

Aptitude of internal control systems to prevent and detect financial statement frauds in Sri Lanka

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The emerging discipline of Forensic Accounting is a relatively new profession in Sri Lanka even though it was developed with many ideas and techniques centuries ago. The profession has been molded and shaped by many aspects of the shifting the world including the economy, society, and legislation and it has become one of key arenas for government, practitioners, investors, general public and regulatory bodies. Corporate failures all over the world time to time has enlighten the necessity of forensic accounting profession giving more attention to financial statement frauds.

The small and medium organizations tend to suffer excessively large losses due to financial statement frauds and it will increase the importance of forensic accounting practices in Sri Lanka because more organizations are in small and medium scale in nature. Process affected by organization's structure, work and authority flows, people and management information systems designed to help the organization accomplice specific goals or objectives as the internal control systems of an entity playing a vital role in detecting and preventing financial statement frauds.

The current exploratory study examines the capability of internal control systems in preventing and detecting the financial statement frauds. Structured interviews, questionnaires and empirical research findings on the practice of forensic accounting were used to analyze capability of internal control systems for preventing and detecting the financial statement frauds in Sri Lankan companies. Purposive sampling method was used to select the sample and 25 senior managers and 10 auditors were participated as respondents for the research representing 24 private and companies. The study identified control environment and monitoring as the independent variables and number of frauds and its value as the dependent variables.

The study identifies that the management integrity and the soundness of internal control systems can help to reduce the probability of occurring financial statement frauds. Further it is revealed that 68% of business entities' internal control systems have not been facilitated for detection of frauds. Moreover the study recommends that

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effective and efficient internal control policies and procedures put in place should be monitored to prevent and detect financial statement frauds in Sri Lankan companies.

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