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Ethical Conduct and Independence in Audit and Control of Public Institutions in Romania: A Case Study

Abstract. Internal audits play a key role in ensuring the efficiency of public institutions in Romania. However, the effectiveness of internal auditing is often compromised by challenges to the integrity and independence of the auditor. Independence in the activities of civil servants, particularly internal auditors, is crucial for unbiased assessments, free from undue influence by other parties. This article examines the ethics and independence of internal audit and control in public institutions in Romania. The purpose of the study is to assess compliance with ethical principles and independence by internal auditors in public institutions in Romania and to identify obstacles affecting the integrity of audit and control functions. The research methodology includes the distribution of questionnaires to public officials working in public institutions in Romania, complemented by an analysis of the ethical frameworks guiding these professionals. This approach aims to identify both the current state of ethical practice and the barriers to maintaining independence in audit processes. Despite significant progress achieved through the EU directive and concerted efforts to increase transparency and objectivity, challenges remain, threatening the integrity of auditing. The main findings of the investigation indicate that the main obstacles are political influence, resistance to change and insufficient resources to uphold the standards of ethics and independence of internal audit. Ethical leadership and supporting organizational culture are critical to promoting transparency, accountability and ethical behaviour in public institutions. In addition, it was found that the internal audit function is prone to modernization in the conditions of the intellectual economy. Therefore, part of it is likely to be performed by programs based on artificial intelligence. Based on the obtained results, the article provides recommendations for ensuring the ethical behaviour and independence of internal auditors in public institutions in Romania.

Keywords: internal audit ethics, public internal audit, internal control, independence.

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Етична поведінка та незалежність під час аудиту та контролю державних установ у Румунії: практичне дослідження

Анотація. Внутрішній аудит відіграє ключову роль в забезпеченні ефективності роботи державних установ Румунії. Однак, результативність внутрішнього аудиту часто опиняється під загрозою через виклики чесності та незалежності аудитора. Незалежність у діяльності державних службовців, зокрема внутрішніх аудиторів, має вирішальне значення для неупереджених оцінок, вільних від неправомірного впливу з боку інших сторін. Ця стаття присвячена дослідженню етики та незалежності внутрішнього аудиту та контролю в державних установах Румунії. Метою дослідження є оцінка дотримання етичних принципів і незалежності внутрішніми аудитором у державних установах Румунії та виявлення перешкод, що впливають на цілісність функцій аудиту та контролю. Методологія дослідження включає роздачу анкет державним службовцям, які працюють у державних установах Румунії, доповнену аналізом етичних рамок, якими керуються ці професіонали. Цей підхід має на меті виявити як поточний стан етичної практики, так і бар'єри, що перешкоджають збереженню незалежності в процесах аудиту. Незважаючи на значний прогрес, досягнутий завдяки директиві ЄС та узгодженим зусиллям щодо підвищення прозорості та об'єктивності, проблеми все ще залишаються, що загрожує доброчесності аудиторської діяльності. Основні результати розслідування вказують на те, що головними перешкодами є політичний вплив, опір змінам і недостатні ресурси для дотримання стандартів етики та незалежності внутрішнього аудиту. Етичне лідерство та підтримка організаційної культури мають вирішальне значення для сприяння прозорості, підзвітності та етичній поведінці в державних установах. Крім того, виявлено, що функція внутрішнього аудиту схильна до модернізації в умовах інтелектуальної економіки, а тому її частину, ймовірно, виконуватимуть програми на основі штучного інтелекту. На основі отриманих результатів у статті надано рекомендації щодо забезпечення етичної поведінки та незалежності внутрішніх аудиторів в державних установах Румунії.

Ключові слова: етика внутрішнього аудиту, державний внутрішній аудит, внутрішній контроль, незалежність.

1. INTRODUCTION

In the past decade, Romania has made significant efforts to create a stable and high-performance internal audit environment, whether private or public institutions. This was once due to the EU directives that obliged all public institutions to be more transparent and objective in their audit functions, but also to the climate of stability and independence and the attention of stakeholders. This has "incited" professional audit bodies to be more careful and rigorous in complying with existing requirements and in ensuring the accuracy of financial or non-financial data. However, this is not always uniform because auditors face obstacles in ethics and independence.

In Romania, the internal audit function operates at two levels: it is conducted internally by a dedicated department within the organization or externally by the Romania Court of Accounts. It is clear that this function is crucial for the efficient operation of the public institution, and the managers of the public entity view this independent and essential mechanism with great importance. In recent years, the landscape of public auditing in Romania has evolved considerably, focusing on the adherence to ethical standards and the independence of audit functions. Despite the efforts to enhance the transparency and objectivity of audits as mandated by EU directives, auditors still encounter significant challenges in maintaining ethical integrity.

These challenges arise from various factors, including pressure from stakeholders, potential conflicts of interest, and limitations in existing frameworks designed to uphold auditor independence (Bostan et al., 2018).

As public trust in governance relies heavily on the perceived integrity of public audits, ensuring that audit functions are free from undue influence is paramount. This commitment to ethics not only enhances the credibility of audit outcomes but also fosters a culture of accountability and transparency within public institutions (INTOSAI, 2016). Thus, it is crucial to understand how public institutions in Romania are aligning with ethical standards and the obstacles they face in this process.

This study aims to evaluate the readiness of auditors in Romanian public institutions to adhere to ethical standards and understand the barriers they face in doing so. It also examines the role of regulatory bodies in promoting ethical practices and the effectiveness of current frameworks in safeguarding auditor independence. Furthermore, the study explores the impact of ethical auditing on public institutions' overall governance and operational efficiency.

According to the literature, ethical auditing plays a vital role in various areas of public administration, including financial management, risk assessment, and organizational governance. The principles of ethical auditing, such as integrity, objectivity, and

confidentiality, are essential in ensuring that audits are conducted without bias and with the highest standards of professionalism (OECD, 2016). Ethical dilemmas in auditing often involve balancing the need for transparency with the risk of exposing sensitive information, making it crucial for auditors to be well-versed in ethical guidelines and best practices (Arens et al., 2017).

The layout of this study is as follows: Section 2 provides a background on the ethical standards and regulations governing public auditing in Romania, emphasizing the efforts to align with international best practices. Section 3 outlines the research questions and objectives, focusing on the preparedness of auditors and the challenges they face in maintaining ethical standards. Section 4 details the methodology used in this study, which includes a comprehensive review of relevant literature and a survey conducted among auditors in Romanian public institutions. Section 5 presents the study's results, followed by an analysis of the survey data. Finally, Section 6 discusses the implications of the findings for public auditing in Romania, offering recommendations for strengthening ethical practices and suggestions for future research.

2. LITERATURE REVIEW

Research shows that the ethical conduct of auditors is greatly impacted by the ethical atmosphere in public organizations (Jacobs, 2012; Gendron et al., 2016). Organizational culture, leadership attitudes towards ethics, and the strength of regulatory and oversight mechanisms are key factors (Ethics Resource Center, 2010). According to Ferry et al. (2015), abiding by ethical standards is improved by a favourable ethical climate and robust governance systems, while ethical failures can occur in environments lacking in ethical strength. Furthermore, ongoing ethics training and education are essential for strengthening ethical principles and providing auditors with the necessary resources to effectively tackle ethical dilemmas (Hayes et al., 1999).

3. RESEARCH QUESTIONS / AIMS OF THE RESEARCH

This article explores two main research questions: first, to assess how public officials position themselves in relation to ethical standards in internal audit practices; and second, to identify the primary obstacles encountered in achieving these ethical standards. The objectives are to evaluate the current stance on ethics in Romanian public institutions and to pinpoint any barriers to adopting and implementing ethical guidelines. This evaluation promotes adherence to ethical standards in institutional processes to improve routine tasks and overall operational integrity. The study will determine how well audit activities align with broader ethical goals within public institutions.

4. RESEARCH METHOD

For the present paper, a quantitative research was conducted through the distribution of a questionnaire to public officials engaged in audit departments of institutions such as the National Fiscal Administration Agency and its territorial institutions, the National Health Insurance House and its territorial ministries and other relevant entities. The questionnaire administration took place between April 1st and May 15th.

The researcher has applied Exploratory Factor Analysis to the data acquired through the survey.

5. FINDINGS

Exploratory Analysis of the Questionnaire

The starting questions in the questionnaire aim to gather fundamental details about the respondents, including their workplace, age, and school affiliation. This data assists in improving our comprehension of subsequent responses and enables us to examine the perception of ethics in governmental organizations.

The majority of respondents are from Bucharest, followed by respondents from Brasov, Timisoara, Cluj, Constanta, Giurgiu, Iasi and Buzau.

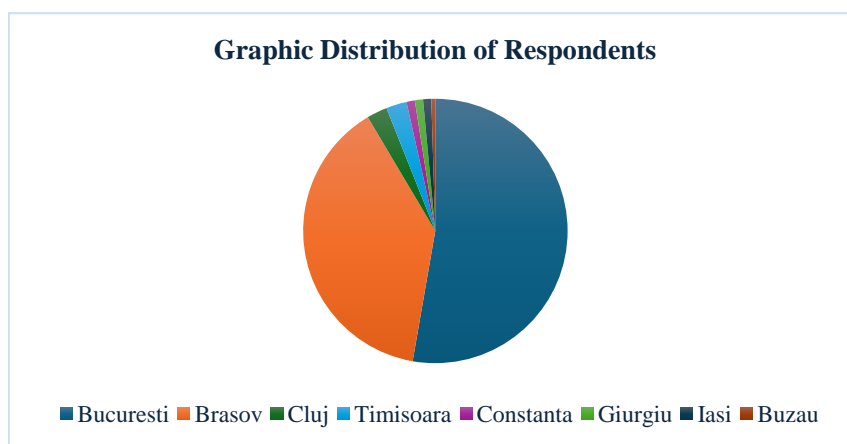


Figure 1. Results of the questionnaire

Source: own processing, questionnaire results.

When asked about the age of the participants, most were between 40 and 49 years old, with the next largest group being in the 50-59 age range. There were just nine participants aged 30-39, and two were 60 years old or above. This chart displays the mean age of employees in public organizations in Romania, particularly within the internal public audit division, where majority of

individuals are above 45 years old. In contrast to the private sector, multinational corporations tend to hire younger individuals more frequently than public institutions, where older individuals are more prevalent. Additionally, there were a higher number of females compared to males, however, the variance is not noteworthy.

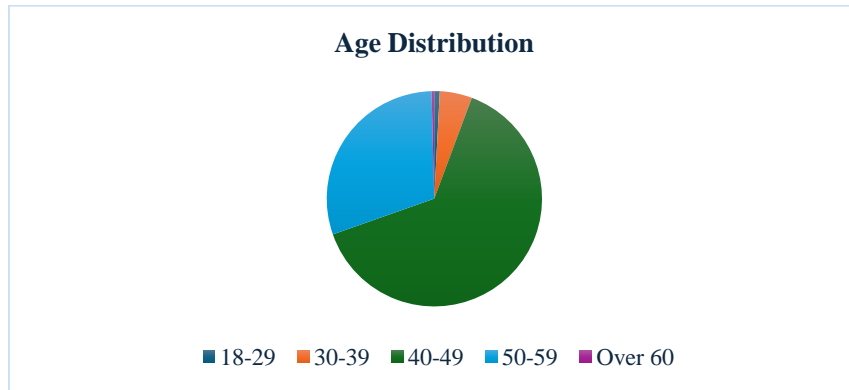


Figure 2. Age Distribution

Source: own processing, questionnaire results.

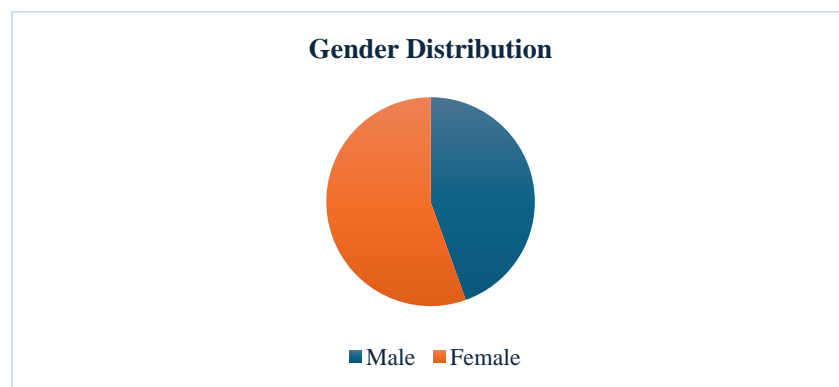


Figure 3. Gender Distribution

Source: own processing, questionnaire results.

The majority of participants stated they have finished their higher education with a master's degree, with the next highest number completing their bachelor's studies. The fewest respondents stated they had completed

doctoral studies, with no respondents mentioning high school studies. This indicates the willingness of respondents to pursue higher education, which is also a requirement for working in public institutions.

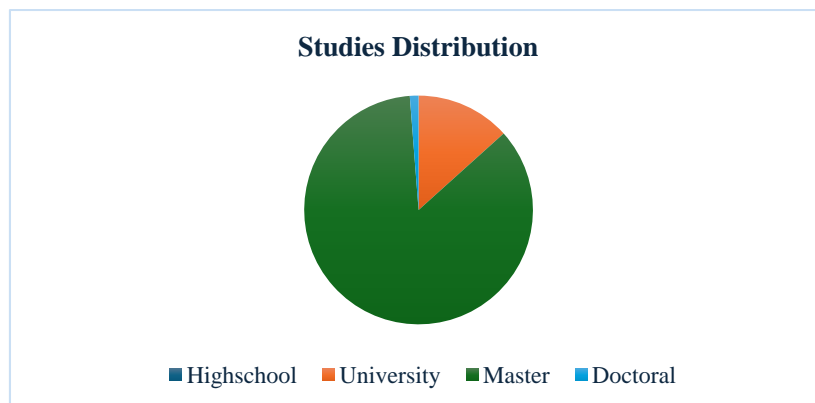


Figure 4. Studies Distribution

Source: own processing, questionnaire results.

Approximately half of the respondents (118) are employed in decentralized institutions, with a similar amount (115) working in state companies, while a small

number of respondents (14) work directly in ministries from the perspective of the institutions they work for.

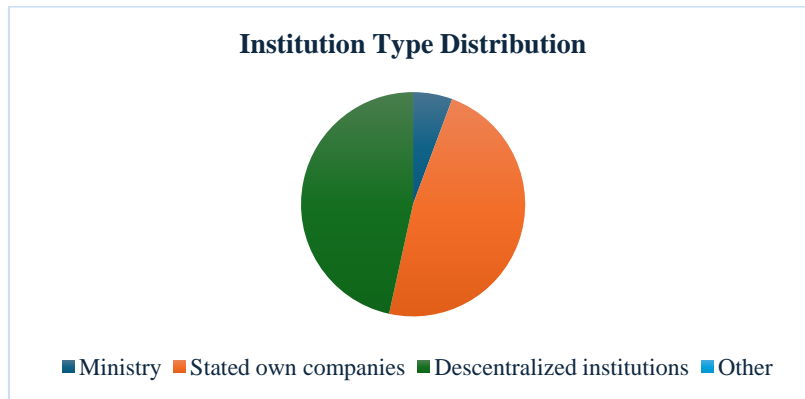


Figure 5. Institution Type Distribution

Source: own processing, questionnaire results.



Figure 6. Correlation Matrix

Source: own processing using R, questionnaire results.

In the Figure 6, we can see how correlated are the answers from the correlations closer to 1. we can see that we have correlation of 1 for same question. We estimate the Kaiser-Meyer-Olkin (KMO) to measure sample adequacy and the results are that an overall MSA of 0.86 suggests that there is a strong suitability of the data.

We see that also for each individual question we have high values, with a minimum of 0.76.

The Parallel Analysis (Figure 7) suggests a number of 2 to 7 factors, after analysing the Scree plot. The resultant factor analysis shows as this:

Scree Plot and Parallel Analysis

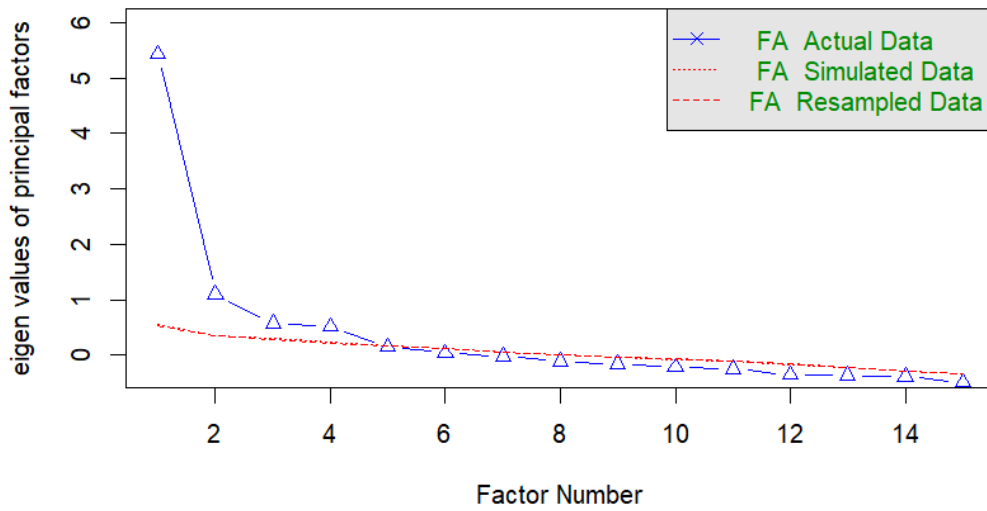


Figure 7. Scree Plot and Parallel Analysis

Source: own processing using R, questionnaire results.

Using a different method, we get the following image, where we can see that the 2 factors structure has a similar fit as the 3&4 factors structure:

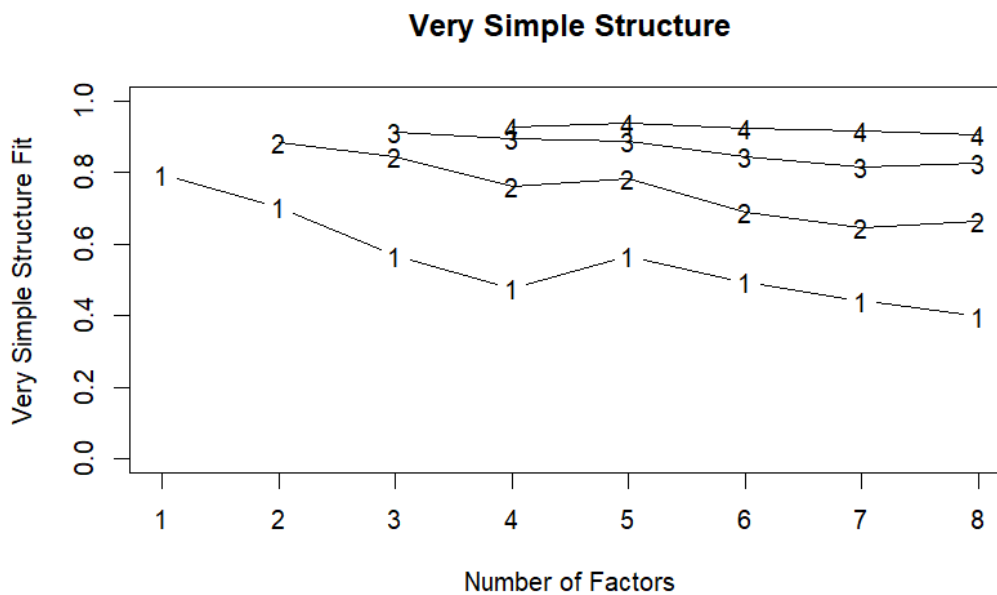


Figure 8. Very Simple Structure

Source: own processing using R, questionnaire results.

We choose 2 factors, we run the analysis and get the following:

Factor Analysis

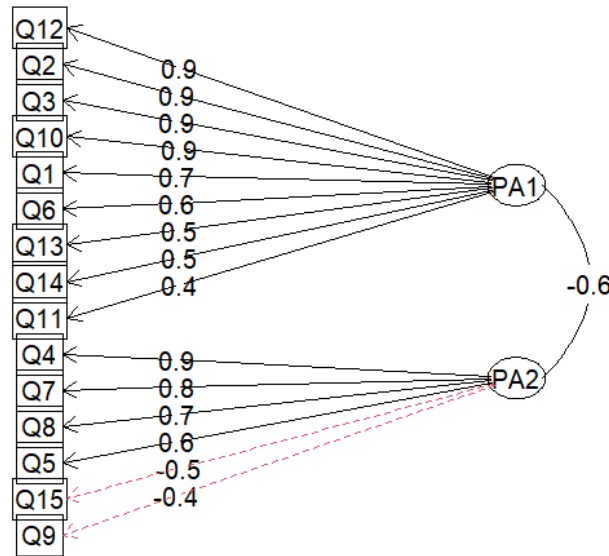


Figure 9. Factor Analysis

Source: own processing using R, questionnaire results.

The two identified factors would correspond to:

- PA1 – Link between values and actions;
- PA2 – Values.

So, the two factors are important for the survey respondents, even if not mentioned directly.

Public institutions in Romania are required, like counterparts in the European Union, to comply with strict regulations and independence standards in audit activities. The internal audit departments of these institutions play an essential role in ensuring the security of these standards and to ensure a comprehensive and impartial audit mission. This framework supports the idea that effective leadership is closely related to ethical conduct. As Brown and Trevino have pointed out in 2006, ethical leadership is essential for the establishment of a culture of trust and responsibility in public sector organizations. By consistently demonstrating ethical behaviours, organizational leaders reinforce the importance of integrity and accountability in audit processes. Thus, leaders' ethical behaviour is essential to maintaining the integrity and effectiveness of internal audit functions. However, the culture of rewarding ethical behaviour is poorly practised in public institutions, as leaders consider that such expectations (conformity) should not necessarily be rewarded. According to the authors, the practice of regulating incentives should be more frequently implemented, regardless of whether it is a reward or a punishment. Numerous studies have shown that the presence of rewards and incentives for unethical behaviour tends to increase the prevalence of such behaviours (Hegarty & Sims, 1978; Tenbrunsel, 1998). This can be significantly improved in Romanian institutions, which can lead to an improvement in the results of audit missions.

However, officials have a clear understanding of the role of the audit function within public institutions and

give careful consideration to the ethical standards associated with this role. Both auditors and managers frequently participate in training sessions and courses that provide valuable information on compliance and ethics in this profession. These courses are conducted by professional audit organizations, including the Authority for Public Supervision of Statutory Audit Activity, the Court of Accounts, and the Ministry of Finance. These governmental bodies ensure that auditors from public institutions receive proper training and communication, promoting a healthy environment and encouraging proactive communication. According to Tiura & Domnisor (2018), developing an ethical communication framework enhances transparency and accountability in audits, fostering a culture of trust and ethical behavior in organizations. They conclude that maintaining ethical standards to prevent and detect harmful practices is a shared responsibility of both auditors and the organizations being audited.

In recent years, significant efforts have been made to foster a healthy climate for reporting ethical violations within organizations. Both auditors and employees have mechanisms available to report these irregularities. One such mechanism is the role of the ethics advisor, which is becoming increasingly common in public institutions. This function provides both employees and auditors with the assurance that an independent party is monitoring for fraudulent activity. In addition to ethics advisors, whistleblowers play a crucial role in identifying and reporting unethical practices. Whistleblowers serve as an additional safeguard, ensuring that any breaches of ethical standards are brought to light and addressed promptly.

From the analyzed questionnaire, there are also several factors emerged that could potentially disrupt audit missions in public institutions.

Resistance to change may be a challenge when it comes to the reversal of internal audit tasks. As a person who can effect change, auditors may face resistance when proposing changes to current procedures or processes, which may prevent their proposals from being adopted (Van Peurse, 2005). Resistance to change can be caused by many factors. The main reasons for resistance are fear of unknown or loss of valuable things, such as job security, social status, or comfort in existing routines (Armenakis & Bedeian, 1999). The resistance of the auditors is a major obstacle in implementing their recommendations, and it can have a negative impact on the overall performance of the institution. In addition, this resistance may undermine the credibility of internal audit functions and potentially weaken their influence within the organization (Arena & Azzone, 2009). One good strategy for strengthening the role of internal audit functions is to increase their credibility, as audit functions must maintain strong autonomy under management and external pressures. This can be achieved by placing the internal audit team directly to the Audit Committee and the Board of Directors, while at the same time overseeing administrative matters within the range of senior management (Stewart & Subramaniam, 2010).

From the point of view of political factors that may affect the audit mission, it is known that the mission of internal auditors may be limited by political influences, particularly when some activities or departments have political implications, where the management or institutional positions elected by political figures are close to some politicians. In the evaluation of the effectiveness of public policy, there are cases where the public sector auditors compromised objectivity due to the strong influence of political objectives and manifestos (Power, 1997). There are known cases where pressure is exerted on auditors to withdraw from or resign from the audit function in order to prevent them from influencing the results of the audit function. This can be mitigated by having fixed mandates (which means that they are fixed in their positions by competition) and a fairly long mandate that can be withdrawn only in certain circumstances, thus protecting them from arbitrarily dismissing them (INTOSAI, Mexico's Declaration on Auditor's Independence).

It is true that in public institutions in Romania, a quite common challenge is related to insufficient or inadequate resources for audit missions. There are situations in which public institutions are constrained by financial limitations by not allocating adequate resources for the internal audit function, thus impacting its quality and scope (Alzeban & Gwilliam, 2014). Such budgeting, in the long run, can produce significant dysfunctions in audit engagements because the budgeting process of an audit is vital to the comprehensive planning of the audit engagement. Auditors need to carefully assess the nature, scope and timing of the procedures to be performed. This ultimately leads to the development of a robust and effective audit plan, ensuring its effectiveness (Bell et al., 1997). For internal audit to work, adequate funding, trained staff and access to the necessary data are also required. To ensure that these essential elements are met,

it is vital that resources are secured and the value of audit information is understood (Alzeban & Gwilliam, 2014). In addition, poor funding allocations may have a certain degree of influence on the independence of auditors and their interest in this profession. The future trend is heavily dependent on this function technology, which will cause major changes among auditors and reorganize the internal audit function.

Audit findings often reveal substantial compliance changes necessary within organizations. Consequently, these audits lead to implementations that must be adhered to by entity heads, particularly where major deficiencies are identified. Implementing significant changes requires financial and human resources; thus, well-resourced institutions can adopt audit recommendations more swiftly and effectively. Conversely, resource limitations may hinder full compliance. Additionally, organizational culture plays a crucial role; environments that encourage open communication and feedback tend to respond more promptly to audit tasks and objectives. Conversely, environments resistant to constructive criticism may experience delays or only partial implementation of audit recommendations.

Public and media scrutiny, particularly prevalent in Romania, can significantly influence institutional responses to audit findings, driving efforts to enhance perceived value in scrutinized areas. However, without change-oriented management that recognizes its responsibility to lead by example, such pressure alone may prove inadequate.

From a collaboration point of view, in the case of Romania, external bodies are represented by the Romanian Court of Accounts and by the control body of the minister to which the institution is subordinate. These internal and external audit missions involve discussions and dialogues in which auditors seek as much information and documents as possible from the respective institutions. In addition to this form of collaboration, there is also post-control collaboration in which institutions, through their representatives, discuss possible improvements that the auditing institution must make and how to implement the measures. Some public institutions have a culture of continuous improvement, which is consistent with transparency, accountability, and leaders, depending on the institution and leadership. In this case, such institutions are more likely to establish functional relations with the audit team. On the contrary, institutions with cultural defects could withstand external inspection. As in other answers, political factors are also seriously involved in this case, as political pressure or agendas can affect the level of cooperation with the audit team.

Can Intelligent Economy Improve Ethics in Public Institutions, and in the Internal Audit Function?

According to Wassie et al. (2024), Artificial Intelligence (AI) can enhance a company's internal audit by reducing workload, increasing objectivity, and delivering greater transparency. However, there is limited literature on the application of AI in internal auditing.

The internal audit function must evolve with technological advancements by incorporating smart tools, such as AI and other automation technologies. This implementation aims to perform necessary functions, automate repetitive tasks, and maximize worker efficiency.

6. CONCLUSIONS

The paper explores the ethics and independence of internal audit and control functions of public institutions in Romania. It emphasizes the critical role of ethical conduct and independence in ensuring the unbiased and effective audit missions essential to public institutions' integrity and credibility. Despite significant progress made through the EU directive and the concerted efforts to increase transparency and objectivity, challenges still remain, threatening the integrity of audit activities. The main findings of the investigation indicate that political influences, resistance to changes and insufficient resources are the main obstacles to maintaining the ethics standards and independence of internal audit. Political factors may undermine the objectivity of audits, particularly when political appointments affect the audit process. Resistance to change is often caused by fear of unknown or loss of security, which inhibits the implementation of the necessary audit recommendations. In addition, inadequate funding and resources have limited the scope and effectiveness of audit missions, which have a global impact on the quality and independence of audits. Ethical leadership and support for organizational culture are crucial to promote transparency, accountability and ethical behaviour in public institutions. Training and training in ethics is essential to enable auditors to navigate ethical dilemmas and maintain high standards of conduct.

In order to address these challenges, several measures are recommended. Firstly, by establishing an internal audit committee and directly entrusted to the board of directors, it can ensure the autonomy of the auditors from abuse of political influence. Secondly, in order to ensure a comprehensive and effective audit engagement, it is essential to ensure sufficient resources and funds for internal audit departments. Thirdly, the promotion of continuous improvement and open communication in public institutions can promote the implementation of audit recommendations and strengthen ethical practices. Finally, while considerable efforts have been made to align Romanian public institutions with international ethical standards, it is essential to overcome identified challenges in order to improve governance and public trust. By addressing political influences, resource constraints and cultural resistance, public institutions can strengthen internal audit functions and ensure that they meet the highest ethical and independent standards. This commitment to ethical audit not only improves the effectiveness of public institutions, but also strengthens public trust and confidence in governance. Future research should continue to explore these areas, focusing on developing strategies and frameworks to further promote ethical behaviour and independent audit in the public sector.

Limitations of the Study

The limitations of this research are primarily due to the limited number of responses and the scarcity of existing studies on this topic within the internal public audit departments of Romanian institutions. Despite these constraints, they did not hinder the formulation of valuable conclusions for the scientific community.

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