

Effect on Internal Control Functions in Preventing Employee Frauds in the Banking Industry Sri Lanka

Lasara, J. Y.¹ and Sujeewa, G.M.M.²

¹yuwanthjayasinghe12345@gmail.com, ²mudith@kln.ac.lk

Abstract

This study aims to examine the impact between internal control functions and fraud Prevention. Accordingly, this study examines the effect of the control environment, control activity, risk assessment, information and communication, and monitoring on fraud prevention in the banking industry Sri Lankan context. The study's target Population consisted of the 80 financial service companies presently trading in Sri Lanka. Data from systemically important banks, including Bank of Ceylon, Commercial Bank of Ceylon, Hatton National Bank, People's Bank, Sampath Bank, and Seylan Bank, which together hold 78 percent of the country's banking assets, were gathered through a questionnaire survey, resulting in a total of 235 responses. According to the findings, Monitoring activities have the most influence on preventing fraud in Sri Lanka's banking sector and are a key predictor of preventing fraud. In terms of findings, the results show that all five components have a significant positive impact on employee fraud prevention in the banking industry in Sri Lanka and are important predictors of fraud prevention. It is emphasized that the use of the COSO Framework in each financial sector is considered a valuable function of an organization, specifically to prevent fraud, it has become increasingly vital in the modern era, characterized by complex financial products, digital transactions, and stringent regulatory requirements. The researchers anticipate contributing to the current corpus of research and address the lack of knowledge about rising nations. The findings have relevance for internal audit managers and policymakers since they may enhance the effectiveness of the internal audit function inside an organization.

Keywords: COSO Framework, Control environment, Control Activity, Risk Assessment, Information and Communication, Monitoring Activity