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ABSTRACT

This study provides evidence on the nature of voluntary management reports on internal control (MRIC), and on the characteristics of firms issuing such reports, before internal control reports were mandated under Section 404 of the Sarbanes-Oxley Act. We examine the association between firm characteristics and the voluntary inclusion of a MRIC in the firm's annual report. Our analysis of 397 mid-sized firms in 1998 indicates that a voluntary MRIC is more likely for firms that are larger, have an audit committee that meets more often, have a greater level of institutional ownership, and have more rapid income growth. We find that a voluntary MRIC is less likely for companies with more rapid sales growth. Slightly more than one third of our sample issues a MRIC. None of the voluntary MRICs mention any material weaknesses, no reports include an auditor attestation, less than half (41 percent) of the reports include a statement that controls were effective, and only three of these reports include the criteria used to assess control effectiveness.