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AN ANALYSIS OF THE RELATIONSHIP BETWEEN AUDIT COMMITTEE CHARACTERISTICS AND THE LEVEL OF ASSURANCE OF THE SUSTAINABILITY REPORT. CASE STUDY FOR COMPANIES LISTED ON THE BUCHAREST STOCK EXCHANGE

MIHAELA NEACȘU
Alexandru Ioan Cuza University of Iasi
Iasi, Romania
mihaelaneacsu08@yahoo.com

IULIANA EUGENIA GEORGESCU
Alexandru Ioan Cuza University of Iasi
Iasi, Romania
iuliag@uaic.ro

Abstract
Our study aims to examine the effects of audit committee characteristics on the voluntary external assurance (SRA) of sustainability reports or annual activity reports for 59 companies listed on the Regulated market of the Bucharest Stock Exchange (BSE), in the Premium, Standard, and Int'l categories, between 2018 and 2022. Using regression analysis, we found that audit committee independence and financial expertise are inversely related to the level of SRA, and the size and frequency of audit committee meetings significantly and positively influence SRA. Based on these findings, we believe that an increase in companies' focus on improving audit committee characteristics would have a positive effect on the quality and credibility of sustainability reporting. Note that our study is for the first time investigating the potential links between the quality of the audit committee and the voluntary external assurance of sustainability reports in the case of Romanian companies.
Keywords: *audit committee; sustainability report; assurance.*
JEL Classification: M420, M410, M400.

1. INTRODUCTION

Business development strategies have diversified due to society's increasing awareness of environmental and social issues, climate change, natural disasters, limitation of natural resource (Seuring and Müller, 2008; Kolk and Tulder, 2010; Junior *et al.,* 2014). Considering this situation, sustainability reporting becomes a vital instrument for organisations to provide transparent communication with investors, especially about social and environmental performance (Junior *et al.*, 2014). Some researchers (Barrett, 2005; Seuring and Müller, 2008) argue that sustainability reporting has influenced the decision-making process of investors concerned not only about economic issues, but also about environmental and social issues.

However, various researchers (Lyon and Maxwell, 2006; Hahn and Lülfs, 2014) believe that the credibility of reports is often questionable, because in some cases, companies only publish reports for social and environmental advertisement purposes. Farooq and Villiers (2017) argue that external assurance would be the solution to build trust in sustainability reporting. This study investigates the link between audit committees and sustainability reporting assurance, considering that an additional impact can be made by audit committee characteristics – as opposed to the board of directors and the existence of sustainability committees – in the voluntary assurance of sustainability.

While companies initially focused only on profit maximisation, nowadays they focus on economic, social, and environmental issues, also known as the Triple Bottom Line (TBL) (Baroroh *et al.,* 2022). Some researchers (Alsayegh *et al.*, 2020; Vieira and Radonjič, 2020) believe that companies' participation in sustainability and non-financial reporting activities is geared towards advertising themselves on the market, building reputation and legitimacy, enhancing competitiveness, and incentivising employees. Sustainability reporting becomes a means to disclose transparent information about how the company is effectively managing its business.

Sustainability reporting is also an important communication tool used to demonstrate transparency, accountability, and effective corporate management, being specifically intended for investors (Subramaniam *et al.,* 2006; Amran *et al.*, 2014; Chen *et al.,* 2016; Romero *et al.*, 2019; DeSimone *et al.*, 2021). Sustainability reporting is committed to supporting investor decision-making by interpreting environmental as well as economic and social information (Clarkson *et al*., 2008).

The quality of sustainability reporting is generally not highly valued (Kolk, 2008), as it is believed to support company management rather than investor interests (Belal, 2002). Managers are suspected of withholding information to hinder the market's ability to monitor their performance (Karamanou and Vafeas, 2005), leading to low trust in organisations in relation to their responsibilities to society and the environment (Amran *et al.*, 2014). Thus, in this context, the need for credible sustainability reporting is evident (Sawani *et al.,* 2010). In principle, companies' sustainability reporting should prove ethical behaviour through the sustainability practices they implemented (Amran *et al.*, 2014) and transparency, reducing opportunistic behaviours (Martínez-Ferrero *et al.*, 2015) and the unethical manipulation of earnings (Rezaee and Tuo, 2019).

Managers face the challenge of enhancing credibility and increasing the quality of sustainability reporting to address growing investor concerns (Cohen and Simnett, 2015). Chih *et al.* (2008) and Bozzolan *et al.* (2015) argue that organizations that are geared towards sustainability practices are more concerned with creating value for investors by providing transparent and reliable financial information.

Al-Shaer and Zaman (2018) and Junior *et al*. (2014) argue that, in order to appease the concerns of investors and regulators, there has been growing interest in reporting sustainability matters and the external assurance thereof, which leads to increased credibility of reports. Although there is an increasing demand for external assurance of sustainability reporting (DeSimone *et al.,* 2021), this process is still in its infancy. Kiesnere and Baumgartner (2019) find that sustainability assurance intensifies the sustainability management and reporting system and the internal audit function brings value to the company by improving risk management.

Our study provides empirical evidence on the relationship between audit committee characteristics and sustainability reporting assurance building on cross-sectional research conducted by Al-Shaer and Zaman (2018). The objective of the study is to assess the impact of the audit committee on sustainability reporting assurance in relation to the board of directors' characteristics of 59 companies listed on the BSE Regulated Market during 2018-2022. We believe it is important to investigate the role of audit committees in influencing corporate decisions concerning the external assurance of sustainability reporting. The results of the study highlight that both the independence (ACIND) and financial expertise (ACEXP) of the audit committee negatively and significantly influence the external assurance of sustainability reporting (SRA) ($p < 0.01$). In contrast, the frequency of meetings (ACMEET) and the size (ACSIZE) of the audit committee positively and significantly influence the level of assurance of sustainability reporting ($p < 0.1$).

Our paper is structured in five sections. The following section provides a brief literature review and outlines the research hypothesis. Section 3 presents the companies included in the sample and the research methodology. Section 4 contains the results of the study and section 5 presents the conclusions and limitations of the study.

2. LITERATURE

2.1 Current state of research on sustainability reporting and audit

Sustainability has become a means to increase returns for investors and improve business performance. This paper focuses on the importance of the audit committee and capturing its role in increasing the credibility of the sustainability report by means of an analysis on companies listed on the Bucharest Stock Exchange (BSE). In the literature, we identify concerns about the analysis of the relationship between the quality of sustainability reporting and the quality of post-audit financial reporting (Al-Shaer, 2020), between the quality of the audit committee and the quality of the sustainability report (Buallay and AlDhaen, 2018; Kuzey *et al.*, 2023, Meutia *et al.*, 2023), the importance of external assurance of sustainability reporting (Simnett *et al.,* 2009; Junior *et al.,* 2014; Al-Shaer and Zaman, 2018; Zaman *et al.*, 2021).

Al-Shaer (2020) investigates whether the relation between sustainability reporting quality and post-audit financial reporting quality is contingent upon the audit activity. The study suggests that, in fact, the quality of sustainability reporting is dependent on the factors considered by auditors in their audit risk assessment practices. Companies that put considerable effort and resources into producing high quality sustainability reports demonstrate a consistent attitude towards quality, leading to less effort for auditors in verifying financial reports, while also reducing business risks. Kuzey *et al.* (2023) find that the independence and expertise of the audit committee reinforce the relevance of the value of the sustainability report, and investors take into account the quality of the audit committee. Thus, the structure of the audit function plays an important assurance role in the value relevance of sustainability reports. Researchers argue that the quality of the audit committee build confidence in sustainability reporting, extending audit responsibility beyond financial reporting.

Junior *et al.* (2014) argue that voluntary external assurance can enhance the credibility of sustainability reports. Along the same lines, Al-Shaer and Zaman (2018) and Zaman *et al.* (2021) demonstrated the importance of the audit committee, arguing that assurance increases the credibility of sustainability reports. Researchers believe that audit committee characteristics have an additional impact compared to those of the board of directors and the existence of sustainability committees in voluntary sustainability assurance. Erin *et al.* (2022) argue that the quality of both the board of directors and the audit committee significantly influences the quality of sustainability reporting, and that external assurance contributes to the quality of reporting of companies listed on the Nigerian Stock Exchange.

Perego and Kolk (2012) demonstrate that audit practices become important considering external institutional pressures as well as companies' internal resources and capabilities. The evidence provided also suggests that many national companies project a symbolic image of accountability through assurance, undermining the credibility of these practices. In contrast, Simnett *et al.* (2009) argue that voluntary external assurance of sustainability reporting is a function of company, industry or country factors. Zuñiga-Pérez *et al.* (2020) demonstrate that sustainability reporting has a positive effect on the liquidity of companies in the Chilean market, and that auditing these reports does not influence liquidity.

Trotman and Trotman (2015) note the audit committees' concern with sustainability-related processes and the accuracy of sustainability reporting, and

Baroroh et al. (2022) argue that an increase in the frequency of audit committee meetings leads to an increase in the quality of sustainability reporting.

The study by Meutia *et al.* (2023) demonstrates that audit committee independence positively influences sustainability reporting, while the financial expertise of the committee negatively and significantly influences sustainability reporting of commercial banks in Indonesia. Amoako *et al.* (2023) also argue the importance of the audit committee in drafting a quality sustainability report. The researchers' study shows that internal audit effectiveness, risk management process and sustainability responsiveness have a positive relationship with sustainability audits. Researchers Buallay and AlDhaen (2018) conducted a study examining the relationship between audit committee characteristics and the sustainability reporting levels of 59 banks in the Gulf countries during 2013-2017. They demonstrated that the size, independence, and number of audit committee meetings have a significant and positive impact on the level of sustainability reporting, whereas the financial expertise of the audit committee significantly and negatively influences the sustainability report.

We note a great deal of interest in the literature regarding the analysis of the relationship between auditing and sustainability, with researchers' debates mainly focusing on the relationship between audit committee quality and sustainability reporting quality. This study provides an opinion on the role of the audit committee in the external assurance of sustainability reporting, in order to assess the credibility of sustainability reporting in Romania between 2018-2022.

2.2 Hypothesis

Although the role of audit committees in relation to external assurance reporting has been the subject of many articles (Simnett *et al.,* 2009; Junior *et al.,* 2014; Al-Shaer and Zaman, 2018), in Romania this topic has not yet been discussed. It was noted that there is a positive relationship between audit committees and financial and audit reporting, and that the external assurance of sustainability reporting helps to protect the reputation of the audit committee. In order to moderate the demands of investors and reporting institutions, companies are increasingly revealing their sustainability concerns and turning to the external assurance of these reports (Junior *et al.,* 2014; Al-Shaer and Zaman, 2018, Zaman *et al.,* 2021; Erin *et al.,* 2022).

Our study measures the credibility of sustainability reports by assessing the impact of audit committee on the assurance of sustainability reporting in relation to the characteristics of the board of directors of 59 companies listed on the BSE Regulated Market in the Premium, Standard and Int'l categories during 2018-2022. To achieve the objective of the study, we analysed the activity reports and sustainability reports published by the companies included in the study either on their own websites or on the BSE website, accessed on 20.03.2024, over the 2018-2022 period.

The quality characteristics of audit committees with respect to qualification, expertise, diligence, independence, size and number of meetings can be deemed important resources in increasing the value of sustainability reports (Buallay and AlDhaen, 2018; Kuzey *et al.,* 2023, Meutia *et al.,* 2023). Researchers Bédard and Gendron (2010) and Turley and Zaman (2004) argue that the expertise, independence, and size of the audit company are characteristics in exercising authority within the company. The expertise of the audit committee is seen as a characteristic designed to influence the quality of the assessment of sustainability matters, but also to increase the quality of information on results (Abbott *et al.*, 2004; Bédard and Gendron, 2010). The Governance Code of BSE, Romania, recommends that, in the case of Premium Category companies, the audit committee must consist of at least three members and the majority of audit committee members have to be independent. Various researchers (Abbott *et al.,* 2004; Turley and Zaman, 2004; Meutia *et al.*, 2023) believe that audit committees comprised of non-executive and independent persons are more likely to exercise control over company management for quality and transparent reporting. Previous research (Beasley *et al.*, 2009, Zaman *et al.,* 2011) has demonstrated the importance of audit committees in monitoring the financial reporting process, and the frequency of audit committee meetings has been associated with quality reporting.

In order to improve the quality of sustainability reporting, companies are interested in institutionalizing sustainability practices by involving the organizational structure in the reporting process (Adams, 2002; Amran *et al.,* 2014; Fernandez-Feijoo *et al.*, 2018; Mio *et al.,* 2020). Al-Shaer and Zaman (2018) argue that the existence of sustainability committees and independent boards of directors influence the voluntary external assurance of sustainability reporting. In examining the voluntary external assurance of sustainability reporting, risk and corporate governance oversight and sustainability reporting are seen as interdependent. Audit committee members and independent board members work together in overseeing and monitoring reporting risks in order to protect their reputations.

Our research hypothesis is as follows:

H*$_1$: The level of assurance of sustainability reporting is positively influenced by audit committee characteristics to a greater extent than the boards', and the existence of sustainability committees.*

3. METHODOLOGY

3.1 Data and variables

To assess the relationship between audit committee characteristics and sustainability reporting assurance, we collected data from sustainability reports and annual activity reports published by the companies included in the study on their own websites and on the BSE website, www.bvb.ro accessed on

20.03.2024) over the 2018-2022 period. At the time of this study (April 2024), out of the total of 86 companies whose securities are traded on the Regulated Market of the BSE, in the Premium, Standard and Int'l sections, 27 companies were excluded from the sample, of which 3 companies were excluded because they had no reports published during the period under review, 19 companies had not established an audit committee, and 5 companies were undergoing reorganization or insolvency. Table 1 shows the grouping of the sampled companies based on their field of activity.

Table 1. Classification of the companies included in the study sample by fields of activity

No.	Field of activity	Total	Included in the study	Eliminated
1	Consumer goods industry	13	11	2
2	Oil and energy industry	26	14	12
3	Basic materials, constructions, and utilities	21	16	5
4	Services	6	5	1
5	Financial services	16	12	4
6	Technology and telecommunications	4	1	3
	Total	86	59	27

Source: own processing

All variables used in this study were selected in line with the literature, which allows us to compare the results with previous research. The dependent variable is the external assurance of the sustainability report or annual activity report (SRA). The independent variables include audit committee size (ACSIZE), audit committee independence (ACIND), financial expertise of the audit committee (ACEXP), audit committee meeting frequency (ACMEET), existence of the sustainability committee (SUSCOM), size of the board of directors (BODSIZE), board independence (BODIND) and board meeting frequency (BODMEET). The control variables used are company size (SIZE), return on assets (ROA), leverage (LEV) and industry classification (IND). Table 2 provides a summary of the variables used in the study.

Table 2. Description of the variables

Variables	Description	Literature
Dependent variable		
External assurance of the sustainability report or annual activity report (SRA)	Value is 1 if the report is externally assured, otherwise the value is 0	Simnett *et al.* (2009); *Junior et al.* (2014); Al-Shaer and Zaman (2018)

Variables	Description	Literature
Independent variables		
Size of the audit committee (ACSIZE)	Total members in the audit committee	Al-Shaer and Zaman (2018); Zaman *et al.* (2021); *Meutia et al.* (2023)
Independence of the audit committee (ACIND)	Ratio of independent members in the audit committee	Al-Shaer and Zaman (2018); Kuzey *et al.* (2023); Meutia *et al.* (2023)
Financial expertise of the audit committee (ACEXP)	Ratio of members with financial expertise in the audit committee	Al-Shaer and Zaman (2018); Kuzey *et al.* (2023); Meutia *et al.* (2023)
Audit committee meeting frequency (ACMEET)	Number of meetings over the course of a year of the audit committee	Al-Shaer and Zaman (2018); Kuzey *et al.* (2023); Meutia *et al.* (2023)
Existence of the sustainability committee (SUSCOM)	Value is 1 of there is a sustainability committee, otherwise the value is 0	Al-Shaer and Zaman (2018)
Size of the board of directors (BODSIZE)	Number of members in the board of directors	
Independence of the board of directors (BODIND)	Ratio of independent members in the board of directors	
Meeting frequency of the board of directors (BODMEET)	Number of meetings over the course of a year of the board of directors	
Control variables		
Company size (SIZE)	Natural logarithm of the total assets	Al-Shaer and Zaman (2018); Hidayah *et al.* (2019)
Return on assets (ROA)	Net result/Total assets	Al-Shaer and Zaman (2018)
Leverage (LEV)	Total debt/Total assets	
Industry classification (IND)	Categorical variable from value 1 to value 6, function of the industry type: value 1 for companies in the consumer goods industry, value 2 for companies in the oil and energy industry, value 3 for companies in the field of constructions and utilities, value 4 for companies in the service industry, value 5 for companies in the field of financial services, and value 6 for companies in the technology and telecommunications industry.	Sierra *et al.* (2013)

Source: own processing

3.2 Descriptive statistics and correlations

Table 3 calculates the mean, standard deviation, and minimum and maximum values of the independent and dependent variables for the selected population. The mean value was calculated both for the whole sample and by industry. We note that the mean value of the dependent variable, SRA, across the entire sample is 0.081, i.e. only 7 companies have externally audited their activity or sustainability report. Out of the whole sample analysed, companies in the oil and energy industry have the highest share in the total number of externally audited activity or sustainability reports (28.57%).

Regarding the audit committee variable, we note that the mean value of audit committee size is 2.92, which indicates that there are on average about 3 members in the audit committee of the companies included in the study. Although the Corporate Governance Code (BSE, 2015) recommends a minimum of 3 members in the audit committee, we note that this recommendation is not followed in the case of BSE listed companies in the Premium category. In contrast, companies in the oil and energy industry have at least 3 members in the audit committee, as do the companies that have opted for external assurance of the annual activity or sustainability report.

The ACIND variable has a mean value of 0.82, which indicates a high level of independence of the audit committee members. The mean value of the ACEXP variable is 0.82 and that of the ACMEET variable is 5.84, indicating that audit committees have members with financial expertise and the average number of meetings thereof was of 6 meetings. The mean value of the SUSCOM variable (0.112) suggests that the number of sustainability committees is very low among the companies included in the study. We note that this committee is predominantly found in companies in the oil and energy industry (0.31), but also in companies that have opted for external auditing of their activity reports or sustainability reports (0.92).

On average, the board of directors includes 5 members (BODSIZE = 5.23). Board independence (BODIND) for the companies included in the study is 0.51, which means that half of the board is independent, and the average number of annual meetings (BODMEET) is 18. We note that in companies with externally audited activity or sustainability reports, the mean value of the BODIND variable (0.47) is lower than that of unaudited ones (0.51), which means that the boards of companies with unaudited reports are more independent.

Table 3. Descriptive statistics

All companies	N	SRA	ACSIZE	ACIND	ACEXP	ACMEET	SUSCOM	BODSIZE	BODIND	BODMEET	SIZE	ROA	LEV
Mean	295	0,0810	2,915	0,824000	0,821000	5,8370	0,1120	5,227000	0,5080	17,9250	8,733	0,054	0,318
St. Dev.	295	0,2740	0,586	0,246000	0,264000	4,5320	0,3160	1,744000	0,3020	13,8240	0,949	0,085	0,302
Min	295	0,000	2,000	0,000000	0,333000	0,0000	0,0000	1,000000	0,0000	0,0000	6,213	-0,218	0,002
Max	295	1,0000	7,000	1,000000	2,000000	28,0000	1,0000	11,000000	1,0000	81,0000	11,097	0,415	2,063
Industries													
Consumer goods industry	13	0,0181	2,909	0,684847	0,772724	4,8545	0,1090	4,563636	0,4354	1,3545	8,430	0,047	0,453
Oil and energy industry	26	0,2857	3,142	0,812142	0,692380	8,2285	0,3142	6,242857	0,4447	2,33714	9,349	0,054	0,221
Constructions and utilities	21	0,0375	2,800	0,941666	0,872917	3,6625	0,0375	5,112500	0,5021	1,2350	8,286	0,057	0,263
Services	6	0,0000	2,800	0,800000	0,799995	3,1200	0,0000	4,840000	0,6857	7,4400	8,236	0,016	0,280
Financial services	16	0,0000	2,850	0,819444	0,938888	8,1666	0,0333	4,816667	0,6006	2,7050	9,290	0,074	0,348
Technology and telecommunications	4	0,0000	3,000	0,800000	1,000000	3,6000	0,0000	7,000000	0,2857	2,2000	6,346	0,039	0,864
SRA													
SRA = 0	271		2,8856	0,845079	0,846739	5,4464	0,0405	5,084871	0,5112	17,51292	8,663	0,055	0,321
SRA = 1	24		3,2500	0,583333	0,527780	10,250	0,9166	6,833333	0,4718	22,58333	9,519	0,044	0,280

Figure 1 illustrates the correlation matrix between the variables used in our study. We note that SRA is positively and significantly correlated with the variables SUSCOM (0.76), BODSIZE (0.27), ACMEET (0.29), SIZE (0.25) and ACSIZE (0.17), and negatively and significantly correlated with the variables ACEXP (-0.33), ACIND (-0.29) and IND (-0.18). The highest correlation is between SRA and SUSCOM (076), which means that both variables show similar aspects.

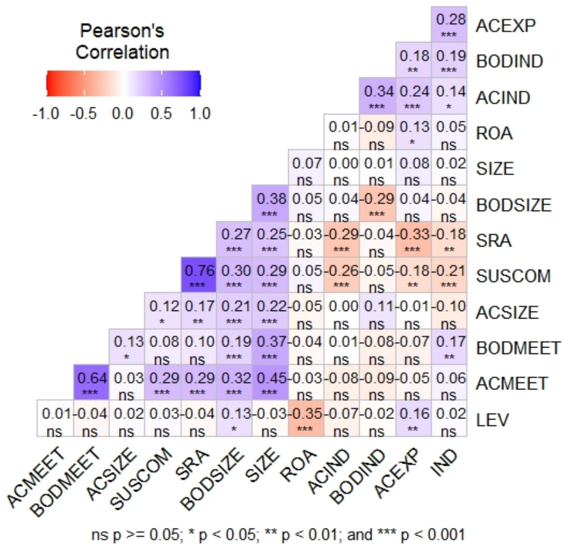

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Figure 1. Correlation analysis

3.3 Method

This subsection presents the research method. In order to test whether the contribution of audit committee in assuring the sustainability reporting is more important than the board of directors and the sustainability committee, we propose a regression analysis model based on the model provided by Al-Shaer and Zaman (2018):

$$SRA = \alpha + \beta_1 ACSIZE + \beta_2 ACIND + \beta_3 ACEXP + \beta_4 ACMEET + \beta_5 SUSCOM + \beta_6 BODSIZE + \beta_7 BODIND + \beta_8 BODMEET + \beta_9 SIZE + \beta_{10} LEV + \beta_{11} ROA + \beta_{12} IND + \varepsilon_{it} \quad (1)$$

4. RESULTS AND DISCUSSION

This section presents the results of the regression analysis. The first step entails testing the relationship between audit committee characteristics and the external assurance of the annual activity or sustainability report (Table 4), followed by an analysis of the influence of the audit committee combined with the SUSCOM variable on the SRA variable (Table 5).

Table 4 tests the influence of the audit committee on SRA. Model 4.1 tests the influence of audit committee characteristics on SRA, and Model 4.2 tests the influence of the board of directors and the sustainability committee on the SRA variable. Model 4.3 tests whether the contribution of the audit committee is additional to the contribution of the board and the sustainability committee.

Table 4. Audit committee and credibility of the sustainability report

Dependent variable:	**SRA**		
Model	(4.1)	(4.2)	(4.3)
ACSIZE	0.056**		0.030
	(0.024)		(0.018)
ACIND	-0.227***		-0.120***
	(0.059)		(0.046)
ACEXP	-0.274***		-0.203***
	(0.058)		(0.042)
ACMEET	0.012***		0.005*
	(0.003)		(0.003)
SUSCOM		0.643***	0.566***
		(0.036)	(0.037)
BODSIZE		0.011	0.015**
		(0.007)	(0.007)
BODIND		0.016	0.074*
		(0.037)	(0.039)
BODMEET		0.001	-0.001
		(0.001)	(0.001)
IND	-0.015	-0.003	0.006
	(0.010)	(0.008)	(0.008)
SIZE	0.045***	0.001	0.001
	(0.017)	(0.013)	(0.013)
ROA	0.025	-0.354***	-0.191
	(0.178)	(0.131)	(0.127)
LEV	-0.005	-0.093**	-0.061*
	(0.050)	(0.037)	(0.036)
Constant	-0.086	-0.029	0.070
	(0.151)	(0.101)	(0.108)
Observations	295	295	295
R2	0.276	0.595	0.647
Adjusted R2	0.255	0.584	0.632
Residual Std. Error	0.236 (df=286)	0.176 (df=287)	0.166 (df=282)
F Statistic	13.599*** (df=8; 286)	50.664*** (df=8; 286)	43.059*** (df=12; 282)
*p<0.1; **p<0.05; ***p<0.01			

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Model 4.1. suggests that audit committee independence (-0.227) and financial expertise (-0.274) show a significant and inverse relationship with

SRA, and audit committee size (0.056) and number of meetings (0.012) significantly and positively influence SRA. Model 4.2. shows that board characteristics do not show significant values ($p > 0.05$). Model 4.3 suggests that both independence (-0.120) and financial expertise (-0.203) of the audit committee negatively and significantly influence the SRA ($p < 0.01$). In contrast, the number of audit committee meetings (0.005) positively and significantly influences SRA ($p<0.1$). The presence of the sustainability committee (SUSCOM) shows a positive and significant influence for both models ($p < 0.01$). We note that the influence of the board of directors is positive and significant only in model 4.3 (in model 4.2, the board of directors shows no influence – $p > 0.05$), suggesting that the presence of the audit committee improves the influence of the BODSIZE (0.015) and BODIND (0.074) variables on SRA. Including the audit committee variable in the analysis improves the confidence in the regression model (R^2 becomes 0.647 in model 4.3 versus 0.595 in model 4.2 and 0.276 in model 4.1).

Overall, the results of the regression analysis partially confirm the research hypothesis that the contribution of the audit committee is additional to that of the board of directors and the sustainability committee. Although audit committee characteristics are partially positively correlated with SRA, we note that the inclusion of variables regarding audit committee characteristics boosts the influence of the board of directors and sustainability committee on SRA. We can argue that the existence of the audit committee within companies confers more credibility to the board of directors and the sustainability committee, and implicitly to the annual activity reports and sustainability reports.

Table 5. Credibility of the sustainability report

Dependent variable:	SRA
ACSIZE	0.003
	(0.014)
SUSCOM	-0.048
	(0.208)
ACIND	-0.033
	(0.035)
ACEXP	-0.018
	(0.034)
ACMEET	-0.003
	(0.003)
BODSIZE	0.011**
	(0.005)
BODIND	0.004
	(0.029)
BODMEET	0.0002
	(0.001)

Dependent variable:	SRA
SIZE	0.016*
	(0.009)
ROA	-0.049
	(0.095)
LEV	-0.022
	(0.027)
ACSIZE:SUSCOM	0.412***
	(0.051)
SUSCOM:ACIND	-0.212
	(0.147)
SUSCOM:ACEXP	-0.849***
	(0.078)
SUSCOM:ACMEET	0.012**
	(0.005)
Constant	-0.127
	(0.082)
Observations	295
R2	0.808
Adjusted R2	0.797
Residual Std. Error	0.123 (df = 279)
F Statistic	78.164*** (df = 15; 279)
*p<0.1; **p<0.05; ***p<0.01	

Processing in Rstudio

Table 5 analyses the influence of the audit committee combined with the SUSCOM variable on the SRA variable. The results of the regression analysis indicate a negative and significant influence of the ACIND (-0.212) and ACEXP (-0.849) variables and a positive and significant influence of the ACSIZE (0.412) and ACMEET (0.012) variables on SRA. By drawing a comparison to the previous results (Table 4), we note that the influence of the ACIND and ACEXP variables remains negative and significant, and the influence of the ACMEET variable remains positive and significant; conversely, the ACSIZE variable becomes positive and significant (0.412) on the SRA variable, suggesting that the presence of sustainability committee boosts the value of audit committee in companies.

Table 6. Audit committee and credibility of the sustainability report for non-financial companies

Dependent variable:	SRA		
Model	(6.1)	(6.2)	(6.3)
ACSIZE	0.057**		0.035*
	(0.028)		(0.020)

Dependent variable:	SRA		
ACIND	-0.246***		-0.127**
	(0.067)		(0.052)
ACEXP	-0.241***		-0.144***
	(0.069)		(0.049)
ACMEET	0.019***		0.004
	(0.005)		(0.005)
SUSCOM		0.671***	0.591***
		(0.038)	(0.042)
BODSIZE		0.019**	0.025***
		(0.009)	(0.009)
BODIND		0.001	0.048
		(0.040)	(0.043)
BODMEET		0.001	-0.0001
		(0.001)	(0.002)
	0.074***	0.012	0.009
SIZE	(0.023)	(0.018)	(0.018)
	-0.204	-0.713***	-0.522***
ROA	(0.249)	(0.181)	(0.180)
	0.018	-0.113**	-0.082*
LEV	(0.067)	(0.049)	(0.048)
	-0.400**	-0.143	-0.058
Constant	(0.198)	(0.142)	(0.146)
Observations	235	235	235
R2	0.339	0.649	0.683
Adjusted R2	0.319	0.638	0.667
Residual Std. Error	0.250 (df=227)	0.183 (df=227)	0.175 (df=223)
F Statistic	16.647*** (df=7; 227)	59.921*** (df=7; 227)	43.626*** (df=11; 223)
*p<0.1; **p<0.05; ***p<0.01			

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Table 6 analyses the influence of the impact of audit committee characteristics on the SRA variable for companies in the non-financial sectors. Companies in the financial sector report sustainability and corporate governance information differently. Similarly to Table no. 4, Model 4.1, we note that in Model 6.1, audit committee independence (-0.127) and financial expertise (-0.144) characteristics show a significant and inverse relationship with SRA, and audit committee size (0.035) and number of meetings (0.004) significantly and positively influence SRA. Only the size of the board of directors (BODSIZE = 0.019) significantly and positively influences the SRA in model 6.2. The sustainability committee shows positive and significant values in both model 6.2 and model 6.3, which means that this variable influences the SRA.

The results of the regression analysis in model 6.3 show negative and significant influences of the ACIND (-0.127) and ACEXP (-0.144) variables and positive and significant influences of the ACSIZE (0.035), SUSCOM (0.591) and BODSIZE (0.025) variables on the SRA variable. The results of the regression analysis reject the research hypothesis that the contribution of the audit committee is additional to that of the board of directors and the sustainability committee. The majority of audit committee characteristics negatively correlate with SRA for companies in non-financial sectors. These results suggest that the presence of the audit committee in companies in non-financial sectors confers more credibility to the board of directors and the sustainability committee and, implicitly, to the annual activity and sustainability reports.

Upon analysis of the results, we can argue that the research hypothesis is partially validated. According to Table 4, two out of four audit committee characteristics show significant and positive values. The negative association between audit committee independence and financial expertise and SRA suggests that the external assurance process is considered a burden for most of the companies included in the study. Compared to the contribution of the board of directors and the sustainability committee, we argue that the inclusion of the audit committee characteristics variables boosts the influence of the board of directors and the sustainability committee on voluntary SRA.

In contrast to the study by researchers Al-Shaer and Zaman (2018), who argue that in the United Kingdom audit committees have the ability to mitigate threats to the credibility of the sustainability report, in Romania audit committees are in their infancy in terms of the process of diversifying and shaping the duties related to the oversight and certification of non-financial reporting.

5. CONCLUSIONS

In Romania, of the 86 companies listed on the Regulated market of the BSE, in the Premium, Standard and Int'l categories, only 59 companies have an internal audit committee over the 2018-2022 period, which means that 31% of listed companies still do not have an audit committee. Of the 59 companies listed on the BSE, only 7 companies have externally assured their annual activity reports or sustainability reports on a voluntary basis. Although all financial statements presented during the period under review were audited by external auditors, non-financial reporting in Romania is nevertheless still not carried out in accordance with the Corporate Governance Code (BSE, 2015) and the Global Reporting Initiative Standards (GRI, 2022).

We can say that the results obtained confirm the expectations regarding the role of the audit committee as a mechanism capable of improving the credibility of the annual activity reports or sustainability reports. Two out of four audit committee characteristics (ACSIZE and ACMEET) have significant and positive values in the regression analysis performed, suggesting that, in part, audit committee characteristics, as part of governance, support the company's strategy of voluntary external assurance of annual activity or sustainability reports. The results of the study suggest that the characteristics regarding audit committee size and frequency of audit committee meetings make an important contribution to increasing the credibility of annual activity or sustainability reports.

We note that only certain industries (oil and energy industry and construction and utilities industry) in Romania tend to externally assure their activity reports or sustainability reports. However, in companies with externally assured sustainability reports or activity reports, audit committees have less financial expertise and independence than companies with unaudited reports. We believe that in order to identify the influence of external assurance of sustainability reports on auditor independence, further information is required on the relationship between the audit services market and the sustainability assurance services market. For future research we propose to conduct interviews with audit committee members in order to outline the role of audit committees in the voluntary external assurance of sustainability reports.

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