

Title: IPOs, Internal and Disclosure Control Quality, and Financial Reporting Quality

Speaker: Prof. Aloke Ghosh, University of North Carolina Charlotte

Area: F&A

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Abstract:

Economic theory suggests that firms going public through an initial public offering (IPO) are expected to benefit from designing and maintaining effective controls, which lead to more reliable and timely financial reporting. Consistent with our expectations, we find that IPO firms exhibit fewer material weaknesses in internal controls (SOX 404) and disclosure controls (SOX 302) than matched non-IPO firms. Further, we find that the quality of internal and disclosure controls continues to improve following the IPO which is not the case for the matched sample for the corresponding years. We also find that relative to matched non-IPOs, only IPOs with Big 4 (and not non-Big 4) audit firms are associated with fewer material weaknesses in internal and disclosure controls, which suggests that the benefits of controls are limited to IPOs with high-quality auditors. More directly, we show that the benefits of stronger controls include fewer material misstatements in financial statements and fewer non-timely filings of annual or quarterly reports. Our findings highlight the value of internal and disclosure control in enhancing the reliability and timeliness of financial reporting for IPO firms, which is likely to have a favorable effect on firm valuation.

Speaker Profile:



Prof. Al (Aloke) Ghosh is the Distinguished Professor of Accounting at the University of North Carolina Charlotte, United States. He holds PhD and MS degrees from Tulane University. He has published in many top-tier journals such as the Accounting Review, the Journal of Accounting and Economics, the Review of Accounting Studies, the Contemporary Accounting Research, the Journal of Finance, and the Journal of Financial and Quantitative Analysis, among others. He serves as an advisor to several financial institutions on accounting, auditing, and finance matters. He is also an independent trustee and an audit committee chair of a SEC registered mutual fund.

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