

**IMPACT OF INTERNAL CONTROL SYSTEM ON FINANCIAL
PERFORMANCE OF SMALL AND MEDIUM SCALED
MANUFACTURING ENTERPRISES IN THE KALUTARA
DISTRICT**



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ABSTRACT

The main objective of this study is to find the internal control systems among small and medium scaled manufacturing enterprises in kalutara district. Current business trends have made it imperative for almost all Small and medium manufacturing enterprises to maintain an internal control system. It was concluded that manufacturing firms that had invested on effective internal control systems had more improved financial performance as compared to those manufacturing firms that had a weak internal control system. The study examined the impact of internal control system on financial performance of Small and medium scaled manufacturing enterprises in kalutara district. Internal controls system was looked at from the perspective of control environment, risk assessment, control activities, information and communication, and monitoring.

The study exploited information by the help of primary data. However, one hundred owners were selected as sample and questionnaire were issued to them to collect the primary data. Collected data analyzed by use of descriptive statistics and bivariate analysis. The results were presented in charts, tables and graphs using the software Statistical Package of Social Science, version 19.0. According to the analysis, the finding showed internal control system of Small and Medium scaled manufacturing Enterprises is at moderate level and also financial performance is at moderate level. Further, there is strong positive relationship between internal control system and financial performance. The study specifically revealed that a significant change in financial performance is linked to internal controls systems. Based on the findings of the study, it is concluded that internal control systems as supported by the study findings significantly influence the financial performance of Small and Medium scaled manufacturing Enterprises in kalutara district.

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