Bank Public Finance Review 2017 and IMF cr17/108 and cr18/277

7. Table E depicts the functional allocation of State Budget expenditure programmes. Kazakhstan divides expenditure between 14 main functions rather than the 10 used in the UN Classification of the Functions of Government (COFOG). This table excludes net lending from the budget, and the costs of recapitalizing SOEs and banks which amounted to some 6 per cent of GDP in 2017, and which are included in Table D totals.

¹ There are difficulties in establishing consistent figures as between different analyses of the totals. IMF cr18/277 finds a statistical discrepancy amounting to 2.6 per cent of GDP in 2014, 1.1 per cent in 2015 and -2.1 per cent in 2017.

Table E: Functional allocation of State Budget expenditure 2014-17(per cent of GDP)

	2014	2015	2016	2017 Proj.
1. General public services	1.2	1.4	1.3	1.1
2. Defence	1.1	1.1	0.9	0.8
3. Public order and safety	1.5	1.4	1.2	1.3
4. Education	3.4	3.3	3.6	3.5
5. Healthcare	2.2	2.1	2.2	2.2
6. Social security and welfare	3.9	4.2	4.5	4.5
7. Housing	1.4	1.1	1.1	1.2
8. Culture, sports, tourism, information	0.8	0.7	0.7	0.7
9. Fuel, energy, sub-surface exploitation	0.3	0.3	0.2	0.2
10. Agriculture	0.9	0.9	0.9	0.9
11. Industry and construction	0.1	0.2	0.1	0.1
12. Transport and communication	1.5	1.7	1.6	1.7
13. Other	0.7	0.8	0.9	0.6
14. Interest payments	0.6	0.7	1.1	0.9
Total State Budget programmes	19.6	19.8	20.0	19.8

Source: World Bank Public Finance Review 2017

8. As Table E shows, the largest expenditures other than on social security and welfare are on health and education services, where education accounts for more than a sixth of total State Budget expenditure, and health more than a tenth, much in line with OECD countries. But because public expenditure absorbs a smaller share of GDP than in most industrialised countries, public education and health programmes take up a smaller share of GDP than is found in other places. The total resources devoted to health and education will also tend to be understated, insofar as these figures do not take into account payments to the service providers which are not reflected in budget revenues. The state share of expenditure on housing is also understated, since much of public assistance towards affordable housing is provided through interest subsidies and direct construction activity administered outside the budget by subsidiaries of the SOE Baiterek Holding Company. The use of government-owned companies to implement government policies is a particular feature of Kazakhstan's PFM arrangements. These companies include Baiterek, which provides financial support for housing and industrial development through its 11 main subsidiaries, Samruk-Kazyna Sovereign Wealth Fund, which manages the Government's shareholdings in the oil, minerals, transport and communications industries, and KazAgro, which supports agriculture and agricultural processing. They are directed by Boards chaired by the Prime Minister and consisting mainly of the relevant Ministers together with a small number of independent members. The overall tone and thrust of government policy is set by the President's addresses delivered around the beginning of each year.

2.3 LEGAL AND REGULATORY ARRANGEMENTS FOR PFM

9. **The Constitution** gives the President of the Republic the primary role in directing the Government; both the National Bank and the Accounts Committee (the country's Supreme Audit Institution (SAI)) report to him. However, constitutional amendments approved in 2017 provide for powers to be shared with the Parliament and the Cabinet of Ministers; Ministers are now individually responsible to Parliament, and apart from the Prime Minister the President appoints only the Ministers of Foreign Affairs and Defence. The Parliament consists of the lower house (Mazhlis) of 105 members elected on party lists for 5 years, and the Senate of 47 members, two appointed by each of the 14 regions and two major cities, and 15 nominated by the President, for a term of 6 years. Parties supporting the President remain in absolute control of both Houses.

10. Many aspects of PFM are regulated by **the Budget Code**, most recently revised in 2017, which covers both central and subnational governments. The Code sets out how the budgets of both Central Government and local governments are to be planned, prepared and executed, including the timing of different stages and the responsibilities of different institutions, and the two Houses of Parliament. Socio-economic and medium-term fiscal planning are the responsibility of the Ministry of the National Economy (MNE) at Central Government level, with the Ministry of Finance (MoF) responsible for the preparation and execution of the annual budget. Organisation charts of both Ministries are attached as Annexes 3D and 3E. The overall shape of the budget, and the expenditure ceilings within which each Ministry is required to work, are supervised by the Republican Budget Commission appointed by Resolution of the Government, which as well as the Ministers concerned includes representatives of the Parliament and the business community.

11. The Code also includes provisions assigning the responsibility for the provision of different public services as between the different levels of government, and determines to which level of government the yield of each tax accrues. The arrangements under which oil revenues accrue to the NFRK and guaranteed transfers are made from it each year into the Republican Budget are prescribed by the Code, which also establishes the Single Treasury Account at the National Bank through which all revenues and payments at all levels of government flow. This is managed by the State Treasury Committee under MoF. The amounts of the annual transfers from NFRK are essentially set in accordance with the Concept of Managing NFRK adopted in 2016, which envisages a progressive reduction in the annual transfers in order to avoid erosion of its total resources. Other provisions of the Budget Code cover payment procedures, debt management (the responsibility of MoF), and general and targeted Central Government transfers to the regions to supplement the tax and other revenue accruing to them and thereby ensure the provision of a comparable level of services throughout the country. Performance monitoring, financial reporting and the form of accounts are all prescribed in the Code.

12. **Taxes** account for a relatively small proportion of GDP, reflecting low rates of VAT (12 per cent) and personal income tax (10 per cent), although corporate income tax (CIT) is charged at the relatively high rate of 20 per cent. In addition, employers must pay a social tax of 9.5 per cent of their employees' wages, and social and health insurance contributions which together amount to 11 per cent of payroll. Tax collection, including oil revenue accruing to NFRK, is the responsibility of **the State Revenue Committee (SRC)** under MoF. There are widespread exemptions from both CIT and VAT, with incentives based on investment, location and activity. The 2017 World Bank Public Finance Review estimates that these exemptions reduce revenue by about 20 per cent of the yield of these taxes, or 1.3 per cent of GDP in 2016. A new Tax Code came into effect at the beginning of 2018, which aims to facilitate compliance by the

taxpayer while reducing the burden of tax audit and making it more cost-efficient by focusing more effectively on the risks.

13. All revenue and expenditure covered by the budgets of central and local governments flow through the **Treasury Single Account** at the National Bank of the Republic of Kazakhstan, which is managed by the Treasury Committee under MoF.

14. Conditions of service are the responsibility of **the Civil Service and Anti-Corruption Agency (CSA)** under the President, while personnel management and payroll are decentralised to individual Ministries and Committees under them. The applicable law is the 2015 Law on the Civil Service of the Republic of Kazakhstan which covers all levels of government. CSA is currently engaged in a pilot project to tie pay more effectively to performance throughout all levels of government. About 25 per cent of the provision for civil service pay is typically reserved for the payment of bonuses, which in individual cases may exceed 100 per cent of basic salary. As well as sharpening the incentive for good performance by individuals, CSA also reviews the performance of Ministries against their strategic objectives, and is contemplating making each Ministry's overall provision for bonuses dependent on the extent to which its objectives have been achieved.

15. Legislation on **Public Procurement** is the responsibility of the MoF Department of Public Procurement Legislation. The Public Procurement Committee under MoF is responsible for all CG purchases (including those by RSEs) of a standard list of goods, services and works. Other procurements are carried out by the Ministries responsible. Control across Government of compliance with the law on State Procurement in force since 1 January 2016 is the responsibility of the Committee on Internal Public Audit (CIPA) under MoF. Many contracts are all let through the Government's e-commerce website, but this does not have to be used for Single Source procurements where the legislation provides for widespread exemptions from the operation of competition. Appeals against procurement decisions by government organisations fall to be considered by CIPA.

16. **Internal control and internal audit** are coordinated by CIPA in accordance with the new law on State Audit and Financial Control enacted in November 2015, which provided clearly for the first time for internal audit as a service to the management of each government body. The same law also covers external audit. CIPA oversees the performance of internal audit throughout the Government, as well as undertaking a wide variety of financial, compliance and performance audit tasks.

17. There is considerable overlap both in the legislation and in practice between the activities of CIPA and those of **the Accounts Committee (AC)** under the President (also regulated by the 2015 Law on State Audit and Financial Control) which acts as the external auditor at Central Government level. The AC's remit only covers subnational governments and SOEs where they are using funds provided by Central Government. Regions and districts are subject to their own Audit Commissions. Other SOEs prepare financial statements in accordance with International Financial Reporting Standards (IFRS) and are audited by private sector auditors applying International Standards on Auditing (ISA). The AC is also responsible for supervising the qualification of auditors working in the public sector, and for maintaining the single database of all public audit work, including that carried out by CIPA; it has recently been given the further task of providing the President and the Parliament with an assessment of the consistency of each successive year's budget proposals with the Government's priorities for economic and social development.

18. The Constitution provides for **the Judiciary** to act independently from the Government. Judges of the Supreme Court are appointed by the Senate on a proposal by the President; other

judges are appointed in accordance with the recommendations of the High Judicial Council whose members are appointed by the President.

19. A recent (2016) innovation has been the establishment of 16 Public Councils to serve as a link between each Ministry and the wider public. (A further 213 such councils have been established at subnational level.) These Councils are intended to provide for more effective consultation with the public in the development of policy. As well as representatives of Ministries they contain representatives of business organisations and others with relevant experience. Nominations have been sought from the wider public, but appointments have remained under the control of the authorities.

2.4 INSTITUTIONS INVOLVED IN PFM

20. Overall leadership of the Government of Kazakhstan rests with the President, who, in accordance with the Constitution, defines major directions of internal and foreign policy. The Government consists of the Prime Minister and 16 Departmental Ministers, together with the Civil Service and Anti-Corruption Agency under the President. Some government functions are discharged by non-profit bodies established as companies by the Ministries concerned, through contracts not subject to any competitive bidding. Other policies are implemented through SOEs – the Baiterek Holding Company which provides financial support to housing and industrial development, and Kazagro which supports the development of the agriculture and food processing sectors. Apart from the foreign exchange reserves held by the National Bank, Kazakhstan's national savings are held by the NFRK which no longer makes any new investments in any domestic assets, and the Samruk-Kazyna (SK) Sovereign Wealth Fund which manages the Government's investments in the oil, mining, transport, communications, manufacturing and other industries. There is an ongoing privatisation programme, with capital receipts paid into NFRK. The General Government sector also includes the Unified Accumulative Pension Fund (UAPF) to which all employees belong, the State Social Insurance Fund (SSIF) and the recently established State Health Insurance Fund (SHIF); because UAPF is a long way from maturity its receipts for the time being far exceed its outgoings.

21. The bulk of expenditure on the main education and health services are the responsibility of subnational governments – regions for the bulk of health services, and districts for expenditure on schools. Overall in 2016 subnational governments accounted for 4,128.2 billion KZT out of consolidated State Budget expenditure of 9,416.4 billion KZT; for education subnational governments spent 1,312.4 billion KZT out of a total of 1,669.4 billion KZT, and for health 646.6 billion KZT out of a total of 1,039.6 billion KZT.² Subnational governments are also responsible for substantial parts of total expenditure on housing, agriculture and transport.

22. It has not been feasible to provide the complete picture of the structure of General Government which should be included in a PEFA report. Aggregate information about the State Budget which brings together the Republican Budget of Central Government and the budgets of all 17 regions (including the cities of Astana, Almaty and Shymkent) and 159 districts is available in budget execution statements, while sufficient information is provided in the budget execution statements for both Central Government and all SNGs taken together to enable consolidation to be done. But no convenient consolidation of original budget estimates is available. The activities of 219 Republican State Enterprises (RSEs) – bodies owned by Ministries which carry out government functions – are excluded from budget execution reports. Some of these bodies are carrying out purely administrative functions like making pension payments, but others may be partially or wholly self-financing. Total revenue and expenditure

² Corresponding figures for 2017 were not yet available when this report was prepared.

of these bodies in 2017 was about 600 billion KZT (about 7 per cent of the Republican Budget), but consolidated information about the extent to which these bodies were financed through the RB is lacking. Other activities controlled by government appointees were the Unified Accumulative Pension Fund (UAPF) and the State Social Insurance and Health Insurance Funds: since the former is a long way from maturity, it currently has a net inflow of the order of 500 billion KZT a year, while the other two funds could be expected to be broadly in balance. General Government also includes the 30 state universities, with annual revenue and expenditure in excess of 110 billion KZT. Original budget information to compare with outturn is not available for any of these bodies.

2.5 OTHER IMPORTANT ASPECTS OF PFM: TRANSPARENCY AND ANTI-CORRUPTION

23. As is explained in a number of the Performance Indicators assessed in Chapter 3, some aspects of government operations lack transparency. Much of the detailed information about the content of the Budget is available to Parliament, but not to the general public; the same applies to the detailed audit reports by the AC. The delivery of many public services through Republican State Enterprises constituted as joint stock companies rather than as fully accountable government operations represents a further limitation on transparency. More generally much detailed information about public procurement and other aspects of government activity is available on Government websites, but it is not presented in a consolidated form which would aid public understanding. Kazakhstan has a relatively low ranking (122) in Transparency International's 2017 Corruption Perception Index, although this represents a nine place improvement on the previous ranking. The GAN Integrity Anti-Corruption Platform reported (July 2016) continuing concerns about corruption in public procurement, tax collection, the police and the judicial system. The fourth round of monitoring under the OECD Anti-Corruption Network (2017) found that there had been progress in implementing previous recommendations, but that only one had been implemented in full. Meanwhile cooperation between the authorities and civil society remained very limited, there were no limits on discretionary powers to award bonuses to individual civil servants, provisions on freedom of information were lacking, and arrangements for monitoring the impact of the Government's anti-corruption strategy were ineffective. Civil society organisations are relatively underdeveloped, with little opportunity to contribute to decisions on budgetary priorities, while criticism of government actions still risks criminal prosecution for libel or insult.

3 ASSESSMENT OF PFM PERFORMANCE

Throughout this section on PFM performance, indicators are scored on a scale from A (highest) to D (lowest). Where indicators have more than one dimension, there are two methods of combining dimension scores to arrive at an overall indicator score. Under M1 (Weakest link method) the lowest score of any dimension is used as the base indicator score, with a + added if any of the dimensions is scored higher. Under M2 (Averaging method) the dimension scores are averaged in accordance with a table in the PEFA Handbook.

PILLAR I: BUDGET RELIABILITY

The first three performance indicators of the 2016 PEFA Framework assess the reliability of government budgets by comparing the actual expenditure and revenue outturns with the originally approved budgets. If the budget is reliable, actual expenditure and revenue will be close to what was originally intended, planned, and approved. The three indicators assess the extent to which the budget is realistic and implemented as intended by considering the financial years 2015, 2016 and 2017.³

PI-1: AGGREGATE EXPENDITURE OUTTURN

This indicator is a single-dimensional indicator that measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. It includes all expenditure, both capital and recurrent, as well as that portion financed by external loans and grants. Coverage is Budgetary Central Government (BCG) and timing is the last three completed fiscal years.

Comparison of actual aggregate expenditure against the originally approved budget shows that actual expenditure deviated from the original budget by -5.8% in 2015, 6.7% in 2016 and 29.0% in 2017. Since the difference was less than 10% in two of the three years, the score is B. Under the 2005 Framework that was operative in 2009 - the date of the only previous PEFA assessment in Kazakhstan - interest payments and externally financed project expenditure were not taken into consideration. The latter is negligible in Kazakhstan. If interest payments are excluded, the differences between budget and outturn for the three years were -6.0%, 6.0% and 31.7% which would have also resulted in the score B.

Table F: Budget execution rate for total expenditures (KZT billion)

	2015	2016	2017
Originally approved budgeted total expenditure	7,211	7,407	8,644
Actual expenditure	6,791	7,900	11,155
Difference between actual & originally approved budgeted expenditure	-420	493	2,511
Actual aggregate expenditure as % of originally approved budgeted expenditure	94.20%	106.70%	129.05%

Source: Annual Budget Laws, Annual financial statements, MOF.

³ Actual figures for 2017 are subject to audit.

Indicator PI-1	2018 Score	Justification for 2016 score	Performance change and other factors
Aggregate expenditure outturn compared to original approved budget	B	Deviations from original budget were less than 10 per cent in two of the last three years 2015-17.	No change: if the 2005 criteria are applied to the 2015-17 data, the score is B.

PI-2 EXPENDITURE COMPOSITION OUTTURN

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. There are three dimensions and the M1 scoring method is used for combining dimension scores. The variance is calculated by adjusting each original budget line by the overall difference between budget and outturn, and then summing the absolute differences between these adjusted amounts and the actual expenditure on each line, which is then expressed as a percentage of total actual expenditure. Interest payments are excluded from dimension 2.1, but included for dimension 2.2. Coverage: BCG. Timing: Last three completed fiscal years.

D-2.1 EXPENDITURE COMPOSITION OUTTURN BY FUNCTION

In terms of the first dimension, the variances in the functional composition of expenditure were 11.4% in 2015, 9.5% in 2016 and 39.2% in 2017 (a detailed functional analysis table is shown in Annex 4). Since the functional expenditure composition variance was less than 15% in 2 of the 3 years, the score for dimension (i) is C. This result indicates that the actual distribution of the available budget resources has differed significantly from the planned distribution. It should be noted that Kazakhstan uses a functional classification that is rather different from COFOG, especially in terms of Economic Affairs which the GoK divides into four sub-functional categories.

Analysis of the functions shows no particular pattern in terms of “gainers” and “losers” though it is notable that the rather non-transparent category “Others” shows by far the biggest variance in 2017, presumably reflecting the cost of recapitalizing the banking system. As Annex 4 shows, the actual cash expenditure on many functions was fairly close to original budget throughout 2015-17, although in relative terms these functions may become less important because of large differences in one functional area with a substantial impact on the overall total. Score: C.

D-2.2 EXPENDITURE COMPOSITION OUTTURN BY ECONOMIC TYPE

For the period 2015-17 the variances in the economic composition of expenditure are calculated as 12.0%, 12.5% and 35.7% respectively. These results correspond to a C score since the variance is less than 15% in two of the three years. The most notable feature of the analysis is

the very large amount charged as Other Expenses in 2017. Detailed figures are shown in Annex 5. Score: C.

D-2.3 EXPENDITURE FROM CONTINGENY RESERVES

Although Kazakhstan makes a budgetary provision for a Contingency Reserve vote this is a very modest amount and in practice no actual expenditure appears to have been charged to the Reserve during the period under review. The dimension score is therefore A.

Table G: Use of contingency vote (KZT million)

Year	Contingency estimate	Contingency actual
2015	322	0
2016	240	0
2017	66	0

Source: Annual Budget Laws, Annual financial statements

Indicator/Dimension	2018 Score	Justification for 2018 score	Performance change and other factors
Overall score (M1)	C +		
(i) Expenditure composition outturn by function	C	Variance in expenditure composition by function was less than 15% in 2 of the 3 years	Externally financed project expenditure was previously excluded from consideration. Exclusion of externally-financed projects would not have much impact on the analysis.
(ii) Expenditure composition outturn by economic type	C	Variance was less than 15% in two of the three years	New dimension in 2016 framework
(iii) Average amount of expenditure charged to the contingency vote in 2013-15	A	Actual expenditure charged to a contingency vote was zero	New dimension since 2011

PI-3: REVENUE OUTTURN

This indicator contains two dimensions and measures the change in revenue between the original approved budget and end-of-year outturn. It uses the M2 scoring method for combining dimension scores. The indicator contributes to the assessment of budget reliability by considering the accuracy of revenue forecasting. It incorporates both a comparison of budgeted and actual aggregate government revenue and an analysis of changes in revenue composition from budget to outturn. Coverage: BCG. Timing: Last three completed fiscal years.

The detailed data for the three - year period ended 31 December 2017 are shown in Annex 6. The summarised results matrix is depicted in Table H.

Table H: Results Matrix

Year	Total revenue deviation	Composition variance
2015	90.9%	11.4%
2016	116.3%	5.4%
2017	122.9%	8.5%

Source: Annual Budget Laws & Annual financial statements

D-3.1 AGGREGATE REVENUE OUTTURN

The table shows that, in the three years covered by the assessment, the aggregate revenue differences were -9.1%, 16.3% and 22.9% respectively. Since actual revenue was between 92% and 116% of budgeted revenue in only one of the three years, the score for dimension 3.1 is D. If the 2005 framework used in the 2009 assessment were applied, the score would have been A as in 2009, since under the then applicable criteria any revenue outturn above budget scored A. Similarly, if the 2016 criteria are applied to the 2009 situation, the score then would have been D, indicating no real change in performance. Score: D.

D-3.2 REVENUE COMPOSITION OUTTURN

The revenue composition variances were 11.4%, 5.4% and 8.45% respectively in the last three years. This corresponds to a PEFA score of B as two of the three variances were less than 10%. Analysis of the data shows that revenue from transfers of hydrocarbon revenue from the National Fund was considerably above budget in 2017 and that revenue from taxes on international trade was volatile. Score: B.

Indicator. PI-3 Revenue Outturn (M2)	2018 Score	Justification for 2018 score	Performance change and other factors
Overall score	C		
(i) Aggregate revenue	D	Outturns were between 92 per cent and 116 per cent of budget in only one of the three years	Application of the 2005 methodology would have resulted in a score of A as in the 2009 assessment
(ii) Revenue composition	B	Revenue composition variances were less than 10% in two of the three years	New dimension

PILLAR II: TRANSPARENCY OF PUBLIC FINANCES

Performance Indicators 4-9 examine the transparency of the budget presentation and other aspects of PFM, including the extent of Central Government operations outside fiscal reports, the transparency and predictability of Central Government transfers to subnational governments, and the provision of performance information about public service delivery.

PI-4: BUDGET CLASSIFICATION

This single dimension indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. The requirement for an A score is that budget formulation, execution and reporting are based on every level of administrative, economic and functional classification using GFS/COFOG standards or their equivalent. Coverage: BCG. Timing: Last three completed fiscal years.

In many respects Kazakhstan meets these requirements. The Integrated Information System of Treasury (IIST) identifies the economic, administrative, functional and programme/sub-programme classification of all transactions, and budget execution statements provide information on all classifications. But the budget (for 2017, the latest completed fiscal year, and also for 2018) is presented with only the administrative and programme/sub-programme classifications: no economic breakdown is provided. Because of this budget institutions have considerable freedom in determining the nature of expenditure within programmes and sub-programmes. Under the PEFA criteria at least both economic and administrative classifications are required for a score of C or higher; thus the score for Kazakhstan is D.

The 2009 PEFA assessment did not address the absence of the economic classification in the budget as presented to Parliament and gave the score B apparently on the basis that the functional classification did not exactly match COFOG. In practice there seems to have been no change since 2009.

PI-4	2018 score	Justification for 2018 score	Performance change and other factors
Budget classification	D	Although budget execution statements provide information on the basis of administrative, economic and programme/ sub-programme classifications, the economic classification is not included in the original budget.	No change

PI-5 BUDGET DOCUMENTATION

This is a one dimension indicator that assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against the specialised list of basic and additional elements shown below in Table I. Coverage: BCG. Timing: Last budget submitted to the legislature.

Table I: Information in Budget documentation for 2018

Elements required	Fulfilled	Explanation
Basic Elements		
1. Forecast of the fiscal deficit or surplus or accrual operating result.	Yes	The forecast of the fiscal balance as presented is the difference between total non-oil and non-tax revenue plus a predetermined guaranteed transfer from NFRK, and total current and capital expenditure and net lending. However, information is given enabling the difference between total revenue (including all oil revenue) and total expenditure to be calculated.
2. Previous year's budget outturn, presented in the same format as the budget proposal.	Yes	This is included in the documentation given to Parliament.
3. Current fiscal year's budget (revised budget or estimated outturn) in the same format as the budget proposal.	Yes	This is available in the form of the "clarified" budget for the current fiscal year which the Parliament will already have approved.
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous years.	No	Tables providing information for all three years together on the different classifications are not included in budget documentation.
Additional elements		
5. Deficit financing, describing its anticipated composition.	Yes	This information is given to Parliament .
6. Macro-economic assumptions, including at least estimates of GDP growth, inflation, interest rates and the exchange rate.	No	Information is given about growth and inflation, but the exchange rate is provided only indirectly, and there is no forecast of interest rates.
7. Debt stock, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard.	Yes	Figures consistent with GFS for outstanding public debt are published monthly, and budget documentation includes recent information.
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Yes	The assessment team were told that information is given about financial assets held by NFRK, National Bank, and the three major State Holding Companies Baiterek, Samruk-Kazyna and KazAgro.

Elements required	Fulfilled	Explanation
Basic Elements		
9. Summary information on fiscal risks, including contingent liabilities such as guarantees, and contingent obligations such as those arising from PPP contracts.	No	The Government has not published any consolidated information about the fiscal risks resulting from borrowing by the companies which it owns. The 2018-20 Budget law set a limit of 1,726 billion KZT for the amount outstanding under RB PPP projects, but data have not been published about actual amounts outstanding.
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programmes.	Yes	Budget documentation includes the budgetary impact of major policy initiatives, which are generally announced in the President's address at the beginning of each year.
11. Documentation on the medium-term fiscal forecasts.	Yes	The Socio-Economic Development Forecast prepared at the first stage in the budget process is revised before the budget is presented to Parliament in September each year.
12. Quantification of tax expenditures	Partial	It is understood that some information is given to Parliament about the costs of tax exemptions, but it does not appear to be comprehensive.

Source: MoF

Since three of the four basic elements are satisfied, together with five others, score is B.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
PI-5 Content of Budget documentation	B	Documentation fulfils 3 basic elements and 5 others	Documentation meets 7 of the 9 elements considered in the 2005 criteria, under which it would score A (B score given in 2009).

PI-6 CENTRAL GOVERNMENT OPERATIONS OUTSIDE FISCAL REPORTS

This indicator measures the extent to which government revenue and expenditure are reported outside Central Government financial reports. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores. It reviews the amount of expenditure controlled by Central Government bodies which is not included in Government financial reports, the amount of revenue of such bodies which is not included in financial reports, and the timing of the submission to sponsoring Ministries in the Government of the annual financial reports of Government bodies whose operations are not included in the Budget. Coverage: BCG. Timing: Last budget submitted to the legislature.

D-6.1 EXPENDITURE OUTSIDE FINANCIAL REPORTS

In addition to the activities directly included in the Republican Budget (RB) numerous Government activities are performed by Joint Stock Companies (JSCs) set up by Ministries. These JSCs are divided into two categories: those Republican State Enterprises (RSEs) “entitled for the operation of management”, and those RSEs “entitled for the operation of business”. Examples of the first category are the State Centre for Pension Payments, the Academy for Public Administration under the President and the PPP Centre which carries out the economic assessment of Government investment projects (see PI-11.1 below). Examples of the second are State Expertise which provides design and detailed specification services for building and civil engineering projects, and KazHydromet which undertakes weather forecasting and monitoring of air, water and soil conditions. The following Table J shows the aggregate revenue and expenditure of these bodies for 2017.

Table J: Revenue and Expenditure of Republican State Enterprises (2017, KZT billion)

	Number	Revenues	Expenditure
Management RSEs	92	78.1	74.6
Business RSEs	127	551.4	527.2

Source: MNE

The Management RSEs clearly fall within the GFS definition of General Government rather than public corporations. The Business RSEs may have some of the characteristics of public corporations, but their primary purpose is to carry out functions to serve the Government; it would be necessary to examine each one separately to determine which side of the borderline it fell.

Other General Government activities not included in the RB are the operations of social insurance funds and state universities. Contributions of 10 per cent of the wages of their employees are made by employers to the Unified Accumulative Pension Fund (UAPF), with a further 5 per cent to the State Social Insurance Fund (SSIF) and 2 per cent (in 2017) to the State Health Insurance Fund (SHIF). The published accounts of UAPF show contribution income of 554 billion KZT in 2016; comparable information is not shown in the accounts of the other two funds. If the UAPF experience is projected onto the other funds, total contribution income to all three funds in 2017 would be of the order of 1,000 billion KZT. UAPF is not yet a mature fund, and annual contributions substantially exceed benefit payments, but the other funds' payments should broadly match their contribution income. On this basis the expenditure of the

three funds in 2017 would exceed 500 billion KZT. The 30 state universities' aggregate revenue and expenditure are currently of the order of 110 billion KZT a year.

No consolidated reports are produced covering the activities of either Management or Business RSEs, although annual reports of each RSE are available on the Government's Depository of Financial Statements (DFS). The same applies to each state university. Thus expenditure outside fiscal reports in 2017 would amount to 600 billion KZT (RSEs), plus 500 billion KZT (social insurance funds), plus 110 billion KZT (universities), or more than 1,200 billion KZT. This total corresponds to 10.8 per cent of total RB expenditure of 11,155 billion KZT (see PI-1 above), resulting in the score D. The social insurance funds were much less developed in 2009, and the previous PEFA assessment did not take account of the operations of RSEs or universities; an A score was given. Score: D.

D-6.2 REVENUE OUTSIDE FINANCIAL REPORTS

The above analysis indicates that 2017 revenue outside fiscal reports would amount to 1,000 billion (social insurance funds), plus 630 billion KZT (RSEs), plus 110 billion (universities), or nearly 1,750 billion KZT. This total corresponds to 18.0 per cent of total RB revenue of 9,692 billion KZT (see PI-3.1 above), resulting in the score D.

D-6.3 FINANCIAL REPORTS OF EXTRA-BUDGETARY UNITS

Financial reports by all the bodies considered in relation to this PI are made to sponsoring Ministries by 15 May of the following year, which indicates a score of B.

Indicator/Dimension	2018 Score	Justification for 2018 score	Performance change and other factors
PI-6 Central Government operations outside financial reports (M2)	D+		
6.1 Expenditure outside financial reports	D	Expenditure of social insurance funds, RSEs and state universities amounted to more than 10 per cent of RB expenditure in 2017.	Social insurance was less developed in 2009, and the previous assessment did not take account of RSEs and universities.
6.2 Revenue outside financial reports	D	Revenue of social insurance funds, RSEs and state universities amounted to about 18 per cent of RB revenue in 2017.	New dimension
6.3 Financial reports of extra-budgetary units	B	Reports are made to sponsoring Ministries by 15 May of the following year.	New dimension

PI-7 TRANSFERS TO SUBNATIONAL GOVERNMENTS

This indicator assesses the transparency and timeliness of transfers from Central Government to subnational governments (SNG) with direct financial relationships to it. It looks at the system and basis of transfers and the timing of the supply of information from Central Government to subnational government. The indicator contains two dimensions, the scores for which are combined using the M2 method. Coverage: CG and the subnational governments which have direct financial relationships with CG. Timing: Last budget submitted to the legislature.

D-7.1 SYSTEM FOR ALLOCATING TRANSFERS

In Kazakhstan the Central Government’s direct relationship is with the 14 regions (oblasts) and the cities of Astana, Almaty and Shymkent which have the status of regions. These in turn are divided into 159 districts (rayons). SNGs in aggregate derive about 40 per cent of their revenue from the taxes and non-tax revenues whose yield is allocated to them by the Budget Code. In accordance with Article 43 of the Budget Code, revenues from those taxes whose yield is stable and predictable, and which are closely connected to the locality, are assigned to SNGs, while the fiscal risks associated with those whose yield may vary more with the economic conjuncture are borne by the Central Government. Thus, the main tax revenues accruing to SNGs are derived from Personal Income Tax and the Social Security Tax on wages. Apart from local property taxes, all tax revenue destined for SNGs is collected by the State Revenue Committee under MoF.

In addition to tax revenue SNGs receive “general transfers” with the amounts calculated to enable comparable levels of service to be delivered throughout the country, taking into account forecasts made by MNE of the revenue which accrues to them directly. The calculations of general transfers take into account population numbers and ages and other factors such as population density, and the amounts are fixed for three year periods (currently for the period 2017-19). The two major cities (Almaty and Astana), and the two most prosperous regions, whose revenues exceed their assessed needs, are required to make reverse transfers into the Republican Budget. As well as general transfers, subnational governments may receive “targeted” transfers intended to meet specific expenditure (including investments) decided by the Central Government. Richer regions may thus receive targeted transfers (e.g. for the construction of the metro in Almaty) at the same time as they are required to make reverse transfers into the Republican Budget. Total revenues of SNGs in 2017 were 4,681.3 billion KZT; of these 1,962.8 billion KZT accrued through taxes, and 1,488.2 billion KZT through general transfers whose budgeted amounts were actually paid. 469.7 billion KZT were received as targeted transfers for current expenditure, and 581.3 billion KZT for development. Table K below shows budgeted and actual transfers of different types for the three years 2015-17.

Table K: Budgeted and actual transfers to SNGs 2015-17 (KZT billions)

	2015		2016		2017	
	Original Budget	Actual Outturn	Original Budget	Actual Outturn	Original Budget	Actual Outturn
General transfers	904.4	904.4	836.9	836.9	1,488.3	1,488.3
Targeted current transfers	764.9	608.4	865.3	1,145.3	405.1	469.7

Targeted transfers for development	615.3	480.1	234.2	461.9	442.7	581.3
Total	2,285.1	1,992.9	1,936.3	2,444.1	2,336.1	2,539.2
General transfers as % of total transfers		45.4%		34.2%		58.6%

Source: MoF

The score for this dimension is based on the latest completed fiscal year, i.e. 2017. In that year tax receipts and general transfers together amounted to 73.7 per cent of total SNG receipts, while general transfers constituted 58.6 per cent of RB transfers to SNGs. Since neither figure reaches the 75 per cent threshold required for the score B, the score for this dimension is C.

D-7.2 TIMELINESS OF INFORMATION ON TRANSFERS

SNGs are notified of the general transfers they can expect when the Republican Budget proposals are submitted to Parliament in September each year, but do not learn of their share of targeted transfers until after the budget has been enacted by the Parliament, signed by the President, and promulgated by Resolution of the Government (within seven days of the President's signature). Since these processes are not completed until well into December each year (see PI-18.3 below), SNGs have less than four weeks' notice of the total amount of their prospective receipts from Central Government, which leads to a score of C. This has been the case for both the 2017 and 2018 fiscal years.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
PI-7 Transfers to SNGs (M2)	C		
7.1 System for allocating transfers	C	General transfers determined by formula represented 58.6 per cent of total RB transfers to SNGs in 2017.	General transfers were only 28% of total transfers in 2007. Performance improvement.
7.2 Timeliness of information on transfers	C	SNGs receive full information on prospective transfer amount less than 4 weeks before the beginning of the Budget year.	No change

PI-8 PERFORMANCE INFORMATION FOR SERVICE DELIVERY

This indicator examines the performance delivery information in the documentation of the budget proposals and budget execution reports, and considers whether performance audits and evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. Scores for the four dimensions are aggregated according to M2. Coverage: CG. Services managed and financed by other tiers of government should be included if the CG significantly finances such services through

reimbursements or earmarked grants, or uses other tiers of government as implementing agents. Timing -- Dimension 8.1: Performance indicators and planned outputs and outcomes for the next fiscal year. Dimension 8.2: Outputs and outcomes of the last completed fiscal year. Dimensions 8.3 and 8.4: Last three completed fiscal years.

D-8.1 PERFORMANCE PLANS FOR SERVICE DELIVERY

Strategic Plans prepared and published each year by each Ministry for the five years ahead specify the Ministry's strategic objectives and actions to be taken in their pursuit. According to the Accounts Committee's (AC) report on 2016 Budget Execution, about 60 per cent of the expenditure of budget programmes is covered by the strategic plans with performance targets. The plans include a table showing the links between the objectives and the budget programmes implemented by the Ministry in question. A further table sets out target performance indicators in relation to the specific actions planned, including some information about performance achieved to date. Coordination across Government is the responsibility of MNE, with the Civil Service and Anti-Corruption Agency (CSA) carrying out some evaluation of Ministries' performance. However, there is little explanation of the quantified performance targets, which may not be directly linked to the actions in question or the specific results of those actions: for example the MoF plan for 2018-22 (available in English) targets particular positions in Global Competitiveness Index rankings through a range of actions concerning taxation and business regulation. Given that the coverage of the strategic plans and performance targets is less than 75 per cent of budget expenditure, the score is C.

D-8.2 PERFORMANCE ACHIEVED FOR SERVICE DELIVERY

The published Commentary which accompanies the Budget Execution report each year includes some material about the extent to which performance targets have been achieved (see PI-15.3 below). Strategic Plans also include some information about performance achieved as well as future targets. Thus Plans prepared in 2018 for the 5-year period 2019-24 will include some information about actual performance in 2017. Since the performance targets cover less than 75 per cent of expenditure, the score is C.

D-8.3 RESOURCES RECEIVED BY SERVICE DELIVERY UNITS

The Integrated Information System of the Treasury (IIST – see also PI-21 below) collects information about all transactions – revenue and expenditure - involving central and subnational government institutions, including individual schools and health clinics which are wholly integrated into the budget at central or subnational government level. The Central Government Ministries are able to draw on the Treasury system to monitor the situation of all service delivery units throughout the country. This dimension constituted PI-23 under the 2005 criteria, and was given an A score in the 2009 PEFA assessment. It should be noted that where service delivery units have been set up as Joint Stock Companies (JSCs – see PI-6 above) their transactions do not pass through the Treasury Single Account and are not registered in IIST. However, such bodies make annual returns to their parent authorities (see PI-6.3 above) which include information about all resources received from Government, service users and other sources. All these arrangements were in force throughout 2015-17. Score: A.

D-8.4 PERFORMANCE EVALUATION FOR SERVICE DELIVERY

The Accounts Committee undertakes a limited amount of performance auditing of expenditure programmes, but its resources are limited and the results are not published. The Ministry of Information and Communication has undertaken some opinion surveys of the performance of different services. But it does not appear that the coverage of these reviews would reach 25 per cent. Score: D.

The scores for PI-8 are as follows:

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
PI-8 Performance information for service delivery (M2)	C+		
8.1 Performance plans for service delivery	C	Ministries' Strategic Plans contain quantified targets covering about 60 per cent of expenditure programmes.	New dimension
8.2 Performance achieved for service delivery	C	Some information is given in the published commentary on each year's budget execution report. Coverage of quantified targets is as for 8.1.	New dimension
8.3 Resources received by service delivery units	A	Information about the resources received by each school and health clinic can be obtained from the Treasury information system or from annual returns made by JSCs to their parent Ministries or SNGs.	No change
8.4 Performance evaluation for service delivery	D	Accounts Committee has undertaken some performance auditing, and Ministry of Communications has undertaken some opinion surveys of service delivery, but coverage is very limited.	New dimension

PI-9 PUBLIC ACCESS TO FISCAL INFORMATION

This is a one-dimension indicator which assesses the comprehensiveness of fiscal information available to the general public, based on specified elements of information to which public access is important. The score depends on the extent to which the five basic and four supplementary elements in Table L below are satisfied. Coverage BCG. Timing: Last completed fiscal year.

Table L: Fiscal information available to the public

Elements required	Fulfilled	Explanation
Basic elements		
1. Annual executive budget proposal documentation	No	The detailed Explanatory Memorandum provided to Parliament with the budget proposals is not published (and was not available to the review team for this assessment).
2. Enacted Budget	Yes	This is published when signed by the President within a few days of approval by Parliament.
3. In-year budget execution reports	Yes	These are published within a month of the end of the period to which they relate.
4. Annual budget execution report	Yes	This is published less than 5 months after year-end.
5. Audited annual financial report, together with the external auditor's report	No	No consolidated annual financial statements for CG as a whole have yet been published. Only a limited summary of the Accounts Committee's (AC) report on the Government's budget execution report was available to the public at the time this report was prepared, although the full text of the 2017 report was subsequently placed on the AC website (www.esep.kz).
Additional elements		
6. Pre-budget statement	Yes	The forecast in the Government's Socio-Economic Development Forecast (FSED) is published at the beginning of the budget cycle, and updated before the budget proposals are submitted to Parliament.
7. Other external audit reports	No	Other AC reports are not published, although some elements may be the subject of a Press Notice.
8. Summary of the budget proposal	Yes	A "Citizens' Budget" was published for the first time when the 2018 budget was enacted.
9. Macro-economic forecasts	Yes	These are included in the FSED.

Source: MoF and AC

For a score of C or above, at least four of the basic elements have to be fulfilled. Since only three are fulfilled, the score is D.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
PI-9 Public access to fiscal information	D	Only 3 of the basic elements were provided. Any score of C or above requires at least 4.	2009 score was C, reflecting availability of 2 of 6 elements then required. 3 are now available, which would score B.

PILLAR III: MANAGEMENT OF ASSETS AND LIABILITIES

PIs 10-13 cover fiscal risk reporting by central and subnational governments and State-Owned Enterprises (SOEs), the management of public investment and public assets, and debt management.

PI-10 FISCAL RISK REPORTING

This indicator measures the extent to which fiscal risks to Central Government are reported. Such risks can arise from adverse macro-economic developments and from the activities of SOEs and SNGs, and also from the Central Government's own programmes and activities. The indicator contains three dimensions and uses the M2 method to aggregate the dimension scores. Coverage -- Dimension 10.1: CG-controlled public corporations. Dimension 10.2: Subnational government entities that have direct fiscal relations with the CG. Dimension 10.3: CG. Timing: Last completed fiscal year.

D-10.1 MONITORING OF PUBLIC CORPORATIONS

SOEs are of great importance in Kazakhstan. The most significant are the three Holdings: the Samruk-Kazyna Sovereign Wealth Fund which brings together the state's holdings in the oil and gas, mining, transport, energy and telecommunications sectors; Baiterek, which serves as the instrument through which the Government facilitates investment by enterprises of all sizes, and organises the construction of affordable housing; and KazAgro which supports the development of the agriculture and food processing industries. Information provided by MNE shows from their 2017 results that the assets of these Holdings - about 30,000 billion KZT in 2017 - correspond to about 57 per cent of GDP, while their borrowings constituted about 32 per cent of GDP (of which more than half was external). In addition the Central Government still owns a multiplicity of smaller holdings in different businesses, which are being gradually reduced through a continuing privatisation programme. Until 2016 there was substantial borrowing by SOEs from NFRK, but as from 2017 NFRK no longer makes any direct domestic loans. The Boards of Directors of the Holdings are largely made up of the responsible Ministers, with the Prime Minister as Chairman, but their borrowings are not guaranteed by the Government or included in statistics of state debt.

Overall responsibility for the supervision of SOEs is shared by the MNE Public Assets Management Policy Department and the State Property and Privatisation Committee (SPPC) which reports to MoF. All SOEs report at least annually to their sponsoring Ministry as well as to MNE and SPPC, and their audited annual financial statements are posted on the website of the Depository of Financial Statements (www.dfo.kz) by the end of August of the following year. But the Government does not publish any consolidated report on SOEs' financing, and the fiscal risks arising from their operations. Score: C.

Note: the activities of bodies established as companies by different Ministries to carry out public service functions on their behalf are considered under PI-6 above.

D-10.2 MONITORING OF SUBNATIONAL GOVERNMENTS

All transactions of regions (oblasts) and districts (rayons) are executed through the Treasury System managed by the Treasury Committee under MoF. Quarterly reports are made to the Statistics Committee under MNE so as to facilitate reporting of the State Budget (i.e. the sum of the Republican Budget and the budgets of all SNGs). A consolidated report on the revenue and expenditure of all SNGs is prepared as part of this process. This has been done every year. Apart from the cities of Astana and Almaty, which have been authorised to issue bonds, SNGs

may borrow only from the Government, with the amounts limited so that repayments do not exceed 10 per cent of revenue. All SNGs submit budget execution statements, together with the reports of the Audit Commissions established to review them, within 9 months of the end of each fiscal year. SNG total borrowing amounts to only about 0.5 per cent of total state debt; amounts are published quarterly together with other state debt statistics. Thus there is complete reporting of the financial position of all SNGs every year. Score: A.

D-10.3 CONTINGENT LIABILITIES AND OTHER FISCAL RISKS

Although borrowing by SOEs takes place for the most part without government guarantee, it would be difficult for the Government to avoid responsibility for debts contracted by bodies whose directing boards consist mainly of Ministers. These amount to about 32 per cent of GDP (see 10.1 above). Samruk-Kazyna's equity constitutes about 50 per cent of its total balance sheet (2016 accounts), so there are considerable resources available to counter the impact of a collapse in oil prices, but Baiterek's borrowing is more than three times the Government's equity, and a significant proportion of its assets is made up of subsidised loans to borrowers who may not be able to repay. In addition to these risks, the Government has under a new law enacted in 2015 initiated a number of investment projects financed by Public-Private Partnerships (PPPs) whose future annual servicing costs constitute contingent liabilities. The 2018-20 Budget law set a limit of 1,727 billion KZT (about 5 billion USD) for such liabilities at RB level. Policy on PPPs is coordinated by MNE, and new PPPs must be registered with MoF. Until 2017 there were no PPP projects at Central Government level apart from two concessions concluded in 2005 for the construction of a new railway line and an electric trunk powerline which have essentially the same characteristics as PPPs, and only 19 projects with a total value of 13.6 billion KZT at SNG level. In 2017 one project amounting to 98.3 billion KZT was contracted at Central Government level, and 173 projects with a total value of 95.6 billion KZT were contracted by SNGs. The 2018-20 Budget law set a limit of 1,727 billion KZT for such projects at RB level. Information about PPPs is published on the Unified Information Database (http://kzppp.kz/projst_base) but consolidated information has not yet been published about fiscal risks arising from SOEs and PPPs. Score: D.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
PI-10 Fiscal risk reporting (M2)	C+		
10.1 Monitoring of public corporations	C	Audited annual financial statements are published by most SOEs within 8 months of year end. No consolidated report on the financial performance of the SOE sector is published.	No change

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
10.2 Monitoring of subnational governments	A	All SNG transactions take place through the Treasury system, and there is full quarterly reporting. A consolidated report on SNG revenue and expenditure is published as part of the State Budget which consolidates the Republican and all SNG Budgets. SNG debt amounts to only about 0.5 per cent of State debt and is published quarterly.	Performance improvement: 2009 appraisal was concerned about the scope for uncontrolled incurrence of liabilities and gave C score.
10.3 Contingent liabilities and other fiscal risks	D	No consolidated reports have been produced about the risks arising from unguaranteed borrowing by SOEs and from PPPs.	New dimension

PI-11 PUBLIC INVESTMENT MANAGEMENT

This indicator assesses the economic appraisal, selection, costing and monitoring of public investment projects by the Government, with the emphasis on the most significant projects. Its four dimensions ask more in-depth questions about public investment management than were included in the 2009 PEFA criteria. Scores are aggregated by method M2. Coverage: CG. Time period: Last completed fiscal year.

D-11.1 ECONOMIC ANALYSIS OF INVESTMENT PROJECTS

All significant investment projects, including those financed by PPPs, are subject to economic appraisal according to a methodology set out in Government Decree 129 of December 2014. The documentation provided for the appraisal must contain the full justification for the total capital costs as well as the proposed timetable for project implementation. Appraisals are undertaken by the MNE's PPP Centre, which operates as a separate institution, but there is no publication of the results. Score: C.

D-11.2 INVESTMENT PROJECT SELECTION

Investments are prioritised according to the Government's Socio-Economic Development Forecast, which covers the five years ahead and is updated annually. The strategy and priorities – which constitute the criteria for project selection - are largely set by the President's annual addresses around the beginning of each year: the main priorities are economic diversification, social development (education, health, culture, sport), regional development, improvements of the quality of public services, agricultural development and the digital economy. MoF determines which projects should be included in the budget, given the overall availability of finance. Score: A.

D-11.3 INVESTMENT PROJECT COSTING

This Dimension is concerned with the amount of information about investment projects which is included in Budget documentation. In accordance with the Budget Code, Budget documentation each year contains the expenditure on each project during the budget year immediately ahead and the two subsequent years, both capital and any associated current expenditure. But the total capital and total lifetime costs are not given, as an optimal PEFA score requires. Because the total capital costs of each project are not given – the minimum requirement for a C score. Score: D.

D-11.4 INVESTMENT PROJECT MONITORING

Sponsoring Ministries monitor the execution of projects, with MoF responsible for financial monitoring and MNE for the evaluation of performance. Systematic consolidated reports, including some grading of execution performance, are produced regularly and submitted to the President, but not published. Because reports are not published the score is C.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
PI-11 Public investment management (M2)	C+		
11.1 Economic analysis of investment proposals	C	Projects are appraised according to published criteria by a body separate from the sponsoring Ministry, but there is no systematic publication of the results.	New dimension
11.2 Investment project selection	A	Projects are selected according to priorities set by the President and included in the regularly updated Socio-Economic Development Forecast.	New dimension
11.3 Investment project costing	D	Budget documentation does not include either the total capital costs or total lifetime costs of each project.	New dimension
11.4 Investment project monitoring	C	The total costs and physical progress of projects are monitored, but the consolidated annual report to the President is not published.	New dimension

PI-12 PUBLIC ASSET MANAGEMENT

This indicator assesses the management and monitoring of Government assets and the transparency of asset disposals. Its three dimensions are aggregated according to method M2. It asks questions which were covered only partially and indirectly under the 2005 PEFA criteria. Policy on the management of state assets is the responsibility of the MNE State Assets Management Policy Department, while actual management is dealt with by the State Property and Privatisation Committee (SPPC) under MoF. Coverage -- Dimension 12.1: CG. Dimension

12.2: BCG. Dimension 12.3: CG for financial assets and BCG for nonfinancial assets. Time period: Last completed fiscal year.

D-12.1 FINANCIAL ASSET MONITORING

Data about the Government’s holdings of financial assets is kept by the MoF and MNE bodies concerned. The major categories of financial assets are the Official Reserves held by NBRK, the assets of NFRK (mostly external), and the Government’s interests in companies of all kinds. NFRK and NBRK financial assets are published annually at market value, but a consistent overall balance sheet valuation has not yet been developed. There is no annual publication of the consolidated performance of all these assets, although annual information broadly consistent with International Financial Reporting Standards (IFRS) is available about the three major holding companies Samruk-Kazyna, Baiterek and KazAgro. Information provided by MNE shows that the assets of the holding companies (29,993 bn KZT at end 2017) represented 86 percent of the value of all the Government’s interests in companies. Score: B.

D-12.2 NONFINANCIAL ASSET MONITORING

The register of state-owned nonfinancial assets is kept by the Joint Stock Company (JSC) Information and Registration Centre set up by MoF. In addition to assets directly held by Central Government and SNGs, this includes about 7,000 institutions set up as JSCs (e.g. kindergartens, health clinics) providing services outside the market economy. A number of functions are accessible to the general public on its website, including information about development plans of SOEs, details of state property offered for sale, and (for renters) details of state property rented and the terms of leases. However, full details of all state-owned land, buildings and other assets included in the Register are not accessible by the general public. An IPSAS gap analysis prepared by E & Y for MoF found the register to be significantly incomplete as well as lacking consistent valuations. Since completeness is required for any score of C or above, score is D.

D-12.3 TRANSPARENCY OF ASSET DISPOSAL

Disposals are regulated by the Law on State Property. SPPC publishes a schedule of the businesses and other assets to be offered. Bids must be registered electronically, limiting the scope for collusion between buyer and seller. Prices paid are published on the Government’s e-commerce website, but not the identity of the purchaser, since the law considers this to be commercially confidential. This restrictive interpretation of commercial confidentiality is not allowed for in the PEFA criteria. Score: C.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
PI-12 Public asset management (M2)	C		
12.1 Financial asset monitoring	B	Data about the Government’s holdings of financial assets are kept by MNE and the State Committee under MoF. Information is published about the performance of the assets in the three main holding companies (see PI-10.1) which constitute the majority by value of all the Government’s holdings.	New dimension

12.2 Nonfinancial asset monitoring	D	Data are held by the JSC Information and Registration Centre established by MoF. But only parts of it are accessible to the general public, and a study by consultants found it to be incomplete.	New dimension
12.3 Transparency of asset disposal	C	Disposals are regulated by the Law on State Property, and managed by SPPC. Sales are made by electronic auction, with publication of the prices paid, but not the identity of the purchasers.	New dimension

PI-13 DEBT MANAGEMENT

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. M2 aggregation is used. The first and second dimensions cover the same ground as dimensions (i) and (iii) in PI-17 under the 2005 criteria. Coverage -- Dimensions 13.1 and 13.2: CG. Dimension 13.3: CG, except in federal states. Time period -- Dimension 13.1: At time of assessment. Dimension 13.2: Last completed fiscal year. Dimension 13.3: At time of assessment, with reference to the last three completed fiscal years.

D-13.1 RECORDING AND REPORTING OF DEBT AND GUARANTEES

Policy responsibility for government debt is shared between MNE (as responsible for the overall fiscal stance and thus for the amount of any new borrowing) and MoF (as responsible for actual debt management and servicing). Records are kept by MoF and the National Bank of the Republic of Kazakhstan (NBRK) which executes debt transactions and manages domestic market operations, and reconciled monthly. In addition to state debt public debt includes debt of NBRK and all SNGs. MoF also keeps records of debt guaranteed by the Government. The forecast in the Government's Socio-Economic Development Forecast (FSED) prepared by MNE for 2018-2022 shows Central Government debt as amounting to 20.1 per cent of GDP at the end of 2017, and SNG debt as amounting to 0.1 per cent of GDP. Total public debt was 26.4 per cent of GDP. These figures exclude the non-guaranteed debt of the state holding companies which was calculated by the World Bank's 2017 Public Finance Review from public sources to amount to 29.1 per cent of GDP at the end of 2016 (see PI-10 above). There is no reason to doubt the completeness and accuracy of the public debt figures, which cover debt stock, debt service and operations and are published quarterly on the MoF website (Budget Code (BC) Article 204). Score: A. The 2009 PEFA report gave a C score for the corresponding dimension, apparently because of doubts about the consistency of data concerning the external debt of the private sector which falls outside the scope of this indicator. Score: A.

D-13.2 APPROVAL OF DEBT AND GUARANTEES

The annual Budget Law sets the overall limit on Government borrowing (BC Article 207) and on the provision of guarantees (BC Article 214). Government borrowing is undertaken by MoF on terms decided by the Government (BC Article 206). Annual borrowing limits are approved by the Parliament as part of the budgetary process. The procedures followed reflect the division of responsibilities for different aspects of debt management between Parliament, Government, MoF, MNE and NBRK. SNGs may borrow only from the Government (except that the cities of Astana and Almaty may issue bonds), in all cases within limits set by the MNE (BC Article

210). The law provides for the Government to guarantee loans taken out by other borrowers to finance investments approved by MNE; the guarantees are provided by MoF on terms set by the Government (BC Articles 213-214). In practice very little use has been made of the power to issue guarantees and the amounts outstanding are very small. Score: A.

D-13.3 DEBT MANAGEMENT STRATEGY

Each year the FSED prepared by MNE sets the overall objectives for the development of the state debt which should ensure that the total remains at an acceptable level, taking into account the external debt of SOEs. The MoF Strategic Plan includes some very general objectives for debt management – balance between domestic and external borrowing, development of the domestic capital market – but no specific indications about the type, amount, interest rate or maturity of the debt instruments to be used. A debt management strategy as envisaged by the PEFA criteria needs to contain these elements. It is understood that the unpublished supporting material given to Parliament with each year’s budget proposals (see PI-9 above) contains more detail about the types of borrowing to be undertaken, but any score of C or above for this dimension requires publication of the strategy. Score: D.

The scores for PI-13 are as follows:

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
PI-13 Debt management (M2)	B		
13.1 Recording and reporting of debt and guarantees	A	MoF and NBRK maintain complete records of debt stock, debt service and guarantees, and reports are published quarterly.	No substantial change since 2009.
13.2 Approval of debt and guarantees	A	MoF undertakes borrowing and provides guarantees on terms decided by the Government and within limits set by the annual budget law.	No change
13.3 Debt management strategy	D	No debt management strategy covering existing and projected borrowing and indicating the preferred evolution of risk indicators such as interest rates refinancing has been published.	New dimension

PILLAR IV: POLICY-BASED FISCAL STRATEGY AND BUDGETING

PI-14 MACROECONOMIC AND FISCAL FORECASTING

This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. It contains three dimensions and uses M2 (AV) for aggregating dimension scores. Coverage -- Dimension 14.1: Whole economy. Dimensions 14.2 and 14.3: CG. Time period -- Last three completed fiscal years.

D-14.1 MACROECONOMIC FORECASTING

The Government approved and published the Forecast of Social and Economic Development prepared by MNE. This is a document determining the parameters of the economic development of the Republic of Kazakhstan and the economic policy for a five-year period. The Forecast is annually developed on a rolling basis for a five-year period, taking into account the strategic and program documents and the annual Address of the President of the Republic of Kazakhstan to the people of Kazakhstan on the situation in the country and the main directions of the internal and foreign policy of the country. The Forecast contains external and internal conditions of economic development; goals and objectives of economic policy for a five-year period, including fiscal policy; the main directions and measures of economic policy for a five-year period, including fiscal policy; forecast of socio-economic development indicators for a five-year period. However, as mentioned in PI-5 element 6 there is only indirect information on the exchange rate and none on interest rates. The PEFA criteria require forecasts of both these elements for any score of C or above.

The Forecast is updated on a regular basis. In 2016 and 2017 Forecasts were updated twice each year, and in 2018 once. According to Budget Code the Forecast is a part of budget documentation submitted to Parliament.

Prior to Government's approval the Forecast should be reviewed by the Republican Budget Commission (RBC) which includes two representatives of each House of Parliament as well as the Prime Minister and senior Government representatives. There is no requirement in the legal framework for it to be reviewed by an independent body before its approval, and no such review takes place. Score: D.

D-14.2 FISCAL FORECASTS

There is a Chapter on fiscal policy and indicators In the Forecast of Social and Economic Development (FSED). This Chapter includes forecasts of fiscal indicators for the three years covering the republican and state (i.e. Central Government plus all SNGs) budgets: revenues (tax, non-tax, capital revenue, transfers from the National Fund, repayment of budget loans, privatization receipts), aggregate expenditures, and overall balance (deficit/surplus). In addition the non-oil budget balance is given, which means the balance without transfers from National Fund for the Republic of Kazakhstan (NFRK) into which most oil revenues are paid. There are also forecasts for three years of the revenues and expenditures of NFRK and the consolidated budget, which aggregates the state budget and NFRK revenue and expenditure. Information about the underlying assumptions is given, but there is no explanation of the main differences from the fiscal forecast made in the previous Forecast. Score: B.

D-14.3 MACROECONOMIC SENSITIVITY ANALYSIS

The Socio-Economic Forecast includes some assessment of the impact of alternative scenarios - optimistic, basic and pessimistic – on the development of the country. According to the Forecast for 2018-2022 the price of Brent crude oil would be: in the optimistic scenario 55 USD per barrel, basic scenario 45 USD per barrel, and pessimistic 35 USD per barrel. The Government identified the following main risks: a) the volatility of world prices for raw materials, including oil; b) changes in US monetary policy and interest rates which could cause capital outflow from developing countries with weak macroeconomic structures; c) continuation of the unfavourable geopolitical situation in Ukraine, Syria, Turkey and the Middle East which could lead to additional risks through the secondary channels of foreign trade and foreign direct investments.

The basic scenario was chosen as the central forecast, with the detailed macroeconomic assumptions and fiscal indicators given for three years. But there is only a broad description in a few sentences without quantitative indicators on the impact of the alternative scenarios on the macroeconomic prospects and fiscal indicators. Score: C.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
Overall score (M2)	C		
(i) Macroeconomic forecasting	D	MNE prepared Plans of Social and Economic Development for 5 years, which were approved by Government and submitted to Parliament together with the draft budgets. Forecasts were not reviewed by any independent body. The forecasts include GDP growth and inflation, but only indirect information on the exchange rate and none on interest rates.	New dimension
(ii) Fiscal forecasts	B	Fiscal forecasts have been prepared for 3 years ahead, and presented to Parliament together with the main underlying assumptions.	New dimension
(iii) Macroeconomic sensitivity analysis	C	Some information is given about the impact of alternative macroeconomic assumptions on the fiscal forecasts	New dimension

PI-15 FISCAL STRATEGY

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores. Coverage CG. Time period -- Dimension 15.1: Last three completed fiscal years. Dimensions 15.2 and 15.3: Last completed fiscal year.

D-15.1 FISCAL IMPACT OF POLICY PROPOSALS

The budget documentation submitted to Parliament includes an explanatory note which takes into account all decisions on revenue and expenditures related to budget period (3 years ahead). The explanatory note contains:

- a brief description of the current situation and the existing problems;
- a description of ways to improve the situation and solve problems, so as to achieve the objectives in the Government's strategic plans, together with the associated performance indicators, including the fiscal impact of the actions and policies proposed;
- a description of the objectives of budget programs and the eventual results;
- information about the directions of spending budget resources in the context of budget programs and budget subprograms, including an indication of the direct results of budget programs;
- information about the implementation of budget programs and the extent of achievement of performance indicators for the two past fiscal years, as well as information (causes, consequences) on the deviation of the actual expenditure from the amount approved in the annual budget law for the previous period;
- information on the results of activity for the two past financial years of the SOEs for which the republican budget provides the budgetary resources for increasing their authorized capital and/or provides budgetary loans;
- information on budget investment projects in process of implementation, showing the expenditures allocated and used from the republican budget in previous financial years.

The explanatory note covers only the Republican Budget and does not include extrabudgetary funds and other government activity, which is outside the budget. It is not published because some of the information is considered to be confidential. This is a new dimension not covered in the criteria used for the 2009 PEFA report. Score: A.

D-15.2 FISCAL STRATEGY ADOPTION

The Concept "On the new budget policy of the Republic of Kazakhstan" approved by Presidential Decree No. 590 of 20 June 2013 ("Concept") defines the long-term vision and the main principles and approaches to the preparation and implementation of fiscal policy until 2020, and is aimed at ensuring the completeness of reforms in public finance. The Concept includes two stages: first stage (2014-2017) – the creation of the base for ensuring budget balance as well as budget efficiency; the second stage (2018-2020) - strengthening the sustainability of public finances. The expected results after implementation of the Concept are stability of public finances, greater effectiveness of budget expenditures, including budget investments, a higher level of private investment in the economy, greater efficiency of local executive bodies, and creation of favourable conditions for sustainable economic growth. The Concept covers all aspects of public finance. It establishes some quantitative targets such as the

budget deficit (including the non-oil deficit) and the level of public debt. It is complemented by the Concept of Managing NFRK adopted in 2016, which set the amount of annual guaranteed transfers into the budget in diminishing amounts over time while requiring that the assets of the NFRK should never fall below 30 per cent of GDP.

While the Concept provides the fiscal policy principles, the Government's FSED, which is rolled forward each year, sets out the fiscal strategy and the fiscal aggregates for the three years immediately ahead. Expenditure ceilings and estimates for annual budget law are prepared based on these fiscal aggregates which are fully consistent with the Concept. Score: A.

D-15.3 REPORTING ON FISCAL OUTCOMES

The Government prepares its report on budget execution during the previous calendar year and submits it to Parliament before April 20. This timetable has been followed in 2018 in respect of fiscal year 2017. The accompanying explanatory note includes analytical information on the economic situation, an account of the main directions of fiscal policy, with explanations for deviations from the targets approved in the FSED for the relevant period, as well as details of the implementation of the annual budget law for the previous financial year. However, there is no mention of any action planned by the Government to address the deviations. The explanatory note is published on the MoF website.

Based on established procedures Parliament reviews and approves the budget execution report before the end of June each year. Then Parliament takes into account the recommendations made during scrutiny of budget execution report when reviewing the budget proposals for the next financial year. Score: B.

Indicator/Dimension PI-15 Fiscal Strategy	2018 score	Justification for 2018 score	Performance change and other factors
Overall score (M2)	A		New indicator
15.1 Fiscal impact of policy proposal	A	Budget documentation submitted to Parliament included the impact of revenue and expenditure decisions for the budget year ahead and the following two fiscal years	New dimension
15.2 Fiscal strategy adoption	A	The Plan on social and economic development included a Chapter on fiscal strategy for 3 years. The Plans were approved by Government and submitted to Parliament along with draft budget	New dimension
15.3 Reporting on fiscal outcomes	B	The Government's budget execution reports approved by Parliament about 2 months before the submission of the following year's budget include information on progress against its fiscal strategy.	New dimension

PI-16 MEDIUM TERM PERSPECTIVE IN EXPENDITURE BUDGETING

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores. Coverage BCG. Time period -- Dimensions 16.1, 16.2 and 16.3: Last budget submitted to the legislature. Dimension 16.4: The “last medium-term budget” relates to the budget approved by the legislature for last completed fiscal year and “the current medium-term budget” relates to the budget approved by the legislature for the current fiscal year.

D-16.1 MEDIUM-TERM EXPENDITURE ESTIMATES

According to the Budget Code the planned budget period is three years after current year. Ministries (budget administrators) should prepare budget proposals for planned period and provide them to MoF which analyses them and submits them to RBC prior to Government’s approval. Budget administrators should prepare expenditure estimates by administrative, functional and programme classifications. Budget documentation submitted to Government and Parliament does not contain an economic classification. After Parliament’s budget approval, the administrators should provide the annual financial plans broken down by administrative, functional, program and economic classifications to MoF. During the fiscal year it is normal practice for the annual budget to be updated by Parliament but the figures for the two subsequent years remain unchanged. Score: C.

D-16.2 MEDIUM-TERM EXPENDITURE CEILINGS

Prior to the preparation of the budget proposals by ministries the MoF issues expenditure ceilings for each ministry and agency (budget administrator). The expenditure ceilings cover the three years immediately ahead and are issued before the beginning of May of each year.

There is an active participation of political leadership in the budget formulation process. The Republican Budget Commission (RBC) is involved in the budget formulation process from its early stage. RBC should approve aggregate expenditure ceilings as well as for each budget administrator before they are issued by the MoF.

The Chairman of RBC is the Prime Minister. The other members of RBC are the key ministers (finance, national economy, justice, investment and development, National Bank Chairman) as well as the Chairmen of the two relevant Committees of each House of Parliament. MoF acts as the Secretariat of RBC.

The RBC has the authority to:

- Review and preliminary approval of forecast on socio-economic development of the country,
- Approve the expenditure ceilings for administrators of republican budget programs,
- Review parameters of the draft of republican budget for planned period,
- Review proposals for new legislation which would reduce the revenue or increase the expenditure of republican and local budgets and NFRK,
- Review proposals on republican budget amendments,
- Consider budget monitoring and evaluation results.

The schedule of the RBC meetings is approved by Commission.

This new dimension was not covered by the criteria used in previous PEFA assessment in 2009. Score: A.

D-16.3 ALIGNMENT OF STRATEGIC PLANS AND MEDIUM-TERM BUDGETS

According to the legal framework and current practice, each ministry and agency should update its 5-year strategic plan at three year intervals. The strategic plans are prepared based on national strategic and program documents and the Government's FSED. The strategic plan defines strategic directions, objectives, and performance indicators of the activity of the ministry. The strategic plan of the ministry/agency is approved by the Minister/Head of the agency and should be agreed with the MNE. Budget programs covering both current and capital expenditure for the three years ahead should be elaborated based on strategic plans. The costs of the strategic plans thus align with budget programs.

Strategic plans are part of the budget documentation and should be reviewed and agreed by MNE and MoF before submission to Parliament. MNE analyses the consistency of strategic plans with the Government's FSED and with other national program documents. MoF reviews alignment of the cost and financial resources for implementation of strategic plans with medium term budget estimates taking into account budget constraints and ceilings. Once each year's budget has been enacted, strategic plans should be revised within a month, and published within a further ten days.

For the implementation of strategic plans, ministries each year elaborate and approve an operational plan for one year. The operational plan is a document containing the specific activities of the ministry in the current financial year, the responsible executors and the timing of the implementation of these activities to achieve the approved goals, objectives and performance indicators of the ministry in accordance with its strategic plan.

In the 2009 PEFA assessment the corresponding dimension was scored as "D" because of there was no a link between the financial estimates in sectoral strategies and the multi-year fiscal projections. Since 2008, there has been the practice of elaboration and approval of strategic plans which are fully consistent with budget estimates. Score: A.

D-16.4 CONSISTENCY OF BUDGETS WITH PREVIOUS YEAR'S ESTIMATES

In a stable economic environment fiscal planning would provide for investments to be undertaken, and current programmes adjusted up and down in a predetermined way and within a preset fiscal envelope extending over three or more years. In a less stable environment the overall envelope may need to be adjusted, while allocations to particular functions have to be adjusted to respond to political and other pressures. As Table M shows, the overall envelope for 2018 had to be adjusted upwards in both the 2017 and 2018 budgets, with provision for health and transfers to SNGs substantially raised in 2017, and for debt interest and transport in 2018. By contrast the large provision for social protection remained more or less flat in money terms, and declining as a proportion of the total. The (unpublished) explanatory note provided to Parliament with the 2018 budget was stated to contain an explanation of some of the changes to the provision for different functions in 2018 as between this budget and that presented the previous year. Score: C.

Table M: 2018 Expenditure as presented in 2016, 2017 and 2018 budget proposals

Function	Budget 2016		Budget 2017		Budget 2018	
	KZT billion	% of total expenditure	KZT billion	% of total expenditure	KZT billion	% of total expenditure
General Public Services	334	4.4	383	4.7	386	4.3
Defence	364	4.8	408	5	519	5.8
Public Order	415	5.5	453	5.6	540	6
Education	421	5.6	337	4.1	383	4.3
Health	774	10.3	1017	12.5	1067	11.9
Social protection	2543	33.8	2411	29.7	2614	29.2
Utility services	66	0.9	85	1.0	178	2
Recreation, Culture	80	1.1	85	1.0	121	1.3
Fuel and energy complex and subsoil use	47	0.6	49	0.6	70	0.8
Agriculture, water and forestry	130	1.7	160	2.0	184	2.1
Industry, architecture, town-planning and construction activities	7	0.1	8	0.1	9	0.1
Transport and communications	366	4.9	382	4.7	549	6.1
Others	544	7.2	282	3.5	171	1.9
Debt payments	433	5.8	490	6.0	600	6.7
Transfers	992	13.2	1573	19.4	1573	17.5
Total Expenditure	7516	100	8126	100	8966	100

Source: Annual Budget laws for 2016-2018, 2017-2019, 2018-2020

The scores for PI-16 are as follows:

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
Overall score (M2)	B		
16.1 Medium-term expenditure estimates	C	Budget documentation presents the expenditure estimates for 3 years ahead broken down by administrative, functional and programme classifications. There is no economic classification.	New dimension
16.2 Medium-term expenditure ceilings	A	The Republican Budget Commission approved the aggregate expenditures and the ceilings for administrators of budget programs for 3 years before preparation of detailed budget proposals by ministries.	New dimension
16.3 Alignment of strategic plans and medium term budgets	A	Medium-term strategic plans of ministries are prepared within a framework set by MNE. The strategic plans align with medium-term budget estimates.	Since 2008 a strategic plan for each ministry has been implemented.
16.4 Consistency of budgets with previous year's estimates	C	There is an explanation of some changes to expenditure estimates in 2018 Budget figures as compared with those for 2018 in the 2017 Budget.	New dimension

PI-17: BUDGET PREPARATION PROCESS

This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores. Coverage BCG. Time period -- Dimension 17.1 and 17.2: Last budget submitted to the legislature. Dimension 17.3: Last three completed fiscal years.

D-17.1 BUDGET CALENDAR

The process of budget preparation and the budget calendar is formalised in the budget legislation (Budget Code, Government Resolution “Rules on preparation of republican budget draft” as of 24.08.2017 No. 502). There are the following key deadlines:

- No later than 15 April, MNE submits the plan on socio and economic development for 5 years, aggregated budget parameters (revenue by main type, expenditures, fiscal balance) for 3 years to Republican Budget Commission (RBC) for approval.
- Before 1 May, the MoF submits budget ceilings approved by RBC to program administrators.
- Before 15 May, program administrators submit: the detailed budget proposals and program for 3 years and strategic plans for 5 years to MoF, the strategic plans and budget programs to MNE.
- Before 1 August, based on consultations and recommendations of RBC the program administrators submit: revised strategic plans, budget programs and budgets proposals to MoF, revised strategic plans and budget programs to MNE.
- No later than 15 August, MoF submits the draft budget to Government and Accounts Committee.
- No later than 1 September, Government submits the draft of annual budget to Parliament.

The budget calendar is generally well adhered to within the Government, although some MDAs' budget submissions might not meet the deadline for submissions to MoF or quality of documentation is not fully complied with existing requirements. There was the case in 2016 when MoF returned budget submissions to four budget administrators (Ministry of Agriculture, Ministry of Health and Social Development, Ministry of Education, MNE) because detailed calculations were lacking, and justifications did not comply with the requirements of the budget legislation.

The situation has changed since the 2009 PEFA assessment. According to the budget calendar of 2007, the Ministry of Economy and Budget Planning (MEBP) (as ministry then responsible for budget preparation) informed the budgetary units about their expenditure ceilings for the current programmes before 10 May, and the list of investment projects before 23 May. Budgetary units had to submit their budget requests to the MEBP not later than 1 June 2017, which means that they had approximately three weeks to prepare the budget requests with regard to the current expenditure programmes and only one week with regard to investment projects.

Since 2009 the MoF became responsible for preparation and issue of budget ceilings. There were also changes in the budget calendar. MoF should issue the budget ceilings to the budget administrators not later than 1 May, budget administrators (Ministries) should provide detailed budget estimates to MoF not later than 15 May. Thus Ministries have only about 2 weeks for

preparation of the budget estimates which could potentially lead to deterioration of quality. However, the changes provide an additional 15 days for the subsequent budget negotiations, consultations and analysis by MoF, MNE and RBC. Budget ceilings are set for both basic expenditures and expenditures on new initiatives. Basic expenditures cover the ongoing costs of current programmes, including the completion of investments in process of execution, while expenditures on new initiatives provide for financing new priorities for social and economic development as set out in new budget programs.

Since the timetable does not allow at least the 4 weeks for the preparation of budget submissions required to meet the PEFA criteria for B on this dimension, the score is C.

D-17.2 GUIDANCE ON BUDGET PREPARATION

The Budget Code and “Rules on preparation and submission of budget proposal”(approved by Minister of Finance Order №511 as of November 24, 2014) determine all the requirements, forms and other relevant documentation for budget proposals and estimates to be prepared by budget administrators and submitted to MoF. The rules are comprehensive and clear.

The expenditure ceilings for budget administrators are approved by the RBC chaired by the Prime Minister and including Parliamentary representatives as well as Ministers (see PI-16.2 above) before they are issued by the MoF before the beginning of May of each year. As noted in 17.1 above, the expenditure ceilings are set for three years ahead and cover both basic expenditure and expenditure on new initiatives. Score: A.

D-17.3 BUDGET SUBMISSION TO THE LEGISLATURE

This dimension asks whether the timing of the budget submission by the executive allows the legislature sufficient time to consider the proposals. For an A score the legislature should have at least two months before the year end. In Kazakhstan the Budget Code requires the draft budget to be submitted before 1 September, i.e. four months before year end. The draft budgets for 2016, 2017 and 2018 were submitted on 29 August, 31 August and 31 August respectively. Score: A.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
Overall score (M2)	B+		
(i) Budget calendar	C	A clear annual budget calendar exists, but the time available for MDAs to prepare budget submissions is less than 4 weeks.	Previous PEFA assessment team recognized that MDA had less than 4 weeks for preparation of budget submissions. However, they gave a “B” score based on statement that MDA still were able to complete their submissions in time and it did not impact the quality of the budget submissions. There were some changes in budget legislation. During our meetings with line ministries, they confirmed that the time is not sufficient for preparation of well-considered detailed budgets.
(ii) Guidance on budget preparation	A	A comprehensive and clear budget circular is issued to MDAs, with expenditure ceilings already approved by the RBC.	No change
(iii) Budget submission to legislature	A	During last three years budgets were submitted to Parliament before September 1 which gives sufficient time for review and approval	New dimension

PI-18: LEGISLATIVE SCRUTINY OF BUDGETS

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. It contains four dimensions and uses the M1 (WL) method for aggregating dimension scores. Coverage BCG. Time period -- Dimension 18.1, 18.2 and 18.4: Last completed fiscal year. Dimension 18.3: Last three completed fiscal years.

D-18.1 SCOPE OF THE BUDGET SCRUTINY

The Parliament takes part in the initial formulation of the Government's fiscal stance through the participation of its representatives in the RBC which approves the budget ceilings issued by MoF to ministries at the before the May each year. Thereafter Budget Code requires the Government's proposals to be submitted to Parliament by 1 September each year.

The Parliament also receives a preliminary assessment from the Accounts Committee (AC) analysing the Government's proposals and commenting on the priorities of RB expenditures, the consistency of budget expenditures with the Government's priorities for socio-economic development, and the extent to which the proposals take account of the AC's conclusions and recommendations in response to the Government's budget execution report for the previous financial year (Law on state audit and financial control, Article 27).

The draft budget law documentation submitted to parliament includes: (i) plan on socio-economic development for 5 years ahead including medium-term fiscal policies and fiscal aggregates for 3 years, (ii) detailed estimates of revenues (broken down by categories, classes and sub-classes) and expenditures (with a break-down by functional groups, administrators of budget programs (i.e. Ministries) and budget programs), (iii) drafts of strategic plans and budget programs prepared by ministries, (iv) details on public debt for past two years and as of 1 July of submission year, (v) information on using of targeted transfers for past two years, (vi) explanatory note. Parliamentary scrutiny covers budget documentation as well as NFRK transfers to RB. Budget revenues and expenditures include all transfers from and to NFRK. Score: A.

D-18.2 LEGISLATIVE PROCEDURES FOR BUDGET SCRUTINY

The Parliamentary procedures for review and approval of the draft budget are based on the Constitution of the Republic⁴, the Regulation of the Parliament of the Republic of Kazakhstan⁵, the Regulations of Mazhilis and Senate⁶, and the Budget Code⁷. These normative acts were amended after last PEFA assessment in 2009. Changes were related to different issues including budget aspects. The Parliament receives the draft budget law from the Government not later than 1 September. The proposals are considered in detail by Parliamentary Committees, the process being coordinated by the Budget and Finance Committees of Mazhilis and Senate

⁴of 16.10.1995 No 2529. After previous PEFA assessment there were 4 amendments to the law: as of 03.10.2013, 04.07.2014, 01.01.2015 and 15.06.2017

⁵Approved by the Resolution of the Parliament of 20.05.1996 and amended as of 22.06.2012

⁶Approved by the chambers' resolutions of 8.02.1996. Resolution of Senat was amended 11.12.2009 and 24.03.2016. Resolution of Mazhilis - 09.11.2011 and 07.09.2016.

⁷Chapter 13, articles 74, 76.

which take the lead in negotiation with the Government. Article 72 of the Budget Code requires the Parliamentary stages to be complete by 1 December, and this was adhered to.

The budget is adopted in separate sessions of Mazhilis and then in the Senate. All standing committees in both chambers submit their opinions on the draft budget. Discussions in the Parliament may result in some reallocation between budget programs within the overall total of RB expenditures. All these procedural stages were followed for the 2017 and 2018 Budgets. An A score for this dimension requires a process of public consultation on the Government's proposals. There is no legal provision for such a consultation, and no public hearings have been held by either chamber. Because of this the score is B.

D-18.3 TIME FOR BUDGET APPROVAL

In the last three years the budget was approved before the start of the relevant fiscal year. In 2015 the law on annual budget was approved and signed on 30 November; in 2016 on 29 November; and in 2017 on 30 November. Score: A.

D-18.4 RULES FOR BUDGET ADJUSTMENTS BY THE EXECUTIVE

The Budget Code (BC) governs the extent of reallocations of budget provision. There are two types of in-year budget changes: "clarifications" and "corrections". Clarifications (BC Chapter 19, Article 107) require Parliament's approval and corrections (BC Chapter 20, Article 111) can be implemented by the Government without approval of the Parliament.

Ministries may reallocate expenditure within a program and between subprograms within specified limits. When the budget allocations are not fully used during the financial year, and/or there is inefficient execution of budget programs, expenditure other than provision for targeted transfers can be reallocated by the Government between budget programs up to a limit of 10 per cent of any budget program. Where responsibility for particular activities is changed as a result of Government reorganisations, provision can be moved to the newly responsible Ministry. Reallocations of no more than five percent of any program can be made between the budget development programs of one administrator (Ministry) without consideration by the RBC; reallocations of between five and ten percent of any budget program require approval by the RBC.

Where revenues fall short of budget, and funds are not available to meet intended expenditures, the Government may reduce (sequester) expenditures within a limit of 10 per cent of the approved provision. Reductions of more than 10 per cent require the approval of Parliament (Budget Code, Chapter 20, Article 120). Some budget programs, and also contracted payments under PPP schemes, are exempt from sequestration. In deciding which expenditure to cut back, the Government should take into account the social priority attached to it. These rules have been observed throughout the period covered by this assessment. Score: A.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
Overall score (M1)	B+		
18.1 Scope of the budget scrutiny	A	Scrutiny by the Parliament covers medium-term fiscal forecasts and priorities as well as revenue and expenditure estimates for the year ahead.	The legislature is consulted about the main priorities and the Government's fiscal stance before MoF issues expenditure ceilings. Since 2009 there were some amendments to the Budget Code extending budget documentation submitted for legislative scrutiny.
18.2 Legislative procedures for budget scrutiny	B	There are established procedures for both Houses of Parliament to review budget proposals. However arrangements for public consultation do not include public hearings on the budget proposals.	Since 2009 there were some amendments to Budget Code and Regulations of Mazhilis and Senate on issues related to budget scrutiny by Parliament.
18.3 Timing of budget approval	A	The Parliament approved the budget before start of 2016, 2017, 2018	No change
18.4 Rules for budget adjustments by the executive	A	There are clear rules which limit the extent and nature of the adjustments the Government can make to the budget, which are adhered to.	No change

PILLAR V: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

PIs 19-26 cover revenue administration, cash management (including expenditure arrears), payroll, procurement, internal financial control and internal audit.

PI-19 REVENUE ADMINISTRATION

This indicator relates to the entities that administer Central Government revenues, which may include tax administration, customs administration, and social security contribution administration. It also covers agencies administering revenues from other significant sources such as natural resources extraction. These may include public corporations that operate as regulators and holding companies for government interests. In such cases the assessment will require information to be collected from entities outside the government sector. The indicator assesses the procedures used to collect and monitor Central Government revenues. It contains four dimensions and uses M2 (AV) method for aggregating dimension scores. Coverage CG. Time period -- Dimension 19.1 and 19.2: At time of assessment. Dimension 19.3 and 19.4: Last completed fiscal year.

In 2017 total Republican Budget revenues amounted to 9.69 trillion KZT, of which 4.82 trillion KZT or 49.7% were tax revenues. The most substantial other revenues take the form of transfers from the National Fund of the Republic of Kazakhstan (NFRK) which in 2017 amounted to 4.68 trillion KZT or 48% total revenues. All revenue accruing from hydrocarbon exploitation is paid into the NFRK, from which a “guaranteed transfer” is made each year into the Republican Budget; the planned amount of this transfer in 2020, is two trillion KZT or about 3.0 per cent of GDP. This revenue is collected along with other taxes by the State Committee: the only difference is that it is paid into the Fund not to the Treasury. The major taxes assigned to the Republican Budget are taxes on goods and services, taxes on corporate income and taxes on international trade.

This indicator has four dimensions covering revenue payers’ rights and obligations, revenue risk management, revenue audit and investigation, and the monitoring of revenue arrears. The criteria apply most naturally to tax revenues; A scores are given for the first three dimensions if the criteria are satisfied by entities collecting 75 per cent of total revenues. Therefore the assessment of this indicator can to a large extent focus on the State Revenue Committee which is the authorised body responsible for tax collection.

D-19.1 RIGHTS AND OBLIGATIONS FOR REVENUE MEASURES

Responsibility for tax affairs is shared between several Government agencies. Tax policy falls under the Department of Tax and Customs Policy of the Ministry of National Economy (MNE) while tax legislation is a function of the Department of Tax and Customs Legislation of the MOF. Tax administration is the remit of the State Revenue Committee of the MOF. Collectively these institutions provide taxpayers with ready access to all applicable legislation and regulations through their websites as well as the central electronic law library known as “Adilet” maintained by the Ministry of Justice. The key legal document is the Tax Code (“On Taxes and Other Obligatory Payments into the Budget”) of 2008 as amended and now superseded by the new Tax Code dated 25 December 2017. The very comprehensive Code specifies the precise basis on which the various tax liabilities shall be calculated. It sets out clearly the rights and responsibilities of taxpayers and tax agents, including details of appeal procedures against assessments. The various tax authorities respond to questions posed through their websites, as well as maintaining call centres to answer taxpayers’ questions. Taxpayer

workshops are held periodically sometimes jointly with the Association of Taxpayers, and media outlets are employed to disseminate information. All these arrangements provide taxpayers with readily available information about tax liabilities and the provisions for appeals against assessments. Tax advisers' websites comment on the severity of the penalties for incorrect declarations, and on the complexity and possible inconsistency of application of withholding taxes.

Tax appeals are considered by the Appeals Department of the MoF. A commission headed by a Deputy Minister meets to review cases, normally on a weekly basis. Taxpayers dissatisfied with the outcome of their case may take the matter to the Economic Court. In 2017, 136 appeals amounting to 3 billion KZT were considered, of which 125 amounting to 2.8 billion KZT were overturned by the Appeals Department. Score: A.

D-19.2 REVENUE RISK MANAGEMENT

As indicated above, almost all of the Republican Budget's revenue comes from either taxes or transfers from the National Fund most of whose revenue is collected with other taxes by the State Committee.

Chapters 15-17 of the Code deal with tax monitoring, risk management and tax audit. Tax control is defined as "the supervision by the tax service authorities of compliance with the provisions of the tax legislative acts of the Republic of Kazakhstan". Specific types of tax control cited in the law include tax inspection, taxpayer registration, monitoring of major taxpayers and tax audits. The State Revenue Committee as the authorised body is required to develop and approve risk assessment criteria and annual plans for conducting inspections.

The State Revenue Committee (SRC) currently employs a semi-automated risk management system that identifies high risk areas requiring audit attention, increases the probability of tax violations being revealed and minimizes tax audits in areas considered to be of low risk. This approach applies across the whole range of taxpayers, and is not confined to a small group of the largest taxpayers. The Committee is in the process of testing software that will support a fully automated system. Application of the system appears to have resulted in a reduced number of audits in 2017 as compared with previous years. By 1 January 2019, all taxpayers will have been classified as low, medium or high risk. The risk designation of each taxpayer will be notified on the State Revenue Committee's website. Score: A.

D-19.3 REVENUE AUDIT AND INVESTIGATION

The Audit Division of the State Revenue Committee carries out both planned and unplanned audits. The former are identified by the Risk Management System and are planned over a six-month period. Some of the RMS criteria are publicly available and are specified in the Tax Code whereas others are confidential. Any taxpayer can be the subject of an unplanned audit. In 2017, 608 taxpayers were selected for audit, of which 520 or 85.5% were completed. As a result of these, an extra 28.4 billion KZT was charged to taxpayers of which almost 5 billion KZT were penalties. A and B scores for this dimension require completion of at least 90% of planned audits.

Under the terms of a Tax Reform Project conducted in association with the World Bank, new systems will be introduced and all taxpayers will be classified as high, medium or low risk. As approved by a Government Decree, a special division of the State Revenue Committee already

deals with large taxpayers. As less than 90% of planned tax audits were completed the score is C.

D-19.4 REVENUE ARREARS MONITORING

Revised figures for tax arrears provided by SRC in December 2018 are shown in the following table:

Table N: Tax arrears collection (KZT billion)

Year	2016	2017
Total taxes collected during year (KZT billion)	4,242.9	4,841.4
Tax arrears at year end (KZT billion)	299.3	283.8
Arrears as % of taxes collected during year	7.1%	5.99%
Arrears collected during year (KZT billion)	n.a	165.5
Arrears collected as % of amount at start of year	n.a	55.3%

Source: State Revenue Committee

For an A score, tax arrears at the end of 2017 must not exceed 10 per cent of collections during the year, and not more of the arrears must be over 12 months old. While Kazakhstan meets the first condition, more than 40 per cent of arrears were more than 12 months old, resulting in the score B.

Indicator/Dimension	2018 Score	Justification for 2018 score	Performance change and other factors
PI-19 Revenue administration (M2)	B+		
19.1 Rights and obligations for revenue measures	A	Entities collecting the major types of revenue provide payers with access to comprehensive and up-to-date information on revenue obligations and rights, including redress processes and procedures.	No change since 2005
19.2 Revenue risk management	A	The State Revenue Service entities use a structured and systematic approach for assessing compliance risks for tax revenues.	Performance improvement through more systematic audit planning
19.3 Revenue audit and investigation	C	Less than 90% planned tax audits were completed.	New criterion
19.4 Revenue arrears monitoring	B	While total tax arrears at the end of 2017 were less than 10% of collections during the year, over 40% of tax arrears at the end of 2016 were still outstanding at the end of 2017.	No real change as previous assessment did not address the arrears collection rate.

Source: Tax Code and interviews with tax officials

PI-20 ACCOUNTING FOR REVENUE

This Indicator assesses procedures for recording and reporting revenue collections, consolidating revenue collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the Central Government. This indicator contains three dimensions and uses M1 (WL) for aggregating dimension scores. Coverage CG. Time period -- At time of assessment.

D-20.1 INFORMATION ON REVENUE COLLECTIONS

All central and local Government revenue including amounts destined for the National Fund for the Republic of Kazakhstan (NFRK) is collected by SRC and paid daily into the TSA at the National Bank of the Republic of Kazakhstan (NBRK). Information is sent on a daily basis to the Kazakh Centre for Inter-bank Operations which falls under the NBRK. Revenue collection amounts are accumulated on a daily basis on the Revenue Collection Account from which there are daily reallocations to the Republican Budget, State Budget, NFRK and Cash Control Account (for the Eurasian Economic Unit). There are daily reconciliations between NBRK data and the collection data sent by revenue collectors to the State Treasury Committee. There is full integration of information systems between the State Treasury, NBRK and State Revenue Committee. Score: A.

D-20.2 TRANSFER OF REVENUE COLLECTIONS

All revenue collected whether through Government offices or through the banking system is banked and transferred to the TSA daily (other than that destined for NFRK). Score: A.

D-20.3 REVENUE ACCOUNTS RECONCILIATION

All revenues collected are identified by source and type, so enabling the various revenue accounts to be closed and reconciled on a daily basis. A daily report is produced in respect of the Republican Budget, State Budget, NFRK and Eurasian Economic Unit. The State Revenue authorities receive information on collections from the Treasury and allocate revenues to specific taxpayer accounts. Score: A.

The scores for PI-20 are as follows:

Indicator/Dimension	2018 Score	Justification for 2018 score	Performance change and other factors
PI-20 Accounting for revenue (M1)	A		
20.1 Information on revenue collections	A	Daily information circulated	No change
20.2 Transfer of revenue collections	A	Daily transfer to TSA	No change
20.3 Revenue accounts reconciliation	A	Daily reconciliation procedures	No change

Source: State Revenue Committee and State Treasury Committee

PI-21: PREDICTABILITY OF IN-YEAR RESOURCE ALLOCATION

This indicator assesses the extent to which the central Ministry of Finance is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores. Coverage BCG. Time period -- Dimension 21.1: At time of assessment. Dimensions 21.2, 21.3 and 21.4: Last completed fiscal year.

D-21.1 CONSOLIDATION OF CASH BALANCES

All Republican and local Government transactions take place through the TSA at the National Bank. In accordance with the budget legislation, budget entities can hold accounts (budgetary and extra-budgetary) only in the Treasury. All such accounts of budget entities are part of the TSA. The TSA allows cash balances in all Government accounts to be identified and consolidated on a daily basis.

Apart from the TSA in the National Bank, the Treasury Committee has transit accounts in foreign currencies. All proceeds in foreign currency should be converted and credited to the TSA within three working days. Foreign currency bought at the expense of the budget should be transferred within ten calendar days to relevant purposes or returned to the TSA.

The Treasury has a well-functioning integrated information system Treasury (IIST), which was established to provide budget execution at all levels, with transparency and control in accordance with the budget legislation. It is considered to be one of the best in the CIS countries. The IIST includes eight modules: general ledger, management of budget revenues, control of fiscal commitments, provisions for repayment and cash management, assets management as well as foreign currency operations account and overall reporting to Government institutions. IIST is integrated with the procurement IT system. Thus, after contract conditions are met the information about procurements is transferred to IIST for relevant payments.

State entities (which are financed from own revenue) and state-owned enterprises do not have accounts in the Treasury and are serviced in second-tier banks. Pension Fund transactions remain wholly outside the Treasury system. There are no unauthorised ministries' or agencies' bank accounts in operation. The accounts of NFRK are managed by the National Bank in accordance with its agreement on trust management with the Government. They are not included in the TSA. Balances on the accounts of the National Fund cannot be consolidated with cash balances of TSA. Score: A.

D-21.2 CASH FORECASTING AND MONITORING

The Budget Code and the "Rules of execution of the Republican and local budgets" regulate cash flow management. Once the budget has been approved the ministries and agencies should provide to the Treasury Committee the annual financial forecasts of their total approved expenditure by program and economic classification with monthly breakdown. Treasury Committee then prepare an annual financial plan (cash flow forecast) setting out monthly allocations to each ministry and agency. Transfers from NFRK offset the seasonal pattern of revenue. Ministries and agencies then have to work within these monthly allocations, although they may apply to Treasury Committee to bring particular expenditures back and forward during the year. The Treasury Committee registers all payments and commitments in a centralized electronic system. A cash flow forecast is updated monthly in the light of experience of actual revenue and expenditure flows. The main elements of these arrangements have not

changed much since 2009. MDAs have full assurance of cash availability for them to manage their expenditure efficiently and economically. Score: A.

D-21.3 INFORMATION ON COMMITMENT CEILINGS

MDAs have assurance that funds will be provided according to annual financial forecast approved by the Treasury Committee. They are also fully confident that commitments will be paid on time. These arrangements have been changed significantly, since in 2009 the Treasury Committee issued approvals on the expenditure cash ceilings only on a monthly basis. Score: A.

D-21.4 SIGNIFICANCE OF IN-YEAR BUDGET ADJUSTMENTS

Reallocations between budget programmes or overall increases in revenue and expenditure require a revised (“clarified”) budget, which has to be approved by the Republican Budget Commission, the Government and Parliament in the same way as the original budget. Until 2017 the Budget Code (BC) permitted the annual budget law to be amended twice each year. The most recent changes in BC (November 2017) limited the number of budget amendments (clarifications) to one per year, although exceptions are allowed in particular circumstances. Based on the amendments the strategic plans and budget programmes are revised and updated. These procedures are predictable and transparent.

At the time of PEFA assessment in 2009 the Government had very limited possibilities to implement minor changes to the approved budget without prior approval of the parliament, and thus lengthy procedures were required to make even small changes. Subsequent changes to the BC have given the Government power to adjust programmes within specified limits.

In 2017 there were two significant in-year adjustments – in February and November- which resulted in an increase of revenues of 23% and increase of expenditures of 30%. Score: A.

Indicator/ Dimension	2018 score	Justification for 2018 score	Performance change and other factors
Overall score (M1)	A		
21.1 Consolidation of cash balances	A	All cash balances are consolidated daily in the Treasury Single Account	No change
21.2 Cash forecasting and monitoring	A	A cash flow plan is prepared at the beginning of the year, and thereafter updated monthly.	No change
21.3 Information on commitment ceilings	A	Budgetary units are able to plan and commit expenditure for relevant fiscal year without constraints for cash/commitment releases	Cash management shifted from one month limits to the annual basis.
21.4 Significance of in-year budget adjustments	A	Significant In-year budget adjustments (“Clarifications” requiring Parliamentary approval) were limited to twice in a year.	After changes in the Budget Code Government has more flexibility in making budget corrections, which are still limited by clear rules.

PI-22 EXPENDITURE ARREARS

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. It contains two dimensions and uses the M1 (WL) method for aggregating dimension scores. Coverage BCG. Time period -- Dimension 22.1: Last three completed fiscal years. Dimension 22.2: At time of assessment.

The PEFA Framework notes that Government may incur expenditure obligations to employees, suppliers, contractors and lenders that are overdue and therefore constitute payment arrears. Such a situation is effectively a form of non-transparent financing of Government operations. This indicator has two dimensions to assess and the critical issue is whether Government systems support the tracking of expenditure arrears. The first dimension relates to the size of the payment arrears whilst the second focuses on the availability of data for monitoring the stock of arrears. Logically, therefore, it is not possible –without some form of special investigation or the availability of related information, such as liabilities (accounts payable) - to assess with any confidence or reliability the size of the arrears in the absence of a system for monitoring those arrears.

D-22.1 STOCK OF EXPENDITURE ARREARS

There is no specific definition of outstanding arrears nor any general legislation defining when an outstanding payment becomes an arrear, although there may be provisions in specific contracts. The Budget Code requires all contracts to be registered with the Treasury Committee when concluded, and forbids payment when they have not been registered. This practice should ensure that there are no unregistered contracts and associated commitments. The Treasury Committee believes that this is strictly observed. There were no arrears of salaries or pensions, and no evidence of delays in the payment of VAT refunds. Nor was there any evidence of arrears of payments by social insurance funds or other government-owned bodies.

The Ministry of Finance considers that all payables, which have not been paid before the end of the fiscal year, are overdue. The Ministry of Finance defines the “Total sum of payables overdue” as “Total sum of payables less the sum of payables with payment dates that are not overdue yet”. The Department of Reporting and Statistics of the Ministry of Finance provided information in response to the PEFA team’s request, i.e. the total sum of payables overdue.

Table O: Unpaid and overdue expenditure at year-end (KZT billion)

	Total RB expenditure (1)	Amount unpaid at year end (2)	Per cent unpaid (2/1)	Amount overdue at year-end (3)	Per cent overdue (3/1)
2015	6,790	24.4	0.36%	12.4	0.18%
2016	7,900	49.8	0.63%	8.0	0.10%
2017	11,156	19.0	0.17%	8.0	0.07%

Source MoF

The total per cent of payables at the end of 2015, 2016 and 2017 were 0.36%, 0.63% and 0.17% of total expenditures, respectively. Overdue payables amounted to 51%, 16% and 42% of total payables (not depicted in the table above) or 0.18%, 0.10% and 0.07% of total RB expenditure for the same three years. Since there is no shortage of cash, payment delays must reflect problems in the justification of a small number of transactions.

It was not possible to assess the extent to which received invoices remain unprocessed at the end of each year (and which are thus not included in the total sum of payables at the end of the year). The Treasury Committee stated that all invoices should be registered in the Treasury payment system within three days of receipt, and that there were no cases of complaints from suppliers of goods and services on this issue. Score: A.

D-22.2 EXPENDITURE ARREARS MONITORING

In accordance with the section of the “Rules on compilation and submission of budget reports” (MoF Order No. 630 of 2 December 2016) concerning the reporting of accounts payable, quarterly returns should be made to the Treasury Committee by 20 February, 25 April, 25 August and 25 October in respect of the periods ending in December, March, June and September. An A score requires reports within 4 weeks of the end of each period. Since the year-end and half-year reports are not made until 7 weeks of period-end, the score is B.

The scores for PI-22 are as follows:

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
Overall score (M1)	B+		
22.1 Stock of expenditure arrears	A	Total payables, including any overdue payments, at end of 2015, 2016 and 2017 were 0,36%, 0,63% and 0,17% respectively of total expenditure during these years.	No change
22.2 Expenditure arrears monitoring	B	There is a system in place for monitoring of overdue payments but some of the quarterly reports are not due until 7 weeks after the end of the period.	No change

PI-23 PAYROLL CONTROLS

This indicator is concerned with the management of the payroll for public servants. It contains four dimensions, the scores for which are combined using scoring method M1. The PEFA criteria require the payrolls of all bodies controlled by the Central Government to be taken into consideration for the purposes of this indicator. Coverage CG. Time period -- Dimension 23.1, 23.2 and 23.3: At time of assessment. Dimension 23.4: Last three completed fiscal years.

Specific information about the payroll arrangements of Republican State Enterprises (RSEs) has not been made available, although the assessment team were told that the pay and conditions of service of employees of such bodies are inferior to those of Ministry officials. The total pay envelope and the detailed arrangements for pay and bonuses of each RSE are determined by its parent Ministry. The total expenditure of such bodies is only about 5 per cent of total RB expenditure, and their payroll expenditure would represent a comparably small proportion of total CG expenditure on payroll. The scores given for this indicator do not take them into account.

D-23.1 INTEGRATION OF PAYROLL AND PERSONNEL RECORDS

Kazakhstan operates a system whereby the payroll function is decentralised to individual MDAs. There is no centralised system under the supervision of the Ministry of Finance. However, a range of civil service policy and monitoring functions are performed by the Agency for Civil Service Affairs and Anti-Corruption (CSA). This Agency reports to the President of the Republic and is the authorised body for the management of the civil service. Its legal responsibilities include the development and approval of standard qualification requirements for the administrative civil service and the submission for Presidential approval of a register of civil service positions. The Agency produces an annual report on the state of the civil service in Kazakhstan. The total number of employees in the Civil Service is approved by a Government Resolution and changes thereto require Presidential approval. The setting of pay scales is the responsibility of the Agency and the Ministry of National Economy with input from both the Ministry of Justice (MoJ) and the MoF. Ministries have a wide measure of discretion in the rewarding of individuals, since some 25 per cent of budgetary provision for pay is allocated to bonuses rather than to pay within regular scales. A new pay system intended to stimulate and reward better performance is currently being piloted in the Agency, MoJ, Astana City and one other oblast.

Individual government agencies are responsible for developing, operating and maintaining their own systems for managing payroll and personnel records. A review of the situation in the MoF revealed a fully integrated and automated linkage between personnel records and the payroll. A practical demonstration to the PEFA team of the system in operation showed it to be highly efficient and effective. According to MoF other ministries do not have as advanced IT systems but they also use reliable IT software for these purposes, which provides for monthly reconciliation. Internal control units in each Ministry, the Committee on Internal Public Audit (CIPA) under MoF, and the Accounts Committee all pay considerable attention to the functioning of payroll. CIPA and AC both confirmed that there was no evidence of significant errors in the operation of payroll throughout the Government. Score: A.

D-23.2 MANAGEMENT OF PAYROLL CHANGES

The creation of a new post can only be done on the authority of the Presidential Administration. The Executive Secretary of a budgetary agency is empowered to change the organisational structure in two limited circumstances (where there is a change in functions or new legislation requires a change). In the MoF, all changes to the payroll require the approval of the Chief Accountant following the approval of the corresponding changes to the personnel records by the HR Director. The automated system ensures that there is a clear “footprint” reflecting any changes made. Changes are implemented promptly (at least monthly) and retrospective adjustments represent much less than 3% of total salary payments. Evidence from AC and CIPA indicates that other payrolls perform in the same way as that of MoF. Score: A.

D-23.3 INTERNAL CONTROL OF PAYROLL

Internal control procedures in respect of payroll are very strong, with a key role being played by the Committee on Internal Public Audit as well as the Internal Control section in each Ministry. This was confirmed by members of the Finance Departments of several Ministries at a collective discussion. Post-payment procedures are applied including checks made with bank data. A clear audit trail exists to support data integrity. Score: A.

D-23.4 PAYROLL AUDIT

During the last 3 years, various payroll audits have been carried out by internal audit, the Committee on Internal Public Audit and the Accounts Committee (AC) though these have not been thematic audits looking at payroll alone. AC has reviewed the legitimacy of bonuses and awards made to staff as well as routinely looking at payroll issues as part of its audit of budgetary agencies, though again those audits have not focused specifically on payroll. Thus all audit agencies regularly undertake some audit testing of payroll, which they consider to be relatively low risk. Score: C.

Indicator/Dimension	2018 Score	Justification for 2018 score	Performance change and other factors
Overall score (M1)	C+		
(i) Integration of payroll and personnel records	A	There are strong links between the approved budget, personnel records and payroll records	Performance improvement since 2009
(ii) Management of payroll changes	A	Payroll changes are authorised and prompt	No change
(iii) Internal control of payroll	A	Close and effective control of payroll applies	No change
(iv) Payroll audit	C	Some audit testing of payroll has been undertaken by AC, Internal Audit and the State Committee.	It appears that less audit attention has been paid to payroll recently than in 2005-07 when the score was B.

PI-24 PROCUREMENT

This indicator assesses key aspects of procurement management. It contains four dimensions, the scores for which are combined using the M2 scoring method. Coverage CG. Time period -- Last completed fiscal year.

D-24.1 PROCUREMENT MONITORING

The regulatory framework for procurement is provided by the law “On public procurement” 2016. This covers procurement of goods, services and works by central and local Government, including bodies directly controlled by them.

Article 4 of the law describes the following principles of public procurement:

- 1) optimal and efficient spending of money allocated for public procurement;
- 2) equal opportunities to potential suppliers to participate in public procurement, unless otherwise provided by this Law;
- 3) fair competition among potential suppliers;
- 4) openness and transparency of the public procurement process;
- 5) support for domestic manufacturers of goods, as well as domestic providers of works and services to the extent that this does not contradict international agreements ratified by the Republic of Kazakhstan;
- 6) prevention of corrupt practices;

According to Article 5 the public procurement process includes:

- 1) development and approval of the annual public procurement plan;
- 2) selection of a supplier and conclusion of a public procurement contract therewith;
- 3) execution of a public procurement contract.

Procurement of a limited list of goods, services and works on behalf of all CG entities (including RSCs and Social Insurance and Health Funds) is carried out by the Public Procurement Committee under MoF. Where other procurement is concerned, each individual Government agency is a procuring entity with its own Procurement Committee headed by the Executive Secretary. The method of public procurement – tenders of different types, auctions, requests for quotations, single source purchasing - is selected by the customer without reference to any central supervising body. Except where the law provides otherwise, procurement is carried out through the E-Commerce Centre under MoF, which maintains a complete database of all procurement financed through the Republican Budget (including procurement which is not undertaken through the Centre). Monitoring is undertaken by the MoF which produces an annual report for submission to the Government and President. Score: A.

D-24.2 PROCUREMENT METHODS

In Kazakhstan competitive procurement is not the default method of procurement. According to the Law, public procurement is carried out in one of the following ways:

- tender;
- request for quotations;
- from a single source;
- auctions;
- commodity exchanges.

There are in fact over 50 grounds or situations which permit the use of single source procurement. Despite this flexibility the AC report on 2016 Republican Budget execution found an error rate of about 20 per cent on the procurements audited apparently based on its judgment that the procurements did not conform to the stated principles.

Table P: Procurement methods 2017 (KZT million)

	Value of procurement (1)	Amount procured by competitive methods (2)	By competitive methods (2/1)
Total public procurement	408,483	30,052	7.4%

Source: CIPA

Much public procurement is single source in nature. The percentage conducted by open competition is well below 20% of the value of contracts. Score: D.

D-24.3 PUBLIC ACCESS TO PROCUREMENT INFORMATION

This dimension is scored on the basis of the number of a set of pre-defined items of procurement information that are made available to the public in a readily accessible way. In Kazakhstan, the information is available online at **goszakup.kz**. This arrangement operated throughout 2017.

Table Q Central Government Procurement information made available to the public

Item	Availability
1. Legal and regulatory framework	Yes
2. Government procurement plans	Yes
3. Bidding opportunities	Yes
4. Contract awards	Yes
5. Data on resolution of procurement complaints	Yes
6. Annual procurement statistics	No

Although details of each procurement are available on the website, there are no consolidated annual statistics providing a breakdown as between goods, services and works, and showing the use of different types of procurement. Since the procurement agencies make 5 of the 6 items available, the score is B.

D-24.4 PROCUREMENT COMPLAINTS MANAGEMENT

Available statistics show the following status breakdown of procurement complaints.

Table R: Results of Procurement Complaints in 2017

	Status of complaints	Number of complaints	Status as proportion of total
1	Registered	289	4.1%
2	Under consideration	660	9.3%
3	Considered-Resolved	2936	41.6%
...3.1	...Fully	1681	---
...3.2	...Partially	1255	---
4	Considered-Rejected	3181	45.0%

Total	7066	100%
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Source: CIPA

The GoK uses internal Government procedures to consider complaints in accordance with their governing regulations, which are accessible to the public and prescribe how complaints should be processed. Fees are not prohibitive, decisions are issued within the required timescale, and the procurement process can be suspended. Complaints are considered by the Committee on Internal Public Audit (CIPA), which is also responsible for control of compliance with the public procurement law throughout Government. Both CIPA and the Public Procurement Committee which is responsible for all purchases throughout Government of a standard list of goods, services and works, are subject to MoF. While CIPA in judging procurement complaints is separate from the procuring agency, it is not free from any other involvement in government procurement and faces a conflict of interest in judging actions by colleagues which it is also responsible for supervising. Although dissatisfied complainants may take their case to the Economic Court, there is currently no independent complaints mechanism comprising non-government experts, although it is understood that the establishment of such an independent body is now under active consideration. Score: D.

Indicator/Dimension PI-24	2018 Score	Justification for 2018 score	Performance change and other factors
Overall score (M2)	C+		
(i) Procurement monitoring	A	Complete and accurate records kept for most procurement	Criteria reformulated
(ii) Procurement methods	D	The percentage value of procurement by competition is well below 65%	Criteria reformulated
(iii) Public access to procurement information	B	5 of 6 items are available to public on goszakup.kz website	More information now available than in 2005
(iv) Procurement complaints management	D	No independent complaints mechanism	No change

PI-25 INTERNAL CONTROLS ON NON-PAYROLL EXPENDITURE

This indicator assesses the effectiveness of non-salary expenditure controls at the time of the assessment. It contains three dimensions, the scores for which are combined using scoring method M2. Coverage CG. Time period -- At time of assessment.

Kazakhstan has an extensive and evolving system of internal controls of non-salary expenditure. The regulatory framework is provided by the Regulation on the State Committee on Internal Public Audit (CIPA) 2016 (as amended) which empowers CIPA (formerly the Committee on Financial Control) under MoF to carry out as the authorised body the control functions in the sphere of internal state audit and financial control, public procurement, state-owned property, audit activities, accounting and financial statements. The Committee's objectives include "the analysis, evaluation and testing of the reliability of financial and management information, efficiency of internal processes of the organization of activities of state bodies, qualities of the rendered state services and safety of assets of the state". In addition there are 22 Internal Audit Departments at the Central Government level (see detailed discussion under PI-26). The work of the Committee is focused on compliance and financial audit whereas internal audit departments are also engaged in performance aspects. Internal audit and control methodology is developed by the Department of Accounting and Audit Methodology of the MoF. One of the Committee's key functions is to ensure that internal audit services receive the necessary methodological and advisory assistance. It also conducts an analysis of the reports of internal audit services and an evaluation of the effectiveness of the activities of internal audit services. In addition, it sends information to internal audit for objects recommended by the risk management system for governmental audit.

D-25.1 SEGREGATION OF DUTIES

The control environment throughout Central Government lays heavy emphasis on the separation of responsibilities for different stages of a transaction being initiated, approved, authorised and executed. These controls are prescribed by legislation and regulations and built into automated financial systems which contain a clear audit trail. The integrity of the Treasury system is protected by restricting access to particular individuals authorised for specific purposes; the system records who has entered it and for what purpose. Risk management control systems pay particular attention to the segregation of duties. Score: A.

D-25.2 EFFECTIVENESS OF EXPENDITURE COMMITMENT CONTROLS

All payments financed through the Republican Budget are processed through the Treasury system E-MINFIN. In order for a payment to be executed it must be covered by a budgetary allocation and cash availability. Commitments are controlled through an automated module of the system which requires finance to be allocated before an order can be placed. Score: A.

D-25.3 COMPLIANCE WITH PAYMENT RULES AND PROCEDURES

Rules and procedures governing all aspects of commitments and payments are specified in detail and subject to close hierarchical supervision, as well as being integrated into the IT systems. The procedures cannot be overridden, although the procedures cannot eliminate the risk that aspects of contract compliance may be wrongly certified, or that contracts may not have been justified in the first place. Score: A.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
PI-25 Internal controls on non-salary expenditure (M2)	A		
(i) Segregation of duties	A	Strong and clear separation of duties	New dimension
(ii) Effectiveness of expenditure commitment controls	A	Strong controls effectively limit commitments to budgetary allocations and cash availability	Performance improvement linked to automated Treasury system
iii) Compliance with payment rules and procedures	A	High level of compliance with rules and procedures	Improved performance

PI-26 INTERNAL AUDIT

This indicator assesses the standards and procedures applied internal audit. It contains four dimensions, the scores for which are combined using scoring method M1. Coverage CG. Time period -- Dimensions 26.1 and 26.2: At time of assessment. Dimension 26.3: Last completed fiscal year. Dimension 26.4: Audit reports used for the assessment should have been issued in the last three fiscal years.

D-26.1 COVERAGE OF INTERNAL AUDIT

This dimension assesses the extent to which government entities are subject to internal audit at the time of the assessment.

True internal audit, as distinct from internal financial control, remains in its infancy in Kazakhstan having been only operational as such since 2017. Historically, there has been a lack of clarity between the nature of “ex-ante” internal financial control and genuine internal audit which provides independent advice to top management on the performance of systems and the efficiency of service delivery. So-called "internal auditors" have in practice been playing "ex ante" roles which have made them part of the systems that internal audit is expected to audit. This contradiction has been implicitly acknowledged by GoK in the new 2015 Law on State Audit and Financial Control, and internal audit is now active in almost all government agencies.

All Ministries and the Civil Service Agency which together account for almost all Central Government expenditure now have a functioning Internal Audit Services Department comprising between 6 and 16 staff. There are a few government agencies that do not yet have Internal Audit, including the Presidential Administration, the Office of the Prime Minister and the Accounts Committee (AC), but these are responsible for only a small proportion of government expenditure. Internal Audit Departments are established by the heads of the organisations concerned, and work in accordance with instructions issued by CIPA, preparing

annual audit plans, and subsequently producing reports and recommendations whose implementation will be followed up. Score: A.

D-26.2 NATURE OF AUDIT AND STANDARDS APPLIED

This dimension assesses the nature of audits performed and the standards employed at the time of the assessment. In order to understand the nature and scope of internal audit, the PEFA team met staff from the internal audit departments of the Ministries of Finance, Agriculture, Education, Health, and Investment and Development.

It is clear from these discussions that internal audit is fundamentally risk-based employing a government-wide risk management system developed by AC. Audit work is undertaken broadly in accordance with international standards. The balance of audit effort as between compliance, systems and performance varies quite substantially. Although much emphasis is placed on so-called “violations” (compliance failures), audit reports also address the effectiveness of control systems. CIPA under MoF acts as coordinator of internal audit work throughout Government. Score: B.

D-26.3 IMPLEMENTATION OF INTERNAL AUDITS AND REPORTING

This dimension assesses internal audit planning, implementation and reporting during the last completed financial year (2017). In accordance with the 2015 law on State Audit and Financial Control, Internal Audit Departments are independent in carrying out their functions, and accountable to the Minister or other head of each organization. The responsible officials whose activities are subject to audit are entitled to receive completed audit reports.

Annual plans were produced by all Internal Audit Departments and largely executed as planned. In 2017 the 5 Departments reviewed planned a total of 134 audits of which 122 or 91% were executed. Completed reports are placed on a central database which is accessible to both CIPA and AC once they have been discussed with audited entities, and entities’ responses have been fully taken into account. Reports typically contain recommendations on ways of improving the functioning of the internal control system. Score: A.

D-26.4 RESPONSE TO INTERNAL AUDIT

This dimension assesses the extent to which management takes action in response to audit findings with reference to the last three years (2015-17)

Given that internal audit has only really started to function since 2017, it is too early to assess management responses to it. There are grounds for optimism, however, in that internal auditors report directly to Ministers, and managers are typically given one month to implement audit recommendations, with monitoring and follow-up of action taking place. Score: NA.

Indicator/Dimension	2018 Score	Justification for 2018 score	Performance change and other factors
PI-26 Internal audit (M1)	B+		
(i) Coverage of internal audit	A	Internal audit is active in almost all government agencies	2009 focus was on internal control rather than internal audit.

(ii) Nature of audits and standards applied	B	Attention is paid to the effectiveness of control systems	As for (i) above
(iii) Implementation of internal audits and reporting	A	Audit plans are produced and a high percentage of planned audits is completed	As for (i) above
(iv) Response to internal audits	NA	Too early to judge response	As for (i) above

PILLAR VI: ACCOUNTING AND REPORTING

This part of the PEFA Framework includes three indicators (PIs 27-29)

PI-27 FINANCIAL DATA INTEGRITY

This partly new indicator assesses the extent to which bank accounts, suspense accounts and advance accounts are regularly reconciled and how the processes in place support financial data integrity. It contains four dimensions, the scores for which are combined using scoring method M2. Coverage BCG. Time period -- Dimensions 27.1, 27.2 and 27.3: At time of assessment, covering the preceding fiscal year. Dimension 27.4: At time of assessment.

D-27.1 BANK RECONCILIATION

This dimension assesses the regularity of bank reconciliation.

In accordance with the provisions of the Budget Code, Republican (and State) budget entities are allowed to hold accounts only in the National Bank. All such accounts of these entities are part of the TSA. For these accounts bank reconciliation is a daily routine process. The PEFA criteria ask for comparable information about reconciliation procedures for all bank accounts under CG control. Bank accounts of Social Insurance Funds and Republican State Enterprises which are owned by Ministries and discharge government functions are held with secondary (commercial) banks and so are not included in the TSA. Since no information is available about arrangements for all these other bank accounts, the score is D.

D-27.2 SUSPENSE ACCOUNTS

This dimension assesses the arrangements for reconciling and clearing suspense accounts.

In accordance with the Code of Budget Classification Accounting, items are only allowed to remain on Suspense for 3 days and the balance must be zero at the end of the financial year. Any situation which gives rise to a suspense account balance is reported to and investigated by the State Committees on Revenue and Internal Public Audit and the balance cleared within the stipulated period. Score: A.

D-27.3 ADVANCE ACCOUNTS

This dimension assesses the reconciliation and clearance of advances.

Advances are cleared in a timely and efficient manner. Information supplied by the Division of Accounting and Reporting, Department of Internal Finance Administration, showed the following outstanding end-of-year balances on advances:

Receivable from employees:	126 million KZT
Short-term advances:	2836 million KZT
Total:	2962 million KZT

The total amount of these advances represents less than 0.001 per cent of RB expenditure. The State Treasury Committee state that, in line with the rules on budget execution, advances to contractors are monitored and reconciled on a monthly basis, and that advances to individuals are managed through the monthly payroll. Score: A.

D-27.4 FINANCIAL DATA INTEGRITY PROCESSES

This new dimension assesses data integrity defined in terms of accuracy and completeness of data.

High standards are maintained in terms of access to data and authority to change financial records. The E-MINFIN system logs all occasions when the system is accessed and by whom. A clear audit trail exists to support data integrity that ensures individual accountability and detects any attempt at intrusion to the system.

The National Bank of the Republic of Kazakhstan which manages the TSA and supervises banking arrangements and practices throughout the system has undertaken 3 periodic assessments, all of which have indicated satisfaction. Score: A.

Indicator/Dimension	2018 Score	Justification for 2018 score	Comment
PI-27 Financial data integrity (M2)	B+		
(i) Bank reconciliation	D	Undertaken on daily basis for TSA but information is not available about reconciliation procedures for other bank accounts under CG control.	No change since 2009
(ii) Suspense accounts	A	Cleared promptly	No change since 2009
(iii) Advance accounts	A	Account for only a small percentage of RB expenditure and cleared promptly. Evidence confirms that reconciliation is undertaken monthly.	No change since 2009
(iv) Financial data integrity processes	A	Effective processes with clear audit trail	New dimension

PI-28 IN-YEAR BUDGET REPORTS

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. It contains three dimensions, the scores for which are combined using the M1 scoring method. Coverage BCG. Time period -- Last completed fiscal year.

D-28.1 COVERAGE AND COMPARABILITY OF REPORTS

This dimension assesses the comparability of the information contained in in-year budget execution reports with the original budget. Reports do not have to be published for the purposes of this PI.

In-year budget execution reports published by the MoF on a monthly basis show the breakdown of revenue and expenditure comparable with the original budget in terms of administrative, functional, and programmatic classification. (The economic classification is given in the in-year reports, but was not provided for the original budget.) All expenditure of Republican Budget entities, including transfers to de-concentrated units of Central Government, is covered by the reports. Actual figures are compared with year to date profiles as well as with the annual budget estimates but the emphasis is placed upon comparisons of actual figures with the adjusted and corrected/clarified estimates rather than the originally-approved estimate. Score A.

D-28.2 TIMING OF IN-YEAR BUDGET REPORTS

This dimension assesses the promptness on in-year reporting.

Based on information supplied by the Treasury Committee, the Department of Reporting and Statistics of Public Finance in the MoF issues monthly budget execution reports by the 10th of the following month. The procedures are in line with the requirements of the “Rules on compilation and submission of budget reports by state entities, administrators of budget programmes...” approved by Minister of Finance Order of 2-12-2016 No 630. The reports are made available to staff responsible, and as well as showing monetary amounts provide an analysis of and commentary on significant budget variances. Score: A.

D-28.3 ACCURACY OF IN-YEAR BUDGET REPORTS

This dimension assesses the reliability and scope of information reported.

There are no concerns regarding the accuracy of data contained within the in-year budget reports, which are generated by reliable IT systems and record commitments as well as payments. Score: A.

Indicator/Dimension	2018 Score	Justification for 2018 score	Comment
PI-28 In-year budget reports (M1)	A		
(i) Coverage and comparability of reports	A	Monthly reports by administrative, functional, programme and economic classification are published	No change
(ii) Timing of in-year budget reports	A	Monthly reports produced within two weeks of end of month	No change but tighter standard now needs to be met for an A score (2 weeks for production)
(iii) Accuracy of in-year budget reports	A	Reports are accurate and include commitments	No change

Source: MOF website

PI-29 ANNUAL FINANCIAL REPORTS

This indicator assesses the extent to which the annual financial statements are complete, timely and consistent with generally accepted accounting principles and standards. It contains three dimensions, the scores for which are combined using scoring method M1. The same financial reports are considered for this PI, and also for PI-30 which covers audit work on them, and PI-31 which covers Parliament's work on the audit reports. Coverage BCG. Time period -- Dimension 29.1: Last completed fiscal year. Dimension 29.2: Last annual financial report submitted for audit. Dimension 29.3: Last three years' financial report.

D-29.1 COMPLETENESS OF ANNUAL FINANCIAL STATEMENTS

This dimension assesses the completeness of annual financial statements for the last completed financial year (2017 subject to audit). For an A score it requires comparability with the approved budget and full information on revenue, expenditure, financial and non-financial assets, liabilities, guarantees and long-term obligations, as well as a cash flow statement.

The annual financial statements published by each Ministry are regulated by MoF Order 468 of 1 August 2017. These annual financial reports comprise a budget execution report, balance sheet including long-term liabilities, a cash flow statement and a statement of changes in net assets together with explanatory notes. Since 2013 expenditure has been reported on the accrual basis of accounting, while revenue was on a cash basis until the middle of 2017. Since then revenue has also been subject to accrual accounting. Consolidated financial statements for the RB as a whole for 2017 have been produced, but have not yet been published or reported on by the AC. The Government intends to publish such statements in respect of the RB for 2018, which will serve as the basis for the AC's report for that year. The AC report each year has hitherto focused on the Government's budget execution report which covers only revenue and expenditure, and it is therefore the budget execution report on 2017 which serves as the basis of the score for this dimension.

The MoF plans to produce a full accruals-based Republican Budget execution report in 2019 (in respect of 2018), and a consolidated public sector financial statement (including SOEs and RSEs) in 2020 (in respect of 2019). Some work on the valuation of non-financial assets has been undertaken in preparation for this, but it is recognized that completion of this task will take a considerable time. Score: C.

D-29.2 SUBMISSION OF REPORTS FOR EXTERNAL AUDIT

This dimension assesses the timeliness of submission of reconciled annual financial reports for external audit in relation to the last report submitted. Ideally, in terms of the PEFA Framework, this should take place within 3 months of the end of the accounting period.

The latest annual budget execution report for the year ended 31 December 2017 was submitted to the Accounts Committee before the end of March 2018. Score: A.

D-29.3 ACCOUNTING STANDARDS

This dimension assesses the extent to which annual financial reports are understandable to the users of the reports. It considers the last three fiscal years (2015-2017).

The GoK is well advanced in the adoption and application of International Public Sector Accounting Standards (IPSAS), involving the migration from cash accounting to full accrual accounting. Improvement of the financial statements has been and remains a priority of MoF.

As stated above, since 2013 in the financial statements produced by each Ministry expenditure has been reported on the accrual basis, while revenue was on a cash basis until the middle of 2017. Since then revenue has also been subject to accrual accounting. Thus the accounting basis was consistently applied until the middle of 2017, and most mandatory information has been provided including notes to the financial statements. Meanwhile the Government's budget execution reports, which have hitherto been the focus of work by the AC (PI-30) and the Parliament (PI-31), have been consistent from year to year but have not included much of the material other than details of revenue and expenditure required to comply with IPSAS. At the level of the individual Ministry financial statements, an A score would be justified, but because the rating is based on the budget execution reports reported on by the AC, the score is C. The score will improve automatically to A when the GoK produces a full accruals-based budget execution report in 2019 for the RB in 2018, and a consolidated government financial position statement in 2020 (for 2019). Score: C.

Indicator/dimension	2018 score	Justification for 2018 score	Performance change and other factors
PI-29 Annual financial reports (M1)	C+		
(i) Completeness of annual financial reports	C	The Government's budget execution report which is the focus of audit work covers only revenue and expenditure, and movements in public debt.	No change
(ii) Submission of reports for external audit	A	The Government's annual report on budget execution was presented to Accounts Committee by 25 March (within 3 months of end of financial year)	No underlying change: criteria more demanding than in 2005
(iii) Accounting standards	C	The consolidated budget execution reports are consistent from one year to the next, and the accounting definitions are explained, but much of the information needed to comply with IPSAS is not included.	No change

PILLAR VII: EXTERNAL SCRUTINY AND AUDIT

PIs 30-31 review the operation of external audit and the use made of external audit by the Legislature in holding the Government to account.

PI-30 EXTERNAL AUDIT

This indicator examines the characteristics of external audit. It contains four dimensions and uses the M1 (WL) method for aggregating dimension scores. Coverage CG. Time period -- Dimensions 30.1, 30.2 and 30.3: Last three completed fiscal years. Dimension 30.4: At time of assessment.

The Accounts Committee (AC) serves as the Government's external auditor in accordance with the November 2015 Law on State Audit and Financial Control. Article 12 lists an extensive range of efficiency and compliance audit tasks covering the whole of the Republican Budget. The AC remit also extends to assessment of the efficiency of the national holding companies in implementing their strategies, and to all aspects of their use of budget funds. In addition to its audit function AC is required (Article 27) to provide an assessment of the compliance of the draft budget allocation of funds with the Government's priorities for the social and economic development of the country before submission of the budget to the Parliament. This requirement is not in accordance with most international practice, and may risk undermining the AC's independence when it subsequently comes to assess the efficiency of spending. The AC points out that its function does not extend beyond identifying possible risks to the achievement of the Government's objectives, and that it is not required to propose specific alternative courses of action. There should thus in its view be no conflict of interest when it is subsequently acting as auditor after the event. AC occupies the place at the head of the country's internal and external public audit structure, with the remits to coordinate and assess the work of the Committee on Internal Public Audit (under MoF) and the Internal Audit services of each Ministry, and to maintain the single database of all the results of public audit work. AC is also charged with developing audit standards and methods for application throughout central and local Government, and with training and certifying auditors to work in the public sector. This indicator has four dimensions aggregated according to Method M1.

D-30.1 AUDIT COVERAGE AND STANDARDS

AC calculate that their audit work has covered about 75 per cent of Republican Budget expenditure during the period 2015-17. In addition to efficiency and compliance audit work AC are also required to assess the "credibility and accuracy" of the annual financial statements prepared by each Ministry, but they do not produce a report or opinion on each one every year, and hitherto the AC's work in relation to a particular year has focused on the Government's budget execution report. From 2019 (i.e. in respect of 2018 financial statements) AC will have the task of auditing the consolidated financial statements of the Republican Budget as well as the statements produced by each Ministry. For their financial audit work AC rely to a considerable extent on the work of CIPA. It is clear from the recommendations at the end of the Executive summary of the 2016 Report on budget execution that systematic issues are addressed as well as the accuracy of accounting information, in accordance with international auditing standards. According to AC's summary of key indicators of their 2017 audit work, errors were found in 17 per cent of the 8,737 billion KZT audited, of which 3.5 per cent were financial violations subject to recovery; of the 307 billion KZT identified, 198 billion KZT was actually recovered. Audit work has been undertaken in accordance with (international)

INTOSAI standards throughout the period 2015-17; the AC's work is currently the subject of a peer review by the Supreme Audit Institution of Estonia. Score: B.

D-30.2 SUBMISSION OF AUDIT REPORTS TO THE LEGISLATURE

AC's report on the Government's Budget Execution report for the previous year is submitted to the Parliament by 15 May (Article 44 of the 2015 law). In order to meet this timetable AC stations an audit team in MoF from early January each year, before the execution report for the Republican Budget is ready towards the end of March. The report has been delivered on time for each of the years 2015-17 within about 6 weeks of receipt of the budget execution report. AC also reports quarterly on its other work to the Parliament. Only a summary of the AC's budget execution report is published; other reports may be the subject of a Press Notice but are otherwise not published. Score: A.

D-30.3 EXTERNAL AUDIT FOLLOW-UP

Audited entities are required to provide information on execution of the recommendations and instructions given by the auditors (Article 37 of the 2015 law). This requirement, which was also in the previous law, has been in force throughout 2015-17. The fact that two-thirds of the financial violations found in 2017 had already been subject to recovery confirms that audit findings are respected and acted upon. Score: A.

D-30.4 SUPREME AUDIT INSTITUTION (SAI) INDEPENDENCE

AC is independent of Government in the performance of its audit work, but its Chairman is appointed and dismissed by the President of the Republic who also controls its staff numbers. It now reports to the Parliament as well as the President, but its budget and the pay of its staff are controlled by the Government not the Parliament. Its resources are very limited: its staff complement of 141 (including the nine members of the Committee) has not been increased, despite the Committee being given very substantial additional responsibilities in the 2015 law for audit coordination and training, and for the provision of an audit opinion on the consolidated annual financial statements of the Republican Budget from 2019. Score: D.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
PI-30 External audit (M1)	D+		
30.1 Audit coverage and standards	B	About 75% of the RB was covered by AC audits 2015-17. Audits were directed at efficiency of spending as well as compliance with laws, and included reviews of Ministries' annual financial statements. Audits were conducted in accordance with INTOSAI standards.	Audit work has been substantially developed since 2009, and the 2015 law assigns additional responsibilities to AC as well as clarifying its relationship with CIPA and the internal audit services in each Ministry.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
30.2 Submission of audit reports to the legislature	A	Reports on budget execution were submitted to Parliament within 5 months of year end for each of the years 2015-17.	The timing of reports is unchanged since 2009.
30.3 External audit follow-up	A	Audit recommendations and instructions are generally followed by auditees, as is shown by the large proportion of irregular expenditure actually recovered.	Some apparent improvement.
30.4 SAI independence	D	The Chairman is appointed, and may be dismissed, by the President of the Republic. Staff numbers are controlled by the President, and financial resources are determined by the Government, not the Parliament.	New dimension

PI-31 LEGISLATIVE SCRUTINY OF AUDIT REPORTS

This indicator focuses on legislative scrutiny of the audited financial reports of Central Government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf. It has four dimensions and uses the M2 (AV) method for aggregating dimension scores. Coverage CG. Time period -- Last three completed fiscal years.

D-31.1 TIMING OF AUDIT REPORT SCRUTINY

The AC's report on the previous year's budget execution is delivered to the Parliament alongside the Government's budget execution report by 15 May. Both Houses carry out an intensive examination of these documents, which is completed by the end of June. Score: A.

D-31.2 HEARINGS ON AUDIT FINDINGS

AC does not currently give audit opinions on the financial statements of Ministries. Hearings are held with representatives of both Ministries and AC to discuss both the Government's and the AC's reports on budget execution. Since audit reports are not necessarily the main focus of these hearings, and they are not tied to audit opinions, the score is C.

D-31.3 RECOMMENDATIONS ON AUDIT BY THE LEGISLATURE

The Parliament draws on the AC's recommendations in its conclusions and recommendations on budget execution which are formally addressed to the Government. The Parliament systematically follows up the Government's response in its consideration of the budget proposals for the following year. Score: A.

D-31.4 TRANSPARENCY OF LEGISLATIVE SCRUTINY OF AUDIT REPORTS

The Committee hearings and plenary sessions of both Houses of Parliament are open to the public, and the report addressed to the Government is published on Parliamentary websites. Score: A.

Indicator/Dimension	2018 score	Justification for 2018 score	Performance change and other factors
PI-31 Legislative scrutiny of audit reports (M2)	B+		
31.1 Timing of audit report scrutiny	A	Scrutiny of the annual audit report on budget execution is completed within 6 weeks of its submission to Parliament.	No change
31.2 Hearings on audit findings	C	Some hearings are held with spending Ministries	No change
31.3 Recommendations on audit by the legislature	A	The recommendations in the AC report are used as a basis for Parliament's recommendations to the Government.	It appears that more use is made of the audit report than was the case in 2009.
31.4 Transparency of legislative scrutiny of audit reports	A	All hearings are open to the public, and the Parliament's recommendations to the Government are published on the Parliament's website.	New dimension

4 CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS

4.1 INTEGRATED ASSESSMENT OF PFM PERFORMANCE

Pillar I: Budget reliability (PIs 1-3)

1. There are clear limitations on the reliability of the originally approved government budgets in Kazakhstan as indicated by the scores for the first three indicators of the PEFA framework (scores B, C+ and C, respectively). Aggregate expenditure outturn (PI-1) and expenditure composition outturn (PI-2) variances are substantial, as are revenue budget variances, throughout the period under review. However, one positive aspect is the minimal use of contingency reserves. Factors contributing to the large variances include the early presentation of the annual budget proposal to Parliament which is completed by law no later than September 1st (four months before the budget year). This results in the customary budget clarifications process (i.e., amendments requiring Parliamentary approval) taking place early in the budget year (typically by the end of the first quarter). It is notable that, throughout the year, the usual practice is to compare actual figures with revised budget figures rather than with the originally approved amount. Therefore, end-of-year budget execution rates are reported to be very close to 100 per cent.

2. On revenue outturn (PI-3), actual revenue exceeded budget in two out of the three years reviewed. Almost half of RB revenue comes from transfers of hydrocarbon revenue that accrue to the National Fund; this revenue is to be capped at two trillion KZT from 2021 onwards. The other half is tax revenue collected at a time when revenues from all the main forms of taxation have shown volatility in response to the condition of the economy and world markets.

Pillar II: Transparency of public finances (PIs 4-9)

3. For PI-4, Budget classification, there is some disparity between the Central Government budget classification system and GFS/COFOG standards. The functional classification contains 15 categories compared with the standard 10-category system of COFOG. The major difference is that the economic affairs category is sub-divided into four sub-functional areas in Kazakhstan. Moreover, the budget proposal submitted to parliament contains no economic classification (although an economic breakdown of expenditure is included in subsequent in-year reports). Because of these differences the score is D.

4. There are important issues regarding Central Government operations outside financial reports (PI-6). Numerous government operations are to be carried out by 100% government-owned companies, whose operations are neither fully reflected in the budget nor separately reported subsequently to Parliament and the general public. Expenditures of social insurance funds, RSEs and state universities amounting to more than 10 per cent of RB expenditure in 2017 were not included in financial reports resulting in a score of D. A similar situation applies with respect to revenues where the score is also D. However, annual reports are submitted to the appropriate ministry by May of the following year.

5. The arrangements for financial transfers to subnational governments (PI-7) work well in some respects but are less satisfactory in other cases. General transfers are rule-based and fixed for three years by reference to transparent criteria, but targeted transfers are considered on a case-by-case basis and not notified until after the budget has been enacted.

6. The situation regarding performance information for service delivery (PI-8) is variable with creditable scores for performance planning and information about resources actually received by service delivery units, but lower scores for the reporting of performance achievement and independent evaluations of service delivery. Kazakhstan scores reasonably well on the provision of budget information to the legislature (PI-5, score B) but less well on PI-9, the provision of fiscal information to and access by the general public (score D).

Pillar III: Management of assets and liabilities (PIs 10-13)

7. Overall, fiscal risk reporting (PI-10) ignores contingent liabilities arising from the operations of State- Owned Enterprises. The 2018-20 Budget law set a limit on the amounts outstanding under PPPs at RB level, and amounts actually contracted are now published on the Unified Information Database. However, regarding monitoring of SNGs, annual budget execution statements and Audit Commission reports are published by all SNGs within 9 months of year-end, and an annual consolidated report is published on the State Budget (dimension score A).

8. The area of public investment management is the subject of a new indicator (PI-11). Good scores are recorded for the economic appraisal and prioritisation of public investments, but transparency is compromised by the failure to publish the total capital costs of each project and the consolidated report on project implementation. Therefore, the overall indicator score is C+.

9. Public asset management is another subject for a new indicator (PI-12) on which a similar picture to that of PI-11 emerges. The overall indicator score is C, attributable to the absence of regular consolidated reports on the financial performance of financial assets, the reluctance of GoK to reveal the identity of purchasers of public assets, and the incompleteness of the register of non-financial assets.

10. On the final indicator under Pillar III, Public debt management, Kazakhstan scores well on the recording and reporting of debt and guarantees, as well as on the process by which debt and guarantees are approved (both dimensions score A). The remaining dimension concerns the existence of a published debt management strategy; in this area the Ministry of Finance Strategic Plan states debt management objectives only in very general terms, with no information on debt instruments or maturities.

Pillar IV: Policy-based fiscal strategy and budgeting (PIs 14-18)

11. Generally performance in PI-14, Macroeconomic and fiscal forecasting, is reasonably good. Macroeconomic forecasts lack information about interest rates and the exchange rate (score D) but fiscal forecasts are satisfactory (score B). The Ministry of National Economy prepares a Social and Economic Development Forecast for five years which is approved by Government and submitted to Parliament together with the draft budget. The Plans include macro-economic and aggregate fiscal forecasts for three years ahead, and are updated during the year. Some explanation of changes from previous forecasts is given in budget execution reports. On macroeconomic sensitivity analysis, there is no quantification of the impact on the economy or fiscal aggregates of alternative macro-economic assumptions, particularly in respect of oil prices.

12. On the new fiscal strategy indicator (PI-15), Kazakhstan scores well in all three dimensions with scores of A, A and B, respectively. GoK submits information to the legislature on the fiscal impact of policy proposals, the adopted fiscal strategy and reports on fiscal outcomes.

13. For PI-16, medium-term expenditure estimates and expenditure ceilings are both present in Kazakhstan's PFM but in practice that presence is undermined by the absence of a breakdown of expenditure by economic classification, reducing the score on the first dimension (expenditure estimates) to C. Expenditure ceilings for each Ministry for the three years ahead are approved by the Republican Budget Commission chaired by the Prime Minister before work begins on budget submissions (dimension 16.2, score A). Budget agencies prepare medium-term strategic plans consistent with the country's overall strategic objectives (dimension 16.3, score A) but there is incomplete explanation of changes to expenditure estimates through the medium-term financial planning cycle (dimension 16.4, score C).

14. The annual budget preparation process (PI-17) is good in terms of the inclusion in the budget circular of ceilings that have previously been approved by the Republican Budget Commission and the timely submission of the budget proposal to the legislature (both dimensions score A). However, more time needs to be allowed to MDAs to prepare their detailed budget submissions after receiving the budget circular (dimension 17.1, score C).

15. Legislative scrutiny of budgets is well-established and effective in Kazakhstan (PI-18 overall score is B+). Scrutiny by the Parliament covers medium-term fiscal forecasts and priorities as well as revenue and expenditure estimates for the year ahead. There are established procedures for both Houses of Parliament to review budget proposals, although arrangements for public consultation do not include public budget hearings. The Parliament has approved the budget before start of all three years covered by the assessment. Clear rules exist, and are adhered to, that limit the extent and nature of all adjustments the Government can make to the budget without the approval of Parliament.

Pillar V: Predictability and control in budget execution (PIs 19-26)

16. Revenue administration (PI-19) receives an overall indicator score of B+. The State Revenue Committee ensures that taxpayers have easy and comprehensive access in the Tax Code to all applicable legislation and regulations via their website. The regulatory framework, whilst relatively complex, is generally clear, and the appeal arrangements appear to be satisfactory. Risk management procedures are used to identify areas of high risk as a basis for tax audit planning. Most planned audits are undertaken in a timely manner. However, although tax arrears account for only a small proportion of revenue, more than 40 per cent are more than 12 months old.

17. Accounting for revenue (PI-20) scores well in all three dimensions (A in each case). Information on revenue collection is complete, promptly provided and consolidated into various reports. All revenue collected is banked and transferred to the Treasury Single Account (TSA) on a daily basis. Revenue accounts reconciliation is effective with continuous updating of individual taxpayers' positions via integrated automated systems.

18. For PI-21, Predictability of in-year resource allocation, all RB cash balances are consolidated daily in the TSA. The cash forecasting and monitoring systems work well. A cash flow plan is prepared at the beginning of the year setting out monthly allocations to each ministry and agency, and thereafter updated monthly. Spending ministries have assurance that funds will be provided according to annual financial forecast approved by the Treasury Committee. They are also fully confident that cash will be available to meet commitments when they become due. In-year budget adjustments were limited to twice a year in accordance with the Budget Code. The PI-21 indicator score is A. Expenditure arrears (PI-22) appear to pose

little difficulty since total payables at the end of each of the three years were well under 1 per cent of total expenditure.

19. Payroll controls (PI-23) work well in Kazakhstan, with three of four dimensions scored A. Payroll is decentralised to MDAs which operate automated personnel and payroll systems. Changes to payroll are well-managed being subject to strict authorisation procedures, and promptly made. Internal controls within each MDA are close and effective. The fourth dimension scores C because only some limited audit testing of payroll has been undertaken by the various control bodies as part of wider audits rather than specifically focusing on payroll. Because of this the overall score for PI-23 is C+.

20. Public procurement (PI-24) in Kazakhstan attracts a mixed rating yielding an overall indicator score of C+. Procurement monitoring is effective and culminates in an annual report to the Government and President. In addition, the procurement portal goszakup.kz ensures that there is public access available to all key procurement information. But open competition is not by law the default procurement method and in practice extensive use is made of non-competitive methods, especially single source procurement for which the law provides many justifications. Another weak aspect of procurement is the absence of an independent procurement complaints mechanism.

21. For PI-25, Internal controls on non-salary expenditure, there are extensive internal controls on non-payroll expenditure established by the regulatory framework. Commitment controls operate through the E-MINFIN automated Treasury system, ensuring that payments cannot be executed without a budgetary allocation and available cash. There is clear separation of duties. Compliance with payment rules and procedures is high. The high effectiveness on these dimensions leads to an overall indicator score of A.

22. Internal audit (PI-26) per se is at an early stage of development in Kazakhstan having only been established (as opposed to financial control and inspection) in 2017, but it is operational across Government. Internal audit is risk-based and takes the form of compliance, systems and performance audit. Audit plans are largely adhered to and regular reports are submitted to management though it is too early to judge the response. Overall indicator score: B+.

Pillar VI: Accounting and reporting (PIs 27-29)

23. In terms of financial data integrity (PI-27), bank account reconciliations and clearance of suspense and advances accounts for BCG are generally prompt and up to date. However, the criteria also require consideration of reconciliation arrangements for other bank accounts controlled by Central Government. Because of the absence of information about arrangements for the reconciliation of the bank accounts of extra-budgetary units, the score is D for dimension 1. High standards are applied to the maintenance of financial records with a clear audit trail; independent assessments by NBRK have indicated satisfaction with the integrity of financial systems and records. Overall indicator score: B+.

24. In-year budget reports (PI-28) are produced and published promptly on a monthly basis within four weeks in the same detail as the budget proposals, broken down by economic, administrative and functional/programme classification, although there are some concerns associated with the lack of an economic analysis in the budget proposal as a benchmark. Budgetary control and reporting compares performance with revised (clarified) budgets rather than the approved original. The reports are considered to be accurate and reliable, and capture

commitments as well as payments. The high effectiveness on these dimensions leads to an overall indicator score of A.

25. The annual financial statements (PI-29) produced by each Ministry contain information on revenue, expenditure, financial assets and short and long-term liabilities, and a cash flow statement. The Government's budget execution statement was submitted to the AC for audit less than three months after the year end. Ministry financial statements have been produced on a modified accruals basis in line with IPSAS, although a consolidated statement for the RB has not yet been published. A process of implementing accounting standards based on IPSAS is under way and a complete consolidated Government financial position statement is planned for 2020 (in respect of 2019).

Pillar VII: External scrutiny and audit (PIs 30-31)

26. External audit (PI-30) is the responsibility of the AC and scores well (scores B, A, and A, for the first three dimensions, respectively) apart from the question of independence from the Executive (score D). About 75% of the RB was covered by AC audits during 2015-17. Audits were directed at efficiency of spending as well as compliance with laws, and included reviews of Ministries' annual financial statements when they were subject to audit. Audits were conducted in accordance with INTOSAI standards. Audit reports on budget execution are submitted to parliament within 5 months of the year end and recommendations are acted upon. Audit independence is compromised by the fact that the Chairman of the AC is appointed, and may be dismissed, by the President of the Republic. In addition, staff numbers are controlled by the President, and financial resources are determined by the Government, not the Parliament.

27. Legislative scrutiny of external audit reports (PI-31) is thorough and timely. Scrutiny is transparent and AC recommendations form the basis of Parliament's recommendations to Government which are published on the parliamentary website. Some public hearings are held with Ministries. Overall indicator score: B+.

4.2 EFFECTIVENESS OF THE INTERNAL CONTROL FRAMEWORK

28. The internal control framework in Kazakhstan is well-regulated in terms of Laws, Concepts, Orders and Decrees. The 2015 Law on State Audit has clarified the respective responsibilities of the Accounts Committee, State Committee on Internal Public Audit and ministerial internal audit departments. But there are still overlaps, with the State Committee rather than AC undertaking much financial audit work.

29. Traditionally great emphasis has been placed on financial control and inspection which has lacked the added value which true internal audit can bring to management effectiveness. Genuine internal audit is still at an early stage of development but it is encouraging to report that it is now operational in most government agencies, especially in those which incur large amounts of public spending. The State Committee plays a number of important roles in internal control including the setting of control standards and the evaluation of the effectiveness of internal audit services.

30. Each Government agency is responsible for its internal financial control system, which should cover the successive stages of control – approval, authorisation and execution – of each transaction. Regulations on the control environment require different individuals to approve contracts, authorise commitments and execute payments. Access to the State Treasury's

Financial Information System is controlled, and the system records all occasions when it is accessed by individuals, so ensuring an audit trail.

31. In terms of the analysis of the internal control framework specified by PEFA, the control environment is one where strong hierarchical supervision is emphasized. Risk assessment systems are used as a basis for audit planning in relation to both expenditure and revenues, especially tax revenues, and debt management is focused on tight control over total external debt. The internal control framework is reasonably effective and should become stronger as internal audit practice develops.

4.3 PFM STRENGTHS AND WEAKNESSES

32. So far as aggregate financial discipline is concerned, the PFM system in Kazakhstan has been afforded – in some years at least – the luxury of ample resources generated by high oil prices allowing transfers into the Republican Budget (RB) from the National Fund of the Republic of Kazakhstan (NFRK). However, the Government (GoK) has recognised that prudent financial management demands that such transfers should be limited to a sustainable level and is working towards applying a transfer cap of two trillion KZT per annum from 2021 onwards. In this context, the PFM system will be required to demonstrate its ability to plan and contain expenditure within available resources through accurate revenue forecasting and effective cost control.

33. The necessary foundations of effective resource allocation through strategic planning of services and medium-term fiscal planning are already in place at the macro level and at the level of individual government agencies. Medium-term and annual budgeting practices are generally sound and efficiently implemented. However, there is room for improvement in the quality - and in some cases relevance – of the performance indicators and targets which are set for public service provision.

34. Several initiatives under way may contribute to greater efficiency and effectiveness in the use of public resources. It is particularly encouraging to note that the GoK is paying close attention to the quality of delivery of a wide range of public services: as evidenced by the ongoing reforms in performance-based budgeting and remuneration systems. It is also committed to improved financial and operational efficiency through the application of modern internal audit practices. The Accounts Committee also contributes to improvements in public services through its performance audit work. However, this would benefit from greater transparency through the publication of complete external audit reports.

35. Less satisfactory aspects of PFM include the limited transparency of reporting to the general public (PIs 6, 9 and 10.3), the absence of competition from much of public procurement, and the relatively limited independence of the Accounts Committee.

4.4 PERFORMANCE CHANGES SINCE 2009

36. Annex 1B provides a comparison of Kazakhstan's scores now with those given in 2009, applying the 2005 PEFA criteria in both cases. Kazakhstan will always find it difficult to achieve high scores on revenue forecasting because of the volatility of oil-related revenues, but the experience of 2015-17 shows that fiscal discipline can be maintained and that planning of cash expenditure on most functions is generally realistic. The systematisation of public investment planning is evidence of improvement over time in the strategic allocation of resources. The focus on extending the coverage of IT systems is increasing the efficiency of

service delivery. Kazakhstan has improved its performance in many aspects of PFM since the last PEFA assessment. In terms of transparency, more budget and fiscal information is provided to both the legislature and the public, although there remains a need for full transparency in some aspects such as budget documentation and external audit reports. Budgets are submitted to and approved by Parliament in a timely manner and contain medium-term and performance-based information. More transfers to subnational government are subject to clear rules and there is improved monitoring of SNGs' fiscal position. Greater use is now made of costed sector strategies as part of a comprehensive approach to socio-economic development. Government agencies can place greater reliance on budget resources being released as planned. Internal audit is developing and there is evidence of improved follow-up on audit recommendations. Overall the signs are encouraging for PFM to play a vital enabling role in Kazakhstan's development.

5 GOVERNMENT PFM REFORM PROCESS

5.1 APPROACH TO PFM REFORMS

1. Kazakhstan seeks to match the performance of OECD countries in PFM as part of its overall ambition to become one of the 30 most developed countries in the world by 2050. As a country with substantial hydrocarbon and other mineral resources, which in most years has generated fiscal and current balance of payments surpluses, it has been little dependent on foreign assistance in its efforts to develop PFM systems which match its ambitions. There has been no question of a PFM reform programme being developed as a condition of the receipt of assistance from IMF, EU, WB or other external sources. Kazakhstan has developed its own PFM structures and management systems, based to a considerable extent on reproducing the practices of the global corporate sector.

5.2 RECENT AND ONGOING REFORM ACTIONS

2. In addition to adjustments to the Budget Code, a new law was enacted on State Audit and Financial Control (November 2015) and a new Tax Code in December 2017. The supervision of financial control throughout Government is assigned to the State Committee on Internal Public Audit under MoF, which also coordinates the work of internal audit departments in each Ministry and undertakes much of the financial audit work on government accounts. Internal audit as a service to management in each Ministry has now been operative throughout the Government since January 2017, and should progressively improve each Ministry's performance of its tasks. Oversight and coordination of internal and external audit work is assigned to the Accounts Committee (AC) which, as Kazakhstan's Supreme Audit Institution (SAI), serves as the Central Government's external auditor, and the manager of the database of all audit findings by auditors of central and subnational government. The AC is also responsible for the training and qualification of auditors working in the public sector. Until the new law was enacted there were uncertainties about the respective responsibilities of the different institutions which were noted in the 2009 PEFA assessment, and internal audit as now generally understood in OECD countries did not exist.

3. Other current reform efforts are under way in the fields of taxation and civil service management. The new Tax Code introduced at the beginning of 2018 looks to focus collection efforts more effectively on risky areas of tax compliance, while at the same time reducing the burden on most taxpayers. Meanwhile preparations are being made for the introduction in 2020 of the universal requirement for all residents to make an annual declaration of their income and assets. The MoF objective as set out in its Strategic Plan is to increase the tax yield to 25 per cent of GDP by 2025 by restricting the scope for the informal economy to evade payment and by improving the effectiveness of collection operations. The Agency for Civil Service Affairs and Anti-Corruption (CSA) is seeking to sharpen the incentives for both individual civil servants and Ministries to achieve their objectives, by making the overall amount available for bonuses at each Ministry and the payments to each official dependent on their performance.

4. Work is in progress to produce an accruals-based budget execution statement for the RB for the year 2018, and a consolidated statement of the Government's financial position for 2019. This is already an ambitious project which should pave the way for the eventual production of IPSAS-conforming financial statements for the public sector as a whole. It will be important at

each stage of this work to provide clear explanations of the methods of consolidation and the advantages – not least in attracting inward investment - of giving a complete account of all the Government's assets and liabilities.

5.3 INSTITUTIONAL CONSIDERATIONS

5. Progress in PFM improvements depends essentially on the Government's determination. There is as yet little public pressure for or understanding of these issues. Neither Parliament nor political parties have so far been much interested in pressing for changes in PFM, and there is little scope for action by NGOs or civil society. But changes will be important for the achievement of the Government's ambition that Kazakhstan should attain the economic, social and political standards of OECD countries by 2050.

ANNEXES

ANNEX 1.A - PERFORMANCE INDICATOR SUMMARY

Indicator/Dimension	Score	Description of requirements met
PI-1 Aggregate expenditure outturn	B	Deviation from original budget exceeded 10% in only one of the last three years 2015-17
PI-2 Expenditure composition outturn (M1)	C+	
2.1 Functional composition variance	C	Variance was less than 15% in two of the last three years 2015-17
2.2 Economic composition variance	C	Variance less than 15% in two of last three years 2015-17
2.3 Use of contingency	A	No expenditure was charged to contingency in budget execution statements for 2015-17
PI-3 Revenue outturn (M2)	C	
3.1 Aggregate outturn	D	Outturns were between 92% and 116% of original budget in only one of last three years 2015-17
3.2 Composition outturn	B	Composition variances were less than 10% in two of the three years 2015-17
PI-4. Budget classification	D	Budget proposals lack a breakdown by economic classification
PI-5. Budget documentation	B	Documentation fulfils 3 basic elements and 5 others
PI-6 Central Government operations outside financial reports (M2)	D+	
6.1 Expenditure outside financial reports	D	Expenditure outside financial reports exceeded 10% of the Republican Budget expenditure in 2017
6.2 Revenue outside financial reports	D	Revenue outside financial reports exceeded 10% of RB revenue in 2017
6.3 Financial reports of extra-budgetary units	B	Financial reports of most extra-budgetary units are made within 6 months of the end of year
PI-7 Transfers to subnational governments (M2)	C	
7.1 System for allocating transfers	C	Less than 60% of transfers are made in accordance with a formula in amounts fixed for 3 years
7.2 Timeliness of information on transfers	C	Information on targeted transfers is made available less than 4 weeks before the start of the next fiscal year
PI-8 Performance information for service delivery (M2)	C+	
8.1 Performance plans	C	About 60% of programme expenditure is covered by performance targets
8.2 Performance achieved	C	About 60% of programme expenditure is the subject of performance reports against targets

8.3 Resources received by service delivery units	A	Integrated Information System of Treasury tracks the resources received by individual schools and health clinics. Information is provided in annual reports to sponsor Ministries or SNGs where SDUs are established as corporate bodies.
8.4 Performance evaluation for service delivery	D	Accounts Committee has carried out some performance audits, and the Ministry of Information and Communication some public satisfaction surveys, but it does not appear that the coverage is as much as 25 per cent of expenditure.
PI-9 Public access to fiscal information	D	Only 3 of 5 basic elements are published. Any score of C or above requires publication of at least 4.
PI-10 Fiscal risk reporting (M2)	C+	
10.1 Monitoring of public corporations	C	Most SOEs publish audited financial statements by the end of the following August, but no consolidated report is published on the financial performance of the SOE sector.
10.2 Monitoring of subnational governments	A	All SNG publish audited budget execution reports within 9 months of year-end, and these are consolidated in the report of the State Budget with the report on Republican Budget execution. SNG borrowing is very small and fully controlled by MoF.
10.3 Contingent liabilities and other fiscal risks	D	No reports have been published on the fiscal risks arising from unguaranteed SOE borrowing. A limit has been set for the total of PPP projects at RB level, but outstanding amounts have not yet been published.
PI-11 Public investment management (M2)	C+	
11.1 Economic analysis of investment proposals	C	Economic analyses of all major investment projects are conducted by the Government's PPP Centre in accordance with published criteria, but there is no systematic publication of the results.
11.2 Investment project selection	A	Projects are prioritised in accordance with the Government's Socio-Economic Development Plan (PSED) which is updated each year, with the priorities set by the President's annual address at the beginning of each year.
11.3 Investment project costing	D	Budget documents include the amounts, capital and current, to be spent on each project in each of the next three years, but not the total capital or lifetime costs of each project.
11.4 Investment project monitoring	C	A consolidated report on project execution is prepared annually for submission to the President, but it is not published.
PI-12 Public asset management (M2)	C	

12.1 Financial asset monitoring	B	Full audited financial reports in accordance with International Financial Reporting Standards are published annually by the three major holdings which cover most of the Government's financial assets other than those held by NFRK and NBRK.
12.2 Non-financial asset monitoring	D	The Register of state-owned non-financial assets is kept by the RSE Information Registration Centre under MoF, with access to elements of information through the web portal. But information about all elements of state property is not generally available, and a consultancy study found the Register to be incomplete.
12.3 Transparency of asset disposal	C	Disposals are managed by the State Property and Privatisation Committee under MoF in accordance with the Law on State Property. Prices but not the identity of purchasers are published.
PI-13 Debt management (M2)	B	
13.1 Recording and reporting of debt and guarantees	A	Public debt records are accurate, complete and regularly reconciled. Reports are published quarterly.
13.2 Approval of debt and guarantees	A	Debt is managed by MoF in accordance with Government decisions on the contracting of loans, and within borrowing limits set in the budget each year.
13.3 Debt management strategy	D	MoF Strategic Plan includes some very general debt management objectives, but there is no publication of the intended evolution of risk factors such as interest rates and refinancing, and foreign currency risks.
PI-14 Macro-economic and fiscal forecasting (M2)	C	
14.1 Macro-economic forecasts	D	Macro-economic forecasts for three years ahead are included in budget documentation, but they are not subject to any independent review and do not include information on interest rates and the exchange rate.
14.2 Fiscal forecasts	B	Forecasts of the main fiscal indicators for 3 years ahead are included in budget documentation, but there are no explanations of changes since the previous year.
14.3 Macroeconomic sensitivity analysis	C	There is some discussion of the possible impact of alternative economic assumptions in the Socio-Economic Forecast, but without quantification.
PI-15 Fiscal strategy (M2)	A	
15.1 Fiscal impact of policy proposals	A	Budget documentation submitted to Parliament includes an explanation of the fiscal impact of the main decisions on revenue and expenditure.
15.2 Fiscal strategy adoption	A	The Socio-Economic Forecast sets out quantified fiscal goals for the period of three years ahead.

15.3 Reporting on fiscal outcomes	B	The Government's report on budget execution for the previous year includes an explanation of deviations from objectives set, but does not mention any corrective action.
PI-16 Medium-term perspective in expenditure budgeting (M2)	B	
16.1 Medium-term expenditure estimates	C	Estimates of expenditure are presented with allocation by function and administrative unit, but not by economic classification.
16.2 Medium-term expenditure ceilings	A	Aggregate and Ministry-level expenditure ceilings are approved by the Republican Budget Commission before they are issued by MoF.
16.3 Alignment of strategic plans and medium-term budgets	A	Ministries' strategic plans are adjusted to reflect the expenditure figures in each year's budget proposals.
16.4 Consistency of budgets with previous year's estimates	C	The explanatory material presented to Parliament with the 2018 budget proposals was stated to include some explanation of the changes in 2018 provision as between the 2017 and 2018 budgets.
PI-17 Budget preparation process (M2)	B+	
17.1 Budget calendar	C	The calendar allows Ministries only two weeks to prepare their budget submissions after receipt of the ceilings at end-April.
17.2 Guidance on budget preparation	A	Expenditure ceilings are approved by the Republican Budget Commission chaired by the Prime Minister before they are issued to spending Ministries.
17.3 Budget submission to the legislature	A	Budget proposals were submitted to the Parliament 4 months before year-end.
PI-18 Legislative scrutiny of budgets (M1)	B+	
18.1 Scope of budget scrutiny	A	Parliamentary review covers medium-term priorities and estimates as well as those for the year immediately ahead.
18.2 Legislative procedures for budget scrutiny	B	Proposals are reviewed in detail by specialist Committees, but there is no provision for public consultation.
18.3 Timing of budget approval	A	Last three budgets have been approved before the end of November each year.
18.4 Rules for budget adjustment by the executive	A	Clear rules limit the scope for the Government to reallocate provision without the approval of Parliament.
PI-19 Revenue administration (M2)	B+	
19.1 Rights and obligations for revenue measures	A	Ready access is available to taxpayers on their rights and obligations, including redress procedures.

19.2 Revenue risk management	A	A risk-based approach to tax audit planning is used.
19.3 Revenue audit and investigation	C	Most planned tax audits were completed
19.4 Revenue arrears monitoring	B	Over 40% of arrears at the end of 2016 were still outstanding at the end of 2017
PI-20 Accounting for revenue (M1)	A	
20.1 Information on revenue collections	A	All central and local Government revenue is paid daily into the revenue collection account of the TSA from which daily reallocations are made to Ministries, SNGs and NFRK.
20.2 Transfer of revenue collections	A	All revenue is transferred daily into the TSA.
20.3 Revenue accounts reconciliation	A	The systems of NBRK, State Revenue Committee and Treasury are fully integrated, and reconciled daily. Individual taxpayer accounts are updated daily.
PI-21 Predictability of in-year resource allocation (M2)	A	
21.1 Consolidation of cash balances	A	All RB (and SNG) balances are consolidated daily.
21.2 Cash forecasting and monitoring	A	A cash flow forecast is prepared at the beginning of the year and updated monthly in the light of experience.
21.3 Information on commitment ceilings	A	Ministries are assured that cash will be available throughout the year to meet approved commitments.
21.4 Significance of in-year budget adjustments	A	Two major adjustments (“Clarifications”) were made to the 2017 budget.
PI-22 Expenditure arrears (M1)	B+	
22.1 Stock of expenditure arrears	A	Amounts payable were less than 1% of budget expenditure at the ends of the years 2015-17.
22.2 Expenditure arrears monitoring	B	Expenditure arrears are measured at the end of each quarter, but end-year and half-year reports are not due until 7 weeks after period-end.
PI-23 Payroll controls (M1)	C+	
23.1 Integration of payroll and personnel records	A	Links between payroll and personnel record systems ensure that correct amounts are paid.
23.2 Management of payroll changes	A	Payroll changes require the approval of the heads of both the personnel and accounting functions.
23.3 Internal control of payroll	A	Internal financial control procedures are strong, and there is always a clear audit trail.
23.4 Payroll audit	C	Only limited attention has been paid to payroll audit during 2015-17.
PI-24 Procurement (M2)	C+	

24.1 Procurement monitoring	A	The data are complete, although audits have identified a significant incidence of errors in procurement.
24.2 Procurement methods	D	Less than 60% of contracts in 2017 were awarded by competitive methods.
24.3 Public access to procurement information	B	Five of the six elements of information are available to the general public. Consolidated annual statistics are not available.
24.4 Procurement complaints management	D	The reviewing body is not entirely separate from the process leading to contract awards.
PI-25 Internal controls on non-salary expenditure (M2)	A	
25.1 Segregation of duties	A	Automated financial systems ensure that responsibilities for a transaction are separated as between the stages of initiation, approval, authorisation and execution.
25.2 Effectiveness of expenditure commitment controls	A	The IT system ensures that an order cannot be placed unless budget provision has been identified and finance reserved.
25.3 Compliance with payment rules and procedures	A	Internal auditors confirm that the incidence of non-compliance is very low.
PI-26 Internal audit (M1)	B+	
26.1 Coverage of internal audit	A	Internal audit as a service to management has been operational throughout Central Government since the beginning of 2017.
26.2 Nature of audits and standards applied	B	Although effort is still devoted to compliance checks, audits do address the performance of systems.
26.3 Implementation of internal audits and reporting	A	Audits were almost all completed according to plan in 2017, and the reports given to Accounts Committee (AC) and Committee on Internal Public Audit (CIPA) under MoF.
26.4 Response to internal audits	NA	There is as yet insufficient experience of responses to internal audit work (the PEFA criteria look for evidence over three past years).
PI-27 Financial data integrity (M2)	B+	
27.1 Bank account reconciliation	D	Daily bank reconciliation of the TSA is carried out but information is not available about procedures in relation to other CG bank accounts.
27.2 Suspense accounts	A	Suspense accounts are routinely cleared and reconciled on a prompt basis
27.3 Advance accounts	A	Advances are very limited and accounts are cleared promptly. Reconciliation is undertaken monthly.
27.4 Financial data integrity processes	A	Processes are effective with a clear audit trail and integrity has been confirmed by the National Bank
PI-28 In-year budget reports (M1)	A	

28.1 Coverage and comparability of reports	A	Reports give the same breakdown, administrative, functional and programme as the original budget.
28.2 Timing of in-year reports	A	Monthly reports are issued by the MoF two weeks after period-end.
28.3 Accuracy of in-year reports	A	Reports are derived from the Treasury IT system, and cover commitments as well as payments.
PI-29 Annual financial reports (M1)	C+	
29.1 Completeness of annual financial reports	C	The budget execution reports which are the focus of audit work and Parliamentary review cover only revenue, expenditure and movements in public debt.
29.2 Submission of reports for external audit	A	The latest report was submitted for audit within 3 months of year-end.
29.3 Accounting standards	C	Budget execution reports are consistent from year to year, but much information needed to comply with IPSAS is not provided.
PI-30 External audit (M1)	D+	
30.1 Audit coverage and standards	B	Most Central Government expenditures have been audited in accordance with international standards during 2015-17, and systemic and control risks have been identified.
30.2 Submission of audit reports to the legislature	A	Audit reports have been submitted within 2 months of receipt of the Government's budget execution reports.
30.3 External audit follow-up	A	Audited entities are required to respond to recommendations and instructions given by AC. Two-thirds of amounts of financial errors identified in 2017 were recovered.
30.4 Supreme Audit Institution (SAI) independence	D	Head of AC is appointed and can be removed from office by the President. AC's resources are very limited, and are determined by the Government, not the Parliament.
PI-31 Legislative scrutiny of audit reports (M2)	B+	
31.1 Timing of audit report scrutiny	A	Work is completed within 6 weeks of receipt of the report from AC.
31.2 Hearings on audit findings	C	AC does not give opinions on financial statements of Ministries. Hearings cover the Government's budget execution reports as well as AC's.
31.3 Recommendations on audit by the legislature	A	AC's report is used as the basis for Parliament's recommendations to the Government in response to the budget execution report.
31.4 Transparency of legislative scrutiny of audit reports	A	Parliamentary discussions of budget execution and audit reports are open to the public, and the recommendations to Government are published on Parliamentary websites.

ANNEX 1.B - PERFORMANCE CHANGES SINCE 2009 (Based on 2005 criteria)

The previous PEFA assessment was carried out in 2009 using the original PEFA assessment framework launched in June 2005. Since that time two sets of revisions to the framework have been made. In 2011, changes were made to 3 of the 28 non-donor Performance Indicators (specifically PIs 2, 3 and 19). In 2016, a much more comprehensive revision of the framework took place to reflect changes in modern international practice in Public Financial Management. It is this latter framework that has been used to carry out the PEFA Assessment.

One of the key purposes of PEFA assessments is to track progress in performance over time. For this reason, the PEFA Framework requires the production of an annex, which charts performance changes since the previous assessment. In order to do this in the case of Kazakhstan, therefore, it is necessary to ask the question: how the performance indicator scores in 2018 compare with what the performance indicator scores would have been, if the 2005 framework were still in use. The answers to this question are shown in this Annex 1.B to the report by applying the 2005 indicators to the 2018 situation.

Performance Indicator Number	Performance Indicator Title	2018 Score if 2005 methodology applied	2009 Score	Comment
PI-1	Aggregate Expenditure Outturn	B	B	No change. Actual expenditure was between 90% and 110% of budget in 2 of the 3 years.
PI-2	Expenditure Composition Outturn	C	A	There has been much greater variation in the composition of expenditure than there was in the period covered by the 2009 assessment
PI-3	Aggregate revenue outturn	A	A	No real change as the methodology changed significantly in 2011 resulting in different treatment of revenue surpluses over budget.
PI-4	Stock and monitoring of expenditure payment arrears	A	B+	Performance improvement

Performance Indicator Number	Performance Indicator Title	2018 Score if 2005 methodology applied	2009 Score	Comment
PI-4.1	Stock of arrears	A	A	Performance unchanged
PI-4.2	Availability of data for monitoring stock of arrears	A	B	Performance unchanged. The 2016 framework sets a more exacting standard than that which applied in the 2005 framework as it places a time limit on the quarterly reporting of arrears.
PI-5	Budget classification	D	B	No underlying change as the 2009 assessment did not address the issue of absent economic classification. Any score higher than D requires an economic classification in the budget presented to Parliament.
PI-6	Comprehensiveness of information contained in budget documentation	A	C	Significant performance improvement reflects much greater information contained in budget proposal
PI-7	Extent of unreported government operations	D+	A	No underlying change due to incomplete analysis in 2009. Social insurance was less developed in 2009, and the previous assessment did not take account of RSEs and universities.
PI-7.1	Expenditure outside fiscal reports	D	A	No underlying change as the 2009 assessment did not take account of the Republican State Enterprises, Social Insurance Funds and universities. If these had been taken into account in 2009, the score then would also have been D.

Performance Indicator Number	Performance Indicator Title	2018 Score if 2005 methodology applied	2009 Score	Comment
PI-7.2	Income/expenditure information on donor-funded projects included in fiscal reports	A	A	No change
PI-8	Transparency of Inter-Governmental Fiscal Relations	B	B	No overall change
PI-8.1	System for allocating transfers	B	C	Performance improvement as greater share of general transfers than in 2009
PI-8.2	Timeliness of information on transfers	C	C	No change
PI-8.3	Extent of collection of consolidated fiscal information	A	A	No change (see text relating to PI-10.2 (2016))
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+	C	Performance improvement
PI-9.1	Monitoring of AGAs and PEs	C	C	No change
PI-9.2	Monitoring of SN governments' fiscal position	A	C	Performance improvement due to improved in-year and annual reporting

Performance Indicator Number	Performance Indicator Title	2018 Score if 2005 methodology applied	2009 Score	Comment
PI-10	Public access to key fiscal information	B	C	Performance improvement (4 out of 6 elements made available in 2018)
PI-11	Orderliness and participation in the annual budget process	B+	C+	Performance improvement
PI-11.1	Existence of and adherence to a fixed budget calendar	C	B	No real change as the score in 2009 should also have been C (less than 4 weeks for MDAs to complete detailed estimates)
PI-11.2	Clarity of and political involvement in guiding the preparation of the budget	A	A	No change
PI-11.3	Timely budget approval by the legislature	A	D	Performance improvement as budget approved consistently before end of current year
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+	C	Performance improvement
PI-12.1	Presentation of multi-year fiscal forecasts and functional allocations	D	C	No real change as absence of economic classification also applied in 2009. So the score should also have been D.

Performance Indicator Number	Performance Indicator Title	2018 Score if 2005 methodology applied	2009 Score	Comment
PI-12.2	Scope and frequency of debt sustainability analysis	A	A	No change. DSA undertaken annually in context of IMF Article IV consultations.
PI-12.3	Existence of costed sector strategies	A	D	Performance improvement. Due to greater coverage of costed sector strategies
PI-12.4	Linkages between investment budgets and forward expenditure estimates	A	D	Performance improvement. Due to improved linkages between development and recurrent estimates
PI-13	Transparency of taxpayer obligations and liabilities	B+	B+	No change
PI-13.1	Clarity and comprehensiveness of tax liabilities	B	B	No change
PI-13.2	Taxpayer access to information	A	A	No change
PI-13.3	Tax appeals mechanism	B	B	No change
PI-14	Effectiveness of measures for taxpayer registration and assessment	A	B+	Performance improvement

Performance Indicator Number	Performance Indicator Title	2018 Score if 2005 methodology applied	2009 Score	Comment
PI-14.1	Controls in the taxpayer registration system	A	A	No change
PI-14.2	Effectiveness of penalties for non-compliance	B	B	No change
PI-14.3	Planning and monitoring of tax audit and fraud investigation programs.	A	B	Performance improvement in audit planning
PI-15	Effectiveness in collection of tax payments	B+	A	Overall change unclear
PI-15.1	Collection ratio for gross tax arrears	B	A	Not clear what the real change is as 2009 assessment does not address the rate of collection of arrears. So the score should have been Not Rated.
PI-15.2	Effectiveness of transfer of tax collections to Treasury	A	A	No change
PI-15.3	Frequency of complete accounts reconciliation	A	A	No change
PI-16	Predictability in the availability of funds for commitment of expenditure	A	C+	Performance improvement

Performance Indicator Number	Performance Indicator Title	2018 Score if 2005 methodology applied	2009 Score	Comment
PI-16.1	Extent to which cash flows are forecast and monitored	A	A	No change
PI-16.2	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	A	C	Performance improvement as MDAs can place greater reliance on availability and timeliness of budget allocations
PI-16.3	Frequency and transparency of adjustments to budget allocations	A	B	Performance improvement due to regulation of adjustments according to clear rules that are complied with.
PI-17	Recording and reporting of cash balances, debt and guarantees	A	B+	Performance improvement
PI-17.1	Quality of debt data recording and reporting	A	C	Performance improvement (but 2009 score reflected doubts about private sector external debts which are not considered here)
PI-17.2	Extent of consolidation of the government's cash balances	A	A	No change
PI-17.3	Systems of contracting loans and issuing guarantees.	A	A	No change

Performance Indicator Number	Performance Indicator Title	2018 Score if 2005 methodology applied	2009 Score	Comment
PI-18	Effectiveness of payroll controls	C+	B+	Performance deterioration, reflecting lack of focused payroll audit
PI-18.1	Degree of integration and reconciliation between personnel records and payroll data	A	B	Performance improvement in automated systems
PI-18.2	Timeliness of changes to payroll and personnel records	A	A	No change
PI-18.3	Internal controls of changes to personnel records and payroll	A	B	Performance improvement
Pi-18.4	Existence of payroll audits	C	B	Apparent performance deterioration as audits have paid less attention to payroll specifically
PI-19	PI-19 Competition, value for money and controls in procurement	C+	C	No underlying change
PI-19.1	Use of competitive procurement methods	D	C	No clear change as no accurate information was available in 2009 suggesting the dimension should have been Not Rated
PI-19.2	Justification for use of less competitive procurement methods	B	B	No change

Performance Indicator Number	Performance Indicator Title	2018 Score if 2005 methodology applied	2009 Score	Comment
PI-19.3	Procurement complaints mechanism	B	D	No real change as process continues to lack true independence
PI-20	Effectiveness of internal controls	A	C+	Performance improvement
PI-20.1	Effectiveness of expenditure commitment controls	A	B	Performance improvement due to strong controls in automated Treasury system
PI-20.2	Comprehensive-ness, relevance and understanding of other internal controls/procedures	A	C	Performance improvement as systemic quality and levels of understanding have increased
PI-20.3	Degree of compliance with rules	A	C	Performance improvement facilitated by strong system controls
PI-21	Effectiveness of internal audit	B+	C	Performance improvement
PI-21.1	Coverage and quality of the internal audit function	B	C	Performance improvement as internal audit now widely operational
PI-21.2	Frequency and distribution of reports	A	C	Performance improvement as reports are routinely issued and accessible
PI-21.3	Extent of management response to internal audit findings	NA	C	Too early to judge impact of genuine internal audit.

Performance Indicator Number	Performance Indicator Title	2018 Score if 2005 methodology applied	2009 Score	Comment
PI-22	Accounts reconciliation	A	A	No change
PI-22.1	Bank reconciliation	A	A	No change
PI-22.2	Reconciliation and clearance of suspense accounts and advances	A	A	No change
PI-23	Availability of information on resources received by service delivery units	A	A	No change
PI-24	Quality and timeliness of in-year budget reports	A	A	No change
PI-24.1	Scope of reports	A	A	No change
PI-24.2	Timeliness of reports	A	A	No change
PI-24.3	Quality of information	A	A	No change
PI-25	Quality and timeliness of annual financial statements	C+	D+	Performance improvement

Performance Indicator Number	Performance Indicator Title	2018 Score if 2005 methodology applied	2009 Score	Comment
PI-25.1	Completeness of financial statements	C	D	Performance improvement due to greater disclosure requirements in law and practice
PI-25.2	Timeliness of submission	A	A	No change
PI-25.3	Accounting standards used	C	C	No change
PI-26	Scope, nature and follow-up of external audit	B+	C+	Performance improvement
PI-26.1	Scope/nature of audit	B	C	Performance improvement due to wider coverage and improved standards
PI-26.2	Timeliness of audit reporting to legislature	A	B	No real improvement as timing of reports unchanged
PI-26.3	Evidence of follow-up on audit recommendations	A	B	Performance improvement as audit recommendations largely implemented
PI-27	Legislative scrutiny of the annual budget law	A	C+	Performance improvement
PI-27.1	Scope of legislature's scrutiny	A	C	Performance improvement
PI-27.2	Extent to which legislature's procedures are	A	C	Performance improvement due to legal and regulatory reform

Performance Indicator Number	Performance Indicator Title	2018 Score if 2005 methodology applied	2009 Score	Comment
	well-established and respected			
PI-27.3	Adequacy of time for legislature to provide a response to budget proposals	A	A	No change
PI-27.4	Rules for in-year amendments to the budget	A	A	No change
PI-28	Legislative scrutiny of external audit reports	C+	C+	No change
PI-28.1	Timeliness of examination of audit reports	A	A	No change
PI-28.2	Extent of hearings on key findings undertaken by the legislature	C	C	No change
PI-28.3	Issuance of recommendations and implementation by Executive	A	B	Performance improvement. Parliament's work on budget execution reports by Government and AC has been developed, and AC report is now used as basis for recommendations to Government.

ANNEX 2 - SUMMARY OF OBSERVATIONS ON THE INTERNAL CONTROL FRAMEWORK

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control throughout the organisation	The importance of internal control is recognised throughout the government. There is a general sense of serving the public and the nation.
1.2 Commitment to competence	The Academy of Public Administration under the President of RK provides training for government officials throughout the country, including at post-graduate level. A pilot project is currently in operation to test arrangements which tie rewards more closely to individual performance.
1.3 The “tone at the top”	Hierarchical control is very strong, and officials’ response to questions is very cautious. The framework of laws and regulations is very comprehensive and detailed, and thoroughly applied.
1.4 Organisational structure	The new 2015 Law on State Audit has clarified the respective responsibilities of the Accounts Committee (AC – the external auditor), State Committee on Internal Public Audit (which also covers procurement - CIPA) (coordinator of internal control and internal audit) and internal audit services departments in each Ministry. But there are still overlaps, with CIPA rather than AC undertaking much financial audit work.
1.5 Human resources policies and practices	Entry to the civil service is by open competition coordinated by the Civil Service and Anti-Corruption Agency (CSA) under the President, and promotion was stated to be dependent on merit. Career planning across government operates only at the highest level where a national committee under the head of the Presidential Administration makes appointments at Deputy Minister level.
2. Risk assessment	
2.1 Risk identification	Kazakhstan has a low ranking under the Transparency International Corruption Perception Index (No. 122). Action to improve this situation is a high government priority. CSA seeks to reduce the scope for corruption by extending the scope of IT systems which cannot easily be manipulated. Public procurement is seen as a major risk area, including that by State-Owned Enterprises (SOEs).
2.2 Risk assessment	Organisations use internal and external audit reports and other evidence from experience to assess the importance of risks.

2.3 Risk evaluation	The State Revenue Committee (SRC) in implementing the new (2017) Tax Code is working to refine its evaluation of risks in order to focus its tax audit work more effectively on areas where there is a higher incidence of non-compliance. Public debt management is strongly focused on containing the risks arising from external debt exposure.
2.4 Risk appetite assessment	Expenditure controls especially through automated processes are in place to minimise risks associated with payments.
2.5 Responses to risk	SRC is working to improve the effectiveness of tax audit. All residents of the country will be required from 2020 to make an annual declaration of their income and assets.
3. Control activities	
3.1 Authorisation and approval procedures	Each Ministry is responsible for its internal financial control system, which should cover the successive stages of control – approval, authorisation and execution – of each transaction.
3.2 Segregation of duties	Regulations on the control environment require different individuals to approve contracts, authorise commitments and execute payments.
3.3 Controls over access to resources and records	Access to the Integrated Information System of Treasury (IIST) is controlled, and the system records all occasions when it is accessed by individuals, so ensuring an audit trail.
3.4 Verifications	The automated system ensures that orders cannot be placed unless there is budget provision and cash availability, and payments cannot be executed unless a commitment was already in place.
3.5 Reconciliations	IIST provides for automatic daily reconciliations between Treasury records and those of the Treasury Single Account (TSA) at the National Bank of the Republic of Kazakhstan (NBRK).
3.6 Reviews of operating performance	CIPA reviews the performance of internal financial control in each Ministry. Internal Audit Departments in each Ministry assess the performance of systems, while AC looks at performance in service delivery.
3.7 Reviews of operations, processes and activities	Internal audit departments now established in all Ministries are responsible for reviewing all aspects of their administrative, planning and payment systems.
3.8 Supervision	There is close hierarchical supervision of each stage in the payments process.
4. Information and communication	The Ministry of Information and Communication owns a network of centres through which most aspects of citizens' interactions with the government are managed through IT systems. CIPA makes regular reports on the results of its inspections of internal financial control and internal audit throughout the government.

5. Monitoring	
5.1 Ongoing monitoring	Monitoring is undertaken by internal audit units and CIPA.
5.2 Evaluations	CSA evaluates the performance of Ministries in pursuit of their strategic objectives, and the extent to which they achieve their performance targets. AC undertakes elements of performance audit.
5.3 Management responses	AC and CIPA monitor management responses to their findings, which are generally positive. They will review the management responses to the findings of the recently established internal audit units/Departments.

ANNEX 3A - ANALYTICAL STUDIES CONSULTED

- IMF country reports 17/108, 17/109, 18/277
- OECD: Budgeting in Kazakhstan: road map for continued budgetary governance reform
- OECD: Anti-Corruption network, 4th Round of Monitoring, 2017
- WB: 2009 PEFA Assessment
- WB: Doing Business 2018
- WB: Kazakhstan Economic Report 2017
- WB: Kazakhstan Public Finance Review 2017
- WB: Kazakhstan Economic Snapshot April 2018
- Kazakhstan Open Budget Survey 2017
- Transparency International Corruption Perception Index 2017

ANNEX 3B - LIST OF PEOPLE MET

Name	Position
Senate of RoK	
Ms. Olga Perepechina	Senator, Chairman of Budget Committee
Mr. Erbolat Mukaev	Senator, Secretary of Committee
Mr. Dauren Edilbekov	Senator
Majilis of RoK	
Mr. Sergei Simonov	Member of Finance and Budget Committee
Mr. Omarhan Oksibayev	Member of Finance and Budget Committee
Ministry of Finance	
Ms. Arman Bekturova	Director of Department on Methodology of Accounting and Audit
Mr. Olzhas Beisembaev	Deputy Director of Budget Planning Department
Ms. Erkejan Bitaleyova	Chief specialist of Division on Budget planning
Ms. Olga Atlanova	Head of Division on Methodology of Budget Classification and Planning
Ms. Gulzhamal Duisenova	Head of Division on Reporting of Budgets Execution
Mr. Maksat Musabekov	Chief Specialist of Division on Reporting of Budgets Execution
Ms. Lyazzat Jusipalieva	Deputy Director of Department on Budget Legislation
Ms. Bakytzhan Beisenova	Chief Specialist of Division on Methodology of Budget Accounting and Reporting of Department on Budget Legislation
Ms. Gulnar Esengalieva	Deputy Director of Department on Methodology of Accounting and Audit
Ms. Gulshat Baimaganbetova	Head of Division on Methodology of Accounting and Financial Reporting of State Bodies
Ms. Tolkyn Urkumbaeva	Director of Internal Audit Department
Ms. Raushan Seidahmetova	Deputy Director of Internal Audit Department
Mr. Zhanat Kairzhanov	Chief Specialist-State Auditor of Internal Audit Department
Mr. Bakytbai Kolbasarov	Head of Division on Methodology of Internal Control
Ms. A. Zhukenova	Chief Specialist of Internal Audit Department
Ms. B. Imangalieva	Head of Division on Budgeting of Science and Education
Ms. A. Altynbaeva	Head of Division on Budgeting of Health
Ms. D. Asanova	Chief Specialist of Division on Medium-term Budget Indicators
Mr. Aset Nusupkulov	Deputy Director of Department on HR and Strategy
Ms. Kuralai Pavanova	Chief Specialist of Department on HR Strategy
Ms. Raushan Omarova	Head of Department on Administration of Internal Finance – Chief Accountant
Ms. Nailya Askarova	Head of Division on State Borrowing
Mr. Sultan Shirbaev	Chief Specialist of Division on State Securities, Guaranties and Bonds
Mr. Darhan Biniyazov	Deputy Director of Department on Budget Crediting, National Fund and Relation with Financial Sector

Mr. Olzhas Kasenov	Deputy Director of Department on Tax and Custom Legislation
Ms. Gulnur Kalieva	Head of Division on Revenue Analysis
Ms. Bekzat Aitibaeva	Deputy Director of HR Department
Ms. Victoria Fedorova	Deputy Director of Department on HR and Strategy
Ms. Karylgash Umarova	Head of Division on HR Development Strategy
Ms. Nursaule Tuzubekova	Head of Division on Coordination of Procurement
Mr. Seilhan Ismagulov	Head of Division on Procurement
Treasury Committee of MoF	
Ms. Alia Baigenzhina	Deputy Chairman
Ms. Nurbalet Muhametali	Head of Division on Payment Operations
Ms. Gulzhian Sadvakasova	Head of Division on Reporting of Republican Budget
Ms. Bazargul Balgabaeva	Head of Division on Reporting of Local Budgets
Ms. Gulnara Abaidildina	Chief Specialist of Division on Reporting of Local Budgets
Ms. Gauhar Kozhanova	Chief Specialist of Division on Cash Management and Accounts Reconciliation
Ms. Elmira Aripova	Chief Specialist of Division on Revenue Records
Internal State Audit Committee of MoF	
Mr. Zhumahan Shalkenov	Head of Second Department on Audit of State Sector
Mr. Kairat Ergashev	Head of Department on Planning, Analysis and Reporting
Mr. G. M. Tuleshov	Head of First Department on Audit of State Sector
Ms. K. Esenova	Department on Planning, Analysis and Reporting
Revenue Committee of MoF	
Mr. Ruslan Kystaubayev	Head of Division on Analysis and Statistics
Mr. Nurzhigit Birbaev	Chief Expert of Division on VAT Administration
Ms. Rozilya Berdauletova	Chief Expert of Division on Excise Administration
Mr. Erkebulan Sarbaev	Chief Expert of Division on Tax Audit
Ms. Elmira Zhasarova	Expert of Division on Working with Taxpayers
Ms. Gulnara Muhamedzhanova	Chief Expert of Risk Management Division
Ms. Aisuluu Sharipova	Expert of Division on Tax Administration of Non-residents
Civil Service and Anticorruption Agency	
Mr. Sayan Akhmetzhanov	Chief of Staff
Mr. Daniyar Taumurat	Director of Administrative Department
Mr. Zharkyn Tleukenov	Director of Department on Civil Service
Mr. Ildar Uisymbayev	Director of Department on State Services
Mr. Salauat Muksimov	Director of Department on Anti-corruption Policy
Mr. Kasym Nazonov	Deputy Director of Administrative Department
Ms. Saule Esimova	Head of Internal Audit Division
Ms. Aizhanat Kushgarova	Director of Department on Strategic Development and International Relations
Academy of management under President of Republic Kazakhstan	
Ms. Fatima Zhakypova	Rector of Academy of Management under President of RoK
Accounts Committee	
Mr. Konstantin Plotnikov	Member of Accounts Committee
Ms. Maira Dagarova	Head of Department for Methodology and International Cooperation
Mr. Azamat Kusainov	Deputy Head of Department for Personnel Management and Information System

Ms. Zhanar Tezekova	Head of Sector for Planning of Department for Planning Analysis and Reporting
Mr. Ardak Tokbergenov	Deputy Head of Department for Public Audit
Ministry of National Economy	
Mr. Bayurzhan Turlubekov	Deputy Director of Department on Strategic Planning and Analysis
Mr. Azamat Amrin	Director of Tax and Custom Policy Department
Mr. Askar Dzhapparkulov	Deputy Director of Macroeconomic Analysis and Forecasting Department
Ms. Asel Mashranova	Head of Division on State Obligations
Ms. Aigul Aitbaeva	Deputy Director of Budget Policy Department
Mr. Serzhan Alibaev	Director of Department on Management of State Assets
Ms. Lyala Alpysbaeva	Head of Division on Budget Investments
Mr. Didar Erzhanov	Expert of Division on PPP Investments
Ministry of Information and Communication	
Ms. Nazgul Bazhaeva	Deputy Director of Department on Development of E-government and State Services
Mr. Askar Kusainov	Head of Division on Control of Services
Mr. Alibek Baizhumanov	Head of Division
Mr. Arman Manasov	Head of Division of JSC “National Information Technology”
Ministry of Industry and Development	
Mr. R. E. Nazarov	Head of Division on Budget Planning
Ms. F. A. Sybanbaeva	Head of Division on State Audit
Ms. Sh. A. Dusebaeva	Director of Internal Audit Department
Ministry of Agriculture	
Mr. T. Zh. Muhamedzhanov	Deputy Director of Finance Department
Mr. E.R. Hamitov	Advisor to Deputy Prime Minister-Minister of Agriculture
Ms. Galia Ibraeva	Chief expert of the Internal Audit and Control Department
Ministry of Education	
Ms. Zh. I. Rahmetova	Deputy Director Department on Budget Planning
Ms. Saule Sherubai	Head of Division on Analysis and Reporting of Internal Audit Department
Ministry of Health	
Mr. N.N. Dusipov	Head of Division on Economics and Finance of Committee for Public Health Protection
Ms. A. B. Dosmailova	Deputy Director of Finance Department
Ms. Z. D. Sarsenbaeva	Head of Division
Mr. N. D. Imanberdiev	Director of Internal Audit Department
Baiterek National Managing Holding	
Mr. Galym Uzbekov	Director, Investor Relations Department
Mr. Tair Yermekbayev	Project Manager, Corporate Finance Department
Mr. Alibek Botagozov	Senior Manager, Corporate Finance Department
Mr. Galymzhan Ibragimov	Senior Manager Department of Analysis and Research
Ms. Aigerim Baitugayeva	Senior Manager, Department of Accounting and Reporting
Sange Research Center	
Ms. Janar Jandosova	President
Public Council of MoF	
Mr. Boris Parsekov	Chairman of Council

Mr. Zhomart Nurabayev	Member of Council, President of Chamber of Tax Advisors
International Organisations	
World Bank	
Ms. Alma Nurshaikhova	Public Sector Management Specialist
Mr. Moses Wasike	Lead Financial Management Specialist
Mr. Arman Vatyán	Lead Financial Management Specialist
Mr. Garik Segeyan	Senior Financial Management Specialist
Ms. Aliya Kim	Financial Management Specialist
Ms. Tatyana Chursova	Public Sector Development Consultant
Delegation of the European Union	
Mr. Johannes Stenbaek Madsen	Head of Cooperation Section
Ms. Gulnara Dussupova	Programme Officer
Mr. Michel Van Hecke	Counsellor, Head of Finance, Contracts, and Audit Section for Kazakhstan and Uzbekistan
Ms. Zora Gonczarow	Finance, Contracts, and Audit Manager

ANNEX 3C - SOURCES OF INFORMATION

Indicators	Documents
Pillar I: Budget Reliability	
1. Aggregate expenditure outturn	Annual budget laws for 2015, 2016, 2017, Budget execution reports for 2015, 2016, 2017, MoF database
2. Expenditure composition outturn	Annual budget laws for 2015, 2016, 2017, Budget execution reports for 2015, 2016, 2017, MoF database
3. Revenue outturn	Annual budget laws for 2015, 2016, 2017, Budget execution reports for 2015, 2016, 2017, MoF database
Pillar II: Transparency of public finances	
4. Budget classification	Budget Code, MoF Order “Rules for compiling of Uniform Budget Classification” (approved 21.11.2014), MoF Order “On uniform Budget Classification of Republic of Kazakhstan” (approved 26.09.2014)
5. Budget documentation	Budget Code, Forecast on socio-economic development for 2018-2022, Strategic Plan of MoF for 2017-2021, Strategic Plan of MNE for 2017-2021, draft of annual budget law for 2017-2019, Government Resolution “Rules on preparation of republican budget draft” (approved August 24.08.2017),
6. CG operations outside financial reports	Budget Code, MoF statistics
7. Transfers to subnational governments	Budget Code, MoF Order “On rules on preparation of local budget drafts” (approved 31.10.2014), MoF Order “Rules on budget execution and its cash servicing” (approved 04.12. 2014), Annual budget laws for 2015, 2016, 2017, Budget execution reports for 2015, 2016, 2017, MoF database
8. Performance info. for service delivery	Strategic plans of Ministries of education, Health, MoF, MNE, Annual budget execution documentation, Accounts Committee quarterly bulletins for 2016, 2017
9. Public access to fiscal information	Annual executive budget proposal documentation, Annual budget law for 2017-2019, Accounts Committee summary report on annual budget execution, Forecast on socio-economic development for 2018-2022, MoF Order “Rules on budget execution and its cash servicing” (approved 04.12. 2014), “Citizens’ Budget”
Pillar III: Management of assets and liabilities	
10. Fiscal risk reporting	Budget Code, Strategic plan of MNE for 2017-2021, Strategic plan of MoF for 2017 – 2021, Law on Public-Private Partnership

11. Public investment management	Budget Code, Law on Public-Private Partnership, Budget Code, Strategic plan of MNE for 2017-2021, Strategic plan of MoF for 2017-2021, Govt. Resolution “On methodology of investment projects appraisal” (Dec. 2014), President’s annual addresses for 2016-18, discussion with MNE officials
12. Public asset management	Law on State Property, Annual reports of NFRK, NBRK, Samruk-Kazyna, Baiterek Holding, E&Y Gap Analysis for accrual accounting, discussion with MNE officials
13. Public debt management	Budget Code, Strategic plan of MNE for 2017-2021, Strategic plan of MoF for 2017-2021, discussions with MoF and MNE officials
Pillar IV: Policy-based fiscal strategy	
14. Macro-economic and fiscal forecasting	Budget Code, Forecast on socio-economic development for 2018 -2022, Strategic Plan of MNE for 2017- 2021, Concept “On the new budget policy of the Republic of Kazakhstan” (approved 20.06.2013), Strategic plan of MoF for 2017-2021, discussion with MNE officials
15. Fiscal strategy	Budget Code, draft of annual budget law for 2017-2019, Concept “On the new budget policy of the Republic of Kazakhstan” (approved 20.06.2013), Concept of Managing NFRK (approved - 08.12.2016), Forecast on socio-economic development for 2018-2022 , Annual executive budget proposal documentation, Strategic Plan of MNE for 2017- 2021, discussion with MNE officials
16. Medium-term expenditure budgeting	Budget Code, Annual budget laws for 2016-2018, 2017-2019 and 2018-2020, Government Resolution “Rules on preparation of republican budget draft” (approved August 24.08.2017), MoF Order “Rules on determining of expenditures and new initiatives limits for administrators of budget programs” (approved February 08.02.2018), Government Resolution on Republican Budget Commission (approved 15.01.2018), Strategic Plans of Ministries of Education, Health, MNE and MoF
17. Budget preparation process	Budget Code, Government Resolution “Rules on preparation and submission of republican budget draft” (approved 24.08.2017) , Government Resolutions on draft budget submissions for 2016, 2017, 2018 to Parliament, Government Resolution on Republican Budget Commission (approved 15.01.2018), discussion with MoF officials
18. Legislative scrutiny of budgets	Budget Code, Government Resolution on Republican Budget Commission (approved 15.01.2018),, Constitution of the Republic, the Regulation of the Parliament of the Republic of Kazakhstan, the Regulations of Mazhilis and Senate, Annual budget laws for 2016, 2017, 2018, discussions with members of Parliamentary Committees

Pillar V: Predictability and control in budget execution	
19. Revenue administration	Annual budget law for 2017 and its execution, Tax Code (“On Taxes and Other Obligatory Payments into the Budget” approved in 2008, is not in force since Dec 2017), Tax Code (approved in 25.12.2017, entered into force in January 2018), Regulation on MNE, Regulation on MoF, discussion with SRC officials
20. Accounting for revenue	Tax Code (approved in 2008 not in force since Dec 2017), Tax Code (approved in 2017 entered into force in January 2018), MoF Order “Rules for republican and local budget execution” (approved 04.12. 2014), discussion with SRC officials
21. Predictability of in-year resource allocation	Budget Code, MoF Order “Rules for republican and local budget execution” (approved 04.12. 2014), discussion with MoF and State Treasury officials
22. Expenditure arrears	Budget Code, MoF Order “Rules on compilation and submission of budget reports” (approved 02.12.2016), statistics provided by MoF
23. Payroll controls	Budget Code, internal legal acts of Ministries, Law on Civil Service, Accounts Committee reports, discussions with MoF, CSA, AC, CIPA
24. Procurement	Law “On public procurement” 2016, MoF Order “Regulation on Committee of internal state audit of the Ministry of Finance of the Republic of Kazakhstan” (approved in 2016), Data from CIPA
25. Internal controls on non-salary expenditure	MoF Order “Regulation on Committee of internal state audit of the Ministry of Finance of the Republic of Kazakhstan” (approved in 2016), MoF Order “Rules for budget execution and its cash servicing ” (approved 04.12. 2014), Discussions with AC and CIPA officials
26. Internal audit	Budget Code, Law on State Audit and Financial Control, Degree of the President “On approval of the General Standards of State Audit and Financial control” (approved 11.01.2016), Discussions with CIPA and internal auditors from Ministries of Health, Education, Agriculture, Transport, Industry
Pillar VI: Accounting and reporting	
27. Financial data integrity	Budget Code, MoF Order “Rules for budget execution and its cash servicing” (approved 04.12. 2014), MoF Order “Rules for compiling of Uniform Budget Classification” (approved 21.11.2014), MoF Order “On uniform Budget Classification of Republic of Kazakhstan” (approved 26.09.2014), discussion with CIPA
28. In-year budget reports	Budget Code, MoF Order “Rules on compilation and submission of budget reports by state entities, administrators of budget programmes...” (approved 02.12.2016), MoF Order “Rules for

	budget execution and its cash servicing” (approved 04.12. 2014), discussion with MoF officials
29. Annual financial reports	Budget Code, MoF Order “On annual financial statements” (approved 01.08.2017), MoF Order “Rules on compilation and submission of budget reports” (approved 02.12.2016), discussion with MoF officials
Pillar VII: External scrutiny and audit	
30. External audit	Budget Code, Law on civil service, Law on State Audit and Financial Control (November, 2015), Degree of the President “On approval of the General Standards of State Audit and Financial control” (approved 11.01.2016), Resolution of Accounts Committee “On approval of the Rules for conducting an external state audit and financial control” (approved 30.11.2015), Resolution of Accounts Committee “On the Approval of the Rules for the Certification of Applicants for Assignment qualifications of the state auditor” (approved 15.12.2015), Resolution of Accounts Committee “On approval of procedural standards for external state audit and financial control” (approved 31.03.2016), Accounts Committee quarterly bulletins for 2016, 2017
31. Legislative scrutiny of audit reports	Constitution of the Republic, the Regulation of the Parliament of the Republic of Kazakhstan, the Regulations of Mazhilis and Senate, discussions with members of Parliamentary Committees and AC

ANNEX 3D - ORGANISATION CHART OF MINISTRY OF THE NATIONAL ECONOMY



SUBORDINATE ORGANIZATIONS



ANNEX 3E - ORGANISATION CHART OF THE MINISTRY OF FINANCE

Minister Alikhan Askhanovich Smailov					
Executive Secretary Baurzhan Kadyrovich Tortayev	Vice- Minister Kanat Eskendirovich Bayedilov	Vice- Minister Ruslan Bakytzhanovich Beketayev	Vice- Minister Berik Scholpankulovich Scholpankulov	Vice- Minister Tatyana Mikhailovna Savelyeva	Vice- Minister Ruslan Satbekovich Ensebeyev
Department of Reporting and Statistics of Public Finance Department Director Anar Nurdybaevna Kalieva	Budget Planning Department Acting Department Director Svetlana Alexandrovna Kucherova	Department of Budget of State Agencies Department Director Medet Kabidoldanovich Aktanzhanov	Department of Budget of Law Enforcement, Special Bodies and Defense Department Director Bakhyt Balmagambetovna Rakhimova	Department of Budget of Industry, Transport and Communications Department Director Ainagul Esimovna Ismailova	Department of Budget of Agriculture, Natural Resources, Construction and Housing and Communal Services Department Director Almagul Baltabaevna Mazrenova
Department of Social Services Budget Department Director Lassat Amangeldikyz y Turymbayeva	Budget Legalisation Department Department Director Zayfun Altynbekov na Ernazarova	Department of Tax and Customs Legislation Department Director Ernar Buribaevich Erzhanov	Department of Public Procurement Legislation Department Director Sabit Meiramovich Akhmetov	Department of International Financial Relations Department Director Farida Malikovna Mutalieva	State Borrowing Department Department Director Ruslan Talgatovich Meirkhanov

<p>Department of Budget Lending, National fund of the Republic of Kazakhstan and interaction concerning financial sector</p> <p>Department Director Dauren Odenovich Temirbekovich</p>	<p>Legal Service Department</p> <p>Department Director Murat Bucharbayevich Adilkhanov</p>	<p>Department of Digitalization and Public Services</p> <p>Department Director Erkin Kengegalievich Berkeshev</p>	<p>Department of Internal Finance Administration</p> <p>Department Director Dinara Shaulitovna Schaimuratova</p>	<p>Document Circulation Department</p> <p>Department Director Erzhan Kadyrovich Nusipakinov</p>	<p>Human Resources and Strategy Department</p> <p>Department Director Ruslan Rakhmetovich Segizbayev</p>
<p>Internal Control Department</p> <p>Department Director Tolkyn Zhenisovna Urkumbayeva</p>	<p>Information Protection and Mobilization Work SubDepartment</p> <p>Head of SubDepartment Duman Kairoldinovich Nurmukhanbetov</p>	<p>Department of Methodology of Accounting and Auditing</p> <p>Department Director Arman Tursynovna Bekturova</p>	<p>Appeal Department</p> <p>Department Director Kairat Isatayevich Miyatov</p>	<p>Media Management Subdepartment</p> <p>Acting Head of SubDepartment Aidana Erzhanovna Dzhaparova</p>	<p>Department of internal procurement and activation of the Ministry</p> <p>Acting Department Director Marat Murzanbetovich Aristanbaev</p>

ANNEX 4 - FUNCTIONAL ANALYSIS OF EXPENDITURE

Table 1 - Fiscal years for assessment		
Year 1 =	2015	
Year 2 =	2016	
Year 3 =	2017	

Table 2						
Data for year =	2015					
Administrative or Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
General Public Services	431	643	425.0	218.0	218.0	51.3%
Defence	449	441	442.7	-1.7	1.7	0.4%
Public Order	485	434	478.2	-44.2	44.2	9.2%
Fuel and energy	76	80	74.9	5.1	5.1	6.8%
Agriculture	160	172	157.8	14.2	14.2	9.0%
Industry	16	14	15.8	-1.8	1.8	11.3%
Transport	566	494	558.1	-64.1	64.1	11.5%
Housing	229	153	225.8	-72.8	72.8	32.2%
Health	700	658	690.2	-32.2	32.2	4.7%
Recreation, Culture, etc	119	105	117.3	-12.3	12.3	10.5%
Education	536	444	528.5	-84.5	84.5	16.0%
Social protection	1682	1602	1,658.5	-56.5	56.5	3.4%
Others	233	350	229.7	120.3	120.3	52.3%
Transfers	904	904	891.4	12.6	12.6	1.4%
Allocated expenditure	6586	6494	6,494.0	0.0	740.4	
Interest paid	303	297				
Contingency	322					
Total expenditure	7211	6791				
Aggregate outturn (PI-1)						94.2%
Composition (PI-2) variance						11.4%
Contingency share of budget						0.0%

Table 3						
Data for year =	2016					
Administrative or Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
General Public Services	418	543	459.2	83.8	83.8	18.2%
Defence	397	424	436.1	-12.1	12.1	2.8%
Public Order	418	454	459.2	-5.2	5.2	1.1%
Fuel and energy	46	63	50.5	12.5	12.5	24.7%
Agriculture	147	194	161.5	32.5	32.5	20.1%
Industry	9	10	9.9	0.1	0.1	1.1%
Transport	496	580	544.9	35.1	35.1	6.4%
Housing	96	220	105.5	114.5	114.5	108.6%
Health	703	792	772.3	19.7	19.7	2.6%
Recreation, Culture, etc	91	115	100.0	15.0	15.0	15.0%
Education	450	531	494.4	36.6	36.6	7.4%
Social protection	1868	1838	2,052.2	-214.2	214.2	10.4%
Others	739	776	811.9	-35.9	35.9	4.4%
Transfers	837	837	919.5	-82.5	82.5	9.0%
Allocated expenditure	6715	7377	7,377.0	0.0	699.7	
Interest paid	452	523				
Contingency	240					
Total expenditure	7407	7900				
Aggregate outturn (PI-1)						106.7%
Composition (PI-2) variance						9.5%
Contingency share of budget						0.0%

Table 4						
Data for year =	2017					
Administrative or Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
General Public Services	464	506	616.1	-110.1	110.1	17.9%
Defence	419	439	556.4	-117.4	117.4	21.1%
Public Order	482	549	640.0	-91.0	91.0	14.2%
Fuel and energy	50	89	66.4	22.6	22.6	34.1%
Agriculture	273	366	362.5	3.5	3.5	01.0%
Industry	93	39	123.5	-84.5	84.5	68.4%
Transport	621	726	824.6	-98.6	98.6	12.0%
Housing	244	255	324.0	-69.0	69.0	21.3%
Health	1019	1018	1,353.1	-335.1	335.1	24.8%
Recreation, Culture, etc.	99	141	131.5	9.5	9.5	7.3%
Education	436	465	578.9	-113.9	113.9	19.7%
Social protection	2054	2130	2,727.4	-597.4	597.4	21.9%
Others	314	2476	416.9	2,059.1	2,059.1	493.8%
Transfers	1488	1498	1,975.8	-477.8	477.8	24.2%
Allocated expenditure	8056	10,697.0	10,697.0	0.0	4,189.4	
Interest paid	522	458.0				
Contingency	66					
Total expenditure	8644	11155				
Aggregate outturn (PI-1)						129.0%
Composition (PI-2) variance						39.2%
Contingency share of budget						0.0%

Table 5 - Results Matrix			
	for PI-1	for PI-2.1	for PI-2.3
Year	Total Exp. Outturn	Composition Variance	Contingency Share
2015	94.2%	11.4%	0.0%
2016	106.7%	9.5%	
2017	129.0%	39.2%	

ANNEX 5 - ECONOMIC ANALYSIS OF EXPENDITURE

Calculation Sheet for Expenditure by Economic Classification Variance PI-2.2

Table 1 - Fiscal years for assessment		
Year 1 =	2015	
	2016	
	2017	

Table 2						
Data for year =	2015					
Economic head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Compensation of employees	467	446	439.8	6.2	6.2	1.4%
Use of goods and services	1313	1228	1,236.5	-8.5	8.5	0.7%
Investment in fixed assets	568	830	534.9	295.1	295.1	55.2%
Interest	303	298	285.3	12.7	12.7	4.4%
Subsidies	97	97	91.3	5.7	5.7	6.2%
Grants	1670	1513	1,572.7	-59.7	59.7	3.8%
Social benefits	1648	1640	1,552.0	88.0	88.0	5.7%
Other expenses	1144	738	1,077.4	-339.4	339.4	31.5%
Total expenditure	7210	6790	6,790.0	0.0	815.2	
Composition variance						12.0%

Table 3						
Data for year =	2016					
Economic head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Compensation of employees	461	462	491.7	-29.7	29.7	6.0%
Use of goods and services	1281	1411	1,366.4	44.6	44.6	3.3%
Investment in fixed assets	568	830	605.9	224.1	224.1	37.0%
Interest	451	523	481.1	41.9	41.9	8.7%
Subsidies	107	88	114.1	-26.1	26.1	22.9%
Grants	1702	1982	1,815.5	166.5	166.5	9.2%
Social benefits	1907	1903	2,034.2	-131.2	131.2	6.4%
Other expenses	929	701	991.0	-290.0	290.0	29.3%
Total expenditure	7406	7900	7,900.0	0.0	954.1	
Composition variance						12.1%

Table 4						
Data for year =	2017					
Economic head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Compensation of employees	479	485	624.2	-139.2	139.2	22.3%
Use of goods and services	1715	1740	2,234.8	-494.8	494.8	22.1%
Investment in fixed assets	767	968	999.5	-31.5	31.5	3.2%
Interest	522	459	680.2	-221.2	221.2	32.5%
Subsidies	102	88	132.9	-44.9	44.9	33.8%
Grants	1893	1958	2,466.8	-508.8	508.8	20.6%
Social benefits	2107	2195	2,745.7	-550.7	550.7	20.1%
Other expenses	976	3263	1,271.8	1,991.2	1,991.2	156.6%
Total expenditure	8561	11156	11,156.0	0.0	3,982.3	
Composition variance						35.7%

Table 5 - Results Matrix	
Year	Composition Variance
2015	12.0%
2016	12.1%
2017	35.7%

Note: There was a slight discrepancy between the 2017 originally approved budget figures under the functional and economic classifications which could not be resolved. The impact of this is likely to be minimal.

ANNEX 6 - REVENUE ANALYSIS

Calculation Sheet for Revenue composition outturn (February 1, 2016)

Table 1 - Fiscal years for assessment	
Year 1 =	2015
Year 2 =	2016
Year 3 =	2017

Table 2						
Data for year =	2015					
Economic head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Tax revenues						
Taxes on income, profit and capital gains	1324	1225	1,202.9	22.1	22.1	1.8%
Taxes on goods and services	1525	1206	1,385.5	-179.5	179.5	13.0%
Taxes on international trade and transactions	1156	880	1,050.2	-170.2	170.2	16.2%
Other revenue						
Sales of goods and services	10	9	9.1	-0.1	0.1	0.9%
Fines, penalties and forfeits	18	22	16.4	5.6	5.6	34.5%
Transfers not elsewhere classified	2585	2632	2,348.5	283.5	283.5	12.1%
Sum of rest	126	153	114.5	38.5	38.5	33.7%
Total revenue	6744	6127	6,127.0	0.0	699.6	
overall variance						90.9%
composition variance						11.4%

Table 3						
Data for year =	2016					
Economic head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Tax revenues						
Taxes on income, profit and capital gains	1128	1437	1,312.0	125.0	125.0	9.5%
Taxes on goods and services	1524	1864	1,772.5	91.5	91.5	5.2%
Taxes on international trade and transactions	823	952	957.2	-5.2	5.2	0.5%
Other revenue						
Sales of goods and services	16	8	18.6	-10.6	10.6	57.0%
Fines, penalties and forfeits	23	21	26.8	-5.8	5.8	21.5%
Transfers not elsewhere classified	3080	3561	3,582.3	-21.3	21.3	0.6%
Sum of rest	298	173	346.6	-173.6	173.6	50.1%
Total revenue	6892	8016	8,016.0	0.0	433.0	
Overall variance						116.3%
Composition variance						5.4%

Table 4						
Data for year =	2017					
Economic head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Tax revenues						
Taxes on income, profit and capital gains	1428	1534	1,751.9	-217.9	217.9	12.4%
Taxes on goods and services	1859	2086	2,280.7	-194.7	194.7	8.5%
Taxes on international trade and transactions	915	1197	1,122.5	74.5	74.5	6.6%
Other revenue						
Sales of goods and services	3	4	3.7	0.3	0.3	8.7%
Fines, penalties and forfeits	19	26	23.3	2.7	2.7	11.5%
Transfers not elsewhere classified	3558	4680	4,365.0	315.0	315.0	7.2%
Sum of rest	114	160	139.9	20.1	20.1	14.4%
Total revenue	7896	9687	9,687.0	0.0	825.1	
Overall variance						122.7%
Composition variance						8.5%

Table 5 - Results Matrix		
Year	Total revenue deviation	Composition variance
2015	90.9%	11.4%
2016	116.3%	5.4%
2017	122.7%	8.5%



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