

Impact of Internal Control System on Financial Performance: The case of Sri Lanka Telecom Vavuniya District

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This study is based on how proper internal control system leads to best financial performance of the organization. The ultimate objective of the study is to examine the impact of internal control system on financial performance of Sri Lanka Telecom in Vavuniya District. This study is based on primary data. It has been collected through a questionnaire, observation and personal interviews and 50 samples were selected from employees who were employed in the same places. Internal control system is the independent variable with the proxies of control environment, risk assessment, controls activities, information and communication, policies and procedures and monitoring. Dependent variable is financial performance with proxies of profit, efficiency and liquidity. There are two hypotheses developed those are H₁- Internal control system and financial performance is positively correlated and H₂ Internal control has a significant Impact on financial performance. Descriptive statistics were used to analysis the data. The specification of the independent variables proxies reveal that the ability to predict financial performance. Adj R² value of 0.818 which is in model denotes that 81.8% of observed variability in financial performance can be explained by the independent variables. In the model t values are significant at 0.05 levels. To test the above hypothesis, Chi square test was used and value of 161.1(P=0) at 0.05 significant level indicates that there is relationship between internal control and financial performance. H₁ the hypothesis is accepted. In the H₂ hypothesis R² value of 0.818 revealed that internal control system has an Impact on financial performance. That is the internal control system is contributing to determine financial performance by 81.8%. Hypothesis ₂ is accepted and it is apparent that the perceived internal control has a significant impact on financial performance. Therefore this study will lead to improve existing internal system to achieve best financial performance. However the better performance of risk assessment controls activities and monitoring of internal control lead to better financial performance. Further it asserts that attention should be paid on adopting an efficient management information system and training of the staff.

Key words: *Financial Performance Sri Lanka Telecom PLC; Internal control system.*