

The Impact of Internal Controls on Financial Performance in Public Sector Banks in Sri Lanka

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Abstract

Internal control systems play a major role in every organization to achieve their management objectives. In the recent past, some public sector organizations (specially in banking sector) have been reported some corruptions, frauds and errors, because of the shortcoming in the internal control systems. This investigation focuses on public sector banks in Sri Lanka to examine the impact of internal control systems on financial performance. In the current study, internal controls are measured based on five component of internal controls namely control environment, control activities, accounting information and communication, risk assessment and monitoring which are identified in COSO framework. For the current study, data are collected using questionnaire from the employees attached to Accounting, Finance and Audit divisions of public sector banks in Sri Lanka. Based on the regression estimate obtained the current study concludes that there is a positive relationship between internal controls on financial performance of the public sector banks in Sri Lanka.

Key Words: Internal controls, financial performance, Public sector banks