

The Effect of Internal Control System on Financial Performance of Licensed Commercial Banks in Sri Lanka

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Abstract

Internal control systems play an important role in every organization as it help to accomplish their financial performance objectives. The main objective of this study is to determine the effect of internal control system on financial performance of licensed commercial banks in Sri Lanka. Internal controls are looked at from the perspective of Control Environment, Risk Assessment, control Activities, Information and communication and monitoring whereas financial performance focused on Return on Assets. The target population was 25 licensed commercial banks, supervised by the central bank under the banking Act No. 30 of 1988. The random sampling method was used to select the sample and sample size of the study was 16 licensed commercial banks in Sri Lanka that represent 62% of total population. The study relied on both primary and secondary data. Primary data obtained through the standard questionnaire in five likert scale format while the secondary data is gathered from financial statements. Multiple regression models were used to test whether internal controls have any influence on financial performance. The study adopted descriptive research design using both quantitative and qualitative approach. The data is analyzed by the aid of Statistical Package for Social Science (SPSS). Based on the research findings it can be concluded that internal control system is a positive significant predictor of financial performance. In addition, control environment, Risk Assessment, internal control activities, information and communication have positive relationship with financial performance licensed commercial banks.

Key Words: Control Environment, Risk Assessment, Control Activities, Information and Communication and financial performance