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DASHBOARD AUDITING OF ABC (ACTIVITY-BASED COSTING). THEORETICAL APPROACHES

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Abstract. *This article aims to define the dashboard auditing according to the specifics of Activity-Based Costing method (ABC). It describes the main objectives of dashboard auditing, the criteria that a dashboard auditor should meet and the step-by-step stages of the entire dashboard auditing process of an enterprise from steel industry according to the Activity-Based Costing method (ABC).*

Key words: *auditing, dashboard, auditing agreement letter/contract, steel industry, accomplishment letter.*

Can we perform the dashboard auditing of an enterprise from steel industry? Is such an auditing necessary? In what follows, we will try to answer these questions, starting from the definition, objectives and successful factors of auditing.

The audit is defined by the standards of ISO 9000 of 2000 as: "*Independent methods, processes and documents that allow us to obtain auditing and assessment evidence in an objective manner in order to determine the degree to which auditing criteria are met*". From the facts presented above, we can easily infer that auditing does not represent a form of control, a check or a validation. The assessment is achieved by means of direct observation and judgment, accompanied by the necessary measurements, balance or analyses. The specific demands to be met are confirmed by tangible evidence[1].

We should make a clear-cut difference between the notions of *diagnosis* and *auditing*. Most economists do not clearly separate the spheres of these two notions. The auditing represents a methodical and formalized examination of a field (system, method, proceeding, etc), as well as reference (pre-established instructions determined in accordance or non-accordance regarding the possible areas of improvement). Diagnosis represents the examination that follows a particular method applied by a consultant or an analyst to a certain field (enterprise, commercial policy, social policy, etc), but without a reference acknowledged by a group of specialists. In other words, diagnosis represents a finding, a picture taken from a special perspective, analyzing strengths and weaknesses, proposing solutions.

To put it differently, we can try to define dashboard auditing as *a collection of methodical independent processes and documents that allow us to obtain auditing evidence in an objective manner in order to determine the degree to which dashboard auditing criteria are met.*

A dashboard auditing should consist of *random checks* of tangible justifying evidence and data included in the dashboard. Also, the dashboard auditing pre-supposes the general evaluation of significant information about piloting indicators.

The dashboard auditing process can be classified according to: objectives, reference domain, entity under control, auditing environment for which decisions are made.

The main objectives of dashboard auditing are:

- to prove the degree of accordance (or non-accordance[2]) of the established enterprise objectives, pursued by means of the main dashboard directions (strategic policy, commercial policy, strategic segments) considered by enterprise management;

- to determine the degree of dashboard efficacy, of fulfilling the informational objective, according to the objectives envisaged by the enterprise management;

- to provide information for the improvement of dashboard elaboration methods, as well as the accounting system according to the Activity-Based Costing method (ABC).

In order to ensure the correct implementation of the dashboard auditing process, we must take into account certain requirements that should better match the ones envisaged by the enterprise management. These are mostly related to:

- implementing dashboard auditing;
- emphasizing the directions of action through the dashboard auditing plan;
- appointing auditors (or other authorized experts) to carry out the dashboard auditing process;
- granting authority and independence to auditors so they can accomplish their tasks.

According to the manner of implementation, we distinguish between: *internal dashboard auditing* and *external dashboard auditing*. The internal dashboard auditing is carried out by inside enterprise auditors, whereas the external dashboard auditing is achieved by outside enterprise auditors (auditing firms). According to the degree of planning, we distinguish between: *systematic dashboard auditing* and

random dashboard auditing.   The systematic dashboard auditing is carried out regularly (at equal intervals), obeying all the requirements defined by the inside policies and enterprise strategies, covering all areas of the dashboard process.   This type of auditing is performed in view of a systematic analysis of dashboard, for its continuous improvement. The random dashboard auditing is carried out at unequal intervals, in order to check the correct application of corrective[3] and preventive[4] actions, as a result of removing certain dashboards or if some important changes have occurred in their construction. It can be started out before, during or after the implementation of an activity, product, etc. This type of auditing allows for a quick detection of the consequence which a certain event could generate, triggered by the enterprise dashboards.

To ensure the effectiveness of the dashboard auditing process, we need an auditing team, made up of auditors or other qualified persons.

What are the criteria that underlie the choice of dashboard auditors?

Generally speaking, the criteria are the same, established by the standards of the authorized institutions in the field. In other words, auditors should:
- have proven technical competence in the auditing domain (dashboard especially);
- have at least 3 years' experience in the field;
- demonstrate affinity with the other members of the auditing team;
- be available during the specified dashboard auditing period.

The responsibilities of dashboard auditors include mainly:
- participating into the election of other auditors (auditing team);
- preparing an auditing plan;
- presenting the auditing team with the entities that are to be audited;
- electing the persons in charge with the supervision of all auditing stages and the coordination of the other auditors;
- presenting the auditing report to the company representatives in an easy, understandable form that will not give rise to misinterpretations or misunderstandings among the parties involved in the auditing process (department leaders, enterprise management).

The auditors must respect a methodology that includes work stages and investigation proceedings specific to each of these stages. One can thus distinguish the following stages:
- planning the dashboard auditing activity;
- selecting and restricting the objectives in the order of their importance;
- certifying the objective evidence related to the examination process;
- applying the proceedings specific to dashboard auditing;
- formalizing the procedures and notifying the findings made during dashboard auditing;
- highlighting deviations;
- establishing the legal liability (responsibility)[5] for any findings that represent deviations from legal standards or from the auditing mission references;
- taking the necessary measures to correct undesirable deviations;
- completing and drafting the dashboard auditing report;
- communicating the dashboard auditing report and using it in the process of making further decisions for the continuous improvement of the enterprise performances.

Given the fact that the notion of "*dashboard auditing*" is a relatively new concept in Romania, we can only bring up some theoretical clarifications regarding the manner in which the dashboard auditing questionnaires and the dashboard auditing plan should be set up. Any methodological specifications are to be made in further studies, more thoroughgoing, backed up by specialists in the field. This represents an objective of our further research that will focus on the development of this field and especially of the newly launched concept.

1. **Accepting the dashboard auditing mission**

At this point, the auditor must know if he is capable of starting and finishing the mission he is in charge with, namely the dashboard auditing according to the Activity-Based Costing method (ABC). Based on his own skills and professional motivations, the auditor decides to accomplish the dashboard auditing and he must consider the following aspects:

- if he meets the legal requirements to perform the dashboard auditing;
- if he has the required competence to reach the dashboard auditing objectives, the necessary resources, an auditing team specialized in dashboard auditing and enough time to perform and finish the auditing mission.

In order to prevent the occurrence of any misunderstandings or unpleasant events, the customer and the auditor can enter two forms of legal agreement, previous to the beginning of the dashboard auditing process:

1. *Auditing agreement letter* (AAL). In this letter, the objectives, expectations and responsibilities of the auditor towards the customer are described, as well as the form of the final report.

2. *Auditing agreement contract* (AAC). If a contract is to be closed between customer and auditor, it will stipulate the rights and obligations of the parties, the activity to be performed, the relevant costs, the duration of the auditing process and the type of documents to be examined, namely submitted to the dashboard auditing process.

2. Directing and planning the dashboard auditing activity

At this stage, the chief of auditing team (the person in charge) must clearly delimit the duration of examination within the auditing process, must make sure that the organization systems of the enterprise are compatible with the proceedings that are to be applied by the auditing team. Strictly speaking, the following aspects must be considered:

1. to identify the risks relevant for the enterprise under auditing, through general knowledge of the enterprise. General knowledge of the enterprise means that the auditor should know its activities well enough to allow him to understand the auditing process. Once understood and assessed adequately, they can have a significant impact on the dashboard auditing report.

2. to identify the significant activities and processes that represent the dashboard auditing source, based on the data that structure the piloting indicators. By collecting this information, the auditor tries to identify the analysis risks that he needs to focus upon.

3. to prepare the calendar of the auditing process and apply it. Its purpose is to accommodate the objectives, proceedings and areas of highest importance, in order to prepare the auditing report and formulate the general conclusions of the dashboard auditing process.

Among the techniques used to collect the necessary information for dashboard auditing, we can enumerate: dialogue and interview (based on questionnaires), internal documentation analysis (activity identification records, piloting indicators copybook).

The identification of the highest importance areas starts from the premise of general knowledge of the enterprise. In fact, the auditor and his auditing team focus their efforts on examining only the significant information that corresponds to the objectives of the auditing plan and his opinions, namely that information related to the reference documents, necessary documents for the services involved in the respective auditing process (department), people in charge with preparing the dashboards according to the Activity-Based Costing method (ABC).

The significance limit represents the point that reflects the concentration degree of importance of the examined data. It allows, on the one hand, focusing the activity on the significant elements and figures that go beyond the significance limit, and, on the other hand, to avoid useless efforts, errors and figures that go below the significance limit.

There is the risk of the auditing team missing significant errors, due to a wrong choice of information examination procedures and this is a fact directly linked to the auditors' work.

3. Dashboard examination

The auditing team must apply documentary control proceedings, chronological and systematic classification of the reference documents and control of the people in charge with preparing the dashboards. The chief and the auditing team establish the representative samples and proceed to random checking. The random checking procedure is conclusive inasmuch as the number of the examined documents is large enough.

Among the analysis techniques, we can enumerate: calculation of piloting indicators, estimation, comparison, fluctuations and tendencies or, as case may be, regrouping data to check the coherence between:

- figures (data) from the activity identification records and indicators notebook;
- allocation costs necessary to determine indicators and cost drivers used;
- criteria which the cost drivers must meet.

Dashboard auditing questionnaire - which we may call *dashboard auditing support* - will allow the concentration of all aspects connected with dashboards: maintenance, development, formalization and standardization of conversations connected to dashboards. This questionnaire can be developed and adapted according to the audited domain (objectively orientated dashboard, area oriented dashboard, strategic segment dashboard, etc.), but it can never replace the auditor's work. Its purpose consists in using documents, finding deviations and thus pointing to the successful direction of auditing, the credibility of the instrument and the auditor's credibility as a specialist. The adjustment of the questionnaire can be done according to the demands applied to the activities under auditing or to the degree of knowledge and experience in the auditing domain (certificate, competence certificate, previous experience, etc).

4. Organizing work and closing the dashboard auditing mission

During the dashboard auditing process, the auditors must cooperate with the people (department) in charge with dashboard preparation, safely measure up the documents under auditing, fulfill their established duties, communicate, clarify and meet the auditing demands, record the observations[6] and report the conclusions that they reach as a result of performing dashboard auditing.

Before formulating his opinion on the dashboards according to the Activity-Based Costing method (ABC), the auditor proceeds to the performance of activities that enable him to ensure the acquisition of all the necessary information.

The auditing team must strictly comply with deontology[7] and the deontological code. The deontological code requires an auditor to respect his interlocutors, pay attention to both the form and the contents of an issue, to be rigorous in his observations, keep a positive attitude, pay attention to diversions, not to fuel internal conflicts, find the deviations, base his observations on facts, focus on the auditing objectives and grant the benefit of a doubt in the absence of evidence that shows otherwise.

5. Completing dashboard auditing; preparing and presenting the dashboard auditing report

The overall examination of dashboards aims at a systematical check of the consistency among the dashboard figures. These figures come from sources such as: activity identification records, activity list, cost drivers list, piloting indicators notebook.

The overall dashboard examination requires one to check whether the legal provisions and regulations have been obeyed, as well as the degree to which the disclosed information corresponds to the significance limit. The dashboard auditing process is completed with a revision of all the activities established by its objectives and a written declaration from the enterprise management, called *statement letter*.

Through the statement letter, the enterprise management recognizes their responsibility in approving the dashboards and certifying their authenticity. If there is no sufficient and adequate evidence, the auditor can get written declarations from the management on all the significant aspects emphasized in the dashboards. The written declarations given by the management cannot replace the evidence[8].

The dashboard auditor is entitled to request a statement letter in the following two situations:

1. The enterprise management provides the auditor with all the necessary documents for perfecting the auditing and those documents that have a significant impact on the dashboards.

2. The enterprise management has no knowledge of the irregularities committed by the management team members or department members involved in the dashboard elaboration process and which have a significant impact on the legal and objective preparation of dashboards according to the Activity-Based Costing method (ABC).

If an auditing agreement contract has been closed between the auditor and the enterprise management, the dashboard auditing process is finalized with an *accomplishment letter*. The legal dashboard auditing is closed by two reports:

1. The *general* dashboard auditing report;
2. The *modified* dashboard auditing report (if it is the case).

The general dashboard auditing report must ensure the certification of regularity and truthfulness of dashboards, according to the Activity-Based Costing method. The auditor certifies the dashboard auditing report by signature. This signature means that the auditor assumes full responsibility for accomplishing the auditing according to professional standards. The report includes two main parts: the first part, related to the auditor's opinion on the dashboard and the second part, related to the validation of

the specific verification and to the legal information and regulations particular to dashboards according to the Activity-Based Costing method.

The opinion on dashboards can be expressed: with/without reservations or by certification refusal, respectively. The certification *without reservations* is expressed by the accomplishment without objections of the dashboard auditing according to the Activity-Based Costing method. The certification *with reservations* can occur as a result of either disagreement or limitation.

While checking the accounts and examining the dashboards of the Activity-Based Costing method (ABC), the auditor can discover deficiencies which need to be rectified. To this end, the auditor must address written reports to the enterprise management. These reports are called *modified reports*. As a result of being informed about the deficiencies, the enterprise management must take responsibility for their adequate correction. If the dashboard auditing team's recommendations are put into practice, this will result in an improvement of the enterprise performances.

Notes

Tangible evidence – data that demonstrate the existence or authenticity of certain aspects.

[2] Non-accordance – unsatisfying some exigency.

[3] Corrective actions – actions undertaken in order to eliminate the causes of some non-accordance or as a result of detecting some undesirable situations.

[4] Preventive actions – actions undertaken in order to eliminate the causes of some *potential* non-accordance or as a result of detecting some undesirable situations.

[5] Responsibility can be: material, administrative, civil, commercial and criminal.

[6] Observations – findings of facts performed during the auditing process that provide tangible evidence.

[7] Deontology – department of ethics that studies the standards and obligations for a particular professional activity.

[8] Papers, registers and other record documents.

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