Information Technology Internal Controls and Firm Performance

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Abstract

Since the introduction of the Sarbanes-Oxley (SOX) Act in 2002, companies have begun to place more emphasis on the implementation of internal controls. In particular, information technology (IT) internal controls have grown in importance. IT internal controls are policies that provide assurance that technical systems operate as intended, provide reliable data, and comply with regulations. Research suggests that firms with strong internal controls perform better than those with internal control weaknesses. In this study, we evaluate the impact of IT internal controls on firm performance. The sample includes 72 publicly traded firms, 36 that reported IT internal control weaknesses and 36 that did not. The results of ordinary least squares (OLS) regression indicate that substantive IT internal control weaknesses negatively impact firm performance. Results and implications for research and practice are discussed.