

# [Business models](https://assignbuster.com/business-models/)

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Corporate governance describes the process, regulation policies and customs that can impact the control of organizations. Compliance with ethics, processes, policies and regulations are key ingredients in determining an organization’s success. Compliance is not only required by the regulators, but also to ensure that all the risks are mitigated. An audit ensures that the entire regulatory framework is adhered to, and operation processes, organization’s ethics and policies are strictly followed. To ensure that all the objectives of an organization are met, audits provide an independent evaluation of corporate governance and enable an objective assessment to ensure efficiency and effectiveness in operations.

Areas that require improvement and enhancement are identified and measures are put in place to ensure that efficiency and effectiveness are improved. Performance is enhaced when there is compliance in corporate governance. In recent times, there has been a greater emphasis on effective governance. To ensure this is enabled auditing, corporate governance has been trending to enhanced compliance audits. This implies that governance activities and risk controls are largely under scrutiny.

This helps in enhancing the strategic performances of any organization and in the process adds greater value to an organization (Solomon, 2007, pp113). Governance audits also increase quality assurance and help meet the increasing expectations of the stakeholders and information users. This promotes shareholders’ confidence, enhancing financial information trust, which is among the goals of any audit. Additionally, the interests of all stakeholders are further safeguarded, and organizations inherent risks are substantially reduced. Good corporate governance requires proper internal and external assurance measures.

This increases the demand for enhancement of the roles played by audits and thus promoting shareholders’ confidence. It also enhances financial information trust and ensures that compliance processes are in the best interest of shareholders. Good corporate governance practices are vital in reinforcing confidence and increasing the level of trust between the management and an organizations’ stakeholder. Audits ensure that the management provides accurate, relevant and reliable information that would enable improvements in efficiency and effectiveness. This is done by identifying the areas with weakness and risks, improving the overall performance. When the key stakeholders have doubts on the accuracy of financial information provided and bring into question its information, their trust for management is broken.

This implies that the corporate governance procedures and values are not adhered to in the process. Enhanced audits can, therefore, mean identifying these risks and resolving them. This ensures that the information provided is accurate and can stand validity tests. In other words, stakeholders are prevented from incurring large losses and business ventures are prevented from collapsing. Business models are the rationales employed in business to create value in their organizations or processes that define their operations. When developing a business strategy, models are constructed to depict their working.

Business models may include organization structure, purposes, strategies, infrastructures or operation processes. When establishing a business venture, a business model is employed to capture the mechanism that a business intends to meet its objectives and helps explore future possibilities. The roles of audits in evaluating the assumptions underlying business models, auditors would have to analyze all the management decisions and choices. Audits can evaluate and assess the risks that are likely to occur in the operation process. This means analyzing the financial statements that are generated from transaction data and records. An audit can evaluate the risks of misstatements in the recorded data and their summaries as well as estimate the compliance with the laid down structure.

Therefore, when testing business models, auditors ensure that the corporate governance guidelines are fully adhered to. The changing technology has seen organizations change their strategies, adding shareholders value by implementing interdependent business models to gain competitive advantage. These changes have affected the methods applied by auditors when conducting audits. Business models have the ability to predict an organization’s performance. Since auditing also involves assessing risks, careful evaluation of a model can tell auditors the likelihood of a venture surviving or collapsing and significantly help in making reliable opinions.

Audits are vital in promoting shareholders’ confidence, and enhancing financial information trust and thus safeguarding the interest of shareholders. Recent collapse of massive business ventures has, however, provided vital information on the accuracy and reliability of audits. This implies that shareholders are increasingly getting skeptical of reliable information and its accuracy. To address these fears, their expectations of the audits increase. Financial scandals and collapsing businesses catalyze the demand for increased roles that audits should play when they are perceived as not serving their purpose.

Expectation, therefore, increases the gaps when information users are presented with financial information that is unreliable and leads to losses and collapsed ventures (Fadzly and Ahmad 2004, pp901). Audit expectation gaps describe the differences that an audit is expected to deliver and what can be accomplished from an actual audit. Information users at times mistakenly believe that when an auditor makes an unqualified opinion, the references infers that the financial statements are foolproof. Information users also feel that auditors should, in addition to providing their opinions, interpret the statements presented so they can easily make investment decisions. The “ expectation gap” illustrates an amicable difference between one party’s expectations and what the fulfilling party believes to be fair (Koh and E-sah 1998, pp150). For instance, the airline transport sector would expect a delay in a number of the flights since the summer months are exceedingly busy.

However, this does not augur well to the clients. This, therefore, results in expectation gap. Auditors are also expected to review all the information to detect all fraudulent incidents and illegal acts by carrying out management surveillance. These high expectations create a gap between what is actually possible and what the information users would like to see the auditors do (Gray and Stuart, 2008, pp99). The expectation gaps have always existed but inn light of the recent audit failures, financial scandals and collapsing corporations, the gap has increased instead of narrowing.

Litigation against auditors has been applied in cases, where users felt being let down by audits; this is a confirmation of existence of expectation gap. There has also been a lot of criticism on the audit profession, indicating the widening of the expectation gaps (Fadzly and Ahmad). These gaps exist due to unrealistic expectations alongside reasonable ones by the information users. Expectation gaps were also caused by users misunderstanding the role of audits and failure to recognize audit limitations. In addition, they can be caused by a deficiency in auditors’ performances as well as audit inadequacy. This undermines the confidence in which the audit profession is held, and once this happens, the information users can no longer trust the statements released by the organizations.

Auditors are expected to make supremely as accurate decisions as possible, overconfidence in their performance can lead to inefficient audits and lower the value of the opinions made. Under-confidence in an auditor can also result in inaccurate opinion and more time to make a conclusion. Reality and individual perception of how life should be are normally two extremely different concepts. Expectation gaps arise when reality delivers short of what one expects. In audit expectation gaps exist much for the same reason. One of the major roles of audits is to instill confidence in the information provided in financial statement.

Audits generally are expected to pinpoint misrepresentation, uncover fraud and identify risks. When this information is made public, investment decisions become easier to make while, at the same time, organizations’ management get insights into the areas that they should improve. However, like real life and personal perceptions of life, audits do not always match. When there are numerous financial scandals and collapsing businesses, expectation gaps seem to increase proportionally, raising the demands for enhancement of the roles that audits serve. The perceptions, therefore, create expectation gaps, whereby information users expect that the role the audits perform should increase when these expectations are not met.

Collapsing corporations and economies as wells as numerous financial scandals have left many investors broke. The role of audits is to ensure that the financial information that management presents to its shareholders and other information users is not only accurate, but extremely reliable. Auditing financial statements, therefore, reduces the risks of investments losses and aids information users in making sound and well informed decisions. Audits also play an extremely crucial role in helping the management identify risky aspects of their organizations and take remedial measures to prevent their organizations from collapsing and investors from losing their hard earned money. Additionally, other information users such as the creditors and regulators are enabled to make well informed decisions.

The public, therefore, hold exceptionally high hopes when presented with audited financial information. They base many crucial decisions with the confidence that the inherent risks of enormous losses are largely reduced. It is on this basis, when they are surrounded with collapsing institutions and financial scandals, the debates on the roles that audit play increase.