Financial scandals

Business

There has been a lot of collapsing corporations and financial scandals that have led to investors' losing large sums of money. Auditing financial statements is normally done in order to reduce risks of investments losses and aid information users in making sound decisions. At the same time, audits help management identify risky aspects of their organizations and take remedial measures to prevent them from collapsing or losing resources through fraudulent means. To the public, therefore, when financial scandals and collapsing businesses become the order of the day, the audits are not serving their purpose.

This creates expectation gaps whereby information users expectations of the role of audits should perform are not met. Enhanced audits The fundamental role of audits is promoting shareholders' confidence and enhancing financial information trust and thus safeguarding the interest of shareholders and other stakeholders. The role of audits has developed over the years in tandem with modernization of economies and business institutions. Audits play the vital role of reinforcing confidence and increasing the level of trust in financial information. Audits ensure that shareholders are provided with accurate, relevant and reliable information and thus enabled to know how their companies' state.

Financial statements provide shareholders with a mechanism to monitor and evaluate directors' performances. In theory, audits ensure the reliability and accuracy of such information, because statements are legally required to be audited before they are made public. Primarily, company directors are appointed or elected to safeguard the shareholders' interests. This implies that they are the eyes and ears of their shareholders and are required to act

in the best interest of their shareholders. To ensure that they carry this crucial role without putting their interests ahead, audits are carried out to examine and verify transactions that a corporation undertakes. This is because shareholders have little or limited access to the operations and information of their companies.

In order to ensure that company's interest align with those of their shareholders, they entrust the directors with the roles of overseeing the running of their institutions. Audits can, therefore, be argued to be valuable additional mechanisms that enhance transparency in corporations. Traditionally, auditing was developed to respond to accountability. In the past few decades, there have been numerous financial scandals involving reputable companies in devloped economies. Billion dollars institutions bankrupted and drained billions in investors' funds.

Nevertheless, these corporations, year after year, have been presenting their audited financial reports to the public. Thus, raising doubts on the accuracy of financial information and its reliability in aiding stakeholders take investment decision. Ironically, audit is supposed to prevent investors from getting into such enormous loses. Corporations are legally mandated to provide their investors with audited financial statements (Gray and Stuart, 2008, pp 45). This is in order to aid investors and other stakeholders make informed decisions. Irrespective of whether it is in investing or cutting one's losses, reliable and timely information increases their confidence in the decisions.

Financial scandals involving high value enterprises, however, have shaken this trust and the confidence of financial reporting. Audits are meant to oversee the accuracy and reliability of such statement and reassure investors of the effectiveness of corporations' management or corporate governance. The roles of audits have often been questioned, and doubts on audit reliability arise whenever there is financial crisis involving reputable companies audited by equally reputable auditors. Acceptable auditing standards dictate that there should be relevance in the information being provided. In addition, such information should be neutral, have, compatibility, timeliness, verifiability, reliability and transparency. When these standards are met, the likelihood of releasing inaccurate information is significantly reduced.

The role of auditors include performing risk procedure assessments; they are able to do this through understanding the internal controls of an organization. An organization's management, on the other hand, analyses their transactions and events to enable them choose the best alternatives to incorporate in their operations. If the role of audits, in this case, is enhanced, they would have to examine the methods applied in reaching the best alternative. Therefore, this would mean duplicating the roles that are performed by management (Gray and Stuart, 2008, pp14). This also implies taking more time verifying the internal controls.

Such process would mean taking more time and wasting resources. Enhancing the roles of audits would, therefore, mean second guessing all the management decisions and choices and would beat the purpose of performing the audit. Audits also evaluate and assess the risks that are likely

to occur when the management is preparing financial statements. Statements are generated from trransaction data and records. If we were to enhance the role of audit, it would mean duplications of the records and data instead of evaluation of the procedures employed when entering data and records. Management is also entrusted with the tasks of classifying their recorded data and summarizing their records.

An audit only evaluates the risks of misstatements in the recorded data and summaries. While management evaluates financial estimates, audits ensure that the statements conform to the laid down procedures and are fairly and accurately presented. They also express their opinions through their reports and other presentations on the financial reports. They do this by ensuring that accounting standards are applied to represent information accurately. Enhancing these roles would mean duplicating all the procedures that the management carries out in the process of undertaking their operations.

Audit opinions are based on professional judgment and are carried out so that transactions can be verified as precise. Its purpose, therefore, is to obtain sound evidence that there is no imprecision in transactions and data recorded and thus enabling fair conclusions that are well grounded. Among the considerations that auditors are supposed to make are the trade off of the cost and benefits in performance of their roles. Thus, they examine significant or material transactions. Small transactions and insignificant transactions are rarely examined, not because they are not relevant. However, it would increase the cost and waste resources.

Therefore, verification is not done on the entire accounting process. Small items that would not influence the aggregate statement are ignored; this is where the benefit-cost trade off is made. The question, however, is whether these acceptable practices have contributed to misrepresentation of financial information, and hence, collapse of monumental ventures. Auditors are responsible for four main groups when carrying out their functions. These are the company directors, the management, internal auditors and, finally, the shareholders. All these groups mutually trust each other and depend on auditors.

The management can, therefore, disclose the information required, including confidential details. The board appoints the auditors and expects them to be fair, impartial and independent. Independence is one of the most fundamental characteristic of an audit. It is the building block for credibility, trust, confidence and reliability of the audit verification and their opinions. In other words, unless auditors are independent they cannot be trusted by all four groups and thus financial statement cannot be verified.