

The Nature of Property Rights, Corporate Social Responsibility and Audit Costs

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Abstract: Whether enterprises conscientiously fulfill their social responsibility has become a hot topic of public concern. In order to ensure the audit quality, auditors should fully consider whether the enterprises perform their social responsibility well and whether this behavior will increase the possibility of their own audit risk when making audit fees. Based on the data of A-share listed companies in Sichuan Province from 2014 to 2016, this paper studies the impact of corporate social responsibility on audit fees in the light of different property rights. The study found that the better the degree of corporate social responsibility fulfillment, the higher the audit fee. This phenomenon is more pronounced in non-state-owned enterprises than in state-owned enterprises. The results of this paper suggest that auditors should respond to the risks posed by corporate social responsibility performance when accepting audit business.

1. Introduction

With the continuous growth of China's economic aggregate, enterprises have become the main driving force for creating social wealth. It has solved the problem of employment of many people and promoted the steady and rapid development of China's national economy. Therefore, in order to achieve the goal of sustainable development in China, we must support the development and growth of enterprises. However, in recent years, the media has exposed many negative reports related to enterprises. They lack a minimum commercial bottom line and violate the moral constraints for their own interests, at the expense of the public. Therefore, whether the enterprise earnestly fulfills its social responsibility has become the focus of attention of people from all walks of life. The fulfillment of corporate social responsibility is very important for the construction of a harmonious society with sustainable development. At the Fourth Plenary Session of the Eighteenth Central Committee of the CPC, "Strengthening the legislation of key regions" was put forward, and "Strengthening the legislation of corporate social responsibility" was regarded as one of the key tasks to improve China's legal system.

Nowadays, China's accounting firms are facing the severe situation of great competition pressure and scarce audit opportunities. Therefore, in order to ensure the quality of audit practice, it is necessary to ensure the auditors and firms' earnings, that is, audit fees. Moreover, if auditors want to obtain sufficient audit evidence and make correct audit opinions, they will consume a lot of resources. These costs are also related to audit fees. Therefore, under the premise that the rationality of audit fees plays a key role in the audit results, the audit fees are paid more and more attention. Many scholars have done extensive empirical research on the influencing factors of audit fees, but most of them focus on the financial status and characteristics of the firm, and rarely involve the risks hidden in the overall environment during the business process. The fulfillment of corporate social responsibility is likely to increase the complexity of the accounts and thus affect the auditor's business volume and risk. Therefore, the auditor should fully consider whether the enterprise is performing social responsibility well and whether such behavior will increase the possibility of its own audit risk, and determine the most appropriate audit fee based on the estimated audit risk. At the same time, under the background of the transformation and upgrading of China's economy, state-owned enterprises and non-state-owned enterprises have different purposes in fulfilling their social responsibilities, so the differences are also large. That is, the degree to which different types

of enterprises fulfill their social responsibilities may have different effects on audit fees. In summary, this paper will analyze the relationship between corporate social responsibility and audit fees based on different property rights perspectives, and explore the correlation between the two.

The theoretical significance of this paper is that with the popularization of legal awareness, the public has continuously strengthened the concern about the implementation of corporate social responsibility, but at present, China has not perfected the rules and regulations related to corporate social responsibility. Therefore, I hope that through the research of this article, I will supplement relevant theories and deeply understand and grasp the connotation of social responsibility. In recent years, most of the research related to the factors affecting audit fees are concentrated on the corporate governance and the firm's own characteristics, but this does not fully correspond to China's current risk-oriented audit model. Therefore, based on previous research results, this paper studies audit fees from a new perspective of public concern. Based on the differences of corporate social responsibility performance, this paper specifically analyses the impact of corporate social responsibility performance on audit fees. Relevant studies based on the nature of property rights in the institutional context of corporate social responsibility behavior changes rarely observed. Because of the special market environment in China, this paper makes a concrete analysis of the heterogeneity between the performance of social responsibility of state-owned enterprises and non-state-owned enterprises and audit fees, which is comprehensive, supplements relevant literature and opens up the research field of influencing factors of audit fees.

At the same time, this study has many practical significance: this paper studies the influencing factors of audit fees from the perspective of enterprise overall risk, and provides more perfect audit fee standards for accounting firms, which is conducive to better play the audit supervision function and improve audit efficiency. At the same time, the heterogeneity of the relationship between the performance of social responsibility of state-owned enterprises and non-state-owned enterprises and audit fees is put forward, which leads auditors to carry out appropriate audit procedures based on different property rights. This paper also clarifies the social responsibility of the company's functional positioning, management should be aware of the importance of social responsibility and take the initiative to bear the corresponding part. Relevant departments should further improve relevant laws and regulations and urge the public and stakeholders to strengthen supervision of the implementation of corporate social responsibility, avoid the occurrence of earnings management behavior, and improve market operation efficiency.

2. Literature Review

In recent years, as enterprises pay more and more attention to the implementation of their social responsibility, domestic and foreign scholars have deeply studied the impact of corporate social responsibility on audit fees, but the research results are quite different. This paper mainly reviews the literature from the aspects of corporate social responsibility, audit fees, the relationship between them and the impact of the nature of property rights.

Lin Yifu (2007) believes that if a company wants to be recognized by stakeholders and has good prospects for development, it must put business ethics into the life of social responsibility [1]. Zhu Song (2011) proposed that corporate social responsibility can help to gain the recognition of investors and long-term economic benefits for the company [2]. In recent years, scholars at home and abroad have studied the influencing factors of audit fees from different perspectives. Chen Jun, Yang Xudong and Zhang Zhihong (2016) believe that the main reasons for the impact of audit fees are the cover-up of earnings management and other enterprises, and the company may use its own serious implementation of social responsibility to transfer the line of sight of relevant personnel [3].

Corporate social responsibility and audit fees are the focus of scholars today. However, the research conclusions are very different, each of which is representative but opposite. Wang Zhongxin (2018) pointed out that enterprises with good social responsibility are more likely to play the role of credit enhancement, which can effectively alleviate conflicts of interest between stakeholders and ensure the realization of corporate governance objectives [4]. Shi Yuan and Wang Xuejie (2017) believe that enterprises with social responsibility fulfillment in place will have lower

operating risks due to their strong credibility, which helps auditors save audit resources and thus reduce audit fees [5]. On the contrary, another kind of scholars believe that the better CSR performance, the higher audit fees. Zhu Min, Shi Xianwang and Guo Yanting (2014) believe that most enterprises regard social responsibility as an interest-driven tool, and their good performance of responsibility is to cover up earnings management behavior [6]. Chen Jun, Yang Xudong and Zhang Zhihong (2016) studied A-share listed companies in China from 2007 to 2014. The regression analysis showed that there was a significant positive correlation between them. They think that the reason is that the rules and regulations related to social responsibility in our country are not perfect, and there are few enterprises with a real sense of social responsibility. Based on this, auditors need to implement more audit procedures and expand audit risk, which undoubtedly increases audit workload and audit costs, thus increasing audit fees [3].

3. Theoretical analysis and research hypothesis

3.1 Corporate Social Responsibility and Audit Costs

When enterprises perform their social responsibilities well, they will spend more on public welfare undertakings such as donations, which are not only easy to be deliberately operated by relevant personnel, but also more cumbersome in the branches of expenditure, which will undoubtedly increase the cost of auditors. The good word-of-mouth established by enterprises in fulfilling their social responsibilities will confuse the public's attention, cover up their internal earnings behavior, and increase the risk auditors need to bear. Enterprises with better social responsibility performance have higher levels of trust and support in the market. In order to protect the public interest, auditors will adopt more audit procedures to improve their grasp of risks. Based on the above analysis, this paper proposes the following hypothesis 1:

H1: The better the performance of corporate social responsibility, the higher the audit fee.

3.2 Nature of property rights, corporate social responsibility and audit fees

Due to its particularity and importance, state-owned enterprises have strong government support while being strictly regulated by the government. Therefore, they do not have excessive profit motives for fulfilling their social responsibilities. Moreover, state-owned enterprises have strong supervision, rich talent reserves, clear accounting accounts, and the auditor's audit complexity and risk will not change significantly with the level of social responsibility.

Because of the lack of government support, non-state-owned enterprises fulfill their social responsibility more partly because they build a good image and thus increase profits. The internal order of non-state-owned enterprises is generally chaotic. Public welfare expenditure items such as donations will increase the workload of auditors. Therefore, the more non-state-owned enterprises strive to fulfill their social responsibility, the more reason auditors should increase their auditing efforts, thus affecting audit fees. Based on the above analysis, we can put forward hypothesis 2:

H2: Compared with state-owned enterprises, the correlation between corporate social responsibility and audit fees of non-state-owned enterprises is more significant.

4. Research Design

4.1 Sample selection

In recent years, the economic development momentum of Sichuan Province has been rising, and the total scale of enterprises has been growing. The total number of A-share listed enterprises ranks sixth in the country. Therefore, this paper selects the 2014-2016 Sichuan A-share listed company as a research sample, excluding: ST, PT enterprises with abnormal financial status, enterprises with financial industry attributes, and enterprises with incomplete financial data disclosure. Finally, 240 samples were obtained, and all data were from the Guotaian database (CSMAR).

4.2 Variables and definitions

(1) Explanatory variables: According to the relevant literature, take the natural logarithm of the audit fee.

(2) Explanatory variables: This paper uses the social contribution value per share to measure corporate social responsibility, and the calculation formula is as follows:

$$\text{Social contribution per share} = \frac{\text{Net Profit} + \text{Tax} + \text{Salary} + \text{Financial Cost} + \text{Donation}}{\text{Average value of total shares at the beginning and end of the period}}$$

$$\text{Taxes} = \text{Income Tax Expenses} + \text{Taxes and Additions}$$

(3) Regulating variables: This paper chooses the nature of property rights (state) as the regulating variable to verify whether audit fees will respond to corporate social responsibility information with different property rights.

(4) Control variables: The following control variables are set according to the relevant literature: company size (lnsize), debt level (lev), total return on assets (roa), business complexity (rlinta), accounting firm type (big4).

Table 1 Variable definition Table

Variable	Variable type	Variable Symbols	Relevant Notes
Audit fee	Interpreted variables	lnfee	Natural logarithm of audit fees
Corporate social responsibility	Explanatory variables	csr	The social contribution value of each share calculated by financial indicators
Nature of property	Adjustment variable	state	State-owned enterprises take 1 or 0
Company Size	Control variable	lnsize	The natural logarithm of the total assets of the company at the end of the year
Debt level	Control variable	lev	Total liabilities divided by total assets
Roa	Control variable	roa	Net profit divided by total assets
Business complexity	Control variable	rlinta	The sum of inventory and accounts receivable divided by total assets
Type of accounting firm	Control variable	big4	Four Major Choices 1, Otherwise 0

4.3 Model design

(1) Based on Simunkic's classic audit fee model, this paper establishes the following model for Hypothesis 1 in order to verify the relationship between corporate social responsibility and audit fees.

$$\ln fee = \beta_0 + \beta_1 csr + \beta_2 \ln size + \beta_3 lev + \beta_4 roa + \beta_5 rl int a + \beta_6 big4 + \varepsilon_1 \quad (1)$$

(2) The model established in Hypothesis 2 adds the nature of property rights and the interaction between corporate social responsibility and property rights variables. It is used to test the correlation between corporate social responsibility and audit fees of non-state-owned enterprises compared with state-owned enterprises.

$$\ln fee = \beta_0 + \beta_1 csr + \beta_2 state + \beta_3 state * csr + \beta_4 \ln size + \beta_5 lve + \beta_6 roa + \beta_7 rl int a + \beta_8 big4 + \varepsilon_1 \quad (2)$$

5. Empirical test and analysis

5.1 Descriptive statistical analysis

Table 2 Descriptive statistical analysis Table

Variable	Sample size	Minimum value	Maximum	Average value	Standard deviation	Variance
lnfee	240	11.849	15.92	13.741	0.696	0.484
csr	240	-3.702	3.79	0.533	0.717	0.514
state	240	0	1	0.133	0.341	0.116
lnsize	240	19.649	25.179	22.07	1.322	1.748
lev	240	0.0679	0.989	0.469	0.227	0.052
roa	240	-0.691	0.238	0.021	0.089	0.008
rlinta	240	0.0004	0.705	0.241	0.179	0.032
big4	240	0	1	0.063	0.243	0.059

Note: Data are from CSMAR database of A-share listed enterprises in Sichuan Province from 2014 to 2016

The results of descriptive statistical analysis in Table 2 show that: (1) The minimum and maximum values of lnfee are 11.849 and 15.92, respectively, and the average value is 13.741, which indicates that there are some differences in audit costs among different enterprises, but the differences are small. (2) The minimum and maximum values of CSR are - 3.072 and 3.79 respectively, with an average value of 0.533, which indicates that the degree of fulfillment of social responsibility of different enterprises varies greatly. And the average value is less than 1, which indicates that most enterprises have a general degree of fulfillment of social responsibility, and the number of enterprises with good performance is less. (3) The average value of state is 0.133, indicating that state-owned enterprises account for a very small proportion of all enterprises, and China's economic transformation needs to be deepened. (4) The average value of big4 is 0.063, which indicates that the proportion of the international four accounting firms in the domestic market is extremely low and is rarely selected by domestic enterprises. It can be seen that the firm in China needs further development and upgrading.

5.2 Correlation analysis

Table 3 Pearson correlation coefficient Table

	lnfee	csr	state	lnsize	lev	roa	rlinta	big4	csr*state
lnfee	1								
csr	0.331**	1							
state	-0.044	-0.080	1						
lnsize	0.720**	0.253**	0.121	1					
lev	0.288**	-0.068	0.159*	0.223**	1				
roa	-0.040	0.136*	-0.153*	0.083	-0.304**	1			
rlinta	-0.095	0.048	0.050	-0.068	0.132*	0.046	1		
big4	0.374**	0.122	0.000	0.242**	0.065	-0.034	0.039	1	
csr*state	-0.022	0.203**	0.534**	0.090	0.159*	0.123	0.184**	0.199**	1

Note: **, * respectively indicate significant levels at 1%, 5%

Before regression analysis, correlation analysis is used to determine whether the selected variables are correlated. Using SPSS23.0 software, the normal distribution of each variable is checked by QQ chart, and then the Pearson coefficient Table of each variable is obtained by correlation analysis.

The absolute Pearson coefficients in the Table are mostly less than 0.5, which indicates that the correlation between variables is low and basically meets the conditions of regression analysis.

5.3 Collinearity diagnosis

Table 4 Collinear Diagnostic Table

Variable	Tolerance	VIF
csr	0.430	2.326
lnsize	0.631	1.585
lev	0.793	1.261
roa	0.508	1.970
rlinta	0.933	1.072
big4	0.871	1.148
state	0.618	1.617
csr*state	0.572	1.748

Before the regression analysis, in order to avoid the colinearity between the selected variables and affect the results of the regression analysis, this paper uses the tolerance and variance expansion factors to make a collinear diagnosis of the selected variables. The results are shown in Table 4:

When the VIF value is greater than 10 or the tolerance is less than 0.1, there is severe collinearity between the variables. From the results in the Table, the tolerances between the selected variables are greater than 0.1 and the VIF values are less than 10, indicating that there is no significant collinearity between the selected variables.

5.4 Multiple regression analysis

Table 5 Multiple linear regression model coefficient Table

		Model (1)		Model (2)		Model (1)			
						State-owned enterprise		Non-state-owned Enterprises	
		Regression coefficient	T value	Regression coefficient	T value	Regression coefficient	T value	Regression coefficient	T value
csr		0.123**	1.969	0.130**	2.092	0.208	0.932	0.183**	2.582
csr*state				-0.093**	-1.976				
state				-0.096*	-1.845				
lnsize		0.590***	11.467	0.599***	11.698	0.685***	3.366	0.582***	10.459
lev		0.126***	2.720	0.151***	3.295	0.033	0.181	0.159***	3.321
roa		-0.116**	-1.993	-0.117**	-2.048	-0.007	-0.046	-0.149**	-2.314
rlinta		-0.080*	-1.867	-0.062	-1.462	-0.144	-0.848	-0.075*	-1.657
big4		0.208**	4.784	0.221***	5.058	0.380*	2.034	0.212***	4.727
Sample size		240		240		32		208	
R party		0.581		0.604		0.572		0.608	
F value		56.263		46.553		7.910		54.424	
P		0.000		0.000		0.000		0.000	

Note: ***, **, * are significant at 1%, 5% and 10% levels, respectively.

(1) Corporate Social Responsibility and Audit Costs

Columns (1) and (2) shown in Table 5 reflect the regression results of model (1) panel data. The regression coefficient of corporate social responsibility (csr) is significantly positive, that is to say, enterprises with better performance of corporate social responsibility will bear higher audit costs. The results show that in the current market environment in China, the emphasis on fulfilling social responsibility on the one hand may increase the complexity of expenditure items. On the other hand, this may also be a means for enterprises to obtain more profit. Therefore, in order to avoid these potential audit risks, auditors will adopt more audit procedures, increase audit costs, and increase

audit fees. The empirical results support the above assumption 1.

(2) Nature of property rights, corporate social responsibility and audit fees

Columns (3) and (4) of Table 5 reflect the regression results of model (2). Lnfee's coefficient of $csr*state$ regression has a significant negative correlation at 5%. Columns (5) to (8) show that there are significant differences in the regression results of the model (1). There is a significant positive correlation between corporate social responsibility and audit costs of non-state-owned enterprises at the level of 5%. The regression coefficient of corporate social responsibility (CSR) of state-owned enterprises is not significant. The results validate hypothesis 2.

The results show that the relationship between the performance of corporate social responsibility and audit fees is heterogeneous under different property rights. Compared with state-owned enterprises, the positive correlation between them is more significant under the background of non-state-owned enterprises. That is to say, because of the strong support of the government, the state-owned enterprises fulfill their social responsibility more out of political motivation than profit motivation. Moreover, the supervision of state-owned enterprises is strong and the talent reserve is large, which can fully guarantee the completeness and authenticity of the data. The auditor's audit complexity and risk are relatively small, and will not change significantly with the degree of fulfillment of social responsibility. The internal order of non-state-owned enterprises is generally chaotic, and spending on public welfare projects to fulfill social responsibilities will increase the workload of auditors. Due to the lack of government support, part of the reason for non-state-owned enterprises to fulfill their social responsibilities is to increase profits. Auditors have more reason to suspect their motives hidden under social responsibility behavior, thereby increasing auditing efforts, increasing audit costs, and increasing audit fees.

5.5 Robustness test

In order to further verify the reliability of the results, this paper draws on the research results of Wu Hao (2017), and replaces the natural logarithm of audit fees with the ratio of audit fees to total assets at the end of the period. The research shows that there is a significant positive correlation between corporate social responsibility and audit fees under different property rights. It shows that the conclusion of this paper has passed the robustness test and has certain reliability.

6. Conclusion and Suggestion

6.1 Research conclusion

This paper uses the data from 2014 to 2016, classifies them according to the nature of property rights, and examines the relationship between corporate social responsibility and audit fees from the whole, state-owned enterprises and non-state-owned enterprises. We can conclude that:

(1) Because of the special institutional and economic environment in China, the profitability of corporate social responsibility is still dominant. Along with the good social responsibility performance of the company, internal cumbersome public welfare expenditures and potential profitable behaviors will increase the audit risk. In order to avoid these potential risks, auditors will adopt more audit procedures, increase audit costs, and ultimately increase audit fees.

(2) The abundant market conditions of state-owned enterprises determine that they will pay more attention to political motives when fulfilling their social responsibilities. Moreover, due to the strict supervision of the government, the internal control construction is better, and the information transparency is higher, the audit complexity and risk will not change significantly with the performance of good social responsibility. Non-state-owned enterprises perform social responsibility mainly for profit motive, and internal order is mostly chaotic, so auditors have more reason to increase audit efforts and implement more audit procedures, which leads to the increase of audit fees.

6.2 Research suggestion

(1) A listed company should improve its social responsibility disclosure mechanism while taking

the initiative to assume social responsibility, and does not regard social responsibility performance as a tool for profit. Listed companies should fully recognize the importance of information transparency in the daily management of enterprises, so as to reduce audit risk and improve auditor's audit efficiency. Non-state-owned enterprises can learn from and choose compatible standards and norms of social responsibility of state-owned enterprises to standardize their own social responsibility behavior.

(2) The government and regulatory authorities should strengthen the public's concern for corporate social responsibility while opening a public information communication platform to maximize the requirements of stakeholders for information transparency, and improve the construction of corporate social responsibility from a third-party perspective. At the same time, relevant departments should continue to improve laws and regulations, and encourage enterprises to directly supervise and manage them while fulfilling their social responsibilities.

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