

The Impact of Internal Control Systems on Profitability: A Study Based on Employees' Perception of Licensed Commercial Banks in Sri Lanka

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Abstract

Internal control system plays an important role in preventing and detecting fraud and also protecting the tangible and intangible assets of an organization. Therefore, it is important to study how the internal control system of an organization affects the organization's performance. Indeed, it is critical for banks and financial institutions to recognize the risk they encountered. So the purpose of this study is to investigate the impact of internal control system on profitability of an organization and it is mainly based on employees' perception on internal control system of Licensed Commercial Banks in Sri Lanka. Internal control system consists of control environment, risk assessment, control activities, communication and monitoring. The study selected a sample of permanent employees of 25 licensed commercial banks in Sri Lanka. The study used on primary data and it was collected using semi-structured questionnaires with open- ended and close-ended questions. Data was analyzed by using Statistical Packages for Social Science (SPSS). Descriptive statistical measures and the regression analysis were applied to analyze the data of the study. The results of the study showed that the internal controls have statistically significant impact on profitability. Furthermore, findings of the study revealed that the elements of internal control systems comprising control environment, control activities and monitoring have significant and positive impact on profitability in licensed commercial banks in Sri Lanka.

Key Words: Internal Control Systems, Risk assessment, Control Environment, Information & Communication, Monitoring, Profitability