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POLITICAL SCIENCE ■

## Department of Accounting

### **Management reporting on internal control and accruals quality: Insights from a “comply-or-explain” internal control regime**

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#### **Abstract**

Internal control regulation remains the subject of an ongoing global debate among academics, regulators and practitioners in terms of costs and effectiveness. This is reflected by different internal control regulations in different countries, resulting in varying management's incentives across regulatory regimes. Prior research, however, has primarily focused on the U.S. rules-based setting to study the relationship between internal control regulation and financial reporting. The purpose of this paper is to study the relationship between internal control reporting and accruals quality in an alternative more 'market-led' internal control regime based on the 'comply-or-explain principle', the Netherlands. We show that in this setting accruals quality is not associated with the description of the internal control system, while there is moderate evidence of a positive association with an unaudited internal control effectiveness statement. Further, we find that the non-compliance rate of providing an internal control effectiveness statement is high, and the quality of the explanations for non-compliance is low. Overall, insights from different internal control regulatory regimes may further advance our knowledge on internal control regulation effectiveness.