

The Impact of Internal Audit on Financial Performance of Commercial Banks in Sri Lanka

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Abstract

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. When banks do operations without considering Internal audit assurance, banks are unable to utilize their objectives as desired. The study aims to identify how the internal audit influences the financial performance of commercial Banks in Sri Lanka. Internal Audit Standards (IAS), Professional Competency (PC), Internal Controls (IC), and Independence of Internal Audit (IIA) were used as internal audit indicators while Financial Performance was used as the dependent variable. The study administrated survey questionnaires to executives from both finance and internal audit departments to collect primary data while secondary data was obtained using annual financial statements of 12 listed Commercial Banks. Data were analyzed using regression analysis and SPSS packages. From the findings, the study concludes that IAS, PC, and IC have a positive relationship with the financial performance of commercial banks and IIA has no significant impact on financial performance. The study found that a unit increase in IAS, IIA, PC, and IC would lead to an increase in the ROA of commercial banks. This recommends that commercial banks should adopt impactive internal audit practices to enhance the financial performance of the banks.

Keywords: Internal Audit, Financial Performance, Commercial Banks