



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MBA PROGRAM IN ACCOUNTING AND FINANCE**

**FACTORS AFFECTING INTERNAL AUDIT EFFECTIVENESS
IN ETHIOPIA STATE OWNED ENTERPRISES: THE CASE OF ETHIOPIAN SHIPPING AND
LOGISTICS SERVICES ENTERPRISE (ESLSE)**

**BY:
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**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF SAINT MARY'S
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THE DEGREE OF MASTERS OF ACCOUNTING AND FINANCE**

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ADDIS ABABA, ETHIOPIA**

STATEMENT DECLARATION

I, the under signed, declare that this thesis entitled “**Factors Affecting Internal Audit Effectiveness In Ethiopia State Owned Enterprises in Ethiopian Shipping and Logistic Services Enterprises**” is my original work and to the best of my knowledge has not been presented for a degree by any other person, and that all the sources of material used for the thesis have been duly acknowledged.

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STATEMENT OF CERTIFICATION

This is to certify that the thesis carried out by Meskerem Bogale on the topic entitled “**Factors Affecting Internal Audit Effectiveness in Ethiopia State Owned Enterprises in Ethiopian Shipping and Logistic Service Enterprises**” is her original work and is suitable for submission for the award of Master of Art Degree in accounting and finance.

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A handwritten signature in blue ink, appearing to be 'MS', is written over a horizontal line.

Signature & Date

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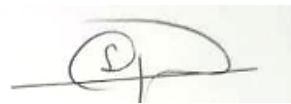


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LIST OF ACRONYMS

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

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ABSTRACT

In recent years, there has been an increasing interest in internal auditing. The aim of this study has to examined the factors affecting internal audit effectiveness in Ethiopian shipping and logistic service enterprise. This study used descriptive and explanatory research design, quantitative research approach was used, by using purposive sampling techniques. Data were collected by primary and secondary source of data, through structured questionnaire by using closed ended question, with a total of 115 questionnaire, were distributed to all internal auditors, senior finance officers, and human resources department of Ethiopian shipping and logistic service enterprise and 95 had collected. The data were analyzed through descriptive and inferential statistical tools such as mean, standard deviation, correlation, and multiple regression analysis. The results of the study indicate that, factors affecting internal audit effectiveness (Competence of internal auditors, independence of internal auditors, quality of internal audit works, and audit committee) have strong positive and significant effect on effectiveness of internal audit in Ethiopian shipping and logistic service enterprise. But Management supports has a positive but insignificant effect on effectiveness of internal audit in Ethiopian shipping and logistic service enterprise. Based on the major findings the study concludes that the contribution of four factors of internal audit effectiveness was found to be significant effect on effectiveness of internal audit. Whereas one factors management support were found to be insignificant effect on effectiveness of internal audit. Therefore, Ethiopian shipping and logistic service enterprise enhance competence of internal audit staff in order to maximize their internal audit effectiveness. It is recommended that if similar research will be done in the future and add other factors that affect the internal audit effectiveness.

Key Terms: *Internal audit effectiveness, competency, independency, quality audit work, management support and audit commute*

CHAPTER ONE

1 Introduction

This chapter provides the reader with the introduction of the study. The study as a whole is concerned with an investigation of the factors determining the internal audit effectiveness in Ethiopia state owned enterprises the case of Ethiopia shipping and logistics services enterprise.

1.1 Background of the study

Effective internal audit is crucial for public sector agencies in a modern governance framework. Internal audit (IA) has been a more popular topic in corporate governance in recent years for a variety of reasons. To name a few: internal audit contributes to the internal control-risk management system enhances organizational effectiveness and efficiency by offering constructive criticism and recommendations about the state of the organization; lessens informational imbalance during decision-making; and acts as a crucial internal assurance in the business and financial reporting process of corporations (Soh and Bennie, 2011; Cohen and Sayag, 2010; Mihret and Yismaw, 2007).

Organizational growth and complexity have increased dramatically in recent years on a global scale. As a result, it became more difficult for managers to govern the organization alone as it grew. A position of distinction is provided to an internal auditor (IA) through these events. According to Reynolds (2000), internal auditing is a profession and a practice that helps organizations better achieve their goals by managing risk and enhancing their internal control systems. Internal audits are becoming more important as business complexity rises. Increasing organizational effectiveness and efficiency through constructive criticism is the goal of internal auditing, according to Cohen & Sayag (2010). According to Mihret and Yismaw (2007) and Arena and Azzon (2009), an action is considered effective if it fulfills the function's expectations.

According to Mihret and Yismaw, internal audit received a lot of attention in 2007 since it is one method of the internal control-risk management system and plays a significant role in the financial reporting process for organizations. Therefore, internal audit systems are crucial to assisting public managers in achieving objectives by increasing the effectiveness and efficiency of the government in providing services to citizens (Sterck & Bouckaert, 2006).

Internal audit functions require a favorable organizational environment, internal audit quality, management support, and appropriate audit qualities in order to deliver effective services (Mihret and Yismaw, 2007). Arena and Azzone (2009) said that internal audit effectiveness depends on resources, the team's expertise, processes, activities, and the organizational connection of the function.

As Reynolds (2000) refers internal auditing (IA) as an important link in the business and financial reporting processes of every organization. More than ever demand of internal audit is crying out loud in many organizations. According to Cohen & Sayag, 2010, Internal auditing (IA) has become an indispensable control mechanism in both public and private organizations. A few decades back internal audit is operational in a few companies. And, the internal audit department is assumed as a department of unknown tasks just for giving a little help to accountants. With changing times, the concept of internal auditing has undergone significant changes with regard to its definition, scope of coverage and approach.

As Internal Auditing role has existed Internal auditing has been a component of internal control in Ethiopia since the beginning of the budgetary public sector, and Proclamation No. 13/1987 was the first legal document to formally recognize it. According to the announcement, the Office of Auditor General (OAG) is now permitted to advise internal auditors of government agencies and publicly traded companies on three different issues: whether accounting records are accurately and reliably maintained, whether the assets of the ministries and companies are adequately protected and maintained, and whether compliance with the policies and procedures established by management or senior officials results in positive outcomes (Lemma Argaw, 2000).

In addition, IA has seen certain adjustments recently, which have led to a rise in its potential for added value as well as an expansion of its scope. The definition of internal audit, which is now commonly accepted, was created by the Institute of Internal Auditors (IIA) and reads as follows:" Internal audit is an autonomous and objective counseling and confirmation action that seeks to add value and enhance an organization's operation. It utilizes a system known as Standardized techniques to assess and enhance the performance of risk management, control, and governance processes, assisting the company in achieving its objectives (IIA, 2017).

In Ethiopia, there is a need for an efficient internal audit department (IAD) in practically all public sector enterprises and government entities. The accountability and good governance in the industry rise when the internal audit department is powerful and efficient. The internal auditors, who are crucial workers of public offices, are expected to operate independently and objectively in order to establish a successful and efficient internal audit department. Ethiopia, like any other developing countries studying internal audit effectiveness is essential to compact fraud and corruption. Therefore, the objectives of this paper are to investigate the factors determining of internal audit effectiveness in Ethiopian SOE's in Ethiopian shipping and logistics service enterprise.

1.2 Background of the organization

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

The company has played its national role in all the ports it operates. After providing services for the import and export of goods from various countries at the Port of Djibouti, it is equipped with port machinery, an effective service delivery system and a well-trained workforce to handle all service-related tasks at the main ports. Shipping and logistics Even before the Ethiopian war, the company mainly provided excellent ground handling, transit and loading and unloading ground transportation services. On the other hand, the dry ports company established in 1999 through the implementation of dry ports initiatives and expansion projects, has contributed significantly to reducing the cost, time and loss of assets of the Djibouti port Although it is a recent development, it has demonstrated a huge port and excellent port-related performance.

Comet Transport Services joined ESLSE to provide in land transportation services for the import and export of government and private sector goods, with full institutional capacity. At this time, in

order to establish an efficient private transport and logistics system compatible with the rapid growth and development of the country, with the help of favorable government policies, the four mentioned companies were merged into the European Union in 2004. The company is subordinate to the Ministry of development and is managed by the board of directors. The company has a chief executive officer and three deputy chief executive officers. It consists of three main departments, including shipping, ports and terminals, freight forwarding and logistics, and a corporate department, as well as a support department that reports directly to the CEO. It has 18 departments, 35 services and 10 branches. One of the most important branches is located in the port of Djibouti. The company has four sections led by four vice presidents, namely: shipping section, freight section, port and terminal section and corporate service section (<http://eslserver11:9000/eslportal/index.php>).

1.3 Statement of the problem

During the past decades, internal audit effectiveness has been given a big emphasized by researchers because of the important roles play by the internal auditors in organizational survival and achievement. Effective internal audit is crucial for public sector agencies in a modern governance framework. Internal audit (IA) has been a more popular topic in corporate governance in recent years for a variety of reasons. To name a few: internal audit contributes to the internal control-risk management system; enhances organizational effectiveness and efficiency by offering constructive criticism and recommendations about the state of the organization; lessens informational imbalance during decision-making; and acts as a crucial internal assurance in the business and financial reporting process of corporations (Soh and Bennie, 2011; Cohen, and Sayag, 2010; Mihret and Yismaw, 2007).

But, most of these researches are done on different countries around the world. For instance: Wahid Abbu-Azza (2012), "Perceived Effectiveness of the Internal Audit Function in Libya"; Theofanis, Karagiorgos Drogalas George and Glovanis (2011), "Evaluation of the Internal Audit Effectiveness: Evidence from Greece"; Aaron Cohen & Gabriel Sayag (2010), "The Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organizations"; Rainer Lenz (Corresponding author) Sarens Gerrit (2006), "Internal Audit Effectiveness: Multiple Case Study Research in Germany That Hardens Role Theory and the Relational Theory of Coordination"; Mustika Adhista Cahya (2015), "Factors Affecting the Internal Audit Effectiveness"

from Indonesia; Jusbair Baheri, Sudarmanto and Ismail Suardi Wekke (2017), the Effect of Management Support to Effectiveness of Internal Audit for Public Universities and so more.

There are few researches done on factors determining the effectiveness of internal audit attitude and related issues In Ethiopia. For example, the researchers have done by Mihret & Yismaw (2007), "Internal Audit Effectiveness in Case Study Ethiopian Public Sector, Mihret (2010) Focuses on Selected Ethiopian government departments, state enterprises and private companies; other researches done by Shewamene (2014) "Determinants Internal Audit Effectiveness, in Ethiopian Selected Public Sector Office. Abraham (2015) Construction and Business Bank Internal Audit Effectiveness Decision Empirical Research on Factors Mastan, Habatamu, Rajeswari, & Muhammed, (2015). The effectiveness of internal auditing to improve organizational performance a case study of in the Wollo region; Tadiwos (2016), "Factors determining the effectiveness of internal audits of commercial banks in Ethiopia"; Wondimagegn (2016)," tried to investigate determinants of effectiveness of Internal Auditors in the Public Sector, Ethiopia Department of Health Office Case Study, Hawa (2016)," Factors Determining the Effectiveness of Internal Audits Around the Office of Economic Development and Administrative Finance of Finfine in Oromia district ". Shiferaw (2017) Determinants of audit effectiveness: a case study of public sector office in the North Gondar region; Lakachew (2017) Factors Affecting Internal Audit Effectiveness in Amhara Region Public Universities. Alemzewed (2019) Determinants of the effectiveness of internal audits in Ethiopia the case of selected budgetary public sectors. Ayitenew & Lakech (2018) Determinants of Internal audit effectiveness in Gurage region, Mihret (2020), focus on factors that determine the internal audit effectiveness in Ethiopia In the case of FDRE Ministries The academic attempts to investigate the effectiveness of internal auditing, but there are no recognized guidelines or tools to identify or measure the effectiveness of internal auditing (Arena & Azzone 2009). The literature also shows that there is no universally accepted method to evaluate the effectiveness of internal audit. For this reason, the researchers who studied the effectiveness of internal audit in the past also used different methods to study the effectiveness of internal audit.

Due to the significance of internal audit effectiveness, numerous researchers have addressed the need for additional research on this topic. As examples, Arena and Azzone (2010), Chaveerug

(2011), Hella & Mohamed (2016), Shewamene (2014), Alemzewed (2019), and Mihret and James (2010) emphasized the importance of future research examining the variables that affect internal audit effectiveness and the potential for improvement. In Ethiopia, there is a need for an efficient internal audit department (IAD) in practically all public sector enterprises and government entities. The accountability and good governance in the industry rise when the internal audit department is powerful and efficient. But, this research differs from the above reviewed researches by focusing only on one government entity, which is closely linked with international industry, has its own budget, and is represented by a board of directors, and is part of a larger public service organization. The research also examines how this organization's trade units, organizational structure, guidance policies, procedures, and objectives differ from those of other public budgetary organizations. And also, unlike previous study, current study adds one more additional variable which is the audit committee. This variable was added because earlier studies' findings on previous studies' testing were highly audible in the company. The audit department also provides its report to the committee for decision-making, and earlier studies, such as Wondwosen's (2019), used these factors but did not accurately measure them, moreover, this study examined the factors determining internal audit effectiveness in Ethiopian SOE's in Ethiopian shipping and logistics service enterprise. The outcomes of the study were useful to maintain effective IAD in organization and also tried to fill the gaps in the literature.

1.4 Basic Research Question

As it is already mentioned above the focus of this study. The study tries to answer the following basic research questions.

- How does the competency of internal auditors have an effect on effectiveness of internal audit?
- How does the independence of internal auditors have an effect on effectiveness of internal audit?
- To what extent does management support have an effect on effectiveness of internal audit?
- How does the quality of audit work have an effect on effectiveness of internal audit?
- To what extent does audit committee have an effect on effectiveness of internal audit?

1.5 Objectives of the Study

This study has general and specific objectives.

1.5.1 General objectives of the study

The general objective of this study is to examine the factors determining of internal audit effectiveness in Ethiopian SOE's in Ethiopian shipping and logistics service enterprise

1.5.2 Specific objectives of the study

The studies try to achieve their specific objectives:

1. To examine the effect of competency of internal auditors on effectiveness of IA in ESLSE.
2. To examine the effect of independence of internal auditors on effectiveness of IA in ESLSE.
3. To examine the effect of quality of audit work on effectiveness of internal audit in ESLSE.
4. To examine the effect of management support on effectiveness of internal audit in ESLSE.
5. To examine the effect of audit committee on effectiveness of internal audit in ESLSE.

1.6 Research Hypothesis

The purpose of the hypothesis statement is to expose the independent variables most influence the dependent variables and to reveal the statement that will be proved or disproved by the researcher. The following alternative hypothesis will be formulated based on the knowledge gained from reading the theoretical and empirical the related literatures cornering the factors determining the internal audit effectiveness.

H1: Competence of internal auditors has a positive and significant effect on effectiveness of IA.

According to Al-Twajry et al, (2004) and Burnaby, et al., (2009) argued the IAD team has to have capabilities as necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate and to improve organizational and departmental performance that adds value. As per Engle (1999), when an organization has competent IA staff; it has benefits such as the staff become effective and contribute to the achievement of organizational goals, the IA findings become accurate so the time and cost of external auditing become decrease and the last but not the least without the external auditing the state of the organization under audit are in an ideal position to provide information about financial statements.

H2: Independence of internal auditors has a positive and significant effect on effectiveness of IA.

Abbu-Azza, (2012) and Belay, (2007) shared the concept of independence is generally used to mean the ability of the auditor to be fair and objective in his/her review and appraisal and to be free from any influence that comes from the management whilst performing audit activities and issuing audit reports by internal auditors. And also, Goodwin & Yeo (2001), explained organizational independence as the relationship between the internal audit activity and the audit committee. When the IAD is independent from any influence so the staff members too. Independence to this aspect is meant by that independence in mind as well as independence in appearances (Stewart & Subramaniam, 2010). Therefore, this independence lets the IAD to be effective in its activity in the organization.

H3: Quality of internal audit work has a positive and significant effect on effectiveness of IA.

An internal audit work is effective and useful when the reports and compliments delivered in time. According to Azad (1994), Santiso (2006) and Tandon et al. (2010), the IAD should have an audit program that can be supported by audit working papers. The time budgeting that has planned to work on time frame increase, the performance which is the timeliness of reports and the credibility of the audit findings. When the IA performed in a professional manner the outcomes become more accurate so define the state of the organization, accordingly the IA becomes effective.

H4: Management supports has a positive and significant effect on effectiveness of internal audit.

The management support is the most crucial element for the effectiveness of internal audit as Walker, Shenkir, & Barton (2002), Gortiz (2004) and Cohen & Sayag, (2010). Starting from hiring skillful IA staff, facilitating on-job training, adequate resources, budget and financial incentives, and giving attention and recognition as support when they give guidance they have primary responsibilities which related to risk identification and assessment and they are likely to be interacting with senior management on risk management implementation issues. Based on the literature reviewed there is no doubt that management support is an irreplaceable determinant of the effectiveness of internal audit.

H5: Audit committees has a positive and significant effect on effectiveness of internal audit.

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

1.7 Scope of the Study

Content/Subjective Scope: This study conceptually delimited to examining the factors determining the internal audit effectiveness of by considering selected factors of effectiveness of internal audit and by testing the hypothesis formulated to prove as to which the factors proposed have effect on perceived effectiveness of internal audit and to see whether or not there is a link between the selected factors of internal audit effectiveness practices and perceived effectiveness of internal audit.

Methodological Scope: This study used a quantitative research approach as well as descriptive and explanatory research design, and the sampling technique used non-probability sampling techniques specifically purposive sampling techniques.

Geographic Scope: Bearing in mind entirely Ethiopian shipping and logistics service enterprises in Ethiopia. Under this study is tough and incontrollable from widens point of view. In addition to that the rational for the Ethiopian shipping and logistics service enterprises were chosen due to the proximity of the researcher and also because a larger focus has been laid by the institution in these areas in terms of head office located in Addis Ababa. Therefore, this study only focused on Ethiopian shipping and logistics service enterprises.

Time Scope: This research used cross sectional survey research design. Because, the study is end by one-year time period.

1.8 Significance of the Study

The study is expected to have importance to many parties to begin, it provide some insight particularly it is well know that understanding about the factors affecting internal audit effectiveness in Ethiopian shipping and logistics services enterprises, for those who wish to conduct further research and policy makers can use the output of this paper to see alternative. Research can use the output of the research to do further study, and Ethiopian shipping and logistics service enterprise can also use the findings to further improvement on structure of audit system and build awareness on their officers for factors of internal audit effectiveness. the result of this study may be significant from both theoretical and practical standpoints. From a theoretical standpoint the study may help in developing a compressive theory of internal audit effectiveness. From a practical standpoint the findings may be of help for policy makers who will gain a better understanding of the factors that determine effectiveness for policy intervention.

1.9 Limitation of the study

Limitation of the study is that in the first place, the focus of this study was all internal auditors, senior finance officers, and human resources department, due to a large number of employees the study is not cover all employees. Therefore, this study is required to take the sample to draw inferences. Taking samples by its nature have its limitation. Lack of sufficient previous studies in Ethiopia especially in shipping industry was another problem. Therefore, the researcher tried to solve this problem by using other country journals, literature, and finding as supporting documents.

1.10 Organization of the Paper

Generally, the paper organized into five chapters the first chapter is presented an introduction part it contain background of the study, background of the organization, statement of the problem, basic research questions, objective of the study, research hypothesis, significance of the study, scope of the study , limitation of the study, and organization of the study. In the second chapter its cover a literature reviews, including theoretical reviews, empirical reviews, conclusions and knowledge gaps, and conceptual frameworks. Third chapter contained the research design, research approach, population, sample size and sampling techniques, data type and source, methods of data collections, reliability and validity test and ethical consideration. Fourth chapter try to show the results of findings and discussions of the study and finally, the fifth chapter discuss about the summary of findings, conclusions and recommendations of the study. The summary of findings was made based on the results under chapter four. The conclusion was drawn from the summary of findings with practical recommendations at the end.

CHAPTER TWO

RELATED LITERATURE REVIEW

2 Introduction

This chapter presents review theoretical literature on concepts of auditing, internal auditing, internal audit effectiveness and some of theories of audit. Reviews empirical literature on internal audit effectiveness and its determinants and international standards for the professional practice of internal auditing used to build up factors determining of internal audit effectiveness. And conclude with a conceptual framework which is developed from the theories and literature reviewed.

2.1 Theoretical Literature Review

2.1.1 Basic Concept of Auditing and Internal Auditing

Auditing is an objective, systematic and independent examinations of accounts which are conducted by professionally qualified person. Auditing can be simply classified as internal and external auditing. The common definition of auditing is 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 result to interested users Ayitenew & Lakech, (2018).

Internal auditing is essentially an appraisal activity within the organization for the review of accounting operation method and procedure, financial and other operations of the organization by measuring and evaluating efficiency and effectiveness of the organization. Auditing is an important managerial control device. The starting place for internal audit theory is the definition of internal audit. The divergence and interpretation of the audit role is explored, in terms of the way we may practice more average from the standard its own approach and style. The institution of internal auditors (IIA) definition internal auditing is an independence objective assurance, and consulting activity designed to add value and Importance to an organization's operation. It helps an organization to accomplish its objectives by bringing a systematic way of risk management, control and governance process. Internal auditing refers to an independent appraisal of the activity within the organization for the review of accounting, financial and other operations and activities by staff of auditor's function as part of the management and reporting to it and not to the shareholders (Gelaye, 2019).

Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities both cognitive skills and behavioral skills. The audit activity needs a professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate. Auditors must comply with minimum continuing education requirements established by their relevant professional organizations and standards. Competency determines the efficiency of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Tesema, 2018).

Effective audit practices at State-Owned Enterprises (SOEs) are extremely important because they promote governance by protecting the rights of citizens and significantly strengthening the power of locals to hold public officials accountable. Assurance and advisory services are among the audit practices, but they are not the only ones (ranging from financial attestation to performance and operational efficiency). The SOE's entire operations would be impacted by an expanded scope of the audit practice directives. Although auditing procedures vary by country, they often involve organizational independence, unrestricted access to adequate money, a capable management objective, qualified employees, stakeholder support, and professional audit standards (IIA, 2017).

2.1.2 Concept of Internal Audit Effectiveness

The word "effectiveness has been defined by a few analysts, for illustrate Arena and Azzone (2009) defined effectiveness" as the ability to achieve results that are consistent with the objectives, while Dittenhofer (2001) defined effectiveness as the ability to achieve the accomplishment of the goals and objectives, the Internal Audit Institution IIA (2010) defined internal audit effectiveness as the degree (including quality) to which specified goals are achieved. Internal audit effectiveness has become a fruitful topic over the decade, because of the important roles play by the internal auditors in organizational survival and achievement. The growing importance of internal auditing as an economic factor has led to systematic research into the factors that improve the performance of internal auditing.

According to the Institute of Internal Auditor Research foundation (2008) “an internal auditor is a forward looking individual, who knows and understands business systems and ensures the management that they operate rightly and achieve firm goals. The internal audit must be so effective that they could achieve the goals of their audit activity (Adhista, 2015).

Mihret and Yismaw (2007) explain that an internal audit function is effective when it able to achieve the stated objectives or goals. IIA (2010) defined internal audit effectiveness “as the degree (including quality) to which established objectives are achieved.” This means internal audit effectiveness is the ability of internal auditor to achieve established objectives within the organization.

Institution of Internal Audit IIA (2010) explain effective internal audit the degree (involve quality) to which established goals are achieved, while Mizrahi and Ness (2007) affirm their own definition, which is consistent with the ability of internal audit to prevent and correct deficiencies, and finally they define the effectiveness of internal audit as the number and scope of deficiencies that were identified after the audit process was corrected. Therefore, going by the above definitions of effectiveness and audit effectiveness, it’s clear that audit effectiveness or internal audit effectiveness is means the same thing because they all have central objective, which is the ability to achieve the stated objective. Although various approaches have been used in previous studies to determine an appropriate standard for evaluating the effectiveness of internal auditing (Unegbu & Kida, 2011) states that internal audit the department has a significant impact on its effectiveness. (Mat Zain & Stewart Subramania, 2006). In line with the above, consideration the measurement of the effectiveness of internal auditing function keeps receiving a significant challenge, which is find the best and most relevant method to examine the efficiency and effectiveness of internal audit (IIA, 2010; Bota & Palfi, 2009).

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

2.1.3 Theories of internal Audit Effectiveness

Theory of internal audit defined by Grix & Johnson, (2004) as it is a formulation concerns the cause and effect relationships between two or more variables, which may or may not have been tested". A new approach which is adopted by Endaya& Hanefah, (2013) puts it as "a combination of three theories: which is agency, institutional, and communication theory.

2.1.3.1 Agency theory

Agency theory means the relationship between agent and principal, where agent is management and principal are the shareholder. In decision making process of an organization, Agents have the authority to make decisions. Managers work with the organization as agents to perform some service on behalf of owners who delegate some decision-making authorities to managers. These authorities could be misused by managers to meet their own personal Interests. Therefore, the existence of the audit committees and the external and internal auditors will help the organization in enhancing their performance, and also will ensure that the management carries out its plans according to procedures. Internal auditors as agents must perform audit processes at the professional level requiring education and professional certifications, experience, and other competencies needed to perform their responsibilities perfectly. Internal auditors, as agents of the organization members, need their support. The existence of an effective audit committee in the organization enhances internal audit independence and also, reduces senior management interferences either in internal audit scope or its performance (Endaya and Hanefah, 2013). For this reason, this study should consider Agency theory for independent variable selection.

2.1.3.2 Institutional Theory

Institutional theory explains how organizational structures and practices are shaped through changes induced by normative pressures, including both external and internal sources such as laws and regulations or by the professions (Mihret et al., 2010). Internal auditors' roles have now become much more essential as a control within organizations and a key to effective risk management. Internal auditors' roles are considered crucial in financial management strategies and increasingly used a dependable way of enhancing performance. Institutional theorists consider organizations as members of an organizational field, which comprises several organizations or industries that are interrelated in some way. This interrelation leads organizations to influence others.

The researchers suggest a need for future research to address the internal audit effectiveness by using institutional theory. Mihret, et al. (2010) argue that there is a positive relationship between compliance with International Standards for Professional Practice of Internal Auditing (ISPPIA) and organizational goal achievement, and this relationship could evaluate internal audit effectiveness (Endaya and Hanefah, 2013). For this reason, this study should consider Institutional theory for independent variable selection.

2.1.3.3 Communication Theory

According to communication theory, inability to communicate effectively can be related to inappropriate information or communication complexity (Endaya and Hanefah, 2013). Both IIA Standards and previous studies, the study of effective communication in internal auditing is necessary. The existence of effective communication between internal auditors themselves, internal auditors and audits, internal auditors and organization members, without any doubt, is needed to strengthen the internal auditee's effectiveness. However, there are several factors, which could contribute to the weakness of this relationship such as, accusatory style from internal auditors or just looking for the auditees' weaknesses. Such environment leads to lack of trust among internal auditors and auditees. Thus, to prevent such threats, it is necessary to improve auditee's collaboration with internal auditors (Endaya and Hanefah, 2013). For this reason, this study should consider communication theory for independent variable selection.

2.1.4 Determinants of Internal Audit Effectiveness

2.1.4.1 Competence of internal auditors

The concept additionally known as competence has been defined via way of means of many authors in diverse fields/disciplines (Hoffmann 1999) and refers to particular knowledge, skills and attitudes had to carry out a bit function to a mentioned standard, as regards to actual operating environments (IFAC, 2010).

For the needs of the CBOK study, the main focus was on competencies and skills needed by internal auditors to perform internal audit engagements effectively (Bailey, 2010). Staff competence is an important key to the effectiveness of the internal audit activities (Alzeban & Gwilliam, 2014, Al-Twajjry et al, 2003). The International Standards for the Professional Practice of Internal Auditing (ISPPIA) highlights the significance of inner audit group who possesses the knowledge, skills, and different abilities vital to carry out their responsibilities (ISPPIA,

Standard, 2010). Indeed, internal auditors must collectively have the required education, professional qualifications, experience and training to be able to add value and improve the organization's operations (Mihret & Woldeyohannis, 2008)

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

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

2.1.4.2 Independence of internal auditors

The freedom from situation threatens by power of the internal audit activity interest to keep out the internal audit obligation in impartial manner (IIA, 2013). To recognize the degree of independence vital to effectively do the obligation of the internal audit activity, the chief audit executive has direct and unrestricted access get admission to senior management and additionally the board. This may be finished via a dual-reporting dating and threats to independence be managed on the character of auditor, engagement, functional, and being independent is that the freedom from the control and directs have an effect on of control organizational levels (Pickett, 2010). This definition is a vital to the extent of audit work and enhances internal audits objectivity and integrity. Internal auditors should be independent from the activity they're auditing.

Independence allows internal auditors to perform the impartial and unbiased judgments to the correct conduct of audit and achieved through organizational status and objective (Simon, 1995). Independence and objectivity are often treated similarly Independent, in turn, defined as being not dependent, not subject to the control of others, not subordinate, and not requiring or wishing on something or somebody else Also, to be independent is defined as not looking to others for one's opinions or for the guidance of conduct and not being biased by others. Objectivity, on the opposite hand, is defined as an existing independence of mind, regarding an object, because it is itself, and also as expressing or involving the utilization of facts without distortions by personal feelings or prejudice. In comparing the two concepts, it becomes clear that whether or not one is lacking independence it's still possible for one to be objective within the sense of regarding an object because it is itself or expressing or involving the employment of facts without distortion by personal feeling or prejudices (IIARF, 2001). The optimum good thing about internal auditing to a corporation will be accomplished if the internal audit function is independent of course and in appearance and circuitously involved within the process of deciding (Switzer, 2007). Independence of mind reflects the auditor's state of mind that allows the audit to be performed with in an unbiased attitude and members must be independent after all. Independence of auditors is independence from whom possibly its independence from management, independence from those that may manipulate the corporate (Schilder, 1999). Cohen and Sayag (2010) additionally argue that organizational independence of internal audit affects internal audit effectiveness. Auditor independence has long been considered because the key drivers of the audit function. Without independence, internal audit simply becomes an element of the management team, losing its ability to supply a fresh perspective Abu-Azza, (2012), Cohen, (2010), Haimon, (1998) and (Mihret et al, (2007). found that auditor independence positively associated with perceived internal audit effectiveness.

2.1.4.3 Quality of Internal Audit Works

The effectiveness of internal audit contributes greatly to the effectiveness of each individual audited body and the organization as a whole and also found that maintaining the quality of internal auditing contributes to the adequacy of the audited body's procedures and workflows and, therefore, internal auditing contributes to the effectiveness of the audited body and the organization in its performance Dittenhofer (2001).

Xiangdong, (1997) used agency theory to explain the role of internal auditing in an economy and notes that internal auditing has the advantage over external auditing of receiving information quickly and recognizing problems earlier; and Spraakman (1997), who applied the theory of transaction cost economics, demonstrated the importance of internal audit recommendations for the management of government organizations.

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

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

2.1.4.4 Management Support

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

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

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

Because, Sarens and Beelde (2006) argue that the general acceptance and appreciation of IA within the corporate is strongly dependent upon the support they receive from senior management. Internal audit actively seeks management support with resources, commitment to market and communicate their added value.

The management support is nearly crucial to the operation and internal audit because all other determinants of IA effectiveness derive from the support of top management, provided that hiring proficient Top management decisions have resulted in the hiring of IA professionals, the development of career paths for IA staff, and the provision of organizational independence for IA work (Cohen & Sayag, 2010). It means that it is in management's best interests to maintain a strong internal audit department (Adams, 1994; Mihret and Yismaw, 2007). Therefore, audit finding and recommendation wouldn't serve much purposely unless management is committed to implement them. Furthermore, belay, (2007) find that to curb corruption and inefficiency within the public sector of Ethiopia, it's mandatory to possess effective internal audit function (IAF) that successively needs appropriate establishing a governance structure, collecting sufficient and relevant resources, and assembling a skilled workforce.

2.1.4.5 Audit Committee

The Audit Committee of the Board of Directors gives one very widespread thing of company governance. An Audit Committee could be very powerful not only in supplying objective oversight of the accounting of a corporation, however additionally in assisting to line an ethical -tone at the top| (Locatelli, 2002). An audit committee in organization improves the independence internal audit of organization. (Deborah, 2004) the internal audit function of a company should lean a sufficiently status within the organizational structure to enable better communication with senior management and to make sure independence of internal audit from the audit. Independence is of paramount value in providing effective internal audit service to the management, for it affords an environment of objective and uninhibited appraisal and reporting of findings without influence from the units being audited. The internal auditor's risk-driven efforts provide critical inputs to other governance participants, which includes the audit committee and management. In developed countries, the audit committee has the function of a mediator between the management and internal audit. This makes the function of management support help a lot much less essential than in developing countries, in which audit committees are new.

This problem is also debatable even in developed countries ‘and can be managed the executive management is directly in a position, or indirectly through the audit committee, and it affects to a certain degree the type of the internal audit work. When the management considers the internal audit function as positive, then the characteristic is in all likelihood to be grater effective (Alzeban and Gwilliam, 2014). As reported by studies in the past, there is a linkage between audit committee and the effectiveness of internal audit. For instance, can be seen in the study by George et al, (2015) Further, studying the linkage between audit committee’s quality, Audit committee is also examined in some studies as available associated with internal audit effectiveness.

2.2 Empirical Literature Review

Several researches were conducted on the current practices of internal auditing effectiveness in the Ethiopian context. This section highlights some of the previous research papers on the effectiveness of internal audit. The researcher selects these studies among other researches in accordance with their studied areas and their time of study. The details more recent are presented as follows:

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

Solomon, Menza, and Wondwossen (2019) the study about the Determinants of Internal Audit Effectiveness (IAE) in the Ethiopian Public Enterprise, Case of Southern Region objective of this study is to investigate determinants of internal audit effectiveness in the Ethiopian public services offices. This study provides empirical evidence on the factors affecting internal audit effectiveness by taking 118 samples of internal auditors from SNNP regional bureau.

The study used both descriptive and econometric methods to analyze the data set the finding of the study states that the availability of competent employees and institutional structure is significantly predicts effectiveness of internal audit, internal audit effectiveness is responsive for relatively higher level of independence, The availability of resources both human and material resources are also significantly predicts effectiveness of internal audit and availability of standardized approved internal audit chart significantly influenced in the internal audit effectiveness.

Alemzewed (2019) in his study assess Determining the Internal Audit Effectiveness in Ethiopia in the case of budgetary public sectors which are located in Addis Ababa the study used purposive sampling method and cover selected budgetary public sectors. By combining quantitative and qualitative research methods, the researcher created a mixed research approach. A total of 85 self-administered questionnaires were employed in the quantitative study. Internal audit work quality and management support have a statistically significant positive relationship with internal audit effectiveness, according to the study's findings. Internal audit independence and competency of the internal audit team have a statistically insignificant relationship with internal audit effectiveness.

Arefayne (2019), a research on “Factors Affecting Internal Audit Effectiveness: The Case of Ethiopian Insurance Companies”. The research aimed to examine the factors affecting internal audit effectiveness in Ethiopian insurance companies. The study was conducted on all internal auditors of Ethiopian insurance companies. There were 55 internal audit staffs in 16 insurance companies. The factors to examine the effectiveness of internal audit in insurance companies were Internal Auditor competence, Internal Auditor's independence, Quality of IA work and Management support. The researcher used questionnaires and document review for data collection. The outcomes of study revealed that the Internal Auditor competence affects the internal audit effectiveness in Ethiopian insurance companies. However, it is also found that the Quality of IA work, Management support and Internal Auditor's independence have a positive relationship, but not statistically significant in the effectiveness of internal audit in insurance companies in Ethiopia.

Wondwosen (2019) the factors affecting internal audit effectiveness in Ethiopian private commercial banks were investigated in this study. Five hypotheses were formulated the study used primary sources of data through questionnaires. A cross-sectional survey design was employed, purposive sampling method was used and data were collected using structured

questionnaires, with total of 168 questionnaires were distributed All of these five independent variables are making 60% explained internal audit effectiveness. The study discovered that there were strong positive connections between internal audit effectiveness and the characteristics (internal auditor independence and objectivity, internal audit staff competency, and the presence of audit committees). Organizational setting and management support, on the other hand, have no significant effect on the success of internal auditing.

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

2.3 Conclusion and Research Gaps

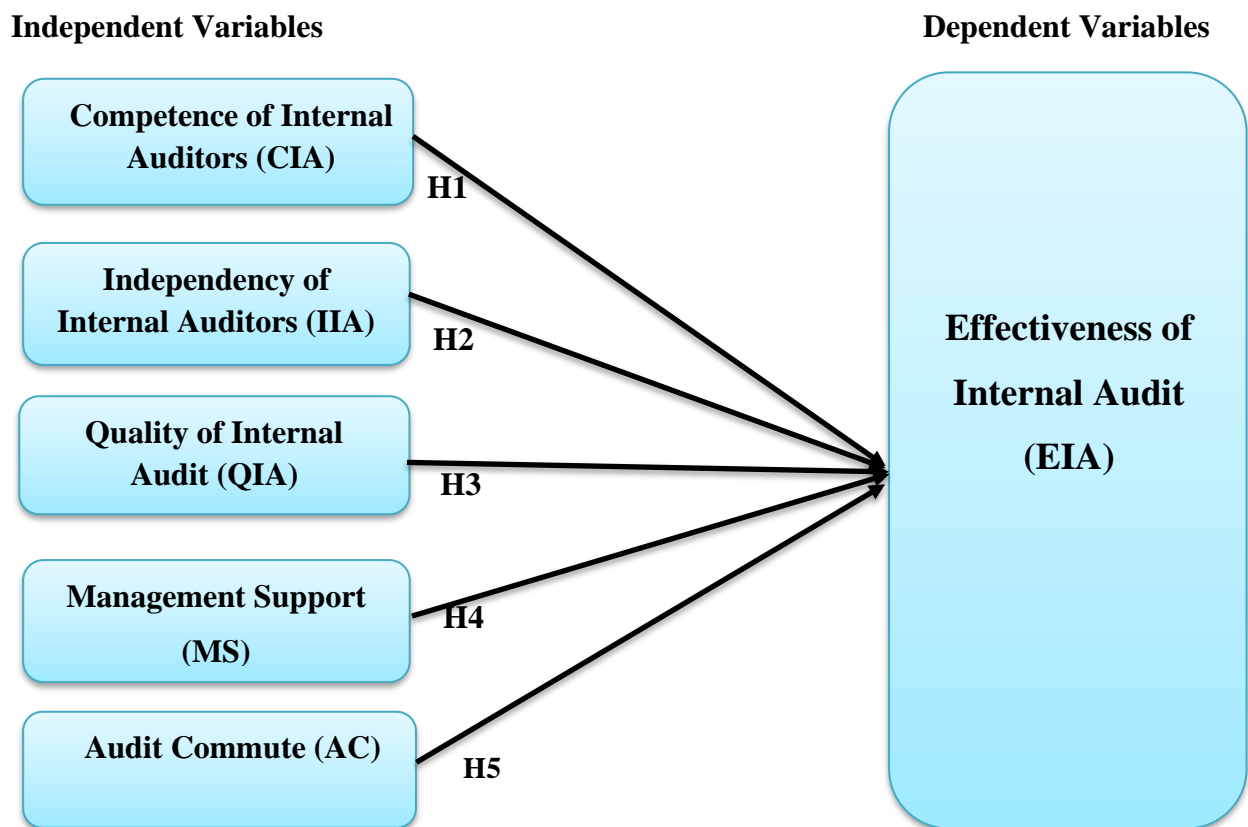
This chapter has provided evaluated of the literature on the internal audit effectiveness. Thereto end, it's attempted to make a theoretical foundation for the study of IA effectiveness. The chapter also additionally examined empirical literature on effectiveness of internal audit and its determinants. However, a number of the literature highlighted that IA to be considered as a worth adding service to organizations it should be effective. Limited research was found to own been conducted within the specific area of IA effectiveness. The discussion during this chapter shows that there are not any specific standards or recognized methods of evaluating IA effectiveness. Thus, previous research has provided mixed results on the effectiveness of IA and evaluated the determinants of IA effectiveness differently. This literature review is argued some factors related with the effectiveness of IA these are competency of the auditors, independency of internal auditors, quality of internal audit, management support and audit committee. In step with the previous literature review the researcher identifies the subsequent gaps: Internal Auditors role and its effectiveness haven't been briefer studied. In other words, to date there has been relatively little research on the effectiveness of IA. Have limited literature the majority is concentrated on the developed country economy haven't literature the developing country IA effectiveness.

In the past decades, there is no studies are conducted within IA effectiveness in shipping business sector some researchers advocated further research and therefore the need for a more comprehensive study on the problem of IA effectiveness. The present research identifies the internal audit effectiveness in state owned enterprise in Ethiopia the case of Ethiopian Shipping and logistic service enterprise supported competent internal audit staff, independence of internal audit, quality of audit work, management support and audit committee.

2.4 Conceptual frame work of the study

Based on Mihret and Yismaw (2007); George, et al. (2015); Hella and Mohamed (2016) and Seif (2017) literature review, the following conceptual framework is formulated by researcher which has five main factors influencing the effectiveness of internal audit.

Figure 2.1: Conceptual framework of the study



Source: Conceptualized based on Factors influencing internal audit effectiveness Mihret & Yismaw, (2007).

CHAPTER THREE

RESEARCH DESIGN AND METHODS

3 Introduction

This chapter presents the activities and processes that undertaken to gather data for the research work. It gives full details of how data are collected and processed for this research work. The discussion was centered on the following: Research design, Research approach, Population sampling size and sampling techniques, Type and sources of data, data collection tools, Method of data analysis, Validity and Reliability, Variable description and measurement and Ethical Consideration.

3.1 Research Design

This study used descriptive and explanatory research designs. The researchers preferred descriptive research as it is convenient for description of the variables such as effectiveness of internal audit practice. Explanatory research design was used as it is convenient for an explanation of cause-and-effect relationship between the dependent and independent variables Field A, (2009).

3.2 Research Approaches

According to (Kothari, 2004). In this study the researcher used a quantitative research method. Quantitative approach typically concentrates on measuring, collecting, analyzing numerical data and applying statistical test. Since this study intended to test the hypotheses and make predictions by using measured amounts and ultimately describe an occasion by using figures. Since this study intended to measure the association and relationship among variables with respect to factors of internal audit effectiveness and perceived effectiveness of internal audit, quantitative research is deemed to be the most appropriate one. To triangulate the quantitative data and gain broader perspectives of the result, qualitative research methodology has also was used as a support mechanism. In the quantitative approach, data collected through a systematic empirical study and the will also quantified with help of statistics and mathematics (Kowalczyk, 2016). Qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behavior.

3.3 Data Type and Sources

To achieve the objectives of the research, the author used both primary and secondary data. As discussed below in detail.

3.3.1 Primary Sources

The primary data sources mainly obtained through questionnaires. The questionnaires were collected through structured questionnaire, that was distributed to those all employees and division managers of the internal audit department, senior finance officers and HR department at the head office of Ethiopian shipping and logistics service enterprise. The questionnaire was prepared in both Amharic and English languages that helps to reduce language understanding barriers. The questionnaires were adopted and developed with some modification from previous similar studies directly related to internal audit effectiveness). For instance: Alemzewed, (2019), Arefayne, (2019), wendesen, (2019), Mihret, (2020).

3.3.2 Secondary Sources

The secondary data sources of this study where gathered from review of records and various documents of published and unpublished of in recent year besides, books, internets unpublished resources used for this study.

3.4 Population, Sample Size and Sampling Techniques

3.4.1 Target Population

A population can be defined as all people or items (unit of analysis) with the characteristics that one wishes to study. The unit of analysis may be a person, individuals, organization, country, object, or any other entity that you wish to draw scientific inferences about. The target population of the research are all internal auditors and all finance department, and senior officers in human resources departments who are employed in Ethiopian shipping and logistics services enterprise head office which comprised of 163 employees.

3.4.2 Sample Size and Sampling Techniques

As cited in (Musa, &Alkassim,2016), Purposive sampling is a type of non-probability sampling techniques in which units are selected because they have characteristics that you need in you sample in other words units are selected on purpose in purposive sampling. sometimes called judgmental sampling, this relies on the researcher's judgment when identifying and selecting the individuals, cases or events that can provide the best information to achieve the study's objective.

The following formula is used by the student researcher to determine the sample size for a given population. A representative sample size with known confidence level which is 95% is selected, based on the formula of (Yamane, 1967). However, sample size is one of the factors that contribute to the credibility of the survey estimate. The sample respondents are selected using non-probability sampling methods namely, a purposive sampling technique used. Therefore, considering the above given points the sample size for this study is calculated as follows:

$$n = \frac{N}{1+N(e)^2}$$

Where:

n = the sample size/ required sample size

N = the total population size

1 = designates the probability of the event occurring.

e= the level of precision (Sampling error that can be tolerated which is 5%).

Assumptions: A 95% confidence level, and **e** = ±5%

Therefore:

$$n = \frac{163}{1+163(0.05)^2}$$

$$n = \underline{115}$$

Department in head office	Population	Sample
All Internal auditors	55	35
All finance	64	50
Humane resource	44	30
TOTAL	163	115

3.5 Methods of Data Collection Tools

Primary data will be collected based on structured questionnaire. Based on the research objective the questionnaire will be adopted from different source which was appropriate for the study. The questionnaire will contain Closed ended questions with the form of five point Likert-Scale, where; strongly Agree (SA) = 5; Agree (A) = 4; Neutral (N) =3, Disagree (D) = 2; and Strongly Disagree (SD) = 1; the use of Likert scale is to make it easier for understanding, reduce confusion in reading and answering the questionnaire by respondents.

3.6 Reliability and Validity Test

3.6.1 Reliability

Reliability is about the consistency of a measure, aimed at the point that even if the research is repeated, they will end up with similar results or the consistency or dependability of a measurement technique, and it's concerned with the consistency or stability of the score obtained from a measure or assessment overtime and across settings or conditions. Therefore, to ensure the reliability of measurement instrument the researcher performed first standardize the instrument like questioners. If the measure mentis reliable, then there is less chance that the obtained score is due to random factors and measurement error (Marczyh, 2005). To measure the consistency of the questionnaire particularly the Likert-type scale the reliability analysis is essential in reflecting the overall reliability of constructs that it is measuring. To carry out the reliability analysis, Cronbach's Alpha (α) is the most common measure of scale reliability and a value greater than 0.70 is very acceptable (Cohen and Sayag, 2010).

Table 3.1 Rule of Thumb of Cronbach's Alpha

Cronbach's Alpha	Description
$\geq .9$	Excellent
$\geq .8$ but $< .9$	Good
$\geq .7$ but $< .8$	Acceptable
$\geq .6$ but $< .7$	Questionable
$\geq .5$ but $< .6$	Poor
$\leq .5$	Unacceptable

Table 3.2 Reliability statistics result

S/ N	Variables	Cronbach's Alpha	No of Item	Justification
1	Competence of internal auditors	0.771	4	Acceptable
2	Independence of internal auditors	0.746	4	Acceptable
3	Quality of internal audit work	0.777	6	Acceptable
4	Management Support	0.774	4	Acceptable
5	Audit Committee	0.888	5	Good
6	Effectiveness of internal audit	0.867	7	Good

3.6.2 Validity Test

Validity is about the accuracy of a measure, it is important to make sure that the instrument that we develop to measure particular concept is indeed accurately measuring the variable and then in fact, we are actually measuring the concept that we set out to measure. Therefore, the content validity for this study was used addressed through the review of literature and adapting instrument used in the previous research (Hair, 2007). Besides, the comment of Ethiopian shipping and logistic service enterprises head office experts and academicians in the field are taken to ensure the validity of the instrument. The questionnaire was finally revised based on the field feedback collected from experts in the field.

3.7 Methods of Data Analysis

Descriptive statistics mainly frequency, percentages, measure of central tendency (mean) and measure of dispersion (standard deviation) of internal audit effectiveness was addressed. To ascertain the presence of statistically significant relationship between factors of internal audit effectiveness dimensions (competence of internal auditors, independence of internal auditors, quality of internal audit works, management support, and audit commute) and perceived effectiveness of internal audit, the correlation coefficient was used. To identify the effect of independent or predictor variables (competence of internal audit staff, independence of internal auditor, quality of internal audit work, management support, and audit commute) on the dependent variable (effectiveness of internal audit) multiple linear regression was adopted. The model was validated through regression analysis. Since, the implication of regression analysis is to elucidate the contribution of each independent variable towards the dependent variable empirically the multiple linear regression models is specified as follows:

$$Y_i = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + e.$$

$$EIA = \alpha + \beta_1 (CIA) + \beta_2 (IIA) + \beta_3 (QIA) + \beta_4 (MS) + \beta_5 (AC) + e$$

$$EIA = -0.842 + 0.220CIA + 0.145IIA + 0.511QIA + 0.043MS + 0.195AC + e \text{ Where:}$$

Y_i = denotes (the dependent variable) (i.e. perceived effectiveness of internal audit EIA).

α = the intercept term (Constant Term)

β_1 to β_6 = the coefficients of all X are (the independent variables).

CIA = Competence of IA

IIA = Independence of IA

QIA = Quality of IA Works

MS = Management Support

AC =Audit Committee

And ε = error term

3.8 Variables Description and measurement

3.8.1 Dependent Variables

There were various numbers of explanatory variables so far identified and have strong bond with the effectiveness of internal audit in the study area. For the purpose of this study and measurability the five explanatory variables are identified. To measure the level of effectiveness of internal audit seven questionnaires were constructed and distributed to the respondents. Questioners were adapted from Alemzewed, (2019), Arefayne, (2019), Wendesen, (2019), Mihret, (2020). The dependent variable questions on aspects of the internal audit effectiveness including: Reports provided by internal auditors are reliable and significant to my organization, the recommendations, criticisms and information provided by internal audit is used for decision making. Internal audit ensures the economical, effective and efficient use of resources in the sector, The recommendations of internal audit department provide practical, cost benefit solutions for correcting the problems that, Internal auditors have the experience and expertise to address corporate risk management problems within the organization, The existence and findings (reports) of Internal Auditors meet expectations, Internal audit improves organizational performance that means it adds value to the business.

3.8.2 Independent Variable

There were various numbers of explanatory variables so far identified and have strong bond with the effectiveness of internal audit in the study area. Those predicted variables investigated in this research are competency of internal audit staffs, Independence of internal auditors, quality of internal audit, management supports, and audit committee. For the purpose of detail investigation and measurability the five explanatory variables were identified and discussed below.

Competency of internal audit staffs: It is measured on the dimension of ability of an individual to perform a job or task properly based on the educational level, professional experience, necessary continuous training on time and the effort of the staffs for continuing professional development (George, et al., 2015).

Independence of internal auditors: Independence and internal audit effectiveness are closely related where the freedom from conditions that may threaten objectivity and no significant quality compromises are made during rendering the audit service. Measured on the dimension of Internal audit staff is free from any interference in performing their professional obligations and duties, Internal audit staff does not assess specific operations for which they were previously responsible, Internal audit staff does not perform non-audit functions, and Internal audit staff has free access to all information, departments and employees in the organization (Hella and Mohamed, 2016).

Quality of internal audit works: an important tool for any company that wishes to assess its quality procedures compares performance against external standards or prepare for an external audit of examination of information reliability and integrity, verification of working paper quality properly done by internal auditors.

Management support: for the internal audit activity it measured on the dimension of direct support from the top management, providing of adequate and proper resource for the audit work, assistance from team leader and giving enough training for the audit stuff (Hella and Mohamed, 2016).

Existence of an audit committee: It is measured on the dimension of enhances internal audit independence and the internal audit function report directly to the audit committee not to senior management; the audit committee adopts the internal audit department strategy and plans (Reham, 2013). From the three items were adopted Arena and Azzone (2009) are: independence of audit committee, size of audit committee and committee meetings.

3.9 Ethical Consideration

Throughout the creation of this paper, ethical and morally justifiable practices were used. Instruments were utilized after seeking the respondents' voluntary consent, and data was collected with the respondents' full authorization. Throughout the study, the confidentiality and privacy of the study participants were maintained, and various approaches and processes have been used to reduce researcher and respondent bias. While conducting this research, a variety of ethical considerations were considered.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4 Introduction

The research attempted to examining the factors determining the effectiveness of internal audit in Ethiopia shipping and logistic service enterprises in Addis Ababa head office. Hence this chapter presents the analysis and discussion of research findings obtained from the questionnaires. It reports the investigation results obtained from all internal auditors and senior officers from the finance department and senior officers in human resources departments of the Ethiopian shipping and logistics services enterprise. There for, the chapter analyzed through SPSS result of statistics, in order to compute, response rate, demography of respondents, descriptive statistics, heteroscedasticity test, multicollinearity test, autocorrelation test, normality test and at the conclusion of the chapter the analyst would test fitness of the model or adequacy of the model and the hypotheses. The outcomes are displayed in tables and figures,

4.1 Response Rate

After distributing a total of 115 questionnaires were distributed to the respondents of Ethiopia shipping and logistic service enterprises in hade office out of 95 were returned filled completely and properly. This constitutes 82.61% (95/115) response rate which is enough to represent the population as well as to generalize the findings to the entire population the remaining 95 questionnaires found valid and used for analysis. The total response rate was 82.61%. Cohen & Sayag, (2010). stipulate that a 50% response rate is Adequate, 60% is good and 70% and above is rated excellent. Based on this assertion, the response rate was very good. The response rate for this study was suitable for data analysis.

4.2 Demographic profiles

Descriptive analysis was used to present the data collected in relation to the demographic and knowledge factors for more clarification. It is mainly important to make some general observations about the data gathered with the help of general or demographics questions. The demographics and knowledge factors used in this research are gender, educational level (academic qualification), field of study, and working experience in ESLSE. It is presented below:

Table 4.1 Demographic and Knowledge Characteristics

Variables	Classification of Variables	Frequency	Percent
Gender	Female	31	32.6%
	Male	64	67.4%
	Total	95	100.0%
Educational level	Diploma	-	-
	Bachelor Degree (BA, BSC)	61	64.2%
	Masters (MA, MSC)	34	35.8%
	Others	-	-
	Total	95	100.0%
Field of Study	Accounting and Finance	78	82.1%
	Management	13	13.7%
	Economics	-	-
	Others	4	4.2%
	Total	95	100.0%
How long you have stayed in ESLSE	2 Years and Less	4	4.2%
	Above 2 Years Less than 5 Years	20	21.1%
	Above 5 Years Less than 10 Years	45	47.4%
	Above 10 Years	26	27.4%
	Total	95	100.0%

Source: Questionnaire result, 2022

As shown in Table 4.1 Gender distribution of the sample (67.4%) of the respondents were male and (32.6%) were female respectively, and maximum of respondents have been male it means from the general population of the respondent the higher part its covered by male.

The educational level of the respondents is shown in table 4.1. As can be seen from the table, respondents were asked to indicate their level of qualification in the educational attainment formula; respondents stated the highest level of education. According to their answers, 64.2% of those asked have a bachelor's degree as the highest educational qualification. 35.8% of respondents have a graduate degree or master's degree as the highest educational qualification. In terms of professional qualifications, ESLSE Internal audit team did not have certified staff such as ACCA, CIA, CPA and Certified Insurance. Professional qualifications are of high quality in terms of added value and improved departmental and organizational performance (BouRaad & Capitanio, 1999). Moreover, it is difficult to be effective without professionally qualified personnel (Okafor & Ibadin, 2009; Cohen & Sayag, 2010; AbuAzza, 2012).

Depending on the field of study, the study participants showed their highest educational qualifications. In this regard, 78 respondents (82.1%) had an accounting background. Thirteen respondents (13.7%) had a managerial background, and the remaining four respondents (4.2%) had other educational backgrounds. Descriptive statistics for the data are shown in Table 4.1. Most IA teams had an "accounting" background. This shows that Internal Audit activities at ESLSE are limited to the field of financial business. The IA team, including most "accounting" staff, may lack skills, experience and knowledge in other areas (Paape, 2007). The IA team, which includes most staff with accounting and financial backgrounds, may lack skills, experience, and knowledge in other areas such as detailed audit specialists. From this perspective, the scope of IA in these executive organs did not extend to non-financial activity areas.

Respondents working experiences indicating that how long you have stayed in the ESLSE ranged from two years and less up to above ten years. 10 respondents (27.4%) had above ten years working experience in the enterprise, 45 respondents (47.4%) had less ten years and above five years' experience and 20 respondents (21.1%) had above two years less five years working experience in the enterprise and 4 respondents (4.2%) are have two years and less working experience in the enterprise. This shows that respondents have a good work experience in Ethiopian shipping and logistics enterprise sector as the majority of the respondents that is 71 participants (74.8%) have a working experience five years and above.

Descriptive statistics of the data are displayed in table 4.1 It shows that respondents good work experience in the enterprise. Based on the participants ‘response, internal auditors in ESLSE have good years of experience in the organization. It shows that auditors in ESLSE had well experience on the organizational activity and the ability to audit and add value to the organization or department specifically.

4.3 Descriptive statistics

This section examines the factor determining the internal audit effectiveness. The questionnaire was developed in five scales ranging from five to one; where 5 represents Strongly agree, 4 agree, 3 Neutral, 2 disagree, and 1 strongly disagree. The collected data was used to assess factors determining internal audit effectiveness in Ethiopian shipping and logistics service enterprises. categorizing these characteristics into specific dimensions carries out the analysis in the following section. Based on data were further classified into various factor, factors determining internal audit effectiveness, this study applied Kowalczyk (2016). response analysis method. Therefore, empirical findings of the responses results are presented and discussed in this chapter.

4.3.1 Descriptive Statistics of Competence of Internal Auditors

In this section, Descriptive statistics was done in the form of mean and standard deviation for four items and it is presented in the following table. And it was developed by items using Likert scale. Thus, all statements were measured on Likert scale.

Table 4.2 Descriptive Statistics for Competency of Internal Auditors

Q.	Competence of Internal Auditors	Mean	SD
1	Internal auditors have the appropriate qualified or professional staff in your department	3.93	0.866
2	Internal auditors have deep expertise in the whole Departmental activities	3.92	0.846
3	Internal auditors have well-qualified, who perform tasks such as evidence gathering and produce reports in a timely manner	4.27	0.778
4	Internal auditor attending further training courses for professional development or attend a training seminar to update their knowledge	4.39	0.657
Aggregate Mean of Competence of Internal Auditors		4.13	0.79

Source: Questionnaire result, 2022

Table 4.2 shows that, the response of the questionnaire form Q 1 up to Q 4 which examines the competence of internal auditors had a mean value greater than 3.00. This implies that respondents were agreed on the capabilities of the ESLSE IA team. Standard deviation is being considered as the total variation in the mean. Descriptive statistics of the data are showed in the above table the standard deviations for Q 1 up to Q 4 were less than 1.00. It indicates that the respondents' perception were not far from one another. As a result, we can conclude that the respondent's internal auditors can should be adequately qualified and in possession of all requisite skills and knowledge to carry out responsibilities related to audit duties. Internal auditors must possess appropriate knowledge, skills and other competencies necessary for undertaking their personal responsibilities.

4.3.2 Descriptive statistics of Independence of Internal Auditors

In this section, Descriptive statistics was done in the form of mean and standard deviation for four items and it is presented in the following table. And it was developed by items using Likert scale.

Table 4.3 Descriptive Statistics for Independency of Internal Auditors

Q.	Independence of Internal Auditors	Mean	SD
5	Internal audit gives reports to the board of directors (or audit Committee) without any influence.	3.76	0.986
6	Internal auditors have unlimited and complete access to all records and information required performing audit work	3.86	0.963
7	Internal audit related to corporate strategy formulation and system design preparation	3.60	0.939
8	Internal auditors include in their reports any fault, fraud, misstated work and mistakes without any influence from anyone.	3.87	1.044
Aggregate Mean of Independence of Internal Auditors		3.77	0.983

Source: Questionnaire result, 2022

Table 4.3 shows that, the response of the questionnaire for Q 5 up to Q 8 which examines the independence of internal auditors had a mean value greater than 3.00. This implies that respondents were agreed on the independence of IA ESLSE. Standard deviation is being considered as the total variation in the mean. Descriptive statistics of the data are showed in the above table. The standard deviations for Q 5 up to Q 7 were less than 1.00. It indicates that the respondents' perception were not far from one another. But, standard deviation for Q8 was greater than 1.00. It indicates that the respondents' perception was far from one another. It Indicate ESLSE internal audit staffs are free to decide the scope, timing, and extent of auditing procedures based on auditing standards and organization policy. , internal auditors can efficiently fulfill their jobs if they work independently rather than as a managerial tool, and management is more likely to follow internal auditor's suggestions if they have authority. An organization's internal audit function should be given a sufficiently high status in the organizational structure to allow for greater contact with senior management and to ensure internal audit's independence from audit.

4.3.3 Descriptive statistics of Quality of Internal Audit Work

In this section, Descriptive statistics was done in the form of mean and standard deviation for six items and it is presented in the following table. And it was developed by items using Likert scale.

Table 4.4 Descriptive Statistics for Quality of Internal Audit Work

Q.	Quality of Internal Audit Work	Mean	SD
9	Internal audit has an audit plan carried out their work efficiently according to that plan	3.95	0.892
10	Examination of information reliability and integrity, verification of working paper quality properly done by internal auditors	3.95	0.880
11	The external auditor conducts the audit using the internal audit working paper and final report	3.73	1.015
12	Internal Audit Department findings are correctly discussed and justified	4.04	0.862
13	Internal audit recommendations can be easily implemented	3.94	0.909
14	Internal audit reports are rigorous (decisions based on strong evidence) and accurate	3.94	0.697
Aggregate Mean of Quality of Internal Audit Work		3.92	0.87

Source: Questionnaires result, 2022

Table 4.4 shows that, the response of the questionnaire for Q 9 up to Q 14 which examines the quality of internal audit work had a mean value greater than 3.00. This implies that respondents were agreed on the quality of IA work in ESLSE. Standard deviation is being considered as the total variation in the mean. Descriptive statistics of the data are showed in the above table the standard deviation for Q 9, 10, 12, 13 and 14 was less than 1.00. It indicates that the respondents' perceptions were close each other. But, a standard deviation for Q11 becomes more than 1.00. It suggests that the respondent 's perception were far from one another. Indicates that the respondents audit quality was good in terms of efficiently completing audit work, independence, and decision-making regarding the yearly audit plan. Despite the fact that the management of Ethiopian shipping and logistics service companies is obliged to work highly to improve audit quality.

4.3.4 Descriptive statistics of Management Support

In this section, Descriptive statistics was done in the form of mean and standard deviation for four items and it is presented in the following table. And it was developed by items using Likert scale.

Table 4.5 Descriptive Statistics for Management Support

Q.	Management Support	Mean	SD
15	Internal audit department is large enough to reform its tasks efficiently	3.73	1.015
16	The internal audit department receives the resources needed to assist in performing audit work as needed	4.04	0.862
17	Management supports the internal audit staff and recognizes the needs of the internal audit department	3.68	1.003
18	Management encourages the internal audit department by implementing recommendations to enhance internal audit capabilities and promoting value-added activities	3.93	0.948
Aggregate Mean of Management Support		3.84	0.96

Source: Questionnaire result, 2022

Table 4.5 shows that, the response of the questionnaire which examines management supports from Q15 up to Q18 had a mean value of greater than 3.00. This implies that participants were agreed with the management support in ESLSE. Standard deviation is being considered as the total variation in the mean. Descriptive statistics of the data are showed in the above table the standard deviations of Q 15, and Q17, were greater than 1.00. It indicates that the respondents' perceptions were far from one another. In another way, the standard deviations for Q 16 and 18 was less than 1.00 it indicates that the responses respondents were close to each other. This result indicates that the management of Ethiopian shipping and logistics service enterprises is good, but different activities by senior management are needed, such as showing the organization's road map, giving full access to the audit function, facilitating internal auditor training, and changing employee work environment behavior.

4.3.5 Descriptive statistics for Audit Committee

In this section, Descriptive statistics was done in the form of mean and standard deviation for five items and it is presented in the following table. And it was developed by items using Likert scale.

Table 4.6 Descriptive Statistics for Audit Committee

Q.	Audit Committee	Mean	SD
19	The organization has strong and audible audit committee	3.95	0.843
20	The audit committee supports the audit department by forcing management to implement the audit department's	4.27	0.706
21	The audit committee is independent from any other influence	3.92	0.846
22	The Organization audit committees have adequate skill and educational background	3.73	1.106
23	The Audit Committee stands along the auditor whenever there comes conflict between the management and audit team	3.73	1.015
Aggregate Mean of Audit Committee		3.92	0.90

Source: Questionnaire result, 2022

Table 4.6 shows that, the response of the questionnaire which examines audit committee from Q19 up to Q23 had a mean value of greater than 3.00. This implies that participants were agreed on the audit committee in ESLSE. Standard deviation is being considered as the total variation in the mean. Descriptive statistics of the data are displayed in above table the standard deviations of Q19 to Q21 were less than 1.00. It indicates that the respondents' perceptions were close to each other. But, standard deviation for Q22 and Q23 were greater than 1.00. It indicates that the respondents' perceptions were far from one another. Indicate that audit committee takes a corrective action in the implementation of auditor recommendation, independence of the audit committee, level of awareness, also audit committees can be viewed as a key safeguard mechanism for internal auditors in managing their professional objectivity.

4.3.6 Descriptive Statistics for Effectiveness of Internal Audit

In this section, Descriptive statistics was done in the form of mean and standard deviation for seven items and it is presented in the following table. And it was developed by items using Likert scale.

Table 4.7 Descriptive Statistics for Effectiveness of Internal Audit

Q.	Effectiveness of Internal Audit	Mea	SD
24	Reports provided by internal auditors are reliable and significant to my organization	4.06	0.755
25	The recommendations, criticisms and information provided by internal audit are used for decision making	3.97	0.893
26	Internal audit ensures the economical, effective and efficient use of resources in the sector	3.93	0.866
27	The recommendations of internal audit department provide practical, cost-benefit solutions for correcting the problems that were found	3.92	0.846
28	Internal auditors have the experience and expertise to address corporate risk management problems within the organization	3.73	1.106
29	The existence and findings (reports)of Internal Auditors meet expectations	3.94	0.954
30	Internal audit improves organizational performance that means it adds value to the business	4.18	0.772

Aggregate Mean of Effectiveness of Internal Audit	3.96	0.88
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Source: Questionnaire result, 2022

Table 4.7 shows that the response of the questionnaire which examines effectiveness of internal audit from Q24 up to Q30) had a mean value greater than 3.00. This indicates that participants were agreed on the effectiveness of internal audit in ESLSE. Standard deviation is being considered as the total variation in the mean. Descriptive statistics of the data are shown in the above table the standard deviations of Q24 and Q30 were less than 1.00. It implies that the respondents were close to one another. But, standard deviation for Q28 were greater than 1.00. It implies that the respondent's perception were far from one another.

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

4.4 Inferential Analysis

Inferential statistics, unlike descriptive statistics which directly summarize the data, is to make conclusions from the data that have been obtained from one experimental study to more general populations. Inferential analysis uses statistical tests to see whether the outline observed is due to chance or due to the data collected or intervention effects. Research often uses inferential analysis to define if there is a relationship between the proposed hypothesis and an outcome as well as the strength of that relationship. So, as inferential statistics is all about statistical procedures and it is the end to reach on conclusion about associations between the interest's variables of the study (Dan and Sherlock, 2008).

4.4.1 Assessment of Ordinary Least Square (OLS) Assumptions Testing

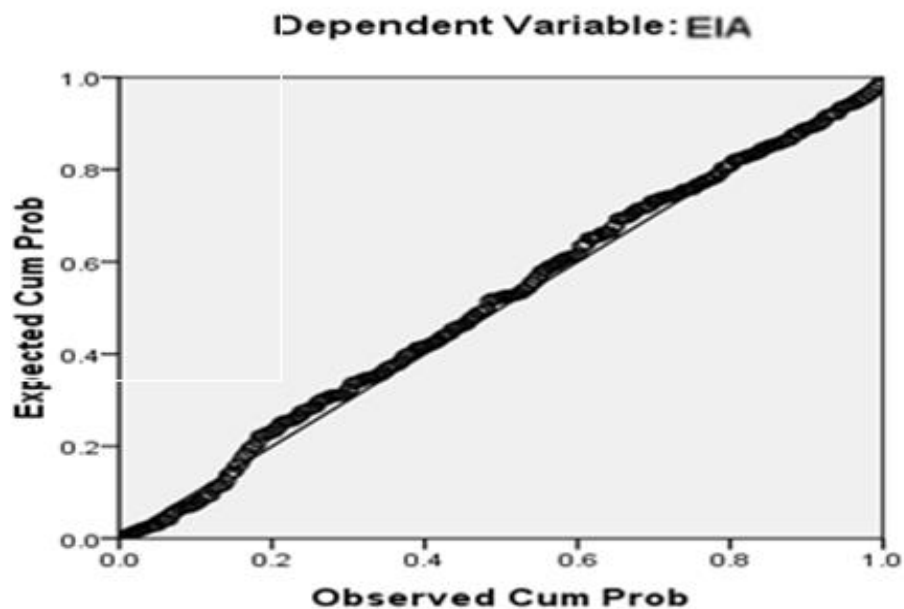
The following assumptions must be considered when using multiple regression analysis. The assumptions are met; essentially this means that it is the most accurate estimate of the effect of X on Y (Dan and Sherlock, 2008). The following assumptions are checked in below.

4.4.1.1 Linearity Test

Linearity refers to the degree to which the change in the dependent variable is related to the change in the independent variables. To determine whether the relationship between the dependent variables and the independent variables is linear; scatter plots of the regression residuals for each model through SPSS software had been used. The scatter plot of residuals showed in that the points lie in a reasonably straight line from bottom left to top right. Therefore, showed that the assumption of linearity was not violated.

Figure 4.1 Linearity Test

Normal P-P Plot of Regression Standardized Residual

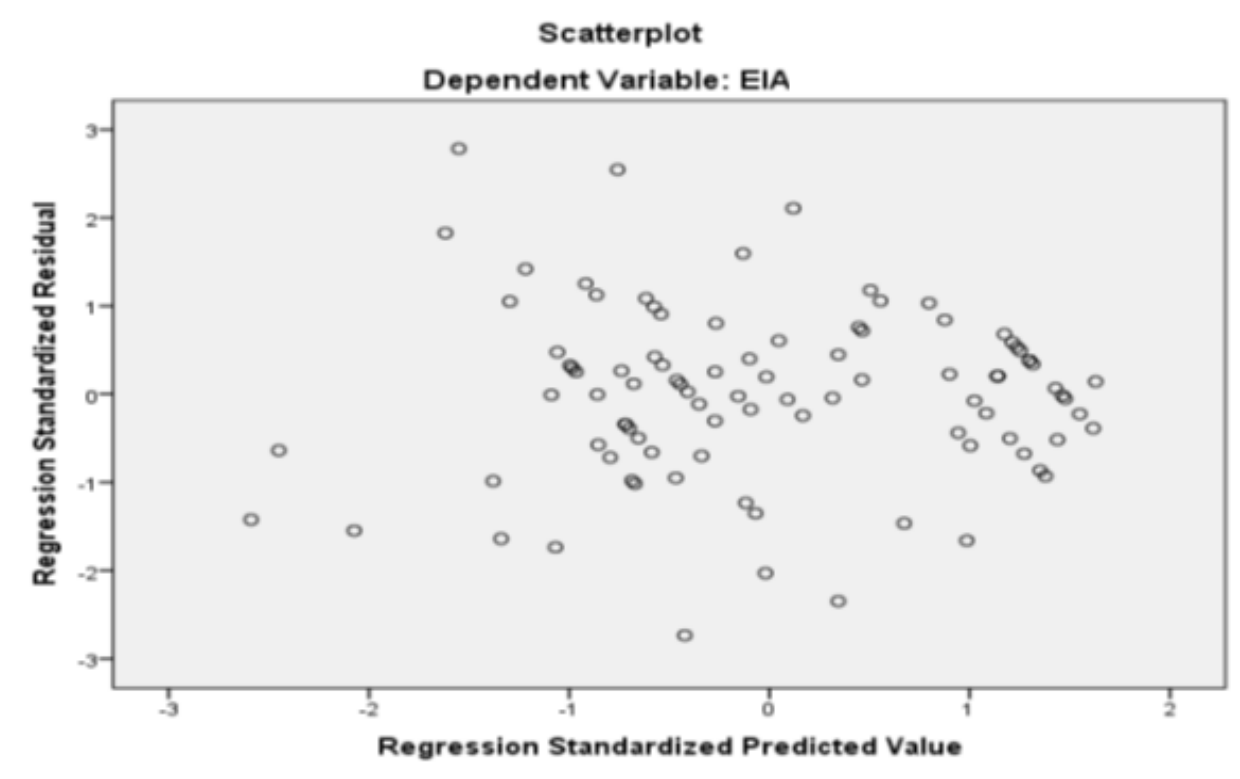


Source: Questionnaire result, 2022

4.4.1.2 Homoscedastic Test of Assumptions

If there is a no clear pattern on the scatter plot, it shows that there is homoscedasticity. As shown on figure 4.2, it appears that the points are scattered and do not create a clear specific pattern. Therefore, it can be concluded that homoscedasticity assumption is fulfilled. Otherwise when the error term varied with the independent variables, the problem of Heteroscedasticity would occur. This is tested by drawing a graph with standardized predicted versus standardized residual curve. In the curve if any continuity trend can be observed, i.e., if standardize performance of audit work show an increment or decrement trend over the standardized residual, the problem is detected otherwise it is safe from the problem. In that regard, the distribution of the data did not indicate any such kinds of trend; hence, Heteroscedasticity problem is not detected.

Figure 4.2 Homoscedasticity Test



Source: Questionnaire result, 2022

4.4.1.3 Autocorrelation Test of Assumptions

According to Brooks (2014) autocorrelation is an instance in which there is a certain pattern in the residual series which shows that the error terms of consecutive periods fail to be independent of one another. The researcher has performed the Durbin-Watson test to detect whether or not there is a first order autocorrelation between residuals. If the value is between 1.5 and 2.5, there is no relationship between the residual variable and the independent variable so that, in this study the Durbin-Watson test statics value was 2.088, which is between the standard range, thus, we can decide that there is no first order autocorrelation, (autocorrelation assumption was fulfilled).

Table 4.8 Durbin Watson Test Model Summary

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

4.4.1.4 Multicollinearity Test of Assumptions

Multicollinearity is a problem that occurs with regression analysis when there is a high correlation of at least one independent variable with a combination of other independent variables. Sometimes, it will be difficult to identify the unique contribution of each variable in predicting the dependent variable, when variables are highly correlated. Collinearity diagnostics' is part of the multiple regression procedure that can help the researcher to pick up on problems with multi-collinearity that may not be evident in the correlation matrix. Under collinearity diagnostics, two values are given: Tolerance and VIF.

According to (Dimitrios & Stephen, 2007), Tolerance is an indicator of how much of the variability of the specified independent is not explained by the other independent variables in the model. If this value is very small (less than 0.10), it indicates that the multiple correlation with other variables is high, which suggests the likelihood of multi-collinearity. The other value given is the VIF (Variance Inflation Factor), and VIF values above 10 indicate the presence of multicollinearity. Table 4.9 below indicates amounts of Tolerance and VIF (Variance Inflation Factor) of the given independent variables, which is obtained from 'collinearity diagnostics' performed by SPSS version 21. As it is shown on the Table 4.9, there is no multi-collinearity among independent variables. Because, tolerance amount for all variables is greater than 0.10 and VIF are also less than 10.

Table 4. 9 Multicollinearity Test

Models		Co linearity Statistics	
		Tolerance (1/VIF)	VIF
1	Competency of Internal Auditors staff	.497	2.010
	Independence of Internal Auditors	.271	3.696
	Quality of Internal Audit work	.536	1.866
	Management Support	.446	2.241
	Audit Committee	.483	2.069

Source: Questionnaire result, 2022

Multicollinearity in this study was tested using Variance Inflation Factor (VIF) value and tolerance value. If tolerance value is closer to 1 and VIF value is around 1 and not more than 10, it can be concluded that there is no multi-co linearity between independent variables in the regression model (Field, 2009). As shown in the table above, there is no multi-co linearity problem in the estimation.

4.4.1.5 Pearson Correlation Analysis

Correlation is a way of assessing the relationship between independent and dependent variables. Significant correlations between the scales were determined at two-levels, $p=0.05$ and $p=0.01$. It is useful to explore the degree of association between independent and dependent variables. Correlation coefficient is the measure to quantify such degree of relationship of the variables. There are two correlation coefficients namely: Pearson's Product Moment Correlation Coefficient and Spearman's Rank Correlation Coefficient (Field, 2009). Considering the Pearson's correlation coefficient, r , can take a range of values from -1 to $+1$, a value of 0 indicates that there is no relation between the two variables. Value > 0 indicates a positive relation; that is, as the value of one variable increases, so does the value of the other variable. Value < 0 indicates a negative association; that is, as the value of one variable increases, associates a value of the other variable decreases. Pearson's correlation coefficient, r , get closer to either $+1$ or -1 when the relationship becomes stronger between the two variables, depending on whether the relationship is positive or negative, respectively.

Table 4.10 Correlations Result

		CIA	IIA	QIA	MS	AC	EIA
Competency of Internal Auditors	Pearson Correlation	1	.409**	.582**	.280**	.601**	.693**
	Sig. (2-tailed)		.000	.000	.006	.000	.000
	N	95	95	95	95	95	95
Independency of Internal Auditors	Pearson Correlation	.409**	1	.683**	.569**	.554**	.705**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	95	95	95	95	95	95
Quality of internal Audit work	Pearson Correlation	.582**	.683**	1	.715**	.644**	.881**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	95	95	95	95	95	95
Management Support	Pearson Correlation	.280**	.569**	.715**	1	.460**	.633**
	Sig. (2-tailed)	.006	.000	.000		.000	.000
	N	95	95	95	95	95	95
Audit Commute	Pearson Correlation	.601**	.554**	.644**	.460**	1	.735**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	95	95	95	95	95	95
Effectiveness of Internal Audit	Pearson Correlation	.693**	.705**	.881**	.633**	.735**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	95	95	95	95	95	95

Source: Questionnaire result, 2022

Based on the above table 4.10 shows the Pearson correlation analyses confirmed that there is a significant positive relationship between the five independent variables (Competence of internal audit staff, independence of internal audit, quality of internal audit work, management support and audit committee with a value of 0.693, 0.705, 0.881, 0.633 and 0.735 respectively and the dependent variable i.e. factors determining the internal audit effectiveness in ESLSE. Based on the results in table 4.10 there are positive relationships between the effectiveness of internal audit and all of the independent variables, these shows that most of the hypotheses are supported.

4.4.1.6 Normality Test of Assumptions

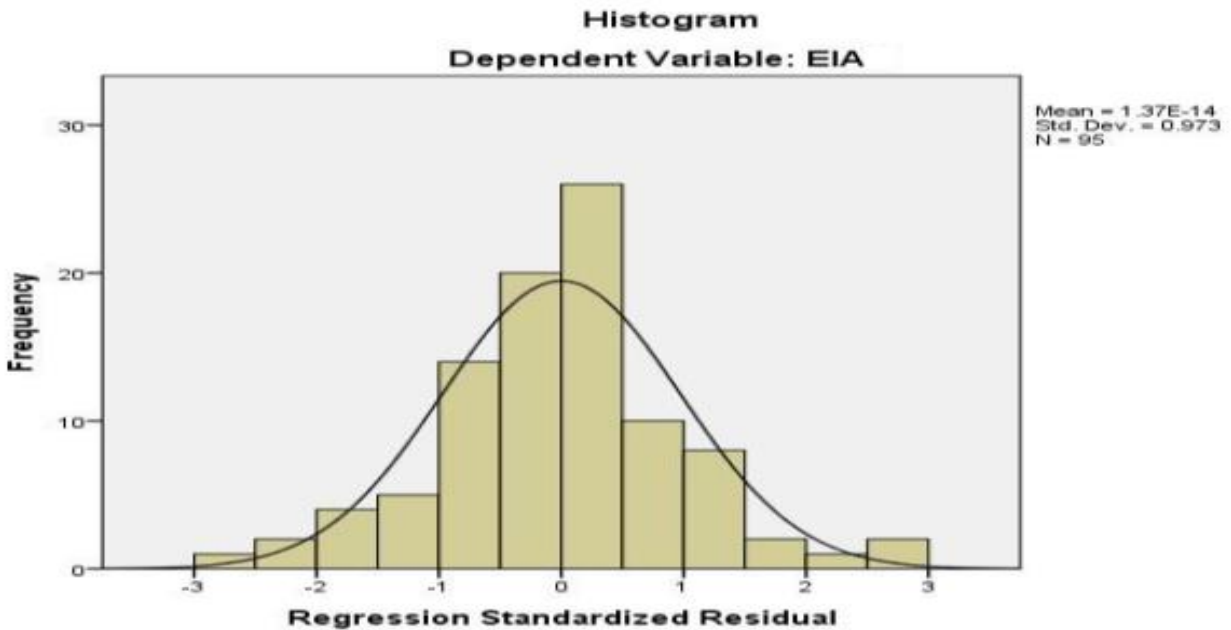
In order to test the normality of data, Skewness and Kurtosis were used to validate the data's normality and conducted on SPSS software. The Skewness and Kurtosis tests are showing normality when the result is within the acceptable range of +3 and -3 (Aczel, 2008). The table 4.11 below elaborates on the Skewness and Kurtosis results of the data collected for this study. As a result, it was possible to conclude that the distribution was roughly normal and the assumption is fulfilled.

Table 4.11 Normality Test

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

Source: Questionnaire result, 2022

Figure 4.3 Normality Test Char



Source: Questionnaire result, 2022

Figure 4.2 above shows the underlying frequency distribution, which has bell-shape curve indicating that the data are normally distributed and the inferences made about the population parameters from the sample statistics tend to be normal.

4.5 Regression Analysis Results and Hypothesis Testing

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

4.5.1 Regression Analysis Results

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

Table 4.12 ANOVA

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.731	5	7.146	109.938	.000 ^b
	Residual	5.807	90	0.065		
	Total	41.538	95			

a. Dependent Variable: EIA
b. Predictors: (Constant), CIA, IIA, QIA, MS, and AC

Source: Questionnaire result, 2022

ANOVA test shows if the predictors of this research actually predict effectiveness of internal audit or not. This can be answered through overall significant of the model which is typically and traditionally shown through a sig-value that less than 0.05. As the ANOVA table shows the result $F= 109.938$, it can be concluded that the combination of determinant factor has positive effect on effectiveness of internal audit which is statistically significant. Consequently, this study rejects the null hypothesis.

Table 4.13 Model Summary

Model Summary ^b										
Model	R	R Square	Adjusted R-Square	Std. Error of the Estimate	Durbin-Watson	Change Statistics				
						R Square Change	F Change	Df 1	Df 2	Sig. F Change
1	.927 ^a	.860	.852	.25543	2.088	.860	109.938	5	90	.000

a. Dependent Variable: EIA
b. Predictors: (Constant), CIA, IIA, QIA, MS, and AC

Source: Questionnaire result, 2022

Regression analysis was conducted to identify how much the independent variable explains the dependent variable. It is also used to understand the variability accounted by each independent variable (Competency of internal audit, independency of internal audit, quality of internal audit, management support, and audit commute) on the dependent variable. The model summary in table above presents how much of the variance in the dependent variable is explained by the model. The multiple coefficients of determination denoted as R square is 0.860.

The value of the R square indicates that 86.0 percent of variance in the dependent variable was explained by the model. This suggests that 86 % of effectiveness of internal audit clearly depends on the independent variables while the remaining 14% is determined by other unaccounted factors in this study. Adjusted Squared (adj. R²) is 0.852 it means that 85.2 percent of the total variability of the dependent variable (Effectiveness of internal audit) is explained by the stated five independent variables and 14.8 percent of it is explained by other variables.

The model summary of the study is shown in table 4.13 R statistic represents the strength of the Relationship between internal audit effectiveness and other independent variables. In this study The R square statistic tells us the proportion of variance in the independent variable that is accounted for by the dependent variable. Table 4.13 shows that the R Square value is .860. It means that the ability of independent variables to explain the dependent variable is 86%. While, 14% is affected by other factors beyond this research. In other words, the overall contribution of Competency of internal auditor, Independence of internal auditor, quality of auditing, Management supports, and Audit committee accounted for 86% for the internal audit effectiveness.

Table 4.14 Regression Coefficients

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.	Co linearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-0.842	.243		-3.462	.001		
	CIA	.279	.069	.220	4.059	.000	.497	2.010
	IIA	.130	.050	.145	2.588	.011	.271	3.696
	QIA	.560	.084	.511	6.701	.000	.536	1.866
	MS	.048	.066	.043	.729	.468	.446	2.241
	AC	.195	.064	.174	3.055	.003	.483	2.069

Source: Questionnaire result, 2022

According to Table 4.14 the results in the above table shown that, of the total five explanatory variables tested the contribution of each independent variable in the model, the beta (β) symbol also indicates the positive or negative effect of the coefficients of the independent and dependent variables. In this study, beta sign of all the independent variable shows the positive effect on the predicted dependent variable. That means any increase in the independent variable lead to increase

in the dependent variable, internal audit effectiveness. Based on the statistical significances of the independent variable over the dependent variable, only four independent variables (Competency of internal auditor, Independence of internal auditor, quality of IA, and Audit committee at $P < 0.05$ level of confidence) this independent variables that have significant contribution for internal audit effectiveness. The remaining independent variable Management supports have no significant contribution for internal audit effectiveness because they have significance value of greater than $P > 0.05$. were statistically significant at 5 percent significant level. Generally, the result also reveals that there is a significant positive effect between four the independent variables and the remaining one independent variable are insignificant in determinants of internal audit in ESLSE.

4.5.2 Hypothesis Testing Result

The regression analysis results which are presented in the table 4.14 help the researcher to make accurate test of research hypotheses proposed at the beginning of this study. The hypotheses sought to test for a significant positive association of competency of internal auditor, Independence of internal auditor, quality of audit work, Management supports, and Audit committee with internal audit effectiveness. The following hypotheses test were conducted base

H 1: Competence of internal auditors has a positive and significant effect on effectiveness of IA

The first hypothesis of this research revealed that there were the direct relationship between the Competency of internal audit team and the effectiveness of internal audit .The result shows that there was a positive relation between competence of IA team and the effectiveness of IA in ESLSE and statistically significant at a level of ($P < 0.01$). The magnitude (β) of the effect of this variable on the effectiveness of IA was 0.000 and the t-value of 4.059. The positive magnitude sign and t-value of more than 2 are indicating a strong relationship between the independent and dependent variable (Hair et al.1998). Level of significant Competences of the internal auditors has positive coefficient 0.279 and P value at significant level .000 this means upgrading in Competency of internal audit staffs will have an effect of 27.9% change on internal audit effectiveness. Proficiency comprises of adequate knowledge with a minimum requirement of first degree, professional membership and certification in specific field like Certified Internal Auditor (CIA) (IIA, 2011; Abu-Azza, 2012; Mihret, et al., 2010). Nowadays, ESLSE hired IA team with a minimum requirement of bachelor degree in a business and finance field and two years of experience in the area of audit to new staff other than the staff they already have. These criteria would increase with the position requirement.

From the above results the hypothesis that is the positive relationship between competency of internal auditors and internal audit effectiveness. Previous studies suggest that competence of internal auditors is a critical determinant of IA Effectiveness. This result is consistent with some previous researchers (Shewamene (2014), Adhista 2015, Abraham 2015, Alhassan (2018), Solomon, Menza and Wondwossen (2019) they found that competency of internal auditors have positive relationship with internal audit effectiveness. Based on the above results, hypotheses are accepted which indicated that there is statistically significant relationship between Competency of internal audit staffs and internal audit effectiveness.

H 2: Independence of internal auditors has a positive and significant effect on effectiveness of IA

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

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

H 3: Quality of IA work has a positive and significant effect on effectiveness of internal audit

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

From the above results the hypothesis that is the positive relationship between competency of internal auditors and internal audit effectiveness. Therefore, quality of internal audit work is positively related to the effectiveness of internal audit. as the result reveals that quality of IA work had a positive effect on the effectiveness of IA and statistically significant. It means effective audit planning and supervision; IA fieldwork; reporting, finding, and recommendations; follow- up of IA recommendations; and effective communication with external auditors had a relatively significant effect on the effectiveness of ESLSE. The result is consistent with the previous studies (Mihret & Yismaw, 2007 Alemzewed 2019 and Mihret 2020). Based on the above results, hypotheses are accepted which indicated that there is statistically significant relationship between quality of IA work and internal audit effectiveness. The third hypothesis is thus confirmed.

H4: Management supports has a positive and significant effect on effectiveness of internal audit

The fourth hypothesis of this research revealed that there were the direct relationship between the management support and the effectiveness of internal audit. This hypothesis were not supported by the regression result as per the regression results insignificant related with the effectiveness of internal audit at a level of ($P < 0.01$). The magnitude (β) of the effect of this variable on the effectiveness of IA p-value was 0.048 and the t-value of 0.729.) Not significant related with the internal audit effectiveness. Even if this variable has a coefficient of positively related with the effectiveness of internal audit as a result of its insignificant regression analysis output result leads not to support the proposed hypothesis (H1).

But insignificance of the Management support in determining the internal audit effectiveness didn't mean that it doesn't completely contribute to the effectiveness of internal audit. It may even be that all the other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are all results of decisions made by top management (Zulkifli et al., 2014). This finding inconsistent with previous studies, most of the Literatures mentioned in this paper identified that management support as a crucial factor for internal audit effectiveness (Cohen and Sayag, 2010; Georg et al, 2015; Shewamene, 2014; Mihret and Yismaw, 2007). Based on the above results, hypotheses are rejected which indicated that there is no statistically significant relationship between management support and internal audit effectiveness.

H5: Audit committee has a positive and significant effect on effectiveness of internal audit

The fifth and the last hypothesis proposed in this research was Audit committee is positively and significantly related with effectiveness of IA. The regression output result also supports this hypothesis with substantially associated variables with the level of significance ($\rho < .05$) and positively related coefficients ($\beta = .195$ and $t = 3.055$) contributes for the internal audit effectiveness. Audit committee has positive coefficient 0.195 and P value at significant level 0.003 this means Audit committee involvement on internal audit activities will have an effect of 19.5% change on internal audit effectiveness. From the above results the hypothesis that is the positive relationship between Audit committee and internal audit effectiveness.

The results show a positive and significant association between the relationship between Audit committee with internal audit effectiveness with $p < 0.05$ (supporting H5), suggesting that higher internal audit effectiveness is associated with Audit committee. This result is consistent with the research done by Arena and Azzone (2009) and wondwosen 2019 the results also imply that internal audit effectiveness increases when audit committee is involved in the internal auditor's activities. Riham (2013) audit committees can be viewed as a key safeguard mechanism for internal auditors in managing their professional objectivity. Seif (2017) the result of the study confirmed the prior IA effectiveness research, where this study found a strong relationship between Audit Committee and effectiveness of IA. Based on the above results, hypotheses is accepted which indicated that there is statistically significant relationship between Audit committee and internal audit effectiveness. The fifth hypothesis is thus confirmed.

Table 4.15: Hypothesis Testing

S/N	Hypothesis Testing	Method	Result	Reason
H1	Competence of internal auditors has a positive and significant effect on effectiveness of internal audit.	Regression	Supported	$P < 0.05$
H2	Independence of internal auditors has a positive and significant effect on effectiveness of internal audit.	Regression	Supported	$P < 0.05$
H3	Quality of internal audit has a positive and significant effect on effectiveness of internal audit.	Regression	Supported	$P < 0.05$
H4	Management supports has a positively and significant effect on effectiveness of internal audit.	Regression	Not Supported	$P > 0.05$
H5	Audit commute has a positive and significant effect on effectiveness of internal audit.	Regression	Supported	$P < 0.05$

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5 Introduction

This last chapter of the study contains about the summary of the finding, conclusion of the study results, recommendations based on the study results, and recommendations to future study. In conclusion section of the study; the researcher tried to show the inferences and the findings of the study. Finally, the researcher makes a recommendation based on the study's findings.

5.1 Summary of Findings

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

The collected data from the respondents was analyzed using SPSS version 21. The SPSS result shows that demographic profile of respondents in the first category indicated that majority of the respondents with 67.4%, were male. The second category was, work experience, the respondents agreed that 5 to 10 years of work experienced employees with a total of 74.8% dominated the rest group. The third category was educational status of employees, in this category 64.2% of the respondents were degree holders and in the last demographic category 82.1% of the respondent field of study was accounting and finance, For those questions of descriptive analysis result shows that, mean of the respondents are greater than 3 and, this indicates that perception of the respondents were close to one another in determinants of internal audit effectiveness. According to the output ability of independent variables it means competence of IA teams, independence of IA, quality of IA, management support and Audit committee explain the dependent variable is 86% ($R^2 = 0.860$) That means, the impact of these five independent variables contributed for the dependent variable IAE were 86%, and the remaining 14% were other variables that are not included in this study.

Moreover, based on the finding of the SPSS result competence of IA teams, independence of IA, quality of IA work and audit committee were the major factors determinants of EIA in the ESLSE. However, the management support, were not significantly important for the EIA of ESLSE. The final part of this research paper focuses on the key determinants that have a significant impact on the effectiveness of internal audit the results of the study by making recommendations based on the results of the study. These conclusions and recommendations are drawn from the findings of the study specifically related to the competence of IA teams, independence of IA, quality of IA, management support and Audit committee in the ESLSE.

5.2 Conclusions

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

- ✓ The competence of internal audit staff plays a critical role on the effectiveness of IA. It means proficiency of internal auditors, experience of internal auditors, effective communication with audittee, training and development, and access to information technology were a significant effect on the effectiveness of IA in ESLSE. In this regard, problems and strengths of ESLSE IAD are identified. The problems observed in ESLSE in related with competence of IA teams were lack of sufficient certified person, limited on Accounting and Finance field of study, dishearten communication with other department auditees, required of internal source trainings for newcomers, and shortage of IA software for processing audit activity. However, the strength can be summarized as: obtaining staff with a minimum of BA degree and two years of experience in the area of audit, the ability of auditors access to use information technologies which was difficult in prior studies (Abu-Azza, 2012), effective and encouraging communication with other department auditees, and hopeful attention on training and development in regard of external sources. To conclude, competence of IA teams is positively associated with the effectiveness of IA in ESLS at a statistical significance level of ($P < 0.05$).

- ✓ The independence of IA critical on the effectiveness of IA in ESLSE, It means the existence of effective audit committee, individual IA independence, and organizational independence of IA was a significant effect on the effectiveness of IA in ESLSE. In this regard, problems and strengths of ESLSE IAD are identified. The problems observed in ESLSE in related with independence were IA report content variation based on addressee, lack of full access on BOD and senior management level to audit; and top management crucial role on the approval and dismissal of IA head. Further, IA of ESLSE were grown in regard of to be responsible for BOD functionally and every quarter meeting with such a body. To conclude, independence of IA is positively associated with the effectiveness of IA in ESLSE at a statistical significance level of ($P < 0.05$).
- ✓ Based on the finding of the research, the quality of IA work plays reasonable role on the effectiveness of IA in ESLSE. It means effective audit planning and supervision; IA fieldwork; reporting, finding, and recommendations; follow-up of IA recommendations; IA report accuracy and effective communication with internal auditors had a positive and significant effect on effectiveness of IA in ESLSE at a statistical significance level of ($P < 0.05$).
- ✓ Management support had played a minimum role in the effectiveness of IA in ESLSE. It means the senior management (top management) awareness on IA needs and demands for the implementation of corrective action recommended by external auditors so that, management support had a positive but insignificant effect on the effectiveness of IA at a statistical insignificance level of ($P > 0.05$).
- ✓ And finally show on the finding of the research, Audit committee plays a positive role in the effectiveness of IA in ESLSE. It means has strong and sound able audit committee, Audit Committee take a corrective action in the implementation of auditor recommendation, indecency of the audit committee, level of awareness of the committee had significant effect on the effectiveness of IA in ESLSE at a statistical significance level of ($P < 0.05$).

5.3 Recommendations

The overall objective of the study is to identify the factors determining the effectiveness of internal audit in ESLSE 's. According to the research objective and based on the data analysis, the researcher provides the following recommendations to the concerned bodies.

- ✓ With regard to the competency of internal audit staffs has a positive and significant effect on effectiveness of internal audit. Therefore, the competencies of internal audit staffs need to collectively possess and develop their knowledge or skills through appropriate training and development program such as obtaining professional certification.
- ✓ To enhance the independence of internal auditor has a positive and significant effect on effectiveness of internal audit; Thus, Ethiopian shipping and logistics service companies should place a premium on that predictor. In order to ensure the appropriate level of independence of the internal audit, professional standards and guidance of ISPPIA suggest that the audit reports administratively to the senior management and functionally to the board. Auditors should be independent in performing their duties and should not be restricted from access to certain files.
- ✓ The study finds the quality of internal audits has a positive and significant effect with effectiveness of internal audit. As a result, all internal auditors should do their best to conduct effective and efficient internal audit investigations and deliver meaningful internal audit reports, and companies' audit departments must work diligently to complete their own tasks. So that they can improve their planning and provide a more dependable and well-organized report.
- ✓ This study finds management support does not affect the effectiveness of IA. However, most of the previous studies indicates that management support had a significant impact on the effectiveness of IA. In fact, management support is essential for the success of an organization's internal audit function. Because without support of top management, internal auditing is not sufficiently objective and independent, thus, they do not have enough resources to carry out the effectively and internal auditors cannot develop their professional works.
- ✓ The study indicates that audit committee has a positive and significant effect on effectiveness of internal audit. Thus, the ESLSE management should emphasize on the role of audit committees because audit committee is a key safeguard mechanism for internal auditors in managing their professional objectivity (Riham, 2013).

5.4 Suggestions for Future Research

Any study cannot be necessarily free from limitation to some extent. Accordingly, there are some limitation in this study. At first, it focused only on factors affecting internal audit effectiveness in Ethiopian shipping and logistics service enterprises. Thus, the finding of this study can be generalized for only Ethiopian shipping and logistics service enterprises but it may be difficult to generalize this finding about all employee at other administrative department. hence, this study can be improved if it will be done at Ethiopian shipping and logistics service enterprises level by comparing internal audit effectiveness factors in different public sectors. further researchers can also include other internal audit effectiveness factors that were not addressed in this study and impact of audits in internal audit effectiveness.

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ST. MARY'S UNIVERSITY
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APPENDIX (A) QUESTIONNAIRE

Dear Respondents

The enclosed questionnaire is designed to gather information about “**Factors Affecting Internal Audit Effectiveness The Case of Ethiopian Shipping and Logistic Service Enterprise in Addis Ababa Head Office.**” This study is being conducted as part of the undersigned researcher’s study for the degree of Master of Science in Accounting and Finance at St. Mary’s University. The results of the study are expected to identify factors determining of Internal Audit effectiveness in the case of Ethiopian Shipping and Logistic Service Enterprise. Therefore, your honest and genuine participation by responding to the questions is highly appreciated.

I would like to assure you that the information you provide will be accessible only to the investigator. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study.

Thank you in advance for your support and participation

With best regards,

Meskerem Bogale

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PART ONE: GENERAL INFORMATION

Instructions: Please tick (√) from the alternatives that are most applicable answer to you in respect of each of the following items

1. Gender

Male Female

2. Qualification (Educational background):

Below Diploma Bachelor Degree (BA, BSC)

Diploma/Level 4 Masters (MA, MB, MSC)

Above Master

3. Field of study on your highest educational level:

Accounting and Finance Economics

Management Information Technology

Low

Other (Specify) _____

4. Professional certification (if any):

Associated of Chartered Certified Accountant (ACCA)

Certified Public Accountant (CPA)

Certified Internal Auditor (CIA)

Certified Management Accountant (CMA)

Other (Including Audit Profession Certification) specify _____

5. Year of experience (in year)

Two years and less

Above two years less than five years

Above five years less than ten years

Above ten years

PART TWO: DETERMINANTS OF INTERNAL AUDIT EFFECTIVENESS

The Questionnaire is prepared in Likert-scale form with five (5) point scales. I ask you to tick (√) that indicates your opinion in table below. The values of scales are: 1= **Strongly Disagree** (SD), 2= **Disagree** (D), 3= **Neutral** (N), 4= **Agree** (A), 5= **Strongly Agree** (SA),

S/N	VARIABLES	SD	D	N	A	SA
I	COMPETENCE OF INTERNAL AUDITORS	(1)	(2)	(3)	(4)	(5)
1	Internal auditors have the appropriate qualified or professional staff in your department.					
2	Internal auditors have deep expertise in the whole departmental activities.					
3	Internal auditors have well-qualified, who perform tasks such as evidence gathering and produce reports in a timely manner.					
4	Internal auditor attending further training courses for professional development or attend a training seminar to update their					
II	INDEPENDENCE OF INTERNAL AUDITORS	(1)	(2)	(3)	(4)	(5)
1	Internal audit gives reports to the board of directors (or audit committee) without any influence.					
2	Internal auditors have unlimited and complete access to all records. And information required performing audit work.					
3	Internal audit related to corporate strategy formulation and system design preparation.					
4	Internal auditors include in their reports any fault, fraud, misstated work and mistakes without any influence from anyone.					
III	QUALITY OF INTERNAL AUDIT WORK	(1)	(2)	(3)	(4)	(5)
1	Internal audit has an audit plan carried out their work efficiently according to that plan.					

2	Examination of information reliability and integrity, verification of working paper quality properly done by internal auditors.					
3	The external auditor conducts the audit using the internal audit working paper and final report.					
4	Internal Audit Department findings are correctly discussed and justified?					
5	Internal audit recommendations can be easily implemented.					
6	Internal audit reports are rigorous (decisions based on strong evidence) and accurate.					
IV	MANAGEMENT SUPPORT	(1)	(2)	(3)	(4)	(5)
1	Internal audit department is large enough to perform its tasks efficiently.					
2	The internal audit department receives the resources needed to assist in performing audit work as needed.					
3	Management supports the internal audit staff and recognizes the needs of the internal audit department.					
4	Management encourages the internal audit department by implementing recommendations to enhance internal audit capabilities and promoting value- added activities.					
V	AUDIT COMMITTEE	(1)	(2)	(3)	(4)	(5)
1	The organization has strong and audible audit committee.					
2	The Audit Committee supports the audit department by forcing management to implement the audit department's					
3	The audit committee is independent from any other influence.					
4	The organization 's audit committees have adequate skill and educational background.					
5	The Audit Committee stands along the auditor whenever there comes conflict between the management and audit team					

VI	EFFECTIVENESS OF INTERNAL AUDIT	(1)	(2)	(3)	(4)	(5)
1	Reports provided by internal auditors are reliable and significant to my organization.					
2	The recommendations, criticisms and information provided by internal audit are used for decision making.					
3	Internal audit ensures the economical, effective and efficient use of resources in the sector.					
4	The recommendations of internal audit department provide practical, cost benefit solutions for correcting the problems that were found.					
5	Internal auditors have the experience and expertise to address corporate risk management problems within the organization					
6	The existence and findings (reports) of Internal Auditors meet expectations.					
7	Internal audit improves organizational performance that means it adds value to the business.					

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

Thank you for your support and participating!!