THE IMPACT OF INTERNAL AUDIT PRACTICES ON FINANCIAL PERFORMANCE OF BANKING, FINANCE AND INSURANCE COMPANIES IN SRI LANKA

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Abstract

Appropriate internal audit practices help to enhance the financial performance efficiency. Internal audit is considered as the backbone supporting the accounting function of an organization. It support to produce quality financial reporting and assets the external auditors. The purpose of this paper is to examine the impact of internal audit practices (IAP) on financial performance of banking, finance and insurance industry in Sri Lanka. The study used secondary data though annual reports of all the listed banking finance & insurance companies in Colombo Stock Exchange (CSE) in Sri Lanka for the period from 2017-2021. The internal audit practices which include Internal Audit Committee Size, Independence of Internal Audit Committee, Professional Competency, Internal Auditor Working Experience and Audit Committee Meeting were considered as independent variables and the Return on Assets was considered as dependent variable to measure the financial performance. The researcher conducted quantitative method for the purpose of data analysis and interpretation and analyzes data using the E-Views software and used the descriptive statistics, correlation analysis and regression analysis as the analytical tools. It was discovered that all variables have a positive impact on firm performance. So, the findings of the study suggest that conducting good internal audit procedures ensures the maximization of financial performance. Future studies could examine other internal audit practices such as internal process of the committee, quality of internal audit work and personal characteristics of the directors and could use primary data or a combination of primary and secondary data for different other sectors.

Keywords: Internal Audit, Internal Audit Practices, Financial sector, Financial Performance, Return on Assets.