
Interdependencies between corporate governance and financial audit: evidence from the Romanian Stock Exchange

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Abstract

The purpose of this research is to provide evidence about the relationship between the financial audit and corporate governance indicators. The study uses data from entities listed on the Bucharest Stock Exchange in Romania, which have both a one-tier system and a two-tier system management. The study aims to detect the interdependencies between financial audit (measured through the audit fees) and specific corporate governance indicators, such as the CEO/chair duality, the existence of the audit committee, the number of executive members from the board of directors or other characteristics of the board that are part of the corporate governance process. As there is a correlation between audit and corporate governance indicators, the research is conducted using a simultaneous equation model for the listed entities that have an obligation to report their individual financial statements using the IFRS approach. The data is manually collected from both the entity's individual financial statements and corporate governance statement. The results showed mixt evidence. While there is a negative relationship between the audit fees and the number of executive board members, ambiguous results are found for the other board characteristics. The explanation can be attributed to the fact that there is an important problem regarding data availability on the Romanian market and to a lack of transparency in the reporting process.

Keywords: audit fees, corporate governance, tier management system, Romania, Board characteristics, IFRS approach

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