When Do Audit Clients' Stakeholders Prompt Auditor Leniency?

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ABSTRACT

Companies respond not only to primary stakeholders such as investors, but also to secondary stakeholders such as community members and employees. We examine whether secondary stakeholders affect judgments made by external auditors. Secondary stakeholders' efforts to actively influence companies' operations—what we term "stakeholder agency"— are typically irrelevant to auditors' judgments about financial reporting and internal controls. However, in an experiment with 220 practicing auditors, we find that auditors are more lenient toward their clients when their clients' secondary stakeholders exhibit a high level of agency to influence the clients' operations. This leniency only arises when auditors have a behavioral motivation to consider stakeholders' interest in client-related outcomes. We identify recent standard-setting developments concerning auditors' evaluation of potential noncompliance with laws and regulations (NOCLAR) as an example of how contextual features of the audit environment elevate auditors' consideration of secondary stakeholders and, in turn, facilitate more lenient audit judgments.

AI DISCLOSURE STATEMENT

The authors utilized AI in generating some of the materials included in the experimental instrument. As described in Section III, the instrument contains a news article. We utilized ChatGPT to create a first draft of the news article, which we then edited.

I. INTRODUCTION

Companies are increasingly sensitive to the interests of secondary stakeholders like customers, employees, suppliers, and community members rather than solely the interests of primary stakeholders such as investors and creditors (e.g., Hemphill, Kelley, and Cullari 2021; Paine 2023). This paper examines whether companies' secondary stakeholders can also affect judgments made by companies' external financial statement auditors. We test whether secondary stakeholders' efforts to actively influence audit clients' operations—what we term "stakeholder agency"—can increase auditor leniency toward clients. Our theory suggests that auditor leniency toward clients depends on whether auditors have a behavioral motivation to incorporate considerations related to secondary stakeholders into their judgments. We identify recent standard setting activity related to auditors' evaluation of their clients' potential noncompliance with laws and regulations (NOCLAR) as a practical example of when audit clients' secondary

stakeholders are more likely to shape auditor judgments.

Our study is important because audit judgments should serve the interests of financial statement users such as creditors, shareholders, and the investing public, and not be shaped by unrelated characteristics of audit clients or clients' secondary stakeholders (United States v. Arthur Young & Co. 1984). In our setting, secondary stakeholders' efforts to influence a company's operations are unlikely to be relevant to an objective assessment of that company's internal controls over financial reporting (ICFR) or the financial statements. Yet, our theory suggests that ostensibly audit-irrelevant considerations such as stakeholder agency can alter auditors' judgments in some circumstances.

For example, recently adopted and proposed changes to auditing standards require auditors to more comprehensively identify specific laws and regulations applicable to their clients and evaluate whether noncompliance would affect financial reporting (IAASB 2016; AICPA 2017; PCAOB 2023). We argue that doing so is likely to not only direct auditors' attention to the reporting implications of clients' possible noncompliance, but also heighten auditors' sensitivity to the secondary stakeholders affected by noncompliance (Mitchell, Wood, and Agle 1997). For example, requiring auditors to evaluate the Environmental Protection Agency's potential to levy penalties on a client for pollution (e.g., Fialka and Herrick 2005) likely makes auditors more sensitive to both the reporting implications of possible fines *and* the interests held by communities that would be affected by the client's pollution.

When auditors are more sensitive to secondary stakeholders' interests in client-related outcomes, there is heightened potential for considerations related to these stakeholders to affect auditors' judgments. We focus on whether a high versus low level of stakeholder agency, or stakeholders' intentional efforts to influence companies' (i.e., audit clients') operations, affects

auditor leniency toward clients. As an example of high stakeholder agency, some communities actively recruit companies to operate and invest locally by offering tax and other incentives (e.g., Ku, Schönberg, and Schreiner 2020; Chen, De Simone, Hanlon, and Lester 2023), hoping to benefit from company success through job creation and economic growth. However, other communities exhibit low agency in that they do not attempt to influence companies' operations, even as they can similarly benefit from a company's success (Dunham, Freeman, and Liedtka 2006). A consequence of high versus low stakeholder agency is that stakeholders are more responsible for their association with a company and, by extension, for their exposure to company-related outcomes.

Regardless of whether stakeholder agency is relatively high or low, secondary stakeholders stand to benefit from favorable company outcomes and can suffer negative consequences due to undesirable company outcomes. For example, a company's financial performance can affect employment opportunities, economic activity, and tax revenue in the community in which the company operates (e.g., Presbey 2015; Clark 2024). Although company directors and managers have more direct responsibility for such outcomes, auditors' judgments can play a precipitating role. For example, an unfavorable audit opinion can make a company's access to capital more difficult or costly (e.g., Amin, Krishnan, Yang 2014; Chen, He, Ma, and Stice 2016) and can incrementally contribute to company bankruptcy (e.g., Carson et al. 2013). Auditors' awareness of their potential effect on company outcomes and, by extension, consequences for secondary stakeholders, could motivate more lenient (i.e., biased) judgments about their clients (e.g., Koch and Salterio 2017; Knutson, Stefaniak, and Brown 2025).

Our theory supports competing predictions for how stakeholder agency will shape auditors' leniency toward their clients. However, we argue that both predictions are conditional

on auditors' having, versus not having, a behavioral motivation to be responsive to secondary stakeholders (Mitchell et al. 1997). That is, the potential effects of stakeholder agency described next are more likely to prompt auditor leniency if factors, such as recently adopted and proposed changes to auditing standards related to NOCLAR, increase auditors' sensitivity to secondary stakeholders' interest in client-related outcomes.

From one perspective, individuals exhibit a psychological inclination to protect the interests of undeserving victims (Lerner 2003; Hafer and Bègue 2005; McEvoy and McConnachie 2013). Accordingly, stakeholders perceived as having relatively *low* agency would likely elicit greater auditor leniency toward audit clients in an effort to shield these passive stakeholders from undesirable consequences. From another perspective, *high* stakeholder agency has potential to prompt increased auditor leniency toward clients. Psychology research documents how ancillary considerations can motivate more lenient judgments about a party even when the considerations are not diagnostic of the judgment in question (Alicke and Zell 2009; Malle, Guglielmo, and Monroe 2014). For example, Phillips and Shaw (2015) show that when third parties take on more overall responsibility for a situation involving another party that is being judged, observers are more lenient toward shortcomings that are specific to the judged party. Applied to our setting, auditors would likely view high stakeholder agency as shifting some of the responsibility for the client's actions, in general, away from the client and to the stakeholders (Alicke, Bucking, Zell, and Davis 2008; Dyer, Pizarro, and Ariely 2022), facilitating more leniency in audit judgments about specific deficiencies caused by the client (e.g., misstatement severity or ICFR effectiveness).

We examine these competing predictions using a contextually rich experiment in which 220 practicing auditor participants from an international accounting firm consider details related

to the integrated audit of a hypothetical client and evaluate the client's ICFR effectiveness. In all conditions, case materials highlight one of the client's secondary stakeholders: a local community where the company plans to open a new production facility. The community is in economic distress and will significantly benefit if the new facility opens as planned. However, any issues uncovered during the audit could jeopardize securing the loan necessary for moving forward with the new facility. Therefore, irrespective of our manipulated variables, auditor participants in our study are always aware that the community stands to benefit from the company opening the new facility and, by extension, a favorable (unfavorable) audit judgment about the company's ICFR effectiveness could lead to positive (negative) consequences for both the company and the community.

We manipulate two factors, stakeholder agency and the NOCLAR auditing standards regime, between participants. We manipulate stakeholder agency as high versus low by describing how the local community versus the company's board of directors voted to approve the company's plan to open the new production facility. We manipulate effects related to audit regulators' recent actions surrounding NOCLAR by varying our description of procedures performed by the engagement team during the planning phase of the audit. In our pre-NOCLAR condition, which corresponds to current auditing standards under the PCAOB, the case materials describe the engagement team as "conferring with the client and external legal counsel that there are no instances of noncompliance with laws and regulations that could affect the financial statements." In our NOCLAR condition, which corresponds to the PCAOB's recently proposed standard and current auditing standards under the IAASB, materials provide details of specific laws and regulations, and related implications for the client's financial reporting.

Results indicate that heightened stakeholder agency leads to more lenient auditor

assessments of ICFR effectiveness in settings where auditing standards mandate a more thorough evaluation of clients' potential noncompliance with applicable laws and regulations. That is, high stakeholder agency prompts auditors to judge a potential control deficiency as less severe in our NOCLAR condition, but stakeholder agency has no effect on assessed deficiency severity in our pre-NOCLAR condition. In fact, auditors are only about *one-third as likely* to recommend issuing an adverse opinion on ICFR effectiveness when high stakeholder agency is accompanied by enhanced consideration of NOCLAR, compared to the other experimental conditions which do not significantly differ from one another.

Supplemental analyses show that our NOCLAR manipulation activates two of the three theoretical factors identified by Mitchell et al. (1997) as driving responsiveness to stakeholder groups. This evidence indicates that, even when holding auditors' awareness of secondary stakeholders constant, features of the audit environment such as standards related to NOCLAR can increase auditors' sensitivity to secondary stakeholders' interests. Related to the mechanism underlying our primary results, we also find that auditors view some of the responsibility for more general client-related outcomes as shifting from the client to secondary stakeholders when stakeholders exhibit high agency, but only in the NOCLAR condition. Auditors appear to use this shift in responsibility to help rationalize the relatively less responsible client as more deserving of leniency.

The effect of companies' activities and accounting on a broad set of stakeholders is at the core of the literature's growing interest in topics related to corporate social responsibility. Recent studies document how stakeholder-oriented actions taken by *audit clients* affect audit outcomes (e.g., Douthit, Kachelmeier, and Van Landuyt 2024; Knutson et al. 2025). We extend these studies by documenting how ostensibly audit-irrelevant actions taken by audit clients' *secondary*

stakeholders influence auditor leniency toward clients. From a practical standpoint, our findings are relevant to audit firms' and regulators' quality control efforts by highlighting circumstances that could lead to potentially compromised audit outcomes.

Our results also have implications for recently completed or proposed auditing standard-setting activity surrounding NOCLAR (IAASB 2016; AICPA 2017; PCAOB 2023). Our experimental approach allows us to isolate a noteworthy effect of this policy change (Kachelmeier and King 2002): more thorough consideration of the specific laws and regulations affecting clients increases auditors' sensitivity to the stakeholders that would be affected by clients' potential noncompliance. In doing so, an unintended consequence of increasing auditors' responsibilities surrounding NOCLAR may be to foster new opportunities for considerations related to clients' stakeholders, such as stakeholder agency, to bias auditors' judgments.

II. BACKGROUND, THEORY, AND RESEARCH QUESTION

Company Stakeholders and Auditing

Companies increasingly acknowledge their responsibilities to a broad set of stakeholders (e.g., Paine 2023) in ways that extend beyond a narrow focus on maximizing financial profit for shareholders (e.g., Friedman 1970). As a result, considerations related to so-called "stakeholder capitalism" frequently shape companies' strategic choices and corporate governance practices by balancing favorable outcomes for shareholders and creditors with the interests of other constituents such as customers, employees, suppliers, and community members (e.g., Hemphill et al. 2021). We examine whether, and how, considerations related to companies' broader stakeholders can also affect companies' financial statement auditors' judgments.

Stakeholders are "any group or individual who can affect or is affected by actions, decisions, policies, practices or goals of an organization" (Freeman 1984, 25). This includes

conventional claimants to company assets, such as investors and creditors (i.e., primary stakeholders) and other groups like customers, employees, suppliers, and community members (i.e., secondary stakeholders; Donaldson and Preston 1995). Beyond producing the financial returns expected by primary stakeholders, company activities can also have positive or negative effects on secondary stakeholders. For example, employees and communities benefit from their association with profitable companies in the form of job opportunities, economic growth, or tax revenues (e.g., Eckert 2023; Sasso and Niquette 2023; Walker 2024). Conversely, secondary stakeholders can suffer negative consequences when companies struggle financially or discontinue operations (e.g., McCorvey and Cheung 2023; Thomas 2023; Kealey 2024).

Although management is responsible for a company's activities, ICFR, and financial statements, auditors' judgments can play a role in precipitating outcomes that affect both companies and stakeholders. Unfavorable audit opinions make audit clients' access to capital more difficult or costly (e.g., Amin et al. 2014; Chen et al. 2016) and can incrementally contribute to client bankruptcy (e.g., Carson et al. 2013). Therefore, auditors' judgments can at least indirectly affect their clients' secondary stakeholders through outcomes that might limit clients' ability to invest in projects or continue operations that would have otherwise benefited stakeholders like employees and communities. However, few studies in accounting investigate possible links between audit clients' secondary stakeholders and auditors' judgments.

Some research shows that prompting auditors to consider their professional duty to financial statement users, a key stakeholder group, increases auditors' independence from management and reduces bias in audit judgments (King 2002; Bamber and Iyer 2007; Bauer 2015; Hurley, Mayhew, and Obermire 2019). However, other evidence suggests that the social effects of audit clients' actions on broader stakeholders can contribute to biased audit outcomes.

For example, Douthit et al. (2024) find that auditors do not curb aggressive financial reporting when auditors also provide assurance on client activities that have prosocial benefits for secondary stakeholders. Additionally, Knutson et al. (2025) find that audit judgments are more likely to be swayed by secondary stakeholders' interest in for-profit companies continuing as a going concern when companies do, versus do not, provide a social benefit to those stakeholders. We extend these studies that examine how stakeholder-oriented actions by audit *clients* affect audit outcomes by focusing on how actions taken by *clients' stakeholders* affect auditors' judgments.

Stakeholder Agency

We investigate whether secondary stakeholders' efforts to exert influence over companies' operational decisions affect auditors' judgments. An inherent aspect of this construct is that high versus low stakeholder agency increases stakeholders' responsibility for their association with a company and, by extension, for their exposure to company-related outcomes. In practice, there is natural variation in secondary stakeholders' agency, and our theory suggests that this variation can shape auditors' perceptions of both their clients and their clients' stakeholders.

Some secondary stakeholders exercise relatively high agency by actively pursuing their stake in a company and seeking to influence a company's decisions. For example, highly skilled employees can choose between multiple potential employers and wield influence over aspects of their employment contract (e.g., Beechler and Woodward 2009). Communities often recruit companies to operate and invest locally, for example, by offering tax incentives (e.g., Ku et al. 2020; Chen et al. 2023). Secondary stakeholders can make demands on companies' reporting decisions, including those related to environmental performance disclosures (Carlisle, Millar,

and Wukich 2024). Stakeholder groups can also exercise agency through other methods of engaging with the company including organizing protests or taking political and legal actions (Aaltonen, Jaakko, and Tuomas 2008).

There are also examples of secondary stakeholders that exercise little to no agency in shaping their stake in a company. Employees in some labor markets are closer to price-takers who have less control over their relationship with employers (e.g., Sunshine 2018). Many communities do not attempt to actively influence companies' local operations yet can nevertheless enjoy economic benefits from a company's success or suffer negative consequences from company-related outcomes such as environmental pollution or poor financial performance.[1]

Auditors' Responsiveness to Secondary Stakeholders and Consideration of NOCLAR

Our theory centers on the premise that differences in stakeholder agency are more likely to affect auditor judgments when auditors have a behavioral motivation to consider secondary stakeholders' interests. Mitchell et al.'s (1997) Stakeholder Saliency Theory classifies three attributes that affect whether a company's management is likely to be responsive to the interests of stakeholder groups: 1) the stakeholders' *power* to influence the company, 2) the *legitimacy* of stakeholders' claim on the company, 3) and the *urgency* of attention required by stakeholders' claims.[2] Although each of these three considerations has the potential to generalize to affect auditors' sensitivity toward their clients' stakeholders, we believe considerations related to stakeholder *legitimacy* are particularly relevant to recently completed and proposed changes to

[1] For example, in 2018 the manufacturer 3M reached an $850 million settlement with the State of Minnesota for contaminating the water supply through improper disposal of chemicals used in their production process (Dunbar and Marohn 2018; Tangel 2018). Notably, 3M has only one manufacturing facility in Minnesota. However, because they used several different landfills to dispose of their manufacturing waste, the impact of their water pollution extended well beyond the community where their facility is located. As a result, communities that played no active role in their ultimate association with 3M suffered negative consequences from 3M's outcomes.

[2] Note that Mitchell et al.'s (1997) use of the term "salience" is more closely related to responsiveness or sensitivity to stakeholders, rather than awareness of stakeholders. In fact, our experimental design explicitly holds constant auditors' *awareness* of considerations related to secondary stakeholders.

auditing standards involving NOCLAR.

The International Auditing and Assurance Standards Board (IAASB) recently updated their auditing standards to reflect new requirements for auditors to consider clients' potential noncompliance with laws and regulations, or NOCLAR (IAASB 2016). The American Institute of Certified Public Accountants (AICPA) followed suit by releasing new interpretations of its standards relevant to NOCLAR (AICPA 2017). Although currently on hold, the Public Company Accounting Oversight Board (PCAOB) has formally proposed replacing AS 2405 *Illegal Acts by Clients* with an updated version of AS 2405 focused on *A Company's Noncompliance with Laws and Regulations* (PCAOB 2023). Prior to these developments, auditors would typically only consider noncompliance to the extent that it caused a material misstatement in the financials. The new NOCLAR standards share the overarching imperative of amplifying auditors' responsibility to more comprehensively identify and understand the specific laws and regulations their clients must adhere to, and evaluate how noncompliance would affect financial reporting.

We propose that asking auditors to expand their consideration of the specific laws and regulations governing their clients has implications for Mitchell et al.'s (1997) stakeholder salience theory by increasing auditors' perceptions of the legitimacy of their clients' secondary stakeholders. Stakeholder legitimacy is enhanced when "the stakeholder's claim [on the company] has been evaluated as intrinsically right and proper" (Neville, Bell, and Whitwell 2011, p. 365), and laws and regulations are fundamentally regarded as defining whether certain claims are right and proper (e.g., Díez-Martín, Blanco-Gonzalez, and Prado-Roman 2021). Therefore, by explicitly considering laws and regulations applicable to their clients, auditors are likely to become more sensitive to secondary stakeholders affected by potential noncompliance and view these stakeholders as having a more legitimate interest in client-related outcomes.

Given this link between NOCLAR and a plausible behavioral motivation for auditors to consider secondary stakeholders, we generalize theory developed by Mitchell et al. (1997) to predict that auditors' increased responsiveness to their clients' secondary stakeholders is a necessary condition for stakeholders' characteristics to affect auditor judgments. Specific to our setting, expanded NOCLAR requirements will likely open the door for other stakeholder-specific considerations, such as stakeholder agency, to increase auditor leniency toward clients.

The Joint Effect of Stakeholder Agency and NOCLAR on Auditor Leniency

Assuming auditors are relatively more sensitive to their clients' secondary stakeholders (e.g., due to increased consideration of NOCLAR), we develop competing predictions for the effect of high versus low stakeholder agency on auditor leniency. First, if auditors make lenient judgments about a client's financial reporting to benefit secondary stakeholders (e.g., Knutson et al. 2025), then *low* stakeholder agency would likely lead to increased auditor leniency. Individuals are generally sensitive to psychological tendencies and social norms whereby harm to undeserving third parties, like secondary stakeholders, can affect judgments about an intermediary party, like audit clients (Lerner 2003; Hafer and Bègue 2005; McEvoy and McConnachie 2013). Consequently, low stakeholder agency would likely underscore the view that stakeholders do not deserve to suffer negative consequences due to client-related outcomes that would be precipitated, at least in part, by an unfavorable audit opinion (e.g., Carson et al. 2013; Amin et al. 2014; Chen et al. 2016) because the stakeholders have relatively less control over and responsibility for their exposure those negative outcomes (Alicke 2000; Alicke and Rose 2012).

Although not always specifically linked to psychological tendencies, examples from other settings help illustrate the intuition behind potential auditor leniency toward clients that is

prompted by a desire to mitigate negative consequences for low-agency stakeholders. Judicial authorities often forego prosecuting some crimes if doing so would have detrimental consequences for innocent third-party victims (Brown 2001). Similarly, a primary justification for government financial bailouts that provide leniency toward negligent or mismanaged corporations is to mitigate damage to secondary stakeholders who are not responsible for the corporations' mismanagement (e.g., Gullapalli and Anand 2008; McCracken and Stoll 2008). Indeed, this leniency toward companies sometimes comes at the expense of primary stakeholders' interests (e.g., Denning 2009). While such practices are controversial, they align with the rationale that auditors might use to justify more leniency toward their clients to prevent harm to secondary stakeholders that exhibit relatively low agency.

Conversely, if auditors make lenient judgments to benefit their clients (Gibbins et al 2001; Guénin-Paracini et al. 2015; Koch and Salterio 2017), then *high* stakeholder agency would likely result in increased auditor leniency. This possibility builds on the psychological premise that ancillary considerations can motivate more lenient judgments about a party even when those considerations are not diagnostic of the judgment in question (Alicke and Zell 2009; Malle et al. 2014). Relevant to multi-actor settings like auditing, Phillips and Shaw (2015) show that observers are more lenient in their evaluations of a focal party's shortcomings when third parties are perceived to bear greater overall responsibility in the given setting. Along these lines, mistakes made by an attending physician are judged less harshly if the patient played a relatively more active role in receiving their injuries (Alicke et al. 2008). We extend this rationale by noting that auditors would likely believe their clients do not deserve to be judged as harshly for potential shortcomings (e.g., control deficiencies or misstatements) when the stakeholders that would also suffer negative consequences from the clients' shortcomings have more responsibility

for putting themselves in that position. Dyer et al. (2022) characterize such attributions as a zero-sum proposition where perceptions of responsibility can *shift* away from the party being judged (e.g., an audit client) to a third party (e.g., an audit client's secondary stakeholders).

Because our theory supports competing predictions, we formalize the following research question regarding the effect of stakeholder agency on auditors' leniency toward clients in settings where auditors are likely to be responsive to secondary stakeholders' interest in client-related outcomes (e.g., due to enhanced NOCLAR requirements).

RQ: Conditional on auditors being relatively more sensitive to secondary stakeholders, will auditors be more lenient toward clients when secondary stakeholders exhibit low agency or high agency?

III. RESEARCH DESIGN

Participants

To test our research question, we employ a 2 × 2 between-participants experiment with *Stakeholder Agency* (*Low* versus *High*) and *Auditing Standard Regime* (*pre-NOCLAR* versus *NOCLAR*) as manipulated independent variables. Our task involves participants reviewing background information about a manufacturing company and making judgments about the effectiveness of the company's ICFR. Participants are 220 auditors (146 staff, 73 seniors, and 1 manager) from an international accounting firm who completed the experiment via Qualtrics, during a firm training event.[3] On average participants have 2.25 years of experience as an external auditor. As staff and senior auditors often evaluate issues related to ICFR effectiveness (Earley, Hoffman, and Joe 2008; Saunders, Keune, and Hawkins 2024), these participants are an appropriate match to our experimental task. We do not observe significant differences in

[3] Institutional Review Board (IRB) approval to use human subjects was granted prior to conducting this experiment.

demographic characteristics or experience across our experimental treatments (all *p*-values > 0.17).[4]

Experimental Task and Variables

We ask participants to assume they are an auditor on the integrated audit of an industrial company that manufactures adhesives. Experimental materials include background information and financial statements for the client and note that the company has been an audit client for ten years and has always received unqualified opinions on their ICFR effectiveness and financial statements. Materials inform participants that the client is planning to open a new production facility and that the construction of this facility will be financed through a long-term loan. The loan agreement has not been executed as the lender is waiting on this year's audited financial statements. Any major issues discovered during the audit could affect whether the lender approves the loan and ultimately whether the company opens the new production facility.

Next, participants review information about the audit planning process and additional information related to the company's new production facility. These two components of the case contain our between-participant manipulations of *Stakeholder Agency* and *Auditing Standard Regime*, respectively. However, in all conditions, the case materials highlight one of the client's secondary stakeholders: the local community where the company plans to open the new production facility. The community is in economic distress and will significantly benefit if the new facility opens as planned. Therefore, irrespective of our manipulated variables, participants are aware that a favorable (unfavorable) audit judgment about the company's ICFR effectiveness could lead to positive (negative) consequences for both the company and the community.

We manipulate *Stakeholder Agency* (*Low* versus *High*) through information that auditors

[4] All reported *p*-values are two-tailed, except for those related to directional predictions, which are specifically noted as one-tailed.

review about the company's plans to open the new production facility. Participants are informed that as part of audit planning procedures they read several news articles to gain a greater understanding of the company and its environment. We provide participants with an example of one of these articles discussing the company's planned production facility.[5] The article manipulates the factor described as motivating the company's decision to establish its new production facility in the community. In the *Low Stakeholder Agency* condition, the article describes how the company's board of directors voted on the location of the new facility.[6] In the *High Stakeholder Agency* condition, the article describes how local residents voted in a special referendum to approve construction of the new facility and that their support was a determinant in the company's location choice.

To manipulate *Auditing Standard Regime* (*pre-NOCLAR* versus *NOCLAR*), we operationalize the presence or absence of changes to risk assessment during the audit planning process stemming from audit regulators' recently adopted, or proposed, actions regarding NOCLAR. Specifically, we inform all participants that the engagement team has outlined seven procedures to be performed during the planning phase of the audit. These include common risk assessment procedures such as a fraud brainstorming session and gaining an understanding of significant changes to internal controls. In the *pre-NOCLAR* condition (consistent with the PCAOB's current auditing standards), one procedure is described as "conferring with the client and external legal counsel that there are no instances of noncompliance with laws and regulations that could affect the financial statements."

[5] We utilized ChatGPT to create a first draft of the news article, which we then edited.
[6] Emphasizing their low agency, the materials also note that community members did not provide any input to the firm's decision to open the plant. Nevertheless, in both the *Low* and *High Stakeholder Agency* conditions, the experimental materials make it clear that the community stands to benefit if the plant opens and will continue to experience economic distress if the plant does not open.

In the *NOCLAR* condition (consistent with the PCAOB's NOCLAR proposal and current standards under the IAASB), participants are informed they will be "conferring with the client and external legal counsel" about *specific* laws and regulations that could affect the company's financial statements. The materials then describe environmental regulations, employee safety mandates, and tax laws that apply to the company. Descriptions reference the relevant federal, state, or local authorities that make and enforce these laws and regulations, and how those laws and regulations might affect the company's operations and financial reporting.

The details provided in the *NOCLAR* condition allow for a test of the theoretical premise that auditors' more thorough consideration of laws and regulations applicable to their client will increase auditors' sensitivity to secondary stakeholders by making stakeholders' claim on the client appear more legitimate (Mitchell et al. 1997). Importantly, even in the *pre-NOCLAR* condition, auditors are explicitly made aware of the relevant secondary stakeholder in our setting, the local community in which the company plans to open the new production facility, and how the community's interests are affected by its stake in company outcomes. This allows us to demonstrate that auditors' mere awareness of secondary stakeholders and their interests is insufficient to increase auditors' responsiveness to secondary stakeholders. Rather, stakeholders must appear to have a legitimate interest in outcomes related to the company under audit, for example, due to auditors' enhanced consideration of NOCLAR. See the Appendix for additional details about our setting and manipulated variables.

Next, in all conditions, participants review information about the company's ICFR and revenue cycle and make a judgment about the severity of a possible control deficiency. This portion of the materials is adapted from Bhattacharjee and Brown (2018) and involves information about shortcomings in ICFR, as well as compensating controls, which makes for a

subjective judgment regarding the severity of the possible deficiency. We remind participants that assessing the ICFR deficiency as a material weakness would result in an adverse opinion on the company's ICFR effectiveness and potentially prevent the company from securing the financing necessary to open the new production facility.

We measure two primary dependent variables. First, we elicit participants' preliminary assessment of the company's *ICFR Deficiency Severity*, measured on a 101-point scale where 0 = "No Deficiency," 50 = "Significant Deficiency," and 100 = "Material Weakness". Second, we ask participants whether they would recommend issuing an *Unqualified* or an *Adverse Opinion* on the company's ICFR effectiveness. Lower assessed *ICFR Deficiency Severity* and a lower frequency of *Adverse Opinion* recommendations correspond to greater auditor leniency. Our instrument also captures manipulation checks, other measures related to aspects of theory, and demographic information. On average, participants spend approximately 15 minutes completing the experiment.

IV. RESULTS

Manipulation Checks

To ensure our *Stakeholder Agency* manipulation was successful, our post-experimental questionnaire asks participants the extent to which the community played "an active role in allowing [the company] to open the new production facility" (measured on an 11-point scale from 1 = "No role at all to 11 = "A very active role"). Results from an untabulated two-way ANOVA indicate a significant main effect of *Stakeholder Agency* (means of 7.84 versus 2.47 in the *High* versus *Low Stakeholder Agency* conditions, $F = 252.93$, $p < 0.01$), and no evidence of a significant main effect of *Auditing Standard Regime* or interaction between our two independent variables (both p-values > 0.24).

We validate our *Auditing Standard Regime* manipulation with a post-experimental question measuring the extent to which participants feel that the audit team planned procedures to "identify and gain an understanding of specific laws and regulations" relevant to the company's financial statements (11-point scale where 1 = "they did NOT identify or consider any specific laws or regulations" and 11 = "they considered several specific laws and regulations"). Results from an untabulated two-way ANOVA indicate a significant main effect where auditors in the *NOCLAR* condition are more attuned to specific laws and regulations (mean = 6.95) compared to the *pre-NOCLAR* condition (mean = 4.91; $F = 26.47$, $p < .01$). We do not observe a significant main effect of *Stakeholder Agency* or a significant *Stakeholder Agency* × *Auditing Standard Regime* interaction (both p-values > 0.42).

Test of Research Question

Given auditors are sensitive to secondary stakeholders (i.e., in our *NOCLAR* condition), our Research Question is based on competing predictions for whether low or high stakeholder agency leads to increased auditor leniency toward clients. Results in Figure 1 and Table 1 are consistent with the latter possibility. The pattern of a significant *Stakeholder Agency* × *Auditing Standard Regime* interaction ($F = 3.54$, $p = 0.06$) suggests that auditors assess *ICFR Deficiency Severity* as lower when *Stakeholder Agency* increases in the *NOCLAR* condition ($F = 3.60$, $p = 0.06$), but that *Stakeholder Agency* does not affect auditor judgments in the *pre-NOCLAR* condition ($F = 0.57$, $p = 0.45$).

While these simple main effects of *Stakeholder Agency* given the alternative *Auditing Standards Regimes* (Table 1, Panel C) are the most relevant tests of our Research Question, we note that the disordinal pattern of the observed *Stakeholder Agency* × *Auditing Standard Regime* interaction does not facilitate clear inferences regarding where auditors' judgments in the

NOCLAR condition fall relative to the *pre-NOCLAR* control condition. That is, we do not observe significant simple main effects of *Auditing Standards Regime* given the different levels of *Stakeholder Agency* (both *p*-values ≥ 0.16). As a consequence, our analysis of the *ICFR Deficiency Severity* dependent variable is not definitive regarding whether our results are driven primarily by *NOCLAR* facilitating increased auditor leniency when *Stakeholder Agency* is *High* versus stricter auditor judgments when *Stakeholder Agency* is *Low*.

Analysis of our alternative, binomial dependent variable that captures auditors' recommendation for what opinion to issue regarding the effectiveness of the company's ICFR—unqualified or adverse—helps clarify that auditors' judgments in the *NOCLAR* condition indeed appear to be driven primarily by increased leniency when *Stakeholder Agency* is *High*. See Figure 2 for descriptive statistics plotted by condition. Results from a corresponding logistic regression, in Table 2, reveal a significant *Stakeholder Agency* × *Auditing Standard Regime* interaction ($p < 0.01$). We observe that auditors recommend an adverse opinion (versus an unqualified opinion) only 9.26% of the time in the *High Stakeholder Agency* / *NOCLAR* cell, compared to 24.70% of the time on average collapsing across the other three cells (untabulated $z = -2.42$, $p = 0.02$). As shown in Panel C of Table 2, these other three cells do not significantly differ from one another (all *p*-values ≥ 0.16).[7] Overall, we take this pattern as indicative of auditor leniency, more so than correspondingly stricter auditing, arising in response to differences in *Stakeholder Agency* in the *NOCLAR* condition.

[7] We acknowledge that the pairwise comparison between the *High Stakeholder Agency* / *NOCLAR* cell (9.26%) and the *Low Stakeholder Agency* / *pre-NOCLAR* cell (17.86%; $z = -1.31$, $p = 0.19$) is not statistically significant. Nevertheless, the evidence in Figure 2 and Table 2 appears more consistent with *NOCLAR* causing *High Stakeholder Agency* to increase auditor leniency, rather than an alternative interpretation that *NOCLAR* causes *Low Stakeholder Agency* to prompt stricter audit judgments. As a test of the latter possibility, we observe that the frequency of adverse opinion recommendations in the *Low Stakeholder Agency* / *NOCLAR* cell (27.27%) does not significantly differ from the average when collapsing across the other three cells (18.78%; untabulated $z = 1.34$, $p = 0.18$).

Supplemental Evidence of Theory and Process

Auditors' Responsiveness to Secondary Stakeholders

Our theory suggests that auditors' more thorough consideration of clients' potential noncompliance with specific laws and regulations, following recent developments in auditing standards pertaining to NOCLAR, will increase auditors' sensitivity to secondary stakeholders' interest in client-related outcomes. Recall that Mitchell et al.'s (1997) Stakeholder Salience Theory identifies three factors that drive responsiveness to the interests of stakeholder groups: 1) stakeholders' power to influence the company, 2) the legitimacy of stakeholders' claim on the company, 3) and the urgency of attention required by stakeholders' claims. Although we believe considerations related to legitimacy are particularly relevant to the NOCLAR setting, we include post-experimental questions that correspond to each of these three factors.

An untabulated ANOVA indicates that our *Auditing Standard Regime* manipulation has the main effect of auditors perceiving secondary stakeholders as having a relatively more legitimate interest in client-related outcomes in the *NOCLAR* condition ($F = 4.79$, $p = 0.03$). We do not find support for an effect of *Stakeholder Agency*, or a *Stakeholder Agency* × *Auditing Standard Regime* interaction, on our measure of perceived legitimacy (p-values > 0.44). A similar untabulated ANOVA also finds support for a positive main effect of our *Auditing Standard Regime* manipulation on auditors' perceptions that stakeholders have the power to influence the audit client ($F = 3.46$, $p = 0.06$), with no significant effects of *Stakeholder Agency* or the *Stakeholder Agency* × *Auditing Standard Regime* interaction (both p-values > 0.50). We find no evidence of main or interactive effects of our manipulations on auditors' perceptions of the urgency of secondary stakeholders' claims (all untabulated p-values > 0.50).

Auditors' Perceptions of Stakeholder Agency

Psychology research identifies multiple characteristics associated with individuals exhibiting high agency. Specifically, high agency is often associated with increased foresight of possible future outcomes, playing a larger role in the causation of possible future outcomes, or possessing heightened intentions for possible future outcomes to occur (Alicke 2000). Because our theory is not specific regarding whether one, or more, of these determinants will occur in our setting, our post-experimental questionnaire measures the extent to which auditors perceive secondary stakeholders as possessing each of these three characteristics of high agency.

Untabulated ANOVAs suggest that our manipulation of *Stakeholder Agency* increases auditors' perceptions that secondary stakeholders intended for the plant to open ($F = 50.44$, $p < 0.01$). Although we also find a significant *Stakeholder Agency* × *Auditing Standard Regime* interaction effect on this variable ($F = 3.25$, $p = 0.07$), *High Stakeholder Agency* is associated with significantly greater perceived stakeholder intentionality in both *Auditing Standard Regime* conditions (both p-values < 0.01). *Stakeholder Agency* does not have a main or interactive effect on our post-experimental measures related to auditors' perceptions of stakeholder foresight or causation (all p-values > 0.21).

The Mediating Role of Stakeholders' Shared Responsibility for Client Outcomes

Our test of the competing predictions underlying our research question indicates that *High Stakeholder Agency* increases auditor leniency toward clients in the *NOCLAR*, but not in the *pre-NOCLAR*, condition. The theory underlying this possibility is based on the idea that *High Stakeholder Agency* shifts some of the responsibility for client-related outcomes that affect both the client and secondary stakeholders to the stakeholders and away from the client. This shift in responsibility for client-related outcomes, in general, helps facilitate more lenient audit

judgments about a client's specific, potential shortcomings (in our setting, a possible control deficiency) because the stakeholders that would also suffer negative consequences (in our setting, the production facility does not open as planned) from the client's shortcomings and share some of the responsibility for putting themselves in that position (Alicke et al. 2008; Phillips and Shaw 2015).

Two post-experimental measures provide insight into whether auditor perceive responsibility as shifting in this manner. Specifically, participants assess "how much blame the citizens of [the community]" and "how much blame [the company's] board of directors" deserve if the community continues to experience economic hardship because the production facility does not open (both questions are measured on an 11-point scale where 1 = "None of the blame" and 11 = "All of the blame"). We label these variables as *Stakeholder Responsibility* and *Client Responsibility*, respectively. Because Dyer et al. (2022) characterize such attributions of responsibility as a zero-sum proposition, we calculate *Relative Responsibility* by subtracting *Stakeholder Responsibility* from *Client Responsibility*. Larger values of *Relative Responsibility* can be interpreted as auditors assigning a higher share of the "total" responsibility to the client and comparatively less responsibility to the stakeholders. Smaller values of *Relative Responsibility* suggest that auditors perceive some of the responsibility for client-related outcomes as shifting from the client and to the stakeholders.

Figure 3 and Panel A of Table 3 plot and summarize, respectively, descriptive statistics for *Relative Responsibility*. The ANOVA in Panel B of Table 1 reveals a significant *Stakeholder Agency* × *Auditing Standard Regime* interaction ($F = 2.19$, one-tailed $p = 0.07$).[8] The related

[8] One-tailed *p*-value is based on the equivalent *t*-statistic. McNeil, Newman, and Kelly (1996, 137–39) explain that one-tailed tests are appropriate for two-way interactions that imply a directional prediction. Note that both of the competing predictions underlying our research question assume that, given *NOCLAR*, stakeholders take on more (less) responsibility when they exhibit *High* (*Low*) *Agency*.

simple main effects in Panel C show that given *NOCLAR*, auditors believe that responsibility shifts away from the client and to stakeholders as *Stakeholder Agency* increases from *Low* to *High* ($F = 5.59$, one-tailed $p = 0.02$). However, *Stakeholder Agency* does not affect *Relative Responsibility* in the *pre-NOCLAR* condition ($F = 0.08$, $p > 0.50$).[9]

Next, we test whether *Relative Responsibility* mediates the joint effect of *Stakeholder Agency* and *Auditing Standard Regime* on *Auditor Leniency* using the SPSS PROCESS Macro, Model 7 (Hayes 2022). As shown in Figure 4, *Stakeholder Agency* leads to a significant indirect effect on auditor leniency, as measured by auditors' assessed *ICFR Deficiency Severity* that operates through our *Relative Responsibility* measure in the *NOCLAR* condition, but not in the *pre-NOCLAR* condition. We acknowledge some caution in interpreting this result, however, given that the Index of Moderated Mediation is not significant at conventional levels. Nevertheless, the model in Figure 4 provides some modest, confirmatory evidence supporting the mediating role of *Relative Responsibility* in the process underlying our theory.

Alternative Explanations

We next comment on two potential alternative explanations for our results. First, *High Stakeholder Agency* may promote auditor leniency because it reduces auditors' litigation risk. That is, auditors may assume stakeholders are less likely to sue auditors for issuing an unqualified opinion on materially weak internal controls if stakeholders vote to allow the client to open the new facility in their community. McCracken (2003) suggests that lower-level

[9] We also perform untabulated analyses on the individual *Stakeholder Responsibility* and *Client Responsibility* variables. Regarding the former, we observe a significant *Stakeholder Agency* × *Auditing Standard Regime* interaction ($F = 2.04$, one-tailed $p = 0.08$) and follow-up evidence of a positive relationship between auditor assessments of *Stakeholder Responsibility* and *High* versus *Low Stakeholder Agency* given *NOCLAR* ($F = 3.98$, one-tailed $p = 0.02$), but not *pre-NOCLAR* ($F < 0.00$, $p > 0.99$). Regarding the latter, we do not find evidence of any main or interactive effects of our independent variables on *Client Responsibility* in isolation. Taken together, these tests suggest that the shifting of responsibility captured by our *Relative Responsibility* variable operates primarily through changes in our measure of *Stakeholder Responsibility* rather than *Client Responsibility*.

auditors, including staff and senior auditors like those in our study, are generally less focused than audit partners on litigation risk and reputational considerations. Regardless, we view the observed interaction between our *Stakeholder Agency* and *Auditing Standard Regime* variables as suggestive of differences in auditors' judgments that are more consistent with bias than with a deliberative response to different levels of risk. Contrary to our observed pattern of results, if *High Stakeholder Agency* reduces auditors' litigation risk, then auditors should be willing to exhibit leniency toward the client even if (and perhaps *especially* if) they view the community as having a relatively less legitimate interest in client-related outcomes in the *pre-NOCLAR* condition.

Second, it is possible that the observed effect of *High Stakeholder Agency* on auditor leniency, given *NOCLAR*, reflects auditors acquiescing to the secondary stakeholders' more explicit preference for the production facility to open. In one sense, we view this explanation as somewhat intertwined with our theory related to shifting responsibility between clients and stakeholders. That is, stakeholders that exhibit agency based on their preferences are more likely to be viewed as sharing some responsibility for the client-related outcomes that the stakeholders intended to influence. Nevertheless, we conduct an additional analysis to evaluate whether increased auditor leniency given the combination of *High Stakeholder Agency* and *NOCLAR* is driven by deference to stakeholders' preferences in a manner that is independent from a shift in stakeholders' share of responsibility for client-related outcomes.

Using the previously discussed post-experimental question involving the extent to which auditors believe that stakeholders intended for the plant to open, we substitute this variable as the mediator in an untabulated process model that is otherwise equivalent to the one shown in Figure 4. Results suggest significant indirect effects of this variable on auditor leniency that are

directionally opposite from the premise that auditors are more likely to acquiesce to stakeholders' intentions (i.e., preferences) when *Stakeholder Agency* is *High*, regardless of *Auditing Standard Regime*. In other words, our findings are not explained by auditor leniency in the NOCLAR condition simply reflecting heightened deference to stakeholders' explicitly expressed preferences, as signaled by *High Stakeholder Agency*. Rather, auditor leniency in response to stakeholders exercising high agency to influence clients' operations likely stems from stakeholders' larger share of responsibility for client-related outcomes, in general, fostering auditors' more tolerant view of shortcomings that are specific to the client (Alicke et al. 2008; Phillips and Shaw 2015).

V. DISCUSSION AND CONCLUSION

Companies are becoming increasingly accountable to stakeholders other than capital providers. Our study examines the effect of broader, secondary stakeholders like community members and employees on auditors' role in shaping companies' financial reporting outcomes. Results suggest that ostensibly audit-irrelevant considerations related to characteristics of secondary stakeholders can increase auditor leniency toward clients. This effect manifests both when auditors make subjective judgments about issues that arise during an audit (e.g., the severity of an ICFR deficiency) and when making audit-reporting decisions about the appropriate opinion (e.g., choosing between an adverse and unqualified opinion on ICFR effectiveness).

On a theoretical level, we find that high stakeholder agency, in combination with situational factors that make auditors more sensitive to stakeholders (e.g., enhanced consideration of NOCLAR), leads to a shift in auditors' perception of who is generally responsible for client-related outcomes that affect stakeholders. When auditors view stakeholders as taking on a larger share of this general responsibility, auditors judge clients' specific

shortcomings less harshly. On a practical level, we show that recently completed and proposed changes to auditing standards surrounding NOCLAR likely increase auditors' sensitivity to audit clients' secondary stakeholders, opening the door for characteristics of those stakeholders to affect auditors' judgments.

Our study is not without limitations that provide opportunities for future research. First, our instrument establishes a direct link between potential laws and regulations auditors would more thoroughly consider under enhanced NOCLAR requirements and the secondary stakeholders that might be indirectly affected by unfavorable audit outcomes. Future research could relax this assumption to examine whether consideration of specific laws and regulations that are not directly related to a given set of secondary stakeholders would nevertheless carry over to increase auditors' responsiveness to stakeholders. Future research could also identify other settings with potential to introduce behavioral motivations that increase auditors' sensitivity to secondary stakeholders, and characteristics of stakeholders other than agency that could shape auditors' judgments. Likewise, different categories of stakeholders, beyond our focus on the local community, could lead to different effects on auditors. While our study documents one important set of constructs and circumstances where audit clients' secondary stakeholders prompt auditor leniency, there are many opportunities for future research to introduce additional theory, settings, and variables that explore the boundaries and moderators of our results.

APPENDIX
Excerpts from Experimental Materials

Assume you are part of the audit team assigned to the September 30, 2024, year-end audit of We Do Glue, Inc. The company is subject to the normal reporting requirements of a publicly owned company. That is, an integrated audit will be performed, and an opinion will be expressed on the financial statements, as well as on the effectiveness of the company's internal control over financial reporting (ICFR) in accordance with PCAOB Auditing Standard No. 2201.
We Do Glue has been a client of your audit firm for ten years and has always received unqualified opinions on their financial statements and internal control over financial reporting effectiveness. There have been no issues or disputes with management and any past differences have always been resolved as We Do Glue has been very forthcoming with relevant information.

Preliminary planning for the FY 2024 audit of We Do Glue has begun. The engagement team has outlined the following procedures to be performed during the planning phase:

- Conducting a fraud brainstorming session.
- Determining materiality thresholds.
- Gaining an understanding of significant changes to internal control procedures.
- Gaining an understanding of significant changes to accounts and transactions.
- Performing preliminary analytical procedures on significant accounts.
- Performing testing on the effectiveness of internal controls over financial reporting.

[pre-NOCLAR]

- Conferring with the client and external legal counsel that there are no instances of noncompliance with laws and regulations that could affect the financial statements.

[NOCLAR]

Additionally, the engagement team will confer with the client and external legal counsel as part of identifying and obtaining an understanding of the following laws and regulations with which noncompliance could reasonably have a material effect on We Do Glue's financial statements:

1. **Environmental Regulations** – Both the Environmental Protection Agency (EPA) and local River City statutes mandate specific guidelines intended to protect environmental interests that are relevant to We Do Glue's production process. If We Do Glue does not comply with these guidelines they could face significant financial penalties and potentially need to accrue and disclose related contingent liabilities.
2. **Employee Safety** - The Occupational Safety and Health Administration (OSHA) has several mandates relevant to We Do Glue's responsibility to ensure a safe workplace for employees. This is especially the case for manufacturing facilities such as the new one to be opened in River City. Violations of these mandates would come with significant financial penalties and the possible need to accrue and disclose related contingent liabilities.
3. **Tax Laws:** Several tax laws enacted at the Federal (i.e., U.S.), state (i.e., Illinois), and local (i.e., River City) levels affect accruals and expenses in the accounting period and may create temporary differences between the carrying amounts of assets and liabilities for financial accounting purposes and the amounts used for tax purposes.

[All participants]

Based on conversations with We Do Glue's management, the audit team was made aware that the company was planning to open a new production facility located in River City, Illinois. The new production facility will be financed by We Do Glue taking out a new long-term loan. The loan agreement has not been signed yet as the lender is waiting on the FY 2024 audited financial statements. Any major issues discovered during the audit could impact whether the loan is approved by the lender and ultimately whether the new River City plant is opened.

As part of audit planning procedures for the We Do Glue audit, you read several news articles to get a greater understanding of the company and its environment. On the following page is an example of the many articles you found that discuss the planned production facility.

Please proceed to the next page to read the article. Read the article carefully as you will be asked questions about the background information above and the article on subsequent pages.

River City Times

We Do Glue, Inc.'s New Plant in River City Brings Economic Boost

River City, IL – This week the adhesives manufacturer We Do Glue, Inc. announced plans to open its latest plant in River City. The move brings a potential wave of job opportunities and economic growth to the struggling small town.

[High Stakeholder Agency]

River City's citizens, in a special referendum last November, overwhelmingly voted in favor of allowing We Do Glue to construct a new facility in their community. River City citizens' support for the new plant was a determining factor in bringing We Do Glue to River City rather than other possible locations.

[Low Stakeholder Agency]

We Do Glue's board of directors, in a special meeting last November, overwhelmingly voted in favor of constructing a new facility in River City. River City citizens did not have the opportunity to provide any input to the board of directors' decision to expand We Do Glue to River City rather than other possible locations.

[All Participants]

Beyond representing a needed expansion of the company's production capacity, "We Do Glue's presence could be a game-changer for River City," remarked Thomas Anderson, the company's CEO. He continued, stating that the "River City community has endured years of economic hardship, and our new plant could be their ticket to recovery." Maria Sanchez, a long-time River City citizen, and local small business owner emphasized the broader benefits: "More jobs mean more families staying in River City, more businesses thriving, and a brighter future for all of us. A successful partnership between We Do Glue and our community might be our town's last chance. Over the years I've seen our town go from a bustling hub of commerce and economic prosperity to almost complete destitution. So many companies have closed up shop and moved to the big cities or other countries. Families in this area are really struggling to make ends meet. There are just no good jobs available for people. I hope that We Do Glue's plant can turn this around."

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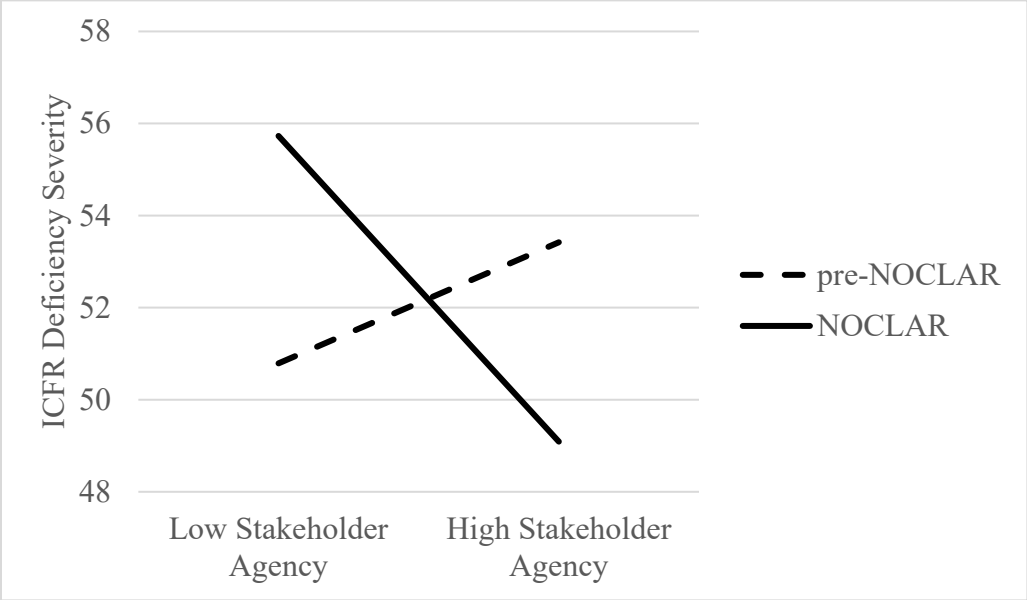
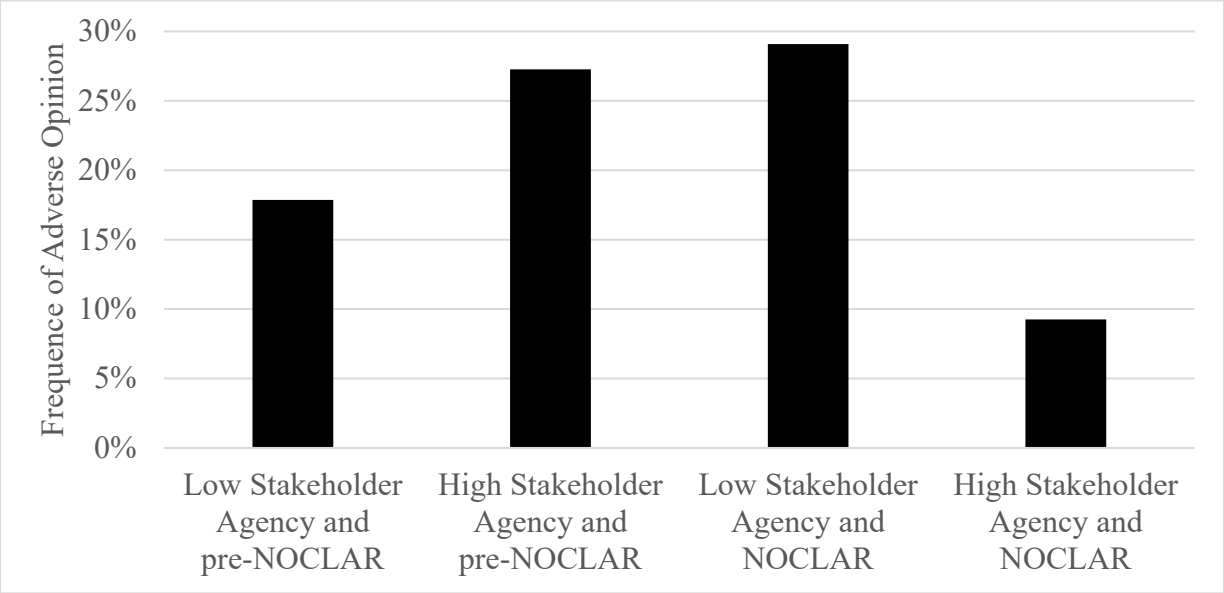
FIGURE 1
ICFR Deficiency Severity



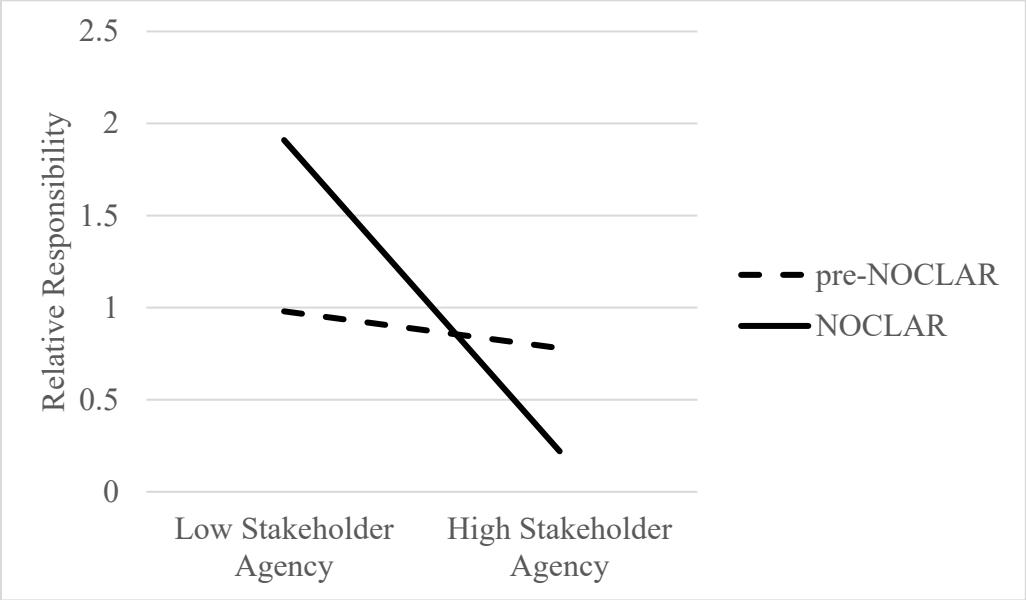
See Table 1 for variable descriptions.

FIGURE 2
Frequency of Adverse Opinion on ICFR Effectiveness



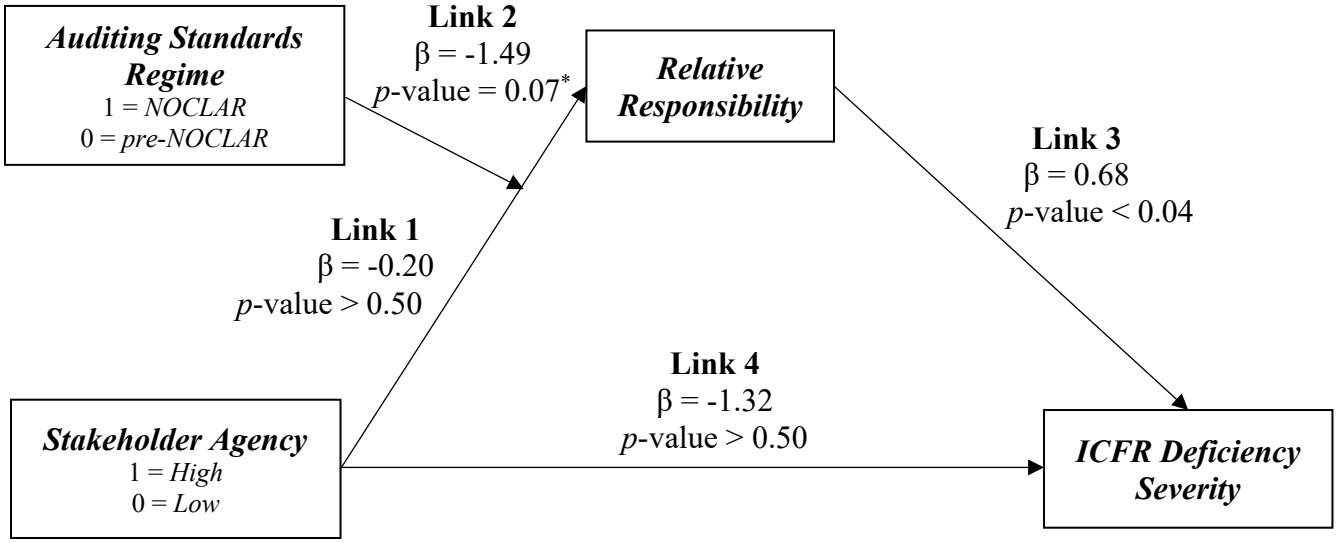
See Table 2 for variable descriptions.

FIGURE 3
Relative Client and Stakeholder Responsibility



See Table 3 for variable descriptions.

FIGURE 4
The Mediating Role of Relative Responsibility



Indirect Effect of *Relative Responsibility* on *ICFR Deficiency Severity*	**Path Estimate**	**90% Bootstrapped Confidence Interval**	**Test Result**
Conditional on *Auditing Standards Regime*			
Within *NOCLAR*	-1.15	(-2.45, -0.06)	Significant
Within *pre-NOCLAR*	-0.14	(-1.13, 0.80)	Not Significant
Difference (Index of Moderated Mediation)	-1.02	(-2.65, 0.16)	Not Significant

Figure 4 presents the test of our process model using SPSS PROCESS Macro Model 7 (Hayes 2022) with 10,000 bootstrap subsamples.
See Table 3 for variable descriptions.
* Given a directional prediction, indicates a one-tailed *p*-value. All other *p*-values are two-tailed.

TABLE 1
Auditor Leniency in ICFR Deficiency Severity Judgments

Panel A: Descriptive statistics – mean (std. dev.) ICFR Deficiency Severity

Auditing Standards Regime	Low Stakeholder Agency	High Stakeholder Agency
pre-NOCLAR	50.79 (17.36) n = 56 {A}	53.42 (20.06) n = 55 {B}
NOCLAR	55.73 (17.71) n = 55 {C}	49.09 (17.80) n = 54 {D}

Panel B: Two-way ANOVA

Tests of Fixed Effects	F-Statistic	*p*-value
Stakeholder Agency	0.66	0.41
Auditing Standards Regime	0.16	> 0.50
Stakeholder Agency × Auditing Standards Regime	3.54	0.06

Panel C: Simple main effects for Stakeholder Agency × Auditing Standards Regime

	F-Statistic	*p*-value
{A} vs. {B}, The Effect of Stakeholder Agency given pre-NOCLAR	0.57	0.45
{C} vs. {D}, The Effect of Stakeholder Agency given NOCLAR	3.60	0.06
{A} vs. {C}, The Effect of Auditing Standards Regime given Low Stakeholder Agency	2.03	0.16
{B} vs. {D}, The Effect of Auditing Standards Regime given High Stakeholder Agency	1.53	0.22

ICFR Deficiency Severity is participants' assessment as to the severity of the company's ICFR issue surrounding the accurate recording of sales revenue on a scale ranging from 0 to 101 with the following points: 0 = No Deficiency, 50 = Significant Deficiency, and 101 = Material Weakness.
Stakeholder Agency is manipulated between-participants as *High* or *Low* based on whether the experimental materials describe the secondary stakeholders or the clients' board of directors as voting to approve the clients' expansion into the secondary stakeholders' local community.
Auditing Standards Regime is manipulated between-participants as *NOCLAR* or *pre-NOCLAR* based on whether or not the experimental materials describe, as part of the planning phase of the audit, specific laws and regulations applicable to the client.
All *p*-values are two-tailed.

TABLE 2
Auditor Leniency in Recommending an Adverse Opinion on ICFR Effectiveness

Panel A: Descriptive statistics – Frequency of Adverse Opinion

Auditing Standards Regime	Low Stakeholder Agency	High Stakeholder Agency
pre-NOCLAR	17.86% n = 56 {A}	27.27% n = 55 {B}
NOCLAR	29.09% n = 55 {C}	9.26% n = 54 {D}

Panel B: Logistic Regression

Variables	*Coefficient (Std. Error)*	*p*-value
Intercept	-1.53 (0.35)	< 0.01
Stakeholder Agency	0.55 (0.46)	0.24
Auditing Standards Regime	0.64 (0.46)	0.17
Stakeholder Agency × Auditing Standards Regime	-1.94 (0.72)	< 0.01

Panel C: *z* Tests for Pairwise Differences between Percentages

	z-Statistic	*p*-value
{A} vs. {B}, Low Stakeholder Agency and pre-NOCLAR versus High Stakeholder Agency and pre-NOCLAR	-1.18	0.23
{A} vs. {C}, Low Stakeholder Agency and pre-NOCLAR versus Low Stakeholder Agency and NOCLAR	-1.40	0.16
{A} vs. {D}, Low Stakeholder Agency and pre-NOCLAR versus High Stakeholder Agency and NOCLAR	-1.31	0.19
{B} vs. {C}, High Stakeholder Agency and pre-NOCLAR versus Low Stakeholder Agency and NOCLAR	0.21	0.83
{B} vs. {D}, High Stakeholder Agency and pre-NOCLAR versus High Stakeholder Agency and NOCLAR	2.43	0.02
{C} vs. {D}, Low Stakeholder Agency and NOCLAR versus High Stakeholder Agency and NOCLAR	2.62	< 0.01

Adverse Opinion - Participants' recommendation to the audit partner as to the type of ICFR opinion that should be issued, measured as 1 = unqualified (there is not a material weakness in ICFR) or 2 = Adverse (there is a material weakness in ICFR).
See Table 1 for other variable descriptions.
All *p*-values are two-tailed.

TABLE 3
Relative Client and Stakeholder Responsibility

Panel A: Descriptive statistics – mean (std. dev.) Relative Responsibility

Auditing Standards Regime	Low Stakeholder Agency	High Stakeholder Agency
pre-NOCLAR	0.98 (4.05) n = 56 {A}	0.78 (3.93) n = 55 {B}
NOCLAR	1.91 (2.87) n = 55 {C}	0.22 (3.93) n = 54 {D}

Panel B: Two-way ANOVA

Tests of Fixed Effects	F-Statistic	*p*-value
Stakeholder Agency	3.53	0.06
Auditing Standards Regime	0.13	> 0.50
Stakeholder Agency × Auditing Standards Regime	2.19	0.07*

Panel C: Simple main effects for Stakeholder Agency × Auditing Standards Regime

	F-Statistic	*p*-value
{A} vs. {B}, The Effect of Stakeholder Agency given pre-NOCLAR	0.08	> 0.50
{C} vs. {D}, The Effect of Stakeholder Agency given NOCLAR	5.59	0.01*
{A} vs. {C}, The Effect of Auditing Standards Regime given Low Stakeholder Agency	1.72	0.19
{B} vs. {D}, The Effect of Auditing Standards Regime given High Stakeholder Agency	0.62	0.43

Relative Responsibility is calculated as *Client Responsibility – Stakeholder Responsibility* where larger values of *Relative Responsibility* can be interpreted as auditors assigning a higher share of the "total" responsibility to the client and comparatively less responsibility to stakeholders.
Stakeholder (Client) Responsibility is the level of responsibility auditor participants attribute to secondary stakeholders (the client) for negative consequences that secondary stakeholders may experience due to undesirable company outcomes, measured on a scale ranging from 1 = None of the blame to 11 = All of the blame.
See Table 1 for other variable descriptions.
* Given a directional prediction, indicates the one-tailed *p*-value from the equivalent *t*-statistic. All other *p*-values are two-tailed.