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The Implications of the Audit Committee

in the Financial Reporting of the Entities Listed on the Bucharest Stock Exchange

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Abstract

Over time social and economic events have reflected that the role of supervisory committees and especially of audit committees within entities is essential for ensuring sustainable development, increasing transparency and confidence.

The purpose of the paper is to study the role of the audit committee in the financial reporting process of the companies listed on the Bucharest Stock Exchange in the period 2015-2019.

The proposed econometric model shows that the management of the entity is oriented towards reducing deficiencies and non-compliances with internal policies and procedures, giving internal control a central role in the decision-making process.

Key words: *audit committee; reporting; risk management; Bucharest Stock Exchange*

JEL Classification: *M42, G34*

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Introduction

In the current economic environment characterized by uncertainty, the management of entities must be flexible, must have the capacity to manage risks and to present confidence to the business and social partners.

As mentioned by Bătae and Feleaga (2020), the audit committee is a key element that can ensure a high-performance and efficient internal audit function for the entity since the quality of financial reports depends on its characteristics (Macovei, 2006).

The study aims to analyze the relationship between the frequency of keywords used in the annual reports, selected by comparative analysis and the requirements of the legal framework applicable to audit committees.

In the context of the increasing use of "impression management" techniques in annual reports, respectively the discretionary presentation by information management (Merkl-Davies and Brennan, 2011), the results largely outline the reports user's expectations in terms of quality of the information thus disseminated and the efficient and effective use of the company's resources. One measure of this assessment is the preference of issuers of annual reports to focus on presenting key issues regarding the degree of compliance with a legal framework. A central element in ensuring compliance with the legal aspects and objectives of the company is the audit committee whose levers are drawn through the corporate governance mechanisms implemented at the level of each company.

It is essential to make an analysis of annual reports from a predefined list of key elements regarding the implications of the audit committee in the corporate reporting and proper functioning of an entity. The audit committee is seen as a guarantor of the achievement of the company's objectives, precisely for its role, as long as it is perceived positively from the perspective of integrity and independence requirements as well as from a high level of competence, experience, expertise and professional conduct. Under these conditions, managers will tend to assure investors of making optimal decisions regarding the allocation of the company's resources.

The proposed study is structured in three sections, as follows: the first section presents the analysis of the literature in the field, the second part presents the research methodology, and the last part discusses the results obtained, conclusions, limits and future research directions.

The purpose of the research is to study the role of the audit committee in the financial reporting process of the entities listed on the Bucharest Stock Exchange by analyzing the reports of boards of directors or directorates, as appropriate, from the perspective of the content and presentation of financial information but especially non-financial.

1. Specialized literature

Corporate governance, or the way in which an economic entity is run and controlled, is still a concept of great interest for both practitioners and academia given the many syncopes and interruptions in the functioning of market economies.

Over time, there have been enormous financial scandals, such as Enron, Parmalat, Worldcom, Gupta and, more recently, Wirecard, with a significant impact on society, mainly caused by incompetence, greed, ineffectiveness of auditing, ignoring the auditor's recommendations or the management failing to comply with audit procedures. Thus, the role of internal audit is essential in the sphere of corporate governance, in order to prevent accounting fraud and minimize risks (Bostan, Grosu, 2010).

According to COSO, the risk reflects the possibility of an event that would adversely affect the achievement of the entity's objectives. Thus, "there is a direct relationship between an entity's objectives and the controls it implements to provide reasonable assurance about their achievement (ISA 315)". Risk management is an ongoing process involving the entire entity, designed to reduce both the likelihood of adverse events and their impact if they cannot be avoided, the audit committee having an important role in controlling the company (Wicaksono, 2019).

By using the Corporate Governance Code, the Bucharest Stock Exchange (BVB) has developed a set of principles and recommendations (which influence the way the entity is managed, administered and controlled); transparency, trust and accountability are key factors in ensuring sustainable development and increasing market competitiveness. BVB's Corporate Governance Code issued in 2015 implements the principle of "Apply or explain", respectively a self-assessment of the entities on how the "provisions to be observed" are met.

From our perspective we can conclude that corporate governance is a set of rules that guides companies in order to maximize the goals of all stakeholders in the context of a long-term balance; these rules are based on ethics and social responsibility and are marked by organizational culture, but also culture, respectively legal requirements specific to the areas where the entities have their administrative headquarters or carry out their activity (Bogdan and Dumitrescu, 2020).

The general principles of corporate governance emphasize the obligation to set up the audit committee by entities admitted to trading on the regulated market, which can ensure the integrity of financial reporting, monitoring being one of the main tasks of the audit committee. Also, the Corporate Governance Code of BVB recommends to the listed entities the organization of internal audits in order to evaluate the efficiency of the risk management system periodically.

In Romania, Law no. 31/1990 provides the possibility to set up advisory committees for the Management Board and the Supervisory Board, such as the Audit Board. Articles 140^2 (1) and 153^{10} stipulate that this committee "can be created" which means that the establishment of the structure is not an imperative condition.

Instead, Law no. 162/2017 regarding the statutory audit of the annual financial statements and of the consolidated annual financial statements and of the modification of some normative acts, in article (1) stipulates that public interest entities must have set up an audit committee. Given that the financial statements prepared by public entities are subject to statutory audit, the existence of the audit committee is a mandatory requirement that must be met with a decisive role in conducting high quality statutory audits [(paragraph 24), Directive 2014 / 56 / EU].

Maintaining the independence of auditors is a mandatory aspect in order for financial audit missions to be effective and to provide reasonable assurance to stakeholders regarding the credibility of financial statements (Tănase, Ştefănescu, 2020).

According to article 29 paragraph (1) of Law no. 162/2017, independence is one of the main criteria in selecting the audit partner. Also, with reference to the audit committee, Law no. 162/2017 mentions in article 65, par. (2) and (5), the obligation of independence of both the audit committee and the majority of its members and chairman from the audited entity.

Independence is also a mandatory condition stipulated in company law, Article 140^2 (2) specifying that at least one member of the committee must be an independent non-executive director.

In the dualist management system, in which we discuss the existence of a directorate and a supervisory board, article 153^{10}, paragraph (3) of Law no. 31/1990 requires that at least one member of the advisory committees set up in areas such as audit, remuneration and nomination be an independent member of the supervisory board. The same piece of legislation states that at least one member of the audit committee must have relevant experience in applying accounting principles or financial auditing. Related to independence, in practice, this provision transposed into Romanian law has its origins in Directive 2014/56 / EU which emphasizes in Article 24 the importance of strengthening the independence and technical competencies of the audit committee by requiring a majority of members to be independent and at least one member should have auditing and / or accounting skills.

The audit committee is also responsible for the selection procedure of the financial auditor and has the power to inform the members of the board of directors or the supervisory board of the results of the statutory audit and to present its role in this process. Throughout the engagement, there must be effective communication between the statutory auditor and the audit committee that supports the whole process, removes shortcomings in internal control and minimizes the risk of material misstatement of the financial statements. In fact, EU Regulation no. 537/2014 (in Article 11) provides for the obligation to communicate in writing the additional report addressed to the audit committee (being one of the novelties implemented by this latest audit reform at European level).

2. Research Methodology

Our research approach aims at a more recent approach in the field of literature, in terms of analyzing financial statements in terms of content and presentation of financial information. Our analysis consists of an empirical approach to the annual reports published by a sample of companies listed on the Bucharest Stock Exchange.

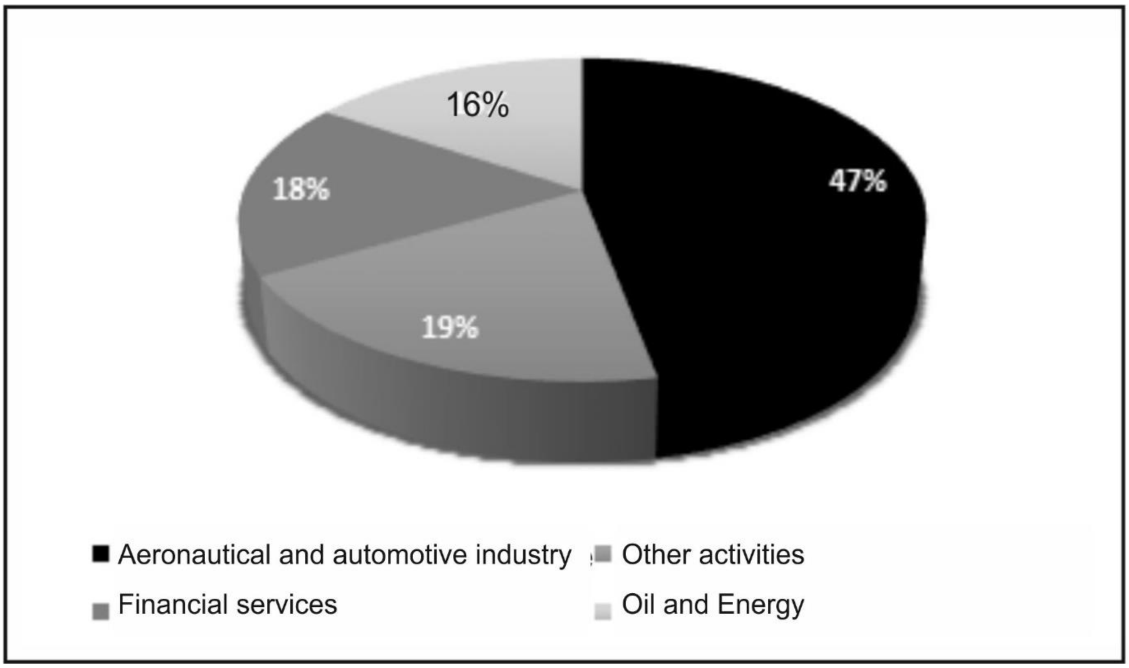
The approach is similar to that proposed by Lang & Lawrence (2015), aiming to analyze the association between textual attributes of annual reports and a number of characteristics specific to the companies considered in the sample, such as profitability, financial leverage or size of conducted operations.

The analyzed sample

The analyzed sample consists of a group of 51 companies listed on the Bucharest Stock Exchange highlighting the effects of four fields of activity. The selected companies are those that reported a positive financial result and are listed on the regulated market segment of BVB which counts a total of 84 listed companies.

According to ***Figure no. 1***, we notice that most of the analyzed entities, in proportion of 47%, carry out their activity in sectors that belong to a wider field, respectively the financial-banking field which includes banking activities, insurance, mutual investments, etc. However, the other areas of activity are balanced. In order to verify whether the results obtained can be affected by this relatively disproportionate structure of the sample, we will perform post-hoc analyzes to verify the differences in the areas of activity considered in the analysis.

Figure no. 1. The structure of the analyzed sample



Source: Own projection, based on the analyzed data

The data collected cover the period 2015-2019, respectively 255 observations included in the analysis. They are distributed equally each year given that for each of the 51 entities included in the analysis the data needed for econometric modeling were collected.

The data used in the textual analysis of the annual reports were obtained using the Nvivo 11 application and data on the financial situation of the sampled companies were collected manually from the annual reports available to the general public.

The analysis of the content of the annual reports was performed by using established *text mining* techniques. Therefore, we proceeded to the following research steps in order to collect the data necessary to obtain econometric results:

- ✓ studying the annual reports available to the general public;

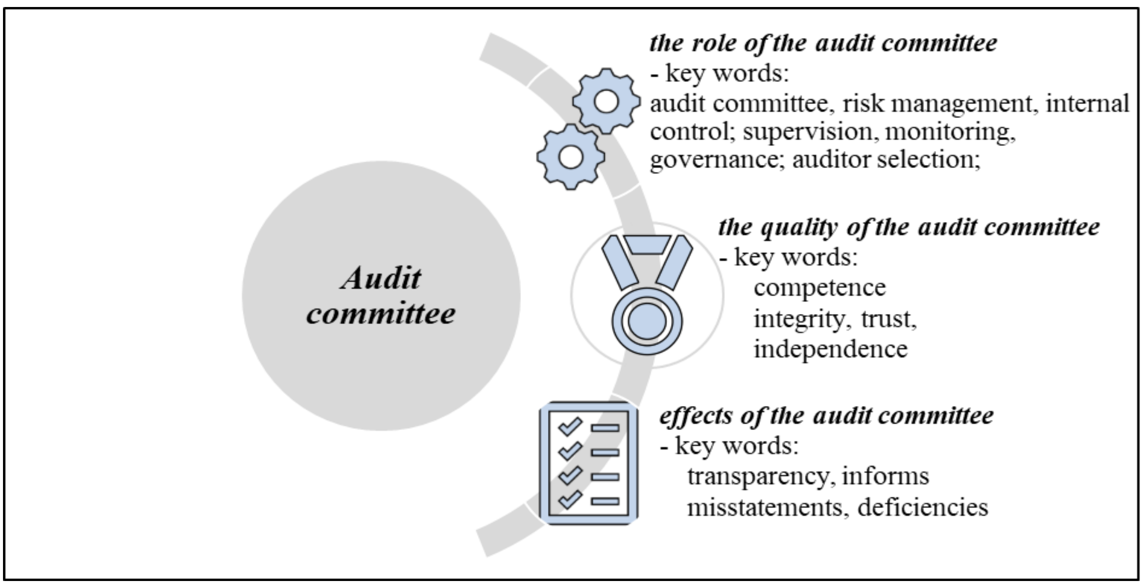
- ✓ counting the words used in all selected annual reports;
- ✓ establishing some key words, used in the econometric analysis, starting from the objective of the paper; In order to illustrate the role of the audit committee in the financial reporting process, we analyzed the text of the following legislative regulations identifying elements that define the framework of the audit committee, as described in **Table no. 1**.

Table no. 1. Legislative acts analyzed in order to establish the relevant keywords for defining the framework for carrying out the activities of the audit committee

Legislative Act	Description
Law no. 31/1990	Establishes a legal framework for the operation of companies including minimum principles and requirements for the establishment and operation of the audit committee as part of corporate governance mechanisms and processes.
Law no. 162/2017	Regulates the statutory audit of the annual financial statements and of the consolidated annual financial statements including the framework for defining the attributions of the audit committee according to art. 65.
EU Directive 2014/56/EU	It regulates the statutory audit of the annual financial statements and of the consolidated annual financial statements at the level of the acquis communautaire including the framework for defining the tasks of the audit committee according to Chapter X.
EU Regulation no. 537/2014	Completes the EU Directive 2014/56 / with specific requirements regarding the statutory audit of public-interest entities that is visibly oriented towards the role of the audit committee in the corporate governance mechanisms at the level of listed companies.
BVB Corporative Governance Code	It defines a set of principles and recommendations for companies whose shares are traded on the regulated market of BVB, including the importance of setting up an audit committee within the company in order to optimally manage possible conflicts of interest and to defend the independence of auditors.

Source: Own projection

Figure no. 2. List of keywords analyzed in the annual reports



Source: Own projection

- ✓ our analysis is summarized in the list of keywords transposed in ***Figure no. 2***;
- ✓ determining the frequency of keywords in each annual report considered in the analysis.

The Variables' Analysis

In order to test the proposed research hypothesis, we will analyze the correlation between the frequency of keywords and the characteristics of the companies included in the sample. As a first step we will start by identifying the most commonly used keywords for which we will estimate the main characteristics of companies that significantly influence the use of these words in annual reports. The selected keywords refer directly or indirectly to the role of the audit committee in the structures and processes through which companies operate. These words provide guidance on the conceptual or theoretical framework of the expectations of investors and other users of financial-accounting information regarding the mission of the audit committee at company level.

Table no. 2. Brief description of the significance of the variables included in the estimated models

Category	Variable	Variable Name	Description
Dependent Variable		*$Count_1$*	represents the number of occurrences of the keyword *audit committee*, for each annual report analyzed;
		$Count_2$	Represents the number of occurrences of the keyword *risk management* for each annual report analyzed; the audit committee guides its decisions for approving internal audit plans and respectively the selection of external auditors based on the risks assessed at the company level in order to prevent possible adverse effects of events that prevent the company from achieving its objectives;
		$Count_3$	represents the number of occurrences of the internal control keyword for each annual report analyzed; in accordance with the requirements specified in the "Apply or explain" form, respectively B.3 and B.6, it is made clear reference to the audit committee's task of assessing the effectiveness of the internal control system;
Explanatory Variables	Corporate Governance	Corporate Governance Score	is defined as a measure that reflects the degree to which the company applies the minimum requirements required by the BVB "Apply or explain" form with reference only to Chapter B which describes principles and recommendations regarding the audit committee and the internal audit function;
	Control Variables	ROA	represents calculations based on the financial information published in the annual reports considered in the analysis; it is calculated by reporting the net result to the total assets, having as source of information the annual reports of the studied companies;
		Size	is a quantity that expresses the extent of the company's operations; it is calculated by turning into logarithms the value of the total assets, starting from the data disseminated through the annual reports published by the companies included in the study;
		Financial Leverage	is a fundamental financial indicator in the financing decision of any company as it reflects an index of the degree of indebtedness of the company; it is calculated by reporting debts to the company's own capital according to the information provided through the variables included in the estimated models;
	Fixed Effects	Field of Activity	Variables used in order to enhance the relevance of the econometric model taking into account that both the field of activity and the dynamic of the economic environment represent key factors in explaining the management's decision regarding the annual report
		Period	

Source: Own projection, based on the analyzed data

As Hoogervost (2012) points out, annual reports are becoming increasingly complex, integrating both financial and non-financial information in order to give investors a clearer picture of how the company's resources are used and preserved.

Given the management's motivations to beautify the financial statements amid the negotiation of mandate contracts that provide for compensation and benefits in terms of positive results, Jones (2011) emphasizes the significant effect of the technique of presentation of financial statements, from the perspective of maximizing the informational value of the annual reports in their favor, either by omitting information or by distorting their presentation. One way to prevent these managers' cosmetics (to turn annual reports into real strategic marketing tools) is to analyze the content of these reports. This content analysis is no longer limited to outlining analytical models for analyzing financial data, given that annual reports incorporate a solid base of qualitative information that seeks to describe the effectiveness of the decision-making process, but also to a detailed analysis of issues. non-financial statements presented. In this direction, Beattie (2004) drew attention to the need for content analysis of annual reports by using *text mining* techniques.

Construction of the econometric model

In this regard, in this study we will proceed similarly to Lang & Lawrence (2015) who verified the main determinants of the complexity of the text integrated in the annual reports. However, our study does not refer to the total number of words or to different indices specific to *text mining* techniques, but is limited to the analysis of the impact of the characteristics of the analyzed companies on the frequency of use of the most frequently selected keywords. For this purpose, we will proceed to the estimation of a generalized linear model which is defined by the relation:

$$\mu_i = \beta_0 + \beta_1 \cdot x_{1i} + \cdots + \beta_p \cdot x_{pi}$$

where a link function is used that describes how the mean of the dependent variable, E $(y_i) = \theta_i$ depends on the linear predictor g $(\theta_i) = \mu_i$ (Dobson & Barnett, 2008). At the same time for the estimation of the linear predictor a variance function is also used which describes how the variance, σ (y_i), depends on the mean σ (y_i) = Ø · σ (θ), with the dispersion parameter Ø constant.

In the study we will proceed to estimate a generalized linear model using as a link function the Poisson function specific to the probability distribution of the variable that expresses the probability of occurrence of a number of events in a given period, or in our case, the occurrence a keyword in the sample of annual reports analyzed.

We cannot use the classical linear regression method estimated by the OLS method given that the dependent variable does not follow a normal probability distribution. The fact that the dependent variable, in the case of the estimated models, is represented by the frequency of the keywords in the analyzed reports, the Poisson probability distribution is the most appropriate. In the case of the Poisson model, the dependent variable follows a Poisson distribution.

Under these conditions, Y_i ~ Poisson (θ_i), E $(y_i) = \theta_i$, σ $(\theta_i) = \theta_i$, and g (θ_i) = log (μ_i). This last relationship highlights an essential aspect of how to interpret the results.

Reformulated, our model, based on the information described in **Table no. 2** on the variables used becomes:

$$\mu_i = \beta_0 + \beta_1 \cdot Scor_{guvernanta_{1i}} + \sum_{k=1}^{3} \beta_{k+1} \cdot Control\ variables_{k_{1i}} + \sum_{k=1}^{2} \beta_{k+1} \cdot Efecte\ fixe_{k_{1i}}$$

Once the parameters of the model have been estimated, analyzed and interpreted, we will carry out a post-hoc analysis of the average differences regarding the audit committee concept precisely to see if there are substantial differences between the different areas of activity regarding the audit committee and its role in the organizational structure.

The estimation of the generalized linear model is done using SPSS 22.0.

3. Results and interpretations

Described Statistics

In **Table no. 3** we summarize the main descriptive statistics regarding the frequency of use of selected keywords from the analyzed annual reports. They describe the management's preferences in preparing the annual reports, the role of the audit committee in the company, aspects of qualitative perception regarding the audit committee and the aspects of interest of the audit committee. These levels of analysis are outlined through the 14 keywords selected through the revision of the legislative framework on the audit committee grouped according to ***Figure no. 2***.

Thus, we note that the annual reports are oriented towards a prudent approach to the decision-making process giving internal control a central role precisely to prevent deficiencies in internal processes or non-compliance with internal policies and procedures, respectively non-compliance with existing legislation. The term *internal control* is the most used in the annual reports appearing on average about 59 times per report. At the same time, it is closely followed by the term *audit committee* which is used on average 55 times per report. At a greater distance is the term *risk management* which occurs on average about 35 times per report.

Table no. 3. Descriptive statistics: keywords extracted from annual reports

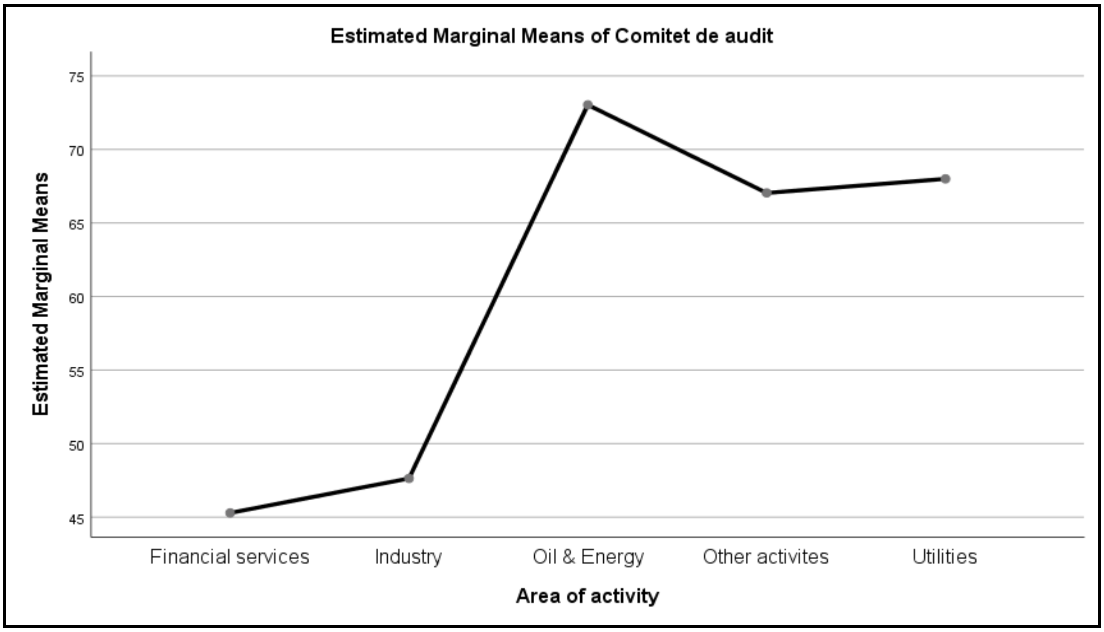
Word group	Key words	Index correlation matrix	Average	Median	Std. Dev.	Min	Max	Fractions	
								25	75
	Audit committee	(2)	54.91	50	51.07	0	328	23	76
Group 1	Internal control	(7)	59.09	46	60.46	0	438	26	73
	Risk management	(3)	35.40	25	37.88	0	309	14	48
	Supervision	(11)	17.44	6	39.47	0	406	1	15
	Governance	(12)	7.11	0	14.04	0	104	0	7
	Monitoring	(6)	3.91	1	8.89	0	63	0	4
	Auditor selection	(13)	2.54	1	4.35	0	47	0	4
Group 2	Competence	(8)	13.80	0	36.19	0	332	0	4
	Independence	(4)	1.58	0	2.70	0	15	0	2
	Integrity	(5)	1.44	0	5.04	0	41	0	1
	Trust	(16)	0.38	0	1.02	0	6	0	0
Group 3	Transparency	(10)	1.17	0	2.46	0	16	0	1
	Misstatements	(15)	1.11	0	2.53	0	17	0	0
	Deficiencies	(14)	0.27	0	0.65	0	4	0	0
	Informs	(9)	0.18	0	0.57	0	3	0	0

Source: Own projection, based on the data analyzed in SPSS 22.0

On the other hand, key terms such as *independence*, *integrity* or *trust* are significantly less common in annual reports averaging one per report.

These results should raise a number of question marks. First, it indicates to us that management considers the assurance obtained from external auditors to be sufficient, referring only sporadically to its own vision of the need to assure investors of an acceptable level of integrity. At the same time, they consider irrelevant the information on the implications of the independence of the departments that ensure and evaluate the risk management and functionality of the internal control systems through which investors could gain confidence in the management team and in the way of corporate financial communication.

Figure no. 3. Representation of the average regarding the appearance of the term audit committee in reports



Source: Own projection, based on the analyzed data

We also note that the term of *competence* is not considered to be as relevant in the presentation of annual reports with an average occurrence per report of approximately 14 times. In other words, the option of financial reporting managers is not aimed at clarifying the quality of human resources including the quality of the members of the audit committee or the management team.

Last but not least we find approximately one occurrence per report and for the key terms that reveal information on, either clues on some elements of fraud or clues on how the company's processes and organizational structure work to prevent these risks. Thus, key terms such as *misstatements* or *deficiency* are found at most once per report, although a better presentation of the related issues would provide a clearer picture of the company's mechanisms for preventing fraud or manipulation of reported data.

However, it seems that the practice of preparing annual reports differs significantly between areas of activity. After analyzing the information on the average occurrence of the key term audit committee in ***Figure no. 3***, we have found major differences between areas of activity such as the financial-banking sector compared to the extractive and energy industry sector. An explanation in this case would be the different legal framework to which companies in the two sectors of activity refer. It is well known that financial-banking regulations are much stricter regarding risk management and the implementation of internal control systems, which is why these companies address less the issue of the audit committee and the implications of its activity, precisely because there is a national much stricter regulatory framework compared to the extractive and energy industry.

After analyzing the statistics summarized in **Table no. 4**, we have found that the analyzed sample includes companies with a relatively modest level of profitability, with an average of 5.6%, with a level of 7.7% reached by about 75% of them. At the same time, we have noticed that our sample best characterizes the listed companies of medium size considering that the average construct regarding the size of the company of 19.93 is close to the median value of 19.43. In parallel we have observed a low level of indebtedness of the companies included in the sample given that 75% of companies have an average financial leverage of 0.826 much closer to the minimum value.

Table no. 4. Descriptive statistics on the characteristics of economic entities					
		Profitability	**Size**	**Leverage**	**Corporate governance**
Index correlation matrix		(17)	(18)	(19)	(1)
N		255	255	255	255
Average		0.056	19.93	0.924	23.44
Standard deviation		0.049	1.935	1.708	14.37
Min.		0.001	14.64	0.000	0
Max.		0.292	25.19	9.96	36
Fractions	25	0.018	18.70	0.154	7
	50	0.044	19.43	0.367	32
	75	0.077	21.02	0.826	36

Source: Own projection, based on the data analyzed in SPSS 22.0

On the other hand, we find a relatively high level of corporate governance score, limited to the requirements of Chapter B of the “Apply or explain” statement. This indicator implies an increased interest of the company in ensuring an independent audit committee, composed of competent and experienced members, who demonstrate professional conduct and a consistent baggage of expertise. Under these conditions it is true that the average of the first 75% of companies reaches the maximum level of the score which indicates an increased degree of compliance of companies with the requirements of the BVB Governance Code. However, these issues are not sufficiently addressed in the annual reports if we correlate these results with statistics on the frequency of use of key terms such as *audit committee*, *risk management* or *internal control* as shown in **Table no. 3**.

Correlation Analysis

In **Table no. 5** we present the results obtained regarding the existing correlations between the analyzed variables. **Table no. 3** and **Table no. 4** associate order indices for each variable included in the analysis.

According to the data on *Pearson* statistics, we observe a closer correlation, respectively 0.504, between the number of occurrences of the term *audit committee* and the number of occurrences of the term *internal control*. This result indicates that the supervision of activities to evaluate and monitor the effectiveness of internal control systems is a priority for the audit committee from the perspective of the report's issuers.

At the same time there is a closer correlation between the number of occurrences of the term *integrity* in the annual report and the number of occurrences of the terms *monitoring* (0.728) and *internal control* (0.649). In this way, the issuers of the annual report reveal the importance of integrity in the area of continuous monitoring of operations to be carried out in accordance with the legal framework and internal requirements. At the same time, they claim that integrity is a fundamental premise in the implementation and monitoring of an operational internal control system. Testing the design and operation of internal controls itself requires a reasonable level of integrity and independence of those responsible in this direction.

Equally the correlation of *0.779* between the number of uses of the term monitoring and the number of occurrences of the term *internal control* in the annual report reveals the need for continuous monitoring of the company's activity including through the implemented control systems.

We also identify a close correlation *(0.590)* between the number of occurrences of the term *internal control* and that of the term *transparency*. The truth is that an effective internal control system achieves its goal as long as it promotes a high level of transparency of the company. However, according to **Table no. 3** the term transparency is used sporadically which may mean that only some annual reports address this link.

Table no. 5. Correlation matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
(1)	1	0,097	.273**	0,069	.178**	.236**	.307**	0,086	.188**	0,109	0,120	.152*	0,073	0,068	-0,007	.182**	0,068	.334**	-0,012
(2)	0,097	1	.341**	.354**	.207**	.257**	*.504***	.228**	.167**	.225**	.372**	.223**	.475**	.198**	.310**	.159*	0,068	.141*	.161**
(3)	.273**	.341**	1	.155*	.276**	.349**	.392**	0,011	.123*	.189**	.214**	.270**	.262**	.125*	0,074	.289**	-0,003	.216**	.239**
(4)	0,069	.354**	.155*	1	.202**	.195**	.431**	.157*	0,110	.407**	0,027	.322**	.286**	.201**	.302**	.330**	-0,066	.174**	.318**
(5)	.178**	.207**	.276**	.202**	1	.728**	.649**	0,077	.145*	.285**	-0,011	.222**	.262**	-0,080	-0,005	.139*	0,068	.159*	-0,052
(6)	.236**	.257**	.349**	.195**	*.728***	1	.779**	.243**	.246**	.394**	0,070	.270**	.261**	-0,035	-0,079	.294**	0,100	.200**	0,082
(7)	.307**	.504**	.392**	*.431***	*.649***	*.779***	1	.393**	.319**	.590**	.217**	.458**	.449**	0,118	0,109	.447**	0,093	.273**	0,077
(8)	0,086	.228**	0,011	.157*	0,077	.243**	.393**	1	.172**	.218**	0,045	-0,110	.163**	.178**	0,084	.179**	0,022	0,118	0,045
(9)	.188**	.167**	.123*	0,110	.145*	.246**	.319**	.172**	1	.351**	0,033	.151*	.163**	-0,033	0,027	.181**	0,046	-0,003	-0,041
(10)	0,109	.225**	.189**	*.407***	.285**	*.394***	*.590***	.218**	.351**	1	-0,091	.620**	.498**	.128*	0,064	.648**	0,082	0,030	0,009
(11)	0,120	.372**	.214**	0,027	-0,011	0,070	.217**	0,045	0,033	-0,091	1	-0,087	0,068	-0,008	-0,085	-0,024	-0,042	.317**	0,045
(12)	.152*	.223**	.270**	.322**	.222**	.270**	*.458***	-0,110	.151*	*.620***	-0,087	1	.397**	.209**	.142*	.518**	-0,006	0,018	0,082
(13)	0,073	*.475***	.262**	.286**	.262**	.261**	*.449***	.163**	.163**	*.498***	0,068	.397**	1	.232**	.172**	.376**	-0,006	-0,006	0,109
(14)	0,068	.198**	.125*	.201**	-0,080	-0,035	0,118	.178**	-0,033	.128*	-0,008	.209**	.232**	1	.366**	.152*	0,045	0,056	0,087
(15)	-0,007	.310**	0,074	.302**	-0,005	-0,079	0,109	0,084	0,027	0,064	-0,085	.142*	.172**	.366**	1	-0,001	-0,071	-0,073	.154*
(16)	.182**	.159*	.289**	.330**	.139*	.294**	*.447***	.179**	.181**	*.648***	-0,024	*.518***	.376**	.152*	-0,001	1	-0,045	0,117	.210**
(17)	0,068	0,068	-0,003	-0,066	0,068	0,100	0,093	0,022	0,046	0,082	-0,042	-0,006	-0,006	0,045	-0,071	-0,045	1	.125*	-.236**
(18)	.334**	.141*	.216**	.174**	.159*	.200**	.273**	0,118	-0,003	0,030	.317**	0,018	-0,006	0,056	-0,073	0,117	.125*	1	.386**
(19)	-0,012	.161**	.239**	.318**	-0,052	0,082	0,077	0,045	-0,041	0,009	0,045	0,082	0,109	0,087	.154*	.210**	-.236**	.386**	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Own projection, based on the data analyzed in SPSS 22.0

As expected, there is a close correlation between the number of uses of the term *monitoring* and the terms *governance (0.620),* respectively *trust (0.648).* After all the purpose of monitoring processes is to provide investors with confidence signals about the company's compliance with the requirements of the legal framework and internal requirements arising from internal strategic policies, procedures and plans. This goal is one of the main pillars of corporate governance that lays the foundations for a harmonized combination of organizational processes and structures designed to achieve strategic and operational objectives.

The results obtained reflect the fact that there are no notable correlations between the number of occurrences of the analyzed key terms and the characteristics of the companies considered in the analysis, respectively the company's profitability, financing policy, amplitude of operations undertaken by the company or the degree of implementation of the minimum corporate governance requirements given by BVB Governance Code.

The Analysis of Marginal Effects

Table no. 6 presents the results obtained for the estimated generalized linear model, considering as a link function the *Poisson* function. Given that the most common key terms in the annual reports are *audit committee*, *risk management* and *internal control*, we summarized the construction of econometric models only around them. In addition, it should be noted that the three key terms are closely related as the audit committee contributes to the company especially in the area of risk management and internal control systems of the company (Pickett, 2005). It is the audit committee that must ensure that the company's organizational structure and processes outline an appropriate risk management system designed to support the implementation of an internal control system in order to provide reasonable assurance about the company's objectives.

In the first model the association between the number of uses of the term *audit committee* and the characteristics of the company is analyzed. Overall, the results show that the logarithm of the number of occurrences of the audit committee term is significantly influenced by all factors taken into account, with a significance level of 5%. It is noted that a more frequent use of this term is found more often in the case of companies with a higher profitability (0.020), in the case of larger companies (0.042) and in the case of companies with a higher degree of indebtedness respectively (0.001). Under these conditions we can appreciate that managers want an indirect association of the results obtained with the existence of an adequate corporate governance framework which provides a reasonable assurance that these results describe a sustainable economic evolution of the company. However, these marginal effects on the logarithm of the number of occurrences of the term *audit committee* in annual reports is relatively small.

Table no. 6. GLM model estimation results

Model	**Key words** (Dependent variables)					
	Audit committee		*Risk management*		*Internal control*	
Independent variables	*Coef.*	*St. dev.*	*Coef.*	*St. dev.*	*Coef.*	*St. dev.*
Constant	3.420	(0.14)	4.405	(0.18)	4.706	(0.12)
Corporate governance	-0.003	(0.00)	0.015	(0.00)	0.014	(0.00)
Profitability (ROA)	0.020	(0.00)	*-0.004**	(0.00)	0.011	(0.00)
Entities size	0.042	(0.01)	-0.020	(0.01)	0.015	(0.01)
Financial leverage	0.001	(0.00)	0.001	(0.00)	0.001	(0.00)
Fixed effects- *area of activity*						
Financial services	-0.481	(0.06)	-0.614	(0.06)	-1.476	(0.04)
Aeronautical and automotive	-0.233	(0.06)	-0.769	(0.06)	-1.482	(0.04)
Oil and Energy	0.198	(0.06)	-0.740	(0.06)	-0.761	(0.03)
Other industry	0.113	(0.06)	-0.979	(0.07)	-1.358	(0.04)
Fixed effects – *time*						
2015	-1.138	(0.03)	-1.011	(0.05)	-0.855	(0.03)
2016	*-0.208**	(0.03)	-0.081	(0.03)	*-0.038**	(0.02)
2017	-0.146	(0.02)	-0.179	(0.03)	-0.145	(0.02)
2018	-0.172	(0.02)	0.107	(0.03)	*-0.013**	(0.02)
2019	-1.138	(0.03)	-1.011	(0.05)	-0.855	(0.03)
** statistically insignificant for a significance level of 5%*						

Source: Own projection, based on the data analyzed in SPSS 22.0

It should be noted that the largest marginal effect (0.042) among company characteristics is determined by the variable that describes the size of the company. This result illustrates that managers understand the role of the audit committee in a company whose business model is much more complex, as is the case with companies operating in the extractive and energy fields. The Audit Committee is the one that makes a significant contribution to the ongoing oversight of organizational structures and processes designed to reduce the risks associated with this business model.

It should be noted that a high level of corporate governance score indicates a lower use of the term *audit committee* given a negative coefficient of -0.003, however relatively small. These results confirm once again that managers do not effectively manage corporate governance issues. Given that the sample analyzed is composed of companies that report a high degree of corporate governance score, but use the key term audit committee less, we believe that managers should turn their attention to corporate governance issues and illustrate more clearly the elements regarding the implications of the audit committee and of the risk management system and of the internal control system on the prospects of fulfilling the company's objectives.

On the other hand, we notice that the specificity of the fields of activity determines a much greater marginal effect than the individual characteristics of the analyzed companies, reason for which we appreciate that the way of drafting the annual reports is drawn rather by common practices established at the activity sectors. We note that, at the level of the extractive industry, managers prefer a more frequent use of the term *audit committee*, compared to the average of the entire sample of companies analyzed (0.198). In contrast, companies operating in the financial-banking sector use this term much less, compared to the average of the entire sample of companies analyzed (-0.481). However, if we look at the regression coefficients obtained for the other two key terms analyzed, we notice that both the financial-banking sector and the extractive and energy sectors describe similar preferences regarding the use of the key terms analyzed in the annual reports. These results reinforce our observation on the effects of regulatory differences in different business sectors. We must emphasize that the financial-banking sector is much better regulated than other sectors of activity which is why our expectations are that the annual reports will focus on disseminating information that reveals key issues for government regulatory and supervisory bodies. In these circumstances, managers have no interest in associating financial successes with the activities of the audit committee, but rather prefer to illustrate in the annual reports relevant information on compliance with the legal framework. These results do not confirm a derisory role of the audit committee within the company, but only reveal indirect indications of managers' preferences regarding the issues addressed in the annual reports.

Regarding the fixed effects determined by the time factor, we observe results similar to those determined by the specifics of the field of activity in which the analyzed companies operate. In other words, we appreciate that macroeconomic developments regardless of the sector of activity or the specificity of the business model, reveal throughout the sample that the issues addressed by the audit committee are not essential for company managers to be included in the annual reports. However, the fixed effects generated by the evolution of the economic context over time do not reveal significant differences from one year to the next.

Regarding the other key terms analyzed namely *risk management* and *internal control*, the results obtained are similar to those recorded for the *audit committee* term with a few exceptions. We note in this regard that the risk management aspects are insufficiently described in the annual reports by larger companies finding that there is a negative association between the logarithm of the number of occurrences of the term *risk management* and the size of the company (-0.020). This situation seems to be valid in all sectors of activity given that the fixed effects determined at the level of sectors of activity are similar.

At the same time, we notice in the case of companies operating in the extractive and energy industry we have noticed that the terms *risk management* and *internal control* are negatively influenced by the specifics of the industry. If in the case of the term *audit committee* we notice that the outlined practice at branch level provides a preference for the presentation in the annual reports of the issues regarding the audit committee, it seems that the terms *risk management* and *internal control* are not preferred by the issuers of the annual reports. These terms are less used in corporate reporting practice at the branch level compared to their average use at the company level. These results give us clues that the annual reports are true marketing tools used by managers. Managers prefer to highlight issues related to the audit committee, but do not pay attention to issues related to risk management or internal control systems despite these terms are closely linked from the perspective of theoretical models and the legal framework to the same extent. Managers choose to refer in the annual reports to the audit committee and its role within the companies. However, they omit the conclusive presentation of the risk management and internal control aspects which reveal exactly the implications of the audit committee's work within the company.

In **Table no. 7** we present the results obtained by performing the Wald Chi-Square test. These results prove the fact that the variables used in the GLM model are statistically significant. Overall, these results confirm that each influencing factor analyzed makes significant contributions to explaining the number of uses of key terms as p value = 0.

Table no. 7. Validation of the effect of covariance variables

	Model			
	models	(1)	(2)	(3)
Independent variables	df	Wald Chi-Square		
Corporate governance score	1	17.6	213.30	299.92
Profitability (ROA)	1	121.1	*2.99**	37.29
Entities size	1	46.6	6.44	7.27
Financial leverage	1	268.3	308.00	196.22
Area of activity	4	724.4	229.95	2362.5
Time	4	1.107.5	655.55	795.08
** statistically insignificant for a significance level of 5%*				

Source: Own projection, based on the data analyzed in SPSS 22.0

The exception is ROA whose marginal effect on the dependent variable is not statistically significant as it exceeds the significance threshold of 5% considered in the analysis. This effect is also observed in the corresponding GLM model in **Table no. 6** where we can observe an insignificant influence.

Regarding the validation of the estimated models in **Table no. 8** we summarize the results regarding the statistics performed. Overall, we observe that all three models are statistically validated given that the test statistic $\aleph^2_{calculated}$ is less than the tabulated critical value, respectively $\aleph^2_{0.005;\, 242}$ = 43.77 for a level of significance of 5%. We reach the same conclusion if we look at the statistics of the *Omnibus* test given that we have a *p value* close to *0*.

Table no. 8. Validation of GLM models

		(1)	(2)	(3)
Pearson Chi-Square	Value	10.128	7764	8840
	Df	242	242	242
	Statistic	41.85	32.08	36.53
Omnibus Test	Likelihood Ratio Chi-Square	2.620	2306	5012
	Df	12	12	12
	Sig.	0.000	0.000	0.000

Source: Own projection, based on the data analyzed in SPSS 22.0

In other words, our models reasonably describe the association relationship between the logarithm of the number of occurrences of key terms in the annual reports and respectively the influencing factors considered in the analysis.

Post-hoc analysis of differences

Table no. 9 shows the results of the post-hoc analysis of differences between different business sectors in terms of the number of uses of the key audit committee term in the annual reports.

The use of the key term *audit committee* in the annual reports reveals the largest differences between the companies operating in the financial-banking sector compared to those in the extractive and energy industry (-34.24). These differences are followed in terms of amplitude by the differences between companies operating in the extractive and energy sectors compared to those operating in the automotive and aeronautical industries (-24.31). These negative differences reveal that in the annual reports of companies operating in the extractive and energy industries the term *audit committee* is more common compared to the annual reports of companies operating in the aerospace industry. These differences are even bigger if we refer to companies operating in the financial-banking sector.

Table no. 9. Analysis of differences in the use of the concept of audit committee				
Area of activity		**Mean Difference**	**Std. Error**	**df**
Financial services	Aero and auto industry	-9.93[a]	1.281	1
	Extractive industry	-34.24[a]	1.674	1
	Other activities	-28.58[a]	1.540	1
	Utilities	-21.78[a]	3.265	1
Aero and auto industry	Extractive industry	-24.31[a]	1.728	1
	Other activities	-18.65[a]	1.401	1
	Utilities	-11.85[a]	3.338	1
Extractive industry	Other activities	5.66[a]	2.028	1
	Utilities	12.46[a]	3.413	1
Other activities	Utilities	6.80	3.536	1
a. the differences are statistically significant for a significance level of 5%				

Source: Own projection, based on the data analyzed in SPSS 22.0

Conclusions

The role of the audit committee is essential in ensuring the sustainability and sustainable development of companies in the current economic context. The present study aims at a more recent approach in the field of literature. Regarding the analysis of management reports in terms of content and presentation of financial information, we have studied the role of the audit committee in the financial reporting process of entities listed on the Bucharest Stock Exchange by analyzing the reports of the boards of directors or directorates from the perspective of the content and the way of presenting the information.

Thus, we have analyzed the annual reports of 51 entities listed on the regulated market of BVB in the period 2015-2019. To identify the keywords, we have analyzed the requirements of the legal framework applicable to audit committees and we have consequently built an econometric model using the Poisson probability distribution.

The post-hoc analysis of average differences was carried out precisely to see if there were substantial differences between the areas of activity in terms of the audit committee and its role in the organizational structure.

The results show that the annual reports focus on a prudent approach to decision-making giving internal control a central role, precisely to prevent deficiencies in internal processes or non-compliance with existing policies and procedures and the legislative framework in force.

However, these results should be carefully studied as they do not reflect a text association of the key terms analyzed but only an association of the number of occurrences in the annual report of these terms. An in-depth analysis of the annual reports can be performed with the help of specialized applications, which can measure the degree of association in the same sentence of the key terms used; that analysis was not the subject of our study.

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