

**The Impact of Internal Control System on Banks' Performance:
with Special Reference to Kandy District, Sri Lanka**

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ABSTRACT

Introduction: The main objective of the study was to identify how the internal control systems impact the performances of the banks in the Kandy district, Sri Lanka

Design/Methodology/Approach: The sample size comprises 122 respondents from licensed commercial banks (People's Bank, Bank of Ceylon) and 92 respondents from licensed specialized banks (National Savings Bank, Regional Development Bank) representing executive-level employees in the Kandy district. The researcher has used the control environment, control activities, risk assessment, information and communication, and monitoring as independent variables whereas the bank's performance was the dependent variable. Data were analyzed using correlation analysis and multiple regression analysis.

Findings: The findings indicated that the variables of the control environment, risk assessment, information and communication, and monitoring have a significant impact on banks' performance while control activity has an insignificant impact on banks' performance of banks.

Originality: The management of the organization establish and uphold the highest standards of ethical behavior in the organization and implement awareness programs for staff members, including management, to inform policies and procedures. Also, the managers should design a pertinent organizational structure that includes essential areas of power and responsibility and send a clear message to employees about the significance of controls.

Keywords: *Internal Control Systems, Bank Performance, Control Environment, Control Activities, Risk Assessment*