

Paper#: K140

The Determinants of Internal Controls System and Audit Quality -Evidence from Japan-

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ABSTRACT

This study investigates the determinants of internal controls system and audit quality. We can provide the following implications: First, as for the effect of internal controls, the firms which should set up the good internal controls and risky firms have a negative attitude for the good internal controls. The firms likely consider the negatives more than merits for establishing good internal controls. However, the firms which have a great growth and should need to have a good internal control do not always have negative attitude, rather they evaluate the internal control positively. This suggests that they have a good internal control by employing the pressure outside. Second, we can imply that the stronger pressure from outside creditors the firms have the more likely the firms should set up internal controls.

Keywords: Internal control systems; audit quality; business complexity; logistic regression analyses; corporate governance