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THE IMPACT OF CONTROL SYSTEMS ON BOARD'S FORECAST ACCURACY:

Abstract:

In this paper we study what impact the control systems has on the chairperson's five year forecasts accuracy on net sales growth as well as the control systems effect on the chairperson's perception on the board work. The control systems we take into account in this study are: audit committee, employee representation on the board, and reports to the board. In order to prevent a repetition of the early 2000 accounting scandals, countries introduced and/or updated their legislations on the audit committee and internal audit shortly after. The study is based on 2007 data when it was non-mandatory employment of internal audit using a unique sample collected from the Nordic countries. The results of the study suggest the employment of the internal audit function by internal auditors has a positive impact on both chairpersons' ability to forecast sales growth and perception of the work of the audit committee. However, we do not find the impact for companies that use external auditors to employ the internal audit function.

Keywords:

Control systems, internal auditing, internal control, audit committee, corporate governance, forecast accuracy, board of directors.

JEL Classification: G18, G38, K22