Corporate Social Responsibility and Selection of Industry Specialized Auditors

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ABSTRACT: This study examines the association between the selection of industry specialized auditor and corporate social responsibility (CSR). We find that firms with higher CSR ratings in non-controversial industries are more likely to hire industry specialized auditors. A further analysis with the itemized CSR data shows that firms with higher CSR performance related to a community, diversity, and employee relations are more likely to hire industry specialized auditors. The result suggests that firms may overinvest in CSR activities associated with the environment and product issues to disguise the sin nature of their manufactured goods, and simultaneously engage low quality auditors perhaps to avoid full disclosure of potential environmental and legal liabilities. Overall, we conclude that CSR may drive the managers of non-controversial firms to ensure high quality financial reporting in response to societal expectations, and thus CSR firms in such industries have strong incentives to engage industry specialized auditors.

Keywords: corporate social responsibility; industry specialized auditors; financial reporting quality; controversial industries.