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St. Mary's University, Ethiopia

ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**EFFECTS OF INTERNAL AUDIT PRACTICE ON
ORGANIZATIONAL PERFORMANCE; THE CASE OF
ETHIOPIAN SHIPPING & LOGISTIC SERVICE
ENTERPRISE (ESLSE).**

By: MEKDES FIKADU

ID: SGS/0620/2012/A

JUNE, 2021

ADDIS ABABA

EFFECTS OF INTERNAL AUDIT PRACTICE ON
ORGANIZATIONAL PERFORMANCE; THE CASE OF
ETHIOPIAN SHIPPING LINES & LOGISTIC SERVICE
ENTERPRISE

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL
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BY MEKDES FIKADU

ENROLMENT NO: **ID: SGS/0620/2012/A**

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APPROVED BY BOARD OF EXAMINERS

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DECLARATION

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

I confirm that thesis on the Ethiopian Shipping Lines & Logistic Service Enterprise on the same topic earlier has not been submitted to any other higher learning institution for the purpose of earning any degree.

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Signature.....

St. Mary's University, Addis Ababa

Advisor's Approval Sheet

The undersigned certifies that he has read and here by recommend for acceptance by St. Marry University a thesis entitled; effects of internal audit practice on organizational performance; the case of Ethiopian shipping and logistic Service Enterprise

Ato Asmamaw Getie (Ass. Professor).

Advisor.....

Signature.....

JUNE, 2021

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Acronyms/Abbreviations

CIA	Certified Internal Auditors
ESLSE	Ethiopian Shipping and Logistics Service Enterprise
IAE	Internal Audit Effectiveness
IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
PPF	Professional Practices Framework
SPPIA	Standards for the Professional Practice of Internal Auditors
SPSS	Statistical Package for the Social Science

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Abstract

Organization performance requires appropriate internal audit practices to improve effectiveness & efficiency. For the purpose of this study the researcher aimed to determine the effect of internal audit on organizational performance of ESLSE. Internal audit was regarded at from the perspective of internal audit standards, professional competency, internal controls and independence of internal audit. The data obtained was mainly quantifiable in nature and hence was analyzed by descriptive analysis. The total population of the study was 60; because of the small size of the population the researcher used all target groups as a sample. The researcher managed a survey questionnaire to each member of the target population since it was the most appropriate tool to gather information. Descriptive statistics such as mean, standard deviation and frequency distribution were used in the analysis of data. Data presentation was completed by use of tables and figures for ease of understanding and interpretation. The result of the study found that internal audit effectiveness positively affected by internal control, corporate governance, risk management and management support of the organization. In addition the study finding also showed that effectiveness of internal audit has direct impact on organizational performance of the company. From the analysis of the study, the study concludes that independence of internal audit, professional competency, internal audit standards, and internal control had a strong & positive relationship with organizational performance of ESLSE. The study finally recommended that management in ESLSE should adopt effective internal audit practices such as internal auditing standards, independence of internal audit, professional competency and internal controls to improve their organizational performance.

Keyword- IA standard, Independence of IA, Internal Control, Professional Competency

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

The key part of the internal Audit department is to supply the administration and the Board with an autonomous and objective assessment of inside control over key commerce exercises. Inside review division has its own duties and duties to attain the organizational targets by giving a created adaptable yearly review arrange utilizing an suitable risk based strategy and execute the yearly review arrange because it approved. Its scope covers a wide extend of exercises (administrations) which may broadly be classified as money related, esteem for cash (execution), compliance environmental (safety) review, examination and IT related review. The scope of inside Review isn't restricted to as it is confirmation administrations it too gives a few consultancy service.

Internal auditing is completed in diverse legal and cultural environments; within the organizations that vary in purpose, size and structure (Pitt, 2014). Internal auditing has power theatrical changes that have expanded its scope in a way that allows it to make greater contribution to the organization it serves. In addition, internal audit can act as internal advisor and optimization agent in every stage of enterprise change and it can assist and provide advice for drafting guidelines and in planning work and process instructions, and can support risk assessments.

Internal audit can therefore be seen as a collective audit and consulting function with the purpose of optimizing enterprise processes. A viable internal audit function is one of the most grounded devices to screen and improve organization performance. Internal auditors are repeatedly described as both a business partner and a police man. As a business partner, the internal auditor is expected to provide expertise to assist an organization in meeting its goals while as a police man an internal auditor is repeatedly thought of as an adversary looking for flaws (Kagerman, 2015).

The Professional Practices Framework (PPF) is the Institute of Internal Auditors' authoritative guidance to the professional practice of internal auditing. The standards are distributed between Attribute and performance standards. The attribute standards covers the attributes of

organizations and individuals undertaking internal auditing, however the performance standards describe the nature of internal auditing and quality criteria against which performance can be measured (Alzeban,2013).

In the Company environment, management is the most important audit of the internal audit department consequently effectiveness of internal auditing practices can be defined through the expectation of the management with regarding to the internal auditing practices. The management will expect the internal auditors to perform their internal auditing practices to a To certain level that is complying with the standards for the professional practice of internal auditors (SPPIA), since it can be easily described; compliance with SPPIA is therefore an indication of the effectiveness of an internal audit department (Feizizadeh,2012).

It is basically to note that both the International Organization of Supreme Audit Institutions (INTOSAI)and the Institute of Internal Auditors (IIA)have issued guide lines to manage inspection in the general population area. On the account of internal audit and audit committee, rules must be in conformance with the Institute of Internal Auditors- International Standards for the Professional Practice of Internal Auditing (Sayag,2016).

In Ethiopia, The formation of the audit general in 1961 (Government of Ethiopia, 1961) with subsequent refinements of duties and responsibilities in 1979 (Government of Ethiopia, 1979) and in 1987 (Government of Ethiopia, 1987) is another significant development in public sector auditing in the country (Desalegn,2007).The office of audit general undertakes external audit of government ministries and their respective offices to ensure accountability. Public sector organizations are also required to have internal audit functions to support management.

One of the strategic measures taken by the government is merging the former four public enterprises namely: Ethiopian Shipping Lines founded in 1964, Ethiopian Maritime and Transit Service Enterprise founded in 1968, Dry Port Enterprise founded in 2007 and Comet Transport S.C. This newly amalgamated enterprise came into being following the issuance of regulation by council of minster (regulation no.255/2011) dated 21st November 2011.

The purposes for which the ESLSE is established are: to render coastal and international marine and inland transport services, to render freight forwarding agency, multimodal transport, to provide the service of stevedore, shore handling, dry port, warehousing, to provide container

terminal services, to engage in the development, management and operation of ports, to establish and run human resource development and training centers in the fields of maritime professions. The Company has four sectors namely the Shipping, Freight forwarding, Port and Terminal sector and corporate service sectors.

ESLSE is the result of the merger of the previous four open activities. Ethiopian Shipping Lines, Ethiopian Maritime and Transit Service and Dry Port Enterprise and Comet Transport S.C., These amalgamated enterprise came in to being following the issuance of regulation by the council of ministers regulation number 255/2011 and is vested with huge responsibility of rendering marine transport services, freight forwarding and dry port services. As set out within the direction, the objectives for which ESLSE is established are: to render coastal and international marine and inland transport services, freight forwarding agency, dry port container terminal and warehousing services, to engage in the development, management and operation of ports, to establish and run human resource development and training centers in the fields of marine professions.

All over the world there is a realization that the IA activity has the potential to provide hitherto unparalleled services to management in the conduct of their duties and responsibilities. This potential has been twisted into a challenge and embodied in the new definition of Internal Auditing from the IIA. Organizations have come to the realization that internal audit is essential in improving management of assets in the banks leading improved financial performance of banks (IIA, 2013).

1.2. Problem Statement

There are several studies researching the factors which associate internal audit effectiveness and by considering different measures for internal audit effectiveness in the world business environment, including independence of internal audit, management support, the competence of internal audit and the quality of internal audit. The traditional role of internal auditors is focused merely on financial estimations and monitoring internal controls. In recent years, however, the significance of internal audit has been significantly increased to consider a wider role of internal consultant for better risk management performance and enhancing the value of the enterprises (Teshome,2017).Since its important role, it is one of great significant to identify the factors influencing the internal audit effectiveness.

On the contrary to the above objectives, studies noted that the Ethiopian logistics system is characterized by poor logistics management system, lack of coordination of good transport, low level of development of logistics infrastructure, damage and quality deterioration of goods while handling, transporting and storing (Tilahun,2016)

And other thinks about too famous that there's missing of coordinates ICT, shortage of qualified logistics personals, and absence of enabling environment and customer satisfaction (Teshome, 2017). The other studies undertaken by Ethiopian Maritime Affairs Authority (EMAA) revealed that the lead time (time taken during sea passage time, clearance at sea port, inland transit time, time taken to clear cargo at dry port) for both uni-modal and multimodal import which is high (EMAA, 2016).

Despite the studies carried out on practices, challenges and performance of ESLSE, the company lacks empirical studies concerning effects of Internal Audit on organizational performance of ESLSE. Thus, this study bridged this gap by systematically examining the effects of internal audit practice on organizational performance of ESLSE.

1.3. Objectives of the Study

1.3.1. General Objective

The overall objective of this study is to analyze the effects of internal audit practice on organizational performance of ESLSE.

1.3.2. Specific Objectives

The specific objectives are:

- i. To identify major factors that affect internal audit effectiveness on ESLSE.
- ii. To determine the effect of internal audit practices on the organizational performance of ESLSE.
- iii. To show internal audit practices in ESLSE.

1.4. Significance of the Study

The results of the study helped managers and board of directors of the enterprise to understand the internal audit practices and its effect on enterprise's performance. The study also helps to identify areas of weaknesses to the organization and also provide valuable recommendations.

The findings of the study also provide background information to those researchers who want to conduct future detailed studies on internal audit.

1.5. Scope of the Study

The study focused on internal audit practices and its effect on company performance of ESLSE after the amalgamation of four public enterprises namely: Ethiopian Shipping Lines S.C, Ethiopian Maritime Enterprise, Dry port Enterprise and Comet Transport S.C. In this study, internal audit practices were assessed based on IIA standards and effect of internal audit on company performances through risk management, internal control system and internal audit practices. And the study focused on employees (Directors, Division managers, team leaders and internal auditors) in all sectors: Shipping, Freight forwarding, Port and Terminal and Corporate service sectors and internal audit departments.

1.6. Limitation of the study

There are different limitations that took place through the study such as: Some respondents were not willing to give information freely due to the sensitive nature of the industry. But the researcher tried to persuade them that any information's provided by respondents are confidential. The study was also limited to the degree of accuracy of the data obtained from the respective respondents at ESLSE. The researcher made effort to advice the respondents to deliver accurate information on the issue.

1.7. Organization of the study

The study was organized into five chapters. Chapter one deals with the background of the study, problem statement, objectives of the study, scope of the study and limitations of the study. Chapter two reviewed the relevant literature on internal audit concepts and other related practices. In the next chapter the research methodology that was used in the study was discussed. This includes the research design, type of data and data source and data analysis. The fourth sections of the thesis consist of data analysis, research findings and interpretation of the results. Chapter five provides the findings and conclusions drawn from the data presentation and analysis from which the relevant recommendations were made.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Literature review component of the study deals with the concept of internal audit and provides investigations on the determinants of internal audit factors on organizational performance of the company. The literature review is divided into four sections; the first section deals with the major concepts of internal audit; the second section deals with the major factors that contribute to internal audit effectiveness. The third section provides literatures related to internal audit practice and organizational performance. The fourth section summarizes empirical literatures concerning the study. The last section presents conceptual framework of the study.

2.2. Internal Audit

2.2.1. History of Internal Audit

It could be a control which capacities by analyzing and assessing the amplex and viability of other control to this conclusion IA outfits organizations with examinations, suggestions, data, and examinations concerning the exercises checked on (Lenz.r, Sarens.G and D'Silva).The part of inside reviewer is to carry out an free evaluation of how a company worker, their handle and the chance that will influence the commerce. In each company there are undesirable situation and results. Those working in inside review occupations have an obligation to assist companies recognize and understanding the risk through their inquiry about of the company and Advertise as a whole. Both the involvement of the reviewer and their objective separate from the offices they are surveying empowers them to see hazard and openings that will have been missed by those closer to the circumstance.

The proliferation large, dispersed, complex corporation, Starting early in the twentieth century, spurred the accelerated development of the internal audit function. The IIA was founded, in 1941,largely in response to this development and modern internal auditing owes much of its gradual expansion of the scope of internal audit activates and of the professionalization of the practice of internal auditing. The development of professional underpinning's for the profession, but, did not come all at once. It was not until 1947 that the IIA issued its first statement of responsibilities. The code of ethics was issued in 1968 and the standard in 1979. The first certified internal auditor (CIA) exams were written in 1974, indicated that there was, that time,

deemed to be a recognized body of knowledge available for internal audit professionals. In 1973, the treasury board made it mandatory for all department and agencies to have internal audit performed on their system of financial administration. Department shall have financial audits performed, reviewing and appraising the effectiveness and efficiency of departmental system of financial administration, including the safeguarding of assets, ascertaining the extent of complains of departmental system and procedure with financial policies, regulation and other instruction of parliament, Treasury board and the department or agency. Internal auditors facilitate the development of suitable control as part of a wider risk strategy and provide assurance on the ratibility of these controls.

Internal audit facilitate the development of suitable control as part of a wider risk strategy and provide assurance on the reliability of these control. Internal audit has developed a strong operational orientation, expanding its area of involvement beside financial compliance to include risk management (Marika Arena, 2013).

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

2.2.2. Internal Audit Effectiveness

Internal audit quality is decided by the internal audit department's capability to supply valuable discoveries and suggestions, is central to audit effectiveness. Internal audit needs to demonstrate that it is of esteem to the organization and earn notoriety within the organization. Internal audit should assess its execution and persistently progress its benefit. Review quality may be a work of the level of staff mastery, the scope of administrations given and the degree to which reviews are legitimately arranged, executed and communicated (Sawyer, 2013).

This definition implies that internal audit has experienced a worldview move from an accentuation on responsibility almost the past to making strides future results to assist audits

work more successfully and proficiently. Since, the definition equally serves both the private and the public sectors; it is used in this study as a basis to analyze public sector internal audit effectiveness. This definition signifies that internal audit has undergone a paradigm shift from an emphasis on accountability about the past to improving future outcomes to help audited operate more effectively and efficiently. Since, the definition equally serves both the private and the public sectors; it is used in this study as a basis to analyze public sector internal audit effectiveness (Sayage, 2016).

Audit effectiveness means different things to different people the outcome of an effective audit includes financial statement that present a true and fair view, and advice on how the company's processes may be improved. An effective completed to schedule, and with minimal disruption to the company. Effectiveness is the achievement of goals and objectives is the achievement of goals and objectives using the factor measures provided for determining such achievement. However, it has been traditional in internal auditing effectiveness can be accomplished by evaluating the quality of internal auditing procedure. Institution of internal audit IIA (2013) defined internal audit effectiveness as the degree (including quality) to which established objectives are achieved. While Marika Arena. (2013) give their own definition which is in line with the ability of the internal auditor intervention in prevention and correction of deficiencies and they finally defined internal audit effectiveness as the number and scope of deficiencies corrected following the auditing process. Therefore going by the definition of effectiveness and audit effectiveness, it's clear that audit effectiveness or internal audit effectiveness is means the same thing because they all have central target which is the ability of achieving established objective.

Effective internal audit system helps in achieving performance, profitability and prevent in loss of revenue particularly in public sector. Even through (Sayage, 2016) observed that effectiveness of audit in a public sector organization. It is quite interesting that audit effectiveness is an outcome of auditors' activities, Duties, Professional practices and responsibilities through a high commitment with audit standards, goal, objectives, polices and procedure. Also Institute of internal audit (IIA 2013) defined internal audit effectiveness as the degree (including quality) to which established Objective is achieved.

Badara.M.S and Saidin.S.Z (2014) shows that highly experienced auditor perform more effectively than other with less experience because experienced auditor have the ability to process information, Make successful comparison about the alternative solutions for auditing findings and initiate subsequent actions.

Badara.M.S and Saidin.S.Z (2014) referred to that auditors experience is a remarkable predictor for knowledge person couldn't equally have acquired all types of knowledge. Many studies suggest that internal auditors' knowledge in public sector organization play a very important role by guiding the audited and organization.

The effectiveness of internal audit greatly contributes to the effectiveness of each audited in particular and the organization at large has also observed that if internal audit quality is maintained, it will contribute to the appropriateness of procedures and operations of the audited, and thereby internal audit contributes to effectiveness of the audited and the organization as a whole. Using agency theory, Bou, (2017) explained the role that internal audit plays in an economy and points out that internal audit has an advantage over external audit in obtaining information quickly and finding problems at an earlier stage; and applying the theory of transaction cost economics, demonstrated how internal audit recommendations are important to the management of government organizations.

In addition, More experienced auditors have aware more about the influence of the influence of the regulation on auditing process which in turn improve their auditing which in turn improve their auditing quality more than the inexperience ones Bou, (2017).

2.2.3. Internal Audit Quality

Internal audit quality, which is illustrated by the office's capability to supply valuable review discoveries and recommendations, is one of the foremost conspicuous variables on which review adequacy is secured. The execution measures of the IIA (2013) require the evaluator to arrange and perform the work such that he or she would be able to reach at valuable audit discoveries and forward suggestions for change. The office's ability to appropriately arrange, perform and communicate that comes about of reviews may be an intermediary for review quality. Subsequently, review quality is ostensibly a work of extensive staff ability; sensibility of the

scope of benefit; and viable arranging, execution and communication of internal audits. To assess these determinants of review quality, prove from survey reactions and an meet with the Chief of the Inside Review Office were utilized. To bolster that comes about; supplementary data is collected through a survey of pertinent archives.

2.3. Internal Audit Effectiveness factors

2.3.1. Internal Control

Supporting the notion that internal audit function is positively impacted by internal control systems are various authors. According to Digman and Takemoto-Chock, (2012) internal audit function has value creation towards organizations through management by evaluating and improving effectiveness of internal control systems created by management. Internal audit function has significantly become recognized as the key mechanism to internal control system mechanism, Hanafi and Steward (2015) .Further supporting the notion was D’Onza et al (2015) stating that organizations internal control system is significantly and positively associated with the value internal audit adds to the organization by adopting a systematic approach to improving and evaluating organization’s internal controls. According to Badara and Saidin (2014) effective internal control system can influence the effectiveness of internal audit function. .Monitoring components of internal control systems do contribute to an improvement to the effectiveness of internal audit function, Herz and Schultz (2016) .Thus internal audit is equally attained when there is an effective internal control in place, Badara and Saidin (2013).

Other researchers gave an impartial standing on the notion. According to Monday et al (2016) the extent of which internal controls practices affects internal audit effectiveness is moderate. Internal controls put in place by management positively impacts internal audit effectiveness but this is contingent upon management effectiveness on monitoring these controls, Pitt,S.A (2014).According to Lenz.R and Hahn.U (2015) and Puttick.G,Esch.S and Kana.S (2007) there is no clear defined relationship between the two as internal control systems has quite a number of different aspects which differ in meaning in different situations and interpreted differently.

However other researchers disputed the notion stating that due to the inherent limitations of internal controls it negatively impacts internal audit effectiveness. According to Michael (2016)internal controls are prone to inherent limitations which directly negatively affect internal

audit effectiveness. With the adoption of IT in internal control systems it makes the work of internal audit complex thus creating a hitch on internal audit effectiveness, Koo and Yang (2014). According to Albulkadiar (2014) and Syebi and Quain (2013) due to management overrides, human errors and collusions internal controls fail to serve their purpose thus negatively impacting internal audit effectiveness. According to Bongani (2013) internal control are not effective to ensure the accomplishment of organizational goals hence negatively impacting internal audit effectiveness. As clearly provided by the literature above the researchers were focused on establishing whether internal control systems enhances internal audit effectiveness Following the above arguments the researcher was prompted to research on how management can use internal controls as a support mechanism to ensure efficiency of internal audit function since the effectiveness of internal control systems lies in the hands of management because it management who create and ensure proper implementation of internal controls.

2.3.2. Corporate Governance

According to Omri and Dellai (2016) their a positive relationship between corporate governance and internal audit effectiveness, internal audit function aims to add value to the organization together with management by evaluating and improving effectiveness of governance. Further supporting the notion was Rensburg and Coetze (2015) stating that corporate governance positively affects internal audit effectiveness with governance structure element with the highest achievement rate in the internal audit capability model .Internal audit effectiveness involves the attainment of objectives, corporate governance being one of the objectives thus making internal audit the key participate in corporate governance, Shamsudin and Johari (2014). According to Arena and Sarens (2015) internal audit effectiveness is achieved when internal audit fulfill its role to its counterpart in corporate governance ,saving as the eyes and ears of management towards governance issues. Rose et al (2013) states that external auditor's views promoting corporate governance as internal audit effectiveness and would rely more on internal audit work. Through support of management internal audit is able full fill its governance role and in turn allows harmonizing of interest of stakeholders and increase organization's performance, Radu (2012).

Other researchers gave a neutral standing on the notion that corporate governance affects internal audit effectiveness. According to Hay et al (2017) the impact of corporate governance on internal

audit effectiveness is not straight forward, to some extent good auditing will lead to recommendations that will lead to good governance and alternatively good governance leads to effective internal audit. The relationship between internal audit effectiveness and governance is a polysemous notion, Roussy and Bivot (2015). Ashouri et al (2015) gave a neutral standing stating that for corporate governance to positively impact internal audit effectiveness management should strike a balance using cost benefit analysis in actually implementing internal audit function recommendations. Lenz et al (2014) states that there is a discrepancy between the theoretical notion that internal audit effectiveness has a positive relationship with internal audit effectiveness and reality, the two are distinct. According to Paape (2014) internal audit effectiveness is positively related to corporate governance but this relationship is contingent upon the level of appreciation management has on the recommendations and actually implementing those in order to render internal audit effective. Zakari (2012) also took an impartial standing on the notion stating that the effectiveness of internal audit through corporate governance depends upon the level of independence of internal audit, once compromised they is no value addition by the function to the organization.

However Sarens (2016) disputed the notion stating that internal audit is becoming further marginalized in governance debate, its value addition has become questionable. According to D'Onza (2015) there is no significant relation between internal audit's systematic approach to evaluate effectiveness of corporate governance and internal audit effectiveness. There is still confusion on the role of internal audit function within corporate governance, agency theory is still very much alive thus it's involved in governance is not measured as effectiveness of function, Pilcher (2014). Roussy (2013) and Shapiro (2012) agreed they is no relationship between internal audit effectiveness and corporate governance, its value is diminishing due to competition due to policies such as the whistle blower policy. The above researchers were focused on establishing the role of internal audit in governance and how this is measured as effectiveness of the function. The researchers overlooked the interpersonal relationship that exists between management and internal audit. Thus providing a gap to study how management support through corporate governance can help enhance internal audit effectiveness

2.3.3. Risk Management

Ultimately management has the role of risk management. It is through their interrelationship with internal audit function it is able to add significant value to the organization through risk management. Both management and internal audit share a common objective of risk management. According to Puttick (2007) an effective internal audit function should provide guarantee that management processes are adequate to identify and monitor significant risks. According to ISA 240 information about risk is core input to internal audit function in audit plan hence need to make inquiries to management on issues of risk. On the other hand risk management is a management mechanism core to their objective attainment. Management's support through risk management thus impacts the operations on internal audit function due to the interrelationship between the two parties as shown in the table above.

According to D 'Onza et al (2015) Internal audit effectiveness increases when internal audit function has the ability to assess and improve the risk management through adopting of systematic and disciplined approach. Their strengthening role in risk management through management support helps improve their effectiveness. Further supporting this notion was Alzeban, A. A. (2013) stating that internal audit function plays a significant role in risk management, the clarity of their role helps enhance internal audit effectiveness. According to Badara and Saidin (2014) for internal audit function to achieve its set goals within the organization they should be well established risk management put in place in the organization. Thus management's support through fulfilling their role of risk management can help promote internal audit effectiveness. Value addition of internal audit function to organization can be achieved through management's effective and successful implementation of risk management, Thompson (2013). According to Feizizaden (2012) an effective internal audit has assessed risk facing the organization and built an audit plan to assess them. Thus internal audit by making risk management information from management their core input they can achieve effectiveness. Risk management influences the effectiveness of internal audit function (Badara and Saidin, 2012). All the above researchers agreed that risk management information from management positively affects internal audit effectiveness.

Additional researchers gave a neutral standing on the relationship between internal audit effectiveness and risk management. According to Rensburg and Coetze (2016) although management consider internal audit's role in risk management as effectiveness of the function they do not describe the function as the key for change, mainly because of lack objectives focusing on positive change. Further supporting with an impartial standing was Sarens et al (2016) stating that to be effective internal audit must not only possess sound judgment and critical thinking in risk management but must compel others to act appropriately that is being agents for change. According to Lenz and Hahn (2015) modern internal audit have adopted risk based to be more effective but it does not mean that financial reporting related matters are priority hence risk management as a tool to internal audit effectiveness can be misleading or rather it is now defeating its purpose. Chambers (2014) and Sarens (2016) states internal audit's engagement in different activities creates complexity in their role as they would need to serve two masters, the complexity might hinder the function's effectiveness. Further supporting with a neutral standing was Sarens (2016) stating that risk management positively impacts internal audit effectiveness but to be effective they should refrain from over involvement in management activities but rather restrict themselves to their role of consultancy and assurance and let management lead in their role of risk management.

However some researchers disputed the notion. According to Coetzee and Lubbe (2014) risk management has not been used as input in planning phase, the process has not yet been fully implemented. Chambers (2014) state that internal audit function is not yet fit for its purpose in risk management thus its role in risk management is not yet up for debate ,they is need to improve its effectiveness through its traditional role. Internal audit function has not yet expanded their role beyond its traditional role of financial regularity and compliance thus finding no relationship between internal audit effectiveness and risk management, Alzeban(2013).According to Alzeban (2013) internal audit should only save as a monitoring tool to management, as the more the consulting and objective assurance services in risk management the less the objectivity and independence of internal audit function thus negatively impacting internal audit effectiveness. According to Lenz and Sarens (2014) internal audit function needs to up its game to be able to provide value addition through risk management as their role is still question as no visible addition has been established yet. Risk management negatively impacts

internal audit effectiveness because this relationship with management results in management interfering with IAF's work, thus creates a hindrance on the function's performance.

The researchers did not reach a consensus on the relationship between risk management and internal audit effectiveness. In this current study the researcher takes a different angle, rather than looking at the impact of risk management on internal audit effectiveness as sought by the above authors. The study sought to establish whether management is effectively using risk management as a tool to support internal audit function in order to enhance internal audit effectiveness.

2.3.4. Management Support

To a large extent, internal audit is as useful as management allows it to be. The study of Badara.M.S and Saidin.S.Z (2014) revealed that the Internal Audit Department suffers due to less support from Senior Management. If internal audit issues report which are critical of certain part of the organization and management takes no action for political reasons, this would only serve to undermine the internal audit function and reduces its performance.

According, Chambers. A.D (2014) investigated Factors Affecting the Performance of Internal Auditors in the Company, a case Study of Iran. The study developed and tested five hypotheses using an investigation approach. The study gathered data using a questionnaire, filled out by 355 internal audit manager and 272 other internal audit staff. He focused on determinants of internal audit performance "competency of internal audit staff, size of internal audit department, communications between internal auditors and external auditors, management's support for internal audit department, and independent (outsourced) internal audit", he found that internal audit performance has stronger relationships with management's support and the size of internal audit department. This study however failed to look at the effect of internal audit controls and audit staff expertise which is the key variables of this study.

Chambers, A.D (2014) study investigated factors affecting the internal audit performance, a survey on the Libyan commercial banks, the study found a direct relation effects of management support, organizational independence of internal auditors, competence of internal auditors and audit experience with the internal audit within the Libyan commercial banks. According to the regression output, management support has significant and positive contribution for the IAE

(Internal Audit effectiveness), while the other three variables: the organizational independence of internal auditors, competence of internal auditors and audit experience have shown positive relation with the IAE, however their contribution for the IAE are statistically insignificant.

2.4. Internal Audit Effect on Organizational Performance: Empirical Review

2.4.1. International Studies

Tilahun (2016) did a study on the issue of The Effect of the Internal Audit and Performance of the Firm: The study tried to propose a structure of the relationships between the internal audits characteristics. The study finding indicated that IA is a crucial part of corporate governance structure in a company and corporate governance covers the activities of oversight conducted by the board of directors and audit committees to confirm credible financial and non-financial reporting process and activities.

Lenz.R and Hahn.U (2015) conducted a study to associate internal design effect on banks' capability to examine staff fraud and fraud detection in Kenya. Data was collected from 12 Kenyan banks using a five Point Likert Scale questionnaire and analyzed using mean & percentage. The study result showed that internal audit design affects staff attitude towards fraud such that a strong internal audit and control mechanism is prevention to staff fraud while a fragile one leaks the system to fraud and creates opportunity for staff to commit fraud. The study therefore suggested that banks in Kenya should upgrade their internal audit and control systems and pay serious attention to the life style of their employees as this could be a red flag to detecting frauds.

Lenz.R and Hahn.U (2015) carried out on internal auditor's role and authority. In this study, internal auditors were asked to come to a view on whether tasks they perform in connection with internal audit engagements are crucial, and to what level they feel they enjoy the authority over, and independence from, management that is expected of a specialized. The study resulted that features of a true profession exist but do not control entirely.

2.4.2. Local Experience

Locally, Desalegn, (2016) carried out a study to establish the relationship between internal audit and organizational performance in commercial banks in Ethiopia. The study was concluded that

most of the commercial banks had combined the various parameters which are used for evaluating internal audit and organizational performance. This was indicated by the means which were found enquiring on the same.

Tilahun, (2016) conducted a research on impact of risk based audit on financial performance of government organization in Ethiopia. The study adopted a regression research design with the target population being 4 ministerial organizations operating in Ethiopia. Primary data was collected using structured questionnaires. The study result showed that the risk based internal auditing through risk assessment, risk management, annual risk based planning, internal auditing standards and internal auditing staffing should be improved. Good planning process improves efficiency, accuracy, completeness, timeliness, convenience and clarity in the organization. Credible internal audit reports, independence of auditor to identify and rectify audit errors, effective implementation of audit suggestions, financial management and compliance with putative audit standards, effective internal audit staff and independent audit committee influence financial performance in government organizations. The study recommended that management in government offices in Ethiopia should adopt effective risk based audit practices such as risk assessment, risk management, annual risk based planning, internal auditing standards and internal auditing staffing to enhance effective and efficient organizational performance.

Alzeban, (2013) carried out an evaluation of the internal audit function: The case of Ethiopia Civil Service University. The researcher used the case study as the research design, as this type of research design delivers an opportunity to obtain responses which are more precise and genuine. The study established that, other than the prevention and detection of fraud, internal audits should reflect the strength of the overall accounting environment in an organization as well as the accuracy of its operational and financial records. The study finally recommended that to maintain a sound internal audit system, management should evaluate the risks the projects and programs are exposed to, in the course of their operations.

2.4.3. Internal Audit Independence

According to Coetzee, (2014) Independence is the essence of auditing. An internal auditor must be independent of both the personnel and operational activities of an organization. or else, the integrity of the auditor's opinions, conclusions and recommendations would be suspect. So,

independence is necessary for the effective achievement of the function and objective of internal audit. This independence is obtained mainly from two characteristics – organizational status and objectivity.

Rensburg.J. in his article of internal audit in banking organizations (2015) acknowledges that every bank should have an internal audit department on which – with regard to the volume and nature of its activities – it can rely. In smaller banks internal audit is often provided externally. The internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes. In this way it is guaranteed that this department performs its activities objectively and impartially. Internal auditors may not have a conflict of interests with the bank. Every bank should have formalized principles of internal audit providing for its position and powers in the framework of the bank. There should here be codified the scope of work of internal auditors, the position of the whole department in the bank's organizational structure, relations with other control departments.

Internal audit must be objective and impartial, meaning that it should perform its activity free of doubts and interference. Members of the internal audit team may not participate in the bank's operations or in the selection and implementation of internal control systems. The professional competence, as well as internal motivation and systematic professional development of each internal auditor are essential factors for the correct functioning of the whole internal audit department of the bank. It is also recommended to rotate individual auditors in the framework of the department, so that the routine performance of work activities is avoided. The internal audit department manager should be responsible that the department performs its activities in accordance with the due principles of internal audit. Especial care should be taken that the audit plan is drawn up formally and procedures for all members of the team are in writing. The professional competence of the department's employees must always be ensured, as must their regular training. The internal audit department is responsible to the bank's management and its board of directors, possibly also to the audit committee, if the bank has one. These bodies of the bank should primarily be informed as to the progress of the audit plan and the attainment of the internal audit department's objectives.

2.4.4. Professional Competence

Detecting fraud is a challenging task. Perpetrators actively engage in deception in an attempt to conceal their behavior, auditors may have limited experience in fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect (Herzand, 2016). Hence, the organization would be optimally served by identifying and utilizing those individuals who, because they appear to share certain unique personality traits or characteristics, may be best suited to the fraud detection task. For example, Badara.M.S and Saidin. S.Z (2012) used perceptions of relative aggressiveness between internal and external auditors to investigate the detection of corporate irregularities. Internal auditors play an important role in fraud detection with most frauds identified by the internal audit function (Alzeban, A.A 2013). Due to the importance of effective fraud detection, any measures that can enhance the efficacy of auditors should be of value. While experience and ability are undeniably important in the detection process, certain individual characteristics may be predictive of the capacity to detect fraud (Alzeban, A.A 2013). Understanding how auditors are perceived, and how these perceptions lead to beliefs regarding their detection abilities, is an important first step in relating personality traits to the efficacy of auditors.

A review of the research reveals a general acknowledgment that the five factor model can be used as a descriptive mechanism for the most salient elements of an individual's personality (HerzandSchultz, 2016). Conscientiousness is the personality dimension primarily responsible for organizing and directing individual Behavior and conscientious individuals may be characterized as responsible, diligent, persevering and thorough (Digman and Takemoto-Chock, 2012).

Digman and Takemoto-Chock, 2012 conducted a series of interviews with successful fraud examiners and found that these individuals exhibited a cluster of common traits including perseverance, diligence and integrity – each of which is an attribute of the conscientiousness dimension. Within the context of the five factor model, only conscientiousness has been found to reliably predict job performance across all occupational groups Rensburg.J.O,J and Coetzee.p (2015). Indeed, some studies have demonstrated that conscientiousness correlates with task performance just as strongly as cognitive ability. Previous research has demonstrated a linkage between conscientiousness and task performance, and the linkage has been shown to be stable

across time (D'Onza, et al, 2015). Conscientiousness can affect job performance in a number of ways. Conscientious employees are generally more reliable, more motivated, and harder working; they are also likely to devote more energy to the task at hand and spend less time daydreaming (Michael. 2016).

This results in greater assimilation of task related knowledge, leading to greater productivity (Nagy and Cenker, 2014). Conscientious individuals would be expected to pay more attention to detail and profit more from vicarious learning, thus gaining enhanced job knowledge and being more productive. These assertions were confirmed by Colquitt et al. (2000) who showed that conscientiousness was highly correlated with motivation to learn and by (Bandura and Saidin. 2014) who demonstrated a positive association with job knowledge.

2.4.5. Internal Audit Standards

Coetzee, (2014) argued that performing auditing work according to internal auditing standards contributes significantly to the effectiveness of auditing. Bandura, (2014) found in the UK that complying with professional standards is the most important contributor to IA's added value.

Standards for audits and audit-related services are published by the IIA (2013) and include attribute, performance and implementation standards. In general, formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports. They require auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach. This is important not only for compliance with legal requirements, but because the scope of an auditor's duties could involve the evaluation of areas in which a high level of judgment is involved, and audit reports may have a direct impact on the decisions or the course of action adopted by management (Bou-Raad, 2017). It can thus be argued that greater quality of IA work – understood in terms of compliance with formal standards, as well as a high level of efficiency in the audit's planning and execution – will improve the audit's effectiveness.

2.4.6. Internal Control System

Controls audits are designed to ensure that appropriate controls over systems and software are in place to ensure that internal controls and internal checks are functioning as designed, (Herzs and Schultz, 2016). Controls audits can have features built into them to ensure that fraudulent truncations are flagged or made difficult, if not impossible, to transact. Controls audits provide assurance that controls are working, but they do not necessarily detect fraud or corruption. Internal controls audit objectives relate to management's plans, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal control includes planning, organizing, directing, and controlling program operations and the systems put in place to measure, report, and monitor program performance, (Roussy.M, 2013).

Herzs and Schultz, (2016) in their effort to provide evidence on the effectiveness of particular audit techniques in detecting errors that affect the financial statements suggested that all intentional errors are concentrated in relatively few audits and these are fairly predictable by industry. The great majority of such errors affect income but the direction of effect may either be an understatement or over statement. Regarding the signaling of an error, they found that the large portion of financial statements errors are initially signaled by less rigorous audit procedures such as analytical review and discussions with the client. Client personnel problems such as inexperience, incompetence and insufficient knowledge and inadequate control follow up or reviews were found instrumental in causing the errors.

Tilahun (2016) evaluated the internal controls of Ethiopian Airlines in Nairobi branch and concluded that the lack of segregation of accounting and custodian functions was the greatest weakness of the branch office. He argued that there is need to centralize cash receipts, establish an audit unit, separate accounting unit from sales section, separate duties of purchase activities and establish a perpetual inventory system for the tickets. He further emphasized that the existence of control is very crucial especially under today's condition with severe competition which place premium on reliable customers' services, on consideration of cash, on realization of capital assets and manpower and on other reduction costs.

Tilahun (2016) in a study of internal audit control functions and its implications for risk assessment by the internal auditor: A case of quoted companies concluded that even though,

extend of reliance on internal control is not sensitive to the strengths of audit departments, companies should not do away with it. This is because as a management tool it should assist management in its day to day operations and not necessarily of any relevance to the external auditor. This may be attributed to the fact that external auditor may have specific considerations which may be beyond the strength of internal controls. However, though the system of internal control was ranked as the most important factor in obtaining audit evidence other indicators followed. It therefore implies that once the auditor establishes the strength of the audit department, other risk indicators come into play notwithstanding the strength of internal control.

Findings by Sarens.G, and Decaux.L (2016) on the effect of auditor's internal controls opinion on loan decisions suggested that an adverse internal control opinion can underpin the assurance provided by unqualified opinion on financial statements taken as a whole and have a negative effect on lenders assessment. Adverse internal control opinion weakens the importance assigned to the balance sheet and income statement in lending decisions and that it reduces lenders confidence that financial statements are presented fairly in conformance with the generally accepted accounting principles. Khandawalla (1972) carried out a research on the relationship between the degree of competition and control. He concluded that the greater the degree of competition, the greater would be the need to control costs and evaluate whether actual performance meets the target performance expectations.

2.5. Summary of Review of Literature

This section covers literature on the evolution of internal audit practice on performance of the organization. Salient findings from related research studies carried out in this area also discussed.

From the foregoing review, whereas a lot has been done on internal audit in general, there is little done about internal audit function in relation to organizational performance of firms in Ethiopia and specifically there is no study that has focused on effects of internal audit practice on organizational performance of ESLSE. Therefore, there was need to establish the relationship between the internal audit practice and organizational performance of ESLSE.

2.6. Research Gap

Most of the literature reviewed will be adopted from countries whose strategic approach and financial footing differs from the Ethiopian perspective. For example; Alzab (2013) did a study in the Saudi Arabia firms, Digman (2011) did a study in Nigeria on factors affecting the performance of internal auditors in a company, Nigeria, Omri (2016) carried out a study on Tunisian Organizations. Thus, there is a research gap on the subject matter in the Ethiopian situation. This study therefore sought to fill this gap by establishing the effect of internal audit practice on the organizational performance of ESLSE in Ethiopia. Also, the past studies done with regards to top level management support for example the study by Putick (2007), have not tackled the issues of factors that affect internal audit effectiveness. This study sought to fill in this gap of knowledge by examining the factors that affect internal audit effectiveness in ESLSE. The study also analyzed the internal audit practice of the organization.

2.7. Conceptual Framework

The several aspects of internal audit practice that affect the organizational performance of ESLSE form the variables of the study. In this study, the independent variables are independence of internal audit, professional competency, internal control systems and internal audit standards, while the dependent variable is organizational performance of ESLSE. These aspects form the under noted figure.

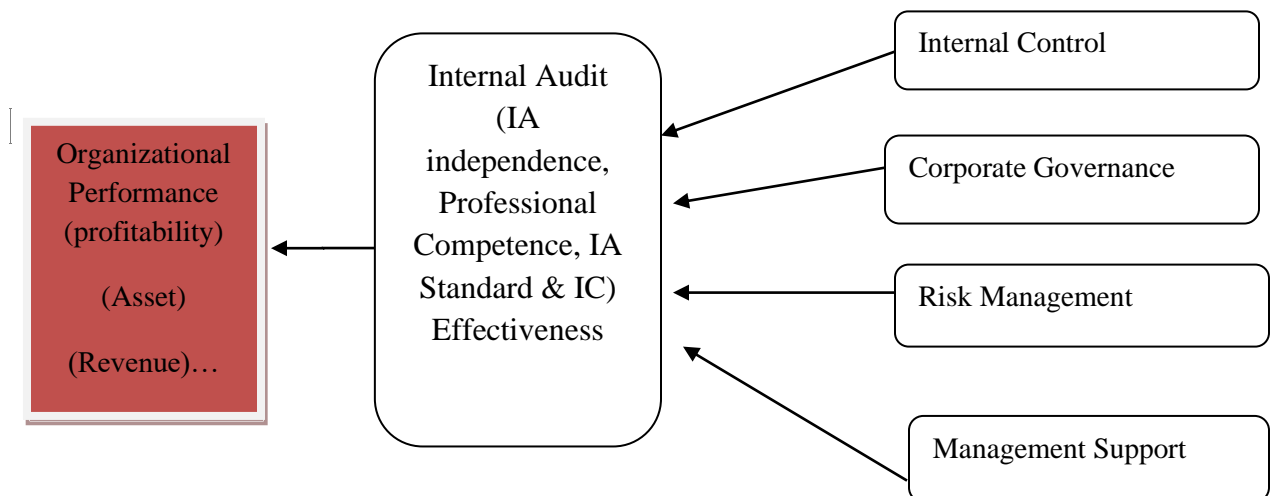


Fig 2.1: Conceptual Framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This Section gives the methodology that was used to accomplish the already established research objective. As a result, it presents the specific techniques employed to carry out the investigation on effects of internal audit practice on organizational performance of ESLSE. This section consists of research design and the case selection for this study. Second, Types and sources of data instatement of data collection, third, the target population, Fourth, Sample of the study and Sample technique, and the last one methods of data analysis by preceding methods of data interpretation and presentation, are briefed accordingly.

3.2. Research Design

The study used a case study method was to enables the researcher to closely scrutinize the effect on internal audit practices on organizational performance of the company. This study employs on a descriptive case study design because the objective of the research is to assess the state of view, as it exists at present, i.e. to describe the assessment of internal audit effectiveness in Ethiopian shipping and logistics service enterprises. The researcher were followed both qualitative and quantitative approach i.e. mixed approach about the factor influencing internal audit effectiveness.

3.3. Type of Data, Data Source and Data Collection Method

The study is included Primary data. The primary data were collected through questionnaire to those employees under each department. The questionnaires were adopted and modified from the prior authors and literature reviews (Alzeban. 2013), it also used interview with the department and division managers of Ethiopian shipping and logistics service enterprise. In order to achieve the research objectives, the researcher were used two main tools of data collection Questionnaire and Interview. The questionnaires is prepared in the form of five item Likert-Scale type, where the lowest scale represent strongly disagree and the highest scale represent strongly agree. The interview is made with the officials/department heads, supervisors, and managers of the company. The type of interview is structured and semi structured type.

3.4. Population, Sample Size and Sampling Technique

The study population included respondent from Audit which is 25, general accounts which direct related are a total number of 8, from the operation 10, property administration and finance departments are 17 respondents of the company with a total of 60 in number. In this regard, since the population of the study is small in number and not difficult to manage, the researchers used all samples out of the total population.

The total population of the study the researcher is used all sample of respondents. Thus, all employees of the institute is as a sample but only 55 questioners were returned and from these six members of the management was used for interview purpose from each department managers while the remaining was used to collect data through questionnaire.

3.5. Data Analysis and Presentation

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

3.6. Validity Test

Validity is the extent to which an instrument measures what it purports to measure (Saunders, 2007). He defined reliability as consistency and uniformity of responses of respondents. The questionnaires ensured anonymity by not asking for respondent's details thus making the researcher's work more reliable because they could freely respond without any fear. According to Plonsky and Gass (2012) fewer respondents are reliable than a large number that lack reliability. Hence the researcher gathered information from few respondents who are involved in internal audit function at ESLSE.

3.7. Ethical Consideration

The data collection from ESLSE was only for the purpose of this study. Permission was sought by the researcher to carry out this research of the organization and the confidentiality policy of

the institute was maintained. Data collected was not shared to any other individual except the researcher's supervisor to ensure confidentiality.

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. INTRODUCTION

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

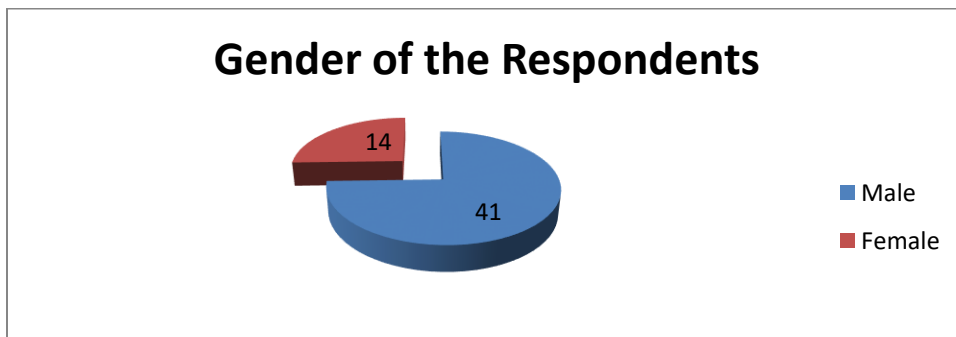
The response rate results showed that out of the 60 questionnaires that had been dispersed to the respondents, 55 questionnaires were returned. This gave a response rate of 92% which according to Desalegn, (2016) is a very good response rate.

4.2. Demographic Information

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

4.2.1. Gender of the Respondents

The respondents were asked to indicate their gender. The results are summarized in the Fig 2 below,



Source: Own Field survey, Apr 2021

Figure 4.1: Gender of Respondents

From figure 2 above, it can be noted that majority of the respondent 41(75 %) were males whereas 25% of the respondent were females, it implies that both genders were involved in this study and thus the finding of the study did not suffer from gender bias.

4.2.2. Age Category of the Respondents

Table 4.1: Age Distribution

Age	Frequency	Percentage
18-27	25	45.5
28-37	17	30.9
38-47	8	14.5
Above 48	5	9.1
Total	55	100

Source: Own Field survey, Apr 2021

The study requested the respondent to indicate their age category, from the findings, 45.5% of the respondents were aged between 18 to 27 years, 30.9 % of the of the respondent indicated they were aged between 28 to 37 years, 14.5% of the respondents indicated were aged between 38 to 47 years, whereas 9.1% of the respondents indicated that they were aged above 48 years. This implies that respondents were well distributed in terms of their age distribution.

4.2.3. Education Qualification of the Respondents

Table 4.2: Education Level of Respondents

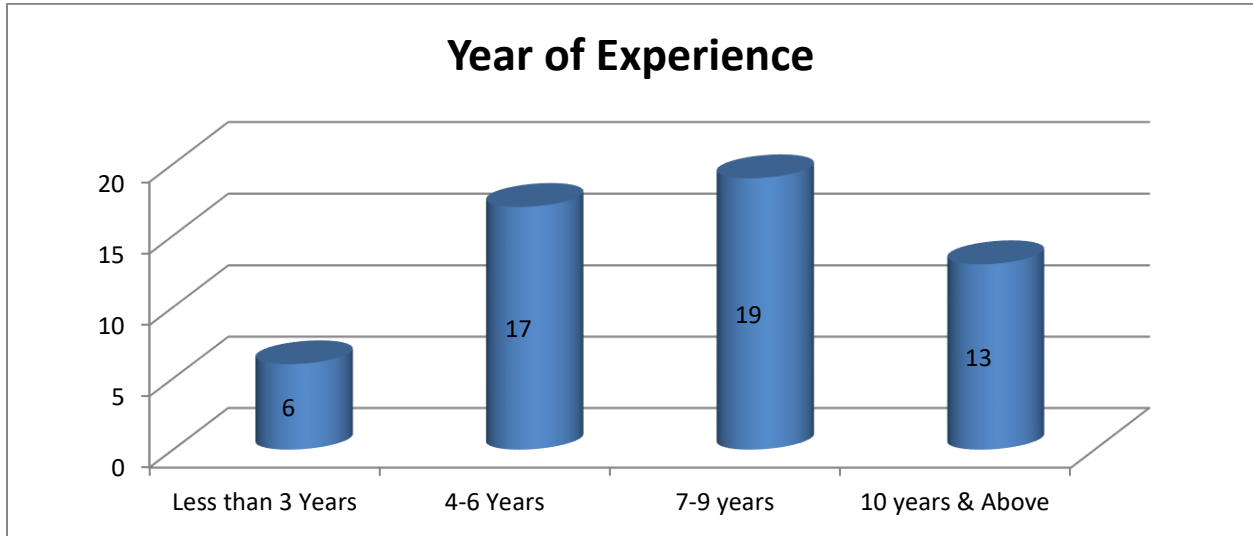
Education Level	Frequency	Percentage
Diploma	12	21.8
Degree	24	43.6
Masters	16	29.1
Above Masters	3	5.5
Total	55	100

Source: Own Field survey, Apr 2021

The above table indicated that 43.6% of the respondent indicated their highest level as degree, 21.8% of the respondent indicated their highest level as college diploma ,and 29.1% of the respondents indicated their highest level of education as masters, whereas 5.5 % of the

respondents indicated their highest level as above master degree. This indicates that most of the respondents had college or university degrees as their highest education level.

4.2.4. Experience Level of the Respondents



Source: Own Field survey, Apr 2021

Figure 4.2: Year of Experience of Respondents

The above figure showed that 19 (34.6%) of the respondents had worked for a period of ranging 7 to 9 years 17 (30.9%) of the respondent indicated that they had worked for a period ranging between 4 to 6 years 13 (23.6%) of the respondents had served for more than 10 years, and finally 6 (10.9 %) of the respondents indicated to had worked for a period of less than 3 years, this implies that majority of the respondents had served for a significant period which shows that most of the respondents had enormous knowledge in the field of the study.

4.3. Internal Audit Effectiveness Factors

4.3.1. Internal Control impact on Internal Audit Effectiveness

In the below analysis sections, five point Likert Scale: 5 (Strongly agree), 4 (Agree), 3 (Neutral), 2 (Disagree), 1 (Strongly disagree) were used. Mean measures the average response in a collective manner to each variable. The section motive was to determine whether organizations internal control system has an impact on internal audit effectiveness or not. The respondents 'results are shown below:

Table 4.3: Internal Controls impact on Internal Audit Effectiveness

Description	Frequency	Percentage	Mean
Strongly Agree	26	47.3	4.16
Agree	21	38.1	
Neutral	2	3.6	
Disagree	3	5.5	
Strongly Disagree	3	5.5	
Total	55	100	

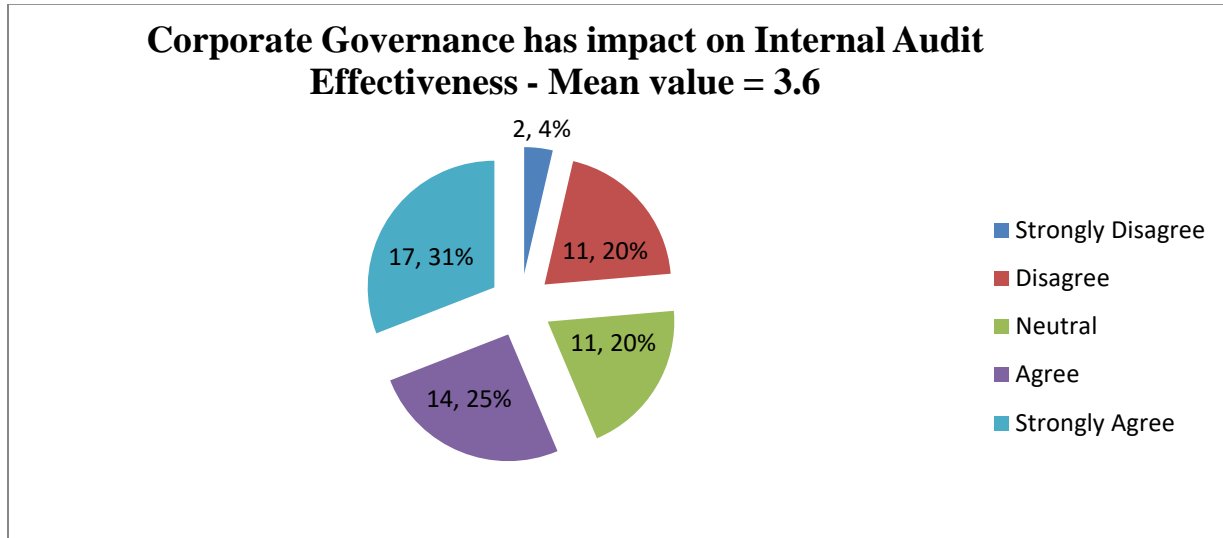
Source: Own Field survey, Apr 2021

The above table 4 shows that 26 (47.3%) out of 55 strongly agreed, while 21(38.1%) simply agreed. Of all the respondents only 2 (3.6%) gave a neutral response. 3(5.5%) disagreed and also 3 (5.5%) strongly disagreed.

In general the mean value is 4.2 or 47 (85.4%) of respondents were in agreement that internal control functions or systems help to improve internal audit effectiveness at ESLSE. This indicates that internal controls tools set by management of the organization has positive impact on internal audit effectiveness because by improving these controls tools the function is helping its purpose and creating its value addition .The greater portion of the respondents who agreed with the statement were consistent with results carried out by D’Onza et al (2015) who found that companies internal control system is significantly correlated with the value internal audit adds to the organization by implementing a systematic approach to improving and evaluating organization’s internal controls it attains its effectiveness.

The 85.4% (47/55) formed the modal response of this objective meaning that internal control tools or system implemented by management improves internal audit effectiveness. This finding in line with D’Onza et al (2015) findings which indicated that more than half of study population was of the view that internal controls systems help enhance internal audit effectiveness.

4.3.2. Corporate Governance impact on Internal Audit Effectiveness



Source: Own Field survey, Apr 2021

Figure 4.3: Corporate Governance & Internal Audit

The findings in the above figure shows that the mean value was 3.6 (approaches to agree) and in detail 31 out of 55 (56.4%) are those who agreed (17 strongly agreed and 14 agreed). These respondents agreed that good corporate governance in the organization clearly improves internal audit effectiveness. This entails that agreed respondents were in agreement with findings of Dellai and Omri (2016) who indicated that there is a direct relationship between good corporate governance and internal audit effectiveness. 11 (20%) had a neutral standing on the concept; the respondents did not entirely agree that corporate governance improves internal audit effectiveness. Their response is in line with the findings by Hay et al (2017) who indicated that the impact of organization corporate governance on internal audit effectiveness is not straight forward, to some extent good auditing practice will lead to recommendations that will lead to good corporate governance and alternatively good governance leads to effective internal audit. Respondents also indicated that 13 (24%) disagreed (11 disagreed and 2 strongly disagreed). These respondents believed that there is no association between corporate governance and internal audit effectiveness. Their beliefs are in line with the findings by D'Onza (2015) who found that there is no significant association between internal audit's systematic approach to assess effectiveness of company's corporate governance and effectiveness of internal audit.

The 31 (56%) of respondents responded that corporate governance positively improves internal audit effectiveness. This finding in line with Rensburg and Coetze (2015) finding who found that corporate governance positively affects internal audit effectiveness with governance structure element with the highest success rate in the internal audit capability model. Internal audit effectiveness engages the achievement of objectives, corporate governance being one of the objectives thus making internal audit the key contributors in corporate governance,

4.3.3. Risk Management impact on Internal Audit Effectiveness

The study wanted to determine whether risk management impacts the effectiveness of internal audit task. The idea were analyzed by various researchers who did not reach a consensus on the topic of risk management and internal audit task, so one of the motive of this section of the study is to investigate whether internal audit effectiveness is improved at ESLSE through risk management practice of the management.

Table 4.4: Risk management Impact on Internal Audit Effectiveness

Description	Frequency	Percentage	Mean
Strongly Agree	30	54.5	4.4
Agree	17	30.9	
Neutral	6	10.9	
Disagree	2	3.7	
Strongly Disagree	0	0.0	
Total	55	100	

Source: Own Field survey, Apr 2021

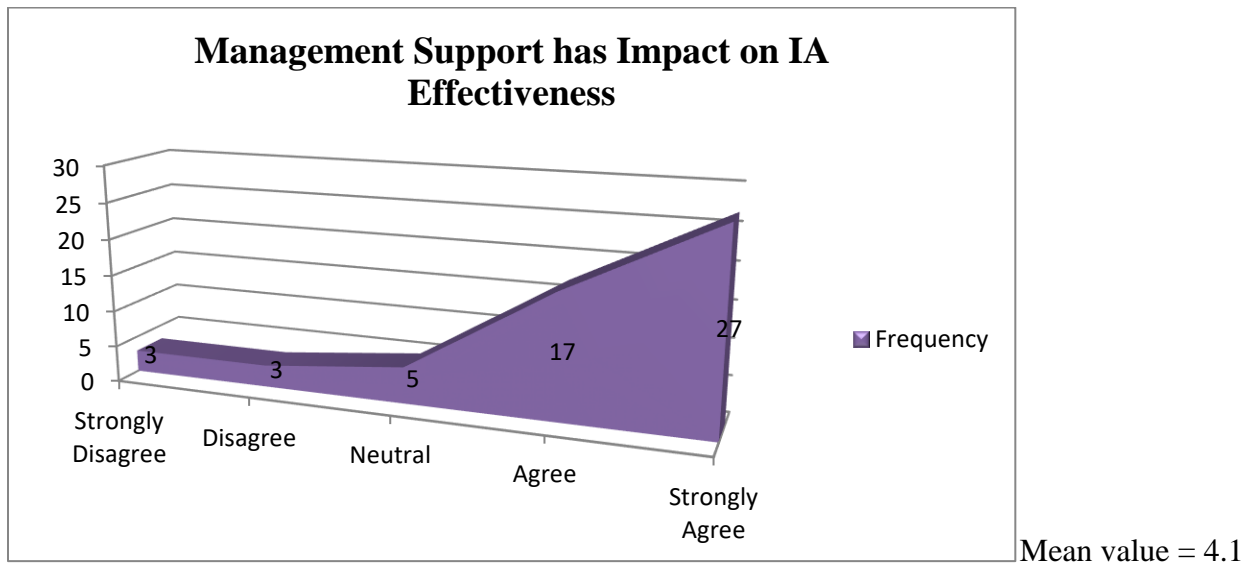
Table 4:2 above shows that 30 (54.5%) strongly agrees that risk management improves internal audit effectiveness, 17 (30.9%) just agreed, 6 (10.9%) were neutral and 2 (3.7%) disagreed and none of the respondents strongly disagreed on the statement.

Those who agreed on the statement became 47 (Strongly agree + agree) 85.4% or the mean value of the collected data were 4.4 which shows most of the respondents agree on the statement. This indicates that internal audit task performance is improved by risk management. Risk management practice helps internal audit function plan its audits better thus improving its effectiveness .The findings of the study aligned with results of Feizizaden (2012) who found that

an effective internal audit has assessed risk facing the company and built an audit plan to investigate them. The neutral respondents did not entirely agree that risk management improves internal audit effectiveness. This means that although risk management improves internal audit effectiveness this variable may not be competently used as is expected. These findings was associated with the findings of Rensburg and Coetze (2015) who found that though management consider internal audit's job in risk management as effectiveness of the task they do not depict the function as the key for change, mainly because of lack objectives focusing on constructive change. The results also found that 2 (3.7%) disagreed this meant that internal audit function has not yet associated itself with the use of risk management in its process hence not easy to implement it to ensure effectiveness. This result sync with Coetze and Lubbe (2014) finding who found that risk management process has not been used as input in planning phase, the process has not yet been fully executed.

4.3.4. Management Support Impact on Internal Audit Effectiveness

One of the objectives of the study was to identify the major factors that contribute to the effectiveness of internal audit. Generalized concept of management support involves through above listed variables (risk management, internal control system and corporate governance). The results from the respondents about the impact of management support on internal audit effectiveness are discussed below:



Source: Own Field survey, Apr 2021

Figure 4.4: Management Support & Internal Audit

Fig 4.4: above depicts that 27 (49.0%) strongly agreed that management support improves internal audit effectiveness, 17 (30.9%) clearly agreed, 5 (9.1%) were neutral on the statement, 3 (5.5%) disagreed and 3 out of 55 strongly disagreed (5.5%).

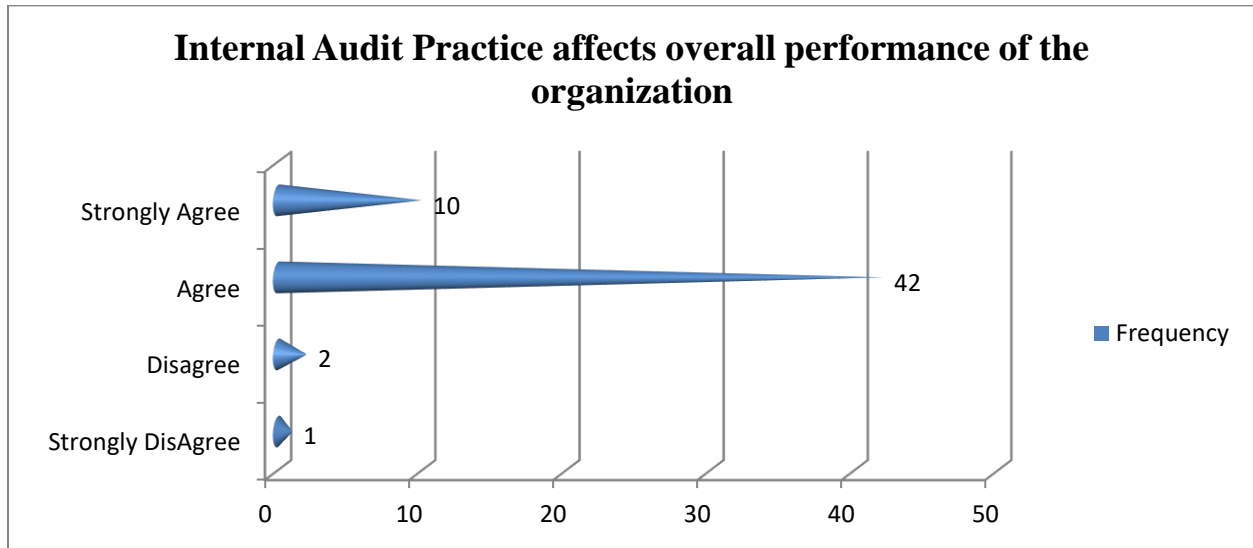
In general the respondents mean value was 4.1 (Agree) and specifically 34 (79.9 %) agreed or strongly agreed to the statement that management support improves internal audit effectiveness. The finding depicts that management's support is constantly and considerably related to internal audit effectiveness. It means that the more management support internal audit the more effective it will be. This result is consistent with the findings of Alzeban (2013) who found that there is positive relationship between internal audit effectiveness and management support. 5 (9.1%) of the respondents gave a neutral standing on the statement. This means respondents indicated that management support to internal audit to be two edges. This is because support by management can equally have positive or negative impact on effectiveness of internal audit. This finding aligns with Herza and Schultz (2016) who found that management support has a moderate impact on effectiveness of internal audit. A total of 6 (11 %) disagreed on the statement meaning that support of the management to internal audit is rather disruptive to internal audit task as management intervene with their work creates obstacles. This is directly associated with findings of Kagermann,(2015), who depicts that full support of the internal audit task by management might compromise independence. Thus creating an obstruction on the achievement of internal audit task's objectives due to lack of objectivity.

The above analysis implies that management support significantly relate with internal audit effectiveness and it improves internal audit's value addition towards organizations. This in sync with the findings of Kagermann,H. (2015) and Alzeban (2013) in their findings indicates that internal audit must receive sufficient support from management. Once management does not adequately support and does not take the task seriously it defeats the purpose of having internal audit in an organization.

4.4 Internal Audit Impact on Organizational Performance

The main purpose of this study was to assess whether there is a relationship exists between the internal audit practice and organizational performance of the company. Based on those

respondents were required to indicate the level to which internal audit practices affect the organizational performance of the ESLSE.



Source: Own Field survey, Apr 2021

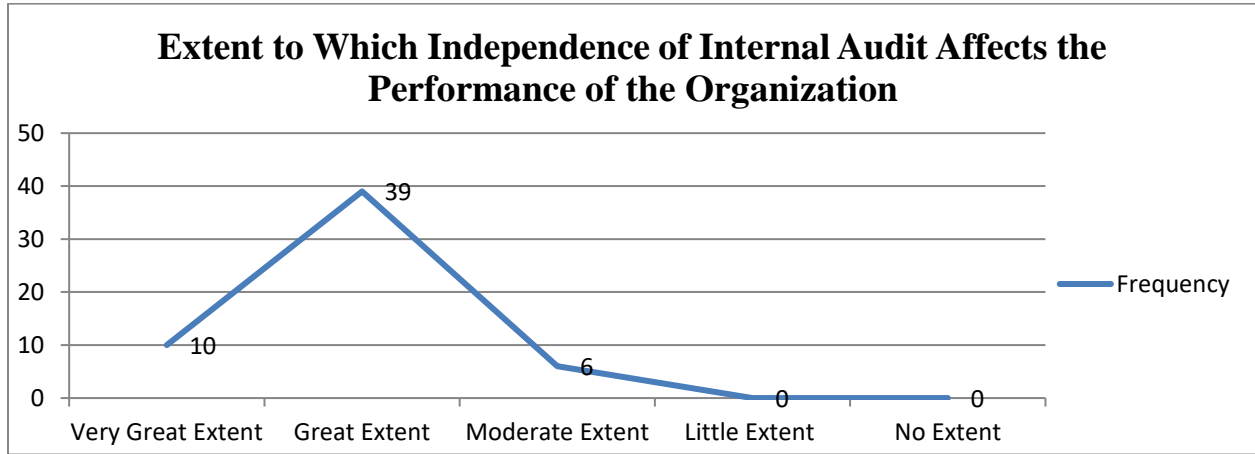
Figure 4.5: Internal audit & Overall performance of the organization

Based on the above figure, in general the mean value was 4.1 which means agree and 42 (76.4%) of the respondents agreed that internal audit practice affect the overall performance of the organization and 10 (18.2%) of them strongly agreed. Further, 2 (3.6%) of the respondents disagree that internal audit practices affect the overall performance of the organization, while another 1 (1.8%) of the respondents strongly disagree that internal audit functions affect the overall performance of the company. The results are an indication that the internal audit practices have a significant effect on the overall performance of the ESLSE. In next section, the study will review specific internal audit variables impact on organizational performance of the company.

In general, 94.5% of the respondents agreed that internal audit effectiveness enhances organizational performance of the organization. All interview respondents 6/6 (100%) also agreed that internal audit practice improves organizational performance. One manager from the interview respondent arguing that “At this pace of closure and fraud cases in many government organizations, the responsibility of internal audit has become more about helping organizations navigate this complex working environment “.This implies that an effective internal audit practice promotes organizational performance of the company by fulfilling its purpose or objective in the organization. The respondent’s view were consistent with findings by Lenz.et al,

(2014) who indicated that that internal audit is important as it is considered as the main component towards the efficiency of organizational performance.

4.4.1. Independence of Internal Audit



Source: Own Field survey, Apr 2021

Figure 4.6: Internal audit Independence & performance of the organization

The study sought to establish the extent to which Independence of Internal Audit affect the organizational performance of ESLSE. From the findings 39 (70.9%) indicated o a great extent, 10 (18.2%) of the respondents indicated to a very great extent whereas 6 (10.9%) of the respondents indicated to a moderate extent. This indicates that independence of internal audit affect the ESLSE organization performance to a great extent.

In general the entire respondent believes that internal audit independence positively enhances organizational effectiveness even if the extent varies from respondent to the respondent. The more independent the function is the more effective the performance of the organization is. 5/6 (83.3%) of interview respondent agreed with the statement that internal audit affect organizational performance of the company. This finding in line with the findings of Alzeban (2013), who believed that internal audit independence, is of dominant value in providing effective internal audit service, for it needs an atmosphere of objective and uninhibited appraisal and reporting of findings without pressure from units audited which highly can improve the efficiency of the audited unit.

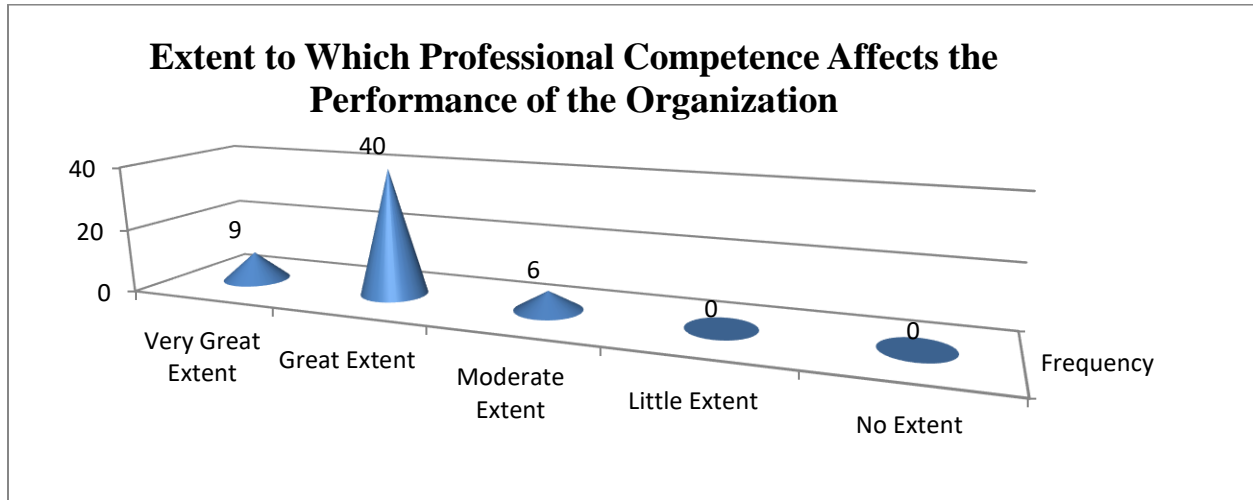
Table 4.5: Internal Audit Independence impact on Organizational Performance

Description	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean
Independence is the core of auditing	0	0	6	33	17	4.3
An internal auditor must be independent of both the personnel and operational activities of a company	0	0	0	36	19	4.3
The integrity of the auditor's views, conclusions and recommendations would be suspect.	0	0	11	28	16	4.1
independence is necessary for the effective achievement of the function and objective of internal audit	0	2	14	28	11	3.8
internal audit in shipping & logistic organizations acknowledges that every organization should have an internal audit department on which with regard to the volume and nature of its activities it can rely	0	0	3	33	19	4.3
The internal audit department in the company must be independent from the activities which it controls and must likewise be free from the day-to-day internal control activities	0	0	5	28	22	4.3
Internal auditors may not have a conflict of interests with the organization	0	8	6	28	13	3.8
Every organization should have formalized principles of IA providing for its position and authorities in the framework of the industry	0	0	6	33	16	4.2

Source: Own Field survey, Apr 2021

The study aimed to identify the level at which respondents agreed or disagreed with the above notion relating to Independence of Internal Audit and organizational performance of ESLSE. The result of the study indicated that lion share of the respondents' strongly agreed that an IA must be independent of both the personnel and operational tasks of an organization. The IA department in a shipping & logistic institution must be independent from the tasks which it controls and must likewise be independent from the day-to-day internal control activities, as shown by an average result of 4.3. Others agreed that every organization should have formalized principles of IA providing for its position and authorities in the framework of the industry. Most of the respondents believed that independence is the core of auditing as shown by a mean result of 4.3. The integrity of the auditor's views, conclusions and recommendations would be suspect as shown by a mean result of 4.1. Internal auditors may not have a conflict of interests with the organization as shown by mean result of 3.8 and finally that independence is essential for the effective accomplishment of the function and objective of internal audit as shown by a mean result of 4.2.

4.4.2. Professional Competence



Source: Own Field survey, Apr 2021

Figure 4.7: Professional Competency & performance of the organization

The study aimed to establish the extent to which professional competence of internal auditor impact on organizational performance of ESLSE. From the findings 40 (72.7%) indicated to a great extent, 9 (16.4%) of the respondents indicated to a very great extent whereas 6 (10.9%) of the respondents specified to a moderate extent. This entails that professional competence of internal auditor affects organizational performance of ESLSE to a great extent.

In general the above analysis implies that all the respondents agreed that professional competency enhances internal audit effectiveness. In addition, all interview respondents also agreed that professional competency improves internal audit effectiveness. This means that the more competent internal audit staffs that ESLSE hires the more effective their internal audit .This result in line with findings of Rose. A.M, Rose .J.M C.S and Norman (2013) who found that professional competency has a direct relationship with internal audit effectiveness indicating that professional competency increases compliance with audit plans and preparing clear reports to management and audit committee to ensure proper communication improves an effective internal audit function which promotes organizational performance.

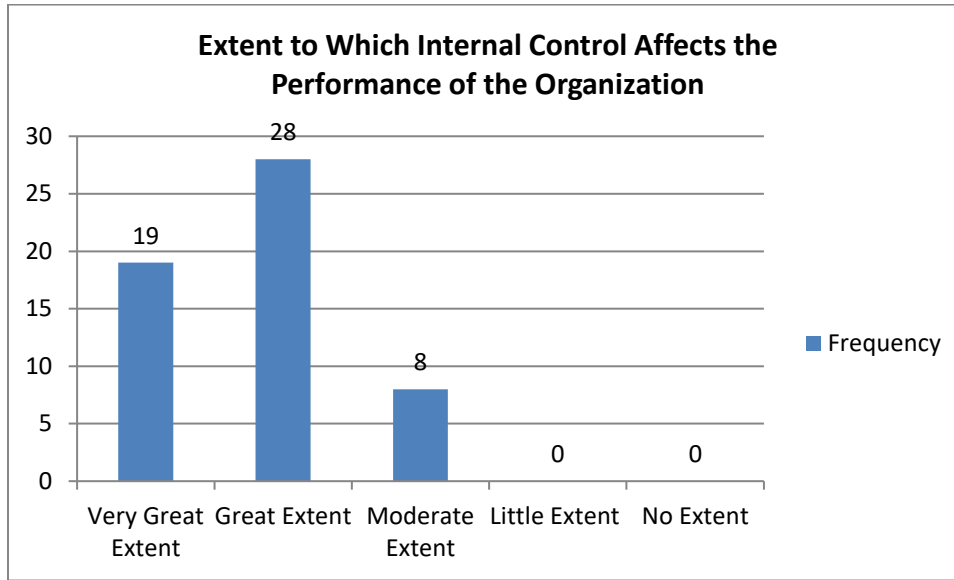
Table 4.6: Professional Competence Impact on Organizational Performance

Description	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean
Fraud detection, and fraudulent actions are essentially unpredictable and difficult to identify and they affect the performance of the company	0	3	5	25	22	4.2
In ESLSE frauds are identified by the internal audit activities	0	2	8	11	24	3.5
Measures that can improve the efficiency of auditors are significant for effective fraud finding	0	3	0	22	30	4.4
conscientiousness associates with task performance just as strongly as cognitive capability	0	8	5	14	28	4.1
The auditors in ESLSE are Skilled &experienced to undertake audit task	0	0	11	28	16	4.0

Source: Own Field survey, Apr 2021

The study aimed to establish the level at which respondents agreed or disagreed with the above notions relating to internal auditor professional competence and performance of ESLSE. The findings of the study indicated that majority of the respondents strongly agreed that measures that can improve the efficiency of auditors are vital for effective fraud detection as shown by mean result of 4.4, in ESLSE frauds are identified by the internal audit activities as shown by mean result of 3.5 , fraud detection and activities are inherently unpredictable and complex to detect and they affect the performance of the organization 4.2, conscientiousness associates with task performance just as strongly as cognitive capability as shown by a mean result of 4.1. Finally others agreed that the auditors in the organization are knowledgeable and skillful to commence audit function as shown by a mean value of 4.0.

4.4.3. Internal Audit Standards



Source: Own Field survey, Apr 2021

Figure 4.8: Internal Audit Standards & Performance of the Organization

The study aimed to show the extent to which internal audit standards affect the organizational performance of the ESLSE. From the findings 28 (50.9%) indicated on a great extent, 19 (34.5%) of the respondents indicated to a very great extent whereas 8 (14.6%) of the respondents indicated to a moderate extent. In addition the mean value of the respondents was 4.2 which approach to great extent. This implies that internal audits standard of the company affect the organizational performance of the ESLSE to a great extent.

This finding in line with results of Omri and Dellai (2016) who indicated that there is a positive relationship between internal audit standard and performance of the organization, internal audit task aims to add value to the organization together with management by evaluating and improving effectiveness of the organization. Further supporting the statement was Rensburg and Coetze (2015) stating that internal audit standard positively affects internal audit with organizational performance effectiveness with the highest achievement rate in the internal audit capability model. Rose et al (2013) also states that internal audit standards promoting organizational performance of the company and would rely more on internal audit work. Through support of management internal audit is able full fill its governance role and in turn allows harmonizing of interest of stakeholders and improve organizational performance.

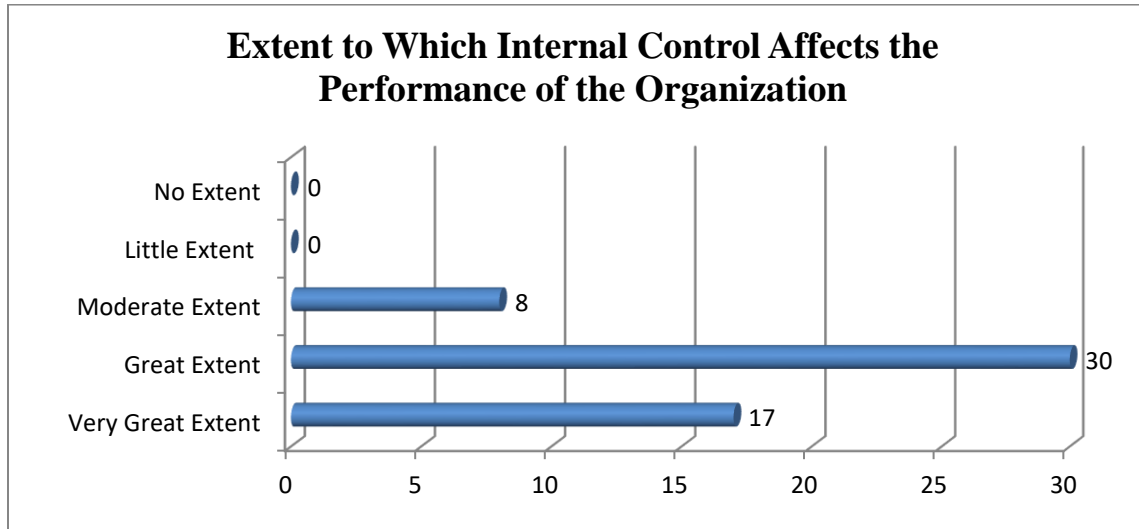
Table 4.7: Internal Audit Standards Impact on Organizational Performance

Description	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean
Performing auditing task based on internal auditing standards contributes significantly influence the auditing effectiveness	0	0	8	28	19	4.2
obeying with professional standards is the most vital contributor to Internal Audit's added value	0	0	2	30	23	4.4
IA standards and related services influence the performance of ESLSE	0	0	2	36	17	4.3
Formal IA standards recognize that internal auditors also deliver services regarding information other than financial reports	0	0	5	28	22	4.3
Auditors to do their role objectively and in compliance with accepted criteria for professional practice	0	0	0	38	17	4.3
IA contribute & evaluate to the progress of risk management, control and governance using a systematic and disciplined approach in the organization	0	0	0	41	14	4.2

Source: Own Field survey, Apr 2021

The study aimed to establish the level at which respondents agreed with the notions that Connecting to internal audit standards and organizational performance of ESLSE, from the findings the study indicated that majority of the respondents strongly agreed that complying with professional internal audit standards is the most important contributor to organizational success. obeying with professional standards is the most vital contributor to Internal Audit's added value 4.4, Since formal auditing standards recognize that internal auditors also deliver services regarding information other than financial reports as shown by mean value of 4.3, auditors to do their jobs objectively and in compliance with accepted criteria for professional practice as shown by average value of 4.3, IA Standards and audit-related services influence the organizational performance of ESLSE as shown by mean value of 4.3 and performing auditing task according to internal auditing standards contributes significantly influence auditing effectiveness as shown by mean value of 4.2. Finally that internal audit evaluate and contribute to the progress of risk management, control and governance using a systematic and disciplined approach in the organization's shown by a mean value of 4.2.

4.4.4. Internal Control



Source: Own Field survey, Apr 2021

Figure 4.9: Internal Control & performance of the organization

The study aimed to establish the extent to which internal controls affect organizational performance of ESLSE. From the findings in general the mean value was 4.2 (Great Extent) and in detail 30 (54.5%) indicated to a great extent, 17 (30.9%) of the respondents indicated to a very great extent whereas 8 (14.6%) of the respondents indicated to a moderate extent that internal control has impact on organizational performance of ESLSE. This entails that internal controls of the organization has direct impact on the performance of ESLSE to a great extent.

This implies that all the respondents agreed that effective internal controls system enhances performance of the organization. This is in line with the findings by Merchant and White (2017) who indicated internal control system as designed to ensure that staffs are acting in their organization best interest. To serve the organization's best interest typically means implementing the business objective as intended or try to accomplish the vision of the organization.

Table 4.8: Internal Control Impact on Organizational Performance

Description	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean
IA control in the company have features built into them to ensure that fraudulent truncations are flagged or made challenging to transact	0	0	14	11	30	4.3

Deliberate errors are concentrated in relatively few audits and these are fairly predictable by industry	0	0	8	27	20	4.2
The lack of separation of accounting and custodian functions deters fraud detection and reporting	0	8	6	27	14	3.9
Cash receipts bear fairly strong internal controls	0	0	3	39	13	4.2
firms that reveal an internal control problem experience a major increase in market-adjusted cost of capital	0	0	6	36	13	4.1
The greater the degree of competition, the greater would be the necessity to internal control cost	3	3	3	30	16	4.0

Source: Own Field survey, Apr 2021

The study aimed to investigate the level at which respondents agreed with the notions that associating to internal controls and organizational performance of ESLSE. The result of the study showed that majority of the respondents strongly agreed that internal Controls audits in the organization have features built into them to ensure that fraudulent truncations are flagged or made complex to transact as shown by average value of 4.3, The lack of separation of accounting and custodian functions deters fraud detection and reporting 3.9, others agreed that cash receipts allow fairly strong controls as shown by mean of 4.2, firms that reveal an internal control problem exposed to a significant increase in market-adjusted cost of capital as shown by mean of 4.1, the greater the degree of competition, the greater would be the necessity to internal control costs as shown by average value of 4.0 and that deliberate errors are concentrated in relatively few audits and these are fairly predictable by industry as shown by mean value of 4.2.

4.5. Internal Audit Practice of ESLSE

4.5.1. Internal Audit Procedures

The researcher uses a five point Likert scale for the several measurements of the study which intends to know the extent of agreement with an assertion or disagreement with the Statement. Therefore, for the analysis which focuses on internal audit practice of ESLSE, weight was allocated to the extent of agreement to each variable on internal audit practice of ESLSE.

Table 4.9: Internal Audit Procedure and its implementation status on ESLSE

Description	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean
Internal audit process of ESLSE is planned in combination with both from the board and the management involvement	0	2	3	34	16	4.2
All risks are accurately identified and included in the audit process and practice	0	1	0	24	30	4.5
IA process is independent of day to day management Operations	2	3	8	22	20	4.0
There is an appropriate quality control procedure in place within the internal audit function of ESLSE	2	0	5	31	17	4.1
The planning and procedures of the internal audit function obey with the IA professional standards	1	1	10	25	18	4.1
The internal audit process is cost effective to the ESLSE.	1	2	7	22	23	4.2
The IA process is involved in the design of the financial internal controls	1	0	6	33	15	4.1
The IA process is involved in the design of the non-financial internal controls	0	1	7	34	13	4.1
All the internal control tasks are documented in procedures	1	2	2	31	19	4.2
All internal control procedures are always obeyed	9	5	11	12	18	3.4
Internal auditors have free access to the board	1	0	2	9	43	4.7
All ESLSE procedures are appropriately documented	1	2	2	19	31	4.3

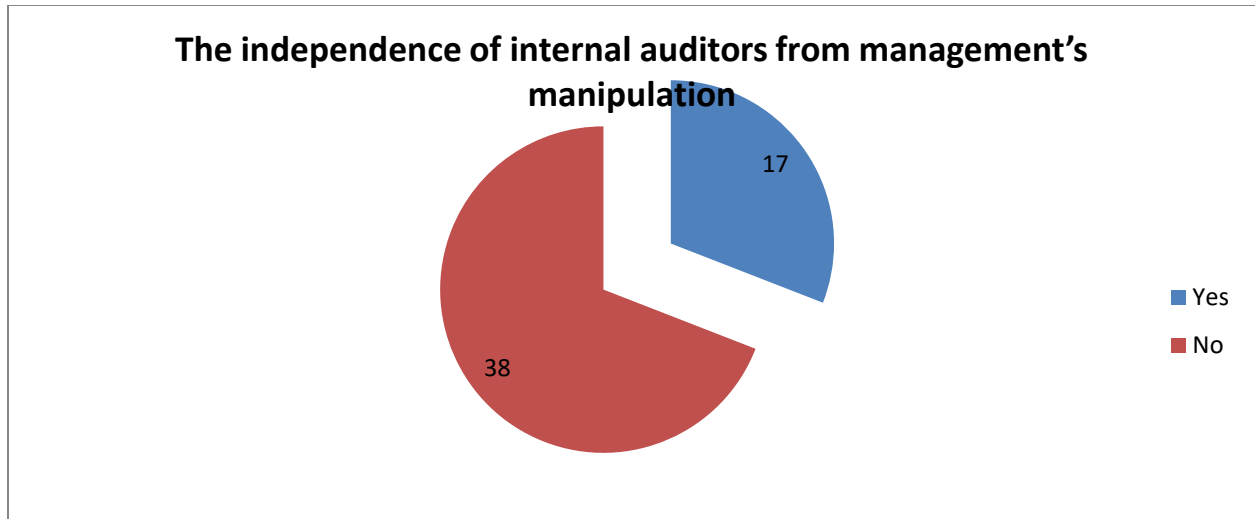
Source: Own Field survey, Apr 2021

In the aim of to achieve the third objective of the study which has to do with analyzing the Internal Audit practices which include status of ESLSE procedure and implementation practice, twelve variable factors were tested and the results thereof are presented n Table 9.

The above table indicates that all the variable factors except one recorded a mean value of 3.4, representing 68% of agreement rate on the statement , and that is, 'All internal control procedures are always obeyed'. The study in addition depicted that the rest of the variables measured over and equal to 4.0 which indicates the respondents agreed or strongly agreed on the above stated statements; with the highest being 'Internal auditors have free access to the board' which scored as high as 4.7 representing 94% agreement rate. Individually, the study indicates that ESLSE has in place a solid internal audit procedure as evidenced by the confirmation of the other remaining

factor variables which is equal or above mean value of 4. All the above analysis shows that, the average mean value of twelve variable factors is 4.2 which represent 84% of agreement rate on the factors by the sample selected ESLSE staffs; which is an indication of well-established internal audit procedures in the ESLSE.

4.5.2. Internal Auditors Independence level on ESLSE



Source: Own Field survey, Apr 2021

Figure 4.10: Internal Auditors independence level

The above figure depicts that 38 (69.1%) did not agree with the statement that ESLSE internal auditors are free from management manipulation while the remaining 17 (30.9%) believed that the staffs are not free from management manipulation.

In explaining their choice to affirm the question rose, respondents specified among other things that in ESLSE, the manager of the IA Department reports to the Managing Director instead of Chairman of the Board of Directors. Also, the Managing Director, in his capacity as the Chief Executive Officer, serves as the appointing officer of the internal auditor. Thus, the internal auditor's independence is highly compromised since the managing director guides the kind of audit exercise to be conducted and even in certain cases the reporting is negotiated.

The above finding confirms the Feizizadeh (2012) statement that exclusive and line management, by using the IA function for various extended roles, do not permanently appreciate the need for independence; internal auditors are mostly considered as their employees, and hence

views internal auditors' reporting to the audit committee as simply a formality to satisfy corporate governance requirements. Since some managers believe that internal auditors are supposed to work for them, they induce the internal auditors to involve in functions of the management. It is in this area that the impairment of the internal audit function's independence stances a threat.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter of the thesis devoted to the summary of findings from descriptive analysis of data, study's conclusion suggested recommendation for assigned bodies.

The study sought to accomplish the general objective of analyzing the effect of internal audit practice on organizational performance. It was based on this general objective and the other three specific objectives that analysis was made, from which the following findings are made.

5.1 SUMMARY OF FINDINGS

After careful analysis of the data, the following findings were made.

Findings on Internal Audit Effectiveness factors

- The study revealed that from the analysis, internal controls system set by management of the organization has positive impact on internal audit effectiveness because by improving these controls systems the main function of the organization is helping its purpose and creating its value addition. 85.4% of the respondents believed that internal control tools or system implemented by management improves internal audit effectiveness.
- The study found that with 56% respondents' agreement rate, there is a positive relationship between good corporate governance and internal audit effectiveness. Corporate governance positively affects internal audit effectiveness with governance structure element with the highest success rate in the internal audit capability model.
- It was also found that internal audit performance is improved by risk management system of the organization; it was supported by 85.4% of respondents' agreement rate.
- The study also found that management support improves internal audit effectiveness; The finding depicts that management's support is constantly and considerably related to internal audit effectiveness. It means that the more management support internal audit the more effective it will be. It is supported by 80% of respondents' agreement rate.

Findings on Internal Audit Impact on Organizational Performance

- ✚ The association between the internal audit independence and organizational performance is positive and strong; the study found that the more independent the internal audit function is the more effective the performance of the organization is. This finding supported by 71% questioner and 83% interview respondents. Accordingly, internal audit function played a role in governance which affects the performance of the organization providing for its position and powers in the framework of the company.
- ✚ There is a positive and moderate relation between professional competency and organizational performance of the company. All interview respondents and 73% of questioner respondents agreed that professional competency enhances internal audit effectiveness.
- ✚ Internal Audit standards and organizational performance of the company have a positive and strong association. the study found that internal audit standards affect the organizational performance of the companies, internal audit assess and contribute to the enhancement of risk management, control and governance using a systematic and disciplined way in the industry and that the structure of internal audit in improving its objectivity is solid. 86% of respondents agreed that Internal Audit standards enhance internal audit effectiveness.
- ✚ There exists positive and strong relation between internal control system and organizational performance of the company. The study found that internal audit classifies and evaluates the organization's internal control system as a basis for reporting upon its efficiency and effectiveness.
- ✚ In general Internal Audit practice affects the organizational performance of the company.

Findings of Internal Audit practice of ESLSE

- ◆ The study found & showed by the high average value of 4.2 (84%) of the strong presence of well-established internal audit procedures at ESLSE.

- ◆ The study also found that in ESLSE, the independence of internal auditors are highly compromised since the managing director directs the kind of audit exercise to be conducted and the even in certain instances the reporting is negotiated.

5.2 CONCLUSION

The study concludes that, in general management support improves internal audit effectiveness in the organization it is specifically revealed by internal controls, corporate governance and risk management process. Evident from the study responses in agreement from the questionnaires which ranged from 85.4% to 56.0% and all respondents from the interviews that agreed that management support enhances internal audit effectiveness .It Implies that the more the management support the more effective internal audit function will be.

The study also concludes that IA practices have a significant effect on the organizational performance of the ESLSE. Where the internal audit practice is emphasized, clearly, it can affect positively and strongly on organizational performance of the company. From the findings, , independence of internal audit, professional competency, internal audit standards and internal control had a strong and positive association with organizational performance of the company, the study found that a unit increase in these variables would lead to increase in organizational performance of the firms.

Internal Auditors in independence are highly compromised since usually they are considered as employees of management, and hence the opinions of Internal Auditors' reporting to the assigned organ as merely a formality to fulfill requirements of the board. The management of ESLSE considers that the role of the Internal Auditors is supposed to work for them - by persuading the IA to involve in management functions. It is in this area that the impairment of the IA task's independence poses a threat. They lack sufficient power to commence audit tasks, especially when it affects member of the supervisors and managers.

5.3 RECOMMENDATION

On the basis of the study findings, the following recommendations are made for internal audit practice effect on organizational performance:-

- The ESLSE's management should try to ensure they fully support internal audit tasks at all times by improving the current status of internal control system, corporate governance of the company & risk management processes. For both of them to achieve their objectives and reach the collective vision, they should work together.
- In order to implement good internal audit independence in ESLSE, managers need to know that they should be concerned about the interrelationships between internal audit independence and organizational performance. As such, there is need for the internal auditors to constantly update themselves with the changing times and technologies and sharpen their knowledge & skills.
- The IA function must be independent of the activities being audited and must also be independent from main organization tasks. The department of internal audit must be able to exercise its assignment on its own initiative in all units, department & divisions, establishments and functions of the organization.
- Finally, the study sought to investigate the determinants IA factors that influence organization performance. However, the variables used in the analysis did not include all factors that can affect organizational performance of the company. Thus, future research could incorporate factors such as technical skill of Internal Auditors, logistic support and qualification and experience of the staff.

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Annex

Annex A; Questionnaires

ST.MARY'S UNIVERISTY
SCHOOL OF GRADUATE STUDIES
MBA IN ACCOUNTING AND FINANCE

Objective:- I am a student of St. Mary's University Post graduate program in MBA in Accounting and Finance. As a requirement in fulfillment of this master, I am Carrying out a study on the effect of internal audit practices and on organizational performance of the company in the case of Ethiopian Shipping and Logistics Service Enterprise (ESLSE).

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

Thank you very much for your cooperation

Mekdes Fikadu /Cell phone +251920592882

Direction:- each questionnaire should be answered by one respondent only. Put a "x" mark in the box for the answer you choose and if necessary, you can fill the blank space provided.

General information of the respondents

1. Gender A. Male [] B. Female []
2. Age A.18 to 27[] B.28 to 37[] C.38 to 47[] D. Above 48[]
3. Level of Education A. Diploma [] B. Bachelor's Degree[]
 C. Master's Degree [] D. above MA []
4. Year of Experience

Section B: factors affecting IA effectiveness, IA practice impact on organizational performance of the company & Internal Audit Practice of the ESLSE

The questioner is Prepared in Likert-Scale Form with Five point scale. Please put “x” mark relating to internal audit department practices of your company in the following areas. The value of Scale are 5=Strong agree; 4= agree; 3=Neutral; 2=dis agree and; 1=Strong disagree.

A. Major factors of internal Audit effectiveness	1	2	3	4	5
Internal Control have significant effect on IA effectiveness					
Corporate Governance have significant effect on IA effectiveness					
Management support have significant effect on IA effectiveness					
Risk Management have significant effect on IA effectiveness					
B. Internal Audit Impact on Organizational performance					
Internal audit practice affects overall performance of the organization					

Independence of Internal Audit

To what extent does Independence of Internal Audit affect the organizational performance of ESLSE?

- A. Very great extent []
- B. Great extent []
- C. Moderate extent []
- D. Little extent []
- E. No extent []

What is your level of agreement with the following statements that relate to Independence of Internal Audit and organizational performance of ESLSE?

Independence of Internal Audit	1	2	3	4	5
Independence is the core of auditing					
An internal auditor must be independent of both the personnel and operational activities of a company					
The integrity of the auditor’s views, conclusions and recommendations					

would be suspect.					
independence is necessary for the effective achievement of the function and objective of internal audit					
internal audit in shipping & logistic organizations acknowledges that every organization should have an internal audit department on which with regard to the volume and nature of its activities it can rely					
The internal audit department in the company must be independent from the activities which it controls and must likewise be free from the day-to-day internal control activities					
Internal auditors may not have a conflict of interests with the organization					
Every organization should have formalized principles of internal audit providing for its position and powers in the framework of the industry					

Professional Competence

To what extent does professional competence has impact on organizational performance of ESLSE?

- A. Very great extent []
- B. Great extent []
- C. Moderate extent []
- D. Little extent []
- E. No extent []

What is your level of agreement with the following statements that relate to professional competence and organizational performance of ESLSE?

Professional Competence	1	2	3	4	5
Fraud detection, and fraudulent actions are essentially unpredictable and difficult to identify and they affect the performance of the company					
In ESLSE frauds are identified by the internal audit activities					
Measures that can improve the efficiency of auditors are significant for effective fraud finding					
conscientiousness associates with task performance just as strongly as cognitive capability					
The auditors in ESLSE are Skilled & experienced to undertake audit task					

Internal Audit Standards

To what extent does Internal Audit Standards has impact on the organizational performance of ESLSE?

- A. Very great extent []
- B. Great extent []
- C. Moderate extent []
- D. Little extent []
- E. No extent []

What is your level of agreement with the following statements that relate to Internal Audit Standards and organizational performance of ESLSE?

Internal Audit Standards	1	2	3	4	5
Performing auditing task based on internal auditing standards contributes significantly influence the auditing effectiveness					
obeying with professional standards is the most vital contributor to Internal Audit's added value					
IA standards and related services influence the performance of ESLSE					
Formal IA standards recognize that internal auditors also deliver services regarding information other than financial reports					
Auditors to do their role objectively and in compliance with accepted criteria for professional practice					
IA contribute & evaluate to the progress of risk management, control and governance using a systematic and disciplined approach in the organization					

Internal Control

To what extent does Internal Control has impact on organizational performance of ESLSE?

- A. Very great extent []
- B. Great extent []
- C. Moderate extent []
- D. Little extent []
- E. No extent []

What is your level of agreement with the following statements that relate to Internal Control and organizational performance of ESLSE?

Internal Control	1	2	3	4	5
IA control in the company have features built into them to ensure that fraudulent truncations are flagged or made challenging to transact					
Deliberate errors are concentrated in relatively few audits and these are fairly predictable by industry					
The lack of separation of accounting and custodian functions deters fraud detection and reporting					
Cash receipts bear fairly strong internal controls					
firms that reveal an internal control problem experience a major increase in market-adjusted cost of capital					
The greater the degree of competition, the greater would be the necessity to internal control cost					

C. ESLSE Internal Audit Practice

Internal Audit procedure of ESLSE	1	2	3	4	5
Internal audit process of ESLSE is planned in combination with both from the board and the management involvement					
All risks are accurately identified and included in the audit process and practice					
IA process is independent of day to day management Operations					
There is a appropriate quality control procedure in place within the internal audit function of ESLSE					
The planning and procedures of the internal audit function obey with the IA professional standards					
The internal audit process is cost effective to the ESLSE.					
The IA process is involved in the design of the financial internal controls					
The IA process is involved in the design of the non-financial internal controls					
All the internal control tasks are documented in procedures					
All internal control procedures are always obeyed					
Internal auditors have free access to the board					
All ESLSE procedures are appropriately documented					

Internal Auditors Independence level

Internal Auditors of ESLSE are not free from management manipulation.

Yes []

No []

Please describe your answer

Annex B; Interview

ST.MARY'S UNIVERISTY
SCHOOL OF GRADUATE STUDIES
MBA IN ACCOUNTING AND FINANCE

Interview for ESLSE Managers

Thank you in advance for your support and participation.

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

Thank You for Your Participation.