When Do Audit Clients' Stakeholders Prompt Auditor Leniency?

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ABSTRACT: Beyond investors and creditors, companies respond to secondary stakeholders such as community members and employees. Characteristics of these latter, "secondary" stakeholders are typically irrelevant to the judgements made by external auditors about clients' financial statements and internal controls. 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 stakeholders' exposure to negative externalities that might indirectly arise due to unfavorable audit judgments about the client. We identify regulatory developments such as 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 ostensibly audit-irrelevant characteristics of clients' stakeholders to affect audit judgments.

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I. INTRODUCTION

Companies' strategic decisions and corporate governance are increasingly being shaped by 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 characteristics of companies' secondary stakeholders also affect judgments made by companies' external financial statement auditors. First, we test whether stakeholders' efforts to shape companies' strategic and operational decisions—the exercise of what we term "stakeholder agency"—has implications for whether auditors perceive both stakeholders and their clients as deserving of blame for stakeholders' exposure to any negative consequences that stakeholders might experience due to undesirable company outcomes. Second, we test whether these attributions of blame carry over to affect auditor leniency toward their clients. In both cases, we predict that any effect of stakeholder agency on auditors' judgments is conditional on secondary stakeholders being salient to auditors.

Our paper is important because auditors owe "ultimate allegiance" to shareholders and investors (*United States v. Arthur Young & Co, 465 U.S. 805 1984*), making considerations related to secondary stakeholders largely irrelevant to auditors' evaluation of clients' internal control over financial reporting (ICFR) and financial statements. Yet, factors that make secondary stakeholders salient to auditors may open the door for considerations related to these stakeholders to bias auditors' judgments.

We identify actions by audit regulators regarding auditors' responsibilities related to evaluation of clients' potential noncompliance with laws and regulations ("NOCLAR") as a practical example of potentially increasing the salience of companies' secondary stakeholders to

auditors. Recently completed or proposed auditing standards updates involve increasing auditors' responsibility to more comprehensively identify laws and regulations applicable to their clients and evaluate whether noncompliance would affect financial reporting (IAASB 2016; AICPA 2017; PCAOB 2023). For example, the Environmental Protection Agency can levy penalties on companies for environmental pollution in the areas where companies operate (e.g., Fialka and Herrick 2005). Auditors' more explicit consideration of such issues is likely to not only direct auditors' attention to the possible financial reporting implications of companies incurring fines but also enhance the salience of the secondary stakeholders that would be affected by companies' noncompliance (Mitchell, Wood, and Agle 1997).

When secondary stakeholders are more salient to auditors there is heightened potential for characteristics of secondary stakeholders to affect auditors' judgments. We focus on the implications of stakeholders exercising agency through actions intended to influence companies' strategic and operational decisions. For example, 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 do not act to directly influence local company operations, even as they can similarly benefit from a company's success (Dunham et al. 2006).

Regardless of the level of stakeholder agency, secondary stakeholders also face exposure to negative consequences from undesirable company-related outcomes. For example, a company's poor financial performance could lead to job loss, decreased economic activity, and lost tax revenue for the communities in which they operate (e.g., Presbey 2015; Clark 2024). Although company directors and managers have more direct responsibility for such outcomes,

auditors' judgments can also play a precipitating role. For example, unfavorable audit opinions 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 to contribute to negative company outcomes and, by extension, undesirable consequences for secondary stakeholders, may create motivation for more lenient (i.e., biased) judgments toward their clients (e.g., Koch and Salterio 2017; Knutson, Stefaniak, and Brown 2024).

Theory and results from psychology suggest that blame attributions play an important role in individuals' willingness to be lenient toward others (e.g., Gioia and Sims 1986; Bradfield and Aquino 1999; Alicke 2000; Mitchell, Sharma, Zipay, Bies, and Croitoru 2024). Therefore, we examine the joint effect of stakeholder salience and stakeholder agency on auditors' attributions of blame to their clients, and their clients' stakeholders, for stakeholders' exposure to any negative consequences arising from an unfavorable audit outcome. Personal control over exposure to possible negative outcomes is a primary determinant of blame (Alicke 2000; Alicke et al. 2012), and theory suggests that blame attributions in situations where two parties are connected in a manner similar to audit clients' and clients' stakeholders is often a "zero-sum" proposition (Alicke, Bucking, Zell, and Davis 2008; Dyer, Pizarro, and Ariely 2022). In other words, conditional on secondary stakeholders being salient to auditors, auditors are likely to shift their perceptions of blame for secondary stakeholders' exposure to negative consequences from audit clients to the clients' stakeholders when those stakeholders exhibit higher agency in their stake with the company.

Next, we consider how these auditor attributions of blame translate to auditor leniency toward their clients. Theory supports competing predictions, both of which are conditional on

secondary stakeholders being salient to auditors. On one hand, individuals tend to protect the interests of undeserving victims (McEvoy and McConnachie 2013). It follows that salient stakeholders exhibiting relatively *lower* agency might prompt auditors to be lenient toward their clients. In this case, auditor leniency lessens negative consequences that relatively blameless stakeholders might suffer due to unfavorable audit outcomes. On the other hand, because auditors often feel pressure to exercise their discretion in ways that align with their clients' reporting preferences (e.g., Gibbins, Salterio, and Webb 2001; Guénin-Paracini, Malsch, and Tremblay 2015), auditors could be more willing to be deferential to clients when their clients appear less blameworthy (in comparison to more blameworthy stakeholders). In this case, *higher* stakeholder agency helps auditors justify leniency toward clients.

We test these issues using a contextually rich experiment in which 220 staff and senior auditor participants from an international accounting firm consider details related to the integrated audit of a hypothetical client and evaluate the client's internal controls over financial reporting (ICFR) effectiveness. The 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, securing the loan necessary for moving forward with the new facility is conditional on the company receiving an unqualified audit opinion. Therefore, in all conditions, auditor participants are aware that the community stands to benefit from the company opening the new facility and, by extension, an unfavorable audit judgment about the company's ICFR effectiveness could lead to negative consequences for the company and the community.

We manipulate two factors, stakeholder salience and stakeholder agency, between participants. Regarding the former, we operationalize an expected effect of the audit regulators'

recent actions surrounding NOCLAR by varying our description of procedures performed by the engagement team during the planning phase of the audit. Corresponding to a pre-NOCLAR standards regime (i.e., current auditing standards under the PCAOB), in the low stakeholder salience condition 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". Consistent with the PCAOB's recent NOCLAR proposal (and current auditing standards under the IAASB and AICPA), in the high stakeholder salience condition the materials provide details of *specific* laws and regulations and related implications for the company's financial reporting. We manipulate stakeholder agency as high or 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.

Results suggest that when the community exercises more agency in their relationship with the company, auditors appear to shift blame for the community continuing to suffer economic hardships if the new production facility does not open from the client to the community. However, this effect only occurs when these secondary stakeholders are more salient due to auditors' increased consideration of laws and regulations related to the company.

Regarding auditors' judgments about ICFR effectiveness, we find that increased stakeholder agency causes auditors to be more lenient toward clients, but only when secondary stakeholders are salient. Salient stakeholders exhibiting high (low) agency prompt auditors to judge a potential control deficiency as less (more) severe and be less (more) likely to recommend issuing an adverse opinion on ICFR. In fact, auditors in our setting are almost three times more likely to recommend an adverse, versus unqualified, opinion on ICFR when stakeholders are salient and have high agency as opposed to the other conditions. We interpret these results as

consistent with the premise that shifting the blame for stakeholders' exposure to negative consequences of undesirable reporting outcomes away from audit clients and to clients' stakeholders allows auditors to rationalize yielding to implicit pressures to exercise discretion in a manner that benefits their clients.

In general, the importance of how companies' activities and accounting affect 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 (Douthit, Kachelmeier, and Van Landuyt 2024; Knutson et al. 2024). We extend this stream of literature by documenting how ostensibly audit-irrelevant actions taken by companies' *stakeholders* influence auditor leniency toward clients. From a theoretical perspective, our results offer new insights into characteristics—stakeholder salience and agency—that can introduce bias into auditor judgment and decision-making. From a practical standpoint, our findings are relevant to audit firms' and regulators' quality control efforts in that we document circumstances that could lead to compromised audit outcomes.

Finally, our results have implications for auditing standards setters. By operationalizing our experiment within the context of recently completed or proposed auditing standard-setting activity surrounding NOCLAR (IAASB 2016; AICPA 2017; PCAOB 2023), we can isolate possible effects of important policy changes (Kachelmeier and King 2002). Our findings suggest that auditors' more thorough consideration of the specific laws and regulations affecting their clients will enhance the salience of the secondary stakeholders that would be affected by their clients' potential noncompliance. In doing so, an unintended consequence of increasing auditors' responsibilities related to NOCLAR may be to foster new opportunities for considerations related to clients' stakeholders to bias auditors' judgments.

II. BACKGROUND, THEORY, AND HYPOTHESES

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 prioritizing favorable outcomes for shareholders and 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 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 are not financially successful and potentially even 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, judgments made by auditors can play a role in precipitating outcomes that affect both companies and stakeholders. For example, unfavorable audit opinions make companies' access to capital more difficult or costly (e.g., Amin et al. 2014; Chen et al. 2016) and can incrementally contribute to company bankruptcy (e.g., Carson et al. 2013). It follows that auditors' judgments can at least indirectly affect companies' secondary stakeholders through outcomes that might limit the companies' ability to invest in projects or continue operations, which would have otherwise benefited stakeholders like employees and communities. However, few studies in accounting investigate possible links between companies' secondary stakeholders and auditors' judgments.

On one hand, prompting auditors to consider their professional duty to financial statement users—a key stakeholder group—has been shown to increase auditors' independence from management and reduce 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 companies' actions on stakeholders can contribute to biased audit outcomes. Douthit et al. (2024) find that auditors do not curb aggressive financial reporting when they also provide assurance on client activities that have prosocial benefits for companies' secondary stakeholders. Knutson et al. (2024) find that auditors view for-profit organizations that also provide social benefits as less risky, consistent with auditors prioritizing secondary stakeholders' interest in a companies' going concern to a greater extent when companies do, versus do not, provide a 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 by (and characteristics of) clients' *stakeholders* affect auditors' judgments.

Stakeholder Salience and the Audit Regulators' Recent Actions on NOCLAR

Mitchell et al. 1997 classify three attributes that affect whether stakeholders are salient to a company's management: 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.[1] A practical implication of this typology is that there is a large degree of variation in the extent to which secondary stakeholders are salient to companies and, by extension, potentially to the companies' financial statement auditors. For example, the industry in which companies operate has implications for whether certain groups are naturally viewed as having power to influence companies (Donaldson, and Preston 1995; Sweeney and Coughlan 2008; Gianfelici, Casadei, and Cembali 2018).

Specific to auditors' perceptions of stakeholder salience, recently proposed changes to auditing standards are likely to increase the extent to which auditors focus on issues related to their clients' secondary stakeholders. The International Auditing and Assurance Standards Board (IAASB) and American Institute of Certified Public Accountants (AICPA) recently updated auditing standards to reflect new requirements for auditors to consider clients' potential noncompliance with laws and regulations, or "NOCLAR" (IAASB 2016; AICPA 2017). Although currently on hold, the PCAOB has similarly issued a proposal to replace AS 2405 *Illegal Acts by Clients* with a new version of AS 2405 focused on *A Company's Noncompliance with Laws and Regulations* (PCAOB 2023). These developments in auditing standard setting share the broad imperative of amplifying auditors' responsibility to identify specific laws and regulations applicable to their clients and evaluate whether noncompliance with those laws and

[1] While there are other psychological theories related to salience that may be applicable in an audit setting (e.g., social presence theory) given our focus on the salience of stakeholders in auditors' judgment and decision-making use draw on Mitchell et al.'s (1997) stakeholder salience theory.

regulations would affect financial reporting. We propose that asking auditors to expand their consideration of laws and regulations governing their clients may also increase the salience of the secondary stakeholders that these laws and regulations are designed to protect. That is, more explicit consideration of laws and regulations relevant to audit clients is likely to naturally elevate auditors' consideration of the secondary stakeholders that would be affected by audit clients' potential noncompliance.

We posit that stakeholder salience is a necessary condition for other considerations related to secondary stakeholders to affect auditors' judgments. Our focus on auditors' enhanced consideration of applicable laws and regulations under standard setters' recent actions on NOCLAR especially aligns with the "legitimacy" attribute of stakeholder salience (Mitchell et al.1997). Later research expands on this attribute by suggesting that stakeholder salience 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). Laws and regulations are fundamentally regarded as defining whether certain claims are right and proper, implying an important role in shaping stakeholder salience (e.g., Díez-Martín 2021). Although attributes of secondary stakeholders are generally considered irrelevant to auditors' evaluation of their clients' ICFR and financial statements, recent regulatory action on NOCLAR represents both a practical and theoretical reason for auditors to perceive that secondary stakeholders have a more legitimate interest in company-related outcomes, potentially opening the door for other characteristics of stakeholders to affect auditor judgments.

Stakeholder Agency

Conditional on secondary stakeholders being salient to auditors, we examine whether secondary stakeholders' efforts to actively influence companies' strategic and operational

decisions affect auditors' judgments. We characterize this construct as the level of agency that stakeholders exhibit in their exposure to possible positive or negative consequences that might arise due to their association with a company. In practice, there is natural variation in this characteristic of secondary stakeholders and our theory suggests that this form of stakeholder agency likely plays a role in the perceptions that auditors form regarding 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). Likewise, 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 also involve themselves in companies' reporting decisions, including those related to environmental performance disclosures (Carlise, Millar, and Wukich 2023). Likewise, stakeholder groups can exercise agency through engaging with the company, organizing protests, or taking political or legal actions (Aaltonen, Jaakko, and Tuomas 2008).[2]

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 act to influence local companies' operations yet nevertheless suffer negative

[2] Aaltonen et al. (2008) note that some examples of stakeholder agency may also serve to make stakeholders more salient by elevating the perceived urgency of their claims.

consequences from undesirable company-related outcomes such as environmental pollution or a company's poor financial performance.[3]

The Joint Effect of Stakeholder Salience and Agency on Stakeholder and Client Blame

Our theory suggests that auditors are likely to view salient secondary stakeholders exhibiting high agency as more blameworthy for any negative consequences they suffer related to undesirable company outcomes. Likewise, these attributions of stakeholder blame are also likely to decrease the relative share of blame that auditors attribute to their clients for their role in causing negative consequences for secondary stakeholders.

When attributing blame to others, observers evaluate elements of others' personal control over potential negative outcomes (Alicke 2000; Alicke and Rose 2012). Results from a variety of settings indicate that when individuals have some control over, or agency in, negative consequences that they experience, they are viewed as being more blameworthy for their reduced circumstances (e.g., Lagnado and Channon 2008; Malle, Guglielmo, and Monroe 2014). For example, when a victim of a crime is acquainted with the perpetrator, the victim is assigned more blame relative to victims whose perpetrator is a stranger (Persson, Dhingra, Grogan 2018; Gravelin, Biernat, and Bucher 2019). In these situations, observers assign more blame to victims presumably because the victim played a more active role in their exposure to the crime by choosing to be in relationship with the perpetrator (Bridges and McGrail 1989). In accordance with this logic, we predict that higher or lower stakeholder agency will increase or decrease,

[3] 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 beyond the city where their facility is located. Thus, communities who did not intend to influence or be associated with 3M suffered negative consequences from 3M's decisions.

respectively, the amount of blame that auditors believe stakeholders deserve for any negative consequences they suffer from undesirable company outcomes.

Attributing more blame to stakeholders is also likely to reduce the relative share of blame that auditors attribute to clients for their role in causing negative outcomes. Psychology research documents that when victims suffer consequences related to perpetrators' negligence, characteristics of the victim can affect reactions to the perpetrator. For example, a physician who is negligent for a patient's death is judged less harshly when the patient is viewed as playing a relatively more active role in receiving the life-threatening injuries (Alicke, Bucking, Zell, and Davis 2008). This notion is extended by characterizing blame in such situations as a zero-sum proposition (Dyer, Pizarro, and Ariely 2022). The more a victim—like the patient in the previous example or, in our setting, secondary stakeholders—is perceived as being to blame for negative consequences they suffer, the more it mitigates blame attributed to those—like the doctor, or a company—directly responsible for the outcomes causing those consequences.

As discussed previously, an important caveat to the above is that secondary stakeholders must be salient to auditors for differences in stakeholders' agency to affect auditors' judgments. Therefore, we formalize the following interactive hypotheses specifying a joint effect of stakeholder salience and agency on auditors' attributions of blame to stakeholders and clients.

> **H1:** When stakeholders exhibit higher versus lower levels of agency, auditors will shift their perceptions of blame for stakeholders' exposure to negative consequences of undesirable client-related outcomes from the client to stakeholders, but only if stakeholders are salient versus not salient to auditors.

The Joint Effect of Stakeholder Salience and Agency on Auditor Leniency

Next, we develop competing predictions for how considerations related to secondary stakeholder and client blame—given stakeholders are salient—affect auditors' judgments about their clients' accounting. Auditor judgments that lead to unfavorable audit outcomes can be a

precipitating factor in determining whether both clients and, by extension, clients' stakeholders suffer negative consequences (e.g., Carson et al. 2013; Amin et al. 2014; Chen et al. 2016).

A desire to protect the well-being of others can justify otherwise questionable behavioral choices (Alicke 2000). In our setting of interest, this tendency would suggest auditors might make lenient judgments about a company's financial reporting to prevent negative consequences for secondary stakeholders (e.g., Knutson et al. 2024). Although not always specifically linked to psychological tendencies, there are examples of such behavior in other practical settings. Judicial authorities often forego prosecuting certain cases if doing so would have detrimental consequences to innocent third parties (Brown 2002). Similarly, a primary justification for government financial bailouts that provide leniency toward negligent or mismanaged corporations is to protect the interests of innocent secondary stakeholders (e.g., Gullapalli and Anand 2008; McCracken and Stoll 2008), sometimes at the expense of primary stakeholders' interests (e.g., Denning 2009). While such practices may be controversial, they help motivate why salient secondary stakeholders exhibiting relatively *low* agency in their exposure to negative consequences from undesirable company outcomes, may cause auditors to justify more leniency toward clients. In sum, one theoretical possibility is that when auditors view stakeholders as *less* blameworthy for negative consequences, auditors will bias their judgments to protect the interests of these relatively "innocent" stakeholders by exhibiting leniency to clients.

Conversely, salient secondary stakeholders exhibiting relatively *higher* agency might result in auditors being more lenient to clients. If more blameworthy secondary stakeholders cause audit clients to appear relatively less blameworthy by comparison (e.g., Alicke et al. 2008; Dyer et al. 2022), auditors may be less inclined to take actions that would have negative consequences for their client. Despite independence requirements, auditors face a variety of

pressures (both conscious and subconscious) to make discretionary or subjective judgments in favor of clients' reporting preferences (Gibbins et al 2001; Guénin-Paracini et al. 2015; Koch and Salterio 2017). Given that individuals are more likely to take actions that are helpful (harmful) to others when individuals attribute less (more) blame to others (Bradfield and Aquino 1999), relatively less blameworthy clients may help auditors justify yielding to inherent pressures to be lenient to clients. In sum, when secondary stakeholders exhibit *more* agency in their exposure to possible negative consequences, it is possible that the comparatively smaller share of blame that auditors assign to audit clients helps justify increased leniency toward these relatively inculpable clients.

Given the competing directional predictions, we formalize our two alternative theoretical possibilities for the joint effect of secondary stakeholder saliency and agency on auditors' leniency toward clients as a research question.

RQ: Conditional on stakeholders being salient to auditors, will auditors be more lenient toward clients when stakeholders exhibit higher agency or lower agency?

III. RESEARCH DESIGN

Participants

To test our hypotheses, we employ a 2 × 2 between-participants experiment with *Stakeholder Salience* (*Low* versus *High*) and *Stakeholder Agency* (*Low* versus *High*) 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 (146 staff and 73 senior) auditors from an international accounting firm who completed the experiment programmed on Qualtrics, during a

training event.[4] 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 for our experimental task. We do not observe significant differences in demographic characteristics or experience across our experimental treatments (all p-values > 0.17).[5]

Experimental Task and Variables

We ask participants to assume they are an auditor on the integrated audit of an industrial company that manufactures adhesives. 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 yet been signed 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 Salience* and *Stakeholder Agency*, respectively. The focal secondary stakeholder relevant to our independent and dependent variables is the local community that stands to benefit, in the form of increased job opportunities and economic growth, from the company opening the new production facility.

[4] Institutional Review Board (IRB) approval to use human subjects was granted prior to conducting this experiment.
[5] All reported p-values are two-tailed, except for those related to directional predictions which are specifically noted as one-tailed.

To manipulate *Stakeholder Salience,* we operationalize the presence or absence of effects that the PCAOB's NOCLAR proposal will have on risk assessment that occurs during audit planning. 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. Consistent with current auditing standards, in the *Low Stakeholder Salience* condition, 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."

Consistent with the PCAOB's NOCLAR proposal, participants in the *High Stakeholder Salience* condition 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. See the Appendix for additional details about our setting and both manipulated variables.

The details provided in the *High Stakeholder Salience* condition allow for a test of the theoretical premise that auditors' more thorough consideration of the laws and regulations applicable to the client will increase stakeholder salience via auditors' perceptions of the legitimacy of secondary stakeholders' claims on the company. Note that even in the *Low Stakeholder Salience* condition, auditors are specifically made aware of the focal secondary stakeholder of interest in our setting, the local community in which the company plans to open

the new production facility, and how this community's interests are affected by its stake in the company outcomes. This allows us to demonstrate that auditors' mere awareness of secondary stakeholders and their interests is not sufficient to establish these stakeholders as having a salient, legitimate interest in outcomes related to the company under audit. Importantly, in all conditions, the materials make it clear that the community stands to benefit from the company opening the new production facility and that an unfavorable audit opinion could lead to undesirable consequences for both the company and the community.

We manipulate *Stakeholder Agency* through additional information that auditors 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 get 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. The article describes the community in which the production facility would open as a struggling small town that has endured years of economic hardship as employers have moved to larger markets. The article describes the company's new production facility as beneficial to the community's recovery by bringing more jobs, families, and commerce to the area.

Our manipulation of *Stakeholder Agency* centers on how the article describes the reason the company is planning to locate its new production facility in this 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 and that local residents did not have the opportunity to provide any input to the decision. 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 determining factor in the company's choice of location.[6]

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.

The primary focus of the instrument is to 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." We also ask participants whether they would recommend issuing an *Adverse Opinion* on the company's ICFR effectiveness. Relevant to testing the competing predictions specified in our Research Question, lower *ICFR Deficiency Severity* and a lower frequency of *Adverse Opinion* recommendations correspond to greater auditor leniency. Relevant to testing H1, we measure *Stakeholder Blame* and *Client Blame* based on "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 measured on an

[6] We acknowledge that our *Stakeholder Agency* manipulation could potentially influence the power dimension of *Stakeholder Salience*. Mitchell et al. (1997) defines power as a relationship among social actors whereby one actor can get the other actor to do something that they otherwise would not have done. Thus, the fact that the community's support was a determining factor in the location decision for the new production facility could indicate that the community has power. We test this possibility and find no effect of Stakeholder Agency on stakeholder power (F = .010, p = .922).

11-point scale where 1 = "None of the blame" and 11 = "All of the blame"). Our instrument captures other measures related to various aspects of our theory, manipulation checks, and demographic information. On average, participants spend approximately 15 minutes completing the experiment.

IV. RESULTS

Manipulation Checks

To verify our *Stakeholder Salience* manipulation, we measure 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 from 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 that the manipulation successfully captured expected changes under the PCAOB's NOCLAR proposal. We find a significant main effect of *Stakeholder Salience* where auditors in the *High Stakeholder Salience* condition are more sensitive to laws and regulations relevant to the company (mean = 6.95) compared to the *Low Stakeholder Salience* condition (mean = 4.91; $F = 26.47$, $p < .001$). We do not observe a significant main effect of *Stakeholder Agency* or a significant *Stakeholder Salience* × *Stakeholder Agency* interaction (both *p*-values > 0.42).

To examine our *Stakeholder Agency* manipulation, we ask participants the extent to which they perceive the community playing "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 are consistent with a successful manipulation. We find 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 significant main effect of *Stakeholder Salience* or interaction between our two independent variables (both p-values > 0.24).

Primary Results

Tests of H1: Stakeholder Blame and Client Blame

H1 predicts that *Stakeholder Salience* and *Stakeholder Agency* will interact to shift the level of blame that auditors place on secondary stakeholders and their client, respectively, for negative consequences experienced by secondary stakeholders due to undesirable company outcomes. Because Dyer et al. (2022) specifies that blame attributions in settings like ours are a "zero-sum" proposition, we test H1 using *Relative Blame* which we calculate by subtracting our previously described measure *Stakeholder Blame* from our measure of *Client Blame*. Therefore, larger (smaller) values of *Relative Blame* can be interpreted as auditors placing a higher (lower) share of the "total" blame on the client and comparatively less (more) blame on the stakeholders.

Figure 1 and Panel A of Table 1 plot and summarize, respectively, descriptive statistics for *Relative Blame*. The ANOVA in Panel B of Table 1 reveals a marginally significant *Stakeholder Salience* × *Stakeholder Agency* interaction ($F = 2.19$, one-tailed $p = 0.07$). Related simple main effects in Panel C are consistent with H1. That is, in the presence of *High Stakeholder Salience*, we observe blame shifting to the client and away from stakeholders when *Stakeholder Agency* is *Low* versus *High* ($F = 5.59$, one-tailed $p = 0.02$).[7] However, *Stakeholder Agency* does not affect *Relative Blame* when *Stakeholder Salience* is *Low* ($F = 0.08$, $p > 0.50$).

[7] One-tailed p-values are based on the equivalent t-statistic. McNeil, Newman, and Kelly (1996, 137–39) explain that one-tailed tests are appropriate for two-way interactions, such as those described in H1a and H1b, that imply a directional prediction.

For completeness, Table 2 presents descriptive statistics and results from two-way ANOVAs related to the individual measures of *Stakeholder Blame* and *Client Blame*. Regarding the former, we observe a marginally significant *Stakeholder Salience* × *Stakeholder Agency* interaction ($F = 2.04$, one-tailed $p = 0.08$) and follow-up evidence of a positive relationship between auditor assessments of *Stakeholder Blame* and *High* versus *Low Stakeholder Agency*, but only when *Stakeholder Salience* is *High* ($F = 3.98$, one-tailed $p = 0.02$), and not *Low* ($F < 0.00$, $p > 0.50$). This pattern is consistent with H1. Regarding *Client Blame*, also in Table 2, we do not find evidence of any main or interactive effects of our independent variables on the amount of blame auditors ascribe to the client (independent of blame assigned to stakeholders) for negative outcomes experienced by secondary stakeholders.

In sum, we find support for H1 when considering auditor blame attributions to secondary stakeholders and clients in a relative sense. This inference follows theory that blame attributions with respect to connected parties, as in settings like ours, have a zero-sum relationship (Dyer et al. 2022). When separately considering the absolute levels of auditors' attributions of blame to stakeholders and clients, our results suggest that this shifting of blame operates primarily through changes in our measure of *Stakeholder Blame*, rather than *Client Blame*.

Tests of Research Question: Auditor Leniency Toward Clients

Our Research Question is based on competing predictions for whether relatively low or relatively high stakeholder agency leads to increased auditor leniency toward clients. Results in Figure 2 and Table 3 are consistent with the latter possibility. Specifically, the pattern of a marginally significant *Stakeholder Salience* × *Stakeholder Agency* interaction ($F = 3.54$, $p = 0.06$) suggests that auditors assess *ICFR Deficiency Severity* as lower—consistent with more

lenient judgments—as *Stakeholder Agency* decreases, but only when *Stakeholder Salience* is *High* ($F = 3.60$, $p = 0.06$) and not *Low* ($F = 0.58$, $p = 0.45$).[8]

Analysis of auditors' recommendations for what opinion to issue regarding the effectiveness of the company's ICFR leads to similar conclusions. In our sample, we observe that auditors recommend an adverse opinion (versus an unqualified opinion) only 9.26% of the time in the *High Stakeholder Salience / High Stakeholder Agency* cell, compared to 24.70% of the time across the other three cells. See Figure 3 for descriptive statistics plotted by condition. Results from a corresponding logistic regression, in Table 4, reveal a significant *Stakeholder Salience* × *Stakeholder Agency* interaction ($z = -2.68$, $p < 0.01$). Follow-up tests confirm that, conditional on *High Stakeholder Salience*, auditors are less likely to recommend an adverse opinion when *Stakeholder Agency* is *High* versus *Low* ($z = 2.62$, $p < 0.01$). In contrast, *Stakeholder Agency* does not affect the frequency of adverse opinions when *Stakeholder Salience* is *Low* ($z = -1.18$, $p = 0.23$).

Discussion

In a broad sense, our primary results suggest that ostensibly audit-irrelevant considerations related to characteristics of secondary stakeholders can increase auditor leniency toward clients. This effect can manifest 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). In our setting, consistent with theory, the combination of high stakeholder salience and high stakeholder agency causes auditors to shift blame, at least in a relative sense, from their clients to secondary stakeholders. These blame

[8] We use two-tailed tests given competing predictions for the form of the interaction, and related simple effects, specified by our Research Question.

attributions appear to carry over to affect auditor leniency by helping auditors rationalize judgments that align with their clients' preferred reporting outcomes.

Supplemental Analyses of Theoretical Determinants

We next present supplemental analyses that support three aspects of our theory. The first two sets of analyses validate and clarify the construct validity of our *Stakeholder Salience* and *Stakeholder Agency* operational variables. Third, we explicitly model the mediating role of *Blame* in the joint effect of *Stakeholder Salience* and *Stakeholder Agency* on auditor leniency.

Stakeholder Salience and Perceived Legitimacy

Our theory predicts that auditors' more thorough consideration of clients' potential noncompliance with laws and regulations (e.g., under the PCAOB's NOCLAR proposal) will lead to increased stakeholder salience by increasing the perception that secondary stakeholders have a legitimate interest in client-related outcomes. Our post-experimental questionnaire includes measures that help validate this effect of our *Stakeholder Salience* manipulation and disentangle implications for perceived legitimacy from other theoretical determinants of salience including stakeholders' power to influence a company and the urgency of stakeholders' claims (Mitchell et al. 1997).

An untabulated ANOVA indicates that *Stakeholder Salience* has the main effect that auditors perceive secondary stakeholders as having a relatively more legitimate interest in client-related outcomes when auditors more thoroughly consider the client's potential noncompliance with laws and regulations ($F = 4.79$, $p = 0.03$). We do not find support for an effect of *Stakeholder Agency*, or a *Stakeholder Salience* × *Stakeholder Agency* interaction, on our measure of perceived legitimacy (p-values > 0.44). A similar untabulated ANOVA finds marginal support for a positive main effect of *Stakeholder Salience* 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 Salience* × *Stakeholder Agency* 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 untabluated p-values > 0.50).

Characteristics of Stakeholder Agency

Psychology research identifies multiple characteristics associated with individuals exhibiting high agency. Specifically, high agency is often marked by possessing increased foresight of possible future outcomes, playing a larger role in the causation of possible future outcomes, or exhibiting heightened intentionality related to influencing possible future outcomes (Alicke 2000). Our post-experimental questionnaire measures the extent to which auditors perceive these three characteristics in the secondary stakeholders described in our setting. Because our theory is not specific as to whether one or more of these determinants will be particularly pronounced in our setting, the following is exploratory in nature.

Untabulated ANOVAs suggest that our operationalization of *Stakeholder Agency* primarily increases auditors' perceptions that the secondary stakeholders acted intending to influence future outcomes ($F = 50.44$, $p < 0.01$). Although we find a marginally significant *Stakeholder Salience* × *Stakeholder Agency* interaction effect on this variable ($F = 3.25$, $p = 0.07$), *High Stakeholder Agency* is associated with significantly greater perceived stakeholder intentionality in both *Stakeholder Salience* 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 Blame

Taken together, our H1 and Research Question imply auditors' attributions of blame toward clients and clients' stakeholders mediate the joint effect of *Stakeholder Agency* and *Stakeholder Salience* on auditor leniency. We formally test this theoretical path using the SPSS PROCESS Macro, Model 7 (Hayes 2022). As shown in Figure 4, *Stakeholder Agency* leads to a marginally significant (i.e., based on 90% confidence intervals) indirect effect on auditor leniency (as measured by auditors' assessed *ICFR Deficiency Severity*) that operates through our *Relative Blame* measured variable when *Stakeholder Salience* is *High*, but not when *Stakeholder Saliency* is *Low*. We acknowledge some caution in interpreting this result, however, given that the Index of Moderated Mediation shown in Figure 4 only approaches marginal significance. Nevertheless, the model in Table 4 provides some modest, additional confirmatory evidence supporting the process underlying our theory.

V. 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. We find that when secondary stakeholders are both salient to auditors and exhibit more agency in shaping companies' strategic or operational decisions, auditors shift their perceptions of blame for any negative consequences stakeholders may experience from audit clients to clients' stakeholders. This shift appears to help auditors rationalize more leniency toward their relatively less culpable-appearing clients. Our operationalization of variation in stakeholder salience draws on the PCAOB's recent NOCLAR proposal, suggesting that possible changes to auditing

standards may increase the salience of 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 the PCAOB's NOCLAR proposal and the secondary stakeholders that might be indirectly affected by an unfavorable audit outcomes. Future research could relax this assumption to examine whether a more general consideration of the legitimacy of secondary stakeholders would carry over to affect auditors' perceptions of the saliency of specific stakeholders. Future research could also identify other settings with potential to introduce variation in secondary stakeholder salience, and characteristics of stakeholders other than agency that could shape auditors' judgments. While our study documents one important set of constructs and circumstances where audit clients' stakeholders are likely to prompt auditor leniency, there is ample opportunity 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.

[STAKEHOLDER SALIENCE MANIPULATION]

[Low Stakeholder Salience]

- 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.

[High Stakeholder Salience]

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.

[STAKEHOLDER AGENCY MANIPULATION]

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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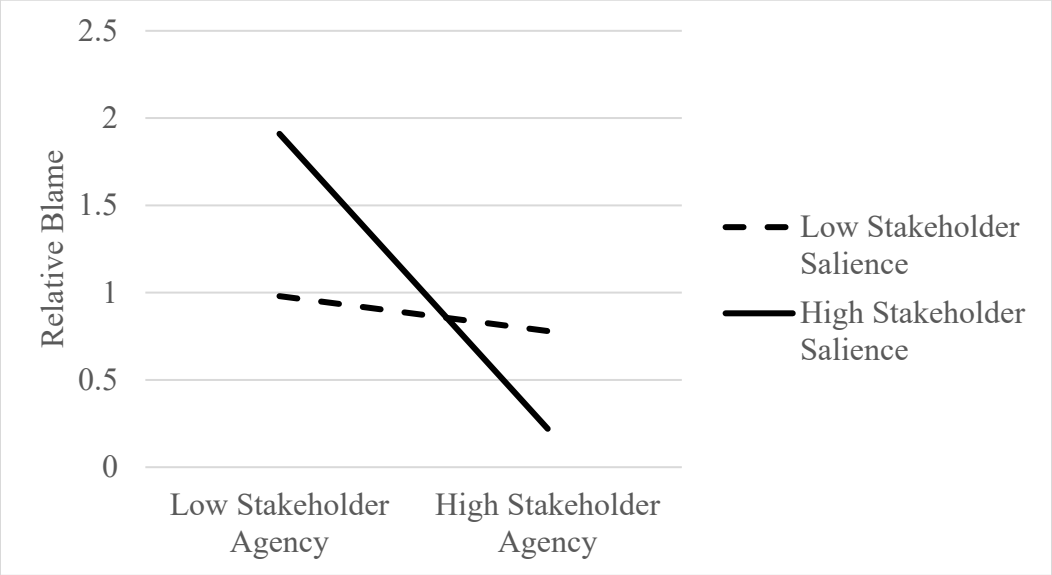
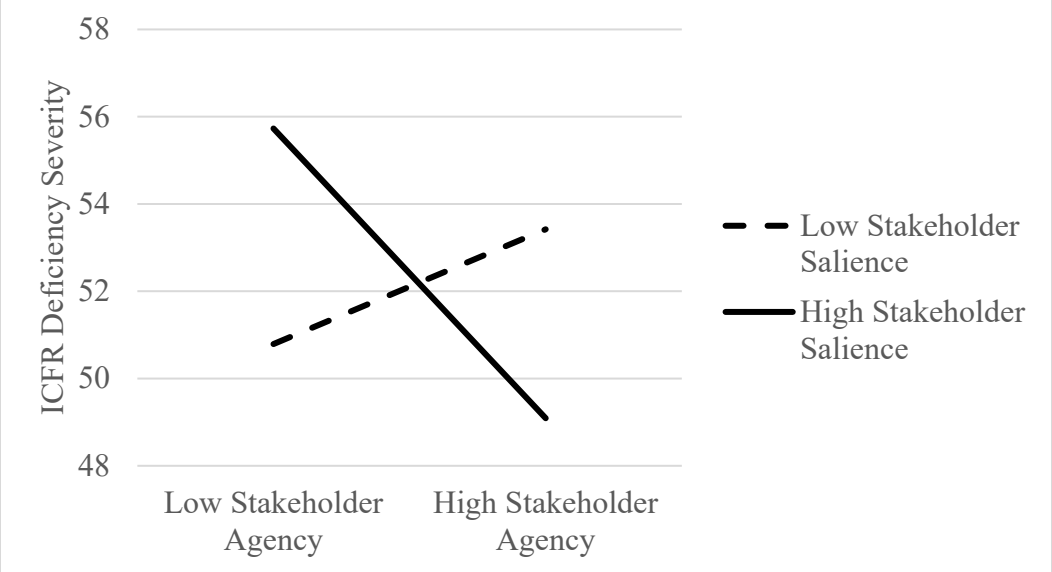
FIGURE 1
Relative Stakeholder and Client Blame



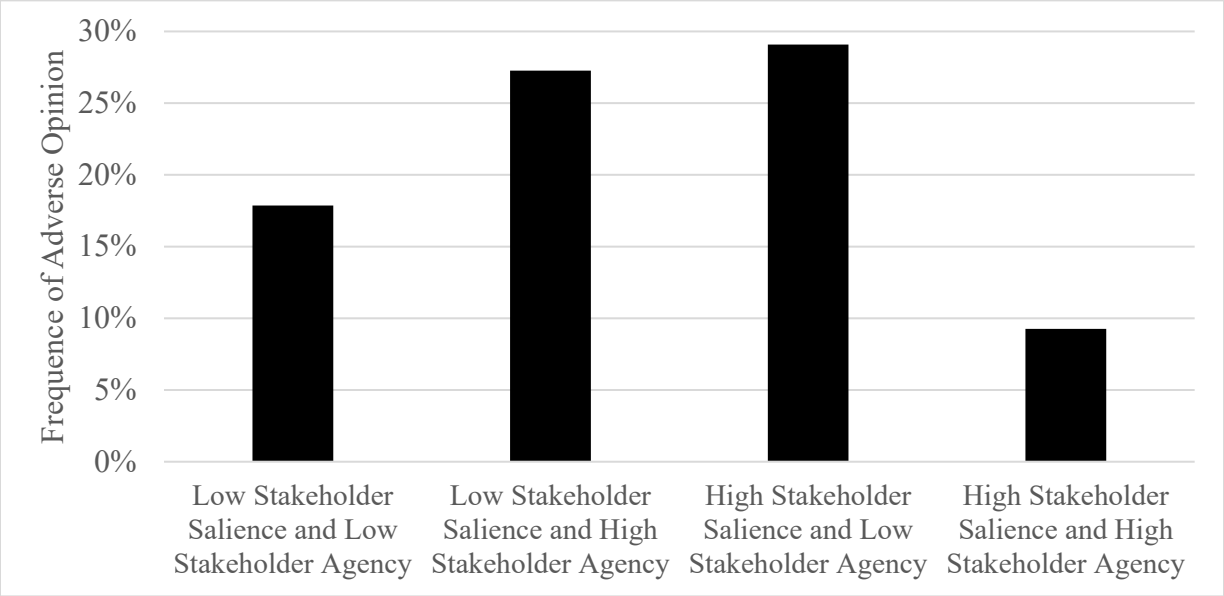
See Table 1 for variable descriptions.

FIGURE 2
ICFR Deficiency Severity



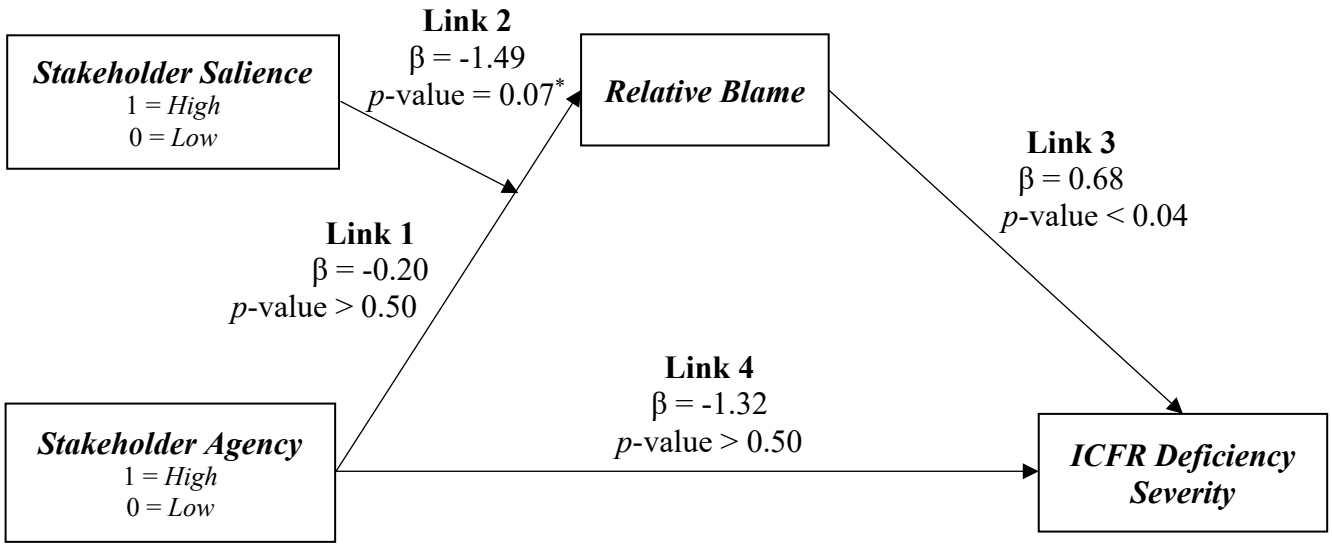
See Table 3 for variable descriptions.

FIGURE 3
Frequency of Adverse Opinion on ICFR Effectiveness



See Table 4 for variable descriptions.

FIGURE 4
The Mediating Role of Blame



Indirect Effect of *Relative Blame* on *ICFR Deficiency Severity*	**Path Estimate**	**90% Bootstrapped Confidence Interval**	**Test Result**
Conditional on *Stakeholder Salience*			
Within *High*	-1.15	(-2.45, -0.06)	Significant
Within *Low*	-0.14	(-1.13, 0.80)	Not Significant
Difference (Index of Moderated Mediation)	-1.02	(-2.65, 0.16)	Not Significant

Figure 4 presents our test of our process model using SPSS PROCESS Macro Model 7 (Hayes 2022) with 10,000 bootstrap subsamples.
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.
Relative Blame is calculated as *Client Blame – Stakeholder Blame* where larger (smaller) values of *Relative Blame* can be interpreted as auditors placing a higher (lower) share of the "total" blame on the client and comparatively less (more) blame on the stakeholders
Stakeholder (Client) Blame is the level of blame 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.
Stakeholder Salience is manipulated between-participants as *High* or *Low* 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.
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.
***** Given a directional prediction, indicates a one-tailed *p*-value. All other *p*-values are two-tailed.

TABLE 1
Test of H1: Relative Stakeholder and Client Blame

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

	Low Stakeholder Agency	High Stakeholder Agency
Low Stakeholder Salience	0.98 (4.05) n = 56 {A}	0.78 (3.93) n = 55 {B}
High Stakeholder Salience	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 Salience	0.13	> 0.50
Stakeholder Agency	3.53	0.06
Stakeholder Salience × Stakeholder Agency	2.19	0.07*

Panel C: Simple main effects for Stakeholder Salience × Stakeholder Agency

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

Relative Blame is calculated as *Client Blame – Stakeholder Blame* where larger (smaller) values of *Relative Blame* can be interpreted as auditors placing a higher (lower) share of the "total" blame on the client and comparatively less (more) blame on the stakeholders
Stakeholder (Client) Blame is the level of blame 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.
Stakeholder Salience is manipulated between-participants as *High* or *Low* 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.
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.
***** Given a directional prediction, indicates the one-tailed *p*-value from the equivalent *t*-statistic. All other *p*-values are two-tailed.

TABLE 2
Test of H1: Absolute Stakeholder Blame and Client Blame

Panel A: Descriptive statistics – mean (std. dev.) Stakeholder Blame and Client Blame

	Stakeholder Blame		Client Blame	
	Low Stakeholder Agency	High Stakeholder Agency	Low Stakeholder Agency	High Stakeholder Agency
Low Stakeholder Salience	3.61 (2.97) n = 56 {A}	3.60 (2.59) n = 55 {B}	4.59 (3.12) n = 56	4.38 (2.90) n = 55
High Stakeholder Salience	3.31 (2.10) n = 55 {C}	4.31 (2.77) n = 54 {D}	5.22 (2.49) n = 55	4.54 (2.55) n = 54

Panel B: Two-way ANOVAs on Stakeholder Blame and Client Blame

	Stakeholder Blame		Client Blame	
Tests of Fixed Effects	F-Statistic	*p*-value	F-Statistic	*p*-value
Stakeholder Salience	0.35	> 0.50	1.10	0.30
Stakeholder Agency	1.98	0.16	1.41	0.24
Stakeholder Salience × Stakeholder Agency	2.04	0.08*	0.40	0.26*

Panel C: Simple main effects for Stakeholder Salience × Stakeholder Agency on Stakeholder Blame

	F-Statistic	*p*-value
{A} vs. {C}, The Effect of Stakeholder Salience given Low Stakeholder Agency	0.56	> 0.50
{B} vs. {D}, The Effect of Stakeholder Salience given High Stakeholder Agency	2.01	0.16
{A} vs. {B}, The Effect of Stakeholder Agency given Low Stakeholder Salience	< 0.00	> 0.50
{C} vs. {D}, The Effect of Stakeholder Agency given High Stakeholder Salience	3.98	0.02*

See Table 1 for variable descriptions.
* Given a directional prediction, indicates the one-tailed *p*-value from the equivalent *t*-test statistic. All other *p*-values are two-tailed.

TABLE 3
Test of Research Question: Auditor Leniency in ICFR Deficiency Severity Judgments

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

	Low Stakeholder Agency	High Stakeholder Agency
Low Stakeholder Salience	50.79 (17.36) n = 56 {A}	53.42 (20.06) n = 55 {B}
High Stakeholder Salience	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 Salience	0.16	> 0.50
Stakeholder Agency	0.66	0.41
Stakeholder Salience × Stakeholder Agency	3.54	0.06

Panel C: Simple main effects for Stakeholder Salience × Stakeholder Agency

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

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.
See Table 1 for other variable descriptions.
All *p*-values are two-tailed.

TABLE 4
Test of Research Question: Auditor Leniency in Recommending an Adverse Opinion on ICFR Effectiveness

Panel A: Descriptive statistics – Frequency of Adverse Opinion

	Low Stakeholder Agency	High Stakeholder Agency
Low Stakeholder Salience	17.86% n = 56 {A}	27.27% n = 55 {B}
High Stakeholder Salience	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 Salience	0.64 (0.46)	0.17
Stakeholder Agency	0.55 (0.46)	0.24
Stakeholder Salience × Stakeholder Agency	-1.94 (0.72)	< 0.01

Panel C: *z* Tests for Differences between Percentages

	z-Statistic	*p*-value
{A} vs. {C} Low Stakeholder Salience and Low Stakeholder Agency versus High Stakeholder Salience and Low Stakeholder Agency	-1.40	0.16
{B} vs. {D} Low Stakeholder Salience and High Stakeholder Agency versus High Stakeholder Salience and High Stakeholder Agency	2.43	0.02
{A} vs. {B} Low Stakeholder Salience and Low Stakeholder Agency versus Low Stakeholder Salience and High Stakeholder Agency	-1.18	0.23
{C} vs. {D} High Stakeholder Salience and Low Stakeholder Agency versus High Stakeholder Salience and High Stakeholder Agency	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.