



ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

ASSESSING DETERMINANTS OF VALUE-ADDING ROLE OF INTERNAL AUDIT EFFECTIVENESS: IN THE CASE OF ETHIOPIAN SHIPPING & LOGISTIC SERVICE ENTERPRISE (ESLSE)

BY: MILLION MENGESHA TADESSE

**February 2023
ADDIS ABABA, ETHIOPIA**

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INTERNAL AUDIT EFFECTIVENESS: IN THE CASE OF
ETHIOPIAN SHIPPING & LOGISTIC SERVICE ENTERPRISE
(ESLSE)**

**A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTERS IN ACCOUNTING AND
FINANCE**

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DECLARATION

I, the undersigned, declare that this thesis is my research work, prepared under the guidance of Ato Asmamaw Getie (Asst. Professor). All sources of materials used for the thesis have been suitably acknowledged.

I confirm that the thesis on “assessing the value-adding role of internal audit: in the case of Ethiopian shipping & logistic service enterprise (ESLSE)” has not been submitted to any other higher learning institution to earn any degree.

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St. Mary's University, Addis Ababa

February 2023

ADVISOR'S ENDORSEMENT

The thesis has been submitted for examination to ST. Mary University School of Graduate Studies with my approval as a university advisor.

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February 2023

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Abbreviations and Acronyms

CIA	Certified Internal Auditors
ESLSE	Ethiopian Shipping and Logistics Service Enterprise
IAD	Internal Audit Department
IAE	Internal Audit Effectiveness
IIA	Institute of Internal Auditors
PPF	Professional Practices Framework
SPPIA	Standards for the Professional Practice of Internal Auditors

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ABSTRACT

The main objective of this study was to assessing determinants of value-adding role of internal audit effectiveness in the context of Ethiopian shipping & logistic enterprise. The study employed a descriptive research design to address the research objectives. Primary data were collected using questionnaire, while secondary data was gathered from organizational policy documents, internal audit manuals and reports. Given the nature of the data, both quantitative and qualitative data were used. For the quantitative data, frequencies, means, and standard deviations were applied, while in-depth discussions and expositions were used for the qualitative data. The study's findings suggested that the internal audit function adds value to the enterprise by enabling it to achieve its organizational goals. This role is facilitated by the presence of management support, communication, independence, and objectivity of internal auditors, adequate and competent internal audit staff, and the quality of the audit. In this manner, it was recommended that the BOD and management of the enterprise give undue attention to the Internal Audit Department, taking note of its importance in adding value to the enterprise and achieving its organizational goals efficiently and effectively.

Key words: *Internal audit, value-adding role*

CHAPTER ONE: INTRODUCTION

1.1. Background of the study

The Institute of Internal Auditors standards currently state that internal audit functions should be managed in order to ensure they add value to the organization. It is stated that “internal audit adds value when it delivers objective and relevant assurance” and also when it “contributes to the effectiveness and efficiency of governance, risk management and control processes (James C. Paterson, 2015). Internal audit develops with the rapid development of the economy. The traditional internal audit is generally positioned to serve the management, which determines the audit function. Audit content and audit scope are minimal. With the continuous strengthening of corporate governance by modern enterprises, the goal of internal audit is gradually becoming consistent with that of corporate governance: to increase the organisation's value. As a result, the internal audit function, audit content, and audit scope change as needed, and value-added internal audit emerges as needed. Internal auditing is crucial in improving the governance structure and internal control and can add value to enterprises (Bou-Raad, 2000). Value added is a concept at the heart of the internal audit profession. The ability to add value and support stakeholders forms the premise of internal audit activities (Christopher et al., 2009; Paynton & Hahn, n.d.; Sarens & De Beelde, 2006). However, the meaning of value added in internal auditing and whether the profession is perceived to be value-adding remains uncertain (Lenz et al., 2018).

The definition of the Institute of Internal Auditors (IIA, 2018) states the fundamental purpose, nature, and scope of internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. Its place in the International Professional Practices Framework is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission. To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. This mission statement definition signifies that internal audit has undergone a paradigm shift from an emphasis on

accountability about the past to improving future outcomes to help auditees operate more effectively and efficiently (Nagy & Cenker, 2002; Stern & Dietz, 1994).

There has been an intensified call for internal audit activity to add more value and contribute to the organisation's growth and achievement of corporate goals and objectives. Many organisations need a robust internal audit culture, whether required by regulatory and compliance requirements, corporate governance and board (or audit committee) demands, or other stakeholders such as senior management. Value-added internal audit is not a new type of audit. It is a new stage in the development of internal audit, a succession and expansion of the previous financial and management audit operations. Value-added internal audit represents a new audit concept and is a new direction of the development of internal audit. By closely combining strategic objectives, value-added internal audit provides consulting services and constructive audit suggestions for corporate governance and helps corporate governance to clarify strategic direction, further improve operational efficiency and prevent and control operational risks (Ma, 2021).

The function of the internal audit shifted from an old-style audit focus to a role that adds value in which strategic partnership with the management is now important. The dynamic shifting responsibilities of Internal audit function has led to the re-definition of internal auditing in 1999 to incorporate the new concept of value add, revision of the description was done in 2009 which defines Internal Audit as an autonomous, impartial consulting and assurance function activity intended to add value making a remarkable difference in the entire organization. The IAF assists the organization to attain its objectives by conveying a methodical, well-organized tactic to assess and enhance the efficacy of power, risk management and processes that involve controls” (IIA, 2009). The notion of adding value is explained as “...issuing imperative prospects that enable an organization to accomplish its objectives, ascertaining an improvement in operations and to decrease the exposure the organization by providing consulting and assurance services” (IIA, 2009).

The glossary of the IIA’s Standards dictates that a value adding internal auditing activity is one that; Provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes (IIA 2019), Added value is described in the standards accompanying glossary as: The internal audit activity adds value

to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes. The added value component returns in the definition of a consulting service, advisory and related client service activities, the nature and scope of which are agreed upon with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

Although added value seems a straight forward concept, the activities, the strategy pursued, and the level of risk faced by the organisation determine in which the internal audit functions operate determine in which way added value is the greatest. Accordingly, Internal audits perceive value-adding auditing as a “systematic, disciplined approach” that enhances risk management and the operations of organisations, as opposed to the traditional approach of merely verifying compliance with policies and procedures (Baah & Fogarty, 2016; Carcello et al., 2017; Coetzee & Lubbe, 2014; Odoyo et al., 2014). (Ege, 2015) cited in (Newman & Comfort 2018) supposes that IAs create value for an organisation by providing the Board of directors and management with practical advice (independent, objective assurance and consulting activity) to improve existing business procedures and operations, contribute towards business stability by mitigating risk and empowering business performance. Indeed, internal auditing entails improving an organisation by evaluating audit findings and prescribing means for advancement. As such, IAs add value to organisations by providing assurance and consultancy services with regard to the reliability of the data and operations of the organisation (Guner, 2008). Consequently, the notion of value-adding; should be uppermost in the minds of chief audit executives, and this feature should drive the entire audit process (Pickett, 2018). Therefore, the purpose study introduces the idea of value addition by various elements that are related to internal audit. There are important values that are key for successful internal audit, and this is why this study seeks to evaluate whether these factors significantly add value to internal audit activities.

1.2.Statements of the problem

Internal auditing is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and

business processes. Therefore, to strengthen the study of internal audit theory, promote the development of internal audit, strengthen the internal audit of the company, fully and effectively perform the role of internal audit, prevent risks, improve governance, and then add value to the organization, is not only an important subject in front of us but also has important practical significance. Based on this context and significance, this paper investigates value-added internal audits.

Prior research in internal audit suggests the value-adding function of IA assumes that IA is successful. The value-adding role of IA presumes that IA is effective. Nevertheless, the literature implies that IA effectiveness tends to be influenced by the contextual dynamics within which internal audit is practiced and that the extent of IA effectiveness may be related to country and organization-level dynamics that exist in an internal audit environment (Arena & Azzone, 2009; Mihret, D.G&Woldeyohannis, 2008).

The evolution of internal auditing activities also clearly emphasized that it is not enough for the internal auditor to perform pure assurance functions - in order to survive and be a part of the organization internal auditing must add value to the activities of the audited organization, however at the same time securing independence and objectivity (Onza et al., 2016). With the continuous development of corporate governance theory and practice, internal audit theory and practice have also undergone significant changes, showing a trend of value added (Lise Muriel Botha and Naomi Wilkinson, 2019). How to improve the value manufacturing ability of internal audit and serve for enterprise value increment is worth studying. A growing number of scholars have gradually begun to explore the value-added internal audit system at both the theoretical and practical levels.

A study has been carried out about the value-added role of internal audit in Ethiopia (Mihret &Woldeyohannis, 2008). The prior studies in this field give us a good point of view and a benchmark for all researchers, but there are period gap, policies and structural changes. One of the changes is the internal audit activities since the research is the change in the operations guideline in the year 2013 by the Institute of Internal Auditors. As the value-added role varies widely depending on the organization, context, and situation (Mihret &Woldeyohannis, 2008). Further study is needed to investigate the current situation. Moreover, the value-adding role of internal audit is a new stage in the development of internal audit that suggests

consulting services and constructive audit suggestions for corporate governance to help corporate governance clarify strategic direction, improve operational efficiency, and prevent and control operational risks. This calls for further study to understand the area better.

Hence, assessing the value-adding role of internal in originations is necessary. As organizations seek to benefit from internal audit activities, there is a need to determine the values that should be upheld as efforts are made to build an effective internal audit department. This study aims to identify the value-adding role of internal audit performance and extends prior research by refining the role of internal audit from an operational perspective. Therefore, the purpose of this paper is to provide a review and an assessment of the value-added role of internal audit in our country's and organizational contexts, and it may fill the gaps in the literature.

1.3. Research Questions

This study attempted to address the following research question

1. What do the management support activities look like?
2. How do independence and objectivity is maintained in the case organization?
3. What value does communication add to the internal audit processes in organizations?
4. How does the competence internal audit staff add value to the audit process?
5. What is the effect of internal audit quality on organizational value adding?

1.4. Objectives of the study

1.4.1. General objective

The study's general objective is to assess the value-adding role in internal of internal audit activity in ESLSE.

1.4.2. Specific objectives

The specific objectives of the study are:

- To assess the status of management support
- To investigate how independent and objective IA is maintained
- To assess how effective communication of internal audit is

- To assess the internal audit quality of the internal audit department performing the duties and responsibilities in the Ethiopian shipping and logistics service enterprise.
- To assess the competency of internal audit and efficiency in ESLSE

1.5. Significance of the study

This study will provide knowledge on how IA function is important in any public or private organization, benchmark internal auditing for future researchers and stakeholders to better understand the value-adding concept of IAF, and show how it can be used to benefit internal auditors in performing their hectic duties.

This study will add to existing knowledge about the value created by internal auditing, allowing interested researchers to understand better, evaluate, and improve the context of the internal auditing function in a value-adding role, as well as how internal auditors can generate quality audit reports in novel ways that add value to their respective enterprises. The study will make significant contributions to the internal auditing discussion for academics and researchers and serve as a resource for anyone interested in further research.

1.6. Scope and Limitation of the study

This study is limited to evaluating factors that affect the value-added potential of IAF in ESLSEs, specifically a sample of 49 participants in the local scenario. Furthermore, owing to the tight timeframe and word limit, this dissertation provides relevant information and developments. The study results were based on the perceptions of the participants, despite the researcher's efforts to gather the necessary information as objectively as possible. In addition, the results of the study cannot be generalized to internal audit functions in other countries' public sectors other than Ethiopia because each country has its own nature and culture.

In addition, the findings of the study are not necessarily generalizable to the value creation of the internal audit function in other enterprises because the researcher found it difficult to obtain comprehensive information about the study due to the timeframe of the study and also due to the scarcity of resources, which limited his actions during the time of data collection.

Participants were skeptical about disclosing pertinent information relating to the enterprise and did not cooperate as per the expectations of the researcher.

1.7. Operational Definition of Terms

For the purpose of this study, unless stated otherwise, the terms mentioned under this section will have the following definition:

- Add value: refers to the effectiveness and efficiency of governance of the internal audit function in enabling the organization achieve its goals.
- Assurance services – Objective assessment of evidence to provide an independent opinion or conclusion.
- Consulting services – Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management, and control processes without the Internal Auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.
- The IIA is an overarching international professional association, which has the purpose of providing leadership for the global profession of internal auditing including certification, education, research, and technical guidance.

1.8. Organization of the Study

To achieve the above stated objectives, the study was structured into five chapters with brief descriptions to provide a coherent flow of ideas. The first chapter states the general introduction of the study. The second chapter synthesizes existing literature and identifies the gaps in that literature. The third chapter outlines the research methodology. The fourth chapter presents a discussion of case study evidence and its results. The last chapter draws conclusions and implications and wraps up the report by highlighting future research areas.

CHAPTER TWO: LITERATURE REVIEW

The literature generally suggests relevance related to the value-added role of internal audit. The chapter will also analyze previous related studies done by other scholars to identify existing research gaps that need to be addressed. A review and analysis of theories relating to factors that add value to internal auditing will be done. The research aimed to paint a mental picture of what theories say about the effectiveness of IA.

It also provides a review of the literature on IA and IA theories, which draw on agency, institutional, and communication theory, as well as the background of the study area. This will be followed by an analysis of the study's conceptual framework. The guiding yardstick for this chapter will be the research objectives as stated in Chapter 1.

2.1. Background of the Organization

The Ethiopian Shipping and Logistics Service Enterprise is a merger of four enterprises which were working independently in the sea transport sector. These were Ethiopian Shipping Lines Share Company, Ethiopian Maritime and Transit Service Enterprise, Dry Port Enterprise; and the former Comet Transport Share Company, which was consolidated in to the new company, August 2016.

Among the major companies that has helped coming in to being of the new merger is the former Ethiopian Shipping Lines Share Company (ESL), established March 1, 1956 E.C with a capital of 50,000 (fifty thousand) Ethiopian birr. This establishment laid the corner stone for the development of modern sea transport in Ethiopia. When the shipping line was established, the American Towrus Investment had 51% and the Commercial Bank of Ethiopia 51% and Ministry of Finance 49% capital share. Later, ESL's capital was made to upgrade to 375,000 (three hundred seventy thousand Birr). It was at this time, the enterprise had three ships built namely, Queen of Sheba, Lion of Judea, and Lalibella. Accordingly, one can infer that the enterprise has commercialized its service operation in 1956 E.C with these three ships built. The Enterprise has acquired, the ships Adulis, 1959 E.C, Tana Hayke 1960 E.C, Ashenge 1961 and laid a sound foundation to march as best modern sea transport providing enterprise.

The enterprise as initiated in such a historical upheaval and advancing as a pioneer African shipping company could not sustain its initial development. Due to a war broken out between

Israel and Egypt from 1959 – 1967 and the closing of Suez Canal has forced the enterprise vessels to voyage down through South Africa via West Africa to North. Because these routes were very much long and the vessels turn over voyages were very slow and the burden of cost of vessel fuel was very high it made the enterprise bankrupt.

The enterprise striving in such a way to sustain its existence faced a major challenge in the course of development due to a new upheaval observed in 1967 revolution and change of government and the new political economical ideology implemented in Ethiopia. The enterprise faith at this time was to be confiscated as a state public enterprise as it was to other manufacturing and public enterprises. The enterprise is given a name Ethiopian Shipping Line Corporation and it became a fully state owned company with a capital of 22 million Birr. After few years, the company's capital reached 32 million Birr and it relatively made relieved itself from loss and it had begun to be profitable.

In order to strengthen its business capacity, it has brought second hand made ships namely Ras Dejen and Karamara, in 1967 E.C and 1970 E.C respectively and deployed them in operation. In subsequent years, it has owned a tanker ship named Nebelbal in 1971 E.C and expanded its service-rendering horizon.

Side by side, the enterprise has discarded these worn out ships that terminated their service years and substituted them with other more capable vessels in subsequent years. Additionally it has brought Key Kokeb and Wol Wal ships in 1974 E.C and Meskerem and Abay Wonz in 1976 E.C and Abyot, Andinet and Netsanet in 1977 E.C and could generate outstanding Profit within a short period of time and it has boosted its cargo handling capacity in folds.

Besides building its capacity, during the nineteen sixties it has expanded its trade routes from the Red Sea to North and West Europe to Britannia and its vicinity, for example, North Eastern Europe, Mediterranean and Adriatic seas as well as Middle East and its neighboring countries.

The enterprise has progressed in its capacity building and bought the vessels Omo Wenz in 1978 E.C, Ziway and Chamo in 1980 E.C, Awash in 1981 E.C and have aggrandized its profitability, providing wider services for international and national import and export cargos. It has bought Admas in 1987 E.C, Tekeze in 1991 E.C, Shebelle in 1998 E.C and

Gibe in 1999 and has provided effective sea transport services. Thus the capital of the enterprise has been increasing from time to time.

The other major enterprise that shares a significant part in the merger was Ethiopian Maritime and Transit Services Enterprise. That enterprise has been established in April 1960 E.C with a capital of 500,000 Birr to facilitate and expedite the movement of import and export cargoes. This enterprise has played its national role at all ports it has been functioning. And after the nations import and export cargoes were being served at Djibouti port, equipping itself with port machinery, effective service provision system and well-skilled human power it has handled all the tasks that are related with shipping and logistics services at major ports. Even before the Ethio – Eritrean war, the enterprise has mainly provided outstanding stevedoring shore handling, transit and inland transport services.

On the other hand, The Dry Port Enterprise established in 1999 has performed great tasks in reducing the cost, time and property losses at Djibouti port by implement dry port initiative and expansion projects. Though it is a recent development, it has exhibited a tremendous port and ports related performance excellence.

Comet Transport Services Joined ESLSE, to provide inland transport service for import and export government as well as private sector cargoes with sound institutional capacity.

At this time, in a bid to build up an efficient sea transport and logistics system compatible private with the fast grow and development of the nation, with the help of favorable government policies, the four enterprises mentioned above have been merged in 2004 E.C. The initial and approved capital of the new merger was 3.7 billion Birr. Looking the prospective capacity of the enterprise and its role the Council of Ministry on its plenary meeting have upgraded the capital from 3.7 billion to 20 billion Birr.

Establishment

To maintain the commendable economic growth that has been registered in the country over the last several years, one of the strategic measures taken by the Federal Government of Ethiopia is merging the former three public enterprises that have until recently been operating separately in a rather similar and interdependent maritime sub-sector; namely,

Ethiopian Shipping Lines S.C, Maritime and Transit Services Enterprise and Dry Port Enterprise.

The Ethiopian Shipping and Logistics Services Enterprise (ESL for short) is the result of this merger. This newly amalgamated enterprise came into being following the issuance of Regulation by the Council of Ministers (Regulation No. 255/2011), 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 hand offs. Besides, a truck operating company named Comet Transport SC has recently been transferred to ESL following a government decree issued in the mid of 2014.

ESL has a multitude of vessels, heavy duty trucks, sea and dry port facilities, chicaneries, etc that enable it render efficient sea and land transport services as well as sea and dry port services. ESL 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 (former Debrezeit) Town.

The Enterprise is re-starting the building work of its Head Office, the process of which has been interrupted for some years due to construction related problems. The giant building in Laghar area is a 20 storey sky scraper that may accommodate all the enterprise's functions at head office level, upon finishing, as well as partially serving as an apartment. (<https://www.eslse.et/overview.html>).

2.1.1. Internal Audit Position in ESLSE Organizational Structure

One of the key ingredients for successful IA practices and value addition is objectivity and independence, as pointed out by several position papers and the IIA standards. The importance of these factors was underlined by this research, and the study finds the one mechanism that guarantees objectivity and independence within the IAF, which is subordinating the IAF to the board of directors.

As can be seen in Figure 4.5 below, the Internal Audit Department is attached to the Board of Directors (BOD) in the enterprise organizational structure, with the internal auditors having responsibility for auditing throughout the entire enterprise and reporting directly to the BOD.

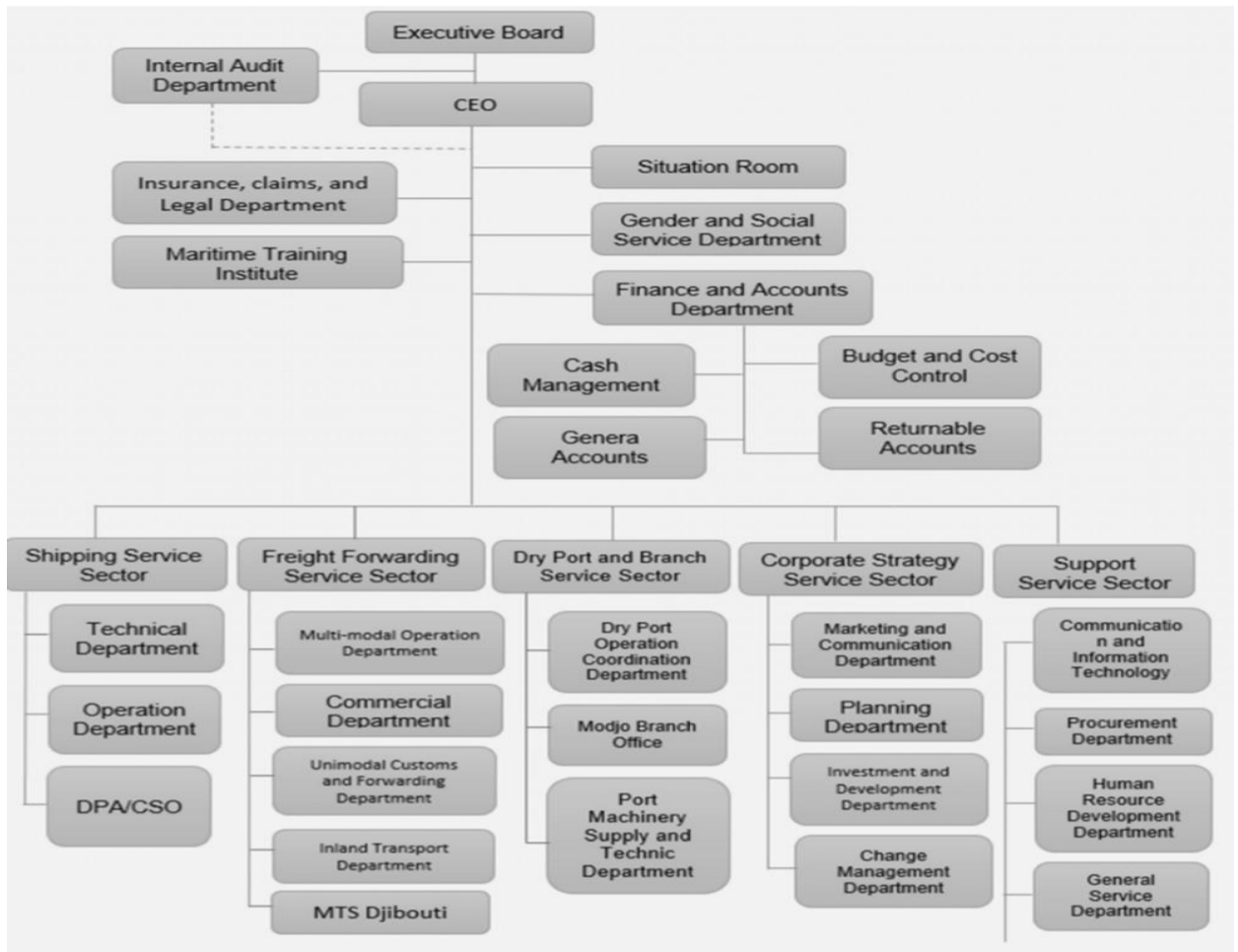


Figure 4.5: ESLSE Orgnazational Structure

Soure: ESLSE Profile

The department is designed as an integrated process, independent from other business operations, for evaluating the extent to which internal control achieves its objectives in key areas, including appropriate risk management, efficient and effective business operations, reliable financial reporting, and compliance with laws, regulations, and internal rules. and conduct internal audits from an objective and comprehensive standpoint, independent of operational reporting lines, and offer advice and remedial recommendations in connection with any problems that may be identified. As can be seen from the structure, internal audits assist the board of directors and management level to perform their responsibilities exactly and fulfill their managerial duties efficiently and effectively. This aligns with the views expressed in (D’Onza et al., 2015; IIA, 2016) internal auditing’s purpose is to “add value and improve an organisation’s operations”, and to assist management and the board in the

execution of their responsibilities.

2.2. Theoretical Perspectives

2.2.1. Definition and role of Internal audit

For the past few decades, the business environment has faced rapid and revolutionary change with a significant impact on organizations all over the world. Due to that change, management needed some means of evaluating not only the efficiency of work performed for the business but also the honesty of its employees. Around the turn of the 20th century, the establishment of a formal internal audit function to which these responsibilities could be delegated was seen as the logical answer (Ramamoorti, 2003).

According to the Institute of Internal Auditors (IIA, 2011) defined internal auditing as: An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

IPPF also include a mission statement to support the internal audit profession: To enhance and protect organizational value by providing stakeholders with risk-based, objective and reliable assurance, advice and insight. This definition signifies that internal audit has undergone a paradigm shift from an emphasis on accountability about the past to improving future outcomes to help auditees operate more effectively and efficiently (Nagy & Cenker, 2002; Stern & Dietz, 1994).

Internal auditors are a rare breed. To perform well in their jobs, they must have a set of skills and characteristics that are typically uncommon in one person. For example, they need to be analytical with laser-like focus, while also being "people-persons" with great communication skills. They need to be rule-followers, while also having the creativity and curiosity to blaze new trails. No one ever said it was easy, but becoming a top internal auditor takes dedication, hard work, and a particular set of skills (McCafferty, 2021).

This section presents theoretical review related to internal audit. According to Institute of Internal Auditors (IIA 2009), internal auditing is a dynamic and evolving profession that anticipates change in its operating environment and adapts to changes in organisational

structures, processes and technology. Professionalism and commitment to excellence are facilitated by operating within a framework of professional practice established by the Institute of Internal Auditors.

Over the last decade, internal auditing has gained a significant role within organizations whether in industry, government, or the non-profit sector. Alongside this development, the internal auditing function today accepts a broader responsibility toward the organization itself and its stakeholders (Ramamoorti, 2003). Internal auditing is a catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes (Prawitt et al., 2012). With pledge to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called internal auditors are employed by organizations to perform the internal auditing activity.

By providing expanded assurance and consulting services to the organization, which is to the audit committee of the board of directors as well as to executive management, the internal audit function effectively contributes to improved organizational governance. Furthermore, information assured by internal auditors enhances both internal and external decision-making, thereby improving the deployment and the effective and efficient use of scarce organizational and economic resources (Ramamoorti, 2003).

In addition, internal auditor must possess the following necessary personal attributes or technical and professional qualifications (R. R. Moeller, 2015); basic fairness and integrity; dedication to the organization's interests; reasonable humility; professional poise; empathy; role consistency; curiosity; critical attitude; alertness; persistence; energy; self-confidence; courage; and ability to make sound judgments.

One of the key premises today in any organization is that the presence of an effective internal audit function can go a long way in supporting and promoting effective organizational governance. Much of organizational governance has to do with effective monitoring and oversight of risk management, and internal auditors, if perceived as "risk management experts," can expect to play an immensely significant and high profile role within organizations in the coming decades. Similarly internal auditing may analyze strengths and

weaknesses of an organization's internal control, considering its governance, organizational culture, and related threats and opportunities for improvement which can affect whether the organization is able to achieve its goals (Sisay, 2018). The analysis assesses whether risk management identifies the risks and puts controls in place to manage public funds in an effective and efficient manner (Sisay, 2018).

To conclude this momentum of internal auditing, once IA function gains the trust and confidence of those charged with governance, it could proceed to deliver consulting and value-added service using the combined wealth of knowledge and experience possessed by its personnel in control best practices, risk monitoring and management, and governance structures and processes.

2.2.2. Theories of Internal Audit

A new approach which is adopted by (K. Ali et al., 2013) is a combination of three theories: agency, institutional, and communication.

A. Agency Theory

Agency theory is all about the relationship among the organization owner(s) and its top management (Adams, 1994). It supports a positivist group of philosophy (Adams, 1994; Changwony & Rotich, 2015). In corporate form of organizations the top management manages the whole organization on behalf of the owners as an agent. As a result of this, management can use its power for personal benefits. Therefore, it is unquestionable to employ an independent body (internal auditors) which control whole activities of the organization to protect the owners from such theft (Peurseem & Pumphrey, 2005). Internal auditors as a professional must perform their activity perfectly (K. Ali et al., 2013). To perform their activity professionally and perfectly, they must have the ability to make well-justified judgments, educational and professional certification, and experience in conducting an audit (Mihret & Yismaw, 2007; Schleifer & Brady Greenawalt, 1996). Internal auditors with such a quality would increase the board of directors and audit committee confidence level (K. Ali et al., 2013). Internal auditing is used to reduce the problems for the sake of the organization stakeholder's by controlling the top management activities. Internal auditors are the agents of audit committee and the board of directors' to evaluate the top management performance (K. Ali et al., 2013). However, internal auditors may have different motives

(financial rewards from managers, personal relationships with managers) to act against the board of directors interest and its audit committee. It is as a result of the power given to top managers 'like in deciding the future positioning of internal auditors and their salaries. The existence of an effective audit committee with absolute authority in the organization has resolved such problems (K. Ali et al., 2013). Agency theory is more relevant to discuss the problems which arise between top managers and owners of an organization. Agency theory is so important to points that organizational management and control structures tend to confirm to stakeholders expectations. (Xiangdong, 1997) explained the role of IA over an economy through agency theory. Similarly, (Fadzil et al., 2005) discussed bonding costs paid to internal auditors in achieving of organizational interest in respect of agency theory.

B- Institutional Theory

Institutional theory explains about institutional pressures effect on organizational structures and practices (Abu-Azza, 2012). Institutional pressures can include external or internal sources (Mihret et al., 2010). According to (DiMaggio & Powell, 1983) there are three institutional pressures coercive, normative, and mimetic. Similarly, (Arena & Azzone, 2007) identified the institutional pressures that impact both individuals in part and organization as a whole as laws and regulations (coercive isomorphism); choices of other organizations (mimetic isomorphism); and consultation or professional bodies (normative isomorphism). Isomorphic processes can increase the efficiency of IA activities of an organization. Because being similar to other organizations in their industry rewarded organizations (DiMaggio & Powell, 1983). This similarity can make easier to transact with other organizations to attract carrier- minded staff, to be acknowledged as legitimate and reputable, and to fit into administrative eligibility (Abu-Azza, 2012). Coercive isomorphism is a pressure which applied to establish (Al-Twajry et al., 2004). Institutional theorists consider organizations as members of an organizational field, which comprises several organizations or industries that are interrelated in some way. This interrelation leads organizations to influence others (Mihret et al., 2010). (Arena & Azzone, 2007) indicate that institutional theory provides a means of understanding the conforming and legitimating processes which affect the development of IA. Institutions are social structures that have attained a high degree of resilience (Changwony & Rotich, 2015). Normative isomorphism is a pressure which

develops from increased proficiency within organizations. It has a positive relationship with institutional changes due to an organization's recognition of professions (Abu-Azza, 2012). There are two aspects of professionalization which are important for sources of isomorphism (DiMaggio & Powell, 1983). The first is the formal education which is provided by higher education professionals. To this regard, internal auditors must undertake courses about internal auditing in higher education institution level. Secondly, training programs produced by professional institutions. In this regard, internal auditors must qualify like a Certified Internal Auditors (CIA) or establishing a chapter of the Institute of Internal Auditors (IIA) in their organization. Therefore, higher education and professional training institutions are important for the development of organizational departments like internal auditing. Several studies in internal audit have adopted an institutional theory (Abu-Azza, 2012; Al-Twaijry et al., 2004; Arena & Azzone, 2009; Changwony & Rotich, 2015; Mihret et al., 2010). Institutional theory is relevant for this study according to the following reasons. Firstly, institutional theory includes IA practices which are part of organizational structures and it helps to discuss such organizational phenomena without a limited set of organizational goals (Abu-Azza, 2012). Secondly, institutional theory supports countries where the equity market is underdeveloped like Ethiopia (Mihret et al., 2010). Therefore, this study draws on isomorphic processes of normative and coercive as suggested by institutional theory to investigate the factors determining IA effectiveness.

C. Communication Theory

Both IIA Standards and previous studies support the study of internal auditing according to effective communication theory. Earlier studies confirm the importance of effective communication skill in organizations specifically in Internal Audit Department (Paynton & Hahn, n.d.). In ability to communicate effectively can be related to inappropriate information or communication complexity (K. Ali et al., 2013). Both little and much information are not suitable to communicate effectively (Paynton & Hahn, n.d.). Internal auditors effective communication can be explained through the existence such effective communication between internal auditors and auditees, internal auditors and organization members, and internal auditors themselves (K. Ali et al., 2013). Effective communication skill is a need for

internal auditors and internal audit effectiveness since this study examined such a skill through communication theory.

(Davidson, 1991) confirms that, all auditors can benefit from knowledge of current communication concepts, and even those who believe they are good communicators need to work consciously on assessing, improving, and applying their skills. Davidson's communication theory is based on three basic truths about communication. These are: (1) it is impossible not to communicate; (2) communication is a multilevel phenomenon, and (3) message sent does not always equal message received. Based on the foregoing discussion, it is doubtless that, the employment of communication theory in this study becomes necessary to establish the conceptual framework(K. Ali et al., 2013).

2.2. Internal audit Notion

2.2.1. Value addition of internal audit

In the past, internal auditors did not need to consider the importance of adding value when performing their work assignments. Instead, engagements typically consisted of verifying compliance with policies and procedures, without providing recommendations for improvement or performing other consultative activities. The auditor's role was often more akin to that of a police officer than a business partner.

Today's auditors, however, must be much more attuned to opportunities for enhancement, as adding value is widely considered an integral part of the audit process. Indeed, the very definition of internal auditing states that it is "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations." But what does adding value entail, and how do auditors provide it? While the answer may vary depending on individual circumstances, internal auditors make value-added contributions throughout the entire audit process and in almost every aspect of their work.

The definition of value adding can vary considerably from one organisation to another (J. Roth, 2003). For most of practitioners, value is attributed to audit work that enables management to improve business, as opposed to audit activities that solely verify compliance with policies and procedures. By contrast, in an organisation where fraud and corruption prevail, compliance auditing is what truly adds value. Therefore, what adds value to an

organisation is largely dependent on the organisation's needs. In answering which practices add value, IAs should thus question their stakeholders (A. V. Roth & Menor, 2003).

The concept of internal audit value addition having remained studied and expansively examined, as evidenced by studies done previously (Bou-Raad, 2000; Nagy & Cenker, 2002; J. Roth, 2003). The description of adding value role as a notion of internal auditing differs from one practitioner to another. What one practitioner will consider to comprise a value adding concept will vary depending on various factors under consideration. The value that will be placed on an internal audit activity will be determined according to how it will be beneficial to the organization.

The internal auditors also recommend internal controls, by evaluating the flow of transactions in the workplace. This helps the organizations that they serve to seal any loopholes that can be exploited by the accountants to steal money from the organization. It means that value of internal audit activities is created if action is taken when information is availed by the internal auditors. They test such internal controls and confirm that it is difficult for the accountants to fool the systems and engage in fraudulent activities. When recommending the various internal controls and procedures as well as policies, they must cooperate and constantly communicate with both the top management and the accountants in the organization. This ensures that there is support for the recommendations that are presented to organizations by the internal audit department (Paterson, 2015). This means that communication between these stakeholders is very crucial in developing policies and procedures that are respected and help in achieving credibility of financial processes. The top management needs to appreciate and comprehend clearly the role that is played by internal audit if it's meant to remain of benefit to companies. Most companies hire internal auditors and expect them to perform accountancy roles. It is of importance to distinguish the roles of internal auditors from those of the accountants, hence allocate enough resources for the internal audit department. In addition, there is a need to ensure that the internal audit department is independent, so that its activities are not influenced by the top management (Paterson, 2015). This way, the internal auditors can create value to the organization by recommending policies that protect the integrity of the company, hence bridge the principal agent problem with the shareholders. This means that the internal auditors would not be

making decisions that are dictated to them by the top managers, and instead make decisions based on the existing accounting policies and the needs of the companies. The internal auditors make the work of the external auditors much easier, and this reduces the costs of external audit since it takes less time to audit such companies. This is only possible if the internal auditors are independent, understand the accounting policies and procedures well and have enough resources to perform their functions (Paterson, 2015). The top management thus can make decisions that give assistance that will augment internal audit value addition.

Giving the department the needed resources and allowing the department to operate without much interference creates value for the organizations in question. Otherwise, the external auditors can tell internal audit departments that are not of any help to organizations, hence do not rely on them when making their evaluations about the reliability of the financial statements. Internal auditing adds value to organizations, but there are ways and criteria for measuring this. Internal auditing departments assess the value provided by organizations according to a series of indicators. These indicators do not give an objective measure of the value of the internal auditing function. Internal auditing is the art of producing high-quality reports on time; it is also the skill of discovering and forwarding recommendations to managers; and it produces higher cost savings and efficiency as a result of its findings, which are considered a pay-in-advance for production costs.

2.2.2. Attributes associated with internal audit value addition

Regardless of what drives an organization, non-profits, private organizations, and public-owned organizations seek to achieve the organization's goals with the greatest efficiency and effectiveness possible (IIA). A manager and audit committee rely on IA for timely and accurate information about the organization's environment, making IA the "eyes and ears" of the governing body. Internal auditors' diverse competences bring enormous value to the board and the audit committee in their governance and oversight responsibilities (The Institute of Internal Auditors, 2000). Internal auditors support the organization by assessing risks and recommending measures to mitigate those risks. IA assists top management with analyses, evaluations, counseling, and information on the activities they review. They monitor the risks associated with new business lines, new system implementations, environmental issues, and/or regulatory compliance. IA is recognized as a trusted advisor

and strategic partner. IA's key stakeholders are the board of directors (or a committee such as an audit committee), senior management, operations management, and external parties such as external auditors and regulatory bodies (IIA, 2019).

The value-adding role of IA presumes that IA is effective, so IA's effectiveness is a prerequisite for a value-adding IAF. Nevertheless, the literature implies that IA effectiveness tends to be influenced by the contextual dynamics within which it is practiced (Performance-Implication-IA Dessalegn Getie, n.d.).

For the ease of presenting the literature those studies regarding the main factors that influence the effectiveness of internal audit; such as management support, the perceptions of the management, organizational independence of internal auditors, Internal audit communications, adequate and competent of internal audit staff, and Quality of Internal Audit reviewed by different researchers are included in this literature as they are proofed the key determinant factors their respective case studies. The main aim of this research is to identify and assess the key factors of effectiveness of internal audit, different authors and researcher's idea and recommendations regarding the related topic of internal audit are analyzed and presented.

2.2.2.1. Management Support

Management support is another critical factor that enhances IA effectiveness. In order for the internal audit department to be effective, the support of top management is critical. Boyle (1993) finds that the support of IA by top management was identified in his interviews as a critical validation of the fact that internal auditors should perform their work effectively. (Mihret, D.G&Woldeyohannis, 2008; Mihret & Yismaw, 2007) studies state that management support to IA is considered as a determinant of IA effectiveness.

The management of various organizations have placed reliance on the internal audit function to ensure that the confidence and trust they have in their control environment and the entire organization is working effectively and efficiently (Mahzan et al., 2012). The IAF displays its findings as observations and recommendations, management has the responsibility to ensure that they strengthen the control environment by identifying the needs for control, coming up with designs for control and how they will be implemented; read-through applications for correctness; upholding and bring up-to-date the systems of control (Jennifer,

2018). Internal audit has the responsibility to make an objective assessment of the internal control systems that have been set up by the management IA has the role of making an objective assessment for systems of control whereas managements' responsibility is to create those systems. Therefore, internal auditors as they are more analytical in assessing risks and ensuring that the internal controls are effective; the recommendations that they make could be of benefit to the management to enhance the overall strength of the control environment (Badara & Saidin, 2013).

2.2.2.2. Independence and objectivity of internal auditing

The importance of independence and objectivity, which has always been significant for internal auditors, continues to increase among the challenges facing internal audit activities in the constantly changing business environment. An ever-growing number of stakeholders, both inside and outside an organization, continue to demand greater transparency, increased disclosures, expanded internal audit services, increased professionalism, improved coordination among internal and external auditors, greater responsibilities, and more accountability from internal audit professionals.

Independence to this aspect meant by that independence in mind as well as independence in appearances (Stewart & Subramaniam, 2010). Similarly, Independence can be explained as follows according to (Abu-Azza, 2012)'s perspective: "The concept of independence is generally used to mean the ability of the auditor to be fair and objective in his/her review and appraisal and not to be under undue pressure from any party to the extent of that could bias his/her opinion." To summarize it "...Independence is the core stone of IA effectiveness, because effectiveness of IA cannot be realized without the independence of IAD" (Cohen & Sayag, 2010; Vanasco, 1996). Therefore, the position of IA in an organization is bound to with a corporate unit that should have a large degree of autonomy and independence in order to perform its activities in a proper manner (Arena & Azzone, 2009).

Auditors should be strictly independent from those who are required of them to do auditing, and they have to conduct their work without interference, and it is equally important for them to show their integrity and how they are genuine in doing their given job. Hence, effective internal auditors would be capable of conducting an independent evaluation of the financial

and operating information systems and procedures with a view to provide fair and their honest recommendations that would be an input for improvements (Mihret & Yismaw, 2007).

2.2.2.3. Effective communication and value of internal audit

An auditor can rigorously analyse your company's departments and can find alarming issues, but all the analyses will be useless if the auditor cannot effectively communicate the issues. Communication during the audit process includes both: spoken communication (e.g. during the opening meeting, closing meeting, and gathering evidences), and written communication (e.g. during the report writing).

The audit conclusion must be based on verifiable evidences gathered during the audit process. All data collected by interviews or documentation review need to be transparent, unambiguous and consistent. The report need to be clear, detailed and relevant for the purpose of the audit. Therefore, it is crucial to hire internal auditors who can efficiently convey important messages that can help you boost efficiency.

(Paynton & Hahn, n.d.) Studies confirm that when communicating, information that is received in bulk is no better than receiving bits of information, as this lessens the recipient's capability and their focus on the crucial part. Within a setting like this, the users of internal audit are likely to have rising apprehensions of the IAFs performance. Therefore, as a solution to the problem it is found to be necessary the need for sound and effective communication. In order to counter such communication barriers,(Paynton & Hahn, n.d.) suggests that the participants to the communication should focus on the issue at hand and provide the necessary information using easy and understandable ways- provide basic explanation to the information instead of just conveying the message to the recipient is also important that the message conveyed is not only brief but it should be conveyed clearly in a manner easy to comprehend, feedback should also be sought.

According to requirements of the IIA, in a study by Golen (2009), agree on the significance of and the need for communication skills that are effective in all organizational units. In accordance with IIA Standards and studies done previously, research done on communication effectiveness in internal auditing is essential, and henceforth communication theory should be considered for its achievement.

Numerous studies emphasized the significance of communication being efficient to enable organizational units to meet set goals (Bambacas & Patrickson, 2008; Quinn & Hargie, 2004; Smith, 2005; Tourish, 2015). (Mihret & Yismaw, 2007), argues that as an integral part of internal audit value addition it is essential to have effective communication, this is considerably one of the robust variables influencing internal audit value addition.

(Anderson & Svare, 2011) argues that communication skills allow auditors to connect and rapport with organizational members thereby ensuring realization of effective audit functions. A good auditor recognizes the whole essence of face to face interaction and makes it the primary mode of communication ensuring that other modes of communication are secondary in realizing the effect of bonding amid the internal audit function, organization staff and top management. (Gansberghe, 2005) emphasized that a crucial measure of internal audit value addition is the number of recommendations that are implemented by management. This is well agreed to by (Arena & Azzone, 2009) who concluded in their study that the ratio of implemented recommendations can be used to assess the level of internal audit value addition is ideal. (Sprakman, 1997) confirmed recommendations from internal audit findings are vital to the management of an organizations. Similarly, (Mihret & Yismaw, 2007) stated that audit findings and recommendations would not be beneficial to an organization unless the management are committed to implementing them.

2.2.2.4. Proficiency and Due Professional care of Internal Auditors

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. Proficiency of Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:

Proficiency is a collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends, and emerging issues, to enable relevant advice and recommendations. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as

the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations (IIA, 2016).

An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajjry et al., 2004). Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations (IIA, 2016). (Bou-Raad, 2000) argued that auditors must have a high level of education in order to be considered a human resource.

It is well thought-out that an imperative component to internal audit value addition is staff competence. (Al-Twajjry et al., 2004; Alzeban & Gwilliam, 2014). The International Standards for the Professional Practice of Internal Auditing (ISPPA, standard 1210) emphasizes that significance of IA team who have all the obligatory skills, competencies and know how to engage in their responsibilities (R. Moeller, 2010)). Agreeably, it is important for internal audit staff to possess the essential education, required professional qualifications, experience and training for the IA to can add value and improve the organization's operations (O. A. Ali & Owais, 2012; Mihret, D.G&Woldeyohannis, 2008). In addition, it is necessary that internal auditors have proper interpersonal skills in communication, coaxing, teamwork, and critical thinking to effectually accomplish their duties (Smith, 2005); (Fanning & David Piercey, 2014). Additionally. It is important to note that external auditors use competencies as a critical criterion to analyse and evaluate how the IA performs (Abbass & Aleqab, 2013; Al-Twajjry et al., 2004).

The key factors that external auditors assess when doing their audit planning procedure is the level of objectivity and technical skills of the internal audit function (AICPA, 2007). Prior studies have been supported by the IIA's claim; competence of internal audit staff has a positive influence to internal audit value addition and the quality of the financial reports. (Al-Twajjry et al., 2004; Alzeban & Gwilliam, 2014; Douglas F. Prawitt, 2009; Lin et al., 2011) .

Additionally, more studies acknowledge that the competence of the internal auditors as being a key component in improving the operations of the organization (O. A. Ali & Owais, 2012; Mihret, D.G&Woldeyohannis, 2008) or contributing to the success of the organization

(Dittenhofer, 2001). The substitutions for competence in general include education, professional qualifications, experience, and training. According to the requirements of the IIA, internal auditors a study by Golen (2009), agree on the significance of and the necessity for sound skills of communication in all organizational units. In accordance with IIA Standards and surveys conducted previously, the examination of communication that proves to be effective in internal auditing is essential, and henceforth consideration to apply communication theory for its achievement.

Prior studies have brought to the attention that whenever management perceive that internal auditors lack the required competence and expertise to carry out their responsibilities and thus provide useful recommendations, the management do not take the recommendations seriously hence reducing the value added. (Van Peurse, 2004). Comprehensive research (Burnaby et al, 2007) done globally concerning profession of internal auditors emphasized the need of having key skills that are technical in nature together with non -methodological skills to add value to their respective organizations. In accordance with the IIA Internal Audit Competency Framework (Anderson & Svare, 2011; D'Onza et al., 2015) (IIARF, 2013), for the internal audit function to have the ability to make available effective assurance and advisory services, having technical competencies are a vital qualification. As is required, internal auditors should use an array of techniques when engaged in audits, Internal auditors are required to possess technical competencies as it characterizes a vivacious factor to effectually assess and make a difference in corporate governance, management of risk and enhancing the internal control systems (Pickett, 2004).

2.2.2.5. Internal audit quality

Internal audit quality is giving valuable finding and recommendation for management. It can be achieved by proficient internal auditors, proper planning, field work monitoring and controlling, scope of service and effective communication with auditee and higher management (Mihret & Yismaw, 2007). These researchers further identified that bulky appearance and low quality audit report, fail to have highlight of past audit results, unable to prepare strategic plan, fail to conduct follow up audit, improper documentation, limited distribution of audit report and poor communication are the manifestation of poor internal audit quality. Finally, they concluded that internal audit quality is demonstrated by the

internal audit office's capability to provide useful audit findings and recommendations and one of the most prominent factors on which audit effectiveness is anchored. (D'Onza et al., 2015) also indicated that internal audit quality significantly affects internal audit effectiveness. Furthermore, quality of audit work also refers to “the planning and supervision, fieldwork, recording, reporting, findings, recommendations, and follow up activities of internal audit” (K. Ali et al., 2013). As many writers expressed internal audit quality as a very important factor for effective internal audit function.

The internal audit departments should prepare an audit plan that identifies IA objectives and strategies, and the audit work they intend undertaking. Prior empirical research on IA effectiveness (Al-Twajjry et al., 2004; Mihret & Yismaw, 2007) suggests quality of internal audit planning is an indicator of IA effectiveness. (Mihret & Yismaw, 2007) also state that work performance is further operationalized into quality of internal audit planning and execution, and quality of internal audit reporting and follow-up.

Internal auditors must possess the knowledge, skills and other competencies needed to perform their responsibilities. According to (IIA, 2009) knowledge, skills and other competencies is a collective term that refers to the profession proficiency required of internal auditors to effectively carry out their professional responsibilities. The knowledge, skills and other competencies would enable internal auditors to plan their audit work properly, perform and communicate on timely basis the findings and recommendations to the right people. The internal audit work includes; numerical strength and expertise of staff, the scope of service, audit planning, field work and quality review and audit communication.

The end product of any audit work culminate in writing of an audit report, but unlike the external auditor's report, the internal audit report is not standardized short -form in its content (Kinfu & Bayou, 2009). One of the roles of IA is to identify the main weaknesses of the organization and provide recommendations to such problems.

Internal audit report of internal auditor requires a lot of imagination and creativity with communicative ability in its writing. Internal audit report should basically include: detail of purpose and scope of audit, description of tools and procedures of audit; findings, suggestions and opinions; and recommendations.

The timely issuance of reports after fieldwork and completion of planned audits are important metrics for gauging the IA team's effectiveness, but the value added by the team is another metric that is important to measure and communicate to leadership. CAEs are beginning to view the QA as an opportunity to validate their actions to their audit committees and build credibility. In addition, CAEs may share metrics such as the results from client surveys, savings, number of recommendations implemented by auditable units, and consultation requests from management to illustrate the value-add.

As the IA function matures, it should be perceived by management as a value-added resource and a go-to partner that has the organization's best interests as its top priority. In addition to working through the annual audit plan, internal auditors with the right skill set can provide consulting services, such as providing internal control expertise when an organization implements a new system or product. In addition, if approved by the board, the CAE can adjust the annual audit plan to add engagements that address needs that were not present during the annual risk assessment, such as adding a control design assessment in response to a recent fraud event. A quality assurance reviewer can help an organization determine if its IA function appears to be adding value to the organization and, if not, what changes the activity should consider implementing to make the function more effective.

2.4. Summary of the Chapter

The chapter defines major theories that are used in the elaboration of how the internal audit functions add value to the organization, in the current dynamic global market, the presence of effective internal audit both important and necessary. Because of this, it attracts the attention of many researchers. They have been studying and numbers of studies were conducted in IA related and organizational characteristics to the effectiveness of its function. Among these researches many has focused on its function, importance and factor affecting its effectiveness. Accordingly, different authors consider different factors. Some of the factors that are not review on this paper are management perception, relation between internal and external auditor, and audit attribute can be mentioned. (Alzeban & Sawan, 2013; Cohen & Sayag, 2010). On this paper management support, internal audit Communications, independence and objectivity of internal auditors, competency of auditor, quality of internal audit are briefly explained how they affect the output of audit. As discussed in the previous

sections, these factors influence the likelihood of detecting and self reporting fraud within the organization. The current research is to see how the determinants of internal audit attributes in the selected public office affect internal audit value creation based on the above mentioned factors.

2.5. Conclusion and framework

In order to form the basis of how the research design and study are done, the conceptual framework is prepared. Variables explained by the framework include management support, internal audit communication, independence and objectivity, competency, and audit quality as factors of internal audit value addition.

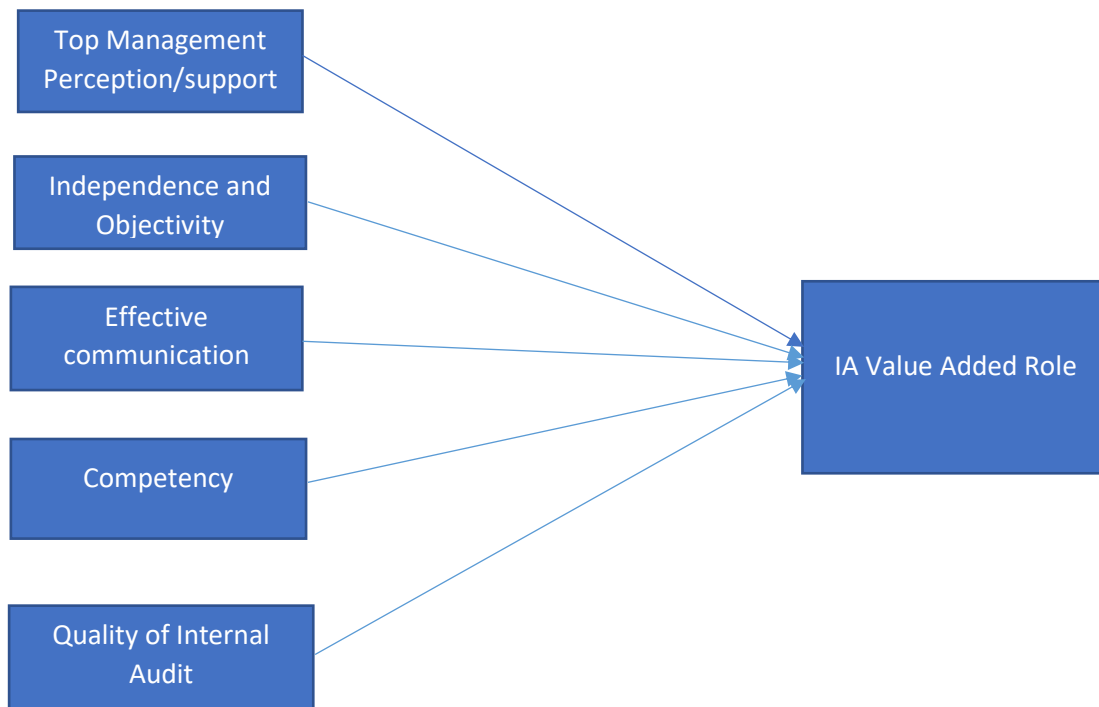


Figure 2.1: Conceptual Framework

Adopted from Different scholars research paper

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter presents the methodology used by the researcher in conducting the research. It includes the study population, sample size and sampling methodologies, data type and collecting instrument, and data processing method.

3.2. Research Design

A research design expresses both the structure of the research problem and the plan of investigation used to obtain empirical evidence on relations of the problem. A descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way (Kothari, 2004). Descriptive research is also considered appropriate because subjects are normally observed in their natural set up and can result in accurate and reliable information (Kothari, 2004). This design lends itself to various approaches. A survey in form of standardized questions in a questionnaire was used to collect data. A survey is defined by (Zikmund & Babin, 2007) as a method of collecting data from people about who they are, how they think (motivations and beliefs) and what they do (behavior). This study will be guided by five attributes: top management support, independence & Objective, communication, competency of internal auditors, and quality of audit work. This study used descriptive and survey research design with the application of both qualitative and quantitative approaches of data collection. Data were collected using both questionnaire and interview through primary and secondary source from the main office and Kality branch. Finally, the collected data were analyzed using descriptive, qualitative and inferential analysis depending on the situation.

3.3. Research Approach

According to (Kothari, 2004), many good research projects combine both qualitative and quantitative research. Qualitative data range from slight to highly significant effect based on qualitative judgments such as perception and attitude of respondents on internal audit performance. Accordingly, it is the most appropriate method to measure the characteristics for which numerical value cannot be assigned, are called attributes and used to find out the facts. (Kothari, 2004) also describes the importance of quantitative focusing on survey as follows. A survey design provides a quantitative or numeric description of trends, attitudes,

or opinions of a population by studying a sample of that population''. Therefore, the researcher was used mixed research approach to employ for the completion of the study, to generate rich data from multiple sources, which were both quantitative and qualitative type.

3.4. Data type and sources

The study used both primary data and secondary sources gathered to assess the organizational factors for the value-added role of internal audit in the main office and Kality branch of Addis Ababa. To achieve the objective of the research, the study used primary data from Ethiopian Shipping and Logistics Service Enterprise (ESLSE) staff. Besides, secondary sources were also collected from the selected websites, books, journals, articles, and other materials related to the internal audit function and value-added role of internal auditing written by different authors.

3.5. Methods of data Collection

3.5.1. Tools of Data Collection

To achieve the objective of the study, the researcher used a questionnaire; these tools give the opportunity to probe or ask questions, control the respondent response through properly designing the questions, and increase the reliability and credibility of the research data.

3.5.2. Questionnaire Design

For easy understanding and reading, the questionnaire is divided into two parts. The first part of the questionnaire considered the demographic characteristics of the respondents and some general information questions. The second part of the questionnaire asked respondents to rate the factors related to their internal auditing function and value-added role on a five-point Likert scale divided into strongly disagree, disagree, neutral, agree, and strongly agree. The aim has been to collect the perceptions of the respondents in response to the performance of internal auditing in the enterprise.

3.6. Sample Size and Sampling Design

3.6.1. Target Population

The study population included 25 audit respondents, 18 finance and accounts respondents, 6 from operations, and management units for which case data were used to make implications. Thus, the target population defines those units for which the findings of the study are meant

to generalize. According to (Kothari, 2004), a researcher must have a specific population as his research target, on which he bases all of his inferences about the validity of the topic he is researching. There are two offices of ESLSE in Addis Ababa, of which one is the main office and the other is Kality's branch in Addis Ababa.

3.6.2. Sample Size

Sample size determination is the technique of selecting the number of observations to be included in a sample. The researcher has classified the target population based on their strata (probability) and then on their purposes or judgments (non-probability). The use of purposive sampling enables the researcher to generate meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants that are satisfactory to its specific needs (Hailemariam, 2014). The researcher determined and selected ESLSE sectors as minimum by taking into consideration their higher budget allocation, resources mobilization and risk area relative to other sectors. Finally, the sample size for this study was fifty-five respondents selected using (Kothari, 2004) Convenience and Purposive sampling was applied for internal auditors, audit director, general accountants and management in the enterprise.

3.6.3. Sampling Design

To conduct this study, non-probability sampling was used to select the study respondents from identified office and branches of ESLSE. Purposive sampling is essential as officials or experts who are directly working on the issues are expected to have rich knowledge than other persons. This technique was preferred because all these respondents were the only individual in that capacity that will require for the study. Besides, this technique is the best because all the respondents will require for this study has unique characteristics and cannot be replaced by any other person hence purposive sampling was suitable. Therefore, using purposive sampling technique, the researcher has selected the Staff Respondents as follows: Managers, Accountants, and Auditors.

3.7. Methods of Data Analysis

3.7.1. Descriptive Analysis

The study used this method to describe the general characteristics of sample respondents'. It involved a process of transforming a raw data into charts, tables with frequency distribution

and percentages, which was a vital part of making sense of the data. In this study, the descriptive statistics was used to give quantitative meanings to the data.

3.7.2. Qualitative Analysis

The researcher applied the case method because there was a need to interact with the enterprise's beneficiaries and non-beneficiaries (who have no internal auditors) and ensure that specific information was expected to be obtained from particular respondents. Interviews were used to collect qualitative data and see the effect of internal auditing on value creation in the enterprise.

3.8. Validity Test

Validity is the extent to which an instrument measures what it purports to measure (Al-Twajry et al., 2004; Saunders et al., 2019). He defined reliability as consistency and uniformity of responses of respondents. The questionnaires ensured anonymity by not asking for respondent's details thus making the researcher's work more reliable because they could freely respond without any fear. According to (Plonsky & Gass, 2011) fewer respondents are reliable than a large number that lack reliability. Hence, the researcher gathered information from few respondents who are involved in internal audit function at ESLSE.

3.9. Ethical Consideration

The data collection from ESLSE was only for the purpose of this study. Permission was sought by the researcher to carry out this research on the organization, and the confidentiality policy of the institute was maintained. To ensure confidentiality, the data collected was not shared with anyone other than the researcher's supervisor.

CHAPTER FOUR: RESULTS AND DISCUSSION

4.1. Introduction

This study sought to look at the factors that influence internal audit value addition. This chapter discussed the findings of a case study of primary data gathered from questionnaires distributed to management, internal auditors and accountants. The presentation of data is systematized in accordance with definite objectives. Results on other essential information are also presented. The objectives of the study were examined within the questions shared in the questionnaire. In the case of ESLSE.

This chapter contains the presentation, interpretation and discussion of the findings to provide responses to the research questions. It first gives the demographic information of the respondents and then presents the findings. Frequency tables, percentages and graphs, by the help of SPSS and Microsoft office excel were used to examine the data. The findings relate to the effect of internal audit practices on organizational performance in the case of ESLSE.

The response rate results showed that out of the 55 questionnaires that had been dispersed to the respondents, 49 were returned and are usable. This gave a response rate of .89%, which, according to (Mihret, D.G&Woldeyohannis, 2008) is a good response rate.

4.2. Demographic Information

The Researcher was used to gather data on demographic characteristics of the respondents.

4.2.1. Gender of the Respondents

The respondents were asked to indicate their gender. The results are summarized in the table below,

Gender	Frequency	Percentage
Male	37	0.76
Female	12	0.24
Total	49	1.00

Table 4.1. Gender Distribution of Respondents

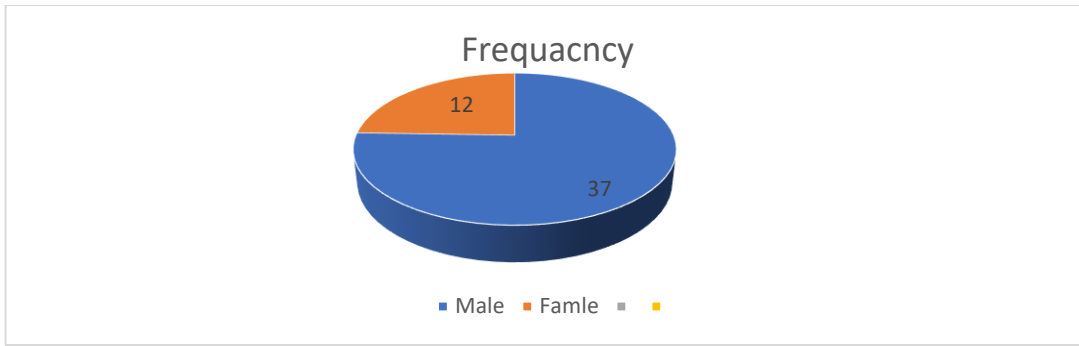


Figure 4.1 Gender of Respondents

Source: Own Field survey, 2022

Figure 4.1 shows that the majority of respondents (N = 37, or 74%) were males, while 26% (N = 12) were females, implying that both genders were involved in this study and thus the study's findings did not suffer from gender bias.

4.2.2. Age Category of the Respondents

Age	Frequency	Percentage
20-29	25	51.02%
30-39	17	34.69%
40-49	6	12.24%
Above 50	1	2.04%
Total	49	100.00%

Table 4.2. Age Distribution of Respondents

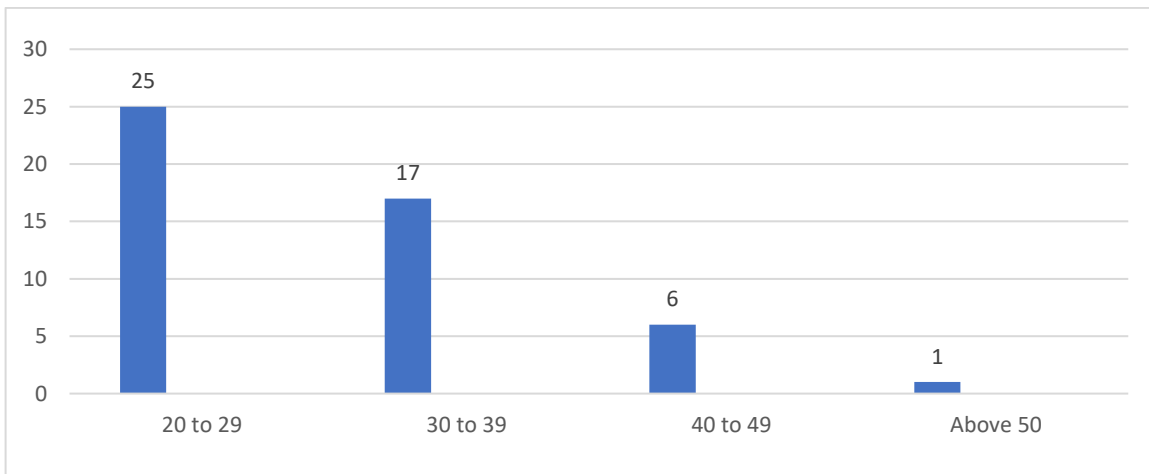


Figure 4.2 Age Distribution of Respondents

Source: Own Field survey, 2022

The study requested the respondent to indicate their age category, and from the findings, 51.02% N=25 of the respondents were aged between 20 and 29 years; 34.69% N=17 of the respondents indicated they were aged between 30 and 39 years; 12.24% N=6 of the respondents indicated they were aged between 40 and 49 years; and 2.04% N=1 of the respondents indicated that they were aged above 50 years. This implies that respondents were well distributed in terms of their age distribution.

4.2.3. Education Qualification of the Respondents

Education Level	Frequency	Percentage
Diploma	7	14.29%
Degree	24	48.98%
Masters	16	32.65%
Above Masters	2	4.08%
Total	49	100.00%

Table 4.3. Education Level of Respondents

Source: Own Field survey, 2022

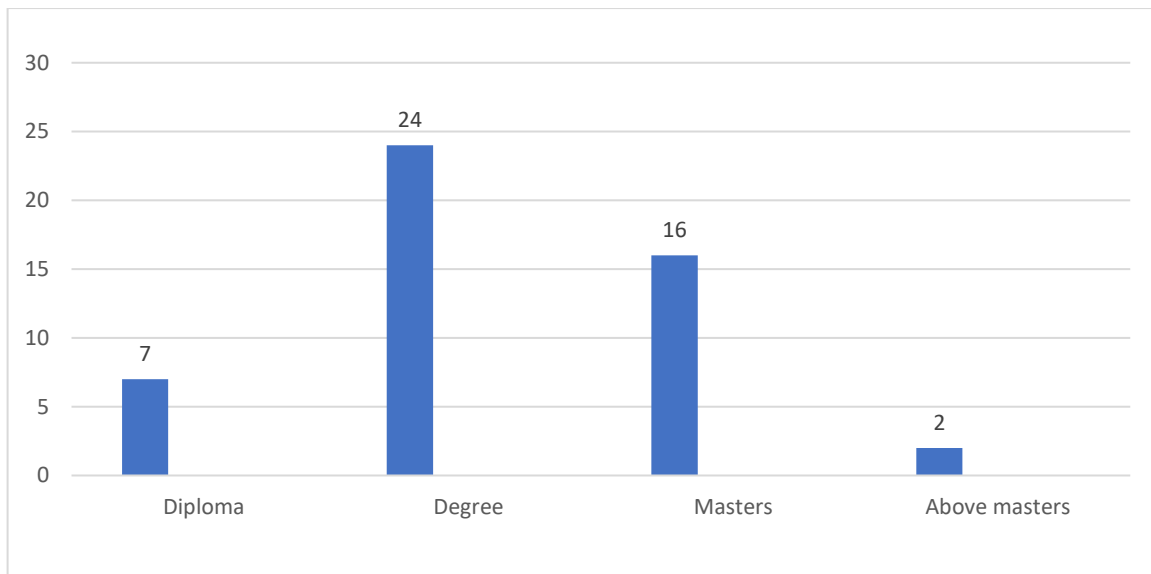


Figure 4.3 Education Level of Respondents

Source: Own Field survey, 2022

The above table indicated that 14.29% N = 7 of the respondents indicated their highest level as a college diploma, 48.98% N = 24 of the respondents indicated their highest level as a degree, and 32.65% N = 16 of the respondents indicated their highest level as a master's degree, whereas 4.08% N = 2 of the respondents indicated their highest level as above a

master's degree. This indicates that most of the respondents had college or university degrees as their highest education level. These results show that the majority of the respondents had work experience of more than 5 years, which is adequate to understand the challenges that affect the quality of their work.

4.2.4. Experience Level of the Respondents

Year of Experience	Frequency	Percentage
1 to 5 year	5	10%
6 to 8 year	16	33%
9 to 10 year	19	39%
10 & above year	9	18%
Total	49	100%

Table 4.4. Year of Experience
Source: Own Field survey, 2022

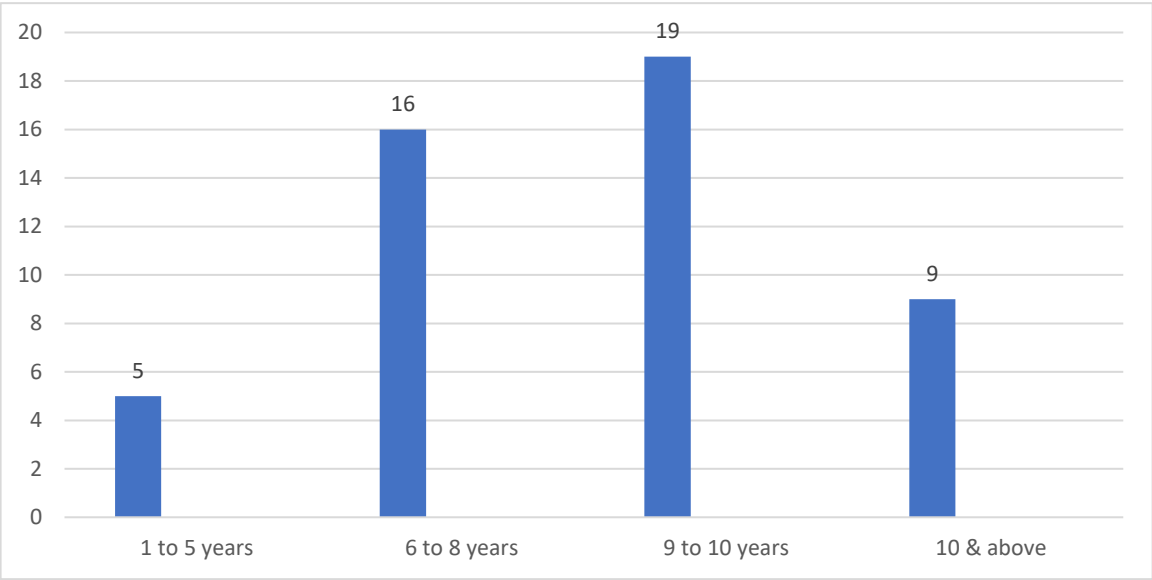


Figure 4.4: Year of Experience of Respondents

Source: Own Field survey, 2022

The above figure showed that 5 (10%) of the respondents had worked for a period ranging from 1 to 3 years, 16 (33%) of the respondents indicated that they had worked for a period ranging from 4 to 6 years, 19 (39%) of the respondents had served for 7 to 9 years, and finally 9 (18 %) of the respondents indicated that they had worked more than ten years. This implies that the majority of the respondents had served for a significant period.

4.3. Descriptive Statistics Results

Section two of the questionnaire was divided into five parts. Each part related to one of the five components (management support, independence, internal audit communication, competency, and quality of audit work), which form parts of the conceptual model. Each part of the questionnaire is composed of statements relating to activities connected to the relevant component. Each statement was evaluated on a scale of 1 to 5, with 5 being "strongly agree" and 1 being "strongly disagree" and the cut of point is , 3.67 .The result provides information on the level of internal audit communication and quality of audit work, the independence of the internal audit team, and the management support and competency of IA in ESLSE based on internal auditors' perceptions and employees of ESLSE.

4.3.1. Management Support

This first section of the questionnaire consisted of seven questions that explored the nature of management support , with the ultimate aim of providing an understanding of this notion. This was achieved by studying various aspects of management support for value addition.

	Factors	N	Minimum	Maximum	Mean	Std. Deviation
Q1	Management supports the efforts of internal auditors in your enterprise	49	1.00	5.00	4.0816	1.05745
Q2	Internal auditors have free and unconditional access to offices, files, and documents required	47	2.00	5.00	4.0851	.99629
Q3	Internal auditors in your enterprise are allocated adequate resources to carry out their work as planned	49	1.00	5.00	3.6939	1.31028
Q4	BOD members and Senior management are very satisfied with the performance of the head of internal audit in your organization.	49	3.00	5.00	4.4286	.61237
Q5	The management facilitates IA employees' participation in training and development programs to maintain their skills and keep up-to-date in the field.	49	2.00	5.00	4.0816	.86209

Q6	Audit goals are well aligned across all levels of the enterprise	49	3.00	5.00	4.4490	.61445
Q7	Internal auditors suggest solutions that solve problems in your enterprise.	49	3.00	5.00	4.5306	.58102
					4.1929	0.8620

Table 4.5. Management Support

The study sought to look into role-played management and board on IA value addition. The respondents to the questionnaires were requested to express their opinion as to whether they were in agreement on whether they receive management support in their organizations. The five items Likert scale was utilized. In the five items Likert scale the overall average mean score resides between 1 and 5 scale of strongly disagree, disagree, neutral, agree and strongly agree. Respondents to the questionnaires were requested to express the extent management support had an influence in internal audit value addition.

Table 4.5 presents the highest mean score of 4.5306 by Q7. participants considered that internal audit is recommendation is considered as a problem solving in the enterprise followed by Q6 with mean score of 4.4490 indicating internal audit is aligned with the enterprise goals, and Q5 & Q1 the same mean score of 4.0816 for which the respondent agreed with the fact that management supports internal auditor in training and development programs to maintain their skills and keep up to date in the field.

Q4 mean 4.4286 and Q2 mean value of participants show that managements and higher official (Q4) are satisfied and allocate adequate resource (Q2) to internal audit staff in the enterprise. For Q3 having, free and unconditional access to offices and files, the participant more or less are neutral.

According to the findings of the study, the standard deviation responses to Q2 and from Q4 to Q7 given by the respondents were good and healthy. However, the remaining Q1 and Q3 standard conformance levels, namely, management support to internal auditors and resource allocation, which show that there are some limits, are seen as inadequate and need improvements. This implies that those respondents' perceptions were far away from each other.

To sum up, as shown in the above table, the overall average mean score for internal audit effectiveness in ESLSE is 4.1929, which is above the mid-point, i.e., 3.00. The analysis results revealed that the support given by the management towards the internal audit process is good enough, which may create satisfaction for the internal auditors, which in turn may have a positive impact on the audit performance of the process in general and the enterprise at large.

The above analysis implies that management support significantly relate with internal audit effectiveness and it improves internal audit's value addition towards organizations. This in sync with the findings of (Alzeban & Gwilliam, 2014) in their findings indicates that internal audit must receive sufficient support from management. Once management does not adequately support and does not take the task seriously it defeats the purpose of having internal audit in an organization.

The relationship between IA staff and top level mangement is obviously crucial when determining their independence, objectivity, and consequently the value provided for the organization. As a result, top management's support for the IAF is crucial both in the short- and long-term, providing the necessary resources for the IAF to conduct its operations while remaining intangible.

4.3.2. Independence and Objectivity of Internal Auditor

	factors	N	Minimum	Maximum	Mean	Std. Deviation
Q8	In your sector, organizational independence allows the audit activity to conduct work without interference by the entity under audit.	49	2.00	5.00	4.2245	.87238
Q9	Internal auditors feel free to include any audit findings in their audit reports.	49	3.00	5.00	4.1837	.69742

Q10	The Internal Auditor has free and unrestricted access to all operations, personnel, assets, and transaction records.	49	1.00	5.00	4.2245	.98457
Q11	Internal auditors are proactive	45	3.00	5.00	4.2444	.71209
Q12	Internal auditors possess objectivity as a key factor for internal audit activity to add value	49	3.00	5.00	4.1837	.69742
Q13	The professional qualifications and training of internal audit employees are high	49	3.00	5.00	4.1020	.87190
					4.1938	0.80596

Table 4.6. Independence and Objectivity of internal audit team

As can be seen in the above table, participants' responses give a mean of ($x = 4.2245$) for Q8, ($x = 4.1837$) for Q9, ($x = 4.2245$) for Q10, ($x = 4.244$) for Q11, ($x = 4.1837$) for Q12, and ($x = 4.1020$) for Q13. The results also show that a standard deviation less than one means the participants' perceptions are the same. the standard deviation is lower than 1.0 as suggested for the data variability. The respondents were very consistent in their opinions (F.Hair, 2010).

Majority of internal auditors that replied regarding the internal audit objectivity and independence standard conformance within their organizations believed was well and it was supported by the average mean score values, 4.1938 which is above the mid-point, i.e., 3.00. Also the variance in perception among internal auditors that responded for the standard represented as low by the average standard deviation value 0.80596. Which means the standard is healthy complied fairly with the standard. Therefore, it indicates that the independence and objectivity of IA are maintained by the Ethiopian shipping and logistics service enterprise, which is good.

According to the findings of the analysis, responses from Q8 to Q13 given by the responded were good and healthy.

This finding is consistent with the findings of (Alzeban & Gwilliam, 2014), who believed that internal audit independence is of primary importance in providing effective internal audit services because it necessitates an atmosphere of objective and uninhibited appraisal

and reporting of findings without pressure from audited units, which can greatly improve the audited unit's efficiency. (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.

4.3.3. Internal Auditors Communication

Scholars acknowledge that skills in communication that are considered effective in every organizations are valuable. IIA Standards and previous studies concur that research on communication and how effective it is in internal auditing is essential. The findings of this study questioniers reveal that for internal audit to add value effective communication is a key element. Respondents were asked to rate their firms in terms of how effective communication contribution had an influence in Internal audit value addition.

	Factors	N	Minimum	Maximum	Mean	Std. Deviation
Q14	Communication among the internal audit team is efficient	49	3.00	5.00	4.2449	.66240
Q15	The internal audit has developed good cooperation between auditors and auditees	49	3.00	5.00	4.3265	.74688
Q16	Communication between internal audit and external audit is efficient	49	3.00	5.00	3.9796	.77701
Q17	Communication between internal audit and management is efficient	49	2.00	5.00	3.7347	.78463
Q18	Do consider that internal audit work is realized with responsibility	49	3.00	5.00	4.1633	.71726
					4.0898	0.7376

Table 4.7. Internal Auditors Communication

According to the third section of the questionnaire (Q14 to Q18), which examines the quality of IA work, the mean response was more than 3.00. This implies that participants agreed that

there is good communication among the enterprise's internal audit team, external audit, and management. There is also a high level of cooperation between internal audit and the auditee, which leads to responsible internal audit work. The standard deviations of Q14 to Q18 were less than 1.00. It indicates that the respondents' perceptions were the same.

The results showed that the communication process had a positive and significant effect on the successful application of Value addition of internal audit. Effective communication between superiors and subordinates, between auditees and auditors. Communication processes that are not running well will hinder the implementation of a system both in companies and in local governments. As explained in the previous chapter, communication is the process of sending information and mutual understanding from one person to another (Keyton, 2011). The importance of communication during the intended changes has been demonstrated empirically and mutually agreed among practitioners. Communication failure can lead to non-functioning outcomes such as stress, job dissatisfaction, low trust, decreased organizational commitment, severance pay, and absence and this can negatively affect organizational efficiency (Zhang & Agarwal, 2009). (Przybylska et al., 2021) writes that effective communication is the cornerstone of internal auditing. And he also recommends open communication lines. As can be observed from the results, open communication lines exist in ESLSE.

To summarize, for IA to add value, effective communication is a key element. It must explain audit findings to various levels of auditees and top level management in a manner that creates an understanding of the subject matter and must create an image of adding value to the organization and not just being investigators.

4.3.4. Competency of Internal Auditors

This section sought to examine what consequence adequacy of audit staff has on internal audit value added by IA. The participants were required to express the extent to which they agreed with the statements that were tied to competence in a gage of disagree strongly and strongly agree. The study of the findings are tabulated in table 4.8

	Factors	N	Minimum	Maximum	Mean	Std. Deviation
Q19	Internal audit teamwork has proven that it has the	49	3.00	5.00	4.5102	.61652

	necessary knowledge in the audited area						
Q20	The internal auditors are professionals	49	3.00	5.00	4.5510	.61445	
Q21	IA ensures that activities they undertake are in compliance with set policies, set procedures, laws, and regulations	49	3.00	5.00	4.4082	.70470	
Q22	Expertise capable of addressing corporate risk is available within IAF	49	3.00	5.00	4.3673	.72726	
Q23	Most IA staff have professional certification in IA, and most staff have the sufficient skills required	49	2.00	5.00	3.8571	1.04083	
Q24	The IAF's procedures, as well as the collection of evidence, are completed within the time frame specified	49	3.00	5.00	4.4490	.73771	
Q25	Internal auditing is done with modern technology, which includes computerized data tools and specific IA software	49	3.00	5.00	4.4694	.64878	
Q26	The internal auditors have the expertise to detect noncompliance in activities and the confidence to issue audit reports	49	4.0	5.0	4.673	.4738	
Q27	I appreciate that audit work is efficiently performed according to the planning period	49	3.00	5.00	4.4082	.64286	
Q28	The internal audit team is focused on essential elements	43	3.00	5.00	4.3721	.69087	
					4.4066	0.6898	

Table 4.8. competency of Internal Auditors

One of the other main factor used in this study is competency of the auditor for internal audit work. According to this section of the questionnaires (Q19 to Q22), which examines the competency and proficiency of IA, the mean response was more than 3.00. This implies that participants agreed that the the internal audite team have good knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional

responsibilities. It encompasses consideration of current activities, trends, and emerging issues, to enable relevant advice and recommendations among the enterprise's internal audit team and management. This leads to that the audit team can add value by focusing on essential elements and detect non-compliance of activities and also have the confidence to issue audit reports according to the planning period.

Except for Q23, the standard deviations from Q20 to Q28 were less than 1.00, as shown above. It indicates that the respondents' perceptions were the same. For Q23, This implies that those respondents' perceptions were far away from each other.

The aggregate conformance level of the enterprise standard attributes is represented by a mean of 4.4066 and a standard deviation of 0.6898. The results reflected that the internal auditors' competency, proficiency, and due professional care adequately complied with the standards.

In general, the above result implies that all the respondents agreed that professional competency enhances internal audit efficiency and effectiveness, which could help add value. In addition, all interview respondents also agreed that professional competency improves internal audit effectiveness. This means that the more qualified internal audit personnel ESLSE hires, the more effective their internal audit will be. This result is in line with (IIA, 2016) standards and findings of Rose. (Jacob M. Rose & Norman 2013) found that professional competency has a direct relationship with internal audit effectiveness, indicating that professional competency increases compliance with audit plans and preparing clear reports to management and the audit committee to ensure proper communication improves an effective internal audit function, which promotes organizational performance. as depicted in Table 4.8, shows that well-experienced and skilled internal audit staff are key drivers of internal audit value addition.

4.3.5. Internal Audit Quality

	factors	N	Minimum	Maximum	Mean	Std. Deviation
Q29	The number of complaints (doubts) about the internal auditors' findings (report) is very low because their report is correct and reasonable.	49	3.00	5.00	4.5918	.57440
Q30	Audit findings are supported by sufficient evidence	49	4.00	5.00	4.5714	.50000

Q31	Audit recommendations are constructive	49	3.00	5.00	4.3061	.65205
Q32	Internal auditors are not considered to be disrupting regular activity	49	3.00	5.00	4.2653	.78463
Q33	There is regular follow-up by the internal audit staff to examine the action taken to correct the problems found	49	3.00	5.00	4.1020	.74288
Q34	Internal auditing contributes to greater levels of quality assurance	49	1.00	5.00	4.2245	.82324
Q35	The internal audit reports are readily understandable	49	4.00	5.00	4.5510	.50254
Q36	Cost savings and improvements from recommendations implemented	49	1.00	5.00	4.4898	.71071
Q37	Percentage of audit plan completion	49	3.00	5.00	4.3878	.63954
					4.3877	0.6588

Table 4.9. Internal audit Quality

To effectively examine the quality of audit work by internal auditors in the ESLSE, the factors used in measuring the quality of audit work were studied. The test result is presented in Table 4.9. All the factors used to assess the quality of audit work were highly endorsed by the respondents..

The results for Q29 and Q31, where the mean is above the average of three, show that there are very few complaints about reports because they are clean, reasonable, and supported by sufficient evidence, and audit recommendations are constructive.

As can be seen in the above table, for Q32 to Q35 participants, the response result shows that the means (mean = 4.2653; 4.1020; 4.2245; and 4.5510), respectively, show that because the internal audit staff examines the action taken to correct the problems regularly for quality assurance, and also internal audit reports are readily understandable. In the auditing department, they are not considered a disturbance.

Concerning cost savings and improvements from implemented recommendations, the percentage of audit plan completion results from Q36 to Q37, as shown in the above table 4.9, and the responses of the two questions have a mean value of 4.4898 and 4.3878, respectively. The respondents have agreed positively on the question under discussion.

The standard deviation of the three questions is also less than 1, and the standard deviation is lower than 1.0 as suggested for the data variability. The respondents were very consistent in their opinions (F.Hair, 2010).

Overall, results with respect to the importance of quality of audit work in enabling the value addition of the internal audit function is significant. The study findings by (Mihret, D.G&Woldeyohannis, 2008;Baah & Fogarty, 2016; Mihret & Yismaw, 2007; Tackie et al., 2016) and (Thi & Huong, 2018) highlighted that internal audit effectiveness is strongly influenced by internal audit quality. (Cohen & Sayag, 2010) also considered the quality of internal audit work as a factor of internal audit effectiveness.. The value-adding function of IA assumes that IA is successful. The value-adding role of IA presumes that IA is effective. Alongwith the above (Alzeban & Gwilliam, 2014) emphasize the impact of internal audit quality to internal audit

With regards to internal audit value creation, the findings indicate that most enterprises formally measure the performance of their IAF, with the most popular method, assessments of follow-ups on recommendations and audit plan completion. This corroborates the results of the (IIA, 2019) survey, which demonstrates percentage of audit plan completion as well as acceptance and implementation of recommendations as being the most utilised methods by stakeholders (IIA, 2009). The study shows that internal audit quality is considered one of the key ingredients important for the internal audit function to add value.

4.4.Summary

According to these theoretical currents (agency theory, institutional theory, communication theory), the *raison d'être* of the internal audit function is legitimate because of its quality as a defender of the interests of agents and principals, thanks to the reduction of informational asymmetries that persist at all levels of the organization. Furthermore, the internal auditor plays a decisive role in the added value process from the point of view of the theories of the enterprise; the auditor is a valuable source of information that provides insight into the robustness of internal control systems. It also resolves agency conflict and provides operational visibility for BODs so that they can make improvements to operational procedures.

With respect to factors of value addition, the study concludes that the above-interrelated IA attributes are important to the ability to add value. The enterprise has highly skilled staff,

which is the highest bearing for IA value addition, as one needs to be positive and significant to integrate well with senior management and have excellent communication skills to effectively discuss any deficiencies identified with the BOD.

The findings of the research also showed the board had direct support and assistance, and they were also aware of the needs of internal auditors; they got essential funds (facilities) to help them perform auditing activities as desired. Furthermore, the findings of the internal auditors were adopted by management. Therefore, top-level management support is a determinant factor; according to the findings of the study, it has a positive and significant effect on the internal audit practice and value addition.

The thematic study, supported by the literature review, found that internal audit functions that make use of the latest technology when performing the audit were found to be value-adding. Furthermore, having enough resources, staff, and equipment to perform the internal audit service will contribute to its being perceived as value-adding. The neat appearance of internal audit staff as well as their ability to act with professionalism were found in the literature to be contributors to their being perceived as value-adding.

Moreover, with respect to the independence of IA and unrestricted access to all operations, personnel, assets, and transaction records, the response is positive, which can lead to significant value addition. This can also be observed in the interview response.

Additionally, with respect to quality internal audit activities, respondents consider them to be the most value-adding. In determining which internal audit activities add value, stakeholders assess whether the activity is already being done by the second line of defense. This indicates that if the third and second lines of defense were to be combined, it would increase efficiency and effectiveness. In relation to performance indicator measurement, the most common methods used were found to be surveys from auditees and assessments of follow-ups on recommendations. This suggests that ESLSE stakeholders consider cost savings and enhancements implemented from recommendations as valid yardsticks to measure the IAF's contribution to value addition. To sum up the responses, to add value effectively through reporting, internal auditors need to consider where they want their audience to focus. Accordingly, they should take into account the needs, wants, and resources of various stakeholders. The audit report should be easy for readers to navigate,

and if appropriate, it should stratify findings and recommendations into categories of importance.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

5.1. Conclusion and Recommendation

This is a case study in assessing determinants of value-adding role of internal audit effectiveness within the ESLSE organizational structure and its relation to other operating departments. Based on semi-structured questioners' with internal auditors, general

accountant and from operation section which reveal the implicit knowledge of the respondents, the results contribute to the growing literature which highlights the relevance of the IAF as a corporate governance actor. The findings give a first and good picture of the structure and the positioning of IAFs within the enterprise. An efficient IAF forms a major source of information and consequently provides significant support for the board members in order to fulfil their supervisory responsibilities. The intensity of collaboration thereby strongly depends the board's valuation of the IAF, but in every sense helps to improve corporate control and audit issues.

The organizational structure results show that the IAF is subordinated to the board of directors (either the entire board, the CEO, or the CFO in this case) and thus has a direct connection to the highest level of management within an organization. Due to this outstanding organizational integration, internal auditing can be interpreted as a crucial control function. In order to optimally utilize this control function, the internal structure of the IAF, as well as the audit fields, are organized analogously to the corporate organization. A critical discussion of this fact could argue that because of the direct relationship to the executive managers, a potential lack of independence and objectivity may arise. However, the organizational chart confirms this, especially the organizational status if the IAF is directly subordinate to the BOD.

This design increases the quality of audit and control units because the audit activities are performed more target-oriented. Furthermore, the researcher find that the level of qualification increases continuously and that the knowledge required is changing from general to particular. This particular expertise enables internal auditors and audited units to communicate on the same level, which therefore improves communication as well as the value added role. The so-called common ground is identified as another key ingredient, which strongly influences the success of internal auditing. The common ground encourages implicit knowledge exchange and thereby enhances a common corporate feeling. At best, this results in a common corporate governance understanding rather than an exclusive definition for each single corporate governance body. In general, the exchange and communication between the IAF and other corporate governance actors, especially the board of directors, are essential for a well-working audit function, which is supposed to create and add value for the enterprise.

5.2 Recommendation and Further Research

In conclusion, the following list includes some of the improvement options that are strategic in nature:

- The board of directors should support organizational independence of the internal audit activity and provide the sufficient financial and human resources, and other requirements for applying the proposed framework of value-based internal audit to improve the performance of internal audit in the enterprise.
- It is necessary to expand the scope of the internal audit activity and develop the services it provides to include a variety of assurance and consulting services, which expected to increase the demand for it significantly from management and stakeholders.
- Holding training courses for internal auditors to increase their professional experience to improve the quality of internal audit services, to add more value for the enterprise and provide the needs of stakeholders.
- continuously reviewing team composition, training and development, and ways of working, concentrating on strong communication with management throughout the assignment. Pit stops during assignments keep auditors focused on value-add and completing the assignment within the time and budget constraints.

Although the study forms a valuable starting point, the researcher is aware of its limitations. The researcher worked on one state-owned enterprise, which is a small sample of cases but a common size for qualitative research. As a consequence, the qualitative result might need a larger quantitative validation. For future research, a larger sample size and the use of a survey could aim at this potential drawback and offer further insights. Because of this, the findings are not generalizable, and there is a potential sample selection bias. However, this paper was not performed in order to generate generally accepted data, but the results give a first overview of different organizations regarding the organization of an IAF.

The described limitations of the research project are typical for qualitative research since a qualitative approach cannot claim to generate universal validity or generalizability. For future research, a detailed comparison of organizations with respect to business size, industry, or type of organization can be performed only for larger groups of comparable companies.

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Annex

Annex A- Questionnaires for Internal Auditors



ST Mary University
College of Business and Economics
School of Graduate Studies
Department of Accounting and Finance
Questioners for Internal Auditors

Dear Respondent:

The main purpose of this interview is to seek information about "an assessment of the organizational factors that affect the value-added role of internal audit" in your enterprise and to conduct a master's thesis (research) for the partial fulfillment of a Master's Degree in Accounting and Auditing at St. Mary's University. The study's findings will help internal audit improve its performance and add value. The conclusions of the study will be presented in aggregate terms without any reference to the specific office or individual respondents.

Please do not write your name on the questionnaire. I would also like to reassure you that any information you provide for this research will be kept strictly confidential and used only for the purposes of this research.

Your honest and insightful comments are greatly appreciated.

Thank you in advance for your support and participation.

With best regards,

Million Mengesha, Mobile: +251- 930392877,

Email: millionmt75@gmail.com

Section 1. Demographic Characteristics

General Instruction: Please indicate your choice by putting (√) mark in the bracket.

1. Gender : Male (_____) Female (_____)
2. Age (in year): 20 to 29(____), 30 to 39(____), 40 to 49(____), 50 to 59(____), above 60 (____)
3. Level of education: Diploma (_____), Bachelor's Degree (_____), Master's Degree (_____) or others (_____)
4. Work experience year: (a) from 1-3(____), (b) from 4-6(____), (c) from 7-9(____), (c) from 10 & above (____)

Section 2: Factors that affect Value Adding role of Internal Audit Function

This section identifies the qualities of a value-adding job in the internal audit function (IAF) of ESLSE in order to ascertain the components of value addition. This part also aims to determine whether the value that the IAF contributed can be evaluated.

Kindly tick (√) the appropriate scale (point) that indicates your opinion in table below. The values of scales are **5 = strongly agree, 4= Agree, 3= Neutral, 2= Disagree, 1= strongly disagree.**

3.1. Management Support

	Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Q1	Management supports the efforts of internal auditors in your enterprise					
Q2	Internal auditors have free and unconditional access to offices, files, and documents required					
Q3	Internal auditors in your organization are allocated adequate resources to carry out their work as planned					
Q4	Senior management and the BOD members are very satisfied with the performance of the head of					

	internal audit in your organization.					
Q5	The management facilitates IA employees' participation in training and development programs to maintain their skills and keep up-to-date in the field.					
Q6	Audit goals are well aligned across all levels of the enterprise					
Q7	Internal auditors suggest solutions that solve problems in your enterprise.					

3.2. Organizational independency and objectivity of internal auditors

	Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Q8	In your sector, organizational independence allows the audit activity to conduct work without interference by the entity under audit.					
Q9	Internal auditors feel free to include any audit findings in their audit reports.					
Q10	The Internal Auditor has free and unrestricted access to all operations, personnel, assets, and transaction records.					
Q11	Internal auditors are proactive					
Q12	Internal auditors possess objectivity as a key factor for internal audit activity to add value					

Q13	The professional qualifications and training of internal audit employees are high					
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3.3. Effective communication as a factor of internal audit value adding

	Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Q14	Communication among the internal audit team is efficient					
Q15	The internal audit has developed good cooperation between auditors and auditees					
Q16	Communication between internal audit and external audit is efficient					
Q17	Communication between internal audit and management is efficient					
Q18	Do consider that internal audit work is realized with responsibility					

3.4. Competence of internal audit staff

	Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Q19	Internal audit teamwork has proven that it has the necessary knowledge in the audited area					
Q20	The internal auditors are professionals					
Q21	IA ensures that activities they undertake are in compliance with set					

	policies, set procedures, laws, and regulations					
Q22	Expertise capable of addressing corporate risk is available within IAF					
Q23	Most IA staff have professional certification in IA, and most staff have the sufficient skills required					
Q25	The IAF's procedures, as well as the collection of evidence, are completed within the time frame specified					
Q25	Internal auditing is done with modern technology, which includes computerized data tools and specific IA software					
Q26	The internal auditors have the expertise to detect noncompliance in activities and the confidence to issue audit reports					
Q27	I appreciate that audit work is efficiently performed according to the planning period					
Q28	The internal audit team is focused on essential elements					

3.5. Quality Internal Audit

	Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Q29	The number of complaints (doubts) about the internal					

	auditors' findings (report) is very low because their report is correct and reasonable.					
Q30	Audit findings are supported by sufficient evidence					
Q31	Audit recommendations are constructive					
Q32	Internal auditors are not considered to be disrupting regular activity					
Q33	There is regular follow-up by the internal audit staff to examine the action taken to correct the problems found					
Q34	Internal auditing contributes to greater levels of quality assurance					
Q35	The internal audit reports are readily understandable					
Q36	Cost savings and improvements from recommendations implemented					
Q37	Percentage of audit plan completion					

Annex B - General Questioners



ST Mary University
College of Business and Economics
School of Graduate Studies
Department of Accounting and Finance
General Questioners

Dear Respondent:

The main purpose of this interview is to seek information about "an assessment of the organizational factors that affect the value-added role of internal audit" in your enterprise and to conduct a master's thesis (research) for the partial fulfillment of a Master's Degree in Accounting and Auditing at St. Mary's University. The study's findings will help internal audit improve its performance and add value. The conclusions of the study will be presented in aggregate terms without any reference to the specific office or individual respondents.

Please do not write your name on the questionnaire. I would also like to reassure you that any information you provide for this research will be kept strictly confidential and used only for the purposes of this research.

Your honest and insightful comments are greatly appreciated.

Thank you in advance for your support and participation.

With best regards,

Million Mengesha, Mobile: +251- 930392877,

Email: millionmt75@gmail.com

Section 1. Demographic Characteristics

General Instruction: Please indicate your choice by putting (√) mark in the bracket.

1. Gender : Male (_____) Female (_____)

2. Age (in year): 20 to 29(____), 30 to 39(____), 40 to 49(____), 50 to 59(____), above 60 (____)
3. Level of education: Diploma (____), Bachelor's Degree (____), Master's Degree (____) or others (____)
4. Work experience year: (a) from 1-3(____), (b) from 4-6(____), (c) from 7-9(____), (c) from 10 & above (____)

Section 2: Factors that affect Value Adding role of Internal Audit Function

This section identifies the qualities of a value-adding job in the internal audit function (IAF) of ESLSE in order to ascertain the components of value addition. This part also aims to determine whether the value that the IAF contributed can be evaluated.

Kindly tick (√) the appropriate scale (point) that indicates your opinion in table below. The values of scales are 5 = strongly agree, 4= Agree, 3= Neutral, 2= Disagree, 1= strongly disagree.

3.1. Management Support

	Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Q1	Does management support the efforts of internal auditors and employees in your enterprise?					
Q2	Does your internal auditor have free and unconditional access to your offices, files, and documents required?					
Q3	How do you rate the allocation of resources to internal auditors in your organization or section to ensure that their work is completed as planned?					
Q4	What are your thoughts about senior management and the fact that the members are very satisfied with the performance of the					

	head of internal audit in your section?					
Q5	Rate management facilitates IA employees' participation in training and development programs to maintain their skills and keep up-to-date in the field.					
Q6	Does the audit work have well-aligned goals across all levels in the section?					
Q7	Internal auditors suggest solutions that solve problems in your section.					

3.2. Organizational independency and objectivity of internal auditors

	Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Q8	Does independence exist and allow for the audit activity to conduct work without interference by your section?					
Q9	Does Internal Audit feel free to include any audit findings in their audit reports about you section?					
Q10	Does the internal auditor have free and unrestricted access to all operations, personnel, assets, and transaction records in your section?					
Q11	Does Internal Audit have a proactive attitude with your section?					
Q12	Does an internal auditor possess objectivity as a key					

	factor for internal audit activity to add value?					
Q13	Does the level of professional qualification and training of accountant employees seem high?					

3.3. Effective communication as a factor of internal audit value adding

	Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Q14	Do you agree that communication and coordination amongst the internal audit team are efficient for your section?					
Q15	The internal audit has developed a good working relationship with your section.					
Q16	Communication between internal audit and section staff is efficient					
Q17	How do you rate Communication between internal audit and management in this section is efficient.					
Q 18	How do you rate internal audit work					

3.4. Competence of internal audit staff

	Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Q19	Does the internal audit team have the proven knowledge necessary for your section?					
Q20	How would you rate the professionalism of the internal auditors?					

Q21	Does IA ensures that activities they undertake in section compliance with set policies, set procedures, laws, and regulations					
Q22	Expertise capable of addressing risk is available within your section.					
Q23	IA staff have professional certification in IA and most staff have sufficient skills required					
Q25	The IAF's procedures, as well as the collection of evidence, are completed within the time frame specified.					
Q25	Internal auditing is done with modern technology, which includes computerized data tools and specific IA software.					
Q26	Does the auditor have the expertise to detect non-compliance with activities and have the confidence to issue audit reports?					
Q27	How do you rate the efficiency with which audit work was performed according to the plan in your section?					
Q28	Does the internal audit team focus on essential elements in your section?					

3.5. Quality Internal Audit

	Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
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Q29	There are a number of doubts about the internal auditors' findings (report) because their report is not correct					
Q30	Is audit evidence sufficient to support audit findings?					
Q31	Does audit recommendations are constructive					
Q32	Do you feel internal auditors are disrupting regular activity					
Q33	Is there regular follow-up by the internal audit staff to examine the action taken to correct the problems found in Section					
Q34	How do you rate Internal auditing contributes to greater levels of quality assurance in your section.					
Q35	Does the internal audit reports are readily understandable					
Q36	Are there cost savings and improvements from the recommendations implemented?					
	Rate Percentage of audit plan completion					

