

Does Communication Between External Auditors And Those Charged With Governance Positively Affect Corporate Social Responsibility? Evidence From Korea

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ABSTRACT

We examine the effect of communication between external auditors and those charged with governance has on corporate social responsibility (CSR), focusing on amendment of the Act on External Audit of Stock Companies of Korea which emphasizes communication. We find that higher frequency of communication increases CSR, with face-to-face meetings having a stronger positive effect than text-based. This finding emphasizes the need for auditors to actively communicate face-to-face with those charged with governance, as this will increase the auditors' accurate grasp of the firm and improve the quality of the audit services and financial reporting, leading to improved CSR.

Keywords: Communication; Corporate Social Responsibility; Auditor; Audit Committee; Financial Reporting Quality

I. INTRODUCTION

External auditors have to communicate with those charged with governance when conducting an audit, and these actions have been increasingly emphasized in recent years (Fornelli, 2016). When external auditors conduct an audit, they must notify the internal auditors or audit committee if they find any accounting errors and/or failures on the part of the director(s). In addition, the internal auditors or audit committee should require external auditors and CEOs to correct any irregularities found by external auditors (Article 22 of the Act on External Audit of Stock Companies of Korea). The communication between external auditors and internal auditors or audit committee is effective in enhancing audit quality by exchanging of opinions on corporate accounting issues (Read & Raghunandan, 2001).

Several prior studies on the communication of external auditors argue that communication improves the auditors' understanding of accounting information during audit process, thereby enhancing audit quality and improving accounting transparency (Cohen, Gaynor, Krishnamoorthy & Wright, 2008; Handoko & Widuri, 2016). Accounting errors are due to insufficient communication between external auditors and internal auditors or audit committee (Beasley, Carcello, Hermanson & Neal, 2009), and the frequent communication of audit committees with external auditors helps establish audit plans and reduces audit risk (Scarrough, Rama & Raghunandan, 1998; Cohen, Krishnamoorthy & Wright, 2002). Thus, communication between external auditors and internal auditors or audit committee results in higher audit quality (Kim & Kim, 2020; Hong & Kim 2021; Kim & Hong 2021).

These prior studies suggest that communication is a preemptive condition for enhancing the reliability of financial information and accounting transparency (Beasley et al., 2009; Kim & Kim, 2020; Hong & Kim 2021; Kim & Hong 2021). In recent years, the Act on External Audit of Stock Companies of Korea has been amended to require disclosure

of the frequency of communication by external auditors and to emphasize the importance of face-to-face meetings (Article 7-2(3) of the Pre-Amendment Act on External Audit of Stock Companies of Korea; Article 25(4) of the Enforcement Decree of the Act on External Audit of Stock Companies of Korea). Furthermore, the “Regulation on Securities Issuance and Disclosures” was amended on January 29, 2020. The amended provisions required the faithful disclosure, through financial reports, of discussions between external auditors and those charged with governance on matters that could have a significant impact on stakeholders’ judgements (Article 4-3, Paragraph 1-3 of the Regulations on Securities Issuance and Disclosure).

Based on the policy stance which communication is emphasized, this study examines whether communication between external auditors and governance bodies (i.e., internal auditors or audit committee) affects the corporate social responsibility (hereafter, CSR) of the firm under the premise that communication can enhance the quality of accounting information. The external auditors must issue an audit report included their opinion on the financial statement with a sincere and fair view (Alabede, 2012). And internal audit organizations are responsible for overseeing the financial statement prepared to enable information users to use reliable accounting information (Cooper, Leung, Dellaportas, Ahmad & Taylor, 2009). Therefore, the effective interaction between external auditors and internal auditors or audit committee is important for improving the quality of financial reporting (Cohen et al., 2002; Cohen et al., 2008; Sarens, Christopher & Zaman, 2013; Kim & Kim, 2020; Hong & Kim 2021; Kim & Hong 2021). In particular, transparency in financial reporting is a prerequisite for CSR (IFAC, 2006 a, b; Appuhami & Tashakor, 2016; Chen, Srinidhi, Tsang & Yu, 2016; Sun, Huang, Dao & Young, 2017). In other words, efficient auditors and audit organizations can improve financial reporting quality (Cohen et al., 2002; Cohen et al., 2008; Beasley et al., 2009; Kim & Kim, 2020; Hong & Kim 2021; Kim & Hong 2021) and induce high CSR ratings (Appuhami & Tashakor, 2016; Chen et al., 2016; Sun et al., 2017). Taken together, we expect that mutual communication, through strengthening accounting transparency and enhancing firms’ sustainability, also has a positive impact in regard to CSR.

In this study, 1,656 samples of publicly traded Korean firm-years (2014 ~ 2018) are used to examine how external auditors’ communication with internal auditors or audit committee affects CSR activities. Specifically, we focus on communication methods in order to analyze whether communication, rather than being a formal procedure for auditing, actually represents an action that can improve audit quality. Further, to test the impact of the communication methods, we divide communication into text-based and face-to-face, respectively.

Through this approach, we find that the higher the communication frequency, the higher the CSR score, and that mutual communication between external auditors and internal audit organizations has a positive impact on CSR; however, this is only true in the context of face-to-face meetings; text-based meetings have no such effects. This result suggests that external auditors who actively communicate with the internal audit organization through face-to-face meetings have a better understanding of the firm and provide high-quality audit services. This results in the provision of high-quality financial information and an improvement in the firm’s CSR.

This research contributes to the literature on external auditors’ communication with internal auditors or audit committee. Previous research is mainly an interview-style study that emphasized the importance of mutual communication in the oversight process (Cohen et al., 2008; Beasley et al., 2009; Sarens et al., 2013; Fiolleau, Hoang & Pomeroy, 2019). Few studies have been empirically examined using frequency of communication except Kim and Kim (2020). In this study, we extend the prior research by examining the relationship between mutual communication and CSR activities. It is necessary to examine the effectiveness of such communication because the importance of communication is being continually emphasized at a legislative level. In particular, this research adds to existing literature on CSR by linking mutual communication with CSR. Above all, we emphasize the importance of face-to-face communication. The findings, by presenting empirical evidence of communication methods, also provide implications for regulators regarding policy decisions that can be made to improve financial reporting quality and adhere to good CSR practices.

The remainder of this paper is organized as follows. Section 2 discusses existing findings and theories and establishes the hypotheses for the present research. Section 3 constructs a research model for testing the hypotheses and describes

the data collection and sample-selection process. Section 4 explains the results of the empirical analysis, and Section 5 summarizes the results and provides conclusions.

2. PRIOR RESEARCH & HYPOTHESES-SETTING

2.1 Communication to Improve Financial-Reporting Quality

The ultimate objective of effective communication between auditors and audit committees is improvement of the firms' financial reporting (Cohen et al., 2008). Previous studies have identified several factors as representing potential risk in achieving high-quality financial reporting (e.g., Beasley et al., 2000; Klein, 2002; Xie, Davidson III & DaDalt, 2003). One is that the use of earning-management skill, such as discretionary accruals or large period-end adjustments has a negative impact on financial reporting (e.g., Yang & Krishnan, 2005; Douglas, Smith & Wood, 2009). Another is the use of performance assessments against certain benchmarks in a company (e.g., Anderson, Deli & Gillan, 2005; Vafeas, 2005). Thus, in situations where the above mechanisms exist, audit committees must actively engage in communication with the auditor to prevent damage to financial-reporting quality.

According to Cohen et al. (2002), auditors are a key part of the corporate governance, and can work with other governance members to improve the quality of the financial-reporting process. Therefore, if, during the audit process, external auditors exchange opinions through communication with the audit committee and management, it is possible to more clearly identify audit risks and reduce the occurrence of accounting corruption and fraudulent accounting (Cohen et al., 2008). In addition, Beasley et al. (2009) highlighted the importance that audit committees engage in both formal and informal interactions and communications in order to fulfil their responsibility concerning providing high-quality financial reporting. Similarly, Cohen et al. (2008) argued that communication between external auditors, audit committees, and managers regarding accounting matters can ensure the creation of high-quality financial information. Meanwhile, Fiolleau et al. (2019) investigated the influence of audit committees' supervision approaches on the content of auditors' communications with the audit committee regarding material accounting issues resolved with management. These results showed that external auditors adjust their communication to suit the audit committee's oversight approach.

2.2 Corporate Social Responsibility and Transparency in Financial Reporting

In scientific literature, the term "corporate social responsibility" was first formalized by Bowen (1953), who argued that, in a normative way, it means the obligations of businessmen action that are desirable to pursue such politics, to make decisions, or to take actions in terms of the goals and values of society (Davis, 1960; Frederick, 1960; McGuire, 1963; Walton, 1967).

Later, numerous researches provided a theoretical background for integrating ethical expectations for business into a rational economic and legal framework (Carroll, 1979; Jones, 1995; Garriga & Mele', 2004; Mackey, Mackey & Barney, 2007). For example, Carroll (1979) presented a model for explaining corporate social obligations, including economic, legal, ethical, and discretionary responsibilities. Jones (1995) developed a theory that synthesizes economic theory and business ethics. He argued that firms that do business on trust and cooperation have incentives to fulfill their obligations to ethical behavior. Atkins (2006) claimed that, for the investors, social responsibility means transparent financial reporting. Firms that select and implement CSR practices to meet the ethical expectations of their stakeholders can constrain their earnings management to provide investors with more transparent and reliable financial information. In other words, CSR activities can be considered a comprehensive form of interaction between business and society, and to also represent a form of sustainability. In this context, sustainability can be interpreted as accounting-based CSR, which can be achieved through transparency in financial reporting (IFAC, 2006a; IFAC, 2006b).

Prior studies have linked CSR activities with the transparency of financial reporting. Firms with high CSR act responsibly in regard to controlling earnings management and, therefore, provide investors with more reliable and transparent financial information (Beaudoin, 2008; Chih, Shen & Kang, 2008; Kim, Park & Wier, 2012). Beaudoin

(2008) found that a greater commitment to CSR mitigates the effect of the agency problem¹ when managers make discretionary accrual decisions. Meanwhile, Chih et al. (2008) investigated CSR-related features across 46 countries and sought to determine whether these features had positive or negative effects on the quality of corporations' publicly released financial information. They consequently found that greater commitment to CSR mitigates the extent of earnings smoothing and reduces that of earning losses and decrease avoidance. Finally, Kim et al., (2012) reported that CSR firms are more likely to (1) do not manage earnings through discretionary accruals, (2) do not manipulate real operating activities, and (3) be not the subject of State Examination Commission investigations.

In particular, there are studies that link the quality of financial reporting and CSR in terms of audit quality (auditor or audit committee characteristics) (Appuhami & Tashakor, 2016; Chen et al., 2016; Sun et al., 2017). Chen et al. (2016) reported that audit quality, measured by audit fees, is positively associated with stand-alone CSR report issuance. Sun et al. (2017) explained that the appointment of industry-specialist auditors helps to realize CSR value through high-quality financial reporting. Appuhami and Tashakor (2016) examined the influence of audit committee characteristics on voluntary CSR and found that frequency of meetings has a significant positive influence on CSR disclosure level.

2.3 Hypothesis Setting

In Korea, both the internal activities of audit committees and the committees' interactions with external auditors in the process of supervising accounting audits have gained increased importance in recent years. In 2014, it became mandatory to disclose the contents and frequency of communications between external auditors, managers, and the audit committee (before amendment, Article 7-2 (3) of the External Audit Act; Article 6-2 of the Enforcement Decree of the External Audit Act). Subsequently, in May 2018, the Audit (Committee) Code suggested that external auditors and those charged with governance communicate, especially by holding quarterly (at a minimum) meetings without the presence of management. The New External Audit Act, which was enforced in November 2018, stipulates that communication between external auditors and the audit committee should comprise both written notes and face-to-face meetings (Article 25, Paragraph 4 of the Enforcement Decree of the External Audit Act). These changes in laws and regulations, designed to achieve the goal of expanding the practical effect of mutual communication between external auditors and audit committees, have placed a strong emphasis on face-to-face meetings. Notably, firms with assets of KRW 2 trillion or more are obligated to describe their level of compliance with the 10 core principles in a corporate governance report using a comply or explain method.² (Securities Disclosure Regulations Article 24-2). As the core indicators include the contents of the meetings between the audit committee and external auditors, communication is considered a major evaluation factor of governance.

The above shows that a series of system changes have been implemented on the premise of securing effective mutual communication between external auditors and those charged with governance. Through communication, auditors and audit organizations can gain an understanding of matters related to audits and establish constructive business relationships. Specifically, auditors can obtain audit-related information (policies and operations affecting accounting information, etc.) from audit organizations that have relatively superior corporate information. And, audit organizations can reduce the risk of misrepresentative financial statements by managing the financial-reporting process. Therefore, more effective auditors and audit organizations can improve financial reporting quality (Beasley et al., 2009; Cohen et al., 2008; Cohen et al., 2002; Kim & Kim, 2020; Hong & Kim 2021; Kim & Hong 2021) and induce high CSR ratings (Appuhami & Tashakor, 2016; Chen et al., 2016; Sun et al., 2017).

Taken together, effective interaction between external auditors and those charged with governance plays a significant role in improving the quality of financial reporting. In addition, effective interaction between external auditors and those charged with governance can be expected, by improving financial-reporting quality (accounting transparency), to have a positive effect on CSR activities. This is because transparency in financial reporting is a prerequisite for achieving accounting-related CSR (IFAC, 2006a; IFAC, 2006b). In particular, a good sustainability report must embrace transparency; in other words, to achieve sustainability companies must pursue transparency (IFAC, 2006a;

¹ The agency problem is a conflict of interest as to whether a company's agent (manager) acts in the best interest of its principal (shareholder).

² The 10 principles consist of shareholder rights, fair treatment of shareholders, functions of the board of directors, composition of the board of directors, responsibilities of outside directors, evaluation of outside directors' activities, operation of the board of directors, the committees within the board of directors, internal audit organizations, and external auditors.

IFAC, 2006b). In addition, it is expected that face-to-face meetings foster more effective interaction synergies than do text-based meetings involving documents. Based on these suppositions, the following hypotheses are proposed for the present research:

H1: Higher frequency of communication leads to higher CSR.

H2: The positive effect of communication on CSR is stronger in the context of face-to-face meetings than text-based meetings.

3. MATERIALS & METHODS³

3.1 Sample Construction

For this research, we include Korean firms listed on the Korea Composite Stock Price Index (commonly abbreviated to “KOSPI”). This is because the Korea Economic Justice Institute (KEJI), a major CSR-assessment institute in Korea, has annually evaluated and disclosed the CSR activities of KOSPI firms in its KEJI Index. We manually collect data regarding communications between external auditors and those charged with governance (internal auditors or audit committee) from the Data Analysis Retrieval and Transfer System for the period of 2014 ~ 2018. This date range is chosen because 2014 marks the year in which information concerning communications between external auditors and those charged with governance first became available. The External Audit Act of 2014 requires Korea’s listed firms to adhere to specific rules regarding audit reports, including stipulating in annual reports the frequency of communication between external auditors and those charged with governance. All financial data is extracted from the Data Guide Pro of the Fn-Guide Following the approaches applied in prior studies of CSR, we exclude from the analysis firms from the financial industry and those that do not have a December fiscal year-end. We also exclude those with missing data. Lastly, we winsorize at the upper and lower 1% for all continuous variables. When the above sample-selection procedures are applied, our final sample comprise 1,656 firm-year observations.

3.2 Model Specification

Our hypotheses examine whether communication between external auditors and internal auditors or audit committee improves CSR. To test this, we estimate the following regression model:

$$CSR_{i,t} = \beta_0 + \beta_1 Communication_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 GROW_{i,t} + \beta_4 ROA_{i,t} + \beta_5 LEV_{i,t} + \beta_6 MTB_{i,t} + \beta_7 FOR_{i,t} + \beta_8 BIG4_{i,t} + IND + YD + \varepsilon_{i,t}$$

CSR, the dependent variable, is measured using the standardized value of the KEJI Index score. The KEJI Index (similar to the Kinder, Lydenberg, Domini Research and Analytics ratings in the US) comprises six sub-categories, and firms are awarded points for each sub-category (maximum = 100 points): soundness (25 points), fairness (20), social contribution (15), customer protection (15), environmental protection activity (10), employee satisfaction (15).

Communication is the key variable we measured, as we seek to examine the frequency of communication between external auditors and governance bodies. Specifically, detailed information on the communications between external auditors and those charged with governance is categorized depending on whether the setting is a text-based (*Communication_T*) or face-to-face (*Communication_F*) meeting in 2018.⁴ We measure *Communication_T* by determining the frequency of text-based meetings between external auditors and those charged with governance, and measure *Communication_F* by determining the frequency of face-to-face meetings between external auditors and governance bodies. And *Communication_RF* is the ratio of face-to-face meeting to total communication between external auditors and governance bodies.

³ As this study use publicly available data and did not feature human participants approval from an ethics review board was not required.

⁴ In accordance with the New External Audit Act implemented in 2018, communication between external auditors and governance bodies has been disclosed in writing and face-to-face since 2018. Thus, we focused on 2018.

We include several control variables in all regressions. “*SIZE*” represents firm size, and is determined using the natural logarithm of total assets (Waddock & Graves, 1997; Shin & Stulz, 1998; Seifert, Morris, & Bartkus, 2004; Chang, Oh, Jung & Lee, 2012). “*GROW*” represents changes in sales, scaled by lagged sales. “*ROA*” represents return on assets, and is measured by dividing net income by total assets (Waddock & Graves 1997). “*LEV*” represents leverage, and is determined by dividing total liabilities by total assets. “*MTB*” represents the market to book ratio. “*FOR*” represents the percentage of shares held by foreign investors. Finally, “*BIG4*” is a dummy variable for whether a firm is audited by one of the “big four”⁵ audit firms (“1” if yes, “0” otherwise).

4. RESULTS

4.1 Descriptive Statistics and Correlation

Table 1 presents the descriptive statistics for the variables used in this study. *CSR* represents the standardized value of the KEJI Index score, and the mean and standard deviation of *CSR* are 0.000 and 1.000, respectively. The mean for *Communication* is 2.494. This indicates that external auditors in sample firms communicate with those charged with governance approximately 2–3 times yearly. For the control variables, the mean *SIZE* was 19.997, and the mean *ROA* is 0.042. The means for *GROW*, *LEV*, *MTB*, *FOR*, *BIG4* are 0.112, 1.019, 1.265, 0.105, 0.639, respectively.

Table 1. Descriptive Statistic

Variable	# of Obs.	Mean	STD	Min	Median	Max
<i>CSR</i>	1,656	0.000	1.000	-3.356	-0.026	3.463
<i>Communication</i>		2.494	1.167	0.000	2.000	30.000
<i>SIZE</i>		19.997	1.336	16.323	19.816	26.550
<i>GROW</i>		0.112	1.435	-0.980	0.033	56.044
<i>ROA</i>		0.042	0.044	-0.293	0.037	0.604
<i>LEV</i>		1.019	1.210	0.034	0.740	22.829
<i>MTB</i>		1.265	1.205	0.164	0.917	16.175
<i>FOR</i>		0.105	0.132	0.000	0.051	0.897
<i>BIG4</i>		0.639	0.480	0.000	1.000	1.000

This table presents descriptive statistics. *CSR* = standardized value of KEJI index score; *Communication* = frequency of communication between external auditors and those charged with governance; *SIZE* = natural logarithm of total assets; *GROW* = change in sales, scaled by lagged sales; *ROA* = net income divided by total assets; *LEV* = total liabilities divided by total assets; *MTB* = market to book ratio; *FOR* = foreign investors’ ownership; *BIG4* = 1 if a firm is audited by a BIG4 audit firms, and 0 otherwise.

Table 2 presents the correlation coefficients between the test variables. *Communication* is significantly positively correlated with the dependent variable *CSR*. This shows that communication between external auditors and those charged with governance improves a firm’s level of *CSR*. Regarding the control variables, *SIZE*, *GROW*, *ROA*, *MTB*, *FOR*, and *BIG4* are significantly positively correlated with the dependent variable, *CSR*. On the other hand, *LEV* is significantly negatively correlated with *CSR*.

⁵ In Korea audit market, Big4 auditor refers to a domestic corporation that has business alliances with large accounting firms (PWC, KPMG, Ernst & Young, Deloitte) with an international network.

Table 2. Pearson Correlations (N=1,656)

	1	2	3	4	5	6	7	8
1. CSR	1							
2. Communication	0.094 (0.000)***	1						
3. SIZE	0.276 (0.000)***	0.192 (0.000)***	1					
4. GROW	0.013 (0.383)	-0.005 (0.587)	-0.001 (0.875)	1				
5. ROA	0.153 (0.000)***	-0.062 (0.000)***	0.149 (0.000)***	0.103 (0.000)***	1			
6. LEV	-0.121 (0.000)***	0.026 (0.009)***	0.019 (0.002)***	-0.001 (0.817)	-0.049 (0.000)***	1		
7. MTB	0.219 (0.000)***	0.007 (0.467)	-0.050 (0.000)***	-0.000 (0.950)	-0.073 (0.000)***	0.713 (0.000)***	1	
8. FOR	0.305 (0.000)***	0.095 (0.000)***	0.452 (0.000)***	-0.006 (0.378)	0.117 (0.000)***	-0.014 (0.025)**	0.004 (0.507)	1
9. BIG4	0.162 (0.000)***	-0.067 (0.000)***	0.364 (0.000)***	-0.011 (0.074)*	0.051 (0.000)***	0.012 (0.065)*	-0.015 (0.014)**	0.235 (0.000)***

These symbols *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

This table presents a correlation matrix for our interest variables. Detailed definitions of variables are in the notes of Table 1.

4.2 Effects on CSR of External Auditors’ Communication with those Charged with Governance

Table 3 shows the regression results for *Communication* and *CSR*, through which we test Hypothesis 1. We find a significantly positive coefficient for *Communication* (coefficient = 0.059, t-stat = 3.79). This indicates that frequent communication between external auditors and those charged with governance is more likely to increase firms’ CSR. Consistent with our Hypothesis 1, the result shows that effective interaction between external auditors and those charged with governance leads to have a positive impact on CSR activities, which improve the quality of financial reporting. Regarding the control variables, the coefficients of *SIZE*, *ROA*, *MTB*, and *FOR* are significantly positive, whereas the coefficient of *LEV* is significantly negative.

Table 3. The Effect of Communication between External Auditors and Those Charged with Governance on CSR

Variable	Coef.	t-value
<i>Communication</i>	0.059	(3.79)***
<i>SIZE</i>	0.310	(4.43)***
<i>GROW</i>	0.047	(0.95)
<i>ROA</i>	7.460	(4.29)***
<i>LEV</i>	-0.258	(-4.00)***
<i>MTB</i>	0.215	(3.31)***
<i>FOR</i>	2.297	(3.31)***
<i>BIG4</i>	0.002	(0.03)
constant	1.895	(5.85)***
IND and YD		Included
Adjusted R ²		0.259
No. of Obs.		1,656

These symbols *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

This table shows the results of the effect of communication between external auditors and those charged with governance on CSR. Detailed definitions of variables are in the notes of Table 1.

We estimate regressions for each *CSR* variable (*Soundness*, *Fairness*, *Social Contribution*, *Customer Protection*, *Environmental Protection activity*, *Employee Satisfaction*). Table 4 shows the results. We consistently find a significant positive relationship between *Communication* and *Soundness*, *Social Contribution*, and *Environment*

Protection (coefficient = 0.059, t-stat = 1.74; coefficient = 0.092, t-stat = 2.94; coefficient = 0.043, t-stat = 2.87; respectively).

To examine Hypothesis 2, we tested the relationship between the communication method and CSR; the results are reported in Table 5. Columns (1), (2), (3), and (4) in Table 5 show the results, using CSR as the dependent variable. The coefficient of *Communication* is significantly positive in Column (1) at the 5% level (coefficient = 0.417, t-stat = 2.59). Column (2) shows that the coefficient of *Communication_T* is insignificant (coefficient = -0.137, t-stat = -0.89). Meanwhile, Column (3) shows that the coefficient of *Communication_F* is significantly positive at the 5% level (coefficient = 0.253, t-stat = 2.32) in), and Column (4) shows that *Communication_RF* is significantly positive at the 1% level (coefficient = 1.086, t-stat = 2.79). Overall, the results shown in Table 5 are consistent with Hypothesis 2 that face-to-face meetings rather than text-based meetings affect CSR by improving the quality of financial reporting.

Table 4. Testing each index of CSR

Variable	Soundness	Fairness	Social Contribution	Customer Protection	Environment Protection	Employee Satisfaction
	Coef. (t-value)	Coef. (t-value)	Coef. (t-value)	Coef. (t-value)	Coef. (t-value)	Coef. (t-value)
<i>Communication</i>	0.056 (1.74)*	0.040 (1.52)	0.092 (2.94)***	0.017 (1.23)	0.043 (2.87)***	0.010 (0.52)
<i>SIZE</i>	0.125 (3.64)***	-0.254 (-2.22)***	1.431 (4.95)***	-0.089 (-5.81)***	0.204 (12.79)***	-0.743 (-4.99)***
<i>GROW</i>	-0.012 (-0.46)	0.005 (0.24)	-0.021 (-0.76)	0.003 (0.23)	0.004 (0.37)	0.046 (5.55)
<i>ROA</i>	2.04 (2.30)**	0.363 (0.50)	3.026 (2.95)***	0.184 (0.48)	0.614 (1.49)	0.488 (0.72)
<i>LEV</i>	-0.22 (-6.84)***	-0.056 (-2.11)**	-0.055 (-1.50)	-0.017 (-1.20)	0.015 (1.03)	0.004 (0.18)
<i>MTB</i>	0.235 (7.32)***	-0.003 (-0.13)	0.011 (0.20)	-0.061 (-4.23)***	-0.001 (-0.09)	-0.039 (-1.03)
<i>FOR</i>	2.677 (8.07)***	0.139 (0.51)	1.007 (0.77)	-0.467 (-3.04)***	0.698 (4.53)***	-0.983 (-0.87)
<i>BIG4</i>	0.239 (2.83)***	-0.209 (-3.03)***	0.002 (0.01)	-0.043 (-1.13)	-0.062 (-1.56)	0.295 (2.11)**
constant	1.571 (6.65)***	1.828 (5.65)***	1.802 (5.95)***	1.677 (5.77)***	0.976 (5.22)***	1.946 (5.10)***
IND and YD	Included	Included	Included	Included	Included	Included
Adjusted R ²	0.2808	0.2142	0.2180	0.2183	0.1824	0.3162
No. of Obs.	1,656	1,656	1,656	1,656	1,656	1,656

These symbols *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

This table shows the results of testing each index of CSR. Detailed definitions of variables are in the notes of Table 1.

Table 5. Face-to-face meeting vs. Written meeting

Variable	Coef. (t-value)		Coef. (t-value)		Coef. (t-value)		Coef. (t-value)	
	<i>Communication</i>	0.417	(2.59)**					
<i>Communication T</i>			-0.137	(-0.89)				
<i>Communication F</i>					0.253	(2.32)**		
<i>Communication_RF</i>							1.086	(2.79)***
<i>SIZE</i>	0.564	(3.69)***	0.603	(4.12)***	0.567	(3.64)***	0.578	(3.87)***
<i>GROW</i>	0.148	(0.69)	0.151	(0.71)	0.153	(0.72)	0.157	(0.73)
<i>ROA</i>	8.072	(2.33)**	8.262	(2.38)**	8.179	(2.36)**	0.824	(2.38)**
<i>LEV</i>	-0.586	(-3.21)***	-0.576	(-3.15)***	-0.579	(-3.17)**	-0.580	(-3.17)***
<i>MTB</i>	0.200	(1.58)	0.200	(1.56)	0.192	(1.50)	0.193	(1.50)
<i>FOR</i>	2.383	(1.65)	2.313	(1.59)	2.290	(1.58)	2.214	(1.52)
<i>BIG4</i>	0.137	(0.37)	0.168	(0.42)	0.221	(0.56)	0.261	(0.64)
Constant	1.525	(5.19)	1.185	(5.95)***	1.685	(5.59)***	1.423	(5.24)***
IND and YD	Included	Included	Included	Included				
Adjusted R ²	0.2142	0.2125	0.2136	0.2151				
No. of Obs.	352	352	352	352				

These symbols *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

This table shows the results of face-to-face meeting vs. written meeting. *Communication_T*: frequency of written meeting between external auditors' communications and those charged with governance; *Communication_F*: frequency of face-to-face meeting between external auditors' communications and those charged with governance. *Communication_RF*: ratio of face-to-face meeting to total communication between external auditors and those charged with governance. Detailed definitions of variables are in the notes of Table 1.

4.3 Robustness Test

As a sensitivity test, we perform further re-estimation using the standardized value of communication. In our untabulated results, we find that *Communication_std* is significantly associated with *CSR*, *Soundness*, *Social Contribution*, and *Environment Protection* (coefficient = 0.275, t-stat = 3.65; coefficient = 0.056, t-stat = 2.03; coefficient = 0.059, t-stat = 2.50; coefficient = 0.054, t-stat = 3.11; respectively). We find that the positive relationship between external auditors' communication with those charged with governance and CSR activities remain consistent, indicating that our results are not influenced by measurement errors. Therefore, we conclude that communications between external auditors and those charged with governance improve CSR activities.

Table 6. The standardized value of communication between external auditors and those charged with governance

Variable	<i>CSR</i>	<i>Soundness</i>	<i>Fairness</i>	<i>Social Contribution</i>	<i>Customer Protection</i>	<i>Environment Protection</i>	<i>Employee Satisfaction</i>
	Coef. (t-value)	Coef. (t-value)	Coef. (t-value)	Coef. (t-value)	Coef. (t-value)	Coef. (t-value)	Coef. (t-value)
<i>Communicaion_std</i>	0.275 (3.65)***	0.056 (2.03)**	0.047 (1.52)	0.059 (2.50)**	0.020 (1.23)	0.054 (3.11)***	0.032 (1.46)
Constant	1.484 (4.82)***	1.848 (4.63)***	1.918 (5.41)***	1.303 (5.44)	1.720 (5.41)***	1.787 (5.50)**	1.850 (5.50)***
IND and YD	Included	Included	Included	Included	Included	Included	Included
Adjusted R ²	0.3475	0.2712	0.2851	0.2234	0.2412	0.2340	0.4123
No. of Obs.	1,656	1,656	1,656	1,656	1,656	1,656	1,656

These symbols *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

This table shows the results of the standardized value of communication between external auditors and those charged with governance. *Communication_std*: standard value of communication between external auditors and those charged with governance. And detailed definitions of variables are in the notes of Table 1.

5. DISCUSSION & CONCLUSION

This paper examines the effect of communication between external auditors and those charged with governance (e.g., internal auditors, audit committee) on firms' CSR. Through analysis of data for KOSPI firms for the period 2014–2018, we find that auditors' communication with internal auditors or audit committee is significantly related to CSR.

This indicates that a firm in which there is frequent communication between external auditors and those charged with governance is more likely to have high CSR. However, the positive effect of mutual communication between auditors and governance bodies on CSR is stronger when the communication occurs through face-to-face meetings rather than text-based meetings. This finding suggests that external auditors who actively communicate with internal auditors or audit committee have a better grasp of the firm and provide high-quality audit services. This is associated with the provision of high-quality financial information and improvement in the firm's CSR. In particular, the positive effect of mutual communication observed in this study suggests the importance of regular face-to-face meetings.

There are several limitations to the findings in the present study. First, since our empirical analysis is limited to listed Korean companies, our findings may not be generalized to companies outside Korea. However, amid the recent revised External Audit Act in Korea, practical interactions between external auditors and those charged with governance have been emphasized for the purpose of improving financial reporting quality, a country's official institutions could influence the way governance communicate. Especially communication frequency is data that can only be collected in Korea. Hence, the findings based on the Korean research setting could provide new insights on this issue. Next, we performed analysis on the frequency of communication (quality) because very few companies have been producing Communication content and procedure (quality) in South Korea. Therefore, these results need to be improved by future studies using qualitative information about communication.

This study presents empirical evidence of the effect mutual communication between external auditors and internal auditors or audit committee has in terms of firms' CSR. It emphasizes the importance of communication methods (face-to-face, not text-based). This finding emphasizes the need for auditors to actively communicate face-to-face with governance bodies during the accounting audit process, as this will increase the auditors' grasp of the firm and result in higher-quality audit services. This will enhance the quality of accounting information and improve firms' CSR. These study findings, by providing empirical evidence regarding the effectiveness of communication methods, also provide implications for regulators regarding policies that should be implemented to improve financial-reporting quality and, by extension, CSR.

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