

Internal Control System and its impact on the Performance of the Sri Lanka Telecom limited in Jaffna District

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Abstract

Nowadays, communication is very vital to conduct business and each and every activity of the firms. So there are so many telecommunication providers in Sri Lanka. In this way, the financial activities of these firms must properly be audited and controlled by responsible body of every organization. For this purpose, the Internal Control activities are forwarded effectively in Companies. This paper tries to study to what extent internal control systems influence on the performance of the Sri Lankan Telecom limited. Primary data and secondary data were used for this study, but study solely depends on primary data collection technique. The primary data collection techniques were used in this research they were Questionnaire, Interview & Observation. The samples were selected from staff of the Sri Lanka Telecom limited. Thus sixty (60) employees of the company were selected. Percentage, Correlation and SWOT analysis were the main tools used in the analysis. The findings of the study showed there is a strong relationship between internal control system and organizational performance of the Sri Lanka Telecom limited. And also internal control of the Sri Lanka Telecom limited will lead to high organizational performance in the future.

Key words: *Effectiveness of internal control system, organizational performance, efficient use of resources.*

Introduction

Nowadays, communication is very vital to conduct business and each and every activity of the firms so that there are so many telecommunication providers in our country such as Suntel, Dialog GSM, and Lank bell. In this way, the financial activities of these firms must properly be audited and controlled by responsible body of every organization. For this purpose, the Internal Control activities are forwarded effectively in Companies. For this

research purpose, we selected one of the first Telecommunication Company- "Sri Lanka Telecom" Limited.

Background

Sri Lanka Telecom is one of Sri Lanka's most valuable blue chip companies with an annual turnover in excess of Rs 50 Billion. Sri Lanka Telecom is the nation's number one integrated communications service provider and the leading broadband and backbone infrastructure services provider in the country. Listed on the Colombo Stock Exchange, the company's market capitalization as at 31 December 2011 topped Rs 87 Billion. The two main shareholders of Sri Lanka Telecom as at year end were the Government of Sri Lanka which held 49.5% through the Secretary to the Treasury and Global Telecommunication Holdings N.V. of Netherlands, which owned a 44.98% stake. The balance shares are publicly traded. The SLT Group has a customer base of over five million including multinational corporations, large and small corporate, public sector, retail and domestic customers. The company has been awarded a National Long Term Rating of AAA (lka) and a BB- rating on Long term Local Currency and Foreign Currency by Fitch Ratings, followed by BB- local currency and B+ foreign currency Credit Ratings by Standard & Poor's.

SLT provides facilities and services in the areas of voice, data, video and mobile to its customers. These services, which are unmatched in scope, range from domestic and international voice, advance data transmission services which include internet services on leased lines, broadband and dial up, data circuits, and frame relay solutions to IP services such as IPVPN based on IP-MPLS technology, total corporate solutions of multiple services, satellite uplink services, IP transit, IPVPN, IPLC and international voice traffic transit services to global telecom operators and corporate, NGN services, wholesale services and mobile telephony and mobile broadband through its fully owned subsidiary Mobital Colombo, Sri Lanka, February 23rd 2011 - Sri Lanka Telecom (SLT), the leading National Integrated Telecommunications Service Provider notched

exemplary milestones for 2010 including the status of being the First Listed Company in Sri Lanka to post a record Rs 50.25 Bn in revenue in a Financial Year. Releasing the SLT Group and Company financial results for the 12 months ending 31st December 2010, the Group also delivered a Profit Before Tax (PBT) of Rs 5.96 Bn, with a YoY noteworthy growth of 327%, while the Group's Profit After Tax (PAT) hit Rs 3.94 Bn, a remarkable increase of 407%.

The Board has overall responsibility for establishing and maintaining the Company's internal control systems as well as the assessment and management of areas of risk.

In meeting its responsibilities, the Board seeks to increase risk awareness across the Company's business operations and has put in place policies and procedures, including parameters of delegated authority, which provide a framework for the identification and management of risks. The Board has ensured that the Company has in place appropriate internal control and approval procedures. Together with the internal audit team, the Auditor and the Company's senior management, the Audit Committee reviews and monitors such internal control and approval procedures with a view to ensuring their effectiveness. The Company also maintains a system of disclosure controls and procedures to ensure that information required to be disclosed by the Company is recorded, processed, summarized and reported within the required time periods and accumulated and communicated to the Company's management to allow timely decisions regarding disclosure. Whilst these procedures are designed to identify and manage risks that could adversely impact the achievement of the Company's business objectives, they do not provide absolute assurance against material misstatement, errors, losses or fraud.

Research problem

The problem can be identified as "lack of internal control system that affects profitability and service quality of the Sri Lanka Telecom limited". The research problem for this study can be presented in a question format as follows. To what extent internal control systems influence on the performance of the Sri Lankan Telecom limited?

Literature Review

Siddiqui and Podder (2002) examine the effectiveness of financial audit of banking companies operating within Bangladesh. For the purpose of this study, the audited financial statements of 14 sample banking companies have been analyzed. The study identifies seven sample companies that have actually overstated their profits.

Hence, the research explores the level of independence, objectivity and competence of the auditors assigned for auditing banking companies.

Sawyer (2003) who stated that internal auditing is "a systematic, objective appraisal by internal auditors of the diverse operations and controls within an organization to determine whether (1) financial and operating information is accurate and reliable, (2) risks to the enterprise are identified and minimized, (3) external regulations and acceptable internal policies and procedures are followed, (4) satisfactory operating criteria are met, (5) resources are used efficiently and economically and (6) the organization's objectives are effectively achieved – all for the purpose of consulting with management and for assisting members of the organization in the effective discharge of their governance responsibilities".

Savcuk (2007) According to the Institute of Internal Auditors, (IIA, 1991; Taylor and Glezen, 1991; IIA, 1995) internal auditing is "an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization". By measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device (Carmichael et al., 1996), which is directly linked to the organizational structure and the general rules of the business (Cai, 1997).

Objectives of the study

- To examine the effectiveness of internal control system on the performance of the Sri Lanka Telecom limited.
- To find out any relationship between internal audit variables and performance of the Sri Lanka Telecom limited.
- To examine application of the internal control, rules and regulations in the Telecom established by the head office
- To recommend alternative actions to overcome lack of internal control system.

Hypothesis

Based on the assumption casual relationship given the conceptual model, the following hypothesis was developing for testing. They are:

H₀ :- There is no relationship between internal control system and performance of the Sri Lanka Telecom limited.

H₁ :- There is strong relationship between internal control system and performance of the Sri Lanka Telecom limited.

H₂ :- Effectiveness of the internal control system will lead to increase in the profitability of the Sri Lanka Telecom limited.

H₃ :- Effectiveness of internal control system will improve the quality of the Sri Lanka Telecom limited's services.

Methodology

Internal control of the telecom can be connected with accounting and auditing procedures and guidelines laws and efficient use of resources in internal control. Performance of the Sri Lanka telecom can be connected with profits and service quality. The conceptualization model is as follows:

- Accounting and Auditing procedures and guidelines
- Application of accounting and auditing rules and regulations
- Efficient use of resources in internal control
- Effectiveness of internal control system Performances (Profit, service, quality)

Sample of the research

The samples were selected from staff of the Sri Lanka Telecom limited. Thus sixty (60) employees of the company were selected.

The description of the branch of the Sri Lanka Telecom limited is as follows.

Levels of the organization	Number of employees
Strategic Level	30
Tactical Level	15
Operational Level	15

Source: - Survey data

Data collection techniques

This research closely concerned with the internal control data of the Telecom limited. There is a practical need to collect related data, if a research is to be carried out.

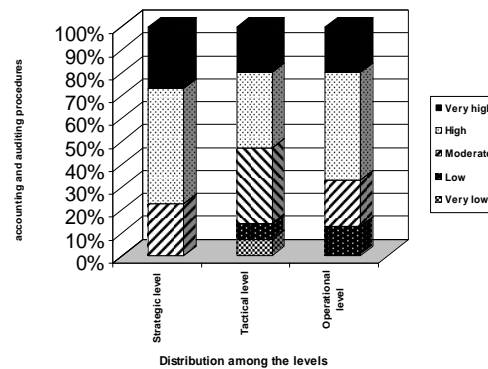
There are two types of data. They are primary data and secondary data. This study solely depends on primary data collection technique. The primary data collection techniques used in

this research that is: Questionnaire, Interview, and Observation.

Accounting and auditing procedure

Level of accounting and auditing procedure	Distribution among the levels					
	Strategic level		Tactical level		Operational level	
	No	%	No	%	No	%
Very low	-	-	1	7	-	-
Low	-	-	1	7	2	13
Moderate	7	23	5	33	3	20
High	15	50	5	33	7	47
Very high	8	27	3	20	3	20
	30	100	15	100	15	100

Level of accounting and auditing procedure related with levels of the company

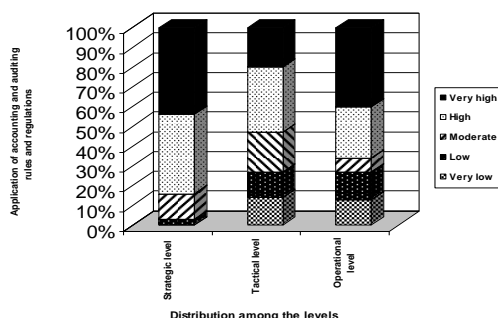


Spread of application of accounting and auditing rules and regulations.

application and auditing rules and regulations	Distribution among the levels					
	Strategic level		Tactical level		Operational level	
	No	%	No	%	No	%
Very low	-	-	2	14	2	13
Low	1	3	2	13	2	14
Moderate	4	13	3	20	1	7
High	12	40	5	33	4	26
Very high	13	44	3	20	6	40
	30	100	15	100	15	100

Source : Survey data.

Level of application of accounting auditing rules and regulations with the level of the company

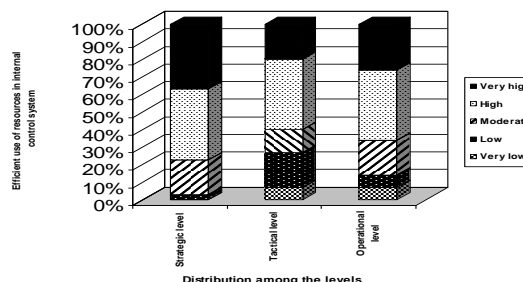


In the above presentation, it is observable that 44% of strategic level has high degree of application of accounting and rules and regulations, 20% of tactical level has high level degree of application of accounting and auditing rules and regulations and 40% of operational level has very high level of application of accounting and auditing rules and regulations.

Further, 30% of strategic level is having low and very low level of application of accounting and auditing rules and regulations, 27% of tactical level and operational level are having low and below level of application of accounting and auditing rules and regulations. But in the strategic level, there is no very low level of application of accounting and auditing rules and regulations.

Efficient use of resources in internal control system

Level of efficient use of resources related with levels of the company



Based on the above presentation, it is observable that 37% of strategic level is having very high level of efficient use of resources in internal control system, 20% of tactical level is having very high level of efficient use of resources and 26% of operational level is having very high level of efficient use of resources in internal control system.

Further, 30% of strategic level is having very low and low level of efficient use of resources in internal control system, 27% of tactical level and operational level are having very low and low level of efficient use of resources in internal control system.

Level of profitability related with the level of the company.

In the above presentation, it is observable that 30% of strategic level is having very high level of profitability, 13% of tactical level has very high level of profitability and 20% of operational level has very high level of profitability.

Level of Efficient use of resources in internal control system	Distribution among the levels					
	Strategic level		Tactical level		Operational level	
	No	%	No	%	No	%
Very low	-	-	1	7	1	7
Low	1	3	3	20	1	7
Moderate	6	20	2	13	3	20
High	12	40	6	40	6	40
Very high	11	37	3	20	4	26
	30	100	15	100	15	100

Level of performance factors	Service quality			
	Profits		Service quality	
	No	%	No	%
Low	16	27	15	25
Moderate	12	20	16	27
High	32	53	29	48
	60	100	60	100

Source : survey data

Further, 10% of strategic level is having very low level of profitability, 14% of tactical level is having very low level of profitability, and 13% of operational level is having very low level of profitability.

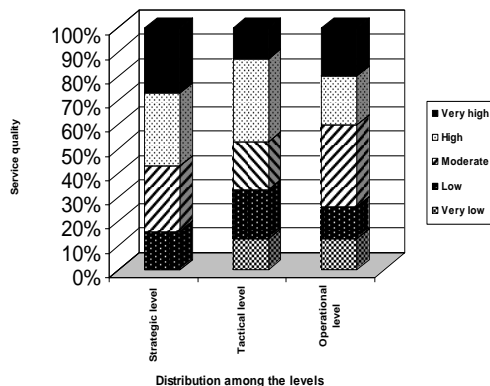
Service quality

Spread of factors on service quality

Level of Service quality	Distribution among the levels					
	Strategic level		Tactical level		Operational level	
	No	%	No	%	No	%
Very low	-	-	2	13	2	13
Low	5	16	3	20	2	13
Moderate	8	27	3	20	5	34
High	9	30	5	34	3	20
Very high	8	27	2	13	3	20
	30	100	15	100	15	100

Source : survey data

Level of service quality related with the levels of the company.



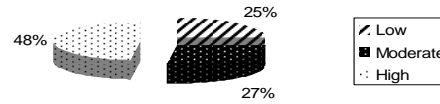
Based on the above observation, it is evident that 27% of strategic level has very high level of service quality, 13% of tactical level is having very high level of service quality and 20% of operational level has very high level of service quality.

Further, 16% of strategic level is having very low and low level of service quality, 33% of tactical level has very low and below level of service quality, and 26% of operational level is having very low and low level of service quality. But, in strategic level, there is no very low level of service quality.

Performance

Spread of factors on performance

Profitability



Service quality

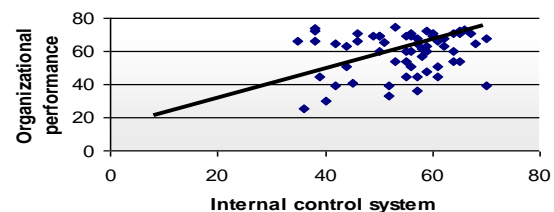


In the above observation, it is evidence that 53% of profitability is having very high level of organizational performance in the company, 48% of service quality has very high level of organizational performance in the company.

Further, 20% of profitability is having moderate level of organizational performance in the company, 27% of service quality is having moderate level of organizational performance in the company.

Moreover, 27% of profitability is having very low level of organizational performance in the company, 25% of service quality is having very low level of organizational performance in the “Tele com limited”.

The relationship between internal control system and organizational performance



♦ Series 1

Linear (Series 1)

$$Y = 0.7658x + 16.8465$$

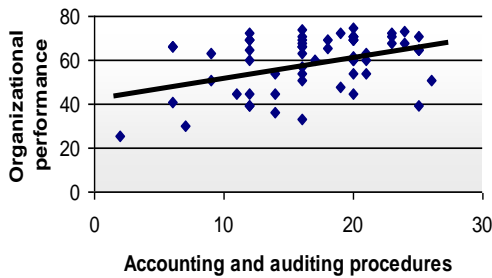
In this diagram, the dependent variable was marked on the vertical axis (Y) that is organizational performance and independent variable on the horizontal axis (X) that is the internal control system.

There is a positive relationship between internal control system and organizational performance, when internal control is increased by one, the organizational performance will increase to 17.65.

The relationship between application of internal control and accounting procedures

◆ **Series 1**

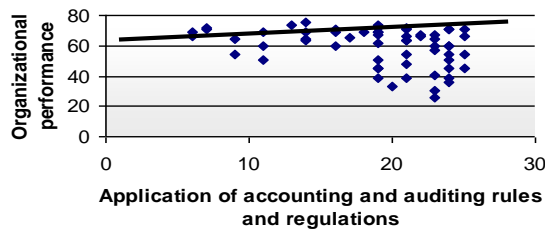
Linear (Series 1)
 $Y = 0.9251x + 43.7581$



In this diagram, the dependent variable was marked on the vertical axis (Y) that is organizational performance and independent variable on the horizontal axis (X) that is internal control and accounting procedures.

There is a positive relationship between internal control internal controls and accounting procedures and organizational performance, when internal control is increased by one, organizational performance will increase to 44.67.

The relationship between application of accounting and auditing rules and regulations



◆ **Series 1**

Linear (Series 1)
 $Y = 0.9251x + 43.7581$

In this diagram, the dependent variable was marked on the vertical axis (Y) that is organizational performance and independent variable on the horizontal axis (X) that is

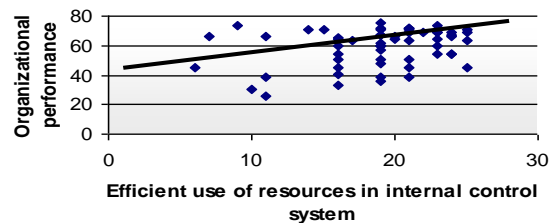
application of accounting and auditing rules and regulations.

There is a positive relationship between application of accounting and auditing rules and regulations and organizational performance, when internal control is increased by one, the organizational performance will increase to 75.04.

The relationship between efficient use of resources and organizational performance

◆ **Series 1**

Linear (Series 1)
 $Y = 0.8673x + 42.8252$



In this diagram, the dependent variable was marked on the vertical axis (Y) that is organizational performance and independent variable on the horizontal axis (X) that is efficient use of resources in internal control system.

There is a positive relationship between efficient use of resources and organizational performance, when internal control is increased by one, the organizational performance will increase to 43.86.

Correlation analysis

Spread of factor on service quality

Independent variables	Organizational performance
Accounting and auditing procedures.	0.76
Application of accounting and auditing -rules and regulations.	0.49
Efficient use of resources in internal control system.	0.65
Internal control system	0.74

Source: survey data.

In the Sri Lanka telecom limited, it is observable that there is an overall high positive relationship between internal control system and organizational performance. But inl) deeply, as far as individual factors are concerned, the relationship varies.

In the telecom limited, accounting and auditing procedures have a positive high (0.76) relationship with the organizational performance. Further, in this company, application of accounting and auditing rules and regulations have a lower positive (0.49) relationship with the organizational performance. Because in this company accounting, auditing rules, regulations were not established by the management properly. Therefore, it has a lower level of relationship between application of accounting and auditing rules and regulations and overall organizational performance.

Further, this telecom limited's efficient use of resources in internal control system has a positive moderate (0.65) level of relationship with organizational performance.

It is important to note that by considering and balancing all factors in the telecom limited are internal control system has a high positive relationship with organizational performance and the relationship (0.74) is considerably significant.

Hypothesis testing

Hypothesis testing focuses on hypotheses, which have been already formulated. According to the hypothesizes,(H2) which states that there is a strong relationship between internal control system and organizational performance of the Sri Lanka Tele com limited. But under the hypothesis testing, correlation coefficient between internal control system and organizational performance of the Sri Lanka Tele com limited is $r = +0.74$, this shows that there is a strong positive relationship between internal control system and organizational performance.

This indicates that hypothesis (H2) of the internal control of the Sri Lanka Tele com limited will lead to high organizational performance in the future. That is also accepted.

Further, the graphical presentation and diagrammatic presentations also indicate that the Sri Lanka Tele com limited have high level of internal control system and organizational performance. So that in this way, hypothesis (H2) is accepted.

Findings

The Researcher presented the data collected from Sri Lanka Tele com limited (Jaffna district) analysis have been also made based on the derived data.

Major findings are as follows:

As far as internal auditing and accounting procedures in the Tele com limited, are concerned 76% of the Sri Lanka Tele com limited have high level of internal auditing and accounting procedures.

b) As far as application of accounting and auditing rules and regulations of the Sri Lanka Tele com limited are concerned only 49% of the Sri Lanka Tele com limited has low level. Because of the rules and regulations were not established by the management to monitor the internal control system's environment properly. So, comparatively the Sri Lanka Tele com limited has lower level of application of accounting and auditing rules and regulations.

c) As far as efficient use of resources in the Sri Lanka Tele com are concerned, 65% of the Sri Lanka Tele com limited has high degree of efficient use of resources in the internal control system. So, the Tele com limited is comparatively in a moderate level of efficient use of resources in internal control system. Because of the major part of the operations are made by machineries.

2) As far as organizational performance is concerned the following results have been obtained:

a) As far as profitability of the Sri Lanka Tele com limited is concerned, 27% of the Strategic level of the company has low level of profitability, 20% of the Tactical level of the company has low level of profitability and 53% of the operational level of the company has high level of profitability.

b) As far as service quality of the Sri Lanka Tele com limited is concerned, 25% of the Strategic level of the company has high level of profitability, 27% of the Tactical level of the company has low level of profitability and 48% of the operational level of the company has high level of profitability.

c) Further, it is evidence that in the Sri Lanka Tele com limited 45% of the accounting and auditing procedures, 35% of application of accounting and auditing rules and regulations and 40% of efficient use of resources in the internal control system. So this finding is evidence that the company has adopted enough internal control system.

d) As far as overall organizational performance is concerned, 62% of the Sri Lanka Tele com limited has high level of performance. So, that the company has achieved 62% of their organizational objective.

It is evidence that SWOT analysis of the Sri Lanka Telecom limited provides a valid insight about its capabilities. That is, the company has high strengths in comparison with its weakness. The Mobile service and internet services are considered as “**major strengths**”. The major weakness is very slow in providing new connection.

Recommendations

Recommendations are absolutely permanent in any research, in this research, based on the analysis of the internal control system and organizational performance the following recommendations are made in respect of the Telecom limited.

a) In the Sri Lanka Telecom limited’s accounting and auditing procedures are comparably high but not very high. So that the Telecom limited should maintain the accounting and auditing procedures in sound level. Because the Sri Lanka Telecom limited is the only Telecom communication service providers who provides fixed line services in the country.

b) In the Sri Lanka Telecom limited, the application of accounting and auditing rules and regulations are in a moderate level. Since the rules and regulations were established by the head office to all branches did not follow properly. So in the future the company must follow under the rules and regulations implemented by the management.

c) In the Sri Lanka Telecom limited, efficient uses of resources are in a high level. That means all the assets are being used in an efficient manner.

d) In the Sri Lanka Telecom limited’s branch, which is situated in the Jaffna, district has a considerable amount of profit. To increase the profit of the company, they have to introduce new technologies to the Telecom communication in accordance with the changing environment and must make strategies related to the company.

e) In the Sri Lanka Telecom limited, the service quality is also high, although customers are given new services. So that customers are satisfied with the services of the company.

f) The Sri Lanka Telecom limited should pay attention to introduce new services with low cost.

Ideas for research in the future

☞ The research has been conducted considering only the Sri Lanka Telecom limited situated in the Jaffna district.

So that, a research which should be represented in the Island wide.

☞ This research has been conducted only 60 samples from the Sri Lanka Telecom limited in the Jaffna district.

So that, a researcher must consider larger volume of samples then only the results give valuable and accurate results.

☞ This research has been conducted the Telecom limited’s three levels of the company, in order to make comparison all other telecommunication providers must be taken in to consideration.

☞ This research has been conducted only considering three variables (accounting and auditing procedures, application of accounting and auditing rules and regulations, efficient use of resources in the internal control system) which affect the internal control system.

So, a research considering other factors which may affect internal control system of the company, should be taken in to consideration.

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