

## **Do Audit Clients' Stakeholders Prompt Auditor Leniency? Experimental Evidence from the PCAOB's Recent NOCLAR Proposal**

Beyond investors, companies answer to secondary stakeholders such as community members and employees. Characteristics of these stakeholders are varied and typically irrelevant to the judgements made by companies' external auditors. In an experiment with 220 practicing auditors as participants, we find that auditors are more lenient toward their clients when clients' secondary stakeholders exhibit a high level of agency in influencing clients' strategic and operational decisions, but only if these stakeholders are salient to auditors. Theory and evidence link this leniency to auditors' attributions of blame for negative externalities that a client's stakeholders might indirectly suffer due to unfavorable audit judgments about the client. We identify the Public Company Accounting Oversight Board's (PCAOB) proposed amendment to their auditing standard regarding noncompliance with laws and regulation (NOCLAR) as a practical example of increasing secondary stakeholders' salience to auditors, potentially creating an opportunity for audit-irrelevant characteristics of stakeholders to affect audit judgments.

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