



SAINT MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MBA IN ACCOUNTING AND FINANCE

ASSESSMENT OF INTERNAL AUDIT EFFECTIVENESS IN
ETHIOPIAN SHIPPING AND LOGISTICS SERVICE
ENTERPRISE

BY

ALAMINE ABRAR

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Addis Ababa, Ethiopia



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A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY
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Declaration

I undersigned declare that this research report is my original work and has not been presented for a degree in any other university, and all the materials used for this study have been duly acknowledged.

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Endorsement

This research report has been submitted for examination with my approval as a university advisor

Advisor

Name Asmamew Getie (*Assistant Professor*)

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Acronyms and Abbreviations

IA	Internal Audit
IAE	Internal Audit Effectiveness
IIA	Institute of Internal Auditors
CIA	Certified Internal Auditor
ESLSE	Ethiopian Shipping and Logistics Service Enterprise
ACCA	Association of Chartered Certified Accountants
ISPPA	International Standards for the Professional Practice of Internal Auditing
MS	Management Support
CIA	Certified internal auditors
SPSS	Statistical Package for Social Science

Abstract

The study aims to analyze assessment of internal audit effectiveness in Ethiopian shipping and logistics service enterprise. Specifically it investigate and assess the effectiveness of internal audit, independence of internal auditor, quality of work audit and management support have been investigated and used as a variables to assess internal audit effectiveness. The study were included both primary and secondary data. The target populations were internal auditors and employees in Ethiopian shipping and logistics enterprise. Descriptive statistic and descriptive research design was used to provide details regarding the demographic question and assessment of internal audit effectiveness. The data analysis part were done using SPSS version 21 (Statistical Package for the Social Science). Percentages mean and standard deviation which enhanced a meaningful description. Descriptive statistical analysis result indicated that internal audit effectiveness in Ethiopian shipping and logistics service enterprise found good. The Internal Audit effectiveness of the organization will be augmented when there were the existence of quality of audit work, competency of internal auditors, more supports from the management, have independence of internal auditor and the commitment of the management should be improved as it is evaluated and needed to be above the average range. The study is significant for researchers as it helps to improve the understanding of factors influencing internal audit effectiveness. Additionally, managers can use the finding of the study to solve the practical problems facing the internal audit effectiveness specifically in Ethiopian shipping and logistics service enterprise. Finally future study could be undertaken to explore the perception of other parties such as external auditors on the internal audits effectiveness.

Key words: *Internal audit effectiveness, Quality of audit work, management support, organizational independence and independence of internal auditor.*

CHAPTER ONE

INTRODUCTION

This section of the study explain back ground of the study ,statement of the problem, objective of the study, significance of the study and organizational structure of the study was the intention to provide introduction and to set out the overall plans of the study.

1.1 Back ground of the Study

According to the Institute of Internal Auditors (IIA, 2010). The purpose of internal audit is to "provide independent assurance that an organization's risk management, governance, and internal control processes are operating effectively. As long as changes occurred in business environment, organization has to play a big role in managing their institutions and be more effective in applying its laws. Failing to do so, great scandals of financial embezzlements, errors and losses might face the world's largest companies and institutions in various sectors.

Internal audit is a cornerstone of good public sector governance and it is essential for ensuring the operation and appropriateness of controls. It reviews compliance with existing financial regulations, instructions and procedures; evaluates the effectiveness of selected internal controls; appraises the efficiency and effectiveness with which resources are used. Van (2005) explains that internal audit effectiveness in the public sector should be evaluated by the extent to which it contributes to the demonstration of effective and efficient service delivery, as this drives the demand for improved internal audit service and it helps to assist organizations in better accomplish their objectives by fetching a systematic and disciplined approach to improve and evaluate the control, risk management, and the governance processes effectiveness (IIA, 2010).

According to (Spencer, 2003) internal audit primarily provides an independent and objective opinion to the Accounting Officer on risk management, control and governance, by measuring and evaluating their effectiveness in achieving the organizations agreed objectives. In addition, internal audit's findings and recommendations would not serve much purpose unless management is committed to implement them.

Implementation of audit recommendations is therefore highly relevant to audit effectiveness and beneficial to line management in the audited areas. Risk management, control and governance comprise the policies, procedures and operations established to ensure the achievement of objectives, the appropriate assessment of risk, the reliability of internal and external reporting and accountability processes, compliance with applicable laws and regulations, and compliance with the behavioral and ethical standards set for the organization. The service applies the professional skills of internal audit through a systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the organization's objectives, and through recommendations for improvement. Such consultancy work contributes to the opinion which internal audit provides on risk management, control and governance.

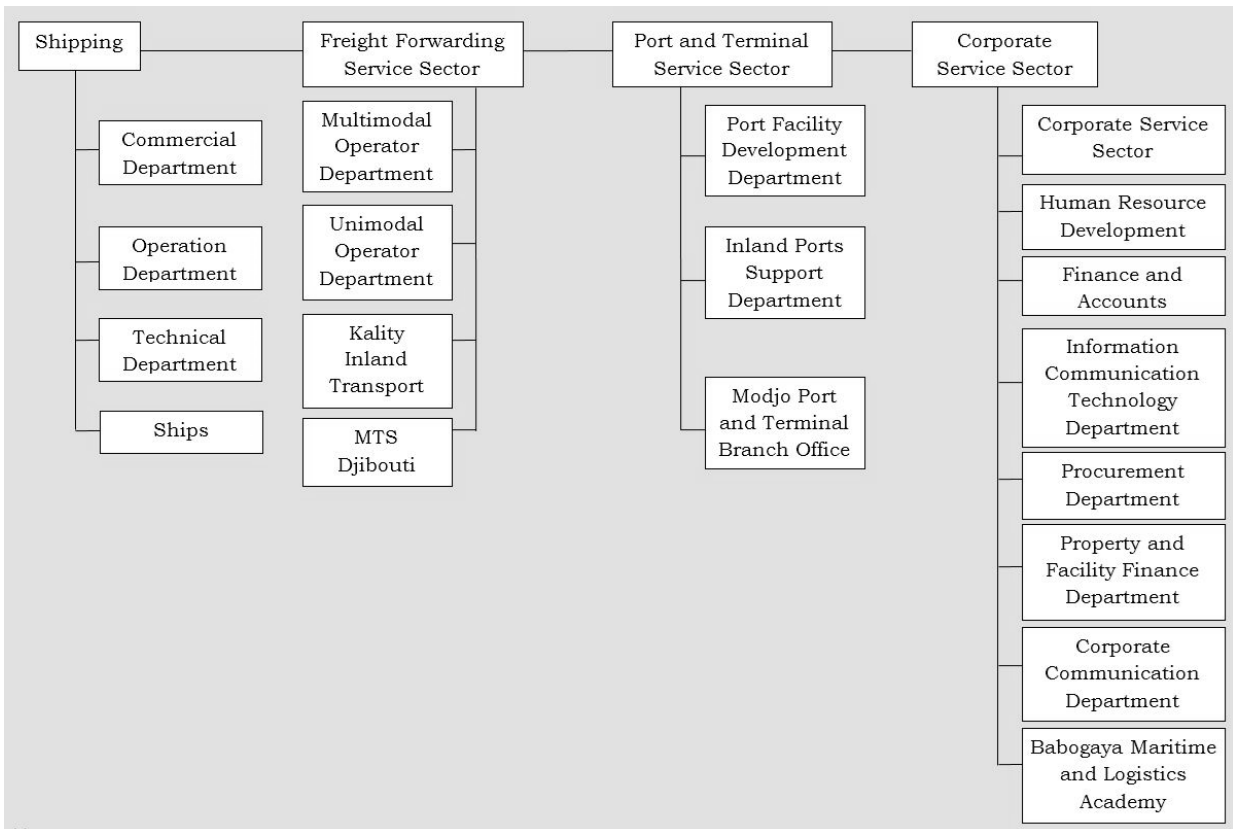
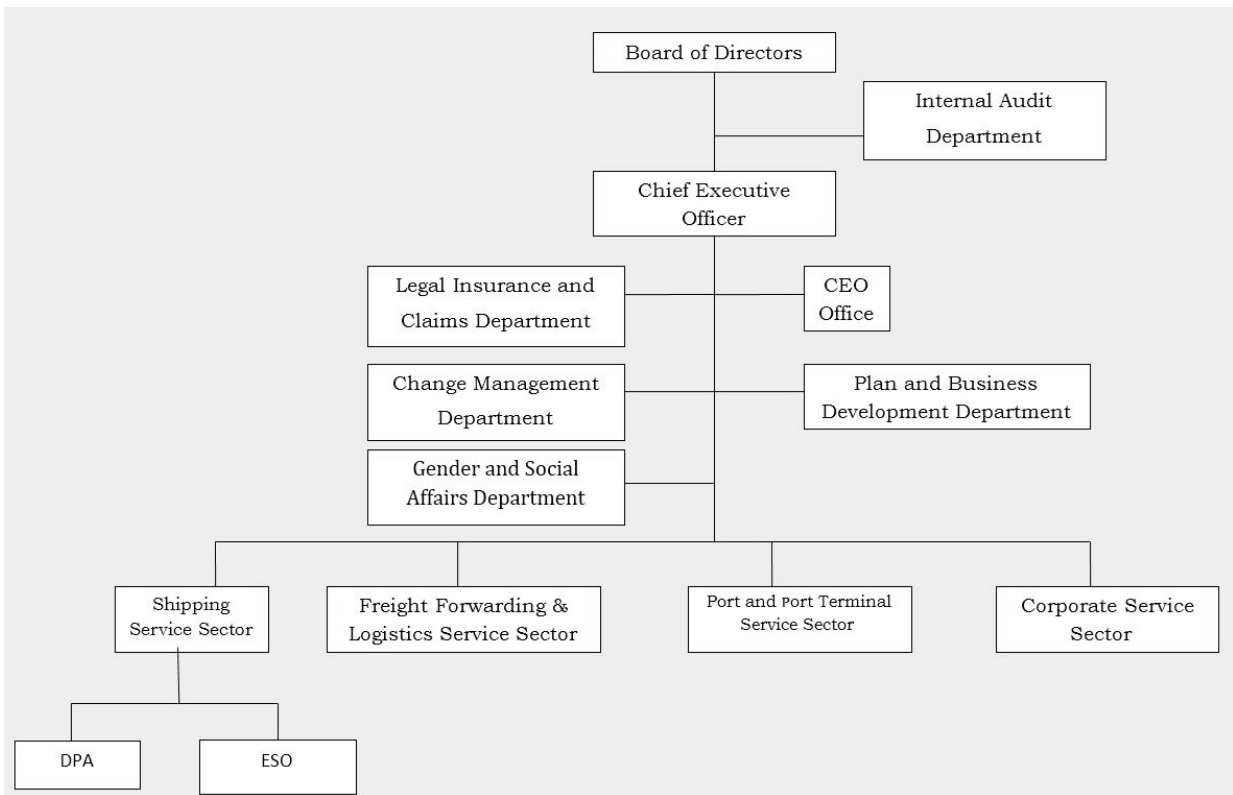
The main role of the internal audit function is to guarantee that management controls are being applied in an effective manner. The internal audit function, even though not obligatory, exists in most private enterprise or corporate entities, and in government including federal state, county and city governments. By measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device, which is linked directly to the organizational structure and the general rules of the business (Cai, 2007).

According to Sawyer (1995) internal audit is effective if it meets the intended outcome it is supposed to bring and also internal auditor's job is not done until defects are corrected and remain corrected. The effectiveness of internal audit greatly contributes to the effectiveness of each auditee in particular and the organization at large. Internal audit will contribute to the appropriateness of procedures and operations of the auditee, and thereby internal audit contributes to effectiveness of the auditee and the organization as a whole. It plays the role that internal audit plays in an economy and points out that internal audit has an advantage over external audit in obtaining information quickly and finding problems at an earlier stage (Mihret and Yismaw, 2007). The internal audit activities help to prevent corruption, misappropriation of funds and other financial irregularities and ensure effective and efficient utilization of resources to achieve the objectives of the organization Zeleke (2007).

1.2 Background of the Organization

Ethiopian shipping and logistics service enterprise is the result of the amalgamation of four national companies from Ethiopia. These companies are: Ethiopian Shipping Lines (ESL), founded in 1964, Ethiopian Maritime and Transit Services Enterprise (EMTS), founded in 1968, and Dry Port Services Enterprise (DPSE), founded in 2007 and Comet Transport. This newly amalgamated enterprise came into being following the issuance of Regulation by the Council of Ministers (Regulation No. 255/2011) dated 21st November 2011, and is vested with the huge responsibility of rendering sea-transport & logistics services to the country's importers, exporters, and investors in a more effective and efficient way, by reducing transit time, cost and handoffs. It is known as a multimodal transport operator. Besides, a truck operating company named Comet Transport SC has recently been transferred to ESLSE following a government decree issued in the mid of 2014 MTBS (2013). ESLSE has its headquarters located in the heart of Addis Ababa, Ethiopia, with main branches at Djibouti, Modjo, and Kality (the former Comet) and other branches in Mekelle, DireDawa, Kombolcha, Semera and Gelan towns. It also has a Maritime Training Institute at a place called Babogaya in Bishoftu formerly (Debrezeit) town ESLSE manual (2015).

Ethiopian shipping and logistics service enterprise is the only company involved in sea freight activity across the country. The overall import and export activity is conducted with four trade roots around the globe organized as Golf and Middle East, India and Far East, Europe, Africa and China. These trade roots have around thirty nine agents who facilitate the operation of unimodal and multimodal transport operation MPE (2015). The companies in its long sea transportation services manage to build a reputation of reliability efficiency and good services it gives a liner service in north continent and Mediterranean routs. It also gives a cross trade services mostly from red sea, to Europe, and Gulf ports. Ethiopian shipping and logistics service enterprise mission is to implement the multimodal transport system thoroughly, and upgrading optimal capacity of its management, human resources business process, and technological capacity, providing shipping and logistics services meeting the international standards and excelling the demands of customers by reducing transit time and costs, and helping the nations developmental endeavors meaningfully.



Organizational structure of the enterprise

Based on the internal audit manual of the enterprise the principal objectives of the internal audit policy of is to provide the board and the management the required assistance to effectively examine and evaluate whether the framework of the risk management, control and governance process of ESLSE are functioning properly and to recommend necessary adjustments to improve them. Make the internal auditors, the directors and the management aware of their responsibilities, authorities and scope of work. Establish and implement audit program that enables the auditors to easily and properly perform their jobs. Provide up-to-date information and audit findings to support timely and proper decision making.

The key role of the internal Audit department is to provide the management and the Board with an independent and objective evaluation of internal control over key business activities. Internal audit department has its own duties and responsibilities to achieve the organizational objectives by providing a developed flexible annual audit plan using an appropriate risk based methodology and implement the annual audit plan as it approved.

It also maintain the required professional audit staff with sufficient knowledge, skill, experience ,qualifications and review operation whether the results are consistence with established goals and objectives. Internal audit department assist in the investigation of significant suspected fraudulent activities, examine the adequacy of the risk management and internal control system that safeguards asset enables efficient and effective utilization of enterprise resources and carry out other activities relevant to the responsibilities of the department.

The scope established for internal audit should be sufficient to satisfy the objectives of the engagement. Its scope covers a wide range of activities (services) which may broadly be classified as financial, value for money (performance), compliance environmental (safety) audit, investigation and IT related audit. The scope of internal Audit is not limited to only assurance services it also gives some consultancy service.

1.3 Statement of the Problem

The traditional role of internal auditors was focused merely on financial estimations and monitoring internal controls. In recent years, however, the importance of internal audit has been significantly increased to consider a wider role of internal consultant for better risk management performance and enhancing the value of the enterprises (Tran, 2018). Since its important role, it is one of great significant to identify the factors influencing the internal audit effectiveness. In this respect, the highlight point is how internal audit department follows its determined objectives effectively.

According to Drogalas, Karagiorgos and Arampatniz et.al (2015) in the last years, there are several studies researching the factors which associate internal audit effectiveness and by considering different measures for internal audit effectiveness in the Greek business environment, including independence of internal audit, management support, the competence of internal audit and the quality of internal audit. They claimed that the independence of internal auditor has strongest effect on the internal audit performance also on their literature review; Mihret & Yismaw (2007) indicated that internal audit effectiveness is influenced by the dynamics prevailing in internal audit settings.

They also argued that as internal audit is aimed to assist organizations to achieve objectives, a positive association between internal audit's level of compliance with the standards for professional practice of internal auditors and with organizational performance could serve as an additional approach to assess internal audit effectiveness. The effectiveness of internal audit greatly contributes to the effectiveness of each auditee in particular and the organization at large.

One of the most important factors influencing internal audit effectiveness according to the literature is the support by top management. Mihret and Yismaw (2007) argued that there is a direct relationship between top management support and internal audit effectiveness. In line with the above study, management support is also considered as the main factor of internal audit effectiveness according to Cohen and Sayag (2010).

Cohen and Sayag (2010) also argue that organizational independence of internal audit affects internal audit effectiveness. Examining effectiveness of internal audit in Saudi Arabia Alzeban and Gwilliam (2014) argue that independence of internal audit (along with

“competence of internal audit department”, “size of internal audit department”, “relationship between internal and external auditors”, “management support”) is directly related with internal audit effectiveness Moreover, this case study tries to assess internal audits and each auditees perceptions on internal audit effectiveness using measures such as internal audit quality, the size of internal audit department, independence of internal auditor and the level of management support for internal audit effectiveness.

Ethiopian shipping and logistics service enterprise are the only companies that provide service across the country which has devolved with huge responsibilities and very influential on the economy of the country. Internal audit effectiveness should be viewed as a dynamic process because it incorporates skills and capability of internal auditors, it performed different type of activities and implemented in each hierarchal position of the internal audit unit based on the internal audit manual of the country which is not updated with the current manual of institute of internal auditors. In addition, there are wrong perception of the audit function by the auditees attributes related to capability of auditors to perform their duties and responsibilities to their work which has a major impact to implement the activities of the internal audit job. Lack of opportunity for professional development in organization can also easily affect the effectiveness of internal audit and it also leads to lack of management respect to the expertise. Therefore, by considering the above mentioned premise, the researcher attempted to assess some factors influencing internal audits effectiveness in Ethiopian shipping and logistics service enterprise and assess the performance based on each factors.

1.4 Basic Research Questions

By formulating the following general research guiding questions to get answer, the study forwarded the following questions.

- What are the factors affecting Internal Audit Effectiveness of the company?
- Does the management of Ethiopian shipping and logistics service enterprise support the internal audit to enhance the internal audit effectiveness?

- Does the department of audit influence to improve the internal audit effectiveness in Ethiopian shipping and logistics service enterprise?
- What are the challenges encountered by the internal audit department in implementing the annual audit plan of the organization?
- Does the internal audit quality of the internal audit department affect the internal audit effectiveness in Ethiopian shipping and logistics service enterprise?
- What can be done to make the internal audit department work according to the expectations?

1.5 Objective of the Study

1.5.1 General objective

The general objective of the study is to assess factors of internal audit effectiveness in Ethiopian shipping and logistics service enterprise.

1.5.2 Specific Objectives

This study was try to achieve the following specific objective.

- To investigate the internal audit effectiveness in Ethiopian shipping and logistics service enterprise.
- To assess the effect of management support for internal audit effectiveness in Ethiopian shipping and logistics service enterprise.
- To determine the challenges encountered by the internal audit department in implementing the annual audit plan.
- To determine what can be done to make the internal audit department work according to the expectations.
- To find out how effective are the internal audit department of the Ethiopian shipping and logistics service enterprise.

- To assess the independence of internal audit on internal audit effectiveness in Ethiopian shipping and logistics service enterprise.
- To determine the internal audit quality of the internal audit department performing the duties and responsibilities in Ethiopian shipping and logistics service enterprise.
- To assess the extent to which the internal audit department to perform its role in Ethiopian shipping and logistics service enterprise.

1.6 Significance of the Study

It is hoped that study finding may be used for Ethiopian shipping and logistics service enterprise to achieve objective of the organization through provide up-to-date information and audit findings to support timely and proper decision making. It also use for other researchers who assess a case studies related to internal audit and those who will be interested with the functioning of the internal audit activities of shipping and logistics organization. The findings and conclusions drawn in this case study may use as part of the reference materials for the purpose of stimulating debates on the effectiveness of internal audits. Finally it is hoped that study findings may be use as supporting material for further case study and investigations in form of literature.

1.7 Limitation of the Study

Like any other study, this study has its own limitations. The major limitation is some of respondents do not offer as per the researcher expected time was the main problem face in the study process and the second limitation of the study is, as in all case studies generalizability of the conclusion is limited. Lastly another major limitation of this study was related to the sample of the study because sample was taken only from Ethiopian shipping and logistics service enterprise. Therefore additional researches should be done by taking samples drown from different industry related internal audits.

1.8 Scope of the Study

This research study was focused to assess the factors influencing internal audit effectiveness in Ethiopian shipping and logistics service enterprise. Specifically the study assess by selecting a major factors which is internal audit quality, internal audit effectiveness, management support, organizational independence and independence of internal auditor. But it is not the only factor which influence internal audit effectiveness. In order to realize this focus of the study located in Addis Ababa head office of the company was selected as a case study in year 2019.

1.9 Organization of the Study

To achieve the above stated objectives, the study was structured in to five chapters with brief description to give coherent flow of ideas. In the second chapter, concerned was about review of related literature on internal audits effectiveness and factors influencing internal audit related to shipping and logistics companies and other firms practice. The third chapter outlines the research design and methodology of the study. The fourth chapter is deals about data presentation, analysis and interpretation. Finally, the last chapter shows the summary of finding, conclusion and recommendation of the study.

CHAPTER TWO

2.1 HISTORY OF INTERNAL AUDIT

The Institute of Internal Auditors (IIA) was established in 1941, largely in response to this development and modern internal auditing owes much of its early progress to the Institute of Internal Auditors. This includes the gradual expansion of the scope of internal audit activities and the professionalization of the internal audit practice. It was not until 1947 that Institute of Internal Auditors (IIA) issued its first Statement of Responsibilities. The Code of Ethics was issued in 1968 and Standards in 1979. The first Certified Internal Auditor (CIA) exams were written in 1974, indicating that there was, that time, deemed to be recognized body of knowledge available for internal audit professionals. According to Pickett (2004), internal audit has come a long way over the last two or three decades. In the past, internal auditing was seen as a mechanism to double-check the thousands of financial transactions that were posted to the account each week. In the 1950s and 1960s, it only consisted of basic test of the accounts with a view to isolating errors and irregularities. In contrast, today the market for audit has been expanded as the number of statutory entities requiring audit has grown considerably and the spread of audits corresponds to a fundamental shift in patterns of governance in advanced capital market economies. An additional change in the audit environment that has affected auditing practice is the advance in information technologies (Bahram, 2007).

Internal auditors facilitate the development of suitable controls as part of a wider risk strategy and provide assurances on the reliability of these controls. Internal audit has developed a stronger operational orientation, expanding its area of involvement beside financial compliance to include risk management (Marika, 2005).

The move from detailed low-level checks of huge volume of mainly transactions to high-level put into corporate risk management has been tremendous (Rudasingwa, 2006). Internal audit has advanced significantly in the last decade, some of the recent internal audit trends are internal audit can address current and emerging risks quickly and draw conclusions that help company decision makers to take action more quickly, more confidently and with deeper insights there, by delivering enhanced value. More specifically, internal audit analytics can help drive a more effective and risk based planning process.

Risk management in an organization is important because organization operates in an environment with full of uncertainties. Therefore, the internal audit in today's global world should shift away from traditional checking of volume of transactions to risk management and control. That is, it should focus on preventing errors and fraud rather than errors and fraud detection. Furthermore, the definition underscores internal audit's contribution to accomplishment of organizational objectives.

According to Al-Twajry, and Gwilliam 2003; Arena and Azzone 2006; Cohen, Krishnamoorthy and Wright 2004; Mat Zain, Subramanian and Goodwin Stewart 2006; Mihret and Yismaw 2007; et al., 2008) observed that the empirical literature, nevertheless, indicates that internal audit may not always be effective. It also suggests that internal audit effectiveness tends to vary from one context to another. Despite this apparent context-dependence of internal audit practice, nevertheless, little prior research has extensively examined contextual factors that augment or inhibit internal audit effectiveness. Furthermore, the association of internal audit effectiveness with organizational performance and thus accomplishment of organizational objectives appear not sufficiently explored as yet. This study aims to contribute to the understanding of contextual influence on internal audit effectiveness and the possible link between internal audit effectiveness organizational objective achievements.

2.2 Internal Audit Effectiveness

The word "effectiveness" have been defined by different researchers, for instance Arena and Azzone (2009) defined effectiveness "as the capacity to obtain results that are consistent with targets objective," while, Dittenhofer (2001) view effectiveness as the ability toward the achievement of the objectives and goals. In the same context, a program can be seen as effective if its outcome goes along with its objectives (Ahmad, Othman, & Jusoff, 2009; Mihret, 2010). Institution of Internal Audit IIA (2010) defined internal audit effectiveness "as the degree (including quality) to which established objectives are achieved. While Mizrahi and Ness (2007) give their own definition which is in line with the ability of the internal auditor intervention in prevention and correction of deficiencies and they finally defined internal audit effectiveness as the number and scope of deficiencies corrected following the auditing process. Therefore going by the above definitions of

effectiveness and audit effectiveness, it's clear that audit effectiveness or internal audit effectiveness is means the same thing because they all have central target which is 'the ability of achieving established objective.

Effective internal audit system helps in achieving performance, profitability and prevents in loss of revenues particularly in public sectors (Vijayakumar and Nagaraja, 2012) even though Pilcher Gilchrist and Singh (2011) observed that efficiency and effectiveness of audit in a public sectors context is more complex than in the private sectors. But then consideration must be given to the effectiveness of internal auditors particularly in the public sector organizations. It is quite interesting that audit effectiveness is an outcome of auditors' activities, duties, professional practices and responsibilities through a high commitment with audit standards, goals, objectives, policies and procedures. "Also Institute of Internal Audit (2010) defined internal audit effectiveness "as the degree (including quality) to which established objectives are achieved".

Therefore, from the above definition, this study defined audit effectiveness or internal audit effectiveness as the ability of the auditors either internal or external to achieved established objective within the organization. Many organizations are showing concerned to their internal auditors in order to give guidance and advice at different levels of management (Davies, 2001). This is because the internal audit plays an important role in the organization process, and therefore it is not only required to perform ordinary assurance activities, but also to serve as a strategic partner of the organization and add value to its activities towards improving organizational process and ensuring their effectiveness and efficiency (Al-Twajiry et al., 2003 and Mihret et al., 2010). Therefore, organizations with effective and efficient internal audit function are more than those that have not such a function to detect fraud within their organizations (Corama, Ferguson & Moroney, 2006; Coetzee & Fourie 2009; IIA, 2010; Omar & Abu Bakar, 2012; Radu, 2012). At the same time, there is need for the internal audit to be effective so as to create improvement in the government parastatals (Unegbu & Kida, 2011). Hence, an effective internal auditor is the one who assist his organization in meeting their objectives; therefore, public sector organizations should ensure that their internal audit is effective so as to create value and effectiveness in such organization.

Effective internal auditor professionals should provide the follow in characteristics: The ability to align the structure of internal audit with the dynamics of the organizational operation; There should be strong relationship between management skills for maintaining appropriate visibility and audit committee needs and expectations; There should be strong service delivery capabilities (consistency in approach, standards, and delivery), including the abilities to maintain audit focus and alignment of resources to the plan; There should also be strong management skills which will ensured that internal audit teams have appropriate skilled and motivation (Alberta, 2005). Beside the above, the level of training, education, experience as well as professional qualifications of the internal auditors influenced the effectiveness of internal audit (Al-Twaijry et al., 2003).

According to Dhiaa shamki The IIA's standard 1210 refers to that auditor's proficiency requires the internal auditors to be with high skills, knowledge and other competencies to better perform their responsibilities (IIA, 2011). Auditing general experience is related to audit's years of experience, training, knowledge, skills and expertise that can be applied to any client (Wright and Wright 1997).

Moyes (2007) shows that highly experienced auditors perform more effectively than other with less experience because experienced auditor have the ability to process information, make successful comparisons about the alternative solutions for auditing findings and initiate subsequent actions (Chung & Monroe, 2000).

Bonner & Lewis, (1990) referred to that auditors experience is a remarkable predictor for knowledge persons couldn't equally have acquired all types of knowledge. Many studies suggest that internal auditor knowledge in public sector organization play a very important role by guiding the auditee and organization.

Furthermore, highly experienced auditors have aware more about the influence of the influence of the regulations on auditing process which in turn improves their auditing which in turn improves their auditing quality more than the inexperience ones (Gaballa and Ning,2011).

2.2.1 The Internal Audit Quality

Internal audit quality, which is determined by the internal audit department's capability to provide useful findings and recommendations, is central to audit effectiveness. Internal audit has to prove that it is of value to the organization and earn a reputation in the organization (Sawyer, 1995). Audit quality is a function of the level of staff expertise, the scope of services provided and the extent to which audits are properly planned, executed and communicated.

The internal audit refers to (Boulescu, 2003): a permanent review of the economic activity of an entity; an independent activity of assessing on behalf of the economic entity's management that involves examining the financial, accounting, and other kind of operations concerning the services as a whole; an evaluation of tasks and conformity of the accounting entries, reports, assets, capitals, and results; or an attestation or certification of financial accounting documents.

Internal auditing is an innovative function that has focused on emerging control and audit expertise including control self-assessment, which enlists the support of the employees in diagnosing efficiencies and implementing improvements in different areas of auditing. Internal auditors assist both management and boards of directors and audit committees by examining, evaluating and reporting on the adequacy and effectiveness of the management's risk processes and by recommending improvements when necessary. Professional bodies in auditing such as the Institute of Internal Auditors (IIA), have made significant efforts to promote the role of the internal audit function and its relationship with other activities within an organization. The IIA is involved in areas related to improving corporate governance, audit committee, risk management and control processes.

According to the professional bodies, although the internal auditor's role is modernizing, it still fulfils the original purpose of this function by detecting and deterring fraud. However, the primary focus of the profession has expanded to create a greater partnership with management (Bahram soltani, 2007).

The responsibilities concerning fraud prevention within an organization are divided between main three areas which is the executive board, the audit committee, and the internal audit .Firstly, the executive board has the final responsibility for implementing the mechanisms of detecting and preventing a fraud early on. The members of the executive board are those who should offer explanations in case of discovering certain cases of fraud.

According to the National Standard on Audit 240 ‘Fraud and Error’ (SNA 240), Secondly, the audit committee has the role of supervising the management of fraud risks and actively monitoring the efforts of the executive board against fraud committing. Thirdly, the internal audit represents an efficient line of defense against fraud, having a role both in monitoring risks, as well as in fraud prevention and detection. The internal audit constitutes a tool at the disposal of the audit committee, the only one able to independently assess fraud risks and anti-fraud measures implemented by the executive board. In their current activities, the internal auditors must: have enough knowledge in order to identify the signs of a possible fraud; be attentive of the cases that involve a risk of fraud; and appreciate the necessity to further investigate a case, inform the responsible persons from an organization and take actions to eliminate or reduce the possibility of fraud occurrence. (Munteanu & Zuca, 2010.).

Internal audit quality require auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach IIA (2008). This is important not only for compliance with legal requirements, but because the scope of an auditor’s duties could involve the evaluation of areas in which a high level of judgment is involved, and audit reports may have a direct impact on the decisions or the course of action adopted by management (Bou-Raad, 2000).

Greater quality of IA work understood in terms of compliance with formal standards, as well as a high level of efficiency in the audit’s planning and execution will improve the audit’s effectiveness (Bou-Raad, 2000).Internal audit quality is examined as one of the variables associated with internal audit effectiveness by Mihret and Yismaw (2007). Based on the public sector of Ethiopia, the findings indicate that internal audit effectiveness is affected by the internal audit quality, along with the support of management, the organization

environment and the characteristics of the organization. In another research, Barac and VanStaden (2009) studied the relation between the perceived quality of internal audit and the safety of corporate governance structure in South Africa. In contrast to the above, the results indicate that there is no correlation between the corporate governance structures and the perceived quality of internal audit. More recently, examining one hundred and eight Israeli organizations, Cohen and Sayag (2010) also considered the quality of internal audit work as a factor of internal audit effectiveness.

2.2.3 Management Support

Organizations exist to create value or benefit to their owners, other stakeholders, customers, and clients. This concept provides purpose for their existence. Value is provided through their development of products and service and their use of resources to promote those products and services. In the process of gathering data to understand and assess risk, internal auditors develop significant insights into operations and opportunities for improvement that can be extremely beneficial to their organization. This valuable information can be in the form of consultation, advice, written communications or through other products all of which should be properly communicated to the appropriate management or operating personnel (IIA).

Internal auditors should be proud of the contributions they make to the internal controls of an organization. Unfortunately, they rarely receive the recognition they deserve, because their accomplishments often are overshadowed by the bad news they must impart. Therefore, it is important for internal auditors to educate their clients on the value of internal auditing and build relationships that can withstand a negative audit. Using humor is a great way to begin that process. Internal auditing doesn't have to be doom and gloom.

Auditors need to let the world in on this well-kept secret and, at the same time, improve their image and enhance communication with their clients (Spencer Picket, 2003). Recently, management relies on internal audit to ensure; organization's confidence, trust in their effective internal controls and the whole organization is working efficiently (Mahzann et al., 2012).

Since internal auditors display their findings as observations and recommendations, managements play an essential role in implementing good controls in terms of determining the controls' needs; designing appropriate controls; implementing them; checking the correct application; and maintaining and updating the control systems (Pickett, 2011). According to (Lin, C.T, Chiu, T.,Huang et al., 2009) said while creating internal control systems is managements' responsibility, internal auditors' responsibility is making an objective assessment for those systems. As internal auditors pay more attention about what is useful to assess risks and undertake efficient control, their recommendations could assist management in strengthening internal control systems (Badara and Saidin, 2013).

Practically managements have a tangible influence on the internal audit department. This causes difficulties to float out for the reasons of the influence of managers' positions, the power in audit appointment and the need to assume managers' honesty. Therefore, risks will arise when those managers might override the internal control by dealing with it as a managerial tool (Churyk et al., 2008). In other words, internal auditors have to keep away from setting risk appetite, imposing risk management processes, being the core for the assurance of management in such a way to ensure that risks will be effectively managed, taking decisions regarding risk responses and carrying out risk responses on behalf of the management because they are management's responsibilities not internal auditors ones (Zwaan et al., 2009). However, Mahzan et al., (2012) stated that internal auditors can effectively perform their roles if they act independently and not as a managerial tool and management is more likely to comply with internal auditors' recommendations if there is authority.

An effective manager could be defined as that one who cannot feel afraid of internal auditor when identifying issues in the operations. Badara and Saidin, (2013) state that instead managers have to encourage their internal auditor by a proactive policy and do not worry about whether or not the issue will be reported. What is important is to show that actions have already been taken after the issue was found. Kaplan et al. (2008) noted that auditors' judgments could be influenced by the management if the information provided serves management's self-interest, if not that information will be viewed with less suspicion. James (2003) has investigated bank lending officers' perceptions regarding the influence of

reporting structure on internal auditors' abilities in avoiding the financial statements fraud. He states that the reports raised to the senior management seem as having less ability to prevent fraudulent reporting in comparison with those directly reported to the audit committee. The management support with resources and commitment to implement the internal audit recommendations is essential in attaining audit effectiveness. Also, the organizational setting in which internal audit operates, i.e. the organizational status of the office, its internal organization and the policies and procedures applying to each auditee, should enable smooth audits that lead to reaching useful audit findings. Further, the capability, attitudes and level of cooperation of the auditee impact on the effectiveness of audits.

The management support is almost crucial to the operation and internal audit; because all other determinants of internal audit effectiveness derive from the support of top management, given that hiring proficient internal audit staff, developing career channels for internal audit staff, and providing organizational independence for internal audit work are the results of decisions made by top management (Cohen & Sayag, 2010).

This means it is interest of management to maintain a strong internal audit department (Mihret and Yismaw, 2007). Which is the component of management support (Mihret and Yismaw, 2007) the management of an organization is viewed as the customer receiving IA services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to IA effectiveness. Therefore, audit finding and recommendations would not serve much purposely unless management is committed to implement them. Furthermore Belay, (2007) find that to curb corruption and inefficiency in the public sector of Ethiopia, it is mandatory to have effective internal audit function(IAF) that in turn needs appropriate governance structure, mobilizing sufficient and appropriate resource and competent personnel. Internal audit effectiveness according to the literature is the outcome of the support given by the top management. As it is analyzed above, Mihret and Yismaw (2007) argued that there is a positive relationship between top management support and internal audit effectiveness. In line with the above study, management support is also considered as the main determinant of internal audit effectiveness according to Cohen and Sayag (2010).

Similarly, Alzeban and Gwilliam (2014) indicated that management support is positively and significantly associated with internal audit effectiveness and is also positively associated with all the other variables affecting internal audit effectiveness.

2.3 Organizational Independence

Accounting and auditing are an integral part of the structure of organizations and thorough understanding of organizational characteristics and role of economic actors within entities is essential in developing the theoretical and practical aspects of these fields. The discipline of economics has come to play an increasingly influential role in the way decision-makers in public and private organizations define and resolve issues. Economists have still to reach a consensus on the nature of business organizations. While many continue to regard the firm as a distinct institution, usually ascribing to it some superior control, technology or information, others consider the notion as merely descriptive, consisting of the ordinary contractual relationships without having any unique governance advantages in the market (Bahram Soltani, 2007). As with any contemporary economic process, the relationship between the auditors and the organization involves consideration of the organization's external environment, which is why auditors need to supplement examination of the internal functioning of the company with the study of market factors. This helps in the analysis of how environmental factors influence the organizational structure, the development of goals and objectives, the formation of expectations and the execution of choices.

It is stated by Mihret et al., 2010, "Organizational setting includes the status of internal audit in the organizational structure; the probity of internal audit office's internal organization; budgetary status of the internal audit office; and the existence of sound established criteria to evaluate auditees' practices. In order to make internal auditing effective, there should exist clear policies and procedures against which organizational practices are to be gauged." the independence internal auditor's organizational status and position is also critical which is related to management perception. This is because it enables them to exercise their tasks independently and act objectively. For these reason, organizational independence is more crucial to the effectiveness of the internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work (Cohen, 2010).

The Audit Committee of the Board of Directors provides one very significant aspect of corporate governance. An Audit Committee can be very effective not only in providing objective oversight of the accounting of an organization, but also in helping to set an ethical “tone at the top” (Locatelli, 2002). An audit committee in organization improves the independence internal audit of organization. (Deborah, 2004)

The internal audit function of an organization should be given a sufficiently high status in the organizational structure to enable better communication with senior management and to ensure independence of internal audit from the auditees. Independence is of paramount value in providing effective internal audit service to the management, for it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited.

2.3.1 Size of Internal Audit Department

Any function in an organization has to be equipped with sufficient resources if it is to discharge its responsibilities appropriately and suitably. Accordingly, sufficient number of internal auditor is important for the effectiveness of its contribution which is essential to improve performance of companies. Many researchers support this statement. Lipton and Lorsch (1992) suggested the suitable number of staff is important. Also, Firsteberg and Malkiel (1994) claimed that a right size of internal audit staff encourages greater concentration, participation and authentic interactions and discussion. Consistent with the above, Shaver (2005) argued that larger size are often characterized by responsibility diffusion, which leads to social loafing, it encourages group fractionalization and minimizes group commitment to modifying strategy. Consequently, large size of IA staff has many benefits for internal operations of IA unit. For instant, larger sized functional units, there will be more opportunity and flexibility to have a staff rotation schedule that can also influence IA effectiveness by promoting a more healthy relationship and resulting in more objective audit investigations. Furthermore, Zain et al. (2006) argue that a larger size internal audit is likely to be better resourced, including having a broader work scope, higher organizational status and wider staff talent than a smaller unit.

From the perspective of resource dependence theory, it postulates that larger size would result in superior corporate performance owing to the various skills, knowledge, and expertise contributed into the boardroom debate. In addition, large size could also offer the diversity that would assist companies to obtain critical resources and minimize environmental risks (Goodstein, Gautam & Boeker, 1994).

2.3.2 Independence of Internal Auditor

Controls within a company encourage efficient and effective use of its resources to optimize the company's goals. When the auditor is also responsible for identifying material weakness in internal control over financial reporting, the auditor is also responsible for identifying material weakness in internal control over financial reporting (Arens, Elder and Beasley, 2012).

Schneider (2014) found that internal auditor's role in achieving objectivity in the organization is largely affected by their economic status and that lack of clear reward system and when rewards were not given to internal auditors, the internal audit operations could be influenced by management and this would affect their reports and may result in unreliable reports to the organization.

The concept of independence is fundamental. Internal auditing cannot survive if it is not objective. All definitions of internal audit feature an element of independence, although its extent, and how it is achieved, is a topic in its own right. The audit function must have sufficient status and be able to stand back from the operation under review for it to be of use. If this is not achieved, then this forms a fundamental flaw in the audit service and some internal audit functions may not be able to subscribe to the standards.

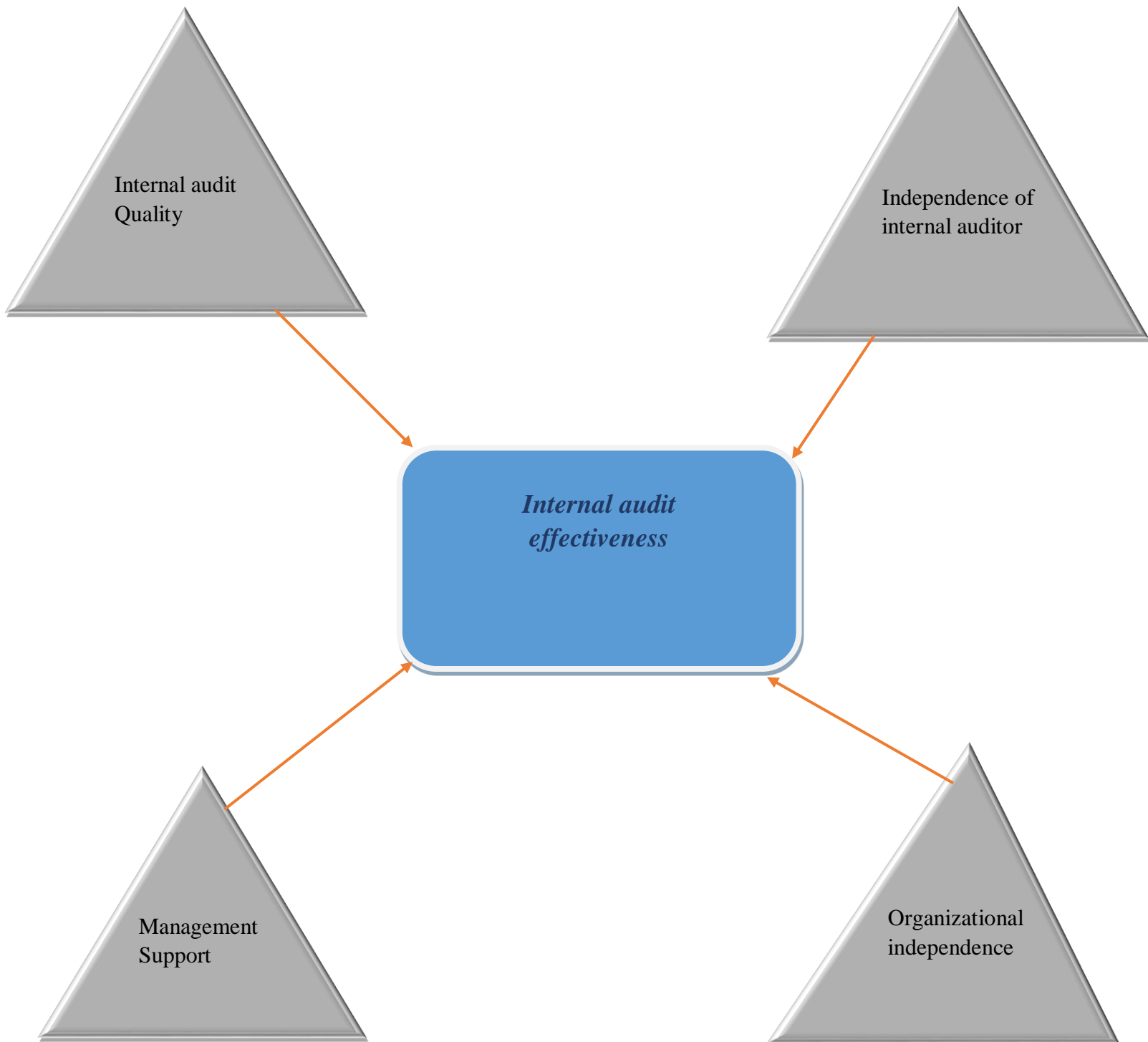
Being independent is the freedom from the control and direct influence of line management this definition is an important to the extent of audit work and enhances internal audits objectivity and integrity. Internal auditors should be independent from the activity they are auditing. Independence allows internal auditors to perform the impartial and unbiased judgments to the proper conduct of audit and achieved through organizational status and objective (Simon, 1995).

Independence of internal audit is considered by Zhang et al. (2007) as a determinant of internal audit effectiveness. Cohen and Sayag (2010) also argue that organizational independence of internal audit affects internal audit effectiveness.

Auditor independence has long been considered as the key driver of the audit function. Without independence, internal audit simply becomes a part of the management team, losing its ability to offer a fresh perspective Abu-Azza (2012), Cohen (2010), Haimon (1998) and (Mihretet et al., (2007) found that internal auditor independence positively related to perceived internal audit effectiveness.

Conceptual framework

Based on the above discussion at literature review section, the following conceptual framework was adopted by Mihret et al., (2007) and modified by researcher.



CHAPTER THREE

3 RESEARCH DESIGN AND METHODOLOGY

This section of the research was explain the research data and data source method, methods of sampling, methods of data collection and methods of analysis.

3.1. Research Design

This study employs on a descriptive case study design because the objective of the research is to assess the state of view, as it exists at present, i.e. to describe the assessment of internal audit effectiveness in Ethiopian shipping and logistics service enterprise. I were followed both qualitative and quantitative approach i.e. mixed approach about the factors influencing internal audit effectiveness.

3.2. Sources of Data and Instrument of Data Collection

The study is included both primary and secondary data. The primary data were collected through questionnaire to those employee under each departments. The questionnaires were adopted and modified from the prior authors and literature review (Mihret et al, 2007; Cohen et al, 2010; Arena et al, 2009), it also used interview with the department and division managers of Ethiopian shipping and logistics service enterprise. On the other hand, secondary data sources that include journal and brochure of the company and different website sources related to the research area were used for the study. In order to achieve the research objectives, the researcher were used two main tools of data collection: Questionnaire and Interview. The questionnaires was prepared in the form of five item Likert-Scale type, where the lowest scale represent strongly disagree and the highest scale represent strongly agree. The interview was made with the officials/department heads, supervisors, and managers of the company. The type of interview was structured and semi-structured type.

3.3. Population of the Study

The study population included respondent from Audit which is 20, general accounts which direct related are a total number of 5, from the operation 7, property administration and finance departments are 13 respondents of the company with a total of 45 in number. In this regard, since the population of the study is small in number and not difficult to manage, the researchers used all samples out of the total population.

3.4. Sample of the study and Sampling Techniques

Of the total population of the study the researcher is used all sample of respondents. Thus, total population of 45 respondents of employee is used and from this five members of the management was used for interview purpose from each department managers while the remaining were used to collect data through questionnaire.

3.5. Data Analysis Methods

The data analysis was done using SPSS software version 20 (statistical package for the social science). From the data collects' via close-ended questions are analyze quantitatively by using mean and standard deviation and interpreted using percentage by descriptive analysis. The data that was collected via open-ended question and interviews was analyzed qualitatively through narration.

CHAPTER FOUR

4. RESULTS AND DISCUSSIONS

4.1. Introduction

This chapter deals with presentation, analysis and interpretation of the data obtained through survey questionnaire and secondary source of data. To collect primary data 45 questionnaires were distributed. From the total number of respondents 40 respondents feel the questionnaire which were resulted to arrive the assessment of internal audit effectiveness in Ethiopian shipping and logistics service enterprise. The result of the responsiveness of the respondents is calculated as the number of returned questionnaires divided by the total sample who sent the survey initially Mitchell (1989). Applying this formula the result of the response rate was presented as 88 percent of respondents were returned the questionnaire filling properly. Therefore, the result obtained from the response rate implies the rate is a best representative of the sample size.

4.2. Descriptive Statistics on Demographic Variables

4.2.1. Response Rate

45 questionnaires were distributed to internal auditors, finance department and auditees of Ethiopian shipping and logistics service enterprise employees and from which 40 questionnaires were collected, giving the response rate of 88 %. This shows good response rate.

4.2.2. Respondents Profile

Demographic characteristics of the respondents regarding gender, age, educational level, and work experience in the company, field of study of the participants are presented on the below table Table 1.

Table 1 Respondents general Profile

Demographic Questions		Response	
		Frequency	Percentage
Gender	Male	30	75
	Female	10	25
	Total	40	100
Age	20 – 29	4	10
	30 – 39	12	30
	40-49	14	35
	50-59	10	25
	Total	40	100
Educational level	Diploma	2	5
	Degree	24	60
	Master's degree	12	30
	Other	2	5
	Total	40	100
Field of study	Accounting	24	60
	Management	8	20
	Economics	4	10
	Other	4	10
	Total	40	100
Experience	<2 years	2	5
	>2 years	2	5
	< 5 years	14	35
	>10 years	12	30
	above 20 years	10	25
	Total	40	100

According to the result, the study respondents were 75% males and 25% females, indicating dominance of males in ESLSE. Concerning the age of the participants, the highest percentage is between 40 and 49 years old (35%) and the rest falls in the age interval of 20–29 (10%), between 30 and 39 years old (30%) and between 50 and 59 (25%) .Regarding

educational level 60% have first degree and 30% have a master's degree and 5% have only diploma and others also have 5%. Respondents have remarkable work experience in view of the fact that 5 % have less than 2 years and 5% have more than 2 years and 35% have more than 5 years and 30% have more than 10 years and above 20 years have 25% work experience in the company; this indicated that most of the respondents have enough knowledge about the overall activities of ESLSE and it also shows that the experienced internal auditors of the enterprise which in opportunity added recognized value for this study. Finally in the case of field of study the respondents were composed of Accounting (60%), Management (20%), Economics (10%) and other fields of 10%. Here, the majority of internal audit team have studied Accounting and Management fields. This implies that the majority of the internal auditors can perform internal auditing without any gap on the subject area.

4.3 Descriptive Statistics on the assessment of internal audit effectiveness

Section two of the questionnaire was divided into four parts .Each part related to one of the four components (internal audit effectiveness, quality of audit work, independence of internal auditor and management support), which form parts of the model. Each parts of the questionnaire are composed of statements relating to activities connected to the relevant component. The respondents were asked to evaluate each statement on scale 1 to 5, the value 5 being "Strongly Agree" and 1 being " strongly Disagree". The result provides information on the level of internal audit effectiveness and quality of audit work, independence of internal audit team and management support in ESLSE based on internal auditor's perceptions and employees of ESLSE.

4.3.1 Internal Audit Effectiveness

Table 2 Internal Audit Effectiveness

Internal Audit Effectiveness	N	Mean		Std. Deviation
		Statistic	Std.error	
The internal audit improves the organization operations.	40	3.7	.20647	.92338
The internal audit creates added values to the organization	40	3.6	.27530	1.23117
The Internal audit helps the organization accomplish its objectives	40	3.8	.17168	.76777
Internal auditing provides information on problems in the activity or control systems in the organization	40	3.95	.19835	.88704
The work and activities of internal audit meets the expectations	40	3.2	.17168	.76777
The findings of internal audits are very significant for the organization.	40	3.8	.2000	.89443
Internal audit ensures the economical, effective and efficient use of organization resource	40	3.5	.19868	.88852
Total Item Mean		3.65		

Source: Questionnaires and SPSS output (2019)

The above seven items were asked to measure the effectiveness of internal audit in ESLSE. The five items Likert scale was utilized. In the five items Likert scale the overall average mean score resides between 1 and 5. As shown in the above table the overall average mean score for internal audit effectiveness in ESLSE is 3.65 which is above the mid-point i.e. 2.5, Therefore, it indicate that internal audit effectiveness in Ethiopian shipping and logistics service enterprise is good and it shows the internal audit effectiveness of the organization is at a good hand and implemented according to the manual of the enterprise.

The result in table two also indicate that 50% of the respondent agrees on the findings of internal audits are very significant for the organization and 10% of the respondent disagrees and Internal auditing provides information for the problem of internal control system indicate that 65% agree and 10% neutral the rest falls in between strongly disagree and

strongly agree and 55% agree and 15% disagree on the statements which that internal audit improves the organization operations. The standard deviation shows that how the values are far from the mean and in the above table it is shown that the standard deviation of all the variables are small, which indicate the values in the data set are closer to the mean. Based on this result it indicate that internal audit provides information on problems for control systems and the overall operation of the enterprise.

The result implies that internal audit function in Ethiopian shipping and logistics service enterprise ensures to add value to the business, no compliant or doubts come from auditee on internal audit report, it does ensures the economic, efficiency and effective use of resources in the company. Besides this finding also implies that internal audit report in the company is highly needed for decision making by higher management. Generally internal audit division of ESLSE is helps to improve organizational and divisional performance. This result may come from the combination of different factors. This is because the internal audit plays an important role in the organization process, and therefore it is not only required to perform ordinary assurance activities, but also to serve as a strategic partner of the organization and add value to its activities towards improving organizational process and ensuring their effectiveness and efficiency and quite similar were the findings of Al-Twajiry et al., (2003) and Mihret et al., (2007) who argue that internal audit effectiveness is one of the most important factors in their research.

4.3.2 Independence of Internal Auditor

Table 3 Independence of internal audit team

Independence of internal audit team	N	Mean		Std.
		Statistic	Std. error	Deviation
Internal audit is free from intervention in performing its duties	40	3.7	.17918	.80131
Internal auditors feel free to include any audit findings in their audit reports.	40	3.65	.16662	.74516
Internal Auditor has free and unrestricted access to all operations, personnel, assets and transaction records.	40	3.65	.18173	.81273
Internal auditors are proactive.	40	3.3	.20647	.92338

Internal auditors has adequate education	40	3.65	.18173	.81273
The professional qualifications and training of internal audit employees are high	40	3.6	.18353	.82078
Internal audit staff are not requested to perform non-audit functions	40	3.7	.19331	.86450
The head of internal audit department has direct contact to the board and CEO	40	3.1	.20391	.91191
Total Item Mean		3.54		

Source: Questionnaires and SPSS output (2019)

The table given above describes Independence of internal auditor section. Being Independent is the freedom from the control and direct influence of line and upper managements. As show in the above table ESLSE internal audit staffs are free to decide the scope, time and extent of auditing procedures based on auditing standards and the organization policy, The overall average mean value of organizational independence of internal audit section in ESLSE is 3.5, which is above the mid value of five scale Likert scale question. Therefore, we can say that the internal audit section in ESLSE is independent.

The descriptive statistic result of independence of internal auditor on performing its duties without intervention indicates that 50% of the respondent agrees, 35% neutral and 15% strongly agree. The result also indicate that 55% of the respondent agrees on feel free to include any audit findings and 25% are neutral. Also related to free and unrestricted access of internal auditors 55% of the respondent agree and 25% neutral.

The result on the activities perform by staff not related with audit functions 40% of the respondent are neutral, 35% agree and 20% strongly agree. As per the literature review, Mahzan et al., (2012) stated that internal auditors can effectively perform their roles if they act independently and not as a managerial tool and management is more likely to comply with internal auditors recommendations if there is authority. the internal audit function of an organization should be given a sufficiently high status in the organizational structure to enable better communication with senior management and to ensure independence of internal audit from the auditees. Independence is of paramount value in providing effective internal audit service to the management.

Based on this, the average mean score value is above the mid- point i.e. 3.54 therefore, the result shows independence of internal auditor in Ethiopian shipping and logistics service enterprise is good and based on this we can say that internal audit section is independent.

4.3.4 Management Support

Table 4 management support

Management support	N	Mean		Std.
		Statistic	Std. error	Deviation
Senior management supports internal audit to perform its duties and responsibilities.	40	3.95	.18460	.82558
Internal audit evaluates and improves the effectiveness of risk management.	40	3.85	.18173	.81273
The management uses the recommendations, criticisms and information provided by internal auditor for decision making	40	3.65	.15000	.67082
Internal auditing practices are considered as a value adding activity regularly with the management.	40	3.65	.16662	.74516
Management takes timely corrective action based on internal audit recommendations	40	3.2	.15560	.69585
The response to internal audit reports by the senior management is reasonable.	40	3.65	.16662	.74516
Management supports IA by providing training in order to improve their skill and update with the field.	40	3.5	.13572	.60698
All auditing functions that were approved in the auditing plans are performed completely.	40	3.5	.17014	.76089
Total Item Mean		3.61		

Source: Questionnaires and SPSS output (2019)

One of the independent variable used in this study is management support for internal audit work. The result in table four indicate that 45% of the respondent agrees that senior management supports internal audit to perform its duties and 30% neutral. The result also indicate that 70% of the respondent agrees that the management uses the recommendations, criticisms and information provided by internal auditor and 20% are neutral. The result also indicate that 50% of the respondent undecided with the management takes timely corrective action based on internal audit recommendations and 35% are agrees.

The result also indicate that 50% of the respondent agrees that all auditing functions that were approved in the auditing plans are performed completely and 35% neutral. Based on this, the average mean score is above mid-point i.e. 3.61, this result indicate the management of Ethiopian shipping and logistics service enterprise is good but it need different activities by senior management through showing the road map of the organization, giving full access to audit function, facilitating training to internal auditors and changing the work environment behavior among employees. As per the literature review, the result were consistent with the previous auditing research works of Mihret and Yismaw (2007) they also found and reported that the top management support was the determinant factor for the effectiveness of internal audit and the senior management's response influences the internal audit effectiveness. As shown on the above table, in ESLSE internal audit service is seen as a key strategic partner throughout the organization. The overall average mean value of ESLSE management support for internal audit work is 3.61, therefore, we can say that the support given by ESLSE management to internal audit work is good.

4.3.5 Internal Audit Quality

Table 5 quality of work audit

Quality of work audit	N	Mean		Std.
		Statistic	Std. error	Deviation
Internal audit's work was efficiently performed.	40	3.55	.13524	.60481
Internal audit's findings are correctly justified	40	3.65	.16662	.74516
Internal audit's recommendations can be easily implemented.	40	3.2	.2000	.89443
The work of internal audit is performed with modern technology that uses computerized data pools and specific internal audit software	40	2.7	.21885	.97872
The established internal audit's objectives of the organization were accomplished by the end of the fiscal year.	40	3.3	.19331	.86450
Internal audit is aware of and sensitive to the organization's needs and operates accordingly.	40	3.7	.17918	.80131
There is regular follow-up by the internal audit staff to examine action taken to correct the problems found.	40	2.8	.17168	.76777
Total Item Mean		3.27		

Source: Questionnaires and SPSS output (2019)

To measure audit quality in ESLSE eight questionnaires with a five point likert scale were distributed. In the five items likert scale the overall average mean score resides between 1 and 5 and the average mean score is 3.27 Thus overall average mean score were used to make descriptive analysis. In Ethiopian shipping and logistics service enterprise the overall mean score of Audit Quality is 3.27 which are good; from this we can infer that the quality of internal audit is good. As we can see in the above table Audit quality in terms of

conducting audit work efficiently, independence and in decision making regarding annual audit plan were found good. Even though the management of Ethiopian shipping and logistics service enterprise are expected to work more to make audit quality excellent.

Frequency percentage and means of quality of work audit also depicts in table five. It indicate that 60% of the respondent agrees on the internal audit work was efficiently performed and 35% neutral. The result also indicate that 50% of the respondent agrees that internal audits recommendations can be easily implemented and 35% are neutral. The result also indicate that 40% agrees that internal auditor is aware of and sensitive to the organizations head and operates according to audit manual of the organization and 35% are neutral. The result also indicate that 40% agrees that there is regular follow-up by the internal audit staff to examine action taken to correct the problem found and 40% are undecided. Based on this, the average mean score is above the mid-point i.e. 3.27, this result also indicate that the quality of work audit in Ethiopian shipping and logistics service enterprise is good but it need more than good in this days business environments compared to other firms, more to enhance internal audit managers in the company conduct proper follow up and supervision on internal auditors activity.

CHAPTER FIVE

5. SUMMERY, CONCLUSION AND RECOMMENDATION

5.1. Summary of Finding

Based on the data analysis, interpretation and discussion undertaken in the previous chapters there for the study used questionnaires for internal auditors and interviews for managements regarding internal audit policy, practice and performances. It also used document reviews as a source of secondary data. The responses obtained from survey of internal audit department and managements were tabulated and interpreted by using spss software through descriptive, the following major findings were noted:

From descriptive statistical analysis of respondents' demographic profile, majority of respondents have remarkable work experience and have studied Accounting and Management fields but internal auditors have no certified professional certification on internal or external auditor. This implies that there is a little gap on knowledge and skill of internal auditors that fit the current changing environment.

Descriptive statistical analysis result indicated that internal audit quality is nearly good in Ethiopian shipping and logistics service enterprise. This implies that internal audit division of the company meets its *raison d'être*" and internal audit provides valuable finding and recommendation for management, there is proper planning and field work monitoring and controlling and effective communication with auditee and higher management.

The Internal Audit effectiveness of the organization is good, when there were the existence of quality of audit work effectively and efficiently, competency of internal auditors, more supports from the management, have independence of internal auditor with full access of information combined with the availability of approved internal audit charters it will be excellent.

Most of the employees have more than 5 years of experience in the company; this shows that they have enough knowledge on the overall operation of the enterprise. Hence, they can identify risk areas without any difficulties.

The objectives of the internal audit is to provide the board and the management the required assistance to effectively examine and evaluate whether the frame work of the risk

management control and governance process of Ethiopian shipping and logistics service enterprise are functioning properly and to recommend necessary adjustments to improve them and the result indicate the internal audit of the organization support effectively to achieve its objective and the overall operation of internal audit are good.

5.2. Conclusion

This paper analyzed the assessment of internal audit effectiveness in Ethiopian shipping and logistics service enterprise. Specifically the study assess and investigate on the relationship of independence of internal auditor, the effectiveness of internal audit, quality of work audit and management support with internal audit effectiveness. From the research that has been carried out, it is possible to conclude that internal audit effectiveness in Ethiopian shipping and logistics service enterprise is good and quality of audit work in this company found at nearly good level. Internal auditors have good skill, knowledge and other competencies and management support for internal audit also found good.

The role that internal audits plays in Ethiopian shipping and logistics service enterprise points out that internal audit has an advantage over external audit in obtaining information quickly and finding solutions at earlier stage.

Organizations with effective and efficient internal audit function are able to detect errors more than those that have not such a function within their organizations. Internal audit role is not only to perform ordinary assurance activities it also serves as a strategic partner of the organization and added value to its activities towards improving organizational processes and ensuring their effectiveness and efficiency. When internal auditors deliver valuable findings and recommendation for the management, when there is proper planning and field work monitoring and controlling and effective communication with auditee and higher management, internal audit effectiveness will be augmented.

Moreover, when there are internal auditors who possess knowledge, skill and other competencies needed to perform their responsibility, internal audit effectiveness will be ideal. Independence of internal audit and management support have significant contribution for internal audit effectiveness.

5.3. Recommendations

Based on the research findings the researcher provides the following recommendations to the organizations of top management and audit department and future researchers:

- Internal audit quality is under the control of internal auditors Thus; all internal auditors should try their best to make effective and efficient internal audit investigation and to deliver valuable internal audit report and the audit department of the organizations has to work hard in performing their own task. So that they can improve on their planning, in providing reliable report in organized manner.
- The finding of this research proved that independence of internal auditor has significant and positively related with the internal audit effectiveness; Ethiopian shipping and logistics service enterprise should emphasize on that predictor. Independence of internal auditor has its own impact on internal audit effectiveness and it is better to consider it.
- The commitment of the management should be improved, develop high standard of integrity and establish good behavior among internal auditors as it is evaluated and need to be above good and the effectiveness of internal audit adds value to each auditees and organization.
- Ethiopian shipping and logistics service enterprise should work more to improve the proficiency of the auditor. At the same time they have to use the recommendation and criticism of the auditor in the decision making process.
- Since Audit quality is found as the main determinant of performance of the audit activity, Ethiopian shipping and logistics service enterprise should support the auditor by facilitating training and educational program that help the internal auditors. Finally future study could be undertaken to explore the perception of other parties such as external auditors on the internal audit's effectiveness.

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Appendix A: Questionnaires

Saint Mary's University

School of Graduate Studies

Department of Accounting and Finance (MBA)

Dear Participant:

The objective of this questionnaire is to collect information that will help to assess factors affecting Internal Audit effectiveness in Ethiopian shipping and logistics service enterprise. This study is conducted for the partial fulfillment of Master's Degree in accounting and finance. The results of the study are expected to contribute to identify factors of internal audit effectiveness. I would also like to assure you that the information you provided will be treated as strictly Confidential and used only for the purpose of this research, which is merely for educational Purpose. Therefore, I kindly requested you to respond the questions with freely and to the best of your knowledge. Please, do not write your name on the questionnaire. Thank you in advance for your support and participation.

With best regards

Part A personal profile

General Instruction: Please indicate your choice by putting “√” mark in the bracket.

1 Sex/Gender/:

1 A) Male (____) B) Female (____)

2 Age (in year):

A) 20 to 29 (____), B) 30 to 39 (____), C) 40 to 49 (____), D) 50 to 59 (____), E) Above 60 (____)

3 Your field of study:

A) Accounting (____), B) Management (____), C) Economics (____), Other (specify)

4 Level of education:

A) Diploma (____), B) Bachelor's Degree (____), C) Master's Degree (____) D) Others specify or CIA _____

5 Year of experience

A) Two years and less () B) above two years () C) less than five years (), D) Above five years less than ten years (), E) above ten years ()

PART B. QUESTIONNAIRE ITEMS

Instruction: Below are lists of statements pertaining to internal audit in your organization. Please tick (√) the appropriate scale that indicates your opinion in table below. The values of scales are 1= strongly disagree 2= Disagree 3= Undecided 4= Agree 5= strongly agree	1	2	3	4	5
A)The effectiveness of internal audit					
1. The internal audit improves the organization operations.					
2. The internal audit creates added values to the organization.					
3. The Internal audit helps the organization accomplish its objectives					
4. Internal auditing provides information on problems in the activity or control systems in the organization					
5. The work and activities of internal audit meets the expectations.					
6. The findings of internal audits are very significant for the organization.					
7. Internal audit ensures the economical, effective and efficient use of organization resource.					
B) Independence of Internal Audit Team					
8. Internal audit is free from intervention in performing its duties.					
9. Internal auditors feel free to include any audit findings in their audit reports.					
10. Internal Auditor has free and unrestricted access to all operations, personnel, assets and transaction records.					

11. Internal auditors are proactive.					
12. Internal auditors has adequate education.					
13. The professional qualifications and training of internal audit employees are high.					
14. Internal audit staff are not requested to perform non-audit functions.					
15. The head of internal audit has direct contact to the board and CEO.					
C. MANAGEMENT SUPPORT					
16. Senior management supports internal audit to perform its duties and responsibilities.					
17. Internal audit evaluates and improves the effectiveness of risk management.					
18. The management uses the recommendations, criticisms and information provided by internal auditor for decision making.					
19. Internal auditing practices are considered as a value adding activity regularly with the management.					
20. Management takes timely corrective action based on internal audit recommendations.					
21. The response to internal audit reports by the senior management is reasonable.					
22. Management supports IA by providing training in order to improve their skill and update with the field.					
23. All auditing functions that were approved in the auditing plans are performed completely.					
D) QUALITY OF WORK AUDIT					
24. Internal audit's work was efficiently performed.					
25. Internal audit's findings are correctly justified.					

26. Internal audit's recommendations can be easily implemented.					
27. The work of internal audit is performed with modern technology that uses computerized data pools and specific internal audit software.					
28. The established internal audit's objectives of the organization were accomplished by the end of the fiscal year.					
29. Internal audit is aware of and sensitive to the organization's needs and operates according to audit manual of the organization.					
30. There is regular follow-up by the internal audit staff to examine action taken to correct the problems found.					

Statistics results for items asked on internal audit effectiveness

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	6	15.0	15.0	15.0
Undecided	6	15.0	15.0	30.0
Valid Agree	22	55.0	55.0	85.0
strongly agree	6	15.0	15.0	100.0
Total	40	100.0	100.0	

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	2	5.0	5.0	5.0
Undecided	4	10.0	10.0	15.0
Valid Agree	26	65.0	65.0	80.0
strongly agree	8	20.0	20.0	100.0
Total	40	100.0	100.0	

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	4	10.0	10.0	10.0
Undecided	8	20.0	20.0	30.0
Valid Agree	20	50.0	50.0	80.0
strongly agree	8	20.0	20.0	100.0
Total	40	100.0	100.0	

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	2	5.0	5.0	5.0
Undecided	16	40.0	40.0	45.0
Valid Agree	14	35.0	35.0	80.0
strongly agree	8	20.0	20.0	100.0
Total	40	100.0	100.0	

Source: Questionnaires and SPSS output (2019)

Statistics results for items asked on independence of internal audit team

	Frequency	Percent	Valid Percent	Cumulative Percent
Undecided	14	35.0	35.0	35.0
Valid agree	20	50.0	50.0	85.0
strongly agree	6	15.0	15.0	100.0
Total	40	100.0	100.0	

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	2	10.0	10.0	10.0
undecided	5	25.0	25.0	35.0
Valid agree	11	55.0	55.0	90.0
strongly agree	2	10.0	10.0	100.0
Total	20	100.0	100.0	

Source: Questionnaires and SPSS output (2019)

Statistics results for items asked on management support

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	2	5.0	5.0	5.0
undecided	12	30.0	30.0	35.0
Valid agree	18	45.0	45.0	80.0
strongly agree	8	20.0	20.0	100.0
Total	40	100.0	100.0	

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	4	10.0	10.0	10.0
undecided	8	20.0	20.0	30.0
Valid agree	28	70.0	70.0	100.0
Total	40	100.0	100.0	

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	6	15.0	15.0	15.0
undecided	20	50.0	50.0	65.0
Valid agree	14	35.0	35.0	100.0
Total	40	100.0	100.0	

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	2	5.0	5.0	5.0
undecided	14	35.0	35.0	40.0
Valid agree	20	50.0	50.0	90.0
strongly agree	4	10.0	10.0	100.0
Total	40	100.0	100.0	

Statistics results for items asked on quality of work audit

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid disagree	2	5.0	5.0	5.0
Valid undecided	14	35.0	35.0	40.0
Valid agree	24	60.0	60.0	100.0
Total	40	100.0	100.0	

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	2	5.0	5.0	5.0
Valid disagree	4	10.0	10.0	15.0
Valid undecided	14	35.0	35.0	50.0
Valid agree	20	50.0	50.0	100.0
Total	40	100.0	100.0	

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid disagree	8	20.0	20.0	20.0
Valid undecided	14	35.0	35.0	55.0
Valid agree	16	40.0	40.0	95.0
Valid strongly agree	2	5.0	5.0	100.0
Total	40	100.0	100.0	

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid disagree	6	15.0	20.0	20.0
Valid undecided	16	40.0	40.0	55.0
Valid agree	16	40.0	40.0	95.0
Valid strongly agree	2	5.0	5.0	100.0
Total	40	100.0	100.0	

Source: Questionnaires and SPSS output (2019)

Saint Mary's University
School of graduate studies
MBA in Accounting and Finance

Interview for ESLSE Managers

The objective of this interview is to get information that will help to assessment of internal audit effectiveness in Ethiopian shipping and logistics service enterprise. This study is to conduct for the partial fulfillment of Master's Degree in accounting and finance. I would like to assure you that the information you provided will be treated as strictly confidential and used only for the purpose of this study, which is merely for educational purpose. Thank you in advance for your support and participation.

1. Do you believe that the internal audit policy of the enterprise are implemented to achieve the organizational objective?
2. In your opinion internal auditors have unrestricted access to all records and data of the enterprise to perform the annual audit works and are they independence?
3. Does the organization establish standard of integrity and behavior among employees if so, does it apply according to audit manual of the organization?
4. How do audit quality influence audit effectiveness in Ethiopian shipping and logistics service enterprise?
5. Does the enterprise offer training and different skills related to audit function to employee?

Thank you for your participation.