

Effective Internal Control Implementation on Private Banks Financial Performance: Special Reference to Central Province of Sri Lanka

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Internal control system is a system design and implemented by the management to safeguard assets, ensuring accuracy and reliability of information and increasing the effectiveness of entity's operations. The need for the internal control system in Banks cannot be undermined due to the fact that the banking sector has a crucial role to play in the economic stability and rapid growth in real economic activities. Nevertheless, effective implementation of internal controls on private bank's financial performance is under studied. Therefore, the study investigates the impact of internal control components on Financial performance of private banks in the Central province of Sri Lanka. Internal controls are measured by the COSO Model of internal controls and five hypotheses were developed using components of internal control. Financial performance measured based on scales used by previous scholars. The Sample of the study was selected using the stratified sampling technique which comprises of 70 executive level employees from private commercial banks in Central province. The study approach is quantitative and thus a deductive approach and data was collected through questionnaire. Hypotheses were tested using Multiple regression analysis. As per the multiple regression analysis control environment, risk assessment, information and communication, and monitoring have a significant impact while control activities have an insignificant impact on the financial performance of private banks in central province. Hence, it can be concluded that there is a need for much consideration of the control environment, risk assessment, information and communication, and monitoring which predict the financial performance of private banks in central province through budgetary controls, ongoing and separate financial performance reviews, controls over extra expenditure and expanding current product portfolio.

Keywords: Internal controls, financial performance, private banks