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Are country-level political uncertainty and power distance important to the CSR-audit report lag nexus? Evidence from the GCC region

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ABSTRACT

This study examines the effect of corporate social responsibility (CSR) performance on audit report lag and whether political uncertainty and power distance levels impact such association. We find that audit report lag is significantly lower for firms with a high CSR performance. We further find that the impact is evident only for large firms and those whose financial reports are audited by highquality auditors. However, our analysis suggests that political uncertainty and power distance intensity do not moderate the association between CSR performance and audit report lag. Our results remain robust after excluding some control variables, addressing the endogeneity issues, and using alternative audit report lag measures. This study contributes to audit delay literature by recognising CSR practices as a determinant of audit report lag in the GCC setting. The findings of this study carry valuable practical implications for regulatory bodies, policymakers, investors, and managers in the GCC region.

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1. Introduction

Concerns over CSR and auditors' behaviour have attracted the attention of researchers, investors, regulators, and other stakeholders since the early 1980s. In addition, the severe problems of climate change and global warming question the role of humans and corporations. Therefore, recent years have witnessed a growing public demand for corporate firms to pay more attention to social, environmental, and ethical issues.[1] The benefits of CSR are reflected in improving firms' financial performance, transparency and accountability, reputation, and legitimacy, attracting potential investors, as well as connecting with and fulfilling the need of multiple stakeholders (Chauvey et al. 2015; Platonova et al. 2018). Hence, CSR has become integral to firms' daily business operations and

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long-term strategic planning (Du, Xu, and Yu 2020). Furthermore, auditors, in addition to their indirect impact on the overall economy, play a critical and direct role in improving the validity of CSR-related information disclosed in corporate annual reports. Therefore, understanding how client characteristics and macroeconomic factors affect auditors' behaviour is an important research area in accounting (Sun, Habib, and Bhuiyan 2020).

Although extensive studies have documented the economic consequences of CSR on firm performance (e.g. Alareeni and Hamdan 2020; Chang and Shen 2014; Chiang, Shang, and Sun 2017; Flammer 2015; Nakao et al. 2007), cost of capital (e.g. Dhaliwal et al. 2011; El Ghoul et al. 2011; Goss and Roberts 2011; Oikonomou, Brooks, and Pavelin 2014) and financial reporting quality (e.g. Hong and Andersen 2011; Kim, Park, and Wier 2012), very little is known as to how auditors perceive firms with large investments in CSR activities. We, thus, are motivated to empirically investigate the impact of CSR performance on auditors' efforts from the perspective of audit report lag to provide compelling evidence about and shed light on the role of CSR in audit timeliness for companies in Gulf Cooperation Council (GCC) countries.[2] There are two contrasting arguments on how CSR impacts the timing of audit report issuance. On the one hand, CSR is a source of sustained competitive advantage since it improves a firm's financial performance by increasing customer attraction and sales growth and minimising operation costs (Edmans 2011; Lev, Petrovits, and Radhakrishnan 2010). In addition, from the ethical perspective of CSR, socially oriented firms are found to be more transparent in their financial reporting (Hong and Andersen 2011; Kim, Park, and Wier 2012) and less likely to engage in earnings manipulation (Cho and Chun 2016; Lisowsky 2010). Based on these studies, it is plausible to expect firms with high CSR performance to experience a low business and audit risk. Auditors consequently exert less effort auditing CSR firms' information, leading to shorter audit report lag.

On the other hand, the opportunistic use of CSR view suggests that self-centred managers may use CSR as a tool to increase their social status (Barnea and Rubin 2010) or diverge stakeholders' attention from earnings management resulting from poor financial performance (Prior, Surroca, and Tribó 2008). Hence, if auditors perceive a firm's CSR as a result of managerial opportunism, one might predict those auditors, in response to highly assessed business and audit risk, are likely to exercise a significant amount of professional judgement, consequently delaying the issuing of the audit report.

Considering these differing viewpoints, the impact of CSR performance on audit delay remains an empirical question that requires further investigation.[3] Therefore, understanding the relationship between CSR performance and audit delay is crucial for two reasons. Firstly, it provides insights into how auditors perceive firms with significant CSR investments and their corresponding efforts in conducting audits. Secondly, it sheds light on the role of CSR in audit timeliness, which has implications for financial reporting transparency and stakeholder trust.

We also explore the possible impact of country-level factors such as political uncertainty and power distance on the CSR-audit report lag association. Recent studies find that firms operating in politically uncertain environments tend to engage high-quality auditors (Farooq, Satt, and El Fadel 2020), leading to longer audit report lag (Hossain and Mitra 2022). However, based on real options theory, companies operating in countries with higher political uncertainty are more reluctant to invest in CSR activities.

Diallo (2021) reports that companies facing higher political instability are less likely to demand high-quality audits for fear of losing wealth, which may reduce audit delay. In addition, academic studies find power distance to be associated with information opaqueness (Gray 1988; Hofstede 2001; Su, Zhang, and Ye 2021), weak internal control systems (Alzeban 2015; Sarens and Abdolmohammadi 2010) and higher risk of accounting fraud (Chan, Lin, and Mo 2003).

While some studies indicate that power distance increases audit report lag (Toumi, Khlif, and Khelil 2022), others suggest that auditors exert less effort in countries with high power distance (Bik and Hooghiemstra 2017). Therefore, we are motivated to explore whether the impact of CSR performance on audit report lag is moderated by the levels of political uncertainty and power distance, as auditors consider these factors in assessing business and audit risk. By investigating these factors, we can gain insights into how auditors assess business and audit risk in different contexts. This exploration will provide a comprehensive understanding of the complex dynamics between CSR performance, political uncertainty, power distance, and audit delay. Such knowledge is essential for policymakers, auditors and stakeholders to make informed decisions regarding corporate governance, sustainability practices, and the reliability of financial reporting.

GCC countries have unique and fascinating characteristics that motivate us to conduct the study. First, the emphasis on CSR issues in the GCC is still in the early stages of development, compared to those in developed countries such as the US and the UK, where the CSR concept is more mature. Just recently, authorities in GCC started to include the reporting of CSR practices as a requirement to help GCC firms build up their reputation and increase their value (Alazzani et al. 2021). Furthermore, GCC countries are characterised by weak investor protection, and thus, it is less likely that companies in the countries are penalised for providing misleading information. GCC firms also have a high ownership concentration, mostly by family members and the government. The unique institutional setting and features raise the question of whether GCC companies embracing CSR policies reflect a genuine commitment to social responsibility or are mainly used to respond to the government's call for more spending on CSR activities or as a tool to withhold management misconduct.

Second, audit timeliness is a critical factor in emerging capital markets where the disclosure level is low, and the audited financial statements are the only reliable source of information available to users (Leventis, Weetman, and Caramanis 2005). Moreover, the low volume of litigation and weak law enforcement in GCC countries discourage external auditors from providing a high-quality audit, adversely affecting auditors' efforts and audit timeliness (Habbash and Alghamdi 2017). Third, from the economic aspect, the GCC countries have vast economic prominence in the Middle East region and are among the largest oil and gas producers in the world (Habbash, Hussainey, and Awad 2016). This excessive production of oil would deteriorate environmental conditions and create drastic climate change, and thus, companies in GCC countries are under serious pressure to adopt environmental policies and make strategic choices that can solidify their legitimacy in the eyes of consumers and other stakeholders. In addition, the recent decline in oil prices and global financial crisis have led to different political changes, including changes in domestic and foreign policies by many governments in the GCC region, which eventually heightened the political uncertainty level

of GCC economies. Alhamran et al. (2022) suggest that after the global financial crisis, GCC economies suffered a slowdown, and they witnessed lower levels of political stability due to the decline of oil prices and political tension in the region.

Furthermore, GCC countries have experienced political reforms and changes driven by the so-called Arab Spring that seriously hit the Middle East and North African (MENA) region (Alqahtani, Klein, and Khalid 2019; Chau, Deesomsak, and Wang 2014). These major political events and their explosive implications on the economy and society may affect how auditors perceive the audit risk of companies operating in GCC countries. Finally, GCC countries score high on power distance, unlike some developed countries (Alzeban 2015).

The current research makes valuable contributions to the existing literature in several ways. We contribute to growing research that explores the impact of CSR on audit fees in different contexts (e.g. Carey, Liu, and Qu 2017; Garcia, de Villiers, and Li 2021; López-Puertas-Lamy, Desender, and Epure 2017; Pucheta-Martínez, Bel-Oms, and Rodrigues 2019; Wang et al. 2020), by providing fresh evidence that firms in GCC countires with greater CSR performance experience lesser auditors' efforts and therefore shorter audit report lag. Further, unlike Asante-Appiah (2020) study that focused on the relationship between media coverage of negative ESG issues and audit report lag, we expand on their findings by examining the overall CSR performance of companies, distinct from negative media reports. Similarly, unlike the study of Oh and Jeon (2022) which explored the association between corporate sustainable management and audit delay for Korean Stock Exchange companies, and that of Lamptey, Park, and Bonaparte (2023) which investigated the impact of CSR performance on the timeliness of audited financial information using data from the annual list of '100 Best Corporate Citizens'. We contribute by exploring a new area of research that mainly on how auditors respond to CSR policies, political uncertainty, and power distance in GCC countries, characterised by weak investor protection, high political uncertainty, and power distance. To our knowledge, our study is the first to examine the impact of CSR on audit delay while considering country-level political uncertainty and power distance as moderating variables. This study is expected to provide valuable insights into the role of CSR, political instability, and power distance in the audit context, addressing the need to incorporate intervening factors in the study of CSR performance and reporting.

Secondly, in contrast to existing literature focusing on the effects of political uncertainty on corporate investments (An et al. 2016; Jens 2017; Julio and Yook 2012), future cash flows (Brogaard and Detzel 2015), cost of debt (Francis, Hasan, and Zhu 2014; Waisman, Ye, and Zhu 2015) and financial reporting quality (Bermpei et al. 2022; Yung and Root 2019), our research goes beyond these areas by examining the impact of political uncertainty on the relationship between CSR performance and audit delay. Although our study builds upon existing research conducted by Yun and Chun (2021) and Hossain and Mitra (2022), which examine the relationship between political uncertainty and audit behaviour and the direct impact of political risk on audit delay, respectively. However, our study contributes to this body of literature by specifically investigating the potential moderating impact of political uncertainty on the association between CSR performance and audit report lag. This novel perspective contributes to a more comprehensive understanding of the implications of political uncertainty in the context of CSR and audit delay.

Finally, our study contributes to the existing literature on the impact of power distance on audit-related factors. Previous studies by Alzeban (2015) and Sarens and Abdolmohammadi (2010), focusing on Saudi Arabia and multiple countries, respectively, highlight the low quality of internal control in firms operating in high power distance environments. Unlike, Toumi, Khlif, and Khelil (2022) that find power distance is associated with increased audit report lag based on international data, our study aims to fill the research gap regarding how auditors respond to firms with both high CSR performance and high power distance, an area that has received limited attention from researchers. This understanding is crucial for researchers, investors, and policymakers as it affects auditors' efforts, evidence collection, evaluation processes, and ultimately, the quality of financial reporting.

2. Theoretical background

The academic debate on whether CSR practices have positive or negative consequences on audit outcomes has mainly centred on two popular theories, i.e. stakeholder theory and agency theory. Stakeholder theory emphasises that companies should consider the interests of different groups of stakeholders, not merely those of their investors. Failure to satisfy stakeholders' needs particularly those pertinent to society might deprive firms with weak CSR performance to gain the benefits of CSR practices, e.g. high credit rating, easy access to finance, lower capital constraints, lower risk exposure and high financial performance. Furthermore, having sound relations with employees, customers, creditors and other stakeholders is pivotal for firms to continue as going concern and improve their long-term sustainability.

Sustainability scholars suggest that adopting CSR policies assists firms to increase their image as generous corporate citizens (Dhaliwal et al. 2011), which encourages consumer to buy more products from socially oriented firms and consequently increase the firms' sales growth and financial performance (e.g. Attig et al. 2013; Godfrey, Merrill, and Hansen 2009). Extant studies show that firms with high CSR/ESG performance incur lower cost of capital (e.g. Dhaliwal et al. 2011; El Ghoul et al. 2011; Goss and Roberts 2011; Xu, Xu, and Yu 2021) and experince less financial distress risk (Al-Hadi et al. 2019; Boubaker et al. 2020; Farooq and Noor 2021; Zheng, Wang, and Jiang 2019). Based on stakeholder theory, CSR practices are used by firms to send a strong signal to exteranal auditors about the efficiency and the integrity of their management. We thus expect auditors as a response to such trustworthy behaviour by a corporate's management will alleviate both audit and business risk, leading to shorter audit report lag.

On the contrary, agency theory argues that CSR practices are only perceived as a waste of money of profitable investments (Friedman 2009), potentially eroding corporate financial performance (Riyadh, Sukoharsono, and Alfaiza 2019). Further, opportunistic managers may invest in CSR activities to obtain monetary benefits and enhance their social status rather than achieving the company's objectives (Barnea and Rubin 2010). Hemingway and Maclagan (2004) point out that a motivation for engaging in CSR practices is 'greenwashing' to camouflage for corporate misconduct. Therefore, within the agency theory, we can expect that more engagement in CSR activities leads to a longer audit report lag. This is due to auditors are more likely to expend more effort to ensure that the financial statements of socially responsible firms are free from material statements.

With respect to political uncertainty, real options theory highlights the significance of uncertainty in investment decisions that involve irreversible actions and the possibility of managerial flexibility (Kogut and Kulatilaka 2001). Based on the real options theory and in the context of CSR activities, companies operating in countries with higher political uncertainty face increased risks and uncertainties regarding their future operations and investments (Yuan et al. 2022). These uncertainties can stem from political instability, unpredictable policy changes and volatile business environments. As a result, companies may become more cautious and reluctant to invest in CSR activities due to concerns about the potential negative impacts on their financial performance and ability to adapt to changing circumstances. The inherent flexibility of CSR investments, which may have longer payback periods and uncertain outcomes, makes them particularly susceptible to the effects of political uncertainty (Cassimon, Engelen, and Van Liedekerke 2016; Yuan et al. 2022). Thus, companies operating in such environments may prioritise short-term financial stability and avoid long-term commitments, such as extensive CSR investments, in order to preserve their resources and mitigate risks.

Further, companies operating in political uncertainty environments are less likely to request high-quality audits due to concerns about potential financial losses (Diallo 2021). This reduced demand for high-quality audits can contribute to shorter audit delays. Furthermore, power distance as a cultural dimension representing the extent to which power is distributed unequally in a society, is associated with information opaqueness (Su, Zhang, and Ye 2021), weak internal control systems (Alzeban 2015; Sarens and Abdolmohammadi 2010) and an increased risk of accounting fraud (Chan, Lin, and Mo 2003). Thus, there is a potential impact of political uncertainty and power distance on audit-related factors and financial reporting quality.

3. Literature review and hypotheses development

3.1. Extant research on CSR

CSR has been recognised as a prevalent business strategy that numerous academics and practitioners around the globe have gradually accepted. However, although there exist relatively sizable research works examining the association between CSR and audit outcomes, most of the studies have mainly focused on how CSR impacts the behaviour of auditors in the context of audit fees, audit quality, audit hours or audit opinion. Furthermore, the studies have not agreed on whether CSR practices affect the aforementioned audit measures, either positively or negatively. Therefore, we review prior studies by emphasising audit outputs indicated earlier to understand better how engagement in CSR activities is linked to audit report lag.

Using a sample of firms listed on the Chinese stock market from 2008 to 2013, Carey, Liu, and Qu (2017) document that companies with highly rated CSR performance engage less in earnings management activities, thus paying lower audit fees. In the same vein, the international research of Sun, Habib, and Bhuiyan (2020) provides empirical evidence that auditors perceive companies with favourable workforce environments as less risky and therefore charge lower audit fees to the firms. The relationship is more pronounced in countries with high labour market flexibility. Other studies that found CSR to mitigate audit fees are those of Wang et al. (2020) and Pucheta-Martínez, Bel-Oms, and Rodrigues

(2019). Nguyen and Trinh (2020) conclude that firms with higher engagements in CSR activities experience better and more favourable audit opinions on the quality of their financial statements. Kim and Jung (2020) find that auditors are more likely to consider companies with strong CSR performance as having low audit risk. Thus, the auditors spend fewer audit hours reviewing firms' financial statements.

On the contrary, using a sample of international firms from 2003 to 2012, LópezPuertas-Lamy, Desender, and Epure (2017) provide strong evidence that companies with relatively high CSR performance are charged higher audit fees. Kim and Kim (2013) report that Korean firms with more engagement in CSR activities pay more audit fees. Based on the demand side of auditing, Chen et al. (2016) employ the US data to provide empirical evidence that firms pursue high-quality audits and thus pay higher audit fees to signal a higher level of credibility of CSR reporting. Du, Xu, and Yu (2020) reinforce Chen et al. (2016) proposition that CSR firms demand high audit quality to obtain greater assurance of financial reporting quality. They suggest that companies with higher CSR performance are more likely to select Big N auditors and less likely to switch from Big N auditors to non-Big N auditors. Sun et al. (2017) find that companies with high CSR ratings prefer to engage industry specialised auditors, and thus incur higher audit fees, to enhance financial and sustainability reporting quality. Other studies that advocate the notion that CSR increases audit fees are those of Saeed et al. (2022) and Garcia, de Villiers, and Li (2021).

From the above discussion, it is evident that there is a paucity of research on CSR and audit delay. Thus, this motivates us to explore whether CSR practices affect auditors' audit engagement risk assessment, eventually leading them to adjust their audit effort and timing of issuing audit reports.

3.2. Csr performance and audit report lag

Investors usually require accounting information on a timely basis before the information loses the ability to affect the investors' decision, and a long time lag in audit reports may adversely impact the usefulness of financial information (Ettredge, Li, and Sun 2006; Mohamad Naimi, Rohami, and Wan-Hussin 2010). Furthermore, a delay in the audit report signals to the stock market that some negative issues may warrant an external auditor's attention (Oh and Jeon 2022). Therefore, it jeopardises investors' confidence in the quality of financial reports. It has been argued that the time lag of audit reports increases due to information asymmetry between managers and investors and management's tendency to involve in earnings management practices that deteriorate financial reporting quality (Bamber, Bamber, and Schoderbek 1993).

Apart from other factors, extant studies suggest audit risk (the likelihood of misstatements or fraud in the financial statement) and clients' business risk (the likelihood of client business failure) as a determinant of audit report lag (Bamber, Bamber, and Schoderbek 1993; Bell, Doogar, and Solomon 2008; Knechel and Payne 2001; Lyon and Maher 2005). Furthermore, academic scholars opine that audit report lag better captures audit effort than audit fees. Thus, it is a reasonable proxy for audit efforts (e.g. Asante-Appiah 2020; Knechel and Sharma 2012). Auditors tend to apply greater effort to clients with high business risk to reduce the audit risk to an acceptable level (Knechel and Payne 2001). Auditors may also delay disclosure of their opinion on the client's financial

report as they need to put in more work and carry out more tests and procedures to alleviate the likelihood of litigation and reputational damage associated with an audit engagement (Bamber, Bamber, and Schoderbek 1993).

The probable impact of CSR performance on audit report lag can be viewed from two competing perspectives: i) the ethical perspective of CSR and ii) the opportunistic use of CSR. On the one hand, the audit-risk view and the ethical perspective of CSR may explain how companies can reap the benefits of shorter audit report lag by accepting various corporate social initiatives. For instance, owing to adopting a high level of ethical standards in their organisational charter, CSR firms are more likely to be transparent in their financial reporting (Hong and Andersen 2011; Kim, Park, and Wier 2012) and less likely to engage in earnings manipulation (Cho and Chun 2016; Lisowsky 2010). Prior research documents that companies with a high level of voluntary CSR disclosure experience higher financial reporting quality (Hong and Andersen 2011; Kim, Park, and Wier 2012). The higher transparency and credibility in financial reporting by the CSR firms would lower audit risk, thereby, audit delay, since auditors would need to exert lesser efforts in evidence collection, analytical procedures and substantive testing.

In addition, several studies show engagement in CSR enhances firm performance (e.g. Alareeni and Hamdan 2020; Chang and Shen 2014; Chiang, Shang, and Sun 2017; Flammer 2015; Nakao et al. 2007) and minimise the cost of capital (e.g. Dhaliwal et al. 2011; El Ghoul et al. 2011; Goss and Roberts 2011; Oikonomou, Brooks, and Pavelin 2014; Xu, Xu, and Yu 2021; Ould Daoud Ellili 2020). For instance, CSR practices boost employee morale, improve production efficiency, mitigate product boycotts and increase customers' attraction to a firm's product, leading to higher sales growth and profitability (Lev, Petrovits, and Radhakrishnan 2010). Furthermore, socially oriented firms emphasising stakeholder satisfaction have higher employee attraction and retention rates and lower operation costs, leading to greater productivity and higher financial performance (Edmans 2011). This aligns with stakeholder theory's allegation that CSR can be considered an instrument to gain sustainable competitive advantage. Thus, CSR performance is a crucial source of a company's success. As a result of increased corporate performance, CSR firms pursuing CSR-related initiatives are better positioned to mitigate business risk, translating into lower audit risk and shorter audit report lag.

Furthermore, socially oriented firms tend to disclose more financial and non-financial information than their rivals to attract more investors and legitimate their actions in the eyes of other stakeholders (Dhaliwal et al. 2011; Zahller, Arnold, and Roberts 2015). The increase in CSR information mitigates information asymmetric between managers and capital providers, reducing information risk and thus minimising the cost of capital and financial distress risk. Auditors, then, will conduct fewer tests and exercise less professional judgement to protect their reputation and avoid financial litigation as they assess lower business risk for companies with high CSR ratings. In this vein, Oh and Jeon (2022) provide empirical evidence that firms that engage more in corporate sustainability management experience a shorter audit report lag than their rivals. Asante-Appiah (2020), using a sample of 6448 firm-year observations from 2007–2014, reports that tainted ESG reputation heightens client business risk and adversely affects audit timeliness.

On the other hand, the opportunistic use of CSR perspective views that self-centred managers may engage in CSR-related matters to window-dress or greenwash. The

actions may involve managers providing misleading information to interested parties to advance their careers, enhance their reputation and awareness level within their social circles (Griffin and Weber 2006; Holder-Webb et al. 2009; Surroca and Tribó 2008), and disguise their misconduct (Carey, Liu, and Qu 2017; Hemingway and Maclagan 2004; Kang, Germann, and Grewal 2016). According to agency theory, CSR practices are only perceived as a waste of money of profitable investments (Friedman 2009). Thus, spending on CSR-related matters does not necessarily lead to better corporate financial performance (Riyadh, Sukoharsono, and Alfaiza 2019). There is also a possibility that managers behave opportunistically to benefit themselves at the firm's cost from voluntary CSR activities, which are not subject to formal audits. Barnea and Rubin (2010) argue that large shareholders or managers may invest in CSR to increase their social status rather than achieve the company's objectives.

Moreover, Prior, Surroca, and Tribó (2008) opine that self-centred managers are more likely to embrace CSR practices to diverge stakeholders' attention from earnings management resulting from poor financial performance. To the extent that managers have greater incentives to use CSR as a channel to conceal adverse financial performance and lower earnings quality, auditors, in response to high perceived business risk, will increase audit efforts by spending more days auditing the financial statements of socially responsible firms. This raises the prospect that more engagement in CSR activities is associated with a longer audit report lag. Lamptey, Park, and Bonaparte (2023) suggest that CSR practices are associated with audit complexity and risk that force auditors to assess a high risk of material misstatements, translating into more audit efforts and longer time to release audited financial statements.

According to the preceding discussion on the ethical view of CSR and stakeholder theory, auditors are more likely to apply lesser effort and thus issue their reports on time for firms with high CSR performance. On the other hand, based on agency theory, auditors may delay disclosing their opinion and exert greater audit efforts in response to a higher business and audit risk if they perceive that a firm's CSR results from managerial opportunism. Given these competing arguments, our first hypothesis is formulated as follows:

H1a: Ceteris paribus, firms with greater investments in CSR activities experience shorter audit report lag.

H1b: Ceteris paribus, firms with greater investments in CSR activities experience longer audit report lag.

3.3. Political uncertainty and the effect of CSR performance on audit report lag

Political uncertainty refers to the obscurities related to possible changes in government policies (Farooq, Satt, and El Fadel 2020). In addition to their effect on the overall economy, government policy changes adversely impact business outcomes. For example, academic scholars report that political uncertainty reduces firms' sales growth (Hosny 2017; Matta, Appleton, and Bleaney 2018) and financial performance (Pástor and Veronesi 2013). Furthermore, political uncertainty increases stock price volatility (Baker, Bloom, and Davis 2016; Chau, Deesomsak, and Wang 2014) and firm risk-taking behaviour (Boubakri, Mansi, and Saffar 2013). Evidence shows that firms operating in countries with high political uncertainty have a lesser tendency to invest in value-creating projects

(An et al. 2016; Jens 2017; Julio and Yook 2012), face a higher risk of cash flow (Brogaard and Detzel 2015) and are less profitable (An et al. 2016). The under-investment problem resulting from missed profitable investment opportunities alongside uncertainties concerning future cash flows and low levels of profitability may engender a firm to be less transparent, eventually exacerbating information and default risk. Several studies find that political uncertainty promotes accounting conservatism due to increased information asymmetries between insiders and capital providers (Dai and Ngo 2021), overvalues cost of debt (Francis, Hasan, and Zhu 2014; Waisman, Ye, and Zhu 2015; Xu 2020) and increases the likelihood of stock price crash risk (Su, Zhang, and Ye 2021). A review of recent literature shows that, during a significant political turmoil, managers aggressively indulge in earnings manipulation to portray a good economic picture of the company and calm outsiders (Bermpei et al. 2022; Yung and Root 2019). Gilchrist, Sim, and Zakrajšek (2014) suggest that the probability of default increases with political instability.

The above discussion reveals that auditors would spend more time undertaking tests to mitigate audit and business risks associated with higher uncertainty about political incidents. Farooq, Satt, and El Fadel (2020) report that companies with higher exposure to political uncertainty are more likely to use high-quality external auditors to improve the quality of their information disclosure. Moreover, recent studies by Yun and Chun (2021) and Ahmad, Bradbury, and Habib (2021) empirically conclude that political uncertainty results in more audit efforts and increases audit hours. Hossain and Mitra (2022) conclude that companies with higher political risk have longer audit delays. As previously highlighted, based on ethical and audit risk hypotheses, more involvement in CSR activities promotes audit timeliness due to lower information asymmetry and enhanced financial reporting quality. Thus, we predict that CSR performance alleviates the negative effect of political uncertainty on audit delay.

However, there is a possibility that firms headquartered in countries with higher political uncertainty are reluctant to invest in CSR activities. Real options theory asserts that uncertainty at the national level obstructs firms from adopting CSR strategies. Using a sample of 38,172 firm-year observations from 2002 to 2016, Jia and Li (2020) report that political instability is negatively associated with sustainability performance. Furthermore, companies facing higher political instability are less likely to demand high-quality audits for fear of losing wealth (Diallo 2021), which may reduce audit delay. Therefore, we predict that the expected benefits of CSR performance to decrease audit report lag are lower for firms operating in countries with higher political uncertainty. However, we do not know whether political uncertainty amplifies or attenuates the association between CSR performance and audit delay. Therefore, we formalise our second hypothesis as follows:

> H2: the association between CSR performance and audit report lag is strengthened (weakened) for firms domiciled in countries with a high level of political uncertainty.

3.4. Power distance and the effect of CSR performance on audit report lag

Power distance is the extent to which the lower-ranking individuals of a society accept and expect the power, status and wealth to be distributed unequally (Hofstede 2001). At the organisational level, power distance refers to a situation in which managers in junior positions accept instructions from those further up the hierarchy without being

able to question any decisions/actions taken by more powerful managers (Alzeban 2015). Therefore, it is more likely for top managers in high power distance companies to override existing internal control (Chan, Lin, and Mo 2003). Power distance is found to be associated with information opaqueness (Gray 1988; Hofstede 2001) and a weak internal control system (Alzeban 2015; Sarens and Abdolmohammadi 2010). For instance, Alzeban (2015) and Kanagaretnam et al. (2016) provide evidence that power distance deteriorates the quality of the internal control system in the context of Saudi Arabia and the US, respectively. Sarens and Abdolmohammadi (2010) conclude that the uniformity in internal audit practices increases in countries with a lower level of power distance. Su, Zhang, and Ye (2021) find that firms in high power distance countries are more likely to conceal negative information and thus experience stock price crash risk, particularly during national elections.

Furthermore, managers with more power are incentivised to seek their personal benefits and indulge in accounting information manipulation. According to Hofstede (2001), in companies with high power distance, often controlling managers regard the accounting system as available for their manipulation to justify their decisions. Therefore, accounting figures will be less transparent in this situation. Wang and Hell (2009) argue that auditors in high power distance environments should anticipate greater fraud from controlling managers and put more effort into ensuring financial information's quality and reliability. Chan, Lin, and Mo (2003) empirically reveal that large power distance companies experience a higher risk of accounting fraud than their counterparts. Haskins (1987) opines that the centralisation of power in the hands of just a few people leads to an increased risk of material misstatements in the reporting of financial information. Therefore, in the face of assessed audit risk, we expect auditors to increase audit tests and efforts for firms with high power distance if the power distance exaggerates the risk of material misstatements. In their international study and using quantile regressions for a sample of 1208 firm-year observations, Toumi, Khlif, and Khelil (2022) report that power distance increases audit report lag. This association is particularly significant for groups with the highest audit delay.

However, Usunier, Furrer, and Furrer-Perrinjaquet (2011) argue that high power distance companies have a lower CSR performance as firms' managers pay more attention to shareholders' value maximisation objectives and are less concerned about other stakeholders' needs. If this is the case, one might expect that the potential benefits of CSR to reduce audit report lag are weakened in high power distance cultures. Moreover, Bik and Hooghiemstra (2017) suggest that in countries with high power distance, auditors apply a lesser effort throughout an audit engagement. Based on the contrasting arguments discussed above, we hypothesise the following:

> H3: the association between CSR performance and audit report lag is strengthened (weakened) for firms domiciled in countries with high power distance.

4. Research design

4.1. Data and sample

Our initial sample consists of 726 firm-year observations on CSR ratings available from the CSRHub database for non-financial GCC-listed firms from 2010 to 2021.[4] Following prior research (e.g. Bu et al. 2013; Cordeiro, Profumo, and Tutore 2020; Cruz et al. 2014),

we use these ratings as a proxy for CSR performance. We obtain data on audit report lag, audit quality and corporate governance variables from sample firms' annual reports, while firm-specific financial data are retrieved from Datastream. We extract country-level data on political stability, the gross domestic product and the inflation rate from the official website of the World Bank. We collect data on power distance from Hofstede's cultural dimensions website (https://www.hofstede-insights.com/country-comparison/the-usa/) and At-Twaijri and Al-Muhaiza (1996).[5] We exclude firms with missing audit report lag data and firms without annual reports/ corporate governance section to collect data for corporate governance variables. We ended up with a final sample of an unbalanced panel of 601 firm-year observations. Our study captures the data on CSR ratings from 2010 because most GCC firms only start incorporating sustainability information in their annual reports from 2010 onwards. We ended our observations in 2021 as the last year the data was made available when this study was conducted.

Table 1 Panel A discusses the sample selection procedures, and Panel B presents the sample distribution by country. Finally, panel C of Table 1 shows the sample distribution by industry based on the 2-digit Global Industry Classification Standards (GICS). It must be noted that the number of firms across sampled countries and industries varies remarkedly. For instance, 39% of the observations are from companies in Saudi Arabia, followed by 25% in the United Arab Emirates and 19% in Qatar. On the other hand, only 6% of the observations are from companies domiciled in Oman and Kuwait and 5% in Bahrain. Besides, 21% of our sampled firms operate in the materials sector, 20% in the telecommunication services, and 16% in the real state sector. In contrast, consumer services and retailing are each represented by only 3%.

4.2. Variables measurement

4.2.1. Measurement of audit report lag

We use three proxies for audit delay: (i) the number of days between a firm's financial year-end and the signature date of the audit report (ARL) (Al-Ebel et al. 2020; Bamber, Bamber, and Schoderbek 1993; Knechel and Payne 2001; Knechel and Sharma 2012; Oradi 2021); (ii) the natural logarithm of ARL (NLARL) (Asante-Appiah 2020; Oradi 2021); and (iii) the industry adjusted ARL (IAARL) (Oradi 2021). While we use the second proxy of audit delay to mitigate the effect of outliers in ARL, the third proxy is employed to consider the potential impact of industry on ARL. We report and discuss the results of ARL in the main analyses and those of NLARL and IAARL in the supplementary analyses.

4.2.2. Measurement of overall CSR performance

CSR performance (CSRP) is our independent variable of interest. As outlined previously, we measure firms' overall CSR performance using ratings from the CSRHub database. CSRHub represents the world's largest CSR database aggregating data from over 650 SRI/ESG sources to generate an unanimity score for the CSR performance of more than 19,000 companies in 140 countries. It evaluates a firm's overall CSR performance based on the performance rating of four key dimensions: employees, environment, community, and governance.[6] CSRHub aggregates information from its data sources to calculate each dimension rating and transforms it into a 0 to 100 scale. The higher the overall rating, the better the CSR performance, with 100 being the highest.

Table 1. Sample selection and sample breakdown.

Sample	firm-year													
Panel A. Sample selection procedure														
Number of non-financial GCC companies with CSR ratings from CSRHub database during the period 2010–2021	726													
Less: firms with missing audit report lag data	(73)													
Less: firms with missing corporate governance data	(52)													
Total observations	601													
Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	total	%
Panel B. Sample firm breakdown by year and country														
Bahrain	2	2	2	3	3	3	3	3	3	3	3	3	33	5%
Kuwait	1	1	1	2	4	4	4	4	4	4	4	4	37	6%
Oman	0	0	1	3	3	4	4	4	4	4	4	4	35	6%
Qatar	4	5	7	8	11	11	11	11	11	11	11	11	112	19%
Saudi Arabia	12	13	13	16	18	23	23	23	23	23	23	23	233	39%
UAE	9	9	9	12	14	14	14	14	14	14	14	14	151	25%
Total	28	30	33	44	53	59	59	59	59	59	59	59	601	**100%**
Industry	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total	%
Panel C. Sample firm breakdown by year and industry														
Materials	5	6	6	9	11	13	13	13	13	13	13	13	128	21%
Telecommunication Services	7	8	8	9	10	11	11	11	11	11	11	11	119	20%
Consumer Services	1	1	1	2	2	2	2	2	2	2	2	2	21	3%
Food, Beverage & Tobacco	2	2	2	3	3	3	3	3	3	3	3	3	33	5%
Capital Goods	2	2	3	3	4	4	4	4	4	4	4	4	42	7%
Energy	1	1	2	2	5	5	5	5	5	5	5	5	46	8%
Real Estate	3	3	3	7	8	10	10	10	10	10	10	10	94	16%
Utilities	1	1	2	3	3	3	3	3	3	3	3	3	31	5%
Retailing	1	1	1	1	1	2	2	2	2	2	2	2	19	3%
Consumer Durables & Apparel	2	2	2	2	2	2	2	2	2	2	2	2	24	4%
Transportation	3	3	3	3	4	4	4	4	4	4	4	4	44	7%
Total	28	30	33	44	53	59	59	59	59	59	59	59	601	100%

4.2.3. Measurement of political uncertainty

Different methods have been identified in previous literature to proxy for political uncertainty.[7] However, due to data unavailability, we use the world bank's index (i.e. political stability and absence of violence) to measure political uncertainty (PUI). This index, ranging from +2.5 to −2.5, measures the likelihood of political instability and/or politically-motivated violence in a country. Higher scores represent a more stable political environment. Consistent with Ahmad, Bradbury, and Habib (2021), we multiply the index by −1, so the positive scores indicate high political uncertainty and ease the interpretation of our results.

4.2.4. Measurement of power distance

Hofstede (2001) identified four cultural dimensions: power distance, individualism versus collectivism, masculinity versus femininity, and uncertainty avoidance. However, we only use the index scores of power distance as identified in our H3. The power distance index (PDI) measures the extent to which less powerful members of organisations and institutions accept and expect unequal power distributions. The index is based on prior studies covering different international populations and assessed using an international questionnaire from employees from various countries. Although Hofstede's cultural scores have been widely used by accounting and social science literature, the scores do not cover all countries around the globe. Therefore, we only refer to Hofstede's website to extract power distance scores for Saudi Arabia, Qatar, Kuwait, and UAE. In contrast, we counted on the relevant study of At-Twaijri and Al-Muhaiza (1996) to obtain scores for Oman and Bahrain.

4.3. Model specification

We use the following regression specification to examine the relationship between CSR performance and audit report lag (H1):

$$\begin{aligned} ARL_{i,t} = {} & \beta_1 CSRP_{i,t} + \beta_2 CUR_{i,t} + \beta_3 REC_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} \\ & + \beta_6 ROA_{i,t} + \beta_7 LOSS_{i,t} + \beta_8 GROWTH_{i,t} + \beta_9 BIG4_{i,t} \\ & + \beta_{10} BIND_{i,t} + \beta_{11} BSIZE_{i,t} + \beta_{12} BMEET_{i,t} \\ & + \beta_{13} ACIND_{i,t} + \beta_{14} ACSIZE_{i,t} + \beta_{15} ACMEET_{i,t} \\ & + \beta_{16} GDP_{i,t} + \beta_{17} INF_{i,t} + \sum_{j=1}^{n} Fixed\ Effects + \varepsilon_{i,t} \end{aligned} \tag{1}$$

ARL, our dependent variable, is the audit report lag. CSRP is the overall CSR performance as defined previously. Stakeholder theory and ethical hypothesis suggest CSR activities have the potential to increase a company's financial performance and socially oriented firms exhibit high ethical behaviour. We contend that if CSR activities mitigate business risk and auditors' risk exposure, auditors will spend less time and effort to complete audit-related tasks. We thus would observe a negative coefficient on β1. Alternatively, a positive coefficient β1 would reflect a higher audit risk and efforts, indicating the use of CSR policies in GCC countries as a tool for window dressing as suggested by the agency theory. Top managers may engage in actions that are inimical to the interest of the stakeholders, engendering auditors spend more time to mitigate the propensity for material misstatements resulting from managerial opportunism.

We include several control variables that prior studies find are potential determinants of audit report lag (Al-Ebel et al. 2020; Asante-Appiah 2020; Mohamad Naimi, Rohami, and Wan-Hussin 2010; Oh and Jeon 2022; Oradi 2021). These are client size (SIZE), audit complexity proxied by accounts receivable ratio (REC) and client-specific risk (CUR, LEV, ROA, LOSS and GROWTH). Big firms will likely take a long time to issue their audit reports as they require more audit efforts and procedures.

On the other hand, large firms often implement a solid internal control system that renders auditors to spend less time on substantive tests of year-end balances, thus accelerating audit work completion. Therefore, we do not specify a direction for the association between firm size and audit report lag. However, we predict a positive coefficient on REC since firms with greater complexity will likely experience a longer audit report lag. Prior research suggests that firms with high (low) risk exposure are more (less) likely to experience an excessive delay in issuing their audit reports. Thus, we expect positive coefficients on LOSS and LEV but negative coefficients on CUR, ROA and GROWTH. We control for auditor-specific characteristics by including BIG4, and we predict this audit-related variable to affect audit report lag positively.

As proxies for a client's corporate governance structure, following prior studies (e.g. Mohamad Naimi, Rohami, and Wan-Hussin 2010; Oradi 2021), we include board independence (BIND), board size (BSIZE), audit committee independence (ACIND), audit committee size (ACSIZE), board and audit committee meetings (BMEET and ACMEET, respectively). Firms with strong corporate governance structures will likely experience shorter audit report lag. We include two country-level control variables that may influence cross-country variations in audit report lag: gross domestic product (GDP) and inflation rate (INF). We expect these two-country-level control variables to associate with audit report lag positively. We further control for the country-industry- and year-fixed effects in Equation (1). Appendix A provides a detailed description of all variables.

We develop the following equations to explore whether the level of political uncertainty and power distance impacts the nexus between CSR performance and ARL:

$$\begin{aligned} ARL_{i,t} = {} & \beta_1 CSRP_{i,t} + \beta_2 PUI_{i,t} + \beta_3 CSRP \times PUI_{i,t} + \beta_4 CUR_{i,t} + \beta_5 REC_{i,t} + \beta_6 SIZE_{i,t} \\ & + \beta_7 LEV_{i,t} + \beta_8 ROA_{i,t} + \beta_9 LOSS_{i,t} + \beta_{10} GROWTH_{i,t} + \beta_{11} BIG4_{i,t} \\ & + \beta_{12} BIND_{i,t} + \beta_{13} BSIZE_{i,t} + \beta_{14} BMEET_{i,t} + \beta_{15} ACIND_{i,t} + \beta_{16} ACSIZE_{i,t} \\ & + \beta_{17} ACMEET_{i,t} + \beta_{18} GDP_{i,t} + \beta_{19} INF_{i,t} + \sum_{j=1}^{n} Fixed\ Effects\ + \varepsilon_{i,t} \end{aligned} \tag{2}$$

$$\begin{aligned} ARL_{i,t} = {} & \beta_1 CSRP_{i,t} + \beta_2 PDI_{i,t} + \beta_3 CSRP \times PDI_{i,t} + \beta_4 CUR_{i,t} + \beta_5 REC_{i,t} + \beta_6 SIZE_{i,t} \\ & + \beta_7 LEV_{i,t} + \beta_8 ROA_{i,t} + \beta_9 LOSS_{i,t} + \beta_{10} GROWTH_{i,t} + \beta_{11} BIG4_{i,t} \\ & + \beta_{12} BIND_{i,t} + \beta_{13} BSIZE_{i,t} + \beta_{14} BMEET_{i,t} + \beta_{15} ACIND_{i,t} \\ & + \beta_{16} ACSIZE_{i,t} + \beta_{17} ACMEET_{i,t} + \beta_{18} GDP_{i,t} + \beta_{19} INF_{i,t} \\ & + \sum_{j=1}^{n} Fixed\ Effects\ + \varepsilon_{i,t} \end{aligned} \tag{3}$$

PUI and PDI refer to country-level political uncertainty and power distance, respectively (see Sections 4.2.3 and 4.2.4 for details). In Equations (2) and (3), our major variables of special interest are the interaction terms between PUI and PDI with CSRP (i.e. CSRP*PUI and CSRP*PDI). However, given the competing arguments discussed in the hypotheses development section and the paucity of prior research on PUI and/or PDI with audit report lag, we do not specify a direction for these two interaction terms. Instead, we winsorise all continuous variables at the 1 and 99 percentiles to remove the influential outliers. In addition, we employ ordinary least squares (OLS) regression with Driscoll and Kraay's corrected standard errors to control for heteroskedasticity, autocorrelation and cross-sectional dependency.

We are also aware that our models may suffer from reverse causality and/or unobserved omitted variables problem. For example, companies with short audit report lag (i.e. high financial reporting quality) may embrace CSR practices. Moreover, there might exist other unobserved variables that are correlated with both CSRP and ARL. Therefore, we perform instrumental variables method and lag method to address these issues.

5. Empirical results

5.1. Descriptive statistics and correlations

Table 2 reports the descriptive statistics of all variables used in the main analysis. As shown in the table, ARL's mean (median) is 50.91 days (50.00 days), indicating that, on average, GCC firms take about 51 days to publish the audit report after the fiscal year's end. The mean ARL is shorter than what has been reported by previous audit delay studies in emerging economies, such as 97 days in Greece (Leventis, Weetman, and Caramanis 2005), 76 days in Iran (Oradi 2021), 100 days in Malaysia (Mohamad

Table 2. Descriptive statistics.

Variables	N	Mean	Min	Max	Std	P25	Median	P75
ARL(days)	601	50.95	20	85	16.30	41	50	60
CSRP	601	44.09	26.75	62.33	8.29	38.93	44.18	50.23
PUI (%)	601	50.99	9.01	92.42	23.26	26.42	55.66	70.28
PDI	601	75.40	46	93	11.72	26.42	55.66	70.28
CUR	569	1.68	0.47	4.63	1.06	0.100	1.39	1.99
REC	583	0.09	0.01	0.29	0.07	0.04	0.07	0.11
SIZE(log)	592	7.04	4.86	8.69	0.85	6.57	7.24	7.61
LEV (%)	588	26.64	0	77.49	19.25	11.75	24.80	38.70
ROA (%)	578	7.04	−3.39	21.67	5.93	3.06	6.61	9.80
LOSS	578	0.10	0	1	0.30	0	0	0
GROWTH	573	0.07	−0.32	0.66	0.22	−0.04	0.04	0.15
BIG4	601	0.86	0	1	0.35	1	1	1
BIND	601	0.42	0.13	1	0.19	0.29	0.36	0.50
BSIZE	601	8.54	3	13	1.66	7	9	10
BMEET	601	6.22	2	16	2.15	5	6	7
ACIND	601	0.44	0.25	0.80	0.15	0.33	0.33	0.60
ACSIZE	601	3.65	2	7	0.93	3	3	4
ACMEET	601	5.15	2	14	1.60	4	5	6
GDP	601	1.81	−4.11	6.93	3.13	−0.74	2.37	4.41
INF	601	1.322	−2.54	5.83	2.02	0.26	1.62	2.68

Notes: Variable definitions are provided in Appendix A. All continuous variables are winsorised at the 1 and 99 percentiles to remove influential outliers.

Naimi, Rohami, and Wan-Hussin 2010), and 67 days in Korea (Oh and Jeon 2022). However, it is similar to the result found in Omanian companies (Al-Ebel et al. 2020: 51 days). The mean (median) of CSRP is 44.09 (44.18). The means of PUI and PDI are 50.99 and 75.40, respectively. The descriptive statistics for all control variables are generally consistent with GCC-related studies (e.g. Al-Dhamari et al. 2023; Al-Ebel 2020; Aldoseri et al. 2021).

Figure 1 demonstrates GCC countries' political stability and power distance from 2010 to 2021. Bahrain, Saudi Arabia and Kuwait show a very low level of political stability, indicating that firms operating in these countries experience a weak stable environment. Furthermore, the figure suggests that most GCC countries exhibit a high power distance; Qatar and Kuwait score above 80, indicating a high level of inequality concerning power and wealth within the countries' communities.

Table 3 reports the Pearson correlations. Consistent with extant research on audit delay, we find BSIZE and ACSIZE negatively correlated with audit report lag and LOSS positively correlated with audit report lag. We also find that CSR firms are big and have large boards and audit committees. Unexpectedly, the table reveals that firms with excellent CSR ratings exhibit high risk (as reflected by positive coefficients on CUR, LEV and REC). This result implies that firms with high-risk exposure may adopt CSR strategies to improve their chances of survival. Finally, we find that companies in countries with a high (low) power distance (political uncertainty) invest more in CSR activities. The correlation coefficients among most variables are less than 60%, indicating collinearity is not a major concern.

5.2. Regression results

5.2.1. Csr performance and audit report lag (H1)

Table 4 presents the regression results for Equation (1), which tests the effect of CSR performance on audit report lag proxied by ARL. Column 1 of Table 4 shows that the coefficient of CSRP ($\beta = -0.294$) is significantly negative at $P < 0.01$, suggesting that spending

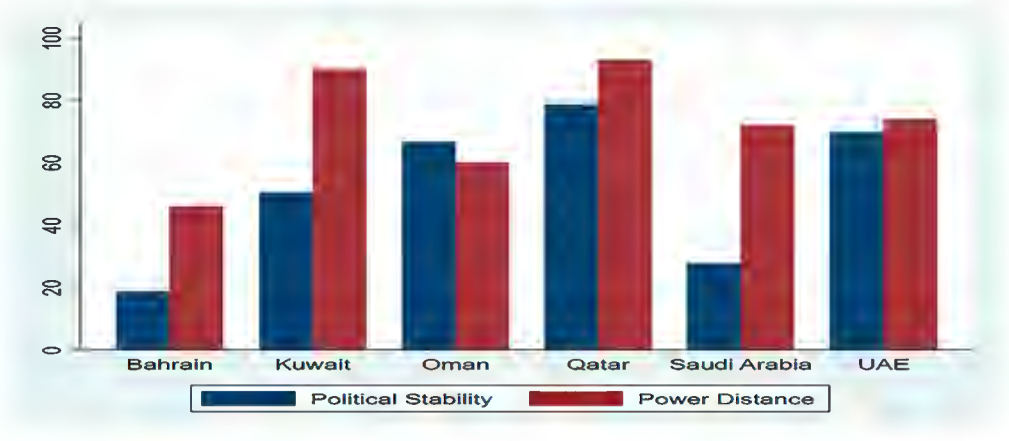


Figure 1. Political stability and power distance for GCC countries. Sources. World bank index (for political stability) and Hofstede index as well as At-Twaijri and Al-Muhaiza (1996) (for power distance).

Table 3. Correlations.

Variables		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	*P*	Q	R	S	T
ARL	A	1																			
CSR	B	−0.05	1																		
PUI	C	−0.06	**−0.15**	1																	
PDI	D	0.01	**0.16**	**−0.56**	1																
CUR	E	0.00	**−0.10**	0.06	0.03	1															
REC	F	0.02	**0.13**	−0.03	**−0.14**	−0.01	1														
SIZE	G	0.08	**0.49**	**−0.10**	**0.25**	**−0.12**	**−0.10**	1													
LEV	H	0.01	**0.09**	0.01	0.02	**−0.21**	**−0.29**	**0.35**	1												
ROA	I	**−0.27**	−0.08	0.05	−0.00	**0.08**	**0.08**	**−0.22**	**−0.33**	1											
LOSS	J	**0.16**	0.03	0.01	−0.02	−0.08	−0.05	0.02	**0.16**	**−0.52**	1										
GROWTH	K	−0.03	0.02	**−0.12**	0.06	−0.06	0.04	0.03	−0.04	**0.21**	**−0.18**	1									
BIG4	L	0.02	−0.07	−0.05	0.07	**−0.16**	**−0.10**	−0.00	**0.11**	0.03	−0.01	**0.09**	1								
BIND	M	0.01	0.03	0.02	**−0.49**	**−0.09**	**0.26**	−0.02	0.01	−0.03	−0.04	−0.04	**−0.15**	1							
BSIZE	N	**−0.08**	**0.15**	**0.28**	**−0.34**	**−0.19**	**0.11**	**0.13**	**0.09**	**0.10**	−0.08	−0.07	0.01	**0.45**	1						
BMEET	O	**0.12**	**−0.14**	**−0.11**	−0.04	**−0.12**	−0.07	**0.09**	0.01	**−0.12**	−0.01	−0.02	0.07	**0.19**	−0.04	1					
ACIND	*P*	−0.00	**0.10**	**0.22**	**−0.42**	**−0.12**	**0.21**	**0.16**	**0.13**	**−0.10**	−0.03	−0.04	**−0.08**	**0.52**	**0.44**	**0.16**	1				
ACSIZE	Q	**−0.18**	−0.03	**0.44**	**−0.39**	**−0.16**	**0.08**	0.05	**0.21**	−0.06	−0.04	−0.03	0.04	**0.27**	**0.36**	**0.12**	**0.57**	1			
ACMEET	R	**0.12**	−0.04	0.05	**−0.09**	**−0.12**	0.01	**0.17**	−0.01	−0.02	**−0.09**	−0.01	0.03	**0.20**	**0.12**	**0.46**	**0.29**	**0.31**	1		
GDP	S	**−0.13**	0.02	**−0.19**	−0.04	0.01	−0.00	0.08	0.02	**0.15**	−0.05	**0.13**	0.07	0.04	0.02	−0.01	−0.02	−0.05	**−0.10**	1	
INF	T	**−0.14**	−0.06	**0.15**	−0.05	0.02	−0.03	−0.03	0.02	**0.14**	−0.01	0.05	**0.11**	**−0.11**	0.01	−0.06	−0.07	0.07	−0.04	**0.46**	1

Notes: Variable definitions are provided in Appendix A. Boldface values indicate statistically significant at the 5% level or better.

Table 4. OLS regression of CSR performance, its interaction with political uncertainty as well as power distance on audit report lag.

Dependent variable	(1) ARL	(2) ARL	(3) ARL	(4) ARL
Intercept	51.636***	62.352***	64.721***	67.254***
	(5.92)	(3.92)	(3.85)	(3.53)
CSRP	−0.294***	−0.326*	−0.714*	−0.744*
	(−5.10)	(−1.92)	(−1.80)	(−1.69)
PUI		−0.006		−0.390
		(−0.03)		(−1.14)
CSRP*PUI		−0.000		(0.001)
		(−0.13)		(0.19)
PDI			−0.332	0.163
			(−1.21)	(1.12)
CSRP*PDI			0.005	0.003
			(1.04)	(1.28)
CUR	−0.309	−0.200	−0.062	−0.245
	(−0.58)	(−0.36)	(−0.19)	(−0.45)
REC	22.526***	15.552***	17.529***	22.976***
	(4.93)	(5.14)	(6.10)	(3.24)
SIZE	3.123***	3.359**	3.706*	3.314**
	(3.04)	(2.35)	(1.81)	(2.23)
LEV	0.041	0.023	0.024	0.040
	(0.83)	(0.50)	(0.56)	(0.88)
ROA	−0.535***	−0.622***	−0.607***	−0.538***
	(−5.36)	(−6.88)	(−6.07)	(−4.79)
LOSS	−5.149***	−4.998***	−4.510**	4.954***
	(−3.24)	(−3.25)	(−2.30)	(3.24)
GROWTH	4.293	3.624	4.089	4.274
	(1.56)	(1.47)	(1.45)	(1.50)
BIG4	0.355	0.770	0.413	0.223
	(0.39)	(0.66)	(0.43)	(0.23)
BIND	2.083	4.017	2.536**	2.259
	(0.54)	(1.24)	(2.50)	(0.61)
BSIZE	−0.707*	−0.141	−0.408	−0.752**
	(−1.94)	(−0.40)	(−0.92)	(−2.03)
BMEET	0.605**	0.604*	0.551*	0.560*
	(2.32)	(1.85)	(1.70)	(1.86)
ACIND	4.294	5.680*	3.927	4.088
	(1.03)	(1.70)	(0.85)	(1.16)
ACSIZE	−2.374***	−2.391***	−2.919***	−2.485***
	(−3.76)	(−3.03)	(−5.64)	(−4.31)
ACMEET	1.161***	1.038***	0.942***	1.147**
	(2.71)	(2.94)	(2.65)	(2.21)
GDP	−0.231	0.305	0.146	−0.546
	(−0.52)	(0.62)	(0.21)	(−1.02)
INF	−0.180	−0.367	−0.330	−0.268
	(−0.20)	(−0.62)	(−0.36)	(−0.30)
COU Dummy	Yes	Yes	Yes	Yes
YEAR Dummy	Yes	Yes	Yes	Yes
IND Dummy	Yes	Yes	Yes	Yes
F Value	1253.59***	68.93***	120.52***	108.32***
R^2	0.338	0.325	0.323	0.344
Observations	549	549	549	549

Notes: Variable definitions are provided in Appendix A. T-statistics are reported in brackets. *, **, and *** denote significance at the 0.10, 0.05, and 0.01 levels, respectively, based on robust standard errors (Driscoll-Kraay standard errors).

on CSR activities is associated with shorter audit report delay. Regarding economic significance, one standard deviation increase in CSRP leads to a 29.4% reduction in ARL. This result is consistent with the stakeholders' and legitimacy notion that CSR can bring competitive advantages to a company by legitimating the firm in the eyes of consumers, thereby increasing its financial sustainability and improving its transparency

level. Auditors, in return, will put more trust in financial reports and internal controls of firms with greater engagement in CSR practices as auditors perceive these firms as less risky. The trust would result in conducting fewer audit tests and exercising less effort, minimising the days required to complete audit-related tasks. The finding is tandem with Oh and Jeon (2022) who provide empirical evidence that companies with high CSR ratings experience a shorter audit report lag than their rivals.

Concerning the control variables, ROA is significantly and negatively associated with audit report lag across all columns, consistent with Al-Ebel et al. (2020). Like Oradi (2021), both SIZE and REC significantly and positively affect audit report lag across all columns. BSIZE and ACSIZE exhibit a negative and significant impact on audit report lag, whereas BMEET and ACMEET are positively and significantly associated with audit report lag across all columns. The control variables that do not show consistent results across all columns are LOSS, BIND and ACIND. The control variables not significantly related to audit report lag are CUR, LEV, GROWTH, BIG4, GDP and INF.

5.2.2. Endogeneity issue

Although our models control for several variables that can affect ARL, the findings on CSRP could be driven by other unobserved variables that may be correlated with both CSRP and ARL. It is also plausible that firms with short audit report lag (i.e. high financial reporting quality) exhibit excellent CSR performance. In this research, two approaches are used to ensure the robustness of our main findings to the omitted variables and reverse causality concerns. Firstly, we perform the instrumental variables (IV) method. Following prior studies on ARL (e.g. Oh and Jeon 2022; Sun, Habib, and Bhuiyan 2020; Saeed et al. 2022), we select industry average CSRP as our instrument (IND_CSRP).[8] In the first stage, we regress CSRP on IND_CSRP and other control variables used in Equation (1). The predicted value of CSRP generated from the first stage is employed as our variable of interest in the second-stage regression. We expect IND_CSRP to impact CSRP in the first stage positively. However, we have no reason to expect IND_CSRP to affect ARL through channels other than CSR performance directly.

Table 5, Columns 1 and 2, reports our results. Column 1 presents the first-stage regression result on IND_CSRP, and Column 2 presents the second-stage result for testing our proposition that CSR performance is associated with audit delay. As expected, Column 1 shows that the coefficient of IND_CSRP ($\beta = 0.052$) is positive and statistically significant at $P < 0.01$, implying that industry characteristics determine the firm performance of social and environmental practices. The findings from the second stage regression in Column 2 indicate that the coefficient of CSRP remains negative and statistically significant at $P < 0.05$, further supporting our conjecture that more investment in CSR activities leads to shorter audit report lag. Furthermore, the endogeneity tests i.e. Durbin-Wu-Hasuman test and weak instrument test validate the research model and the results.

Second, to mitigate the issue of reverse causality, we used the lagged value of CSRP and re-estimate Equation (1). The results, which are quantitatively similar to those in the primary analysis, are shown in Column 3 of Table 5. In sum, the results in Table 5 indicate that our main findings are unlikely to be affected by unobserved omitted variables and reverse causality.

Table 5. The endogenity tests.

Dependent variable	IV First Stage (1) CSRP	IV Second Stage (2) ARL	Lagged of CSRP (3) ARL
Intercept	22.499***	80.518***	19.033***
	(4.14)	(2.63)	(4.25)
IND_CSRP	0.052***		
	(3.13)		
CSRP		−9.288**	−0.503***
		(−2.42)	(−12.18)
CUR	−0.277	−4.028	0.194
	(−0.90)	(−0.88)	(0.42)
REC	17.648***	26.357***	6.194
	(3.74)	(2.60)	(1.16)
SIZE	4.625***	68.778***	1.600**
	(6.39)	(2.99)	(2.35)
LEV	0.018	0.294	−0.007
	(0.79)	(0.86)	(−0.22)
ROA	−0.144**	−2.223**	−0.326***
	(−2.18)	(−2.06)	(−4.47)
LOSS	0.571	6.808	3.213**
	(0.49)	(0.41)	(2.43)
GROWTH	1.598	26.643	3.669
	(1.15)	(1.26)	(1.41)
BIG4	−0.445	−6.911	0.804
	(−0.52)	(−0.55)	(0.76)
BIND	−3.238	−47.172	0.259
	(−1.66)	(−1.47)	(0.32)
BSIZE	0.466**	6.890*	−1.348
	(2.12)	(1.75)	(−0.22)
BMEET	−0.638***	−9.288**	0.430
	(−4.02)	(−2.42)	(1.53)
ACIND	−0.113	0.936	−0.420
	(−0.05)	(0.03)	(−0.32)
ACSIZE	−0.540	−7.741	3.560
	(−1.09)	(−1.06)	(0.99)
ACMEET	−0.020	−0.022	0.520
	(−0.09)	(−0.01)	(1.41)
GDP	0.072	0.783	−0.486
	(0.28)	(0.21)	(−1.31)
INF	0.162	2.487	−0.502
	(0.82)	(0.85)	(−0.77)
Country Dummy	Yes	Yes	Yes
Year Dummy	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes
Observations	549	549	548
F Value			21.780***
R^2			0.499
Wu-Hausman F 2938.16 (Endogeneity test) ($P = 0.0000$)			
F Statistic (weak identification test) 25.925 Critical Values (16.38 at 10%; 8.96 at 15%; 6.66 at 20%; 5.53 at 25%)			

Notes: Variable definitions are provided in Appendix A. *,**, and *** denote significance at the 0.10, 0.05, and 0.01 levels, respectively.

5.2.3. Impact of political uncertainty and power distance on CSRP-ARL nexus (H2, H3)

In determining whether political uncertainty and power distance impact the nexus between CSR performance and audit delay, we create two interactive terms, CSRP*PUI and CSRP*PDI, to test H2 and H3, respectively. Table 4 reports our results on the two interactive terms, CSRP*PUI (Column 2) and CSRP*PDI (Column 3).

In both columns, we find that the economic benefits of CSR to mitigate audit report lag diminish for firms domiciled in countries with high levels of political uncertainty and power distance. However, the coefficients of CSRP*PUI and CSRP*PDI are not statistically significant ($\beta = -0.000$ (Column 2) and $\beta = 0.005$ (Column 3). These results hold when we test the joint effects of CSRP*PUI and CSRP*PDI in Column 4. The insignificant findings might be due to the measurement of PDI and PUI. Although the two variables yield some variation across countries, they do not vary across the study's period.

6. Supplementary analyses

6.1. Alternative proxy of audit report lag

In the main analysis, we use ARL to measure audit delay. Next, as a robustness test, we examine whether our main results remain consistent when using different audit delay proxies. Hence, we re-estimate Equations (1), (2), and (3) using alternative proxies of audit report lag (i.e. NLARL and IAARL) as previously outlined. The definition of the proxies is provided in Appendix A. In Table 6, Panels A and B report the results for NLARL and IAARL, respectively.[9] As reflected in Column 1 of Panels A and B, the association between CSR performance and audit report lag is not impacted by the new proxies of audit delay. For example, the results in Column 1 reveal that the effect of CSR performance is negative and statistically significant for the two measures of audit report lag. These consistent findings suggest that our main results are robust to alternative audit delay proxies. Therefore, this further supports our earlier argument that firms with high CSR performance will likely experience shorter audit report lag. Moreover, Columns 2 to 4 in Panels A and B show that the results on the interactive variables remain qualitatively similar to our main analysis, suggesting that the levels of political uncertainty and power distance do not impact the association between CSR performance and audit report lag. In sum, the results discussed in this section validate the use of ARL in our main analysis.

6.2. Role of auditor type and firm size

Audit risk and audit effort can vary based on client size and whether the auditor is Big4 or non-Big4 audit company. For example, large firms usually engage more in CSR activities; thus, auditors require more time to audit large companies' financial and non-financial information. Additionally, Big4 audit firms, compared to the non-Big4, tend to mitigate audit and litigation risk, leading to higher audit efforts and, thus, a longer audit report lag (Al-Eble et al. 2020). Therefore, it is possible that auditor type and client size, rather than CSR performance, explain the relationship between CSR performance and ARL. To explore this further, we partition our sample into Big4 and non-Big4 and re-estimate Equation (1). Columns 1 and 2 in Table 7 demonstrate that the coefficients of CSRP are significantly negative only for firms audited by Big4 but not for companies audited by non-Big4. This result aligns with the notion that Big4 audit firms have highly qualified auditors and advanced audit technologies which assist them in exerting lesser efforts and fewer audit tests, thereby producing timely reports (Al-Eble et al., 2020; Mohamad Naimi, Rohami, and Wan-Hussin 2010). The results also suggest that firms

Table 6. Alternative measures of audit report lag.

Dependent variable	(1) NLARL	(2) NLARL	(3) NLARL	(4) NLARL
Panel A: OLS regression of CSR performance, its interaction with political uncertainty as well as power distance on audit report lag (proxied by the natural logarithm of ARL)				
Intercept	40.217***	44.661***	46.590***	57.559***
	(6.49)	(5.96)	(5.16)	(8.26)
CSRP	−0.002***	−0.002	−0.002	−0.004
	(−3.35)	(−0.61)	(−0.28)	(−0.77)
PUI		−0.003		−0.004
		(−0.95)		(−1.18)
CSRP*PUI		0.000		0.000
		(0.14)		(0.33)
PDI			0.012***	0.014***
			(20.76)	(8.04)
CSRP*PDI			−0.000	0.000
			(−0.09)	(0.79)
Controls	Yes	Yes	Yes	Yes
Country Dummy	Yes	Yes	Yes	Yes
Year Dummy	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes
F Value	2142.97***	803.42***	395.21***	146.01***
Adjusted R^2	0.298	0.302	0.298	0.302
Observations	549	549	549	549
Dependent variable	(1) IAARL	(2) IAARL	(3) IAARL	(4) IAARL
Panel B: OLS regression of CSR performance, its interaction with political uncertainty as well as power distance on audit report lag (proxied by the industry-adjusted ARL)				
Intercept	51.024***	55.627***	55.998***	57.559***
	(7.49)	(8.71)	(8.73)	(8.26)
CSRP	−0.404***	−0.333	−0.376	−0.673
	(−4.57)	(−1.56)	(−0.66)	(−1.56)
PUI		−0.452		−0.559*
		(−1.45)		(−1.93)
CSRP*PUI		0.002		0.004
		(0.40)		(0.92)
PDI			1.007***	0.426***
			(5.37)	(2.73)
CSRP*PDI			−0.000	0.006
			(−0.05)	(1.23)
Controls	Yes	Yes	Yes	Yes
Country Dummy	Yes	Yes	Yes	Yes
Year Dummy	Yes	Yes	Yes	Yes
Industry Dummy	No	No	No	No
F Value	2898.45***	268.46***	205.68***	243.23***
R^2	0.238	0.243	0.238	0.244
Observations	549	549	549	549

Notes: Variable definitions are provided in Appendix A. T-statistics are reported in brackets. *,**, and *** denote significance at the 0.10, 0.05, and 0.01 levels, respectively, based on robust standard errors (Driscoll-Kraay standard errors).

audited by Big4 are more transparent and thus are less likely to use CSR as a tool for window dressing or greenwashing. These firms, instead, are expected to grab the benefits of CSR in reducing audit report lag.

In addition, we partition our sample into small and large firms based on the median firm size (proxied by total assets) and re-estimate Equation 1. For both large and small firm groups, Columns 3 and 4 reveal that CSRP is significantly negative only for large companies but not for small companies. The results are consistent with the notion that large firms have a strong internal control system, enabling auditors to spend less time on substantive tests of year-end balances, thus accelerating audit work completion.

Table 7. OLS regression of CSR performance on audit report lag: Big4 vs Non-Big4 and Large firms vs Small firms.

	Big 4	Non-Big4	Large firms	Small firms
	(1)	(2)	(3)	(4)
Dependent variable	ARL	ARL	ARL	ARL
Intercept	65.345***	59.437***	60.535***	58.394***
	(3.42)	(2.89)	(3.56)	(4.20)
CSRP	−0.292***	0.340	−0.933**	0.020
	(−4.82)	(1.31)	(−2.14)	(0.17)
Controls	Yes	Yes	Yes	Yes
Country Dummy	Yes	Yes	Yes	Yes
Year Dummy	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes
F Value	200.25***	3506.80***	321.03***	270.74***
R^2	0.375	0.624	0.325	0.558
Observations	472	77	327	222

Notes: Variable definitions are provided in Appendix A. T-statistics are reported in brackets. *,**, and *** denote significance at the 0.10, 0.05, and 0.01 levels, respectively, based on robust standard errors (Driscoll-Kraay standard errors).

The findings also indicate that large firms often issue timely financial reports since they tend to communicate more financial and non-financial information to attract more investors and legitimate their actions in the eyes of other stakeholders.

6.3. Excluding corporate governance control variables from the primary analyses

In the main analysis, we control for corporate governance variables: BIND, BSIZE, BMEET, ACIND, ACSIZE and ACMEET. Although Table 3 shows not all corporate

Table 8. OLS regression of CSR performance, its interaction with political uncertainty as well as power distance on audit report lag.

Dependent variable	(1) ARL	(2) ARL	(3) ARL	(4) ARL
Intercept	48.455***	39.629***	52.594***	66.309***
	(9.14)	(2.87)	(3.14)	(4.86)
CSRP	−0.381***	−0.545*	−1.020*	−0.850*
	(−5.99)	(−1.75)	(−1.89)	(−1.86)
PUI		−0.253		−0.210
		(−0.74)		(−0.70)
CSRP*PUI		−0.003		−0.003
		(−0.50)		(−0.51)
PDI			−0.329	−0.464***
			(−1.14)	(−3.60)
CSRP*PDI			0.009	0.004
			(1.27)	(1.04)
Controls	All control variables except BIND, BSIZE, BMEET, ACIND, ACSIZE, and ACMEET	All control variables except BIND, BSIZE, BMEET, ACIND, ACSIZE, and ACMEET	All control variables except BIND, BSIZE, BMEET, ACIND, ACSIZE, and ACMEET	All control variables except BIND, BSIZE, BMEET, ACIND, ACSIZE, and ACMEET
Country Dummy	Yes	Yes	Yes	Yes
Year Dummy	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes
F Value	52.57***	72.77***	569.18***	576.17***
R^2	0.309	0.313	0.288	0.307
Observations	549	549	549	549

Notes: Variable definitions are provided in Appendix A. T-statistics are reported in brackets. *,**, and *** denote significance at the 0.10, 0.05, and 0.01 levels, respectively, based on robust standard errors (Driscoll-Kraay standard errors).

governance variables are correlated with CSRP, CSR literature suggests that firms with a strong governance system are likely to disclose more information on sustainability-related activities to attract more potential investors. Therefore, to alleviate their possible impact on CSRP, we exclude all corporate governance variables and re-estimate all regressions in the primary analyses. The results are reported in Table 8. In this robustness test, our earlier results persist. For example, CSR performance minimises audit report lag (Column 1 in Table 8), and the levels of political uncertainty and power distance do not moderate the association between CSR performance and ARL as reported in Columns 2–4.

7. Conclusion

CSR has become a prevalent business strategy that most companies consider to manage their available resources and encounter economic challenges such as the global financial crisis and the ever-growing threat of climate change. Our study offers insights into how auditors respond to a company's decision to allocate more resources for CSR activities, given that CSR practices affect investors' valuation of the firm's operational risk and are a matter for auditors to assess information and audit risk. This study also explores how country-level factors such as political uncertainty and power distance play a part in the amount of work auditors should plan for socially oriented companies. The regression analyses suggest that auditors exert lower efforts by spending fewer days auditing firms' financial reports with greater CSR performance. The analyses also indicate that audit report lag is remarkably lower for large CSR firms and those that engage high-quality auditors. Finally, our study demonstrates that the levels of political uncertainty and power distance do not moderate the association between CSR performance and audit delay.

Our study contributes to the literature on CSR in emerging markets by documenting that CSR performance lowers audit risk and thus shortens the audit report lag. The finding provides empirical support for the ethical perspective of CSR as well as stakeholder theory and furthers our understanding of how firms' involvement in CSR activities impacts audit time.

The study results have many implications for various parties such as managers, investors, policy makers and audit regulators. For example, managers who embrace CSR policies should be aware of the benefits of CSR in mitigating audit delay. They should consider incorporating CSR practices as part of their overall risk management strategy, recognising that strong CSR performance can contribute to a more efficient and timelier audit process. Understanding the link between CSR and audit outcomes can help managers make informed decisions about resource allocation, prioritising investments in CSR initiatives that have the potential to positively impact financial reporting quality and reduce audit-related risks. Investors should consider the impact of CSR on audit risk and audit effort when making investment decisions, as companies with stronger CSR performance may demonstrate lower information risk, making them potentially more attractive investment opportunities. Policymakers in the GCC should continue encouraging companies to engage in CSR activities. The study's findings highlight that CSR practices can alleviate business risk, leading to reduced audit risk and audit efforts. Therefore, policymakers should promote and incentivize CSR adoption as a means to enhance financial reporting quality and strengthen corporate governance

practices. Policymakers can consider introducing regulations or guidelines that explicitly recognise the relationship between CSR performance and audit outcomes, ensuring that companies adequately disclose CSR-related information in their financial reporting. Audit regulators should consider incorporating CSR-related information into their updates of audit risk assessment standards. Recognising the influence of CSR performance on audit delay and risk can enhance the effectiveness of audit processes and improve the quality of financial reporting. Regulators should provide guidance to auditors on how to assess and evaluate CSR-related activities during the audit engagement, ensuring that auditors have the necessary tools and knowledge to address the implications of CSR in their risk assessments.

The findings should be interpreted with four caveats in mind. First, due to data unavailability, our study merely employs the World Bank index as a proxy for political uncertainty. Although it is considered as a general measure of political stability, the index does not reflect political changes emanating from political events. Second, since our sample covers non-financial firms with CSR data domiciled only in the GCC region, it remains unclear whether or how political uncertainty and power distance may affect the audit procedures and CSR policies. Future research may use other proxies of political uncertainty, such as political elections, to investigate political uncertainty impacts on CSR-ARL associations. Future research may also consider conducting similar types of research in other countries, with more variations relating to political uncertainty and power distance. Third, our study does not control for one common feature of the GCC countries, i.e. domination of family or government control, which may affect the corporate decision to invest in CSR activities. Future research is expected to consider the role of family or government ownership when executing research in CSR. Fourth, our study only tests the relationship between the overall CSR and audit report lag to reduce the threat of missing data on CSR dimensions. Future studies may consider the individual impact of CSR dimensions on ARL.

Notes

1. A CSR study of Di Giuli, and Kostovetsky (2014) shows that large US companies spent $28 billion on sustainability and $15 billion on corporate philanthropy in 2010.
2. These countries are Saudi Arabia, Qatar, Oman, Kuwait, Bahrain, and United Arab Emirates (UAE).
3. We use audit report lag and audit delay interchangeably as they have the same meaning.
4. We eliminate financial firms because they operate under different regulations and have different natures and classifications of financial statement items.
5. Hofstede reports power distance scores only for Saudi Arabia, Qatar, Kuwait and UAE. Therefore, we rely on At-Twaijiri and Al-Muhaiza (1996) to extract scores for Oman and Bahrain.
6. There are performance ratings of several sub-dimensions, within each dimension, capturing the performance dimension.
7. Other proxies of political uncertainty widely used by extant studies include political events (elections) (Julio and Yook 2012; Francis, Hasan, and Zhu 2014; An et al. 2016) and/or Baker, Bloom, and Davis (2016) index (Dai and Ngo 2021; Yun and Chun 2021).
8. We have also employed the lag of CSR performance as instrumental variable and yield similar results to those reported in Columns 1 and 2 of Table 5. However, we did not report the findings on the lag of CSR performance for the sake of brevity.

9. Following Oradi (2021), we use industry-adjusted ARL (i.e., IAARL) rather than the industry dummy variables to control for the effect of industry on audit report lag. Therefore, we exclude industry dummy variables in Panel B because industry effects are controlled by IAARL.

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Appendices

Appendix A. Variables definitions and data source of variables

Variables	Symbols	Expected Sign	Descriptions	Data Sources
Dependent variable:	ARL		Number of days between a firm's financial year-end and the signature date of the audit report.	Annual report; authors' calculation
Audit report lag	NLARL		The natural logarithm of ARL.	Annual report; authors' calculation
	IAARL		Difference between the firm's ARL and the industry median of ARL.	Annual report; authors' calculation
Independent variable:				
CSR performance	CSRP	+/–	Overall CSR performance score, ranging from 0 to 100.	CSRHub database
Country-level moderating variables:				
Political uncertainty	PUI	+/–	World bank's index multiplied by –1 (which measures political stability and absence of violence for a given country).	World Bank
Power distance	PDI	+/–	Power distance index constructed by Hofstede.	Hofstede index; At-Twaijri and Al-Muhaiza (1996)
Firm-level control variables:				
Current ratio	CUR	–	Current assets divided by current liabilities.	Datastream
Receivables ratio	REC	+	Accounts receivable divided by total assets.	Datastream
Firm size	SIZE	+/–	Natural logarithm of total assets.	Datastream
Leverage ratio	LEV	+	Total debt divided by total assets.	Datastream
Profitability ratio	ROA	–	Net income before extraordinary items divided by total assets.	Datastream
Firm loss	LOSS	+	Dummy variable, coded as 1 for firms with negative net income at year *t*, 0 otherwise.	Datastream
Firm growth	GROWTH	–	Difference between sales in year *t* and year *t*–1, deflated by sales in year *t*–1.	Datastream
Audit quality	Big 4	+	Dummy variable, coded as 1 for firms audited by one of the Big4 firms (i.e. PricewaterhouseCoopers, Deloitte, KPMG, and Ernst & Young), 0 otherwise.	Annual report
Firm-level governance control variables:				
Board independence	BIND	–	Proportion of independent members on the board of directors.	Annual report
Board size	BSIZE	+/–	Total number of board of directors members at the end of year *t*.	Annual report

(*Continued*)

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Variables	Symbols	Expected Sign	Descriptions	Data Sources
Board meeting	BMEET	+/−	Number of meetings held by the board of directors during year *t*.	Annual report
Audit committee independence	ACIND	−	Proportion of independent members on the audit committee.	Annual report
Audit committee size	ACSIZE		Total number of audit committee members at the end of year *t*.	Annual report
Audit committee meeting	ACMEET		Number of meetings held by the audit committee during year *t*.	Annual report
Country-level control variables:				
Gross domestic product	GDP	+	Real GDP growth rate of a given country.	World Bank
Inflation Rate	INF	+	Consumer price index of a given country.	World Bank