

Corporate Social Responsibility, Internal Control and Audit Fees

Yamei Guan¹, Na Sun², Yuxi Sun³

¹ Nanjing University of Finance and Economics, No.3 Wenyuan Road, Xianlin Campus,
Nanjing, Jiangsu Province, China, 210046
guanyamei@sina.com

² Nanjing University of Finance and Economics, No.3 Wenyuan Road, Xianlin Campus,
Nanjing, Jiangsu Province, China, 210046
3102519343@qq.com

³ Graduate School of Arts and Science at Columbia University, New York, U.S.
578268385@qq.com

Abstract: With the gradual development and improvement of auditing in China, non-financial information is included in the scope of auditing and becomes an important basis for measuring the strengths and weaknesses of enterprises, which makes non-financial information gain more attention, and CSR reports begins to be used in various fields of enterprise management, which meets the needs of the majority of stakeholders. Therefore, this paper takes the data of A-share listed companies in Shanghai and Shenzhen from 2018 to 2022 as the research sample, and explores the impact of CSR reports disclosure on audit fees based on reputation theory and opportunism theory. The results show that: there is a significant positive correlation between CSR disclosure and audit fees; there is a positive correlation between internal control and audit fees; and internal control has a positive moderating effect between CSR disclosure and audit fees. Further analysis reveals that corporate surplus manipulation can play an intermediary effect between CSR disclosure and audit fees; and that the nature of corporate ownership, size and degree of marketisation make CSR disclosure have different impacts on audit fees.

Keywords: CSR Information, Internal Controls, Audit Fees, Corporate Surplus Manipulation

1. Introduction

With the disclosure of non-financial information receiving more attention, information users have put forward higher requirements for the accuracy and usefulness of non-financial information. As an important non-financial information, Corporate Social Responsibility (CSR) is widely used in various fields of enterprise management, and it has become a best practice for enterprises to voluntarily disclose their CSR reports so as to satisfy the needs of the majority of stakeholders. In order to enhance their social image, enterprises actively respond to national policies and spontaneously fulfill corporate social responsibility, including but not limited to whether enterprises refer to the *GRI Sustainability Reporting Guidelines*, whether they disclose the protection of shareholders' rights and interests, the protection of creditors' rights and interests, the protection of employees' rights and interests, and the disclosure of the environment and sustainable development, etc (Yang, JH, 2024). Existing literature shows that the main reasons for enterprises to disclose CSR reports are: responding to government policies, obtaining government support, avoiding government intervention; attracting external investors, obtaining the trust of relevant stakeholders; reducing the negative impacts of corporate environmental pollution, improving the reputation of enterprises and so on. However, the quality of CSR reports in China needs to be further improved at this stage, and there are still problems such as insufficient disclosure and large differences in its content, a single form of disclosure, and accounting items are not listed separately. In addition, the content of CSR information disclosure has certain similarity, indication and

arbitrariness. Whether most enterprises disclose CSR reports is still the will of the managers, and the management will be exaggerated or selective disclosure of the way to establish a positive image of the enterprise out of interest considerations, at this time CSR reports is more inclined to be a kind of public relations report (Y. Zhang, 2022).

In the context of increasingly severe market competition, enterprise risks are becoming increasingly diversified, so strengthening enterprise risk assessment has become a top priority for improving risk prevention capabilities. The size of the enterprise risk assessment has a decisive role in the audit fee charged by the audited unit. With the gradual improvement of China's audit development, non-financial information into the scope of the audit, and become an important basis for investors to measure the strengths or weaknesses of business operations (Xu, 2016). However, as important non-financial information, CSR reports are characterized by their descriptive, qualitative, subjective and non-financial nature, which makes it more difficult to evaluate the credibility of CSR disclosure than that of financial disclosure, and the varying quality of CSR reports also puts forward higher requirements for external auditors.

Based on this, this study focuses on one of the stakeholders—external auditors, to examine whether the voluntary disclosure of CSR reports by enterprises has an impact on the audit fees of external auditors in the financial statement audit process, as well as whether and how the quality of internal control may affect this relationship. This paper selects the data of A-share listed companies in Shanghai and Shenzhen for the period of 2018-2022 to conduct empirical research. The results of the study show

that: (1) CSR disclosure has a significant positive impact on audit fees; (2) The improvement of the level of internal control enhances the positive impact of CSR disclosure on audit fees; (3) It is found through further research that corporate surplus manipulation is able to play a mediating effect between CSR disclosure and audit fees. (4) Different nature of corporate ownership, size and degree of marketization make CSR disclosure have different impacts on audit fees.

2. Theoretical Analysis and Research Hypothesis

2.1. Corporate Social Responsibility and Audit Fees

CSR reports help companies maximize the benefits of social status through information disclosure, win the trust of shareholders and stakeholders, and then maintain the company's credibility and enhance the company's image (T. Frost, 2022). As the company's supervisor—external auditors, they need to provide reasonable assurance on the fairness of the enterprise's publicly disclosed non-financial information, such as CSR reports. Auditors often have a more in-depth understanding of their clients' operations and financial conditions, and therefore have a stronger ability to recognize their clients' CSR reports, this results in a better audit risk assessment process. However, as the release of the report draws more attention from outsiders, it imposes finer requirements on the audit work and increases audit costs. In summary, the impact of CSR disclosure on audit fees is debatable.

Existing research suggests that CSR disclosure may have two different impacts on audit fees: (1) To make audit fees decrease: CSR disclosure helps to create value for investors and reduces information asymmetry, which reduces audit risk and thus audit fees. Du, SL et al. (2020) found that firms with higher CSR performance pay lower audit fees, and their argument is that higher CSR performance reduces the risk of the auditor's engagement. Wang, XD (2023) suggests that a firm's business and risk profile will in turn affect the audit fees it pays. Firms with higher CSR perceptions have a lower likelihood of incurring abnormal audit fees, and thus pay lower audit fees. (2) Make audit risk increase: As CSR disclosure report is non-financial information, compared with financial information, it is less identifiable and easily driven by management values. Managers are able to manipulate the report in many ways, making it a tool for management to gain benefits. Garcia, J et al. (2021) examined whether corporate social responsibility (CSR) performance affects financial audit fees for US listed companies from 2000 to 2016 using CSR performance ratings from the KLD database, concluding that higher CSR scores lead to higher audit fees. It attributes the increase in audit fees to the increase in audit complexity due to the disclosure of CSR programs. Carey, P (2017) finds that Chinese firms use CSR reporting as a strategic means of window-dressing and auditors charge higher fees to cope with higher audit risk and greater audit effort. The empirical evidence concludes that there is a positive relationship between corporate social responsibility (CSR) reporting and audit fees in China. By studying the economic consequences of CSR disclosure, Zhang, J and other scholars (2015) learned that the higher the social responsibility rating of the

mandatory disclosure enterprise, the higher the level of auditors' attention to mandatory disclosure, the higher the audit risk and the higher audit fees.

As disclosure of CSR reports can bring many benefits to enterprises, and at this stage, China's CSR disclosure regulations are still not perfect, it is difficult to form a more standardized CSR report, therefore, no matter whether the enterprise's own social responsibility fulfillment is high or low, will tend to disclose the work. For enterprises with high quality of social responsibility fulfillment, they will choose to disclose out of confidence in themselves and the fact that disclosure can gain investors' trust, establish a higher corporate image, and obtain more rent-seeking effects, and the release of the report will lead to the need for audit units to verify its accuracy and reliability, thus increasing the auditing costs. For enterprises with lower quality of social responsibility fulfillment, due to the insufficient improvement of CSR disclosure regulations at this stage in China, they will instead respond to the government's call and choose to disclose the social responsibility information report in order to gain the trust of investors and stakeholders and to reduce the loss of reputation, thus increasing the auditor's working hours and increasing the auditing cost. Based on this, this paper predicts that audit clients who issue CSR disclosures have higher audit costs than those who do not. Accordingly, this paper proposes the following hypotheses:

H1: There is a positive correlation between CSR disclosure and audit fees.

2.2. Internal Control and Audit Fees

Internal control is a series of self-adjustment, constraints, planning, evaluation and control actions taken within the enterprise in order to achieve business objectives and ensure the effectiveness of business activities. Risk-based auditing requires the external auditor to determine the audit risk and determine the audit program by guiding the assessment of the risk of material misstatement through a risk assessment process. With the inspection risk at a fixed level, the audit risk is then determined by the control risk (H. Fourie, 2013). As a result, the quality of internal control of the audited entity becomes a key factor affecting the audit risk of a company. From the point of view of auditing costs, China is still in the preliminary stage of the completion of the internal control standardization system at this stage, and with the continuous improvement of the quality of internal control of enterprises, the external auditor needs to send more experienced and capable auditors to review the audited company in the process of reviewing, which leads to the increase of auditing costs; From the point of view of auditing risks, with the increase of the quality of internal control, the external auditor of the dependence on the internal control system of the enterprise, which leads to changes in the auditing procedures, thus increasing the audit risk premium; From the level of listed companies, the higher the quality of internal control, the more companies tend to disclose more information to the outside world, and in the hiring of auditor firms will also choose the auditing unit with a better reputation, which leads to an increase in the auditing cost.

Regarding the correlation between internal control and audit fees, although there are two different views in the

industry, the author believes that the improvement of the quality of internal control in China at this stage does not necessarily lead to a reduction in audit costs. Referring to the research findings of other scholars, as the requirements of internal control system specifications are becoming more stringent, more detailed and complex internal control systems lead to an increase in substantive audit procedures, which raises audit costs. Yang, YW (2016) tested the impact of internal control on audit market fees and the variability of the impact between different types of companies by categorizing the sample companies, and the results showed that the audit fees of both large and small companies increased significantly as a result of the implementation of the internal control audit system. Wang, JZ and Wang, ZD found (2017) a positive correlation between the quality of internal control and audit fees by studying the listed companies in Shanghai and Shenzhen A-shares from 2009 to 2014, which is in an inverted "U"-shaped upward stage. It is believed that the continuous improvement of the quality of internal control of listed companies requires accounting firms to assign more experienced and capable auditors in conducting audits, which leads to an increase in audit fees, and at the same time, the improvement of the quality of internal control will lead to an increase in the risk premium charged by accounting firms. Based on this, this paper proposes the following hypotheses:

H2: There is a positive correlation between internal control and audit fees.

2.3. Corporate Social Responsibility, Internal Control and Audit Fees

In summary, there is a certain correlation between CSR disclosure and audit fees. Corporate social responsibility information disclosure can show stakeholders the performance of corporate social responsibility, which becomes the basic content of the audit process and affects the amount of audit fees charged by the auditing organization. Internal control, as a kind of self-restraint normative system of enterprises, can carry out timely and comprehensive supervision of the enterprise's operation and management activities, reasonably ensure the safety of the enterprise's assets and the authenticity and reliability of the enterprise's financial statements and other relevant information, improve the deficiencies in the process of operation, and at the same time, help the external auditors to determine the audit program and allocate the audit resources.

With the improvement of the internal control system and the complexity of the internal control system, the management has enough confidence in the enterprise's own operation, and tends to disclose more information to the outside world, which leads to an increase in the substantive auditing procedures in the auditing process, for example, the disclosure of the CSR report leads to an increase in the inputs of the external auditors in verifying the truthfulness and reliability of the report, and it may lead to a positive moderation of the relationship between the disclosure of internal control on CSR information and audit fees. This may lead to a positive moderation of the relationship between internal control over CSR disclosure and audit fees. In addition to this, the motives for enterprises to disclose their social responsibility reports to the outside world are

often to build up their own corporate image, to pursue value-added, and to respond to national policies. In order to verify whether the management has self-interest motives, external auditors will carry out more elaborate auditing procedures, and at the same time, the complex internal control system will bring about an increase in substantive auditing procedures, which increases the investment in auditing costs for corporate information responsibility reports. At this point, the improvement of internal control quality will enhance the positive correlation between CSR and audit risk. Accordingly, this paper proposes the following hypotheses:

H3: Internal control quality enhances the positive relationship between social responsibility disclosure and audit fees.

3. Research Design

3.1 Sample Selection and Data Sources

In this paper, Shanghai and Shenzhen A-share listed companies are selected as the research object, and the data from 2018-2022 are used as the samples, and the data are further screened with the following procedures: (1) The samples with missing data for the main variables are excluded; (2) Considering the unique attributes of the financial industry, the financial and insurance listed companies are excluded; (3) Taking into account the differences in the restrictive policies on the upward and downward movement and so on. ST enterprises are excluded; (4) Considering the impact of extreme values on the empirical results, Stata18.0 is used to shrink (Winsorize) the continuous variables by 1% up and down. As for the data sources, the basic financial data of the company comes from the company research series database within the CSMAR database, the CSR data comes from the social responsibility research database within the CSMAR database, and the internal control level is obtained from the internal control index provided by the DIB database.

3.2 Variable Selection

3.2.1. Explained Variable: Audit Fees

In the existing literature, there are four main ways to measure the audit fee: (1) the natural logarithm of the current fee; (2) the total audit fee of the company or the company's audit fee adjusted by the CPI; (3) the logarithm of the total audit fee divided by the logarithm of the total assets; and (4) the multiplication of the audit fee by 1,000 divided by the total assets. In accordance with the practice of most scholars, this paper selects "the natural logarithm of the total annual audit fees of listed companies" as the audit fee indicator ($\ln fee$). At the same time, this paper uses "the logarithm of the total audit fee divided by the logarithm of total assets" for robustness testing.

3.2.2. Explanatory Variables: Corporate Social Responsibility

This paper uses social responsibility disclosure ($Csrdis$) as a dummy variable, with enterprises disclosing social responsibility information in the current year taking 1 and non-disclosure taking 0. At the same time, reference is made to the research of Zou, P (2018) and other scholars to standardize the scoring value obtained by summing up the

twelve indexes in the CSMAR Social Responsibility Database as the quality of CSR disclosure (Crsqua), which is used for the robustness test.

3.2.3. Moderator Variable

Internal Control Quality (Icq) was chosen as the moderating variable, measured by taking the natural logarithm of the internal control index of the DIB database.

3.2.4. Intermediary Variable

In existing studies, the main indicators of corporate surplus manipulation include: (1) the extended Jones model (Lu, JQ, 1999); (2) the modified Jones model (Dechow et al., 1995) to measure the degree of surplus management; (3) the real surplus management. For a comprehensive comparison, this paper selects the absolute number of manipulated accrued profits of the company calculated by the modified Jones model as an indicator of indicator of corporate surplus manipulation.

3.2.5. Control Variable

This paper controls some variables that may have an impact on the decision-making of audit fees, referring to the research of Jin, H, Sun, FC (2022) and other scholars, and controls the enterprise's corporate solvency (Lev), corporate profitability (Roa), the proportion of current assets (Curr), and the enterprise's value (Value) in the level of corporate operation. At the corporate governance level, we control the two positions of the enterprise (Dual), the chairman of the board and the general manager of the same person take 1 otherwise take 0; the size of the board of directors (Broad), the number of board of directors to take the logarithm; the proportion of independent directors (Indep), the number of independent directors to the number of the board of directors of the ratio of the number of independent directors. At the corporate audit level controls for the firm's audit input (Time), the natural logarithm of the number of days between the balance sheet date and the audit report date; see Table 1 for variable definitions. In addition, the above empirical model controls for the year dummy variable Year and the industry dummy variable Indus.

	Proportion of independent directors	Indep	Ratio of the number of independent directors to the number of board members
	Audit inputs	Time	Natural logarithm of the number of days between the balance sheet date and the audit report date
moderator variable	Quality of internal controls	Icq	Natural logarithm of the internal control index of the Dibble database
intermediary variable	Corporate surplus manipulation	Disacc	Manipulative accrued profits

3.2. Model Setup

To test research hypothesis 1, panel data stratified regression (1) was used to test the relationship between CSR disclosure and audit fees with reference to previous literature:

$$\begin{aligned} Lnfee_{i,t} &= \beta_0 + \beta_1 Crsdis_{i,t} + \beta_2 Lev_{i,t} + \beta_3 Roa_{i,t} + \beta_4 Curr_{i,t} \\ &+ \beta_5 Value_{i,t} + \beta_6 Dual_{i,t} + \beta_7 Broad_{i,t} + \beta_8 Indep_{i,t} \\ &+ \beta_9 Time_{i,t} + \beta_{10} Opinion_{i,t} + \Sigma Year + \Sigma Indus \\ &+ \varepsilon_{i,t} \end{aligned} \quad (1)$$

Model (2) introduces moderating variables to test the moderating effect of internal control quality on the correlation between CSR disclosure and audit fees:

$$\begin{aligned} Lnfee_{i,t} &= \beta_0 + \beta_1 Crsdis_{i,t} + \beta_2 Crsdis_{i,t} \times Icq_{i,t} + \beta_3 Icq_{i,t} \\ &+ \beta_4 Lev_{i,t} + \beta_5 Roa_{i,t} + \beta_6 Curr_{i,t} + \beta_7 Value_{i,t} + \beta_8 Dual_{i,t} \\ &+ \beta_9 Broad_{i,t} + \beta_{10} Indep_{i,t} + \beta_{11} Time_{i,t} + \beta_{12} Opinion_{i,t} \\ &+ \Sigma Year + \Sigma Indus \\ &+ \varepsilon_{i,t} \end{aligned} \quad (2)$$

Table 1: Variable Definitions

Variable type	Variable name	Variable symbol	Variable definition
explanatory variable	Audit costs	Lnfee	Audit costs in logarithmic terms
explanatory variable	Disclosure of CSR	Crsdis	Whether to disclose CSR
	Quality of CSR disclosure	Crsqua	Quality of CSR disclosure
control variable	Corporate solvency	Lev	Total liabilities ÷ Total assets at end of year
	Corporate profitability	Roa	Net profit ÷ average owner's equity
	Liquid assets as a percentage of	Curr	Current assets ÷ Total assets at the end of the year
	enterprise value	Value	Corporate Tobin's Q
	merging of two posts	Dual	The chairman and general manager are the same person take 1
	Board size	Broad	Logarithmic number of board members

4. Empirical Analysis

4.1. Descriptive Statistics and Correlation Analysis

Table 2 descriptive analysis of the main variables in this paper, as can be seen from the table, the mean value of the audit fee is 14.0002, the maximum and minimum values are 16.213 and 12.821 respectively, and the median is 13.911, indicating that there are certain individual differences in the fees charged by different accounting firms. At the same time, the mean and median are similar to indicate that the data distribution is basically symmetrical, there is no left or right skewness; The mean value of CSR disclosure is 0.311, and the median is 0, indicating that most of the enterprises do not disclose social responsibility information. The minimum value (0.083) and maximum value (0.917) of the quality of CSR disclosure shows that the quality of CSR disclosure has a large gap, the mean value is 0.589, and the median value is 0.667 indicating that most of the companies are beyond the average value. There is a large gap in the quality of CSR disclosure, with a mean value of 0.589 and a median value

of 0.667 indicating that most of the CSR disclosure quality exceeds the average value. The statistics of other variables are shown in Table 2, and there are significant differences between the main research variables.

Table 2: Descriptive Statistics for Key Variables.

Variable	Number	Mean	variances	Min	Median	Max
Lnfee	17454	14.00	0.65	12.82	13.91	16.21
Crsdis	17475	0.31	0.46	0.00	0.00	1.00
Crsqua	17475	0.59	0.21	0.08	0.67	0.92
Lev	17475	0.42	0.20	0.06	0.42	0.90
Roa	17441	0.04	0.19	-1.16	0.07	0.33
Soe	17475	0.31	0.46	0.00	0.00	1.00
Dual	17475	0.31	0.46	0.00	0.00	1.00
Broad	17475	8.32	1.59	5.00	9.00	14.00
Indep	17475	37.96	5.407	33.33	36.36	57.14
Time	17475	103.8	14.847	58.00	110.00	120.00
Curr	17475	0.57	0.20	0.11	0.59	0.94
Value	17475	1.94	1.26	0.81	1.54	8.24

Correlation analysis of all the variables in this paper (The table of correlation coefficients is not shown here due to space constraints): According to the data can be seen that corporate responsibility disclosure and audit fees are significant at the 1% level, corporate responsibility disclosure is positively correlated with audit fees, and corporate responsibility disclosure is positively correlated with internal control, which is in line with the expectations of this paper. In terms of other variables, there is a significant correlation between each variable and audit fees, while the correlation coefficients between most of the variables are relatively low and there is no covariance problem. The data sample basically meets the requirements and initially argues the hypothesis of this paper.

4.2. Panel Data Analysis

Table 3 shows the results of the regression analysis of CSR disclosure and audit fees. Column (1) is the result of adding no control variables and controlling only the industry effect and year effect, which shows that the regression coefficient of CSR disclosure is significantly positive at the 1% level of significance, indicating that CSR disclosure has a significant positive impact on corporate audit fees. Column (2) is the result of adding control variables, and the result shows that the regression coefficient of CSR disclosure and audit fees is 0.031, which is positively correlated at 1% level of significance after controlling the effect of other factors. This indicates that CSR disclosure is positively related to audit fees and hypothesis 1 is verified. The reason for the above phenomenon may be due to the diversity of motives for disclosure of CSR reports by enterprises at present, as well as the varying quality, and auditors are more inclined to regard the CSR reports disclosed by enterprises as a tool of enterprises in order to obtain social recognition, and their credibility is not authoritative and is not a commitment to substance and data. Therefore, all else being equal, auditors will consider increasing the audit fees of enterprises, given that considerations of business risk, sustainability and the accuracy of audit results contribute to an increase in the auditor's work input and an increase in audit risk.

The regression results of column (3) in Table 3 Corporate social responsibility, internal control and audit fees show that internal control and audit fees are positively correlated at 1% significance level, indicating that the improvement of

the quality of internal control leads to an increase in the scope of auditing and procedures, which leads to a rise in the audit fees of the enterprise, and that there is a positive correlation between internal control and audit fees, and Hypothesis 2 is verified. The reason for the above phenomenon may be that in the case of the improvement of the quality of internal control of the enterprise, the auditing unit needs to send more experienced personnel to carry out the audit work, which leads to the rise of audit costs, and at the same time, because of the improvement of the internal control, the management is more full of information about the enterprise, and it will choose to carry out more disclosure of information, which increases the fine work of auditing.

Column (4) shows that the coefficient of the interaction term between audit risk and internal control ($\text{Crsdis} \times \text{ICQ}$) is 0.0015, which is significantly positive at 1% confidence level and has the same sign as the coefficient of Crsdis , which indicates that internal control has a positive moderating effect between CSR disclosure and audit fees, i.e., the level of internal control will enhance the positive correlation, hypothesis 3 is verified. The reason for the above phenomenon may be that, as it is difficult to reflect all CSR disclosure in data, enterprises will have excessive whitewashing behavior, which increases audit risk and audit fee. Secondly, overly detailed internal control will bring more audit costs to auditors, which will increase the investment in audit risk assessment, and enterprises will bear more audit costs.

Table 3: Corporate Social Responsibility, Internal Control and Audit Fees

	(1) Lnfee	(2) Lnfee	(3) Lnfee	(4) Lnfee
Crsdis	0.03315*** (3.2344)	0.0306*** (3.1739)		0.0277*** (2.8088)
ICQ			0.0002*** (4.8698)	0.0003*** (5.7368)
Crsdis \times ICQ				0.0015*** (8.7926)
Lev		0.2812*** (7.1662)	1.1307*** (23.3273)	0.2809*** (7.1660)
Roa		0.0212 (1.5134)	0.0275* (1.9542)	0.0266* (1.9017)
Dual		-0.0013 (-0.1959)	0.2465*** (7.3713)	-0.0008 (-0.1194)
Broad		0.0067* (1.8020)	0.0070* (1.8627)	0.0068* (1.8292)
Indep		0.0004 (0.5006)	-0.0441*** (-2.8379)	0.0004 (0.5361)
Time		0.0005*** (3.3544)	0.0005*** (3.2823)	0.0005*** (3.1972)
Curr		-0.0398 (-1.1300)	0.0703*** (9.7534)	-0.0395 (-1.1161)
Value		-0.0100*** (-3.3770)	-0.0098*** (-3.2802)	-0.0100*** (-3.3580)
_cons	14.0243*** (208.1904)	13.8051*** (147.3298)	12.4905*** (73.4598)	13.8274*** (146.9193)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
N	17454	17420	17420	17420
Within R ²	0.2075	0.2227	0.2221	0.2235

4.3. Mechanism Analysis

Based on the "opportunistic" point of view, enterprises disclose social responsibility reports for the sake of corporate self-interest, leaving investors with the impression of a positive image of the enterprise, and increasing the goodwill of corporate stakeholders towards the listed enterprise, so as to obtain financing opportunities. Management's "opportunistic" behavior means that listed companies cover up their internal "unethical behavior" through external "ethical behavior". Since the disclosure of social responsibility information does not bring direct benefits to the enterprise, at the same time, the management of the enterprise is influenced by egoism, and it is very likely to undertake the obligation of corporate social responsibility disclosure for the sake of self-promotion to create a good image. Shu Li (2019) and others found that at the present stage, China's corporate social responsibility disclosure is mainly a kind of packaged opportunistic behavior. In the case that a company obtains better reputation insurance mediated by CSR, management believes that the company obtains a "license to manipulate surplus". In the context of increasingly competitive markets and the cost of CSR disclosure, firms will be more inclined to manipulate their surpluses to gain more benefits. For this reason, stakeholders should be more aware of the disclosure behavior of CSR reports, and identify the motives and operating conditions of enterprises. In this regard, external auditors play an extremely important role, but due to the high level of surplus manipulation of the audited entity, the external auditor's assessment of the risk of material misstatement of the enterprise will be increased, increasing the implementation of substantive auditing procedures, and at the same time, the external auditor will bear a higher risk of litigation, and therefore, will increase the cost of auditing the enterprise. In summary, it is hypothesized that corporate surplus manipulation can play a mediating effect between CSR disclosure and audit fees.

In this paper, the absolute number of manipulative accrued profits of the company calculated by the Modified Jones model is used as a measure of corporate surplus manipulation. Referring to the stepwise regression method adopted by Wen, ZL (2014), the following model is constructed:

The first step is to test the impact of CSR disclosure on audit fees, which is known to have a positive impact on audit fees according to the above (See model (1)).

The second step, test the impact of CSR disclosure on corporate surplus manipulation, if the coefficient of β_1 is positive, it means that CSR disclosure has a positive impact on corporate surplus manipulation.

$$Disacc_{i,t} = \alpha_0 + \alpha_1 Crsdis_{i,t} + \alpha_2 Controls_{i,t} + \Sigma Year + \Sigma Indus + \varepsilon_{i,t} \quad (3)$$

The third step is to test whether corporate surplus manipulation can play a mediating effect between CSR disclosure and audit fees. The specific model is shown in equation (4), after adding the intermediary variable corporate surplus manipulation, if CSR disclosure and audit fee are still significantly correlated, then it means that corporate surplus manipulation plays a partial intermediary effect, if it

is not significant, then it means that corporate surplus manipulation plays a complete intermediary effect.

$$Lnfee_{i,t} = \gamma_0 + \gamma_1 Crsdis_{i,t} + \gamma_2 Controls_{i,t} + \Sigma Year + \Sigma Indus + \varepsilon_{i,t} \quad (4)$$

Table 4 shows that the coefficient of CSR in column (1) is 0.0306 which is positive at 1% level of significance. The coefficient of CSR in column (2) is 0.2092 which is positive at 1% level of significance. It indicates that CSR disclosure leads to enhanced corporate surplus manipulation. Column (3) shows the regression results after adding the mediating variables, the coefficient of CSR is 0.0286 and the corporate surplus manipulation is 0.0096, which are both positive at 1% significance level. It indicates that corporate surplus manipulation plays a partial mediating role between CSR disclosure and audit fees, i.e., corporate disclosure of socially responsible information leads to higher corporate surplus manipulation, which in turn leads to higher audit fees. The Sobel test is further verified by the mediation effect test using the "Sgmediation" command, which is significant in terms of both the Sobel as well as Goodman statistic, further confirms that corporate surplus manipulation is a significant path through which CSR disclosure affects audit fees.

Table 4: Intermediary Test Results

Variable	(1) Lnfee	(2) Disacc	(3) Lnfee
Crsdis	0.0306*** (3.1739)	0.2092*** (3.9445)	0.0286*** (2.9813)
Disacc			0.0096*** (7.1104)
Lev	0.2812*** (7.1662)	0.9323*** (5.6441)	0.2722*** (6.9768)
Roa	0.0212 (1.5134)	-1.5445*** (-19.5180)	0.0360** (2.5496)
Dual	-0.0013 (-0.1959)	0.0573 (1.4288)	-0.0019 (-0.2735)
Broad	0.0067* (1.8020)	0.0560*** (2.9463)	0.0062* (1.6764)
Indep	0.0004 (0.5006)	0.0035 (0.8132)	0.0004 (0.4622)
Time	0.0005*** (3.3544)	0.0016* (1.6966)	0.0005*** (3.2593)
Curr	-0.0398 (-1.1300)	0.4368*** (2.5797)	-0.0440 (-1.2554)
Value	-0.0100*** (-3.3770)	0.0090 (0.5290)	-0.0101*** (-3.4329)
_cons	13.8051*** (147.3298)	17.4931*** (32.6496)	13.6366*** (137.6797)
Year	Yes	Yes	Yes
Industry	Yes	Yes	Yes
N	17420	17441	17420
Within R ²	0.2227	0.0779	0.2262
Sobel test	0.1297*** (z= 30.71)		
Goodman test1	0.1297*** (z= 30.71)		
Goodman test2	0.1297*** (z= 30.71)		

4.4. Robustness Check

4.4.1. Changing the Independent Variable CSR Measures

To ensure the robustness of the empirical results, this paper refers to the research of Zou Ping and other scholars, and selects the quality of social responsibility disclosure (Csrqua) for further testing. Since CSR involves multiple aspects and is mostly reported in the form of text, it is difficult to quantify the data. Therefore, evaluating the quality of CSR disclosure can be quantified in terms of whether it is disclosed or not and the reliability of disclosure. In this study, the 12 aspects of the social responsibility research database in the Cathay Pacific database are selected as the criteria for measuring the quality of social responsibility disclosure, which comprehensively encompasses the completeness and reliability of corporate disclosure of social responsibility information. This study assigns 0-1 values to these 12 aspects, for example, enterprises that refer to GRI's Sustainability Reporting Guidelines are assigned a value of 1, otherwise it is 0; enterprises that disclose the protection of employee rights and interests are assigned a value of 1, otherwise it is 0. After assigning 0-1 values to each of these 12 criteria, they are summed up and standardized to make the data more conducive to the study, finally obtaining a measure of the quality of social responsibility disclosure (Csrqua), the larger the indicator, the higher the completeness of the content of the social responsibility information.

The replaced CSR disclosure variable is brought into model (1) and regressed again. The regression results are shown in column (1) of Table 5, which shows that CSR disclosure and audit fees are positively correlated at 1% level of significance with regression coefficients of 0.35 respectively, which is consistent with the regression results of the main test.

4.4.2. Changing the Dependent Variable Audit Fees Measures

Table 5: Robustness Test Results

Variable	(1) Lnfee	(2) feesize
Crsqua	0.3549*** (10.5517)	
Crsdis		0.0057*** (5.1910)
Controls	Yes	Yes
_cons	12.4907*** (75.7242)	1.5628*** (143.6624)
Year	Yes	Yes
Industry	Yes	Yes
N	17420	17420
Within R ²	0.2063	0.0709

Considering that the enterprise's asset size has a significant positive impact on the enterprise's audit fees, the enterprise's assets may have an impact on the audit fees, in order to avoid the audit fee being affected by the enterprise's asset size, referring to the practice of Jianqiu Liu (2022) and other scholars, based on the enterprise's total assets, the dependent variable audit fee is standardized, i.e., the natural logarithm of the audit fee is divided by the natural logarithm of the end of the period's total assets, and the audit fee measurement (feesize) is redone. audit fees measure

(feesize). The results of the re-regression are shown in column (2) of Table 5, and the coefficient of CSR disclosure is 0.0057, which is positively correlated at the 1% significance level and still supports the conclusion of this paper.

4.4.3. Instrumental Variable Approach

This paper further uses the instrumental variable estimation method for endogeneity test, referring to the treatment of Di Wu and Qifeng Zhao et al (2020) and selects two instrumental variables: one is the average value of social responsibility disclosure of other enterprises in the region where the enterprise is located in the current year (CSR_IndexLocOther), and the other is the average value of social responsibility disclosure of other enterprises in the industry where the enterprise is located in the current year (CSR_IndexIndOther). Column (1) of Table 6 represents the results of the first-stage regression, where the estimated coefficient of the instrumental variable CSR_IndexLocOther is 0.267, which is significantly positive at the 1% level, and the estimated coefficient of the instrumental variable CSR_IndexIndOther is 0.099, which is also significantly positive at the 1% level, suggesting that these two instrumental variables are correlated with the explanatory variables.

Column (2) of Table 6 represents the results of the second-stage regression estimation, which shows that the estimated coefficients of CSR disclosure on audit fees are 0.371 respectively, and all of them are significant at the 1% level, indicating that after controlling the endogeneity of this paper using instrumental variables, CSR disclosure has a significant positive facilitating effect, which verifies the robustness of the conclusions of this paper, and further suggests that CSR information disclosure increases corporate audit fees.

Table 6: Instrumental Variable Results

Variable	(1) Crsdis	(2) Lnfee
Crsdis		0.3709** (2.5578)
CSR_IndexLocOther	0.267*** (0.0669)	
CSR_IndexIndOther	0.0987** (0.0492)	
Controls	Yes	Yes
_cons	-0.0360 (0.0977)	13.5492*** (104.4944)
Year	Yes	Yes
Industry	Yes	Yes
N	17421	17400
Within R ²	0.0949	0.1337

4.4.4. Heckman Two-stage Approach

From the interactive logic between CSR and audit fees, CSR disclosure appears to be an exogenous influence on corporate choice, but in fact there is still a sample selectivity bias as well as endogeneity problems brought about by mutual causation. On the one hand, those firms with higher audit fees can indicate that they are larger and will respond more positively to the government's call to disclose CSR reports; On the other hand, firms choosing to make CSR

disclosures draw the attention of external auditors to the reports, which in turn increases audit fees. These endogenous problems may lead to biased regression results, in order to solve the bias problem, this paper adopts the Heckman two-stage method. The specific model is as follows:

$$\begin{aligned} \Pr(crs_{mean} = 1) &= \Phi(rZ_{i,t}) \\ &= \beta_0 + \beta_1 * Size_{i,t} + \beta_2 * Media_{i,t} + \Sigma \beta_k * controls_{i,t} \\ &+ \Sigma Year + \Sigma Indus \\ &+ \varepsilon_{i,t} \end{aligned} \tag{5}$$

$$\begin{aligned} Lnfee_{i,t} &= \alpha_0 + \alpha_1 Crsdis_{i,t} + \rho \lambda (\gamma Z_{i,t}) + \Sigma \alpha_k * controls_{i,t} \\ &+ \Sigma Year + \Sigma Indus \\ &+ \varepsilon_{i,t} \end{aligned} \tag{6}$$

In the first stage of equation (3), a dummy variable (*crs_mean*) is constructed as an explanatory variable, and the mean value of CSR disclosure quality is taken as the boundary, and those enterprises whose CSR disclosure quality is greater than the overall mean value are assigned the value of 1, and the rest of the enterprises are assigned the value of 0. Two variables that may have an impact on the independent variables are introduced as explanatory variables, one is the size of the enterprise and the natural logarithm of the total assets of the enterprise is applied as an indicator of the size of the enterprise, and the larger the enterprise is, the more likely it is to disclose its CSR report. One is the size of the enterprise, using the natural logarithm of the total assets of the enterprise as a measure of the size of the enterprise. The larger the social size of the enterprise, the more attention it receives from the outside world, the greater the possibility of social fulfillment, and the more likely it is to disclose its CSR report. The other is the media attention (*Media*), due to the emergence of the Internet has subverted the traditional way of information dissemination, the network of new media has become the main channel of information dissemination, with reference to the practice of Liu, YW (2023), the use of the quantitative statistics of network news in the China Research Data Service Platform in the total number of media report headlines and then take the natural logarithm of the number of plus 1 as a measure of the indicators of the media attention, and take into account the annual and industry effects for probit regression. Using two-stage least squares regression, the first stage of the regression results to get the predicted value of CSR disclosure, which is used to replace the real CSR disclosure, and at the same time generates the Inverse Mills Ratio (IMR). The second stage introduces the generated inverse Mills ratio (IMR) into the main examination model, see equation (6).

The results are shown in Table 7, the first stage instrumental variable regression results are significant at 1% level, the second stage results remain stable and the coefficient of CSR disclosure is 0.11 is significantly positive at 1% level. CSR disclosure has a significant positive relationship on audit fees.

In addition to this, in order to avoid the impact of sample selection bias on the regression results and to solve the endogeneity problem arising from selectivity bias, the

propensity score matching method is applied to construct a dummy variable bounded by the mean value of the quality of CSR disclosure (*crs_mean*). In order to divide the experimental group and the control group, the enterprises whose CSR disclosure quality is greater than the overall mean are assigned a value of 1, and the rest are assigned a value of 0. Using the probit model for regression analysis, the 1:1 nearest-neighbor matching method with a caliper range of 0.05 with put back is adopted to match the experimental group and the control group, and then the matched sample enterprises are subjected to regression analysis. The final coefficient of CSR disclosure was found to be 0.4295, which is significantly positively correlated at the 1% level, and the findings of the study still hold true after applying PSM for sample matching.

Table 7: Heckman two-stage results

Variable	(1) crs_mean	(2) Lnfee
Size	0.2108*** (11.1553)	
Media	0.1462*** (7.2159)	
Crsdis		0.1100*** (7.3815)
imr		-1.9762*** (-43.5255)
Controls	Yes	Yes
_cons	-5.6544*** (-11.2491)	15.6587*** (103.4873)
Year	Yes	Yes
Industry	Yes	Yes
N	17339	17318

4.5. Heterogeneity Analysis

4.5.1. Impact of the Nature of Business Ownership

In order to test whether different property rights nature, i.e., state-owned enterprises or private enterprises, have different impacts on the above phenomena, this paper groups state-owned enterprises and private enterprises on the basis of benchmark regression. At this stage, China is in a market economic environment where state-owned enterprises and non-state-owned enterprises coexist, and the different economic systems have led to very different corporate characteristics and corporate goals. Under the joint influence of the government's advocacy and political rent-seeking, enterprises begin to disclose social responsibility information one after another, but due to the differences in rent-seeking motives between state-owned enterprises and private enterprises, resulting in inconsistencies in decision-making motives and behaviors of enterprises' disclosure of social responsibility reports. The main reason for state-owned enterprises to disclose CSR is to establish their own corporate image and respond to national policies. At the same time in its political background, state-owned enterprises are more able to disclose a complete and effective social responsibility report information, the main reason for private enterprises to disclose CSR is the pursuit of value-added economic motivation, the use of CSR reports disclosure to provide stakeholders with a positive corporate image. In summary, compared to state-owned enterprises,

private enterprises have more incentives to whitewash CSR disclosure reports, resulting in increased audit fees for CSR disclosures. Unstandardized CSR disclosure by private firms creates additional responsibilities for external auditors, prompting them to increase the likelihood of material misstatement risk and increase the cost of audit work and audit fees. Therefore, this paper expects a more significant positive relationship between CSR disclosure and audit fees in private enterprises compared to state-owned enterprises.

The regression results are shown in Table 8, the regression coefficient of CSR disclosure (Crsdis) in column (2) is 0.0363, which is significantly positive at 1%, and the coefficient of state-owned enterprises in column (1) is not significant. It indicates that CSR disclosure increases audit fees in private firms, while in state-owned firms, there is no such positive correlation significantly, thus confirming the expectation that the positive correlation between CSR disclosure and audit fees is more significant in private firms compared to state-owned firms. It also suggests that the disclosure of social responsibility information by private enterprises is a speculative behavior, and the pursuit of value added while the report is whitewashed, increasing audit fees and litigation risk of the external auditor, and thus increasing audit fees.

Table 8: Results of Heterogeneity in the Nature of Business Ownership

Variable	(1)	(2)
	Soe Lnfee	Non-Soe Lnfee
Crsdis	0.0279* (1.6957)	0.0363*** (3.2280)
Controls	Yes	Yes
_cons	14.2406*** (93.6647)	13.7064*** (97.1830)
Year	Yes	Yes
Industry	Yes	Yes
N	5336	12084
Within R ²	0.1337	0.2777

4.5.2. Impact of Business Size

In the audit process, the size of the audit fees of different enterprises and the audited unit's business complexity, the pursuit of profits and other factors, the size of the audited unit is the auditor to consider the size of the audit risk, an important factor in the audit fees. For large-scale enterprises, the business is more complicated, the relationship between the related parties is more complex, the auditor needs to verify more audit evidence in the audit work, the implementation of the audit program scope is wider. At the same time, due to the large-scale enterprises in the financial crisis caused by the impact of the worse, out of risk considerations, the auditor will invest in more substantive testing, audit costs increased. For small-scale enterprises, the business is no longer cumbersome, the related party relationship is no longer complex, the auditor in the audit of the audit procedures are relatively simple, the increase in audit risk compared to large-scale enterprises is less sensitive, the audit fee charged will also be reduced. In summary, this paper expects that the positive relationship between social responsibility disclosure and audit risk is

more significant for large-scale enterprises than for small-scale enterprises.

In order to test the size heterogeneity of CSR disclosure on audit risk, this paper takes the median of firm size as a grouping criterion, and firms smaller than the median are treated as small-scale firms, and vice versa as large-scale firms, so as to carry out a grouping test, and the regression results are shown in Table 9. The regression coefficient of CSR disclosure (Crsdis) in column (2) is significantly positive in large-scale enterprises, indicating that CSR disclosure increases audit fees in large-scale enterprises, while in small-scale enterprises, this positive relationship is not significant relative to large-scale enterprises, thus confirming that the positive relationship between large-scale enterprises' CSR disclosure and audit risk is more significant than that of small-scale enterprises. This confirms the expectation that the positive relationship between CSR disclosure and audit risk is more significant in large-scale firms than in small-scale firms. This suggests that the disclosure of CSR information reports by large-scale enterprises will receive higher attention from relevant stakeholders, prompting external auditors to be more cautious and meticulous in conducting audits, and increasing the cost of auditing enterprises.

Table 9: Firm Size Heterogeneity Results

Variable	(1)	(2)
	limited scale Lnfee	large scale Lnfee
Crsdis	-0.0035 (-0.2882)	0.0412*** (3.2411)
Controls	Yes	Yes
_cons	13.4354*** (110.5754)	14.1425*** (124.6207)
Year	Yes	Yes
Industry	Yes	Yes
N	8600	8820
Within R ²	0.2431	0.1783

4.5.3. Impact of the Degree of Marketization

Owing to the geographical factor of the vastness of China's territory and the political factor of common prosperity, the development of various regions is still at an unbalanced stage, and the marketization process in the eastern and coastal regions has been more rapid than in other regions. The marketization process has advanced the improvement of resource allocation efficiency and promoted economic development. The higher the degree of marketization, the more perfect the product and factor market, the better the performance of enterprises, they will truthfully disclose CSR information; Secondly, the high degree of marketization of the region's legal system is more perfect, the public awareness of responsibility is stronger, the completeness of corporate disclosure of information, authenticity of the requirements of the enterprise, which reversed to prompt enterprises to disclose the true information. Therefore, enterprises in regions with a higher degree of marketization have a more perfect regulatory system, and the cost of violating laws and regulations and surplus manipulation is higher, and the authenticity of their disclosed CSR reports is stronger. On the contrary, in regions with a lower degree of marketization, due to the

imperfections of various legal systems, it is difficult for enterprises to be supervised by the government in terms of their social responsibility behaviors, and there is insufficient internal motivation to fulfill their CSR, while the external punishment mechanism is not perfect. Due to the problem of adverse selection arising from information asymmetry, it can be seen that in order to gain the trust of investors and stakeholders and reduce the loss of reputation, enterprises will instead respond to the government's call and choose to disclose the social responsibility information report, but the quality of internal control is lower because of the enterprise itself may have problems such as pollution emission, employees' overtime pay, and production safety. As a result, firms in less market-oriented regions are more likely to whitewash and fabricate their CSR reports, leading to increased audit risk for external auditors and thus increased audit costs. In summary, this paper expects that the positive relationship between CSR disclosure and audit risk is more significant for firms with a low degree of marketization than for firms with a high degree of marketization.

In order to test the heterogeneity of the degree of marketization of CSR disclosure on audit risk, this paper uses the marketization index proposed by economist Gang Fan to group, this index includes four aspects: the degree of economic freedom, financial marketization, the degree of administrative intervention and the level of social security, and its median is used as a grouping criterion, which is less than the median as a group with low degree of marketization, and is greater than the median as a group with high degree of marketization, so as to Grouping test is conducted and the regression results are shown in Table 10. The regression coefficient of CSR disclosure (Crstdis) in the high marketization group in column (2) is 0.0962, which is significantly positive at the 1% level, indicating that CSR disclosure increases audit fees in high marketization firms, whereas in low marketization firms, such a positive correlation is not significant, which confirms that compared with high marketization firms The positive correlation between CSR disclosure and audit risk is more significant in firms with low marketization than in firms with high marketization, thus confirming the expectation that the positive correlation is more significant in firms with low marketization. This suggests that firms in low-marketization regions are more likely to engage in whitewashing of SRR disclosures, leading to higher audit costs.

Table 10: Heterogeneous results for degree of marketisation

Variable	(5)	(6)
	Marketization High degree Lnfee	Marketization Low degree Lnfee
Crstdis	0.0120 (1.1235)	0.0554*** (3.2018)
Controls	Yes	Yes
_cons	13.6977*** (94.7389)	13.7657*** (95.3850)
Year	Yes	Yes
Industry	Yes	Yes
N	8914	8506
Within R ²	0.2431	0.2098

5. Conclusions and Implications

5.1. Conclusions

This paper takes the data of Shanghai and Shenzhen A-share companies in 2018-2022 as the research sample to empirically test the relationship between CSR disclosure, internal control and audit fees, and after combing and summarizing the literature, it carries out hypothetical modeling, and ultimately draws the following conclusions: (1) CSR disclosure and audit fees have a significant positive correlation. External auditors, given the consideration of business risk, sustainability, and accuracy of audit results, increase the investment in audit work, enhance the valuation of audit risk, and increase the audit fee; (2) There is a positive correlation between internal control and audit fees. With the enhancement of the quality of internal control, the fine and complex characteristics of the internal control system lead to an increase in substantive audit procedures, thus increasing audit fees. (3) Internal control has a positive moderating effect between CSR disclosure and audit fees, i.e., the level of internal control enhances the impact of CSR disclosure on audit fees. CSR disclosure is generally non-financial data, which is difficult to verify directly and facilitates enterprises to engage in whitewashing behavior and increase audit costs. Further research finds that corporate surplus manipulation can play a mediating effect between CSR disclosure and audit fees. Corporate social responsibility disclosure leads to higher corporate surplus manipulation, which in turn leads to higher audit fees. The positive correlation between CSR disclosure and audit fees is more significant in private enterprises than in state-owned enterprises, more significant in large-scale enterprises than in small-scale enterprises, and more significant in enterprises with a low degree of marketization than in enterprises with a high degree of marketization.

5.2. Implications

Improve the internal control system and disclose social responsibility reports prudently. For enterprises, improve the internal control system, standardize various activities within the enterprise, and play the functionality that the internal control system should have. So that enterprises in the premise of standardized operation, improve operational efficiency. At the same time for the disclosure of social responsibility report can not be copied, people cloud, should be in the control of the enterprise's various business activities under the premise of stable development, in order to improve their own corporate image and over-decorated disclosure.

Maintaining a sense of digging and adjusting audit procedures when appropriate. For the auditing unit, it should pay equal attention to the disclosure of non-financial information in the course of auditing, fully verify it, and shoulder the responsibility of an external supervisor. In addition, in the process of audit risk assessment and audit fees, the relevant information of the audited unit should be fully grasped as far as possible, careful order taking, always vigilant, timely adjustment of the implementation of audit procedures to reduce audit risk. Regular training for auditors to improve their professional knowledge reserve capacity, alert auditors to adhere to the moral bottom line, to maintain their independence and fairness.

Standardize the disclosure of corporate social responsibility information and strengthen supervision. For the government, regulating CSR reports prevents enterprises from over-decorating their reports and jeopardizing the interests of relevant stakeholders. While reducing the opacity of corporate information, it helps stakeholders make decisions and promotes the healthy development of the capital market. At the same time, it can also help auditors to reduce audit risks, improve audit efficiency and reduce audit costs.

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