

# IMPACT OF INTERNAL CONTROL SYSTEMS ON THE FINANCIAL PERFORMANCE OF LISTED COMPANIES IN SRI LANKA

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Contemporary Sri Lankan companies confront various challenges in the business environment, such as technology advancement, global competition, public policies and regulations, etc. Accordingly, business organizations are required to implement Internal Control Systems (ICS) that provide effective solutions to address these complex business challenges that arise in a highly competitive and challenging environment. Thus, in terms of listed companies in Sri Lanka, the study *initially* assessed the level of the Internal Control Systems. *Secondly*, it examined the impact of the Internal Control Systems on financial performance using the COSO Model. The study followed a deductive research approach and a sample of 165 companies derived from the Sri Lankan companies listed in the Colombo Stocks Exchange based on a stratified systematic sampling technique. Primary data was collected through a self-administered questionnaire. One sample t-test was conducted to assess the level of the internal control system. Then, Multiple regression analysis was used to examine the impact of Internal Control Systems on financial performance. Findings indicated that the firms maintain effective Internal Control Systems within the organizations since there is a significant mean difference of 1.158 (test value of 3) with a mean value of 4.158 (out of 5) on an overall basis. Specifically, Internal Control Systems are effective in Control Environment, Control Activities, Risk Assessment, Information and Communication, and Monitoring Activities. Interestingly, as per the correlation analysis, dimensions of Internal Control Systems were positively correlated with financial performance. However, multiple regression analysis indicated that control environment, information and communication, and monitoring have a significant impact. In contrast, control activities and risk assessment displayed an insignificant impact on financial performance since Sri Lankan companies mostly focus on the overall internal control system rather than on specific elements of ICS. These findings suggested extensive policy implications for companies in implementing Internal Control Systems.

**Keywords** - *COSO model, financial performance, internal control systems, Sri Lankan listed company*