ISBN:978-0-995398-016
www.apiar.org.au

CORPORATE SOCIAL RESPONSIBILITY AND ACCURACY OF FINANCIAL REPORTING: EVIDENCE FROM THE USA

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Abstract

Companies, while engaging in socially responsible activities, build corporate social capital and avoid engagement in any activity that may damage this capital. In this paper, we posit that due to the existence of corporate social capital, socially responsible firms are more likely to comply with accounting standards as indicated by receiving an unqualified audit report from external auditors. We find robust evidence to suggest that companies which are deemed to be more socially responsible, as indicated by high scores on the KLD Research and Analytics Corporate Social Responsibility (CSR) index, have a higher probability of receiving an unqualified audit opinion than companies who do not have a high CSR index score. This suggests that stakeholders can view public disclosures and financial reports of a company actively engaged in socially responsible activities as being more reliable resulting in a positive increase in a company's social capital.

***Keywords*:** CSR, PCA, Auditor's Opinion, Logit Model

Acknowledgement: The views expressed in this paper are those of the author(s) and do not necessarily reflect the views of the Islamic Research and Training Institute or the Islamic Development Bank Group. All errors are the responsibility of the authors.