

## **Internal Audit Function and Financial Reporting Quality: Study of the Sri Lankan Banking Industry**

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The importance of the Internal Audit Function (IAF) is continuously increasing in the current business context and among the research community. The purpose of this study is to examine the relationship between the Internal Audit Function (IAF) and Financial Reporting Quality (FRQ) in the Banking Industry of Sri Lanka. The study used a quantitative approach with the survey method as the primary data collection method. Respondents were internal auditors of 18 banks. Four sub hypotheses to examine the relationship among IAF and external audit, and eight sub hypotheses to examine the relationship between the IAF and fraudulent FR were formulated. The study mainly used regression models for data analysis.

A significant relationship between IAF and external audits exists, with all four variables positively correlated to FRQ in banks. A significant relationship between the IAF and fraudulent FR exists, with all eight variables correlated to FRQ in banks (Collaboration having a negative correlation). Both these relationships increase FRQ. As one of the initial studies investigating the impact of the IAF on the FRQ in Sri Lankan Banks, this study promotes the importance of focusing on the IAF in the banking industry to influence the FRQ of banks. The management and boards of directors in the banks, bank regulators, and investors can identify the link between IAF and FRQ and the importance of focusing on stakeholder requirements. The paper also extends banking literature in terms of FRQ.

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