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## **BENCHMARKING APPLICATIONS FINANCIAL AND ECONOMIC INDICATORS IN THE INTERNAL AUDIT IN THE REPUBLIC OF BELARUS**

### **ZASTOSOWANIA BENCHMARKINGOWE WSKAŹNIKI FINANSOWE I EKONOMICZNE W AUDYCIE WEWNĘTRZNYM PRZEPROWADZONYM W REPUBLICE BIAŁORUSI**

#### **Abstract**

*This article examines the economic essence of benchmarking, identifies areas for conducting benchmarking of financial and economic indicators by the internal audit service, highlights issues of legal regulation of internal audit in the Republic of Belarus and the use of benchmarking based on international experience by business entities, and determines how to solve them.*

**Keywords:** *benchmarking, internal audit, scorecard, internal audit service*

#### **Streszczenie**

*Artykuł analizuje ekonomiczną istotę benchmarkingu, identyfikuje obszary do przeprowadzania benchmarkingu wskaźników finansowych i ekonomicznych przez służbę audytu wewnętrznego, zwraca uwagę na kwestie prawne regulacji audytu wewnętrznego w Republice Białorusi oraz wykorzystanie benchmarkingu w oparciu o międzynarodowe doświadczenia podmiotów gospodarczych i określa, jak je rozwiązać.*

**Słowa kluczowe:** *benchmarking, audyt wewnętrzny, karta wyników, usługa audytu wewnętrznego*

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## **Statement of the problem in general outlook and its connection with important scientific and practical tasks.**

The presence of successful results of the use of benchmarking in international business in the Republic of Belarus and the possibility of its use by the organizations' internal audit services remains unexplored. Without pleading for the significance of the studies performed, it should be noted that the use of benchmarking in internal audit in

the post-Soviet space, including in the Republic of Belarus, is not given sufficient attention. This circumstance is due to a number of problems: the lack of a national regulatory framework for internal audit, the information need of the property owner (the state) in applying modern business management tools, which determined the relevance of the task.

## **Analysis of latest research where the solution of the problem was initiated.**

For a number of years, leading foreign scientists Harrington H.J., Harrington J.S. were studying the problem of benchmarking in business (Harrington H.J., Harrington J.S., 2004), which substantiated the economic nature and importance of benchmarking in the management and sustainable development of companies, as well as Russian economists Maslov D.V., Belokorovin E.A., Vylgina Yu.V. (Maslov D.V., 2009),

Kleimenova G.V., Siplivaya Z.G. (Kleimenova G.V., Siplivaya Z.G., 2006), Isaev R.A. (Isaev R. A., 2009), Ivanov I.N., Fukova D.Y. (Ivanov I.N., Fukawa D.Y., 2009), Zaitseva S.S. (Zaytseva S.S., 2012) and others who developed and adapted the benchmarking strategy to the national economy. The use of benchmarking in accounting practice investigated Kuznetsova L.N. (Kuznetsova L.N., 2015).

## **Aims of paper. Methods.**

The main objective of the study is to identify benchmarking as one of the areas of internal audit, updating problems in the Republic of Belarus and providing ways to solve them to develop a system of financial and economic indicators of structural divisions and competing companies in order to

implement the development strategy of a business entity. The main research methods were general scientific ones: comparison, analysis and synthesis, statistical sampling, generalization, and others.

## **Exposition of main material of research with complete substantiation of obtained scientific results. Discussion.**

The innovative development strategy of the country, envisaged by the State Innovative Development Program of the Republic of Belarus for 2016–2020, approved by Decree of the President of the Republic of Belarus of January 31, 2017, No. 31 (as amended), is to synthesize the introduction

of technologies related to V and VI technological ways, and industrial-innovative development of traditional sectors of the economy. At the same time, in some sectors, there is a realization of a leadership strategy based on our own developments and innovations, and in others - a “catching-up” development with active borrowing of

advanced foreign technologies and institutions. One of the modern tools for the study and application of innovations in the economy of organizations is benchmarking. The history of benchmarking from the point of reference from the distance to modern understanding as a systematic comprehensive study of various aspects of the activities of organizations that are leaders in the market for goods, works, services is of increasing interest to the economic entities of the Republic of Belarus. At the beginning of the 20th century, benchmarking was used to evaluate products to a benchmark. After the Second World War, the experience of the best organizations in the world was studied to restore the Japanese economy and gain competitive advantages. By the end of the 20th century, benchmarking became widespread on all continents. The economic content of benchmarking is considered ambiguously by various scientists. So, Maslov D.V., Belokorovin E.A., Vylgina Y.V. (Maslov D.V., 2009) believe that benchmarking is method of improving the activities of organizations and increasing their productivity based on inter- and (or) intraorganizational assessment and comparison of indicators, processes and technologies of activities, followed by the study and application of the best experience in their management system.

Kleimenova G.V., Siplivaya Z.G. (Kleimenova G.V., Siplivaya Z.G., 2006, p.69) define benchmarking as a competitive tool and management method; the tradition to transport the experience of the best companies to their own management systems; the initial and integral base for evaluating and justifying plans for the improvement and competitiveness of many successful organizations.

Isaev R.A. (Isaev R. A., 2009) finds that benchmarking is a technique for studying, comparative analysis and introducing best

business practices relatively quickly and at low cost.

Kuznetsova L.N. (Kuznetsova L.N., 2015) suggests that benchmarking is an improvement methodology based on monitoring the organization's internal and external environment.

Ivanov I.N., Fukova D.Y. (Ivanov I.N., Fukova D.Y., 2009, p.54) think that the content of benchmarking consists in searching, studying, adapting, introducing and improving the best experience of partners and competitors at the sectoral, interdisciplinary, national and international levels.

According to Zaitseva S.S. (Zaitseva S.S., 2012, p.236), the essence of benchmarking is reduced only to a comparative analysis of the performance of the company with the results of more successful competitors or effectively operating enterprises in other industries.

According to the author, Harrington H.J., Harrington J.S. revealed the most complete content of the benchmarking essence. (Harrington H.J., Harrington J.S., 2004), who consider benchmarking is a systematic way of identifying, understanding and developing the best quality products, services, designs, equipment, processes, and practices in order to improve the real effectiveness of the organization.

The European Code of Conduct for Participants in Benchmarking (The European Code of Conduct of Participants in the Benchmarking, 2005) establishes it as a process to identify and learn from the best practices of other organizations as a powerful tool used to find ways to continuously improve companies' performance.

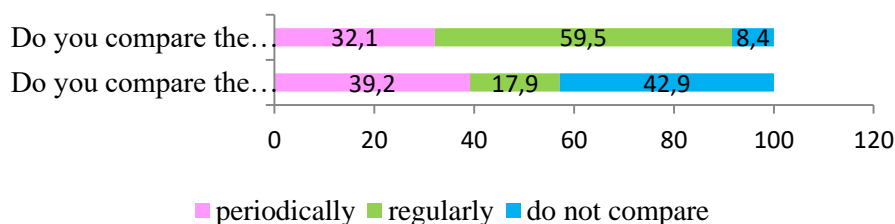
The Benchmarking Council of the Institute of Strategic Planning (Raider R., 2007) defines benchmarking as a general methodology for improving the company's operations based on the incorporation and use of the experience of other organizations.

The variety of judgments indicates the versatility of benchmarking as one of the phenomena of the economic life of the organization. According to the author, most scientists consider benchmarking as a search for the best, the most advanced, followed by comparison with the realities of the organization. However, firstly, benchmarking should be regulated, that is, defined by developed and approved standards, and, therefore, it can be identified as a process. Secondly, comparisons can be made periodically, and nothing is done to improve the organization, which will not allow achieving the goal of benchmarking. In this regard, the author agrees with the opinion of Harrington H.J., Harrington JS, who believe that benchmarking should be carried out on an ongoing basis, systematically and contribute to the sustainable development of the company.

Initially, speaking in the category of marketing, at present, benchmarking has moved into the sphere of finance. The importance and role of benchmarking in the

conditions of transformation of the conditions of functioning of economic entities and competition increases. The axiom of business is continuous improvement, increased business efficiency, and, consequently, the need for continuous evaluation of competitors and the activities of its subsidiaries and divisions. According to the results of the study conducted by the author (with the involvement of students from Polesky State University) of business entities of the Brest region (Belarus), it was found that 32.1% and 39.2% of respondents, respectively, periodically compare performance indicators not only between their departments but also organizations (competitors). However, the opposite situation develops when regularly making comparisons of indicators of their units 59.5% and 42.9% do not compare indicators with other competing entities. However, only 5% of surveyed organizations do not pay enough attention to the comparison of indicators either between their departments or with competitors (Fig. 1).

**Fig. 1. The structure of organizations conducting a comparison of indicators between their divisions and competitors**



Source: compiled by the author

The ambiguity of the obtained results indicates the presence of a number of circumstances: the organizational and legal form of business entities; types and scope of activities; features of accounting and more.

The results of the study confirm that business entities of the Republic of Belarus pay attention to the analysis of the dynamics of financial and economic indicators, both from other enterprises and within the organization. However, first, the comparison of

financial performance with other organizations, as a rule, in most cases, is carried out according to forecast indicators communicated by higher and/or administrative bodies with the aim of achieving them and not always for the purposes of strategic development of entities. Often, the leaders of these business entities are intended not to look like lagging behind within the department. However, the goal of benchmarking is not only to compare indicators but also, on the basis of the data obtained, to improve the management system, business processes, that is, to follow the best, to adopt best practices, to look for the best ways for the organization to develop. Secondly, the most pressing problem is the lack of sound and sound systems of financial and economic indicators by which economic entities should be assessed, as well as the development of follow-up activities based on the results of the research conducted, therefore, the data obtained at present are formal, which also improving the activities of organizations.

Functioning with a positive financial result does not mean an increase in the effectiveness of the organization's activities, but monitoring competitors, studying and applying best practices in management, production, and sales are as relevant as possible. To work blindly, to be catching up - this means not seeing yourself in the future, as competitors will not wait. All this determines the assessment of the external environment and the effectiveness of internal business processes. This task is designed to solve the internal audit service. However, in the Republic of Belarus, there is no legal regulation of internal audit and commercial non-financial organizations do not create an internal audit service since in most cases the state is the owner of the property, which is limited to inspections by regulatory authorities. Due to the control activities implemented in the Republic of Belarus and

the lack of the concept of departmental control as a type of state control in national legislative acts, ministries, departments and business entities are given the opportunity to independently create internal audit services and develop local regulatory documents governing their activities. Addressing this issue requires a responsible attitude, studying international experience and developing strategic internal audit objectives for a particular organization.

Legislation in the Republic of Belarus establishes the creation of an internal audit service only by financial institutions. In addition, this concept is identified with internal audits of the state of accounting, which narrows the subject area of internal audit. At the same time, the external auditor, in accordance with the national audit rule, "Using the results of the internal audit work", approved by the Resolution of the Ministry of Finance of the Republic of Belarus of 07.02.2001, No. 9 (as amended), should assess the effectiveness of the internal audit in order to use its results. There is a controversial situation when it is necessary to assess the work of internal audit, while the essence of internal audit is not disclosed in regulatory legal acts, and business entities do not create an internal audit service without understanding the meaning of its activities. This is due to the fact that there is no scientific substantiation of the meaning, place, and role of internal audit in the organization's control system.

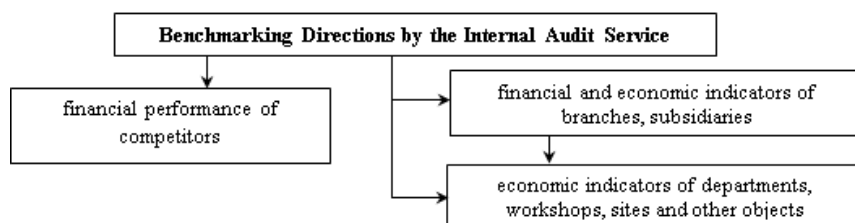
Based on world practice, it is necessary for business entities of the Republic of Belarus to develop methodological recommendations on the procedure for the formation and functioning of the internal audit service, where the goal of creating this service should be provided, the tasks to be solved, the organizational form, and others. Along with this, a very topical issue is the development of a Code of Honor for internal au-

ditors, in which it is necessary to clearly define the ethical standards of behavior of employees of the internal audit service, not only in the exercise of professional activity, but also in everyday life. The fulfillment by the internal auditors of established ethical requirements will contribute to the growth of confidence in the results of their work, which will reduce the costs of conducting an external audit and will contribute to the popularization of the profession of internal auditors in society.

The most acute problem for the republic is the lack of a system for training specialists in the field of internal audit. At the same time, at the legislative level, professional requirements of internal auditors should be defined, namely the level of education, the presence of an international certificate of internal auditor, work experience in the

field of auditing and (or) internal auditing, lack of a conviction for committing crimes against the interests of the service, property and implementation economic activity. Compliance with these requirements will ensure the quality of work performed by the internal auditor and the effectiveness of the results. Particular attention should be focused on the development of internal standards in which it is necessary to reflect, including a system of financial and economic indicators for comparison with the indicators of competitors, leaders, as well as between company departments. Establishing a system of coordinates during benchmarking, that is, research areas is the primary task of the internal audit service. Directions of benchmarking conducted by the internal audit service are presented in Fig. 2.

**Fig. 2 Benchmarking directions in internal audit.**



Source: compiled by the author

Benchmarking of the financial performance of competitors should be carried out to study the financial condition and on their basis to develop an organizational development strategy. The calculation of these indicators should be carried out on the basis of accounting (financial) statements confirmed by the external auditor and published in the mass media. However, when benchmarking the financial performance of competitors, there are a number of problems: first, the secrecy of information. As

a rule, free access to the data of the accounting (financial) statements is possible through open joint-stock companies, which, according to the current legislation of the Republic of Belarus, are obliged to annually publish in the mass media accounting reports confirmed by the auditor. The posted reporting information is minimized, that is, a balance sheet and income statement are published, which does not allow analyzing the trend of changes in some indicators. Financial data of other competitors represent a secret sealed, which makes



it impossible to assess their financial condition. The second problem is the comparability of information, due to the use of different organizations in accounting policies of various methods and methods of accounting, some organizations can report according to the requirements of international financial reporting standards. In international practice, the problem of access to information is solved by studying the prospectuses for issuing bonded and bill of exchange loans, data from marketing agencies received on a fee basis, information from statistical services, tracking of any information about competitors, and more. In the absence of information about regional competitors, one should compare financial performance with the largest world leaders who transmit information to authoritative information and analytical agencies. As a rule, agency clients receive business reports, risk reviews of companies in any country, which contain data on organizational structure, management, key financial indicators, bankruptcy probability ratings, and others. Benchmarking of financial and economic indicators of branches, subsidiaries and divisions should be carried out to improve the efficiency of their financial and business activities, improve business processes. The calculation of financial and economic indicators is made on the basis of the accounting (financial) statements of

subsidiaries and branches, as well as information from accounting and tax accounting, statistical reports. To this end, the internal audit service should develop a system of indicators for evaluating the activities of subsidiaries and individual sites, workshops and so on. The inclusion of certain indicators depends on the goals and tasks to be solved and is a professional judgment of internal auditors.

Systems of compared indicators should reflect all the features of the operation of branches, subsidiaries, as well as workshops, sites and other objects in order to determine the best values, identify deficiencies among the laggards, and take measures to eliminate bottlenecks and problems for the growth of business efficiency. However, it is necessary to envisage the further development of leaders by means of program modeling of an ideal enterprise and/or division.

When benchmarking financial and economic indicators of branches and divisions, there are a number of problems: first, it requires the availability of qualified personnel and software, as it is necessary to competently develop a system of indicators, comparison criteria and process the information obtained; secondly, benchmarking requires the development of management accounting and reporting as an open source of information.

## **Conclusions.**

Summarizing the study, the author came to the conclusion that:

- in the Republic of Belarus, it is necessary to develop and adopt regulatory legal acts regulating internal audit in order to disclose its economic nature, establish uniform professional requirements for internal auditors, functions of the internal audit service, determine the rights, duties, and responsibilities of employees of the internal audit service, and internal auditors, which will make

it possible to distinguish between the concepts of internal audit, internal control, to determine its substantive power and develop internal audit in the country;

- specialists of the internal audit service of the Republic of Belarus should apply modern approaches in evaluating the effectiveness of the organization and business processes one of which is benchmarking;
- business entities do not pay enough attention to comparing financial and economic

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performance indicators with competing organizations and between their departments, which indicates the solution of the company's "survival" on the market, rather than achieving the best reference results;

- the internal audit services should develop a sound financial performance system for comparison with competitors' similar indicators, taking into account the organizational and legal form and structure of the

business, the type, scale and characteristics of the activity, etc., as well as a system of financial and economic indicators for assessing the productivity of individual branches, subsidiaries enterprises, other workshops, areas within the organization in order to improve the efficiency of the management system, business processes and all activities in general.

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