

**PERCEIVED QUALITY OF INTERNAL CONTROL SYSTEM IN  
PUBLIC SECTOR ORGANIZATION UNDER CONTROL  
EASTERN PROVINCIAL COUNCIL IN SRI LANKA**



By

**WEERASEKARAGE GAYASHAN MADHURANGA WEERASINGHE**

**EU/IS/2012/COM/29**

**COM 1529**



Project Report  
Library - EUSL

**A project report submitted to the Faculty of Commerce and Management,  
Eastern University, Sri Lanka as a partial fulfillment of the requirement for the  
Degree of Bachelor of Commerce Honours (B. ComHons)**

**Department of Commerce**

**Faculty of Commerce and Management**

**Eastern university, Sri Lanka**

**2018**

**PROCESSED**  
Main Library, EUSL

## ABSTRACT

Increased organizational dependence on internal control system drives management attention towards improving efficiencies of organizations. In the internal control system, enhancing the perceived quality of internal control system in organizations is major way to reducing frauds and errors. The aim of this research paper is to find out “How does perceived quality of internal control system existing in public sector organizations under control of Eastern Provincial Council in Sri Lanka?”

Conceptual model is developed based on reviewing literature. The study has been developed by the researcher based on the COSO model line up with research models used by Fadzil, Haron, and Jantan, (2005); and Joseph, Onumah, Kuipo, and Obeng (2012) to examine the perceived quality of internal control system. As per their studies, the researcher has included quality dimensions Risk Assessment (R), Control Environment (CE), Control Activities (CA), Information and Communication (IC); and Monitoring (M).

Primary data that has been used for the study were obtained from government employees in Eastern Provincial Council. Convenient sampling method was used to obtain 150 responses of employees. The collected data has been analyzed by using descriptive statistics, independent sample t test and Analysis of variance (one way ANOVA) with post hoc test.

Based on the findings of the study, it concludes that all the quality dimensions are at a higher level. Risk assessment has scored the highest mean value. Availability of information and communication has received the lowest amount of mean value. There were no statistically significant difference could be found for information and communication, control activities and monitoring of perceived quality of internal control system in public sector organization under control Eastern Province Council in Sri Lanka. However, control environment and risk assessment of perceived quality of internal control system vary with across gender group of employees. It was found that, the mean value of male respondents are higher than female respondents for control environment and vice versa for risk assessment.

**Keywords:** Perceived Quality, Internal Control System, Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring, Employees.

## TABLE OF CONTENT

ACKNOWLEDGEMENT .....	i
ABSTRACT .....	ii
ABBREVIATIONS .....	iii
TABLE OF CONTENT .....	v
LIST OF TABLE .....	x
LIST OF FIGURES .....	xii
CHAPTER ONE - INTRODUCTION	
1.1 Background of the Study .....	1
1.2 Problem Statement .....	3
1.3 Research Questions .....	5
1.4 Objectives of the Study .....	5
1.5 Significance of the Study .....	6
1.6 Scope of the Study .....	6
1.7 Summary .....	7
CHAPTER TWO - LITERATURE REVIEW	
2.1 Introduction .....	8
2.2 Local Government .....	8
2.3 The COSO Model .....	11
2.4 Internal Control System .....	11
2.5 Components of Internal Control System .....	13
2.5.1 Control Environment .....	14
2.5.2 Risk Assessment .....	14
2.5.3 Control Activities .....	15
2.5.4 Information and Communication .....	16
2.5.5 Monitoring .....	17
2.6 Internal Control Objectives .....	18
2.7 Qualities of a Good Internal Control System .....	19

2.8	Parties Responsible and Affected By Internal Controls.....	20
2.9	Summary .....	20
<b>CHAPTER THREE - CONCEPTUALIZATION AND OPERATIONALIZATION</b>		
3.1	Introduction.....	21
3.2	Conceptualization .....	21
3.3	Definition of Variables .....	22
3.4	Internal Control System.....	22
3.4.1	Control Environment .....	23
3.4.1.1	Integrity and Ethical Values.....	23
3.4.1.2	Management's Philosophy and Operating Style.....	23
3.4.1.3	Organizational Structure .....	24
3.4.1.4	Authority and Responsibility .....	24
3.4.1.5	Human Resources .....	24
3.4.2	Risk Assessment .....	24
3.4.2.1	Financial Reporting Objectives.....	24
3.4.2.2	Financial Reporting Risks.....	25
3.4.2.3	Fraud Risk.....	25
3.4.3	Information and Communication.....	25
3.4.3.1	Financial Reporting Information.....	25
3.4.3.2	Internal Control Information.....	25
3.4.3.3	Internal Communication .....	26
3.4.3.3	External Communication .....	26
3.4.4	Control Activities.....	26
3.4.4.1	Integration with Risk Assessment.....	26
3.4.4.2	Selection and Development of Control Activities .....	26
3.4.4.3	Policies and Procedures .....	26
3.4.5	Monitoring .....	27
3.4.5.1	Ongoing and Separate Evaluations .....	27
3.4.5.2	Reporting Deficiencies.....	27
3.5	Operationalization of Variables .....	27
3.6	Summary .....	29

## CHAPTER FOUR - METHODOLOGY

4.1 Introduction.....	30
4.2 Research Design.....	30
4.2.1 Study Design.....	30
4.2.2 Sampling Plan .....	31
4.2.2.1 Study Population.....	31
4.2.2.3 Sample.....	31
4.2.2.4 Sample Technique and Sampling Framework .....	32
4.2.3 Collection of Data .....	32
4.3 Method of Measurement .....	33
4.3.1 Method of Measuring the Demographic Characteristics .....	33
4.3.2 Method of Measuring the Perceived Quality of Internal Control System ..33	
4.3 Data Presentation.....	34
4.3.1 Data Presentation for Demographic Characteristics .....	34
4.3.2 Data Presentation Perceived Quality of Internal Control System.....	34
4.4 Data Analysis and Evaluation .....	34
4.4.1 Statistical Tools.....	34
4.4.2 Reliability Test.....	35
4.4.3 Univariate Analysis and Evaluation.....	36
4.4.4 Independent Sample T Test .....	36
4.4.5 Analysis of Variance (ANOVA Test).....	36
4.5 Summary .....	37

## CHAPTER FIVE - DATA PRESENTATION AND ANALYSIS

5.1 Introduction.....	38
5.2 Analysis of Reliability for the Instrument .....	38
5.3 Data Presentation – General and Personal Information.....	39
5.3.1 Sample Distribution Based on Gender.....	39
5.3.2 Sample Distribution Based on Age.....	40

5.3.3	Sample Distribution Based on Education Level .....	40
5.3.4	Sample Distribution Based on Number of Years of Service .....	41
5.3.5	Sample Distribution on Name of the Service Class .....	41
5.4	Data Presentation for the Research Variables .....	42
5.4.1	Frequency Distribution for Perceived Quality of Internal Control System	42
5.5	Univariate Analysis .....	47
5.5.1	Mean and Standard Deviation of Perceived Quality of Internal Control System.....	47
5.6	Independent Sample T test and One-way ANOVA .....	50
5.6.1	To Eamine Whether Control Environment of Qualities of Internal Control Varying Across the Demographic Characteristics of Employees.....	51
5.6.2	To Eamine Whether of Risk Assessment of Qualities of Internal Control Varying Across the Demographic Characteristics of Employees.....	52
5.6.3	To Eamine Whether Information and Communication of Qualities of Internal Control Varying Across the Demographic Characteristics of Employees.....	53
5.6.4	To Eamine Whether of Control Activities of Qualities of Internal Control Varying across the Demographic Characteristics of Employees .....	54
5.6.5	To Eamine Whether Monitoring of Qualities of Internal Control Varying across the Demographic Characteristics of Employees .....	55
5.7	Conclusion.....	56
 CHAPTER SIX - DISCUSSION AND FINDINGS		
6.1	Introduction.....	57
6.2	Discussion on General and Personal Information .....	57
6.2.1	Sample Distribution Based on Gender.....	57
6.2.2	Sample Distribution Based on Age .....	57
6.2.3	Sample Distribution Based on Education Level .....	58
6.2.4	Sample Distribution Based on Number of Years of Service .....	58
6.2.5	Sample Distribution on Name of the Service Class.....	58

6.3	Discussion of Research Information .....	58
6.3.1	To explore the levels of perceived quality of internal control system in public sector organization under control Eastern Provincial Council in Sri Lanka.....	59
6.3.1.1	Level of Control Environment .....	59
6.3.1.2	Level of Risk Assessment.....	59
6.3.1.3	Level of Information and Communication .....	59
6.3.1.4	Level of Control Activities .....	60
6.3.1.5	Level of Monitoring.....	60
6.3.2	To Examine whether the Levels of perceived Quality of Internal Control System Vary with Demographic Factors of Employees in Public Sector Organization under Control Eastern Provincial Council in Sri Lanka .....	61
6.4	Chapter Summary.....	62
<b>CHAPTER SEVEN - CONCLUSIONS AND RECOMMENDATIONS</b>		
7.1	Introduction.....	63
7.2	Conclusion .....	63
7.3	Contribution of the Study.....	64
7.4	Recommendation.....	64
7.5	Limitations of the Study.....	65
7.6	Chapter Summary.....	66
REFERENCE.....		67
APENDIX 1 .....		71
APENDIX 2 .....		76