

Internal Control Components that Determine the Financial Performance of State Owned and Private Commercial Banks in Sri Lanka

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The banking sector is the main liquidator provider for any economy. Internal control system is a vital component to achieve intended performances and profitability as well as to maintain the assets of a company and ensuring the accuracy and reliability of financial reporting and other procedures and enhance operational efficiency. Especially in banking organizations internal control are very crucial to determine how banks achieve their performance within the competitive environment. Therefore, this study attempted to study internal control components that determine the financial performance of private and state-owned commercial banks in Sri Lanka: with special reference to Central province which could make an important contribution to the management field in decision making. In this regard, five hypotheses were proposed and tested based on internal control components in the Committee of Sponsoring the Organization of the Treadway Commission (COSO) framework. Sample size comprises 110 respondents from state banks and 47 respondents from private banks representing executive-level employees. The employees were selected based on a stratified sampling technique. The statistical approaches such as correlation and regression analysis were used to achieve research objectives. Findings revealed that control environment, control activities, and risk assessment are internal control components that determine financial performance in state banks while control environment, risk assessment, information and communication, and monitoring are the determinants of financial performance in private banks. It is recommended to concern much on internal control determinants for private and state banks separately to enhance financial performance.

Keywords: Components of internal control system, Financial performance, Private and state-owned commercial banks