



DETERMINANTS OF INTERNAL AUDIT EFFECTIVENESS IN STATE OWNED ENTERPRISES OF ETHIOPIA: THE CASE OF ETHIOPIAN SHIPPING AND LOGISTICS SERVICES ENTERPRISE

By: Nebiat Ahmed

A Thesis Submitted to Addis Ababa University, College of Business and Economics, Department of Accounting And Finance in partial fulfillment of the requirement of Masters of Science in Accounting and Finance

Advisor: Alem Hagos (PhD)

June, 2022

Addis Ababa, Ethiopia

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Statement of Declaration

I declare that the ideas included in this Thesis are solely my own unless otherwise mentioned. I further attest that the work is unique and has not previously been submitted for another award.

Name of Student: Nebiat Ahmed

Signature: _____

Date: June, 2022

Statement of Certification

This would be to prove that Nebiat Ahmed's research entitled "Determinants Of Internal Audit Effectiveness In State Owned Enterprises Of Ethiopia: The Case Of Ethiopian Shipping And Logistics Services Enterprise," which was submitted in partial fulfillment of the university's requirement for a Master of Science (MSc) in Accounting and Finance, complies with the university's regulations and meets the accepted standards in terms of originality and quality.

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**ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE**

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First I would like to thank Allah for giving me the opportunity, strength as well as the ability to undertake and accomplish this study I experienced such a lot during this process, not only from the tutorial aspect but also from the aspect of personality. My humblest gratitude to the **Holy Prophet Muhammad** (Peace be upon him) whose way of life has been a never ending guidance on behalf of me.

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Nebiat Ahmed

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List of Acronyms and Abbreviations

AC:	Audit Committee
CBOK:	Common Body of Knowledge
CIA:	Certified Internal Auditor
COMP:	Competence of IA teams,
ESLSE:	Ethiopian Shipping and Logistic Service Enterprise
FDRE:	Federal Democratic Republic of Ethiopia
IA:	Internal Audit
IAD:	Internal Audit Department
IAE:	Internal Audit Effectiveness
IAF:	Internal Audit Function
IIA:	Institute of Internal Auditors
INDP:	Independence of internal audit,
IPPF:	International Professional Practices Framework
ISPPIA:	Institute of Standards on the Professional Practice of Internal Audit
IT:	Information Technology
MOFED:	Ministry of Finance and Economic Development
MS:	Management Support
OAG:	Office of the Audit General,
QUA:	Quality of IA Work
OLS:	Ordinary Least Squares

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ABSTRACT

The purpose of this study to identify the determinants of internal audit effectiveness in Ethiopian shipping and logistic service enterprise. The study used purposive sampling method and covered the head office and Kality branch inland transport, port and terminal. The study used mixed research approach by employing quantitative and qualitative research methods. The quantitative research method used through 104 usable self-administered questionnaires. These questionnaires were constructed in 5-point Likert scale, distributed to internal auditors, senior finance officers, and Human resources department of Ethiopian shipping and logistic service enterprise and the data analyzed using statistical package for social science software. According to the results of the study; competence of internal auditor, independence of internal audit, quality of internal audit work and audit committee were positive and statistically significant with effect on the effectiveness of internal audit ; management supports were positive but statistically insignificant with effect on the effectiveness of internal audit ; In this regard, competence of internal auditor, independence of internal audit, quality of internal audit work and audit committee were the factors determining effectiveness of internal audit in Ethiopian shipping and logistic service enterprise.

Keywords: *Internal Audit, Ethiopian shipping and logistic service enterprise, and Effectiveness of InternalAudit*

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

In a modern governance system, effective internal audit is very important for public sector offices. In corporate governance, due to different reasons, the subject of internal audit (IA) has received more and more attention in recent years. To be mention some of them, internal audit links to the internal control- risk management system; improve organizational efficiency and effectiveness through providing constructive criticism and recommendations about organizations status; reduce information imbalance during decision making; serves as an important internal assurance in the business and financial reporting process of corporations (Soh and Bennie, 2011; Cohen and Sayag, 2010; Mihret and Yismaw, 2007).

In democracy managed nation organizations are responsibility about the use of public funds and the provision of affordable, efficient and effective services. Using internal audit functions to achieve these government objectives is the primary mechanism for controlling and utilizing all available resources in a business organization. Larger and more complex systems require greater competitiveness, so internal auditing must gotten to be more proficient (Cecilia 2003).Regarding to this Institute of Internal Auditors (IIA) was formed 1941 Lake Mary Florida, in USA. The first book of Internal auditing is Modern Internal auditing, was also published by Victor Z. Brink in 1942 (Moeller, 2005). Subsequently, the internal audit profession has been developed globally under the global leadership of the Institute of Internal Auditors (IIA) for a long time; organizations have experienced rapid changes in financial complexity regulatory requirements, and technological advancement these changes, the current corporate scandals and global financial crisis have also prompted the public and regulatory agencies to give internal audit (IA) a unique position in corporate government internal guarantee services (Soh & Bennie, 2011).

Moreover on the above idea mention these financial crisis create a series of internal audit expansion opportunities to support and advise management to assess risks; instructions related to the organization's administration, operations and information systems, determine the efficiency and effectiveness of the internal control system, grant other organizational capabilities to the administration and establish direct reporting links with the audit committee and shareholders; asset protection; compliance with laws, regulations and contracts (IIA, 2001; MOFED, 2004).

As Internal Auditing role has existed for quite a long time in Ethiopia, its function started in the budgetary public sector as part of internal control it's recognized by law 1987 for the first time through Proclamation No. 13/1987. The announcement authorized Office of Auditor General (OAG) to advise internal auditors of government agencies and public companies in three aspects, namely, whether accounting records are properly and reliably maintained, whether the assets of the ministries and companies are adequately protected and properly maintained; and whether compliance with the policies and procedures established by senior officials or by management means that less attention is paid to operational audits that serve as management services. (Lemma Argaw, 2000)

Internal audit (IA) thinks about a key tool to control the management and operation of an organization (IIA, 2010). Initially, IA functional work focused on compliance assurance, financial control, and asset protection. (Allegrini, Onza, Paape, Melville, & Dellai, , & Omri, 2016). In recent years, IA has undergone some changes, which has resulted in an expansion of its scope and an increase in its potential for added value. The Institute of Internal Auditors (IIA) developed the definition of IA, which is now widely accepted:

"Internal audit an autonomous and objective counseling and confirmation action that aims to create added value and improves the functioning of an organization. It adopts a system, Standardized methods to evaluate and improve the effectiveness of risk management, control and governance processes, thus helping the organization to achieve its goals" (IIA, 2017).

In addition, the internal audit department applies principles in the organization in order to ensure the efficiency of the growth and development of the company and thus achieve a sustainable financial situation. You believe that organizational failure is the result of poor implementation of internal audit practices. (Alzeban and Gwilliam ,2014) internal audit effectiveness has a fruitful topic in the past year. This is because internal auditors play an important role in the survival and success of the organization. They declare that maximum organizations, whether or not public or private, have established internal audit departments for the advantage of playing internal audit services (Badala and Saidin, 2014).

Furthermore internal control includes activities that are important for the organization to achieve its intended purpose. The first is to verify all written records that should be audited, secondly, to investigate and analyze the polices that serve as benchmarks that auditors can use, and third, to evaluate the logic and integrity of the procedures, services internal and staff to ensure that they are efficient and appropriate to the organization's policies; the fourth and last main activity is to make recommendations on how to improve management (Eden and Moriah, 1996).

1.2 Background of the Organization

The Ethiopian shipping logistics service company was formed by the merger of four companies operating independently in the shipping industry. They are Ethiopian Shipping Lines Company, Ethiopian maritime and Transit Service Enterprise, and Dry Port Enterprise; in August 2016, they merged into the new company former Comet Transportation share Company. Among the key companies involved in the new merger is the former Ethiopian Shipping Company (ESL), which was founded on March 1, 1956 with a capital of 50,000 (fifty thousand) Ethiopian Birr. This establishment laid the cornerstone for the development of Ethiopia's modern shipping industry. When the route was established, the American Torus Investment Company held 51% of the shares, and the Ethiopian Commercial Bank and the Ministry of Finance held 49%. Subsequently, ESL's capital rose to 375,000 (three hundred and seventy thousand birr).

The company has played its national role in all the ports it operates. After providing services for the import and export of goods from various countries at the Port of Djibouti, it is equipped with port machinery, an effective service delivery system and a well-trained workforce to handle all service-related tasks at the main ports. Shipping and logistics Even before the Ethiopian war, the company mainly provided excellent ground handling, transit and loading and unloading ground transportation services. On the other hand, the dry ports company established in 1999 through the implementation of dry ports initiatives and expansion projects, has contributed significantly to reducing the cost, time and loss of assets of the Djibouti port. Although it is a recent development, it has demonstrated a huge port and excellent port-related performance. Comet Transport Services joined ESLSE to provide in land transportation services for the import and export of government and private sector goods, with full institutional capacity. At this time, in order to establish an efficient private transport and logistics system compatible with the rapid growth and development of the country, with the help of favorable government policies, the four mentioned companies were merged into the European Union in 2004. The company is subordinate to the Ministry of development and is managed by the board of directors. The company has a chief executive officer and three deputy chief executive officers. It consists of three main departments, including shipping, ports and terminals, freight forwarding and logistics, and a corporate department, as well as a support department that reports directly to the CEO. It has 18 departments, 35 services and 10 branches. One of the most important branches is located in the port of Djibouti. The company has four sections led by four vice presidents, namely: shipping section, freight section, port and terminal section and corporate service section (<http://eslserver11:9000/eslportal/index.php>).

1.3 Statement of the Problem

Internal auditors have the proper and capacity to access all information the organization departments and their role is every activity of the corporate governance system. Subsequently, as an critical member in central government exercises, all partners will advantages from a strong internal audit function, such as: monitoring risks, providing assurance, to detect fraud within their organizations, identify the weakness about internal control system, playing a key part in compliance work, and spending a lot of time consulting or operation-oriented work to improve effectiveness and efficiency of the organization (Smet and Mention, 2011).

Internal audit's ability to detect non-compliance activities and make useful contributions to the public sector is measured by internal auditors' ability to identify non-compliance activities and their use of Generally Accepted Auditing Standards (GAAS). Because the recommendations made by the internal auditors are actually implemented by the audit office; planning, audit work and the ability to report audit results are the most important factors in evaluating the effectiveness of internal audits (Cohen & Sayag, 2010; Arena and Azzone, 2009; Mihret and Yismaw, 2007) in the organization have inefficient internal audit team faced many challenges such as fortune on profit, lack of expertise leading to trivial auditing findings, lack of professional development, disorder of administration not controlling procedure of the organization, loss of asset increasing liability, repetitive audit routines which staffed members can predict and failure of the organization as a whole (Mihret et al. 2010).

At present, the adequacy of internal auditing has been widely considered. Investigate internal audits carried out in various countries around the world for the appearance of Dhamankar & Khandewale (2003) effectiveness of internal audit, Arena, M, & Azzone (2010) Internal audit effectiveness Relevant drivers of audit satisfaction, Aaron (2010),The effectiveness of internal audits in Israeli organizations, Theofanis, Drogalas, and Giovanis, (2011) evaluation of the effectiveness of internal audit in Greece, Wahid (2012), "Perceived effectiveness of the internal audit function in Libya, Endaya, and Hanefah, (2013). Internal audit effectiveness: in Malaysia, Hella & Mohamed (2016) the research paper Factors Affecting the IAE in Tunisian Organizations etc.

In Ethiopia, various scholars are studying the effectiveness of internal audit. Mihiret & Yismaw (2007), "Internal Audit Effectiveness in Case Study Ethiopian Public Sector, Mihret (2010) focuses on selected Ethiopian government departments, state enterprises and private companies; Shewamene (2014)" Determinants of Public Sector Internal Audit Effectiveness, Part of Ethiopian Public Sector

Office Case Study Abraham (2015) Construction and Business Bank Internal Audit Effectiveness Decision Empirical Research on Factors Mastan, Habatamu, Rajeswari, & Muhammed, (2015). The effectiveness of internal auditing to improve organizational performance a case study of in the Wollo region; Tadiwos (2016)), "Factors determining the effectiveness of internal audits of commercial banks in Ethiopia"; Wondimagegn (2016),"Determinants of effectiveness of Internal Auditors in the Public Sector, Ethiopia Department of Health Office Case Study Hawa (2016)," Factors Determining the Effectiveness of Internal Audits Around the Office of Economic Development and Administrative Finance of Finfine in Oromia district " Shiferaw 2017 determinants of audit effectiveness: a case study of a specific public sector office in the North Gondar region; Lakachew (2017) Factors Affecting Internal Audit Effectiveness In Amhara Region Public Universities. Alemzewed (2018) Determinants of the effectiveness of internal audits in Ethiopia Ayitenew & Lakech Internal Audit Determinant of internal audit effectiveness: Evidence from the Gurage region, Mihret A. 2020 factors that determine the effectiveness of Ethiopia's internal audit take as an example the ministries of the FDRE The academic attempts to investigate the effectiveness of internal auditing, but there are no recognized guidelines or tools to identify or measure the effectiveness of internal auditing (Arena & Azzone 2009). The literature also shows that there is no universally accepted method to evaluate the effectiveness of internal audit. For this reason, the researchers who studied the effectiveness of internal audit in the past also used different methods to study the effectiveness of internal audit.

Different researchers have done in this case because of the importance of internal audit effectiveness, the researchers called for need more research on internal audit effectiveness in a examples given; Arena and Azzone (2010), Chaveerug (2011), (Hella & Mohamed 2016 Shewamene (2014), Alemzewed (2018) ,, and Mihret et al. (2010) emphasized the need for future research to examine the factors that affect the effectiveness of internal audit in different variables and the possible interactions between them such as the audit committee.

Thus this study differs from the others prior First this research focuses on a single governmental entity that is closely interconnected with international industry, has its own budget, and is represented on a board of directors, and is part of a larger public service organization and the trade units, organizational structure, the guidance police and procedures and the objectives are differ from the other public budgetary organization. Secondly the study differ from the previous studies develop additional variable that is audit committee its include because of the previous studies reflect for further studies testing and it's highly audible in the company, controller of the organization each

illegal activity, it's very important in internal audit activity and the audit department give their report to this committee for decision earlier studies wondwosen (2019) used these factor but not measure correctly based on the character his examine only the presence and his focused on private business the industry type, the organization structure differ so in this study would use additional question to examine the effect of this committee to examine the influence. Furthermore the study was examining the relationship of organizational independence, competency of internal audit staff, management support, and internal audit quality and audit committee with the EIA. The outcomes of the study were useful to maintain effective IAD in organization and also it will fill the gaps in the literature.

1.4 Research question

1. What is the effect of management support to enhance the internal audit effectiveness in Ethiopian shipping and logistics service enterprise?
2. What is the influence of internal auditor's independence for IA effectiveness?
3. What is effect of competency internal audit staff to determine IA effectiveness?
4. What is the level of internal audit quality to affect the internal audit effectiveness in Ethiopian shipping and logistics service enterprise?
5. What is the contribution of audit committee to determine IA effectiveness?

1.5 Objectives of the study

1.5.1 General objective of the study

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

1.5.2 Specific objective of the study

The studies try to achieve their specific objectives:

1. To assess the contributions of management support for IAE in the enterprise.
2. To examine the contributions of independence of internal auditors for IAE in the enterprise.
3. To measure internal audit work quality to the effectiveness of internal audit for IAE in the enterprise.
4. To examine the contributions of competency internal auditors staff for IAE in in the enterprise.
5. To investigate the contribution of audit committee for IAE in the enterprise.

1.6 Research Hypotheses

The researcher attempted to generate the following guiding study hypotheses based on well-observed theoretical and empirical literature. They are written to achieve both broad and specialized goals.

1 H 1: Management supports are positively and significantly affect the effectiveness of IA

Mahzan et al, (2012) argued to that Management is beginning to rely on IA as an internal control mechanism tests and balances functions whilst making sure that it is working effectively. According to Cohen and Sayag (2010), internal auditors are given sufficient resources to carry out their duties and tasks, and the IA department can hire competent staff and provide progressive training and development when there is top management support. And also management team that fails to exercise the internal auditors 'suggestions can reduce the efficiency of the IA team (Van Peurse, 2005).

2. H 2: Independence of IA is positively and significantly affects the effectiveness of IA.

The role of IA in an organization is complex. Van Peurse (2004) believes that the relationship between internal auditors and management is likely to be disrupted. Internal auditors are expected to support management's work while independently assessing management's effectiveness. The internal auditor is responsible for protecting the best interests of the employer, but may hesitate to take action against management, regardless of the outcome. BouRaad (2000) argued that the strength of the IA division should be judged in terms of independence from management and operational responsibility.

3. H3: Quality of Internal Audit Work is positively and significantly influenced the effectiveness of IA.

Glazer and Jaenike (1980) argued that conducting audit activities in accordance with internal audit standards contributes significantly to the effectiveness of audits. (Bou-Raad, 2000). Therefore, it can be argued that the quality of IA work is understood in terms of compliance with formal standards and the efficiency of audit planning and implementation, thus improving the effectiveness of the audit.

4. H4: Competence of IA teams is positively and significantly affects the effectiveness of IA.

(AITwajry, Brierley and Gwillian2003) stated that proper staffs in the internal audit department and management are key to the effectiveness of the operation and internal audit department. Audits

require professionals with education, training, experience, and professional qualifications to perform all audits required for their mission. Auditors must meet the minimum training requirements and standards published by their respective professional organizations IIA (2008).

5 H5: Audit committee is positively and significantly affects the effectiveness of IA.

(Oussii and Boulila Taktak, 2018).argued that relationship between AC financial expertise and IAF effectiveness is special AC is important because it is responsible for monitoring the performance of the internal audit department. This is a crucial determinant of the quality of internal control.

1.7 Significance of the Study

In developing countries like Ethiopia, studying internal audit effectiveness is essential to compact fraud and corruption. One of the base to increase internal audit effectiveness is studying factors which affect internal audit effectiveness, that why this study focus on identifying factors which affects internal audit effectiveness on Ethiopian shipping and logistics services enterprises. This study used input for Ethiopian shipping and logistics service enterprise to achieve objective of the organization through give up-to-date information and audit findings to support convenient and legitimate decision making. It moreover utilize for other researchers who assess a case studies related to internal audit and those who was interested with the functioning of the internal audit activities of shipping and logistics organization. The findings and conclusions drawn in this case study may utilize as a portion of the reference materials for the purpose of stimulating debates on the effectiveness of internal audits. Further the finding of the study may as supporting material for further investigations with same area of interest.

1.8 Scope of the study

The common point of this research is to evaluate factors affecting the effectiveness of the internal audit of Ethiopian shipping and logistics services companies and their overall impact, Because of time and budget limitation the researcher forced to collect data from ESLSE headquarters and Kality inland transport, port and terminal. The target group of the population is the department management's senior officers from finance, HR departments and internal auditors of the organization. Conceptually the study is limited to examine the factors which include internal audit quality, management support, independence of internal auditor, competency of internal audit staff and audit committee. But this is not the only factor which influences internal audit effectiveness.

1.9 Limitation of the study

This study has limitation it's the respondents not respond according to the researcher time expectation, secondly it's difficult to obtaining information especially from higher level management, audit reports specially reports after merging and also the results of the study cannot be generalized to internal audit functions in other countries public sectors than Ethiopia because each country has its own nature and culture. Further there is a limitation of literature on the area of effectiveness of internal audit in Ethiopia especially in case of shipping industry.

1.10 Organization of the Study

This study consists of five chapters. The first chapter is the introduction part its contain background of the study , the background of the organization ,statement of the problem, research objective, research questions, research hypothesis, significance of the study, scope and limitation of the study, and organization of the research work. In the secondary chapter its cover a literature reviews, including theoretical reviews, empirical reviews, conclusions and knowledge gaps, and conceptual frameworks. Third chapter deals with the research design and methods used in the research. Fourth Chapter try to show the findings and discussions and finally the fifth Chapter discuss about the conclusions of the research results and possible recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This Literature review is produce after reading of book and review academics literature with connected to this research topic and this chapter reviews both the theories and empirical studies the determinant factors of effectiveness of internal audit in Ethiopian Shipping and Logistics Service Enterprise. The theoretical section discusses theories of auditing, types of internal audit, elements of internal control, internal audit functions and determinants of internal audit. The empirical section reviews various research papers in the areas of internal audit. The conclusion section points out main findings from the literatures there to indicate the knowledge gap existing in the area of internal control and framed out the conceptual framework.

2.2 Theoretical Review

2.2.1 Basic Concepts of Internal Auditing

A comprehensive definition of auditing in ISO defines an audit as a "systematic, independent and documented process for obtaining records of audit evidence, allegations of fact or other information that is relevant and verifiable, and for an objective evaluation of the scope of the audit. Criteria Set of guidelines, procedures or requirements that must be met (ISO 2018). This is a process of examining information created by another person to see if the data is reported fairly.

According to Arens et al. (2012), Audit, the first audit beneficiaries are divided into two categories: External Audit and Internal Audit. The auditors involved in such an audit are called external auditors and internal auditors and they provide a fair picture of the financial performance of the company. Internal audit is expressed as an independent and objective evaluation of the performance and finances of companies that are mostly managed by their own employees. Each piece of work is performed by a separate group of employees who may or may not have professional auditing experience and qualifications. The most important job of an internal auditor is to review and provide helpful feedback for managers to request corrections and advice on better management and financial activities within the organization.

2.2.4 Theories of auditing

(Endaya & Hanefah, 2013) is a new approach adopted by combining the three theories of agency, institution and communication.

2.2.4.1 Agency theory

In the agency theory, originally proposed by Watts and Zimmerman reputable auditor an auditor who is appeared to meet expectations is appointed not only within the interest of third parties, but also within the interest of management. A corporation is viewed because the results of more or less formal contracts, during which several groups make some quite contribution to the corporate, given a specific price. Company management tries to induce these contributions under optimum conditions for management: low interest rates from bankers, high share prices for stockholders, and low wages for workers. In these relationships, management is seen as an "agent" trying to obtain information from "directors" such as bankers, shareholders, and employees. Center relationship costs are monitoring costs (the cost of monitoring agents), bonding costs (costs incurred by an agent to ensure that agents do not take adverse actions against principals), and residual loss (effective loss that occurs despite bonding and monitoring costs (Rick et al, 1999; IIA, 2001).

Peursem and Pumphrey (2005) viewed internal auditors as agents and supervisors of a number of internal audit users, including the board of directors, the audit committee, and senior management. Agency problems could occur when the board or its audit committee is inefficient, and hence, the senior management is probably going to be a strong influence over the interior audit. Internal auditors often are employed by senior management, but at the identical time, they're also agents of the board and audit committee who trust within the internal auditors' ability to gauge senior management's works. However, internal auditors may have different reasons for acting against the interests of the Board of Directors and its Audit Committee, and these reasons include financial rewards from managers, personal relationships with them, and also the power of senior management in shaping the long run position of internal auditors and their salaries. In such a piece environment, internal auditors as agents may have an incentive to be bias of knowledge flows, which results in new concerns of the board and audit committee about their trust on the interior auditors' objectivity, and preventing such threats of objectivity becomes necessary for the board and its audit committee.

2.2.4.2 Institutional Theory

Institutional theory explains how organizational structures and practices are shaped by changes brought about by normative pressures, including external and internal sources such as laws and regulations, or by professions (Zucker, 1987; Mihret et al., 2010). Similarly, Arena and Azzone (2007) identified the following external forces acting on individuals and organizations: laws and regulations (mandatory isomorphism), decisions of other organizations (mimetic isomorphism), and advisory or professional associations (normative isomorphism). Several previous studies in internal audit have adopted an institutional theory (Al-Twajry et al., 2003; Arena & Azzone, 2006; Arena & Azzone, 2007; Mihret et al., 2010). Al-Twajry et al. (2003) adopted the isomorphic perspective to analyze internal auditing in Asian countries, so institutional theory is used to clarify their findings on the establishment of internal auditing and the role of government in promoting its development. Similarly, Arena and Azzone (2006) focused on forced isomorphism to examine the internal audit event in six Italian companies as a multiple case study.

Their results confirmed that the introduction and development of internal auditing were influenced by the coercive, mimetic and normative pressures. Institutional theory proposes that the survival of a corporation depends not only on achieving production efficiency but also on its conformity to societal norms of acceptable practice (DiMaggio & Powell 1983; Meyer & Rowan 1977). Institutional theory is taken into account suitable for IA research for various reasons. Firstly, the speculation encompasses IA practices which are part of organizational phenomena. Secondly, it helps to elucidate organizational phenomena without assuming a limited set of organizational goals—unlike agency and transaction cost theories, which are both predicated on the idea of shareholder wealth maximization. Third, it could help audit research in developing countries where the stock market is underdeveloped (Mihret, and Mula 2010). Prior research suggests that institutional theory has validity in IA research, both in developing countries (Al-Twajry, Brierley & Gwilliam 2003).

2.2.4.3 Communication Theory

Davidson (1991), Quinn and Hargie (2004), and Golen (2008) confirm the importance of all the organizational functions mentioned, and thus the need for effective communication skills. Studies done by Lewis and Graham (1988) and Smith (2005) suggested some ways to boost these communication skills. Previous studies by Hahn (2008) and Golen (2008) discussed communication barriers and the way they'll be overcome. At the identical time, several previous studies have

dedicated their work to communication in organizations. These studies evidenced that, effective communication and interpersonal relationships between managers and staff have a strong contribution to enhance profitability, and productivity; and it results in higher quality of services and products, and cost savings (Clampitt & Downs, 1993). Per both IIA Standards and former studies, the study of effective communication in internal auditing is important, and hence this study should consider the subject for its achievement. For this reason this study should consider communication theory for independent variable selection.

2.2.3 Elements of internal Controls system

Internal control may be a structure of policies, processes and routines that helps the organization to realize effectiveness and efficiency in operations, reliability of economic reporting and compliance with law and regulations. Internal Control comprises of components: risk assessment, control environment, information and communication, control activities, and monitoring activities (Arwinge, 2013).

2.2.3.1 Risk assessment

Risk assessment includes the identification and analysis of relevant risks, which are the prerequisite for determining risk management. Risk is defined as the possibility of an event occurring and preventing the organization from achieving its objectives. Risk assessment takes into account different types of internal and external risks (Integrated Internal Control Framework, 2013). The sources of internal risks are derived from the nature of the business activity, the investment activity, the financial structure and the accounting of day-to-day activities. While the external sources of risk are, for example, the regulatory environment, such as accounting practices, laws and regulations, and other external factors such as general economic conditions, interest rates or inflation (Ramos, 2006). Risk assessment plays a necessary role in reducing and eliminating the value of risk and protecting the welfare of society by using taxpayers' money primarily in the public domain (Qiao, 2007). By planning and organizing activities, an organization can reduce risk, but it is impossible to eliminate all risks within the organization; therefore, it is important that organizations can accept some risk (Internal Control - Integrated Framework, 2013).

It concerns the identification and analysis of related risks associated with achieving business goals. (Theofanis et al, 2011), similar to the vision (Sudsomboon & Ussahawanitchakit, 2009) of risk assessment, since the process of identification and management analysis - Relevant risks for the preparation of economic statements that can reasonably be presented in accordance with

generally accepted accounting standards. In this situation, management must carefully determine the level of risk to be accepted and can try to keep this risk within specified limits. Therefore, local governments often need to assess the level of risk to which they are exposed in order to take the necessary measures. Risk is the possibility that an incident or activity negatively affects a company and prevents it from achieving organizational results. Risk management encompasses the activities and measures that ensure that a company is aware of risks, makes informed decisions about how to address these risks, and identifies and uses potential opportunities. Good risk management requires careful consideration of the key concepts of minimizing losses, maximizing opportunities, and preparing for uncertainty (Sarens & De Beelde, 2006).

2.2.3.2 Control environment

Control environment: This can be the main aspect of corporate governance, as it can reflect the attitude and also the management guidelines regarding the importance of internal auditing within the business entity (Theofanis et al 2011). Its influence on the achievement of corporate objectives (Aldridge & Colbert, 1994). The control environment helps reduce the scope of fraudulent activities in the organization's operations. The internal control framework standard of a unit's besides depends on the work and quality of its control environment (Amudo & Inanga, 2009). Therefore, providing a proper control environment for a neighborhood government is incredibly important to the effectiveness of its work.

According to COSO (1992) and Brinks (2005), the control environment sets the tone for the organization and impacts the way in which workers carry out their exercises and perform their control errands. The control environment is the establishment for all other components and offers structure and teach. Effective control must include integrity and ethical values, commitment to competence, management philosophy and operating style, organizational culture, attention and supervision by directors or an audit committee with the objective of good governance and adequate financial information. The control environment is often influenced by internal factors, such as a company's integrity and ethical values, management philosophy and operating style, as well as external factors, for example, the competitive environment, as well as laws and regulations that contribute to the development of the organizational structure (Integrated Internal Control Framework, 2013). Any organization can endeavor to dispose of or decrease shortcomings in its operations by creating a great control framework (Tsay & Turpen, 2011). Tsay et al, (2011) suggest that creating a robust control environment is the starting point, but this task will be challenging as it will require

changes in corporate culture throughout the organization, from the operational level to senior executives, so management and employees share the mindset.

2.2.3.3 Information and communication

Some of respondents say that a good control environment facilitates communication. As we mention above attitudes determine whether employees communicate e.g irregularities and our findings support Power's (2007) and Carrington's (2014) statement, that quality of knowledge and communication highly depends on how good the control environment is In contrast to the findings of Power (2007), Martin et al, (2014) suggest that information and communication support other control components and mean that relevant information of the highest quality must be communicated for other components to function well.

Further (Crescenzo, 2015) also mentions that face-to-face communication is one of the best channels for transmitting information. Our respondents share this opinion and say that a business cannot be built solely on email, phone calls, and social media. Face-to-face communication, for example, workplace meetings, disseminates important information or news and is a step in the risk assessment process. By communicating with employees, managers are ready to recognize and identify various problems that may arise at the unit and department level and to take action.

2.2.3.4 Control activities

Control activities consist of two elements, policies and procedures. A guide specifies what activities should be assigned and what procedures are used to implement the guides (Ramos, 2006). Policies and procedures help minimize and prevent risks, as well as identify and correct errors and irregularities in financial reporting. Control activities take place at the lowest levels of a company and at the smallest levels within business processes (Integrated Internal Control Framework, 2013).

The control activities component must be linked to the risk assessment component. After selecting the appropriate response actions in the risk assessment process, management must select the control activities necessary to ensure that response actions are carried out efficiently (Moeller, 2007). D'Aquila (2013) suggests that management should consider the environment, operations and specific characteristics of the organization when selecting and developing control activities. Different types of control activities are required to mitigate risks. (Ramos 2006) mentions that there are several types of control activities: high- level reviews, information science, physical controls, segregation of duties.

2.2.3.4 Monitoring activities

The final component of control is Monitoring. Continuous assessment and monitoring of business processes at different organizational levels helps to inform management and thus the board of directors in good time about deficiencies that need to be remedied at short notice. By monitoring work processes, the organization can ensure their quality and effectiveness (Integrated Internal Control Framework, 2013).

One of the first objectives of the supervisory control component is to assess the performance standard of the system over time and to recognize that circumstances will change. (Ramos, 2006) point out that monitoring procedures are often carried out in two ways, as a continuous process and as part of a separate evaluation, monitoring activities could also be continuous or a separate evaluation and is within the complex of Importance and dynamic environments faced by many organizations. Monitoring attempts to confirm that systems are working as planned and this is often achieved through ongoing monitoring activities, periodic evaluations, or a combination of the second COSO (2004) and COSO (2005), which use the principles of monitoring as continuous monitoring that enables management to determine if a control is in place and functioning, separate evaluation and reporting, which also enables management to view the effectiveness of the control over financial reporting and reporting deficiencies, helping to identify deficiencies in the control system, recognize and take corrective actions.

2.2.5 Internal Audit Functions

In spite of the very fact function of auditor varies across organizations (Prawitt, Smith & Wood, 2008). through, as a results of increase in accounting scandals in recent years, the interior audit function has received impressive attention as a very important contributor to effective corporate governance and financial reporting because a prime quality internal audit function focused on improving financial reporting through ensuring standard compliance (Prawitt et al, 2008).While it's essential to own a good and efficient internal audit function within a corporation (Kinsella, 2010) this is often because internal audit function that's well perform function one amongst the strongest means to watch and promote good governance system in any organization.

Salisu (2007) stated that the power to create the interior audit function especially in attainment of the required objectives largely depends on the independence of audit personnel. Meanwhile, it's agreed that the needs of creating internal audit wasn't only to forestall or detection of fraud, promotion of clerical accuracy, protection of assets, policies and procedures compliance but also to; have clear

definition of duties and responsibilities; account for the accuracy of knowledge and coordination of all controls(Haun,1955; Pizzinia, Lin ,Vargus & Ziegenfus, 2011). During this vein, the functions to be performed by the interior auditor within a company have to be taking into consideration so as to help such organization in their objective achievement.

Furthermore, an effective internal audit can be an important asset in building public confidence in financial information and corporate governance if it contains these elements; Organizational independence, adequate mandate (competent administration, competent staff ,presence of approved audit charter, adequate financing ,unrestricted access, existence of audit committee, stakeholder support, professional audit standards and unlimited scope (Belay, 2007; De Smet & Mention, 2011). Beside the above, the interior auditor can even performed the subsequent functions : review the corporate's systems of internal control; report finding and proposals to management for improvement in detecting and preventing fraud; assist management in its responsibility of safeguarding the company's assets; coordinating the company's relations with external auditors; Review of regulatory compliance and compliance with company policies; Ensuring fiscal integrity within the reporting system; give the company with a pool of proficient ability (Mace, 1977). While Al-Twaijry et al (2004) found that the inner audit function within the Saudi Companies doesn't add value because they're not independent and mostly the interior auditors are involved within the ordinary daily non-audit work likewise the advice given by them aren't considered by the management. Nevertheless, the functions of the interior audit still improve (Dounis, 2006).

2.2.6 Internal Audit Effectiveness

The word "effectiveness has been defined by a few analyst, for illustrate Arena and Azzone (2009) defined effectiveness" as the ability to achieve results that are consistent with the objectives, while Dittenhofer (2001) defined effectiveness as the ability to achieve the accomplishment of the the objectives. Goals and Objectives the Internal Audit Institution IIA (2010) defined internal audit effectiveness –as the degree (including quality) to which specified goals are achieved.

Institution of Internal Audit IIA (2010) explain effective internal audit the degree (involve quality) to which established goals are achieved, while Mizrahi and Ness (2007) affirm their own definition, which is consistent with the ability of internal audit to prevent and correct deficiencies, and finally they define the effectiveness of internal audit as the number and scope of deficiencies that were identified after the audit process was corrected. Therefore going by the above definitions of

effectiveness and audit effectiveness, it's clear that audit effectiveness or internal audit effectiveness is means the same thing because they all have central objective, which is the ability to achieve the stated objective.

Although various approaches have been used in previous studies to determine an appropriate standard for evaluating the effectiveness of internal auditing (Unegbu & Kida, 2011) states that internal audit the department has a significant impact on its effectiveness. (Mat Zain ,Subramania, & Stewart, 2006). In line with the above, consideration the measurement of the effectiveness of internal auditing function keeps receiving a significant challenges, which is find the best and most relevant method to examine the efficiency and effectiveness of internal audit (IIA, 2010; Bota & Palfi, 2009, Spertus, Krumholz, Mitchell, & Normand, 2010).

Therefore, measuring the effectiveness of the audit is relevant, as an effective audit can be seen as an important part of new public management and such measurement can help improve the public accountability of local staff and the accountability of local government in its management. Set (Mizrahi& NessWeisman, 2007). . The choice of methods to measure the effectiveness of internal audit depends on the established objectives (Karapetrovic and Willborn, 2000; Bota and Palfi, 2009). While Beckmerhagen et al (2004) emphasize that measuring the effectiveness of an internal audit requires a clear definition, understanding and acceptance of the term "effective audit" to improve four key processes in the organization: Learning (training employees to do their job better), motivation (auditing also improves performance), deterrence (knowing that an audit prevents things that can lead to abuse)), and process improvements (internal auditing also ensures that the right things are done the right way) (Eden and Moriah, 1996).

2.2.7 Determinants of Internal Audit Effectiveness

2.2.7.1 Internal Audit Quality

The effectiveness of internal audit contributes greatly to the effectiveness of each individual audited body and the organization as a whole and also found that maintaining the quality of internal auditing contributes to the adequacy of the audited body's procedures and workflows and, therefore, internal auditing contributes to the effectiveness of the audited body and the organization in its performance Dittenhofer (2001). Xiangdong (1997) used agency theory to explain the role of internal auditing in an economy and notes that internal auditing has the advantage over external auditing of receiving information quickly and recognizing problems earlier; and Spraakman (1997),

who applied the theory of transaction cost economics, demonstrated the importance of internal audit recommendations for the management of government organizations.

Internal audit quality examined joined of the variables related to internal audit effectiveness by Mihret and Yismaw (2007) they did their research on the general public sector of Ethiopia, and their findings indicate that internal audit effectiveness is stricken by the internal audit quality, together with the support of management, the organization environment and also the characteristics of the organization. Glazer and Jaenike (1980) contended that conducting auditing activities in accordance with internal auditing standards important factor in auditing effectiveness. Ridley and D'Silva (1997) within the UK found that adherence to professional guidelines is the fore most critical supporter to the value of IA. The Standards for audits and audit-related services are published by the IIA (2008) and include standards for attributes, performance, and implementation. In general, formal auditing standards recognize that internal auditors also provide services regarding information aside from financial reports. They require statutory auditors to perform their duties objectively and in accordance with recognized criteria for professional practice. This internal audit will evaluate the management, control and governance of risks with a systematic and disciplined approach and will help to ensure that they are developed. this can be important not just for compliance with legal requirements, but because the scope of an auditor's duties could involve the evaluation of areas during which a high Discretion is required and audit reports can have an immediate impact on management selection or approach (BouRaad, 2000).

Additionally it can thus be argued that greater quality of IA work – understood in terms of compliance with formal standards, yet as a high level of efficiency within the Planning and conducting audits improves the effectiveness of audits. Internal audit quality, which is set by the internal audit department's capability to supply useful findings and suggestions, is central to audit effectiveness. Internal audit should prove that it's important to the organization and earn a reputation within the organization (Sawyer, 1995). Audit quality may be a function of the amount of staff expertise, the scope of services provided and therefore the extent to which audits are properly planned, executed and communicated

2.2.7.2 Competence of internal audit

The concept additionally known as competence has been defined via way of means of many authors in diverse fields/disciplines (Hoffmann 1999) and refers to particular knowledge, skills and attitudes had to carry out a bit function to an mentioned standard, as regards to actual operating environments

(IFAC 2010). For the needs of the CBOOK study, the main focus was on competencies and skills needed by internal auditors to perform internal audit engagements effectively (Bailey, 2010). Staff competence is an important key to the effectiveness of the internal audit activities (Alzeban & Gwilliam, 2014, Al-Twaijry et al, 2003). The International Standards for the Professional Practice of Internal Auditing (ISPPPIA) highlights the significance of inner audit group who possesses the knowledge, skills, and different abilities vital to carry out their responsibilities (ISPPPIA, Standard 2010). Indeed, internal auditors must collectively have the required education, professional qualifications, experience and training to be able to add value and improve the organization's operations (Mihret & Woldeyohannis, 2008)

Additionally Al-Twaijry et al, (2003) noted that the adequate level of competencies of internal audit staff in terms of coaching, experience, knowledge, and professional qualifications have a positive influence on the effectiveness of IA. Similar effects had been acquired in different research performed in Malaysia (Ahmad et al, 2009), Iran (Alizadeh, 2011) and African country (Staden & Steyn, 2009).

Furthermore, Ziegenfuss (2000) ranked the auditor education levels, the staff experience, the percent of certified staff and also the training hours per auditor among the foremost important inputs of the internal audit performance. In Taiwan, Hung & Han (1998) discovered that the training and professional abilities of internal auditors positively and significantly have an effect on the development of annual auditing plan. Moreover, Abdolmohammadi (2009) has established that licensed internal auditors enhance the compliance with the ISPPPIA in Anglo-Saxon countries. Other studies suggest that lack of competence of internal auditors is an obstacle to the effectiveness of IA during a number of African countries as Ethiopia, Ghana and Kenya Onumah & Yao Krah 2012, (Mihret & Yismaw, 2007 and Walter & Guandaru, 2012). With respect to the Saudi environment, but bearing on external audit, the final Audit Bureau's (GAB)2 summary reports for 2008 and 2009 identified lack of qualified staff together of the most problems underlying the many number of errors and irregularities that are occurring within audited organizations.

2.2.7.3 Independence of internal audit

The freedom from situations threatens by power of the internal audit activity interest to keep out the internal audit obligation in impartial manner (IIA, 2013). To recognize the degree of independence vital to effectively do the obligations of the internal audit activity, the chief audit

executive has direct and unrestricted access get admission to senior management and additionally the board. This may be finished via a dual-reporting dating and threats to independence be managed on the character of auditor, engagement, functional, and being independent is that the freedom from the control and directs have an effect on of control organizational levels (Pickett, 2010). This definition is a vital to the extent of audit work and enhances internal audits objectivity and integrity. Internal auditors should be independent from the activity they're auditing. Independence allows internal auditors to perform the impartial and unbiased judgments to the correct conduct of audit and achieved through organizational status and objective (Simon, 1995). Independence and objectivity are often treated similarly Independent, in turn, defined as being not dependent, not subject to the control of others, not subordinate, and not requiring or wishing on something or somebody else Also, to be independent is defined as not looking to others for one's opinions or for the guidance of conduct and not being biased by others. Objectivity, on the opposite hand, is defined as an existing independence of mind, regarding an object, because it is itself, and also as expressing or involving the utilization of facts without distortions by personal feelings or prejudice. In comparing the two concepts, it becomes clear that whether or not one is lacking independence it's still possible for one to be objective within the sense of regarding an object because it is itself or expressing or involving the employment of facts without distortion by personal feeling or prejudices (IIARF, 2001).

The optimum good thing about internal auditing to a corporation will be accomplished if the internal audit function is independent of course and in appearance and circuitously involved within the process of deciding (Switzer, 2007). Independence of mind reflects the auditor's state of mind that allows the audit to be performed with in an unbiased attitude and members must be independent after all. Independence of auditors is independence from whom possibly its independence from management, independence from those that may manipulate the corporate (Schilder, 1999).

Cohen and Sayag (2010) additionally argue that organizational independence of internal audit affects internal audit effectiveness. Auditor independence has long been considered because the key drivers of the audit function. Without independence, internal audit simply becomes an element of the management team, losing its ability to supply a fresh perspective Abu-Azza (2012), Cohen (2010), Haimon (1998) and (Mihret et al, (2007) found that auditor independence positively associated with perceived internal audit effectiveness.

2.2.7.4 Management Support

Top management support of the IAF within a corporation is dependent on top management backing. Internal auditors, according to the ISPPA, should have support from top management and the board of directors in order to carry out their duties and complete their responsibilities. Indeed, the internal audit department should be well-funded in order to improve the efficiency of its operations. Previous research has shown that top management support for internal auditing is important to the effectiveness of internal audit.

Auditors must let the planet in on this well-kept secret and, at the identical time, improve their image and enhance communication with their clients (Spencer Picket, 2003). Recently, management relies on internal audit to ensure; organization's confidence, trust in their effective internal controls and also the whole organization is functioning efficiently (Mahzann et al, 2012). Since internal auditors shows their findings as observations and proposals, managements play a important function in implementing good controls in terms of determining the controls' needs; designing suitable controls; implementing them; checking the right application; and maintaining and updating the control systems (Pickett, 2010).

Practically managements have a tangible impact on the internal audit department. This reasons problems to flow out for the reasons of the impact of managers 'positions, the capacity in audit appointment and consequently the need to expect managers' honesty. Therefore, risks will arise when those managers might override the internal control by coping with it as a managerial tool (Churyk et al, 2008). In other words, internal auditors should prevent from setting risk appetite, imposing risk management processes, being the core for the peace of mind of management in such some way to confirm that risks are going to be effectively managed, taking decisions regarding risk responses and completing risk responses on behalf of the management because they're management's responsibilities not internal auditors ones (Zwaan et al, 2009). However, Mahzan et al, (2012) stated that internal auditors can effectively fulfill their responsibilities if they function independently and not as a managerial tool, and that if there is authority, management is more likely to accept internal auditors' suggestions.

Given the very fact that internal audit activities are performed in dynamic management process and more supportive environment, auditor expects senior management to require the primary steps to support the IA process. Because, Sarens and Beelde (2006) argue that the general acceptance and appreciation of IA within the corporate is strongly dependent upon the support they receive

from senior management. Internal audit actively seeks management support with resources, commitment to market and communicate their added value.

The management support is nearly crucial to the operation and internal audit; because all other determinants of IA effectiveness derive from the support of top management, provided that hiring proficient Top management decisions have resulted in the hiring of IA professionals, the development of career paths for IA staff, and the provision of organizational independence for IA work (Cohen & Sayag, 2010). It means that it is in management's best interests to maintain a strong internal audit department (Adams, 1994; Mihret and Yismaw, 2007).

Therefore, audit finding and recommendation wouldn't serve much purposely unless management is committed to implement them. Furthermore, Belay, (2007) find that to curb corruption and inefficiency within the public sector of Ethiopia, it's mandatory to possess effective internal audit function (IAF) that successively needs appropriate establishing a governance structure, collecting sufficient and relevant resources, and assembling a skilled workforce

2.2.7.5 Audit Committee

The Audit Committee of the Board of Directors gives one very widespread thing of company governance. An Audit Committee could be very powerful not only in supplying objective oversight of the accounting of a corporation, however additionally in assisting to line an ethical –tone at the top (Locatelli, 2002). An audit committee in organization improves the independence internal audit of organization. (Deborah, 2004) the internal audit function of a company should lean a sufficiently status within the organizational structure to enable better communication with senior management and to make sure independence of internal audit from the audit. Independence is of paramount value in providing effective internal audit service to the management, for it affords an environment of objective and uninhibited appraisal and reporting of findings without influence from the units being audited.

The internal auditor's risk-driven efforts provide critical inputs to other governance participants, which includes the audit committee and management. In developed countries, the audit committee has the function of a mediator between the management and internal audit. This makes the function of management support help a lot much less essential than in developing countries, in which audit committees are new. This problem is also debatable even in developed countries' and can be managed the executive management is directly in a position, or indirectly through the audit committee, and it affects to a certain degree the type of the

internal audit work. When the management considers the internal audit function as positive, then the characteristic is in all likelihood to be grater effective (Alzeban and Gwilliam, 2014). As reported by studies in the past, there is a linkage between audit committee and the effectiveness of internal audit. For instance, can be seen in the study by George et al, (2015) Further, studying the linkage between audit committees quality, Audit committee is also examined in some studies as available associated with internal audit effectiveness.

2.8 Empirical Review

As the main aim of the research is to assess the effectiveness of internal audit in the case of Ethiopian and shipping logistic service enterprise, different authors and researchers idea and recommendations regarding the main factors that influence the effectiveness of internal audit; such as management support, organizational ,independence, adequate and competent internal audit staff and quality of audit work are included in this literature as they are proofed the key determinant factors their respective case studies. Mihret and Yismaw (2007) in their research paper, Internal audit effectiveness: an Ethiopian public sector case study, intended to identify the factors impacting the effectiveness of internal audit services in large public sector higher educational Institutions. The study conducted by using a model developed in four factors: attributes of the audit; organizational setting; management support and internal audit quality. The end result of the research underlined that internal audit effectiveness is strongly influenced by internal audit quality and management support, however, audit attributes and organizational setting don't have an influence on internal audit effectiveness.

Shewamene (2014), his research paper the main objective of this study is to evaluate the determinants variables of internal audit effectiveness in the selected Ethiopian public sector offices. The findings of this study reveal a direct link between internal audit effectiveness and management perspective, support, and organizational independence of internal auditors, appropriate and competent internal audit employees, and the presence of an authorized internal audit charter. This analysis focuses on 15 government sectors that have been carefully chosen. The necessary information for the researcher was gathered through questionnaires. The presence of enough and skilled internal audit professionals, as well as the availability of an approved internal audit charter, considerably and favorably contributed to the efficacy of internal audit in the public sector. The remaining two factors, management's opinion of IA value and organizational independence of internal auditors, were both positively associated to the IAE, although their contributions were statistically insignificant.

Adhista (2015) investigated the elements that influence the efficiency of internal auditing. Internal auditor competencies, internal auditor independence, audit support for internal audit activities, and the interaction between internal and external auditors are all elements investigated in this study. The study's findings show that competences, independences, and the relationship between internal and external auditors have significant and positive effect on the internal audit effectiveness and audit support has no positive effect in the internal audit effectiveness. The ability of independent variables to explain the dependent variable is 62.5 %.

Abraham (2015) his research concerned the Determinants of Internal Audit Effectiveness empirical study on the construction and business bank the main objective of this study is to assess the determinants factors influencing the internal audit effectiveness in the case of construction and business bank the data was used for the study was collected exclusively through questionnaires). The study found out that all the independent predictors were positively related with the internal audit effectiveness in the Construction and Business bank. However, as per their significant contribution levels, the management support followed by the adequate and competent internal audit staff and organizational independence respectively were the major determinant factors for the effectiveness of the internal audit in the study area.

Hella and Mohamed 2016 research article Factors Affecting Internal Audit Effectiveness in Tunisian Organizations This study examines the role of IA effectiveness and its determinants in Tunisian organizations. The data used to test the hypotheses was collected through a questionnaire sent to DEA in 225 Tunisian organizations, resulting in a response rate of 65.77%. The results of the study have shown that the effectiveness of IA is positively influenced by the independence of internal audit, the objectivity of internal audit, support for the management of internal audit, the use of internal audit as a MTG and the organizational area. This study shows the importance of the effectiveness of impact assessment as a cornerstone of governance in the Tunisian context. The results provide information that is potentially useful to the accounting profession, management, audit committees / boards of directors, and regulatory bodies to identify key factors that will help improve the effectiveness of IA.

Tadiwos (2016) his study focus on Factors Determining the effectiveness of Internal Audit in Ethiopian Commercial Banks” to identify the factors determining the effectiveness of internal audit in Ethiopian commercial banks. The research used self-administered questionnaires & interviews. Therefore, 244 questionnaires were distributed to head office internal auditors of ECBs. The factors to identify the effectiveness of IA were: independence of internal audit, the competence of the

internal audit team, management supports and Quality of Internal Audit. According to the results of the study; the competence of the internal audit team, independence of internal audit, and management supports were strong and statistically significant effect on the effectiveness of internal audit and were the factors determining the effectiveness of internal audit in Ethiopian commercial banks. Whereas, quality of IA result were its impact on the effectiveness of IA is insignificant in commercial banks in Ethiopia.

Alhassan (2018) published his research paper Determinants of Internal Audit Effectiveness in State Property Companies (SOE) in Ghana. The finding of the study show that the independence of the internal audit, the competence of the internal audit staff, the size of the audit, coordination between internal and external auditors and the support of senior management in internal audit work have a positive influence on the effectiveness of internal audit. Other factors, such as the degree of competence of the internal audit staff, had a positive effect on the effectiveness of internal audit. Therefore, it is critical that related parties, especially management, focus on the factors that are important for the internal audit function to be effective. This is because improving the effectiveness of internal audit is critical to improving the supervision and oversight of the financial management of SOEs in Ghana.

Solomon, Menza, and Wondwossen (2019) the study about the Determinants of Internal Audit Effectiveness (IAE) in the Ethiopian Public Enterprise, Case of Southern Region objective of this study is to investigate determinants of internal audit effectiveness in the Ethiopian public services offices. This study provides empirical evidence on the factors affecting internal audit effectiveness by taking 118 samples of internal auditors from SNNP regional bureau. The study used both descriptive and econometric methods to analyze the data set the finding of the study states that the availability of competent employees and institutional structure is significantly predicts effectiveness of internal audit. , internal audit effectiveness is responsive for relatively higher level of independence, The availability of resources both human and material resources are also significantly predicts effectiveness of internal audit and availability of standardized approved internal audit chart significantly influenced in the internal audit effectiveness.

Alemzewed (2019) in his study assess Determining the Internal Audit Effectiveness in Ethiopia In the case of budgetary public sectors which are located in Addis Ababa The study used purposive sampling method and cover selected budgetary public sectors. By combining quantitative and qualitative research methods, the researcher created a mixed research approach. A total of 85 self-administered questionnaires were employed in the quantitative study. Internal audit work quality and

management support have a statistically significant positive relationship with internal audit effectiveness, according to the study's findings. Internal audit independence and competency of the internal audit team have a statistically insignificant relationship with internal audit effectiveness.

Wondwosen (2019) the factors affecting internal audit effectiveness in Ethiopian private commercial banks were investigated in this study. Five hypotheses were formulated the study used primary sources of data through questionnaires. A cross-sectional survey design was employed, purposive sampling method was used and data were collected using structured questionnaires, with total of 168 questionnaires were distributed All of these five independent variables are making 60% explained internal audit effectiveness. The study discovered that there were strong positive connections between internal audit effectiveness and the characteristics (internal auditor independence and objectivity, internal audit staff competency, and the presence of audit committees). Organizational setting and management support, on the other hand, have no significant effect on the success of internal auditing.

Mihret (2020) in her research study focused on Factors Determining the Internal Audit Effectiveness in Ethiopia In the case of FDRE Ministries The study used explanatory research design and mixed research method. The research conducted on all (19) Executive organs. The results of the analysis showed that the management Support and quality of audit work have statistically significant and positive relation with EIA; the organizational independence of internal auditors has statistically not significant and positive relation with EIA.

2.9 Summary and Research Gaps

This chapter has provided evaluated of the literature on the internal audit effectiveness. Thereto end, it's attempted to make a theoretical foundation for the study of IA effectiveness. The chapter also additionally examined empirical literature on effectiveness of internal audit and its determinants. However, a number of the literature highlighted that IA to be considered as a worth adding service to organizations it should be effective. Limited research was found to own been conducted within the specific area of IA effectiveness. The discussion during this chapter shows that there are not any specific standards or recognized methods of evaluating IA effectiveness. Thus, previous research has provided mixed results on the effectiveness of IA and evaluated the determinants of IA effectiveness differently.

This literature review is argued some factors related with the effectiveness of IA these are independency of internal auditors, internal audit quality, competency of the auditors, organizational independency, management support and audit committee. In step with the previous literature review the researcher identifies the subsequent gaps: - Internal Auditors role and its effectiveness haven't been briefer studied. In other words, to date there has been relatively little research on the effectiveness of IA. Have limited literature the majority is concentrated on the developed country economy haven't literature the developing country IA effectiveness. In the past decades, there is no studies are conducted with in IA effectiveness in shipping business sector some researchers advocated further research and therefore the need for a more comprehensive study on the problem of IA effectiveness.

The present research asses the internal audit effectiveness in state owned enterprise in Ethiopia the case of Ethiopian Shipping and logistic service enterprise supported competent internal audit staff, independence of internal audit, quality of audit work, audit committee and management support.

2.10 Conceptual frameworks

Based on Mihret and Yismaw (2007) literature review, the following conceptual framework is formulated by researcher which has five main factors influencing the effectiveness of internal audit.

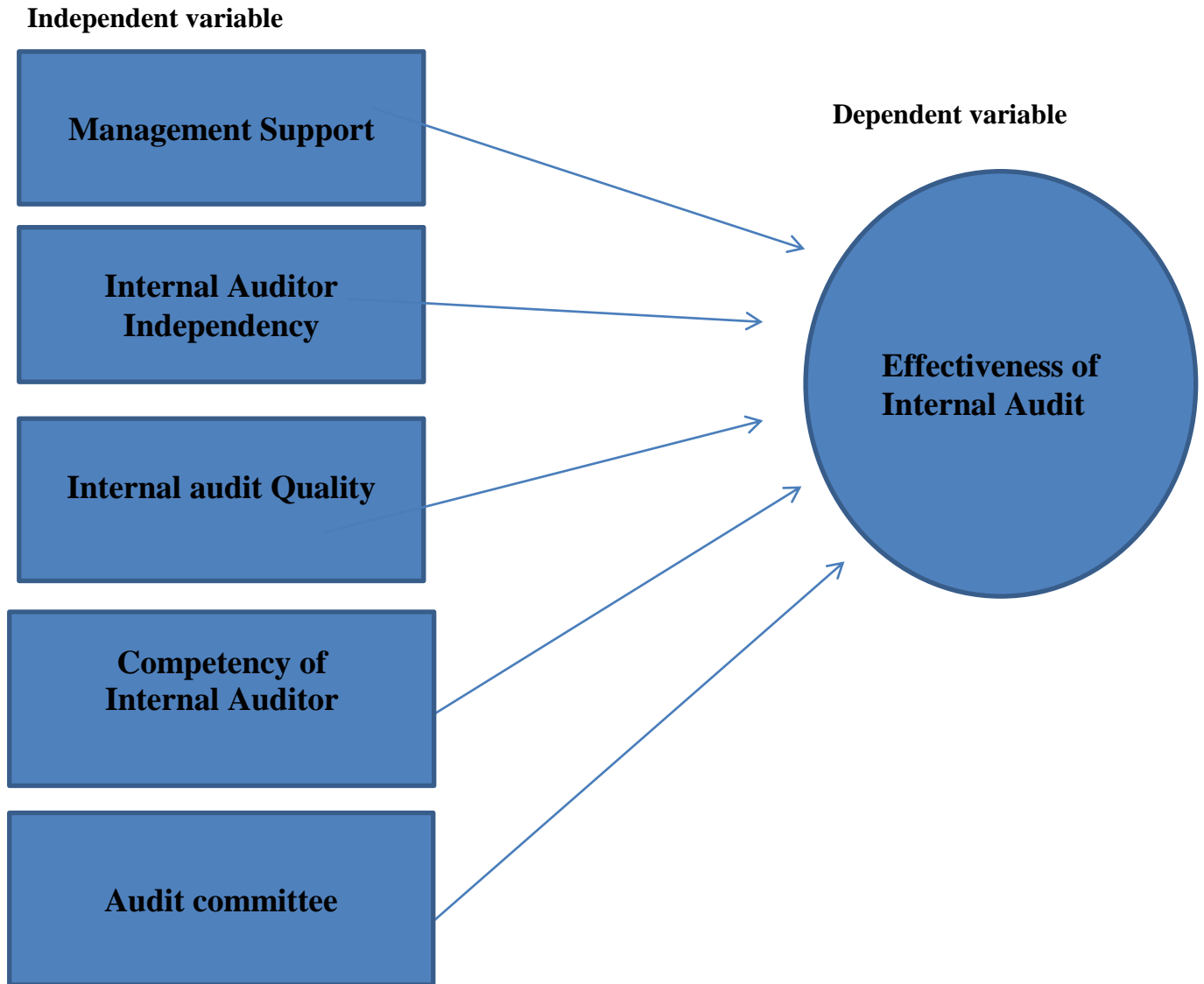


Figure 1: Factors influencing internal audit effectiveness

Source: Mihret and Yismaw (2007)

CHAPTER THREE:

RESEARCH METHODOLOGY AND DESIGN

3.1 INTRODUCTION

This chapter deals specifically with the basic techniques and tools the study used to address the research objectives and it's contain, how data are collected and analyzed, its includes research design, population of study, sampling methods and the data collection methods and the analysis techniques.

3.2 Research approach

In this study the researcher used mixed research Methodology because the study used a quantitative research method to test the hypotheses and make predictions by using measured amounts and ultimately describe an occasion by using figures. This method allows the researcher to use numbers in statistical tests to confirm that the results have a statistical relationship, and uses numbers to clarify their findings and further the study was used a qualitative research method that used to describe the nature and quality of a problem while interpreting and trying to know the event. This method allows the researcher to clarify his results using texts. This research method gives the audience an image of what the researcher is seeing, which makes it difficult to quantify the results using statistical methods, (Kowalczyk, 2016), thus the researcher was used both a qualitative and a quantitative approach, it is say, a mixed approach.

3.3 Research design

This study focused on identifying the factors that determine the effectiveness of internal auditing in Ethiopian shipping and logistics services companies. The intention of the study explains what factors determine the effectiveness of IA by examining the relationship between dependent and independent variables. The study used explanatory studies since the aim to explain and take into account descriptive information (Gray, 2014) and explanatory studies guide a situation or problem to explain the relationship between variables. The study was applying both quantitative and qualitative approach. Thus, the quantitative approaches used for employee statistical tests such as correlation and multiple regressions in order to obtain a clearer view of the relationship.

3.3.1 Data Sources and Collection Tools

To achieve the objectives of the research, the researcher used primary sources. The data source of the study is mainly the primary data source that obtained through questionnaires. The questionnaire was adopted from previous authors and related literature. The researcher modifies the questions to relate them directly to the research hypotheses and the objective of the study and to make them easily understandable to the respondents. The questionnaires are prepared with in type of Likert-Scale to point out the respondent's level of agreement and disagreement. So it constructs in five point scale where the lowest scale represents strongly disagree and therefore the highest scale represent strongly agree.

3.3.1.1 Primary Data Collection method

The primary data was collected through structured questionnaire that was distributed to those all employees and division managers of the internal audit department, finance (senior officers) and HR department at the head office and Kality inland transport, port and terminal of Ethiopian shipping and logistics service enterprise.

3.3.2 Population, Sample and Sampling Technique

3.3.2.1 Population of the study

The population is the first step in the design of the sample (Creswell, 2009). The study participants were all internal auditors and senior officers from the finance and accounting, and human resources departments of the Ethiopian shipping and logistics services enterprise headquarters and kaity inland transport and port and terminal. According to the data obtained from the organization currently there are 104 employees in the management staffs, officers in the Internal Audit, finance, and Human Resources department of the Ethiopia Shipping and Logistics Services Company. Therefore, the population of the study is all internal auditors and senior officers from the finance department and senior officers in human resources departments of the Ethiopian shipping and logistics services enterprise headquarters and Kality inland transport and port and terminal which comprised of 104 employees.

3.3.2.2 Sampling Techniques and sample size

As cited in (Musa, & Alkassim, 2016), convenience sampling is a type of no probability or non-random sampling where in individuals of the goal populace that meet sure sensible criteria, along with clean accessibility, geographical proximity, availability at a given In view of the

researchers inability to reach out to the entire population, and in order to gain the advantage of an in-depth study and effective coverage, samples are drawn using Convenience sampling from the total population.

The researcher used a sample from the above mentioned population, although, the choice of sample size has a bearing on the reliability of the result of a study. However, sample size is one of the factors that contribute to the credibility of the survey estimate. From the total population of the study the researcher is used all sample of respondents. The survey was administered to internal audit staff and senior officer in finance, and HR department head office and Kality inland transport, port and terminal employees of Ethiopia shipping and logistic service enterprise. Regarding the distribution of the questioner across the departments based on the proportion of the number of employees out of 104 employees 30 was taken from internal auditors, 62 from finance and the other 12 employees will be from HR department. The sample respondents are selected using non-probability sampling techniques namely a purposive sampling method used.

3.3.3 Data Analysis

As clarified in the above sections, the investigation is outlined to take after a blended strategy. To this conclusion, both qualitative and quantitative examinations were utilized. Information collected using survey instrument were analyzed through descriptive statistics, frequency distribution, correlation and regression ,graphic insights, recurrence dissemination, relationship and different calculated relapse utilizing Factual Bundle called scientific package for social sciences (SPSS)_. It makes a difference to portray what the information see like, where the middle (cruel) is, how broadly they are spread in terms of one angle to the other angle of the same information (Leedy, 1989). The 'SPSS' is utilized to discover out rates, cruel values frequencies, relationships, etc. as primary implies for summarizing the information

3.3.3.1 Quantitative Data Analysis

The researcher was used the econometrics package STATA version 21 (Statistical Package for the Social Science). Software used for the purpose of analyzing the collected data. Depending on the survey instrument chosen, which is a Likert scale questionnaire model, the researcher would use ordinal (classified) categorical data. In this regard, the data collected through a questionnaire are transformed to represent the variables in the hypotheses. This is done by averaging the responses to the items for each construct. Mean values were chosen because responses to items ranging from -strongly agree to strongly agree generate ordinal data (Mihret et al. 2010).

Once the data was collected, and processed. The raw data is converted into a suitable form for analysis and interpretation. This is accomplished through a series of activities including editing, coding, entering, and tabulating. The objective was to check the completeness, internal consistency and adequacy of the answers to each of the questions to determine the effectiveness of the internal audit in Ethiopian shipping and logistic service enterprise. Both descriptive and econometric models were used for data analysis. Descriptive statistics, mainly frequency number, percentage, measure of central tendency (mean), measure of dispersion (standard deviation), are used to summarize and describe the results of the observation.

3.3.3.3 Measurement of Variables and the Regression Model

As already mentioned above the dependent variable in this study determinates of internal audit effectiveness is measured with the scales developed using the five-point Likert Scale of -1-Strongly Disagree -2-Disagree -3-Neutral -4-Agree and -5-Stronly Agree. As per the existing literature, it is possible to measure these variables by primary data Questionnaire. This degree is predicted to deliver a dependable end result after the gathering of the facts and its analysis. The regression model below reveals that there is a relationship between one dependent variable (determinates of internal audit effectiveness in ESLSE) against five independent variables (internal audit quality, management support, independence of internal auditor, competency of internal audit staff and audit committee.) and therefore, multiple regression analysis have been used for the study. As shown in the appendix there are questions each to internal audit quality, management support, independence of internal auditor, competency of internal audit staff and audit committee .The full regression model for the empirical investigation in estimating Factors that might explain the determinates of internal audit effectiveness in ESLSE is given as:

$$EIA = \beta_0 + \beta_1COMP + \beta_2INDP + \beta_3QUA + \beta_4MGTS + \beta_5AC + e$$

Where:

EIA = Effectiveness of Internal Audit in Ethiopian shipping and logistic service enterprise;

B₀ = Constant Term

B₁ to β₆ = coefficients of independent factors and

COMP= Competence of IA teams

INDP= Independence of IA

QUA= Quality of IA Work

MGTS=Management Support

AC=Audit Committee

And ϵ = error term

3.3.4 Validity

Adapting the data collection instruments from those employed in prior studies is expected to ensure the validity of the data generated. Consideration of latest professional standards in adapting the instruments is another attempt to enhance the validity of items in the instruments (Mihret , 2010).

The second chapter of this research provides an extensive background to the research by reviewing the relevant academic and professional literature. Therefore, the researcher is able to develop a theoretical framework reflecting what is perceived to be effective IA. In this chapter, the data analysis process combined evidence from different sources in a way that demonstrates the inter-dependence of evidence and enhancement of validity.

In this research, triangulation in terms of theory, data sourcing and investigation employed to fulfill the validity of the research approach. The researcher used some documents to triangulate results. Yin (1994) indicates that document information is important for triangulation, in order to corroborate and add to the evidence from other sources, thereby increasing validity. Validity in this research also relates to whether the findings of the study are true and certain: =True_ in the sense of the research findings accurately reflecting the real situation; and =Certain_ in the sense of the findings being backed by evidence.

3.3.5 Reliability

Reliability refers to the consistency of data collection practices so that they can be repeated to produce similar results. The goal is to ensure that if one researcher follows the same procedures as another researcher and does the same research again; both data sets will produce similar results and conclusions (Yin, 2003). Therefore, to increase the reliability of this study, the researcher creates a clear research design and selects an appropriate methodology that offers high reliability. As mentioned above, the researcher used documentary evidence as an additional source to improve the reliability of the questionnaire data. To further strengthen the reliability of the data for the quantitative part of the study, a reliability assessment will be carried out with Cronbach's alpha test. With a Likerts scale questionnaire, measuring the consistency or reliability of the questionnaire is essential. Reliability analysis was used in previous IA research that used a Likert scale questionnaire (Mihret et al., 2010; George et al., 2015; As Nunnaly (1978) stated, To measure such a reliability

analyses Cronbach's alpha (α) is the most common measure for the reliability scale. When a reliability analysis value (α) greater than 0.5 is a sufficient value, while 0.7 is a more reasonable Cronbach's alpha.

Table 3.1: Reliability test of Statistics

variable	Cronbach's Alpha	No of item
COMP	0.571	4
INDP	0.746	4
QUA	0.777	6
MGTS	0.574	4
AC	0.588	4
EIA	0.867	7

From table 3.1 above, the value for Cronbach's Alpha (α) above 0.5 for all variables. If Alpha (α) is greater than 0.5, it means that it acceptable reliability, then the responses generated for all of the variables 'used in this research were reliable enough for data analysis.

3.3.6 Ethical issues and confidentiality

During of the distribution, of the questionnaire, respondents were informed about the purpose of the study and the interests, along with the full right to refuse or accept participation. Respondents were informed that their reactions could be personally preserved and their identities should no longer be disclosed ... Everyone, involved in the study, had rights from to. We consider privacy and the dignity of treatment and do not cause any personal harm to the subject of study. The information received was strictly classified by the researchers. All support, collaborations from others, and sources from which information was obtained are known.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The fourth chapter discusses and presents about the results from the collected information through organized survey all internal auditors and senior officers from the finance department and senior officers in human resources departments of the Ethiopian shipping and logistics services enterprise headquarters and Kaliti inland transport and port and terminal. The outcomes are displayed in tables and figures, and the chapter is discussed by survey and report examination. The survey achieves the goals discussed before and replies the response for the questions. A total of 104 surveys which managed the determinants of internal audit effectiveness were disseminated to all internal auditors and senior officers from the finance department and senior officers in human resources departments of ESLSE. Out of them 91.34 % surveys were collected, and it was good Response rate. The chapter analyzed through SPSS result of statistics, in order to compute, demography of respondents, Normality test, Multicollinearity test, theory test and at the conclusion of the chapter the analyst would test fitness of the model or adequacy of the model and the hypotheses.

4.2 Background of the Respondents

Demographic characteristics of the respondents this regard consist of gender, educational level (academic qualification), field of study, and working experience in ESLSE. This is depicted as follows.

4.2.1 Gender of the respondents

In terms of gender According to the study findings (67.4%) of the respondents were male and (32.6%) were female respectively, and maximum of respondents have been male it means from the general population of the respondent the higher part its covered by male.

Table 4.1 Sex of the respondent

	Frequency	Percent	Valid Percent	Cumulative
Female	31	32.6	32.6	32.6
Male	64	67.4	67.4	100.0
Total	95	100.0	100.0	

4.2.2 Field of Study and Qualification

In the survey, respondents were asked to indicate their level of qualification and field of study. In the educational attainment formula, respondents stated the highest level of education. According to their answers, 64.2% of those asked have a bachelor's degree as the highest educational qualification. 35.8% of respondents have a graduate degree or master's degree as the highest educational qualification. Descriptive statistics for the data are shown in Table 4.2. Based on this finding, most of the members of the IA team were well trained. He holds a master's degree and a bachelor's degree in various research fields. This result is consistent with previous IA criteria (IIA, 2011) and studies (AITwajry, et al., 2003; Mihret & Woldeyohannis, 2008; Mihret, et al., 2010). In terms of professional qualifications, ESLSE Internal audit team did not have certified staff such as ACCA, CIA, CPA and Certified Insurance. Professional qualifications are of high quality in terms of added value and improved departmental and organizational performance (BouRaad & Capitano, 1999). Moreover, it is difficult to be effective without professionally qualified personnel (Okafor & Ibadin, 2009; Cohen & Sayag, 2010; AbuAzza, 2012).

Table 4.2 Qualification of the respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Degree (BA, BSC)	61	64.2	64.2	64.2
Master (MA, MSC)	34	35.8	35.8	100.0
Total	95	100.0	100.0	

Depending on the field of study, the study participants showed their highest educational qualifications. In this regard, 78 respondents (82.1%) had an accounting background. Thirteen respondents (13.7%) had a managerial background, and the remaining four respondents (4.2%) had other educational backgrounds. Descriptive statistics for the data are shown in Table 4.3. Most IA teams had an "accounting" background. This shows that Internal Audit activities at ESLSE are limited to the field of financial business. The IA team, including most "accounting" staff, may lack skills, experience and knowledge in other areas (Paape, 2007). The IA team, which includes most staff with accounting and financial backgrounds, may lack skills, experience, and knowledge in other areas such as detailed audit specialists. From this perspective, the scope of IA in these executive organs did not extend to non-financial activity areas.

Table 4.3 Respondent field of study

	Frequency	Percent	Valid Percent	Cumulative Percent
Accounting and finance	78	82.1	82.1	82.1
Management	13	13.7	13.7	95.8
other	4	4.2	4.2	100.0
Total	95	100.0	100.0	

4.2.3 Work experience in the enterprise

Respondents working experiences in the ESLSE ranged from two years and less up to above ten years. 10 respondents (27.4%) had above ten years working experience in the enterprise, 45 respondents (47.4%) had less ten years and above five years' experience and 20 respondents (21.1%) had above two years less five years working experience in the enterprise and 4 respondents (4.2%) are have two years and less working experience in the enterprise. This shows that respondents have a good work experience in Ethiopian shipping and logistics enterprise sector as the majority of the respondents that is 71 participants (74.8%) have a working experience five years and above. Descriptive statistics of the data are displayed in table 4.4 It shows that respondents good work experience in the enterprise. Based on the participants' response, internal auditors in ESLSE have good years of experience in the organization. It shows that auditors in ESLSE had well experience on the organizational activity and the ability to audit and add value to the organization or department specifically.

Table 4.4 year of experience

	Frequency	Percent	Valid Percent	Cumulative Percent
Two years and less	4	4.2	4.2	4.2
Above two years less than five years	20	21.1	21.1	25.3
Above five years less than ten years	45	47.4	47.4	72.6
Above ten years	26	27.4	27.4	100.0
Total	95	100.0	100.0	

4.3 Descriptive Statistics

According to the first section of the questionnaire (Q1-Q4) which examines the competence of IA team for all question no. from 1 up to 4 had a mean response greater than 3.00. This means that the participants have agreed to the capabilities of the ESLSE IA team. Descriptive statistics for the data are shown in Table 4.5 with a standard deviation of less than 1.00. This indicates that the respondents were close to each other.

Table 4.5 Descriptive Statistics for Competence of Internal Audit

Item	N	Mean	Std. Dev.	Min	Max
1 Internal auditors have the appropriate qualified or professional staff in your department	95	3.93	0.866	1	5
2 Internal auditors have deep expertise in the whole Departmental activities	95	3.92	0.846	1	5
3 Internal auditors have well-qualified, who perform tasks such as evidence gathering and produce reports in a timely manner	95	4.27	0.778	1	5
4 Internal auditor attending further training courses for professional Development Or attend a training seminar to update their knowledge	95	4.39	0.657	1	5

Source: Field Survey, 2021

According to the second section of the questionnaire the table 4.6 show describes Independence of internal auditor section. Independent means being free of line and top management's authority and direct influence. ESLSE internal audit staffs are free to decide the scope, timing, and extent of auditing procedures based on auditing standards and organization policy. The questionnaire (Q no 5- Q no 8) which examines the independence of IA for all question no. from 5 up to 8 had a mean response greater than 3.00. This shows that participants have agreed on the independence of IA ESLSE. Descriptive statistics of the data are displayed in table 4.6. The standard deviation of Q5-Q7 was less than 1.00. This indicates that the respondents perception were close to one another. But, standard deviation for Q8 was greater than 1.00. It show that the respondent's perception has been were far from one another. According to the literature review, internal auditors can efficiently fulfill their jobs if they work independently rather than as a managerial tool, and management is more likely

to follow internal auditor’s suggestions if they have authority. An organization's internal audit function should be given a sufficiently high status in the organizational structure to allow for greater contact with senior management and to ensure internal audit's independence from audit. As a result, the results demonstrate that internal auditor independence in Ethiopian shipping and logistics service enterprises is good, and we can conclude that the internal audit section is independent.

Table 4.6: Descriptive Statistics for Independence of Internal Audit

Item	N	Mean	Std. Dev.	Min	Max
5 Internal audit gives reports to the board of directors (or audit Committee) without any influence.	95	3.76	0.986	1	5
6 Internal auditors have unlimited and complete access to all records And information required performing audit work	95	3.86	0.963	1	5
7 Internal audit related to corporate strategy formulation and system design preparation	95	3.60	0.939	1	5
8 Internal auditors include in their reports any fault, fraud, misstated work and mistakes without any influence from anyone.	95	3.87	1.044	1	5

Source: Field Survey, 2021

According to the third section of the questionnaire (Q9-Q14) which examines the quality of IA work for question no. from 9 to 14 had mean response greater than 3.00. This shows that members have been agreed on the quality of IA work in ESLSE .Descriptive statistics of the data are showed in table 4.7. The standard deviation for question no. from 9 to 14 was less than 1.00. It suggests that the respondent’s belief have been near one another. But, standard deviation for Q11 becomes more than 1.00. It suggests that the respondent’s perception were far from one another. As a result, we can conclude that internal auditing is of high quality. As shown in the table 4.7 show, audit quality was good in terms of efficiently completing audit work, independence, and decision-making regarding the yearly audit plan. Despite the fact that the management of Ethiopian shipping and logistics service companies is obliged to work more to improve audit quality.

Table 4.7: Descriptive Statistics for Quality of IA Work

Item	N	Mean	Std. Dev.	Min	Max
9 Internal audit has an audit plan carried out their work efficiently according to that plan	95	3.95	0.892	1	5
10 Examination of information reliability and integrity, verification of working paper quality properly done by internal auditors	95	3.95	0.880	1	5
11 The external auditor conducts the audit using the internal audit working paper and final report	95	3.73	1.015	1	5
12 Internal Audit Department findings are correctly discussed and justified	95	4.04	0.862	1	5
13 Internal audit recommendations can be easily implemented	95	3.94	0.909	1	5
14 Internal audit reports are rigorous (decisions based on strong evidence) and accurate	95	3.94	0.697	1	5

Source: Field Survey, 2021

According to the fourth section of the questionnaire (Q16-Q19) which examines management supports for all questions had mean response greater than 3.00. This shows that participants have been agreed on the management support in ESLSE. Descriptive statistics of the data are shows in table 4.8. The standard deviation for Q17 to Q18 was less than 1.00. It shows that the respondent's perceptions have been close to one another. But, standard deviation for Q16& Q18 becomes more than 1.00. It suggests that the respondent's perception were far from one another. This result indicates that the management of Ethiopian shipping and logistics service enterprises is good, but different activities by senior management are needed, such as showing the organization's road map, giving full access to the audit function, facilitating internal auditor training, and changing employee work

environment behavior. According to the literature review, the findings were consistent with Mihret and Yismaw's (2007) previous auditing research. They also discovered and reported that top management support and senior management's response influences internal audit effectiveness. ESLSE's internal audit service is viewed as a vital strategic partner within the organization, as demonstrated in the table above. The overall mean value of ESLSE management support indicates that ESLSE management's support for internal audit work is satisfactory

Table 4.8: Descriptive Statistics of Management Support

Item	N	Mean	Std. Dev.	Min	Max
16 Internal audit department is large enough to perform its tasks efficiently	95	3.73	1.015	1	5
17 The internal audit department receives the resources needed to assist in performing audit work as needed	95	4.04	0.862	1	5
18 Management supports the internal audit staff and recognizes the needs of the internal audit department	95	3.68	1.003	1	5
19 Management encourages the internal audit department by implementing recommendations to enhance internal audit capabilities and promoting value-added activities	95	3.93	0.948	1	5

Source: Field Survey, 2021

According to the fifth section of the questionnaire (Q20-Q23) which examines the audit committee for all questions had mean response greater than 3.00. This shows that participants were agreed on the audit committee in ESLSE. Descriptive statistics of the data are displayed in table 4.8 the standard deviations of Q20–Q22 were less than 1.00. It suggests that the respondent’s beliefs have been close to one another. But, standard deviation for Q23 becomes more than 1.00. It suggests that the respondent’s perception were far from one another.

Table 4.9: Descriptive Statistics of Audit Committee

Item	N	Mean	Std. Dev.	Min	Max	
20	The organization has strong and audible audit committee	95	3.95	0.843	1	5
21	The Audit Committee supports the audit department by forcing management to implement the audit department's	95	4.27	0.706	1	5
22	The audit committee is independent from any other influence	95	3.92	0.846	1	5
23	The organization's audit committees have adequate skill and educational background	95	3.73	1.106	1	5

Source: Field Survey, 2021

According to the six section of the questionnaire (Q24-Q30) which examines the effectiveness of IA for all questions had mean response greater than 3.00. This shows that participants were agreed on the effectiveness of IA in ESLSE. Descriptive statistics of the data are shows in table 4.10 the standard deviations of Q24 and Q30 were less than 1.00. It suggests that the respondent's believes have been were close to one another. But, standard deviation for Q28 becomes greater than 1.00. It suggests that the respondent's perception were far from one another.

Table 4.10: Descriptive Statistics of Effectiveness of Internal Audit

Item	N	Mean	Std. Dev.	Min	Max	
24	Reports provided by internal auditors are reliable and significant to my organization	95	4.06	0.755	1	5
25	The recommendations, criticisms and information provided by internal audit are used for decision making	95	3.97	0.893	1	5
26	Internal audit ensures the economical, effective and efficient use of resources in the sector	95	3.93	0.866	1	5

27	The recommendations of internal audit department provide practical, cost-benefit solutions for correcting the problems that were found	95	3.92	0.846	1	5
28	Internal auditors have the experience and expertise to address corporate risk management problems within the organization	95	3.73	1.106	1	5
29	The existence and findings (reports) of Internal Auditors meet expectations	95	3.94	0.954	1	5
30	Internal audit improves organizational performance that means it adds value to the business	95	4.18	0.772	1	5

Source: Field Survey, 2021

The result indicates that the internal audit function in Ethiopian shipping and logistics service enterprises ensures that the business adds value, that no complaints or doubts are raised by audit on internal audit reports, and that the company's resources are used economically, efficiently, and effectively. This conclusion also implies that the company's internal audit report is critical for senior management decision-making. Generally speaking, ESLSE's internal audit division aids in the improvement of organizational and divisional performance. This outcome could be the result of a combination of factors. This is because internal audit plays such an important role in the organization's process that it is not only required to perform routine assurance activities, but also to serve as a strategic partner and add value to the organization's activities aimed at improving organizational processes and ensuring their effectiveness and efficiency. Al-Twajry et al., (2003) and Mihret et al., (2007) found similar results.

4.4 Assessment of Ordinary Least Square Assumptions

The following assumptions should be considered when using multiple regression analysis. The Assumptions are met; essentially this means that it is the most accurate estimate of the effect of on Y (Dan and Sherlock, 2008).

4.4.1 Assessment of Normality

The normality test is used to see if the data used for the residuals is normal, and therefore if this assumption is met in the data for statistical testing. Visual examination or statistical tests might be used in the approaches. Graphical interpretation has the advantage of allowing competent judgment to judge normality in situations where numerical tests may be either sensitive or too sensitive, but it lacks impartiality. If you don't have a lot of experience interpreting normality from a graphic standpoint, you should generally stick to numerical methods.

In order to test the normality of data, Skewness and Kurtosis test of normality distribution were used and conducted on SPSS software. The Skewness and Kurtosis tests are showing normality when the result is within the range of +3 and -3 (Aczel, 2008). The results of normality distribution test before transformation is presented below in graph 4.1 and Table 4.11 present the Output of Skewness and Kurtosis of the current data ranged that between -0.847 and 0.807, it show that the data are normally distributed. As well, since the value in the histogram ranges in between -3 and 3, so, the distribution is normally distributed. According to the table, the result of normality distribution test shows all variables have normal distributions.

Table 4.11: Test of Normality

	obs	Skewness	Kurtosis
Kurtosis			
Competency of Internal Auditors	95	-0.847	0.807
Independence of Internal Audit Team	95	-0.169	-0.583
Quality of Internal Audit	95	-0.306	-0.373
Management Support	95	0.084	0.482
Audit Committee	95	-0.663	0.259

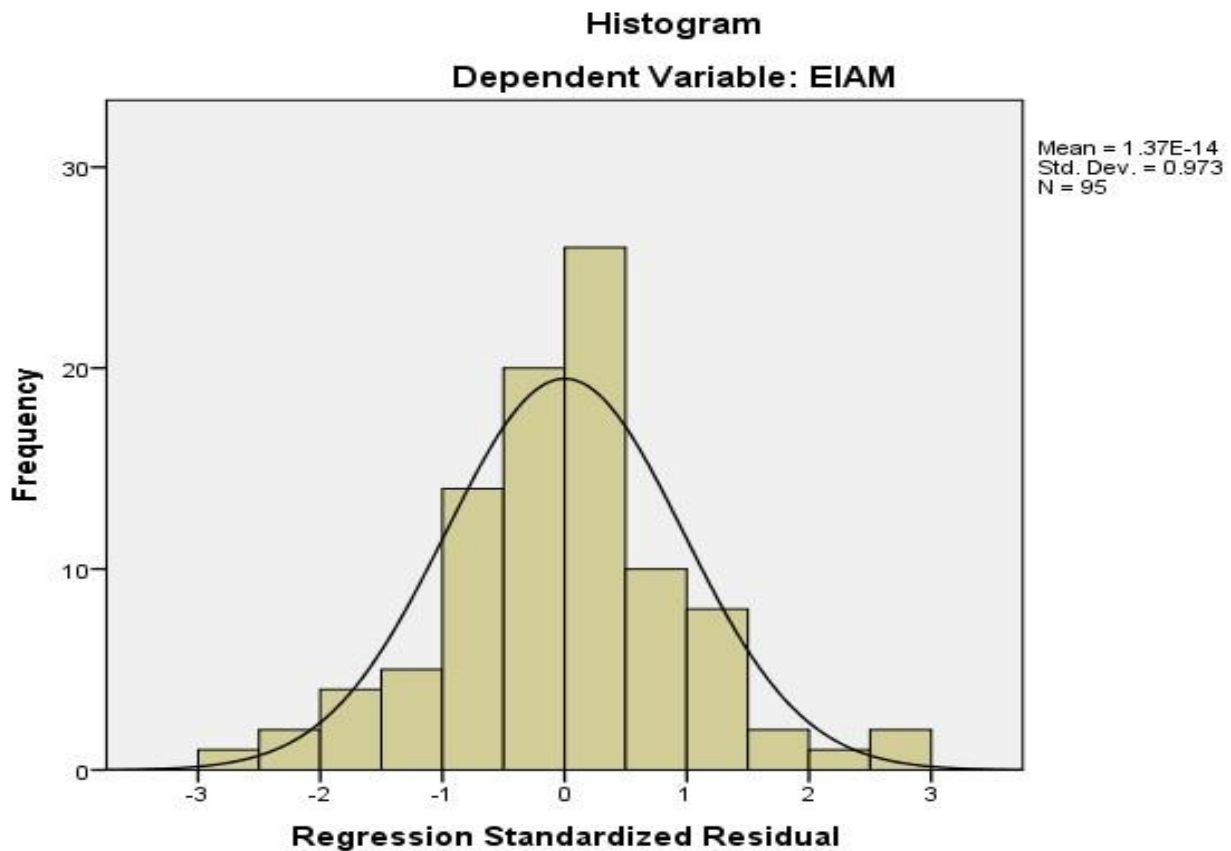


Figure 4.1 Normality test chart

Source: SPSS output

4.4.2 Assessment of Multicollinearity

Multicollinearity (MC) defining that two or more variables giving rise to the same piece of information are included, that we may have redundant information or unnecessarily included related variables. One of the assumptions of the CLRM (classical linear regression model) is that there's no precise linear relationship exists among any of the explanatory variables. If you violate this assumption, talk about the perfect MC. If all explanatory variables are uncorrelated with each other, we speak of absence of MC. In general, while imperfect multicollinearity exists amongst or greater explanatory variables, now no longer simplest is we able to obtain OLS (ordinary least square) estimates but these estimators will also be the best linear unbiased estimators (BLUE). However, the blueness of these estimates needs to be investigated more closely. Implicit in the BLUE property is the efficiency of the OLS coefficients (Dimitrios & Stephen, 2007). Widely used technique of identifying the existence of multicollinearity is calculating variance inflation factor

(VIF) between all independent variables. The VIF is an index of the amount that the variance of each regression coefficient is increased over that with uncorrelated independent variables, this assumption can be checked with tolerance and VIF statistics, Variance Inflation Factors (VIFs) above 10 or Tolerances below 0.1 are seen as a cause of concern (Keith, 2006, Field, 2009, Landau and Everitt, 2004) .see the following MC test table.

Table 4.13.Collinearity Statistics

Variable	VIF	Tolerance (1/VIF)
Quality of internal audit	0.536	1.866
Competency of Internal Auditors	0.497	2.010
Independence of Internal Auditors	0.271	3.696
Management Support	0.446	2.241
Audit Committee	0.483	2.069

Table: 4.13 SPSS output shows that correlation of dependent and independent variables, all VIF and tolerance results are less than 10 and greater than 0.1, respectively, which means that the given variables are uncorrelated each other.

4.4.3 Assessment of Heteroscedasticity

When the error term varied with the independent variables, the problem of Heteroscedasticity would occur. This is tested by drawing a graph with standardized predicted versus standardized residual curve. In the curve if any continuity trend can be observed, i.e., if standardize performance of audit work show an increment or decrement trend over the standardized residual, the problem is detected otherwise it is safe from the problem. In that regard, the distribution of the data did not indicate any such kinds of trend; hence, Heteroscedasticity problem is not detected.

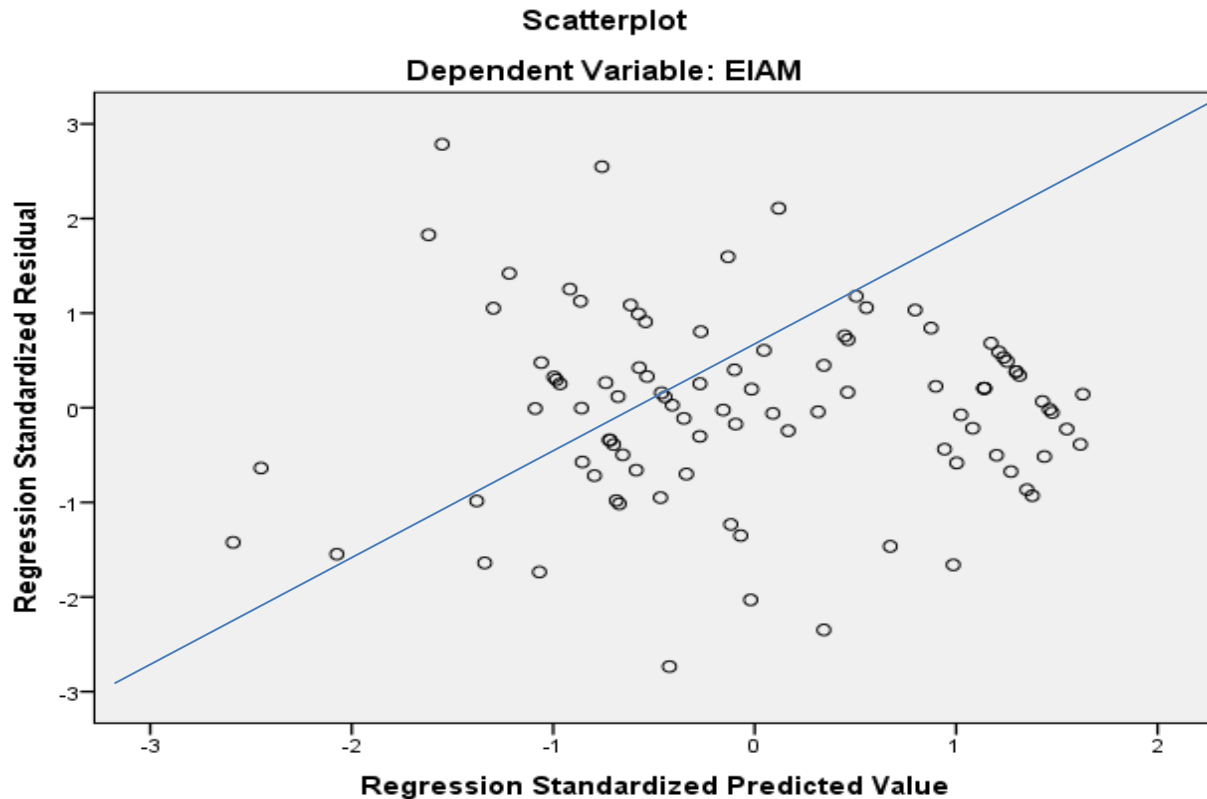


Figure 4.2 Heteroscedasticity test

4.4.4 Pearson Correlation Analysis

The Pearson's correlation analysis measured a degree of relationship (direct reliance) between two factors, realizing a gap in between +1 and -1 comprehensive. It is broadly utilized within the sciences as a degree of the quality of straight dependence between two factors. The p-value, in Pearson's correlation, endeavors to supply a degree of relationship, in order to differentiate a basic reject or not to reject the null hypotheses. In Pearson correlation analysis (r) plays an important role in deciding the level of relationships among variables. The significance level, p A correlation analysis was used to examine the strength of the relationships between independent variables, competence of IA team, independence of IA, quality of IA, Audit committee and management support dependent variable effectiveness of IA. Based on the Table 4.14 The Pearson correlation analyses confirmed that there is a significant positive relationship between the five independent variables (competence of IA team, independence of IA, quality of IA, Audit committee and management support, with a value of 0.409, 0.582, 0.280, 0.601 and 0.693 respectively and the dependent variable i.e. determinants of internal audit effectiveness in ESLSE.

Based on the results in table 4.12 there are positive relationships between effectiveness of IA and all of the independent variables, these shows that most of the hypotheses are supported.

Table 4.12 Pearson Correlations Matrix

		CIAM	IIAM	QIAM	MSM	ACM	EIAM
COMP	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	95					
INDP	Pearson Correlation	.409**	1				
	Sig. (2-tailed)	.000					
	N	95	95				
QUA	Pearson Correlation	.582**	.683**	1			
	Sig. (2-tailed)	.000	.000				
	N	95	95	95			
MGTS	Pearson Correlation	.280**	.569**	.715**	1		
	Sig. (2-tailed)	.006	.000	.000			
	N	95	95	95	95		
AC	Pearson Correlation	.601**	.554**	.644**	.460**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
	N	95	95	95	95	95	
EIA	Pearson Correlation	.693**	.705**	.881**	.633**	.735**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	95	95	95	95	95	95

4.4.5 Assessment of Autocorrelation

It is assumed that the errors are not correlated with one another. A test of this assumption is therefore conducted. The Durbin-Watson statistics which is shown in the regression output of the model is very close to 2 which are (2.088). Hence, Durbin-Watson (DW) statistics assumption is certainly met.

Table 4.15 Durbin Watson Test Model Summary

Model	R Square	Adjusted R Square	Durbin-Watson
1	0.860	0.852	2.088

4.5 Regression Results and Hypothesis Testing

The regression result that are obtained by regressing the internal audit effectiveness in adding value for the organization, improving organizational performance and identifying noncompliance activities and the internal auditors ability in adding value for their organization on Competency of internal audit staffs, Independence of internal auditor, quality of auditing Management supports, and Audit committee. Finally, the hypothesis tests were undertaken based on the regression output results.

4.5.1 Regression Analysis Results

The regression analysis was used to examine a dependent variable of internal audit effectiveness explanation by Competency of internal auditor, Independence of internal auditor, quality of auditing, Management supports, and Audit committee. The result presented that, indicators of internal audit effectiveness by using the variables identified in the model. When doing regression analysis the researcher determines whether or not there is a relationship between the attributes and internal audit effectiveness by examining the ANOVA result

Table 4.16 Testing the model through Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.731	5	7.146	109.528	.000 ^b
	Residual	5.807	89	.065		
		41.537	94			

If the F statistic is significant, can assume the independent variables taken together have a relationship with the dependent variable. In this study the probability of the F statistic for the regression analysis is .000b, less than the level of significance of 0.05. Hence, the dependent variable has relationship with the independent variable identified in this study. Generally, it is possible to say the model is a good fit for the variable identified in this study.

Table 4.17 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.927 ^a	.860	.852	.25543	2.088

The model summary of the study is shown in table 4.17 R statistic represents the strength of the Relationship between internal audit effectiveness and other independent variables. In this study The R square statistic tells us the proportion of variance in the independent variable that is accounted for by the dependent variable. Table 4.17 shows that the R Square value is.860. It means that the ability of independent variables to explain the dependent variable is 86%.While, 14% is affected by other factors beyond this research. In other words, the overall contribution of Competency of internal auditor, Independence of internal auditor, quality of auditing, Management supports, and Audit committee accounted for 86% for the internal audit effectiveness.

Table 4.18 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.842	.243		-3.462	.001
COMP	.279	.069	.220	4.059	.000
INDP	.130	.050	.145	2.588	.011
QUA	.560	.084	.511	6.701	.000
MGTS	.048	.066	.043	.729	.468
AC	.195	.064	.174	3.055	.003

a. Dependent Variable: EIA

The results of quantitative and qualitative data analysis the hypotheses testing are used to test a significant influence of independent variables on the dependent variable (Field, 2009). In this study, the hypotheses testing used to test a significant influence of competence of IA teams, independence of IA, quality of IA, management support and Audit committee on the effectiveness of IA which was measured in audit function effectiveness of ESLSE. According to Table 4.18 the results in the above table shown that, of the total five explanatory variables tested the contribution of each independent variable in the model, the beta (β) symbol also indicates the positive or negative effect of the coefficients of the independent and dependent variables. In this study, beta sign of all the independent variable shows the positive effect on the predicted dependent variable. That means any increase in the independent variable lead to increase in the dependent variable, internal audit effectiveness. Based on the statistical significances of the independent variable over the dependent variable, only four independent variables (Competency of internal auditor; and Independence of internal auditor, quality of IA, and Audit committee at $P < 0.05$ level of confidence) this independent variables that have significant contribution for internal audit effectiveness. The remaining independent variable Management supports have no significant contribution for internal audit effectiveness because they have significance value of greater than $P > 0.05$. were statistically significant at 5 percent significant level. Generally, the result also reveals that there is a significant positive relationship between four the independent variables and the recent one independent variable are insignificant in determinants of internal audit in ESLSE.

4.5.1.1 Results of multiple regression models

$EIA = -0.842 + 0.279COMP + 0.130INDP + 0.560QUA + 0.195AC + e$ Where:

EIA = Effectiveness of Internal Audit in Ethiopian shipping and logistic service enterprise;

β_0 = Constant Term

β_1 to β_6 = coefficients of independent factors and

COMP = Competence of IA teams

INDP = Independence of IA

QUA = Quality of IA Work

MGTS=Management Support

AC=Audit Committee and

ε = error term

The regression equation above shows as by taking all factors into account constant at zero, determinates of internal audit effectiveness in ESLSE, had a value of -0.842. And the findings presented also show that taking all other independent variables at zero, a unit increase in Competence of IA would lead to a 0.279 increase in the determinates of internal audit effectiveness in ESLSE; taking all other independent variables at zero, a unit increase in Independence of IA, would lead to a 0.130 increase in the determinates of internal audit effectiveness in ESLSE; and taking all other independent variables at zero, a unit increase in Quality of IA Work, would lead to a 0.560 increment in the determinates of internal audit effectiveness in ESLSE;. As well, taking all other independent variables zero, a unit increase in Audit Committee, will lead to a 0.195 increase in the determinates of internal audit effectiveness in ESLSE.

4.5.2 Hypothesis Testing and Interpretation of the Results

This section presents the results of quantitative and qualitative data analysis. Hypotheses testing are performed to see if independent factors have a substantial effect on the dependent variable (Field, 2009). In this study, hypothesis testing was utilized to see if the competency of IA teams, independence of IA, quality of IA, management support, and audit committee had a significant impact on the effectiveness of IA, which was measured in ESLSE's audit function effectiveness. The correlation and regression between independent factors and internal audit effectiveness were compared against the hypotheses tested in the investigation. The result showed in the table 4.18 that there is critical relationship between free factors such Competency of internal auditor; Independence of internal auditor, quality of IA, and Audit committee and the subordinate variable i.e. determinates of internal audit effectiveness in ESLSE. Indeed in spite of the fact that most of the theories are bolstered, the consideration found that there's significant relationship between the free variables and determinates of internal audit effectiveness in ESLSE. On the other segment, the impact of each free variable would be examined and analyzed below.

4.5.2.1 Management Support

The first hypothesis proposed in this research was management support is positively related with the effectiveness of internal audit. As per the regression results of the study, in the significant level of 5%, management support is statistically in significant determinant of internal auditor effectiveness. According to SPPIA of 1110 stated that internal auditors should get a support from top management and cooperation from audit to perform their work effectively (IIA, 2011).

H 1: Management supports are positively and significantly affect the effectiveness of IA in Ethiopian Shipping and logistic service enterprise

The first hypothesis of this research revealed that there were the direct influence between the Management support and the effectiveness of internal audit. This hypothesis were not supported by the regression result as per the regression results insignificant related with the effectiveness of internal audit at a level of ($P < 0.01$). The magnitude (β) of the effect of this variable on the effectiveness of IA p-value was 0.048 and the t-value of 0.729.) Not significant related with the internal audit effectiveness. Even if this variable have a coefficient of positively related with the effectiveness of internal audit as a result of its insignificant regression analysis output result leads not to support the proposed hypothesis (H1). But insignificance of the Management support in determining the internal audit effectiveness didn't mean that it doesn't completely contribute to the effectiveness of internal audit.

It may even be that all the other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are all results of decisions made by top management (Zulkifli et al., 2014). This finding inconsistent with previous studies, most of the Literatures mentioned in this paper identified that management support as a crucial factor for internal audit effectiveness (Cohen and Sayag, 2010; Georg et al, 2015; Shewamene, 2014; Mihret and Yismaw, 2007). Based on the above results, hypotheses is rejected which indicated that there is no statistically significant relationship between management support and internal audit effectiveness.

4.5.2.2 Independence of Internal Audit

Independence is the core stone of IA effectiveness. Because of effectiveness IA can't be realized without the independence of IAD (Vanasco, et al., 1996; Cohen & Sayag, 2010). This section evaluates the views of participants regarding on the independence of IA as a factor may impact on IA effectiveness.

***H 2: Independence of IA is positively and significantly affects the effectiveness of IA
In Ethiopian Shipping and logistic service enterprise***

This hypothesis tested independence of IA positive association with the effectiveness of IA in ESLSE. The result shows independence of IA positively associated with the effectiveness of IA in ESLSE at a statistical significance level of ($P < 0.05$). Audit effectiveness ($\beta = 0.130$, $p\text{-value} = 0.011$, that means $P < 0.01$). The regression result highly supports this hypothesis at ($P < 0.01$) level of significant and the magnitude (β) of the effect of this variable on the effectiveness of IA was 0.130 and the t-value of 2.588. The positive magnitude sign and t-value of more than 2 are indicating a strong relationship between the independent and dependent variable (Hair, et al. 1998). Independence of IA has positive coefficient 0.130 and P value at significant level .011 this means upgrading in Independence of IA will have an effect of 13% change on internal audit effectiveness.

From the above results the hypothesis that is the positive relationship between competency of internal auditors and internal audit effectiveness. This result was consistent with previous auditing researches conducted by Adhista 2015, Hella and Mohamed 2016 and Alhassan (2018) it implies that internal auditors' become more effective, when they are permitted to freely perform auditing activities. The researcher reviewed the organizational chart of the organizations to examine the organizational position of IAD in ESLSE based on the study of (Abu-Azza, 2012). Based on the organizational chart of the organizations, IADs are independent and at the top level of the organizational hierarchy. This finding is in line with Abu-Azza, (2012) study. The IAD seems to be responsible to Board of Directors (BOD) functionally and Chief Executive Officer (CEO) administratively. This direct line with BOD enhances the independence of IAD.

Figure 4.3 depicts the organizational chart of one studied ESLSE.

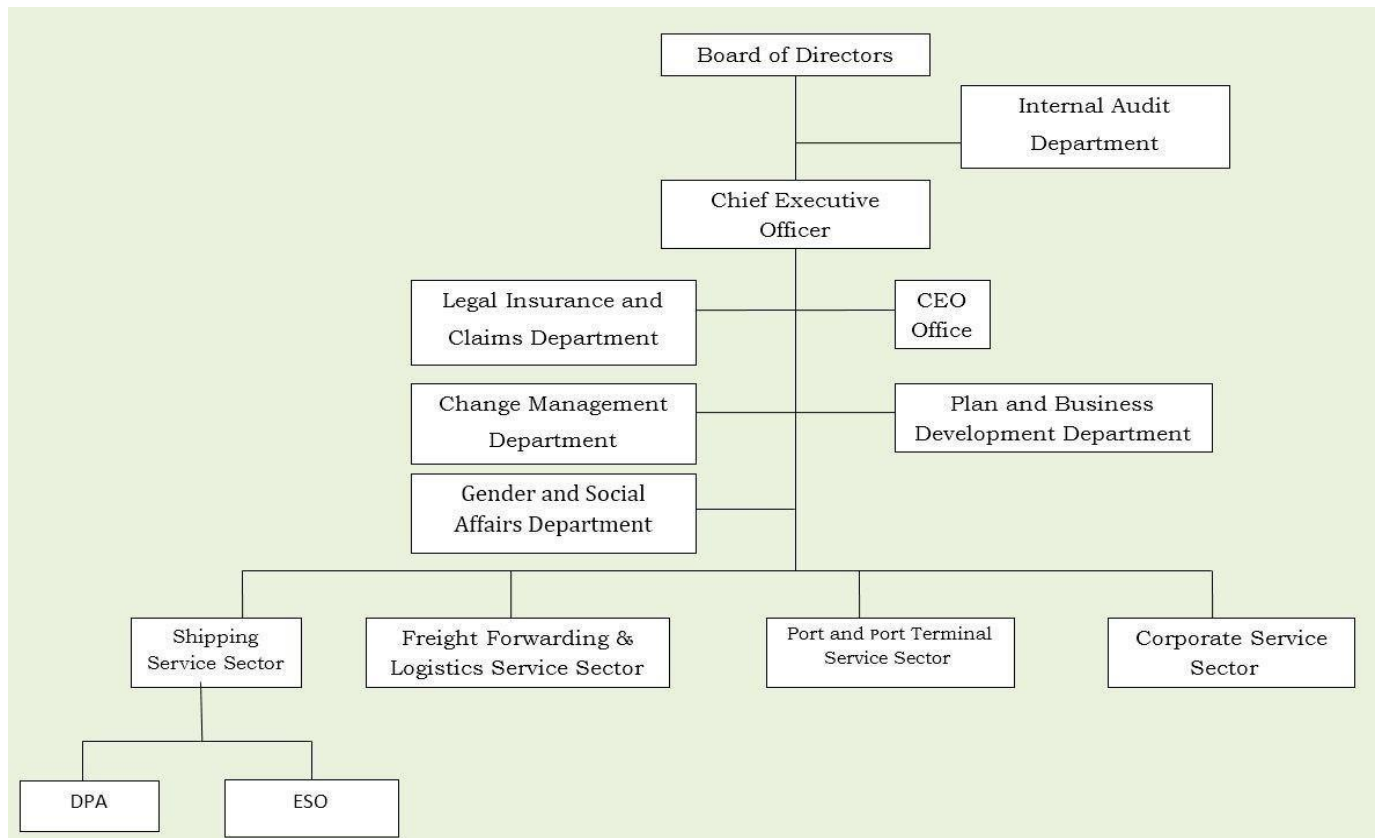


Figure 4.3 shows the organizational chart of sampled Ethiopia shipping and logistic service enterprise

IAD's independence is enhanced by this form of direct communication between IA and BOD (IIA, 2011). As a result, such direct contact must be feasible. To this regard as per Figure 4.1 the sampled organizational chart of Ethiopia shipping and logistic service enterprise have seen by the researcher at the time of document review there is direct relationship between internal audit directorate and the board of directors. Having such a direct communication between IA & board of director can enhance the independence of IA. Previous studies suggest that competence of internal auditors is a critical determinant of IA Effectiveness. This result is consistency with some previous researchers (Mihert and Yismaw, 2007; George et al., 2015) they found that Independence of IA have positive relationship with internal audit effectiveness. Based on the above results, a hypothesis is accepted which indicated that there is statistically significant relationship

between independency of internal audit staffs and internal audit effectiveness based on that the third hypothesis is confirmed.

4.5.2.3 Quality of Internal Audit

The third hypothesis proposed in this research was Quality of Internal Audit Work have a positive effect on the effectiveness of internal audit IA quality is effective audit planning, reporting findings, giving recommendations; follow-up of IA recommendations; and effective communication with external auditors had a relatively significant effect on the effectiveness of IA in ESLSE. According to Mihret & Yismaw, (2007) Mihret (2011), IA quality can be expressed as it is an internal auditor's office and field work capability to do their duty to provide useful findings and recommendations. The Third hypothesis proposed in this research was quality of internal audit work is positively related of the effectiveness of internal audit in ESLSE.

H 3: Quality of Internal Audit Work is positively and significantly affects the effectiveness of IA in Ethiopian Shipping and logistic service enterprise

The third hypothesis tested is about the positive relation of Quality of Internal Audit Work with the effectiveness of IA in ESLSE. The result shows that there was a positive relation between Quality of Internal Audit Work and the effectiveness of IA in ESLSE and statistically significant at a level of ($P < 0.01$). The magnitude (β) of the effect of this variable on the effectiveness of IA was 0.000 and the t-value of 6.701 the positive magnitude sign and t-value of more than 2 are indicating a strong relationship between the independent and dependent variable (Hair et al.1998). Level of significant Quality of Internal Audit Work has positive coefficient 0.560 and P- value at significant level .000 this means upgrading in Quality of Internal Audit Work will have an effect of 56% change on internal audit effectiveness. From the above results the hypothesis that is the positive relationship between competency of internal auditors and internal audit effectiveness.

Therefore quality of internal audit work is positively related to the effectiveness of internal audit. as the result reveals that quality of IA work had a positive effect on the effectiveness of IA and statistically significant. It means effective audit planning and supervision; IA fieldwork; reporting, finding, and recommendations; follow- up of IA recommendations; and effective communication with external auditors had a relatively significant effect on the effectiveness of ESLSE. The result is consistent with the previous studies (Mihret & Yismaw, 2007 Alemzewed 2019 and Mihret 2020).

Based on the above results, hypotheses is accepted which indicated that there is statistically significant relationship between quality of IA work and internal audit effectiveness. The third hypothesis is thus confirmed.

4.5.2.4 Competence of Internal Audit Team

The fourth hypothesis proposed in this research was Competence of Internal Audit is positively related of the effectiveness of internal audit. As per the regression results of the study, in the significant level of 5%, competence of IA is statistically significant determinant of internal auditor effectiveness. This section discusses the views of participants regarding on the competence of IA team as a factor may impact on IA effectiveness.

H 4: Competence of IA teams is positively and significantly affects the effectiveness of IA in Ethiopian Shipping and logistic service enterprise

The fourth hypothesis tested is about the positive relation of competence of IA team with the effectiveness of IA in ESLSE. The result shows that there was a positive relation between competence of IA team and the effectiveness of IA in ESLSE and statistically significant at a level of ($P < 0.01$). The magnitude (β) of the effect of this variable on the effectiveness of IA was 0.000 and the t-value of 4.059. The positive magnitude sign and t-value of more than 2 are indicating a strong relationship between the independent and dependent variable (Hair et al.1998). Level of significant Competences of the internal auditors has positive coefficient 0.279 and P value at significant level .000 this means upgrading in Competency of internal audit staffs will have an effect of 27.9% change on internal audit effectiveness. Proficiency comprises of adequate knowledge with a minimum requirement of first degree, professional membership and certification in specific field like Certified Internal Auditor (CIA) (IIA, 2011; Abu-Azza, 2012; Mihret, et al., 2010). Nowadays, ESLCE hired IA team with a minimum requirement of bachelor degree in a business and finance field and two years of experience in the area of audit to new staff other than the staff they already have. These criteria would increase with the position requirement. From the above results the hypothesis that is the positive relationship between competency of internal auditors and internal audit effectiveness. Previous studies suggest that competence of internal auditors is a critical determinant of IA Effectiveness. This result is consistence with some previous researchers (Shewamene (2014), Adhista 2015, Abraham 2015, Alhassan (2018), Solomon, Menza and Wondwossen (2019) they found that competency of internal auditors have positive relationship with

internal audit effectiveness. Based on the above results, hypotheses is accepted which indicated that there is statistically significant relationship between Competency of internal audit staffs and internal audit effectiveness. The fourth hypothesis is thus confirmed.

4.5.2.5 Audit committee

The fifth and the last hypothesis proposed in this research was Audit committee is positively and significantly related with effectiveness of IA. (Oussii and Boulila Taktak, 2018).argued that relationship between AC financial expertise and IAF effectiveness is special AC is important because it is responsible for monitoring the performance of the internal audit department.

H5: Audit committee is positively and significantly affects the effectiveness of IA in Ethiopian Shipping and logistic service enterprise

The regression output result also supports this hypothesis with substantially associated variables with the level of significance ($p < .05$) and positively related coefficients ($\beta = .195$ and $t = 3.055$) contributes for the internal audit effectiveness. Audit committee has positive coefficient 0.195 and P value at significant level 0.003 this means Audit committee involvement on internal audit activities will have an effect of 19.5% change on internal audit effectiveness. From the above results the hypothesis that is the positive relationship between Audit committee and internal audit effectiveness. The results show a positive and significant association between the relationship between Audit committee with internal audit effectiveness with $p < 0.05$ (supporting H5), suggesting that higher internal audit effectiveness is associated with Audit committee.

This result is consistent with the research done by Arena and Azzone (2009) and wondwosen 2019 the results also imply that internal audit effectiveness increases when audit committee is involved in the internal auditor's activities. Riham (2013) audit committees can be viewed as a key safeguard mechanism for internal auditors in managing their professional objectivity. Seif (2017) the result of the study confirmed the prior IA effectiveness research, where this study found a strong relationship between Audit Committee and effectiveness of IA. Based on the above results, hypotheses is accepted which indicated that there is statistically significant relationship between Audit committee and internal audit effectiveness. The fifth hypothesis is thus confirmed.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Introduction

The purpose of this chapter is to conclude and recommend about the study. It includes conclusion of the study results, recommendations based on the study results, and recommendations to future study. In conclusion section of the study; the researcher tried to show the implications and the findings of the study. Finally, the researcher makes a recommendation based on the study's findings.

4.6 SUMMARY OF FINDINGS

In this part summarized conclusion of the major findings that the researcher observed from the response of the questionnaire will be discussed. In line with the objective of this research to assess the determinants of internal audit effectiveness in the Ethiopian shipping and logistics service enterprise, Therefore, the ESLSE office focus on leveraging these key variables to make service delivery in the office effective, efficient, and economical. A model developed for contains five interrelated factors: competence of IA teams, independence of IA, quality of IA, management support and Audit committee. The researcher has distributed questionnaires to gather primary data from dept. managers, all internal auditors, senior finance officers and human resource department.

The collected data from the respondents was analyzed using SPSS version 21. The SPSS result shows that demographic profile of respondents in the first category indicated that majority of the respondents with 67.4%, were male. The second category was, work experience, the respondents agreed that 5 to 10 years of work experienced employees with a total of 74.8% dominated the rest group. The third category was educational status of employees, in this category 64.2% of the respondents were degree holders and in the last demographic category 82.1% of the respondent field of study was accounting and finance, For those questions of descriptive analysis result shows that, mean of the respondents are greater than 3 and, this indicates that perception of the respondents were close to one another in determinants of internal audit effectiveness. According to the output ability of independent variables it means competence of IA teams, independence of IA, quality of IA, management support and Audit committee explain the dependent variable is 86% ($R^2 =$

0.860) That means, the impact of these five independent variables contributed for the dependent variable IAE were 86%, and the remaining 14% were other variables that are not included in this study. Moreover base on the finding of the SPSS result competence of IA teams, independence of IA, quality of IA and audit committee were the major determinants of IAE in the ESLSE. However, the management support, were not significantly important for the IAE of ESLSE.

The final part of this research paper focuses on the key determinants that have a significant impact on the effectiveness of internal audit the results of the study by making recommendations based on the results of the study. These conclusions and recommendations are drawn from the findings of the study specifically related to the competence of IA teams, independence of IA, quality of IA, management support and Audit committee in the ESLSE.

5.2 CONCLUSION

IA plays a critical role in assisting a company in achieving its objective when it is implemented, operated, and managed effectively. The following conclusions are noted based on the analysis of IAD staffs, finance team questionnaires and reviews of documentary evidence. In this study the researcher conclude for the research questions test as follows: The first question is effectiveness of internal audit. The last question is underlying factors (i.e., competence of IA teams, independence of IA, quality of IA, management support and Audit committee) that could affect the determinants of internal audit effectiveness in ESLSE.

The competence of IA teams plays a critical role next to independence of IA on the effectiveness of IA. It means proficiency of internal auditors, experience of internal auditors, effective communication with audittee, training and development, and access to information technology were a significant effect on the effectiveness of IA in ESLSE. In this regard, problems and strengths of ESLSE IAD are identified. The problems observed in ESLCE in related with competence of IA teams were lack of sufficient certified person, limited on “Accounting and Finance” field of study, dishearten communication with other department audittees, required of internal source trainings for newcomers, and shortage of IA software for processing audit activity. However, the strength can be summarized as: obtaining staff with a minimum of BA degree and two years of experience in the area of audit, the ability of auditors access to use information technologies which was difficult in prior studies (Abu-Azza, 2012), effective and encouraging communication with other department

auditees, and hopeful attention on training and development in regard of external sources. To conclude, competence of IA teams is positively associated with the effectiveness of IA in ESLSE at a statistical significance level of ($P < 0.05$).

Management support had played a minimum role in the effectiveness of IA in ESLSE. It means the senior management (top management) awareness on IA needs and demands for the implementation of corrective action recommended by external auditors had had a positive but not significant effect on the effectiveness of IA.

The independence of IA critical on the effectiveness of IA in ESLSE. It means the existence of effective audit committee, individual IA independence, and organizational independence of IA was a significant effect on the effectiveness of IA in ESLSE. In this regard, problems and strengths of ESLSE IAD are identified. The problems observed in ESLSE in related with independence were IA report content variation based on addressee, lack of full access on BOD and senior management level to audit; and top management crucial role on the approval and dismissal of IA head. Further, IA of ESLSE were grown in regard of to be responsible for BOD functionally and every quarter meeting with such a body. To conclude, independence of IA is positively associated with the effectiveness of IA in ESLSE at a statistical significance level of ($P < 0.05$).

Based on the finding of the research, the quality of IA work plays reasonable role on the effectiveness of IA in public sectors. It means effective audit planning and supervision; IA fieldwork; reporting, finding, and recommendations; follow-up of IA recommendations; IA report accuracy and effective communication with external auditors had a positive and significant effect at a statistical significance level of ($P < 0.05$) on the effectiveness of IA in ESLSE. And finally show on the finding of the research, Audit committee plays a positive role in the effectiveness of IA in ESLSE. It means has strong and sound able audit committee, Audit Committee take a corrective action in the implementation of auditor recommendation, indecency of the audit committee, level of awareness of the committee had significant effect on the effectiveness of IA.

To conclude, competence of IA teams, independence of IA, quality of IA, and Audit committee had positive and statistically significant effect on the effectiveness of IA in ESLSE. Therefore, competence of IA teams, independence of IA, quality of IA, and Audit committee were

the factors determining effectiveness of IA in ESLSE. On the other hand, management support had positive but insignificant impact on the effectiveness of IA. This means management support were not the factors determining effectiveness of IA in ESLSE.

5.3 RECOMMENDATION

The overall objective of the study is to identify the factors determining the effectiveness of IA in Ethiopian shipping and logistic service enterprise. In this regard, the data analysis using quantitative and qualitative methods were made. According to the research objective and based on the data analysis, the researcher provides the following recommendations to the concerned bodies.

- Internal auditors oversee the quality of internal audits. As a result, all internal auditors should do their best to conduct effective and efficient internal audit investigations and deliver meaningful internal audit reports, and companies' audit departments must work diligently to complete their own tasks. So that they can improve their planning and provide a more dependable and well-organized report.
- The findings of this study Competency of internal audit staffs have a positive and significant effect on internal audit effectiveness. Therefore, the competencies internal audit staffs need to collectively possess and develop their knowledge or skills through appropriate training and development program such as obtaining professional certification
- The findings of this study revealed that internal auditor independence has a has Significant and positive relationship with internal audit effectiveness; Ethiopian shipping and logistics service companies should place a premium on that predictor. Internal auditor independence has its own impact on internal audit effectiveness, and it is better to consider it.
- In the modern audit, using IA software's is not luxurious instead inelastic item. In the process of advancing the IA process; IA software's play the crucial role through making the audit activity simple. Therefore, Ethiopian shipping and logistic service enterprise are recommended to work in using IA software's to enhance the quality IA work. Correspondingly, provide trainings related with such software's are under consider

5.4 SUGGESTION FOR FUTURE RESEARCH

The researcher encourages further research to extend the results of this study and improve the results by minimizing the limitation of the study. Therefore, the researcher suggests the following future research areas:

- Replicating this study in other setting (in different sector and country) will make this study conclusion validate.
- Replicating this study using other research methodology like tools of data collection and Type of research.
- Finally, future studies should look at the possibility of the influence of different variables from different field of study (like Information Technology) on internal audit effectiveness so that it contributes to the factors that determine internal audit effectiveness literature.

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Appendix 1: Questionnaire



ADDISABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Dear Sir/Madam:

The objective of this questionnaire is designed together firsthand information about determinants of internal audit effectiveness in case of Ethiopian Shipping and Logistic Service Enterprise. This study is conducting for the partial fulfillment for the award of Master's Degree in Accounting and Finance at Addis Ababa University, College of Business & Economics, department of Accounting and Finance. The results of the study are expected to identify determinants of Internal Audit effectiveness in the case of Ethiopian Shipping and Logistic Service Enterprise.

The questionnaire is synonymous; please do not write your name. All data and information that will be gathered through this Questionnaire will be used for the sole purpose of the research and remains confidential. Therefore, you are asked to answer questions freely and to the best of your knowledge.

Thank you for your support and participation.

With best regards,

Nebiat Ahmed

If you have any question regards to the questionnaire please call. Mobile: +2519-13-26-36-91

Part I: General Information

1. Sex/Gender

Female

Male

2. Qualification (Educational background)

Below Diploma Masters (MA, MSC, MB

Diploma

Above Master

Degree (BA, BSC)

Certified like: CIA (Certified Internal Auditor), ACCA, CPA, or Other

Other (Including Audit Profession Certification) Specify _____

3. Field of study on your highest educational level

Accounting and Finance

Information Technology

Management

Economics

Law

Other Specify _____

4. Year of experience in the organization

Two years and less

Above two years less than five years

Above five years less than ten years Above

ten years

Part II. The Questionnaires items (questions)

Check the box (√) in the corresponding column to indicate how much you agree or disagree with the following statement.

Key: SD= Strongly Disagree; D=Disagree; N= Neutral; A= Agree; SA= Strongly Agree

Agree 1→Strongly Disagree; 2→Disagree; 3→Neutral; 4→ Agree; 5→ Strongly Agree.

S/No	Variables	SD	D	N	A	SA
	Competency of Internal Auditors					
1	Internal auditors have the appropriate qualified or professional staff in your department					
2	Internal auditors have deep expertise in the whole Departmental activities.					
3	Internal auditors have well-qualified, who perform tasks such as evidence gathering and produce reports in a timely manner.					
4	Internal auditor attending further training courses for professional Development Or attend a training seminar to update their knowledge.					
	Independence of Internal Auditor					
5	Internal audit gives reports to the board of directors (or audit Committee) without any influence.					
6	Internal auditors have unlimited and complete access to all records And information required performing audit work.					
7	Internal audit related to corporate strategy formulation and system design preparation.					
8	Internal auditors include in their reports any fault, fraud, misstated work and mistakes without any influence from anyone.					
	Quality of Internal Audit					

9	Internal audit has an audit plan carried out their work efficiently according to that plan.					
10	Examination of information reliability and integrity, verification of working paper quality properly done by internal auditors.					
11	The external auditor conducts the audit using the internal audit working paper and final report.					
12	Internal Audit Department findings are correctly discussed and justified?					
13	Internal audit recommendations can be easily implemented.					
14	Internal audit reports are rigorous (decisions based on strong evidence) and accurate.					
	Management Support					
16	Internal audit department is large enough to perform its tasks efficiently					
17	The internal audit department receives the resources needed to assist in performing audit work as needed.					
18	Management supports the internal audit staff and recognizes the needs of the internal audit department.					
19	Management encourages the internal audit department by implementing recommendations to enhance internal audit capabilities and promoting value-added activities.					
	Audit Committee					
20	The organization has strong and audible audit committee.					
21	The Audit Committee supports the audit department by forcing management to implement the audit department's recommendations.					

22	The audit committee is independent from any other influence.					
23	The organization's audit committees have adequate skill and educational background.					
	Effectiveness of Internal Audit					
24	Reports provided by internal auditors are reliable and significant to my organization.					
25	The recommendations, criticisms and information provided by internal audit are used for decision making.					
26	Internal audit ensures the economical, effective and efficient use of resources in the sector.					
27	The recommendations of internal audit department provide practical, cost-benefit solutions for correcting the problems that were found.					
28	Internal auditors have the experience and expertise to address corporate risk management problems within the organization					
29	The existence and findings (reports) of Internal Auditors meet expectations.					
30	Internal audit improves organizational performance that means it adds value to the business.					

Please suggest if you face any kind of idea in evaluation of internal audit effectiveness in your sector that is not addressed in this questionnaire.
