A Significance of the System of Audit and Corporate Governance

Effectiveness of the System of Audit and Corporate

The audit committees in the recent past have become a mechanism that is common for corporate governance internationally. Corporate governance is the process in which the director of a particular company ensures that the company is running properly. It strictly entails monitoring the senior managers and giving report back to the shareholders. The ultimate power is often with the shareholders who are relatively weak in comparison with the directors. It is because, in most institutions, shareholders are the sources of finance, and when they are made unhappy, they can sell their shares. Notably, government bodies, researchers, and regulators in various countries have been raising questions about the audit committees' effectiveness and their significant contribution to corporate governance. Attempts to enhance the audit committees' role have been made in order to address the corporate governance issues. For example, Cadbury (1992) in the UK. There have been numerous changes over time which all addresses audit committees' where their operation have been influenced by the structural and cultural differences internationally. These have resulted in the increasing degree of harmonization and codification. The acceptance that is growing globally towards the system of audits as one of the relevant governance structure is creating a conducive environment for the operation of firms. This paper will analyze and critically evaluate the effectiveness of the system of audit and corporate governance.

The effectiveness of the organization performance is mainly assessed through the system audits. For example, in the case of an information system, an information system audit is incorporated to measure the degree of effectiveness. The primary aim of the systems audit is to establish whether the systems audit are involved in safeguarding the corporate assets, whether the organization is operating efficiently, and whether the organization supports corporate objectives in an effective way. Another aim is to establish whether the organization maintains the integrity of the communicated and stored data. The financial audit of the organizations is the one that is involved in the verification of the financial statements and accounting records. In most cases to enhance proper system auditing in this age of technology, information systems are designed (Abbott, 2000 p. 50). The information systems help in tracing every financial transaction that are carried out hence the effectiveness of the financial reporting. These allow reliance on the data that is given by such systems in the balance sheets, statements of affairs, ledgers and other bookkeeping practices. Apart of the financial audit, operational audits can also be performed in an organization. Operational audits are mainly used in the evaluation of the effectiveness and the efficiency of the operations in the information systems. Also, technological audits can be used to verify that choosing of the information technologies is appropriately done, its well configured, and well implemented.

The levels of remuneration to retain, motivate, and attract directors of the required quality should be sufficient in order to enhance the company to run successfully. But the company should take a precaution to avoid many payments than they are necessary for the purpose. The executive directors' remuneration significant proportion should be structured to act as the link rewards to individual and corporate performance (Carcello, 2000 p. 459). There should exist a transparent and formal procedure that should be concerned with policy development on executive remuneration as well as for fixing the packages of remuneration of individual directors. There should be no director who is involved in making decisions about her or his own remuneration.

A dialog should be made with the company's shareholders who are to be based on their mutual understanding of the objectives. The board should hold a responsibility to ensure that a dialog which is satisfactory to shareholders takes place (Collier, 1993 p. 429). The board should make use of the Annual General Meetings (AGM) to allow communication with the investors in order to encourage and recognize their participation.

To ensure my understanding of the system audit and corporate governance, I will look at the Cadbury Company, which is based in UK. In 1991, Cadbury noted that there was continuous fall of the quality of information provided by the shareholders. It was found together with the ineffectiveness of the external audit, and the directors' remuneration were also found to be out of control. Only a small groups of concerned directors took an autocratic control (Collier, P., 1999, p. 322). These problems were well entitled and led Cadbury towards identifying what it may do to cumber them. It led to the creation of Cadbury Report in 1992 which was given a name of Aspects of Financial of Corporate Governance. The committee involved in the report creation was chaired by Adrian Cadbury. It sets out recommendations for company's board arrangement and the accounting systems. All these was done in mitigation of corporate governance failures and risks. Adoption of the report has been done by other bodies such as the World Bank, the United States, and the European Union.

The report by Cadbury ensured that there was the board effectiveness. It stated that every public company ought to be headed by a board that is effective and which can both control and lead the business. In order to test the effectiveness of the board, the work done by all the members of the board should be gauged and quantified under the chairman who is the head of the board (Cottell, 1988 p. 97). All the directors should be equally responsible according to the law for the actions and decisions by the board. This is regardless of the specific duties that are usually undertaken by directors individually. However, the board should collectively as a unitary body make sure that it meets its obligations (Dalton, 1998 p. 279). The executive and non-executive directors should contribute to the working of the board. For example, the Cadbury non-executive directors had two crucial contributions to make in the process of governance and as their consequence of the executive responsibility independence. The first one should be to review the board's performance and that of its executive. The second is to take the lead in situations where potential squabbles of interest arise (Manson, 2001 p. 115).

In conclusion, the effectiveness of the system of audit and corporate governance is evident to be important in the way the organizations are run. Without effective corporate governance and system audit, organizations cannot be successful in the way it offers services to the public. Both of the system audit and corporate governance ensures proper financial reporting and bookkeeping practices. The corporate governance key principles that ought to be rigorously observed are the leadership, usefulness, liability, remuneration, and associations with stakeholders. If the principles are well observed, the organizations achieve success, in the long run. As an example of our Company of interest in UK, we have identified that Cadbury in 1991 was faced with some problems. All the problems occurred due to ineffective system audit and corporate governance. The company observed the principles as they were listed in the report that they developed in 1992. The report was called the Aspects of Financial of Corporate Governance. It was later embraced by other companies in UK since it addressed all the issues to be observed appropriately.