



**INTERNAL AUDIT PRACTICE AND ITS EFFECT ON
COMPANY PERFORMANCE: CASE STUDY IN ETHIOPIAN
SHIPPING AND LOGISTICS SERVICE ENTERPRISE**

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Statement of declaration

I confirm that this thesis is my original work and has not been presented for a degree in any other university and that all sources of materials used for the thesis have been duly acknowledged.

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Lists of abbreviations

BOD: Board of Directors

CEO:Chief Executive Officer

CIA: Certified Internal Auditor

COSO:Committee of Sponsoring Organization

ERM: Enterprise Risk Management

ESLSE: Ethiopian Shipping and Logistics Service Enterprise

IA: Internal Audit

IAA: Internal Audit Activity

IAF: Internal Audit Function

IIA: Institute of Internal Auditors

IAD: Internal Audit Department

INTOSAI: International Organization of Supreme Audit Institution

MOFEC: Ministry of Finance and Economic Cooperation.

PPF: Professional Practices Framework

SPPIA: Standards for Professional Practice of Internal Auditors

Abstract

The overall objective of this study was to assess internal audit practice and its effect on company performance with focus to Ethiopian Shipping and Logistics Service Enterprise. The specific objective includes examining the effect of risk management practice and assessing the effect of internal control system in enterprise performance as well as describing the internal audit practice of the enterprise. The research used both explanatory and exploratory research methods. The primary data was collected using likert scale questionnaires distributed to management members and internal audit department staffs and secondary data through document review of internal audit policy and charter and internal audit report. The dependent variable was company performance measured in terms of profitability and the predictor or independent variables were risk management process, internal control system and internal audit practice. The target population was 90 both from management and internal audit staffs. The researcher utilized purposive sampling techniques to select the participants. The descriptive statistics was used to analyze the internal audit practice of the enterprise and inferential analysis (multiple regression analysis) to determine the cause and effect relationship between internal audit activity and organizational performance and to test the hypothesis. According to the regression output the internal audit practices affect the company performance significantly and positively. The remaining two variables were positively related with company performance but their contribution was statistically insignificant. All these three independent variables are making 41.98% of the contribution for company performance. Thus, the researcher recommended that the enterprise managements and board of directors should work closely with the internal audit department, provide appropriate information and facilitating all the necessary short and long term trainings in different disciplines that would enable the internal audit staffs to perform the value adding activity within the enterprise. The internal audit department should also apply the standards available in the internal audit policy and charter such as performing risk assessments annually and their scope of work should be extended to enterprise risk management process. Moreover, the activity of internal audit should be assessed externally by an independent reviewer as per the company policy.

Key words: Internal audit practice, Risk management practice, internal control system & Enterprise performance.

Chapter One:Introduction

This chapter contains: back ground of the study,statement of the problem, and objectives of the research both general and specific, scope and limitations of the study as well as the report structures.

1.1Background of the study

Internal auditing has undergone dramatic changes that have expanded its scope in a way that allows it to make greater contribution to the organization it serves. Internal auditing is also performed in diverse legal and cultural environments; within the organizations that vary in purpose, size and structure(Pitt, 2014).Furthermore, internal audit can act as internal advisorand optimization agent in every stage of enterprise change and it can assist and provide advice for drafting guidelines and in designing work and process instructions, and can support risk assessments. Internal audit can therefore be seen as a combined audit and consulting function with the purpose of optimizing enterprise processes(Kagermann, 2008). A viable internal audit function is one of the most grounded devices to screen and improve organization performance.

Internal auditors are often described as both a business partner and a police man. As a business partner, the internal auditor is expected to provide expertise to assist an organization in meeting its objectives while as a police man an internal auditor is often thought of as an adversary looking for flaws.As this is the case, internal auditors need to be out in front leading the business unit with regards to internal control system and also focusing on strategic business objectives. Internal auditors also need to establish themselves as vital in their organization rather than observers who watch from the periphery and wait for events to impact them (Sawyer, 1996).

In the company environment, management is the most important auditee of the internal audit department since effectiveness of internal auditing practices can be described through the expectation of the management with regarding to the internal auditing practices. The management will expect the internal auditors to perform their internal auditing practices to a

certain level that is complying with the standards for the professional practice of internal auditors (SPPIA), since it can be easily described; compliance with SPPIA is therefore an indication of the effectiveness of an internal audit department (Fadzil et al. 2005).

SPPIA (now known as Professional Practices Framework (PPF)) is produced by the IIA are the only set of internationally recognized standards for internal audit. It is the criteria by which the operations of an internal audit department are evaluated and measured and intended to represent the internal auditing practices, as it should be. Although a number of countries have developed their own internal audit standards, these are based in large part on the IIA's Standards. The Professional Practices Framework (PPF) is the IIA's authoritative guidance to the professional practice of internal auditing. The standards are divided between attribute and performance standards. The attribute standards encompasses the attributes of organizations and individuals undertaking internal auditing, whereas the performance standards describe the nature of internal auditing and quality criteria against which performance can be measured (Switzer, 2007).

It is basically to note that both the International Organization of Supreme Audit Institutions (INTOSAI) and the Institute of Internal Auditors (IIA) have issued guide lines to manage inspection in the general population area. On the account of internal audit and audit committee, rules must be in conformance with the Institute of Internal Auditors- International Standards for the Professional Practice of Internal Auditing (Sayag, 2010).

In Ethiopia, the land mark point of time for modern auditing goes back to in 1942 when ministry of finance and economic cooperation issued directive that focused on public sector fund utilization. The formation of the audit general in 1961 (Government of Ethiopia, 1961) with subsequent refinements of duties and responsibilities in 1979 (Government of Ethiopia, 1979) and in 1987 (Government of Ethiopia, 1987) was another significant development in public sector auditing in the country (Desalegn et al. 2007). The office of audit general undertakes external audit of government ministries and their respective offices to ensure accountability. Public sector organizations are also required to have internal audit functions to support management. The Ministry of finance and economic development has the authority to issue internal audit manuals for use by all organizations that are wholly and partially financed by the government budget. The Ministry has issued a manual that contains a code of ethics for internal

auditors and procedural guidance on the conduct of audit (MOFEC, 2005). Internal audit standards of the Ethiopian government specified is closely matches with those published by IIA.

1.2 Background of Ethiopian Shipping and Logistics Sector

To maintain the economic growth that has been registered in the country, one of the strategic measures taken by the government is merging the former four public enterprises namely: Ethiopian Shipping Lines S.C, Maritime and Transit Service Enterprise, Dry Port Enterprise and Comet Transport S.C. The Ethiopian Shipping and Logistics Service Enterprise (ESLSE) is the results of this merger. ESLSE is a government owned company engaged in freight forwarding and logistics sector and it was established as a public enterprise on 21 November 2011 and governed by public enterprise proclamation number 25/1992. As set out in the regulation issued, the objectives for which the ESLSE is established are: to render coastal and international marine and inland transport services, to render freight forwarding agency, multimodal transport, to provide the service of stevedore, shore handling, dry port, warehousing, to provide container terminal services, to engage in the development, management and operation of ports, to establish and run human resource development and training centers in the fields of maritime professions. The enterprise has four sectors namely the Shipping, Freight forwarding, Port and Terminal sector and corporate service sectors. There are also eighteen departments and eight branches. And the Enterprise is supervised by the Ministry of Transport and Public Enterprise Holding & Administration Agency and also has a board of management consists of higher officials from various ministries.

1.3 Statement of the problem

ESLSE is the result of the merger of the former four public enterprises. These amalgamated enterprise came in to being following the issuance of regulation by the council of ministers regulation number 255/2011 and is vested with huge responsibility of rendering marine transport services, freight forwarding and dry port services. As set out in the regulation, the objectives for which ESLSE is established are: to render coastal and international marine and inland transport services, freight forwarding agency, dry port container terminal and ware

warehousing services, to engage in the development, management and operation of ports, to establish and run human resource development and training centers in the fields of marine professions. On the contrary to the above objectives, studies noted that the Ethiopian logistics system is characterized by poor logistics management system, lack of coordination of good transport, low level of development of logistics infrastructure, damage and quality deterioration of goods while handling, transporting and storing (Tilahun, 2016). And other studies also noted that there is absent of integrated ICT, shortage of qualified logistics personals, and absence of enabling environment and customer satisfaction (Teshome, 2017). The other studies undertaken by Ethiopian Maritime Affairs Authority revealed that the lead time (time taken during sea passage time, clearance at sea port, inland transit time, time taken to clear cargo at dry port) for both unimodal and multimodal import which is high (Authority, 2016).

Thus, this research paper tries to assess the contribution of internal audit department of the Enterprise so as to tackle the above and other problems that the enterprise encounters so that company performance can enhance or improve and to assess whether the audit activities performed within the enterprise is in line with the international professional practice framework or not.

To answer these, the researcher reviewed empirical studies such as Silviu&Cordos (2014), Faudziah et al. (2005), Aziza et al. (2017), Desalegn et al. (2007) etc. But all mainly focused on what internal audit practice look like: regarding existence, independence, role & responsibilities against theoretical aspect and observation and induction. And internal audit practices in relation to quality of internal control system and assess the effect of source document audit, system and control audit as well as financial audit on banks financial performance. The other studies by Sergiusetal. (2016) and Sief (2017) that focused mainly on internal audit effectiveness in safeguarding of assets, internal audit quality, management support, organizational setting and audit attributes.

The justification for the selection of the aforementioned title includes: in addition to the problems described by scholars which was mentioned above, since ESLSE is the researcher employer and have got information from different sector managers and tam leaders and they assumed that the internal audit practices of the enterprise is not be in line with international standards and carry out their activities traditionally. Moreover, the internal audit activity is not

value adding to company performances. So, this study enables enterprise managements and board of directors to understand the internal audit practice and its effect on enterprise company performance.

The study was carried out to assess internal audit practices and its effect on company performance in case of ESLSE. To assess the internal audit practice, the study used variables such as independence, objectivity, professional proficiency, scope of audit work, and performance of audit work, management of internal audit department, communication and follow up systems. And audit activity in risk management processes and internal control systems as well as internal audit practice to evaluate the effect of internal audit on company performance was used. The researcher chosen the variables due to the studied organization has been a member of IIA Ethiopia charter and wholly adopted the standards issued by the institute of internal auditor which is included in the organization internal audit charter. Moreover, the empirical reviews that the researcher reviewed such as Fadzil et al. (2005) explore internal audit practice against the standards issued by institute of internal auditors and its effect in internal control system. The gap that the researcher identified is that the internal audit practice and its effect on company performance were not conducted in case of Ethiopian Shipping and Logistics Service Enterprise. Just to fill the gaps the research establishes general and specific objectives as shown in the following two sections:

1.4 Objectives of the study

1.4.1. General objective

The overall objective of the study was to assess internal audit practices and its effect on company performances in Ethiopian Shipping and Logistics Service Enterprise (ESLSE). The followings are the specific research objectives:

1.4.2. Specific objectives

The study tried to achieve the following research objectives at the end of the study. These are:

1. To examine the effect of internal audit practice on company performance through risk management practices.

2. To assess the effect of internal audit practice on company performance through internal control system.
3. To assess internal audit practices in ESLSE.

1.5 Significance of the study

The results of the study will help managers and board of directors of the enterprise to understand the internal audit practices and its effect on enterprise's performance. The study also helps to identify areas of weaknesses with constructive recommendations. Moreover, it also will serve as a starting point or reference paper for the other researchers who will be working on the same subject areas.

1.6 Scope of the study

The study focused on internal audit practices and its effect on company performance of ESLSE after the amalgamation of four public enterprises namely: Ethiopian Shipping Lines S.C, Ethiopian Maritime Enterprise, Dry port Enterprise and Comet Transport S.C for the period ranging 2011 up to 2018, eight years audit period.

In this study, internal audit practices were assessed based on IIA standards and effect of internal audit on company performances through risk management, internal control system and internal audit practices. And the study focused on employees (Directors, Division managers, team leaders and internal auditors) in all sectors: Shipping, Freight forwarding, Port and Terminal and Corporate service sectors and internal audit departments.

1.7 Limitation of the study

Like other studies, this study encountered problems such as obtaining information especially from higher level management, audit reports specially reports after amalgamation and there were also problems in getting references or research papers in the title mentioned above specially in shipping sector. To solve the problems, the researcher communicated managers of the above listed sectors regarding the objectives of the research and request for their support and by confirming that the information used only for this research purpose before commencing the job and for reference limitations the researcher used other related literatures.

1.8 Structures of the study

This research paper is organized in to five main chapters: chapter one deals with the introduction of the study including background, statement of the problems, objectives, scope and limitations of the study. Chapter two focused on the literature review and empirical evidences from previous research works done. Chapter three show research methodologies applied for the intended research paper. Data analysis and Interpretationwere presented in chapter four and conclusions and recommendations based on findings in chapter five.

Chapter Two:Literature Review

2.1. Introduction

The chapter is organized in three sections. The first section reviews theoretical studies on internal auditing and while the second section presents the empirical evidences on internal auditing practices and related issues and the final section provides concluding remarks on the reviews of the literature and identifies the knowledge gap that will be addressed in the study and the conceptual frame work as depicted below:

2.2. Theoretical reviews

2.2.1. Concepts of Auditing

In the beginning, employers were controlling their business by themselves. Through time, however, as their wealth grows from time to time they require someone to control their wealth by asking their treasure on behalf of them and report the result periodically. People call this someone during the medieval times as “auditor”, which was derived from a Latin word “audire” which means “to hear”. As Kagermen (2008) defined auditing as a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users. Auditing is analytical, not constructive; it is critical, investigative, concerned with the basis for accounting measurements and assertions. Auditing emphasizes proof, the support for financial statements and data. Auditing has its principal roots, not in accounting, which it reviews, but in logic, on which it leans heavily for ideas and methods. The overall objective of every audit engagement includes: to evaluate whether financial statements and accompanying footnotes are in accordance with specified criteria, evaluate the effectiveness and appropriateness of internal control systems over financial reporting, to evaluate the possibility of fraud occurring within the organization and to evaluate the likelihood that the organization will continue as a going concern (Messier, 2008).

2.2.2. The concept of internal auditing

The concept of internal auditing is contained in the definition of internal auditing as follows: an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Pitt, 2014). The definition clearly mentions the aim of internal auditing as to add value to the entity by improving the information quality for decision making. For this purpose, it needs to involve the internal auditor in all operations of the organization to create and maintain an effective internal control by providing assurance and consulting activities. These activities must be conducted in an independent and objective manner. Furthermore, the activities of an internal audit include risk management, control and governance processes that are carried out using a consultative approach and focus on efficiency and effectiveness of operations (Bou Raad, 2000). Consequently, current practice of internal auditing requires an auditor to have broad competency. Thus, the definition of internal auditing contains some important components, such as assurance and consulting activities; independent and objective nature of the internal auditing activities; the scope of work; the performance of audit work and the professional proficiency of the internal auditor. The elements are presented as follows:

2.2.3. Assurance and consulting activities

The activities of internal auditing are divided into two main activities, namely assurance and consulting activities. The institute of internal auditors defines assurance service as an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organization and it includes such services as financial, performance, compliance and system security (Pickett, 2005). In terms of assurance audit, the most important role of internal audit is to provide objective assurance. Regarding consulting service, the IIA (2013) provides a description as follows: advisory and related client services activities, the nature and scope of which are agreed with the client are intended to add value and improve an organization's governance, risk management and

corporate governances without internal auditor assuming management responsibility. Examples include, counsel, advice, facilitation and training.

Essentially, consulting activities have long been performed as part of the internal audit functions work. These services could include conducting internal control training, providing advice to management about the control concern in new systems, drafting policies, and participating in quality teams (Anderson, 2003). Thus, both assurance and consulting activities are the value added activities of the internal audit that contribute to the success of an organization.

2.2.4. Independence of Internal audit function

The optimum benefit of internal auditing to an organization can be accomplished if the internal audit function is independent in fact and in appearance and not directly involved in the process of decision making (Switzer, 2007). Independence of mind reflects the auditor's state of mind that permits the audit to be performed with in an unbiased attitude and members must be independent in fact. And independence in appearance is the result of others interpretations of this independence. If auditors are independent in fact but users believe them to be advocates for the client, most of the value of the audit function is lost (Arens, 2012). Independence of auditors is independence from whom? Most likely it is independence from management, independence from those who may manipulate the company (Schilder, 1999). Independence is defined as "the freedom from conditions that threaten the ability of the internal audit activity to carry out the internal audit responsibility in unbiased manner" (IIA, 2013). It is the freedom from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship and threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels (Pickett, 2010)

2.2.5.Objectivity of internal audit function

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made(Switzer, 2007). Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels(Pickett, 2010). Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make balanced assessments of all the relevant circumstances and are not unduly influenced by their own interest or by others in forming judgments(A.Arens, 2012).

Besides independence and objectivity of internal auditing, the other important feature is the competency of an internal auditor. This aspect is presented in the next section:

2.2.6. Professional Proficiency of an Internal Auditor

The institute of internal auditors (2013, P.5) describes the professional proficiency as “knowledge, skills and other competencies are a collective term that refers to the professional proficiency required internal auditors to carry out their professional responsibilities”. In general, proficiency means an internal auditor individually and the internal audit activity collectively must possess and obtain the knowledge, skills and other competencies needed to perform individual and departmental responsibilities. Professional proficiency includes adequate knowledge, professional memberships, certification and trainings (A.Arens, 2012; Pickett, 2010).Proficiency is also known as competence, which is defined as the ability to perform to recognized standards.

2.2.7.Scope of work of Internal Audit

Standards on the nature (scope) of internal audit activity: Standard 2100 states that “the internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach” Switzer (2007,

P.170).The internal audit activity must evaluate risk exposures relating to the organization's governance, operations and information systems regarding the: reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; compliance with laws, regulations, and contracts(Pickett, 2010). The internal audit works are contained in the definition of internal audit issued by IIA. The definition demonstrates that there are three major functions of internal auditing which consists of internal control, risk management and governance process (IIA, 2013). For this range of works, the functions of internal auditing cover being both providers of assurance and consulting service.As Arena (2009) suggested that in order to improve the internal audit value added service the internal audit functions could increase their involvement in activities which support risk management and provide recommendation to vital systems, procedures and processes.

2.2.8.Risk management

To understand how internal audits could contribute to risk management processes, it is better to start from the definition of internal auditing.Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization operations. It helps an organization accomplish its objectives by bringing a systematic, discipline approach to evaluate and improve the effectiveness of risk management, control and governance process (Pitt, 2014). This definition demonstrates the new role of internal audit in which the audit activities are derived from perceived and managing risk in companies, so their plan should be based on assessing the risk and the impact(Pickett, 2010). Risk is an occurrence which will prevent the organization from achieving the objectives. Risk has been part of the internal audit process. Risk based internal audit focused internal audits attention on risk to business and how these risks can be prevented or their impact negated. And as Coderre (2009) stated that audit should consider the potential for internal and external changes to negatively impact the organizations performance. This requires the auditor to assess the adequacy of risk management processes. Are these processes sufficient and are they responsive to risks that could affect the assets, reputations, and ongoing operations of the organization?

Internal audit has a role in assessing and improving the methodologies and controls employed by management to address risk and provide assurance that management's processes ensure that

risks are properly identified, assessed, and managed. As Pickett (2010) noted that an effective internal audit function should provide: assurance that the management processes are adequate to identify and monitor significant risks; confirmation of the effective operation of the established internal control systems; credible processes for the effective feedback on risk management and assurance; and objective confirmation that the board receives the right quality of assurance and information from management and that this information is reliable. The IIA (2013) also described the role that internal audit has in risk management in evaluating the effectiveness and efficiency of risk management in addition to promoting continuous development. As Vallabhanen (2009) mentioned that internal audit function should assist the organization by identifying and evaluating significant exposures to risk and contributing the improvement of risk management and monitor and evaluate the effectiveness of the organizations risk management system and evaluate risk exposures related to the organizations governance, operation and information systems regarding the reliability and integrity of financial and operational information; assist the organization effectiveness and efficiency of operation; safeguarding of assets; compliance with laws, regulations and contracts. As well as relevant risk information is captured and communicated in a timely manner across the organizations management, staff, and the board to carry out their responsibility.

In 2009, the IIA released a position paper to clarify the role of internal auditing in risk management. In this the paper, the IIA confirmed the related standards by assuring that the main role of internal audit in risk management is providing objective assurance to the top management on the effectiveness of risk management. According to this paper, the role of internal auditors is classified in to three types as follows: 1) Core internal auditing roles in risk management includes: giving assurance in risk management processes and that risks are correctly evaluated, evaluating risk management processes, evaluating the reporting of risk and legitimate internal auditing 2) roles with reviewing the managements of key risks includes: safeguards facilitating identification and evaluation of risk, coaching management in responding to risks, consolidating the reporting on risks 3) roles internal auditors should not undertake includes: setting the risk appetite, imposing risk management process, management assurance on risks, taking decisions on risk responses, implementing risk responses on management behalf and accountability for risk management(Pickett, 2010).

The IIA standards covering the internal auditing role in risk management activities in sections 2120, 2120.A1, 2120.A2, 2121.C1, 2120.C2, 2121.C3, and 2210 (IIA, 2013).



Fig 2.1. Internal audit role in risk management

Source: IIA Position papers issued January 2009

2.2.9. Control

The IIA (2013) provides the meaning of control as an action taken by management, the board and other parties to manage risk and increase the likely hood that established objectives and goals will be achieved. The systems of internal controls are important for the internal administration of organizations since the system aims to safe guard the property of the firm, to establish the level of accountability and authority, to increase the likely hood that the policy and procedures prescribed by managements are implemented. Control is any action taken by management to enhance the likelihood that established objectives and goals will be achieved(S.Rao.Vallabhanen, 2009).

Internal control is defined by the Committee of Sponsoring organization of the Tread way Commission (COSO, 1992) as: a process effected by an entities board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The internal control objectives are the effectiveness and efficiency of operations which are concerned with basic business objectives, the reliability of financial reporting and compliance with applicable laws and regulations. Consequently, these objectives help entities to accomplish their profit and performance targets besides avoiding loss of resources (COSO, 1994). Professional bodies also stress the function of internal audit to evaluate and maintain the effectiveness of internal control.

The internal audit function must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvements. The internal audit review and evaluating internal controls, examination of financial and operating information, reviewing operating activities, review of compliance with laws and regulations regarding the: reliability and integrity of financial and operational information, effectiveness and efficiencies of operations and programs, safe guarding of assets and compliance with laws and regulations, policies and procedure. Although management is responsible for the assessment of the control processes in their respective areas, internal audit should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvements (IIA, 2013). The audit opinion should address the degree to which the internal control process ensures: the accuracy, timeliness and reliability of financial and operational information; operations are performed in a manner that is efficient and contribute to the effective attainments of desired goals; that asset, including personnel is properly safe guarded; that the organization complies with applicable laws, regulations and contracts (Corderre, 2009).

2.2.10. Governance

Governance as the combination of process and structures implemented by the board to inform, direct, manages and monitors the activities of the organization towards the achievement of its objectives (IIA, 2013). The way in which an organization chooses to conduct its affairs to meet

responsibility of compliance with society's legal and regulatory rules; satisfy the general accepted business norms, ethical and social expectation of society; provide overall benefits to society and enhance the interest of stake holders; report fully and truthfully to its owner, regulators, and general public to ensure accountability for its decisions, actions, conduct and performance is commonly referred to as its governance process. The organization's governing body and its senior managements are accountable for the effectiveness of the governance process. As Pickett (2010) & S.Rao.Vallabhanen (2009) described the role of internal audit function in governance process and they stated that the internal audit function should assess and make appropriate recommendations for improving the governance process in its accomplishment of objectives on: promoting appropriate ethics and values within the organization, ensuring effective organizational performance management and accountability, communicating risks, and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors and managements. They also noted that internal audit activity should evaluate the design, implementation and effectiveness of the organizations ethics related objectives, programs, and activities and consulting engagement objectives should be consistent with the overall values and goals of the organization.

The areas of risk management, control and governance process are within the scope of work of internal audit and are improved by undertaking assurance and consulting activities. These activities are conducted through an audit process which is presented in the next section.

2.2.11. The Performance of the audit work

Standards on performing the engagement (field work): Standard no. 2300 describe that "the internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives". The standard requires internal auditors to document relevant information to support the conclusion and engagement results. The chief audit executives also should control access to engagement records. The chief audit executives must obtain the approval of senior managements or legal counsel prior to releasing such records to external parties as appropriate (Pickett, 2010).

The internal audit activities should be performed with a systematic and disciplined approach as presented in the definition of internal auditing. A systematic process consists of a number of steps, namely audit planning, examining and evaluating information from field work, reporting findings and following up the audit recommendation. These stages are general guide lines provided by the standards for the internal auditors to carry out the audit activities. Similarly, Sawyer (2003) states that internal auditors should follow the standards by performing a number of actions. Firstly, the head of the internal audit department must supervise the entire auditing process, from planning to completion. Secondly, all the audit works should be documented in the audit working papers including the evidence of follow up procedures and disposition of deficiency findings. Thirdly, the conclusion drawn with in the audit reports should be backed by comprehensive supporting documents and also competent, sufficient and relevant evidences.

2.2.12. Managing the internal audit department

Standards on managing the Internal Audit Activity: Standards no. 2000 states that “the chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization”. The internal audit activity is effectively managed when: the results of the internal audit activity’s work achieve the purpose and responsibility included in the internal audit charter, the internal audit activity conforms with the definition of internal audit and the standards and the individual who are part of the internal audit activity demonstrate conformance with the code of ethics and standards (Pickett, 2010). Likewise, the literature underlines a number of important items to be considered in managing the internal audit unit, such as the internal audit charter, recruitment of the internal auditor, relationship between internal auditor and the audit committee.

2.2.13. The internal audit charter

It is the basic policy statement under which the IA department operates, establishes the IAD position in the organizational hierarchy and it also describes the purpose, authority and responsibility of IAD (S.Rao.Vallabhanen, 2009). The IIA (2013) defines the internal audit charter as “a formal document that defines the internal audit activity’s purpose, authority and responsibility. The internal audit charter establishes the internal audit activities position within

the organization, authorize access to records, personnel, and physical properties relevant to the performance of the engagements and define the scope of the internal audit activities. As per Regan (2004), the charter is often considered to be an audit function's constitution, and its subject matter typically includes some or all of the following: the internal audit function's reporting lines within an organization, the scope of work, the rights of access to information, budgetary information and a formal statement of the internal audit function adherence to professional standards (principally the Professional Practices Framework of the Institute of Internal Auditors).

Standards on Internal audit charter: Standard 1000 states that "the purpose, authority and responsibility of the internal audit activity must be formally defined in internal audit charter, consistent with the definition of internal auditing, code of ethics and the standards (A.Arens, 2012; Pickett, 2010). The internal audit charter is an essential foundation for the internal audit department to achieve its objectives. Therefore, the charter must be approved by senior management and the board of directors as recommended by the Internal Audit Standards number 1000 and the chief audit executives must periodically review the internal audit charter and present it to senior management and board for approval"(A.Arens, 2012; Pickett, 2010). The approved is an indication of management support for the internal audit function.

2.2.13.1. Recruitment of internal auditors

The number of internal auditors should be balanced with the internal audit activities, so that they are able to complete all their duties. More over the number and qualification of internal auditors has a relationship with the effectiveness of the internal audit department. In this case, the head of the internal audit department should complement the expertise properly by recruiting personnel who can demonstrate knowledge and skills in all disciplines(Colbert, 2002). Furthermore, Steam (1990) suggested that the recruitment process of an internal auditor should consider three main categories. First, the internal audit department should determine job descriptions of each position and scope of work including its responsibilities. Second, the audit unit ought to set requirements of professional qualification for all level of internal auditors; such as educational background, on the job training, skills and abilities. Third, the unit of the internal audit has to decide the kinds of experiences required to be fulfilled by the internal auditors, such as organizational and professional, management and the competence of an internal auditor

should be placed as one of the top priorities of organizations since competent internal auditors are able to provide effective auditing that brings benefit such as contributing to the achievement of organizational goals.

2.2.13.2. Carrier of internal auditor

Ratliff (1988) explains that the internal audit department divides the carrier structure of internal auditor in to four levels: directors, managers, senior and junior auditors. They further explains that the director is responsible for the entire activities of an internal audit department such as formulating planning, policy and procedures of auditing, managing the internal auditors, coordinating with external auditor in terms of the audit work. Communicating the board and the audit committee, and establishing the audit quality program. The manager of internal audit tackle audit planning, auditing works and also coordinate the audit work. The senior auditors are required to supervise the audit work, while the less complex and more routine audit work is the responsibility of the junior auditors.

2.2.13.3. The relationship between internal auditor and the Audit committee

Since the audit committee and the internal auditing are cornerstone of good governance, it is important to have an effective working relationship between them.” By strengthening internal auditors’ relationship with the board, internal audit will be able to provide stronger assurance to the board(Chambers, 2015).In this case the audit committee should monitor and review the works of internal auditors. Referring to the financial reporting council (FRC) Guidance on Audit Committee (2008), the following factors should be reviewed by the audit committee: ensures that internal auditor has direct access to board chairman and to the audit committee and is accountable to the audit committee; review and assess the annual internal audit work plan; receive a report on the result of the internal audit work on a periodic basis; review and monitor managements responsiveness to the internal auditors findings and recommendations; meet with the head of the internal audit department at least once a year without the presence of the management and monitor and assess the role and effectiveness of internal audit function in the overall context of the company’s risk management system.

2.2.14. Quality assurance and Improvement program

Standards on quality Assurance and Improvement Program: Standard no. 1300 requires the chief audit executives to develop and maintain a quality assurance and improvement program that covers all aspects of internal audit activity and continuously monitors its effectiveness (A.Arens, 2012). A quality assurance activity is crucial as it ensures high quality internal audit function work and the program includes both internal and external assessments. Internal assessments include: ongoing monitoring on the performance of the internal audit activity, Periodic reviews performed through self-assessments or by other persons within the organization with sufficient knowledge of internal audit practices. The standard also requires external assessments to be conducted once every five years by a qualified, independent reviewer or review team from outside the organization. Each part of the program should be designed to help the internal auditing activity add value and improve the organization operations and to provide assurance that the internal audit activity is in conformity with the standards and the code of ethics (Switzer, 2007). As of Chambers (2015) described the best practice of conducting internal assessments to the internal audit as follows: a large internal audit function should have a dedicated independent unit to undertake internal audit quality assessment that review internal audit function or at least these reviews should be undertaken by internal auditors who had no part in the audit engagement being reviewed. In terms of external assessment, it is recommended to perform at least once every five years by a qualified and independent reviewer (IIA, 2013). This program aims to maintain the quality of internal audit practice. There are a number of benefits of conducting the quality assurance review such as: provide assurance to senior management and audit committee that the department is in compliance with the standards, targeted problems and presented sound recommendations, and provide an independent, objective review of the department and provide internal auditors with an opportunity to exchange ideas with others outside the organization.

2.2.15. Communicating Audit results

Standards on communicating Results: standard 2400 state that “the internal auditors must communicate the engagement results”. Communication must include the engagements objectives and scope as well as applicable conclusions, recommendations, and action plans.

Communication must be accurate (free from errors & distortions), objective (fair, impartial & unbiased), clear (easily understood & logical, avoid unnecessary technical language), concise (to the point & avoid unnecessary elaboration, redundancy), constructive, helpful to the engagement by lead to improvements, complete, lack nothing that is essential to the target audit clients and timely, the audit results should report on time to benefit the decision makers(Pickett, 2010).

2.2.16. Monitoring Progress or Follow up of audit Recommendations

Standards on monitoring Progress (follow up): standard 2500 require the chief audit executive to establish and maintain a system to monitor the disposition of results communicated to management. The chief audit executive must establish a follow up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client. And the standard 2600 mentioned that when the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive must report the matter to the board for resolution(Pickett, 2010).

2.2.17. Auditing services

As Fight and Andrew (2002) mentioned the six general categories of internal audit services as: Financial audits: address the questions of accounting, recording, and reporting of financial transactions. Operational audits: examine the use of resources to evaluate whether those resources are being utilized in the most efficient and effective way to fulfill the mission and objectives. An operational audit may include elements of a compliance audit, a financial audit, and an information systems audit. Information systems (IS) audits: address the internal control environment of automated information processing systems and how these systems are used. Information system audits typically evaluates system input, output and processing controls, backup and recovery plans, and system security, as well as computer facility reviews. Internal

control reviews: assess the adequacy of internal controls through completing questionnaires and flow charts. Compliance audits: seek to determine if departments are adhering to (for example) federal, state rules, regulations, policies, and procedures. Investigative audits: these audits focus on alleged violations of federal and state laws and policies and regulations. This may result in prosecution or disciplinary action. Audits precipitated by internal theft, misuse of assets, and conflicts of interest are examples of investigative audits.

2.2.17.1. Financial audit

It is generally defined as an independent evaluation of past accounting data for the purpose of assessing whether the data is appropriate, compliant and reliable of protecting the assets of the company and expressing an opinion on the effectiveness of the internal control system. As part of a financial audit, internal audit examines areas such as the financial accounts of the company, the payroll system, asset management and the annual financial statements. At a minimum, financial audit should include examination of noncurrent assets, inventories, receivables, cash and cash equivalents, provisions, liabilities, prepaid expenses and deferred income from the balance sheet; revenue and certain expenses such as personnel and travel expenses, training costs and other expenses from the income statements (Kagermann, 2008).

a) Collection and Disbursement audit objectives:

Businesses generate revenue through sales of goods or services to customers, and collect the proceeds of those sales in cash, either immediately or through collections on receivables. Management establishes controls to ensure that sales and collection transactions are appropriately handled and recorded. Assertions for cash receipt transactions include the followings: occurrences of cash receipt transactions (cash receipt recorded but not deposited in the bank account), completeness of cash receipt transactions (cash or check lost before being recorded in the cash register), authorization of cash discounts (management policies concerning cash discounts are followed), accuracy of cash transactions, cutoff cash transactions and classification of cash receipts (Messier, 2008). As per Ficht and Andrew (2002) suggested that awareness of staff members with corporate policies and procedures, receipt issued each time when payment received, pre numbered receipt should be controlled, collections deposited intact, receipts and deposits reconciled monthly, responsibilities for cash receipt and accounts

receivable assigned to separate employees. And control activities and tests of controls in cash disbursement transactions include: proper segregation of duties, independent reconciliation and review of vendor statements, monthly bank reconciliation, and tests cash disbursement before and after year end to ensure transactions are recorded in proper period (Messier, 2008).

b) Audit objectives of receivables

Receivables refer to amount of money owed to an organization or individuals. Trade receivables are referred to as accounts receivable and nontrade receivables ranges from employees advance to taxation rebates (Regan, 2004). Audit procedures for accounts receivables comprise: confirm accounts receivables, inquire management whether accounts receivable have been sold, agree total of accounts receivable subsidiary ledger to accounts receivable control account, trace selected accounts from the aged trial balance to the subsidiary accounts receivable records for proper amount and aging, test the adequacy of the allowances for doubtful accounts (Messier, 2008).

c) Audit objectives of inventory

Inventory: supplies used and goods manufactures in production process. Inventory is normally categorized in to raw material, work in progress and finished goods. A system of inventory controls that regularly updates inventory quantities called perpetual inventory. Audit procedures devised to obtain evidence of existence, condition, and physical quantities of inventory called physical inventory (Regan, 2004). As of Messier et al. (2008) elaborates assertions about classes of transactions, events and account balances for inventory. Assertions about classes of transactions and events includes: occurrence, completeness, authorization, accuracy, cut off and classifications. Assertions about account balances at the end of the period include: existence, rights and obligations, completeness, valuation and allocation,

2.2.17.2. System audit objectives

A system is a set of two or more interrelated components that interact to achieve a goal. Most systems are composed of smaller subsystems that support the larger systems. Each subsystem is designed to achieve organizational goals (Romney, 2015). Internal control is a process affected by an entity's board of directors, managements, and other personnel, design to provide

reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable law and regulations (Alkafaji, 2010). COSO acknowledges the role that internal auditors play in evaluating the effectiveness of control systems as an independent function reporting to top management, internal audit is able to assess the internal control systems implemented by the organization and contribute to ongoing effectiveness. As such internal audit plays a significant monitoring role. In order to preserve its independence of judgment, internal audit should not take any direct responsibility in designing, establishing, or maintaining the controls it is supposed to evaluate. It may only advise on potential improvements to be made. As per Vallabhanen (2009), all business systems, processes, operations, functions and activities within the organization are subjected to internal auditors' evaluations. The comprehensive scope of work of internal auditing should provide reasonable assurance that management's risk management system is effective; system of internal control is adequate, effective and efficient; and governance process is effective by establishing and preserving values, setting goals, monitoring activities and performance, and defining the measures of accountability. As Messier (2008) & Kagermen (2008) described that the system audit includes audit of purchasing processes, human resource management processes, and information technology system audit and the like.

2.2.18. Empirical review

This section reviews the existing empirical studies on risk management and internal control as well as internal audit practices that have an effect on company performance. The details are presented as follows:

In recent years, a paradigm shift has occurred regarding the way organizations view risk management. Instead of looking at risk management from specific situation, the trend is to take a holistic view of risk management. Therefore, managing risk is a fundamental concern into day dynamic global environment. Managing the risk encourages the adequacy and effectiveness of operations so that organizational performance can be improved.

Risk management practices are not only essential for the improvement of a firm performance but also help to reduce different types of risk exposures (Florio, 2017). Successful risk

management practices enable firms to enhance their values and manage risks in an effective way (Lechner, 2018). It increases a firm profitability by reducing different operational and marginal costs as well as reducing the uncertainty of stock market returns(Eckles, 2014). A firm that has a formal implementation of risk management practices can enjoy the high operational performance and earns over those who have lack of risk management practices (Soileau, 2017). To analyze the effect of risk management on the performance of Commercial banks in Kenya, study was conducted by Muthii et al. (2017)and the study found out that majority of the Kenyan banks were practicing good financial risk management and as the result the financial risk management practice mentioned herein have a positive correlation to the financial performance of commercial banks in Kenya.

The empirical research that investigates the association of riskmanagement and company's performance and the results indicate positive and significant relationshipbetween risk management and company's performance(Mohsen et al. 2011).

Internal audit has a role in assessing and improving the methodologies and controls employed by management to address risk and provide assurance that management's processes ensure that risks are properly identified, assessed, and managed. The Institute of Internal Auditors Research Foundation(IIARF, 2011) mentioned that internal auditors have a role in risk management as: reviewing and evaluating risk management processes, giving assurance that the risks are correctly evaluated. As per Nyamwaya (2016) noted that internal audit plays a significant role in enterprise risk management by providing objective assurance that the major risks are being managed appropriately and providing assurance that the risk management and the internal control framework is operating effectively.

Thus, internal audit has a role in providing objective assurance a bout risk management practices of a companyand propose recommendations to improve the risk management processes so that company performances could be enhanced. So based on the above literature reviews, the researcher formulated the following hypothesis:

H₁:Internal audit activities in risk management have a significant effect on company performance of ESLSE.

The survival of any organization depends on the effective and efficient utilization of resources (financial and nonfinancial) at the disposal of the organization. Hence, to optimize the utilization of resources various controls are put in place by management of the organization; among these internal controls are the major ones. When the researcher reviewed empirical evidences regarding the effect of internal control system and company performance, the researcher noted the following points:

Study was conducted to investigate the effects of internal control system on financial performance among small and medium scale enterprise in Kenya. Specifically assessing the relationship between internal control system and return on investment and establishing the level of business knowledge of an entrepreneur in internal control system and its effect on financial performance was done and the study revealed that a significant change in financial performance is linked to internal control system (Doglas Onganga, 2014). As per Dineshkumar&Kogulacumar (2010)study on the extent of internal control system influences on the performance of Sir Lankan telecom limited was conducted and the study discovered that there is a strong relationship between internal control system and organizational performance of the Sir Lanka telecom limited. Other studies by Ejom (2014)and NdifonEjoh (2014) also noted that there is no significant relationship between internal control activities and financial performance.

Although management is responsible for the assessment of the control processes in their respective areas, internal audit should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvements, IIA (2013). The audit opinion should address the degree to which the internal control process ensures: the accuracy, timeliness and reliability of financial and operational information; operations are performed in a manner that is efficient and contribute to the effective attainments of desired goals; that asset, including personnel is properly safe guarded; that the organization compiles with applicable laws, regulations and contracts (Coderre, 2009).So based on the above literature reviews, the researcher formulated the following hypothesis:

H₂Internal audit activities in control system have a significant effect on company performance of ESLSE.

The importance of internal audit function to promote good governance is discussed in the previous section, now we will see empirical evidences regarding the role of corporate governance on organization performance as follows:

Study sought to quantify the relationship between corporate governance and the performance of firms in Vietnam was conducted. In this the study, corporate governance consists of the size of the board, the presence of female board members, the educational level of board members, the working experience of the board, the presence of independent director, the compensation of the board and the ownership of the board. The findings of the study indicates that elements of corporate governance such as the presence of female board members, the working experiences of the board members, and the compensation of the board have positive effects on the performances of the firm (Vo & Phan, 2013). Other studies by Gebregeorgis (2011) examine the role of internal audit function in corporate governance effectiveness in the case of 13 purposely sampled commercial banks. The findings of the study noted that the rates of implementation to audit recommendation by management, attributes of internal audit function (or the policy for hiring and training, experience and professional certification of internal auditors), and use of internal audit function working papers by external auditors in the banks were low. Thus, internal audit functions of the banks don't possess quality and its positive impact on corporate governance effectiveness is questionable. Furthermore, N. Nwaobia (2016) was conducted a research to examine the position of internal audit practices towards enhancing transparency in public financial management in Rwanda and Nigeria discovered that internal audit function would enhance transparency in public financial management and reporting if the unit is given full autonomy in terms of independence and well equipped with both human capital and relevant infrastructural facilities.

Research in internal audit standards and its practice in the case of East Arsi Zone, Ethiopia was conducted and the result showed that the scope of internal audit function in the enterprise surveyed did not yet go far from the traditional practices and much time is devoted in performing financial and compliance audit and none of the respective public enterprise audit departments have quality assurance programs (Hamdu Kedir, 2014).

Similarly, research in the title "internal audit practices in case of Ethiopian governmental higher educational institutions" was conducted by Fekadu and it was noted that sampled universities

did not have established audit committee, their internal audit departments were not sufficiently resourced that affect their effectiveness, no developmental programs for their internal auditors, risk based internal audit plans were not established and none of the respective universities audit departments have quality assurance program including internal and external quality assessments as required by standard 1300 of international standards of professional practices framework(Fekadu, 2009).

Moreover, internal audit effectiveness in public sector of higher educational institution in Ethiopian was conducted by Desalegn et al. (2007). The study discovered that internal audit office of the university has low technical staff proficiency and high staff turnover; most employees have a short term employment which limits its capacity to provide effective services to management. Furthermore, the internal audit office reports to the president but the office does not administer its own budget and the internal audit office does not prepare strategic plan. The internal audit service is limited to the audit of regular activities and the internal audit does not apply consistent documentation styles for audit work.

The research in internal audit practices in Ethiopian financial sector was conducted and the study results revealed that the current Practices of Internal Audit Activities in the Ethiopian Financial sector do not comply with the IPPF guidelines promulgated by the Institute of Internal Auditors. Furthermore; there were no Quality Assurance and Improvement Programs in place by those Financial Institutions that can make their internal audit practices head towards the level of being IPPF complaint(Tigabu, 2015).

The Lee (2010) investigated the internal audit practices of Construction Company against IPPF standards and the researcher found that 25% of constructions companies did not have internal audit function and relied on outsource service. All of the companies who have internal audit department run assurance services but only 50% of them offered consulting services. 16.7% listed construction companies need to define their nature of assurance services in their charter and 40% companies defined their assurance service in their charter should review it annually and 33.3% of companies provide consulting services assigned job to their staff even though they do not have necessary skills.

Silviu&Cordos (2014) analyzed the internal audit practices on a sample of listed companies on the financial times 100 indexes on the London stock exchange through an empirical study. The researcher examined internal audit function existence, independence, roles and responsibilities, organization, relationship with audit committee and audit report. At the end of the study, the researcher noted that two companies have not implemented an internal audit department, some companies did not state the position of the internal audit department, and in others the department was subordinate to chief financial officer. The research also noted that internal audit function has different roles and responsibilities in the organizations: assists the management and the board in improving the controlling and risk management process, verify compliance with corporate governance guide lines, analyze the efficiency of operation, monitoring of risk management process and examines financial reporting and accounting practices. It also found that in some companies, the internal audit department is entirely staffed with specialists and in others the audit activity was entirely out sourced and the majority of cases of internal audit reports are regularly presented to audit committee.

The study sought to establish the relationship between internal audit function and financial performance in Tertiary Institutions in Nigeria with particular reference to Cross River State College of Education, Akamkpa. Data was collected using questionnaires and interview guides as well as review of available documents and records. The method of analysis employed was survey design while the stratified sampling procedure was adopted in administering the questionnaires. The data were analyzed using simple percentages, tables, correlation coefficient and z-scores. The study revealed that internal audit function has no significant effect on the financial performance of Cross River State College of Education (Ejoh & Ejom, 2014). The other researcher conducted a research at Kenya Meat Commission. The study found that the relationship between the internal audit function existence and financial performance at the Kenya meat commission is insignificant i.e., existence of internal auditing does not influence the profitability and return on investment (Nelius W. Muchiri, 2017). Moreover, Kiabel (2012) revealed that there was no significant relationship between the existence of an internal auditing function and financial performance of government owned companies, i.e., internal auditing, where it exists, does not influence the profit level, return on investment and return on equity of government owned companies. On the other hand, research conducted in the title the impact of internal audit on company performance by Doveden et al.

(1996) and Mohammed (2017) noted that internal audit has an impact on company performance. So based on the above literature reviews, the researcher formulated the following hypothesis:

H₃: Internal audit practices have significant effect on company performance of ESLSE.

2.2.18 Research gap

According to the above empirical literatures, assessment of internal audit practices was performed by different researchers in budgetary institutions such as: Easter Arsi zone and Higher Governmental Institution by Hamdukeidir (2014); Fekadu (2009); Desalegn et al. (2007) & Tigabu (2015). Furthermore, internal audit practices against the standard were assessed in Construction Company by Lee (2000) & Silvu et al. (2014). And the effect of risk management, internal control and internal audit practices on company performance was done in different sectors by Muthil et al. (2017), Mohsen et al. (2011), Doglas (2014), Dinesh et al. (2010), Ejom (2014), Nidfon (2014), Ejoh et al. (2014), Nelius (2017), Kiabel (2012) & Mohammed (2017). However, there is no research paper or journal articles published which indicates internal audit practices and its effect on company performance in case of Ethiopian Shipping and Logistics Service Enterprise. Thus, this research paper tries to fill the gap.

2.2.19 Conceptual Framework

The study used two variables as internal audit practices and company performance. Internal audit practices was evaluated using the parameters of independence and objectivity, professional proficiency, scope of audit work, performance of audit work, management of internal audit department, communication and follow up systems against the standards promulgated by institute of internal auditors. And effect of the audit activity on company performance through risk management, internal control system and internal audit practices. Based on the preceding discussion of the previous research and related literatures, this study postulates the following conceptual frame work:

Independent variables

Dependent variables

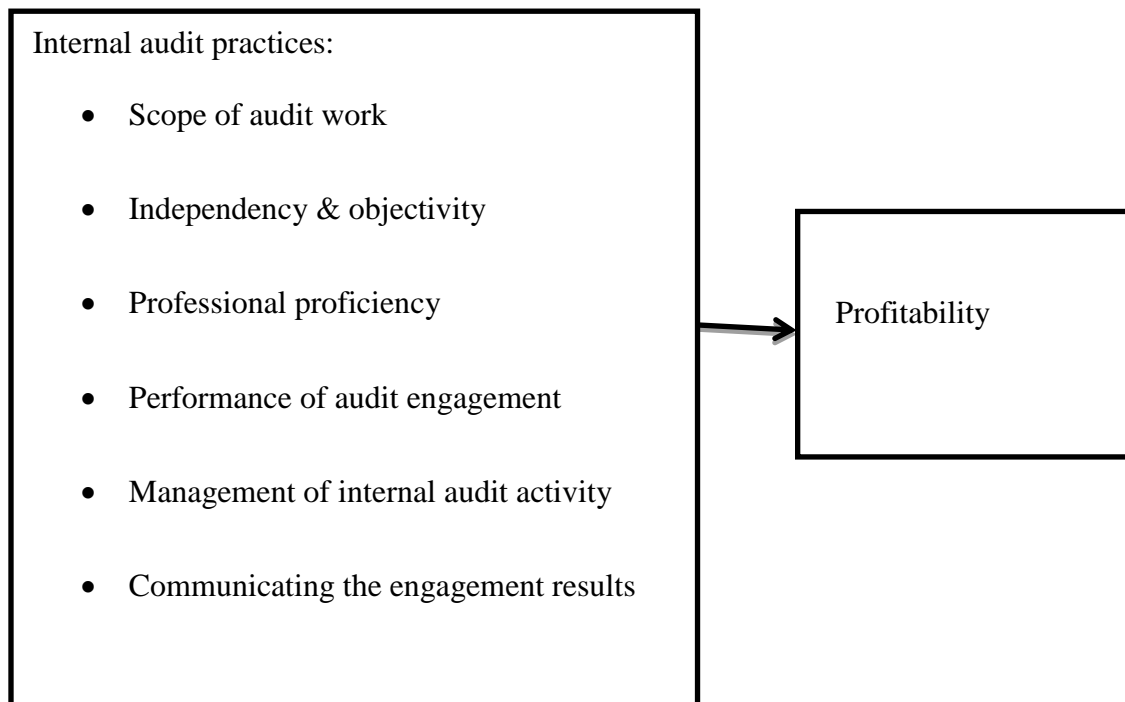


Figure 2.2: Conceptual frameworks

Chapter Three: Research Methodology

3.1 Introduction

This chapter explains the methodology the researcher utilized during the study. And the detail is presented as follows:

3.2 Research design

The study was conducted to assess internal audit practice and its effect on company performance of ESLSE. The research design employed was both exploratory & explanatory research design. The study also used both descriptive and inferential analysis method. The descriptive analysis was used to determine ESLSE comply with the standards in the internal audit practices and inferential or multiple regression analysis for hypothesis testing.

3.3 Data collection instruments

The researcher used primary and secondary data as a tool of data collection instruments. Two types of questionnaires were prepared to deal with assessments of internal audit practice and its effect on company performance. Questionnaires regarding internal audit practice was prepared and distributed to all auditors of the ESLSE and effect of risk management; internal control system and internal audit practice on company performance for department directors, division managers and team leaders of the ESLSE was used.

The study adopted and modified the questionnaires from different materials. Such as supplementary guidance: IIA & Ethiopia Ministry of Finance and Economic Cooperative internal audit manual. For the first part of the questionnaires which assesses the internal audit practices: the first section (section A) deals about respondents demographic information. The second part (section B) holds 48 likert scale questions aimed to analyze internal audit practices of the enterprise in related to independence, objectivity, professional proficiency, quality

assurance & improvement program, management of IA activity, scope of audit work, performance of audit work, communication of the engagement results & monitoring (follow up) process. For the second questionnaires which deals about effect of risk management, internal control system and internal audit practice on company performance the second part (section B) composed of four groups: the first group consists of 6 likert scale questions which are about internal audit activity in risk management process; the second group is composed of 13 likert scale questions which are about internal audit activity in internal control system; the third group composed of 11 likert scale questions about internal audit practice effect on company performance and the fourth group is composed of 3 likert scale questions about company performance. The language of the questionnaires is English. The sample of this instrument is attached in the appendix.

Mostly the likert scale questions have five degrees namely strongly agree, agree, neutral (undecided), disagree, strongly disagree that are combined in to a single composite score/variable during the data analysis process(Kothari, 2004). The researcher in five point likert scales followed through indicating scores like as follows (5) indicating strongly agree (4) agree (3) undecided (2) disagree and (1) strongly disagree. The number indicates in the question provided to feed ordinary scale measurement and to generate data suitable for quantitative analysis (Boone Jr, 2012). The mean response greater than 3 considered as an agreement with the statement of the questionnaires and the mean response less than 3 considered as a disagreement with the statement of the questionnaires (Boone Jr, 2012). Moreover, the standard deviation results of less than 1.00 indicates that the respondent's perception close to one another and that of greater than 1.00 indicated that the respondents perceptions vary each other (Shewhart, 2004).

Document review is relevant to enhance the quality of finding through the quantitative methods. This technique is the most means of gathering data to make the study rich information. As written information, it also saves the researcher time in addition of expanding the information (Yin, 2003). It also used by prior researcher in area of internal auditing (Desalegn G.Mihret, 2007). This method of data collection adopted to gather information from documents held in ESLSE in relation to IA activity. So, the internal audit reports, internal audit policy & charter have been critically reviewed. The sample of this instrument is attached in the appendix.

3.4 Population of the study

Defining the population is the first step in designing the sample (Creswell, 2009). Currently the enterprise has four sectors namely: shipping sector (manage vessels activity and transporting goods through sea transportation); freight forwarding sector (perform the clearance activity at port of Djibouti and transporting goods to respective dry ports or to the bonded warehouses); Port & terminal sector (administered the dry port, giving loading and unloading activity, bonded warehouses, handover/ takeover both full and empty containers) and corporate sector which gives support to all the three operation sectors such as finance activity, purchasing activity, ICT service, human resource management & development and etc. The size of the population was 90 employees both from internal audit department and management members of the ESLSE.

3.5 Sampling Techniques

The researcher utilized purposive sampling method in this study. The researcher purposively selected the participant because they were the major users of the internal audit reports. Thus, the study employed all internal auditors to assess internal audit practices of the enterprise and sector directors, division managers and team leaders the enterprise to assess and determine the effect of internal audit activities in enterprise performance. Thus, questionnaires were distributed to managers and internal auditors of ESLSE.

3.6 Data analysis method

In this study the researcher used STATA software to analyze the data which were collected. After the quantitative data were collected, edited and processed and entered in to STATA software, a test for reliability has been made. Then after, a descriptive statistics mainly frequency count, percentage, measure of central tendency (mean), measure of dispersion (standard deviations) has been used to summarize and describe the results of the observation. To determine the relationship among the variables and to test the hypothesis, correlation and regression analysis

was used by meeting the Ordinary Least Square (OLS) assumptions of the linear regression model. The following model is formulated for this research to test the research hypothesis.

$$FP = \beta_0 + \beta_1 RMP + \beta_2 ICS + \beta_3 IAP + e$$

Where:

FP is financial performance of the ESLSE,

β_0 is the regression coefficient/ constant term,

$\beta_1 - \beta_3$ are the coefficient of independent factor.

RMP = Risk management process

ICS = Internal control system

IAP = Internal audit practices

e = error terms

3.7 Objectives and data sources

As per the following tables, we will see the relationship among the research objectives and data sources:

Objectives:	Data source
To examine the effect of internal audit practice on company performance through risk management practices.	Question in questionnaires (1-6)
To assess the effect of internal audit practice on company performance through internal control system.	Question in questionnaires (7-19)
To assess internal audit practices in ESLSE.	Question in questionnaires (20-30)

Chapter Four: Data analysis and Interpretation

This chapter presents the analysis and discussions for the research findings obtained from the questionnaires and document reviews. The purpose of the study was to assess internal audit practice and its effect on company performance in case of ESLSE. The study presents the findings by use of tables and figures. The finding intended to answer the research objectives which were presented in previous chapter.

4.1. Descriptive analysis

4.1.1 Response rate

The questionnaires were distributed to all internal audit department employees and sector directors, division managers and team leaders of ESLSE. 90 questionnaires were prepared and distributed for the above respondents. However, out of 90 questionnaires distributed 83 respondents completely filled in and returned the questionnaires, these represent a 92% response rate and this response rate was satisfactory to make conclusion for the study.

Table 4.1 summary of the response rates

Data sources	Methods of data collection	Sample size	Response	Frequ ency	Percentage
Directors, Division managers and team leaders as well as Auditors	Questionnaires	90	Filled and returned the questionnaires	83	92
			No response	7	8
Totals				90	100

Source: Field survey, 2018

4.1.2 Demographic information

The following outputs processed by STATA software is provided to show the demographic profile of the respondents in terms of gender, age, field of study and as well as professional certification and experiences which is depicted as follows.

4.1.3 Gender of the respondents

According to the study findings (27 %) of the respondents were female and (73 %) were male. This implies that male were highly involved in the study.

Table 4.2 STATA output for gender distribution

Gender	Frequency	Percentage
Female	22	27
Male	61	73
Total	83	100

Source: Field survey, 2018

4.1.4 Age of the respondents

The study requested the respondents to indicate their age category and the finding indicates that (59.04%) of the respondents were aged between 30 to 39 years, (19.28%) of respondents indicated they were aged between 50 to 59 years and (15.66%) aged between 40 to 49 years, (4.82 %) of respondents indicated were aged between 20 to 29 years whereas the remaining (1.2%) of respondents were aged above 60 year.

Table 4.3 STATA output for age category

Age category	Frequency	Percentage
20 up to 29	4	4.82
30 up to 39	49	59.04
40 up to 49	13	15.66
50 up to 59	16	19.28

Above 60	1	1.20
Total	83	100

Source: Field survey, 2018

4.1.5 Field of Study, Qualification & Certification

The study requested the respondents to indicate their level of qualification and field of study. Accordingly (68.67%) of the respondents obtained Bachelor's Degree and (31.33%) Masters Degree's as their highest level of education. According to the field of study the participants of the study indicated that (39.76%) had accounting background, (24.10%) management, (16.87 %) economics and (19.27%) other disciplines. Here, the majority of respondents studied accounting followed by management and other disciplines and economics fields which shows their knowhow with the subject matter addressed in the study. There were also 3 respondents (15.78%) who have a certification in short term training in IFRS, internal audit and Performance audit which was given for a period of one to two weeks.

Based on this result, the internal audit team members were well educated. They held a Bachelor and Master's degree in different field of study. In terms of professional certification, internal audit teams of the enterprise do not have certified personnel.

Table 4.4 STATA output for field of study & Qualification

Field of study	Frequency	Percentage	Qualification	Frequency	Percentage
Accounting	33	39.76	BA	57	68.67
Management	20	24.10	MA	26	31.33
Economics	14	16.87	Total	83	100
Others	16	19.27			
Total	83	100			

Source: Field survey, 2018

4.1.6 Work experience

The study also requested respondents, internal auditors, to indicate the number of service years they had served for. The study revealed that (31.58%) of the respondents had worked for a period ranging 8 to 12 years, (31.58%) of the respondent was between 0 to 3 years, (21.05%) of

the respondents had served 4 to 7 years, and(15.79%) had served 13 years and above as internal auditor and the below table 4.6 also shows out of 19 auditors 15 of them have more than 3 year work experience in other areas of work. This implies that majority of the respondents have knowledgeaccumulated and which in turn added recognized value for this study.

Table 4.5 STATA output for work experience as auditor

Experience as auditor	Frequency	Percentage
0 to 3 years	6	31.58
4 to 7 years	3	15.79
8 to 12 years	4	21.05
13 & above years	6	31.58
Total	19	100

Source: Field survey, 2018

Table 4.6 STATAoutput for work experience other than auditor

Experience as auditor	Frequency	Percentage
0 to 3 years	8	53.33
4 to 7 years	4	26.67
8 to 12 years	1	6.67
13 & above years	2	13.33
Total	15	100

Source: Field survey, 2018

4.1.7 Current position & working department in the enterprise

As per the instruction available in the questionnaires, the respondents indicated their level of current position and working areas (departments) in the enterprise which is presented as follows:

Table 4.7 STATA output for current position of the respondents

Demographic	Characteristics	Frequency	Percentage
Current position	Department director	6	7.23
	Division manager	20	24.10
	Team leader	38	45.78
	Internal audit director	1	1.2
	Financial audit division manager	1	1.2
	System inspection & performance audit manager	1	1.2
	Chief financial auditor	3	3.61
	Chief system inspection & performance auditor	2	2.41
	Senior financial auditor	3	3.61
	Senior system inspection & performance auditor	3	3.61
	Financial auditor	3	3.61
	Inspector	2	2.41
Totals		83	100

Source: Field survey, 2018

Table 4.8 STATA output for working area of the respondents:

Demographic	Characteristics	Frequency	Percentage
Working area	Commercial department	4	4.82
	Finance & accounts department	16	19.28
	Human resource management & development department	3	3.61
	Informationcommunication technology department	3	3.61
	Inland port operation & cooperation department	2	2.41
	Legal, Insurance & Claims department	2	2.41
	Multi modal department	6	7.23
	Operation department	3	3.61
	Port & terminal development department	4	4.82
	Procurement department	4	4.82
	Property administration & general service department	2	2.41
	Safety & standards division	2	2.41
	Shipping service sector	3	3.61
	Technical department	4	4.82
	Unimodal department	5	6.02
Corporate service sector	1	1.2	
Internal audit department	19	22.89	

Totals	83	100
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Source: Field survey, 2018

The study tried to include all internal auditor and managements from upper to lower level and from different departments of the shipping, freight forwarding, port & terminal and corporate service sectors to get appropriate responses from the respondent and make analysis and there was no biased as the researcher include all internal auditors and managements of the ESLSE sectors.

4.1.8 Audit activities performed by the Enterprise internal audit department

The internal audit department of the enterprise performs different types of auditing activities from 2011 up to 2018. The following table describes the year of audit, types of audit performed and audit reported issued is presented as follows.

Table 4.9 STATA output for year of audit covered:

Year of audit	Frequency	Percentage
2011 to 2012	4	3.88
2012 to 2013	10	9.71
2013 to 2014	13	12.62
2014 to 2015	15	14.56
2015 to 2016	19	18.45
2016 to 2017	22	21.36
2017 to 2018	20	19.42
Totals	103	100

Source: Field survey, 2018

As per the above table it is understood that the number of audit activity increased from year to year with a total of 103 specific audit reports in different areas which was released by the internal audit department of the enterprise to ESLSE managements and BOD.

Table 4.10 STATA output for types of audit performed:

Type of audit	Frequency	Percentage
Financial audit	42	40.78
System & performance audit	61	59.22

Source: Field survey, 2018

Internal audit department of the enterprise perform both financial audit and system inspection & performance audit of enterprise activities of which (59.22%) of its activities were focused on system inspection & performance audit while the remaining (40.78%) in financial audit.

Descriptive statistics of Internal Audit Practices

Based on the first section of the questionnaire (Question1-Question6) which examines the independence of IA team only question no. 5 had a mean response value less than 3.00. This implies that participants were agreed on the independence of IA teams in ESLSE except the freedom to appoint, remove, promote and remunerate of all internal audit staff. Descriptive statistics of the data are presented in table 4.11. The standard deviation of Q1, Q2, Q3and Q5 were less than 1.00. It indicates that the respondents perception were close to one another. But the standard deviation of Q4and Q6 were greater than 1.00 and it indicates that the respondents perception were far from one another.

Ethiopian Shipping and Logistics Service Enterprise have an internal audit department (IAD) headed by internal audit director. The researcher reviewed the organizational chart of the Enterprise to examine the organizational position of IAD in ESLSE. Based on the organizational chart of the organization, IAD have equal status to the position of the core process (department of the enterprise) and located at the top of the organizational hierarchy. Besides, the IAD reports administratively to Chief Executive Officers (CEO) but functionally to enterprise Board of Directors (BOD). This statement also found in the enterprise internal audit policy and charter which was approved by the enterprise BOD in June, 2013. This direct line with board and explicitly stated in audit charter enables the internal audit department became independent. The internal audit policy and charter of the enterprise also mentioned the duties and responsibilities of IAD that the department has a responsibility to maintain the required professional audit staff

with sufficient knowledge, skills, experience and qualification as per the ESLSEs personnel policy and as per the requirements of the audit charter. The charter also mentioned that overall internal audit activity responsibility was in the hand of internal audit director and staffs of IAD. To support this, the studied organization section 8& 9 of internal audit charter included in the following paragraph stated that:

“ The internal audit department has the responsibility to: establish an internal audit manual with detail audit program; follow the guide lines and methodologies given in the internal audit manual; up hold the principles of integrity, objectivity, confidentiality, competency and due professional care; develop annual audit plan and implement the annual audit plan and other special tasks or projects assigned by the BOD and the management and submit the audit report in accordance with the internal audit guide line to management and board. The IAD also participate in the recruitment, promotion, transfer and release of internal audit department staffs.” Thus, the researcher found that internal audit department of the enterprise is independence which was supported by both questionnaires and document reviews techniques of data gathered.

According to the second section of the questionnaire (Q7-Q10) which examines the objectivity of IA only question no. 10 had a mean response of 3.00. This implies that participants were agreed on the objectivity of IA in ESLSE except disclosure mechanism when objectivity is impaired in appearance. Descriptive statistics of the data are presented in table 4.12. The standard deviation of Q8& Q9 was less than 1.00. and it indicates that the respondent's perception was close to one another and that of Q7 and Q10 were greater than 1.00 and this shows the respondents perception were far from one another.

The internal audit policy and charter of the enterprise stated the principles of the code of conduct of integrity, objectivity, confidentiality and competency of internal auditor of the enterprise. Concerning objectivity, the charter explicitly mentioned that internal auditor shall disclosed all material facts known to them that, if not disclosed, may distort the reporting of activities under review. Though the charter stated the above phrase, the researcher did not found a document that supports this statement.

The third section of the questionnaires (Q11- Q15) which examines the professional proficiency of IA, only question no. 15 had a mean response of 3.00. This implies that participants were

agreed on the professional proficiency of IA in ESLSE except for policies for hiring and training of the internal audit staff. Descriptive statistics of the data are presented in table 4.13. The standard deviations for all questions (Q11- Q15) were less than 1.00 which indicates that all the respondents' perceptions were close to one another. Maintaining the required professional audit staff with sufficient knowledge skill, experience and qualification is the duties and responsibilities of IAD and the policy also mentioned that internal audit director participate in the recruitment, promotion, transfer and release of internal audit department staff. While reviewing the document the researcher did not found the hiring and training policy of the department.

The quality assurance and improvement program (QAIP) of IAD was studied and the result showed that the mean score value of the questions except Q20 is above 3.00. This implies that participants were agreed on the QAIP of IAD in ESLSE except for quality assured by qualified external reviewer. Descriptive statistics of the data are presented in table 4.14.

As per the ESLSEs internal audit policy and charter section 2.12 to 2.15 stated that:

“The chief audit executive must develop and maintained a quality assurance and improvement program that covers all aspects of the internal audit activity. The quality assurance and improvement program must include both internal and external assessments. Internal assessments include: ongoing monitoring & periodic review of the performance of the internal audit activity. And the external assessment must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.” While reviewing the internal audit report review process of the IAD, the researcher noted that there is an internal review of audit reports by IA director and division managers which mainly focused on the sufficient and relevance of audit evidences and ways of presentation of the audit report. However, the researcher couldn't get any document related to quality assurance and improvement programs externally assessed by independent reviewers. Though, the internal audit charter of the enterprise required the IAD to have QAIP to assess its activity by external independent reviewer at least once every five years, the IAD does not implement it and this was checked by both questionnaires and document review techniques during the study.

Table 4.11 Questionnaires & STATA output for Independence.

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Questions	Respondents	Minimum	Maximum	Mean	Std.deviation
1. Internal audit department of the enterprise is free to plan its activity without management interference.	19	3	5	4.26	0.653

Questions	Respondents	Minimum	Maximum	Mean	Std.deviation
2. Internal audit department of the enterprise perform the audit activity without any influence from management.	19	2	5	4.16	0.898
3. Internal audit department of the enterprise is free access to documents and to the highest levels of management.	19	2	4	3.16	0.898
4. Internal audit department express their opinions without any prejudice or threat their position.	19	2	5	3.63	1.011
5. Internal audit department of the enterprise has a freedom to determine the appointment or removal, promotion and remuneration of all internal audit staff.	19	2	4	2.78	0.631
6. The internal audit department functionally report to board or audit committee and administratively to enterprise chief executive officer (CEO).	19	1	5	4	1.054

Independence	19	2.5	4.33	3.67	0.512
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Source: Field survey, 2018

Table 4.12 Questionnaires & stata output for Objectivity.

Questions	Resp onde nts	Mini mum	Maxi mum	Mean	Std.devi ation
7. Internal auditors of the enterprise exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.	19	1	5	3.52	1.07
8. Internal auditors make balanced assessments of all the relevant circumstances and are not unduly influenced by their own interest or by others in forming judgments.	19	3	5	4.10	0.74
9. There is a mechanism whereby if independence and objectivity is impaired in fact, the details of the impairment are disclosed to appropriate parties.	19	2	5	3.42	0.90
10. There is a mechanism whereby if independence and objectivity is	19	1	4	3	1.05

impaired in appearance, the details of the impairment are disclosed to appropriate parties.					
Objectivity	19	1.75	4.5	3.51	.72

Source: Field survey, 2018

Table 4.13 Questionnaires & STATA output for Professional Proficiency.

Questions	Responde nts	Minimu m	Maximu m	Mean	Std.de viation
11. Internal auditors of the enterprise possess the knowledge, skills and experiences needed to understand the enterprise system as well as to execute audit duties.	19	2	5	3.68	0.95
12. Internal auditors of the enterprise upgrade their knowledge, skills and their competencies through continuous professional development, short term training, etc.	19	2	5	3.79	0.71
13. Internal audit department of the enterprise is able to carry out each activity on time and cover audit plan.	19	2	5	3.47	0.96
14. The internal audit department has audit policies and	19	3	5	4.05	0.78

procedures manuals to guide the internal audit activities.					
15. Internal audit department of the enterprise has policies for hiring and training of internal audit staffs.	19	2	4	3	0.75
Professional proficiency	19	2.6	4.8	3.6	.55

Source: Field survey, 2018

Table 4.14 Questionnaires & stata output for quality assurance & improvement programs.

Questions	Respon den ts	Min imu m	Maxim um	Mean	Std.devi ation
16. The internal audit department of the enterprise develops quality assurance and improvement programs that cover all aspects of the internal audit activity.	19	2	4	3.10	0.88
17. The internal audit department of the enterprise performs quality assurance and improvement program internally through ongoing monitoring, day to day supervision and review.	19	1	4	3.42	0.90
18. The quality assurance reviews is undertaken by internal auditors who had no part in the audit engagement being reviewed.	19	1	4	3.05	0.78
19. The internal audit department communicates the results of internal assessments of quality	19	2	4	3.10	0.81

assurance and improvement programs to board and managements.					
20. The work of internal audit department of the enterprise is assessed externally by qualified independent reviewers.	19	1	5	2.36	1.21
21. The quality assurance and improvement programs undertaken provide the internal audit department of the enterprise to add value and improve organization operations.	19	2	5	3.63	1.06
22. The quality assurance and improvement programs provide assurances to management & audit committee that the internal audit department of the enterprise in compliance with standards, targeted problems and presented sound recommendations.	19	1	5	3.26	1.10
Quality assurance and improvement programs	19	2	3.86	3.14	.62

Source: Field survey, 2018

The study also examines internal audit activity management of the enterprise by availing questions in the questionnaires (Q23-Q31). And it was noted that only question no. 25 had a mean score value less than 3. This indicates that the participants were agreed on the management of internal audit activity except the number and qualification of internal auditors balanced with internal audit activity to be performed. Descriptive statistics of the data are

presented in table 4.15. The standard deviation of all questions were greater than 1.00 and it indicates that the respondents perception were far from one another.

Duties and responsibilities of the internal audit department, internal audit director and internal audit staff are clearly stated in the ESLSEs internal audit policy and charter. The policy also states activities that should not be performed by IA directors and staffs. Activities like Perform any operational duties and day to day activities, initiate or approve accounting transactions, perform pre audit and participate in handover/ takeover of properties not be performed by IAD. The audit charter also mentioned that the internal audit activity's plan of engagements must be based on a documented risk assessment, under taken at least annually. The input of senior management and the board must be considered in this process. Even though the policy and charter stated the above statement, during document review the researcher was not found a document that is performed by IAD that shows risk assessments done annually which was used during audit planning.

The study conducted on the auditors scope of work in the enterprise and the analysis result revealed that the mean score value of Q32-Q33 close to 3.00 and that of Q34 was above 3.00. This indicates that the participants were not sure about audit activity in the enterprise which covered the enterprise governance process to promote ethics and values of the organization and evaluations in risk management processes. Descriptive statistics of the data are presented in table 4.16. The standard deviation of questions no. 33 was less than 1.00 which indicates that the respondents' perceptions were close to one another and that of Q32&Q34 their standard deviations were greater than 1.00 and it shows that the respondents' perceptions were varied each other.

As per the ESLSEs internal audit policy and charter no. 3.9 to 3.12 stated that:

“Internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes, improve the governance process through promoting appropriate ethics and values within the organization and the internal audit activity must evaluate the effectiveness and contribute to the risk management processes of the enterprise.”

The researcher also reviewed documents whether the adequacy of training given to auditors in risk management and related fields, it was noted that only 3 audit staff (15.78%) have gotten a certification in short term training in IFRS, internal audit and Performance audit which was

given for a period of one to two weeks and no training was given for auditors in area of risk management process.

The study conducted on the performance of audit work (Field work) of the ESLSE and the analysis showed that the mean score value for all questions were greater than 3.00. This implied that the overall average response for the performance of field work was agreed by the respondents. All the questions under the category have got relatively high rate as explained by mean scores of each of 3.79, 3.84, 3.58, 3.42, and 4.15 respectively. Descriptive statistics of the data are presented in table 4.17. The standard deviation of questions (Q35-Q39) were less than 1.00 which indicates that the respondents' perceptions were close to one another.

Table 4.15 Questionnaires & stata output for management of internal audit activity.

Questions	Respon dents	Minim um	Maxi mum	Mean	Std.de viation
23. The internal audit department position, authority and its scopes are clearly defined in the internal audit charter.	19	1	5	3.95	1.08
24. The internal audit department reviews the internal audit charter periodically and present to board for approval.	19	1	5	3.16	1.26
25. The number and qualification of internal auditors is balanced with the internal audit activities that will be performed with in the enterprise.	19	1	4	2.57	1.02
26. Internal audit department divides the carrier structure of internal auditors as director, manager, chief auditor, senior auditor, auditor and junior auditor.	19	1	5	3.53	1.31

27. Each carrier in no.4 above has a separate duties and responsibilities in the internal audit department.	19	1	5	3.63	1.26
28. The internal audit department prepared risk based plan consistent with the organization goals.	19	2	5	3.53	1.07
29. The internal audit department forward internal audit plan to board and managements for review and approval.	19	2	5	3.74	1.05

Questions	Respon dents	Minim um	Maxi mum	Mean	Std.de viation
30. The internal audit department reports the audit result to management and board periodically internal audit activities performance relative to its plan.	19	2	5	3.95	1.03
31. The audit committee monitors and review internal audit work plan, audit report, management's response to internal audit findings and recommendations.	19	1	5	3.37	1.16
Management of internal audit activity	19	2.33	4.67	3.49	.78

Source: Field survey, 2018

Table 4.16 Questionnaires & stata output for Scope of audit work

Questions	Respo ndents	Mini mum	Maxi mum	Mean	Std.de viation
32. The internal audit department assesses					

the enterprise governance processes to promote appropriate ethics and values and ensure effective organizational performance and accountability.	19	1	5	3	1.05
33. The enterprise internal audit department evaluates the effectiveness and the improvement of risk management processes.	19	1	5	3.05	0.91
34. The internal audit department evaluates the adequacy and effectiveness of controls in responding to risk within the organization governance, operation and information system.	19	1	5	3.26	1.15
Scope of audit work	19	1.33	5	3.11	.76

Source: Field survey, 2018

Table 4.17 Questionnaires & stata output for Performance of audit work (Field work)

Questions	Respo ndents	Mini mum	Maxi mum	Mea n	Std.devi ation
35. Internal auditors of the enterprise identify, analyze and evaluate information while performing the engagement.	19	2	5	3.79	0.79
36. All audit works are documented in the audit working papers.	19	2	5	3.84	0.96
37. Engagements are properly supervised to ensure audit objectives are achieved and quality is assured.	19	2	5	3.58	0.90
38. Appropriate evidence of supervision is documented and retained.	19	2	5	3.42	0.90

39. Conclusions drawn with the audit reports are backed by supporting documents which is competent, sufficient and relevant evidences.	19	2	5	4.15	0.89
Performance of audit work	19	2.2	5	3.76	.65

Source: Field survey, 2018

According to the questionnaire (Q40-Q44) which examines the engagement result communication of IA work, all questions were mean response greater than 3.00. This implies that Participants were agreed on communication between internal auditors and audited aspects. Descriptive statistics of the data are presented in table 4.18. The standard deviations of Q40-Q42 were less than 1.00 and it indicates that the respondents perception were close to one another. But the standard deviations of Q43-Q44 were greater than 1.00. It indicates that the respondents perception were far from one another.

Finally, the study conducted on the follow up system of the internal audit department and the finding revealed that the mean score value for the questions were greater than 3.00. This indicated that internal audit department of the enterprise has a system of audit follow up and implemented as per the system and discuss as well as report the follow up activities performed to the concerned bodies. Descriptive statistics of the data are presented in table 4.19. The standard deviations of Q48 was less than 1.00 and it indicates that the respondents perception were close to one another. But the standard deviations of Q45-Q47 were greater than 1.00. It indicates that the respondents perception were far from one another.

Table 4.18 Questionnaires & stata output for Communicate the engagement results

Questions	Respondents	Minimum	Maximum	Mean	Std. deviation
40. Internal auditors of the enterprise communicate the engagement results that include objectives, scope, conclusions, and recommendations to internal audit director.	19	2	5	4.26	0.73

41. Internal audit department perform exit conference with audited department/sector regarding the audit engagements.	19	2	5	4.26	0.81
42. Audit matters that needs to review again, if any, will be reviewed and the final audit report is released to board and senior managements.	19	2	5	4.21	0.79
43. The audit report that is communicated to concerned bodies is accurate (free from errors), clear (easily understandable), and complete.	19	1	5	3.95	1.08
44. The audit report comprises constructive recommendations and it is available on time to benefit managements to take appropriate actions.	19	2	5	3.89	1.10
Communicate the engagement results	19	2.6	5	4.12	.71

Source: Field survey, 2018

Table 4.19 Questionnaires & stata output for Monitoring progress (follow up)

Questions	Respondents	Minimum	Maximum	Mean	Std. deviation
45. The internal audit department establishes a system, a follow up process, to monitor the audit result communicated to management.	19	2	4	3.16	1.01
46. Based on the established follow up system, the department monitor that the recommendations forwarded to the enterprise have been effectively implemented or not.	19	1	5	3.21	1.08
47. The internal audit department discusses the matter (the unimplemented audit recommendations) with management.	19	1	4	3.32	1.00

48. After discussion with the management, the internal audit department prepares a follow up report and forwarded to management and boards.	19	1	4	3.11	0.94
Monitoring progress (follow up)	19	1.25	4.25	3.2	.89

Source: Field survey, 2018

Summary of Internal audit practice

As per the information described in the following table that summarized the internal audit practice of the enterprise, it was noted that the IAD of the enterprise was good at communicating the engagement results followed by performance of audit work, independence of IAD, professional proficiency and objectivity. But, in terms of audit scope of work, QAIP and monitoring progress the mean value approaches to 3 which described that the respondents were neutral.

Variable	Obs	Mean	Std. dev	Min	Max
Communication of the engagement results	19	4.12	.71	2.6	5
Performance of audit (Field work)	19	3.76	.65	2.2	5
Independence	19	3.67	.51	2.5	4.33
Professional proficiency	19	3.60	.55	2.60	4.80
Objectivity	19	3.51	.72	1.75	4.5
Management of internal audit activity	19	3.49	.78	2.33	4.62
Monitoring progress (Follow up)	19	3.20	.89	1.25	4.25

Quality assurance & improvement programs	19	3.14	.62	2	3.86
Scope of audit work	19	3.11	.76	1.33	5

Source: Field survey, 2018

Effect of internal audit activity in company performance of ESLSE.

The researcher has attempted to determine the level to which internal audit activity effect on company performance which is measured in profitability. Respondents were asked to put their degree of agreement about internal audit activities and its effect on company performance in a five point likert scale. The scale of responses summarized in tabular format after calculating the mean and standard deviation of the descriptive statistics in STATA software.

Risk management process

Risk is an occurrence which will prevent the organization from achieving the objectives(Pickett, 2010).As (S.Rao.Vallabhanen, 2009) mentioned that internal audit function should: assist the organization by identifying and evaluating significant exposures to risk and contributing the improvement of risk management and monitor and evaluate the effectiveness of the organizations risk management system. The survey result for internal audit activity in risk management process in ESLSE is shown in table 4.20 and descriptive results explained as follows:

The moderate mean result for Q1-Q3 & Q6 between 3.20 to 3.13 shows that the respondents (sector directors, division managers & team leaders) were not sure about internal audit activity effectiveness in risk identification, evaluating (assessment) and appropriately suggest risk strategies that have an effect on organization performance. And the standard deviation indicates that the respondents were similar each other with the issues rose in the questionnaires.The

respondents were also responded their disagreement for Q4-Q5 which is below the average mean score about internal auditors' activity in giving assurance that the risks are correctly evaluated and the risk management processes are adequate. The standard deviation is below 1.00 and this indicates that the respondents responses were not varied each other. Thus, the sector directors, division managers and team leaders responded that internal audit activity contribution to risk management process is below average which means that the activity done by IAD in risk management process is low. On the other side, the researcher also asked the internal audit team regarding their scope of work and they responded that they were not sure that the scope of audit work covered the risk management process and the corporate governance of the enterprise.

Internal control system

Internal control is a set of mechanism designed to motivate an individual or a group towards achievements of a desired objectives (Kirsch, 2002). Similarly, International Standard on Auditing (ISA 400) defines internal control as all policies and procedures adopted by management of an entity to assist in achieving the primary objectives of the management by make sure the business is conducted in the most efficient way and also ensuring strict adherence to management policies, safeguarding of assets, prevention and detection of fraud and timely preparation of reliable account. Although management is responsible for the assessment of the control processes in their respective areas, internal audit should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvements, IIA (2013). The study had examined the effectiveness of internal audit activity in internal control system that has an impact on company performance. The result presented in table 4.21 with results of mean and standard deviation and descriptive analysis were presented as follows:

The control activities performed by internal audit in the enterprise such as review policies and procedures, review the existence, ownership and safeguarding of the enterprise assets, traced accounts from trial balance and check their balances, aging and adequacy of allowance for doubtful accounts, review disbursements, exposure limits and reviewing system approval and authorization have a mean value of 3.45, 3.48, 3.46, 3.54, 3.45, 3.44 and 3.34 respectively which is above the average mean score value of 3.32. The higher mean result 3.54 that internal

audit activity is effective in reviewing the enterprise disbursements shows the agreement of respondents with the statement. Their standard deviations were less than 1.00 which shows that the respondents response to the questions were more or less similar. The respondents were also indifferent shown with a mean value 3.00 as whether internal audit department is effectiveness in reviewing each and every system that the enterprise performs. The variation in response shown by standard deviation result less than 1.00 shows that the respondents were almost similar answers. Activities such as review and evaluate procedures to ensure transactions are recorded in proper period and amount as well as evaluate proper segregation of duties in both financial and system auditing activities score a mean value of 3.27 & 3.17 respectively which is below the average result. The respondents were similar perceptions regarding these issues as their standard deviations were less than 1.00. Though the IA team responded that their IA activity evaluates the adequacy and effectiveness of controls within the enterprise, user of the audit result responded that the IA activity not effective in reviewing each and every system that the enterprise uses. Such as, checking transactions are recording in the proper period and amount and whether there is proper segregation of duties and responsibilities or not. The management also added that IA activity of the enterprise was mainly focused on checking the enterprise disbursements were in line with the available policies and procedures. As the result of internal audit activities performed, whether efficiency and effectiveness of programs increased, financial and operational control of the enterprise increased would have received a mean score of 3.17, 3.15 and 3.19 which were below the average result. As far as respondent's variation is concerned, they are more or less similar perception since their standard deviations were less than 1.00.

Internal audit practice

Internal audit helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes, (IIA, 2013). And the internal audit practice is a crucial part of an organization performance in both private and public sector (Cohen, 2002). Having this in mind, this study had examined the effect of internal audit practices on company performance in case of ESLSE and the study come up with the following results:

The highest score value of (M=3.89, SD= 0.693); (M=3.61, SD=0.884)& (M=3.55; SD=0.871) were for periodic report of audit results to management, report comprises relevant information which is useful for decision and the conclusions drawn were backed by sufficient and relevant evidences. The standard deviation shows that the respondent's perceptions were more or less similar about the questions mentioned. Regarding the independence of internal audit and effective audit services for managements got a mean score value of 3.41 which is above the average result and its standard deviation was 0.867 means that respondent's perception in evaluating internal auditor's independence more or less similar. The result is similar with that of IAD staff responded regarding the issue raised. The below average mean score values goes to auditors objectivity (in gathering, evaluating & communicating information); professional proficiency (knowledge, skills and experiences); risk based audit plan and assessing ethics and values of the enterprise with Value of (M= 3.25, SD=0.908); (M= 3.31, SD=0.852) ; (M= 3.09, SD=0.728) & (M= 2.95, SD=0.915) respectively. On the other side, the researcher asked the IA staff members regarding their internal audit practices in area of objectivity and professional proficiency. They responded that they are objective in evaluating, assessing and gathering information. And they have necessary skills and experiences to perform the audit work.

As far as effectiveness of internal audit in communicating risk and control information within the enterprise is concerned, the respondents were not sure or they were undecided with mean score value and standard deviation 3.00 and 0.796 respectively. The standard deviation indicated that the respondent's response towards this issues were more or less similar.

Table 4.20 effect of risk management on company performance

Questions	Respo ndents	Mini mum	Maxi mum	Mean	Std.d eviati on
1. The internal audit department of the enterprise is effective in identifying risk exposures of the enterprise.	64	1	5	3.20	0.858
2. The internal audit department of the enterprise is effective in evaluating	64	2	5	3.16	0.839

(assessing) the identified risk.					
3. The internal audit department of the enterprise is effective in evaluating the reporting of key risk from the enterprise managements.	64	2	5	3.13	0.766
4. The internal audit department of the enterprise provides assurance that the risks are correctly evaluated.	64	1	5	2.95	0.805
5. The internal audit department of the enterprise gives assurance that the risk management processes are adequate.	64	1	5	2.97	0.712
6. The internal audit departments of the enterprise assists the management by giving appropriate risk responses or suggest appropriate risk management strategies in a timely and appropriate manner.	64	1	5	3.13	0.881
Total mean score	3.09				

Source: Field survey, 2018

Table 4.21 effect of internal control system on company performance

Questions	Respo ndents	Mini mum	Maxi mum	Mea n	Std.de viation
7. The internal audit department of the enterprise is effective in reviewing and evaluating each and every system or processes that the enterprise has been implemented.	64	2	5	3	0.854
8. Review policies and procedures to ensure the enterprise is complying with laws and regulations.	64	1	5	3.45	0.853

9. Internal audit review the existence, ownership and safeguarding of enterprise assets during audit.	64	1	5	3.48	0.835
10. Internal auditor trace selected account from the trial balance and check the balance with supporting documents and aging as well as test the adequacy of the allowance for doubtful accounts.	64	2	5	3.46	0.689
Questions	Respo ndents	Mini mum	Maxi mum	Mea n	Std.de viation
11. Internal audit review and evaluate procedures to ensure that transactions are recorded in the proper period and amount.	64	2	5	3.26	0.877
12. Internal audit department is effective in evaluating proper segregation of duties while auditing both financial and system and performance auditing activities.	64	1	5	3.15	0.876
13. Review enterprise disbursements or payments are as per the enterprise financial policies and procedures.	64	2	5	3.54	0.754
14. Check for compliance with exposure limits both in financial and operational activities.	64	2	5	3.45	0.688
15. Internal audit review the follow up of noncompliance matters disclosed in the audit report.	64	2	5	3.44	0.753
16. Internal audit department of the enterprise is effective in reviewing system approval and authorization.	64	1	5	3.34	0.912

17. The internal audit department of the enterprise provides appropriate and constructive recommendations regarding individual systems and processes so that effectiveness and efficiency of operations and programs is increasing.	64	1	5	3.20	0.911
18. Internal audit department of the enterprise provide financial controls of the enterprise so that ongoing and independent reconciliation of all balances and any mal practices or fraud can be detected early and enterprise assets are safe guarded.	64	1	5	3.15	0.894
19. Provide operational policies controls so that any attitude towards not using enterprise policies and procedures is decreasing and compliance with enterprise policies and procedures are increasing.	64	2	5	3.18	0.794
Total mean score				3.32	

Source: Field survey, 2018

Table 4.22 effect of internal audit practices on company performance

Questions	Respon dents	Mini mum	Maxim um	Mean	Std.dev
20. Internal audit department of the enterprise perform different types of auditing services independently and provides an effective audit services for managements.	64	1	5	3.41	0.867
21. Internal auditors of the enterprise show the highest level of professional objectivity in	64	1	5	3.25	0.908

gathering, evaluating and communicating information about the activity or process being examined.					
22. Internal auditors possess the knowledge, skills and experiences so that they contribute the attainment of organizational goals by providing constructive recommendations.	64	1	5	3.31	0.852
23. Internal audit department of the enterprise prepares risk based audit plan after collecting information from managements.	64	2	5	3.09	0.728
24. Internal audit department reports the audit results to managements periodically with audit opinions and recommendations.	64	2	5	3.89	0.693
25. Internal audit department of the enterprise perform different types of audit services to strengthen the corporate governance of the enterprise.	64	2	5	3.39	0.809
26. Internal audit department of the enterprise is effective in assessing ethics and values within the organization.	64	1	5	2.95	0.915
27. Internal audit department of the enterprise ascertain that operating objectives are consistent with organizational goals.	64	2	5	3.44	0.794
28. Internal audit department of the enterprise is	64	1	4	3	0.796

effective in communicating risks and control information within the enterprise.					
29. Conclusions drawn with the audit reports are backed by supporting documents which is sufficient and relevant evidences attached.	64	1	5	3.55	0.871
30. The internal audit report forwarded to managements comprises of relevant recommendations which are useful for making decisions and it is also available on time.	64	1	5	3.61	0.884
Total mean score				3.35	

Source: Field survey, 2018

4.2 Reliability test of instrument

In likert-scale questionnaires, measuring the consistency or reliability of the questionnaires is essential. To measure such a reliability analysis Cronbach's Alpha (α) is the most common measure of reliability scale. Reliability analysis value (α) greater than 0.60 is acceptable (Cronbach's, 1951). According to Field (2009) a reliability analysis value (α) greater than 0.70 is very acceptable. As indicated in table 4.23, the value of Cronbach's alpha for each variable was greater than 0.70 which is very acceptable. Therefore, the responses generated from all variables in this study were reliable enough for data analysis.

Table 4.23 Reliability Statistics

Variables	Cronbach Alpha	Cronbach Alpha based on standardized item
Independence	0.7278	0.7589
Objectivity	0.8547	0.8613
Professional proficiency	0.7752	0.8141
Quality assurance & improvement program	0.8142	0.8463
Management of internal audit activity	0.8867	0.8983
Scope of audit work	0.7620	0.8082
Performance of audit work	0.8518	0.8674
Communication of the engagement results	0.8923	0.9096
Monitoring progress/ follow up	0.9431	0.9451

Source: Field survey, 2018

4.3. Assessments of ordinary least square assumptions

The study conducted the regression analysis to show the relationship between internal audit activities in risk management, internal control system and internal audit practices and enterprise performance. Before using the regression analysis the data was subjected to assumptions of regression analysis with no violation observed. Then, the followings were done to assess the assumptions of ordinary least square (OLS).

4.3.1. Assessment of normality

The Skewness and Kurtosis were used to test normality distribution. Skewness is used to describe the balance of the distribution, that is, it is unbalanced and shifted to one side (right or left) or it is centered or symmetrical. A positive skew denotes a distribution shifted to the left

whereas a negative skewness reflects a shift to the right. Whereas, Kurtosis refers to the peakedness or flatness of the distribution compared with the normal distribution. The Skewness and Kurtosis values (available as part of the basic descriptive statistics for a variable computed by all statistical programs) and if the value computed exceeds the specific critical value, then the distribution is non-normal. The most commonly used critical values are ± 2.58 (0.01 significance level) and ± 1.96 which corresponds to a 0.05 error level (Joseph et al, 2014). With this test, the researcher can easily assess the degree to which the skewness and kurtosis distributions vary from the normal distribution. The result of normality distribution test is presented in table 4.24 shows that the Skewness and Kurtosis values computed in stata software not exceeds the critical value. Therefore it indicates that the data were normal and reliable for analysis.

Table 4.24 Stata output for Skewness /Kurtosis tests for normality

Variables	Observation	Pr(Skewness)	Pr(Kurtosis)
Risk management process	64	0.6954	0.7957
Internal control system	64	0.2107	0.5145
Internal audit practice	64	0.2147	0.7186
Company performance	64	0.4589	0.0211

Source: Field survey, 2018

4.3.2. Assessment of Multicollinearity

In multiple regression analysis, the regression coefficient became less reliable as the degree of correlation between the independent variable increases and there is a problem of what is commonly described as the problem of multi collinearity (Kothari, 2004). Multi-collinearity is a statistical problem which occurs when the explanatory variables (independent variables) are much correlated with each other. It means when the strong correlation among predictors and the existence of correlation value greater than 0.80, tolerance value less than 0.10 and Variance Inflation Factor (VIF) greater than 10 in the correlation matrix (Field, 2009). Tolerance in this case defined as a statistical tool which is used to indicate the variability of the specified independent variables from other independent variables in the model. Based on Table 4.25, the tolerance levels for all variables were greater than 0.10 and the Variance Inflation Factor (VIF)

value for all variables were less than 10 and according to Table 4.25 which shows the correlation between independent variables, the correlation matrix of all variables among the predictor was also less than 0.80. Therefore, correlation value, tolerance level, and VIF value indicates that there were no multicollinearity problem in this study.

Table 4.25 Stata output for collinearity statistics

Model	Collinearity statistics	
	Tolerance	VIF
Risk management process	0.58	1.7
Internal control system	0.37	2.69
Internal audit practice	0.33	2.98

Table 4.26 Correlation matrix

	Risk management process	Internal control system	Internal audit practice	Company performance
Risk management process	1.0000	0.5755	0.6289	0.5359
Internal control system	0.5755	1.0000	0.7860	0.5929
Internal audit practice	0.6289	0.7860	1.0000	0.6322
Company performance	0.5359	0.5929	0.6322	1.0000

4.3.3. Assessment of auto correlation

If there are patterns in the residuals from a model, then they can be considered as auto correlated (Brooks, 2008). The Durbin-Watson (DW) is a test for first order autocorrelation (Field, 2009). It assumes that the relationship between an error and the previous of an error. In this type of test, the null hypothesis of no autocorrelation can't be rejected when DW result is near 2, (Brooks, 2008). Because, it shows there is little or no evidence of autocorrelation. Based on Table 4.27 the Durbin-Watson (DW) statistics value is 2.158 which is close to 2. Therefore, there is no evidence of autocorrelation among error terms in this study.

Table 4.27 Durbin Watson Test Model Summary

Model	R square	Adjusted R squared	Durbin Watson
1	0.4474	0.4198	2.158

Independent variable: (Constant), Risk management process, internal control system, internal audit practice. Dependent variable: Company performance.

4.3.4. Assessment of Heteroscedasticity/ Presence of Homoscedasticity

It has been assumed that the variance of the error is constant and this is known as the assumption of homoscedasticity. If the errors do not have a constant variance, they are said to be heteroscedasticity (Brooks, 2008). All statistical packages have tests to assess homoscedasticity and P – value > 0.05 is acceptable (Joseph et al, 2014). Breusch Pagan test in STATA software for Homogeneity was conducted and the results mentioned in below table shows critical value greater than 0.05 which shows there is no evidence for the presence of heteroscedasticity.

Table 4.28 for testing heteroskedasticity

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of Company performance
chi2(1) = 0.11
Prob> chi2 = 0.7410

4.4. Regression Results

Regression analysis was done to establish the statistical significant relationship between the independent and dependent variables. The regression analysis results were presented using model summary, ANOVA and beta coefficient tables. The analysis applied STATA software and the result of the analysis is presented as follows:

The coefficient determination also known as model summary was carried out to measure how well the statistical model was likely to predict future outcomes. In the course of model

estimation, it is common practice to evaluate the appropriateness of a single descriptive model for the study with the help of coefficient determination, R^2 .

In empirical studies, the most important benefit of R^2 is that it serves as a measure for the goodness of fit of the estimated model (Reisinger, 1997). The r-squared value more than 25% can be acceptable and good to fit (Thompson, 2002).

Table 4.29 Model summary

Model	R square	Adjusted R squared	Durbin Watson
1	0.4474	0.4198	2.158

Independent variable: (Constant), Risk management process, internal control system, internal audit practice&Dependent variable: Company performance.

Based on the table 4.29, the model had a coefficient of determination (R^2) = 0.4474 indicated that 44.74% of the variation in organization performance was explained by the variables in the model leaving 55.26% of the variation in organization performance to be explained by variables not in the model. Adjusted R^2 indicates the true behavior of R^2 that varies in accordance with the changes in independent variables. It means the overall contribution of risk management process, internal control system and internal audit practice to company performance accounted for 41.98% (0.4198) of the variation in company performance.

4.5. Tests of coefficient

The table below shows the level of significance on the variables. The standardized and unstandardized coefficients were also presented as follows:

Table 4.30 Regression Results Coefficients^a

Model	Unstandardized coefficients		Standardized coefficients	t.	Sig.	Collinearity statistics	
	(β)	Std.error	(β)			Tolerance	VIF

Constant	0.168	0.422		0.40	0.693		
Risk management process	0.220	0.137	0.200	1.60	0.114	0.58	1.7
Internal control system	0.259	0.195	0.208	1.32	0.191	0.37	2.69
Internal audit practice	0.395	0.191	0.342	2.06	0.043	0.33	2.98

a. Dependent variable: Company performance (profitability)

b. Independent variable: Risk management process, internal control system & internal audit practices

The Beta (β) sign includes a sign of positive (+) and negative (-). It shows the effect of independent variables over the dependent ones (Field, 2009). Based on table 4.31 beta sign of all the independent variable shows positive (+). Thus, the independent variables: risk management process, internal control system and internal audit practice had a positive effect on dependent variable, company performance.

The independent variable with a level of significance (sig) value less than 5% can make a significance contribution to the predicted value of the dependent variable and a variable beyond this level of significance (sig) cannot make a significance contribution to the predicted value of the dependent variable, (Brooks, 2008). Based on table 4.31, the statistical significance of the independent variable (internal audit practice) over the dependent variable company performance was significance at 5% level of significance. The independent variable internal audit practice was significantly contributed for the dependent variable for company performance. But the independent variable risk management process and internal control system were not significantly contributed for the dependent variable company performance.

From the estimated regression equation;

$$FP = \beta_0 + \beta_1 RMP + \beta_2 ICS + \beta_3 IAP + e$$

Where β_0 is the constant = 0.168, $\beta_1 = 0.20$, $\beta_2 = 0.208$, $\beta_3 = 0.342$. The fitted regression equation of the model becomes:

$$FP = 0.168 + 0.20RMP + 0.208ICS + 0.342IAP + e$$

(0.422) (0.137) (0.195) (0.191)

4.6. Interpretations&hypothesis test

The constant has a coefficient value of 0.168 and p value 0.693 which is insignificant. The interpretation is that if all factors were to be held constant, company performance which is measured in terms of profitability would be 16.8% and this amount will be up or down by the standard deviation of 0.422.

H₁: Risk management processes do have a significant effect on company performance.

The first hypothesis tested internal audit activities in risk management process that have an effect in company performance of ESLSE. The result shows that the weak association between internal audit activity in risk management and company performance in ESLSE at a statistical significant level of ($P < 0.05$). The magnitude (β) of the effect of this variable on enterprise performance was 0.20 and the t value of 1.60. The positive magnitude sign but t-value of less than 2 is indicating a weak relationship between the independent and dependent variable (Tadros., 2016). The interpretation is that holding all other variables constant, internal audit activity in risk management process can contribute 20% of variation in company performance which is statistically insignificant at 5% level of test. Thus, the regression coefficient of risk management was not significant in predicting the organization performance in ESLSEs. When the researcher assessed internal audit practices of the enterprises regarding the scope of audit work, most of the respondents indicated that their scope of work was related with evaluating the enterprise control system and they were not sure about its activity covers evaluating and assessing the risk management process and governance process of the enterprise. This result is consistent with the finding by Hamdukedir (2014) and Desalegn et al (2007) that internal audit activity is limited to financial and compliance audit as well as internal audit activity is limited to the audit of regular activities. Moreover, when the researcher noticed the professional certification in demographic information part, it is understood that none of the auditors have got training in risk management and related training certification which help to perform the audit work and this shows that low technical staff proficiency in the IAD. This result is consistent with the finding by Desalegn et al (2007). Thus, the descriptive result

supports the regression outputs. The study thus rejects the null hypothesis that internal audit activity in risk management has a significance effect on organization performance. The result is inconsistent with the research done by Mohsen et al (2011), Nyamwaya (2016) and Muthii et al (2017) resulted significance and positive relationship of risk management and company performance.

H₂: Internal control systems do have a significant effect on company performance

Even though internal control system has a positive coefficient with company performance, its level of significance is 0.191 which is above 0.05. Thus, internal audit activity in internal control system has statistically insignificance at ($P < 0.05$) level of test. The magnitude (β) of the effect of this variable on enterprise performance was 0.208 and the t value of 1.32. The positive magnitude sign but t-value of less than 2 is indicating a weak relationship between the independent and dependent variable. This implies that a unit increase in control activity which leads to 0.208 increase organization performance in ESLSEs which is statistically insignificance at 5% level of significance. While reviewing the secondary data, the researcher noted that the internal audit department of the enterprise performs different types of auditing activities from 2011 up to 2018 GC and the number of audit activity increased from year to year with a total of 103 specific audits in different sectors of shipping, freight forwarding, port and terminal and corporate sectors both in financial and system auditing activities. Among the types of audit that had conducted by the internal audit department, the system (control) audit out weights than financial audit. However, as per the respondents responded with higher mean result indicated that internal audit activity is effective in reviewing enterprise disbursements or payments are as per the enterprise financial policies and procedures. Moreover, no quality assurance and improvement program undertaken externally by qualified independent reviewers. This result is consistent with the finding by Fekadu (2009), Hamdu Kedir (2014) & Tigabu (2015) that none of the respective audit departments have quality assurance programs. The regression result is supported by the respondent's perceptions and document reviews techniques. Thus, the study result rejects the null hypothesis which states that internal audit activities in internal control do have a significance effect on company performance in ESLSEs. The study result is similar with the research conducted by Enjom and Nidfon (2014) and Rahel (2017) found a weak association between internal control system and company performances. But the study findings are in

contrast with the research done by Dinesh et al (2010) & Douglas (2014) resulted significance relationship of internal control system and company performances.

H₃: Internal audit practices do have a significance effect on company performance

The positive beta sign and a statistically significance result of internal audit practice shows positive relationship with the company performance of ESLSEs ($\beta = 0.342$, $t = 2.06$, and $P < 0.05$). Thus, the study does not reject the null hypothesis that states that there is a significance effect between internal audit practices and organization performance. The result is consistent with the finding by Doveden et al (1996) & Mohammad (2017) who has got significance relationship between internal audit and company performance. But the findings are inconsistent with the research conducted by Nelius et al (2017), Kiabel, (2012) and Ejoh et al (2014) that the insignificance of internal audit function on company performance.

Chapter Five: Conclusions & Recommendations

5.1. Introduction

This chapter presents conclusions and recommendations which are based on the results of the responses for the questionnaires and document review. It has three parts; the first part presents

conclusion of the study. The second part presents recommendations and the third part highlighted proposed future research areas.

5.2. Conclusions

To fulfill the research objectives, the study used questionnaires prepared separately for internal auditors and managements regarding internal audit practice and effect of internal audit on company performance's respectively. The study also used document reviews as a source of secondary data. The responses obtained from survey of internal audit department staffs and managements were tabulated and interpreted by using STATA software through descriptive and inferential statistics while result from documentary reviews was presented to support the survey result.

The internal auditing practice of the enterprise was studied in terms of independence and objectivity of internal audit, scope of internal audit work, proficiency of internal audit, and performance of audit work, reporting follow-up, quality review and management of internal audit activity. In terms of independences and objectivity, the study found that IAD is free from management intervention in performing its duties and internal auditors are free to include any finding in to their audit report. The internal audit provides reports to the board of directors but there is no audit committee in the enterprise that oversees and supports the internal audit activities. The proficiency of internal audit in terms of educational background, qualification and experience of the IA staff revealed that the internal audit staff has a minimum of BA degree holder which is good in educational background. But no professional certification such as certified in internal audit and also none were possessed knowledge & skills in a variety of areas beyond accounting & finance. The scope of the internal audit function did not yet go far to cover scope of internal audit and much time is devoted in evaluating the adequacy and effectiveness of controls. Regarding reporting follow-up and quality review there is reporting follow-up but there is no quality reviewed by an independent reviewer. Also in relation to the audit planning study revealed that annual internal audit plan is prepared by the IAD. But risk assessment is not done as part of audit planning. The regression analysis also indicates that the weak association between risk management process and internal control with that of

organization performance. However, the regression coefficient on internal audit practice was significant in predicting organization performance.

5.3. Recommendations

The overall objective of this study is to assess internal audit practice and its effect on company performance in case of ESLSEs. In this regard, the data analysis using quantitative and qualitative methods were used. According to the research objectives and based on the data analysis, the researcher provides the following recommendations to the concerned bodies.

The ESLSE have an internal audit policy and charter which was prepared based on the IIA standards and it is good for having the document and it is expect to have the document because the enterprise has been a member of the IIA Ethiopia Charter for a long time. However, performing the internal audit activity as per the requirements of the standards is very crucial. Therefore, the researcher recommends the following points:

1. Conducting the quality assurance and improvement program (QAIP) has a lot of benefits to the managements & internal audit function too. Such as providing assurance to senior managements and BOD that the internal audit function is in compliance with the standards and provide internal auditors with an opportunity to exchange ideas with other outside the organization. Moreover, it assures that the internal audit activity targeted problems and presented sound recommendations and so on. Despite the above benefits that an organization will get as a result of having QAIP, the IAD of the Enterprise had limitation in externally assessment of internal audit activity by a qualified, independent reviewer. Thus, the work of internal audit should be assessed externally by qualified external independent reviewer at least once every five years as per company audit policy & charter.
2. The IAD has limitations in development of skilled, certified and professional auditors. In this regard the IAD convince the management and the BOD of the enterprise and give a chance for auditors to have CIA or other internal audit related certification so that their contribution to adding value in different sectors would be increased.

3. In addition to checking the enterprise disbursements in accordance with policies & procedures, the works of IAD should also cover the governance (ethics & values; accountability and communication) and risk management (effectiveness & contribute to the improvement of risk management system).
4. Risk assessments should be undertaken at least annually which will be used during audit planning to determine the priorities of the internal audit activity and to perform value adding activity for the enterprise.
5. The IAD head must assess the number and qualification of internal auditors balanced with the internal audit activities performed and check that the department is in usage of what the modern audit is using. Like using internal audit software that makes the audit activity simple that would enhance the quality of internal audit and ultimately adding value to company performance,
6. Literatures highlight the roles of the audit committee as to review and monitor managements response to internal audit findings and recommendations as well as monitor and assess the role and effectiveness of internal audit function in the overall context of the company's risk management. Thus, the Enterprise BOD should give attention to establish audit committee as soon as possible so that IAD contribution to company performances would be more enhanced or improved.

5.4. Suggestions for future research

The researcher suggests other researchers to study in the following areas:

1. Internal audit practices and its effect on enterprise internal control system in ESLSEs

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Appendix 1: Questionnaire for Internal Auditor

Addis Ababa University
College of Business and Economics
Department of Accounting and Finance

Master of Science in Accounting and Finance Program

Introduction

I am a student at Addis Ababa University pursuing a master of science in accounting and finance. As a requirement in fulfillment of this degree, I am carrying out the study on the **“assessment of internal audit practices and its effect on company performance a case study in Ethiopian Shipping and Logistics Service Enterprise (ESLSE)”**.

You have been chosen to provide reliable information that will enable the study to achieve its objectives and any information given shall be treated as confidential and will be used purely for the purpose of this research. Your cooperation will be highly appreciated and thanks you in advance for your cooperation.

Thank you very much for your cooperation

Solomon Dessye /cell phone +251 932 297484/

Questionnaire to Internal Audit department (director, division managers and auditors).

Section A: Demographic information(please put “√“mark in the bracket)

1. Sex/Gender/: Male (_____),Female (_____)

2. Age in years: 20 to 29 (____), 30 to 39 (____), 40 to 49 (____), 50 to 59 (____),above 60 (____).
3. Your field of study: Accounting (____), Management (____), Economics (____), Other specify _____
4. Your level of professional qualification: TVET Certificate, (____), Diploma(____), Bachelor degree (____), Master’s degree (____), others specify(____).
5. Professional certification:Certified in Internal Auditor (CIA),(____), Certified in Government Auditing Profession (CGAP), (____), Certified in Risk Management Assurance (CRMA) (____), others specify (_____).
6. Work experience as internal auditor in years
0-3 years (____),4-7 years (____),8-12 years (____), 13 years and above (____),
7. Work experience other than internal auditor in years
0-3 years (____),4-7 years (____),8-12 years (____), 13 years and above (____),
8. Your current position in the enterprise.....
9. Does the enterprise have audit committees? Yes (____), No (____)

Section B: Internal audit practices of the ESLSE

The questionnaire is prepared in Likert-scale form with five point scales. Please put “√”markrelating to internal audit department practices of your company in the following areas. The values of scales are:5 = strongly agree; 4= agree; 3= undecided; 2= disagree; and 1= strongly disagree.

S.NO	Description	5	4	3	2	1
	Independence					
1.	Internal audit department of the enterprise is free to plan its activity without management interference.					
2.	Internal audit department of the enterprise perform the audit activity without any influence from management.					

3.	Internal audit department of the enterprise is free access to documents and to the highest levels of management.					
4.	Internal audit department express their opinions without any prejudice or threat their position.					
5.	Internal audit department of the enterprise has a freedom to determine the appointment or removal, promotion and remuneration of all internal audit staff.					
6.	The internal audit department functionally report to board or audit committee and administratively to enterprise chief executive officer (CEO).					
	Objectivity					
1.	Internal auditors of the enterprise exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.					
2.	Internal auditors make balanced assessments of all the relevant circumstances and are not unduly influenced by their own interest or by others in forming judgments.					
3.	There is a mechanism whereby if independence and objectivity is impaired in fact, the details of the impairment are disclosed to appropriate parties.					
4.	There is a mechanism whereby if independence and objectivity is impaired in appearance, the details of the impairment are disclosed to appropriate parties.					
S.NO	Description	5	4	3	2	1
	Professional Proficiency					
1.	Internal auditors of the enterprise possess the knowledge, skills and experiences needed to understand the enterprise system as well as to execute audit duties.					
2.	Internal auditors of the enterprise upgrade their					

	knowledge, skills and their competencies through continuous professional development, short term training, etc.					
3.	Internal audit department of the enterprise is able to carry out each activity on time and cover audit plan.					
4.	The internal audit department has audit policies and procedures manuals to guide the internal audit activities.					
5.	Internal audit department of the enterprise has policies for hiring and training of internal audit staffs.					
	Quality assurance and improvement program					
1.	The internal audit department of the enterprise develops quality assurance and improvement programs that cover all aspects of the internal audit activity.					
2.	The internal audit department of the enterprise performs quality assurance and improvement program internally through ongoing monitoring, day to day supervision and review.					
3.	The quality assurance reviews is undertaken by internal auditors who had no part in the audit engagement being reviewed.					
4.	The internal audit department communicates the results of internal assessments of quality assurance and improvement programs to board and managements.					

S.NO	Description	5	4	3	2	1
5.	The work of internal audit department of the enterprise is assessed externally by qualified independent reviewers.					
6.	The quality assurance and improvement programs undertaken provide the internal audit department of the enterprise to add value and improve organization					

	operations.					
7.	The quality assurance and improvement programs provide assurances to management & audit committee that the internal audit department of the enterprise in compliance with standards, targeted problems and presented sound recommendations.					
	Management of the internal audit activity					
1.	The internal audit department position, authority and its scopes are clearly defined in the internal audit charter.					
2.	The internal audit department reviews the internal audit charter periodically and present to board for approval.					
3.	The number and qualification of internal auditors is balanced with the internal audit activities that will be performed with in the enterprise.					
4.	Internal audit department divides the carrier structure of internal auditors as director, manager, chief auditor, senior auditor, auditor and junior auditor.					
5.	Each carrier in no.4 above has a separate duties and responsibilities in the internal audit department.					
6.	The internal audit department prepared risk based plan consistent with the organization goals.					
7.	The internal audit department forward internal audit plan to board and managements for review and approval.					

S.NO	Description	5	4	3	2	1
8.	The internal audit department reports the audit result to management and board periodically internal audit activities performance relative to its plan.					
9.	The audit committee monitors and review internal audit work plan, audit report, management's response to					

	internal audit findings and recommendations.					
	Scope of audit work					
1.	The internal audit department assesses the enterprise governance processes to promote appropriate ethics and values and ensure effective organizational performance and accountability.					
2.	The enterprise internal audit department evaluates the effectiveness and the improvement of risk management processes.					
3.	The internal audit department evaluates the adequacy and effectiveness of controls in responding to risk within the organization governance, operation and information system.					
	Performance of audit work (Field work)					
1.	Internal auditors of the enterprise identify, analyze and evaluate information while performing the engagement.					
2.	All audit works are documented in the audit working papers.					
3.	Engagements are properly supervised to ensure audit objectives are achieved and quality is assured.					
4.	Appropriate evidence of supervision is documented and retained.					
5.	Conclusions drawn with the audit reports are backed by supporting documents which is competent, sufficient and relevant evidences.					
S.NO	Description	5	4	3	2	1
	Communicate the engagement results					
1.	Internal auditors of the enterprise communicate the engagement results that include objectives, scope, conclusions, and recommendations to internal audit director.					

2.	Internal audit department perform exit conference with audited department/sector regarding the audit engagements.					
3.	Audit matters that needs to review again, if any, will be reviewed and the final audit report is released to board and senior managements.					
4.	The audit report that is communicated to concerned bodies is accurate (free from errors), clear (easily understandable), and complete.					
5.	The audit report comprises constructive recommendations and it is available on time to benefit managements to take appropriate actions.					
Monitoring progress (follow up)						
1.	The internal audit department establishes a system, a follow up process, to monitor the audit result communicated to management.					
2.	Based on the established follow up system, the department monitor that the recommendations forwarded to the enterprise have been effectively implemented or not.					
3.	The internal audit department discusses the matter (the unimplemented audit recommendations) with management.					
4.	After discussion with the management, the internal audit department prepares a follow up report and forwarded to management and boards.					

Appendix 2: Questionnairefor management members

Addis Ababa University
College of Business and Economics

Department of Accounting and Finance
Master of Science in Accounting and Finance Program

Introduction

I am a student at Addis Ababa University pursuing a master of science in accounting and finance. As a requirement in fulfillment of this degree, I am carrying out the study on the **“assessment of internal audit practices and its effect on company performance a case study in Ethiopian Shipping and Logistics Service Enterprise (ESLSE)”**.

You have been chosen to provide reliable information that will enable the study to achieve its objectives and any information given shall be treated as confidential and will be used purely for the purpose of this research. Your cooperation will be highly appreciated and thanks you in advance for your cooperation.

Thank you very much for your cooperation

Solomon Dessye /cell phone +251 932 297484/

Questionnaire to department directors, division managers and team leaders of the Shipping, Freight forwarding, Port and Terminal and Corporate sectors.

Section A: Demographic information(please put “√” mark in the bracket)

1. Sex/Gender/: Male (_____), Female (_____)
2. Age in years: 20 to 29 (_____), 30 to 39 (_____), 40 to 49 (_____),
50 to 59 (_____), above 60 (_____)
3. Your field of study: Accounting (_____), Management (_____), Economics (_____),
Other specify _____
4. Your level of professional qualification: TVET Certificate, (_____), Diploma
(_____), Bachelor degree (_____), Master’s degree (_____),
Others specify (_____)
5. Your current position in the enterprise: Department director(_____), Division
Manager (_____), Team leader(_____), Chief accountant (_____).
6. The department you are working _____

Section B: Internal audit activities contribution to enterprise performance.

The questionnaire is prepared in Likert-scale form with five point scales. Please put “√”mark relating to internal audit activities contribution to enterprise performance in the following areas. The values of scales are: **5 = strongly agree; 4= agree; 3= undecided; 2= disagree; and 1= strongly disagree.**

S.NO	Description	5	4	3	2	1
	Risk management process					

1.	The internal audit department of the enterprise is effective in identifying risk exposures of the enterprise.					
2.	The internal audit department of the enterprise is effective in evaluating (assessing) the identified risk.					
3.	The internal audit department of the enterprise is effective in evaluating the reporting of key risk from the enterprise managements.					
4.	The internal audit department of the enterprise provides assurance that the risks are correctly evaluated.					
5.	The internal audit department of the enterprise gives assurance that the risk management processes are adequate.					
6.	The internal audit departments of the enterprise assists the management by giving appropriate risk responses or suggest appropriate risk management strategies in a timely and appropriate manner.					
	Internal control systems.					
7.	The internal audit department of the enterprise is effective in reviewing and evaluating each and every system or processes that the enterprise has been implemented.					
8.	Review policies and procedures to ensure the enterprise is complying with laws and regulations.					
9.	Internal audit review the existence, ownership and safeguarding of enterprise assets during audit.					

S.NO	Description	5	4	3	2	1
10.	Internal auditor trace selected account from the trial					

	balance and check the balance with supporting documents and aging as well as test the adequacy of the allowance for doubtful accounts.					
11.	Internal audit review and evaluate procedures to ensure that transactions are recorded in the proper period and amount.					
12.	Internal audit department is effective in evaluating proper segregation of duties while auditing both financial and system and performance auditing activities.					
13.	Review enterprise disbursements or payments are as per the enterprise financial policies and procedures.					
14.	Check for compliance with exposure limits both in financial and operational activities.					
15.	Internal audit review the follow up of noncompliance matters disclosed in the audit report.					
16.	Internal audit department of the enterprise is effective in reviewing system approval and authorization.					
17.	The internal audit department of the enterprise provides appropriate and constructive recommendations regarding individual systems and processes so that effectiveness and efficiency of operations and programs is increasing.					
18.	Internal audit department of the enterprise provide financial controls of the enterprise so that ongoing and independent reconciliation of all balances and any mal practices or fraud can be detected early and enterprise assets are safe guarded.					
19.	Provide operational policies controls so that any attitude towards not using enterprise policies and procedures is decreasing and compliance with enterprise policies and procedures are increasing.					
S.NO	Description	5	4	3	2	1
	Internal audit practices					

20.	Internal audit department of the enterprise perform different types of auditing services independently and provides an effective audit services for managements.					
21.	Internal auditors of the enterprise show the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.					
22.	Internal auditors possess the knowledge, skills and experiences so that they contribute the attainment of organizational goals by providing constructive recommendations.					
23.	Internal audit department of the enterprise prepares risk based audit plan after collecting information from managements.					
24.	Internal audit department reports the audit results to managements periodically with audit opinions and recommendations.					
25.	Internal audit department of the enterprise perform different types of audit services to strengthen the corporate governance of the enterprise.					
26.	Internal audit department of the enterprise is effective in assessing ethics and values within the organization.					
27.	Internal audit department of the enterprise ascertain that operating objectives are consistent with organizational goals.					
28.	Internal audit department of the enterprise is effective in communicating risks and control information within the enterprise.					

S.NO	Description	5	4	3	2	1
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29.	Conclusions drawn with the audit reports are backed by supporting documents which is sufficient and relevant evidences attached.					
30.	The internal audit report forwarded to managements comprises of relevant recommendations which are useful for making decisions and it is also available on time.					
	Company Performance					
31	Internal audit department of the enterprise is effective in risk identification and analysis as well as giving appropriate risk recommendation. So that the department has a contribution in company performance.					
32	By reviewing each & every systems and giving appropriate audit recommendations, the enterprisecan prevent and detect each system drawback and provide appropriate remedies for the problem that the enterprise encountered. Thus, enterprise system is improved and company performance is increased.					
33	Internal audit department of the enterprise perform different types of audit services like financial audit, system and performance audit. And it is done independently and objectively by qualified, experienced & competent internal auditors. So that the corporate governance & company performance of the enterprise is increased.					

Appendix 3: Document review guide lines

Activity	Purpose
Review the ESLSEs internal audit policy and charter.	To collect information relevant to IAD duties and responsibilities and to compare and contrast the quantitative data obtained through questionnaires.
Review audit reports and other relevant documents issued by in internal audit department such as internal audit plans, programs and other working papers	To collect information about the number and types of audit released by IAD. And also to examine the IAD audit plan and its working papers.
Review the ESLSE organizational charts.	To know the organizational position of IAD in the enterprise.